

*(Translated from Hebrew)*

**Report of the Board of Directors Concerning the State of  
Affairs of the Corporation for the  
Period Ended on June 30th, 2009**

**A. Summary Description of the Company and  
Its Business Environment**

The Company is engaged in providing diagnostic and psychometric screening services, along with recruitment and placement, managerial consulting services and in the development and marketing of unique software products in the area of human resource management. The operations are performed through three subsidiaries - in Israel, England and the USA, which employ approximately 200 professional workers.

The Company's revenues from its operations in England and the USA over the first half of 2009 account for about 57% of all of the Company's revenues, and in the second quarter of 2009 those account for about 56% of all the Company's revenues, similarly to the situation prevailing during the same period last year.

**B. Customers**

The Group has a large number of customers, including large companies both in the Israeli market and in the European and North American markets. Most of the Group's customers in the area of human resources, including the provision of personnel services, are regular customers of long standing.

In the first half and the second quarter of 2009, the Company did not have any single customer who substantially contributed to its revenues.

## C. Results of the Operations

### A. For the first months ended on June 30th, 2009

The following are the summary data (in thousands of NIS):

	For the last 6 months Ended		
	on June 30 <sup>th</sup> , <u>2009</u>	on December 31st, <u>2008</u>	on June 30th, <u>2008</u>
Revenues from sales and provision of services	23,511	26,151	30,593
Cost of sales and services	<u>15,474</u>	<u>18,697</u>	<u>19,056</u>
<b>Gross profit</b>	<b>8,037</b>	<b>7,454</b>	<b>11,537</b>
Gross spread in %	31%	29%	38%
R&D	2,163	2,138	2,603
Selling and Marketing	1,854	2,490	3,515
General and Administrative	5,048	6,396	6,240
Other net expenses	<u>-</u>	<u>8</u>	<u>200</u>
	9,065	11,032	12,558
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Profit (loss) from ordinary operations</b>	<b><u>-1,028</u></b>	<b><u>-3,578</u></b>	<b><u>-1,021</u></b>
Other revenues (expenses)	25	35	6

Financing Income	494	701	201
Financing Expenses	<u>-616</u>	<u>-106</u>	<u>-1,016</u>
	<u>-97</u>	<u>-630</u>	<u>-809</u>
<b>Profit (loss) before tax</b>	<b>-1,125</b>	<b>-2,948</b>	<b>-1,830</b>
Tax revenues (expenses)	102	266	127
	_____	_____	_____
<b>Net profit (loss)</b>	<b>-1,023</b>	<b>-2,682</b>	<b>-1,703</b>
	_____	_____	_____

## 1. Revenues

The global recession that started in 2008 was still noticeably felt in the first six months of 2009 in all of the companies of the Group. The Company's revenues in the first half of the year 2009 stood at 23,511 thousand NIS, a decrease of about 10% from the sales during the second half of 2008, which was about 26,151 thousand NIS, and a decrease of about 23% from the sales during the first half of 2008, which stood at about 30,593 thousand NIS. The principal reason for the decrease in the sales during said period is the crisis haunting the global economy, which adversely affects the volume of the economic operations in general and in the human resources branch in particular.

The following are sales in the currency used in the local operations and in terms of NIS for the period, as compared with

the corresponding period last year, and for the sake of convenience - also with the last half of 2008:

	For the last 6 months Ended		
<b>The Operations in Israel</b>	on June 30 <sup>th</sup> , <u>2009</u>	on December 31st, <u>2008</u>	on June 30th, <u>2008</u>
Revenues from Sales and provision of services	10,180	12,483	13,820

	The Change for the 6 Months Ended	
	on December 31st, <u>2008</u>	on June 30th, <u>2008</u>
Revenues from sales and provision of services	-18%	-26%

	For the 6 Months Ended		
<b>The Operations in Europe</b>	on June 30 <sup>th</sup> , <u>2009</u>	on December 31st, <u>2008</u>	on June 30th, <u>2008</u>

Revenues in local currency - Thousands of British pounds	1,152	1,193	1,401
Revenues in thousands of NIS	6,948	7,544	9,721

The Change for the 6 Months Ended

	on December 31st, <u>2008</u>	on June 30th, <u>2008</u>
Revenues in local currency - Thousands of British pounds	-3%	-18%
Revenues in thousands of NIS	-8%	-29%

For the 6 Months  
Ended

<b>The Operations in North America</b>	on June 30 <sup>th</sup> , <u>2009</u>	on December 31st, <u>2008</u>	on June 30th, <u>2008</u>
Revenues in local currency - Thousands of US dollars	1,567	1,698	2,002
Revenues in thousands of NIS	6,383	6,124	7,052

The Change for the 6 Months Ended

	on December 31st, <u>2008</u>	on June 30th, <u>2008</u>
Revenues in local currency - Thousands of US dollars	-8%	-22%
Revenues in thousands of NIS	4%	- 9%

In Israel, the sales over the first half of 2009 amounted to 10,180 thousand NIS, as compared with 12,483 thousand NIS in the second half of 2008, a decrease of about 18%, and approximately 13,820 thousand NIS in the corresponding half of 2008, which amounts to a decrease of about 26%. The principal reason for the decrease in the volume of sales in Israel is the economic crisis, which has been affecting the Israeli economy ever since 2008.

The Group's sales in Europe, in terms of the local currency, namely British pound, stood in the first half of 2009 at approximately 1,152 thousand British pounds. The sales in the second half of 2008 were 1,193 thousand British pounds, and against the Group's sales in Europe in the corresponding first half of 2008 stood at about 1,401 thousand British pounds. Said sales decreased by about 18%, resulting from the global economic crisis.

In terms of NIS, the Group's sales in Europe amounted to about 6,948 thousand NIS, a decrease of about 8% as against the sales of the Group in the second half of 2008, which were 7,544 thousand NIS, as well as a decrease of about 29% from the Group's sales in the corresponding half of 2008, which was 9,721 thousand NIS. The reason for the stronger fall-offs in the sales in Europe, in terms of NIS, as compared with the sales in

terms of the local currency, lies in the strengthening of the NIS against the British pound during the course of the first half of 2009.

In the USA, the Group's sales in terms of US dollars stood at about 1,567 thousand dollars in the first half of 2009, as compared with sales of about 1,698 thousand dollars in the last half of 2008 (a decrease of about 8%) and sales of about 2,002 thousand dollars in the corresponding half of 2008 (a decrease of about 22%). The principal reason for the decrease in the sales volume in the USA is the economic crisis that has been affecting the American economy ever since 2008.

Since the dollar strengthened against the NIS in the course of the past year, when expressed in NIS prices - the Group's sales during the first half of 2009 grew by about 4%, as compared with the sales in the second half of 2008, and stood at about 6,383 thousand NIS, as compared with 6,124 thousand NIS in the second half of 2008. Compared with the sales in the USA in the corresponding half of 2008, which amounted to about 7,052 thousand NIS, the sales decreased by about 9%.

## 2. Cost of Sales and Services

In the course of said period, the cost of sales and services stood at about 15,474 thousand NIS, as compared with 18,697 thousand NIS in the second half of 2008 and 19,056 thousand NIS in the corresponding period last year (a decrease of about 17% and 19%, respectively).

The reason for the decrease in the cost of sales is an extensive cut in the Company's costs, which we did in the course of the end of 2008 and 2009 with a view to adapting the expenses of the Company to the decrease in revenues due to the economic crisis haunting the economy both in Israel and worldwide.

3. Gross Profit

The gross profit at that period stood at 8,037 thousand NIS, which account for about 31% of the Company's sales, versus 7,454 thousand NIS in the second half of 2008 (about 29% of the Company's sales) and 11,537 thousand NIS during the corresponding period last year (about 38% of the Company's sales).

4. Research and Development Expenses

During the course of the period, the research and development expenses totaled about 2,163 thousand NIS, without substantial change from the amount in the second half of 2008 (2,138 thousand NIS), which is tantamount to a decrease of about 17% from the expenditures made in the corresponding period last year (2,603 thousand NIS).

The reason for the decrease in expenses, as compared with the corresponding period last year is the extensive cut in the Group's expenses, which was done with a view to preparing to the economic recession and to the drop in revenues as a result thereof.

5. Selling and Marketing Expenses

The selling and marketing expenses totaled in the course of this period about 1,854 thousand NIS, versus 2,490 thousand NIS in the second half of 2008 (a decrease of about 26%) and 3,515

thousand NIS in the corresponding period last year (a decrease of about 47%).

The decrease in expenses stems from a cut and streamlining plan carried out by the Company in the course of the last quarters, with a view to preparing to a downturn in operations due to the economic crisis.

6. General and Administrative Expenses

The general and administrative expenses totaled in the course of this period about 5,048 thousand NIS, versus 6,396 thousand NIS in the second half of 2008 (a decrease of about 21%) and 6,240 thousand NIS in the corresponding period last year (a decrease of about 19%). The reduction in expenses is a result of an extensive cut done by the management during the last quarters with a view to preparing for the economic crisis. Said cut was implemented in all the companies of the Group, as well as at the Company's headquarters, and included discharging employees and expense cuts.

7. Loss from Ordinary Operations

In the course of the period, the Group showed an operational loss of about 1,028 thousand NIS, versus a loss of about 3,578 thousand NIS in the second quarter of 2008 and a loss of about 1,021 thousand NIS in the corresponding period last year.

8. Financing Revenues

In the course of this period, the Group had financing revenues in the amount of 494 thousand NIS, versus financing expenses of

about 701 thousand NIS in the course of the second half of 2008 and 201 thousand NIS in the corresponding period last year.

The financing revenues in said quarter primarily consist of revenues, as a result of rate differences against the US dollar and the British pound, whereby 32 thousand NIS in revenues are due to interest on deposits.

9. Financing Expenses

The financing expenses during this period totaled about 616 thousand NIS, versus expenses amounting to 106 thousand NIS in the second half of 2008 and 1,016 thousand NIS in the corresponding period last year.

The financing expenses during this period were primarily due to translation differences and, to a lesser extent, to interest expenses in the amount of 48 thousand NIS, principally as a result of a loan bank taken up in Israel towards the end of the year 2008.

10. Net Loss

The net loss of the Group at the time stood at about 1,023 thousand NIS, versus a loss of about 2,682 thousand NIS during the second half of 2008 and a net loss of about 1,703 thousand NIS in the corresponding period last year.

**B. Results of the Operations for the 3 Months Ended on  
June 30th, 2009**

The following are the summary data (in thousands of NIS):

**For the last 3 months  
Ended**

	on June 30 <sup>th</sup> , <u>2009</u>	on March 31st, <u>2009</u>	on June 30th, <u>2008</u>
Revenues from sales and provision of services	11,248	12,263	15,548
Cost of sales and services	<u>7,606</u>	<u>7,868</u>	<u>9,601</u>
<b>Gross profit</b>	<b>3,642</b>	<b>4,395</b>	<b>5,857</b>
Gross spread in %	30%	36%	38%
Research and development expenses	1,186	977	1,273
Selling and marketing expenses	836	1,018	1,768
General and administrative expenses	2,716	2,332	3,190
Other net expenses	<u>          </u> 4,738	<u>          </u> 4,327	<u>          </u> 6,381
<b>Profit (loss) from ordinary operations</b>	<b><u>-1,096</u></b>	<b><u>68</u></b>	<b><u>524</u></b>
Other revenues (expenses)	0	25	-6
Financing revenues	178	693	110
Financing expenses	<u>-868</u> <u>-690</u>	<u>-125</u> <u>593</u>	<u>-433</u> <u>-329</u>

<b>Profit (loss) before tax</b>	<b>-1,786</b>	<b>661</b>	<b>-853</b>
Tax revenues (expenses)	94	8	-40
	_____	_____	_____
<b>Net profit (loss)</b>	<b>-1,692</b>	<b>669</b>	<b>-893</b>
	_____	_____	_____

### The Change for the 3 Months Ended

	on March 31st, <u>2009</u>	on June 30th, <u>2008</u>
Revenues from sales and provision of services	-8%	-27%
Cost of sales and services	-3%	-21%
Gross profit		
Gross spread in %		
Research and development expenses	21%	-7%
Selling and marketing Expenses	-18%	-53%

## 1. Revenues

The global recession that started in 2008 was still noticeably felt in the second quarter of 2009, in all the companies in the Group. The Company's revenues in the second quarter of the year 2009 stood at 11,248 thousand NIS, a decline of about 8% from the sales during the first quarter of 2009, which stood at about 12,263 thousand NIS, as well as a decline of about 27% from the sales during the first quarter of 2008, which stood at about 15,458 thousand NIS. The principal reason for the decline in sales during this period lies in the crisis haunting the global economy, which adversely affects economic operations in general and in the human resources branch in particular.

Following are the sales in the currency used in the local operations and in terms of NIS per quarter as compared with the corresponding period last year, and for the sake of convenience also for the first quarter of 2009:

	<b>For the last 3 months</b>		
	<b>Ended</b>		
<b>The Operations in Israel</b>	on June 30 <sup>th</sup> , <u>2009</u>	on March 31st, <u>2009</u>	on June 30th, <u>2008</u>
Revenues from sales and provision of services	4,894	5,286	6,942

### The Change for the 3 Months Ended

	on March 31st, <u>2009</u>	on June 30th, <u>2008</u>
Revenues from sales		
And provision of services	-7%	-30%

### For the last 3 months Ended

<b>The Operations in Europe</b>	on June 30 <sup>th</sup> , <u>2009</u>	on March 31st, <u>2009</u>	on June 30th, <u>2008</u>
Revenues in local currency - Thousands of British pounds	510	642	755
Revenues in thousands of NIS	3,209	3,739	5,090

### The Change for the 3 Months Ended

	on March 31st, <u>2009</u>	on June 30th, <u>2008</u>
Revenues in local currency - Thousands of British pounds	-21%	-32%

Revenues in thousands of NIS	-14%	-37%
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**For the last 3 months  
Ended**

<b>The Operations in North America</b>	on June 30 <sup>th</sup> , <u>2009</u>	on March 31st, <u>2009</u>	on June 30th, <u>2008</u>
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Revenues in local currency -

Thousands of US dollars	769	798	1,001
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Revenues in thousands of NIS	3,145	3,238	3,426
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**The Change for the 3 Months Ended**

	on March 31st, <u>2009</u>	on June 30th, <u>2008</u>
		-

Revenues in local currency -

Thousands of US dollars	-4%	-23%
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Revenues in thousands of NIS	-3%	-8%
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In Israel, the sales over that period totaled about 4,894 thousand NIS, versus 5,286 thousand NIS in the first quarter of 2009, a

decrease of about 7%, and about 6,942 thousand NIS in the corresponding period in 2008, a decrease of about 30%. The reason for the decline in the sales volumes in Israel is the economic crisis haunting the Israeli economy.

The sales of the Group in Europe in terms of the local currency, British pound, totaled about 510 thousand British pounds, a decrease of about 21% from the first quarter of 2009 (642 thousand British pounds), and a decline of about 32% from the sales in the corresponding quarter in 2008 (755 thousand British pounds).

In terms of NIS, the Group's sales in Europe totaled during this period about 3,209 thousand NIS, a decrease of about 14% from the sales during the first quarter of 2009 (3,739 thousand NIS) and a decrease of about 37% compared with sales in Europe in the corresponding period of 2008 (5,090 thousand NIS). The reason for the decline in sales in Europe compared with the corresponding period last year, in terms of NIS, lies in the weakening of the British pound against the NIS in the course of the past year.

In the USA, the Group's sales in terms of US dollars stood at about 769 thousand dollars, versus 798 thousand dollars in the first quarter of 2009 (a decline of about 4%) and sales of 1,001 thousand dollars in the corresponding quarter of 2008 (a decline of about 23% in dollar terms).

Since the dollar has strengthened against the NIS in the past year since the corresponding period last year, in NIS terms the sales in the USA stood at about 3,145 thousand NIS, a decrease of about 3% from the first quarter of 2009 (3,238 thousand NIS) and a decrease of about 8% from the corresponding period last year (about 3,426 thousand NIS).

## 2. Cost of Sales and Services

In the course of this period, the cost of sales and services stood at about 7,606 thousand NIS, versus 7,868 thousand NIS in the previous quarter and 9,601 thousand NIS in the corresponding quarter last year (a decline of about 3% and 21%, respectively). The reason for the decline in the cost of sales is an extensive cut in the Company's costs, which we implemented in the course of the end of 2008 and in early 2009 with a view to adapting the Company's expenses to the decline in revenues due to the economic crisis haunting the economy both in Israel and worldwide.

## 3. Gross Profit

The gross profit during this period stood at 3,642 thousand NIS, which account for about 30% of the Company's sales, versus 4,395 thousand NIS in the previous quarter (about 36% of the Company's sales) and 5,857 thousand NIS in the second quarter of 2008 (about 38% of the Company's sales).

## 4. Research and Development Expenses

In the course of this period, the research and development expenses totaled about 1,186 NIS, an increase of about 21% from the amount in the previous quarter (977 thousand NIS) and a decline of about 7% from the expenses in the corresponding period last year (1,273 thousand NIS).

The reason for the increase in expenses from the previous quarter is to be found in the USA, where the Company is currently developing an application together with a local partner.

5. Selling and Marketing Expenses

Selling and marketing expenses totaled in the course of this period about 836 thousand NIS, versus 1,018 thousand NIS in the previous quarter (a decrease of about 18%) and 1,768 thousand NIS in the corresponding period last year (a decline of 53%).

The reduction in expenses stems from the cuts and streamlining plan implemented by the management of the Company with a view to preparing for the decline in operations due to the economic crisis.

6. General and Administrative Expenses

The general and administrative expenses totaled in this period about 2,716 thousand NIS, versus 2,332 thousand NIS in the previous quarter (an increase of about 16%) and 3,190 thousand NIS in the corresponding quarter last year (a decline of about 15%).

The reduction in expenses versus the corresponding quarter last year is a result of an extensive cut implemented by the management in the course of the last quarters, which was done with a view to preparing for the economic crisis. The cut was implemented in all the companies of the Group, as well as at the Company's headquarters, and it included discharge of employees and cuts in expenses.

The rise in expenses versus the previous quarter is primarily a result of the write-off of a bad debt in Europe and also of the increase in legal costs.

7. Loss from Ordinary Operations

In the course of this quarter, the Group lost about 1,096 thousand NIS, versus recording an operational profit of about 68 thousand NIS in the previous quarter and a loss of about 524 thousand NIS in the corresponding quarter last year.

The loss on account of this period principally stems from the decline in revenues of about 1,015 thousand NIS from the first quarter of 2009.

Compared with the corresponding quarter of 2008, the increase in losses principally stems from the decrease in revenues of about 4,210 thousand NIS, and concurrently from the streamlining plan implemented by the management of the Company over the last quarters, by way of cutting down expenses with a view to preparing for the economic crisis and the concomitant decline in the economic operations in the branch.

#### 8. Financing Revenues

In the course of this period, the Group had financing revenues in the amount of 178 thousand NIS, versus financing revenues of about 693 thousand NIS in the course of the previous quarter and 110 thousand NIS in the corresponding period last year.

The financing revenues in the quarter principally consist of revenues as a result of rate differences against the US dollars and the British pound and also, to a lesser extent, of interest revenues on deposits.

#### 9. Financing Expenses

The financing expenses in this period totaled about 868 thousand NIS, versus expenses amounting to 125 thousand NIS in the previous quarter and 433 thousand NIS in the corresponding period last year.

The financing expenses during this period were principally due to translation differences and, to a lesser extent, to payment of interest expenses in the amount of 21 thousand NIS, principally as a result of a loan bank taken up in Israel towards the end of the year 2008.

10. Net Loss

The net loss of the Group during this period stood at about 1,692 thousand NIS, versus a net profit of about 669 thousand NIS in the previous quarter and a net loss of about 893 thousand NIS in the corresponding period last year.

**D. Financial Position**

1. Current Assets

The current assets as of June 30th, 2009 totaled approximately 26,094 NIS, versus 27,904 NIS as of December 31st, 2008.

The decrease in the current assets principally stems from reduction in the customers item, since most customers from whom no collection was done during the course of this period are a result of the sales in the reported quarter. Consequently, the decline in this item stems from the reported decline in sales.

The cash and short term deposits as of June 30th, 2009 at were 13,871 thousand NIS, versus 14,118 thousand NIS on December 31st, 2008.

As of June 30th, 2009 the Receivables were approximately 10,962 thousand NIS, versus about 12,606 thousand NIS as of December 31st, 2008. The decline in said item concerning customers stemmed, as stated, from a decline in sales.

Receivables and debit balances stood at the end of the period at about 1,049 thousand NIS, versus 796 thousand NIS as of December 31st, 2008.

The increase in debt balances principally stemmed from the increase in prepaid expenses.

## 2. Non-Current Assets

The non-current assets stood as of June 30th, 2009 at about 2,830 thousand NIS, versus 3,321 thousand NIS as of December 31st, 2008.

The changes in the non-current assets during this period resulted from depreciation of non-tangible assets and fixed assets.

## 3. Current Liabilities

The Company's current liabilities stood at about 10,478 thousand NIS as of June 30th, 2009, versus 12,598 thousand NIS as of December 31st, 2008, a decrease of about 2,120 thousand NIS.

The changes in the current liabilities during this quarter principally stemmed from a decrease in liabilities to suppliers and creditors and debit balances, as well as from a write-off of a liability imputed to the operations of a subsidiary sold in the course of 2006.

4. Long-Term Liabilities

At the end of the period, the long-term liabilities of the Company stood at 2,244 thousand NIS versus 2,517 thousand NIS as of December 31st, 2008. The bulk of the liability consists in a remainder of a long-term bank loan taken up in Israel towards the end of 2008.

5. Capital

The Company's capital as of June 30th, 2009 stood at about 16,202 thousand NIS, versus 16,110 thousand NIS as of December 31st, 2008, a decrease of about 92 thousand NIS.

The decrease in capital principally stems from losses for the period of about 1,023 thousand NIS, while making allowance for and eliminating the increase of the premium on shares as a result of the exercise of option warrants, as well as from translation differences of the subsidiaries that do not operate in Israel.

6. Financial Relations

June 30th, 2009

December 31st, 2008

Current assets to balance ratio	90%	89%
Current ratio	2.49	2.21
Capital/balance ratio	56%	52%

#### **E. Liquidity of Financing Sources**

In the course of the first six years of 2009, the cash balance of the Company increased by about 132 thousand NIS, versus declining by about 8,135 thousand NIS in the corresponding period last year.

In the course of the second quarter of 2009, the cash balance dropped by about 1,700 thousand NIS, versus dropping by about 2,606 thousand NIS in the corresponding quarter last year.

#### **Cash Flow from Current Operations**

In the course of the first six months of 2009, the cash stemming from the current operations of the Company was approximately 61 thousand NIS in the course of this period, versus 4,477 thousand NIS used for current operations in the corresponding period last year.

The positive flow from current operations in the course of the first six months of 2009 stemmed from the net loss in the amount of 1,023 thousand NIS for said period, depreciation of fixed and non-tangible assets in the amount of 627 thousand NIS, revaluations and losses that were not in cash and amounted to about 985 thousand NIS, as well as from changes in the items concerning assets and liabilities.

During the course of the second quarter of 2009, the cash used for the Company's current operations stood at about 1,838 thousand NIS in the course of said period, versus 759 thousand NIS used for current operations in the corresponding period last year.

The negative flow in the quarter principally stemmed from the net loss, while making allowance for and eliminating non-cash expense items, as well as from items concerning assets and liabilities.

#### Cash Flow from Investment Operations

In the course of the first six months of 2009, cash in the amount of about 308 thousand NIS originated from investment operations, principally from the realization of short-term investments and their conversion into cash.

In the course of the second quarter of 2009, cash was used in the amount of about 24 thousand NIS from investment operations, principally from the acquisition of fixed assets.

#### Flow from Financing Operations

In the course of the first six months of 2009, the cash used for financing operations in the report period amounted to about 44 thousand NIS, which originated from the repayment of a loan to a bank in Israel in the amount of about 331 thousand NIS, while making allowance for and eliminating the exercise of options in the amount of about 287 thousand NIS.

In the course of the second quarter of 2009, cash in the amount of about 127 thousand NIS originated from financing operations,

principally the exercise of options in the amount of about 287 thousand NIS, while making allowance for and eliminating the repayment of a loan to a bank in Israel in the amounts of 160 thousand NIS.

**F. Exposure to Market Risks and Ways of Handling Them**

Those responsible for the management of the Company's market risks are Chaim Helfgott, the director and secretary of the Company, and Micky Zukerman, the CEO of the Company. See Regulation 26(3) in the periodic report.

The official accountable for the financial risks in the Company in the reported period is Jonathan Berger, the CFO of the Company.

The Company did not make use of critical accounting estimates.

**1. The Market Risks to Which the Company Is Exposed:**

The Company is exposed to a variety of market risks, in its ordinary manner of doing business. The activity sectors relating to the subject of human resources are principally exposed to a decline in the volume of operations in the economy of the target countries, and also to the unexpected entry of technology-based companies into the market.

The job placement operations of the Company are exposed to regulatory changes made by Israeli legislation.

Since the bulk of the Company's expenses are in the area of wages, changes in the labor market in the British, American and Israeli economy might affect the Company's business results.

The Company has no substantial currency exposure owing to its business operations, since most of the revenues and expenses in all of the countries where the Group operates are in the same currency.

2. The Accounting Risks to Which the Company Is Exposed:

The Company is exposed to changes in the exchange rates, originating from moneys and assets in foreign currencies - British pound and American dollar. In a situation where real devaluation prevails, financing revenues will accrue to the Company, and where real revaluation prevails, the Company will incur financing expenses.

As a result of changes in the rates of the currencies NIS, British pound and dollar, the financing revenues totaled 494 thousand NIS over the first six months of 2009, of which about 32 thousand NIS were due to revenues from interest, and the financing expenses totaled 616 thousand NIS, of which 48 thousand NIS were due to expenses on account of credit or loans.

The Company's liquid moneys were, during this period, in NIS, British pound, American dollar, as well as Euro.

3. The Company's Policy in Managing the Market Risks Thus Described:

The Company spreads its operations in a number of different geographical markets and niches in the area of human resources, so as to reduce its exposure to the market conditions in a particular country and to the entry of new competitors in the niches it is actively engaged in.

The Company did not conclude financial protection transactions in the year 2009.

The company works toward adapting, to the extent feasible, the bases for the linkage of its assets and liabilities, as well as the average duration of its assets, to the average duration of its liabilities.

4. Means of Control and for Implementing the Policy:

The Company has not conducted transactions in speculative derivatives. No financial protection act is made without specific approval from the secretary of the Company and its CFO.

5. Exposure to Currency Risks

In the period extending from the date of the balance to the date of publishing the financial statements for the second quarter of the year 2009, no substantial changes have occurred to the nature of the exposure to the exchange rates of the NIS to the dollar and British pound.

Most of the revenues and expenses in each of the countries where the Company operates are in the same currency, whereby each subsidiary invests its surplus cash in deposits in the currency it operates in.

**G. Donations**

The Company has no definite policy on the subject of donations, and in the course of said period it donated about 11 thousand NIS.

**H. Bases for Linkage**

No substantial changes have occurred since the report dated December 31st, 2008.

## **I. Procedure for Approving Financial Statements**

The Company's board of directors is the organ discussing the financial statement and approving them, after the members of the board of directors have received to hand the draft of the financial statements prior to the Meeting. Even though the Company does not have a balance-sheet committee and the financial statements are discussed at the Meetings of the board of directors, the members of the audit committee in effect meet with the accountants and auditors, so as to hear of and inquire about the procedure for preparing the statements.

In the course of the Meeting of the board of directors, at which the financial statements are discussed and approved, the CFO of the Company gives a detailed overview of the essentials of the financial statements and the substantial issues pertaining to financial reporting, including transactions that are not in the ordinary course of business if there are such, along with the substantial evaluations and critical estimates implemented in the financial statements, the reasonableness of the data, the accounting policy implemented and changes that have occurred thereto, as well as the application of the principle of proper disclosure in the financial statements and in the accompanying information. The CEO of the Company gives an overview of the Company's current operations and the effect on its results, while highlighting substantial issues.

At the Meeting of the board of directors, at which the financial statements are discussed and approved, representatives of the Company's auditing accountants are invited and present, and they usually add their observations and comments as to the financial statements, whereby they are at the disposal of the board of directors for any question and clarification concerning those statements, prior to

their approval.

**J. Post Balance Sheet events:**

At the Annual General Meeting of Shareholders that took place on July 22<sup>nd</sup> 2009 Mrs. Miriam Mazar was elected as an External Director for three years, pursuant to the provisions of the Israeli Companies Law.

The same meeting has decided not to reelect Mr. Dov Goldstein as a director of this Company.

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Michael Zukerman, Chairman of the  
Board of Directors and CEO

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Chaim Helfgott, Secretary of  
the Company and Director

**Pilat Technologies International Ltd.**

**Consolidated Interim Financial Statements**

**as at June 30, 2009**

**Unaudited**

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**Auditor's review to the shareholders of  
Pilat Technologies International Ltd.**

***Preface***

We have reviewed the attached financial information of **Pilat Technologies International Ltd.** and its subsidiaries (hereinafter – “the Group”), which include the condensed consolidated balance sheet as at June 30, 2009 and the condensed consolidated statements of income, of comprehensive income, the changes in shareholders’ equity and cash flows for the periods of six months and three months then ended. The Board of Directors and Management are responsible for the preparation and presentation of the financial information for these interim periods in accordance with International Accounting Standard IAS 34 “Financial Reporting for Interim Periods”, and they are also responsible for the preparation of the financial information for these interim periods pursuant to Chapter D. of the Securities Regulations (Interim and Immediate Reports) - 1970. Our responsibility is to express a conclusion only the financial information for these interim periods based on our review.

We did not review the condensed financial information for interim periods of consolidated companies whose assets included in the consolidation comprise 29% of all the consolidated assets as at June 30, 2009, and whose revenues included in the consolidation comprise 57% and 56% of total consolidated revenues for the periods of six months and three months then ended, respectively. The condensed financial information for the interim periods for those companies were reviewed by other auditors whose review reports were furnished to us, and our conclusions, to the extent that they relate to the financial information for those companies, are based on the review reports of the other auditors.

***Extent of the review***

We carried out our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel “Review of financial information for interim periods prepared by the entity’s auditor”. A review of financial information for interim periods comprises clarifications, mainly with the people responsible for financial and accounting matters, and using other analytical review procedures. A review is considerably more limited in scope than an audit carried out in accordance with generally accepted auditing standards in Israel, and therefore does not enable us to obtain sufficient certainty that we will be aware of all significant matters which could have been identified in an audit. Consequently we are not expressing an opinion of an audit.

***Conclusion***

Based on our review and on the review reports of the other auditors, we are not aware of any fact which would cause us to think that the above financial information has not been prepared, from all significant aspects, in accordance with international accounting standard IAS 34.

In addition to the remark in the previous paragraph, based on our review and on the review reports of other auditors, we are not aware of anything which could cause us to think that the above financial information does not meet, from all significant aspects, the disclosure provisions pursuant to Chapter D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

Tel Aviv,  
August 31, 2009

***Troyaner Gelbar Aloni***  
**Certified Public Accountants**

**Pilat Technologies International Ltd.**

**Consolidated balance sheets**

	<b>As at</b>		<b>As at</b>
	<b>June 30,</b>		<b>December 31,</b>
	<b>2009</b>	<b>2008</b>	<b>2008</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>NIS thousands</b>		<b>NIS thousands</b>
<b><u>Current assets</u></b>			
Cash and cash equivalents	13,871	10,456	13,739
Short-term investments	-	997	379
Trade receivables	10,962	15,991	12,606
Other receivables	1,049	1,428	796
Taxes receivable	212	396	384
	<u>26,094</u>	<u>29,268</u>	<u>27,904</u>
<b><u>Non-current assets</u></b>			
Long-term receivables	486	47	480*
Prepaid expense for operative leasing, net	132	142	132*
Fixed assets, net	1,358	1,998	1,595
Intangible assets, net	854	1,481	1,114
Assets for benefits to employees	-	431	-
Deferred taxes	-	68	-
	<u>2,380</u>	<u>4,167</u>	<u>3,321</u>
<b><u>Total assets</u></b>	<b><u>28,924</u></b>	<b><u>33,435</u></b>	<b><u>31,225</u></b>

\* Reclassified

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

**Pilat Technologies International Ltd.**

**Consolidated balance sheets**

	<b>As at</b>		<b>As at</b>
	<b>June 30,</b>		<b>December 31,</b>
	<b>2009</b>	<b>2008</b>	<b>2008</b>
	<b>Unaudited</b>		<b>Audited</b>
<b>NIS thousands</b>		<b>NIS thousands</b>	
<b><u>Current liabilities</u></b>			
Current maturities for long-term loans	604	67	634
Trade payables	1,625	2,961	2,067
Other payables	8,249	8,745	9,797
Taxes payable	-	233	-
Liabilities relating to discontinued operations	-	100	100
	<u>10,478</u>	<u>12,106</u>	<u>12,598</u>
<b><u>Long-term liabilities</u></b>			
Loans from banks	2,002	-	2,304
Liabilities for benefits to employees, net	242	31	213
	<u>2,244</u>	<u>31</u>	<u>2,517</u>
Total liabilities	<u>12,722</u>	<u>12,137</u>	<u>15,115</u>
<b><u>Shareholders' equity relating to the Company's shareholders</u></b>			
Share capital	383	378	378
Premium on shares	55,915	55,633	55,633
Treasury stock	(751)	(751)	(751)
Balance of loss	(37,747)	(31,629)	(36,724)
Capital reserve from translating differences	(2,156)	(2,771)	(2,933)
Other capital reserves	558	438	507
	<u>16,202</u>	<u>21,298</u>	<u>16,110</u>
<b><u>Total liabilities and capital</u></b>	<b><u>28,924</u></b>	<b><u>33,435</u></b>	<b><u>31,225</u></b>

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

August 31, 2009			
<b>Date of approval of the financial statements</b>	<b>Michael Zuckerman</b>	<b>Haim Helfgot</b>	<b>Jonathan Berger</b>
	<b>Chairman of the Board</b>	<b>Director</b>	<b>CFO</b>
	<b>And CEO</b>		

**Consolidated statement of income**

	For the 6 months ended June 30,		For the 3 months ended June 30,		For the year ended December 31,
	2009	2008	2009	2008	2008
	Unaudited		Unaudited		Audited
	NIS thousands		NIS thousands		NIS thousands
Note	(Excluding data on net earnings (loss) per share)				
Revenues from sales and services	23,511	30,593	11,248	15,458	56,744
Cost of sales and services	15,474	19,056	7,606	9,601	37,753
Gross profit	8,037	11,537	3,642	5,857	18,991
Research and development expenses	2,163	2,603	1,186	1,273	4,741
Selling and marketing expenses	1,854	3,515	836	1,768	6,005
General and administrative expenses	5,048	6,240	2,716	3,190	12,636
Other expenses, net	-	200	-	150	208
Income (loss) from regular operations	(1,028)	(1,021)	(1,096)	(524)	(4,599)
Other revenues (expenses), net	25	6	-	(6)	41
Financing revenues	494	201	178	110	902
Financing expenses	4	(616)	(868)	(433)	(1,122)
Income (loss) before taxes on income	(1,125)	(1,830)	(1,786)	(853)	(4,778)
Tax revenues (expenses) on income	102	127	94	(40)	393
Retained earnings (loss)	<u>(1,023)</u>	<u>(1,703)</u>	<u>(1,692)</u>	<u>(893)</u>	<u>(4,385)</u>
<u>Net earnings (loss) per share – in NIS</u>					
Net earnings (loss) - basic	<u>(0.040)</u>	<u>(0.066)</u>	<u>(0.066)</u>	<u>(0.035)</u>	<u>(0.17)</u>
Net earnings (loss) – diluted		<u>(0.063)</u>		<u>(0.033)</u>	<u>(0.17)</u>

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

**Consolidated statements of comprehensive income**

	For the 6 months ended June 30,		For the 3 months ended June 30,		For the year ended December 31,
	2009	2008	2009	2008	2008
	Unaudited		Unaudited		Audited
NIS thousands (Excluding data on net earnings (loss) per share)					
Net income (loss)	(1,023)	(1,703)	(1,692)	(893)	(4,385)
Other comprehensive income (loss):					
Adjustments resulting from translation of financial statements of foreign operations	486	(894)	77	(323)	(1,056)
Transfer to statement of income from realizing a loan of foreign operations	291	-	291	-	-
Other comprehensive income (loss), net	777	(894)	368	(323)	(1,056)
Total comprehensive income (loss)	(246)	(2,597)	(1,324)	(1,216)	(5,441)
Relating to:					
The Company's shareholders	(246)	(2,597)	(1,324)	(1,216)	(5,441)

**Consolidated statements of changes in shareholders' equity**

	Share capital	Premium on shares	Capital reserve from translating financial statements of foreign operations	Other capital reserves	Balance of loss	Treasury stock	Total
	Unaudited						
	NIS thousands						
<b><u>Balance as at January 1, 2009</u></b> <b><u>(audited)</u></b>	378	55,633	(2,933)	507	(36,724)	(751)	16,110
Total comprehensive income (loss)	-	-	777	-	(1,023)	-	(246)
Issue of shares from exercising option warrants	5	282	-	-	-	-	287
Cost of share-based payment	-	-	-	51	-	-	51
<b><u>Balance as at June 30, 2009</u></b>	<b><u>383</u></b>	<b><u>55,915</u></b>	<b><u>(2,156)</u></b>	<b><u>558</u></b>	<b><u>(37,747)</u></b>	<b><u>(751)</u></b>	<b><u>16,202</u></b>
<b><u>Balance as at January 1, 2008</u></b> <b><u>(audited)</u></b>	378	55,627	(1,877)	366	(28,153)	(751)	25,590
Total comprehensive loss	-	-	(894)	-	(1,703)	-	(2,597)
Issue of shares from exercising option warrants	*	6	-	-	-	-	6
Cost of share-based payment	-	-	-	72	-	-	72
	-	-	-	-	(1,773)	-	(1,773)
<b><u>Balance as at June 30, 2008</u></b>	<b><u>378</u></b>	<b><u>55,633</u></b>	<b><u>(2,771)</u></b>	<b><u>438</u></b>	<b><u>(31,629)</u></b>	<b><u>(751)</u></b>	<b><u>21,298</u></b>

\* Lower than NIS 1 thousand.

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

**Consolidated statements of changes in shareholders' equity**

	Share capital	Premium on shares	Capital reserve from translating financial statements of foreign operations	Other capital reserves	Balance of loss	Treasury stock	Total
	<b>Unaudited</b>						
	<b>NIS thousands</b>						
<b>Balance as at April 1, 2009</b>	378	55,633	(2,524)	533	(36,055)	(751)	17,214
Total comprehensive income (loss)	-	-	368	-	(1,692)	-	(1,324)
Issue of shares from exercising option warrants	5	282	-	-	-	-	287
Cost of share-based payment	-	-	-	25	-	-	25
<b>Balance as at June 30, 2009</b>	<b>383</b>	<b>55,915</b>	<b>(2,356)</b>	<b>558</b>	<b>(37,747)</b>	<b>(751)</b>	<b>16,202</b>
<b>Balance as at April 1, 2008</b>	378	55,627	(2,448)	403	(28,963)	(751)	24,246
Total comprehensive loss	-	-	(323)	-	(893)	-	(1,216)
Issue of shares from exercising option warrants	*	6	-	-	-	-	6
Cost of share-based payment	-	-	-	35	-	-	35
Dividend paid	-	-	-	-	(1,773)	-	(1,773)
<b>Balance as at June 30, 2008</b>	<b>378</b>	<b>55,633</b>	<b>(2,771)</b>	<b>438</b>	<b>(31,629)</b>	<b>(751)</b>	<b>21,298</b>
	<b>Audited</b>						
	<b>NIS thousands</b>						
<b>Balance as at January 1, 2008</b>	378	55,627	(1,877)	366	(28,153)	(751)	25,590
Total comprehensive loss	-	-	(1,056)	-	(4,385)	-	(5,441)
Issue of shares from exercising option warrants	*	6	-	-	-	-	6
Cost of share-based payment	-	-	-	141	-	-	141
Erosion of dividend declared	-	-	-	-	206	-	206
Dividend declared	-	-	-	-	(4,392)	-	(4,392)
<b>Balance as at December 31, 2008</b>	<b>378</b>	<b>55,633</b>	<b>(2,933)</b>	<b>507</b>	<b>(36,724)</b>	<b>(751)</b>	<b>16,110</b>

\* Lower than NIS 1 thousand.

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

**Pilat Technologies International Ltd.**

**Consolidated statement of cash flows**

	For the 6 months ended June 30,		For the 3 months ended June 30,		For the year ended December 31,
	2009	2008	2009	2008	2008
	Unaudited				Audited
	NIS thousands				
<b><u>Cash flows from operating activities</u></b>					
Net income (loss)	(1,023)	(1,703)	(1,692)	(893)	(4,385)
Cost of share-based payment	51	72	25	35	141
Amortization of fixed and intangible assets	627	664	305	317	1,483
Deferred taxes, net	-	(14)	-	68	54
Change in liabilities for benefits to employees	29	(23)	58	25	590
(Capital gain) loss from realizing fixed assets	-	(6)	-	6	10
Revaluation of loans between the Company and subsidiaries	303	-	243	-	-
Loss from realizing loan of foreign operations	291	-	291	-	-
Revaluation (erosion) of foreign currency	391	(229)	(228)*	(216)*	(126)*
	<u>669</u>	<u>(1,239)</u>	<u>(998)</u>	<u>(658)</u>	<u>(2,233)</u>
Changes in items of assets and liabilities:					
(Increase) decrease in trade receivables	2,206	(1,487)	1,255	(877)	1,550
(Increase) decrease in other receivables	(122)	125	325	406	209
Decrease in taxes receivable	172	60	211	60	72
Increase (decrease) in trade payables	(601)	402	(647)	114	(341)
Increase (decrease) in other payables	(2,163)	(2,164)	(1,984)	370	(743)
Decrease in taxes payable	-	(174)	-	(174)	(407)
Decrease in liabilities relating to discontinued operations	(100)	-	-	-	-
	<u>(608)</u>	<u>(3,238)</u>	<u>(840)</u>	<u>(101)</u>	<u>340</u>
Net cash provided by (used for) operating activities	<u>61</u>	<u>(4,477)</u>	<u>(1,838)</u>	<u>(759)</u>	<u>(1,893)</u>

\* Reclassified

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

**Consolidated statement of cash flows**

	For the 6 months ended June 30,		For the 3 months ended June 30,		For the year ended December 31,
	2009	2008	2009	2008	2008
	Unaudited		Unaudited		Audited
	NIS thousands		NIS thousands		NIS thousands
<b><u>Cash flows from investing activities</u></b>					
Purchase of fixed assets	(71)	(440)	(24)	(142)	(505)
Proceeds from realizing fixed assets	-	82	-	44	75
Short-term investments, net	379	140	-	56	758
Purchase of intangible assets	-	(1,160)	-	-	(1,181)
Net cash provided by (used for) investing activities	308	(1,378)	(24)	(42)	(853)
<b><u>Cash flows from financing activities</u></b>					
Issue of share capital from exercising option warrants	287	6	287	6	6
Receipt of long-term loans from banks	-	-	-	-	3,000
Repayment of long-term loans to banks	(331)	(39)	(160)	(21)	(186)
Dividend paid	-	(1,773)	-	(1,773)	(4,186)
Net cash provided by (used for) financing activities	(44)	(1,806)	127	(1,788)	(1,366)
<u>Rate differences on balances of cash and cash equivalents</u>	(193)	(474)	35*	(17)	(740)*
<u>Increase (decrease) in cash and cash equivalents</u>	132	(8,135)	(1,700)	(2,606)	(4,852)
<u>Balance of cash and cash equivalents at beginning of period</u>	13,739	18,591	15,571	13,062	18,591
<u>Balance of cash and cash equivalents at end of period</u>	13,871	10,456	13,871	10,456	13,739
<b><u>Additional information on cash flows:</u></b>					
Interest paid	48	7	21	3	45
Taxes paid	6	10	-	6	325
Dividend paid	-	1,773	-	1,773	4,186
Interest received	32	199	10	104	356
<b><u>(b) Significant non cash activities</u></b>					
Purchase of intangible assets	-	350	-	-	350

\* Reclassified

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

**Notes to the consolidated interim financial statements**

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**Note 1 - General**

These financial statements were prepared in a condensed format as at June 30, 2009 and for periods of six months and three months then ended (hereinafter - the interim consolidated financial statements"). These statements should be studied in correlation with the Company's annual financial statements as at December 31, 2008 and for the year then ended and the notes accompanying them (hereinafter: the annual financial statements).

**Note 2 - Significant accounting principles**

**a. Format of preparation of the interim consolidated financial statements**

The interim consolidated financial statements are prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as set forth in International Accounting Standard IAS 34 – "Financial Reporting for Interim Periods", and according to the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

The significant accounting principles and methods of calculation implemented in the preparation of the interim consolidated financial statements are consistent with those implemented in the preparation of the annual financial statements, excluding the following:

**b. IAS 1 (Amended) – Presentation of financial statements**

According to IAS 1 an additional and separate statement must be presented – "Statement of Comprehensive Income" in which the following will be presented, apart from the net income taken from the statement of income, all the items which were recorded during the period of report directly to shareholders' equity and which do not results from transactions with shareholders as shareholders (other comprehensive income), such as adjustments resulting from the translation of financial statements of foreign operations, adjustment of fair value of financial assets classified as available for sale, adjustments to the revaluation reserve of fixed assets etc... and the tax effect of these items also recorded directly to shareholders' equity, with suitable allocation between the Company and between the rights which do not give control. Alternatively, it is possible to present the items of the other comprehensive income together with the items of the statement of income in one statement, to be called: "Statement of Comprehensive Income" which will replace the statement of income, with suitable allocation between the Company and the rights which do not give control. Items recorded to shareholders' equity which result from transactions with shareholders as shareholders (such as the issue of capital, the distribution of dividend etc.) will be presented in the statement of changes in shareholders' equity, as well as the summary line transferred from the comprehensive statement of income, with suitable allocation between the Company and between rights which do not give control.

**Notes to the consolidated interim financial statements**

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**Note 2 - Significant accounting principles – contd.**

**b. IAS 1 (Amended) – Presentation of financial statements – contd.**

In addition, the Standard stipulates that in cases of a change in comparative figures, as a result of a change in accounting policy implemented retrospectively, restatement or reclassification, the annual financial statements must be presented in the balance sheet also at the beginning of the period of comparative figures for which the change was made.

The amendment was implemented as from January 1, 2009 with retrospective presentation of comparative figures.

**c. IFRS 8 – Operational segments**

IFRS 8 deals with the method of presentation of operational segments and replaces IAS 14. According to the Standard, the Company has adopted the "management approach" in reporting on financial performance of operational segments. The segment operation is information that management uses internally so to evaluate the performance of the segments and to make decisions on the method of allocating resources to the operational segments.

The Company has adopted the provisions of IFRS 8 as from January 1, 2009 while retrospectively applying the comparative figures/

**d. IFRS 2 (Amended) – Share-based payment**

According to the amended IFRS 2, the definition of vesting conditions includes only the terms of service and conditions of performance and a settling of a grant which includes conditions which are not vesting conditions, whether by the Company or by the other party, will be handled by way of accelerating vesting and not by forfeiture.

The vesting conditions include only the service conditions and performance conditions. Conditions which are not service or performance conditions will be considered as conditions which are not vesting conditions and therefore they should be taken into account in estimating the fair value of the instrument granted.

The amendment has been adopted as from January 1, 2009. Early adoption of the Standard does not have any significant effect on the interim financial statements.

**e. IAS 38 (Amended) – Intangible assets**

According to the amended IAS 38, expenses incurred for advertising, marketing, and sales promotion activities will be recognized as an expense on the date on which the Company has access to advertising products or with the service for these activities has been given to the Company. For this purpose, these actions include also the production of catalogs and advertising pamphlets.

**Notes to the consolidated interim financial statements**

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**Note 2 - Significant accounting principles – contd.**

**e. IAS 38 (Amended) – Intangible assets – contd.**

Furthermore, the assumption, in the rare event, if at all, that the amortization for intangible assets with a defined lifespan by the production-unit method will be lower than the straight-line method was cancelled, and therefore amortization according to the production units will be made possible without the above restriction.

The amendment has been applied as from January 1, 2009.

First implementation of the Standard did not have any significant effect on the financial statements.

**Notes to the consolidated interim financial statements**

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**Note 3 - The following are exchange rate data of the US dollar and the pound sterling**

	<u>Exchange rate of 1 US dollar</u>	<u>Exchange rate of 1 pound sterling</u>
<u>As at</u>	<u>NIS</u>	<u>NIS</u>
June 30, 2009	3.919	6.5089
June 30, 2008	3.352	6.6727
December 31, 2008	3.802	5.5481
	<u>%</u>	<u>%</u>
<u>Rate of change during the period</u>		
June 2009 (6 months)	3.08	17.32
June 2008 (6 months)	(12.84)	(13.46)
June 2009 (3 months)	(6.42)	8.62
June 2008 (3 months)	(5.66)	(5.54)
December 2008 (12 months)	(1.14)	(28.04)

**Note 4 - Financing expenses**

During the period of report an amount of NIS 291 thousand rate of exchange differences was included – due to the transfer to the statement of income from realizing a loan in foreign operations.

**Notes to the consolidated interim financial statements**

**Note 5 - Operating segments**

As from January 1, 2009 the Company has adopted IFRS 8 according to which the operating segments are presented according to the internal reporting format for the Company's chief operating decision maker.

**a. General**

The Company and the subsidiaries are engaged in the field of human resources.

The group of companies operates in three operational segments:

1. Israel
2. Europe
3. North America

The results of operations according to segments include all the costs and expenses relating directly to each segment and also the proportional charge of joint expenses between the segments.

**b. Reporting relating to operational segments**

	<b>For the 6 months ended June 30, 2009</b>				
	<b>Israel</b>	<b>Europe</b>	<b>N. America</b>	<b>Adjustments</b>	<b>Total</b>
	<b>Unaudited</b>				
	<b>NIS thousands</b>				
Revenues from external customers	10,180	6,948	6,383	-	23,511
Between segments	-	514	289	(803)	-
Total revenues	<u>10,180</u>	<u>7,462</u>	<u>6,672</u>	<u>(803)</u>	<u>23,511</u>
Results of the segment	<u>(358)</u>	<u>(53)</u>	<u>750</u>	<u>-</u>	339
Expenses not allocated to segments					<u>(1,367)</u>
Loss from regular operations					<u>(1,028)</u>

	<b>For the 6 months ended June 30, 2008</b>				
	<b>Israel</b>	<b>Europe</b>	<b>N. America</b>	<b>Adjustments</b>	<b>Total</b>
	<b>Unaudited</b>				
	<b>NIS thousands</b>				
Revenues from external customers	13,820	9,721	7,052	-	30,593
Between segments	-	310	-	310	-
Total revenues	<u>13,820</u>	<u>10,031</u>	<u>7,052</u>	<u>(310)</u>	<u>30,593</u>
Results of the segment	<u>734</u>	<u>372</u>	<u>109</u>	<u>-</u>	1,215
Expenses not allocated to segments					<u>(2,236)</u>
Loss from regular activities					<u>(1,021)</u>

**Pilat Technologies International Ltd.**

**Notes to the consolidated interim financial statements**

**Note 5 - Operational segments – contd.**

	<b>For the 3 months ended June 30, 2009</b>				
	<b>Israel</b>	<b>Europe</b>	<b>N. America</b>	<b>Adjustments</b>	<b>Total</b>
	<b>Unaudited</b>				
	<b>NIS thousands</b>				
Revenues from external customers	4,894	3,209	3,145	-	11,248
Between segments	-	274	135	(409)	-
<b>Total revenues</b>	<b>4,894</b>	<b>3,483</b>	<b>3,280</b>	<b>(409)</b>	<b>11,248</b>
Results of the segment	(423)	(289)	359	-	(353)
Expenses not allocated to segments					(743)
Loss from regular operations					(1,096)
	<b>For the 3 months ended June 30, 2008</b>				
	<b>Israel</b>	<b>Europe</b>	<b>N. America</b>	<b>Adjustments</b>	<b>Total</b>
	<b>Unaudited</b>				
	<b>NIS thousands</b>				
Revenues from external customers	6,942	5,090	3,426	-	15,458
Between segments	-	159	-	(159)	-
<b>Total revenues</b>	<b>6,942</b>	<b>5,249</b>	<b>3,426</b>	<b>(159)</b>	<b>15,458</b>
Results of the segment	350	504	(215)	-	639
Expenses not allocated to segments					(1,163)
Loss from regular operations					(524)
	<b>For the year ended December 31, 2008</b>				
	<b>Israel</b>	<b>Europe</b>	<b>N. America</b>	<b>Adjustments</b>	<b>Total</b>
	<b>Unaudited</b>				
	<b>NIS thousands</b>				
Revenues from external customers	26,303	17,265	13,176	-	56,744
Between segments	-	518	70	(588)	-
<b>Total revenues</b>	<b>26,303</b>	<b>17,783</b>	<b>13,246</b>	<b>(588)</b>	<b>56,744</b>
Results of the segment	(436)	166	410	-	140
Expenses not allocated to segments					(4,739)
Loss from regular operations					(4,599)

**Notes to the consolidated interim financial statements**

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**Note 6 - Contingent liabilities**

In 2008 Pilat Israel Ltd., a subsidiary (hereinafter; "Pilat Israel") received a letter from the Registrar of Data Bases in the Ministry of Justice (hereinafter: "the Registrar") according to which Pilat Israel does not meet the provisions of the Protection of Privacy Law -1981 – (hereinafter "the Law") in connection with two data bases that Pilat Israel maintains.

In addition Pilat Israel was informed that due to these violations and in view of the inquiry's findings, the Registrar intends to order that the recording of the two data bases be deleted, and if no objection is received from Pilat Israel, the data of the deletions will be August 15, 2008.

Pilat Israel does not accept the Registrar's allegations and its opinion is that it meets all the provisions of the law, and to the best of its knowledge it protects and uses the information of the tested and the candidates, according to accepted practice in the branch.

The Company presented its opinion to the Registrar and was given a postponement until a meeting which will take place in December 2008 with the Registrar at which the matters will be clarified. In the opinion of the Company's legal advisors it is not possible to estimate the Company's exposure in this matter, although the Company has serious arguments as a result of which it is reasonable to assume that it will change the Registrar's opinion and the result will be different to the Registrar's original decision.

During 2009 no additional request was received from the Registrar, and no new demand was received on this subject.

In the opinion of the Company's management no significant negative effect on the financial results is expected due to this event.

**Note 6 - Significant events after the balance sheet date**

Further to note 15 b. of the annual financial statements, in July 2009 the Knesset passed the Economy Efficiency Law (Legislative Amendments to Implement the Economic Program for the years 2009 and 2010) – 2009, which stipulates, inter alia, another gradual decrease in the rate of the companies tax starting in 2011 to the following tax rates: 2011 – 24%, 2012 – 23%, 2013 – 22%, 2014 – 21%, 2015 – 20%, 2016 and thereafter – 18%. The consequences of the said change in the tax rates will be expressed in the framework of the financial statements for the third quarter of 2009. The Company does not expect any substantial change as a result of implementing the above change.