

Half-Year Report 2005

SHL TeleMedicine Ltd.

1 January - 30 June



Dear Shareholders,

SHL's first half of 2005 marked by signing of significant telemedicine contracts in Germany and US and divestiture of Bikurofe in Israel, which will result in around USD 9 million capital gain in Q3. Financial results for the period in line with expectations

Focus on figures

Revenues for the second quarter and half-year of 2005 amounted to USD 26.1 million and USD 52.3 million, respectively compared with USD 26.4 million and USD 53.0 million for the second quarter and half-year of 2004. Revenues from international operations for the half-year amounted to 73 % of total revenues.

Gross profit for Q2 and the first half of 2005 totaled USD 11.5 million and USD 23.3 million, respectively compared

with USD 11.8 million and USD 23.9 million in Q2 and H1 of 2004, while EBITDA amounted to USD 1.7 million and USD 3.4 million, respectively compared with USD 2.1 million and USD 4.3 million in Q2 and H1 of 2004.

From January 2005, following the application of IFRS 3 "Business Combinations" SHL ceased amortizing its goodwill and negative goodwill. The major effect of this change is that the costs of the German operations that were previously netted against negative goodwill are now recorded directly in the income statement and have thus caused a significant decrease in SHL's operating profit (EBIT) which amounted for Q2 and H1 of 2005 to USD 0.1 million and USD 0.4 million, respectively compared with an EBIT for Q2 and H1 of 2004 of USD 1.0 million and USD 2.6 million, respectively.

As a result the net loss for Q2 and H1 of 2005 amounted to USD 0.3 million and USD 1.1 million, respectively compared to a net income in Q2 and H1 of 2004 of USD 0.7 million and USD 1.3 million, respectively. LPS in Q2 and H1 of 2005 amounted to USD 0.08 and USD 0.2, respectively compared with an EPS in Q2 and H1 of 2004 of USD 0.02 and USD 0.05, respectively.

International operations – significant milestones achieved

During this period SHL completed the signing of agreements with two major German health insurers – Taunus Betriebskrankenkasse and Deutsche Betriebskrankenkasse, with collectively over 1.9 million insured – for the procurement of the SHL telemedicine solution for their members with chronic heart diseases, including congestive heart failure (CHF). These cooperations mark an important milestone in the development of PHTS Germany and further underpin PHTS's position as the leading German telemedicine provider as well as potentially leading to additional contracts with other health insurers and bodies in the field.

In the US SHL's strong presence in the North American marketplace has been enhanced through an exclusive marketing alliance with St. Jude Medical, the world's leading mechanical heart valve company, for the promotion of an anticoagulation blood monitoring system - INR@Home.

These milestones are important steps in the development of telemedicine activities in the CHF market in Germany and the INR market in the US, which should contribute to significant growth in revenues and earnings in the coming years.

Israel – divesture of non-core business

In July, SHL completed the sale of Bikurofe Ltd., its Israeli outpatient clinics and doctor visit services company to IEL Israel Equity Ltd. for USD 14.7 million and also received USD 4.3 million in previously announced dividends and other debts. SHL will continue to render various services to Bikurofe for a total amount of USD 1.5 million. SHL will record in the third quarter of 2005 a capital gain of around USD 9 million from the divesture.

Cash flow

The Company's operating cash flow improved considerably this quarter resulting in a positive operating cash flow of USD 0.2 million compared with a negative operating cash flow of USD 1.9 million in Q1 2005 and negative USD 0.6 million in Q2 2004. For the half-year negative operating cash flow amounted to USD 1.7 million compared with a negative USD 2.0 million in H1 2004.

The Company's cash position will improve considerably in Q3 as a consequence of the divestment of Bikurofe.

Looking ahead

SHL continues to invest the necessary resources in developing its international telemedicine activities that should lead to significant growth in the coming years.

Yours sincerely,



**Yoram Alroy,
Chairman and President**

Consolidated Balance Sheets US dollars in thousands

	June 30,		December 31,
	2005	2004	2004
	Unaudited		Audited
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	8,224	19,725	16,884
Short-term deposits	239	-	-
Marketable securities	5,048	5,223	5,196
Trade receivables	25,932	26,776	23,867
Post-dated notes	6,384	5,998	6,547
Prepaid expenses	4,259	5,471	4,244
Other accounts receivable	1,413	2,000	1,249
Inventory	5,308	6,244	6,238
	56,807	71,437	64,225
LONG-TERM ASSETS:			
Post-dated notes	30,131	34,107	33,187
Prepaid expenses	12,904	14,014	14,358
Investment in associate	16	23	8
Long-term deposits	4,310	4,200	4,772
Deferred taxes	10,380	8,008	9,873
	57,741	60,352	62,198
FIXED ASSETS:			
Cost	33,492	29,248	31,428
Less - accumulated depreciation	17,173	12,857	15,112
	16,319	16,391	16,316
INTANGIBLE ASSETS, NET	52,525	50,593	53,004
Total assets	183,392	198,773	195,743

Consolidated Balance Sheets US dollars in thousands

	June 30		December 31,
	2005	2004	2004
	Unaudited		Audited
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and current maturities of long-term loans	42,910	38,680	42,074
Trade payables	9,221	7,875	8,647
Income tax payable	2,137	1,712	2,201
Other accounts payable	9,956	14,354	12,150
	64,224	62,621	65,072
LONG-TERM LIABILITIES:			
Loans from banks, lease obligations and others	36,744	47,585	43,219
Provisions	3,074	369	3,613
Accrued severance pay	1,459	1,178	1,531
Deferred taxes	665	742	793
	41,942	49,874	49,156
Total liabilities	106,166	112,495	114,228
EQUITY:			
Equity attributable to equity holders of the parent:			
Issued capital	31	31	31
Additional paid-in capital	91,601	91,594	91,594
Treasury shares at cost	(558)	(446)	(558)
Foreign currency translation reserve	412	5	(1,104)
Presentation currency exchange differences	(8,736)	(7,492)	(4,058)
Retained earnings (accumulated deficit)	(7,161)	927	(5,708)
	75,589	84,619	80,197
Minority interest	1,637	1,659	1,318
Total equity	77,226	86,278	81,515
Total liabilities and equity	183,392	198,773	195,743

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

	Three months ended		Six months ended		Year ended
	June 30,		June 30,		December 31,
	2005	2004	2005	2004	2004
	Unaudited		Unaudited		Audited
Revenues from sales of devices and services	26,111	26,404	52,268	53,008	103,052
Cost of sales of devices and services	14,566	14,620	29,004	29,094	58,402
Gross profit	11,545	11,784	23,264	23,914	44,650
Research and development costs, net	239	183	489	377	712
Selling and marketing expenses	3,246	2,602	6,737	5,672	12,811
General and administrative expenses	7,955	7,976	15,688	15,289	32,835
Operating income (loss)	105	1,023	350	2,576	(1,708)
Financial expenses, net	867	675	1,775	1,283	3,534
Other income (expenses), net	7	(48)	(6)	(48)	207
Income (loss) before taxes on income	(755)	300	(1,431)	1,245	(5,035)
Tax benefit	(459)	(383)	(341)	(66)	(318)
Net income (loss)	(296)	683	(1,090)	1,311	(4,717)
Attributable to:					
Equity holders of the parent	(800)	226	(2,076)	544	(6,091)
Minority interest	504	457	986	767	1,374
	(296)	683	(1,090)	1,311	(4,717)
Basic and diluted net earnings (loss) per share	(0.08)	0.02	(0.2)	0.05	(0.58)

Statements of Changes in Equity US dollars in thousands

	Attributable to Equity Holders of the Parent						Total	Minority interest	Total equity	Total recognized income (expenses)
	Issued capital	Additional paid-in capital	Treasury shares at cost	Foreign currency translation reserve	Presentation currency exchange differences	Retained earnings (accumulated deficit)				
Balance at January 1, 2004 (audited)	31	91,594	(432)	(220)	(5,226)	383	86,130	1,427	87,557	
Treasury shares	-	-	(126)	-	-	-	(126)	-	(126)	-
Foreign currency translation differences	-	-	-	(884)	-	-	(884)	-	(884)	(884)
Presentation currency exchange differences	-	-	-	-	1,168	-	1,168	-	1,168	-
Distribution to minority interest	-	-	-	-	-	-	-	(1,435)	(1,435)	-
Purchase of minority interest	-	-	-	-	-	-	-	(48)	(48)	-
Net loss	-	-	-	-	-	(6,091)	(6,091)	1,374	(4,717)	(6,091)
Balance at December 31, 2004 (audited)	31	91,594	(558)	(1,104)	(4,058)	(5,708)	80,197	1,318	81,515	(6,975)
Exercise of options	-	7	-	-	-	-	7	-	7	-
Adjustment of negative goodwill	-	-	-	-	-	623	623	-	623	-
Foreign currency translation differences	-	-	-	1,516	-	-	1,516	-	1,516	1,516
Presentation currency exchange differences	-	-	-	-	(4,678)	-	(4,678)	-	(4,678)	-
Distribution to minority interest	-	-	-	-	-	-	-	(717)	(717)	-
Change in equity of minority interests	-	-	-	-	-	-	-	50	50	-
Net loss	-	-	-	-	-	(2,076)	(2,076)	986	(1,090)	(2,076)
Balance at June 30, 2005 (unaudited)	31	91,601	(558)	412	(8,736)	(7,161)	75,589	1,637	77,226	(560)
Balance at January 1, 2004 (audited)	31	91,594	(432)	(220)	(5,226)	383	86,130	1,427	87,557	-
Treasury shares	-	-	(14)	-	-	-	(14)	-	(14)	-
Foreign currency translation differences	-	-	-	225	-	-	225	-	225	225
Presentation currency exchange differences	-	-	-	-	(2,266)	-	(2,266)	-	(2,266)	-
Distribution to minority interest	-	-	-	-	-	-	-	(535)	(535)	-
Net income	-	-	-	-	-	544	544	767	1,311	544
Balance at June 30, 2004 (unaudited)	31	91,594	(446)	5	(7,492)	927	84,619	1,659	86,278	769

Consolidated Statements of Cash Flows US dollars in thousands

	Three months ended		Six months ended		Year ended
	June 30,		June 30,		December 31,
	2005	2004	2005	2004	2004
	Unaudited		Unaudited		Audited
Cash flows from operating activities:					
Net income (loss)	(296)	683	(1,090)	1,311	(4,717)
Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities	467	(1,303)	(604)	(3,337)	6,022
Net cash provided by (used in) operating activities	171	(620)	(1,694)	(2,026)	1,305
Cash flows from investing activities:					
Purchase of fixed assets	(1,019)	(1,641)	(2,505)	(2,583)	(5,155)
Net cash received in acquisition of newly consolidated company	-	-	-	11,035	11,035
Payment for acquisition of business activities	-	-	-	(4,645)	(4,734)
Investment in intangible assets	(317)	(239)	(662)	(549)	(1,118)
Proceeds from sale of fixed assets	6	14	6	118	1,283
Short-term deposits, net	-	2,807	-	2,807	2,824
Long-term deposits, net	6	-	44	-	37
Investment in marketable securities	-	26	-	26	27
Net cash provided by (used in) investing activities	(1,324)	967	(3,117)	6,209	4,199
Cash flows from financing activities:					
Proceeds from exercise of options	7	-	7	-	-
Proceeds from long-term loans from banks and others, net	4,064	3,274	7,015	12,344	13,723
Repayment of long-term loans from banks and others	(7,816)	(3,619)	(11,393)	(5,804)	(11,108)
Short-term bank credit, net	2,183	(3,340)	1,869	(7,307)	(6,983)
Distributions to minority interest	(373)	(458)	(717)	(535)	(1,435)
Purchase of minority interest	-	-	-	-	(48)
Capital contribution from minority interest	31	-	31	-	-
Payment of liability regarding the acquisition of Raytel	-	-	-	-	(89)
Payment of liability regarding the acquisition of business activities	(58)	(307)	(114)	(517)	(521)
Treasury shares acquired	-	(14)	-	(14)	(126)
Net cash used in financing activities	(1,962)	(4,464)	(3,302)	(1,833)	(6,587)
Effect of exchange rate changes on cash and cash equivalents	(379)	190	(547)	(432)	160
Increase (decrease) in cash and cash equivalents	(3,494)	(3,927)	(8,660)	1,918	(923)
Cash and cash equivalents at beginning of period	11,718	23,652	16,884	17,807	17,807
Cash and cash equivalents at end of period	8,224	19,725	8,224	19,725	16,884

Significant Accounting Policies

a. The interim consolidated financial statements are prepared in accordance with the principles set forth in IAS 34. The significant accounting policies and methods of measurement applied in the annual consolidated financial statements of the Company as of December 31, 2004, are applied consistently in these financial statements, except as described below.

b. Impact of recently issued accounting standards:

In accordance with IFRS 3 "Business combination", the Group discontinued amortizing goodwill commencing from January 1, 2005. Such goodwill will be tested for impairment annually at the cash generating unit level (unless an event occurs during the year which requires the goodwill to be tested more frequently). In addition, 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 and the six months and three months ended June 30, 2004, amortization of goodwill amounted to \$ 3,200, \$ 1,587 and \$ 799, respectively, and the amount of negative goodwill recognized as income in general and administrative expenses amounted to \$ 5,136, \$ 3,010 and \$ 1,245, respectively.

Segment Information

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

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

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

b. The following tables present certain revenue and profit information, regarding business segments:

	Three months ended June 30, (unaudited)							
	Telemedicine services		Medical services		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
Segment revenues	13,992	14,190	12,183	12,355	(64)	(141)	26,111	26,404
Segment results	(965)	1,050	1,474	473	-	-	509	1,523
Unallocated expenses							(404)	(500)
Operating income							105	1,023

	Six months ended June 30, (unaudited)							
	Telemedicine services		Medical services		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
Segment revenues	27,773	28,600	24,621	24,549	(126)	(141)	52,268	53,008
Segment results	(1,739)	1,800	2,890	1,746	-	-	1,151	3,546
Unallocated expenses							(801)	(970)
Operating income							350	2,576

	Year ended December 31, 2004 (audited)		
	Telemedicine services	Medical services	Consolidated
Segment revenues	54,763	48,289	103,052
Segment results	(1,322)	1,410	88
Unallocated expenses			(1,796)
Operating loss			(1,708)

SHL TeleMedicine: profile

SHL TeleMedicine Ltd. develops and markets advanced personal telemedicine solutions and diagnostic services to individuals and to the healthcare community. As a leading provider of remote health services in cardiology and in other medical areas, SHL maintains business operations in the US, Europe and Israel. SHL TeleMedicine has 1,339 employees as of June 30, 2005.

Media and Investor Relations

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IR agenda

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Shareholder structure as of June 30, 2005

Royal Philips Electronics	18.76%
Alroy Group	18.72%
Tower Holdings B.V.	14.32%
G.Z. Asset and Management Ltd.	8.73%
Public	39.47%
Total number of outstanding shares:	10,664,807

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SHL Telemedicine: share-price development

