SIMIGON

Taking Distributed Simulation Personally

2009 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.

Financial Highlights

- Revenues for the year ended December 31, 2009 were $6.06 million, an increase of 17.77% as compared to $5.14 million in the year ended December 31, 2008.
- Gross profit for the year ended December 31, 2009 was $5.08 million (83.87% of revenues), an increase of 22.59% as compared to gross profit for the year ended December 31, 2008 of $4.14 million (80.58% of revenues).
- Net profit for the year ended December 31, 2009 was $0.07 million, as compared to $1.98 million of total loss for the year ended December 31, 2008.
- Basic and diluted earnings per share for the year ended December 31, 2009 were $0.002, as compared to basic and diluted loss per share of $0.050 for the year ended December 31, 2008.

Operational Highlights

- SimiGon continues its support for Lockheed Martin's F-35 Lightning II Joint Strike Fighter ("JSF") training program, as the SIMbox Learning Management System ("LMS") was selected by LM for JSF pilot training systems. The Company expects this project to positively impact revenues in future years.
- SimiGon successfully continues its strategic project with Lockheed Martin ("LM") for the Advance Jet Training and Rear Crew phases of the UK Military Flying Training System. LM recently delivered its first batch of Flight Device Training (FTD) based on SimiGon's technology.
- SimiGon continues to leverage its core product, SIMbox, to compete in new markets, and was selected as the training platform and LMS for a lucrative Unmanned Aerial Vehicle program, Cranes' Training Systems and Homeland Security Labs.
- SimiGon delivered new Electronic Warfare trainer for the Israeli Air Force (IAF), reflecting the success of the training systems that SimiGon already provides to the IAF.
- SimiGon started to deliver parts of its $2 million contract with a strategic European customer. As a result of this contract SimiGon will be the Simulation Based Training (SBT) system provider for its client's new Academic Training Center and becomes its baseline solution for other similar programs.
- The SIMbox technology infrastructure continues its forward movement, offering complete web-based simulation through Full Mission Simulator capabilities, for organizations seeking to improve their training, training management and increase operational readiness. The powerful physics engine with the improved capabilities and performance for simulation, position the SIMbox LMS as a leading application.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2009

INDEX

Market

Key Trends

System complexity: Aircraft, ground vehicles, maritime systems and other advanced platforms are becoming increasingly complex, and require improved training tools. Traditional user manuals, based on an obsolete "learning by reading" methodology are less effective than ever.

Customer sophistication: Organizations' training requirements are more educated and demanding, and they typically know what type of solution they want. As a result, large suppliers can no longer "force" 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 live training exercises and operations. It is the continuous individualized training on a low-cost platform that will ensure mission readiness.

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 greater Modeling & Simulation market at more than $20 billion per year. Organizations spent $817 million on Learning Management System (LMS) software in 2009. This shows growth in the distributed learning and training infrastructure market – up from $380m in 2004 to $754m in 2008. 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 1,821 new fixed wing military training aircraft and that the overall market could reach $18 billion in sales by 2015. 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 effect on the potential of commercial areas such as commercial flight, air traffic control, maritime operations, nuclear and electric power plants, crane operations, driving and medical care, these areas continue to require holistic training solutions, such as simulators and Learning Management Systems, enabling operators to achieve and maintain high levels of operational skill.

Solutions

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.

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 includes 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.

Chairman & CEO Reviews

Chairman's Statement

I am pleased to inform shareholders that despite the fact that 2009 was a difficult year for the global economy, SimiGon Ltd. (the company together with its subsidiaries "SimiGon") demonstrated an improvement in its performance and managed to increase its revenues and finish this year in profit. SimiGon continued to cement its position as one of world's largest military flight training programmes and its transformation into a formidable player in the market for PC-based training and simulation solutions. While we still have major challenges ahead of us, I believe that SimiGon will continue to make significant progress in the development of our next generation products while having an effective expense control, and will continue to focus on winning large, strategic programs to increase revenues.

Alistair Rae.

Alistair Rae
Chairman

Chief Executive's Review

Overview
Despite a tough year for the world economy we finished 2009 in profit as we grew our revenues, reduced our expenses and cash burn with a current backlog increase to $4.1 million.
We continue to be successful in growing our main markets and primary partners. We are encouraged by the increase in strategic customers during this period, and believe that existing programs such as the F-35 Lightning II Joint Strike Fighter (JSF), the UK's Military Flying Training System, the academic training center of the European customer, and successful implementation of our systems in the Unmanned Aerial Vehicle domain will continue to positively impact SimiGon's revenue in the future. Our partnership-oriented business model, sound technology and unique products have proven to be a successful growth platform for the company.

As a provider of advanced PC-based training and simulation technologies for the world's largest military flight training programmes, SimiGon has become a formidable player in the market for 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 maritime, and industrial operations training.

SimiGon is extremely pleased to have been chosen as the Simulation Based Training partner for the new academic training center of a strategic European customer. Under this project, the European customer 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. SimiGon is fully committed to the success and growth of this important strategic partnership. We see this contract as a first step in a long term, mutually beneficial relationship for both companies.

The selection of SimiGon as the Simulation Based Training partner of the European customer and the selection of the SIMbox Learning Management System for the F-35 Lightning II Joint Strike Fighter training program by Lockheed Martin, together with winning the Contract with Lockheed Martin for the Advanced Jet Training phase of the UKMFTS, provides further affirmation of the viability of its training solutions and will further fuel the Company's expansion.

Amos Vizer
President & CEO

Financial Performance

Revenues for the year ended 31 December 2009 increased by 17.77% to $6.06 million, as compared to $5.14 million for the year ended December 31, 2008. In terms of regional breakdown, 52.85% of SimiGon's revenues for the year ended December 31, 2009 were generated from North America, as compared to 58.55% for the year ended December 31, 2008. Revenues generated from Europe and the Middle East accounted for 44.46% of total revenues for the year ended December 31, 2009 as compared to 31.73% for the year ended December 31, 2008. Revenues generated from the Far East accounted for 2.69% of total revenues for the year ended December 31, 2009, as compared to 9.72% for the year ended December 31, 2008. Research and development expenses for the year ended December 31, 2009 decreased by 27.75% to $1.83 million, as compared to $2.54 million for the year ended December 31, 2008. The decrease was primarily due to lower salary expenses. Sales and marketing expenses for the year ended December 31, 2009 decreased by 11.64% to $1.61 million, as compared to $1.82 million for the year ended December 31, 2008. The decrease was mainly due to lower salary expenses. General and administration expenses for the year ended December 31, 2009 decreased by 15.31% to $1.57 million, as compared to $1.85 million for the year ended December 31, 2008. The decrease was mainly due to doubtful debt and legal expenses provisions. As a result, the total operating expenses for the year ended December 31, 2009 decreased by 19.31% to $5.01 million, as compared to $6.21 million for the year ended December 31, 2008. The operating profit for the year ended December 31, 2009 was $0.07 million, as compared to operating loss of $2.06 million for the year ended December 31, 2008. Net profit for the year ended December 31, 2009 amounted to $0.07 million, as compared to total loss of $1.98 million for the year ended December 31, 2008. As a result, net basic and diluted earnings per share was $0.002 for the year ended December 31, 2009, as compared to net basic and diluted loss per share of $0.050 for the year ended December 31, 2008. As at 31 December 2009, SimiGon had cash, cash equivalents and deposits in the amount of $2.56 million, and current maturities of short term bank loans of $0.9 million. As at December 31, 2009 the Company had 42 employees, as compared to 47 employees as at December 31, 2008.

Product Development

SimiGon is committed to technology innovation and developing new capabilities and products to ensure market relevance and build market share. In 2009, SimiGon research and development efforts focused on improving the SIMbox Leaning Management System have been extended with a new innovative Training Management System (TMS) to provide a complete integrated solution for the entire community, with SIMbox TMS, SimiGon now has a complete solution for the entire community. SIMbox Toolkit has been extended and now includes a complete set of tools to provide shorter delivery times, making the development phase of simulation console platforms cost effective in a way never presented before and SIMbox Server System has been modified to provide a boost in performance to large scale organization with enterprise systems. 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 [of the Simbox Graphic Engine].The new generation of the SIMbox Graphic Engine has been developed to support a large scale database, with advanced 3D systems to enable realistic high resolution simulation with better performance for the end user. In addition, SimiGon R&D continues to be an early adapter of cutting edge software technologies for infrastructure development.

Outlook

The increased level of new and existing customer interest together with existing programs such as the new European customer academic training center, the F-35 Lightning II Joint Strike Fighter as well as the UK's Military Flying Training System, reflect a positive outlook. These projects will impact SimiGon's revenue and help to secure other contracts that are expected to be closed in the future. The Company will seek to continue to make progress in its next generation of products and to remain profitable in the near future.

Following SimiGon's success in providing PC-based training and simulation systems in various large scale military pilot training programmes, the Board is confident in the Company's outlook as it is well positioned for long term growth.

Board & Management

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, Non-Executive Director
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. Nr. 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.

FINANCIAL

INDEX

Corporate Governance for the Period Ended 31 December 2009

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, 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 and till October 2009 were including payment for each Board or Board committee meeting attended. The remuneration packages for executives are based on annual salaries and benefits.

	Total 2009	Total 2008
Executive	**$**	**$**
Ami Vizer *	334,427	377,876
Haim Yatim	149,683	167,354
Non-Executive		
Alistair Rae	55,000	60,768
Graham Woolfman**	-	19,695
Eitan Cohen***	25,410	9,411
Nevat Simon	38,248	43,908
Dr. Vered Shany	37,192	42,676
Total	639,960	721,688

* Year 2008 amount does not include $56,635 paid in respect of vacation days.
Year 2009 amount does not include $60,250 paid in respect of vacation days and $75,000 bonus paid on 2010 in respect of 2009 sales.
Year 2009 amount does not include $248,069 paid in respect of transfer of severance allocation.
** 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 2009.

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 were 37,250,666.

Shares

As of December 31, 2009 the total numbers of Ordinary Shares Issued were 41,522,556.

Share Options

As of 31 December 2009, the outstanding balance of options granted to certain employees of SimiGon is approximately 5.3 percent of the Company’s issued and outstanding shares at an average exercise price of $0.693. 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:

- Amos Vizer has been an executive director of the Company since 4 November 1998.
- Haim Yatim, appointed as an executive director on 24 September 2006.
- Alistair Rae, appointed as a director and Chairman of the Board on 27 October 2006.
- Nevat Simon, appointed as an independent director on 27 October 2006.
- Dr. Vered Shany, appointed as an independent director 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.

Directors Interest in Shares and Share Options

The interest of directors in the issued share capital of the company at 31, December 2009 were as follows.

Directors	Number of Ordinary Shares Capital	Percentage of Ordinary shares	Options
Alistair Rae*)	22,727	0.05	0
Graham Woolfman	0	0	0
Eitan Cohen *)	0	0	0
Dr. Vered Shany *)	0	0	0
Nevat Simon *)	0	0	0
Ami Vizer **)	3,437,291	8.28	50,000
Haim Yatim ***)	193,217	0.47	214,500

*) On January 2010 the Non-Executive Board members were granted a total of 119,727 Ordinary shares of the Company with an equivalent fair value on date of grant of $ 0.165. The shares will be vested in 12 equal monthly installments.

The following are number of Ordinary shares granted for each director and number of shares vested and not vested as of December 31, 2009:

Directors	Number of Ordinary Shares Capital	Shares Vested as of December 31, 2009	Shares Not Vested as of December 31, 2009
Alistair Rae	47,727	11,899	35,828
Nevat Simon	24,000	3,353	20,647
Dr. Vered Shany	24,000	3,353	20,647
Eitan Cohen	24,000	5,984	18,016

**) Including 85,679 Ordinary shares that will be vested by the end of May 2010.
***) Including 30,304 Ordinary shares that will be vested by the end of May 2010.

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:

Shareholder	Number Of Ordinary Shares	Percentage of issued
Jeffrey Braun	6,543,039	15.76%
Packet Science Rami Weitz	5,557,444	13.38%
G. Poran Holding Ltd	3,778,444	9.10%
A. Vizer *)	3,437,291	8.28%
Green Venture Capital Ltd.	3,067,848	7.39%
Israel Aircraft Industries Ltd	2,624,310	6.32%
Moldavski High-tech Ltd	1,750,297	4.22%
Shroder Euroclear Nominees Limited	1,711,070	4.12%

*) Including 85,679 Ordinary shares that will be vested by the end of May 2010.

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 Group"), which comprise the consolidated balance sheets as of December 31, 2009 and 2008, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the years ended December 31, 2009, 2008 and 2007 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 audits. We conducted our audits 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 Group as of December 31, 2009 and 2008 and of its financial performance and its cash flows for each of the years ended December 31, 2009, 2008 and 2007, in accordance with International Financial Reporting Standards.

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

April 28, 2010
Tel-Aviv, Israel

CONSOLIDATED BALANCE SHEETS

	Note	December 31, 2009	December 31, 2008
		U.S dollars in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3a	2,053	3,137
Short-term bank deposits	3b	504	500
Trade receivables	4	3,301	1,880
Other accounts receivable and prepaid expenses		67	26
Total current assets		5,925	5,543
NON-CURRENT ASSETS:			
Long-term prepaid expenses		38	46
Fixed assets, net	5	104	155
Intangible assets, net	6	1,425	1,476
Total non-current assets		1,567	1,677
Total assets		7,492	7,220
EQUITY AND LIABILITIES			
CURRENT LIABILITIES:			
Current maturities and short-term bank loans	9	895	81
Trade payables		157	147
Deferred revenues		205	336
Other accounts payable and accrued expenses	7	697	601
Total current liabilities		1,954	1,165
NON-CURRENT LIABILITIES:			
Employee benefit liabilities, net	8	101	306
Long-term loan	9	-	869
Other non-current liabilities	12a	89	-
Total non-current liabilities		190	1,175
Total liabilities		2,144	2,340
EQUITY:	10		
Share capital		98	90
Treasury shares		(3)	-
Additional paid-in capital		15,295	14,904
Accumulated deficit		(10,042)	(10,114)
Total equity		5,348	4,880
Total equity and liabilities		7,492	7,220

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

April 28, 2010	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 COMPREHENSIVE INCOME

	Note	Year ended December 31, 2009	2008	2007
		U.S. dollars in thousands (except share and per share amounts)		
Revenues	14	6,057	5,143	5,008
Cost of revenues	13a	977	999	1,056
Gross profit		5,080	4,144	3,952
Operating expenses:				
Research and development	13b	1,833	2,537	2,773
Selling and marketing	13c	1,610	1,822	2,567
General and administrative	13d	1,566	1,849	1,776
Total operating expenses		5,009	6,208	7,116
Operating profit (loss)		71	(2,064)	(3,164)
Finance income	13e	230	354	443
Finance costs	13f	(229)	(270)	(167)
Total comprehensive income (loss)		72	(1,980)	(2,888)
Basic and diluted earnings (loss) per share in U.S. dollars	15	0.002	(0.050)	(0.078)
Weighted average number of shares used in computing basic earnings per share in thousands	15	40,204	37,453	37,251
Weighted average number of shares used in computing diluted earnings per share in thousands	15	40,660	37,453	37,251

The accompanying notes are an integral part of the consolidated financial statement

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Number of shares	Share capital	Additional paid-in capital	Treasury shares	Accumulated deficit	Total equity
	U .S. dollars in thousands (except share amounts)					
Balance as of January 1, 2007	37,250,666	89	14,251	-	(5,246)	9,094
Total comprehensive loss	-	-	-	-	(2,888)	(2,888)
Exercise of employee stock options	8,660	*) -	5	-	-	5
Share-based compensation	-	-	265	-	-	265
Balance as of December 31, 2007	37,259,326	89	14,521	-	(8,134)	6,476
Total comprehensive loss	-	-	-	-	(1,980)	(1,980)
Issuance of shares (Note 10)	538,868	1	210	-	-	211
Share-based compensation	-	-	173	-	-	173
Balance as of December 31, 2008	37,798,194	90	14,904	-	(10,114)	4,880
Total comprehensive income	-	-	-	-	72	72
Issuance of shares (Note 10d)	2,263,383	5	(5)	*) -	-	-
Share-based compensation	-	-	396	-	-	396
Treasury shares (Note 12e)	-	-	-	(3)	-	(3)
Exercise of share options	1,460,979	3	-	-	-	3
Balance as of December 31, 2009	41,522,556	98	15,295	(3)	(10,042)	5,348

*) Represents an amount lower than $ 1,000.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2009	**2008**	**2007**
	U.S. dollars in thousands		
Cash flows from operating activities:			
Total comprehensive income (loss)	72	(1,980)	(2,888)
Adjustments to reconcile total comprehensive income (loss) to net cash used in operating activities:			
Income and expenses not involving operating cash flows:			
Depreciation and amortization	125	134	134
Financial expenses (income)	26	(70)	(295)
Share-based compensation	396	173	265
Accrued interest on long-term loan	26	4	-
Change in employee benefit liabilities, net	(205)	(45)	99
Changes in operating assets and liabilities:			
Decrease (increase) in trade receivables	(1,421)	(733)	152
Decrease (increase) in other accounts receivable and prepaid expenses (including long-term)	(33)	154	(11)
Increase (decrease) in trade payables	10	22	(14)
Increase (decrease) in deferred revenues	(131)	315	(83)
Increase (decrease) in other accounts payable and accrued expenses	93	(371)	21
	(1,114)	(417)	268
Interest paid	(50)	(5)	(3)
Interest received	20	75	298
	(30)	70	295
Net cash used in operating activities	(1,072)	(2,327)	(2,325)
Cash flows from investing activities:			
Purchase of VTSG business	-	-	(1,250)
Proceeds from (investment in) short-term deposits	-	(500)	655
Purchase of fixed assets	(23)	(50)	(87)
Net cash used in investing activities	(23)	(550)	(682)
Cash flows from financing activities:			
Issuance of shares, net	-	44	-
Exercise of stock options	3	-	5
Repayment of bank loan	(81)	-	(200)
Proceeds from government fund	89	-	-
Proceeds from long-term bank loans, net	-	946	-
Net cash provided by (used in) financing activities	11	990	(195)
Decrease in cash and cash equivalents	(1,084)	(1,887)	(3,202)
Cash and cash equivalents at beginning of year	3,137	5,024	8,226
Cash and cash equivalents at end of year	2,053	3,137	5,024

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2009	2008	2007
	U.S. dollars in thousands		
(a) Supplemental disclosure of non-cash financing activities:			
Issuance of shares in consideration of liability due to VTSG shareholders	-	167	-
Issuance of restricted shares to senior management and employees	5	-	
Return of restricted share due to departure of employees	*) -	-	-
Return of the Company 's Ordinary shares in connection with the settlement with VTSG	3	-	-
Additional amount for purchase of VTSG business	-	-	333

*) Represents an amount lower than $ 1,000.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

a. 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.

e. Definitions:

In these financial statements:

The Group - Simigon Ltd. and its subsidiaries.

The Company - Simigon Ltd.

Subsidiaries - Companies that are controlled by the Company.

Related parties - As defined in IAS 24.

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, 2009.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Changes in accounting policies in view of the adoption of new standards:

IAS 1 (Revised) - Presentation of Financial Statements:

The IASB issued revised IAS 1 *Presentation of Financial Statements* in September 2007 which is effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. Therefore, the statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the Standard introduces a statement of comprehensive income: presenting all items of income and expense recognised in the income statement, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. This revised standard has been adopted in the current financial period, including the consequential amendments from IAS 27.

IFRS 8 - Operating Segments:

IFRS 8 deals with operating segments and replaces IAS 14. According to the Standard, the Company adopted a "management approach" in reporting on the financial performance of the operating segments. The segment information is the information that is internally used by management in order to assess its performance and allocate resources to the operating segments.

The adoption of the Standard did not have any material effect on the presentation of segment information.

IFRS 2 - Share-based Payment:

Pursuant to an amendment to IFRS 2, the definition of vesting terms will only include service conditions and performance conditions and the cancellation of a grant that includes non-vesting conditions by the Company or the counterparty will be accounted for by way of acceleration of vesting and not by forfeiture. 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 initial adoption of the Standard did not have any material effect on the consolidated financial statements.

IAS 20 - Government Grants:

Pursuant to an amendment to IAS 20, interest-free loans or loans with a below-market rate of interest received by a company from the State will be accounted for upon initial recognition and in subsequent periods pursuant to the provisions of IAS 39, "Financial Instruments: Recognition and Measurement". Accordingly, the loans will be initially measured at fair value and discounted at market interest. The difference between the loan amount received and the fair value will be accounted for thereafter as a Government grant according to the provisions of the Standard.

The amendment was adopted as a prospective change from January 1, 2009 for government grants from the office of the Korea-Israel Industrial development received after that date.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

IAS 38 - Intangible Assets:

Pursuant to an amendment to IAS 38, expenses incurred for advertising, marketing or promotional activities will be recognized as an expense when the company has the right of 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 allow the unit of production amortization method for all intangible assets even if it results in a lower amount of accumulated amortization than under the straight-line method.

The amendment was adopted retrospectively from January 1, 2009. The initial adoption of the Standard did not have any material effect on the consolidated financial statements.

IFRS 7 Financial Instruments: Disclosures:

The amendment to IFRS 7 requires additional disclosures about fair value measurement and liquidity risk. According to the amendment, additional disclosures should be made, among others, as to the source of inputs used in making the measurements, using a three level fair value hierarchy for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is required, as well as disclosure of significant transfers between levels in the fair value hierarchy.

The amendment was adopted as a prospective change from the financial statements for the year beginning January 1, 2009 (there is no need to provide comparative information).

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.

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 statements of comprehensive income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of acquisition or with a maturity of more than three months.

g. Short-term deposits:

Short-term bank deposits are deposits with an original maturity of more than three months from the date of acquisition. The deposits are presented according to their terms of deposit.

h. Allowance for doubtful accounts:

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful. The Company also recognizes a provision for groups of customers that are collectively assessed for impairment based on their credit risk characteristics. Impaired debts are derecognized when they are assessed as uncollectible.

i. Fixed assets:

Items of fixed assets are measured at cost with the addition of direct acquisition costs, less accumulated depreciation.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%
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

j. Impairment of non-financial assets:

The Company evaluates the need to record an impairment of the carrying amount of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 statements of comprehensive income in the expense category consistent with the function of the intangible asset.

	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.

NOTE 2:- SIGNFICANT ACCOUNTING POLICIES (Cont.)

n. Government grants:

Government grants are recognized where there is reasonable assurance that the grant will be received and the Company will comply with the attached conditions.

Government grant from the Office of the Korea-Israel Industrial Development for supporting research and development activities that contain a liability to pay royalties to the State depending on future sales from development are recognized upon receipt as a liability as long as there are expected future economic benefits from the research activity that lead to sales entitling the State to royalties. If the royalty payments for the grant do not bear market rates of interest, the liability is measured at fair value discounted at the market rate of interest existent when the grant was received. The difference between the amount of the grant and the fair value of the liability is accounted for as a Government grant and, accordingly, recognized as a reduction from research and development expenses. Amounts paid as royalties are recognized as settlement of liability. When no economic benefits are probable, the receipts from the grant are deducted from the relevant research and development expenses. In such event, the royalty liability is accounted for as a contingent liability pursuant to IAS 37 until the date on which the liability is recognized.

At each balance sheet date, the Company evaluates whether there is reasonable assurance that the liability, in whole or in part, will not be settled (since the Company will not be required to pay royalties) based on the best estimate of future sales, if any, and if so, the appropriate liability is derecognized and a gain is recognized with a corresponding reduction of research and development expenses. If the estimate of future sales indicates that there is no such reasonable assurance, the appropriate liability reflecting the anticipated royalty payments is recognized with a corresponding charge to research and development expenses.

o. Research and development:

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

p. 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, 2009, no provision for such losses has been identified.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

q. Taxes on income:

Taxes on income in the statements of comprehensive income comprise current and deferred taxes. The tax results in respect of current or deferred taxes are carried to the statements of comprehensive income except to the extent that the tax arises from items which are recognized directly in equity. In such cases, the tax effect is also carried to the relevant item in equity.

1. Current taxes:

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date as well as adjustments required in connection with the tax liability in respect of previous years.

2. Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes. Deferred taxes are carried directly to equity if the tax relates to items that are taken to equity.

r. Earnings (loss) per share:

Earnings per share are calculated by dividing the net income attributable to equity holders of the parent by the weighted number of Ordinary shares outstanding during the period. Basic earnings per share only include shares that were actually outstanding during the period. Potential Ordinary shares are only included in the computation of diluted earnings per share when their conversion decreases earnings per share or increases loss per share from continuing operations. Further, potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share. The Company's share of earnings of investees is included based on the earnings per share of the investees multiplied by the number of shares held by the Company.

s. Provisions:

A provision in accordance with IAS 37 is recognized when the Company has a present (legal) obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Legal claims:

A provision for claims is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required by the Company to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, a provision is measured at its present value.

t. Employee benefit liabilities:

The Company's liability for severance pay pursuant to the Israel's Severance Pay Law (for those who elected not to be fully included under section 14 of the Severance Pay Law, 1963) 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 statements of comprehensive income in the period in which they occur.

Pursuant to Section 14 of the Severance Pay Law, which covers 75% of most of the employees' severance pay, 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 statements of comprehensive income.

u. Leases:

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

v. Fair value of financial instruments:

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

w. 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).

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

x. Treasury shares:

Company shares held by the Company are recognized at cost and deducted from equity. Any purchase, sale, issue or cancellation of treasury shares is recognized directly in equity.

y. Standards issued but not yet applied:

IFRS and IFRIC Interpretations not yet effective:

The Company has not early adopted certain IFRS and IFRIC Interpretations that have been issued but are not effective as of 31 December 2009.

1. IAS 36 Impairment of Assets

The amended IAS 36 ("the amendment") defines the required accounting unit to which goodwill will be allocated for impairment testing of goodwill. Pursuant to the amendment, the largest unit permitted for impairment testing of goodwill acquired in a business combination is an operating segment as defined in IFRS 8, "Operating Segments" before the aggregation for reporting purposes. The amendment will be prospectively adopted starting from the financial statements for periods beginning on 1 January, 2010. Earlier application is permitted.

The Company believes that the effect of the amendment on its financial position and operating results is not expected be material.

2 IFRS 9 **-** *Financial Instruments:*

In November 2009, the IASB issued IFRS 9, "Financial Instruments", which represents the first phase of a project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

According to IFRS 9, upon initial recognition, all the financial assets (including hybrid contracts with financial asset hosts) will be measured at fair value. In subsequent periods, debt instruments can be measured at amortized cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent measurement of all other debt instruments and financial assets will be at fair value.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Financial assets that are equity instruments will be measured in subsequent periods at fair value and the changes will be recognized in profit and loss or in other comprehensive income (loss), in accordance with an election on an instrument-by-instrument basis. Nevertheless, if the equity instruments are held for trading, they must be measured at fair value through profit or loss. This election is final and irrevocable. When an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. In all other circumstances, reclassification of financial instruments is not permitted.

The Standard will be effective starting 1 January 2013. Earlier application is permitted. Early adoption will be made with a retrospective restatement of comparative figures, subject to the reliefs set out in the Standard.

The Company is evaluating the possible effect of the adoption of the new Standard on the consolidated financial statements but is presently unable to assess such effect, if any.

3. *IFRS 3* Business Combinations (Revised) and *IAS 27* Consolidated and Separate Financial Statements (Amended)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

The change in accounting policy was applied prospectively and had no material impact on the reported results.

4. *IAS 1 - Presentation of Financial Statements:*

The amendment to IAS 1 deals with current or non-current classification of the liability component of a convertible instrument. Pursuant to the amendment, terms of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments do not affect its classification as current or non-current. The amendment will be prospectively adopted starting from the financial statements for periods beginning on January 1, 2010. Earlier application is permitted.

The Company believes that the effect of the amendment on the consolidated financial statements is not expected be material.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

5. Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRIC 13 Customer Loyalty
- IFRIC 15 Agreement for Construction of Real Estate
- IFRIC 16 Hedges of Net Investment in a Foreign Operation
- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 18 Transfers of Assets from Customers
- IFRS 5 Non-current Assets Held-for-Sale and Discontinued Operations
- IAS 17 Leases
- IAS 32 Financial Instruments: Presentation – Classification of Rights Issues.

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

a. Cash and cash equivalents:

	December 31,	
	2009	2008
	U.S dollars in thousands	
Cash at bank and on hand	2,053	428
Short-term deposits *)	-	2,709
	2,053	3,137

*) 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 (between three months and a year) as of December 31, 2009 and 2008 ($ 504 and $ 500, respectively) bear an annual interest rate of 1.4% and 2.08%, respectively.

NOTE 4: - TRADE RECEIVABLES

	December 31,	
	2009	2008
	U.S dollars in thousands	
Trade receivables (1)	3,301	1,880
(1) Net of allowance for doubtful debts	130	130

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

NOTE 4: - TRADE RECEIVABLES (Cont.)

As of December 31, 2009, the aging analysis of trade receivables is as follows:

	Neither past due nor impaired	Past due but not impaired < 30 days	30 - 60 days	60 - 90 day	> 90 days	Total
	U.S. dollars in thousands					
2009	2,913	117	143	44	84	3,301
2008	1,444	107	54	-	275	1,880

NOTE 5:- FIXED ASSETS, NET

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, 2008	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
Acquisitions during the year	23	-	-	23
Balance as of December 31, 2009	733	165	54	952
Accumulated depreciation:				
Balance as of January 1, 2008	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
Provision during the year	56	13	5	74
Balance as of December 31, 2009	681	118	49	848
Depreciated cost as of December 31, 2009	52	47	5	104
Depreciated cost as of December 31, 2008	85	60	10	155

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.

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, 2009 and 2008 in the accounts of the Company was as follows:

	Carrying value as of December 31,	
	2009	2008
	U.S dollars in thousands	
Technology **)	357	408
Backlog **)	-	-
Total assets	357	408
Goodwill arising on acquisition *)	1,068	1,068
Total consideration	1,425	1,476

*) 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. As of December 31, 2009, 2008 and 2007, the recoverable amount determined based on the value in used exceeded the carrying amount of the Company's net assets (equity).

**) During the years ended December 31, 2009, 2008 and 2007, the Company recorded amortization of technology and backlog in the amount of $ 51 thousand, $ 52 thousand and $ 55 thousand, respectively, which were recorded in cost of revenues.

NOTE 7:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2009	2008
	U.S dollars in thousands	
Employees and payroll accruals	320	399
Accrued expenses *)	377	196
Other	-	6
	697	601

*) See also Note 17c.

NOTE 8:- EMPLOYEE BENEFITS LIABILITIES, NET

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

	December 31,	
	2009	2008
	U.S dollars in thousands	
Liability at the beginning of the year	306	351
Expense (income) recognized in the statements of comprehensive income	84	(16)
Contribution paid	(1)	(10)
Benefits paid	(288)	(19)
Liability at the end of the year	101	306

NOTE 8:- EMPLOYEE BENEFITS LIABILITIES, NET (Cont.)

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

	December 31, 2009	December 31, 2008
	U.S dollars in thousands	
Current service cost	18	51
Interest cost	8	27
Expected return on plan assets	(1)	(2)
Net actuarial loss (gain) recognized in the year	59	(92)
Total expense (income) included in statements of comprehensive income	84	(16)

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

1. Composition:

	2009	2008
	U.S dollars in thousands	
Balance at January 1	352	406
Interest cost	8	27
Current service cost	18	51
Benefits paid	(335)	(38)
Net actuarial loss (gain)	58	(94)
Balance at December 31	101	352

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:

	2009	2008
	U.S dollars in thousands	
Balance at January 1	46	55
Expected return	(1)	2
Contributions by employer	1	10
Benefits paid	(47)	(19)
Net actuarial gain (loss)	1	(2)
Balance at December 31	-	46

NOTE 8:- EMPLOYEE BENEFITS LIABILITIES, NET (Cont.)

d. The actuarial assumptions used are as follows:

	Year ended December 31, 2009	Year ended December 31, 2008
Discount rate	4.66%	4.29%
Expected rate of return on plan assets	4.96%	6.35%
Future salary increases	2%	2%
Average expected remaining working years	6.21	5.9

NOTE 9:- LONG-TERM LOAN

a. Comprised as follows:

	Linkage terms	Interest rate as of December 31, 2009	Interest rate as of December 31, 2008	December 31, 2009	December 31, 2008
From bank (c)	LIBOR +4%	4.99%	6.145%	918	1,000
Add - accrued interest				*) -	4
				918	1,004
Less - loan origination fees				4	10
Less - Ordinary shares issued in connection with the loan (see c)				19	44
				23	54
Total long-term loan				895	950
Less - current maturities				895	81
				-	869

*) Represents an amount lower than $ 1,000.

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

	December 31, 2009	December 31, 2008
	U.S dollars in thousands	
First year (current maturities)	895	81
Second year	-	869
	895	950

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

c. On November 16, 2008, the Company signed a loan agreement ("the 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 origination fees of $ 10,000. As of December 31, 2009, 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, 2009, 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. In February 2008, the Company issued 164,628 Ordinary shares of the Company, as additional consideration for the VTSG business (see Note 6).

c. 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.

d. On April 23, 2009, the Board of Directors approved the implementation of a one-year plan for salary reduction of 15% for senior management and other employees ("the Reduction Plan"). According to the Reduction Plan, the individuals, in exchange for the reduction on salary, are to be granted 2,263,383 Ordinary shares of the Company with an equivalent fair value on date of grant of $ 0.15. The shares which have been issued and are being held by a trustee will be vested in 12 equal monthly installments. As of December 31, 2009, a total of 210,713 Ordinary shares were returned to the Company due to departure of employees and recorded as treasury share.

Further to the Reduction Plan, on July 27, 2009, the Board of Directors approved that the Non-Executive Board members will implement a one-year salary reduction of 15% and instead will be granted 119,727 Ordinary shares of the Company, with an equivalent fair value on date of grant of $ 0.165, which will vest in 12 equal monthly installments. The shares were issued to the trustee in January 2010.

e. Composition:

	December 31, 2009, 2008 and 2007	December 31,		
		2009	2008	2007
	Authorized	Issued and outstanding		
	Number of shares			
Ordinary shares of NIS 0.01 par value each	100,000,000	41,522,556	37,798,194	37,259,326

NOTE 10:- EQUITY (Cont.)

f. 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, 2009, no warrants had been exercised.

g. 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 mechanism, 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. On March 31, 2009, all of the options were exercised.

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, 2009, 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, 2009, 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, 2009, these options were fully vested.

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

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

h. Stock options plan:

In August 2000, the Company's Board of Directors authorized an incentive share option plan ("the Option Plan") and has since granted options to purchase Ordinary shares to employees and consultants. Under the Option Plan, 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 Option 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 April 23, 2009, the Company decided to increase its stock option plan reserves by 3,000,000 options to accumulate a total of 9,500,000. As of December 31, 2009, an aggregate of 4,449,958 Ordinary shares of the Company are still available for future grant.

NOTE 10:- EQUITY (Cont.)

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, 2009: risk-free interest rates ranging from 2.01%-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 6.5 years.

The weighted average fair values of the options granted in 2009, 2008 and 2007 were $ 0.09, $ 0.68 and $ 1.83, respectively.

A summary of the activity in options to employees, consultants, and directors (including the senior management, see i below) for the years 2009, 2008 and 2007 is as follows:

	Year ended December 31,					
	2009		2008		2007	
	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	2,408,069	$ 0.706	2,493,269	$ 0.800	2,344,967	$ 0.705
Granted	477,500	$ 0.089	73,900	$ 0.618	380,000	$ 1.823
Exercised	(442,125)	$ 0.002	-	$ -	(8,660)	$ 0.600
Forfeited	(235,622)	$ 0.885	(159,100)	$ 1.360	(223,038)	$ 1.560
Outstanding at end of year	2,207,822	$ 0.693	2,408,069	$ 0.706	2,493,269	$ 0.800
Exercisable options	1,575,944	$ 0.768	1,867,026	$ 0.558	1,794,225	$ 0.507

The options outstanding as of December 31, 2009, have been separated into ranges of exercise price as follows:

Exercise price	Options outstanding as of December 31, 2009	Weighted average remaining contractual life (years)	Options exercisable as of December 31, 2009
$ 0.002	47,502	1.45	47,502
$ 0.075	300,000	9.27	27,203
$ 0.090	47,248	0.66	47,248
$ 0.120	5,000	9.65	-
$ 0.127	120,000	10.00	-
$ 0.487	100,000	8.51	47,222
$ 0.530	10,000	8.51	1,944
$ 0.600	1,104,173	3.28	1,085,798
$ 0.630	30,000	8.30	5,833
$ 1.000	3,150	0.66	3,150
$ 1.200	15,749	1.02	15,749
$ 1.330	10,000	8.04	3,332
$ 1.610	110,000	6.96	73,331
$ 1.640	45,000	7.90	17,497
$ 1.650	130,000	6.90	130,000
$ 1.710	60,000	7.66	28,332
$ 1.900	15,000	7.51	7,500
$ 2.170	55,000	7.30	34,303
	2,207,822		1,575,944

NOTE 10:- EQUITY (Cont.)

i. Options to the CEO and senior employees:

1. On October 10, 2001, the Company's Board of Directors granted 53,220 options to the CEO at an exercise price of NIS 0.01 per share. On March 31, 2009, the options were exercised.

2. 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. On March 31, 2009, the options were exercised.

3. 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, 2009, these options were fully vested.

4. 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.

5. 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.

6. On March 26, 2009, a total of 80,000 options at an exercise price of $ 0.08 per share were exercised by the Company's senior employees.

7. On March 29, 2009, a total of 32,978 options at an exercise price of NIS 0.01 per share were exercised by the Company's senior employees.

8. On January 27, 2010, the Company's Board of Directors granted options to the CEO and senior employees (see note 19 subsequent event).

j. Shares to the CEO and senior employees:

The Reduction Plan as mentioned under Note 10d includes, a total of 342,717 and 435,495 Ordinary shares of the Company were granted to the CEO and senior management; respectively, with an equivalent fair value on date of grant of $ 0.15. The shares which have been issued and are being held by the Company's trustee, will be vested in 12 equal installments over a period of one year.

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.

NOTE 11:- INCOME TAXES (Cont.)

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.

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.

NOTE 11:- INCOME TAXES (Cont.)

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 2009, 2008 and 2007, 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, 2009, 2008 and 2007, the Company had accumulated losses for Israeli tax purposes of approximately $ 5.2 million, $ 3.9 million and $ 4.2 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, 2009, 2008 and 2007, the federal tax loss carryforwards of the U.S. subsidiaries amounted to approximately $ 5.7 million, $ 6.9 million and $ 4.2 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.

e. Tax rates applicable to the income of the Company:

Domestic:

The rate of the Israeli corporate tax is as follows: 2007 - 29%, 2008 - 27%, 2009 - 26%, 2010 - 25%. Tax at a reduced rate of 25% applies on capital gains arising after January 1, 2003, instead of the regular tax rate. In July 2009, the "Knesset" (Israeli Parliament) passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among others, an additional gradual reduction in the rates of the Israeli corporate tax and real capital gains tax starting 2011 to the following tax rates: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%.

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%.

NOTE 11:- INCOME TAXES (Cont.)

f. 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.

g. Deferred taxes:

On December 31, 2009, 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:

1. 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 thousand.

   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.

   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.

2. On September 1 2009, the Company and a third party signed a Cooperation and Project Funding Agreement with Koril, which is an establishment of the Korea-Israel Industrial Research and Development Fund. According to the agreement, Koril 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 $ 273 thousand.

   As of December 31, 2009, the Company received an amount of $ 109 thousand.

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

The Company shall make repayments to Koril, based on gross sales derived from the gross invoiced sales value of the products, processes, inventions, technology, discoveries, improvements, modifications, methods, software, specifications, or any form of technical information developed or arising from the proposal (gross sales). Such payments shall be repaid in U.S dollars at the rate of 2.5% of the first year's gross sales until 100% of the conditional grant and other sums have been repaid.

As of the financial statement approval date, the Company has not paid any royalties to Koril as no related gross sales were recorded.

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 were extended from March 2010 to March 2011.

2. The Company has leased various motor vehicles under cancelable operating lease agreements, which expire on various dates, the latest of which is in 2012.

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
2010	349
2011	179
2012	25
	553

The total expense for the years ended December 31, 2009, 2008 and 2007 was $ 341 thousand, $ 340 thousand and $ 294 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.

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

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.

2. On May 31, 2007, the subsidiary, SimiGon Inc. signed an agreement with a consultant ("the 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.

   On May 1, 2009, the subsidiary, SimiGon Inc. signed a new agreement ("the new agreement") with the Consultant according to which the Company will pay the Consultant consulting fees of $ 144 thousand per annum payable in equal monthly installments.

   Upon signing the New Agreement, the Company granted the Consultant options to purchase 100,000 Ordinary shares of the Company at an exercise price of $ 0.13. These options will vest in full over 24 months, provided that the Consultant is providing services under this agreement during this period.

e. Legal:

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

   On April 14, 2009, the Company reached a settlement with VTSG and its CEO, according to which the Company received a payment of $ 7.5 thousand (offset against legal expenses) and a return of 36,497 of its Ordinary shares, with a fair value of approximately $ 3 thousand which recorded as treasury shares.

NOTE 13:- SUPPLEMENTARY INFORMATION TO THE STATEMENT OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2009	2008	2007
	U.S. dollars in thousands		
a. Cost of revenues:			
Salaries and related benefits	581	603	604
Lease and office maintenance	147	119	84
Travel expenses	23	70	57
Depreciation and amortization	62	65	67
Share-based compensation	64	32	12
Subcontractors	100	110	280
Other	-	-	(48)
	977	999	1,056
b. Research and development expenses:			
Salaries and related benefits	1,400	2,135	2,368
Lease and office maintenance	214	272	318
Depreciation and amortization	38	41	47
Share-based compensation	185	57	40
Other	15	32	-
Government grants	(19)	-	-
	1,833	2,537	2,773
c. Selling and marketing expenses:			
Salaries and related benefits	882	1,102	1,049
Lease and office maintenance	125	123	68
Consultant fees	258	183	396
Advertising and sales promotion	58	190	118
Travel expenses	111	163	174
Depreciation	12	16	9
Share-based compensation	67	45	87
Commission	97	-	666
	1,610	1,822	2,567
d. General and administrative expenses:			
Salaries and related benefits	716	698	781
Lease and office maintenance	149	89	73
Consultant fees	122	123	122
Travel expenses	31	85	43
Professional fees and public company expenses	405	530	588
Depreciation	13	13	10
Share-based compensation	80	39	116
Other	50	272	43
	1,566	1,849	1,776

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

	Year ended December 31,		
	2009	2008	2007
	U.S. dollars in thousands		
e. Financial income:			
Exchange rate differences, net	210	279	145
Interest income from banks	20	75	298
	230	354	443
f. Financial cost:			
Exchange rate differences, net	150	249	148
Bank loans and overdrafts	79	21	19
	229	270	167

NOTE 14:- REVENUES

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

a. Revenues:

	Year ended December 31,		
	2009	2008	2007
	U.S. dollars in thousands		
Software licenses	4,093	3,647	3,840
Software licenses that require significant customization	1,226	838	720
Maintenance and training	738	658	448
	6,057	5,143	5,008

b. Information about major customers:

Revenues from major customers, each of whom amount to 5% or more of total revenues reported in the financial statements:

	Year ended December 31,		
	2009	2008	2007
Customer A	30%	47%	15%
Customer B	4%	5%	2%
Customer C	3%	5%	9%
Customer D	1%	6%	-
Customer E	-	2%	46%
Customer F	17%	-	-
Customer G	9%	1%	1%
Customer H	5%	3%	-

NOTE 15:- EARNINGS (LOSS) PER SHARE

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

	2009	2008	2007
	U.S. dollars in thousands		
Income (loss) for the year	72	(1,980)	(2,888)

	2009	2008	2007
Weighted average number of Ordinary shares for computing basic earnings (loss) per share	40,204	37,453	37,251
Effect of dilution:			
Share options	456	-	-
Weighted average number of Ordinary shares adjusted for the effect of dilution	40,660	37,453	37,251

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 earnings (loss) per share calculation due to their antidilutive effect.

NOTE 16:- OPERATING SEGMENTS

Geographical information:

Revenues classified by geographical destinations based on the customer location:

	Year ended December 31,		
	2009	2008	2007
	U.S. dollars in thousands		
EMEA (1)	2,693	1,632	3,537
North America	3,201	3,011	1,464
Asia Pacific	163	500	7
	6,057	5,143	5,008

(1) Europe, Middle East, Australia and Africa.

NOTE 16:- OPERATING SEGMENTS (Cont.)

The carrying amounts of non-current assets (fixed assets, investment property and intangible assets) in the Company's country of domicile (Israel) and in foreign countries, based on the location of the assets, are as follows:

	December 31,		
	2009	2008	2007
	U.S. dollars in thousands		
EMEA	82	125	140
North America	1,447	1,506	1,575
	1,529	1,631	1,715

(1) Europe, Middle East, Australia and Africa.

NOTE 17:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

	Year ended December 31,		
	2009	2008	2007
	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 *)	15	88	-

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

	Year ended December 31,		
	2009	2008	2007
	U.S. dollars in thousands		
c. Compensation of key management personnel of the Company:			
Employee benefits (*)(**)	1,300	1,262	1,215
Share-based payments	216	51	95
	1,516	1,313	1,310

(*) Includes increase (decrease) in long-term employee benefits due to provision for severance pay in a total amount of $ (150) thousand, $ (4) thousand and $ 58 thousand for the years ended December 31, 2009, 2008 and 2007, respectively.

(**) Year 2009 includes the provision for sales bonus in a total of $ 75 thousand and $ 11 thousand to the CEO and to the VP business Development, respectively. It also includes the provision for the CEO severance pay in a total of $ 30 thousand due to the salary increase approved by the Company’s Board of Directors on January 27, 2010 (see Note 19).

NOTE 17:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

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 10g).

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 10g). Prior to this agreement, Mr. Simi Efrati had been a Non-Executive director of the Company. The agreement was terminated effective February 1, 2010.

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 10g). Prior to this agreement, Mr. Rami Weitz had been the Chairman of the Board of Directors of the Company.

NOTE 18:- 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 maximize shareholders value.

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

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, 2009, balances in foreign currency are immaterial.

NOTE 18:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont.)

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 and trade receivables.

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.

The Company has no significant concentrations of credit risk. The Company has a policy to ensure collection through sales of its products with an appropriate credit history.

Credit risk may arise from the exposure of holding several financial instruments with a single entity or from entering into transactions with several groups of debtors with similar economic characteristics whose ability to discharge their obligations will be similarly affected by changes in economic or other conditions. Factors that have the potential of creating concentrations of risks consist of the nature of the debtors' activities, such as their business sector, the geographical area of their operations and the financial strength of groups of borrowers.

The Company regularly monitors the credit extended to its customers and requires collateral as security for these receivables. The Company provides an allowance for doubtful accounts based on the factors that affect the credit risk of certain customers, past experience and other information.

The Company maintains cash and cash equivalents and other financial instruments in various financial institutions. These financial institutions are located in different geographical areas around the world. The Company's policy is to diversify its investments among the various institutions. According to the Company's policy, the relative credit stability of the various financial institutions is evaluated on a regular basis.

As of December 31 2009, cash, cash equivalents and short-term deposits totaled $ 2,557.

NOTE 18:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont.)

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 9c).

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

December 31, 2009:

	Less than one year	3 to 4 years	Total
	U.S. dollars in thousands		
Current maturities	948	-	948
Government grants	-	89	89
Trade payables	157	-	157
Other accounts payable and accrued expenses	697	-	697
	1,802	89	1,891

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

4. Interest rate risk:

The Company has a loan 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.

NOTE 19:- SUBSEQUENT EVENTS

On January 27, 2010, the Board of Directors granted 1,249,000 options as follows:

a) A total of 360,000 options were granted to the CEO at an exercise price of NIS 0.01 per share;

b) A total of 453,000 options were granted to senior employees at an exercise price of NIS 0.01 per share, out of which 141,000 options to the CFO are subject to future shareholders approval.

c) A total of 132,000 options were granted to employees at an exercise price of NIS 0.01 per share; and

d) A total of 304,000 options were granted to employees at an exercise price of $ 0.13 per share.

The options will vest over 3 years in equal annual amounts commencing as of January 1, 2010 and will be conditional upon the following:

a) Employee being employed by the Company;
b) The EBIDTA of the Company (on a consolidated basis) for the relevant fiscal year shall increase by more than 20% compared to the previous year.

Vesting will be fully accelerated in the event of any of the following:

a) Merger, acquisition or reorganization of the Company with one or more other entities;
b) A sale of all or substantially all of the assets or shares of the Company;
c) An investment in the Company of at least $ 2 million.

The Board of Directors also approved the grant of a sales bonus to the CEO in the amount of $ 75 thousand and to the increase of his salary by 10% effective January 1, 2010.

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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 tra`ding and registration of shareholders' assets. Symbol: SIM Financial Year End: 31 December

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