

IMPORTANT

This document is an unofficial translation of the Hebrew original, December 31, 2010 financial report of Hadasit Bio-Holdings Ltd. that was submitted to the Tel-Aviv Stock Exchange and the Israeli Securities Authority on March 31, 2011.

The Hebrew version submitted to the TASE and the Israeli Securities Authority shall be the sole binding legal version. This translation is for the convenience of English readers only.

HBL – Hadasit Bio-Holdings, Ltd. (“the Company”)

Board of Directors Report for the Period ending December 31, 2010

Introduction

The Company's key assets are its holdings in its portfolio companies (“Portfolio Companies”), which are based for the most part on intellectual property created by and owned by Hadassah Hospital. This intellectual property is licensed to the subsidiaries and serves as the basis for their activity.

The main input required to achieve the Company's objectives is the acquisition of financial resources that can support controlled and deliberate injections to the Portfolio Companies so that they can achieve their milestones in the areas of research and development, production, intellectual property, and regulation, and reach the stage of human clinical trials.

As of the date of the report, the Company had raised financial resources from the public by means of a public offering (January 2006), by means of an issue of convertible bonds (August 2006; half of the bonds were converted into shares and the other half redeemed in full in August 2008), by means of a private placement of shares and options (March 2009), by means of an offering of rights to the public (October 2009), and by means of a public offering of shares and options (August 2010).

The Company's key goal is to improve and promote the Portfolio Companies in which it has holdings, in part by providing them with the financial resources they need for research and development of the science, technology, and products that are their basis. The provision of these resources is intended to permit the Portfolio Companies to make progress and achieve clear milestones, which in the



biotechnology industry constitutes an indication that there is something tangible in the research, the clinical development, the regulatory process, the business development, and the other elements associated with the company's activities and that can be translated into financial value for its owners. This value is built over a long period of time and requires significant financial investment and administrative input. The managerial services are provided to the Company by its controlling party (Hadasit), in accordance with a management agreement signed between the Company and Hadasit and approved at the General Assembly of the Company after the date of the present report (February 2011). The management services that Hadasit provides the Company are general management services (including its CEO, financial and bookkeeping services, IP services, and others), and include the provision of assistance and supervision to the project companies, as a function of their needs, by executives who have expertise and experience in the medical and biotechnology fields; looking for, screening, and investigating investment possibilities for the company; and assisting the Company's advisory committee and Board of Directors with regard to every possible investment by the Company and everything associated with the company's holdings in the project companies. Hadasit's services also include providing access to the accumulated expertise of the many physicians and researchers at Hadassah, as well as the advanced and variegated infrastructures that exist at the medical center. In the Company's estimation, these are conspicuous advantages that the Company has over other companies active in the relevant market and that have holdings in portfolio companies.

In keeping with the new management agreement signed between the Company and Hadasit, the company will pay Hadasit NIS 620,000 a year for management services and will also bear the full cost of the salary and ancillary expenses of Mr. Ophir Shahaf (the Company's CEO, whose salary is paid by and through Hadasit). The Company's Board of Directors is of the opinion that the amount of the payment to Hadasit for the management services is appropriate and reflects the contribution to the Company of the management services. For details of the management agreement, its terms, and the services provided through it, see the section on the corporation's business activities.

Since the Company was established, it has injected more than \$20 million into its several Portfolio Companies. It has also found additional sources of funding for the Portfolio Companies (without diluting its holdings) in the amount of \$7 million, chiefly in the form of subventions from the Chief Scientist of the Ministry of Industry and Trade. As stated, additional support is provided in kind by the management of the Company as well as by Hadassah Hospital—access to infrastructure, expertise, and other unique capacities possessed by the medical center. In the opinion of Company management, and on the basis of the regular and periodic reports it receives from the Portfolio Companies (by virtue of its holdings in them and its representation on their boards of directors), most of the Portfolio Companies have shown significant enhancement and real progress on the various levels: the intellectual property base—the expansion and maintenance of the pool of patents; research and development—the implementation of the studies and trials in animal models of the molecules under development; preparations for clinical trials—progress in drawing up the regulatory files, manufacturing the compounds at the required level, and drafting protocols for the trials; carrying out clinical trials (chiefly Phase I/II) and business development—progress in the preparations for raising capital and locating potential investors and partners.



As of the date of the report, four of the seven Portfolio Companies in which the Company has holdings have reached the stage of human clinical trial (1) Verto began clinical trials in 2007 and completed Phase I/II in 2008; (2) Enlivex, Ltd. (formerly Tolarex, Ltd.) began the stage of clinical trials in 2009; (3) Thrombotech, Ltd., began human clinical trials in February 2010 and completed Phase I of the trial in August 2010 (4) BioMarCare began an additional human clinical trial after the date of the present report.

The company anticipates that in 2011, ProTab, too, will begin human clinical trials. The company's assessment of this matter is anticipatory and depends, among other things, on successful completion of the preparatory trials, on ProTab's satisfying the regulatory requirements for commencing clinical trials, and on its access to the financial resources required to do so. In addition, the Company anticipates that should the trial succeed and adequate financial funding be available, two additional companies, KAHR and CellCure, will reach the stage of human clinical trials during the course of 2012.

The estimates of the commencement of clinical trials are anticipatory forecasts. The start of clinical trials is a long, complex, and expensive process that requires preparations on many levels: bringing the research and development to the level at which the drug that is the subject of the trial is in the optimal formulation and parameters; completing a long series of preliminary trials (safety, toxicity, interaction with other compounds, etc.); drafting a complete regulatory file for submission to the authorities (FDA, Ministry of Health); manufacturing the material in appropriate conditions (GMP); recruiting medical centers, physicians, and patients to take part in the trial; locating an outside agency (CRO) to supervise the trial; writing the protocols for the trial; and more.

The Company supervises and, as may be appropriate for the circumstances, is directly involved in the management of the Portfolio Companies with regard to strategic planning, devising work plans and budgets, hiring personnel, business development, and more. By means of this involvement, the Company seeks to make certain that the resources that it provides are utilized in optimum fashion. It should be noted that the Company is not the controlling party in all of its Portfolio Companies; hence its involvement and ability to be involved varies from one Portfolio Company to another, as a function of the extent of its holdings. As of the date of the report, representatives of the Company are serving on the boards of directors of all of the Portfolio Companies. In addition, the Company invests the financial and administrative resources at its disposal in the companies that are at a more advanced stage and have the highest scientific and business potential. These decisions of prioritization are taken on the basis of recommendations by Company management and strategic deliberations by the Company's Board of Directors and are based on the recommendations of its scientific advisory committee.

There are cases in which the preparations for the commencement of clinical trials take longer than the Company expected. This postponement may be the result of a prolongation of the manufacturing process, delays during research and development, or an increase in the time required to receive regulatory approval. As stated, the Company also regulates its injections of funds into the Portfolio Companies on the basis of a parameter related to how close they are to beginning clinical trials and, by means of its aforesaid involvement in the companies' boards, verifies that its efforts and resources are focused on this tangible objective. In the wake of such delays, and in light of the Company's last round of raising capital, the Company's Board of

Directors has made the minimum requirements that it uses for studying new investment opportunities more stringent. In addition, the Board of Directors now conditions future injections of capital to the companies on the existence of additional financing to supplement what the Company intends to transfer to its Portfolio Companies. In other cases, where such supplementary funding is delayed, the Board of Directors may modify the terms of the capital injection by the Company on the financial and administrative level.

After the date of this report, one of the Portfolio Companies in which the Company has holdings (Conjugate) announced the suspension of its activities, after it encountered technological problems in the further development of its products, and particularly the ability to scale up and produce the product it was developing on an industrial scale.

The aforesaid serves as a point of reference for the Company's board. To a large extent it is based on forecasts and assessments that may not be realized or that may be realized at a later date. It is not inconceivable that, for regulatory reasons, the progress or results of research and development, a lack of available financial resources, or other reasons, the Portfolio Companies may not live up to the forecast and estimates.

1. The Corporation's Business Activities

The Company owns stock in seven high-tech companies (hereinafter "**the Portfolio Companies**") that are involved in medical and biotechnological research and development, whose knowledge is based, for the most part, on the work of researchers who are currently employed, or were employed at the time of the discovery, by the hospitals of the Hadassah Medical Organization in Jerusalem. In addition, the Company has insubstantial holdings in a public company traded in Israel, BioLine RX, Ltd., as well as holdings (for which the entire investment has been written off the Company's books) in a public company traded in the United States, Forticell Bioscience, Inc. (formerly Ortec International, Inc.).

Two Portfolio Companies in which the Company had holdings decided to suspend their activity: T.K. Signal and Conjugate.

What all the Portfolio Companies have in common is that they have completed certain feasibility studies in animals with successful results and that they address a market (medical indication) that meets an unsolved medical need and has a sales potential exceeding \$1 billion dollars a year, as well as (relative) proximity to the clinical feasibility stage (human trials after receipt of full regulatory approval).

The Portfolio Companies are in various stages of additional feasibility studies and of submitting requests to the institutional Helsinki committees and to the Ministry of Health to permit the start of human clinical trials (Phase I or Phase I/II) and consequently to investigate the feasibility and possible impact of the aforesaid development on humans, with regard to the safety and efficacy of the drug being developed by the Portfolio Companies.

As of the date of the report, none of the Portfolio Companies has had commercial sales as part of its regular business activities.

As stated, Verto, Enlivex, BioMarCare, and Thrombotech have received approval to conduct human clinical trials and have begun them. Verto and Thrombotech have completed a first trial and are gearing up for another one.

During 2010, two of the Portfolio Companies (ProTab and CellCure) completed significant rounds of investment (a total of some \$11 million) from major financial and strategic investors, a process that moved them closer to the start of clinical trials.



The focus of the operations of the Company, and Hadasit, as its management company, is on continued research and development activity with the goal of reaching an exit point from the Portfolio Companies, preferably after completion of Phase I trials in humans. In some cases, the Company aspires to advance the Portfolio Companies towards Phase I/II trials, which demonstrate the efficacy of the product being developed and not only its safety, a stage that clearly improves the Portfolio Company's standing in negotiations with a potential strategic partner or investor.

It should be noted that this is a general business strategy. In certain circumstances it is possible that the business strategy may be modified (whether with regard to a specific Portfolio Company or to all of them) or deemed inappropriate. Discretion with regard to the definition or modification of the business strategy is reserved exclusively to the Company's Board of Directors. The Company employs its resources chiefly to provide funding to the Portfolio Companies so that they can make progress in research and development. The Company sees the resources that it makes available to the Portfolio Companies as resources that can enhance the Portfolio Companies and help them advance towards achieving their own objectives and the Company's objectives. In addition to these resources, the Company helps the Portfolio Companies find other sources of funding in Israel and abroad.

So that the Company can monitor and oversee the activities of the Portfolio Companies, on January 6, 2008, the Company approved an agreement to rent offices in the Biotechnology Park, whose construction was completed in June 2009. The Company and some of the aforesaid Portfolio Companies moved their activities to the park. After the date of the report, the Company began negotiations with ProTab to make its continued presence in the park possible, under revised terms.

The Company believes that its presence in physical proximity to the Portfolio Companies is of significant benefit in its supervision and promotion of the activities of the Portfolio Companies that rent some of the space and also helps create a platform and network that permit the exchange of ideas, problem-solving, the provision of appropriate and advanced infrastructure for research and development activities, and the provision of assistance to various activities by the Portfolio Companies in a manner that allows them to focus on their activities in an optimum manner. Based on the experience and background of the Company's management and on contacts with potential partners and investors, it is clear that the latter view the move to the new location favorably.

As stated, the main input required by the Portfolio Companies in order to carry out their research and development activities is financial. The financial resources are required to purchase materials, pay salaries, fund clinical trials, and more. Without financial resources on the scale required, the Portfolio Companies cannot make progress in the research and development that is their *raison d'être*.

Consequently the Company works to mobilize capital. During 2010, the Company raised a net sum of NIS 10.9 million through a public offering of shares and options. As of the date of the report, the Company has on hand cash and liquid investments intended for the Company's activities with a total value of NIS 30.404 million.

As stated, along with its injections of financial resources, the Company also sees to it that resources are injected to the Portfolio Companies from other sources—both current stockholders and new investors. The Company helps the Portfolio Companies in the aforesaid process of mobilizing capital, including making contact with sources

of funds that do not lead to a dilution of its holdings, such as the Chief Scientist in the Ministry of Industry and Trade, research grants, binational foundations, and the like.

As of the date of the report, three of the leading Portfolio Companies are in advanced negotiations with potential investors and four Portfolio Companies have already received approval of subventions from the Chief Scientist for the coming fiscal year. Support from the Chief Scientist is forthcoming only after a thorough and comprehensive study by Ministry representatives. It constitutes a source of funds that does not dilute the shareholders and provides an important external confirmation of the quality of the science and administration and the management of the ir research activities by the various Portfolio Companies.

In light of the limited resources available to the Company, its Board of Directors prioritizes the investments in the Portfolio Companies, in part according to the following parameters: how close the portfolio company is to the stage of clinical trial; the percentage of the Company's stake in the portfolio company; how far advanced the research and development is and whether the defined milestones have been met. The Company's Board of Directors is entitled to change the priorities of its investments in the Portfolio Companies on the basis of additional or other information that may reach it as the activities of the Portfolio Companies progress.

2. The Company's Holdings in the Portfolio Companies and their Areas of Activity

The table below provides details of the Company's holdings in the Portfolio Companies as of December 31, 2010.

Name of Portfolio Company in which the Company has a Stake	Percent Holdings as of Dec. 31, 2010		Portfolio Company's Field of Activity
	Undiluted	At full dilution	
Thrombotech, Ltd.	24.77%	23.43%	Development of drugs intended to dissolve blood clots in a focused and selective manner
Verto, Ltd.	74.6%	67.3%	Development of innovative devices and drugs for the treatment of Lupus Erythematosus
CellCure Neurosciences, Ltd.	26.28%	24.54%	Treatment based on embryonic stem cells for AMD (age-related macular degeneration), Parkinson, and other neurodegenerative diseases
ProTab, Ltd.	69.79%	50.10%	Drugs to treat rheumatoid arthritis and other autoimmune diseases
BioMarCare, Ltd (formerly InCure, Ltd.)	87.49%	91.77%	A kit for early detection of metastases in various forms of cancer (breast, colon) and development of a treatment platform
KAHR Medical (2005), Ltd.	76.05%	68.4%	Development of a prote in platform to treat autoimmune diseases and various types of cancer
Enlivex, Ltd.	91.99%	83.63%	Development of a system (device and drug) to treat Graft versus Host Disease and inflammatory and autoimmune diseases

BioLine RX, Ltd.	0.25%	0.25%	Development of drugs in BioLine laboratories and by outsourcing in order to make them ready for advanced clinical trials.
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Maintaining the Company's current stakes in the various Portfolio Companies depends on the Company's financial capacity being such as may permit it, subject to the principles for investment in the Portfolio Companies, to participate in future rounds of investment in the Portfolio Companies. It is not impossible that in such additional rounds of investments the Company will not dispose of the resources required to maintain its present stake in the Portfolio Companies (all or some of them), nor is it impossible that the Company will decide that it is inappropriate or not worthwhile to take part in such rounds.

With regard to the convertible loans that the Company has extended to the Portfolio Companies, see the section on the corporation's business activities.

On developments in the Portfolio Companies' activities, see the same section.

As stated, the Company's Board of Directors supports the continued transfer of funds to the Portfolio Companies, while applying maximum discretion with regard to the situation of each and every company, its proximity to clinical trials or some other significant milestone, and its ability to raise additional funds from sources other than the Company (investors, the Chief Scientist, and so on). The Company's Board of Directors relies on the Company's scientific advisory committee, which consists of leaders in the scientific fields in which the Portfolio Companies are active, in order to obtain the educated opinion of professional scientists in the fields of clinical development, technology, market demand, and potential partnerships to promote business development. Company representatives are involved in the management of all of the Portfolio Companies and are included on their boards of directors. This allows them to be involved in defining the scientific and business objectives set by the companies so that injections of capital are carried out only when the companies satisfy these objectives. Should the Portfolio Companies fail to meet the objectives, the Company modifies the nature of its injection of funds or delays it. After the date of the report, the Company's Board of Directors instructed management to convene the scientific advisory committee in order to conduct a survey of the Portfolio Companies, to obtain an opinion about the science on which they are based and about market demand, as well as to hear the committee's position on additional projects in which the Company is considering investing.

3. Financial Position and Sources of Funds (consolidated)

The Company's current assets, as of December 31, 2010, came to NIS 33.120 million, as against NIS 41,002 million on December 31, 2009, as presented in the Company's financial reports. The decrease stems from a decrease in the balance of cash and cash equivalents on hand.

The Company's current liabilities, as of December 31, 2010, were NIS 3.624 million, similar to the NIS 3.515 million reported in the Company's financial statements for December 31, 2009.

The total investment in affiliated companies on December 31, 2010, came to NIS 20.20 million, as compared to NIS 9.869 million on December 31, 2009, as presented in the Company's financial reports. The increase is the result of the loss of control of ProTab, leading to the display of the investment in that company at its fair value on the date of loss of control as well as the presentation of the entire investment

in ProTab under the heading of Investment in Affiliated Companies. In addition, the Company recognized a capital gain from the decline in its stake in CellCure and continued investment and support for its Portfolio Companies, offset by a decrease on account of the recordings of equity losses from the activities of its subsidiaries.

The Company's equity, as assigned to its holders of capital rights, as of December 31, 2010, is NIS 53.110 million, as against NIS 49.035 million on December 31, 2009, as presented in the Company's financial reports. The increase is the result of an issue of shares and options carried out during the course of the year, offset by a reduction in equity on account of the current loss.

4. Operating Results

The Company's loss, assigned to the holders of capital rights in the Company, for the year ending December 31, 2010, came to NIS 7.414 million, as against the loss of NIS 14.998 million in the year ending December 31, 2009, as presented in the Company's financial reports. The loss in 2010 was offset in part by the recording of significant capital gains on account of the investments in ProTab and CellCure.

Administrative and general expenses in 2010 came to NIS 7.225 million, as against NIS 5,895 million in 2009. The increase in management and general expenses stems from an increase in the management fees paid to Hadasit and expenses of the consolidated companies. In return for the management fees, the Company receives a broad package of services and assets—executives' salaries, management services provided by the staff of Hadasit (IP, finances, and so on), and other services.¹ The increase also stems from share-based payment transactions and depreciation on account of improvements to the new building rented by the Portfolio Companies, including consolidated companies.

As for research and development investments, the Company's investments in the companies in which it has a stake serve, naturally, to finance the companies' regular R&D activities. Note that these investments are leveraged and allow the companies to raise additional capital, notably subventions from the office of the Chief Scientist of the Ministry of Industry and Trade. This outside funding does not dilute the Company's holdings in the Portfolio Companies and may reach 50% of all of their research and development expenses.

The table below lists R&D expenses (after deducting the influence of loans from the Chief Scientist) by the Portfolio Companies for the years ending December 31, 2009, and December 31, 2010.

	2010	2009
	NIS thousands	NIS thousands
Verto	55	210
BioMarCare (formerly InCure)	1,265	463
Enlivex	2,071	1,073
ProTab	670	2,012
Kahr	<u>1,890</u>	<u>2,222</u>
Total, consolidated companies	5,951	5,980
CellCure	5,339	2,537
ProTab	3,190	-

¹ The management agreement defines the services that Hadasit provides to include the following: general management services; management services related to the Portfolio Companies; accounting and other financial services; IP services, etc.

Conjugate	4,586	2,106
Thrombotech	<u>2,716</u>	<u>2,554</u>
Total, affiliated companies	<u>15,831</u>	<u>7,197</u>
Total R&D Expenses	<u>21,782</u>	<u>13,177</u>

5. Liquidity

In the year ending December 31, 2010, the Company used NIS 10.611 million for current activities and NIS 8.716 million for investment activities, of which NIS 8.245 million served for investment in affiliated companies. In addition, the Group generated cash from financing activities in the amount of NIS 11.663 million, chiefly by means of stock issues and loans from the Chief Scientist.

6. Economic Exposures and Exposure to Market Risks and their Management

Market Risks

As of the date of the report, the potential risks inherent in the Company's activities are as follows: a change in the price of the Company's shares on the stock exchange (which could lead holders of Series 3 options not to realize them) and changes in the price of BioLine Rx shares.

Economic Exposures

The economic slowdown has had a substantial influence on the Company's ability to raise financial resources. Appropriate financial resources are the input needed by the Portfolio Companies in order to make progress in their research and development. Without appropriate financial resources the Portfolio Companies cannot acquire the inputs they need to conduct research and development and to prepare for and commence human clinical trials.

In addition, the Company has not yet identified other market risks to which it may be exposed through its activities. Should such market risks be identified, the Company will define provisions for managing these risks. The person responsible for managing the Company's market risks is its CEO, Mr. Ophir Shahaf.

7. The Company's Preparations for and Progress in Implementing the Provisions of the Regulations Concerning the Effectiveness of the Internal Audit of Financial Reports

Amendment 3 to the Securities Regulations (Periodic and Immediate Reports) 5770-2009, was published on November 24, 2009. It requires that reports by management and the Board of Directors about the effectiveness of the internal audit of the financial reports and disclosure, individual declarations statements by the CEO and the chief financial officer about the effectiveness of the internal controls of the financial reports and disclosure, as well as a report by the auditor about the effectiveness of the internal controls of the financial statements be attached to financial reports, beginning with the periodic report for December 31, 2010.

The stages of preparation and progress, as well as the actions taken, up to the date of the report, in order to comply with the requirements of the transitional provisions of the regulations, are described below.

- The Company drafted a plan to prepare for implementation of the regulations. This plan is based on an assessment of the relevant risks for financial reporting and disclosure, undertaken by the Company, concerning the balances and disclosures in its financial statements, based on quantitative and qualitative criteria.
- The Company's plans and preparations, documented in the project planning document, include a list of the consolidated companies in which the preparations will take place, details of the considerations employed by management, the conclusions, the stages of preparations, including detailed timetables, and the names of the officeholders involved in the project. The preparation plan has been presented to and discussed by the Company's Board of Directors.

The Company employee responsible for implementation of the plan is its CFO, Mr. Alejandro Igelman. In addition, Company management set up a steering committee whose role is to supervise implementation of the plan by the Company, including achieving the milestones set by the Securities Authority, and the timetables in the plan, and to receive reports about any auditing discrepancies discovered and plans for rectifying them.

As part of the plan to prepare for implementing the regulations by the Company, a survey was performed, along with effective preparations for the internal audit of the financial reports and disclosure, as follows.

- Entity-level controls (ELC): Controls that may have an overall impact on the organization, because they constitute the infrastructure for the spirit and nature of its activity
- The closure and reporting process, defined as the last segment of the financial reporting process
- General controls of information systems (IT GC): The information systems constitute an essential and integral part of the Company's reporting process
- Controls of investments in Portfolio Companies
- Controls of management fees
- Controls of the cash management process

8. Directors with Accounting and Financial Expertise

In light of the accounting and financial complexity of the Company, its Board of Directors has stipulated, in keeping with the provisions of Section 92(a) (12) of the Companies Law 5759-1999, that the Company's Board of Directors must include at least two directors with expertise in accounting and finance—that is, directors who do not hold any other position in the Company and who, by virtue of their education, experience, and aptitude have advanced skills and an understanding of business and accounting matters and financial statements such that they can understand the financial statements in depth and stimulate a discussion of the presentation of the financial data.

As of the date of the report, all of the directors serving on the Company's board satisfy the criteria for accounting and financial expertise as well as those related to their professional qualifications and experience in company management.

9. Report on Independent Directors

The Company has not yet incorporated into its bylaws the provision of section 219(e) of the Companies Law 5759-1999 concerning the proportion of independent directors. As of the date of the report, three independent directors are serving on the Company's Board of Directors (the two outside directors: Ms. Michal Sapir and Mr. Yaron Kulas, and Prof. Adi Raveh).

10. Details about the Process of Approval of the Corporation's Financial Reports

The organs of the corporation responsible for overarching control are the chairman of the Company's Board of Directors, Dr. Rafi Hofstein, and its CEO, Mr. Ophir Shahaf.

The financial reports are drawn up by the Company CEO with the assistance of the finance department of Hadasit, which provides the Company with management services. After review by the auditor and before approval by the Company's Board of Directors, the draft reports are sent for preliminary review by the three directors who serve as the Company's Balance Sheet Committee: Mr. Yaron Kulas, chair (outside director), Ms. Michal Sapir (outside director), and Prof. Adi Raveh. They scrutinize the reports and transmit their comments and recommendations to the Board of Directors several days before the date set for its meeting, pursuant to the provisions of the Companies Regulations (Provisions and Conditions for the Approval of Financial Statements) 5770-2010 (hereinafter "Approval Process Regulations").

All of the members of the Balance Sheet Committee were selected by the Company's Board of Directors for their accounting and financial expertise and clearly have the ability to read and understand financial statements. All of the members of the committee have submitted statements as required by Section 1(1) of the Approval Process Regulations.

The Process of Approval by the Balance Sheet Committee

The Company's financial statements were discussed at the meeting of the Balance Sheet Committee on March 20, 2011, which was attended by all members of the Balance Sheet Committee. Also attending the meeting were the Company's auditor, the Company's CEO, and other invited advisors. The Company's internal auditor was invited to take part so in the meeting and did so. At the meeting, the effectiveness of the internal controls of the financial reports and disclosures was discussed. There was a discussion in principle of the valuations and estimates employed by the Company, the completeness and appropriateness of the disclosures, and accounting policies and treatment. Finally, recommendations concerning the process for approval of the financial reports by the Board of Directors were drawn up.

Details of the Procedures employed by the Balance Sheet Committee in order to Draft its Recommendations to the Board of Directors

Immediately before the meeting, the following were submitted to the Balance Sheet Committee for its examination: (1) a draft of the Company's annual financial reports for 2010; (2) the Company's declarations concerning the process of preparing for the internal audit processes required for studying the effectiveness of the internal controls of the financial reports and disclosure; (3) the spreadsheets used as the basis for the financial reports.

At the meeting, the estimates and valuations that had been made concerning the financial reports, the internal audit procedures associated with the financial reports, the policy for managing sums, the completeness and appropriateness of the financial reports, the accounting policy, and the accounting treatment of material issues, as well as data from the Company's financial reports, were presented to those present and reviewed by the members of the committee.

The information accompanying the data included in the financial reports, including information relevant to the Company's financial and operational state, was reviewed for the members of the Balance Sheet Committee.

After consultations with the Company's auditor, the members of the Balance Sheet Committee came to the conclusion that the Company has implemented an appropriate accounting policy and employed appropriate estimates and valuations.

The committee drew up recommendations concerning approval of the Company's financial statements, which were sent for study by the Board of Directors three days before the board meeting. This is a reasonable amount of time to allow the Company's board to get ready for its meeting.

The Company's financial reports were discussed and approved at the meeting of the Company's Board of Directors on March 29, 2011. At this meeting, the directors were presented with the recommendations of the Balance Sheet Committee. The Company CEO reviewed and analyzed the most important points of the financial reports, including as they relate to the results of activity, the financial position, cash flow, and so on. In addition, details of key transactions during the period covered by the report were presented. The Company's auditor and the chair of the Balance Sheet Committee (Mr. Yaron Kulas) attended the meeting of the Board of Directors.

With regard to the material weakness found in the Company's control process, see the report on the effectiveness of controls in the Company.

11. Details of the Compensation paid to Senior Officials of the Company

The Company does not have any salaried employees. All of the management services are provided to the Company by Hadasit (which holds the controlling interest in it). For details of the management agreement signed between the Company and Hadasit, see the section on the corporation's business activities. In the opinion of the Company's Board of Directors, the terms of the agreement signed with Hadasit, as well as terms of the employment of Mr. Ophir Shahaf (the CEO of the Company, who is paid through Hadasit, although the Company is responsible for the full payment of his salary) are fair and reasonable in the circumstances.

12. Policy on Charitable Contributions

As of the date of the report, the Company had not yet adopted a policy concerning charitable contributions. Nevertheless, the Company's bylaws stipulate that the Company is entitled to make reasonable donations to appropriate or worthy causes. As of the date of the report, the Company had contributed an insubstantial sum to the Association for Children at Risk.

13. Internal Auditor and Control Committee

The Company's Control Committee has three members. Two of them are the external directors (Mr. Yaron Kulas and Ms. Michal Sapir); the third is another member of the board (Prof. Adi Raveh).

As of the date of the report, the Company official overseeing the work of the internal auditor is the chairman of the board.

Internal Auditor

Name: Boaz Barzillai, attorney at law, CPA

Start of tenure: May 16, 2006

Qualifications: B.A. in accounting and economics, Hebrew University of Jerusalem; LL.B, Hebrew University of Jerusalem; LL.M., Hebrew University of Jerusalem

Scope of employment: The internal auditor was employed for 250 hours in 2010. The scope of the auditor's employment is determined each year, along with approval of his work plan, as a function, among other things, of the scope, complexity, and sensitivity of the work plan.

	2009	2010
Hours devoted to the internal audit of the corporation itself and of its Portfolio Companies with regard to their activities in Israel	243	250

Audit plan: The audit plan is an annual plan, derived from the multiyear plan discussed by the Company's Control Committee. The audit plan is defined by the Company's Control Committee.

The annual plan for the auditor's assignments, the setting of priorities, and frequency of audits is influenced by the following factors, among others: the topics covered by the audit and the extent to which these activities are exposed to risks; the probability of the existence of operational, procedural, and managerial shortcomings; topics required by law; the need to maintain a cyclical review; needs that stem from current activities that require a monitoring system, and more.

The Company's Control Committee discusses and approves the annual work plan and the topics to be studied by the internal auditor. Once a year the Control Committee summarizes for the Board of Directors the auditor's conclusions and the way in which the Company has dealt with the auditor's conclusions. The main points of the auditor's report are presented to the Board of Directors at its periodic meetings.

The topics covered by the internal auditor's work plan for 2010 included the investment in Portfolio Companies and an audit of the purchasing and contracting process in three subsidiaries.

Submission dates of the auditor's reports: In 2010, the internal auditor submitted the following reports to the Control Committee (the dates are when the report was discussed by the Control Committee):

- At its meeting of March 24, 2010, the Committee discussed the auditor's report on insurance.

- At its meeting of May 26, 2010, the Committee discussed the auditor's report on investments in Portfolio Companies.
- At its meeting of August 25, 2010, the results of the limited risk survey conducted in subsidiaries were presented. It was then decided to modify the work plan for 2010 and to carry out an audit of the purchasing and contracting processes of three subsidiaries instead of an audit of investor relations.

The auditor's report on purchasing and contracting by the three subsidiaries has not yet been discussed.

Work plan for 2011: In 2011, the internal auditor is expected to submit a report on the three Portfolio Companies that are responsible for most of the Company's activity.

Organizational responsibility for the internal auditor rests with the chairman of the Board of Directors, Dr. Rafi Hofstein.

Conduct of the audit: The internal auditor works on the basis of the generally accepted professional standards for internal audits, professional guidelines, and the directives approved and published by the Israel Institute of Internal Auditors. The generally accepted professional standards according to which the Company's internal audit is conducted include qualitative standards, such as independence and objectivity, professionalism and appropriate professional caution, and authority and responsibility, as well as performance standards, such as planning of the audit, conduct of the audit, reports on expenses, and monitoring of the rectifications of shortcomings. In the opinion of the Board of Directors, the auditor has satisfied the requirements of these standards.

Access to information: The internal auditor was provided with free, constant, and immediate access to the corporation's information systems, including financial data and other data. In addition, all of the documents and information requested by the auditor were provided to him in accordance with Section 9 of the Internal Auditor Law 5752-1992.

Board of Directors' assessment of the internal auditor's work: In the opinion of the Company's Board of Directors and its Control Committee, the scale, nature, and coverage of the auditor's activities and the work plan he submitted, which was approved by the Control Committee, were all on a high professional level.

Compensation: The Control Committee decided that the annual compensation paid to the internal auditor would be \$50 per hour, plus value added tax. The parties agreed on a ceiling of 250 hours a year. The internal auditor is not entitled to any allocation of options by the Company. In the opinion of the Board of Directors, this salary structure does not affect the auditor's professional judgment. The total compensation paid to the auditor for his services in 2010 came to \$12,500, excluding value added tax. For 2009, the Company paid the internal auditor NIS 48,400, not including value added tax. The Board of Directors is of the opinion that this compensation does not influence the auditor's exercise of his professional discretion; this conclusion is based, in part, on the board's impression of the way in which the internal audit of the Company is conducted and the detail, precision, and depth of the reports submitted by the auditor to date.

The Company's Board of Directors believes that the internal auditor appointed satisfies the requirements and has the qualifications stipulated by law. To the best of the Company's knowledge, the auditor does not hold any of the corporation's

securities, is not an employee of the Company, and does not provide it with any external services other than the internal audit. In addition, neither the auditor nor the entity on whose behalf the auditor works has commercial ties with the Company that might create a conflict of interest.

14. Report on Exposure to and Management of Market Risks

The Company does not hold any investments or financial instruments that are highly sensitive to market risks. The person responsible for managing market risks is Mr. Ophir Shahaf, the Company's CEO.

Once every quarter, the Company draws up a linkage basis report and inspects its net exposure by every linkage basis.

15. Sensitivity Tests

The Company has conducted sensitivity tests for upward and downward changes of 5% and 10% in the relevant market factors. These sensitivity tests were conducted for the following liabilities or assets:

Currency Risks

The Company conducted a number of transactions denominated in foreign currency. As a result, it is exposed to exchange-rate fluctuations. There was no change in its exposure to currency risks in 2010.

The book value of the Group's financial assets and liabilities, denominated in foreign currency, are as follows:

	Liabilities		Assets	
	As at December 31		As at December 31	
	2010	2009	2010	2009
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
US dollar	<u>1,762</u>	<u>1,555</u>	<u>1,343</u>	<u>2,845</u>
Euro	<u>-</u>	<u>-</u>	<u>≡</u>	<u>3</u>
Pound sterling	<u>-</u>	<u>-</u>	<u>822</u>	<u>914</u>

The Company is exposed chiefly to the dollar. The next table provides details of the sensitivity to a 5% decline in the relevant exchange rate.

Influence of the dollar exchange rate		
As at December 31		
	2010	2009
	NIS thousands	NIS thousands
Loss	(21)	65

16. Critical Accounting Estimates

On the Company's critical accounting estimates as of the date of the report, see Note 3 to the Company's Financial Statement for December 31, 2010.

17. Auditor's Compensation

The following compensation was paid to the accounting firm in 2010 and 2009:

	For auditing services, services associated with the audit, and tax services
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	Hours	Payment (NIS thousands) for services rendered to the Company	Payment (NIS thousands) for services rendered to consolidated companies
2010	2,350	112	120
2009	1,403	112	123

18. Linkage Balance of Financial Assets and Liabilities

	As at 31 December 2010			As at 31 December 2009		
	In foreign currency or linked to foreign currency	In NIS, linked to the CPI	In NIS, unlinked	In foreign currency or linked to foreign currency	In NIS, linked to the CPI	In NIS, unlinked
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cash and cash equivalents	304	-	8,497	3,762	-	12,823
Receivables at cost and/or depreciated cost	-	1,360	1,767	-	(*)	1,760
Held for trade	822	333	20,448	-	467	20,600
Tradable financial assets measured at fair value	-	-	991	-	-	1,133
Financial instruments at fair value	1,039	-	-	-	-	-
	<u>2,165</u>	<u>1,693</u>	<u>31,703</u>	<u>3,762</u>	<u>1,788</u>	<u>36,316</u>
Financial liabilities						
Financial liabilities measured at depreciated cost					3,916	
	<u>1,762</u>	<u>3,848</u>	<u>2,079</u>	<u>1,555</u>	<u>(*)</u>	<u>2,452</u>

*Reclassified

19. Adjustment to International Financial Reporting Standards

See Note 2 to the financial statements,

Date: March 29, 2011

Dr. Rafi Hofstein
Chairman of the Board of Directors

Prof. Shlomo Mor-Yosef
Director

HBL: Hadasit Bio-Holdings, Ltd.

Financial Statements- December 31, 2010

HBL: Hadasit Bio-Holdings, Ltd.
Financial Statements - December 31, 2010

Contents

	Page
Auditors' Report on the Audit of the Components of the Internal Controls of the Financial Reports	1
Auditors' Report	3
Consolidated Statements of Financial Position	5
Consolidated Statements of Comprehensive Loss	6
Consolidated Statements of Changes in Shareholders' Equity	7
Consolidated Statements of Cash Flows	8-9
Notes to the Financial Statements	10-66
Financial Statements of Affiliated Companies	
1. CellCure Neurosciences, Ltd.	
2. ProTab, Ltd.	
3. Thrombotech, Ltd.	

Deloitte
Brightman Almagor Zohar

Auditors' Report to the Shareholders of HBL – Hadasit Bio-Holdings, Ltd., on the Audit of the Components of the Internal Controls of the Financial Reports, as per Section 9b (c) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

We have inspected the components of the internal audit of the financial reports of HBL – Hadasit Bio-Holdings, Ltd. (hereinafter “the Company”) as at December 31, 2010. The components of this audit were determined as explained in the next paragraph and were examined based on identification of the assertions and risks related to the components of the audit and a review of the planning, implementation, and effectiveness of the controls installed in order to limit or prevent the risks of material error in the financial reports by means of verification of the evidence of performance of the audit by means of a representative sample. The Company’s Board of Directors and senior management are responsible for the implementation of an effective internal audit of the financial reports and for an assessment of the effectiveness of the components of the internal audit of the financial reports attached to the periodic report for the aforesaid date. Our responsibility is to express an opinion about the components of the internal audit of the Company’s financial reports, based on our inspection.

The components of the internal audit of the financial statements that we checked were determined on the basis of Audit Standard 104 of the Institute of Certified Public Accountants in Israel, “Audit of Components of Internal Control of Financial Reports” (hereinafter “Standard 104”). These components are as follows: (1) Controls at the level of organization, including controls of the process of the preparing and closing the financial reports and general controls of information systems; (2) controls of investments in Portfolio Companies; (3) controls of management fees; (4) controls of cash management (all of these together are referred to below as “the Audited Components of the Control”).

We conducted our audit in accordance with Audit Standard 104. Pursuant to this standard, we are required to plan and perform the audit with the goal of identifying the Audited Components of the Control and achieving a reasonable degree of confidence that these control components were handled effectively in all material respects. Our audit including achieving an understanding of the internal control of financial statements, identifying the Audited Components of the Control, evaluating the risk that there may be a material weakness in elements of the audited components, and inspecting and evaluating the effectiveness of the planning and performance of these components of the control, based on the assessed risk. Our audit, with regard to those components of the control, also included implementation of other procedures that we deemed necessary in the circumstances. Our audit related exclusively to the Audited Components of the Control, as distinct to an internal audit of all the significant processes associated with the corporation’s financial reporting. Consequently our opinions relate only to the Audited Components of the Control. In addition, our audit did not refer to the mutual influences among the Audited Components of the Control and those components that were not audited; consequently, our opinion does not take any such possible influences into account.

We believe that our audit and the reports of the other auditors afford a suitable basis for our opinion in the aforesaid context.

Due to inherent limitations, internal control of financial reporting in general, and certain components thereof in particular, may not be able to prevent or discover a misrepresentation. In addition, drawing conclusions about the future, on the basis of any present assessment of effectiveness, is exposed to the risk that the controls will become inappropriate because of changes in circumstance or because the extent of compliance with policies or procedures may be affected for the worse.

A material weakness is a deficiency or combination of deficiencies in the internal control of the financial reporting, to the point that there is a reasonable possibility that any material misrepresentation in the Company's annual or quarterly financial statements will not be prevented or discovered in time.

The following material deficiency was identified in the Audited Components of the Control and included in the evaluation by the Board of Directors and management: the failure to conduct an effective control of the procedures for preparing and closing the financial reports for December 31, 2010, including the processes required to calculate and record the Company's investment in its Portfolio Companies in its financial reports, as per IFRS standards.

This material weakness was taken into account in the definition of the nature, timing, and scope of the auditing procedures to be applied in our audit of the Company's consolidated financial statements for December 31, 2010, and for the year ending on that date, and this report does not influence our report on the aforesaid financial statements.

In our opinion, due to the influence of the material weakness identified above on achieving the goal of the control, the Company failed to effectively implement the Audited Components of the Control for December 31, 2010.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company's consolidated financial statements as at December 31, 2010 and 2009, and for each of the three years in the period ending on December 31, 2010. Our report, dated March 29, 2011, included an unqualified opinion about those financial statements, based on our audit and on the reports of the other auditors.

Brightman Almagor Zohar & Co.
Certified Public Accountants (Isr.)

Jerusalem, March 29, 2011.

Deloitte
Brightman Almagor Zohar

*Auditors' Report to the Shareholders of
HBL – Hadasit Bio-Holdings, Ltd.*

We have audited the attached consolidated Statement of Financial Position of HBL – Hadasit Bio-Holdings, Ltd. (hereinafter “the Company”) as at December 31, 2010 and 2009, and the consolidated statement of comprehensive loss, the consolidated statements of changes in shareholders’ equity, and the consolidated statement of cash flows, for each of the three years in the period ending December 31, 2010. These financial reports are the responsibility of the company’s Board of Directors and management. Our responsibility is to express an opinion on these financial reports, on the basis of our audits.

We did not audit the financial statements for December 31, 2010, and December 31, 2009, of a consolidated subsidiary whose assets included in the consolidated statement constitute 1.3% and 4.7% thereof, respectively, and whose results for the years ending December 31, 2010 and 2009, included in the consolidated statement, constitute 33.8% and 8.3% thereof, respectively. In addition, we did not audit the financial statements of an affiliated company included on the basis of its book value, in which the Company’s investment, as at December 31, 2010 and 2009, was zero and NIS 1.194 million, respectively, and its contribution to the Company’s results for the years ending December 31, 2010 and 2009 came to NIS (1.194) million and NIS (0.613) million, respectively. The financial statements for that company were audited by other accounting firms, whose reports were submitted to us; our opinion, insofar as it relates to the sums included on account of those companies, is based on the reports of these other accounting firms.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including the standards stipulated in the Accountants’ Regulations (Accountants’ Methods) 5733-1973. Such standards require that we plan and perform the audits with the goal of achieving a reasonable degree of confidence that the financial statements are free of material misrepresentations. An audit includes an examination, on a test basis, of the evidence that supports the sums and information contained in the financial statements. An audit also includes an evaluation of the accounting principles applied and of the significant estimates made by the Company’s Board of Directors and management, as well as an evaluation of the overall presentation of the financial statements. We believe that our audits and the reports of the other auditors afford a suitable basis for our opinion.

In our opinion, based on our audits and on the reports of other accounting firms, the aforesaid financial statements appropriately reflect, in all material aspects, the financial position of the Company and its subsidiaries as at December 31, 2010 and 2009, and the results of their operations, the changes in shareholders’ equity, and cash flows, for each of the three years in the period ending December 31, 2010, in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Securities Regulations (Annual Financial Statements) 5770-2010.

We have also audited, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel, “Audit of Components of Internal Control of Financial Reports,” the internal control components of the Company’s financial reporting as at December 31, 2010. Our report, dated March 29, 2011, included a

negative opinion of those components of the internal control, on account of a material deficiency.

Brightman Almagor Zohar & Co.
Certified Public Accountants (Isr.)

Jerusalem, March 29, 2011.

HBL: Hadasit Bio-Holdings, Ltd.
Consolidated Statements of Financial Position

		As at December 31	
	Note	2010 NIS thousands	2009 NIS thousands
<u>Current Assets</u>			
Cash and cash equivalents	4	8,801	16,585
Short-term deposits		822	-
Investments in negotiable securities	5	20,781	21,067
Receivables and debit balances	6	2,525	2,217(*)
Tradable financial assets	8	<u>991</u>	<u>1,133</u>
		<u>33,920</u>	<u>41,002</u>
<u>Non-current assets</u>			
Prepaid expenses		15	40
Investments in affiliated companies	7	20,651	9,869
Investment in the options of affiliated companies		1,039	-
Rent receivable		1,124	1,164(*)
Fixed assets, net	9	1,620	3,123
Intangible assets	10	2,377	2,113
		<u>27,126</u>	<u>16,309</u>
		61,046	57,311
Total Assets			
<u>Current Liabilities</u>			
Bank credit		13	-
Vendors and service-providers	11	1,615	2,094
Payables and credit balances	12	1,730	1,141(*)
Loans from outside stockholders in consolidated companies, net	13	266	280
		<u>3,624</u>	<u>3,515</u>
<u>Non-current Liabilities</u>			
Liabilities for employee benefits		58	37
Royalties payable		964	1,275
Expenses payable	17.4	3,341	3,449(*)
		<u>4,363</u>	<u>4,761</u>
<u>Equity</u>			
Share capital	15	875	785
Premium on shares	15	98,645	89,124
Options	15	10,902	9,379
Capital fund from activities with controlling party		754	754
Capital fund on account of share-based payment transaction	15	2,432	1,577
Capital fund on account of marketable financial assets		733	875
		114,341	102,494
		(61,231)	(53,459)
<u>Loss Balance</u>			
Total equity imputed to the owners of equity rights in the Company		53,110	49,035
Nonvoting rights		(51)	-
Total equity		<u>53,059</u>	<u>49,035</u>
Total Liabilities and Equity		<u>61,046</u>	<u>57,311</u>
*Reclassified			

March 29, 2011

Date of approval of financial statements	Prof. Adi Raveh, Director	Dr. Rafi Hofstein, Chairman of the Board of Directors	Ophir Shahaf, CEO	Alejandro Igelman, CFO
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The notes accompanying the financial statements constitute an integral part thereof.

HBL: Hadasit Bio-Holdings, Ltd.
Consolidated Statements of Comprehensive Profit (Loss)

	Note	For year ending December 31		
		2010 NIS thousands	2009 NIS thousands	2008 NIS thousands
Research and development expenses	20	(6,019)	(5,904)	(7,173)
Marketing expenses	21	(60)	(66)	(18)
Management and general expenses	22	(7,225)	(5,895)	(4,188)
Other income (expenses)		<u>14,927</u>	<u>1,559</u>	<u>(1,332)</u>
Profit (loss) from Regular Operations	23	<u>1,623</u>	<u>(10,306)</u>	<u>(12,711)</u>
Financing income	24	776	832	7,347
Financing expenses		<u>(852)</u>	<u>(322)</u>	<u>(4,255)</u>
Financing Income (Expenses), Net		<u>(76)</u>	<u>510</u>	<u>3,092</u>
Profit (loss) after Financing		1,547	(9,796)	(9,619)
Company's share in the losses of its Portfolio Companies	7	<u>(10,102)</u>	<u>(5,202)</u>	<u>(6,060)</u>
Loss for the Year		<u>(8,555)</u>	<u>(14,998)</u>	<u>(15,679)</u>
<u>Other Comprehensive Profit (Loss)</u>				
Profit (loss) from adjusting the fair value of marketable financial assets		<u>(142)</u>	<u>875</u>	<u>-</u>
Total comprehensive loss for year		<u>(8,697)</u>	<u>(14,123)</u>	<u>(15,679)</u>
Loss for the year imputed to:		(7,414)	(14,998)	(15,679)
Owners of capital rights in the Company		<u>(1,141)</u>	<u>-</u>	<u>-</u>
Nonvoting rights		<u>(8,555)</u>	<u>(14,998)</u>	<u>(15,679)</u>
Comprehensive loss for the year, imputed to		<u>(7,556)</u>	<u>(14,123)</u>	<u>(15,679)</u>
Owners of capital rights in the Company		<u>(1,141)</u>	<u>-</u>	<u>-</u>
Nonvoting rights		<u>(8,697)</u>	<u>(14,123)</u>	<u>(15,679)</u>
Loss per regular share, par value NIS 0.01 per share				
Basic and diluted loss per share (in NIS)	26	<u>(0.09)</u>	<u>(0.38)</u>	<u>(0.81)</u>

The notes accompanying the financial statements constitute an integral part thereof.

HBL: Hadasit Bio-Holdings, Ltd.
Consolidated Statements of Changes in Shareholders' Equity

	Capital Stock	Premium on shares	Options	Capital Fund from Activities with Controlling Party	Capital Fund on account of Share-based Payment Transactions	Capital Fund on account of Marketable Financial Instruments	Loss Balance	Total	Nonvoting rights	Total Equity
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Balance as at Jan. 1, 2008	194	53,319	-	754	183	-	(22,782)	32,668	-	32,668
Share-based payments	-	-	-	-	649	-	-	649	-	649
Loss for year	-	-	-	-	-	-	(15,679)	(15,679)	-	(15,679)
Balance as at Dec. 31, 2008	194	54,319	-	754	832	-	(38,461)	17,638	-	17,638
Issues of Company shares and options	591	34,805	9,379	-	-	-	-	44,775	-	44,775
Share-based payment	-	-	-	-	745	-	-	745	-	745
Adjustment of fair value of marketable financial assets	-	-	-	-	-	875	-	875	-	875
Acquisition of shares in consolidated companies	-	-	-	-	-	-	(14,998)	(14,998)	-	(14,998)
Balance as at Dec. 31, 2009	785	89,124	0,379	754	1,577	875	(53,459)	49,035	-	49,035
Conversion of options into shares	2	317	(87)	-	-	-	-	232	-	232
Issues of shares and options	88	9,204	1,610	-	-	-	-	10,902	-	10,902
Adjustment of fair value of marketable financial assets	-	-	-	-	-	(142)	-	(142)	-	(142)
Acquisition of shares in consolidated companies	-	-	-	-	-	-	(358)	(358)	358	-
Payment based on shares in consolidated companies	-	-	-	-	-	-	-	-	1,149	1,149
Deconsolidation of consolidated company	-	-	-	-	-	-	-	-	(417)	(417)
Share-based payment	-	-	-	-	855	-	-	855	-	855
Loss for year	-	-	-	-	-	-	(7,414)	(7,414)	(1,141)	(8,555)
Balance as at Dec. 31, 2010	875	98,645	10,902	754	2,432	733	(61,231)	53,110	(51)	53,059

The notes accompanying the financial statements constitute an integral part thereof.

HBL: Hadasit Bio-Holdings, Ltd.
Consolidated Statements of Cash flows

	For year ending December 31		
	2010 NIS thousands	2009 NIS thousands	2008 NIS thousands
<u>Cash flows for Current Operations</u>			
Loss for year	(8,555)	(14,998)	(15,679)
Adjustments required to display cash flows for current operations (Appendix A)	<u>(2,056)</u>	<u>4,378</u>	<u>5,986</u>
<u>Net cash used for regular operations</u>	<u>(10,611)</u>	<u>(10,620)</u>	<u>(9,693)</u>
Cash flows from (for) investment activities			
Interest income	581	450	1,267
Investment in negotiable securities	-	(21,074)	-
Realization of negotiable securities	194	-	22,689
Investment in Portfolio Companies	(8,245)	(4,577)	(1,807)
Deconsolidation of consolidated company (Appendix B)	(246)	-	-
Investment in short-term deposits	(822)	-	-
Acquisition of fixed assets	<u>(178)</u>	<u>(519)</u>	<u>(387)</u>
<u>Net cash produced by (used for) investment activities</u>	<u>(8,716)</u>	<u>(25,720)</u>	<u>21,762</u>
Cash flows from (for) financing activities			
Issues of Company shares and options	10,902	44,775	-
Payments of bank fees and interest	(35)	(45)	(493)
Loans from the Chief Scientist	551	933 (*)	884 (*)
Payment of principal and interest on convertible bonds	-	-	(24,741)
Bank credit	13	-	-
Conversion of options to shares	<u>232</u>	<u>-</u>	<u>-</u>
<u>Net cash produced by (used for) financing activities</u>	<u>11,663</u>	<u>45,663</u>	<u>(24,350)</u>
<u>Influence of exchange-rate fluctuations on cash and cash-equivalents on hand</u>	<u>(120)</u>	<u>-</u>	<u>-</u>
<u>Increase (decrease) in cash and cash equivalents</u>	<u>(7,784)</u>	<u>9,323</u>	<u>(12,281)</u>
<u>Balance of cash and cash equivalents at start of year</u>	<u>16,585</u>	<u>7,262</u>	<u>19,543</u>
<u>Balance of cash and cash equivalents at end of year</u>	<u>8,801</u>	<u>16,585</u>	<u>7,262</u>

*Reclassified; see Note 2.23

The notes accompanying the financial statements constitute an integral part thereof.

HBL: Hadasit Bio-Holdings, Ltd.
Statements of Cash flows

APPENDIX A

ADJUSTMENTS REQUIRED TO DISPLAY CASH FLOWS FOR CURRENT OPERATIONS

	For year ending December 31		
	2010	2009	2008
	NIS thousands	NIS thousands	NIS thousands
Expenses that do not involve Cash flows			
Share in losses of Portfolio Companies	10,102	5,202	6,060
Depreciation and amortization	1,071	402	231
Financing expenses	852	322	4,255
Financing income	(776)	<u>(832)</u>	<u>(7,347)</u>
Share-based payment	2,004	745	649
Profit from decrease in holdings in Portfolio Companies, net	(14,816)	(1,900)	(43)
Provision for decline of value on account of marketable investments	-	341	1,375
Increase in liabilities on account of employee benefits	45	5	13
Changes in asset and obligation lines			
Increase in receivables and debit balances	(1,192)	(245) (*)	(421) (*)
Increase in payables, credit balances, and other liabilities	1,352	17	1,372
Decrease in payables	(511)	-	-
Increase (decrease) in royalties payable	226	(827) (*)	(495) (*)
Increase (decrease) in vendors and service-providers	<u>(413)</u>	<u>1,157</u>	<u>337</u>
	<u>(2,056)</u>	<u>4,378</u>	<u>5,986</u>

*Reclassified; see Note 2.23

APPENDIX B

DECONSOLIDATION OF CONSOLIDATED COMPANY

	For year ending December 31		
	2010	2009	2008
	NIS thousands	NIS thousands	NIS thousands
Receivables and debit balances	653	-	-
Prepaid long-term expenses	9	-	-
Investment in company, net	645	-	-
Fixed assets, net	644	-	-
Vendors and service-providers	(610)	-	-
Creditors and credit balances	(295)	-	-
Obligation for royalties payable	(851)	-	-
Obligation for termination of employment	(24)	-	-
Nonvoting rights	<u>(417)</u>	<u>-</u>	<u>-</u>
	<u>(246)</u>	<u>-</u>	<u>-</u>

The notes accompanying the financial statements constitute an integral part thereof.

Note 1. General

1.1 General Description of the Company and its Activity

HBL – Hadasit Bio-Holdings, Ltd. (hereinafter “the Company”), was incorporated in Israel on September 19, 2005, by Hadasit Medical Research Services and Development, Ltd. (hereinafter “Hadasit”). The Company’s main offices are located in Jerusalem.

The Company, through companies in which it has holdings, engages in research and development in the medical and biotechnology fields.

In September 2005, an agreement was signed between Hadasit and the Company. Following this step, in January 2006, Hadasit transferred to the Company its holdings in a number of high-tech companies engaged in medical and biotechnology research and development (hereinafter “the R&D companies”). The transfer of the holdings was implemented to make it possible to raise funds from the public by means of a public offering of securities and their registration on the Tel Aviv Stock Exchange (hereinafter “the TASE”).

Hadasit is fully owned and controlled by the Hadassah Medical Organization (hereinafter “Hadassah”).

Hadassah is a medical institution that includes two hospitals in Jerusalem, Hadassah Ein Kerem and Hadassah Mount Scopus, professional schools for medical disciplines, and research centers.

Hadasit is Hadassah’s technology transfer company. Discoveries and developments made by physicians at Hadassah (hereinafter “the researchers”) are transferred for development by Hadasit, whose role is to safeguard the intellectual property, mobilize resources, and commercialize the scientific discovery.

Hadasit implements the commercialization of the scientific ideas and mobilization of resources by setting up Portfolio Companies to which it extends a usage license in the intellectual property and which then work to commercialize the scientific discoveries developed at Hadassah. This is how Hadasit established the R&D companies.

The Company made an initial public offering of shares and options on the TASE in January 2006.

1.2 Definitions

The Company	HBL – Hadasit Bio-Holdings, Ltd.,
The Group	The Company and its Portfolio Companies (the R&D companies)
Related parties	As defined in IAS 24
Controlling parties	As defined in the Securities Regulations (Annual Financial Statements) 5770-2010
Principals	As defined in the Securities Law 5728-1968, with its amendments

Index	The consumer price index, as published by the Central Bureau of Statistics
Dollar	The United States dollar
Consolidated companies	Companies directly or indirectly controlled by the Company (as defined in IAS 27) whose financial reports are fully consolidated with those of the Company
Affiliated companies	Companies in which the Group has a material influence, such that the Group's direct or indirect investments in them are included in its financial reports according to book value
Portfolio Companies	Consolidated companies and affiliated companies
Other companies	Companies in which the Company holds a stake but does not have control, joint control, or material influence

Note 2. Main Principles of the Accounting Policy

2.1 Statement of the Application of International Financial Reporting Standards (IFRS)

The Group's consolidated financial reports were drawn up in keeping with International Financial Reporting Standards and the Q&As to them published by the International Accounting Standards Board (IASB). The main principles of the accounting policy, as described below, were applied consistently throughout all of the reporting periods covered in these consolidated financial reports.

2.2 The financial statements were prepared pursuant to the Securities Regulations (Annual Financial Statements) 5770-2010 (hereinafter "Financial Report Regulations").

2.3 Format of the Statement of Financial Position

In its Statement of Financial Position, the Group breaks down its assets and liabilities into current and non-current items.

2.4 Basis for the drafting of the Financial Reports

The financial reports were drawn up on the basis of historical value, except for the following:

- The following assets and liabilities are measured at fair value: financial derivatives. For the determination of their fair value, see Note 2.14.
- Fixed assets and intangible assets are displayed at cost, less accumulated amortization, or the replacement value, whichever is less.

2.5 Format of the Analysis of Expenses recognized as Profit or Loss

On the Profit and Loss Statement, the Group breaks down its assets and liabilities on the basis of the nature of the activity to which the expense applies. In the Group's

estimation, and in light of the Group's organizational structure, classifying expenses in this way provides reliable and relevant information.

2.6 Foreign Exchange

(1) Operating Currency and Reporting Currency

The financial statements of each of the companies in the Group are drawn up in the currency of the main economic environment in which it operates (hereinafter "the operating currency"). In order to consolidate the financial reports, the results and financial positions of each of the companies of the Group are displayed in New Israeli Sheqels, which is the operating currency of the Company.

(2) Translation of Transactions Not in the Operating Currency

In the financial statements for each of the companies of the Group, transactions that were conducted in currencies other than the operating currency for that company (hereinafter "foreign currency") were recorded at the exchange rate in force on the dates of the transactions. At each balance period, monetary items denominated in foreign currency are translated using the exchange-rate in force at that date; non-monetary items that are measured at fair value and denominated in foreign currency are translated according to the exchange rate for the date when the fair value was set; non-monetary items measured in terms of historical cost are translated according to the exchange rates in force on the date when the transaction related to the non-monetary item took place.

(3) Recording of Exchange-Rate Differentials

Exchange-rate differentials are recognized in the Profit and Loss Statement for the period in which they were accrued, except for the following case:

- Exchange-rate differentials on account of a change in the fair value of investments in equity instruments are listed as marketable financial assets (on the Group's accounting policy with regard to marketable financial assets, see Note 2.14(4)).

2.7 Cash and Cash Equivalents

Cash and cash equivalents, including both demand deposits and fixed-term deposits on which there is no restriction on their use and whose maturity date, at the time of the investment, does not exceed three months.

2.8 Interest Received or Paid

Cash flows from interest received are classified on the Cash Flow Statement under investment activity. Cash flows for interest paid are classified on the Cash Flow Statement under Financing Activity.

2.9 Consolidated Financial State ments

(1) General

The Group's consolidated financial statements include the financial statements of the Company and of entities controlled by the Company, directly or indirectly. Control exists where the Company has the power to determine the financial and operating

policies of the Portfolio Company in order to receive benefits from the latter's activities. To determine the existence of control, account is taken of potential voting rights that may be realized immediately or may be converted to shares of the Portfolio Company.

The results of the activities of subsidiaries that were acquired or realized during the period of the report are included in the Company's Consolidated Profit and Loss Statements, starting on the date when such control was acquired or until the date when this control was terminated, as appropriate.

The financial statements of consolidated companies that are not drawn up in accordance with the Group's accounting policy are adjusted, before consolidation, to comply with the accounting policy applied by the Group.

For the purposes of consolidation, all transactions, balances, and inter-Company income and expenses are canceled out in full.

In transactions with holders of nonvoting rights, which relate to the acquisition of an additional stake in a consolidated company after the date of acquisition of control, the balance of the acquisition cost is imputed to nonvoting rights at their book value.

At the date of acquisition, the equity imputed to the owners of the parent company is recorded under Surplus.

(2) Nonvoting Rights

The share of nonvoting rights in the net assets, other than good will, of consolidated subsidiaries is displayed separately under the Group's equity. Nonvoting rights include the total sum of such rights on the date when the transactions are aggregated (see below) as well as the share of the nonvoting rights in changes that took place in the equity of the consolidated company after the date of the aggregation of the transaction.

Losses by the consolidated companies that relate to nonvoting rights and that exceed nonvoting rights in the equity of the consolidated companies are allocated to nonvoting rights, ignoring the obligations and ability of those same rights owners to make additional investments in the consolidated companies.

The results of transactions with the holders of nonvoting rights that related to realization of part of the Group's investment in the consolidated company, when control of the latter is maintained, are imputed to the equity ascribed to the owners of the parent company.

In transactions with holders of nonvoting rights that relate to the acquisition of an additional stake in the consolidated company, after the date when control is obtained, the excess acquisition cost beyond the book value of the nonvoting rights on the date of the purchase is imputed to the equity ascribed to the owners of the parent company.

(3) Loss of Control

At the time of the loss of control of a consolidated company, the company recognizes the amount of the difference between the aggregate value of the compensation received and the fair value of any investment whatsoever that remains in the formerly

consolidated company, and the book value of the assets, liabilities, and nonvoting rights of the former consolidated company, as profit or loss. The fair value of any remaining investment in the formerly consolidated company is considered to be the fair value at the date of the first recognition of the financial asset, or the cost at the time of the first recognition of the affiliated company or the jointly controlled entity.

With regard to the initial impact of the application of IAS 27 (amended), “Consolidated and Separate Financial Statements,” on the Group’s financial reports, see Note 2.22.1.

2.10 Investments in Affiliated Companies

An affiliated company is an entity in which the Group has a material influence, but it is not a subsidiary, rights in a joint venture, or an entity under joint control. Material influence is the ability to take part in making decisions relevant to the financial and operating policy of the Portfolio Company, but is not control or shared control of such policy. With regard to the existence of material influence, account is taken of potential voting rights that may be realized or converted immediately into shares of the Portfolio Company.

The financial statements of affiliated companies that are not drawn up in accordance with the Group’s accounting policy are adjusted, before inclusion, to comply with the accounting policy applied by the Group.

Affiliated companies’ results, assets, and liabilities are included in these financial statements using the book-value method, except when the investment in the affiliated company is classified as held for sale. According to the book-value method, investments in affiliated companies are included in the consolidated statement of financial position at a cost that is adjusted to the changes that took place, after the purchase, in the Group’s share of net assets, including capital funds, less decreases, where such exist, in the value of the affiliated company. Losses by an affiliated company that exceed the Group’s rights in that company (including any long-term rights that are essentially part of the Group’s net investment in the affiliated company) are recognized only if there is legal or implied obligation on the part of the Company to pay or if payments have been made on behalf of the affiliated company.

Any excess of the acquisition cost of an affiliated company over the Group’s share of the fair value of identified assets, liabilities, and dependent liabilities of the affiliated company that were recognized at the time of purchase are recognized as good will. Good will is included at the book value of the investment in the affiliated company and is inspected for a loss of value as part of the investment. Any excess of the Group’s share of the net fair value of identified assets, liabilities, and dependent liabilities over the acquisition cost of the affiliated company, after revaluation, are recognized immediately in the Profit and Loss Statement.

Profits or losses created by transactions between the Company and/or a consolidated company and/or a consolidated company with proportional consolidation, on the one side, and a company affiliated with the Group, on the other, are canceled out in proportion to the Group’s share of the rights in the relevant affiliated company.

At the time of a partial realization of the affiliated company, which leads to the loss of material influence, the investment remaining after the partial realization is measured at fair value. The difference between the book value of the remaining investment and the fair value is imputed to profit and loss. In addition, at the time of loss of substantial control, the amount recognized in the comprehensive profit and relating to that affiliated company is treated the same way as it would have been treated had the affiliated company itself realized the associated assets or associated obligations.

When there is an increase in the share of ownership of the affiliated company, treated according to the book-value method, but material influence is maintained, the Group applies the purchase method only with regard to the additional percentage of holding, whereas the previous holdings remain unchanged.

When there is a decrease in the share of holdings in the affiliated company, treated according to the book-value method, but material influence is maintained, the Group subtracts the proportional share of the investment and sale and recognizes a profit or loss from the sale under the heading of Income or of Other Expenses in the Profit and Loss Statement. The cost of the rights sold in order to compute the profit or loss from the sale is determined using a weighted average.

In addition, at the same time, the proportional share of the amounts recognized under Capital Funds as Other Comprehensive Profit, with reference to the same affiliated company, is reclassified to the Profit or Loss or Statement or to the Surplus, in the same way as would have been required had the affiliated company itself realized the assets or liabilities.

With regard to the impact of IAS Amendment 28, “Investments in Affiliated Companies,” as part of the entry into force of IAS 27 (amended) “Consolidated and Separate Financial Statements,” see Note 2.22.1.

2.11 Fixed assets

A fixed asset is a tangible item that is held for use to provide services and which is expected to be used during more than one period. The Group displays its fixed asset items in the following manner:

- In the **cost model** – fixed assets items are displayed on the financial statement according to their cost, less cumulative depreciation. The cost includes the acquisition cost of the assets as well as costs that can be directly attributed to bringing the asset to the location and condition required for its use in the manner intended by management.

Fixed assets are depreciated separately for each component of depreciable fixed assets that has a significant cost relative to the total cost of the item. The depreciation is implemented systematically by the straight-line method over the anticipated useful life of the components of the item, from the date when the asset is ready for its intended use, taking account of the expected residual value at the end of its useful life.

The useful life and depreciation rate used to compute depreciation are as follows:

<u>Depreciation rate</u>	<u>Useful life (years)</u>
%	

Computers, furniture, and office equipment	6–33	3–17
Improvement to the leasehold	20	5

The residual values, depreciation method, and useful life of the asset are evaluated by Company management at the end of each financial year. Changes are treated as changes of estimate from this time forward.

2.12 Intangible Assets, Excluding Good Will

2.12.1 Intangible assets are non-monetary assets that can be identified but lack physical substance. Intangible assets with an undefined useful life are not depreciated and are assessed as to any decline in value once a year, or whenever there is some indication that there may have been a decline in their value, as per the provisions of IAS 36. The estimate of the useful life of intangible assets with an undefined useful life is assessed at the end of each reporting year. A change in the estimated useful life of an intangible asset that changes from undefined to defined is treated as being from this time forward.

2.12.2 Intangible assets with a defined useful life are straight-line depreciated over their anticipated useful life, subject to an assessment of the decline in value. A change in the estimated useful life of an intangible asset with a defined life is treated as being from this time forward.

The depreciation rates used for depreciating intangible assets with a defined useful life are as follows:

Useful life

Patents: 10 years.

2.12.3 Intangible Assets Created Internally – Research and Development Costs

Costs on account of research activities are imputed to the Profit and Loss Statement at the time of their creation, less grants and participation.

An intangible asset created internally by a company's research activities is recognized, less grants and participation, only if all of the following conditions pertain:

- It is technically feasible to develop the asset in such a way that it will be available for use or sale.
- The company intends to develop the asset and to use it or sell it.
- The company has the ability to develop the asset and to use it or sell it.
- It can be expected that the asset will produce future economic benefits.
- The company possesses the technical, financial, and other available resources to complete development and to use or sell the asset.
- The costs that will be incurred during the course of development and that can be ascribed to the asset can be measured reliably.

When an intangible asset created internally cannot be recognized, the development costs are imputed to the Profit and Loss Statement at the time of their creation.

As of the date of the financial statements, the conditions for the recognition of such an asset did not exist.

For the manner of treatment of grants received from the Chief Scientist and royalties paid on account of them, see Note 2.16.

2.13 Decline in the Value of Investments and Tangible and Intangible Assets, Excluding Good Will

At the end of each reporting period, the Company examines the book value of its tangible and intangible assets with the goal of determining whether there are any indications whatsoever of a decline in the value of these assets. Should such indications be noted, the recoverable value of the asset is estimated in order to determine the magnitude of the loss from the decline in value, if any. When it is impossible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable value is the sales price of the asset less sales costs, or the value of its use, whichever is higher. When assessing use value, estimates of future cash flows are discounted to their present value using a pretax discount rate that reflects current market expectations regarding the time value of money and the specific risks pertaining to the asset for which no future cash flow estimate has been made.

When the recoverable amount of the asset (or of the cash-generating unit) is estimated as lower than its book value, the book value of the asset (or of the cash-generating unit) is reduced to its recoverable amount. The loss from the decline in value is recognized immediately as an expense on the Profit and Loss Statement.

When the loss from a decline in value recognized in previous periods is canceled out, the book value of the asset (or of the cash-generating unit) is restored to the updated estimate of the recoverable amount, but not to more than the book value of the asset (or of the cash-generating unit) that would have existed had no loss on account of a decline in value been recognized for it in previous periods. The cancellation of the loss from the decline of value is recognized immediately on the Profit and Loss Statement.

A decline in the value of investments is treated according to the book-value method.

The Group looks for indications of a decline in value of investments treated according to the book-value method. Such a decline in value occurs when there is objective evidence that the anticipated future cash flows from the investment have been adversely affected.

The decline in the value of the investment is examined with regard to the total investment. Accordingly, a loss recognized for the decline in value of the investment is not attributed to the assets that make up the investment account, including good will, but to the total investment. Consequently, the Group recognizes the reversal of

losses recognized on account of investments treated according to the book-value method when their value rises by the recoverable amount.

2.14 Financial Assets

(1) General

Financial assets are recognized on the Company balance sheet when the Company becomes a party to the contractual terms of the instrument. Where the purchase or sale of an investment is pursuant to a contract whose terms require transferring the investment within the accepted time frame of the reference market, the investment is recognized or deducted at the time of the transaction (the date on which the Company committed itself to purchase or sell the asset).

Investments in financial assets are first recognized according to the comprehensive costs of the transaction, except for those financial assets that are classified at fair value through profit or loss, which are first recognized at their fair value.

Financial assets are classed in the categories listed below. This classification depends on the nature and goal of the holding of the financial asset and is set at the date of first recognition of the financial asset or in subsequent reporting periods, if the financial assets can be reclassified:

- Financial assets at their fair value through profit or loss
- Loans and receivables
- Tradable financial assets; as well as

(2) Financial Assets at Fair Value through Profit or Loss

Financial assets are classified as financial assets at fair value through profit or loss when those assets are held for trading or when, at the time of their first recognition, they were listed as financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are displayed at fair value. Any profit or loss that stems from a change in the fair value, including those whose sources is a change in exchange rates, is recognized in the Profit and Loss Statement for the period in which the change took place. The net profit or loss recognized in the Profit and Loss Statement incorporates any dividend or interest produced on account of the financial asset.

(3) Loans and Receivables

Customers, deposits, loans, and other receivables with payments that are fixed or that can be fixed, and which are not quoted on an active market, are classified as Loans and Receivables. Loans and Receivables are measured at depreciated cost, using the effective interest method, less any decline in value, if there is one. Interest income is recognized using the effective interest method, except for short-term receivables, where the amount of interest to be recognized is not significant.

(4) Marketable Financial Assets

Investments in negotiable and non-negotiable capital instruments, other than derivatives, and that were not classified as financial assets at fair value through profit or loss or as Loans and Receivables, are classified as Marketable Financial Assets.

Investments in capital instruments traded on an active market are displayed at their fair value as of the date of the balance sheet. Profits or losses that stem from changes in the fair value are directly imputed to owners' equity under the heading "Equity on account of Marketable Financial Assets," except for losses from a decline in value, which are recognized directly in the Profit and Loss Statement.

When the investments in these financial assets are realized, or when they show a decline in value, the cumulative profits or losses as of the date of the realization or decline in value, as appropriate, and that were imputed to the Capital Fund, are included in the Profit and Loss Statement for the period in which the realization or decline in value took place.

(5) Decline in the Value of Financial Assets

Financial assets are examined at every financial reporting date in order to identify signs of a decline in value. Such a decline in value occurs when there is objective evidence that, as a result of one or more events that took place after the date when the financial asset was first recognized, the expected future cash flows of the investment have been adversely affected.

For other financial instruments, indications of a decline in value may include the following:

- Significant financial difficulties exhibited by the issuer or debtor
- A failure to make current payments on principal or interest
- A forecast that the debtor will file for bankruptcy or reorganization

For certain financial assets, where no indications of a decline in value were identified, the Company examines the possibility of a decline in value on a collective basis, based on its past experience of groups of debtors with similar characteristics and changes in their delinquency in payments, as well as economic changes affecting the branch and economic environment in which they operate.

With regard to financial assets that are displayed at depreciated cost, a decline in value is recognized as the difference between the book value of the financial asset and the present value of the future cash flows expected from it, capitalized at its original effective interest rate.

If, in a subsequent period, the loss from the decline of value of the financial asset decreases, and that decrease is objectively associated with to some event that took place after the decline in value was recognized, the loss from the decline in value recognized in the past is canceled, in whole or in part, through the Profit and Loss Statement. The amount of such a cancellation is limited such that the book value of the investment in the asset at the time when the loss from the decline in value is canceled does not exceed the depreciated cost of the asset that would have existed at that date had no decline in value been recognized in the past.

The book value of a financial asset is directly reduced on account of a loss occasioned by a decline in value for all financial assets, except for customers, whose book value is reduced using a provisions account. When customer debts are uncollectible, they are written off against the provisions account. Collection in subsequent periods of sums that were written off in the past is credited against the provisions account. Changes in the book value of the provisions account are recognized in the Profit and Loss Statement.

With regard to a salable financial asset, when there is objective evidence of a decline in value, the cumulative loss that was directly recognized in owners' equity as a result of the decline in the fair value of the financial asset is reclassified to the Profit and Loss Statement. Losses from a decline in value that were recognized, as stated, in the Profit and Loss Statement on account of an investment in a capital instrument classified as salable, are not cancelled through profit or loss. Any increase in the fair value of investments in capital instruments classified as salable in the period after the period when the loss from the decline in value was recognized are imputed to Other Comprehensive Profit.

The main consideration that guides company management in identifying such indications is the stock-exchange quotes of negotiable assets, taking account of the decisions, activities, and approvals by various authorities of the lead products of the research and development project.

A first indication of a decline in value is a 20% drop in the value of the security from its original cost or a continuing decline in value for a period of nine months, similar to the quantitative thresholds stated in publications of the Securities Administration and its clarification, FAQ 14.

It should be stressed that, subject to materiality, the Company may also intensify its examination of a decline in value for securities that have not crossed the aforesaid thresholds, as a function of relevant circumstances.

For material financial assets, the need for a decline in value is examined on the basis of each asset separately.

2.15 Financial Liabilities and Capital Instruments issued by the Company

(1) Classification as Financial Obligation or Capital Instrument

Financial instruments that are not derivatives are classified as financial liabilities or capital instruments, as a function of the nature of their underlying contracts.

A capital instrument is any contract that attests to a residual right in the assets of the Group after deduction of all liabilities. Financial instruments issued by the Company are recorded according to the return for their issue, less expenses related directly to the issue of these instruments.

Financial liabilities are displayed and measured under the following classifications:

- Financial liabilities at fair value through profit or loss
- Other financial liabilities

(2) Bonds Convertible into Company Stock

Company bonds in which the equity convertibility incorporated in the convertible bonds held by the Company is not intimately linked to the host debt instrument, from the Company's perspective, are separated from the latter unless it is a derivative related to a capital instrument with no market price quoted on an active exchange and whose fair value cannot be measured reliably.

In cases where it is impossible to measure the fair value reliably, at the date of first recognition, the embedded (included) derivative is measured as the difference between the fair value of the mixed instrument and the fair value of the host contract. The fair value of the host contract (loan) is measured on the basis of the expected cash flows on account of the loan, using a capitalization rate that reflects the interest that the R&D Companies can expect to pay.

An incorporated derivative that has been separated, as stated, when its fair value cannot be measured reliably, is valued after first recognition by cost.

(3) Options to Purchase Shares in the Company

- a. Proceeds on account of an issue of options to purchase shares in the Company, of a type that grants their holder a right to purchase a fixed number of regular shares in the Company in return for a fixed cash sum, are displayed under Equity on the Options line. For this purpose, the realization amount, which varies as a function of the date of realization, but whose realization price at any possible realization date can be stated already at the date of issuance, is computed as a fixed amount.
- b. Proceeds on account of an issue of options to purchase shares in the Company, of a type that grants their holder a right to purchase a fixed number of regular shares in the Company in return for a variable cash sum, are displayed under Current Liabilities and categorized as liabilities at fair value through profit or loss. For this purpose, the realization sum, linked to the consumer price index or to foreign currency, is considered to be a variable amount.

(4) Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities are classified at fair value through profit or loss if they are held for the purposes of trade or have been designated as financial liabilities at fair value through profit or loss.

The Group's financial liabilities that are included in this category include options to purchase shares in the Company and/or its subsidiaries with a realization price that is linked to the Consumer Price Index and/or to foreign currency, as well as derivatives of financial instruments of the Company and its consolidated companies.

Financial liabilities are classified as held for trade if:

- They were created chiefly to be repurchased in the near future; or
- They constitute part of the portfolio of identified financial instruments managed together by the Group and for which there is a demonstrated practical activity pattern of producing short-term profits; or

- They are a derivative that is not intended to be or effective as a hedging instrument.

Financial liabilities at fair value through profit or loss are displayed at fair value. Any profit or loss that stems from changes in the fair value is recognized under profit and loss. The net profit or loss recognized in the Profit and Loss Statement incorporates interest paid on account of the financial obligation. Transaction costs are imputed at the time of first recognition to profit and loss.

(5) Other Financial Liabilities

Other financial liabilities, such as Vendors and Payables, are first recognized at fair value after deduction of transaction costs. After the date of first recognition, other financial liabilities are measured at depreciated cost, using the effective interest method.

The effective interest method is a method for computing the depreciated cost of a financial obligation and of allocating interest expenses over the relevant period. The effective interest rate is the rate that precisely discounts the expected future cash flows over the expected life of the financial obligation to its book value, or over a shorter period, where appropriate.

(6) Splitting up the Proceeds from a Securities Package Issue

The proceeds from the issue of a package of securities are attributed to the various components of the package. The proceeds are first attributed to financial liabilities measured at fair value through profit or loss and to other financial liabilities, which are measured at fair value only on the date when they are first recognized, while the balance is attributed to capital instruments. When mixed financial instruments are included in the package of securities, the other financial liabilities are recognized as the amount of the difference between the fair value of the comprehensive mixed instrument and the fair value of the financial liabilities that are measured by fair value through profit or loss. When a number of capital instruments are issued as part of a package of securities, the proceeds for the package are attributed proportional to their relative fair values. The fair value of each component of the package measured at fair value, as stated, is set in accordance with the market prices of the securities immediately after their issuance. The issuance costs are allotted to each of the component, prorated to the value set for each of the components issued. The costs of the issue that were allotted to financial liabilities measured by fair value through profit or loss are imputed to profit and loss as of the date of the issue. The issue costs that were allocated to other financial liabilities are displayed less the liabilities and imputed to profit and loss using the effective interest method. Interest costs allocated to capital instruments are displayed less owners' equity.

2.16 Government Grants and Grants by the Chief Scientist

(1) Government Grants

Government grants are systematically recognized as income for all reporting periods when a matching entry is created on account of the costs borne by the Group in order to be entitled to the grants. Government grants and grants from other foundations and agencies, which the Group is entitled to receive as compensation for expenses or

losses created or for the purpose of immediate financial support, with no ascribed future costs, are recognized in the Profit and Loss Statement for the period in which the right to them was created.

(2) Grants by the Chief Scientist

Grants from the Chief Scientist that the Company will have to repay with interest when prescribed conditions exist, and that are not loans that can be forgiven, will be recognized as follows:

At the time of first recognition, the grant will be recognized as a financial obligation, at fair value, based on the present value of the expected cash flows for repaying the grant, discounted at a rate of capitalization that reflects the level of risk of the research and development project. The difference between the amount of the grant and the fair value will be treated as a government grant and displayed in profit and loss as a reduction of R&D expenses. In subsequent periods, the obligation will be measured at depreciated cost, using the effective interest method.

Grants by the Chief Scientist are considered to be those that are not loans that can be forgiven, taking account of the Company's position and of management's expectations of the prospects for the success of the development (based on the current stage of the development and management's assessments).

2.17 Share-based Payments

Share-based payments to employees and others who provide similar services, whether a share-based payment arrangement paid by the Company itself or paid by its shareholders, and that are paid by means of capital instruments of the Group, are measured at their fair value at the time when granted. At the time of the grant, the Company measures the fair value of the capital instruments that are vested by means of the Black-Scholes Model. When the capital instruments that have been vested do not mature until those employees complete a defined period of service, or as a function of the existence of defined market conditions, the Company recognizes the share-based payment arrangements in its financial statements over the maturation period against an increase in owners' equity, under the heading "Capital Fund on account of Share-based Payment Transactions." At every balance sheet date, the Company estimates how many capital instruments can be expected to come to maturity. A change in the estimate for previous periods is recognized in the Profit and Loss Statement over the balance of the maturation period.

2.18 Income Tax

In light of the losses for tax purposes that the Company and its Portfolio Companies have accumulated, and given the expectation that there will be no taxable income in the foreseeable income, the Company and the Portfolio Companies do not impute deferred taxes to be received on account of losses to be carried forward for tax purposes and for provisional allowances for the value of assets and liabilities, between the financial statement and the tax return.

In addition, the taxes that would have been incurred in the event of the realization of the investment in Portfolio Companies are not taken into account, because the Group intends to hold on to these investments and to develop them. In addition, deferred

taxes on account of distribution of profits by these companies are not taken into account, because the dividends are not taxable.

2.19 Profit per Share

The company computes the amount of the basic profit per share for profit or loss, as attributed to the Company's shareholders, by dividing the profit or loss that is attributed to regular shareholders in the Company by a weighted average of the number of regular shares outstanding during the reporting period. In order to compute the diluted profit per share, the Company adjusts the profit or loss attributed to the regular shareholders and the weighted number of the number of shares outstanding to reflect the influence of all potential diluting shares.

2.20 Benefits to Employees

(1) Benefits Paid after the Termination of Employment

Benefits paid by the Group after the termination of employment include pensions and severance pay. Benefits paid by the Group after the termination of employment are a Defined Contribution Plan. Expenses on account of the Group's liabilities to deposit money in a Defined Contribution Plan are imputed to the Profit and Loss Statement as of the date of the provision of the labor services for which the Group is obligated to make the contribution. The difference between the amount of the contribution due and total contributions paid is displayed on the Group's balance sheet as an obligation.

When the total contributions that have been paid exceed the contribution required on account of the service provided as of the date of the balance sheet, and this surplus will lead to a reduction in future contributions or to a cash refund, the Group recognizes it as an asset.

(2) Short-Term Benefits to Employees

Short-term benefits to employees are benefits that can be expected to be utilized or paid within a period that does not exceed 12 months from the end of the period when the service that entitles the employee to the benefit is completed.

Short-term employee benefits include the Group's liabilities on account of short-term leaves of absence and payments of grants and salary. Such benefits are imputed to the Profit and Loss Statement as of the date of their creation. The benefits are measured on an uncapitalized basis. The difference between the amount of the short-term benefits to which the employee is entitled and the amount paid for them is recognized as an asset or a liability.

2.2.1 Exchange rates and Linkage Basis

- (1) Balances in foreign currency or that are linked to foreign currency are included in the financial statement according to the representative exchange rates published by the Bank of Israel and in force on the day of the balance sheet.
- (2) Balances linked to the Consumer Price Index are displayed as per the last known index on the date of the balance sheet (the index for the month proceeding the month of the financial statement) or as per the index for the

last month of the reporting period (the monthly index for the month of the date of the financial statement), as a function of the terms of the transaction.

- (3) Data on the dollar exchange rate and Consumer Price Index are displayed below:

	Representative dollar exchange-rate	Index in Israel	
		Known Index	Actual Index
	NIS to the dollar	Points	Points
Financial statements as at			
December 31, 2010	3.549	117.38	117.8
December 31, 2009	3.775	114.77	114.77
	%	%	%
Change from the period ending on			
December 31, 2010	(5.99)	2.3	2.7
December 31, 2009	(0.71)	3.8	3.95
December 31, 2008	1.16	4.5	3.8

2.22 New Financial Reporting Regulations and Interpretations

2.22.1 New Regulations and Interpretations in Force that Influence the Present and/or Previous Reporting Periods

- IFRS 3 (amended), “Aggregation of Entities”

The new standard stipulates the rules for the accounting treatment of the aggregation of entities. The standard is to be applied to such aggregations from January 1, 2010 on.

- IAS 27 (amended) “Consolidated and Separate Financial Statements”

The new standard stipulates the rule for the accounting treatment of consolidated and separate financial statements. The provisions of the standard apply to annual reporting periods starting on January 1, 2010, or thereafter. The standard applies retroactively, with a number of exceptions, for which its provisions are applied from this time forward.

The main points of the principles for accounting treatment of consolidated and separate financial statements are as follows:

The standard stipulates that transactions with owners of nonvoting rights, such that the Group holds control of a consolidated company before and after the transaction, are to be treated as capital transactions.

For transactions that lead to the Group’s loss of control in the consolidated company, the balance of the investment in the consolidated company as of the date when control was lost will be measured at fair value.

The minority’s share of the losses of a consolidated company, which exceed its share in its owners’ equity, will be ascribed to it, ignoring its

obligations and ability to make other investments in the consolidated company.

The provisions of the standard apply to annual reporting periods starting on January 1, 2010, or thereafter. The standard applies retroactively, with a number of exceptions, for which its provisions are applied from this time forward.

For the year ending December 31, 2010, the Group assigned to nonvoting rights its share in a loss of NIS 1.141 million imputed to owners' equity against profit and loss, as it would have been recognized had the new standard not been adopted.

As at December 31, 2010, the balance of nonvoting rights in the Company's equity amounted to NIS 51,000, as a result of the imputation of losses by the consolidated companies and payments made in the shares of subsidiaries.

- **IAS Amendment 28, "Investments in Affiliated Companies" (Loss of Significant Influence over the Affiliated Company)**

As part of the adoption of IAS 27 (amended), "Consolidated and Separate Financial Statements," as stated above, certain provisions of IAS 28, "Investments in Affiliated Companies" were amended. The amendment stipulates the accounting treatment for the loss of substantial control in an affiliated company when the entity continues to hold certain rights in the latter company. The amendment is applied from this time forward for annual reporting periods beginning on January 1, 2010, or thereafter.

2.22.2 **New Regulations and Interpretations in Force that Have no Significant Influence on the Present and/or Previous Reporting Periods**

- **Amendment to IAS 7, "Cash Flow Statements"**

The amendment to IAS 7, "Cash Flow Statements," clarifies that only exits that lead to an asset that is recognized on the Statement of Financial Position can be validly classified as cash flows that served for investment activity. The amendment applies retroactively for annual reporting periods beginning on January 1, 2010, or thereafter.

- **Amendment to IAS 36, "Decline in the Value of Assets"**

The amendment to IAS 36, "Decline in the Value of Assets," stipulates that when allocating good will to cash-generating units or to groups of cash-generating units, in order to investigate a decline in value, each unit or group of units may not be larger than an activity sector before the aggregation of sectors with similar economic characteristics into a single sector. The amendment is applied from this time forward for annual reporting periods beginning on January 1, 2010, and thereafter.

2.22.3 **New Standards and Interpretations that are not yet in Force and were not Adopted Early by the Group and that Could Have an Influence on Future Periods**

- **Amendment to IAF 32, “Presentation of Financial Instruments”**

The amendment stipulates, in part, that derivatives included as part of an issue of rights to current shareholders and that entitle the bearer to purchase a fixed number of capital instruments in return for fixed sum of cash or some other financial asset, denominated in a currency that is not the company’s operating currency, will be classified as capital instruments, on condition that the rights were offered to all holders of capital instruments of the entity, in proportion to their holding. The amendment will be applied retroactively to annual reporting periods beginning on January 1, 2011, or thereafter.

At this stage, Company management cannot estimate the influence of the implementation of this standard on its financial position and the results of its activities.

- **IFRS 9, “Financial Instruments”**

The new standard details the provisions for classifying and valuing financial obligations and assets. The standard stipulates that all financial assets will be treated as follows:

- Debitory instruments will be classified and measured after their first recognition at the depreciated cost or fair value through profit and loss. The selection of the valuation model will take account of the entity’s business model for management of financial assets and the characteristics of the contractual cash flows that stem from those financial assets.
- A debitory instrument that, according to the criteria, is measured at depreciated value can be pegged to the fair value through profit or loss if and only if this cancels out an inconsistency in the recognition and value that would have been created had the asset been measured at depreciated cost.
- Capital instruments will be measured at fair value through profit or loss.
- At the date of first recognition, capital instruments can be pegged at fair value when profits or losses are imputed to Other Comprehensive Profit. Instruments that have been pegged as stated will no longer be subject to examination for a decline in value and any profit or loss on their account will not be transferred to profit and loss, including at the time of realization.
- Derivatives embedded in financial assets will not be separated from the host contract. Instead, mixed contracts will be measured

in their entirety at depreciated cost or fair value, in keeping with the criteria of the business model and contractual cash flows.

- Debitory instruments will be reclassified from depreciated cost to fair value and vice versa only when the entity changes its business model for the management of financial assets.
- Investments in financial instruments for which there is no price quoted on an active exchange, including derivatives of these instruments, will always be measured at fair value. The measurement alternative of at cost, available in certain circumstances, has been eliminated. At the same time, the standard notes that, in specific circumstances, the cost may be an appropriate estimate of fair value.

The standard further stipulates the following provisions with regard to financial obligations:

- A change in the fair value of a financial obligation marked at the time of first recognition at fair value through profit or loss, and attributed to changes in the credit risk of the obligation, is imputed directly to Other Comprehensive Profit, unless such imputation creates or increases an accounting mismatch.
- When the financial obligation is redeemed or settled, the amount of the fair value imputed to Other Comprehensive Profit will not be classified as profit and loss.
- All derivatives, whether assets or liabilities, will be measured at fair value, including a derivative of a financial instrument that is an obligation linked to a capital instrument that is not quoted and whose fair value cannot be measured reliably.

The provisions of the standard apply retroactively, except for those exceptions stated in the standard, for annual reporting periods beginning on January 1, 2013, or thereafter. Earlier application is possible. Entities that apply the standard prior to January 1, 2012, are entitled not to do so retroactively. In addition, subject to the transitional provisions of the standard, the provisions of the standard can be adopted early with regard to financial instruments only, without adopting the aforesaid provisions for financial liabilities.

At this stage, Company management cannot estimate the influence of the implementation of this standard on its financial position and the results of its activities.

2.23 Change in Accounting Policy

During 2010, the Company changed its accounting policy with regard to the presentation of liabilities on account to royalties to be paid to the Chief Scientist. In the past, the Company recognized all receipts from the Chief Scientist under Current Activity. Now it has decided to change its accounting policy so that money received

from the Chief Scientist for which a financial obligation was recognized will be imputed to financing activity in the Cash Flow Statement.

Management is of the opinion that the new policy is preferable because it provides for more appropriate treatment of the presentation of the Cash Flow Statement and is consistent with the practice of local industry. Consequently, the Company's financial statements will be more readily comparable. A change in the accounting policy affects the display of comparison data in the cash flow reports for periods before 2010.

Influence of the Retroactive Application on the Cash Flow Statements
for the Present Year and Past Years

	For the year ending December 31		
	2010 NIS thousands	2009 NIS thousands	2009 NIS thousands
Reduction in cash flows from current activities	<u>(551)</u>	<u>(933)</u>	<u>(884)</u>
Increase in cash flows from financing activities	<u>551</u>	<u>933</u>	<u>884</u>

Management decided not to submit an additional report on the Company's financial position, despite the retroactive application of a new accounting policy, as detailed above. Management believes that because the retroactive application of the new accounting policy as stated does not affect the displays in the Statement of Financial Position for December 31, 2008, the submission of an additional report for December 31, 2008, would be irrelevant for understanding the financial statements, nor would it make any contribution that might help users of the Financial Statements make economic decisions or understand the impact of certain transactions and events on the Company's financial position.

Note 3. Critical Accounting Judgments and Key Factors for Uncertainty in Estimates

3.1 Overview

In the application of the Company's accounting policies, described in Note 2 above, in certain circumstances Company management is required to apply broad accounting discretion with regard to estimates and assumptions related to the book values of assets and liabilities that are not necessarily available from other sources. The estimates and assumptions are based on past experience and other factors deemed to be relevant. The actual results may be different from these estimates.

The estimates and assumptions underlying them are reviewed by management on a regular basis. Changes in accounting estimates are recognized only in a period when there was a change in the estimate, if the change effects only that period, or are recognized in the stated period and in future periods, if the change affects both the current period and future periods.

3.2 Critical Judgments in the Application of Accounting Policy

The following relates to the critical judgments, other than those associated with estimates (see above), made by management when applying the Company's accounting policy and that have an extremely significant affect on the sums recognized in the Financial Statements.

- **Decline in the Value of Salable Financial Assets**

The company examines any decline in the value of salable financial assets in accordance of the provisions of IAS 39. As part of this examination, the Company considers, among other things, the duration of the period during which the cost of the investment exceeds its fair value, as well as the business position of the company invested in and its performance as compared to other companies in its field of activity, including changes in its operating activities and cash flows.

- **Intangible Assets Created Internally: Research and Development Costs**

The Company reviews the transfer of the entry of research and development costs from the Profit and Loss Statement to an intangible asset created internally by Company development activities that are displayed on the balance sheet.

As part of the review of the asset the Company examines, among other things, the technical feasibility of completing the development of the asset, the Company's economic ability to complete the development of the asset, the forecast of future economic benefits from the asset, and the Company's ability to sell the asset.

- **Grants by the Chief Scientist**

As stated in Note 2.16.2 above, at the time of first recognition the grant will be recognized as a financial obligation at fair value, based on the present value of the cash flows expected for repayment of the grant, discounted by a capitalization rate that reflects the degree of risk in the research and development project. The difference between the amount of the grant and its fair value will be treated as a government grant. In subsequent periods that obligation will be measured at depreciated cost using the effective interest method.

A change in the estimate of the capitalization rate or the income forecast will lead to a change in the fair value of the obligation to the Chief Scientist.

3.3 Key Sources of Uncertainty in Estimates

- **Fair Value of Financial Instruments**

As described in Note 2, Company management applies its judgment when selecting the appropriate techniques for assessing financial instruments that have no quoted price on an active exchange. The assessment techniques used by Company management are those that are employed by participants in the market. The fair value of other financial instruments is set on the basis of capitalization of the cash flows to be expected from them, based on assumptions that are supported by observed market prices and quotations. Estimates of the fair value of financial instruments that are not registered for trade on an active exchange include a number of assumptions that are not supported by observed market prices and quotes.

Note 4. Cash and Cash Equivalents

Composition

	As at December 31	
	2010	2009
	NIS thousands	NIS thousands
Cash and bank balances	1,061	6,345
Short-term deposits	<u>7,740</u>	<u>10,240</u>
	<u>8,801</u>	<u>16,585</u>

Note 5. Investments in Negotiable Securities

Composition

	As at December 31	
	2010	2009
	NIS thousands	NIS thousands
Sheqel-denominated bonds		
Index-linked bonds	333	467
Unlinked bonds	10,427	20,600
Mutual fund	<u>10,021</u>	<u>-</u>
	<u>20,781</u>	<u>20,067</u>

Note 6. Receivables and Debit Balances

Composition

	As at December 31	
	2010	2009
	NIS thousands	NIS thousands
Government agencies	599	493
Chief Scientist grants, receivable	252	840
Related parties	1,133	584 (*)
Prepaid expenses	523	300
Others	<u>18</u>	<u>-</u>
	<u>2,525</u>	<u>2,217</u>

(*) Reclassified

Note 7. Investments in Portfolio Companies

7.1 Information about Consolidated Companies

Data on the consolidated companies directly held by the Company

Consolidated Company	Percentage Stake in Capital Rights of the Consolidated Company As at December 31	
	2010	2009
	%	%
KAHR Medical (2005) Ltd.	76.05	76.05
Enlive x Therapeutics, Ltd.	91.99	91.99
BioMarCare Technologies, Ltd.	87.49	71.14
Verto, Ltd.	74.60	74.60
ProTab Ltd. (*)	-	100.00

(*) No longer consolidated; for additional information, see Note 7.2.3.

Scope of investment in the Group's consolidated companies

	Size of Investment in the Portfolio Company (*) as at December 31	
	2010	2009
	NIS thousands	NIS thousands
<u>Directly held Subsidiary</u>		
Verto	(2,899)	(2,848)
Enlive x	(9,083)	(6,868)
KAHR	(4,684)	(2,889)
BioMarCare	(2,306)	(2,136)
ProTab Ltd. (**)	-	(6,561)
	<u>(18,972)</u>	<u>(21,302)</u>

(*) The size of the investment in directly held companies is computed as a net amount, based on the Consolidated Financial Statements, attributed to the shareholders of the parent company, of total assets less total liabilities, as displayed as financial information for the subsidiaries in the Company's consolidated statements, including good will.

(**) No longer consolidated; for additional information, see Note 7.2.3.

Other investments in consolidated companies held directly by the Company

	As at December 31	
	2010	2009
	NIS thousands	NIS thousands
Loans convertible into shares (*)		
Verto	2,910	3,012
Enlive x	8,549	6,973
KAHR	5,958	4,322
BioMarCare	2,532	2,616
ProTab Ltd. (**)	-	6,987
	19,949	23,910

(*) Most of the loans are linked to the dollar exchange-rate and bear interest of Libor + 3%. Loans in the amount of NIS 855,000, out of the total loans, are not linked and bear interest of Prime + 3%.

(**) No longer consolidated; for additional information, see Note 7.2.3.

7.1.1 Verto, Ltd. (hereinafter Verto)

Verto was incorporated in Israel and began business activities in September 2003. The company is involved in research and development of treatments for lupus, based on the removal of pathogenic antibodies.

Verto's developments are based on discoveries by Prof. Naparstek of Hadassah Hospital Ein Kerem. Verto's intellectual property includes an exclusive license from Hadasit for use of its patents and patent applications.

Verto's research and development process was approved by the Chief Scientist in the technological incubators track. Accordingly, in September 2003 Verto began operations as part of the Nayot Technological Center, Ltd., technological incubator (hereinafter Nayot). Some of Verto's activities in that stage were

funded by the Chief Scientist for a two-year period. In accordance with the contract with the Chief Scientist, Verto is required to pay royalties at the rate of 3% of all sales for the first three years; from the beginning of the fourth year until the end of the sixth year after the start of the return of repayment or start of the sales of the fruit of the research development, at a rate of 4%; and from the start of the seventh year from the beginning of repayment, and thereafter at a rate of 5% of the sales of the fruits of the research and development funded by the Chief Scientist, up to the full amount of funding provided or to be provided by the Chief Scientist, linked to the dollar exchange rate and bearing interest of Libor + 2%.

On January 9, 2007, Verto received written approval to begin human clinical trials.

Between 2006 and 2009, the Company and Verto signed agreements for loans convertible into Verto shares, in a total amount of \$750,000. The loans were made available by the Company for Verto's intellectual property and the commercial development. The loans bear annual interest of Libor + 3% and will be repaid (in a number of installments) unless converted into Verto stock. The Company is entitled to convert the loans into Verto stock at a company value for Verto of \$500,000 (before money). Should Verto offer securities in an offering whose total amount ranges between \$1,000 and \$500,000, in accordance with the various loan agreements, the loans, plus accrued interest, will automatically be converted into Verto stock, at a discount of 20% from the share price in that allocation.

As of the date of this report, the company had begun human trials. These trials (Phase I/II) were completed successfully and the company is now in the process of locating a strategic partner to finance and conduct the next trial.

7.1.2 BioMarCare Technologies, Ltd. (formerly InCure) (hereinafter BioMarCare)

BioMarCare was incorporated in Israel on August 25, 2002, and began its activities in August 2002.

BioMarCare is engaged in research and development in the biotechnology sector aimed at the early identification of cancer. BioMarCare is still in the development stages and consequently has not yet recorded any income from its principal activity.

BioMarCare was established in the Har Hotzvim High-tech Entrepreneurial Center (hereinafter the Center). BioMarCare paid the Center for management services and basic operating expenses. In 2003, the Center was privatized. Subsequent to this, a new company, the Van Leer Jerusalem Technology Center Ltd. (hereinafter Van Leer) was established to continue the activities of the Center. In the wake of an agreement between the Chief Scientist and BioMarCare, BioMarCare undertook to pay royalties at a rate of 3% to 3.5% of the sales of BioMarCare products funded by the Chief Scientist. The ceiling on

the total royalties paid will be the amount received from the Chief Scientist, linked to the dollar, plus Libor interest.

In September 2005, BioMarCare and its shareholders signed an agreement whereby at some time in the future BioMarCare will allocate 200 shares to its shareholders, in return for the conversion of owners' loans to shares, in the amount of NIS 216,000. The percentage of the Company's holdings in BioMarCare after the issuance of the shares will be diluted to approximately 67%.

On January 11, 2008, the institutional Helsinki committee at Hadassah approved an update of the clinical protocol as well as the informed consent form to include all stages of breast cancer, other types of cancer, and the taking of blood samples from arthritis patients as well as from persons undergoing surgery and/or treatment for trauma.

Between 2006 and 2009, the Company and BioMarCare signed agreements for loans convertible into BioMarCare stock, in a total amount of \$657,000. The loans were made by the Company in order to help BioMarCare meet its obligations, including investigating the possibility of completing the merger with another project company.

It was agreed that the loans will bear annual interest of Libor + 3% and will be repaid (in a number of installments), unless converted into BioMarCare stock. Should BioMarCare issue securities in a total amount of at least \$500,000, the Company will be entitled to convert the loan (plus accrued interest) into BioMarCare stock, at a discount of 20% from the share price at the time of the allocation. Should there be no investment in BioMarCare equity before the date of repayment stipulated in the loan agreements, the Company will be entitled, for up to 30 days after the repayment date, to give BioMarCare notice of the conversion of the loan into BioMarCare stock, at a company value for BioMarCare of \$250,000 (before money and at full dilution).

In November 2009, BioMarCare, Ltd., changed its name from InCure, Ltd., to BioMarCare Technologies, Ltd. The company is developing diagnostic products for cancer and is in the midst of the EU-VIDO clinical trial (checking the blood of cancer patients). During the quarter, BioMarCare submitted an application to the office of the Chief Scientist for a research grant for a diagnostic kit to identify cancer, based on PAR markers.

In June 2010, an investment agreement was signed between the Company and BioMarCare, under which the Company invested \$400,000 in return for 89,888 regular shares of BioMarCare. The investment as per the agreement was transferred to BioMarCare in batches, with \$200,000 transferred to BioMarCare after the signing of the investment agreement and the other \$200,000 transferred during November and December 2010, after the milestone stipulated in the investment agreement (the signing of a memorandum of understanding to receive an exclusive license for the CCAT marker) was achieved.

In December 2010, BioMarCare received approval from the institutional Helsinki committee to expand the trial it is conducting at the Sharett Oncology Institute of the Hadassah Ein Kerem Hospital and Hadassah Mount Scopus Hospital to a larger number of blood samples from patients suffering from breast cancer and colon cancer, with the goal of corroborating the initial findings and precisely determining the sensitivity and properties of the simple blood test. BioMarCare has accumulated a bank of some 500 blood samples that will be tested during 2011. To finance the clinical trial, the Company will provide BioMarCare with a loan of NIS 1.2 million.

7.1.3 **KAHR Medical (2005) Ltd. (hereinafter KAHR)**

KAHR is a private company that was incorporated in Israel in September 2005 and is controlled by the Company.

KAHR develops innovative treatments for autoimmune diseases and cancer based on discoveries by Prof. Mark Tykocinski and his laboratory at the University of Pennsylvania and Dr. Yaakov Rachmilevitz and his laboratory at Hadassah Hospital–Ein Kerem.

In February 2007, the Company's Board of Directors decided to make a \$500,000 investment in KAHR. This investment was part of the Company's undertaking to invest a total of \$750,000, pursuant to an agreement signed on December 18, 2005. On June 18, 2007, the KAHR board of directors voted to change the company's name to KAHR Medical (2005), Ltd.

At the end of 2008, KAHR received a license from the University of Pennsylvania for the intellectual property that covers a number of innovative TSCP proteins. KAHR is continuing to develop its products, including the PP14 protein for treatment of various autoimmune diseases and is completing the negotiations with the University of Pennsylvania.

During the first quarter of 2009, KAHR, Ltd., signed an agreement to acquire a usage license that it believes completes its existing property. In return for the right to use the intellectual property, 4.9% of the issued equity of KAHR was allocated to the owners of the intellectual property. After this allocation, the Company holds 7.6% of KAHR. As a result of this allocation, an intangible asset of NIS 1.850 million was recognized in the financial statement against profit, as a result of the decline in its holdings by that amount.

In 2007 to 2009, the Company signed agreements to provide convertible loans totaling \$1.1 million for continued funding of KAHR's activities. It was agreed that the loans will bear annual interest of Libor + 3%. The loans will be repaid on the repayment date stated in the agreement. It was agreed by the parties that should KAHR allocate shares before the date on which it is to repay the loan to the Company, the loan will automatically be converted into KAHR stock, at a discount of 20% from the value of the shares at the time of the allocation.

In 2010, the Company and KAHR signed agreements for convertible loans in the amount of \$400,000 and NIS 200,000 for the continued funding of its activities. It was agreed that the loans will bear annual interest of Libor + 3% for loans

linked to the dollar exchange rate and Prime + 3% for unlinked loans. The loans will be repaid on the repayment date stated in the agreement. It was agreed by the parties that should KAHR allocate shares before the date on which it is to repay the loan to the Company, the loan will automatically be converted into KAHR stock, at a discount of 20% from the value of the shares at the time of the allocation, for the dollar-linked loans, and at a discount of 30% from the value of the shares at the time of the allocation, for the unlinked loans.

KAHR is currently in negotiations with a strategic partner that is planning to invest several million dollars in it. The Company intends to inject funds in the form of a convertible loan to make possible completion of the transaction with the partner. At the same time, KAHR will request an extension of the repayment date for its outstanding convertible loans from the Company.

7.14 Enlivex, Ltd.

Enlivex is a private company that was incorporated in Israel in September 2005 and is controlled by the Company. Enlivex is developing an innovative system that includes a drug and medical device for treating graft vs. host disease (GvHD) in transplants and inflammatory autoimmune diseases. The basis of the development is intended to develop compounds for cardiovascular inflammations and autoimmune diseases.

A transplant of bone marrow or stem cells contributed by another person, is known as an allogenic transplant, is the treatment employed for hematopoietic diseases such as leukemia. In from 30% to 50% of cases, patients develop what is known as Graft vs. Host Disease (GvHD), in which the transplanted cells attack the tissues of the host. GvHD presents as rashes, diarrhea, skin problems, impaired liver function, and may sometimes be life-threatening. Today there is no specific treatment for GvHD, and this poses an obstacle to successful allogenic transplants of bone marrow.

Enlivex is developing a system called Apocure™ to treat inflammatory and autoimmune diseases, focusing on the first stage of GvHD. Unlike current treatments, Apocure™ seems to be a safe device and is not expected to cause side effects, because it is used exclusively with cells taken from the patient him/herself.

On October 12, 2009, the company announced that, after completing the necessary preparations for obtaining the required approvals, it had begun human clinical trials on patients (Phase I/IIa) for an initial study of the safety and efficacy of a cell-based treatment for Graft vs. Host Disease, at the Hadassah Hospital–Ein Kerem. Enlivex reported to the Company that, according to its plan, the intention is to conduct the clinical trial at another medical center in Israel as well.

Graft vs. Host Disease is the most significant obstacle to bone marrow transplants. It is a severe and potentially fatal disease that develops in a large proportion of leukemia patients (30% to 50%) who receive a donation of bone marrow from a family member or other person.

The trial that has begun will end in about a year and will be conducted in two medical centers in Israel on 12 patients. As of the end of 2009, Enlivex reported good initial results in the clinical trial.

In 2006 to 2009, the Company and Enlivex signed agreements for convertible loans totaling \$1.712 million. The loans will be repaid on the repayment date stated in the agreement and will bear annual interest of Libor + 3% for dollar-linked loans and Prime + 3% for unlinked loans. It was agreed by the parties that should Enlivex allocate shares before the date on which it is to repay the loan to the Company, in an investment round of at least \$500,000, the Company will be entitled to convert the loans at a discount of 20% from the value of the shares at the time of the allocation. Should the loans not be converted by the repayment date, the Company will be entitled to convert the loans into Enlivex stock, at a company value of \$0.5 million for Enlivex (before money).

In 2010, the Company and Enlivex signed agreements for convertible loans in the amount of \$280,000 and NIS 855,000. The loans will be repaid on the repayment date stated in the agreement. It was agreed that the loans will bear annual interest of Libor + 3% for loans linked to the dollar exchange-rate and Prime + 3% for unlinked loans. It was agreed by the parties that should Enlivex allocate shares before the date on which it is to repay the loan to the Company, in an investment round of at least \$500,000, the Company will be entitled to convert the loans at a discount of 20% to 35% from the value of the shares at the time of the allocation. Should the loans not be converted by the repayment date, the Company will be entitled to convert the loans into Enlivex stock, at a company value of \$0.5 million for Enlivex (before money).

7.2 Information on Affiliated Companies

Data on the affiliated companies directly held by the Company

<u>Affiliated Company</u>	Percentage Stake in Capital Rights of the Consolidated Company as at December 31	
	2010	2009
	%	%
ProTab, Ltd.	69.79	-
CellCure Neurosciences, Ltd.	26.28	38.05
Thrombotech, Ltd.	24.77	23.90
Conjugate, Ltd.	25.50	25.50
CT Signal, Ltd.	In liquidation	In liquidation

The tables below present summary information extracted from the financial statements of the affiliated companies.

	CellCure		ProTab*		Thrombotech		Conjugate	
	2010	2009	2010	2009	2010	2009	2010	2009
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Assets	26,718	6,989	11,915	1,867	3,885	3,951	534	5,089
Liabilities	4,356	3,335	5,020	8,429	1,513	3,304	1,457	1,375
Net assets	<u>22,362</u>	<u>3,654</u>	<u>6,895</u>	<u>(6,562)</u>	<u>2,372</u>	<u>647</u>	<u>(923)</u>	<u>3,714</u>
Group's stake in the affiliated companies' net assets	<u>8,509</u>	<u>1,243</u>	<u>3,627</u>	<u>-</u>	<u>587</u>	<u>155</u>	<u>(235)</u>	<u>947</u>

	CellCure			ProTab*		Thrombotech			Conjugate			
	2008	2009	2010	2008	2010	2008	2009	2010	2008	2009	2010	
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	
Loss for year	<u>7,329</u>	<u>4,807</u>	<u>3,499</u>	<u>4,883</u>	<u>2,887</u>	<u>2,049</u>	<u>2,125</u>	<u>2,182</u>	<u>3,835</u>	<u>4,767</u>	<u>2,404</u>	<u>2,705</u>
Group's share in the affiliated companies' losses	<u>2,445</u>	<u>1,714</u>	<u>119</u>	<u>3,701</u>	<u>-</u>	<u>-</u>	<u>519</u>	<u>753</u>	<u>920</u>	<u>1,194</u>	<u>6,131</u>	<u>690</u>

(*) No longer consolidated; for additional information, see Note 7.2.3.

7.2.1 Thrombotech, Ltd. (hereinafter, Thrombotech)

In the Company's financial statements, its investments in Thrombotech, as at December 31, 2010, is presented as follows:

Company's holdings of Thrombotech equity	NIS thousands
Balance of excess acquisition cost	3,552
Company's share of Thrombotech's losses	196
Total	<u>(3,035)</u>
	<u>713</u>

Thrombotech was incorporated in Israel and began commercial activity in September 2000. Its field of activity is the development of drugs to dissolve blood clots for the treatment of cerebral hemorrhages, myocardial infarction, deep vascular thrombosis, and similar conditions.

Thrombotech owns or holds an exclusive use license for a number of patent applications and patents.

Thrombotech is based on research by Prof. Higazi of Hadassah Hospital. His continued involvement in the early stages of the continuation of the research is essential.

Some of Thrombotech's activities are financed by the Chief Scientist. In accordance with an agreement with the Chief Scientist, Thrombotech is required to pay royalties at the rate of 3% of all sales for the first three years; from the beginning of the fourth year until the end of the sixth year after the start of the return of repayment or start of the sales of the fruit of the research development, at a rate of 4%; and from the start of

the seventh year from the beginning of repayment and thereafter at a rate of 5% of the sales of the fruits of the research and development funded by the Chief Scientist, up to the full amount of funding provided or to be provided by the Chief Scientist, linked to the dollar exchange rate and bearing interest of Libor.

During 2007, in laboratory trials, Thrombotech discovered that part of a short peptide that the company had developed and had administered along with existing drugs could prevent the side effects. In light of the company's results, and subject to the provision of the required financial resources, Thrombotech planned to begin clinical trials during 2008.

During the third quarter of 2009, Thrombotech successfully concluded the initial safety trials that are a prerequisite for the beginning of clinical trials.

During 2009, Thrombotech received approval from the Chief Scientist of support for its R&D program on the treatment of cerebral hemorrhage, to run from February 2009 through January 2010. The total budget for the project is NIS 4 million, with a participation rate of 30% to 50%.

In December 2010, Thrombotech received approval from the Chief Scientist of support for its R&D program on the treatment of cerebral hemorrhage, for the period running from June 2010 to May 2011. The total budget for the project is NIS 3.4 million, with an average participation of 43%.

After receiving approval from the Health Ministry in February, Thrombotech began initial clinical trials in humans in April 2010.

The clinical trial, conducted on 40 healthy volunteers, was intended to investigate the safety of the compound, and concluded successfully.

This trial is intended to demonstrate that the compound is safe and can be used in a number of medical indications, including cerebral hemorrhage, myocardial infarction, pulmonary embolisms, and vascular thrombosis. The clinical trial will be conducted at the center for clinical trials of the Hadassah Hospital Ein Kerem.

Nothing in the start of human clinical trials guarantees that the trials will succeed or that the product developed by Thrombotech will be commercialized and approved for sale.

In the wake of new findings produced by animal trials, which indicate that the peptide is effective in the treatment of chronic pulmonary diseases such as asthma, Thrombotech filed a patent application and will consider further development of the application with multinational companies that are likely to display interest in a pharmaceutical treatment for asthma.

The trial concluded successfully. Thrombotech is now gearing up to begin the next trial in Israel and abroad.

In August 2007, the Company and other shareholders signed an agreement in principle for a new round of investment in Thrombotech, in the amount of \$1,250,000, prorated to the current holdings in Thrombotech, after the realization of options, as stated above, and on the assumption of full dilution. The investment was

made at a company value for Thrombotech of \$3.2 million (before money, and on the assumption of full dilution, including employee option plans).

In November 2009, the company signed an additional investment agreement with various investors, stipulating that, in return for an investment of \$750,000 and the options they held under the investment agreement from 2007, it will issue them shares and new options in the company. Under this agreement, the investors surrendered their options to purchase shares in the company (Series A3), which they held pursuant to the 2007 agreement.

In keeping with this agreement, the company allocated 9,458 shares (Series A2), at a share price of \$54.46.

On September 13, 2010, Thrombotech's stockholders converted 11,824 options (of the 28,374 options in circulation) into Series A2 shares in Thrombotech, with a par value of NIS 0.01 per share, in return for NIS 3.854 million. Of this sum, approximately NIS 3.442 million was received in cash. At the time of conversion, Thrombotech extended the deadline for realizing the remaining 16,550 options, as stated, until December 29, 2011.

The extension of the option period increased the fair value of the options displayed as long-term liabilities by NIS 382,000, along with a reduction in Thrombotech's owners' equity.

As a result of the conversion of the options, the Company's holdings in Thrombotech increased from 23.90% to 24.77%, and an excess acquisition cost of NIS 197,000 was created.

The initial accounting treatment of the excess cost as displayed in these financial statements is provisional. At the time of the publication of the financial statements, the Company had not yet completed the allocation of the acquisition cost to Thrombotech assets and liabilities, so the excess acquisition cost is displayed as good will in the amount of NIS 197,000.

7.2.2 CellCure Neurosciences, Ltd. (hereinafter CellCure)

In the Company's financial statements, its investments in CellCure, as at December 31, 2010, is presented as follows:

	NIS thousands
Company's holdings in CellCure equity	12,671
Balance of excess acquisition cost	3,091
Company's share of CellCure's losses	<u>(7,227)</u>
Total	<u>8,535</u>

CellCure is a private company incorporated in Israel, fully owned by the Singapore-based ESI Cell International Pty Ltd. (hereinafter ESI). Subsequent to the investment that the Company made in CellCure, in the amount of \$3 million, which conveyed 22.5% of CellCure's shares to the Company, ESI agreed to grant CellCure an exclusive license to use its intellectual property for the development and production of nerve cells for cell-replacement treatment of neurodegenerative diseases in human beings (hereinafter the License Agreement).

As a result of the aforesaid agreement, an excess acquisition cost of NIS 10.968 million was created for the Company, which is attributed to the license to use the patent. Company management believes that its remaining economic life is seven years.

On the date of the transfer of the investment to CellCure, CellCure was granted an exclusive world license for the treatment of neurodegenerative diseases, notably Parkinson.

As part of the license agreement, it was stipulated that, for a period of 36 months after the grant of the license, CellCure will bear the full costs of the patent license (up to \$250,000), and that, after the expiration of this period, CellCure will bear the full cost of the registration and maintenance of the patents for which it was given a license.

In 2008, CellCure received approval to take part in the ESNATs program affiliated with the European Union's framework R&D program (FP7). The grant, in the amount of 175,000 euros over five years, is intended for research into the use of stem cells and the toxicity of new CNS drugs.

On August 30, 2009, a research contract and licensing agreement between Hadasit Medical Research Services and Development, Ltd. (Hadasit) and the company (hereinafter the Licensing Agreement) came into force, along with a contract for the development of the associated product it. The Licensing Agreement grants the company an exclusive international license, subject to royalties (with the right to grant sublicenses), to use, exploit, and commercialize certain patents that were developed by researchers at Hadassah Hospital, for their rights in the field of RPE (Retinal Pigment Epithelial) derived from human stem cells. In return for the aforesaid license, the company agreed to pay Hadasit: (1) a one-time sum of NIS 249,058 as reimbursement for the expenses incurred in developing the patents; (2) periodic payments for development of the product, as per the aforesaid product development contract; (3) royalties in the rate of 5% of sales of the licensed products; (4) between 10% and 30% of the income of the sale of sublicenses (depending on the development stage); (5) additional payments, in a total of \$1,500,000, as a function of the stages stipulated. In addition, the company committed itself, subject to prior conditions, to an annual payment of \$200,000 each year, for three years, to continue basic research in the field of retinal degeneration and the central nervous system.

In October 2009, the company completed a round of investments of \$800,000 through an issue of capital stock to its current shareholders. The round was conducted at a company value of \$8 million before money. After the issue, HBL's holdings rose to 38% (35% at full dilution) and ESI's holdings declined to 49.9% (46% at full dilution).

As a result of the aforesaid investment, an additional excess acquisition cost was created for the company of NIS 1.063 million, which is attributed to the patent license. Management estimates its remaining economic life at 3.5 years.

In March 2010, the Company and CellCure Neurosciences, Ltd. (hereinafter CellCure) signed an agreement for a convertible loan in the amount of \$100,000. It was agreed that the loan will bear annual interest of Libor + 3%. Should CellCure

make an offering of securities in an offer whose total value is at least \$1 million, the Company will be entitled to convert the loan (plus accrued interest) into CellCure stock, at a discount of 20% from the value of the shares at the time of the aforesaid allocation.

On October 7, 2010, an investment agreement was signed by CellCure and the Company, on the one hand, and Teva Pharmaceutical Industries, Ltd. (hereinafter Teva) and BioTime, Ltd. (hereinafter BioTime), whereby CellCure raised a total of \$7.1 million (hereinafter the 2010 Investment Agreement and 2010 Round of Investment). The 2010 Investment Agreement was signed at a company value of \$8 million (before money). Of the total amount of the investment, BioTime invested \$4.1 million in CellCure, including the conversion of a loan of \$250,000 (plus interest); Teva invested \$2 million and the Company \$1 million, including the conversion of a loan of \$100,000 (plus interest). The investment will be used to fund the CellCure RPE project, additional research, and current operations.

In addition, as part of the 2010 Round of Investment, CellCure shareholders signed a revised shareholders' agreement and the CellCure bylaws were replaced by an amended version. It should further be noted that, as part of the 2010 Investment Agreement, conditions were stipulated whereby CellCure may receive licenses to use certain intellectual property owned or controlled by BioTime.

On October 7, 2010, as part of the 2010 Round of Investment, a research agreement with an option for an exclusive license was signed by CellCure and Teva (hereinafter the Teva Option Agreement), under which Teva was granted an option to obtain an exclusive worldwide license, subject to royalties (with the right to grant sublicenses for the development and commercialization) of OpRegen™. The option is in force as of October 18, 2010, and runs until 60 days after IND approval of the aforesaid product. Teva was also granted an option to acquire licenses, under the same terms, for the development and commercialization of a product to treat retinal degeneration, including macular degeneration, based on the layering of RPE cells on a membrane called OpRegen Plus™. The Teva Option Agreement stipulates the amounts that Teva will pay CellCure for exercising the options, as well as the rate of royalties to be paid to CellCure on sales of products subject to the license and the duration of the period in which such royalty payments will be due.

As part of the Teva Option Agreement, it was also agreed that should Teva choose to exercise its option to acquire the aforesaid licenses, Teva will bear the R&D costs for the product covered by the license from that time forth. Note that the granting of such licenses is subject to approval by the Chief Scientist and that the transfer of certain materials under the licenses to Teva requires approval by the Ministry of Health. Note further that both ESI and Hadasit have given written confirmation of their consent to the Teva Option Agreement and to the granting of sublicenses under it, and that the 2010 Hadasit License Agreement (as defined below) incorporates unique conditions that apply to this sublicense, should the Teva license be realized. As of the date of the financial statements, there is no certainty that this option will indeed be realized in the foreseeable future.

On October 10, 2010, as part of the 2010 Round of Investments, CellCure and Hadasit signed a new agreement to replace the 2009 Hadasit License Agreement (hereinafter the 2010 Hadasit License Agreement). The 2010 Hadasit License Agreement redefined the commercial terms for the granting of a Hadasit license (including royalties, milestone payments, responsibility for costs, etc.). In addition, the 2010 Hadasit License Agreement defined special conditions for the granting of a sublicense to Teva.

As a result of the round of investment, the Company's holdings in CellCure declined from 38.05% to 26.28%, leading to recognition of a capital gain of NIS 1.563 million.

7.2.3 ProTab, Ltd. (hereinafter ProTab)

In the Company's financial statements, its investments in ProTab, as at December 31, 2010, is presented as follows:

	NIS thousands
Company's holdings of ProTab equity	11,571
Balance of excess acquisition cost	9,449
Company's share of ProTab's losses	<u>(9,617)</u>
Total	<u>11,403</u>

ProTab is a private company incorporated in Israel in August 2005 and fully owned by Hadasit.

ProTab is developing drugs that use an innovative approach for the treatment of rheumatoid arthritis and other autoimmune diseases, including Type 1 diabetes. The development is based on discoveries by Prof. Yaakov Naparstek of the Hadassah Hospital Ein Kerem.

ProTab holds an exclusive license to use the patents and patent applications for peptides for treating autoimmune diseases.

This exclusive license includes two patents issued in the United States and Australia and five patent applications in the United States, Europe, Canada, Japan, and Israel.

On September 11, 2007, an agreement was signed between ProTab and the Company to conduct research aimed at humanization (a chemical transformation intended to make the antibody suitable for use in human beings) of the antibody being developed by ProTab.

During the first quarter of 2008, trials to ascertain that the chimeric antibody retains the properties of the original antibodies were concluded successively, both with regard to the efficacy of its treatment of arthritis (in an animal model) and with regard to its effect on the release of anti-inflammatory compounds and binding to the target protein (peptide 6). The success of the trials of the chimeric antibody served as the basis for continuation of the humanization process aimed at the development of a fully humanized antibody.

During the second quarter of 2008, and in the wake of the success of the first stage of the project, it was decided to continue the humanization of the antibody, pursuant to the aforesaid agreement with the British firm Antitope, Ltd. The final stage of the humanization process was completed successfully during the third quarter of 2008.

In 2007, ProTab concluded two agreements with related parties: a service agreement (for the conduct of research and development of ProTab's lead project, including additional animal trials and preparations for clinical trials) and a consulting agreement with Prof. Yaakov Naparstek. In August 2008, these two contracts were extended until the end of 2009.

On April 12, 2010, ProTab signed an agreement to issue shares to new investors, the Pontifax Fund and Clal Biotechnology, as well as to its existing investors, the Company, and to convert convertible loans into shares, all of this subject to completion of the conditions stipulated among the parties. After these conditions were fulfilled, the issue proceeded as follows:

The investors undertook to inject \$4 million into ProTab, \$2 million immediately upon fulfillment of the conditions and \$2 million six months thereafter. In return, ProTab allocated the investors 111,111 Series A preferred shares with a par value of NIS 0.01 per share, proportional to the relative investment by each party.

In addition, the investors will be given 88,888 options to purchase Series A preferred shares, which may be exercised for three years or until certain conditions are met, whichever occurs first, for an additional payment of \$45 per option. In addition, the new investors will be allocated 12,858 options for regular shares (par value NIS 0.01 per share), to be exercised by means of an additional payment of NIS 0.01 per option. ProTab will convert all convertible loans it has received from the Company, in the amount of NIS 7.09 million, including accrued interest on the loans, at the dollar exchange rate on the day of the agreement, to 64,743 Series A preferred shares (par value NIS 0.01 per share).

As part of the agreement, the ProTab bylaws were revised. It was stipulated, among other things, that for the purposes of certain activities, enumerated in the bylaws, the consent of all holders of Series A preferred shares who hold more than 7.5% of the share equity of ProTab, after the issuance of the shares and after the payment of all of their liabilities to ProTab, pursuant to the agreement, will be required.

As of the date of the balance sheet, the warranty conditions had been fulfilled, the shares and options had been allocated, and the convertible loans had been converted to ProTab shares, as per the issue agreement.

As a result of the aforesaid deal, the Company lost control of ProTab and its holdings were diluted from 100% to 69.79%, on a weighted basis, composed of 52.6% of the Company's share equity and 100% of its regular shares. In addition, on the date of the loss of control the Company recognized the investment in ProTab at its fair value, thereby creating a capital gain by the revaluation of the investment in ProTab, in the amount of NIS 13.72 million. In addition, a surplus cost of NIS 9.604 million was created, of which NIS 6.374 million was assigned to good will and NIS 3.230 million to intellectual property, to be depreciated over a period of 15 years.

7.24 Conjugate, Ltd. (hereinafter Conjugate)

On March 17, 2008, the Company's control committee, and subsequently its board of directors, approved an investment in the share equity of Conjugate. Conjugate is a biotechnology startup that is developing a technological platform

intended to neutralize the negative side affects that may appear in conjunction with the use of drugs that have already received marketing approval and are being sold to the public. Conjugate's lead product is expected to begin Phase I clinical trials in 2008.

In January 2011, Conjugate's board of directors decided to suspend its activities, because of technological problems with the development of its projects and its inability to manufacture the product on an industrial scale. As of the date of the report, the value of the Company's investment in Conjugate was zero.

In the Company's financial statements, the investment in Conjugate as at December 31, 2010, is displayed as following:

	NIS thousands
Cost	3,077
Company's share of CellCure's losses	<u>(3,077)</u>
Total	<u><u>—</u></u>

7.2.5 CT Signal, Ltd. (hereinafter CT Signal)

On July 5, 2009, the board of directors of CT Signal decided to suspend its activity and to begin the process of liquidation, voluntary liquidation to the extent possible.

The board's decision was taken after it found that, especially in light of the financial position of TK Signal, it no longer had any economic or commercial viability.

In the wake of the aforesaid decision, and pursuant to the license agreement, TK Signal is taking steps to return the original intellectual property, including the knowledge accumulated during the period when it was held by TK Signal, to Hadassah Hospital and the Hebrew University, by means of their technology transfer arms, Hadasit and Yissum.

The company's management believes that the closure of TK Signal has no significant effect on the Company's financial statements.

Note 8. Salable Financial Assets

In January 2007, in a public offering, the Company acquired shares and options of BioLine Rx, Ltd. (hereinafter BioLine), in return for NIS 2.274 million.

During 2009, the Company sold BioLine the options it held for NIS 160,000.

As of December 31, 2010, the value of the Company's holdings in BioLine stock, based on the fair value of the shares on the exchange, is approximately NIS 991,000 (in 2009, NIS 1.133 million).

The Company measures its investment fair value; any difference between the book value and fair value are imputed to the Capital Fund. In 2010, the Company imputed NIS 142,000 to the Capital Fund (2009, NIS 875,000).

Note 9. Net Fixed Assets

Composition

	Improvements to leasehold	Machinery and Equipment	Computers	Contribution by Chief Scientist	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cost					
As at Jan. 1, 2010	2,420	1,013	98	(1)	3,530
Acquisitions	40	163	15	-	218
Deconsolidation	-	(682)	(20)	=	(702)
Cost as at Dec. 31, 2010	<u>2,460</u>	<u>494</u>	<u>93</u>	<u>(1)</u>	<u>3,046</u>
Cost					
As at Jan. 1, 2009	-	513	79	(1)	591
Acquisitions	<u>2,420</u>	<u>500</u>	<u>19</u>	=	<u>2,939</u>
Cost as at Dec. 31, 2009	<u>2,420</u>	<u>1,013</u>	<u>98</u>	<u>(1)</u>	<u>3,530</u>
Cumulative depreciation					
As at Jan. 1, 2010	-	342	66	(1)	407
Depreciation expenses	618	141	18	-	777
Deconsolidation	-	(42)	(16)	=	(58)
Cumulative depreciation, Dec. 31, 2010	<u>618</u>	<u>441</u>	<u>68</u>	<u>(1)</u>	<u>1,126</u>
Cumulative depreciation					
As at Jan. 1, 2009	-	169	44	(1)	212
Depreciation expenses	-	<u>173</u>	<u>22</u>	=	<u>195</u>
Cumulative depreciation, Dec. 31, 2009	-	<u>342</u>	<u>66</u>	<u>(1)</u>	<u>407</u>
Depreciated cost as at Dec. 31, 2010	<u>1,842</u>	<u>53</u>	<u>25</u>	<u>=</u>	<u>1,920</u>
Depreciated cost as at Dec. 31, 2009	<u>2,420</u>	<u>671</u>	<u>32</u>	<u>=</u>	<u>3,123</u>

Note 10. Intangible Assets

Composition

	As at December 31	
	2010	2009
	NIS thousands	NIS thousands
Cost (1) (2)	3,077	2,520
Less cumulative depreciation	<u>(700)</u>	<u>(407)</u>
Total	<u>2,377</u>	<u>2,113</u>

(1) In 2006, an excess acquisition cost was created in the consolidated financial statements and assigned to a patent license (see Note 7.1.1 on Verto).

(2) In 2009, KAHR signed an agreement to license intellectual property to supplement its existing intellectual property. In return, 4.9% of the KAHR's share equity was allocated to the owners of the intellectual property. As a result of this allocation, an intangible asset of NIS 1.850 million, depreciated over ten years, was recognized.

In 2010, as part of the licensing agreement, the Company bore additional costs of \$150,000 on account of the license.

Note 11. Vendors and Service Providers**Composition**

	As at December 31	
	2010	2009
	NIS thousands	NIS thousands
Open accounts	148	275
Expenses payable	1,258	1,573
Checks payable	<u>209</u>	<u>246</u>
	<u>1,615</u>	<u>2,094</u>

Note 12. Creditors and Credit Balances**Composition**

	As at December 31	
	2010	2009
	NIS thousands	NIS thousands
Employees and institutions on account of salary	660	655
Related parties	454	19
Advances from the Chief Scientist	109	-
Current maturities of long-term liabilities	<u>547</u>	<u>467(*)</u>
	<u>1,730</u>	<u>1,141</u>

* Reclassified

Note 13. Loans from Outside Shareholders in Consolidated Companies, Net

On June 10, 2007, an agreement was signed by outside shareholders and Verto for a loan of \$70,000, convertible into Verto stock. The loan was made available by the outside shareholders in order to allow Verto to complete the mobilization of capital for the clinical trial.

It was agreed that the loan would bear annual interest of LIBOR + 3%, and would be repaid, unless converted into Verto stock, on December 31, 2010. Should Verto make an offering of securities of at least \$500,000, the outside shareholders would be entitled to convert the loan (plus accrued interest) into Verto stock, at a discount of 20% from the value of shares in that allocation. Should no investment be made in Verto equity by December 31, 2010, the outside shareholders would be entitled, until December 31, 2010, to provide Verto with notification of conversion of the loan into Verto stock, at a company value for Verto of \$500,000 (before money). On December 30, 2010, an agreement was signed to defer repayment of the loan until December 31, 2011.

Note 14. Options

In January 2006, the Company issued shares and options on the Tel Aviv Stock Exchange. According to the prospectus, the public was offered five million regular shares, 2,300,000 options (Series 1), and 1,300,000 options (Series 2).

According to the prospectus, each option can be converted into one regular share of the Company, par value NIS 0.01 a share, on any trading day, starting on the date of the registration of the options for trade on the Stock Exchange, and running until January 3, 2010 (inclusive), for a cash payment. Should the options be exercised by July 3, 2007, the price for exercising the options would be NIS 6.4, linked to the index. Should the options be exercised starting on July 4, 2007, and through January 3, 2010 (inclusive), the exercise price would be NIS 9.6, linked to the index. An option not exercised by January 3, 2010 (inclusive) would not give its holder any right whatsoever and would be null and void after that date.

The immediate gross return to the Company for the issue was NIS 32 million.

The Company displays the options as financial liabilities held for trade. The options expired on January 3, 2010, and accordingly the Company zeroed their value against Financing Income.

Note 15. Equity

15.1 Composition

	As at Dec. 31 2009+2010	As at December 31 2010	
	Registered	Issued and Paid-up	
Regular shares, NIS 0.01 par value per share	<u>100,000,000</u>	<u>87,523,450</u>	<u>78,470,750</u>

Changes in share equity

	Regular shares 2010 Thousands of shares	Regular shares 2009 Thousands of shares	Regular shares 2008 Thousands of shares
Shares outstanding at start of year	78,471	19,405	19,405
Shares issued	8,848	59,066	-
Conversion of options to shares	<u>204</u>	<u>-</u>	<u>-</u>
Shares outstanding at end of year	<u>87,523</u>	<u>78,471</u>	<u>19,405</u>

15.2 On March 17, 2009, an agreement was signed between the Company and Hadasit (the controlling shareholder in the Company), a principal in the Company, and others (hereinafter the investors), whereby the investors undertook to purchase from the Company, in a private placement, 23,631,660 regular shares, NIS 0.01 par value a share, with the additional allocation to the investors of 11,815,830 options (non-negotiable) to be exercised over a period of three years. The total proceeds came to NIS 18.433 million.

15.3 On September 30, 2009, the Company published a shelf offering report to issue and register securities for trade on the Tel Aviv Stock Exchange. In this offering, between 35,465,100 and 37,339,500 regular shares of the Company, NIS 0.01 par value a share, and between 17,732,550, and 18,669,750 options (Series 3) (hereinafter the Offered Securities) were offered to holders of Company shares and holders of Company options (Series 1, Series 2, and non-negotiable).

The securities offered were offered in the form of rights to holders of the entitling securities, as between 1,612,050 and 1,697,250 rights units, in such a fashion that each rights unit was allocated to a holder of ten rights-entitling securities. In the context of the offering, it was stipulated that every rights unit exercised at a price of NIS 16.94 would provide its holder with 22 regular shares of the Company, NIS 0.01 par value a share, and 11 Series 3 options. A total of 852,000 non-negotiable options were not exercised by the date stipulated and did not entitle their holders to take part in the issue of rights, as stated in the offer (hereinafter, unexercised options).

As of the last date for the exercise of the rights, which was October 21, 2009, the Company had received notice of the exercise of 1,610,626 rights units to purchase 35,433,776 regular shares of the Company, NIS 0.01 par value per share, and 17,888 Series 3 options of the Company, equivalent to 99.91% of all of the right units offered (or 94.90% of the right units offered, taking account of options not exercised by the date stipulated above).

The return to the Company for the rights units that were exercised came to NIS 27.252 million (gross).

- 15.4 In keeping with the Company's shelf prospectus, published on August 31, 2009, and pursuant to the provisions of the Securities Regulations (Shelf Offerings of Securities) 5766-2005, on August 29, 2010, the Company published a shelf offering report for the issue and registration for trade of securities on the Tel Aviv Stock Exchange (hereinafter the Offering Report). In this document, the Company allocated 88,477 units, composed of 8.848 million shares and 8,848 Series 4 options, at a price of NIS 128 per unit. The options are unlinked and can be exercised until August 30, 2014, for an unlinked payment of NIS 1.75.

The total net proceeds for the issue come to NIS 10.902 million.

15.5 Options to Employees

At a meeting of the Company's Board of Directors, on May 21, 2007, it was decided to approve a plan for the allocation of options to employees of Hadasit Medical Research Services and Development, Ltd. (hereinafter Hadasit or the Parent Company), who provide or may provide the Company with management services under the management agreement signed by the Company and Hadasit on December 21, 2005 (hereinafter, the Management Agreement). On October 1, 2007, six employees of Hadasit were granted 325,000 options.

The maturity period of the options and the proportion of options that can be converted into shares for each allocation of options will consist of two separate components, weighted as follows:

- a. Time component: 75% of each allocation of options can be exercised and converted into Company shares within four years of the date of allocation, as follows: 25% of the 75% (that is 18.75%) at the expiration of one year from the date of allocation of the options, and another 12% of the 75% (that is, 9.375%) every six months after the end of the first year and running through the end of four years from the date of allocation.

- b. Company success component (the other 25% of each allocation of options): If, by January 4, 2011, the weighted average of the Company's share price on the Exchange for 30 consecutive trading days exceeds 200% of the Company's share price on the Exchange on the date of approval of this plan, 25% of each allocation will be eligible for immediate exercise. After the date of the balance sheet, the options expired because of the failure to meet the market price condition.

The basic exercise price of each option is NIS 7.12, subject to adjustments, such as: in the event of the distribution of bonus stock; distribution of a dividend; etc.

The options in the plan were allocated to employees pursuant to the provisions of Section 102 of the Income Tax Ordinance, in the capital gains taxation track.

Computation of the bonus imputed in the Profit and Loss Statement as the fair value of the options granted, as stated above, is estimated by applying the Black-Scholes Model for options pricing. Each option is valued at NIS 4.06.

The following parameters were input to the model:

Component

Share price	7.12
Exercise price	7.12
Life of the options plan	10 years
Standard deviation range	37.89%–68.78%
Risk-free interest range	2.6%–3.12%
Employee departure rate	0%
Early exercise factor	3.26%
Expected dividend rate	0%

In 2010, wage costs on account of the employees options plan, in the amount of NIS 855,000, were imputed to the Capital Fund (in 2009, NIS 745,000).

At the meeting of the Company's Board of Directors on February 19, 2009, it was decided to approve a plan for a private allocation of 480,000 non-negotiable bearer options, convertible into up to 480,000 regular shares of the Company, NIS 0.01 par value per share, to the six directors of the Company.

The maturity period of the options and proportion of the options that can be converted into shares for each allocation of options is three years (maturation in three equal batches), starting on February 19, 2009.

The price for exercising the options is NIS 2, linked to the Consumer Price Index for June 2009.

The economic value of the options allocated to directors is NIS 393,000. This is estimated by applying the Black-Scholes model for options pricing.

Each option allocated to directors is valued at NIS 0.818.

The following parameters were input to the model:

<u>Component</u>	
Share price	NIS 1.678
Exercise price	NIS 2
Life of the options plan	10 years
Standard deviation range	59.62%–60.57%
Risk-free interest range	1.18%–1.49%
Average life for computation (years)	5–5.78
Expected dividend rate	0%

On September 23, 2009, the Company's Board of Directors approved a plan for a private allocation of 980,000 non-negotiable options, to be converted into up to 980,000 regular shares of the Company, NIS 0.01 par value per share, to six employees of Hadasit, including the Company's CEO.

The maturity period of the options and proportion of the options that can be converted into shares for each allocation of options is three years (maturation in three equal batches), starting on February 19, 2009.

The price for exercising the options is NIS 2, linked to the Consumer Price Index for June 2009.

The economic value of the options allocated to the executives is NIS 802,000. This is estimated by applying the Black-Scholes model for options pricing.

Each option allocated to directors is valued at NIS 0.818.

The following parameters were input to the model:

<u>Component</u>	
Share price	NIS 1.678
Exercise price	NIS 2
Life of the options plan	10 years
Standard deviation range	59.62%–60.57%
Risk-free interest range	1.18%–1.49%
Average life for computation (years)	5–5.78
Expected dividend rate	0%

On December 26, 2010, the Company's Board of Directors approved a private allocation of options to the CEO of the Company. The approval of this allocation was made conditional on the signing of and approval of a new management fee agreement between the Company and Hadasit. Such an agreement was signed on January 12, 2011. On February 27, 2011, the General Assembly approved the new Management Agreement and the options were allocated in the capital track, pursuant to the provisions of Section 102 and subject to the provisions of Section 3(i) of the Income Tax Ordinance.

Each option can be converted into one regular share of the Company, NIS 0.01 par value a share, for an additional linked payment of NIS 2 (subject to adjustments). The options will mature in several batches over a period of 3.5 years. The options that

mature can be exercised for seven years after the date of the allocation or ten years from the start of the plan, whichever is later. The cost of the latent benefit of the options allocated as stated, based on the fair value at the date of their vesting, is estimated at NIS 280,000.

The fair value of the options allocated as stated was estimated using the binomial model.

The following parameters were input to the model:

Component

Share price	NIS 1.051
Exercise price	NIS 2.00 (index-linked)
Expected volatility (*)	63.6%
Life of the options plan (years) (**)	2.5
Risk-free interest rate	2.16%

(*) The expected volatility was determined on the basis of the historical five-year volatility of the share price on the Tel Aviv Stock Exchange. The average life of the options was set on the basis of statistical studies that point to early exercise of between 2 and 3 years on average.

(**) The risk-free interest rate was taken for each batch on the basis of the expected life of the options.

Additional details about the options granted to employees:

	December 31	
	2010	2009
	Number of options (thousands)	
Options granted to employees:		
In circulation at the start of the period	1,820	360
Granted	<u>60</u>	<u>1,460</u>
In circulation at the end of the period	<u>1,880</u>	<u>1,820</u>
Number of options that can be exercised	<u>1,055</u>	<u>284</u>

15.6 The new regular shares convey the right to attend and vote at meetings of the Company's General Assembly, the right to participate in a distribution of profits, and the right to participate in the distribution of the Company's surplus assets when it is liquidated.

Note 16. Government Grants

Type of grant	Amount	Terms of the Government Grant
Grant by the Chief Scientist	7,469	As at December 31, 2010, the Group's consolidated companies had received loans from the Chief Scientist in a total amount of 7,469 thousand NIS and recognized grants receivable from the Chief Scientist in the amount of 143 thousand NIS, linked to the dollar exchange rate and bearing an annual interest rate of Libor. The loans will be repaid as a rate of royalties on sales. The Company recognized the obligation to repay the loans at a royalty rate of 3%–4.5% and a capitalization rate of 35%, and in keeping with the estimated income forecast.
Chief Scientist grants still to be received	<u>143</u>	
Total	<u>7,612</u>	

Note 17. Contracts and Pending Liabilities

17.1 A management agreement was signed by the Company and Hadasit in December 2005. It relates to the issue that took place in January 2006, in which Hadasit undertook to provide the Company with general management services, including supervision of the R&D companies by executives with knowledge and expertise in the medical and biotechnological fields.

The term of the agreement is five years from the date of the completion of the public offering.

In return for the management services to be provided by Hadasit, Hadasit will be entitled to the following compensation:

- A fixed annual fee of 2% of the gross returns from the sums raised by the current public offering of shares and options, and from any other amount that the Company may raise by issues of equity capital (public or private), for a period of five years.
- With regard to any amount that the Company may receive in dividends from the R&D companies or from any realization by the Company of the R&D companies (including other companies in which the Company may invest after the date of the completion of the public offering) (hereinafter revenues), Hadasit will be entitled to a success fee of 5% to 20% of the revenues, based on all revenues that the Company may receive. A condition for the payment of this success fee is that the total revenues be greater than the Company's cumulative losses and that the total surplus serves as the basis for the computation of the success fee.

It was further stipulated in the agreement that the Company will allocate stock options to senior Hadasit employees who provide the management services enumerated in the agreement. The number of options to be allocated and their terms will be defined by the Company's Board of Directors. It was stipulated that the number of shares to be allocated for exercise of the options will not exceed 3% of the Company's issued equity after completion of the public offering. On July 29, 2009, this allocation plan was approved by the Company's Board of Directors.

After the date of this balance sheet, a new management fee agreement was approved and signed. For further details, see Note 26.

17.2 On December 18, 2005, a framework agreement was signed between KAHR and a foreign corporation owned by a foreign inventor and by the estate of another person. Pursuant to the provisions of the framework agreement, in early July 2006 a licensing agreement was signed between the foreign inventor and KAHR, under which the foreign inventor granted KAHR an exclusive worldwide license (for the entire period during which the patent is valid) in the patent and the patent application to be detailed below. In addition, KAHR received an exclusive worldwide license to the technology developed in this field by Hadassah. According to the framework agreement, the ownership of KAHR is divided such that the Company holds 80% ownership of KAHR and the foreign inventor 20% ownership of KAHR. In the framework agreement, the Company undertook to invest \$750,000 in KAHR by January 4, 2008.

In addition, the Company pledged that by January 4, 2009, it would make maximum efforts to raise additional funds for KAHR in the amount of \$2 million. As of the date of this balance sheet, however, this amount has not been raised. It was stipulated in the agreement that KAHR will invest some of the funds made available to it in continued research at Hadassah, as well as an annual sum of at least \$75,000, over a period of five years, in research and development in the aforesaid field by the foreign inventor, to be carried out in the facilities of the University of Pennsylvania. It was stipulated in the framework agreement that KAHR will indemnify the foreign investor for the costs of protecting and holding the patents as well as other expenses associated with this (including the issuance of the license), in an amount to be documented by receipts and which in any case shall not exceed \$150,000. It was further stipulated in the framework agreement that the foreign inventor will be entitled to appoint two of the five directors of KAHR.

- 17.3** On December 20, 2005, the Company's Board of Directors decided to purchase liability insurance for the Company's directors and executives and for the directors of Hadasit, in connection with the public issue of securities by the Company.

On December 25, 2005, the Company's General Assembly voted to grant certificates of indemnity and exemption to the Company's directors. In addition, the General Assembly authorized the Company's Board of Directors to grant certificates of indemnification and exemption to other executives of the Company and to members of its advisory committee, as it may deem appropriate from time to time.

The main coverage stipulated by the policy is as follows: \$10 million in liability coverage for directors and company executives, including coverage for the Company itself, with a subordinate limit of \$5 million. The liability insurance for directors and executives of Hadasit and of the Hadassah Medical Organization is in the same amount, but limited to claims related to the prospectus. The policy was taken out for one year and came into effect on December 25, 2010, retroactive to September 19, 2005—the day when the Company was founded.

The annual premium is \$12,800, with the following deductibles: \$0 for executives, \$15,000 for the corporation, but \$50,000 in the United States or Canada, and \$35,000 for claims under the securities laws. The list of events and the certificate of indemnification are normal and standard.

- 17.4** On February 5, 2008, a rental contract was signed between the Company and another company (hereinafter "the other company") for approximately 860 square meters in the biotechnology park whose construction was completed in April 2009.

The rental agreement is for a period of five years, with the Company granted an option to extend it for five more years, at an increase in the rent. The rental agreement stipulated that the Company will pay a monthly rate of NIS 64 per square meter. In addition, throughout the rental period and the option period the Company will pay a sum of NIS 45 (index linked) for modifications that were made by the other company.

On account of the commitment to pay the cost of the modifications throughout the period of the option, the Company has recorded an obligation of NIS 45 per square meter per month throughout the rental period, under Assets, as recognition of

improvements to the leasehold. During 2009, the Company recognized a fixed asset of 2,420. In 2010, an additional obligation was recorded against fixed assets, in the amount of NIS 40,000.

In addition, an additional obligation of NIS 1.321 million was recorded against the leasing fees to be received.

A portion of the rental premises will be sublet to some of the project companies, on identical terms, mutatis mutandis, to those on which the Company rented the premises from the other company.

The Company's offices moved to the technology park in June 2009 and five of its Portfolio Companies also transferred their activities (offices and laboratories) to the park.

After the date of the Financial Statement, the Company modified the terms of its agreements with one of the Portfolio Companies in order to permit it to remain in the park.

Note 18. Noncash Transactions

- 18.1** In April 2010, NIS 7.091 million in convertible loans were converted to shares in ProTab (see also Note 7).
- 18.2** During 2010, options worth NIS 110,000 were exercised and converted into shares in Thrombotech (see also Note 7).
- 18.3** During 2008, 2009, and 2010, the Group recorded royalties payable to the Chief Scientist on account of receivables from the Chief Scientist in the amount of NIS 402,000, NIS 162,000, and NIS 72,000, respectively.
- 18.4** On account of a commitment to pay for the cost of the modifications to the premises in 2009, the Group recorded a fixed asset of NIS 2.420 million against long-term expenses payable. In the first quarter of 2010, the cost basis for the modifications was updated, and as a result the Company recorded an additional fixed asset of NIS 40,000 against long-term expenses payable; see Note 17.4.

Note 19. Financial Instruments

19.1 Capital Management Policy

The group manages its capital in such a way as to guarantee that its entities will be able to continue to exist as going concerns while increasing the return to the holders of its equity, by maintaining an optimum capital-to-debt ratio. There were no changes in the Company's capital management policy in 2010.

19.2 Main Points of Accounting Policy

Details of the main points of accounting policy and the methods adopted, including the conditions for recognition, the measurement basis, and the basis on which income and expenses were recognized with regard to each group of financial assets, financial liabilities, and capital instruments, can be found in Note 2.14.

19.3 Groups of Financial Instruments

	As at December 31	
	2010	2009
	NIS thousands	NIS thousands
Financial assets:		
Cash and cash equivalents	8,801	16,585
Financial assets at fair value through profit or loss	22,642	21,067
Salable financial assets	991	1,133
Loans and receivables	<u>3,127</u>	<u>1,760</u>
	<u>35,561</u>	<u>40,545</u>
Financial liabilities		
Financial liabilities measured at depreciated cost	<u>6,459</u>	<u>6,368</u>

19.4 The Goals of Financial Risk Management

The Company's Finance Department provides services for commercial activities, arranges access to local and international financial markets, and supervises and manages the financial risks associated with the Group's activities by means of internal reports that analyze its exposure to risk, by level and intensity. These risks include market risks (including currency risks) and liquidity risks.

The Group reduces the impact of the aforesaid risks by using derivative instruments to hedge its exposure. The use of derivative instruments is in accordance with the Group's policy, as approved by the Board of Directors, which defines written principles for management of currency risks, management of interest rate risk, credit risk, the use of derivative instruments and non-derivative financial instruments, and investment of excess liquidity. Compliance with the policy and the levels of exposure are surveyed by the internal auditors on a regular basis. The Group's Finance Department reports on a quarterly basis to the Group's Risk Management Committee, an independent body that oversees its risks and implementation of the policy adopted to minimize exposure to risk.

19.5 Currency Risk

The Group conducted a number of transactions denominated in foreign currency. This created an exposure to exchange-rate fluctuations, principally in the dollar and the euro. Exchange-rate risk stems from expenses, assets, and liabilities that have been recognized as denominated in a currency that is not the Group's operating and reporting currency.

The book values of the Group's financial assets and liabilities denominated in foreign currency are as follows:

	Liabilities		Assets	
	December 31		December 31	
	2010	2009	2010	2009
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
US dollar	1,762	1,555	1,343	2,845
Euro	-	-	-	3
Pound sterling	-	-	822	914
Total	<u>1,762</u>	<u>1,555</u>	<u>2,185</u>	<u>3,762</u>

The Group is exposed chiefly to the US dollar.

Foreign Currency Sensitivity Analysis

The table below displays the sensitivity to a 5% decline in the relevant exchange rate. This is the sensitivity level used in reports to key executives and it also corresponds to management's estimate of the reasonable possible change in exchange rates. The sensitivity analysis includes existing balances of financial items denominated in foreign currency and translates them at the end of the period to a 5% change in exchange rates.

Influence of a 5% decline in the sheqel exchange rate vs. other currencies:

	Influence of the dollar	
	As at December 31	
	2010	2009
	NIS thousands	NIS thousands
Profit (loss)	<u>(21)</u>	<u>65</u>

19.6 Exposures to the Price of the Capital Instruments of other Entities

The Group is exposed to share-price risks as a result of its investments in other companies, which are treated as salable financial assets (see Note 2.14). These investments are held for strategic purposes. The Group does not actively trade in these investments.

The book value of the investments exposed to share-price risk is NIS 991,000. For additional information, see Note 7.

Share Price Sensitivity Analysis

The sensitivity analysis below was defined on the basis of the exposure to share price risks as of the date of the report.

If the prices of the shares owned were 5% higher or lower, the before-tax/after-tax impact would be as follows:

Other Capital Funds would increase/decrease by NIS 50,000 as at December 31, 2010 (2009, NIS 57,000), as a result of changes in the fair values of salable shares.

The Group's sensitivity to share prices did not change substantially from the previous year.

19.7 Analyses of Financial Instruments by their Index Base and Currency

	December 31, 2010			December 31, 2009		
	In foreign currency or linked to it	In sheqels, index linked	In sheqels, unlinked	In foreign currency or linked to it	In sheqels, index linked	In sheqels, unlinked
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cash and cash equivalents	304	-	8,497	3,762	-	12,823
Receivables at cost and or depreciated cost	-	1,360	1,767	-	(*)1,321	1,760
Held for trade	822	333	20,448	-	467	20,600
Salable financial assets measured at fair value	-	-	991	-	-	1,133
Financial instruments at fair value	<u>1,039</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>2,165</u>	<u>1,693</u>	<u>31,703</u>	<u>3,762</u>	<u>1,788</u>	<u>36,316</u>
Financial liabilities						
Financial liabilities measured at depreciated cost	<u>1,762</u>	<u>3,848</u>	<u>2,079</u>	<u>(*)1,555</u>	<u>(*)3,916</u>	<u>2,452</u>

(*) Reclassified

19.8 Financial Instruments Displayed in the Financial Statement at Fair Value

In order to measure the fair value of its financial instruments, the Group ranks the financial instruments measured at fair value in the Statement of Financial Position on three levels:

- Level 1: Prices (not adjusted) quoted on active markets for identical financial liabilities and assets
- Level 2: Data other than quoted prices included in Level 1, whether observed directly (i.e., prices) or indirectly (derived from prices), for financial liabilities and assets
- Level 3: Data on financial liabilities and assets that are not based on observed market data.

The classification of financial instruments measured at fair value is based on the lowest level of which significant use was made to measure the fair value of the overall instrument.

The table provides details on the Group's financial instruments, measured at fair value, by level.

Financial Assets at Fair Value

	As at December 31, 2010			
	Level 1	Level 2	Level 3	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Financial assets at fair value through profit and loss:				
Options of affiliated companies	-	-	1,039	1,039
Investment in negotiable securities	20,781	-	-	20,781
Salable financial assets	<u>991</u>	<u>-</u>	<u>-</u>	<u>991</u>
Total	<u>21,772</u>	<u>-</u>	<u>1,039</u>	<u>22,811</u>

The book value of financial instruments that are not displayed at fair value in the Company's Statement of Financial Position is approximately equal to their fair value.

19.9 Management of Liquidity Risk

Ultimate responsibility for the management of liquidity risk is borne by the Board of Directors, which has defined an appropriate plan for management of liquidity risk in keeping with management's requests concerning short-term, mid-term, and long-term liquidity and financing. The Group manages its liquidity risk by maintaining appropriate funds, bank instruments, and loans, by constant supervision of actual and anticipated cash flows, and by modification of the maturity terms of its financial liabilities and assets. In addition, the Group is exposed to interest risk because the companies of the Group borrow and lend at variable interest rates.

Hedging activities are evaluated on a regular basis in order to adapt them to forecasts of the interest rate and desired risk level.

The mix of the Group's loans provides an optimum hedging strategy.

Liquidity and Interest Risk Tables

19.9.1 Financial Liabilities that are not Derivatives

The tables below provide details of the Group's outstanding contractual repayment dates on account of financial liabilities that are not derivatives. The tables were drawn up based on the uncapitalized cash flows of the financial liabilities and the earliest date at which the Group may be asked to repay them. The table includes cash flows on account of interest and on account of principal.

	Average effective interest rate	Up to one year	1-5 year	Total
		NIS thousands	NIS thousands	NIS thousands
2010				
Not interest bearing		2,183	3,341	5,524
Instruments at variable interest	Libor + 3%	266	-	266
Instruments at variable interest	Libor	<u>-</u>	<u>964</u>	<u>964</u>
		<u>2,449</u>	<u>4,305</u>	<u>6,754</u>
2009				
Not interest bearing		3,235	3,449	6,684
Instruments at variable interest	Libor + 3%	278	-	278
Instruments at variable interest	Libor	<u>-</u>	<u>1,275</u>	<u>1,275</u>
		<u>3,513</u>	<u>4,724</u>	<u>8,237</u>

19.9.2 Financial Assets that Are Not Derivatives

The tables below list the expected redemption dates of the Group's financial assets that are not derivatives. The tables were drawn up on the basis of the uncapitalized anticipated redemption dates of the financial assets, including interest that may be produced by these assets, except for cases in which the Group anticipates that the cash flow will take place in a different period. The tables were prepared based on cash payments/receipts for derivatives that are settled on a net basis and uncapitalized gross cash receipts/payments for derivatives that require a net settlement. When the amount to be paid or received is not fixed, the amount listed is determined on the basis of the forecast interest rates, as described by the interest yield curve for the end of the reporting period.

	Up to one year	1–5 years	Total
	NIS	NIS	NIS
	thousands	thousands	thousands
2010			
Financial assets held for trade			
Government bonds and other bonds	20,781-	20,781
Salable financial assets measured at fair value			
Shares	991-	991
Clients and receivables	1,385	1,124	2,509
	<u>23,157</u>	<u>1,124</u>	<u>24,281</u>
2009			
Financial assets held for trade			
Government bonds and other bonds	21,067-	21,067
Salable financial assets measured at fair value			
Shares	1,133-	1,133
Clients and receivables			
Income receivable	1,140	-	1,140
Others	1,077	1,164	2,241
	<u>24,417</u>	<u>1,164</u>	<u>25,581</u>

Note 20. Research and Development Expenses

Composition

	For year ending December 31		
	2010	2009	2008
	NIS thousands	NIS thousands	NIS thousands
Salaries and benefits	3,144	2,378	2,307
Consultants and subcontractors	3,552	3,786(*)	3,375
Materials	534	1,120;	1,401(*)
Patent application costs	613	651	401(*)
Depreciation and amortization	429	356(*)	210(*)
Other	177	365(*)	1,628(*)
	8,449	8,656	9,322
Chief Scientist	<u>(2,752) (*)</u>	<u>(2,149)</u>	<u>(2,149)</u>
	<u>6,019</u>	<u>5,904</u>	<u>7,173</u>

(*) Reclassified

Note 21. Management and Miscellaneous Expenses

Composition

	For year ending December 31		
	2010	2009	2008
	NIS thousands	NIS thousands	NIS thousands
Professional services	1,797	1,561	1,061
Management fees	2,211	1,789	1,114
Office maintenance	472	982	559
Salary and benefits	1,422	1,317	1,355
Depreciation	642	41	21
Other	<u>681</u>	<u>195</u>	<u>78</u>
	<u>7,225</u>	<u>5,895</u>	<u>4,188</u>

Note 22. Other Income (Expenses)

Composition

	For year ending December 31		
	2010	2009	2008
	NIS thousands	NIS thousands	NIS thousands
Profit from revaluation of investment as a result of deconsolidation	13,172	-	-
Profit from a decline in holdings in Portfolio Companies, net	1,561	1,901	43
Provision for a decline in value on account of investment in Portfolio Companies and others	(20)	(342)	(1,375)
Other income	<u>214</u>	<u>-</u>	<u>-</u>
	<u>14,927</u>	<u>1,559</u>	<u>(1,332)</u>

Note 23. Financing Income

Composition

	For year ending December 31		
	2010	2009	2008
	NIS thousands	NIS thousands	NIS thousands
Income from interest on short-term bank deposits	136	92	553
Income from interest on securities	376	-	-
Interest income from convertible bonds	-	-	25
Change in the fair value of financial liabilities	165	113	4,447
Revaluation of securities	-	627	1,474
Redemption of securities	69	-	-
Other	<u>30</u>	<u>-</u>	<u>848</u>
	<u>776</u>	<u>832</u>	<u>7,347</u>

Note 24. Financing Expenses

Composition

	For year ending December 31		
	2010 NIS thousands	2009 NIS thousands	2008 NIS thousands
Interest payments and fees to banks	24	38	493
Interest expenses on bonds	-	-	2,988
Revaluation of securities	67	7	-
Exchange-rate differentials	120	-	-
Change in the fair value of financial assets	532	277	774
Interest and linkage expenses on long term liabilities	<u>109</u>	<u>-</u>	<u>-</u>
	<u>852</u>	<u>322</u>	<u>4,255</u>

Note 25. Income Tax

25.1 On February 26, 2006, the Knesset passed on third reading the Income Tax Law (Adjustments on Accounts of Inflation) (Amendment 20) (Limitation of Period of Application) 5768-2008 (hereinafter "the Amendment"), according to which the Law for Inflationary Adjustments will no longer apply after the 2007 tax year and the provisions of the law will no longer apply as of the 2008 tax year, except for transitional provisions intended to prevent distortions in tax computations.

Pursuant to the Amendment, from the 2008 tax year on, there will no longer be any computations of adjustments of taxable income to a real measurement basis. In addition, the index-linkage of the amounts depreciated for fixed assets and losses carried forward for tax purposes will be ended, such that these sums are adjusted to the index at the end of the 2007 tax year, after which they will no longer be linked to the index.

25.2 On July 23, 2009, the Economic Efficiency Law (Legislative Amendments to Implement the Economic Program for 2009 and 2010) 5769-2009 (hereinafter the Economic Arrangements Law) was gazetted. According to the Economic Arrangements Law, the tax rates of 26% and 25%, applied to companies in 2009 and 2010, respectively, will be reduced in stages, beginning in the 2011 tax year, for which the companies' tax rate has been set at 24%, and through the 2016 tax year, when the companies' tax rate will be 18%.

25.3 Final tax assessments have not yet been issued for the Company and its Portfolio Companies.

25.4 As at December 31, 2010, the Company had a cumulative loss for tax purposes to be carried forward to coming years of NIS 14.173 million. In addition, as of that date, the consolidated companies had a cumulative tax loss to be carried forward to coming years of NIS 24.191 million.

25.5 The Company does not anticipate any taxable income in the foreseeable future. Consequently, the Company did not impute deferred taxes on account of losses to be carried forward for tax purposes or to temporary differentials for assets and liabilities between the tax basis and their book value.

Note 26. Loss per Share

The computations of the basic loss per share and the diluted loss per share allocated to regular shareholders are based on the following data:

	For year ending December 31		
	2010 NIS thousands	2009 NIS thousands	2008 NIS thousands
Loss used for basic and diluted earnings per share	<u>7,141</u>	<u>14,998</u>	<u>15,679</u>
Weighted average of number of regular shares	<u>81,539</u>	<u>31,626</u>	<u>19,405</u>

	For year ending December 31		
	2010 NIS thousands	2009 NIS thousands	2008 NIS thousands
Balance on January 1	78,471	19,405	19,405
Plus shares issued	2,933	20,221	-
Plus options converted into shares	<u>135</u>	<u>-</u>	<u>-</u>
Weighted average of number of regular shares used to compute the basis per share	<u>81,539</u>	<u>39,626</u>	<u>19,405</u>

	For year ending December 31		
	2010 NIS thousands	2009 NIS thousands	2008 NIS thousands
Options	<u>2,572</u>	<u>1,090</u>	<u>360</u>

Weighted average of securities not included in the computation of diluted profit per share because their influence was anti-dilutionary

Options	<u>2,572</u>	<u>1,090</u>	<u>360</u>
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Note 27. Principals and Related Parties

27.1 The principal shareholder of the company is Hadasit Medical Research Services and Development, Ltd.

27.2 Balances with Principals and Related Parties

	As at December 31	
	2010 NIS thousands	2009 NIS thousands
Under Current Assets		
<u>Receivables and Debit Balances</u>		
Unlinked	<u>897</u>	<u>137</u>
Index-linked	<u>236</u>	<u>157(*)</u>
Under Non-current Assets		
<u>Rent receivable</u>		
Linked to index	<u>1,124</u>	<u>1,164(*)</u>
Under Current Liabilities		
<u>Payables and Credit Balances</u>		
Unlinked	<u>454</u>	<u>19</u>
Under Non-current Liabilities		
Loans from outside share holders in affiliated companies, net		
In foreign currency or linked to foreign currency	<u>266</u>	<u>280</u>
(*) Reclassified		

27.3 Transactions with Principals and Related Parties

	For year ending December 31		
	2010	2009	2008
	NIS thousands	NIS thousands	NIS thousands
Research and development expenses	1,471	2,861	1,824
Management and general expenses	2,882	3,355	1,238
Financing expenses	<u>551</u>	<u>277</u>	<u>774</u>

	For year ending December 31		
	2010	2009	2008
	NIS thousands	NIS thousands	NIS thousands
Management fees to principals who are not Company employees (*)	<u>2,211</u>	<u>1,789</u>	<u>1,114</u>
Number of persons to whom the benefit applies	1	1	1
Payments to directors who are not Company employees	<u>455</u>	<u>307</u>	<u>124</u>
Number of persons to whom the benefit applies	<u>1</u>	<u>1</u>	<u>1</u>

(*)See Note 17 on the old management fee agreement and Note 28 on the renewal of the management fee agreement.

Note 28. Events after the Date of the Balance Sheet

Renewal of a Contractual Arrangement with Different Payment Terms

On January 12, 2011, the Company approved and signed a new management agreement with Hadasit Medical Research and Development Services, Ltd. (hereinafter Hadasit), for a period of four years, beginning on January 1, 2011. The Company is entitled to cancel the agreement after a period of one, two, or three years from its starting date, and Hadasit will have no claims against the Company on that account. The agreement stipulates that Hadasit, by means of its employees and consultants, will provide the Company with ongoing management services related to the Company's activities and business, in coordination with and under the supervision of the Company's management and Board of Directors. In return for the provision of management services, the Company will pay Hadasit NIS 620,000 a year and will also bear the full cost of the salary of the Company's CEO, who is employed by Hadasit. On February 27, 2011, the General Assembly approved the new management agreement. The influence of the change in terms in the new management agreement with Hadasit, had it applied during the present year and previous periods, is displayed below.

28.1 Influence on the Total Loss Reported for the Year

	For year ending December 31		
	2010 NIS thousands	2009 NIS thousands	2008 NIS thousands
Loss for year attributed to owners of Parent Company as reported under the previous agreement	7,556	14,123	15,679
Management fees under the previous agreement	2,211	1,789	1,114
Management fees under the new agreement	(1,400)	(1,400)	(1,400)
	811	389	(286)
Management and general expenses under the old agreement	7,225	5,895	4,188
Management and general expenses under the new agreement	(6141)	(5,506)	(4,474)
	...811	...389	...(286)
Loss for year attributed the owners of parent company, pro forma	<u>6,745</u>	<u>13,734</u>	<u>15,393</u>

28.2 Influence on Loss per Share (in NIS)

	For year ending December 31		
	2010 NIS thousands	2009 NIS thousands	2008 NIS thousands
Basic loss per share, as reported	(0.09)	(0.38)	(0.81)
Influence, pro forma	0.01	0.01	(0.01)
Basic loss per share, pro forma	(0.08)	(0.37)	(0.82)

28.3 Influence on Surplus

	As at December 31	
	2010 NIS thousands	2009 NIS thousands
Surplus balance as reported	(61,231)	(3,459)
Influence pro forma	<u>914</u>	<u>103</u>
Surplus balance, pro forma	<u>(60,317)</u>	<u>(53,356)</u>

Note 29. Reclassification

The Group reclassified the sums listed below in the comparison data for December 31, 2009. The reclassification stems from adjustment of the comparison data to the way in which certain transactions are displayed in the Group's reports for December 31, 2010. The reclassification does not affect the comparison data in the Statements of Financial Position for periods prior to 2009. Consequently, the influence of the reclassification was not displayed in the Statement of Financial Position for December 31, 2009.

	As at December 31, 2009		
	As formerly classified	Change	As classified in present reports
	NIS thousands	NIS thousands	NIS thousands
Receivables and debit balances	<u>2,060</u>	<u>157</u>	<u>2,217</u>
Rent receivable	<u>-</u>	<u>1,164</u>	<u>1,164</u>
Payables and credit balances	<u>674</u>	<u>467</u>	<u>1,141</u>
Expenses payable	<u>2,595</u>	<u>854</u>	<u>3,449</u>

Report on the Internal Audit of the Financial Reports and Disclosure

Company management, under the supervision of the Balance Sheet Committee and the Board of the Directors, is responsible for formulating and carrying out an appropriate internal audit of the corporation's financial reports and disclosure.

For this purpose, management consists of the following:

- Ophir Shahaf, Company CEO
- Mr. Alejandro Igelman, vice-president for finance

The internal audit of the financial reports and disclosure includes controls and procedures in place in the Company and that were planned by the CEO or vice-president for finance, or under their direction, and under the supervision of the company's Board of Directors. They are intended to provide a reasonable degree of security as to the reliability of the financial statements and their preparation pursuant to the provisions of the law and to guarantee that the information that the corporation is required to disclose in the reports that it publishes, under the provisions of the law, was collected, processed, summarized, and reported at the appropriate time and in the format stipulated by law.

The internal audit includes, among other things, controls and procedures that were planned in order to guarantee that the information that the company is required to include, as stated, is aggregated and transmitted to the company's Board of Directors, and this in order for it to be able to make decisions at the appropriate time, taking account of the disclosure requirements.

Because of its structural limitations, an internal audit of financial reports and disclosure is not intended to provide absolute security that any misrepresentation or omission of information from the reports will be prevented or discovered.

Management, under the supervision of the Balance Sheet Committee and Board of Directors, has examined and evaluated the internal audit of the financial report and disclosure by the company and its effectiveness. **Based on this evaluation, the Balance Sheet Committee and the Company's Board of Directors reached the conclusion that the internal audit of the financial reports and disclosure for the corporation, for December 31, 2010, is not effective, because of the following material weakness:**

The failure to conduct an effective control of the procedures for preparing and closing the financial reports for December 31, 2010, including the procedures required to compute and record the Company's investments in its Portfolio Companies in the financial reports, pursuant to IFRS standards.

In light of the above, on December 31, 2010, there was a substantial weakness in the internal control related to the closure and reporting of the financial statements.

The Company intends to take a number of steps to amend this material weakness, such as reinforcing the Company's finance department and adding new procedures and controls, under the close supervision of the Company's CEO.

Additional Information about the Corporation

General Information

Name: HBL Hadasit Bio-Holdings, Ltd.
 Corporation Number: 513734590
 Address: Hadassah Ein Kerem, P.O.B. 12000, Jerusalem
 Telephone: 02 677-8757
 Fax: 02 643-7712
 E-mail: ophir@hbl.co.il
 Date of the Balance Sheet: December 31, 2010
 Date of the Statement:

Rule 8a Description of the Corporation's Business

A description of the corporation's business is attached to this report.

Rule 9 Financial Statements

The Company's annual financial statements, accompanied by the auditor's opinion, are attached to this report.

Rule 9c Company's Separate Financial Report

The company's audited financial statement, accompanied by the auditor's opinion, is attached to this report.

Rule 10 Board of Directors' Report on the Corporation's Financial Position

Attached to the present report.

Rule 10a Abstract of the Profit and Loss Statement (NIS thousands)

	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter	Year
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Income	-	-	-	-	-
Cost of income	-	-	-	-	-
Gross profit	-	-	-	-	-
Net R&D expenses	1,928	1,840	1,607	944	6,019
Marketing expenses	8	17	11	24	60
Management and general expenses	1,927	1,750	1,430	2,118	7,225
Other income	-	(13,172)	(112)	(1,643)	(14,927)
Loss on regular activities	3,863	(9,565)	2,636	1,443	(1,623)
Net financing expenses (income)	7	294	186	(411)	76
Tax payments (receipts)	-	-	-	-	-
Equity losses	1,312	2,142	3,129	3,519	10,102
Net loss (profit)	5,182	(7,129)	5,951	4,551	8,555

Rule 10c Use of the Proceeds of Securities

On the use of the proceeds of the issue, the Company's mode of

investment, and the Company's strategic objectives for its investments, see the section on the corporation's business activities.

Rule 11

List of Investments in Subsidiaries and Affiliated Companies

The Company provides financial resources to its Portfolio Companies to fund their activities. On the investments made by the Company in 2010 in two of its Portfolio Companies (ProTab and CellCure) and the convertible loans that it made available to Portfolio Companies during 2010, see the section on the corporation's business activities.

Rule 12

Changes in Investments in Subsidiaries and Affiliated Companies

After the date of the report, one Portfolio Company in which the Company has holdings (Conjugate, Ltd.) announced the suspension of its activity. On the investments and provision of resources to Portfolio Companies during 2010, see Rule 11 above.

Rule 13

Income of Subsidiaries and Affiliated Companies and Income from Them

None.

Rule 14

List of Loans

None.

Rule 20

Trading on the Stock Exchange

During 2010, 9,052,700 new regular shares of the Company (NIS 0.01 par value per share) were registered for trade on the Stock Exchange, as follows:

- a. 8,847,700 new regular shares as a result of the completion of the public offering as per a shelf prospectus, in August 2010
- b. 4,000 regular shares in the Company as a result of the exercise of 4,000 options (Series 4)
- c. 201,000 regular shares in the Company as a result of the exercise of 201,000 options (Series 3).

In addition, 8,847,700 options (Series 4) of the Company were registered for trade on the Stock Exchange during 2010.

Rule 21

Payments to Senior Executives

None. For details of the management services provided to the company by Hadasit Medical Research and Development, Ltd., see the section on the corporation's business activities. During 2010, the Company paid Hadasit a total of NIS 2.211 million, plus Value Added Tax. After the date of the report, the Company's General Assembly approved the new management agreement that was signed between the company and Hadasit; see the section on

the corporation's business activities.

Rule 22

Salary and Benefits Paid to Directors and Transactions With Controlling Parties

For the period of the report, total expenses on salaries paid directors and ancillary expenses amounted to NIS 455,000.

With regard to options granted to employees of Hadasit Medical Research and Development Services, Ltd., under the management agreement, see the section on the corporation's business activities.

Rule 24

Holdings by Principals (by virtue of their holdings of Company Stock)

Principal	Securities held	Number of securities held (As at March 10, 2009)	Share of equity and voting rights held	Share of equity and voting rights held, at full dilution
Hadasit Medical Research and Development Services, Ltd.	Common stock Options (non-negotiable)	31,794,872 10,897,436	36.33	33.05
Ciano Investments, Ltd.	Common stock Options (non-negotiable) Series 3 options	8,288,720 597,881 3,652,649	9.47	9.76

Rule 24a

Registered Equity, Issued Equity, and Convertible Securities

Registered equity: 200,000,000 shares of common stock, par value NIS 0.01 a share

Issued equity: 87,253,450 shares of common stock, par value NIS 0.01 a share

Dormant shares: none

Unregistered options: 14,547,830

Rule 25a

Registered Address

See above, at the start of the additional information.

Rule 27

Corporation's Accountant

Deloitte Brightman Almagor

Rule 28

Changes in Memorandum or Bylaws

None

Rule 29

Recommendations and Decisions by the Board of Directors

During 2010, no decisions were taken by a special meeting of the General Assembly.

After the date of the report, on February 27, 2011, a special meeting of the Company's General Assembly decided to approve the management agreement between the Company and Hadasit. For details of the management agreement, see the section on the corporation's business activities.

Rule 29a

Decisions by the Company

In 2006, the Company decided to provide certificates of indemnity to its directors and senior executives.

On December 25, 2010, the Company purchased a liability insurance policy for its directors and senior executives.

Rule 26 Directors of the Corporation

1. Dr. Rafi Hofstein, chairman of the board of directors

Date of birth	July 12, 1949
Address for legal correspondence	Hadassah Ein Kerem, P.O.B. 12000, Jerusalem
Citizenship	Israeli
Employee of the corporation, subsidiary, affiliate or principal	No (was CEO of Hadasit but left that post during the reporting period)
Director since	September 19, 2005
Education	B.Sc. in Chemistry and Physics, 1974 (Hebrew University of Jerusalem) M.Sc. in Biochemistry, 1975 (Weizmann Institute) Ph.D. in life sciences, 1980 (Weizmann Institute)
Employment during the last five years	CEO of Hadasit Medical Research and Development Services, Ltd., until 2009
Other corporations in which he serves as a director	Forticell Biosciences inc.; BioMarCare Technologies, Ltd.; Verto, Ltd.; TK Signal, Ltd.; Thrombotech, Ltd.; KAHR Medical (2005), Ltd.; ProTab, Ltd.; D.M.M.T., Ltd.; Conjugate, Ltd.; G.V.T., Ltd.; Terheuer, Ltd.; BioLine Rx, Ltd.
Family member of another principal in the Company	No
Fulfills the criteria for accounting and financial expertise	No
Member of committees of the Board of Directors	No

2. Prof. Shlomo Mor-Yosef

Date of birth	April 27, 1951
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Address for legal correspondence	Hadassah Ein Kerem, P.O.B. 12000, Jerusalem
Citizenship	Israeli
Employee of the corporation, subsidiary, affiliate or principal	Director general of the Hadassah Medical Organization
Director since	September 20, 2005
Education	M.D. 1980 (Hebrew University of Jerusalem)
Employment during the last five years	Director general of Hadassah Medical Organization
Other corporations in which he serves as a director	Hadassit Medical Research and Development Services, Ltd.; Hapto Biotech, Ltd.; SRI, Ltd.
Family member of another principal in the Company	No
Fulfills the criteria for accounting and financial expertise	Yes
Member of committees of the Board of Directors	No

3. Prof. Adi Raveh, director

Date of birth	July 18, 1947
Address for legal correspondence	Tzamarot 132/16, Herzliyya
Citizenship	Israeli
Employee of the corporation, subsidiary, affiliate or principal	No
Director since	July 29, 2009
Education	B.A., M.B.A. and Ph.D. in business administration, Hebrew University of Jerusalem
Employment during the last five years	Professor at the School of Business Administration, Hebrew University; director, Meitav Mutual Funds and Pe'ilim Portfolio Management–Bank Hapoalim; chairman, Jerusalem Capital Markets Underwriting and Issues; director, Midas Investment Fund, Ltd.
Other corporations in which he serves as a director	Clal Insurance, Ltd. (outside director); BOS (outside director); Intercosma, Ltd. (outside director); Cialo Technology, Excellence Nessuah Mutual Funds (outside director); Meitav Mutual Funds; Pe'ilim Portfolio Management; Midas Investment Fund, Ltd.
Family member of another principal in the Company	No
Fulfills the criteria for accounting and financial expertise	Yes
Member of committees of the	Control Committee

Board of Directors
Independent director Yes

1. Ms. Michal Sapir, outside director

Date of birth October 25, 1957
Address for legal correspondence P.O.B. 3587, Ramot Hashavim
Citizenship Israeli
Employee of the corporation, subsidiary, affiliate or principal No
Director since July 29, 2009
Education B.A., Political Science and International Relations, Hebrew University of Jerusalem
M.B.A. (finance), New York University
Employment during the last five years ICI Telco, head of mergers and acquisitions in the Finance Department; leader of a trans-organizational process to improve profitability
Other corporations in which she serves as a director Azimuth Technologies (outside director)
Family member of another principal in the Company No
Fulfills the criteria for accounting and financial expertise Yes
Member of committees of the Board of Directors Control Committee

2. Mr. Yaron Kulas, outside director

Date of birth May 29, 1966
Address for legal correspondence Nahal Arugot 21, Hod Hasharon
Citizenship Israeli
Employee of the corporation, subsidiary, affiliate or principal No
Director since March 30, 2006
Education B.A. in economics and business administration, Hebrew University of Jerusalem (1989)
Employment during the last five years President and CEO (previously vice-president for finance) BAE systems Rokar International, Ltd.
Other corporations in which he serves as a director None; member of the board, Bezalel Academy of Art and Design
Family member of another None

principal in the Company	
Fulfills the criteria for accounting and financial expertise	Yes
Member of committees of the Board of Directors	Chairman of the Control Committee

6. Mr. Doron Deby, director

Date of birth	December 3, 1960
Address for legal correspondence	Sigma Healthcare, Ltd., Kibbutz Galil Yam, Herzliyya
Citizenship	Israeli
Employee of the corporation, subsidiary, affiliate or principal	No
Director since	May 2007
Education	B.Sc. in industrial engineering and management M.B.A.
Employment during the last five years	Director of life sciences companies
Other corporations in which he serves as a director	Tesnet, Ltd., Chetz Ecologies, Ltd.
Family member of another principal in the Company	No
Fulfills the criteria for accounting and financial expertise	Yes
Member of committees of the Board of Directors	No
Independent director	No

Rule 26a Senior Executives

As stated in Section 13 in the section on the Company's businesses activities, management services are provided by Hadasit. Mr. Ophir Shahaf was appointed to serve as Company CEO (see the section on the corporation's business activities).

On May 16, 2006, the Company's Board of Directors approved the appointment of Boaz Barzillai, attorney at law and CPA, as the Company's internal auditor.

Date of birth	May 2, 1966
Address for legal correspondence	Ben Yehuda 34, Jerusalem
Citizenship	Israeli
Employee of the corporation,	No, serves as the internal auditor of Hadasit

subsidiary, affiliate or principal

Education

B.A. in accounting and LL.B, Hebrew University of Jerusalem

Employment during the last five years

Managing partner, Barzillai and Co. Certified Public Accountants

March 29, 2011

Dr. Rafi Hofstein
Chairman of the Board of Directors

Mr. Ophir Shahaf
CEO

Declaration by the Chief Executive Officer

I, Ophir Shahaf, hereby affirm as follows:

1. I have examined the financial statements of HBL Hadasit Bio-Holdings, Ltd. (the Company) for 2010 (“the Reports”).
2. In my opinion, the Reports do not include any misrepresentation of a material fact nor do they omit any presentation of a material fact that is required, in such a way that the information presented in them, in light of the circumstances in which they are included, may be misleading with regard to the period of the report.
3. In my opinion, the financial statements and other financial information included in the reports appropriately reflect, from all material aspects, the corporation’s financial position, results of activities, and cash flows for the dates and periods to which the reports relate.
4. Based on my most up-to-date evaluation of the internal audit of the financial reports and disclosure, I have informed the Company’s auditor, Board of Directors, and Balance Sheet Committee of the following:
 - a. All of the significant flaws and substantial weaknesses in the definition or implementation of the internal audit of the financial reports and disclosure that may plausibly have a negative impact on the Company’s ability to collect, process, summarize, or report financial information, in such a way as might cast doubt on the reliability of the financial reports and the preparation of the financial statements, in keeping with the provisions of the law; and further
 - b. Any fraud, whether material or immaterial, in which the CEO or any person directly subordinate to him or any other employees who have a significant role in the internal audit of the financial reports and disclosure may be involved.
5. I, alone or in concert with others in the Company:
 - a. Defined controls and procedures, or ascertained that controls and procedures were defined under my supervision, of a nature intended to guarantee that material information that relates to the Company, including consolidated companies as defined by law, was brought to my knowledge by others in the corporation and in the consolidated companies, in particular during the period of the preparation of the reports.
 - b. I defined controls and procedures, or ascertained that controls and procedures were defined under my supervision, of a nature intended to provide a reasonable guarantee of the financial reports and preparation of the financial statements in accordance with the provisions of law, including compliance with generally accepted accounting standards.
 - c. I have evaluated the effectiveness of the internal control of the financial reports and disclosure and in this report I have presented the conclusions of the Board of Directors and management concerning the efficacy of the internal control as described on the date of the reports.

Nothing in the aforesaid derogates from my responsibility or the responsibility of any other person under the law.

Date: March 29, 2011

Signature: _____

Declaration by the Chief Financial Officer

I, Alejandro Igelman, hereby affirm as follows:

1. I have examined the financial statements of HBL Hadasit Bio-Holdings, Ltd. (the Company) for 2010 (“the Reports”).
2. In my opinion, the Reports do not include any misrepresentation of a material fact nor do they omit any presentation of a material fact that is required, in such a way that the information presented in them, in light of the circumstances in which they are included, may be misleading with regard to the period of the report.
3. In my opinion, the financial statements and other financial information included in the reports appropriately reflect, from all material aspects, the corporation’s financial position, results of activities, and cash flows for the dates and periods to which the reports relate.
4. Based on my most up-to-date evaluation of the internal audit of the financial reports and disclosure, I have informed the Company’s auditor, Board of Directors, and Balance Sheet Committee of the following:
 - a. All of the significant flaws and substantial weaknesses in the definition or implementation of the internal audit of the financial reports and disclosure that may plausibly have a negative impact on the Company’s ability to collect, process, summarize, or report financial information, in such a way as might cast doubt on the reliability of the financial reports and the preparation of the financial statements, in keeping with the provisions of the law; and further
 - b. Any fraud, whether material or immaterial, in which the CEO or any person directly subordinate to him or any other employees who have a significant role in the internal audit of the financial reports and disclosure may be involved.
5. I, alone or in concert with others in the Company:
 - a. Defined controls and procedures, or ascertained that controls and procedures were defined under my supervision, of a nature intended to guarantee that material information that relates to the Company, including consolidated companies as defined by law, was brought to my knowledge by others in the corporation and in the consolidated companies, in particular during the period of the preparation of the reports.
 - b. I defined controls and procedures, or ascertained that controls and procedures were defined under my supervision, of a nature intended to provide a reasonable guarantee of the financial reports and preparation of the financial statements in accordance with the provisions of law, including compliance with generally accepted accounting standards.
 - c. I have evaluated the effectiveness of the internal control of the financial reports and disclosure and in this report I have presented the conclusions of the Board of Directors and management concerning the efficacy of the internal control as described on the date of the reports.

Nothing in the aforesaid derogates from my responsibility or the responsibility of any other person under the law.

Date: March 29, 2011

Signature: _____