

**TEFEN GLOBAL MANAGEMENT CONSULTING LTD.**

**CONDENSED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2007**

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TEFEN GLOBAL MANAGEMENT CONSULTING LTD.

We have audited, in accordance with generally accepted auditing standards in Israel, the balance sheets of Tefen Global Management Consulting Ltd. ("the Company") as of December 31, 2007 and the consolidated balance sheet as of such date and the statements of income, changes in shareholders' equity and cash flows - Company and consolidated - for the year then ended. The financial statements as of December 31, 2006, and for each of the two years in the period then ended were audited by another auditor, whose financial statement on which dated March 19, 2007, included an unqualified opinion. Based on our audits, in our report dated March 24, 2008, we expressed an unqualified opinion on those statements.

We did not audit the financial statements of subsidiaries whose assets constitute 72% of the total consolidated assets as of December 31, 2007, and whose revenues constitute 70% of the total consolidated revenues for the year then ended. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

The financial statements as of the dates and for the reported periods subsequent to December 31, 2003, are presented in reported amounts, in conformity with Accounting Standards of the Israel Accounting Standards Board. The financial statements for the year ended December 31, 2003, are presented in values that were adjusted until that date according to the changes in the general purchasing power of the Israeli currency, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel.

The accompanying financial statements are condensed financial statements and do not include disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the financial position, results of operations and cash flows of the Company and subsidiaries. Accordingly, the accompanying financial statements are not designed for those who are not informed about such matters.

Tel-Aviv, Israel  
March 24, 2008

**KOST FORER GABBAY & KASIERER**  
A Member of Ernst & Young Global

**BALANCE SHEETS**

	<u>Consolidated</u>		<u>The Company</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	<b>Reported NIS in thousands</b>			
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	8,445	13,225	754	90
Short-term investments	15,810	12,411	-	-
Marketable securities	1,632	1,335	1,632	1,335
Trade receivables	47,294	35,447	201	248
Other accounts receivable	8,025	4,729	319	297
Affiliate	181	-	717	-
	<u>81,387</u>	<u>67,147</u>	<u>3,623</u>	<u>1,970</u>
<b>LONG-TERM INVESTMENTS AND RECEIVABLES:</b>				
Deposit held in trust	930	-	-	-
Long-term deposit	1,465	-	-	-
Investment in investees	-	-	64,428	54,660
	<u>2,395</u>	<u>-</u>	<u>64,428</u>	<u>54,660</u>
<b>FIXED ASSETS:</b>				
Cost	27,529	*) 23,661	10,909	*) 12,685
Less - accumulated depreciation	19,768	*) 17,635	9,554	*) 10,336
	<u>7,761</u>	<u>6,026</u>	<u>1,355</u>	<u>2,349</u>
<b>OTHER ASSETS, NET</b>				
Intangible assets, net	26,217	*) 5,480	218	*) 354
Deferred taxes	5,054	1,217	1,155	979
	<u>31,271</u>	<u>6,697</u>	<u>1,373</u>	<u>1,333</u>
	<u>122,814</u>	<u>79,870</u>	<u>70,779</u>	<u>60,312</u>

\*) Reclassified..

**BALANCE SHEETS**

	<b>Consolidated</b>		<b>The Company</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>Reported NIS in thousands</b>			
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>CURRENT LIABILITIES:</b>				
Short-term bank credit	20,188	2,837	12,140	2,653
Trade payables	9,994	4,979	2,980	1,785
Other accounts payable	23,652	*) 18,942	3,006	*) 5,554
Customer advances	1,994	*) 2,445	-	-
	<u>55,828</u>	<u>29,203</u>	<u>18,126</u>	<u>9,992</u>
<b>LONG-TERM LIABILITIES:</b>				
Liabilities to banks	15,809	2,264	5,696	2,264
Excess of losses over investment in investees	-	-	1,062	121
Accrued severance pay, net	7,687	4,213	4,619	3,916
Deferred taxes	2,214	171	-	-
	<u>25,710</u>	<u>6,648</u>	<u>11,377</u>	<u>6,301</u>
<b>SHAREHOLDERS' EQUITY</b>	<u>41,276</u>	<u>*) 44,019</u>	<u>41,276</u>	<u>*) 44,019</u>
	<u><u>122,814</u></u>	<u><u>79,870</u></u>	<u><u>70,779</u></u>	<u><u>60,312</u></u>

\*) Reclassified.

## STATEMENTS OF INCOME

	Consolidated			The Company		
	Year ended			Year ended		
	December 31,			December 31,		
	2007	2006	2005	2007	2006	2006
	Reported NIS, in thousands, except per share data					
Revenues	161,320	116,654	108,713	4,239	*) 3,539	16,320
Operating expenses	119,024	81,212	74,217	1,126	-	7,276
Gross profit	42,296	35,442	34,496	3,113	3,539	9,044
Selling and marketing expenses	11,755	6,484	5,368	10	-	251
General and administrative expenses, net	20,388	14,052	14,589	83	*) 87	303
	32,143	20,536	19,957	93	87	554
Operating income	10,153	14,906	14,539	3,020	3,452	8,490
Financial income (expenses), net	(2,535)	(938)	1,653	(475)	605	104
Other income, net	2,284	356	78	144	294	75
Income before taxes on income	9,902	14,324	16,270	2,689	4,351	8,669
Taxes on income	4,504	5,579	6,117	845	1,224	3,275
Income after taxes on income	5,398	8,745	10,153	1,844	3,127	5,394
Equity in earnings (losses) of subsidiaries and affiliate, net	(823)	-	-	2,731	5,618	4,759
Net income	4,575	8,745	10,153	4,575	8,745	10,153
Net income per NIS 1 par value of Ordinary shares	1.74	3.33	3.87	1.74	3.33	3.87
Number of shares used in the calculation of net income per share (in thousands)	2,622	2,622	2,622	2,622	2,622	2,622

\*) Reclassified.

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Additional paid-in capital	Capital reserve for share based payment	Retained earnings	Net of loans granted to employees to purchase the Company's shares Reported NIS (In thousands)	Less - Company shares held by the Company	Less - Company shares held by the subsidiary	Dividend declared subsequent to balance sheet date	Total
Balance at January 1, 2005	4,369	24,882	-	14,442	-	(458)	(252)	-	42,983
Net income	-	-	-	10,153	-	-	-	-	10,153
Dividend paid	-	-	-	(9,239)	-	-	-	-	(9,239)
Dividend declared subsequent to balance sheet date	-	-	-	(5,273)	-	-	-	5,273	-
Loan granted to employees to purchase the Company's shares	-	-	-	-	*) (84)	-	-	-	(84)
Balance at December 31, 2005	4,369	24,882	-	10,083	*) (84)	(458)	(252)	5,273	43,813
Net income	-	-	-	8,745	-	-	-	-	8,745
Cost of share-based payment	-	-	*) 51	-	-	-	-	-	*) 51
Dividend paid	-	-	-	(3,317)	-	-	-	(5,273)	(8,590)
Dividend declared after balance sheet date	-	-	-	*) (3,954)	-	-	-	*) 3,954	-
Balance at December 31, 2006	4,369	24,882	*) 51	*) 11,557	*) (84)	(458)	(252)	*) 3,954	*) 44,019
Net income	-	-	-	4,575	-	-	-	-	4,575
Cost of share based payment	-	-	(51)	-	4	-	-	-	(47)
Dividend paid	-	-	-	(3,317)	-	-	-	(3,954)	(7,271)
Balance at December 31, 2007	4,369	24,882	-	12,815	(80)	(458)	(252)	-	41,276

## STATEMENTS OF CASH FLOWS

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2007	2006	2005	2007	2006	2006
	<b>Reported NIS, in thousands</b>					
<u>Cash flows from operating activities:</u>						
Net income	4,575	8,745	10,153	4,575	8,745	10,153
Adjustment to reconcile net income to net cash provided by operating activities (a)	928	1,568	9,178	(3,909)	(2,914)	8,212
Net cash provided by operating activities	5,503	10,313	19,331	666	5,831	18,365
<u>Cash flows from investing activities:</u>						
Purchase of fixed assets	(4,738)	(3,146)	(2,284)	(278)	(1,159)	(440)
Purchase of other assets	(2,962)	(5,036)	-	-	-	-
Investment in subsidiary shares	-	-	-	-	-	(70)
Collection (deposit) of deposits in banks, net	(4,508)	3,026	(2,182)	-	-	-
Loans to subsidiaries and affiliate, net	(1,004)	-	-	(6,096)	(2,006)	(7,002)
Proceeds of fixed assets	891	943	453	724	869	442
Long-term loans granted to employees	(62)	(58)	(192)	-	-	(8)
Collection of long-term loans from employees	99	76	155	-	1	105
Purchase of newly consolidated subsidiaries (b)	(13,553)	-	-	-	-	-
Net cash used in investing activities	(25,837)	(4,195)	(4,050)	(5,650)	(2,295)	(6,973)
<u>Cash flows from financing activities:</u>						
Receipt of long-term loans	19,957	3,700	452	6,000	3,700	-
Repayment of long-term loans	(2,926)	(456)	(106)	(1,406)	(276)	-
Dividend paid	(7,271)	(8,590)	(9,239)	(7,271)	(8,590)	(9,239)
Short-term bank credit, net	5,794	1,511	(2,431)	8,325	1,493	(2,431)
Net cash provided by (used in) financing activities	15,554	(3,835)	(11,324)	5,648	(3,673)	(11,670)
Increase (decrease) in cash and cash equivalents	(4,780)	2,283	3,957	664	(137)	(278)
Cash and cash equivalents at beginning of year	13,225	10,942	6,985	90	227	505
Cash and cash equivalents at end of year	8,445	13,225	10,942	754	90	227

## STATEMENTS OF CASH FLOWS

	Consolidated			The Company		
	Year ended December 31,			Year ended December 31,		
	2007	2006	2005	2007	2006	2006
	<b>Reported NIS, in thousands, except per share data</b>					
<b>(a) <u>Adjustments to reconcile loss to net cash used in operating activities:</u></b>						
Income and expenses not involving cash flows:						
Depreciation and amortization	4,130	2,354	2,421	828	876	1,207
Appreciation of marketable securities	(297)	(302)	(247)	(297)	(302)	(247)
Erosion of short-term deposits	1,109	-	-	-	-	-
Equity in losses (earnings) of subsidiaries and affiliate, net	823	-	-	(2,731)	(5,618)	(4,759)
Accrued severance pay, net	1,781	174	1,116	703	(123)	1,116
Deferred taxes, net	(1,673)	881	(815)	82	186	(26)
Cost of share-based payment	(47)	51 *	-	(47)	51	-
Capital gain from sale of fixed assets, net	(32)	(356)	(78)	(144)	(294)	(75)
Revaluation of long-term loans	69	-	-	-	-	-
Erosion (revaluation) of long-term loans granted to employees	7	33	(3)	-	-	-
	<u>5,870</u>	<u>2,835</u>	<u>2,394</u>	<u>(1,606)</u>	<u>(5,224)</u>	<u>(2,784)</u>
Changes in asset and liability items:						
Decrease (increase) in trade receivables	5,382	(1,194)	(7,360)	47	588	10,817
Decrease (increase) in other accounts receivable and related parties	(2,926)	(1,806)	1,551	(762)	173	977
Increase (decrease) in trade payables	477	999	1,467	1,195	1,361	(699)
Increase (decrease) in other accounts payable	(7,875)	* 734	11,126	(2,783)	188	(99)
	<u>(4,942)</u>	<u>(1,267)</u>	<u>6,784</u>	<u>(2,303)</u>	<u>2,310</u>	<u>10,996</u>
	<u>928</u>	<u>1,568</u>	<u>9,178</u>	<u>(3,909)</u>	<u>(2,914)</u>	<u>8,212</u>
<b>(b) <u>Acquisition of newly consolidated subsidiaries:</u></b>						
The subsidiaries' assets and liabilities at date of acquisition:						
Working capital (excluding cash and cash equivalents)	(2,023)	-	-	-	-	-
Deferred taxes	1,433	-	-	-	-	-
Fixed assets, net	940	-	-	-	-	-
Customer base, net	6,777	-	-	-	-	-
Goodwill created upon purchase	12,044	-	-	-	-	-
Long-term liabilities	(5,618)	-	-	-	-	-
	<u>13,553</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>