Half-Year Report 2004

SHL Telemedicine Ltd.
1 January – 30 June

Dear Shareholders,

SHL's revenues for the second quarter of 2004 amounted to USD 26.4 million with EBIT of USD 1.0 million and net income of USD 226,000. During the first half of 2004 SHL completed the acquisition of Cardiac Evaluation Center (CEC) in the US and assumed full ownership of PHTS, integrating the former European joint venture with Philips into SHL. SHL's world wide client base now counts more than 300,000 subscribers. The latest innovative services and products "Thin for life" and the TeleMarker™ continued to enjoy good acceptance by Israeli subscribers. The company is on target to meet its 2004 forecast.

Focus on figures

Revenues for the second quarter of 2004 amounted to USD 26.4 million compared with USD 25.6 million for the second quarter of 2003. Gross profit totaled USD 11.8 million compared to USD 12.3 million in Q2 2003, while operating profit (EBIT) amounted to USD 1 million compared to USD 1.8 million for the second quarter of 2003.

In the second quarter, SHL recorded net income of USD 226,000 compared to net income of USD 205,000 for the second quarter of 2003. Earnings per share totaled USD 0.02, the same as for the second quarter of 2003.

Revenues for the first half of 2004 totaled USD 53 million compared with USD 51.2 million for the first half of 2003. Revenues from international operations amounted to USD 38.5 million and now comprise 73% of SHL's total revenues. Gross profit totaled USD 23.9 million compared to USD 25.1 million in the first half year of 2003. Operating profit (EBIT) amounted to USD 2.6 million compared to USD 4.3 million for the same period last year.

Net income for the half year totaled USD 544,000 compared with USD 707,000 for the first half of 2003 with earnings per share amounting to USD 0.05 compared to an EPS of USD 0.07 in the first half of 2003.

Telemedicine services segment revenues increased to USD 28.6 million from USD 27.2 million in 2003 while revenues from the medical services segment totaled USD 24.6 million compared with USD 24 million in 2003. This increase in the telemedicine services segment revenues is mainly attributable to the extension of SHL's US activities through the acquisition of CEC.

The gross margin for the first six months of 2004 decreased to 45% from 49% in the first half of 2003 due to changes in the sales mix of the Company's products and services, and a decline in sales prices in the US medical services market. This and the accounting treatment of the amortization of PHTS's operating costs resulted in an EBITDA for the half year of USD 4.3 million compared to USD 8.4 million in the first half of 2003.

The Company had a positive cash flow from operations prior to the inclusion of PHTS's operations of USD 0.9 million for the quarter and USD 2.0 million for the half year. PHTS's negative cash flow which is financed by the funds received from Philips brought the Company to a negative cash flow of USD 0.6 million for the quarter and USD 2.0 million for the half year. During the period the Company converted some USD 10 million of short-term loans into long term debt and so increased its liquidity.

SHL's balance sheet remains strong. As at June 30, 2004, SHL had USD 29.1 million in cash, cash equivalents, deposits and marketable securities compared to USD 37.6 million at June 30, 2003. Shareholders' equity amounted to USD 84.6 million compared to USD 98.9 million at June 30, 2003.

US operations

Raytel maintained steady progress in its activities during the period under review whilst the integration of CEC's business activities acquired at the beginning of the year is proceeding successfully. In August 2004, Mr. Shlomo Nimrodi was appointed as CEO of Raytel Cardiac Services. Prior to joining Raytel, Mr. Nimrodi held various top-level executive positions in several publicly traded and international corporations for over 18 years.

Israeli operations

Activities in Israel continue to progress satisfactorily. During this period, the process has continued of the change in the sales mix to a greater share of service revenues and lesser device sales. The medical services segment in this market also achieved good results in the quarter while the latest innovative services and products "Thin for life" and the TeleMarker™ continued to enjoy good acceptance by subscribers.

European operations

The restructuring and regrouping process of PHTS Germany following the assumption of full ownership at the beginning of the year from Philips has progressed very satisfactorily. Already the Company has commenced new initiatives in this field and following the results of positive pilot projects with several leading medical institutions and insurance companies conducted in Germany, future prospects in this market appear promising. In August 2004, Mr. Eyal Lewin was appointed Managing Director of our German operations to lead and develop these activities. Prior to joining PHTS Germany Mr. Lewin held the position of Vice President of International Strategic Marketing & Sales at Comverse, a leading Israeli hi tech Company.

Period for the re-purchase of own shares extended

In May 2004, the Board of Directors resolved to extend the period for the re-purchase by SHL of its own shares until March 31, 2005, for up to an aggregate amount of USD 2.0 million (including all shares purchased until now), provided that SHL shall continue to satisfy the conditions of the Israeli Companies Law for the re-purchase of its own shares. The shares to be purchased will be held as treasury shares, and used for general corporate purposes.

Looking ahead

SHL remains committed to continuing its international expansion in North America and Europe, while also maintaining and extending its leading market share in Israel. The company is on target to meet its 2004 revenues and earning forecasts. SHL will continue to strive to improve overall quality of life for its subscribers, offering high-quality healthcare solutions to those that need them.

Yours sincerely,

Y. Alroy

Yoram Alroy,
Chairman and President

Consolidated Balance Sheets

U.S. dollars in thousands

	June 30, 2004	June 30, 2003 Unaudited	December 31, 2003 Audited
assets			
current assets:			
Cash and cash equivalents	19,725	29,268	17,807
Short-term deposits	–	2,863	2,896
Marketable securities	5,223	5,467	5,395
Trade receivables	26,776	26,767	23,206
Post-dated notes	5,998	6,627	5,616
Prepaid expenses	5,471	4,675	4,944
Other accounts receivable	2,000	2,134	2,837
Inventory	6,244	6,859	6,192
Deferred taxes	6,197	2,808	6,313
	77,634	87,468	75,206
long-term assets:			
Post-dated notes	34,107	37,912	36,392
Prepaid expenses	14,014	14,021	14,515
Investment in associate	23	4,613	24
Long-term deposits	4,200	–	4,200
Deferred taxes	1,811	698	1,772
	54,155	57,244	56,903
fixed assets:			
Cost	29,248	21,058	23,067
Less - accumulated depreciation	12,857	8,656	10,629
	16,391	12,402	12,438
intangible assets, net:	50,593	51,639	51,880
	198,773	**208,753**	**196,427**
liabilities and shareholders' equity			
current liabilities:			
Bank credit and current maturities	38,680	48,662	46,865
Trade payables	7,875	6,907	7,589
Other accounts payable	16,066	11,985	13,332
	62,621	67,554	67,786
long-term liabilities:			
Long-term loans from banks, lease obligations and others	47,954	39,308	38,779
Accrued severance pay	1,178	1,370	1,446
Deferred tax liability	742	134	859
	49,874	40,812	41,084
minority interest:	1,659	1,537	1,427
shareholders' equity:			
Ordinary shares of NIS 0.01 par value each: Authorized: 14,000,000 shares at June 30, 2004 and 2003 and December 31, 2003; Issued and outstanding: 10,663,373 shares at June 30, 2004 and 2003 and December 31, 2003	31	31 *	31 *
Additional paid-in capital	91,594	91,594 *	91,594 *
Treasury shares at cost	(446)	(406) *	(432) *
Cumulative reporting currency translation adjustments	(7,487)	(3,654) *	(5,446) *
Retained earnings	927	11,285	383
	84,619	98,850	86,130
	198,773	**208,753**	**196,427**

* Reclassified – see Note "Impact of recently issued standards"

Consolidated Statements of Operations

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

	Three months ended June 30, 2004	Three months ended June 30, 2003	Six months ended June 30, 2004	Six months ended June 30, 2003	Year ended December 31, 2003
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
Revenues from sales of devices and services	26,404	25,591	53,008	51,174	98,784
Cost of sales of devices and services	14,620	13,245	29,094	26,084	52,125
Gross profit	11,784	12,346	23,914	25,090	46,659
Research and development costs, net	183	141	377	258	672
Selling and marketing expenses	2,602	2,585	5,672	5,233	10,195
General and administrative expenses	7,976	7,786	15,289	15,307	32,722
Operating income	1,023	1,834	2,576	4,292	3,070
Financial income (expenses):					
Exchange rate differences from cash deposits	(119)	(1,883)	343	(2,067)	(1,722)
Short-term deposits, net	–	(17)	–	(711)	(729)
Gain (loss) on marketable securities and derivative financial instruments, net	(107)	803	(28)	1765	2,015
Other	(449)	293	(1,598)	(856)	(4,269)
	(675)	(804)	(1,283)	(1,869)	(4,705)
Other expenses, net	48	35	48	83	24
Income (loss) before taxes on income	300	995	1,245	2,340	(1,659)
Taxes on income	(383)	433	(66)	562	1,022
	683	562	1,311	1,778	(2,681)
Minority interest	(457)	(357)	(767)	(987)	(1,913)
Equity in losses and provision against shareholders loan to associate	–	–	–	(84)	(5,601)
Net income (loss)	226	205	544	707	(10,195)
Net basic and diluted earning (loss) per share	0.02	0.02	0.05	0.07	(0.96)

Impact of recently issued standards

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

According to the new standard regarding the use of a presentation currency other than the functional currency, share capital, additional paid-in capital and treasury shares are translated into U.S. dollars using the exchange rate of the date of the transaction. In previous periods the Company had translated those items at the closing rate existing at the date of the balance sheet presented, in accordance with the treatment in SIC-30.

The effect of the change is only a re-classification between different items in shareholder's equity. The change has no effect on the balance sheets, income statements and cash flow of the Company.

Consolidated Statements of Cash Flows

U.S. dollars in thousands	Three months ended June 30, 2004	2003	Six months ended June 30, 2004	2003	Year ended December 31, 2003
	Unaudited		Unaudited		Audited
cash flows from operating activities:					
Net income (loss)	226	205	544	707	(10,195)
Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities	(846)	4,270	(2,570)	(1,503)	10,840
Net cash provided by (used in) operating activities	(620) **	4,475	(2,026) **	(796)	645
cash flows from investing activities:					
Shareholders loan to associate	–	(1,139)	–	(2,407)	(3,062)
Purchase of fixed assets	(1,641)	(1,105)	(2,583)	(1,896)	(4,396)
Payment for acquisition of business activities	–	–	(4,645)	(419)	(968)
Net cash received in acquisition of newly consolidated company	–	–	11,035	–	–
Repayment of liability regarding the acquisition of newly consolidated company and business activities	(307)	(4,300)	(517)	(4,131)	(4,147)
Investment in intangible assets	(239)	(245)	(549)	(552)	(1,143)
Proceeds from sale of fixed assets	14	–	118	23	53
Short-term deposits, net	2,807	11,818	2,807	11,818	12,109
Long-term deposits	–	–	–	–	(4,200)
Investment in marketable securities	26	(2,067)	26	(5,189)	(5,317)
Net cash provided by (used in) investing activities	660	2,962	5,692	(2,753)	(11,071)
cash flows from financing activities:					
Proceeds from long-term loans from banks and others, net	3,274	1,216	12,344	1,678	2,190
Repayment of long-term loans from banks and others	(3,619)	(4,572)	(5,804)	(16,432)	(26,043)
Short-term bank credit, net	(3,340)	(1,450)	(7,308)	9,817	15,941
Income distributions to minority interest	(458)	(613)	(534)	(1,051)	(2,087)
Treasury shares acquired	(14)	(68)	(14)	(211)	(237)
Net cash used in financing activities	(4,157)	(5,487)	(1,316)	(6,199)	(10,236)
Effect of exchange rate changes on cash and cash equivalents	190	2,383	(432)	2,407	1,860
Increase (decrease) in cash and cash equivalents	(3,927)	4,333	1,918	(7,341)	(18,802)
Cash and cash equivalents at the beginning of the period	23,652	24,935	17,807	36,609	36,609
Cash and cash equivalents at the end of the period	**19,725**	**29,268**	**19,725**	**29,268**	**17,807**

**Includes net cash used in operating activities by PHTS BV in the amount of approximately 4,000 and 1,500 for the six and three months period ended June 30, 2004, respectively.

Statements of Changes in Shareholders' Equity

U.S. dollars in thousands	Share capital	Additional paid-in capital	Treasury shares	Cumulative reporting currency translation adjustments	Retained earnings	Total
			Six months ended June 30, 2004 (unaudited)			
Balance at the beginning of the period	31	91,594	(432)	(5,446)	383	86,130
Treasury shares	–	–	(14)	–	–	(14)
Reporting currency translation adjustments	–	–	–	(2,041)	–	(2,041)
Net income	–	–	–	–	544	544
Balance at the end of the period	**31**	**91,594**	**(446)**	**(7,487)**	**927**	**84,619**
			Six months ended June 30, 2003 (unaudited)			
Balance at the beginning of the period	31 *	91,594 *	(195) *	(11,549) *	10,578	90,459
Treasury shares	–	–	(211)	–	–	(211)
Reporting currency translation adjustments	–	–	–	7,895	–	7,895
Net loss	–	–	–	–	707	707
Balance at the end of the period	**31**	**91,594**	**(406)**	**(3,654)**	**11,285**	**98,850**

* Reclassified – see Note "Impact of recently issued standards"

SHL Telemedicine: profile

SHL TeleMedicine Ltd. develops and markets advanced personal telemedicine systems as well as medical call center and diagnostic services to subscribers. As a leading provider of remote monitoring services in cardiology and in other medical areas, SHL maintains business operations in the US, Europe and Israel.

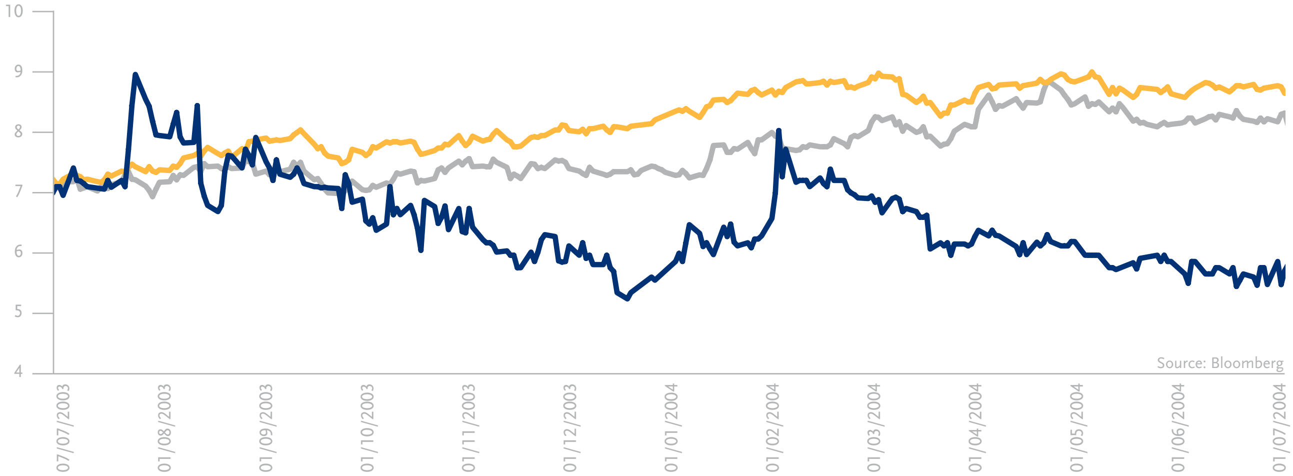
SHL TeleMedicine has 1,222 employees as of June 30, 2004 compared to 1,371 as of June 30, 2003.

Shareholder structure as of June 30, 2004

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

Total number of outstanding shares: 10,663,373

SHL Telemedicine: share-price trend



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