Annual Report 2005

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 operations: 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	2005	2004
Employees	885	1266
Revenues	99,048	107,657
(LBIT)/EBIT	(4,115)	1,673
EBITDA	3,420	7,452
Net loss	(7,548)	(3,963)
Equity	40,783	49,078
Details per share		
Net loss per share	(0.87)	(0.50)
Return on equity	n.m	n.m.

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Pioneering the telemedicine solution in Germany

2005 saw significant progress achieved in SHL's core telemedicine activities, with positive effects not being reflected yet in the 2005 financial results.

With telemedicine gaining more and more acceptance as a vital part of effective healthcare, I am pleased to reflect on our achievements in 2005, which saw us spearhead the telemedicine market in Germany through our German subsidiary PHTS with the signing of agreements with major German health insurers for the procurement of our telemedicine solution to their members with chronic heart conditions including CHF. This achievement was made possible by demonstrating our ability to provide an effective telemedicine platform based on our unique technology and long standing telemedicine expertise. We are pleased that our telemedicine solutions, through technological innovation, enable our subscribers to receive better care and have a greater peace of mind while also reducing the costs of treatment. PHTS is also making significant progress regarding its financial performance but is still incurring substantial introductory costs – as planned.

2005 saw significant progress achieved in our core telemedicine activities, although the positive effects are not reflected in our 2005 financial results. This being mainly due to the inclusion of our German operational costs and the weak performance of our medical imaging services in the US, for which we are exploring strategic alternatives

In the US, our telemedicine operation (RCS), is expanding into new fields of anticoagulation blood monitoring (INR@Home) and remote monitoring of Implanted Cardiac Defibrillators (ICD's), while in Israel we are continuing to develop new telemedicine platforms that are to be utilized in our telemedicine operations worldwide.

As part of our strategy to focus on our core telemedicine activities we sold during the year our medical services company, Bikurofe Ltd.

With the continued expected advancement in its telemedicine businesses worldwide SHL is poised to record a significant improvement in its financial performance in 2006. On behalf of the Board of Directors, I wish to thank the employees, customers and investors for their confidence and continued support to the Company and its management.

Sincerely

Yoram Alroy,
Chairman and President

Successfully adapting business model to health care systems in Germany

During 2005 we achieved further progress in developing our core telemedicine markets. In Germany we made significant breakthrough with our SHL telemedicine solution although we are still incurring substantial introductory costs associated with these activities. Our results in the US were affected by the weak performance of our medical imaging services, for which we are exploring strategic alternatives.

Germany: Clear signs of market acceptance

In 2005 SHL's German telemedicine operation PHTS continued to pursue its goal of becoming Germany's leading telemedicine provider. Agreements were signed with major German health insurers like Deutsche Betriebskrankenkasse and Taunus Betriebskrankenkasse with over 1.9 million insured, for the procurement of SHL's telemedicine solution for their members with chronic heart diseases, including congestive heart failure (CHF). These agreements were signed after the Company demonstrated in studies conducted in Germany that its telemedicine solutions are highly cost effective and reduce healthcare costs by up to 60% while improving both quality of care and quality of life for patients joining the service.

During the year a well-known German professional Prof. Dr. Dr. h.c. Werner Weidenfeld joined PHTS's advisory board, bringing the Company important insight and experience.

SHL is pleased that its telemedicine solutions in Germany (Zertiva and Paxiva) are being favourably received in the German telemedicine market and bringing further growth to the German telemedicine operations. SHL anticipates that it will enter into additional co-operation with German bodies in the field further enhancing its position in the German marketplace.

United States of America: Satisfactory business and solid platform for future growth with the exception of weak performance in medical imaging services

SHL's US telemedicine operations, continued to be profitable in 2005 and progressed well during the year entering into new promising fields such as anticoagulation blood monitoring, (INR@Home), and the remote monitoring of Implanted Cardiac Defibrillators (ICD's).

2005 saw a continued decline in the performance of the medical imaging centres. SHL is continuing in pursuing strategic alternatives for this operation while at the same time implementing certain restructuring measures to limit the negative impact on its financial results for 2006.

During the year the Company reorganised its management in order to respond to the new opportunities it is facing.

Israel: Focus on core telemedicine activities

SHL continues to be the leader in the provision of telemedicine services in Israel. As the telemedicine market in Israel continues to mature and gain wide acceptance within the community SHL's product offerings provide full solutions both to the institutional sector and direct to consumer sector. SHL is now focusing on the introduction of new telemedicine offerings, which will help continue to support future growth.

As part of the strategy to focus on core telemedicine activities, the medical services company, Bikurofe Ltd. was sold during the year

Financial results:

The Company has made a voluntary change in its accounting policy for revenue recognition on sales of medical devices. Until the change, revenues were recognized at the time of the sale of devices while revenues from services provided were recognized ratably over the term of the subscribers' contracts.

The change in policy is based on the premise that the sale and service components of SHL's service offerings have become inseparable and should be considered a single transaction. Accordingly revenues from the sale of devices will now be recognized over the term of the subscribers' contracts together with the revenues derived from services.

This accounting policy better reflects the economic consequences of the transactions and enables better conformity and comparison between the different service offerings and product lines.
The change in accounting policy is being applied as of January 1, 2005. Previous years' revenues from sales of devices and the effects thereon will be retrospectively adjusted. The effect of these timing differences stemming from the deferment in the recognition of revenues resulted at December 31, 2005 in a decrease in post dated notes and prepaid commissions relating to the sale of the devices of USD 39.6 million that will no longer appear in the Company's balance sheet and an increase in fixed and deferred tax assets of USD 8.6 million. The net amount of USD 31.0 million will be offset against the equity of the Company. The amount of the deferred revenues making up these post dated notes and net income resulting there from will be recognized in future years in line with the revenues from the service offerings.

It is important to emphasise that these changes do not affect the cash flow or the securities held by the Company in the form of the post dated notes and they will continue to be available for the receipt of credit facilities even though they will no longer appear in the balance sheet.

The Company also ceased amortizing goodwill and negative goodwill due to the application of IFRS 3 "Business Combinations" with the major effect being the recording of the costs of the German telemedicine operation, in the Income Statement as against the previous policy which netted these amounts against negative goodwill.

In 2005, revenues amounted to USD 99.0 million compared to USD 107.7 million in 2004. Revenues from abroad now comprise 76% compared to 71% in 2004.

EBITDA and EBIT/(LBIT) amounted to USD 3.4 million and USD (4.1) million, respectively compared with USD 7.4 million and USD 1.7 million in 2004. EBITDA and EBIT margins stood at 4% and (4.1) %, respectively compared to 6.9 % and 1.5 % in 2004.

As a result of the sale in July, of Bikurofe Ltd., for USD 14.7 million and a further USD 4.3 million in previously announced dividends and other debts the Company recorded a capital gain of USD 8.8 million.

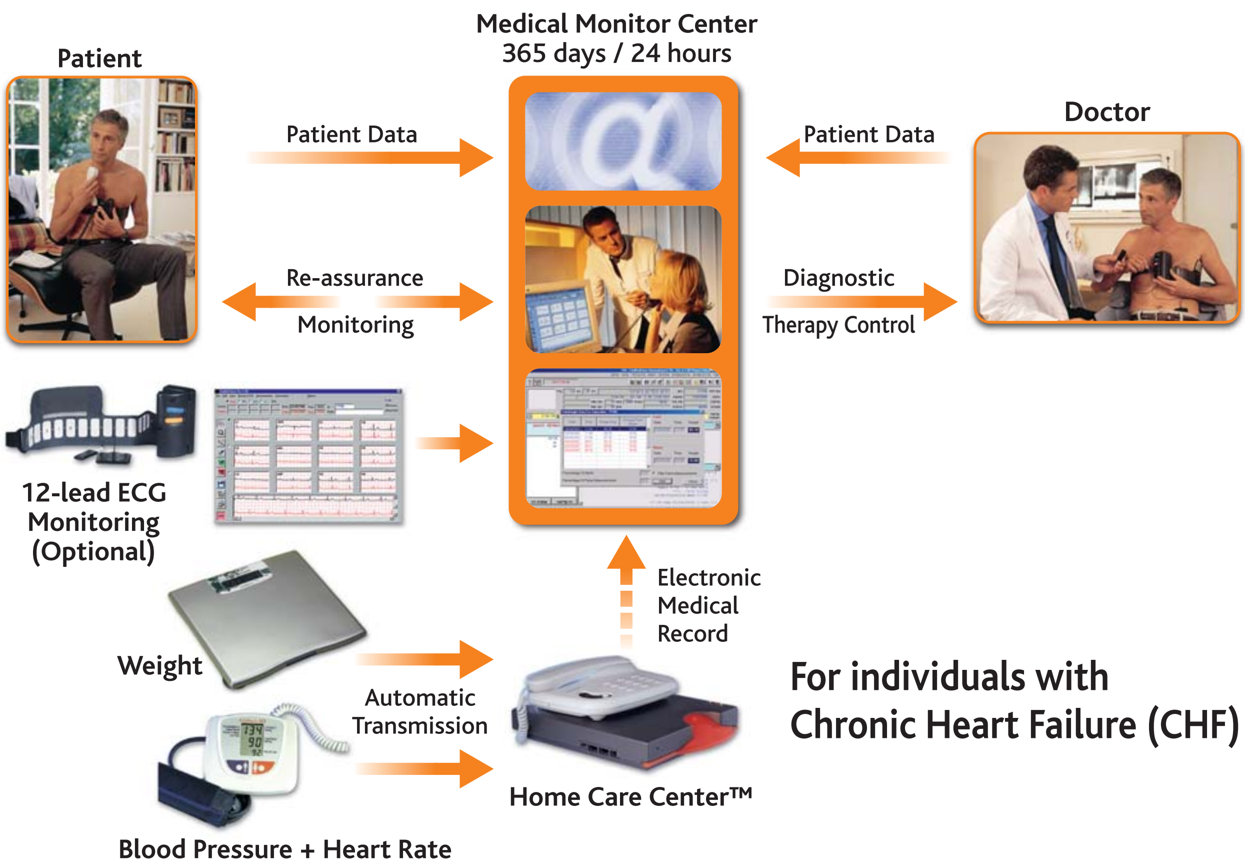
Loss before taxes for the year amounted to USD 0.1 million. As noted above, the performance of the medical imaging services operations in the US was unsatisfactory and contributed USD 2.8 million to the Company's pre-tax loss. Tax expenses for the year increased to USD 7.4 million from USD 1.6 million in 2004 due mainly to the writeoff of the deferred tax asset related to its US carryforward tax losses in the amount of USD 4.8 million. Net loss totalled USD 7.5 million compared to USD 4.0 million in 2004. Loss per share attributable to the share holders of SHL amounted to USD 0.87 compared to USD 0.50 in the previous year.

Operating cash flow amounted to USD (0.2) million compared to USD 2.2 million in 2004,while investments carried out amounted to USD 6.9 million. During the year the Company repaid loans and other debt, net of loans received in the amount of USD 10.1 million.

Looking ahead

With the continued expected advancement in its telemedicine businesses worldwide SHL is poised to record a significant improvement in its financial performance in 2006. Revenues in the telemedicine sector are expected to increase and offset the decline in revenues in the medical services sector leaving overall revenues around those of 2005. Overall SHL expects an increase in EBITDA to a range of USD 8-10 million compared to USD 3.4 million in 2005.

SHL's CHF Telemedicine Platform

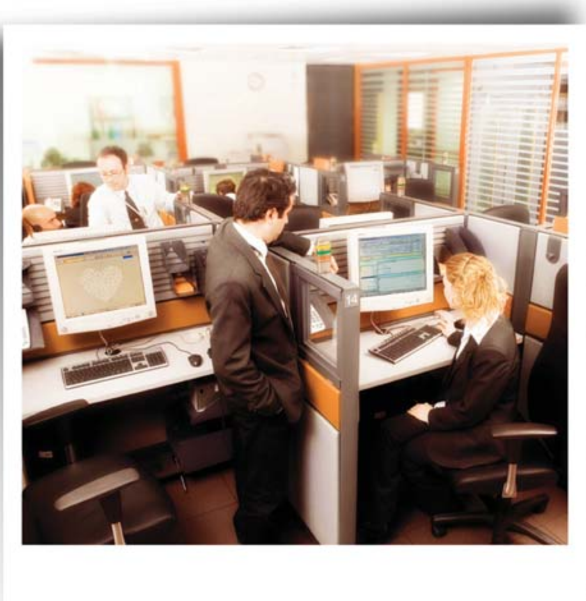


The SHL CHF Telemedicine solution

Congestive heart failure (CHF) is the inability of the heart to pump a sufficient amount of blood throughout the body. It affects an estimated 5.1 millions Europeans and 4.7 million Americans with more than 1 million new cases diagnosed annually. According to the American Heart Association, 80% of men and 70% of women under age 65 who have been diagnosed with CHF will die within eight years. The enormous direct and indirect costs of cardiovascular diseases in Germany alone are estimated at, one-sixth (35.4 billion Euros) of the overall healthcare cost (223.6 billion Euros), according to the German Federal Department of Statistics while in the United States USD 29.6 billions estimated to be the cost of CHF in 2006.

SHL's CHF platform is a cardio telemonitoring solution for people who suffer from CHF at stages II to IV (based on classification of the New York Heart Association (NYHA) for chronic cardiac illness). It enables optimal monitoring and treatment of the condition through the collection and transfer of relevant medical data. According to protocols outlined by the program, users automatically transmit their weight and blood pressure on a daily basis via their telephone to SHL's medical call centre where it is recorded and stored in the subscribers' personal medical record.

The medical call centre is immediately alerted in cases where the transmitted data exceeds predefined values so that medical professionals can instantly respond and provide the necessary medical treatment. In addition, the subscriber is contacted remotely on a regular basis for a standard update on his or her condition. The objective is to encourage subscribers to comply with their prescribed medication, as well as detecting changes in their condition at an early stage.



Educational material concerning diet, physical exercise and pharmacological therapy complement the program, thereby motivating the subscribers to manage their condition independently.

Studies conducted in Germany by independent German health insurers and research institutes (1) confirmed that the SHL CHF telemedicine platform improves both quality of care and quality of life for patients using SHL"s CHF platform while at the same time reducing healthcare costs by up to 60% (app. 5,500 Euro per patient). Cost saving has been achieved by among others reducing hospital admissions and hospitalisation days and optimisation of contacts with general practitioners and specialists. These results are in line with previous studies published by SHL in the International Journal of Cardiology (2). All of these make SHL's CHF platform to be a more efficient treatment for patients with congestive heart failure, from a medical, social and economic point of view while at the same time lowering the enormous healthcare costs associated with the disease.

(1) Telemedicine as an integral component for achieving clinical and economic efficiency in the care of CHF; Telemedicine Fuherer Deutschland; Ausgabe 2006

(2) Roth A, Kajiloti I, Elkayam I, Sander J, Kehati M, Golovner M. Telecardiology for patients with chronic heart failure. The 'SHL' experience in Israel. Int J Cardiology. 97(1):49-55, 2004

Information for investors

Capital structure

The issued share capital is divided into 10,677,337 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	18.65%
Alroy Group*	18.60%
Tower Holdings B.V.	14.24%
G.Z. Assets and Management Ltd.	8.68%
Public	39.83%

The above table of Significant Shareholders reflects actual holdings in accordance with the SAG Register as of December 31, 2005, after deducting from the total number of shares outstanding 61,159 Ordinary Shares held by SHL, and does not reflect holdings on a fully diluted basis.

Statistics on SHL Telemedicine as at December 31, 2005

Registered shares with a par value of NIS 0.01 each

Securities number	1128957
Number of shares	10,677,337
Market price high/low (CHF)	8.30/5.11
Market capitalization high/low (CHF million)	88.5/54.5
Market capitalization 31/12/05 (CHF million)	60.3
Share capital – nominal value (NIS)	106,773
Majority interests	60.17%

Key figures per share at Decmber 31, 2005

Net loss per share attributable to equity holders of SHL (USD)	(0.87)
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

SHL Telemedicine Ltd.
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Erez Termechey, Vice President & CFO
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Annual General Meeting

May 18, 2006

Next Publications

Q1 Results:	May 29, 2006
Q2 Results:	August 23, 2006
Q3 Results:	November 22, 2006

Corporate Governance 2005

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SHL TeleMedicine Ltd. Corporate Governance Report

In this section of our 2005 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, 2005, and complies with the Corporate Governance Directive of the SWX Swiss Exchange.

Group Structure and Shareholders

Group Structure

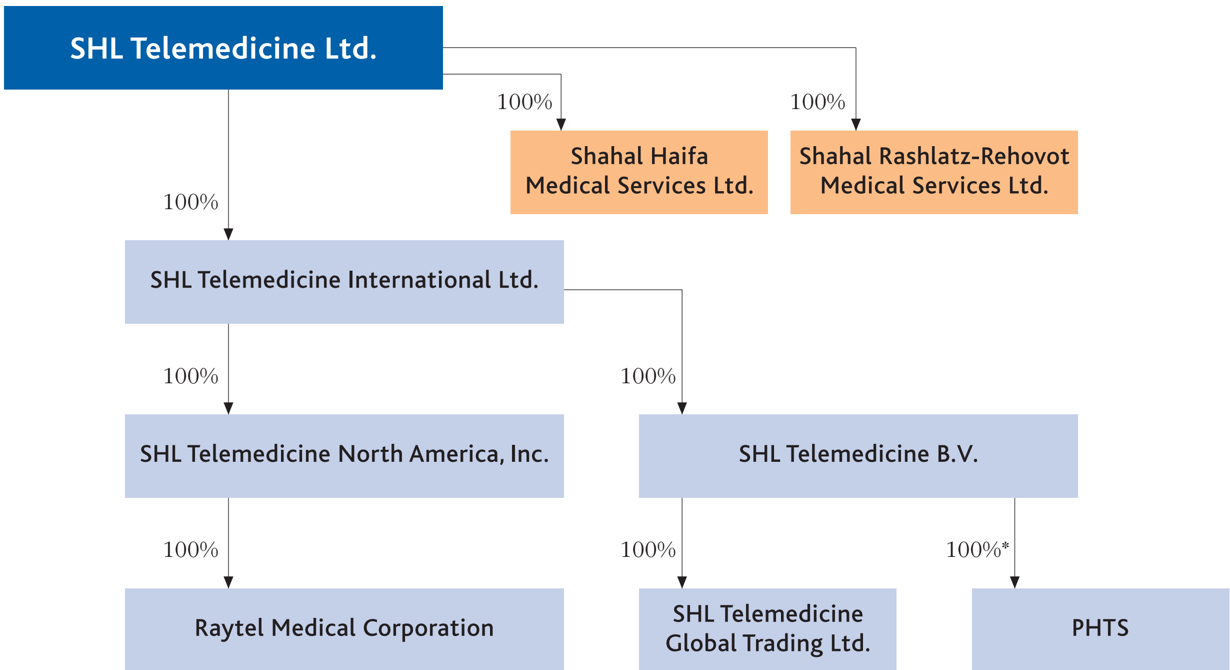
Description of all companies belonging to the SHL group:

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 106,773.37 divided into 10,677,337 fully paid registered ordinary shares of NIS 0.01 par value each (including 61,159 ordinary shares of NIS 0.01 par value each held by SHL). For additional information regarding the implications of the purchase by a company of its own shares, see Section "The Ordinary Shares, Voting Rights" on page 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, 2005, SHL's market capitalization was CHF 60.3 million. SHL's registered office is located at 90 Igal Alon Street, (Ashdar Building), Tel-Aviv, Israel.

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

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



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

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

SHL Telemedicine International Ltd. ("STI")

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

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

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

SHL Telemedicine 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, all of which are held by SHL B.V.

On July 3, 2005, SHL entered into an agreement to sell, effective as of June 30, 2005, its entire holdings of its wholly owned subsidiary Bikurofe Ltd. The closing of the transaction occurred on July 25, 2005.

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	18.65%
Alroy Group*	18.60%
Tower Holdings B.V.	14.24%
G.Z. Assets and Management Ltd.	8.68%
Public	39.83%

* Alroy Group is comprised of Mr. Yoram Alroy that holds, individually and through an entity wholly owned by him and by his spouse, approximately 6.80% 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 6.77% 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 5.03 % 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, 2005, after deducting from the total number of shares outstanding 61,159 Ordinary Shares held by SHL, and does not reflect holdings on a fully diluted basis.

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 by any of the Significant Shareholders and SHL.

Capital Structure

Authorized and Issued Capital

Authorized share capital as of December 31, 2005

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, 2005

Number of Ordinary Shares	10,677,337*
Par value of	NIS 0.01 each
Share capital	NIS 106,773.37

* Including 61,159 Ordinary Shares held by SHL. For additional information regarding the implications of the purchase by a company of its own shares, see Section "The Ordinary Shares, Voting Rights" on page 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 106,773.37 divided into 10,677,337 fully paid registered Ordinary Shares (including 61,159 Ordinary Shares held by SHL. For additional information regarding the implications of the purchase by a company of its own shares, see Section "The Ordinary Shares, Voting Rights" on page 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 did not undertake to issue shares out of such authorized but unissued share capital. Pursuant to SHL's Articles of Association, the unissued shares are under the sole control of the Board of Directors of SHL who has the authority to allot or otherwise dispose of them on such terms and conditions as it may see fit. Generally, any such issuance of shares is valid as of the date of the approval thereof by the Board of Directors.

SHL approved a maximum number of up to 856,627 Ordinary Shares (subject to adjustments as set forth in the 2005 Key Employee Share Option Plan as such term is hereinafter defined) reserved for issuance upon exercise of options that may be granted pursuant to the Option Plans. For additional information with respect to share option plans adopted by SHL and the grant of options to purchase Ordinary Shares, see Section "Share Options" on page 16.

Changes in Capital Structure within the Last Three Financial Years

As of December 31, 2003, 2004 and 2005, SHL held 83,077, 112,469 and 61,159 Ordinary Shares of SHL, respectively, purchase by it on the SWX Stock Exchange, [For additional information regarding the implications of the purchase by a company of its own shares, see Section "The Ordinary Shares, Voting Rights" on page 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 cancelled) and at an exercise price equal to the market price on the date of exchange (which was determined as December 17, 2003). As a result of the Options Exchange Plan, 485,627 Options to purchase 485,627 Ordinary Shares at the price of CHF 34.00 or CHF 22.65 (as applicable), which were previously granted under the terms of the 2000 Share Option Plan, were cancelled, and in exchange 388,501 Options to purchase 388,501 Ordinary Shares at the price of CHF 5.9 (the market price on the date of exchange) were granted under the terms of the 2003 Share Option Plan to employees, consultants and executive members of the Board of Directors of SHL that participated in the Options Exchange Program. The Options granted under the Options Exchange Program will vest in accordance with the original vesting schedule under which the Options they replaced were to vest, provided, however, that all such Options not yet vested on December 31, 2004, will fully vest on such date.

In August 2004, SHL adopted the 2004 International Share Option Plan (the "2004 International Share Option Plan"), which replaces the 2002 International Share Option Plan.

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

In May 2005, SHL adopted the 2005 Key Employee Share Option Plan (the "2005 Key Employee Share Option Plan"). (The 2000 Share Option Plan, the 2002 International Share Option Plan, the 2003 Share Option Plan, the 2004 International Share Option Plan and the 2005 Key Employee Share Option Plan, together - the "Option Plans"). The maximum number of Ordinary Shares which may be issued under the 2005 Key Employee Share Option Plan and under any other existing or future share incentive Option Plans of the Company shall not exceed 856,627 Ordinary Shares, subject to adjustments as provided in the 2005 Key Employee Share Option Plan. The exercise price shall be the closing price for an Ordinary Share on the last trading day prior to the grant, unless determined otherwise by the Company's Board of Directors. Options granted under the 2005 Key Employee Share Option Plan shall vest one-third (1/3) on each of the first, second and third anniversary of the date of grant, so that all options shall be fully vested and exercisable on the first business day following the lapse of thirty six (36) months from the date of grant, unless determined otherwise by the Company's Board of Directors, contingent upon the achievement of certain market and performance conditions which, unless determined otherwise by the Company's Board of Directors, shall be based on the rate of the increase in the market price of the shares and of the Company's earnings per share. The options shall expire six (6) years from the date of grant.

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

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

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

	No. of Options	Exercise Price	
Outstanding at beginning of year	5,119	CHF	34.00
	67,707	CHF	10.89
	88,500	CHF	9.50
	37,853	CHF	6.89
	364,930	CHF	5.90
Total Outstanding at beginning of year	560,109	CHF	7.39
Granted***	362,541	CHF	6.7-8.23
Exercised	(13,964)	CHF	6.1
Forfeited****	(202,686)	CHF	6.9
Outstanding at end of year	5,119	CHF	34.00
	30,186	*CHF	10.89
	68,500	**CHF	9.50
	255,878	***CHF	6.70-8.23
	49,708	CHF	6.89
	296,609	CHF	5.90
Total Outstanding at end of the year	706,000	CHF	7.36

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

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

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

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

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 27.

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, (including the terms and conditions of the directors and office holders insurance and indemnification) require the approval of the audit committee, the board of directors and the shareholders. The shareholders approval must include at least one-third of the shares of shareholders having no personal interest voted on the matter. However, the transaction can be approved by shareholders without this one-third approval if the total shares of shareholders having no personal interest voted against the transaction do not represent more than one (1) percent of the voting rights in the company (the Israeli Minister of Justice is authorized to determine a different percentage; no such rules were promulgated todate).

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

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

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

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. For family relationship between Mr. Elon shalev and other members of the Alroy Group, see "significant Shareholders" on page 13 and "Share Ownership" on page 26.

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 President	1987	2006
Elon Shalev	Israeli	Non-executive member	1987	2006
Yariv Alroy	Israeli	Co-CEO	2001	2006
Colin Schachat	Israeli	Non-executive member	2001	2006
Ziv Carthy	Israeli	Non-executive member	1997	2006
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 .

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 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 was effective for a period of five (5) years as of November 2000, and was automatically renewed for a two (2) year period, and which shall be automatically renewed for additional two (2) year periods unless either party provides a three (3) months written notice to terminate the Shareholders Agreement), Alroy Group, Royal Philips Electronics, Tower Holdings B.V. and G.Z. Assets and Management Ltd., agreed to vote their shares in any General Meeting in order to ensure that the Board of Directors will include three (3) nominees determined by the Alroy Group, two (2) nominees determined by Royal Philips Electronics, one (1) nominee determined by

Tower Holdings B.V., and one (1) nominee determined by G.Z. Assets and Management Ltd. Each of the Alroy Group, Tower Holding B.V. and G.Z. Assets and management Ltd., shall have the right to nominate directors as long as it holds at least five (5) percent of the issued and outstanding share capital of SHL. Royal Philips Electronics shall have the right to nominate two (2) directors as long as it holds at least ten (10) percent of the issued and outstanding share capital of SHL, and to nominate one (1) director as long as it holds at least five (5) percent of the issued and outstanding share capital of SHL. 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 were 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, and pursuant to an amendment of the Israeli Companies Law, an Independent Director must possess financial and accounting expertise or professional skills as such terms are defined in rules promulgated under said law, provided that at least one (1) of the Independent Directors possesses financial and accounting expertise. To qualify as an Independent Director, an individual may not have, and may not have had at any time during the two (2) years prior to his appointment as an Independent Director, any affiliations with the company or its affiliates, or with its controlling shareholder or with any entity whose controlling shareholder, at the time of appointment or during the two (2) years prior to his appointment as an Independent Director is the company or its controlling shareholder, as such terms are defined in the Israeli Companies Law. In addition, no individual may serve as an Independent Director if the individual's position or other activities create or may create a conflict of interest with his or her role as an Independent Director or may adversely affect such role. For a period of two (2) years from termination from office, a former Independent Director may not serve as a director or employee of the company in which he serves as an Independent Director or provide professional services to such company for consideration.

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

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

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

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

Committees of the Board and Internal Auditor

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

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. Pursuant to the Companies Law, the Internal Auditor shall receive notices of the meetings of the Audit Committee and may participate in such meetings.

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
Robert E. Sass	American	General Manager Raytel Cardiac Services
Jeff M. Flanegin	American	President Raytel Diagnostic Services
Reuven Kaplan	Israeli	Vice President of Operations, Israel
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 18.

Yariv Alroy, Director and Co-CEO

For additional information see Section "Members of the Board of Directors" on page 18.

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.

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.

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.

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.

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.

Robert (Bob) E. Sass, General Manager – Raytel Cardiac Services

Robert E. Sass joined Raytel Cardiac Services in March 2005 and assumed the position of General Manager in December 2005. Prior to joining Raytel Cardiac Services Mr. Saas held various management positions with the Bayer Organization and was the Founding Officer of Viterion TeleHealthcare, a Bayer - Panasonic company. Mr. Sass holds a B.S. in Business, from the University of Dayton, Ohio

Jeff M. Flanegin, President – Raytel Diagnostic Services

Jeff Flanegin has been with Raytel Diagnostic Services since 1993 and assumed the position of President in August 2005. Prior to his current position, Jeff served as the Vice President of Raytel Imaging Network. Mr. Flanegin holds an MBA, HMSA from Widener University and a BS in Marketing from the Pennsylvania State University.

Reuven Kaplan, Vice President of Operations, Israel

Reuven Kaplan joined the SHL group in January 2003. Prior to joining SHL Mr. Kaplan was the CEO of "Hashmira Medical" a group of health services companies. Mr. Kaplan holds an MBA from the Hebrew University, Jerusalem.

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 Sackler School of Medicine of the University of Tel-Aviv, Israel.

Management Contracts

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

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

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

On September 21, 2003, Mr. Yoram Alroy's employment agreement with SHL has terminated. Following such termination, SHL entered into a management services agreement with 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 initial term of the aforesaid management agreement ends on September 21st, 2006, and shall automatically be renewed for consecutive twenty four (24) month periods, unless either party provides the other party with (i) a six (6) months prior written notice (in the event notice is provided by Service Provider); or (ii) a nine (9) months prior written notice (in the event notice is provided by SHL), of its wish to terminate the agreement.

On November 30, 2005, Mr. Yariv Alroy's and Mr. Erez Alroy's employment agreements with SHL terminated. Following such termination, SHL entered into management services agreements with two (2) companies, each wholly owned by Mr. Yariv Alroy and Mr. Erez Alroy, respectively (each – a "Service Provider"; together - the "Service Providers"), pursuant to which the Service Providers, through each of Mr. Yariv Alroy and Mr. Erez Alroy, exclusively, shall provide SHL with management and consulting services as the CO-CEOs of SHL. The terms and provisions of the management agreements with the Service Providers were approved by the Audit Committee, the Board of Directors and the General Meeting of the shareholders of SHL. The initial term of each of the aforesaid management agreements ends on September 21st, 2006, and shall automatically be renewed for consecutive twenty four (24) month periods, unless either party provides the other party with (i) a six (6) months prior written notice (in the event notice is provided by one of the Service Providers); or (ii) a nine (9) months prior written notice (in the event notice is provided by SHL), of its wish to terminate the agreement.

The total compensation payable by SHL with respect to the year under review pursuant to the aforesaid Management Contracts is included in the figure cited in the first paragraph of the Section "Compensation for Acting Members of Governing Bodies", on page 25.

Compensation, Shareholdings and Loans

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

On May 2005 the shareholders accepted the recommendations of SHL's Audit Committee and Board of Directors and approved, pursuant to Israeli Companies

Law, payment to three (3) non-executive Members of the Board of Directors, in their capacity as such (and not just to the Independent Directors as was the case prior to such approval), in a sum equivalent to the compensation paid to each of the Independent Directors. The Independent Directors of SHL are entitled to compensation as provided under the Israeli Companies Law and the regulations promulgated pursuant thereto.

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

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 2005 to approximately USD 3,061 thousand. The aforesaid sum includes the total compensation payable by SHL with respect to the year under review pursuant to the Management Contracts prescribed in Section 4.2 "Management Contracts" on page 24. The exchange rate of one (1) US$ to New Israeli Shekels on December 31, 2005, was 4.603.

The total of all compensation payable to the non-executive members of the Board of Directors amounted in the financial year 2005 to approximately USD 38 thousand. The exchange rate of one (1) US$ to New Israeli Shekels on December 31, 2005, was 4.603.

In the financial year 2005, severance and other payments with regard to termination of employment to non-executive members of the Board of Directors or members of the Management who gave up their functions during the year under review amounted to approximately USD 92 thousand.

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

Compensation for Former Members of Governing Bodies

No non-executive director gave up his functions during to 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. For options granted to the aforementioned persons kindly refer to “Share Options” on page 14.

Share Ownership

The number of Ordinary Shares held, pursuant to the Share Register, as of December 31, 2005 by the executive members of the Board of Directors and the other members of the Management and parties closely linked to such persons amounted in aggregate to 1,974,840.

Elon Shalev, a non-executive member of the Board of Director is a member of the Alroy Group. The Alroy Group holds, pursuant to the Share Register, as of December 31, 2005, 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, 2005, 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, 2005, Ordinary Shares.

Share Options

Information with regards to Options held pursuant to the Option Plans as of December 31, 2005 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
	73,000 **	CHF	9.50
Total outstanding at beginning of year	**322,993**	**CHF**	**7.25**
Granted	330,551 ***	CHF	6.70-8.23
Forfeited	(143,341)	CHF	6.78
Outstanding at end of year	183,755	CHF	5.90
	38,373	CHF	6.89
	19,187 *	CHF	10.89
	55,000 **	CHF	9.50
	130,052 ***	CHF	8.23
	93,836 ***	CHF	6.70
Total Outstanding at end of year	**520,203**	**CHF**	**8.12**

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

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

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

For additional information with respect to share option plans adopted by SHL and the grant of options to purchase Ordinary Shares, see Section “Share Options” on page 14 above.

As of December 31, 2005 parties closely linked to the non-executive members of the Board of Directors hold 901 Options with an exercise price of CHF 5.90 each, pursuant to the Option Plans.

Additional Honorariums and Remuneration

None of the members of the Board of Directors and the Management or parties closely linked to such persons have billed honorariums or other remuneration in the financial year 2005 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 54 thousand. The exchange rate of one (1) US$ to New Israeli Shekels on December 31, 2005, was 4.603.

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 400 thousand. The exchange rate of one (1) US$ to New Israeli Shekels on December 31, 2005, was 4.603.

SHL has not issued any Ordinary Shares to such executive member of the Board of Directors and the Management during the financial year 2005. SHL has issued 37,300 Options to purchase 37,300 Ordinary Shares to such executive member of the Board of Directors and the Management during the financial year 2005.

The highest total compensation payable to a non-executive member of the Board of Directors amounted in the year under review to approximately USD 11 thousand. The exchange rate of one (1) US$ to New Israeli Shekels on December 31, 2005, was 4.603.

SHL has not issued any Ordinary Shares or Options to such non-executive member of the Board of Directors during the financial year 2005.

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 (33 1/3) percent of the outstanding share capital. A meeting adjourned for lack of a quorum is adjourned to the same day in the following week at the same time and place or any time and place as the chairman may designate with the consent of a majority of the voting power present and voting on the question of adjournment. At the reconvened meeting, the required quorum consists of any two (2) shareholders present in person or by proxy, regardless of the number of Ordinary Shares represented. Under SHL's Articles of Association all resolutions submitted to the shareholders, unless provided for otherwise in the Articles of Association 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 27.

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 (33 1/3) percent of the voting rights (whether exercisable or not) of a Swiss company which shares are listed on the SWX Swiss Exchange, such person must make a mandatory offer to acquire all other shares. Since SHL is not incorporated in Switzerland, SHL believes that these provisions do not apply. However, it cannot be excluded that the Swiss securities supervisory authority or Swiss courts could rule that such mandatory bid rules should apply depending on the circumstances surrounding a particular transaction. For the provisions of the Israeli law, please see below. Pursuant to the Listing Agreement, SHL agreed to comply, to the extent possible, with procedural rules and will accept recommendations issued by the Swiss Takeover Board. SHL's Articles of Association do not contain provisions regarding opting out or opting up.

Under the Israeli Companies Law, except in certain cases specified under said Law, an acquisition of shares in a public company must be made by a means of a special tender offer if as a result of the acquisition the purchaser would become a twenty-five (25) percent (or more) shareholder, unless there is already a twenty-five (25) percent shareholder (or more). Similarly, an acquisition of shares must be made by means of a tender offer if as a result of the acquisition the purchaser would become a forty-five (45) percent (or more) shareholder, unless there is already a shareholder holding more than forty five (45) percent of the voting rights in a company. These tender offer provisions shall not apply to SHL if the rules of the foreign country contain mandatory bid provisions. In any event, if as result of an acquisition of shares the acquirer will hold more than ninety (90) percent of a company's shares, the acquisition must be made by means of a tender offer for all of the shares. If more than ninety-five (95) percent of the outstanding shares are tendered in the tender offer, all the shares that the acquirer offered to purchase will be transferred to it.

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 2005 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 2005 approximately USD 550 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) US$ to New Israeli Shekels on December 31, 2005, was 4.603.

In addition, Ernst & Young charged approximately USD 135 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) US$ to New Israeli Shekels on December 31. 2005, was 4.603.

Supervisory and Control Instruments vis-a-vis the Auditors

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

Information Policy

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

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

Investor's calendar

Annual general meeting	May 18, 2006
Q1 Results	May 29, 2006
Q2 Results	August 23, 2006
Q3 Results	November 22, 2006

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Consolidated Financial Statements 2005

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Financial Overview

General

During 2005 we achieved further progress in developing our core telemedicine markets. In Germany we made significant breakthrough with our SHL telemedicine solution although we are still incurring substantial introductory costs associated with these activities. In the US our telemedicine operations continued to be profitable and progressed satisfactorily entering into new promising fields while the performance of our medical imaging centres saw a continued decline. In Israel we divested Bikurofe Ltd., our medical services company, for USD 14.7 million and a further USD 4.3 million in previously announced dividends and other debts resulting in a capital gain of USD 8.8 million.

Voluntary Change in accounting policy for revenue recognition

The Company has made a voluntary change in its accounting policy for revenue recognition on sales of medical devices. Until the change, revenues were recognized at the time of the sale of devices while revenues from services provided were recognized ratably over the term of the subscribers' contracts.

The change in policy is based on the premise that the sale and service components of SHL's service offerings have become inseparable and should be considered a single transaction. Accordingly revenues from the sale of devices will now be recognized over the term of the subscribers' contracts together with the revenues derived from services.

This accounting policy better reflects the economic consequences of the transactions and enables better conformity and comparison between the different service offerings and product lines. The change in accounting policy is being applied as of January 1, 2005. Previous years' revenues from sales of devices and the effects thereon are retrospectively adjusted. The effect of these timing differences stemming from the deferment in the recognition of revenues resulted at December 31, 2005 in a decrease in post dated notes and prepaid commissions relating to the sale of the devices of USD 39.6 million that will no longer appear in the Company's balance sheet and an increase in fixed and deferred tax assets of USD 8.6 million. The net amount of USD 31.0 million will be offset against the equity of the Company. The amount of the deferred revenues making up these post dated notes and net income resulting there from will be recognized in future years in line with the revenues from the service offerings.

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.

Results of Operations

Revenues

Revenues in 2005 amounted to USD 99.0 milion compared to USD 107.7 milion in 2004. Revenues from the telemedicine services segment amounted to USD 58.4 million – 59 % of total revenues compared to USD 59.4 million – 55 % of total revenues in 2004. Revenues from the medical services segment decreased to USD 40.6 million – 41 % of revenues compared to USD 48.3 million – 45 % of revenues in 2004. The decrease results from the impact on revenues related to the divesture of Bikurofe at July, 2005 together with the weak performance of our medical imaging centers in the US. Revenues from abroad have continued to increase and now comprise 76 % of total revenues compared to 71 % in the previous year.

Gross profit

Gross profit amounted to USD 44.6 million-a decrease of 8.4% compared to USD 48.8 million in 2004 with gross profit margins remaining stable at 45% for both 2005 and 2004. The decrease in gross profit resulted from the weaker performance of our US medical imaging services operation and the impact of the divesture of Bikurofe in July 2005.

Research and Development costs, net

Net R&D costs, totalled USD 0.9 million, 0.9% of revenues compared with USD 0.7 million, 0.7% of revenues in 2004. R&D expenses before capitalization and amortization amounted to USD 1.5 million and USD 1.0 million for 2005 and 2004, respectively.

Selling and Marketing Expenses

Selling and marketing expenses amounted to USD 13.9 million, 14% of revenues compared with USD 13.6 million or 13 % of revenues in 2004.

General and Administrative Expenses

G&A expenses amounted to USD 34.0 million, 34% of revenues compared to USD 32.8 million or 31% of revenues. The main reason for the increase is the first time inclusion of our German telemedicine operations due to the cessation of amortization in accordance with IFRS 3 “Business Combinations”. G&A expenses excluding amortization of goodwill and negative goodwill decreased to USD 32.6 million in 2005 from USD 33.3 million in 2004 resulting from the impact of the divesture of bikurofe in July 2005.

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

EBITDA for the year decreased to USD 3.4 million, 3.4% of revenues from USD 7.4 million – 6.9 % of revenues in 2004. LBIT amounted to USD 4.1 million compared to an EBIT of USD 1.7 million in 2004. The decrease in profitability resulted from the decline in gross profit as set out above and the first time inclusion of our German operations, which were previously netted against negative goodwill.

Financial Expenses

Financial expenses for the year increased to USD 4.6 million from USD 4.2 million in 2004. The increase in financial expenses resulted from an increase in the prime interest rate on SHL’s loans denominated in NIS and a higher LIBOR on SHL’s USD denominated loans offset by exchange rate gains due to the devaluation of the NIS against the US dollar on our cash deposits.

Other Income, net

Other income, net increased to USD 8.6 million from USD 0.2 million due to the capital gain recorded from the divesture of Bikurofe.

Taxes on Income

Taxes on income increased to USD 7.4 million compared to USD 1.6 million in 2004.
The increase in taxes resulted from the write off of the deferred tax asset related to the US carryforward tax losses in the amount of USD 4.8 million and deferred tax expenses related to the capital gain recognized from the divesture of Bikurofe.

Net Loss

Net loss for the year amounted to USD 7.5 million out of which a loss of USD 9.1 million is attributable to the shareholders of SHL and an income of USD 1.6 million is attributable to the minority shareholders.
Net loss for 2004 amounted to USD 4.0 million out of which USD 5.3 million is attributable to the shareholders of SHL and an income of USD 1.3 is attributable to the minority shareholders.
Although we recorded a capital gain from the divestment of Bikurofe the increase in tax expenses due to the write-off of the deferred tax asset relating to the US carryforward tax losses together with the decrease in profitability as set out in the above sections led to an increased net loss in 2005.

Major Changes in Assets, Liabilities and Equity

At December 31, 2005 SHL's current assets amount to USD 45.8 million of which USD 21 million is cash, cash equivalents and short term investments and USD 20.7 million is trade receivables, compared with USD 52.1 million in 2004 of which USD 22.1 million was in cash, cash equivalents and short term investments and USD 24.8 million in trade receivables.
SHL's long-term assets totalled USD 19.7 million compared with USD 31.7 million at the end of 2004. The decrease in long-term assets is mainly due to a decrease in deferred taxes resulting from the write-off associated with the US carryforward tax losses and the utilization of deferred taxes coupled with a decrease in prepaid sales commissions. Fixed and Intangible assets decreased to USD 71.8 million from USD 81.1 million in 2004 due mainly to the impact of the divesture of Bikurofe.
SHL's current liabilities amounted to USD 59.9 million of which USD 41.9 million is short-term bank credit and current maturities of long term loans, compared to USD 65.5 million at December 31, 2004 of which USD 42.1 million was short-term bank credit and current maturities of long term loans.
Long term liabilities totaled USD 36.7 million of which USD 32.6 million is long term loans from banks and lease obligations compared to USD 50.3 million at December 31, 2004 of which USD 43.2 million is long term loans from banks and lease obligations.
Equity totaled USD 40.8 million compared to USD 49.1 million at December 31, 2004. The decrease results from the net loss in 2005 and the devaluation of the NIS against the USD on the translated share and paid in capital.

Cash Flow

During 2005 SHL generated a negative cash flow from operations of USD 0.2 million compared to a positive operating cash flow of USD 2.2 million in 2004. The decrease in operating cash flow resulted from the weaker performance of our US medical imaging services operation and the impact of the divesture of Bikurofe Ltd.
The Company invested during the year in fixed and intangible assets USD 6.9 million compared to USD 7.1 million in 2004 and received USD 16.7 million for the sale of Bikurofe.
During the year the Company repaid loans and other debt, net of loans received by an amount of USD 10.1 million compared to USD 6.6 million in 2004.
At year end SHL had USD 25.3 million in cash, cash equivalents, marketable securities and deposits compared to USD 26.9 million in 2004.

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, 2005 and 2004, and the related consolidated statements of operations, changes in equity and cash flows for each of the years then ended. 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 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 provide a reasonable basis for our opinion.

In our opinion, 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, 2005 and 2004, and of the results of its operations and its cash flows for each of the years then ended, in accordance with International Financial Reporting Standards.

Tel-Aviv, Israel
March 30, 2006

Kost Forer Gabbay and Kasierer

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

Consolidated Balance Sheets US dollars in thousands

	Note	December 31, 2005	2004*)
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4	19,063	16,884
Short-term investments	5	1,899	5,196
Trade receivables	6	20,717	24,849
Prepaid expenses	8	2,728	3,274
Other accounts receivable	9	780	1,249
Inventory		642	654
		45,829	52,106
LONG-TERM ASSETS:			
Trade receivables	7	3,313	3,483
Prepaid expenses	8	6,629	8,652
Investment in associate		32	8
Long-term deposits	10	4,308	4,772
Deferred taxes	19d	5,457	14,748
		19,739	31,663
FIXED ASSETS:	11		
Cost		52,148	51,257
Less - accumulated depreciation		27,349	23,153
		24,799	28,104
INTANGIBLE ASSETS, NET	12	47,009	53,004
Total assets		137,376	164,877

*) Retrospectively adjusted - see Note 2b.

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

Consolidated Balance Sheets US dollars in thousands

	Note	December 31, 2005	December 31, 2004*)
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and current maturities of long-term loans	13	41,888	42,074
Trade payables		8,414	8,647
Income tax payable		1,087	2,201
Other accounts payable	14	8,482	12,568
		59,871	65,490
LONG-TERM LIABILITIES:			
Loans from banks, lease obligations and others	15	32,647	43,219
Provisions	16	2,146	3,613
Accrued severance pay	17	241	1,202
Deferred revenues		1,121	1,482
Deferred taxes	19d	567	793
		36,722	50,309
COMMITMENTS AND CONTINGENT LIABILITIES	21		
Total liabilities		96,593	115,799
EQUITY:	22		
Equity attributable to equity holders of the parent:			
Issued capital		31	31
Additional paid-in capital		91,762	91,594
Treasury shares at cost		(269)	(558)
Foreign currency translation reserve		(7,237)	(5,950)
Accumulated deficit		(44,656)	(37,357)
		39,631	47,760
Minority interest		1,152	1,318
Total equity		40,783	49,078
Total liabilities and equity		137,376	164,877

*) Retrospectively adjusted - see Note 2b.

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

March 30, 2006
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)

	Note	Year ended December 31, 2005	2004 *)
Revenues		99,048	107,657
Cost of revenues	23a	54,401	58,882
Gross profit		44,647	48,775
Research and development costs, net	23b	915	712
Selling and marketing expenses	23c	13,882	13,637
General and administrative expenses	23d	33,965	32,753
Operating income (loss)		(4,115)	1,673
Financial expenses	23e	(4,584)	(4,216)
Other income, net	23f	8,572	207
Loss before taxes on income		(127)	(2,336)
Taxes on income	19c	7,421	1,627
Loss		(7,548)	(3,963)
Attributable to:			
Equity holders of the parent		(9,187)	(5,337)
Minority interest		1,639	1,374
		(7,548)	(3,963)
Basic and diluted loss per share	24	(0.87)	(0.50)

*) Retrospectively adjusted - see Note 2b.

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	Accumulated deficit	Total	Minority interest	Total equity	Total recognized expenses
Balance at January 1, 2004 **)	31	91,594	(432)	(5,726)	(32,020)	53,447	1,427	54,874	
Treasury shares	-	-	(126)	-	-	(126)	-	(126)	
Currency translation differences	-	-	-	(224)	-	(224)	-	(224)	(224)
Distribution to minority interest	-	-	-	-	-	-	(1,435)	(1,435)	
Purchase of minority interest	-	-	-	-	-	-	(48)	(48)	
Net loss	-	-	-	-	(5,337)	(5,337)	1,374	(3,963)	(3,963)
Balance at December 31, 2004 **)	31	91,594	(558)	(5,950)	(37,357)	47,760	1,318	49,078	(4,187)
Exercise of options	*)-	52	-	-	-	52	-	52	
Adjustment of negative goodwill (Note 3b)	-	-	-	-	623	623	-	623	
Adjustment of fair value (Note 3b)	-	-	-	-	1,265	1,265	-	1,265	
Share-based payments	-	155	-	-	-	155	-	155	
Treasury shares issued in payment of liability	-	(39)	289	-	-	250	-	250	
Currency translation differences	-	-	-	(1,287)	-	(1,287)	-	(1,287)	(1,287)
Distribution to minority interest	-	-	-	-	-	-	(1,856)	(1,856)	
Change in equity of minority interest	-	-	-	-	-	-	51	51	
Net loss	-	-	-	-	(9,187)	(9,187)	1,639	(7,548)	(7,548)
Balance at December 31, 2005	31	91,762	(269)	(7,237)	(44,656)	39,631	1,152	40,761	(8,835)

*) Represents an amount lower than $ 1.
**) Retrospectively adjusted - see Note 2b.

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, 2005	Year ended December 31, 2004*)
Cash flows from operating activities:		
Loss	(7,548)	(3,963)
Adjustments required to reconcile loss to net cash provided by (used in) operating activities (a)	7,340	6,140
Net cash provided by (used in) operating activities	(208)	2,177
Cash flows from investing activities:		
Purchase of fixed assets	(5,400)	(6,027)
Cash received upon sale of subsidiary (b)	16,715	-
Net cash received in acquisition of newly consolidated company (c)	-	11,035
Payment for acquisition of business activities (d)	-	(4,734)
Investment in intangible assets	(1,482)	(1,118)
Proceeds from sale of fixed assets	6	1,283
Short-term investments, net	3,460	2,851
Long-term deposits, net	42	37
Net cash provided by investing activities	13,341	3,327
Cash flows from financing activities:		
Proceeds from exercise of options	52	-
Proceeds from long-term loans from banks and others, net	9,134	13,723
Repayment of long-term loans from banks and others	(18,614)	(11,108)
Short-term bank credit, net	1,250	(6,983)
Distributions to minority interest	(1,856)	(1,435)
Purchase of minority interest	-	(48)
Capital contribution from minority interests	31	-
Payment of liability regarding the acquisition of Raytel and acquisition of business activities	(139)	(610)
Treasury shares purchased	-	(126)
Net cash used in financing activities	(10,142)	(6,587)
Effect of exchange rate changes on cash and cash equivalents	(812)	160
Increase (decrease) in cash and cash equivalents	2,179	(923)
Cash and cash equivalents at the beginning of the year	16,884	17,807
Cash and cash equivalents at the end of the year	**19,063**	**16,884**

*) Retrospectively adjusted - see Note 2b.

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, 2005	Year ended December 31, 2004*)
(a) Adjustments required to reconcile loss to net cash provided by (used in) operating activities:		
Income and expenses not involving cash flows:		
Gain on sale of subsidiary	(8,776)	-
Depreciation and amortization	7,535	5,779
Deferred taxes, net	7,918	393
Loss (gain) on sale of fixed assets	34	(665)
Accrued severance pay	302	(419)
Exchange rate and linkage differences on principal of long-term liabilities, net	831	479
Loss (gain) on marketable securities and derivative financial instruments	(89)	250
Exchange rate differences on short-term and long-term deposits, net	(267)	55
Share-based payments	155	-
Others	(5)	14
	7,638	5,886
Changes in operating assets and liabilities:		
Decrease in trade receivables, net	1,123	308
Decrease in prepaid expenses	1,895	2,054
Decrease (increase) in other accounts receivable	(511)	1,856
Decrease in inventory	390	1,107
Increase in trade payables	458	810
Decrease in deferred revenues	(349)	(1,938)
Decrease in short and long-term other accounts payable and income tax payable	(3,304)	(3,943)
	(298)	254
	7,340	6,140
(b) Cash received upon sale of subsidiary(1):		
Working capital (excluding cash and cash equivalents)	1,884	
Fixed assets, net	1,059	
Intangible assets	5,772	
Deferred taxes	422	
Long-term liabilities	(1,198)	
Gain on sale of subsidiary	8,776	
	16,715	

(1) On June 30, 2005, the Company sold its wholly owned subsidiary Bikurofe Ltd. (see Note 3a).
*) Retrospectively adjusted - see Note 2b.

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)
(c) Acquisition of newly consolidated company:	
Working capital (excluding cash)	583
Long-term assets	(188)
Fixed assets, net	(1,971)
Long-term liabilities	6,781
Goodwill upon acquisition	5,830
	11,035

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

	Year ended December 31, 2004
(d) Acquisitions of business activities(1):	
Fixed assets, net	(2,278)
Goodwill upon acquisitions	(4,369)
Non-competition agreements	(852)
Liability regarding the acquisitions	2,765
	(4,734)

(1) During 2004, the Group purchased business activities (see Note 3c).

	Year ended December 31, 2005	2004
(e) Significant non-cash transactions:		
Issuance of treasury shares in payment of liability	250	-

	Year ended December 31, 2005	2004
(f) Supplemental disclosure of cash flows activities:		
Interest received	1,339	656
Interest paid	5,299	4,575
Income taxes paid	786	1,462

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, on a consistent basis, are as follows:

a. Basis of preparation:

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

b. Changes in accounting policy:

1. Medical devices for the transmission of medical data are sold to customers, together with a service agreement. In 2005 the Company implemented a voluntary change in its accounting policy for revenue recognition on sales of these medical devices. Until the change, revenues were recognized at the time of the sale of devices while revenues from services provided were recognized ratably over the term of the subscribers' contracts. The change in policy is based on the premise that the sale and service components of SHL's service offerings are inseparable and should be accounted for as a single transaction. Accordingly, revenues from the sale of devices will now be recognized over the estimated term of the subscribers' contracts (as adjusted for cancellations) together with the revenues derived from services. The Company believes that this method of accounting for revenues better reflects the economic consequences of the sales transactions. Direct costs that are related to these sales are deferred and also now recognized over the estimated term of the subscribers' contracts (as adjusted for cancellations).

2. In 2005 the Company changed the method of calculating the liability for severance pay for Israeli employees pursuant to the requirements of IAS 19 ("defined benefit"). According to IAS 19, the liability is calculated according to actuarial valuation while in previous years, the liability was calculated pursuant to Israel's Severance Pay Law.

3. The financial statements as of December 31, 2004 and for the year then ended have been retrospectively adjusted to reflect these changes in accounting policy.

The effects of the changes on the financial statements are as follows:

Balance sheet:

	December 31, 2004		
	As previously reported	The change	As presented in these financial statements
Long-term receivables, (post-dated notes)	39,734	(35,269)	4,465
Prepaid expenses	18,602	(6,676)	11,926
Inventory	6,238	(5,584)	654
Fixed assets, net	16,316	11,788	28,104
Deferred taxes	9,873	4,875	14,748
Deferred revenues	-	1,900	1,900
Accrued severance pay	1,531	(329)	1,202
Foreign currency translation reserve	5,162	788	5,950
Accumulated deficit	5,708	31,649	37,357

Statements of operations:

	Year ended December 31, 2004		
	As previously reported	The change	As presented in these financial statements
Revenues	103,052	4,605	107,657
Cost of revenues	58,402	480	58,882
Selling and marketing expenses	12,811	826	13,637
General and administrative expenses	32,835	(82)	32,753
Financial expenses	3,534	682	4,216
Taxes on income	(318)	1,945	1,627
Loss	4,717	(754)	3,963
Equity holders of the parent	6,091	(754)	5,337
Basic and diluted loss for the year attributable to ordinary equity holders of the parent	0.58	(0.08)	0.50
Statements of changes in equity - Retained earnings (accumulated deficit) - January 1, 2004	383	(32,403)	(32,020)

c. 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), as follows:

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.

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

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.

d. Adoption of new accounting standards:

On January 1, 2005, the Company adopted IFRS 2, "Share-Based Payment". IFRS 2 requires an expense to be recognized where the Company buys goods or services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares of rights over shares ("cash-settled transactions").

The cost of equity settled transactions is measured by reference to the fair value at the date at which they were granted. The fair value is determined by using an option-pricing model. The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date the options vest. No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. Such awards are treated as vested, irrespective of whether the market condition is satisfied, provided that all other performance conditions are satisfied.

There was no effect of the initial adoption of IFRS 2 (retrospective application) on periods prior to January 1, 2005, since all outstanding options at that date were fully vested.

e. Impact of recently issued accounting standards:

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).

Pursuant to IFRS 3 the carrying amount of negative goodwill as of December 31, 2004, in the amount of $ 623 was credited to the opening balance of retained earnings on January 1, 2005.

In the year ended December 31, 2004, amortization of goodwill amounted to $ 3,200 and the amount of negative goodwill recognized as income in general and administrative expenses amounted to $ 5,136.

f. 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.

g. Investment in associate:

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

h. Cash and cash equivalents:

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

i. Inventory:

Inventory of devices is presented at the lower of cost or net realizable value. Cost is determined using the "first-in, first-out" method.
Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

j. Trade receivables:

Trade receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts.
An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

k. 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, 2005, all marketable securities of the Group were classified as trading. Trading securities are presented at fair value based on quoted market prices. The fair value changes of trading securities are recognized in the statement of operations.
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, the Group entered into a combination of foreign exchange options on a zero-cost basis. Such options expired during 2004, and resulted in a loss in the amount of $ 200. These were reported as financial expenses in the statement of operations. As of December 31, 2005, 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, other accounts receivable, credit from banks and others, trade payables, other accounts payable and long-term loans approximate their fair value.

l. Prepaid expenses:

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

m. Fixed assets:

1. Fixed assets are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method on the basis of the estimated useful life of the asset. The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. Recoverable amount is the higher of net selling price and value in use. Capital leases are recorded at the present value of the future minimum lease payments and the underlying assets are amortized over their estimated useful lives on a straight-line basis.
2. The annual depreciation rates are as follows:

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

n. Intangible assets:

1. Research and development costs are expensed as incurred, except for development costs which relate to the design and testing of new or improved products which are recognized as an asset to the extent that it is expected that such assets will generate future economic benefits.

Deferred development costs are amortized from the date of commercial production of the product. Such costs are amortized using the straight-line method over a period of up to 5 years.

At each balance sheet date, the Company assesses whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated and if necessary, the costs are written down to their recoverable amount.

2. Goodwill represents the excess of acquisition cost over the fair value of identifiable net assets of a subsidiary at the date of acquisition. Goodwill is reviewed for impairment 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 (see e above).

Tax benefits as a result of tax losses from the time in which the investment was acquired, and which could not have been taken into account in order to determine the amount for goodwill, are recognized on an ongoing basis at the time in which a tax benefit is utilized, and the balance of goodwill is adjusted accordingly.

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

o. 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.

p. 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.

q. Treasury shares:

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

r. Revenue recognition:

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

Revenues from services and sales of devices are recognized ratably over the estimated average service period of subscriber contracts (eight years), as adjusted for cancellations.

s. 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, 2005.

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

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

For the year ended	Israeli CPI	Exchange rate of one Euro	Exchange rate ofone U.S. dollar
	Points *)	NIS	NIS
December 31, 2005	185.1	5.4465	4.603
December 31, 2004	180.7	5.877	4.308
Change during the year	%	%	%
December 2005	2.4	(7.3)	6.8
December 2004	1.2	6.2	(1.6)

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

t. 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.

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

v. Loss per share:

Basic loss per share is computed using the weighted average number of shares outstanding during the period. Diluted 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.

w. Accrued severance pay:

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

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

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

The severance pay liability recognized in the balance sheet represents the present value of the defined benefit obligation reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

NOTE 3 | BUSINESS COMBINATIONS

a. Sale of subsidiary:

On July 3, 2005, the Company entered into an agreement to sell, effective as of June 30, 2005, a wholly-owned subsidiary, Bikurofe Ltd., its Israeli outpatient clinics and doctor visit services operation (part of the Company's medical services segment), to IEL Israel Equity Ltd., for $ 14,680. In addition the Company received from Bikurofe Ltd. previously declared dividends and repayment of other debts in the total amount of $ 4,300. The closing of the sale took place on July 25, 2005. The Company recorded a gain on the sale before income taxes of $ 8,776.

In addition, the Company and another wholly-owned subsidiary entered into service and consulting agreements with Bikurofe Ltd., commencing in July 2005 and for a period of up to 24 months, for a total consideration of $ 1,500.

The Company ceased consolidating the financial statements of Bikurofe Ltd. on June 30, 2005. Following are selected financial data of Bikurofe Ltd. as included in the consolidated financial statements in the past:

	December 31, 2004
	Audited
In the balance sheet:	
Total assets	10,700
Total liabilities	2,992

	Year ended December 31, 2005
In the statement of operations:	
Revenues	6,891
Net income	753

b. Acquisition of personal Healthcare Telemedicine Services B.V. (Formerly: Philips Healthcare Telemedicine Services Group ("PHTS")

1. 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.

2. 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 (3)	(3,618)
	(6,351)
Fair value of net assets	7,411
Negative goodwill upon acquisition (4)	(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

3. Provisions for restructuring:

Comprised as follows:

	December 31	
	2005	2004
At the beginning of the year	(2,172)	(3,618)
Fair value adjustments (5)	1,148	179
Utilized	697	1,402
Currency translation differences	80	(135)
	(247)	(2,172)

4. 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 5)	1,581
Negative goodwill recognized as income	5,136
Currency translation differences	71
Balance at December 31, 2004	(623)
Credited to the accumulated deficit according to IFRS3	623
Balance at December 31, 2005	-

5. Fair value adjustments:

Fair value of PHTS in the years ended December 31, 2005 and 2004 were adjusted since additional evidence became available to the Company's management regarding certain provisional estimates, made at the acquisition date.

The adjustments in 2004 were against negative goodwill. In 2005, the adjustments were against the opening balance of retained earnings (after crediting the negative goodwill to the retained earnings on January 1, 2005 pursuant to IFRS 3).

The adjustments are comprised as follows:

	December 31	
	2005	2004
Fixed assets	484	320
Trade payables	60	113
Lease obligations	(569)	-
Future revenue participation rights	-	(2,193)
Provision for restructuring	1,148	179
Accrued severance pay	142	-
	1,264	(1,581)

c. Acquisition of business activities:

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.

NOTE 4 | CASH AND CASH EQUIVALENTS

	December 31	
	2005	2004
Cash in banks and on hand	2,982	2,786
Short-term deposits	16,081	14,098
	19,063	16,884

NOTE 5 | SHORT-TERM INVESTMENTS

Marketable securities:

	December 31	
	2005	2004
Corporate debentures - in U.S. dollars	-	4,214
Debentures - in NIS - unlinked	912	982
	912	5,196
Short-term deposit and other investment	987	-
	1,899	5,196

NOTE 6 | TRADE RECEIVABLES

	December 31	
	2005	2004
Gross amount	35,634	41,147
Less - allowance for doubtful accounts	15,851	17,280
	19,783	23,867
Current maturities of long term receivables	934	982
	20,717	24,849

NOTE 7 | LONG-TERM TRADE RECEIVABLES

	December 31	
	2005	2004
Gross amounts (1)	62,488	90,258
Less - deferred revenues	58,241	85,793
	4,247	4,465
Less - current maturities	934	982
	3,313	3,483

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

NOTE 8 | PREPAID EXPENSES

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

	December 31	
	2005	2004
First year prepaid expenses - short-term	2,728	3,274
Second year	1,796	2,051
Third year	1,392	1,581
Fourth year	1,257	1,519
Fifth year	1,050	1,361
Thereafter	1,134	2,140
Prepaid expenses - long-term	6,629	8,652
Total prepaid expenses	9,357	11,926

NOTE 9 | OTHER ACCOUNTS RECEIVABLE

	December 31	
	2005	2004
Government authorities	298	688
Employees	44	149
Interest	196	221
Others	242	191
	780	1,249

NOTE 10 | LONG-TERM DEPOSITS

	December 31	
	2005	2004
Structured deposit (1)	2,000	2,000
Structured deposit (2)	2,200	2,200
Bank deposit (3)	108	572
	4,308	4,772

(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, 2005, is 11%.

(2) The deposit is in U.S. dollar 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, 2005, is 11.5%.

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

NOTE 11 | FIXED ASSETS

	Computers and communication equipment	Medical equipment	Office furniture and equipment	Motor vehicles and ambulances	Leasehold improvements	Devices on loan	Total
Cost:							
Balance at January 1, 2005 *)	9,745	12,758	1,431	913	4,125	22,276	51,257
Additions during the year	1,308	3,048	241	190	279	448	5,514
Impairment	(34)	(74)	(20)	-	(481)	-	(609)
Assets included in previously consolidated company (Note 3a)	(574)	(306)	(445)	-	(459)	-	(1,784)
Disposals during the year	(24)	-	(26)	-	(38)	-	(88)
Currency translation differences	(283)	(224)	(73)	(65)	(88)	(1,443)	(2,176)
Balance at December 31, 2005	10,147	15,202	1,108	1,038	3,338	21,281	52,114
Accumulated depreciation:							
Balance at January 1, 2005 *)	5,844	6,012	585	543	1,599	8,570	23,153
Additions during the year	1,586	2,046	152	172	496	1,802	6,254
Impairment	(26)	(59)	(14)	-	(316)	-	(415)
Assets included in previously consolidated company (Note 3a)	(379)	(56)	(149)	-	(142)	-	(726)
Disposals during the year	(26)	-	(10)	-	(12)	-	(48)
Currency translation differences	(216)	(130)	(26)	(34)	(34)	(463)	(903)
Balance at December 31, 2005	6,783	7,813	538	681	1,591	9,909	27,315
Depreciated cost at December 31, 2005	3,364	7,389	570	357	1,747	11,372	24,799
Depreciated cost at December 31, 2004 *)	3,910	6,746	846	370	2,526	13,706	28,104

*) Retrospectively adjusted, see Note 2b.

As for charges, see Note 21.

NOTE 12 | INTANGIBLE ASSETS, NET

	Development costs	Goodwill	Non-competition agreement	Others	Total
At January 1, 2005, net of accumulated amortization	4,232	47,887	789	96	53,004
Additions during the year	1,450	-	-	32	1,482
Realization from sale of consolidated company (see note 3a)	-	(5,622)	(93)	-	(5,715)
Amortization during the year	(900)	-	(162)	(32)	(1,094)
Credited to accumulated deficit according to IFRS3	-	623	-	-	623
Currency translation differences	(283)	(918)	(11)	(79)	(1,291)
At December 31, 2005, net of accumulated amortization	4,499	41,970	523	17	47,009
At December 31, 2005:					
Cost	7,838	53,511	2,108	464	63,921
Accumulated amortization	(3,339)	(11,541)	(1,585)	(447)	(16,912)
Net carrying amount	4,499	41,970	523	17	47,009

NOTE 13 | SHORT-TERM CREDIT FROM BANKS AND CURRENT MATURITIES OF LONG-TERM LOANS

	Interest rate (1)	December 31	
	%	2005	2004
Credit from banks:			
NIS - unlinked	Prime(2) + 0.2	15,380	16,434
In U.S. dollars		-	1,200
		15,380	17,634
Current maturities of long-term loans (see Note 15)		26,508	24,440
		41,888	42,074

(1) As of December 31, 2005.
(2) The prime rate as of December 31, 2005 is 6%

As for collateral, see Note 21.

NOTE 14 | OTHER ACCOUNTS PAYABLE

	December 31	
	2005	2004
Employees and payroll accruals	2,863	3,805
Accrued liabilities	3,620	4,274
Liability regarding the acquisition of CES (Note 3c)	492	1,731
Government authorities	106	432
Former Raytel shareholders	425	447
Provision for restructuring - current portion (Note 16)	176	978
Deferred revenues	316	418
Other	484	483
	8,482	12,568

NOTE 15 | LONG-TERM LOANS FROM BANKS, LEASE OBLIGATIONS AND OTHERS

a. Composed as follows:

	Average interest rate (1)	December 31	
	%	2005	2004
Loans from banks:			
NIS - unlinked	NIS Prime (2) + 0.61	8,340	8,974
NIS - linked to Israel's CPI	5.69	11,729	9,043
U.S. dollars	Libor + 1.3	19,535	22,836
Euro	Libor +1.85	4,491	7,224
Promissory notes - U.S. dollars (4)		3,458	4,000
		47,553	52,077
Less - current maturities		15,237	11,584
		32,316	40,493
Lease obligations:			
Euro	7.4	844	1,006
NIS - linked to Israel's CPI	7	-	24
Capital lease obligations and non-recourse notes (5)	5.5 - 13.5	169	331
		1,013	1,361
Less - current maturities		682	635
		331	726
Other long-term loans:			
Revolving credit facility (6)	U.S. prime (3) +1	8,589	10,221
U.S. Federal Government (7)	7	2,000	4,000
		10,589	14,221
Less - current maturities		10,589	12,221
		-	2,000
		32,647	43,219

(1) As of December 31, 2005.
(2) The NIS prime rate as of December 31, 2005 - 6%.
(3) The U.S. prime rate as of December 31, 2005 - 7.25%.
(4) In connection with the CEC acquisition (see Note 3c), 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% (6.48% at December 31, 2005). (2) Principal of $ 1,500 bearing an interest rate of the three month LIBOR plus 1.40% (5.93% at December 31, 2005).
(5) The capital lease obligations and non-recourse notes are due in varying amounts, including interest at rates ranging from 5.5% to 13.5%.
(6) 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 between 0.25% and 1%, depending upon the debt service coverage ratio as defined (8.25% as of December 31, 2005). The revolving credit facility is due May 31, 2006. Subsequent to balance sheet date, the company has agreed in principle with the credit institution to extend the existing credit facility for at least an additional three months.
(7) 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, 2005, $ 9,500 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	
	2005	2004
First year - current maturities	26,508	24,440
Second year	8,417	13,339
Third year	7,258	8,213
Fourth year	5,119	7,227
Fifth year	6,153	4,834
Thereafter	5,700	9,204
	32,647	42,817
	59,155	67,257

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 21.

NOTE 16 | PROVISIONS

	December 31	
	2005	2004
Provision for restructuring (1)	247	2,172
Less - current maturities	176	978
	71	1,194
Provision for future participation rights (2)	2,362	2,367
Less - current maturities	287	217
	2,075	2,150
Other	-	269
	2,146	3,613

(1) See Note 3b.
(2) See Note 3b. The above balance is presented at present value net of discount in the amount of $ 1,223.

NOTE 17 | ACCRUED SEVERANCE PAY

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

	As of December 31	
	2005	2004
Present value of funded obligation	3,040	4,378
Fair value of plan assets	2,799	3,176
	241	1,202

b. The principal actuarial assumptions used are as follows:

	December 31	
	2005	2004
Discount rate	3.89%	4.33%
Future salary increase	3%	3%

c. 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 75% of the first 3% contributed and 25% of the next 2%. 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 $ 254 and $ 674 in 2005 and 2004, 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. This plan has been discontinued as of January 1, 2005 and all contributions for 2004 were made to the 401(k) plan.

NOTE 18 | INVESTMENTS IN SUBSIDIARIES

	Country of incorporation	Percentage in equity 2005	2004
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. (Note 3a)	Israel	-	100
SHL Telemedicine B.V.	Netherlands	100	100
SHL Telemedicine Global Trading Ltd.	Ireland	100	100
SHL Telemedicine North America Inc.	U.S.A.	100	100
Personal Healthcare Telemedicine Services B.V. (see Note 3b)	Netherlands	100	19.9

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 affected to the petitioners was in accordance with the original merger price per share. To date, payment in the amount of $ 425 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.

NOTE 19 | TAXES ON INCOME

a. Tax laws applicable to the Group companies:

Income Tax (Inflationary Adjustments) Law, 1985:

According to the law, the results for tax purposes are measured based on the changes in the Israeli CPI. The Company is taxed under this law.

Capital gains/losses:

Pursuant to the provisions of the Law for Amendment of the Income Tax Ordinance (No. 132), 2003 ("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 the 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, as computed according to the law. Further, the reform law states that capital, losses carried forward for tax purposes may be offset against capital gains indefinitely. The reform law also provides for the possibility to offset capital losses from sales of properties outside Israel against capital gains in Israel.

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

1. Companies in Israel:

Until December 31, 2003, the regular tax rate applicable to income of companies was 36%. In June 2004, an amendment to the Income Tax Ordinance (No. 140 and Temporary Provision), 2004 was passed by the "Knesset" (Israeli parliament) and on July 25, 2005, another law was passed, the amendment to the Income Tax Ordinance (No. 147) 2005, according to which the corporate tax rate is to be progressively reduced to the following tax rates: 2004 - 35%, 2005 - 34%, 2006 - 31%, 2007 - 29%, 2008 - 27%, 2009 - 26%, 2010 and thereafter - 25%.

As to the effect of the amendment as above, see e. below:

2. Foreign subsidiaries:

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

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

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

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

	Year ended December 31,	
	2005	2004
Current taxes	775	1,250
Deferred taxes	8,183	165
Taxes in respect of previous years	(1,537)	212
	7,421	1,627

d. Deferred tax assets (liabilities):

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

	Balance sheet items						
	Deferred revenues, net	Fixed and intangible assets	Employee benefit liabilities	Carryforward tax losses	Doubtful accounts	Others	Total
Balance at January 1, 2005	4,980	(275)	851	1,875	4,492	2,032	13,955
Included in previously consolidated company (Note 3a)	-	(19)	(408)	-	-	-	(427)
Amount included in statement of operations	(1,077)	(310)	(197)	(1,027)	(4,474)	(1,098)	(8,183)
Currency translation differences	(292)	44	(29)	(94)	(18)	(66)	(455)
Balance at December 31, 2005	3,611	(560)	217	754	-	868	4,890

The balance is presented as follows:

	December 31,	
	2005	2004
Long-term asset	5,457	14,748
Long-term liability	(567)	(793)
	4,890	13,955

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

	Year ended December 31,	
	2005	2004
Income (loss) before taxes on income	(127)	(2,336)
Statutory tax rate in Israel	34%	35%
Theoretical tax benefit	(43)	(818)
Increase (decrease) in taxes resulting from:		
Reduction of deferred tax assets in respect of caryyforward losses	5,752	-
Losses and other items for which deferred taxes were not provided	3,344	2,070
Tax adjustment in respect of inflation in Israel	(562)	(259)
Non-deductible expenses	430	1,234
Negative goodwill recognized as income	-	(1,724)
Realization of carryforward tax losses for which deferred taxes were not recorded in prior years	(625)	(47)
Different tax rates	651	193
Taxes in respect of previous years	(1,537)	212
Tax on minority interest in earnings of subsidiaries	(557)	(467)
Change in deferred taxes due to changes in tax rates	1,037	1,122
Differences on capital gain measurement between financial reporting basis and tax reporting basis	(428)	-
Other	(41)	111
	7,421	1,627

f. Carryforward tax losses:

The carryforward losses for tax purposes as of December 31, 2005 amount to $ 4,648 in Israel (which may be carried forward indefinitely) and $ 38,249 in Europe. In the U.S., Raytel has federal net operating losses and credits of $ 13,661, whose expiration commences in 2023, and state net operating losses and credits of $ 2,202, which expire at various times.

Deferred tax assets relating to carry forward tax losses as described above, and deductible temporary differences in the aggregate amount of $ 17,644 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.

g. Tax assessment in dispute:

On August 1, 2005, the Company was issued tax assessments for the years 2000-2003, in the aggregate amount of $ 15,500. The Company intends to vigorously defend the assessments and on August 31, 2005, filed an appeal against the assessments. In the opinion of management, the final outcome of this matter will not result in a material effect on the financial statements of the Company.

NOTE 20 | TRANSACTIONS WITH RELATED PARTIES

a. Transactions with related parties:

	Year ended December 31,	
	2005	2004
Rent expense to shareholders	120	225
Compensation of key management personnel:		
Short-term employee benefits	1,160	1,174
Chair-base compensation	37	-
	1,197	1,174

NOTE 21 | 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	
2006	4,950
2007	3,210
2008	1,798
2009	1,235
Thereafter	2,384
	13,577

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 22 | EQUITY

a. The share capital is composed as follows:

	December 31, 2005		December 31, 2004	
		Issued and		Issued and
	Authorized	outstanding	Authorized	outstanding
	Number of shares			
Ordinary shares of NIS 0.01 par value each	14,000,000	10,616,218	14,000,000	10,550,904

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 owns 61,159 shares for a total cost of $ 269 as of December 31, 2005 (2004 - 112,469 shares at a cost of $ 558).

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 Share 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.

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

In July and August 2005, the BOD approved the grant of 362,542 options to officers, under the 2005 Share Option Plan, including 87,400 options to three officers who are considered controlling shareholders of the Company.

The weighted average fair value of options granted by the Company in July and August 2005, in the amount of 3.72 CHF, was estimated based on the following data and assumptions (weighted averages):

Share price - 8.07 CHF; exercise price - 7.35 CHF; expected volatility - 55.4%; risk-free interest rate 1.46%; expected dividends 0%, and expected average life of options - 4 years.

In the year ended December 31, 2005, the Company recorded share-based compensation in general and administrative expenses in the amount of $ 155.

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

	2005 No.	2005 WAEP	2004 No.	2004 WAEP
Outstanding at the beginning of the year:	560,109	7.39	507,347	5.43
Granted during the year	362,541	7.35	89,250	9.5
Forfeited during the year	(202,686)	6.9	(36,488)	5.48
Exercised during the year	(13,964)	6.1	-	
Outstanding at the end of the year	706,000	7.36	560,109	7.39
Exercisable at the end of the year	450,122	7.21	560,109	7.39

NOTE 23 | SUPPLEMENTARY INFORMATION TO STATEMENTS OF OPERATIONS

a. Cost of revenues:

	Year ended December 31, 2005	2004
Salaries and related benefits	23,486	25,660
Payment to service providers	9,725	10,457
Depreciation	4,510	5,785
Rental fees and maintenance	6,173	6,510
Materials and components	3,343	3,955
Communications, postage and freight	2,468	2,760
Others	4,696	3,755
	54,401	58,882

b. Research and development costs, net:

	Year ended December 31, 2005	2004
Salaries and related benefits	1,265	864
Amortization of research and development costs	900	750
Medical consulting	104	107
Others	96	72
	2,365	1,793
Less - capitalization of development costs	(1,450)	(1,081)
	915	712

c. Selling and marketing expenses:

	Year ended December 31, 2005	2004
Salaries and related benefits	8,968	8,559
Advertising	1,212	1,474
Depreciation	253	242
Rental fees and maintenance	196	284
Maintenance of motor vehicles	634	746
Others	2,619	2,332
	13,882	13,637

d. General and administrative expenses:

	Year ended December 31, 2005	2004
Salaries and related benefits	14,599	15,346
Rental fees and office expenses	5,379	6,067
Professional fees	4,140	3,472
Depreciation and amortization	1,397	4,566
Negative goodwill recognized as income	-	(5,136)
Doubtful accounts and bad debts	7,469	6,229
Others	981	2,209
	33,965	32,753

e. Financial income (expenses):

	Year ended December 31, 2005	2004
Exchange rate differences on cash deposits	750	58
Gain (loss) on marketable securities and derivative financial instruments, net	324	(118)
Interest and others	(5,658)	(4,156)
	(4,584)	(4,216)

f. Other income (expenses), net:

	Year ended December 31, 2005	2004
Gain (loss) on sale of fixed assets	(34)	665
Expenses in respect of prior years	-	(168)
Gain on sale of subsidiary (Note 3a)	8,776	-
Other	(170)	(290)
	8,572	207

NOTE 24 | NET LOSS PER SHARE

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

	Year ended December 31, 2005	2004
Loss attributable to equity holders of the parent	(9,187)	(5,337)
Weighted average number of Ordinary shares for basic and diluted loss per share	10,668,082	10,569,488
Basic and diluted loss per share	(0.87)	(0.50)

NOTE 25 | 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. Until June 30, 2005 (the date of sale of Bikurofe Ltd. see Note 3a), SHL operated medical call centers, which provided 24/7 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	
	2005	2004	2005	2004	2005	2004
Segment revenues:						
Sales to external customers	58,356	59,368	40,692	48,289	99,048	107,657
Segment results:	(4,043)	2,155	1,200	1,410	(2,843)	3,569
Unallocated expenses					(1,272)	(1,796)
Operating income (loss)					(4,115)	1,673
Financial expenses					(4,584)	(4,216)
Other income, net					8,572	207
Taxes on income					(7,421)	1,627
Loss					(7,548)	(3,963)
Other business information:						
Segment assets	104,542	108,862	26,993	39,624	131,535	148,486
Unallocated assets					5,841	16,391
					137,376	164,877
Segment liabilities	(14,592)	(19,261)	(5,462)	(8,552)	(20,054)	(27,813)
Unallocated liabilities					(76,539)	(87,986)
					(95,593)	(115,799)
Capital expenditure	6,737	11,445	138	2,392	6,875	13,837
Depreciation and amortization	6,961	2,408	574	3,371	7,535	5,779

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,	
	2005	2004
Israel	23,340	30,718
U.S.A.	74,091	76,007
Europe	1,617	932
	99,048	107,657

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

	December 31,	
	2005	2004
Israel	59,617	81,287
U.S.A.	65,331	68,200
Europe	12,428	15,390
	137,376	164,877

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:

	December 31,	
	2005	2004
Israel	2,253	3,385
U.S.A.	3,951	9,985
Europe	671	467
	6,875	13,837

NOTE 26 | 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:				
	U.S.$	Euro	Israeli CPI	Unlinked	Total
December 31, 2005					
Assets:					
Cash and cash equivalents	17,033	551	-	1,479	19,063
Short-term investments	349	-	-	1,550	1,899
Trade receivables	18,887	312	4,247	584	24,030
Other accounts receivable	137	51	446	146	780
Long-term deposits	4,200	108	-	-	4,308
	40,606	1,022	4,693	3,759	50,080
Liabilities:					
Credit from banks and others	-	-	-	15,380	15,380
Trade payables	7,718	196	-	500	8,414
Income tax payable	546	-	541	-	1,087
Short and long term - other accounts payable	3,061	3,839	309	1,932	9,141
Long-term loans and leases from banks and others (including current maturities)	38,009	5,335	7,471	8,340	59,155
Accrued severance pay	-	-	-	241	241
	49,334	9,370	8,321	26,393	93,418
December 31, 2004					
Assets:					
Cash and cash equivalents	7,786	4,156	-	4,942	16,884
Short term investments	4,214	-	-	982	5,196
Trade receivables	20,494	107	4,652	3,079	28,332
Other accounts receivable	187	79	564	419	1,249
Long-term deposits	4,200	170	402	-	4,772
	36,881	4,512	5,618	9,422	56,433
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 term - 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	-	-	-	1,202	1,202
	57,991	13,892	9,945	31,278	113,106

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)

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