Taking Distributed Simulation Personally

'08

SIMIGON

2008 ANNUAL REPORT

About SimiGon

SimiGon (AIM: SIM) is a leading developer and supplier of distributed simulation solutions for defence and civilian applications. SimiGon is the creator of SIMbox, a leading PC-based platform for creating, managing and deploying simulation-based content across multiple domains. Through its off-the-shelf training solutions for demanding high-skill occupations, SimiGon provides diverse organizations with faster and more cost-effective training. SimiGon's growing client base includes blue-chip training and simulation systems providers as well as over 20 air forces and commercial airlines worldwide. Founded in 1998, SimiGon maintains offices in Israel and the United States.

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Taking distributed simulation personally

When it comes to distributed simulation solutions, SimiGon technology is the way to go. Leading the industry shift away from inflexible, stationary and expensive training systems, offering personal, portable and cost-effective training solutions optimized for the PC or laptop. Our off-the-shelf platform and products – for air, land and industrial applications – are highly flexible, adaptable and robust. This "personal" approach enables multiple high-skill users to train simultaneously on multiple platforms, saving defence and civilian organizations significant time and money. We also offer state-of-the-art simulation solutions for non-training applications, bringing the best of personal simulation to wider audiences.

Financial Highlights

- Revenues were $5.14 million (2007: $5.01million).
- Gross margin at 80.58% (2007: 78.91%).
- Loss of $1.98 million for the year ended 31 December 2008 (2007: Loss of $2.89 million).
- Basic and diluted loss per share $0.05 (2007: Basic and diluted loss per share $0.08). Cash, cash equivalents and short-term bank deposits of $3.64 million at 31 December 2008 (Cash and cash equivalents of $5.02 million at 31 December, 2007).

Operational Highlights

- SimiGon won a $3.1 million contract with Lockheed Martin ("LM") for the Advanced Jet Training phase of the UK Military Flying Training System ("UKMFTS"). The program includes 25 years of support with additional phases and could provide other growth opportunities for SimiGon.
- SimiGon continues its support for Lockheed Martin's F-35 Lightning II Joint Strike Fighter ("JSF") training program. The SIMbox Learning Management System was selected by LM for JSF pilot training systems in 2007. This strategically important project strengthens SimiGon's position when competing for new contracts.
- SimiGon continues to leverage its core product, SIMbox, to compete for more programs in its existing markets, as well as compete in newer markets.
- SimiGon was selected by BAE Systems Australia to provide the Company's AirBook software for a desktop simulation training programme, designed for Royal Australian Air Force pilots.
- Individual Dental Education Assistant (IDEA) selected SimiGon to provide simulation training applications for dentists. This reflects the flexibility of SimiGon's SIMbox technology.
- Israeli Air Force (IAF) has selected SimiGon to provide additional advanced pilot training systems, reflecting the success of the training systems that SimiGon already provides to the IAF operational squadrons and to the Air Force Academy for initial pilot training.
- SimiGon has been selected by an additional European country to provide its Air Force with SimiGon's simulation software for the F-16.
- SimiGon has been selected by the Cessna Aircraft Company ("Cessna") to provide Web-based cold weather simulation and training courses for CE-208 Caravan. This further reflects the flexibility of SimiGon's SIMbox technology.
- SimiGon's subsidiary, National Simulation Services ("NSS") Inc. and its partner, NCI, won a USAF task order to provide information technology services to upgrade, support, and maintain the Air Battle Manager Training System (UABMTS). The mission of the UABMTS is to conduct initial skills training of United States Air Force Air Battle Managers.
- The SIMbox technology infrastructure continues its forward movement, now offering complete web-based simulation through Full Mission Simulator capabilities, increasing the Company's growth potential. SIMbox's advanced 3D graphic engine can be utilised for air, land, sea and industrial environments. The SIMbox LMS remains an industry leading application and the Company is also examining additional ways to leverage this in the commercial markets.

Leveraging Growing Markets for Personal Training & Simulation

A number of key trends are driving the adoption of personal, flexible solutions in the fast growing training and simulation markets.

Key Trends

System complexity: Platforms for airplanes, vehicles and other advanced products are becoming increasingly complex, and require improved training tools. Traditional user manuals, however, are far less effective as they are based on an obsolete "learning by reading" methodology.

Customer sophistication: Organizations training requirements are becoming more educated and sophisticated, and typically know what type of solution they want. As a result, large suppliers can no longer “force” their inflexible solutions onto their customers.

Off-the-shelf solutions: In both military and civilian markets, there is a move towards commercial off-the shelf (COTS) components and products that provide clear time to- market and cost benefits.
Cost of training: Instructors and platforms have limited availability and associated high costs especially in a complex environment This increases the need to maximize preparations and increase the effectiveness of Instructor led and actal platform exercises. It is the continuous need for individualized training on a low cost platform that will prepares user for high end training.

Growing Markets

In light of these trends and the current state of the global economy, there is an industry shift away from expensive, stationary training systems towards more robust, cost-effective PC or laptop-based COTS training solutions. Moreover, “learning by doing” is becoming widely recognized as the most effective way to train users, especially those in demanding high-skill occupations in both military and civilian markets. Despite the economic turmoil, the personal training & simulation market is thriving. The global e-learning and simulation market: As many as 40% of organizations are using a learning management system (LMS), with the highest growth in usage among mid-market buyers. The Defence industry is a principle growth driver of the simulation market. The US continues to be the undisputed leader in providing training and simulation solutions for military preparedness and readiness against enemies and is forecast to increase usage of simulation based training for that purpose. Ongoing conflicts in Iraq and Afghanistan shape industry requirements for cutting-edge training solutions. In the pilot training market, Forecast International projects 1,550 new fixed wing military training aircraft will be delivered through 2019, valued at $17.1 billion. The US is currently the leader in Commercial and Military Flight Simulations while Asia-Pacific is forecast to emerge as the fastest growing market. The Civilian market continues to also be a driver in the simulation market; Although the global economy might have some affect on the potential of commercial areas such as commercial flight, air traffic control, maritime operations, nuclear and electric power plants, driving and medical care these areas continue to require applications, such as simulators, enabling operators to achieve and maintain high levels of operational skill.

Getting Personal with Distributed Simulation Solutions

SimiGon's comprehensive portfolio of off-the-shelf solutions – including a state-of-the-art simulation platform and range of compelling products – "closes the knowledge gap" for professional users. At the same time, SimiGon's flexible solutions are easily integrated either by customer organisations or third-party systems integrators for both military and civilian applications.

SIMbox

SimiGon is the creator of SIMbox, a leading PC-based platform for creating, managing and deploying simulation based content across multiple domains including training, mission debriefing, homeland security and entertainment. SIMbox is a flexible, off-the-shelf 3D simulation engine comprised of a wide array of software modules that empowers users to create an unlimited range of new products and content. Built from the ground up as a robust and flexible platform, SIMbox has been deployed successfully by large training and simulation systems providers, leading military contractors, and over 20 air forces and commercial airlines worldwide.

SIMbox is comprised of three main environments:

- SIMbox Toolkit development environment:
  SIMbox Toolkit is an easy-to-use development suite, empowering non-programmers to create, reuse and control simulation-based applications.
- SIMbox Server management environment:
  SIMbox Server which serves as the Learning Management System (LMS), contains various software modules used for configuration management of developed content, control over content distribution, data gathering from end users, and data analysis and report generation.
- SIMbox Runtime delivery environment:
  SIMbox Runtime provides hi-fidelity 3D distributed simulations that place the user in a virtual or constructive environment with numerous viewpoints for both military and civilian applications.


Ship1 - Cockpit View

Getting Personal with Distributed Simulation Solutions (continued)

KnowBook Family

KnowBook is a family of PC-based COTS training applications used by leading organisations for training professional users. KnowBook provides a common platform for learning, training, planning and debriefing.
The key members of the KnowBook family are:

- **AirBook™:** the family's flagship application that enables aircrew and organisations to remain completely updated with the rapidly changing demands of the military and civilian aviation world.
- **GroundBook™, MarineBook™ and CarBook™:** the newest members of the KnowBook family designed for ground, maritime and driving training scenarios.

AirTrack

AirTrack represents the next generation of passenger in-flight entertainment (IFE) solutions. Successfully installed and operational on airlines worldwide, AirTrack is a cost-effective, rapidly deployable solution for airlines seeking to upgrade their IFE systems. Based on advanced SIMbox technology, the system's capabilities include hi-fidelity 360º 3D simulation views, moving maps, external plane views, dynamic media, and real-time flight data and news. AirTrack is provided with an easy-to-use, PC-based software configuration tool that enables airlines to independently and rapidly customize and upload in-flight content based on specific needs.

Debriefing Systems

SimiGon offers advanced post-mission debriefing applications that provide critical feedback and improve operational readiness. Utilizing a standard Windows graphical user interface (GUI), the PC-based systems can be deployed at any location and are extremely simple to operate.
SimiGon's debriefing systems include D-Brief PC™ and MDDS Pro™. Operated from a server connected to multiple client workstations, the systems analyze flight data stored on the aircraft's PMC or RMM cartridge. D-Brief PC is used to support real-time air combat debriefing. MDDS Pro is a digital debriefing solution incorporating video with 3D simulation.

Air Traffic Control

SimiGon's successfully deployed Air Traffic Control training solution include instructor operator stations, virtual pilots, voice recognition and the ability for instructors to modify training sessions in real time. The systems are used by ATC instructors to train new controllers in guiding aircraft through takeoff and landing procedures as well as for recurrent and operational training. The Company aims to leverage its success in this market to compete for additional military and civilian ATC training contracts.

Sharing Personal Messages from Corporate Leadership

Chairman's Statement

SimiGon Ltd. (the company together with its subsidiaries "SimiGon") announces its full year results for 2008. Despite the global economic crisis and expected revenue growth that has been delayed, the Board believes SimiGon is well positioned for long term growth and the Company will continue to build on its success providing PC-based training and simulation systems for the industry's largest training programmes. SimiGon retains its positive outlook due to the large contracts that have already begun to impact revenues and additional substantial wins that are expected in the coming years. In the current business environment, SimiGon is committed to exacting prudent and measured actions to steer the business through the global economic recession. The Company will remain focused on delivering quality products to its customers and doing its utmost to build on its current market positioning to compete for upcoming military aviation training contracts as well for contracts in other training domains.

Alistair Rae.

Alistair Rae

Chairman

Chief Executive's Review

During 2008 SimiGon continued to substantiate its position as one of the world's leading developers and suppliers of distributed computer simulation solutions by wining numerous strategic contracts this year that will positively impact the Company's longer term prospects. We focused on winning large, strategic programs to secure the companies position in the marketplace the global crisi s has affected our entry into the commercial markets but has not affected our leading position in our core SIMbox training business.

As a provider of advanced PC-based training and simulation technologies for the world's largest military flight training programmes, SimiGon has transformed into a formidable player in the market of PC-based training and simulation solutions. The Company's reconfigurable SIMbox technology platform can be used for all initial, recurrent and operational requirements, across all domains such as air, land and sea, and industrial. The Company will continue to leverage its core product, SIMbox, to compete for more programs in its existing markets, as well as compete in newer markets such as medical, maritime and industrial operations training.

SimiGon is extremely pleased to have been chosen as a partner in the UKMFTS program. This is a significant milestone for the company and it represents a success of its strategic business model as it transitions from primarily six figure contracts to long term multimillion dollar contracts. We are very excited to be part of the team for this program as this further extends the mutually beneficial relationship with Lockheed. The UKMFTS will be using our technology the way it was designed to be - network centric, personal and dynamic hi-fidelity training systems for each trainee. We are confident this program will demonstrate the viability of the SIMbox technology platform and our business model. This and other recent contract wins give us confidence in the growth prospects of SimiGon. The selection of the SIMbox Learning Management System for the F-35 Lightning II Joint Strike Fighter training program by Lockheed Martin and winning the Contract with Lockheed Martin for the Advanced Jet Training phase of the UKMFTS will continue to impact SimiGon more significantly in the longer term. This success has led to the addition of several significant partners including BAE Systems Australia and Cessna along with several training companies. These new partnerships serve to strengthen SimiGon's foundations, providing further affirmation of the viability of SimiGon's training solutions and will further fuel the Company's expansion.

Amos Vizer

President & CEO

Financial Performance

Revenues for the year ended 31 December 2008 were $5.14 million, compared to $5.01 million in 2007, an increase of 2.59%. In terms of regional breakdown, 58.55% of SimiGon's revenues came from North America (2007: 29.2%), 31.73% from Europe and the Middle East (2007: 70.7%) and 9.72% from the Far East (2007: 0.1%). Gross profit for the fiscal year was $4.14 million (2007: $3.96 million). Research and development expenses for the year decreased by 8.30% to $2.54 million (2007: $2.77 million), primarily due to lower salary expenses. Sales and marketing expenses for the year 2008 decreased by 29.18% to $1.82 million (2007:$2.57 million) mainly due to a decrease in sales commission. General and administration expenses increased by 3.93% to $1.85 million (2007: $1.78 million) mainly due to provision for doubtful debt.

As a result, the total operating expenses for the year decreased by 12.78% to $6.21 million (2007: $7.12 million). The operating loss therefore is $2.06 million (2007: operating loss $3.16 million) and the net loss is $1.98 million in 2008 compared to a net loss of $2.89 million in 2007. This resulted in a net basic and diluted loss per share of $0.05 (2007: loss per share of $0.08). As at 31 December 2008, SimiGon had cash, cash equivalents and deposits in the amount of $3.64 million. As at 31 December 2008, the Company had 47 employees, compared to 60 employees on 31 December 2007.

Product Development

During 2008, SimiGon incurred a high level of annual expenditure on research and development as the group sought to further extend its technology lead over its competitors. SimiGon is committed to technology innovation and developing new capabilities and products to ensure market relevance and build market share. In 2008, SimiGon R&D efforts focused on improving the SIMbox Learning Management System to provide a distributed site management platform supporting multiple professional communities across different locations. This enables far flung organizations to collaborate, monitor and track group and individual performance, leading to faster effective training. Another major effort was focused on the new generation SIMbox Graphic Engine, developed to support urban and ground simulation with high resolution, getting better performance for the end user. In addition, a new SIMbox Simulation platform was developed; SIMbox Web Simulation provides an interactive mode to support access to the simulation from a web browser. The Web Simulation platform significantly increases the number of end users training with SIMbox. SimiGon R&D continues to be one of the earliest adapters of cutting edge software technologies for infrastructure development with the improvements to the SIMbox Toolkit, supporting a wider range Special Matter Experts (SME) with non-programmer knowledge to develop simulation platforms using SIMbox Toolkit.

Outlook

Despite the global economic crisis and the delays in the expected revenue growth, the Company remains positive in its outlook due to the strategic partnerships and large contracts that have already begun to impact revenues and others that are expected to be closed in the future. The Company is well positioned to compete for upcoming military aviation training contracts as well as for other training contracts in other domains. The Board believes the Company is well positioned for near term and longer term growth, continuing its success in providing PC-based training and simulation systems for the industry's largest training programmes.

Displaying **Personal** Commitment to Organizational **Success**

Board of Directors

Alistair Rae, Non-Executive Chairman
Alistair is currently chief executive of LTG Technologies Plc, an AIM traded company, having been a non-executive director from 2002 to 2005. He was the group finance director of Jarvis Plc from 2004 to 2005, guiding the company through a period of reconstruction. Prior to this he was a director in the corporate finance department of HSBC Investment Bank from 1996 to 2002, and before that he worked in corporate finance at Cazenove for ten years in the UK and the Far East.
Alistair qualified as a chartered accountant with KPMG.

Amos Vizer, President & CEO
Prior to founding SimiGon, Amos founded Logi-Cali, a software development house specializing in data storage applications. He previously served as marketing and business development manager of ISYS Operational Management Systems, an international IT company. Amos also previously worked for the missiles division of RAFAEL Armament Development Authority Ltd. Additionally, he served ten years in the Israeli Air Force (IAF) as an F-4 Phantom Fighter navigator, a flight school course commander, and a Popeye missile weapons officer. With extensive training in advanced software development, Amos holds a BA in business administration.

Haim Yatim, CFO
Haim joined SimiGon as chief financial officer following several successful stints in the high-technology sector as a CFO and CPA. Previously, Haim served as CFO at Digital Power (AMEX: DPW). There, his responsibilities included financial reporting to the SEC, corporate accounting and tax preparation, budgeting and forecasting, and risk management. He is a former partner at Ernst & Young's Tel Aviv office, where he advised on successful NASDAQ listings of technology companies. Haim holds a B.Sc. in accounting and economics.

Eitan Cohen, Co-Founder and Chief Executive
Eitan Cohen is a Co-Founder and Chief Executive Officer of ASIC Depot OOD an EDA and Semiconductor design centre. Eitan previously held positions as CEO and Country manager for Semiconductor and EDA companies, in which he led to the award of multi-million dollar deals with tier-one companies and managed business development activities with potential partners worldwide.

Nevat Simon, Independent Non-Executive Director
Nevat has practiced as a certified public accountant in his own accounting firm since 1991, providing both accounting and other financial services to the firm's clients. He has previously served on the board of Sprint Investments Ltd. and Multimetrics Ltd., both publicly listed companies on the Tel Aviv Stock Exchange, and on the board of a number of private companies. Nevat has a BA in accounting and marketing from the Business College of Management in Tel Aviv and has been a member of the Certified Public Accountant Council in the Justice Department of the State of Israel since 1991.

Dr. Vered Shany, Independent Non-Executive Director
Since March 2002, Vered has managed Tashik Consultants, providing strategic consulting and corporate analysis in the life sciences sector. Previously, Vered served as managing director of Up-Tech Ventures Ltd., as a member of the board of directors of the Weizmann Science Park Incubator, and as vice president of marketing for Arad Technological Incubator. Prior to that, she was business and marketing manager of Medun Ltd., a medical start-up company, from 1995 to 1998. Vered received her masters' degree in business administration from Heriot–Watt University, Edinburgh Business School, and gained her doctorate of medical dentistry and her B.Med.Sc. from the Hebrew University of Jerusalem.

Management

Amos Vizer, President & CEO

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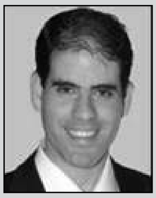
Yaron Goldberg - VP Programs

Yaron has worked in SimiGon as a Software Designer, Program Manager and then Programs Director, managing all aspects of multiple, large-scale programs to ensure delivery and implementation of customer contracts, starting from marketing stages to delivery. Mr. Goldberg served for 7 years in the IAF as an F-4 pilot and as an instructor in the IAF academy. Mr. Goldberg has a Bachelor degree in Business Management majoring in Information Technologies. He serves in the reserve as an instructor in the IAF academy.

Alon Shavit, VP Business Development

Before joining SimiGon, Alon served 15 years in the Israeli Air Force (IAF), having flown F-16s for the past 20 years. He was an instructor in the Operational Training Unit (OTU) on A-4s for two years and a commander of the F-16 OTU for 18 months. His last role in the IAF was managing the planning, coordination, synchronization, and monitoring of the training program. Alon holds an MBA and bachelor's degrees in economics and psychology.



Koby Ben Yakar - Director, Product Development

Koby, 33, has a distinguished record as an experienced manager with extensive technical skills and knowledge. Mr. Ben Yakar has led a wide range of projects with cross-functional teams, including serving as SimiGon's Information Technology team leader and overseeing the architecture, design and development of the SIMbox LCMS Server infrastructure. Mr. Ben Yakar has over 10 years of experience in large training and simulation technologies enterprise projects with a proven ability to manage business and technical relationships for large-scale projects.

Iris Siruse, Director of Human Resources

Iris has been managing SimiGon's HR Department for over six years. Before joining SimiGon, she served as assistant to the CEO at a major publishing house, where she developed the company's human resources organization, and was employed as an interviewer at a job placement company. Formerly an Israeli Air Force (IAF) officer, she was responsible for operations of the IAF Commander's office. Iris holds a BA.

Financials

Simigon Ltd. And Its Subsidiaries
Consolidated Financial Statements
As Of December 31, 2008
U.S. Dollars in Thousands

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Introduction

SimiGon Ltd. commenced trading on the AIM Market operated by the London Stock Exchange on 2 November 2006. Although the rules of AIM do not require the Company to comply with the Combined Code on corporate governance ("the Code") published by the Financial Reporting Council, the Company fully supports the principles set out in the Code and will attempt to comply with them wherever appropriate, given the Company's size, the constitution of the Board and the resources available to the Company. Details are provided below of how the Company applies those parts of the Code, which it believes to be appropriate.

Directors

The Board comprises two executive Directors, two Non- Executive Directors and two independent Non-Executive Directors nominated by the majority shareholders of the Company. The Board generally meets a minimum five times a year and receives a Board pack comprising a report from senior management together with any other material deemed necessary for the Board to discharge its duties. It is the Board's responsibility for formulating, reviewing and approving the Group's strategy, budgets, major items of expenditure and acquisitions.

Audit Committee

The audit committee consists of Eitan Cohen Graham Woolfman (till June 3, 2008), Dr. Vered Shany and Nevat Simon and meets at least twice a year. The role of the audit committee is to review the management and systems of internal control of the company, including in consultation with the internal auditor and the company's independent auditor and to recommend any remedial action. In addition, the approval of the audit committee is required to effect certain related-party transactions.

Remuneration Committee

The remuneration committee consists of Alistair Rae, Dr. Vered Shany and Nevat Simon. The Remuneration
Committee has a primary responsibility to review the performance of the Company's executive directors and the senior employees and to recommend their remuneration and other terms of employment.

Shareholder Relations

The Company meets with its shareholders and analysts periodically to encourage communication with shareholders. In addition, the Company intends to facilitate communication with shareholders through the annual report and accounts, interim statement, press releases as required during the ordinary course of business and the Company website (www.simigon.com).

Going Concern

The directors have satisfied themselves that the Company has adequate resources to continue in operational existence for the foreseeable future, and for this reason the financial statements are prepared on a going concern basis.

Internal Control

The Board is responsible for the system of internal control and for reviewing its effectiveness. Such systems are designed to manage rather than eliminate risks and can provide only reasonable and not absolute assurance against material misstatement or loss. Each year, on behalf of the Board, the audit committee reviews the effectiveness of these systems. This is achieved primarily by considering risks potentially affecting the Group and from discussions with the external auditors. Each year, the Group is subject to internal audit, the results of which are presented to the audit committee.

A comprehensive budgeting process is completed once a year and is reviewed and approved by the Board. The Group's results, as compared against budget, are reported to the Board on a quarterly basis and discussed in detail at each meeting of the Board. The Group maintains appropriate insurance cover in respect of any legal actions against the Directors as well as against material loss or claims against the Group and reviews the adequacy of the cover regularly. To comply with AIM rules, the Company has adopted a code for dealings in its shares by directors and employees.

Report on Directors Remuneration

Remuneration Policy

The remuneration packages for non-executive directors are based principally on annual salaries. The remuneration packages for independent non-executive directors are based on an annual fixed fee plus additional payment for each Board or Board committee meeting attended. The remuneration packages for executives are based on annual salaries and benefits.

	Total 2008	Total 2007
Executive	$	$
Ami Vizer *	377,876	369,730
Haim Yatim	167,354	145,840
Non-Executive		
Alistair Rae	60,768	70,276
Graham Woolfman**	19,695	52,050
Eitan Cohen***	9,411	-
Nevat Simon	43,908	34,296
Dr. Vered Shany	42,676	34,050
Total	721,688	706,242

* Year 2007 amount does not include $65,774 paid in respect of previous yearsand $47,903 vacations day's. Year 2008 amount does not include $56,635 paid in respect of vacation days.
** Till June 2008.
***From July 2008.

Please see the Directors Report below for details of options granted to directors.

Directors Report

The directors submit their report and the financial statements of the Group for the period ended 31 December 2008.

Incorporation and Admission onto the AIM Market

The Company was incorporated on 1 October 1998. On November 2006 the Company commenced trading on AIM and issued 6,076,811 new Ordinary Shares of NIS 0.01 at price of £0.88 per share. The number of Ordinary Shares issued immediately following the admission is 37,250,666.

Shares

As of December 31, 2008 the total numbers of Ordinary Shares Issued were 37,798,194.

Share Options

As of 31 December 2008, the outstanding balance of options granted to certain employees of SimiGon is approximately 6.4 percent of the Company's issued and outstanding shares at an average exercise price of $0.706. The majority of the options vest in four years from the date of grant. The options expire in ten years from the date of grant.

Review of Business and Future Developments

The business review is given within the Chief Executive Officer's statement.

Dividends

The Company has not declared a dividend in respect of the relevant period.

Directors

The following directors have held office during the year:

Alistair Rae, appointed as a director and Chairman of the Board on 27 October 2006.

Graham Woolfman, appointed as an independent director on 27 October 2006. On June 3, 2008 he announced that he decided not to stand for re-election.

Mr. Eitan Cohen was appointed a non-executive director on June 3, 2008.

Nevat Simon, appointed as an independent director on 27 October 2006.

Dr. Vered Shany, appointed as an independent director on 27 October 2006.

Haim Yatim, appointed as an executive director on 24 September 2006.

Amos Vizer has been an executive director of the Company since 4 November 1998.

Directors Interest in Shares and Share Options

The interest of directors in the issued share capital of the company at 31, December 2008 were as follows.

Directors	Number of Ordinary Shares Capital	Percentage of Ordinary shares	Options
Alistair Rae	22,727	0.06	0
Graham Woolfman	0	0	0
Eitan Cohen	0	0	0
Dr. Vered Shany	0	0	0
Nevat Simon	0	0	0
Ami Vizer	1,662,500	4.4	1,372,074
Haim Yatim	0	0	214,500

Substantial Shareholdings

At 31, December 2008 the Company was informed of the following interests of 3% or more in its ordinary shares issued at that date:

	Number Of Shares	Percentage of issued
Jeffrey Braun	6,543,039	17.31%
Packet Science Rami Weitz	5,557,444	14.70%
G. Poran Holding Ltd	3,778,444	10.00%
Green Venture Capital Ltd.	3,067,848	8.2%
Israel Aircraft Industries Ltd	2,624,310	6.94%
Moldavski High-tech Ltd	1,750,297	4.7%
A. Vizer Holdings Ltd.-DI	1,662,500	4.40%
S.S.D.E Technologies (1999) Ltd.	1,166,895	3.1%

Suppliers Payment Policy

The Group does not operate a standard code in respect of payment to suppliers. It has due regard to the payment terms of suppliers and generally settles all undisputed accounts within 60 days of the date of invoice, except where different arrangements have been arranged with suppliers.

Auditors

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INDEPENDENT AUDITORS' REPORT

To the shareholders of

SIMIGON LTD.

We have audited the accompanying financial statements of SimiGon Ltd. and its subsidiaries ("the Company"), which comprise the consolidated balance sheets as of December 31, 2008, 2007 and 2006, and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company as of December 31, 2008, 2007 and 2006 and of its financial performance and its cash flows for each of the three years then ended, in accordance with International Financial Reporting Standards.

March 25, 2009
Tel-Aviv, Israel

Kost Forer Gabbay and Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

	Note	December 31, 2008	2007	2006
		U.S. dollars in thousands		
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	3a	3,137	5,024	8,226
Short-term bank deposits	3b	500	-	655
Trade receivables	4	1,880	1,147	1,299
Other accounts receivable and prepaid expenses		26	226	215
Total current assets		5,543	6,397	10,395
NON-CURRENT ASSETS				
Long-term prepaid expenses		46	-	-
Property and equipment, net	5	155	187	179
Intangible assets, net	6	1,476	1,528	-
Total non-current assets		1,677	1,715	179
Total assets		7,220	8,112	10,574
EQUITY AND LIABILITIES				
CURRENT LIABILITIES:				
Current maturities and short-term bank loans		81	-	200
Trade payables		147	125	139
Deferred revenues		336	21	104
Other accounts payable and accrued expenses	7	601	1,139	785
Total current liabilities		1,165	1,285	1,228
LONG-TERM LIABILITIES:				
Severance pay liability	8	306	351	252
Long-term loan	9	869	-	-
Total long-term liabilities		1,175	351	252
Total liabilities		2,340	1,636	1,480
EQUITY:	10			
Share capital		90	89	89
Additional paid-in capital		14,904	14,521	14,251
Accumulated deficit		(10,114)	(8,134)	(5,246)
Total equity		4,880	6,476	9,094
Total equity and liabilities		7,220	8,112	10,574

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

March 25, 2009	Alistair Rae	Ami Vizer	Haim Yatim
Date of approval of the financial statements	Non-executive Chairman of the Board	Chief Executive Officer	Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

	Note	Year ended December 31, 2008	2007	2006
		U.S. dollars in thousands		
Revenues	14	5,143	5,008	7,517
Cost of revenues	13a	999	1,056	1,196
Gross profit		4,144	3,952	6,321
Operating expenses:				
Research and development	13b	2,537	2,773	1,985
Selling and marketing	13c	1,822	2,567	939
General and administrative	13d	1,849	1,776	887
Total operating expenses		6,208	7,116	3,811
Operating profit (loss)		(2,064)	(3,164)	2,510
Financial income, net	13e	84	276	10
Profit (loss) for the year		(1,980)	(2,888)	2,520
Basic earnings (loss) per share in U.S. dollars	15	(0.05)	(0.08)	0.08
Diluted earnings (loss) per share in U.S. dollars	15	(0.05)	(0.08)	0.07
Weighted average number of shares used in computing basic earnings (loss) per share in thousands	15	37,453	37,251	31,608
Weighted average number of shares used in computing diluted earnings (loss) per share in thousands	15	37,453	37,251	33,821

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Number of shares	Share capital	Additional paid-in capital	Accumulated deficit	Total equity
	U.S. dollars in thousands (except share amounts)				
Balance as of January 1, 2006	30,520,331	73	5,746	(7,766)	(1,947)
Shareholders waiver of interest on loan	-	-	85	-	85
Issuance of shares, net **)	6,076,811	14	8,397	-	8,411
Exercise of warrant issued to a bank	653,524	2	(2)	-	-
Share-based compensation	-	-	25	-	25
Profit for the year	-	-	-	2,520	2,520
Balance as of December 31, 2006	37,250,666	89	14,251	(5,246)	9,094
Exercise of employee stock options	8,660	*) -	5	-	5
Share-based compensation	-	-	265	-	265
Loss for the year	-	-	-	(2,888)	(2,888)
Balance as of December 31, 2007	37,259,326	89	14,521	(8,134)	6,476
Issuance of shares (Note 10)	538,868	1	210	-	211
Share-based compensation	-	-	173	-	173
Loss for the year	-	-	-	(1,980)	(1,980)
Balance as of December 31, 2008	37,798,194	90	14,904	(10,114)	4,880

*) Represents an amount lower than $ 1,000.
**) Net of issuance expenses of $ 1,619 thousand.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2008	2007	2006
	U.S. dollars in thousands		
Cash flows from operating activities:			
Profit (loss) for the year	(1,980)	(2,888)	2,520
Adjustments to reconcile profit (loss) to net cash provided by (used in) operating activities (a)	(347)	563	(2,236)
Net cash provided by (used in) operating activities	(2,327)	(2,325)	284
Cash flows from investing activities:			
Proceeds from (investment in) short-term deposits, net	(500)	655	(182)
Purchase of property and equipment	(50)	(87)	(82)
Purchase of VTSG business	-	(1,250)	-
Net cash used in investing activities	(550)	(682)	(264)
Cash flows from financing activities:			
Issuance of shares, net	44	-	8,411
Exercise of employee stock options	-	5	-
Proceeds from long-term bank loans, net	946	-	-
Repayment of loans from shareholders	-	-	(1,502)
Repayment of short-term bank loans	-	(200)	-
Net cash provided by (used in) financing activities	990	(195)	6,909
Increase (decrease) in cash and cash equivalents	(1,887)	(3,202)	6,929
Cash and cash equivalents at beginning of year	5,024	8,226	1,297
Cash and cash equivalents at end of year	3,137	5,024	8,226

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2008	2007	2006
	U.S. dollars in thousands		
(a) Adjustments to reconcile profit (loss) to net cash provided by (used in) operating activities:			
Income and expenses not involving operating cash flows:			
Depreciation and amortization	134	134	65
Share-based compensation	173	265	25
Accrued interest on long-term loan	4	-	66
Accrued severance pay, net	(45)	99	185
Changes in operating assets and liabilities:			
Decrease (increase) in trade receivables	(733)	152	(695)
Decrease (increase) in other accounts receivable and prepaid expenses	154	(11)	231
Increase (decrease) in trade payables	22	(14)	(37)
Increase (decrease) in deferred revenues	315	(83)	(2,389)
Increase (decrease) in other accounts payable and accrued expenses	(371)	21	313
	(347)	563	(2,236)
(b) Supplemental disclosure of cash flows:			
Cash paid during the year for: Interest	5	-	80
Cash received during the year for: Interest	75	272	105
(c) Supplemental disclosure of non-cash financing activities:			
Shareholder's waiver of interest on loans	-	-	85
Additional amount for purchase of VTSG business (see Note 6)	-	333	-
Issuance of shares in consideration of liability due to VTSG	167	-	-

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

NOTE 1:- GENERAL

a. SimiGon Ltd. ("the Company") commenced its operations on October 1, 1998, and is engaged in developing advanced learning, training and simulation technologies and applications for use in professional communities. The Company's registered office is in Herzlia, Israel.

b. The Company has a wholly-owned subsidiary in the United States, SimiGon Inc., which is engaged in the marketing of the Company's products in the United States.

c. In August 2007, SimiGon Inc. established another wholly-owned subsidiary in the United States National Simulation Services Inc.

d. On November 2, 2006, the Company completed its Initial Public Offering ("IPO") on the Alternative Investment Market ("the AIM") on the London Stock Exchange, by issuing 6,076,811 Ordinary shares of NIS 0.01 par value each at a price of £ 0.88 ($ 1.65) per share for a total net consideration of $ 8.4 million dollars.

e. On January 24, 2007, SimiGon Inc. signed an agreement with Visual Training Solution Company, Inc. ("VTSG") to acquire certain assets and business relating to simulation and training technologies.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation:

The consolidated financial statements of the Company and its subsidiaries have been prepared on a historical cost basis, except where otherwise indicated, in accordance with International Financial Reporting Standards ("IFRS").

b. Accounting policies:

The accounting policies adopted by the Company for all periods presented are in compliance with the IFRS that are effective at December 31, 2008.

The accounting policies adopted are consistent with those of the previous financial year.

c. Significant accounting judgments, estimates and assumptions:

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. Actual results could be different from these estimates.

d. Functional currency and translation:

Substantially all of the Company and its subsidiaries sales are made outside Israel in non-Israeli currencies, mainly the U.S. dollar. A substantial portion of the Company's expenses, mainly selling and marketing expenses, is incurred in or linked to U.S. dollars. The funds of the Company are held in U.S. dollars. Therefore, the Company's management has determined that the U.S. dollar is the currency of the primary economic environment of the Company, and thus its functional and presentation currency.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Monetary assets and liabilities denominated in non-U.S. dollar currencies are translated into U.S. dollars at the exchange rate on balance sheet date. Transactions in non-U.S. dollar currencies are translated into U.S. dollars at the exchange rate on the date of transaction. Transaction differences are included in financial expenses in the statement of income.

e. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany balances and transactions have been eliminated upon consolidation. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting treatment.

f. Cash and cash equivalents:

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

g. Short-term bank deposits:

Bank deposits with maturities of more than three months but less than one year are included in short-term bank deposits.

h. Trade receivables:

Trade receivables are recognized and carried at the original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is evidence that the Company will be unable to collect the full amount. Bad debts are written-off when identified by management.

i. Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation and impairment in value. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets at the following annual rates:

	%
Computers and peripheral equipment	33
Office furniture and equipment	7 - 15 (mainly 15%)
Leasehold improvements	Over the term of the lease or the estimated useful life, whichever is shorter

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from use or disposal. Any gain or loss recognition is included in the profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Impairment of non-current assets:

The carrying values of non-current assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount is the higher of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

k. Goodwill:

Goodwill represents excess of the costs of a business combination over the net assets of a business acquired (see Note 6). Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the amount of that adjustment is included in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably. If the future events do not occur or the estimate needs to the revised, the cost of the business combination is adjusted accordingly.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount of the cash-generating unit to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

l. Intangible assets:

The cost of intangible assets acquired in a business combination, technology and backlog (see Note 6), is fair value as at the date of acquisition. Following initial recognition, the intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses.

The useful lives of the intangible assets are assessed to be finite.

Intangible assets with finite useful lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income in the expense category consistent with the function of the intangible asset.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

	Backlog	Technology
Useful lives	1 year	10 years
Amortization method used	Straight-line basis	Straight-line basis

m. Interest bearing loans:

All loans and borrowings are initially recognized at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

n. Research and development:

Research and development costs are charged to the income statement as incurred as development costs do not meet the criteria for recognition as an intangible asset.

o. Revenue recognition:

Revenues are recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenues can be reliably measured.

The Company generates revenues mainly from licensing the rights to use its software products and sales of software licenses that require significant customization. The Company also generates revenues from maintenance, support and training. The resellers usually add an additional component to the package sold or include the Company's products as part of a broader package.

Revenues from software licensing that requires significant customization are recognized by reference to the stage of completion of the transaction at the balance sheet date. When the outcome of the transaction cannot be estimated reliably, revenues are recognized only to the extent of the costs recognized that are recoverable. A provision for estimated losses on uncompleted contracts is recorded in the period in which such losses are first identified. As of December 31, 2008, no provision for such losses has been identified.

Maintenance and support revenue included in multiple element arrangements is deferred and recognized on a straight-line basis over the term of the maintenance and support agreement. The fair value of the undelivered elements (maintenance and support services) is determined based on the price charged for the undelivered element when sold separately.

Deferred revenue includes unearned amounts received under maintenance and support contracts, and amounts received from customers but not recognized as revenues.

p. Income taxes:

1. The Company provides for deferred income taxes using the liability method of accounting. Under the liability method, deferred taxes are recognized for temporary differences between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred taxes are measured based on enacted tax rates that will be in effect in the year in which the differences are expected to reverse. Deferred tax assets in respect of carryforward losses and other temporary deductible differences are recognized to the extent that it is probable that they will be utilized.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Taxes that would apply in the event of the distribution of earnings by investees 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 is able to control the distribution of dividends that will cause additional tax liability.

3. Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

q. Basic and diluted earnings (loss) per share:

Basic earnings per share are computed based on the weighted average number of Ordinary shares outstanding during each year. Diluted earnings (loss) per share are computed based on the weighted average number of Ordinary shares outstanding during each year, plus dilutive potential Ordinary shares considered outstanding during the period, except when such potential shares are antidilutive.

r. Severance pay liability:

The Company's liability for severance pay pursuant to the Israel's Severance Pay Law is based on the last monthly salary of the employee multiplied by the number of years of employment, as of the date of severance.

The cost of providing severance pay is determined using an independent actuary. Actuarial gains and losses are recognized immediately in the statement of income in the period in which they occur.

Pursuant to Section 14 of the Severance Pay Law, which covers most of the Company's employees, monthly deposits with insurance companies release the Company from any future severance obligations in respect of those employees (defined contribution). Deposits under Section 14 are recorded as an expense in the Company's statement of income.

s. Leases:

Operating lease payments are recognized as an expense in the income statement over the lease term.

t. Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, short-term bank deposit, trade receivables, other accounts receivable, short-term bank loans, trade payables and other accounts payable approximate their fair value due to the short-term maturity of such instruments.

u. Share-based payment transactions:

The Company applies the provisions of 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 main impact of IFRS 2 on the Company is the expensing of employees' and directors' share options (equity-settled transactions).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using the Black-Scholes option-pricing model taking into account the terms and conditions upon which the instruments were granted. The fair values of Ordinary shares for the purpose of calculating the fair values of options and warrants were determined by management based on a number of factors.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

v. Disclosure of new IFRS in the period prior to their adoption:

1. IAS 1 (Revised) - Presentation of Financial Statements:

IAS 1 (Revised) requires entities to present a another statement, a separate "statement of comprehensive income" displaying , other than the net income taken from the statement of income, all the items carried in the reported period directly to equity that do not result from transactions with the shareholders in their capacity as shareholders (other comprehensive income) such as adjustments arising from translating the financial statements of foreign operations, fair value adjustments of available-for-sale financial assets, changes in revaluation surplus of fixed assets and the tax effect of these items carried directly to equity, while properly allocated between the Company and the minority interests. Alternatively, the items of other comprehensive income may be displayed along with the items of the statement of income in a single statement entitled "statement of comprehensive income" which replaces the statement of income, while properly allocated between the Company and the minority interests. Items carried to equity resulting from transactions with the shareholders in their capacity as shareholders (such as capital issues, dividend distribution etc.) will be disclosed in the statement of changes in equity as will the summary line carried forward from the statement of comprehensive income, while properly allocated between the Company and the minority interests.

IAS 1 (Revised) also prescribes that in cases of restatement of comparative figures as a result of the retroactive adoption of a change in accounting policy, the entity must include an opening balance sheet disclosing the restated comparative figures.

IAS 1 (Revised) is effective for annual financial statements for periods beginning after January 1, 2009. Earlier application is permitted.

The effect of the adoption of IAS 1 (Revised) will require the Company to provide a statement of comprehensive income, as described above.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. IFRS 3 (Revised) - Business Combinations and IAS 27 (Revised) - Consolidated and Separate Financial Statements:

IFRS 3 (Revised) and IAS 27 (Revised) ("the Standards") will be effective for annual financial statements for periods beginning on January 1, 2010. The combined early adoption of the two Standards is permitted.

The principal changes expected to take place following the adoption of the Standards are:

- IFRS 3 currently prescribes that goodwill will be measured as the excess of the cost of the acquisition over the acquirer's share in the fair value of the net identifiable assets on the acquisition date. According to the Standards, goodwill can be measured at its full fair value and not only based on the acquired share, this in respect of each business combination transaction measured separately.

- Contingent consideration in a business combination will be measured at fair value and changes in the fair value of the contingent consideration, which do not represent adjustments to the acquisition cost in the measurement period, will not be simultaneously recognized as goodwill adjustment. Generally, the contingent consideration will be classified as a liability and will be remeasured at fair value, with the change in fair value recognized in earnings.

- Direct acquisition costs attributed to a business combination transaction will be recognized in the statement of income as incurred as opposed to the previous requirement of carrying them as part of the consideration of the cost of the business combination.

- A transaction with minority interests, whether a sale or an acquisition, will be accounted for as an equity transaction and will therefore not be recognized in the statement of income or have any effect on the amount of goodwill, respectively.

- A subsidiary's losses, resulting a net deficiency in the subsidiary, will be allocated between the parent company and minority interests, even if the minority has not guaranteed or has no contractual obligation of sustaining the subsidiary or carrying out another investment.

- On the loss of control of a subsidiary, the remaining investment in the subsidiary, if any, will be remeasured to fair value and the change in the fair value is recorded as a part of the gain and loss from the sale. This fair value will represent the cost basis for the purpose of subsequent treatment.

As the Standards are applicable principally to future business combinations, the Company believes that the effect of the Standards on its financial condition, results of operations and cash flows is not expected to be material.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

3. IFRS 2 (Revised) - Share-based Payment:

Pursuant to the IFRS 2 (Revised) ("the revised Standard"), the definition of vesting terms will only include service conditions and performance conditions and the settlement of a grant that includes non-vesting conditions by the Company or the counterparty, will be accounted for by way of vesting acceleration and not by forfeiture. The Standard will be applied retrospectively for financial statements for periods beginning on January 1, 2009. Earlier application is permitted.

Vesting conditions include service conditions which require the counterparty to complete a specified period of service and performance conditions which require specified performance targets to be met. Conditions that are other than service and performance conditions will be viewed as non-vesting conditions and must therefore be taken into account when estimating the fair value of the instrument granted.

The Company believes that the revised Standard will have no effect on its financial position, results of operations and cash flows.

4. IAS 23 (Revised) - Borrowing Costs:

In accordance with the revised IAS 23, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset must be capitalized. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale and includes fixed assets, investment property and inventories that take a substantial period of time to get ready for sale. The possibility of immediately carrying these costs as an expense has been removed.

The amended Standard is effective for the financial statements for the year beginning January 1, 2009. Earlier application is permitted.
The Company believes that the revised Standard will have no effect on its financial position, results of operations and cash flows.

5. IAS 38 (Revised) - Intangible Assets:

Pursuant to IAS 38 (Revised), expenses incurred from advertising, marketing or promotional activities will be recognized as an expense when the company has the right to access to the advertising goods or when the company receives those services. For these purposes, the activities also include production of catalogs and promotional pamphlets. Also, IAS 38 is amended to avoid giving the impression that the unit of production amortization method is not allowed for all intangible assets if it results in a lower amount of accumulated amortization than under the straight-line method. The Standard will be adopted retrospectively starting from the financial statements for periods beginning on January 1, 2009. Earlier application is permitted.

The Company believes that the effect of the revised Standard on its financial position, operating results and cash flows is not expected be material.

NOTE 3:- CASH, CASH EQUIVALENTS AND SHORT-TERM BANK DEPOSITS

a. Cash and cash equivalents:

	December 31, 2008	2007	2006
	U.S. dollars in thousands		
Cash at bank and on hand	428	82	457
Short-term deposits	2,709	4,942	7,769
	3,137	5,024	8,226

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates ranging from 0.2% - 1.86%.

b. The short-term bank deposits as of December 31, 2008 and 2006 bear an annual interest rate of 2.08% and annual average rate of 4%-5%, respectively.

NOTE 4: - TRADE RECEIVABLES

	December 31, 2008	2007	2006
	U.S. dollars in thousands		
Trade receivables (1)	1,880	1,147	1,299
(1) Net of provision for allowance for doubtful debts of:	130	-	-

Trade receivables are non-interest bearing and are generally on 30 - 90 days' terms.

As of December 31, 2008, the aging analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired < 30 days	30 – 60 days	60 – 90 day	> 90 days
	U.S. dollars in thousands					
2008	1,880	1,444	107	54	-	275
2007	1,147	997	-	10	-	140
2006	1,299	967	76	97	-	159

NOTE 5:- PROPERTY AND EQUIPMENT

Composition and movement:

	Computers and peripheral equipment	Office furniture and equipment	Leasehold improvements	Total
	U.S. dollars in thousands			
Cost:				
Balance as of January 1, 2006	538	126	54	718
Acquisitions during the year	55	27	-	82
Balance as of December 31, 2006	593	153	54	800
Acquisitions during the year	77	10	-	87
Balance as of December 31, 2007	670	163	54	887
Acquisitions during the year	48	2	-	50
Disposals during the year	(8)	-	-	(8)
Balance as of December 31, 2008	710	165	54	929
Accumulated depreciation:				
Balance as of January 1, 2006	462	66	28	556
Provision during the year	43	16	6	65
Balance as of December 31, 2006	505	82	34	621
Provision during the year	62	12	5	79
Balance as of December 31, 2007	567	94	39	700
Provision during the year	66	11	5	82
Disposals during the year	(8)	-	-	(8)
Balance as of December 31, 2008	625	105	44	774
Depreciated cost as of December 31, 2008	85	60	10	155
Depreciated cost as of December 31, 2007	103	69	15	187
Depreciated cost as of December 31, 2006	88	71	20	179

NOTE 6:- BUSINESS COMBINATION AND INTANGIBLE ASSETS

On January 24, 2007, SimiGon Inc. signed an agreement ("the Agreement") with Visual Training Solution Company, Inc. ("VTSG") to acquire the assets and business relating to its simulation and training technologies. VTSG was a former business partner of the Company whereby the Company provided the software and VTSG provided the content and hardware integration.

According to the Agreement, the total consideration of the assets and business acquired is up to $ 2 million. The first payment of $ 1.25 million was paid on the date the agreement was signed and the second payment of up to $ 0.75 million, which was due in January 2008, was contingent upon meeting certain targets such as revenues and employee retention. Up to 50% of the second payment can be paid by the issuance of Company shares.

The fair values of identifiable assets of VTSG as of the date of acquisition were estimated as follows:

	Fair value recognized on acquisition
	U.S. dollars in thousands
Technology	505
Backlog	10
Total assets acquired	515
Goodwill arising on acquisition	735
Total consideration	1,250

The carrying value of intangible assets acquired as of December 31, 2008 and 2007 in the accounts of the Company were as follows:

	Carrying value as of December 31,		
	2008	**2007**	**2006**
	U.S. dollars in thousands		
Technology **)	408	459	-
Backlog **)	-	1	-
Total assets	408	460	-
Goodwill arising on acquisition*)	1,068	1,068	-
Total consideration	1,476	1,528	-

*) As part of the Agreement, on February 5, 2008, the Company paid an additional amount of $ 333 thousand for the second payment. This amount was recorded as an adjustment to goodwill.

The amount of $ 333 thousand was recorded as follows: (a) $ 166 thousand was offset from a receivable from VTSG, and (b) the balance of $ 167 thousand was settled through the issuance of 164,628 Ordinary shares of the Company on February 7, 2008.

NOTE 6:- BUSINESS COMBINATION AND INTANGIBLE ASSETS (Cont.)

As the activities of VTSG have been fully integrated into those of the Company, the goodwill arising in the acquisition of VTSG is evaluated for impairment purposes as part of the cash generating unit representing the Company.

The recoverable amount of the Company as of December 31, 2008, has been determined based on a value in use calculation prepared by an independent valuation expert using cash flow projections from financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to the cash flow projections is 38% and cash flows beyond the 5-year period are extrapolated using a 3% growth rate that is the same as the estimated long-term average growth rate for the simulation industry.

The recoverable amount determined based on the value in use calculation resulted in a amount that exceeded the carrying amount of the net assets of the Company by a substantial margin such that reasonably possible changes in significant assumptions is unlikely to result in a recoverable amount that is less than the carrying amount.

As of December 31, 2007, the fair value of the Company based on the market price of its shares exceeded the carrying amount of the Company's net assets (equity).

**) During the years ended December 31, 2008, 2007 and 2006, the Company recorded amortization of technology and backlog in the amount of $ 52 thousand, $ 55 thousand and $ 0 thousand, respectively, which were recorded in cost of revenues.

NOTE 7:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,		
	2008	2007	2006
	U.S. dollars in thousands		
Employees and payroll accruals	399	461	456
Accrued expenses	196	479	275
Provision for additional consideration (Note 6)	-	167	-
Other	6	32	54
	601	1,139	785

NOTE 8:- SEVERANCE PAY LIABILITY

a. The amounts recognized in the balance sheet are as follows:

	2008	2007	2006
Liability at the beginning of the year	351	252	67
Expense (income) recognized in the statement of income	(16)	112	232
Contribution paid	(10)	(13)	(45)
Benefits not paid from assets	(19)	-	(2)
Liability at the end of the year	306	351	252

NOTE 8:- SEVERANCE PAY LIABILITY (Cont.)

b. Amounts recognized in the statement of income are as follows:

	December 31,		
	2008	2007	2006
	U.S. dollars in thousands		
Current service cost	51	87	234
Interest cost	27	27	3
Expected return on plan assets	(2)	(3)	-
Net actuarial loss (gain) recognized in the year	(92)	1	(5)
Total expense included in statement of income	(16)	112	232

c. Changes in the present value of defined benefit obligation:

1.

	Year ended December 31,		
	2008	2007	2006
	U.S. dollars in thousands		
Balance at January 1	406	298	67
Interest cost	27	27	3
Current service cost	51	87	234
Benefits paid	(38)	-	-
Net actuarial gain	(94)	(6)	(6)
Balance at December 31	352	406	298

2. Plan assets:

a) Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

b) The movement in the fair value of the plan assets:

	Year ended December 31,		
	2008	2007	2006
	U.S. dollars in thousands		
Balance at January 1	55	46	-
Expected return	2	3	-
Contributions by employer	10	13	45
Benefits paid	(19)	-	-
Net actuarial gain (loss)	(2)	(7)	1
Balance at December 31	46	55	46

NOTE 8:- SEVERANCE PAY LIABILITY (Cont.)

d. The actuarial assumptions used are as follows:

	Year ended December 31,		
	2008	2007	2006
Discount rate	4.29%	6.34%	3.65%
Expected rate of return on plan assets	6.35%	4.09%	4.67%
Future salary increases	2%	3%	2%
Average expected remaining working years	5.9	10.34	7.81

NOTE 9:- LONG-TERM LOAN

a. Comprised as follows:

	Linkage terms	Interest rate as of December 31, 2008	December 31, 2008
			U.S dollars in thousands
From bank	LIBOR +4%	6.145%	1,000
Add - accrued interest			4
			1,004
Less - loan origination fees			10
Less – Ordinary shares issued in connection with the loan (see c)			44
			54
Total long-term loan			950
Less - current maturities			81
			869

b. The aggregate annual maturities of long-term loan is as follows:

	December 31, 2008
	U.S dollars in thousands
First year (current maturities)	81
Second year	869
	950

NOTE 9:- LONG-TERM LOAN (Cont.)

c. On November 16, 2008, the Company signed a loan agreement ("Loan Agreement") with Bank Mizrahi Ltd. ("Mizrahi"), according to which Mizrahi provided a loan to the Company in the amount of $ 1 million. The Loan bears an annual interest rate of LIBOR+4% and is repayable in 12 equal monthly payments commencing December 25, 2009. As part of the Loan Agreement, the Company issued to Mizrahi 374,240 Ordinary shares, which were recorded as transaction costs, based on the market price of the shares on the date of issuance. In addition, the Company paid loan originations fees of $ 10,000. As of December 31, 2008, the fair value of the loan approximates its carrying amount.

According to the Loan Agreement, the Company is obligated to maintain cash, cash equivalents and trade receivables at more than 125% of the loan value. As of December 31, 2008, the Company is in compliance with this obligation.

NOTE 10:- EQUITY

a. On November 2, 2006, the Company completed its Initial Public Offering ("IPO") on the Alternative Investment Market ("the AIM") on the London Stock Exchange, by issuing 6,076,811 Ordinary shares of NIS 0.01 par value each at a price of £ 0.88 ($ 1.65) per share for a total net consideration of $ 8,411 thousand.

b. As described in Note 9, in November 2008 the Company issued to Mizrahi 374,240 Ordinary shares in connection with the granting of a loan to the Company.

c. In February 2008, the Company issued 164,628 Ordinary shares of the Company, as additional consideration for the VTSG business (see Note 6).

d. Composition:

	December 31, 2008, 2007 and 2006	December 31,		
		2008	2007	2006
	Authorized	Issued and outstanding		
	Number of shares			
Ordinary shares of NIS 0.01 par value each	100,000,000	37,798,194	37,259,326	37,250,666

e. Warrants:

In August 2000, in connection with the lease of its facilities, the Company issued to the lessor fully vested warrants to purchase 51,613 Ordinary shares at an exercise price of $ 0.90 per share. The options were to be exercised at any time until March 30, 2007. In connection with the extension of the lease period, the Company modified the options for extending the period of exercise for an additional 36 months until March 2010. The incremental fair value of the modification amounted to $ 24 thousand. As of December 31, 2008, no warrants had been exercised.

NOTE 10:- EQUITY (Cont.)

In February 2002, the Company issued to a bank fully vested warrants to purchase 823,529 Ordinary shares at an exercise price of $ 0.34 per share in conjunction with the receipt of a loan in the amount of $ 700 thousand. In April 2003, the Company repaid the loan to the bank. The warrants can be exercised at any time until February 13, 2009.

On August 28, 2006, the bank notified the Company of its intention to exercise the warrants. According to the original warrant agreement, the bank could elect a cashless exercise based on the difference between the share price upon the IPO and the original exercise price ($ 0.34 per share). Accordingly, in November 2006, the bank exercised 653,524 warrants at an exercise price of zero.

f. Options to shareholders:

1. In June 2001, the Company granted to one of its shareholders who is also a senior officer, as an anti-dilution protection, 383,047 fully vested options at an exercise price of NIS 0.01 per share and, in consideration of the bridge financing agreement an additional 635,807 fully vested options at an exercise price of NIS 0.01 per share.

2. On September 27, 2006, the Company signed an agreement with Mr. Ami Vizer, the Chief Executive Officer of the Company, according to which Mr. Vizer received options to purchase 50,000 Ordinary shares of the Company at an exercise price of $ 1.65 per share. As of December 31, 2008, these options were fully vested.

   On September 27, 2006, the Company signed a letter of appointment with Mr. Simi Efrati, a non-executive director of the Company, pursuant to which Mr. Efrati received options to purchase 50,000 Ordinary shares of the Company at an exercise price of $ 1.65 per share. As of December 31, 2008, these options were fully vested.

   On September 27, 2006, the Company entered into an agreement with Mr. Rami Weitz, the Chairman of the Board of Directors, pursuant to which Mr. Weitz received options to purchase 50,000 Ordinary shares of the Company at an exercise price of $ 1.65 per share. As of December 31, 2008, these options were fully vested.

   These options are in addition to the options granted pursuant to the table in g. below.

   The fair value of share options is measured at the grant date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The following are the inputs to the model used for the year ended December 31, 2006: risk-free interest rates ranging from 2.37%-4.92%; a dividend yield of 0%; volatility factor of the expected market price of the Company's Ordinary shares of 0.8; and a weighted average expected life of the options of three years.

   The weighted average fair value of the options granted in 2006 was $ 0.23.

NOTE 10:- EQUITY (Cont.)

g. Stock options plan:

In August 2000, the Company's Board of Directors authorized an incentive share option plan and has since granted options to purchase Ordinary shares to employees and consultants. Under the terms of these grants, options generally vest ratably over a period of four years, commencing with the date of grant. The exercise price of the options granted under the plan may not be less than the par value of the shares. The options generally expire no later than 10 years from the date of the grant, and are non-transferable, except under the laws of succession. On September 21, 2006, the Company decided to increase its Stock Option Plan reserves by 3,000,000 options. As of December 31, 2008, an aggregate of 2,640,130 Ordinary shares of the Company are still available for future grant.

The fair value of share options is measured at the grant date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The following are the inputs to the model used for each of the three years in the period ended December 31, 2008: risk-free interest rates ranging from 2.37%-5.16%; a dividend yield of 0%; volatility factor of the expected market price of the Company's Ordinary shares of 0.8; and a weighted average expected life of the options of 5.9 years.

The weighted average fair value of the options granted in 2008, 2007 and 2006 were $ 0.68, $ 1.83 and $ 1.77, respectively.

A summary of the activity in options to employees, consultants, and directors (including the senior management, see h below) for the years 2008, 2007 and 2006 is as follows:

	Year ended December 31,					
	2008		2007		2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	2,493,269	$ 0.800	2,344,967	$ 0.705	1,863,467	$ 0.440
Granted	73,900	$ 0.618	380,000	$ 1.823	544,500	$ 1.613
Exercised	-	$ -	(8,660)	$ 0.600	-	$ -
Forfeited	(159,100)	$ 1.360	(223,038)	$ 1.560	(63,000)	$ 0.600
Outstanding at end of year	2,408,069	$ 0.706	2,493,269	$ 0.800	2,344,967	$ 0.705
Exercisable options	1,867,026	$ 0.558	1,794,225	$ 0.507	1,629,522	$ 0.409

NOTE 10:- EQUITY (Cont.)

The options outstanding as of December 31, 2008, have been separated into ranges of exercise price as follows:

Exercise price	Options outstanding as of December 31, 2008	Weighted average remaining contractual life (years)	Options exercisable as of December 31, 2008
$ 0.002	484,627	2.45	461,105
$ 0.090	47,248	1.66	47,248
$ 0.487	100,000	9.51	13,888
$ 0.530	15,000	9.51	-
$ 0.600	1,219,145	4.28	1,136,629
$ 0.630	30,000	9.30	-
$ 0.860	5,000	9.10	-
$ 1.000	3,150	1.66	3,150
$ 1.200	18,899	2.02	18,899
$ 1.330	10,000	9.04	-
$ 1.610	130,000	7.96	24,165
$ 1.640	45,000	8.90	1,944
$ 1.650	130,000	7.90	130,000
$ 1.710	60,000	8.66	7,638
$ 1.900	15,000	8.51	-
$ 2.170	65,000	8.30	12,360
$ 2.500	30,000	7.96	10,000
	2,408,069		1,867,026

h. Options to the CEO and senior employees:

1. On December 31, 2003, the Company's Board of Directors granted 250,000 fully-vested options to the CEO at an exercise price of NIS 0.01 per share, in consideration of terms that were determined in a meeting of the Board of Directors on July 14, 2003.

2. On September 21, 2006, the Company decided to grant five of its senior employees options to purchase a total amount of 95,000 Ordinary shares of the Company, at an exercise price equal to the price at which new Ordinary shares of the Company are sold in connection with the IPO. As of December 31, 2008, these options were fully vested.

3. On July 30, 2007, the Company decided to grant three of its senior employees options to purchase a total amount of 160,000 Ordinary shares of the Company for a vesting period of 3 years.

4. On April 8, 2008, the Company resolved to grant to its senior employees options to purchase a total of 30,000 Ordinary shares of the Company, for a vesting period of three years, at an exercise price of $ 0.63 per share.

NOTE 11:- INCOME TAXES

a. Tax benefits under the Law for the Encouragement of Capital Investments, 1959:

The Company has been granted an "Approved Enterprise" status for an original program and an additional expansion program, ("the programs") under the Law for the Encouragement of Capital Investments, 1959 ("the Law"). According to the provisions of the Law, the Company has elected to enjoy the "alternative benefits track" - a waiver of grants in return for tax holidays. The "Approved Enterprise" status will allow the Company a tax holiday on undistributed income derived from the "Approved Enterprise" program. The income derived from this "Approved Enterprise" will be tax-exempt for a period of two years, and may enjoy a reduced tax rate of 10% to 25% (based on percentage of foreign ownership) for an additional five years. The seven-year period of benefits will commence with the first year in which the Company earns taxable income.

The Company completed the implementation of its original and expansion programs. As of the financial statements approval date, the programs have not yet received final approval.

The period of tax benefits, detailed above, is subject to limits of the earlier of 12 years from the commencement of production, or 14 years from receiving the approval. The period of benefits has not yet commenced, and will expire in the year 2016.

The entitlement to the above benefits is conditional upon the Company's fulfilling the conditions stipulated by the above Law, regulations published thereunder and the letters of approval for the specific investments in "Approved Enterprises". In the event of failure to comply with these conditions, the benefits may be canceled and the Company may be required to refund the amount of the benefits, in whole or in part, including interest.

Should the Company derive income from sources other than the "Approved Enterprise" during the period of benefits, such income shall be taxable at the regular corporate tax rate.

If tax-exempt profits are distributed to shareholders, they would be taxed at the corporate tax rate applicable to such profits as if the Company had not elected the alternative system of benefits, currently between 10%-25% for an "Approved Enterprise".

A recent amendment to the Law, which was officially published effective as of April 1, 2005 ("the Amendment") has changed certain provisions of the Law. As a result of the Amendment, a company is no longer obliged to implement an "Approved Enterprise" status in order to receive the tax benefits previously available under the alternative benefits provisions, and therefore there is no need to apply to the Investment Center for this purpose (Approved Enterprise status remains mandatory for companies seeking grants). Rather, a company may claim the tax benefits offered by the Investment Law directly in its tax returns, provided that its facilities meet the criteria for tax benefits set out by the Amendment. A company is also granted a right to approach the Israeli Tax Authorities for a pre-ruling regarding their eligibility for benefits under the Amendment.

NOTE 11:- INCOME TAXES (Cont.)

Tax benefits are available under the Amendment to production facilities (or other eligible facilities), which are generally required to derive more than 25% of the company's business income from export. In order to receive the tax benefits, the Amendment states that a company must make an investment in the beneficiary enterprise exceeding a minimum amount specified in the Law. Such investment may be made over a period of no more than three years ending at the end of the year in which the company requested to have the tax benefits apply to the beneficiary enterprise ("the Year of Election"). Where a company requests to have the tax benefits apply to an expansion of existing facilities, then only the expansion will be considered a beneficiary enterprise and the company's effective tax rate will be the result of a weighted combination of the applicable rates. In this case, the minimum investment required in order to qualify as a beneficiary enterprise is required to exceed a certain percentage of the company's production assets before the expansion. The duration of tax benefits is subject to a limitation of the earlier of 7 years from the Commencement Year, or 12 years from the first day of the Year of Election.

b. Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985:

Results for tax purposes are measured in terms of earnings in NIS after certain adjustments for increases in the Israeli Consumer Price Index ("CPI"). As explained in Note 2d, the financial statements are presented in U.S. dollars. The difference between the annual change in the Israeli CPI and in the NIS/dollar exchange rate causes a difference between taxable income or loss and the income or loss before taxes reflected in the financial statements.

c. Tax reconciliation:

In 2008, 2007 and 2006, the main reconciling item between the statutory tax rate of the Company and the effective tax rate (0%) is carryforward tax losses and tax exemption for which no deferred taxes were provided.

d. Carryforward losses:

Domestic:

As of December 31, 2008, 2007 and 2006, the Company had accumulated losses for Israeli tax purposes of approximately $ 3.9 million, $ 4.2 million and $ 3.4 million, respectively, which may be carried forward, in order to offset taxable income in the future, for an indefinite period.

Foreign:

As of December 31, 2008, 2007 and 2006, the federal tax loss carryforwards of the U.S. subsidiaries amounted to approximately $ 6.9 million, $ 4.2 million and $ 1.6 million, respectively. Such losses are available for offset against future U.S. taxable income of the subsidiaries and will expire in the years 2023-2026.

Due to the uncertainty of the utilization of these carryforward losses, no deferred tax assets have been recorded.

NOTE 11:- INCOME TAXES (Cont.)

e. Tax rates:

Domestic:

On July 25, 2005, the Knesset (Israeli Parliament) approved the Law of the Amendment of the Income Tax Ordinance (No. 147), 2005, which prescribes, among others, a gradual decrease in the corporate tax rate in Israel to the following tax rates: 2006 - 31%, 2007 - 29%, 2008 - 27%, 2009 - 26% and 2010 and thereafter - 25%.

Foreign:

The subsidiaries were incorporated in Orlando, Florida, U.S.A., and are taxed according to U.S. tax laws. The statutory federal tax rate is 35%.

f. Changes in the tax laws applicable to the Company:

In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Starting 2008, the results for tax purposes will be measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. The amended law includes, inter alia, the elimination of the inflationary additions and deductions and the additional deduction for depreciation starting 2008.

g. The Company's tax assessments for the years until and including 2004 are considered final, subject to the powers vested with the director of the tax authority pursuant to sections 145, 147 and 152 to the income tax ordinance.

h. Deferred taxes:

On December 31, 2008, there was no recognized deferred tax liability for taxes that would be payable on unremitted earnings of certain of the Company and its subsidiaries.

NOTE 12:- CONTINGENT LIABILITIES AND COMMITMENTS

a. Royalty commitments:

In June 2001, the Company and a third party signed a Cooperation and Project Funding Agreement with Britech, which is an establishment of the United Kingdom-Israel Industrial Research and Development Fund. According to the agreement, Britech agreed to fund, by conditional grant, the implementation of the proposal submitted by the Company and the third party for a research and development project in the maximum amount of £ 227 tousands.

The Company shall make repayments to Britech, based on gross sales derived from the sale, leasing or other marketing or commercial exploitation of the innovation, including service or maintenance contracts, commencing with the first commercial transaction. Such payments shall be repaid in Pounds Sterling at the rate of 2.5% of the first year's gross sales and, in succeeding years, at the rate of 5 % of the gross sales until 100%-150% of the conditional grant and other sums have been repaid (incremental 50% based upon agreed milestone which was not fulfilled).

The Company received a total amount of $ 324 thousand, of which $ 150 thousand and $ 174 thousand were deducted from the research and development expenses in 2001 and 2003, respectively.

NOTE 12:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

Although the development of technology had been completed by the third party and the Company, the Company has never received the third party's portion of the developed technology upon completion of the project although it requested it from both the third party and Britech. Therefore, since the Company cannot utilize the developed technology without the essential portion developed by the third party, the Company has not paid any royalties to Britech and the Company's management believes that it will not be required to pay royalties in the future for the abovementioned project. In addition, the Company did not submit any patent applications in connection with the Britech grant.

b. Lease commitments:

1. Premises occupied by the Company are rented under various non-cancelable lease agreements. The rental agreements for the premises in Israel expire in March 2010.
2. The Company has leased various motor vehicles under cancelable operating lease agreements, which expire on various dates, the latest of which is in 2011.
3. Premises occupied by the subsidiaries are rented under a non-cancelable lease agreement. The rental agreement for the premises expires in October 2012.
4. Future minimum rental payments under non cancellable operating leases are as follows:

Year ending December 31,	U.S. dollars in thousands
2009	327
2010	179
2011	115
2012	25
	646

The total expense for the years ended December 31, 2008, 2007 and 2006 was $ 340 thousand, $ 294 thousand and $ 190 thousand, respectively.

c. Floating charge:

The Company recorded a first priority unlimited floating charge on all of its assets, in favor of a bank, in consideration of the loan agreement as described in Note 9.

d. 1. Promotion agreement:

During December 2006, the Company signed a definitive agreement ("the definitive agreement") with a consultant in order to promote and enhance its business activities with target partners, which are interested in integrating the products into their platforms or services, as defined in the definitive agreement. Upon signing the definitive agreement, the Company paid a fee of $ 5 thousand.

In addition, the Company will pay a commission of 1% of gross revenues actually received from business activities with target partners which are direct results of the consultant's efforts.

Upon signing the definitive agreement, the Company granted the consultant 100,000 options at an exercise price of $ 2 per share subject to achieving performance conditions in 2007. The conditions were not achieved, and, therefore, all options expired.

NOTE 12:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

2. On May 31, 2007, the subsidiary, SimiGon Inc. signed an agreement with a consultant. According to the agreement, SimiGon Inc. has appointed the consultant to be its business development and sales consultant for the promotion of the sale of its products within the territory.

   Upon signing the agreement, SimiGon Inc. granted the consultant 50,000 options at an exercise price of $ 2.2 per share. Options vest in 10 installments of 5,000 options each upon the occurrence of a major transaction, as defined in the agreement. Since the consultant has not yet completed any major transaction, no options have been vested, and no expense has been recorded in respect of these options.

e. Legal:

   In connection with the Agreement signed with VTSG (see Note 6), the Company filed on September 18, 2008 a complaint ("the complaint") against VTSG and its CEO. The complaint stated claims for breach of contracts, breach of duty of good faith and fair dealing, and tortuous interference with contractual and business relationships. SimiGon alleges damage in excess of $ 1 million. On November 12 2008, VTSG and its CEO have responded to the complaint and filed a counterclaim against the Company alleging claims in excess of $ 1 million for breach of contract and breach of duty of good faith and fair dealing. On December 8, 2008, SimiGon responded to the counterclaim of VTSG and its CEO and denies all their allegations.

   At this early stage of the proceedings, based on the advice of legal counsel, the Company believes that there is no substantial basis for the counterclaim and, therefore, did not include a provision in the financial statements as of December 31, 2008.

NOTE 13:- SUPPLEMENTARY INFORMATION TO THE STATEMENTS OF INCOME

	Year ended December 31,		
	2008	2007	2006
	U.S. dollars in thousands		
a. Cost of revenues:			
Salaries and related benefits	603	604	982
Lease and office maintenance	119	84	115
Travel expenses	70	57	52
Depreciation and amortization	65	67	18
Share-based compensation	32	12	1
Subcontractors	110	280	28
Other	-	(48)	-
	999	1,056	1,196
b. Research and development expenses:			
Salaries and related benefits	2,135	2,368	1,739
Lease and office maintenance	272	318	209
Depreciation and amortization	41	47	29
Share-based compensation	57	40	8
Other	32	-	-
	2,537	2,773	1,985

NOTE 13:- SUPPLEMENTARY INFORMATION TO THE STATEMENTS OF INCOME (Cont.)

	Year ended December 31,		
	2008	2007	2006
	U.S. dollars in thousands		
c. Selling and marketing expenses:			
Salaries and related benefits	1,102	1,049	611
Consultant fees	183	396	83
Advertising and sales promotion	190	118	66
Lease and office maintenance	123	68	57
Travel expenses	163	174	98
Depreciation	16	9	9
Share-based compensation	45	87	3
Commission	-	666	-
Other	-	-	12
	1,822	2,567	939
d. General and administrative expenses:			
Salaries and related benefits	698	781	642
Consultant fees	123	122	204
Lease and office maintenance	89	73	60
Travel expenses	85	43	42
Professional fees and public company expenses	530	588	44
Depreciation	13	10	9
Share-based compensation	39	116	13
Other	272	43	(127)
	1,849	1,776	887
e. Financial income, net:			
Exchange rate differences, net	30	(3)	145
Interest income from banks	75	298	105
Commission to bank *)	-	-	(150)
Bank loans and overdrafts	(21)	(19)	(14)
Interest on loans from shareholders	-	-	(66)
Other	-	-	(10)
	84	276	10

*) In addition to the warrant granted and exercised by the bank (Note 10e), the Company was obliged as of December 31, 2006, to pay the bank a commission in the amount of $ 150 thousand pursuant to a past agreement with the bank in the event of an IPO.

NOTE 14:- REVENUES

The Company manages its business on the basis of one reportable segment.

a. Revenues:

	Year ended December 31,		
	2008	2007	2006
Software licenses	3,647	3,840	5,710
Software licenses that require significant customization	838	720	799
Maintenance	517	280	819
Training	141	168	189
	5,143	5,008	7,517

b. Revenues classified by geographical destinations based on the customer location:

	Year ended December 31,		
	2008	2007	2006
	U.S. dollars in thousands		
EMEA (1)	1,632	3,537	2,841
North America	3,011	1,464	4,308
Asia Pacific	500	7	368
	5,143	5,008	7,517

(1) Europe, Middle East and Africa.

c. Information about major customers:

	Year ended December 31,		
	2008	2007	2006
Customer A	47%	15%	10%
Customer B	-	-	14%
Customer C	5%	2%	19%
Customer D	5%	9%	15%
Customer E	6%	-	11%
Customer F	2%	46%	-

NOTE 15:- EARNINGS (LOSS) PER SHARE

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

	2008	2007	2006
	U.S. dollars in thousands		
Profit (loss) for the year	(1,980)	(2,888)	2,520

	2008	2007	2006
Weighted average number of Ordinary shares for basic earnings per share	37,453	37,251	31,608
Effect of dilution:			
Share options	-	-	2,090
Warrants	-	-	123
Weighted average number of Ordinary shares adjusted for the effect of dilution	37,453	37,251	33,821

There have been no significant transactions involving Ordinary shares or potential Ordinary shares between the balance sheet date and the date of approval of these financial statements.

Share options and warrants (see Note 10) were not included in the 2008 and 2007 loss per share calculation due to their antidilutive effect.

NOTE 16:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

	Year ended December 31,		
	2008	2007	2006
	U.S. dollars in thousands		
a. Revenues from related party of a shareholder:			
Revenues	-	-	6
b. Expenses to related party of a shareholder:			
Cost of revenues *)	88	-	-

*) As part of a project agreement signed with a customer, the Company engaged an independent services provider company ("the Engagement") controlled by a Company shareholder. According to the Engagement, the Company will pay the services provider a total amount of $ 115 thousand.

NOTE 16:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

c. Compensation of key management personnel of the Company:

	Year ended December 31,		
	2008	2007	2006
	U.S. dollars in thousands		
Employee benefits (*)	1,262	1,215	1,041
Share-based payments	51	95	6
	1,313	1,310	1,047

(*) Includes increase (decrease) in long-term employees benefits due to provision for severance pay in a total amount of $ (4) thousand, $ 58 thousand and $ 215 thousand for the years ended December 31, 2008, 2007 and 2006, respectively.

d. Significant agreements with shareholders:

On September 21, 2006, the Company signed an agreement with Mr. Ami Vizer, the Chief Executive Officer of the Company, according to which Mr. Ami Vizer is engaged with a current salary of $ 313 thousand per annum (excluding bonuses and benefits), terminable by either party on nine months' notice. In addition, pursuant to this agreement, Mr. Vizer received options (see Note 10f).

In 2006, the Company accrued additional severance pay liability and respective expenses of approximately $ 190 thousand, due to the change in Mr. Vizer's salary.

On September 27, 2006, the Company signed an agreement with Mr. Simi Efrati, pursuant to which Mr. Efrati receives a fee of $ 122 thousand per annum for consulting services. The agreement may be terminated by either party on six months' written notice. In addition, pursuant to this agreement Mr. Efrati received options (see Note 10f). Prior to this agreement, Mr. Simi Efrati had been a non executive director of the company.

On September 27, 2006, the Company entered into an agreement with Mr. Rami Weitz, pursuant to which Mr. Weitz receives a fee of $ 122 thousand per annum in consideration of consulting services. The agreement may be terminated by either party by at least six months' written notice. In addition, pursuant to this agreement, Mr. Weitz received options (see Note 10f). Prior to this agreement, Mr. Rami Weitz had been the chairman of the board of directors of the Company.

NOTE 17:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Capital management:

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and sufficient capital in order to support its business and maximise shareholders value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

NOTE 17:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont.)

Financial risks factors:

The Company's activities expose it to various financial risks such as market risk (including foreign exchange risk), credit risk and liquidity risk.

1. Foreign exchange risk:

   The company operates in a number of countries and is exposed to foreign exchange risk resulting from the exposure to different currencies, mainly the NIS. As of December 31, 2008, balances is foreign currency are immaterial.

2. Credit risk:

   Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, short-term bank deposits, trade receivables current maturities and long term loan.

   Cash and cash equivalents and short-term bank deposits are invested in major banks in Israel and the United States. Management believes that the financial institutions that hold investments of the Company and its subsidiaries are financially sound and, accordingly, minimal credit risk exists with respect to these investments.

   The Company trades only with creditworthy customers. The Company performs ongoing credit evaluation of its customer's financial condition and requires collateral as deemed necessary.

   The Company has no off-balance-sheet concentration of credit risk such as foreign exchange contracts, option contracts or other foreign hedging arrangements.

3. Liquidity risk:

   The Company is required to maintain cash, cash equivalents and trade receivables equal to at least 125% of the carrying amount of the loan (as described in Note 9b).

   The table below presents the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

   December 31, 2008:

	Less than one year	1 to 2 years	Total
	U.S. dollars in thousands		
Current maturities	86	-	86
Loans from banks	57	948	1,005
Trade payables	147	-	147
Other accounts payable and accrued expenses	601	-	601
	891	948	1,839

NOTE 17:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont.)

December 31, 2007:

	Less than one year	1 to 2 years	Total
	U.S. dollars in thousands		
Trade payables	125	-	125
Other accounts payable and accrued expenses	972	-	972
	1,097	-	1,097

December 31, 2006

	Less than one year	1 to 2 years	Total
	U.S. dollars in thousands		
Short-term bank loans	217	-	217
Trade payables	139	-	139
Other accounts payable and accrued expenses	785	-	785
	1,141	-	1,141

4. Interest rate risk

The Company has a loan outstanding of $1 million which bears interest at a variable rate. The Company estimates that any reasonably possible changes in the interest rate in the coming year would not have a material effect on the profit of the Company.

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Share Information

SimiGon is listed on the AIM. The shares of the Company are available through the Crest settlement system, enabling immediate, secured electronic trading and registration of shareholders' assets. Symbol: SIM Financial Year End: 31 December

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