

2005

Annual Financial Report

Metis Capital Ltd.



CONSOLIDATED ANNUAL FINANCIAL REPORT
AS OF DECEMBER 31, 2005

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OF DECEMBER 31, 2005

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letter to the shareholders

DEAR SHAREHOLDERS,

In fiscal year 2005, we achieved important strategic developments that emphasise our goal to become a sustainable investment company.

With the change of controlling shareholdings (43.23%) early in the year, Metis Capital received support in its new strategic direction by an internationally well reputed investment company.

The change of name from Electronics Line Ltd. to Metis Capital Ltd. further positioned us as a company that is engaged in investments in high growth markets and areas of business.

Today we are active in diversified business sectors, such as automotive, real estate, and financing. We put focus on investments where synergies between the company's business areas can be build, thus supporting the success and growth of one another.

In mid-2005 we completed our first investment in the automotive industry. Metis Capital acquired 50% of the issued share capital of Japan Auto Israel, and obtained the exclusive rights for the marketing of Subaru automobiles in Israel.

The investment is currently the operational focus of the Company.

We aim at the identification of potential growth markets and areas of business, as well as recognizing where our strengths are and maximizing every opportunity to the benefit of the shareholders.

Shareholder value is imperative to our business efforts, and we will continue to strengthen the value proposition by further developing the strategic direction of the Company.

We believe that we are on the path of building a sustainable investment company with a diverse and synergistic business portfolio that offers attractive returns for the financial investor.

You, as our shareholders, are critical to our effort and success, and we thank you for your trust and support during the last year. We look optimistically into 2006.

Yours sincerely,

Amnon Barzilay
Chairman of the Board

Itsik Cohen
Chief Executive Officer

company status review

STATUS REVIEW TO THE BOARD OF
DIRECTORS- DECEMBER 31, 2005

We are hereby presenting, in accordance with the rules and regulations of the Deutsche Börse, a report referring to the financial statements of the Company as of December 31, 2005, prepared in accordance with International Financial Reporting Standards.

This report is presented in Euros. An additional management discussion and analysis report is published for the Israeli public, which refers to the financial data as presented in the statements prepared according to Israeli GAAP.

CORPORATE DESCRIPTION AND
BUSINESS ENVIRONMENT

As from the third quarter of fiscal year 2005, the Company's main revenues are generated from the marketing and selling of Subaru cars, spare parts and garage services. The Company has rental income from leasing buildings owned by the Company and income from business consulting provided to Electronics Line 3000 Ltd ("EL3000").

On April 21, 2005, the Company signed an agreement with Mirage Israeli Development Ltd. ("Mirage") to acquire 50% of the issued and outstanding share capital of Japan Auto Group, and the debt of companies included in Japan Auto Group to Mirage.

The "Japan Auto Group" includes Japan Auto Israel Automobile Company Ltd., the owner of a franchise granted to it by the Fuji Company from Japan, the manufacturer of Subaru Vehicles to market Subaru vehicles in Israel.

The "Japan Auto Group" further includes additional companies whose activities, whether directly or indirectly, serve the activities of the franchise (such as the central garage, real estate holdings and the management company).

For the purpose of implementing the transaction the parties incorporated a new company, owned equally and jointly by them, to which the shares of Japan Auto Group companies have

been transferred, directly or indirectly ("the New Company").

The amount of the transaction for the purpose of acquiring the shares of the companies belonging to Japan Auto Group, and for purposes of releasing such shares ("the Shares being Sold"), from any debt, charge, attachment and/or third party rights there over, is the sum of US\$ 60 million. This sum has been paid by the parties as follows:

US\$ 36 million, have been paid by the Company:

- US\$10 million – as equity capital
- US\$10 million – as a loan to Mirage (repayment principal and interest on February 15, 2007) and from Mirage to the new company (as equity capital). This loan is secured by a first charge over Mirage shares in the New Company (subject to the external financing request), and by depositing share transfer deeds to the trustee on behalf of the Company.
- US\$16 million – as a loan to the new company (repayment principal on August 15, 2008 and interest will be repaid in quarterly installments commencing from the first quarter of 2006)

US\$ 10 million, have been paid to the New Company by FoxCombe Holdings Corporation, (hereinafter: "FoxCombe") as an external financing for a period of up to 18 months- see Note 3.C of the financial statements.

US\$ 14 million, according to the agreement, the New Company will be deemed as owing the additional sum to Mirage as a loan advanced by it in the sum of US\$14 million on conditions identical to the loan advanced by the Company to the New Company, against the same collateral and *pari passu* on the same footing therewith. For more details of the Japan Auto transaction see Note 3 of the financial statements.

The Company is involved in managing the Japan Auto group, financially and operationally. For this purpose the Company has moved its offices to the Japan Auto headquarters in Tel Aviv.

The Japan Auto group is involved in importing, marketing and selling of Subaru cars in Israel and importing, marketing and selling of accessories and spare parts in Israel made by Fuji and other suppliers for Subaru cars. Japan Auto owns a central garage for maintenance and repair services rendered to its customers and it also supports and trains a net of independent

agents and authorized garages all over Israel.

Japan Auto owns also a few real estate assets, serving the group activities and some of them are rented to others.

On February 3, 2005, the controlling shareholders of the Company changed. Gmul Investment Company Ltd. acquired the entire shareholdings of the Krubiner Group.

Mr. Amnon Barzilay was appointed as the new Chairman of the Board of Directors and Mr. Hamamy was appointed as the new CEO. On September 7, 2005, Mr. Hamamy resigned from his position as the CEO and Mr. Itsik Cohen was appointed as the new CEO, and assumes his office on October 10, 2005.

For liabilities to banking corporations, Japan Auto Vehicles Ltd (hereinafter: "consolidated company") has undertaken to meet a number of stipulations, including, *inter alia*, the following:

1. The consolidated company and the shareholders thereof undertook not to vary the holding ratio of its shares.
2. The consolidated company undertook not to create any charge over its assets in favour of any third party, and not to provide any

3. Guarantee to a third party without receiving the Bank's prior written consent thereto.

4. The consolidated company undertook not to lend its shareholders nor repay to its shareholders their existing or future loans having maturity dates exceeding one year, otherwise than on the agreed payment date at the time the loan was granted. The consolidated company similarly undertook not to pay its shareholders management fees, consultancy fees, dividends, expenses or any other payments as long as the Company had not repaid its debts to the Bank, without the Bank's prior written consent.

5. The consolidated company undertook that its equity would not be less than 20% of its total assets at any time, and in all cases that its equity would not be less than 30 million shekels, such sums being linked to the Consumer Price Index for December 1999.

Pursuant to the agreement, if the consolidated company fails to meet one or more of the stipulations, the banking corporations may accelerate the sums advanced within the scope of the banking the services already.

On January 8, 2002, September, 10, 2002, and May 9, 2004, the consolidated company received

letters from a banking corporation with respect to its non-compliance with some of the above stipulations.

On June 29, 2004, as result of failing to comply with the stipulations, the consolidated company received notice from a banking corporation that the interest rate on its loans had been increased with effect from the date of the notice.

After the balance sheet date, Japan Auto Group signed an agreement with the bank which mainly canceled stipulations 3 and 4 and enabled Japan Auto Holdings to publish a prospectus pursuant to which it offered debentures to the public. In accordance with the said prospectus, on February 21, 2006, Holdings issued a total of €29 million in nominal value debentures (at a discount of 7.5% costing €1.1 million Issuance expenses). All the amounts regarding the debentures are actual amounts and will be included in Metis 2006 statements by 50%.

These debentures are registered for trading on the Tel Aviv Stock Exchange and accordingly, Holdings has become a company reporting in accordance with the Securities Law.

The proceeds were used as follows:

1. € 6.4 million were used for transfer to Japan Auto against a capital note, which was issued to Japan Auto. Japan Auto paid the said amount of credit to two banks.
2. € 9 million were used to repay a loan (principal + interest) from Foxcombe.
3. € 7.3 million were used to repay loans made by the Company and Mirage in Holdings, who agreed to give a bank guarantee for this amount in favour of a bank providing credit to Japan Auto.
4. € 2 million were used to repay loans made by the Company and Mirage in Japan Auto Holdings.
5. The balance of € 1 million was left in a deposit with the trustee for the debentures and will be used by the Company for the first payment of the interest in respect of the debentures on August 1, 2006.

Terms of the debentures

1. The principal of the debentures and the interest thereon will be linked to the Israeli consumer price index (CPI), with the base index being the index of January 2006, which was published in February 2006. The index for the payments will be the known index

that is known on the date of making the any payment on account of the principal and/or the interest. However, if the index for the payment is lower than the base index, the payment index will be the base index.

2. The interest to be paid in respect of the debentures is 6.3% per annum. The interest will be paid on two date in each year, on August 1 and February 1, with the first payment being on August 1, 2006, on which the payment of interest will be in respect of the period from the date of issuance (February 21, 2006) to August 1, 2006. Thereafter, the payments will be made every six months, on the abovementioned dates, with the last payment being on February 1, 2015.

3. Payments of principal - On February 1 of each of the years from 2009 - 2015 (inclusive), the Company will pay a seventh of the nominal value of the principal of the debentures, together with linkage differences accrued on that payment of principal (as stated above in paragraph a).

On 12th February 2006 Japan Auto undertook toward the trustee and bond

holders that any undertaking of new terms and/or amendments to existing terms between the company and the banking corporation extending the credit or providing an undertaking for all new terms pertaining to each banking corporation or any lender, which prejudices, directly and/or indirectly Japan Auto's ability to pay the company's management fees or principal, linkage differentials and interest on loans that the company gave to Japan Auto or dividends or any other payment will be subject to the Trustee's advance and written consent.

In 2004, the Company carried out distributions in kind to the Company's shareholders, of all the ordinary shares of Electronics Line 3000 (hereinafter "EL3000").

Prior to the distribution, EL3000 was a fully owned subsidiary of the Company.

As from June 28, 2004, EL3000 shares are traded on the stock exchange in Germany (Deutsche Börse, Frankfurter Wertpapierbörse). Following the distributions in kind, the Company does not hold EL3000 shares anymore.

From June 30, 2004 onwards, the financial statements of the Company do not include any balance sheet items of the financial statements of EL3000.

The statements of income of the Company for fiscal year 2004, include EL3000 financial results only until June 30, 2004. For the 2005fiscal year, none of EL3000 results are included in the financial statements of the Company.

The financial statements for fiscal year 2005, include a half of the balance sheet items value of the Japan Auto Group and half of its statement of income items.

GENERAL RESULTS REVIEW

The financial statements for 2005 represent the consolidated statements with Japan Auto Group, proportionate to the investment of Metis Capital Ltd. in the Group.

In this review, the reported period results include 50% of Japan Auto data from August 18, 2005 until December 31, 2005 only.

For the same period of fiscal year 2004, the following statement of income items are derived from the consolidation of EL3000 financial data with that of the Company (until June 30, 2004):

- Sale of goods
- Cost of sales
- Research and development costs
- Selling and marketing expenses

Total revenues in the reported year were €28.4 million compared to €15.4 million in the same period of

fiscal year 2004. Of the total revenues, €26.8 million were derived from the sales of goods (FY2004:14.4 million), €1.1 million from rental income (FY2004: 0.7 million) and €0.5 million was derived from business consulting services (FY2004:0.4 million).

Revenues from sales of goods in fiscal year 2005 were derived from the Company's investment in Japan Auto Group and the consolidation of the two companies, proportionate to the Company's investment in the Group, whereas fiscal year 2004 data is derived from the Company's consolidation with EL3000 financial data.

Rental income is generated from leasing company owned buildings. Rental income from EL3000 is presented in 2004 statements only from July 1, 2004, as previous income from EL3000 was adjusted against

expenses of EL3000 in the consolidated statements.

Revenues from consulting services are derived from EL3000 only, and are presented in the 2004 financial statements only from July 1, 2004. Previous revenues from EL3000 were adjusted against consulting expenses of EL3000 in the consolidated statements.

The gross profit in fiscal year 2005 was €4.1 million compared to €6.3 million for fiscal year 2005.

In the fiscal year 2005, total operating expenses were €4.9 million compared to €7.5 million for fiscal year 2004.

General and administrative expenses were €4 million in the FY 2005 compared to €3.6 million for FY 2004.

Due the consolidation of the reported period's results with Japan Auto Group statements, selling and marketing expenses were €1 million compared to €3.6 million for FY 2004.

No research and development costs occurred in the reported period; in fiscal year 2004 research and development costs were €0.6 million.

As previously explained, fiscal year 2004 figures include six months of EL3000 expenses.

The operating loss in the reported year was €0.8 million compared to an operating loss of €1.3 million in fiscal year 2004.

In the reported year, the financing expenses amounted to €0.1 million compared to €0.9 million financing income in fiscal year 2004.

Other income amounted to €41 thousand in 2005 compared to other expenses of €3 million in fiscal year 2004, mainly as the result of the impairment of investment property (€2.4 million), and represents the write-down of certain investment property to recoverable amount. The remaining was distribution in kind expenses.

The loss before income taxes for the reported year was €0.9 million compared to a loss before income taxes of €3.3 million for all fiscal year 2004.

In the reported period, the Company had tax benefit (derived from deferred taxes over current tax) of €165 thousand, compared to tax benefit of €1 million, mostly comprised of deferred taxes. Net loss in the reported year was €0.7 million compared to a net loss of €2.4 million in fiscal year 2004. Loss per share for the reported period was €0.86 compared to €0.3 for fiscal year 2004.

THE FINANCIAL POSITION OF THE
COMPANY

The working capital of the Company as at the balance sheet date reflects a current ratio of 0.76 compared to 11.7 as of December 31, 2004.

Liquidity

a) Liquidity Balance

As of December 31, 2005, the balance of liquid assets (cash, cash equivalents and marketable securities) amounted to €3.3 million compared to €26.2 million as of December 31, 2004.

The decrease is mainly due to the investment in consolidated companies and financing activities of Japan Auto Group.

b) Cash Flow

In 2005, net cash used in operating activities was €10.1 million compared to €3.4 million net cash used in operating activity in 2004.

SOURCES OF FINANCE

Equity as of December 31, 2005 was €30.2 million compared to €28.7 million as of December 31, 2004. The main change in 2005 is the foreign currency translation adjustments surplus derived from the translation of the Company's financial statements from NIS to EURO.

As of the balance sheet date, the short-term bank credit and long-term bank loans amounted to €20.7 million compared to €2.6 million as of December 31, 2004. This is mainly due to the consolidation of Japan Auto.

REPORTING WITH RESPECT TO THE
EXPOSURE TO MARKET RISKS AND
THEIR MANAGEMENT

The Company is exposed to the Japanese Yen rate of exchange because the price for the consumer cannot be in Yen. The Company holds cash in different currencies, and as a result, the Company is exposed to changes in exchange rates.

At certain times, there were differences between the monetary assets of the Company, which are stated in, or linked to various currencies other than the Euro, and the monetary liabilities in the same currencies.

All these differences expose the Company to changes in the rates of these currencies against the NIS and the Euro. In order to manage differences the Company uses derivative instruments.

The Chairman of the Board of the Company and the CEO of Japan Auto are in charge of the management of market risks, coordinates the handling of this issue within the framework of an internal committees.

In addition, the Company receives ongoing consultation from an external advisor specialized in the foreign currency market.

Itsik Cohen
Chief Executive Officer
March 31, 2006

independent auditors' report
to the shareholders

We have audited the accompanying consolidated balance sheets of Metis Capital Ltd. ("the Company") and its subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with International standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above give a true and fair view of the consolidated financial position of the Company and its subsidiaries as of December 31, 2005 and 2004, and of the consolidated results of their operations and their cash flows for each of the years then ended, in accordance with International Financial Reporting Standards.

Kost Forer Gabbay & Kasierer

A member of Ernst & Young Global

Tel Aviv, March 31, 2006

All numbers are in thousand of Euros,
except share and per share data.

consolidated financial statements

CONSOLIDATED BALANCE SHEETS

		December 31,	
	Note	2005	2004
Assets			
Current Assets			
Cash and cash equivalents	(5)	2,750	14,764
Short-term investments	(6)	576	11,484
Trade accounts receivables	(7)	5,478	-
Inventories	(8)	21,405	-
Prepaid expenses and other receivables	(9)	1,442	931
Total Current Assets		31,651	27,179
Non-Current Assets			
Property, plant and equipment	(10)	10,366	314
Investment property	(11)	5,615	5,366
Intangible assets	(12)	24,380	-
Loans to related parties	(13)	15,470	-
Deferred taxes	(20)	231	-
Total Non-Current Assets		56,062	5,680
Total Assets		87,713	32,859

The accompanying notes to the consolidated financial statements form an integral part thereof.

All numbers are in thousand of Euros,
except share and per share data.

CONSOLIDATED BALANCE SHEETS

		December 31,	
	Note	2005	2004
Liabilities and Equity			
Current Liabilities			
Bank credit and current maturities	(14)	18,998	795
Trade payables	(15)	11,871	73
Income tax payable		1,555	780
Loan from others	(16)	4,226	-
Other current liabilities	(17)	4,946	723
Total Current Liabilities		41,596	2,371
Non-Current Liabilities			
Long-term loans from others	(18)	471	-
Long-term loans from banks	(19)	1,661	1,780
Deferred taxes	(20)	7,313	46
Provision for warranty costs	(21)	513	-
Loans from related parties	(22)	5,950	-
Total Non-Current Liabilities		15,908	1,826
Equity			
Share capital	(24)	2,406	2,406
Additional paid-in capital		34,762	34,762
Foreign currency translation adjustments		58	(2,183)
Accumulated deficit		(7,017)	(6,323)
Total Equity		30,209	28,662
Total Liabilities and Equity		87,713	32,859

The accompanying notes to the consolidated financial statements form an integral part thereof.

Amnon Barzilay
Chairman of the Board of
Directors

Itzik Cohen
Chief Executive Officer

Eliezer Pevzner
Chief Financial Officer

Date of approval of the financial statements:
March 31, 2006

All numbers are in thousand of Euros,
except share and per share data.

CONSOLIDATED STATEMENTS OF INCOME

	Notes	Year ended December 31,	
		2005	2004
Revenues			
Sale of goods	(26)	26,804	14,401
Rental income		1,127	677
Consulting services		505	355
		28,436	15,433
Cost of Revenues			
Cost of sales	(27)	23,766	8,801
Property maintenance costs		543	345
		24,309	9,146
Gross Profit		4,127	6,287
Research & development costs	(28)	-	552
Selling & marketing expenses	(29)	956	3,421
General & administrative expenses	(30)	3,963	3,575
		4,919	7,548
Operating Loss		(792)	(1,261)
Financing (expense) income, net	(31)	(105)	909
Other (expense) income, net	(33)	38	(2,992)
Equity in losses of associate		-	(88)
Loss before Income Taxes		(859)	(3,432)
Tax benefit	(20)	165	1,025
Loss after Income Taxes		(694)	(2,407)
Net Loss		(694)	(2,407)
Loss per Share (basic and diluted)	(34)	(0.09)	(0.30)
Weighted Average number of Shares Outstanding (basic and diluted)		8,050,000	8,050,000

The accompanying notes to the consolidated financial statements form an integral part thereof.

All numbers are in thousand of Euros,
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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Additional paid-in capital	Foreign currency translation adjustments	Accumulated deficit	Total	Total recognized income and expense
Balance as of January 1, 2005	2,406	34,762	(2,183)	(6,323)	28,662	-
Foreign currency translation adjustments	-	-	2,241	-	2,241	2,241
Net loss	-	-	-	(694)	(694)	(694)
Balance as of December 31, 2005	2,406	34,762	58	(7,017)	30,209	1,547

	Share capital	Additional paid-in capital	Foreign currency translation adjustments	Accumulated deficit	Total	Total recognized income and expense
Balance as of January 1, 2004	2,406	42,001	-	(3,916)	40,491	-
Distribution in kind of subsidiary shares	-	(7,239)	-	-	(7,239)	-
Foreign currency translation adjustments	-	-	(2,183)	-	(2,183)	(2,183)
Net loss	-	-	-	(2,407)	(2,407)	(2,407)
Balance as of December 31, 2004	2,406	34,762	(2,183)	(6,323)	28,662	(4,590)

The accompanying notes to the consolidated financial statements form an integral part thereof.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2005	2004
Cash Flows from Operating Activities		
Income (loss) before income taxes	(859)	(3,344)
Adjustments for:		
Depreciation and amortization	839	936
Impairment of investment property	-	2,418
Loss on sale of property, plant and equipment	20	1
Loss (gain) on marketable securities, net	71	(709)
Financing expenses	1,217	579
Financing income	(1,112)	(779)
Exchange rate differences on long-term loans to related parties, net	(471)	-
Operating loss (profit) before working capital changes	(105)	(898)
Increase in provision for warranty costs	134	-
Increase in marketable securities and deposit, net	-	(1,783)
Increase in trade receivables	87	(124)
Decrease (increase) in prepaid expenses and other receivables	263	(919)
Decrease (increase) in inventories	(12,603)	(728)
Increase (decrease) in accrued expenses	17	340
Increase (decrease) in trade payables	9,027	467
Increase (decrease) in other current liabilities	1,806	287
Net cash provided by (used in) operating activities	(1,374)	(3,358)
Interest received	297	796
Interest paid	(270)	(348)
Income taxes paid	(139)	(359)
Income taxes received	35	1,412
Net cash used in operating activities	(77)	(1,857)
Cash Flows from Investing Activities		
Decrease in marketable securities and deposit, net	11,484	-
Investment in property	(6)	(13)
Acquisition of plant and equipment	(345)	(762)
Proceeds from sale of plant and equipment	134	26
Loans to related parties	(21,037)	-
Acquisition of Japan Auto Group (b)	(7,280)	-
Net cash used in investing activities	(17,050)	(749)
Cash Flows from Financing Activities		
Exchange rate differences on short-term loans from others	126	-
Distribution in kind of subsidiary shares (a)	-	(3,604)
Proceeds from long-term loans from banks	-	2,668
Repayment of long-term loans from banks	(369)	(279)
Increase (decrease) in short-term bank credit, net	5,734	(488)
Net cash provided by (used in) financing activities	5,491	(1,703)
Effect of exchange rate changes on cash and cash equivalents	996	(1,166)
Decrease in Cash and Cash Equivalents	(12,014)	(5,475)
Cash and Cash Equivalents at Beginning of Period	14,764	20,239
Cash and Cash Equivalents at End of Period	2,750	14,764

The accompanying notes to the consolidated financial statements form an integral part thereof.

All numbers are in thousand of Euros,
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CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT.)

	Year ended December 31,	
	2005	2004
(a) Distribution in kind of shares of subsidiaries:		
Assets and liabilities of the subsidiary as of distribution date:		
Working capital (excluding cash)	-	(6,311)
Non-current assets, net	-	10,409
Non-current liabilities	-	(375)
Investment in associate	-	(1,172)
Decrease in additional paid-in capital	-	(6,155)
	-	(3,604)
(b) Acquisition of Japan Auto Group:		
Deferred taxes	7,320	-
Working capital (excluding cash)	6,635	-
Non-current assets, net	(9,839)	-
Non-current liabilities	1,002	-
Loans to related parties	12,137	-
Other assets	(24,535)	-
	(7,280)	-
(c) Non-cash transaction:		
Distribution in kind of shares of associate (formerly subsidiary)	-	(1,084)

The accompanying notes to the consolidated financial statements form an integral part thereof.

notes

TO THE CONSOLIDATED FINANCIAL STATEMENTS:

1. GENERAL

- A. Metis Ltd. ("the Company") is a public company incorporated in Israel. The registered office of the Company is in 30 Hamasger Street, Tel Aviv, Israel. Until the end of June 2004, the Company and its former subsidiaries ("the Group") were engaged in the development, production, marketing and export of electronic security and alarm systems and wireless net systems, which include security solutions that enable distance monitoring and control. The principal markets of the Group were in countries of the European Union and the USA.

Subsequent to the distributions in kind, described in C. below, and the acquisition of Japan Auto Group, described in note 3 below, the Company principally markets and services automobiles in Israel and holds investments in real estate in Israel.

- B. Definitions:

In these financial statements:

The Company:	Metis Capital Ltd.
Gmuel company for investment Ltd.	Parent company
Jointly controlled entity:	Japan Auto Holdings Ltd. ("Holdings") G.T. Trade Spare Parts Ltd. ("Trade")- 50% owned and controlled
Japan Auto Group	Japan Auto holdings Ltd and its subsidiaries
Mirage:	Mirage Development Israel Ltd.- a company that owns 50% of Japan Auto Holdings Ltd.
Mirage Investments:	Mirage Investments Ltd.- 100% owned and controlled through Holdings
Mirage 2000:	Mirage 2000 Holdings Ltd.- 100% owned and controlled through Holdings
Japan Auto:	Japan Auto Israeli Company for vehicles Ltd.- 50% owned and controlled through Mirage Investments and 50% owned and controlled by Mirage 2000.
The Centre Garage Ltd.:	66% owned and controlled through Japan Auto and 30% through Mirage 2000 and Mirage Investments
Trashit:	Jointly controlled entity owned through Japan Auto, Mirage Investments and Mirage 2000

- C. On December 31, 2002, the Company's board of directors resolved to approve the restructuring of the Company. Commencing January 1, 2003, part of the assets, liabilities and activities of the Company were transferred to Electronics Line 3000 Ltd. ("EL3000"), which was a fully owned subsidiary registered in Israel and which was the operating company in Israel. The abovementioned transfer was in accordance with Section 104A of the Israeli Income Tax Ordinance (New Version) - 1961.

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- D. On May 27, 2004, the Board of Directors of the Company approved, (i) the distribution in kind of 7,315,783 of the Ordinary Shares of EL3000, held by the Company, (approximately 84% of the issued share capital of EL3000) to those persons and entities, who will be registered as the Company's shareholders at the end of business on June 7, 2004 ("distribution in kind"); and (ii) the inclusion on the Regulated Unofficial Market ("RUM"), subject to the approval of the Regulated Unofficial Market, of the entire issued share capital of EL3000. On June 24, 2004 the distribution in kind was effected, and on June 28, 2004 EL3000's shares were included on the RUM.

As a result of the above distribution, the Company ceased consolidating the financial statements of EL3000, commencing as of June 24, 2004. The investment in EL 3000 was accounted for based on the equity method since that date and until the additional distribution in kind (see below).

On August 24, 2004, the Board of Directors of the Company approved an additional distribution in kind of the remaining 16% of EL3000's issued share capital. The Company has received the approval of the district court in Israel for the additional distribution. On October 6, 2004, the additional distribution in kind was effected. Following this distribution, the Company ceased being a shareholder of EL3000.

Both distributions in kind were recorded by the Company at the carrying amount of the underlying net assets distributed. The distribution in kind amounted to the aggregate to €7,239, which were recorded as reductions of additional paid in capital in accordance with the court's approval.

- E. On August 18, 2005, the Company reported the closing of the acquisition of Japan Auto Group – see note 3.
- F. On June 23, 2005, the Company changed its name from Electronics Line (E.L.) Ltd. to Metis Capital Ltd.
- G. The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

All numbers are in thousand of Euros,
except share and per share data.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The Company publishes in Israel another set of financial statements, which are prepared in accordance with generally accepted accounting principles in Israel as the Company's shares are also traded on the Tel-Aviv Stock Exchange ("TASE")- see Note 37. The significant accounting policies followed in the preparation of these consolidated financial statements, are:

A. Use of estimates:

The preparation of financial statements in accordance with IFRS requires estimates and assumptions by management that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the reported period and the amounts stated in the income statements. The actual results could differ from those estimates.

B. Functional Currency

Until the distribution in kind, the Group sold its products mainly in Europe and the receipts from these sales were retained in Euros. In addition, the Group's primary external financing was derived from issuance of shares in 2000 in the Neuer Markt in Frankfurt. The proceeds from the issuance were received in Euros and the Group maintained its cash balances principally in Euros. Management believed that the Euros reflected the primary economic environment in which the Group operated and was a relevant reporting currency for its shareholders, particularly in Europe. In view of the above, the functional currency of the Group was the Euro until June 30, 2004.

Following the distribution in kind of EL3000's shares, commencing July 1, 2004, the Company, as described in note 1A above principally held investments in real estate and marketable securities in Israel. Accordingly, the currency that represents the economic substance of the underlying events and circumstances relating to the Company is the NIS. Therefore as of July 1, 2004 the NIS is the currency of the primary economic environment of the Company, and its functional currency. Furthermore, in August 2005, the Company acquired Japan Auto Group which conducts its business solely in Israel.

Financial Statements in Euros- The Presentation Currency

The Company has selected the Euro ("€") as its presentation currency rather than using the NIS as its presentation currency, since the Company believes that most of the readers of the financial statements are more familiar with the Euro than the NIS.

Because the Company selected the presentation currency to be the Euro, the financial statements of the Company have been translated from the functional currency (NIS) to the presentation currency in accordance with the principles set forth in IAS 21, as follows:

Assets and liabilities of the Company are translated into Euros at the closing rate at the date of the balance sheet. Share capital and additional paid-in capital are translated into Euros using the exchange rate on the date of the transaction. Income and expenses are translated at the average monthly exchange rates. Translation differences resulting from the translation are recognized as a separate component of equity ("foreign currency translation adjustments").

The representative rate of exchange of the Euro in relation to the New Israeli Shekel ("NIS") at December 31, 2005 was €1 = NIS 5.45 (2004 - NIS 5.88). In 2005, the NIS was devalued in relation to the Euro by 7.9% (2004 - devalued by 6.2%; 2003 - devalued by 11.34%).

C. Consolidation of Financial Statements

The consolidated financial statements comprise of the company and its wholly-owned and controlled subsidiaries. Control is normally evidenced when the Company owns, either directly or indirectly, more than 50% of the voting rights of a company' and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. Inter-company transactions and balances are eliminated in the consolidation.

The Group's interest in a joint venture is accounted for by proportionate consolidation, which involves recognising a proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis.

D. Cash and Cash Equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

E. Marketable Securities

Short-term investments in marketable securities are classified as securities held for trading investments and are carried at market value. Changes in the market value of these securities are recognized in the consolidated statement of operations.

F. Allowance for Doubtful Accounts

The allowance for doubtful accounts is computed for specific accounts, the collectibility of which is doubtful.

G. Inventories

Inventories are presented at the lower of cost and net realizable value.

Materials and parts – using the average cost method

Vehicles – using the direct identified cost for the vehicles

H. Property, Plant and Equipment

Property, plant and equipment are presented at cost less accumulated depreciation. When assets are sold their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statement of operations. The initial cost of property, plant and equipment comprises its purchase price, non-refundable purchase taxes, and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment. Depreciation is calculated by the straight-line method over the estimated useful life of the asset.

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

All numbers are in thousand of Euros,
except share and per share data.

The annual depreciation rates are as follows:

	%	
Buildings	2 – 4	(mainly 2%)
Land	2 - 10	(mainly 2%)
Leasehold improvements	term of lease	
Machinery and equipment	6 – 10	(mainly 10%)
Motor vehicles	15	
Office furniture and equipment	6 – 33	(mainly 33%)

I Investment Property

Investment properties are presented at cost less accumulated depreciation and any impairment in value. Depreciation is calculated using the straight-line method over the estimated useful lives of the properties. The annual depreciation rate is 2%.

J Intangible Assets

Intangible assets include franchise acquisition costs. The intangible assets are amortized using the straight-line method over their useful lives (20 years).

K. Leases

Operating lease - Leases of assets under which, substantially all risks and rewards of ownership are effectively retained by the lessor, are classified as operating leases.

- (i) The Group as lessee - Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term.
- (ii) The Group as lessor - The Group presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognized in income on a straight-line basis over the lease term.

L. Research and Development Costs

Expenditures for research and development are recognized as an expense when incurred.

M. Revenue Recognition

- (1) Sale of goods- Revenue is recognized upon delivery when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.
- (2) Rental income- Rental income arising on investment properties is accounted for on a straight-line basis over the lease term on ongoing leases.
- (3) Revenues from "bill and hold" sales transactions are recognized when the buyer takes title, provided (a) it is probable that delivery will be made; (b) the item is on hand, identified and ready for delivery to the buyer at the time the sales is recognized, (c) the buyer specifically acknowledges the deferred delivery instructions, according to which the delivery date is fixed and is reasonable and consistent with the buyer's business objectives and (d) the usual payment terms apply.
- (4) Revenues from consulting services are recognized in the statement of income as earned.

N. Maintenance warranties

A provision is recognised for expected warranty claims on products sold, and measured based on past experience of the level of repairs and returns.

O. Income Tax

The income tax charge is based on profit for the year and considers deferred taxation. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance sheet date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are recognized regardless of when the timing difference is likely to reverse. Deferred tax assets and liabilities are not discounted and are classified as non-current items in the balance sheet.

Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance sheet date, the Group reassesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The Group recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Group reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or the entire deferred tax asset to be utilized.

No deferred tax liability is recognized on taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary difference is controlled by the Group, and it is probable that the temporary differences will not reverse in the foreseeable future.

P. Impairment of Assets

Financial instruments are reviewed for impairment at each balance sheet date.

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in income. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if this is not possible, for the cash-generating unit to which the asset belongs.

Q. Borrowing Costs

Borrowing costs are generally expensed as incurred.

R. Earnings (Loss) per Share

Basic earnings (loss) per share is computed using the weighted average number of shares outstanding during the period. Diluted earnings (loss) per share is computed using the weighted average number of shares outstanding during the period adjusted for the dilutive effect of stock options outstanding during the period.

S. Derivative Financial Instruments

Derivative financial instruments that are not designated as hedging instruments are classified as held-for-trading and are carried at fair value, with changes in fair value recognized in the consolidated statement of operations.

T. Employee Share Based Payments

On 1 January 2005, the Company adopted IFRS 2, "Share-based Payment". IFRS 2 requires an expense to be recognized where the Company buys goods or services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The main impact of IFRS 2 on the Company is the expensing of employees' and directors' share options (equity-settled transactions).

The cost of equity settled transactions is measured by reference to the fair value at the date at which they were granted. The fair value is determined by using an option-pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date the options vest. The cumulative expense, recognized at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. No expense is recognized for amounts that do not ultimately vest.

According to the transitional provisions, IFRS 2 does not apply to equity settled awards granted prior to November 7 2002. Since all of the Company's outstanding options were granted prior to that date (see note 24b), the adoption of IFRS 2 had no effect on the financial statements of the Company.

U. Adoption of new IFRSs

a. On January 1, 2005, the Company adopted the revision to IFRS that were included in the Improvements Project of the International Accounting Standards Board. Adoption of the revised standards had no material affects on the financial statement of the company.

b. The Company has not applied the following IFRS and IFRICs interpretations that have been issued but are not yet effective:

IFRS 6 Exploration for and evaluation of Mineral Resources.

IFRS 7 Financial Instruments

IFRIC 4 Determining Whether an arrangement contains a lease.

IFRIC 5 Rights to interests arising from decommissioning Restoration and Environmental Rehabilitation Funds

The IFRS and Interpretation are required to be applied for annual periods beginning on or after 1 January 2006, but are not expected to be relevant for activities of the company and it is expected they will have no impact on the company's financial statements.

3. JAPAN AUTO HOLDINGS LTD. (JAPAN AUTO GROUP) ACQUISITION

During the period the Company acquired 50% of the assets and liabilities of Japan Auto Group. The operations of Japan Auto Group are included in the consolidated statements on the proportionate consolidation method.

The following is a summary of the assets and liabilities included in the consolidated balance sheet as of December 31, 2005:

As of December 31, 2005	
Assets	60,567
Liabilities	45,454

The following represents the operations of Japan Auto Group included in the consolidated statement of income:

For the period ended December 31, 2005*	
Sales	8,796
Net Loss	(538)

* Consolidated from August 18, 2005

On April 21, 2005, the Company signed an agreement with Mirage Israeli Development Ltd., (hereinafter: "the Seller") regarding the purchase transaction of one half of the corporations comprising Mirage 2000 Ltd., Mirage Investments Ltd., and Japan Auto Ltd., (hereinafter: "the Japan Auto Group") and the debt of the companies comprising the same to the Seller, by the Company, and a release of the Company's shares mentioned from any charge, attachment and/or third party right, by means of a new company that the parties incorporated for the deal.

The Japan Auto Group comprises the Japan Auto Israel Automobile Company Ltd., the owner of a franchise granted to it by the Fuji Company from Japan, (the manufacturer of Subaru vehicles), to market Subaru automobiles in Israel, and other companies whose direct or indirect activity serves the activity of the franchise (such as the central garage, real estate holdings and management company). Pursuant to the collateral (hereinafter: "the Advance").agreement, the Company paid a down payment of US\$6 million out of the proceeds, against collateral (hereinafter: "the Advance").

Pursuant to the agreement (as subsequently extended) (hereinafter collectively called: "the Agreement"), the parties incorporated a new company owned equally and jointly by them – Japan Auto Holdings Ltd., that holds indirectly 100% of the share capital of the Japan Auto Group.

The seller undertook to furnish, within 120 days of the signature date of the first agreement that was signed on April 21, 2005, and as a condition for completing the deal and transferring the shares being sold into the Company's name to furnish: (a) the written approval of Fuji to the sale of the shares to the Company and to extend the franchise for a further three years at least, namely at least until December 31, 2008; (b) arranging the external financing, the parties to act jointly to obtain the financing to complete the deal; (c) obtain the approval from the Antitrust Commissioner to the Agreement.

a. The Transaction:

The amount of the transaction is US\$ 60 million, this sum to be paid by the parties as follows:

1. US\$36 million was paid by the Company, partly as a loan to the Seller and/or to the New Company (as defined in paragraph 2 hereof).
2. US\$24 million – of outside financing that the Seller will provide for the New Company.

- b. As stated, for the purpose of implementing the deal the parties incorporated a new company owned equally and jointly by them, to which the shares of Mirage 2000 and the shares of Mirage Investments were transferred (**"the New Company"**).

c. Manner and Stages of Payment:

1. US\$6 million – were paid by the Company as an advance.
2. US\$24 million (**"the Preliminary Closing Sum"**) – was deposited by the Company in an escrow account on July 4, 2005, subject to the partial fulfillment of the preliminary conditions prescribed in the Agreement, as set out in the Immediate Report relating thereto.
3. US\$ 6 million – were paid by the Company on August 15, 2005 (**"the Closing Balance"**).
4. An amount of US\$10 million – will be paid by outside financing to the New Company and to secure such outside financing, a first charge over all the New Company's assets (including the Shares being Sold and the shares of Mirage Investments free and clear of any debt) and also a second degree charge over all the assets of the Japan Auto Group, were provided to the financing party.
5. A further sum of US\$14 million (out of the outside financing) is deemed as a loan by the Seller to the New Company.

d. Equity Capital of the New Company, Loans and Collateral:

1. Out of the sum of US\$20 million, the Company provided for US\$10 million, and US\$10 million were provided by Mirage Development Israel Ltd. The Company provided Mirage Development Israel Ltd. a loan of US\$10 million for 18 months on the condition for the external financing.
2. The remaining amount paid by the Company in the sum of US\$16 million is deemed to be a loan of the Company to the New Company bearing interest at the rate prescribed in the Agreement. The principal of the loan will be repaid to the Seller by a single payment 36 months after August 15, 2005. In the event of the New Company not having surplus cash to repay the principal on such date, the Purchaser may realize the charges that were granted to secure payment of such loan. The interest in respect of the loan will be paid in quarterly installments commencing from the first quarter of 2006.

- e. The difference between the consideration paid for the equity value of the company purchased was allocated by the subsidiary to land (after a provision for the diminution in value totaling € 1287 made in 2004 and 2005) and the balance was allocated to the franchise. The excess of the cost that was related to the franchise is amortized by the subsidiary over 20 years

All numbers are in thousand of Euros,
except share and per share data.

- f. Pursuant to the Agreement, the outside financing of US\$10 million will be paid to the New Company by FoxCombe Holdings Corporation, a company holding charges and collateral in the Japan Auto Group (hereinafter: "FoxCombe").
- 1. The loan granted to the New Company, is dollar-linked and bears annual interest of 7% from August 17, 2005 onwards. The loan will be in force for 3 months and the New Company will be entitled to defer the repayment date to the extent FoxCombe agrees each time, for 3 months up to a maximum of 18 months from the date of the advance thereof subject to the Company paying, after each six months commencing from the date of the signature of the Agreement, the accrued interest amount up to such date, and an additional 5% of the loan principal.

To secure the loan, the Company provided the following collateral:

- 1.1 A first degree charge (without limitation in amount) over all the Company's shares.
- 1.2 A first degree floating charge (without limitation in amount) over all the Company's property, undertaking and assets, including the unpaid capital and goodwill, equipment, chattels and rights of any kind.
- 1.3. A first degree charge (without limitation in amount) over the shares of Mirage 2000 and Mirage Investments.
- 1.4 As stated, with respect to the remaining sum amounting to US\$14 million, the New Company is regarded as the debtor thereof to Mirage Israel Development Ltd., as a loan which was advanced by it as stated, on conditions identical to the loan advanced by the Company to the New Company, (as stated in paragraph 4.2 above) and against the same collateral and *pari passu* on the same footing therewith.

4. BUSINESS SEGMENT INFORMATION

In 2005 the Company has four reportable segments:

Motor vehicles – Most of the activity is import vehicles produce by Subaru and sell them into clients

Spare parts – Most of the activity is import and marketing of spare parts for vehicles produce by Subaru and sell them to garge and also give garage service in the centre garge of the company

Rental and other- Most of the activity is rent a real state

Other- most of the activity is consulting service

Comparative data for 2004 is not presented since the Company then had only one reportable segment (electronics security and alarm systems) which ceased in 2004 – see note 1 A. The following data is presented in accordance with IAS 14:

All numbers are in thousand of Euros,
except share and per share data.

	Year ended December 31, 2005					Total
	Motor Vehicles	Spare Parts	Rental	Other	Elimination	
Revenues						
Sale to external customers	24,834	1,970	1,127	505		28,436
Inter-segment sales	-	795	56	-	(851)	-
Total Revenues	24,834	2,765	1,183	505	(851)	28,436
Results						
Segment results	664	968	544	(404)		1,772
Unallocated expenses						(2,564)
Operating loss						(792)
Financing expenses, net						(105)
Other income, net						38
Loss before income tax						(859)
income tax Benefits						165
Net Loss						(694)
Additional information:						
Segment assets	50,397	3,516	12,371			66,284
Unallocated assets						21,429
Total Assets						87,713
Segment Liabilities						
Segment liabilities	12,946	1,027				13,973
Unallocated liabilities						43,531
Total Liabilities						57,707
Other Segment Information						
Capital Expenditure						
Long-term assets	24,626	5	4,004			28,635
Depreciation and amortization	577	2	170			749

All numbers are in thousand of Euros,
except share and per share data.

5. CASH AND CASH EQUIVALENTS

	December 31	
	2005	2004
Deposits with banks:		
In Euro	320	2,897
In U.S. dollars	1,682	11,014
In Israeli currency	722	843
In other currencies	26	10
	<u>2,750</u>	<u>14,764</u>

6. SHORT-TERM INVESTMENTS

	December 31	
	2005	2004
Mutual fund	147	-
Government bonds	-	4,955
Corporate debentures	6	6,529
Restricted deposit (*)	423	-
	<u>576</u>	<u>11,484</u>

(*) see note 23 A 7

7. TRADE RECEIVABLES

	December 31	
	2005	2004
Open accounts	1,761	-
Checks receivable	3,826	-
	<u>5,587</u>	<u>-</u>
Less – allowance for doubtful accounts	109	-
	<u>5,478</u>	<u>-</u>

8. INVENTORIES

	December 31	
	2005	2004
Vehicles	20,259	-
Spare Parts	1,146	-
	<u>21,405</u>	<u>-</u>

All numbers are in thousand of Euros,
except share and per share data.

9. PREPAID EXPENSES AND OTHER RECEIVABLES

	December 31	
	2005	2004
Value added tax refundable	91	49
Due from supplier participation in advertising	212	-
Income receivable	610	-
Advances to suppliers	126	2
Prepaid expenses	200	16
Due from EL3000	147	783
Other receivables	38	-
Related parties	18	81
	<u>1,442</u>	<u>931</u>

10. PROPERTY, PLANT AND EQUIPMENT,

Composition and Movement

	Land and buildings	Installations and leasehold improvements	Machinery and equipment	Motor vehicles	Office furniture and equipment	Total
AQUISITION COST -						
As of January 1, 2004	7139	2053	6465	533	2314	18504
Acquisition	20	96	527	-	119	762
Disposals	-	-	(33)	(44)	(13)	(90)
Property, plant and equipment of EL3000 as of distribution date	(2,193)	(2,149)	(6,959)	(138)	(2,343)	(13,782)
Transfer to investment property	(4,966)	-	-	-	-	(4,966)
Currency translation differences				(22)	(6)	(28)
As of December 31, 2004	-	-	-	329	71	400
ACCUMULATED DEPRECIATION-						
As of January 1, 2004	405	1,011	2,306	108	1,355	5,185
Provision	80	93	228	69	232	702
Disposals	-	-	(37)	(17)	(9)	(63)
Property, plant and equipment of EL3000 as of distribution date	(36)	(1,104)	(2,497)	(78)	(1,565)	(5,280)
Transfer to investment property	(449)					(449)
Currency translation differences				(5)	(4)	(9)
As of December 31, 2004	-	-	-	77	9	86
NET BOOK VALUE -						
As of December 31, 2004	-	-	-	252	62	314
NET BOOK VALUE -						
As of December 31, 2003	-	-	-	252	62	314

All numbers are in thousand of Euros,
except share and per share data.

	Land and buildings	Installations and leasehold improvements	Machinery and equipment	Motor vehicles	Office furniture and equipment	Total
AQUISITION COST -						
As of January 1, 2005	-	-	-	329	71	400
Acquisition	17	79	-	199	50	345
Disposals	-	-	-	(190)	-	(190)
Acquisition of Japan Auto group	9,148	58	19	463	151	9,839
Currency translation differences	146	1	-	33	8	188
As of December 31, 2005	9,311	138	19	834	280	10,582
ACCUMULATED DEPRECIATION-						
As of January 1, 2005	-	-	-	77	9	86
Provision	59	5	1	67	27	159
Disposals	-	-	-	(36)	-	(36)
Currency translation differences	2	-	-	4	1	7
As of December 31, 2005	59	5	1	114	37	216
NET BOOK VALUE -						
As of December 31, 2005	9,252	139	418	719	243	10,366
NET BOOK VALUE -						
As of December 31, 2004	-	-	-	252	62	314

11. INVESTMENT PROPERTY

A. Composition and Movement

	2005	2004
COST -		
As of January 1,	6,153	4,062
Transfer from property, plant and equipment	-	4,966
Additions	6	13
Impairment	-	(2,418)
Currency translation differences	475	(470)
As of December 31,	6,634	6,153
ACCUMULATED DEPRECIATION -		
As of January 1, 2005	787	280
Transfer from property, plant and equipment	-	449
Provision	170	122
Currency translation differences	62	(64)
As of December 31,	1,019	787
NET BOOK VALUE -		
As of December 31,	5,615	5,366

All numbers are in thousand of Euros,
except share and per share data.

- B. The investment property consists of 4,144 sqm. in an office building covering 4,850 sqm., and 1,760 sqm. in another building covering 3,700 sqm. The buildings are located in the Kiryat Arie industrial zone in Petach Tikva, Israel.
- C. Leasehold rights (prepaid) will terminate in 2037 and 2043, each with a renewal option for an additional 49 years. Leasehold rights have not yet been registered with the Lands Registry due to the absence of parcelling.
- The land has not yet been registered in the Company's name with the Lands Registry Office.
- D. In 2001, operating lease agreements were signed with two tenants for 2,767 sqm. of the office building, (comprising approximately 57% of the total floor space of the building). The leases are for a period of three years, until March, 2004. The operating leases were renewed in March 2004 as follows: a lease of 1,459 sqm. was renewed till August 31, 2005, and a lease of 1,048 sqm. was renewed from April 1st, 2004 till March 31st, 2006. The future monthly rental income from these new leases is €27.
- Regarding lease agreements with EL3000, see Note 31E.
- E. In June 2004, following the distribution in kind, an area of approximately 3,100 sqm. (net book value of €4,517) that was occupied by EL3000, was transferred from property, plant and equipment.
- F. The €2,148 Impairment loss represents the write-down of certain investment property to recoverable amount. The recoverable amount was determined based on valuation performed by an external valuator, based on discounted future cash flows of each building. (Each of the buildings mentioned above in 11b is a cash-generating unit). In 2005, the management estimates that there is no change in the valuation of the investment property.

12. INTANGIBLE ASSETS

Composition and Movement

	2005	2004
COST -		
As of January 1,	-	1,339
Franchise create from Acquisition of Japan Auto group	24,508	
Intangible assets of EL3000 as of distribution date	-	(1,339)
Currency translation differences	382	-
	24,890	-
ACCUMULATED AMORTIZATION -		
As of January 1,	-	510
Provision	510	112
Intangible assets of EL3000 as of distribution date	-	(622)
As of December 31,	510	-
NET BOOK VALUE -		
As of December 31,	24,380	-

All numbers are in thousand of Euros,
except share and per share data.

13. LOANS TO RELATED PARTIES

	December 31	
	2005	2004
Loans index linked (1)	6,800	-
Loan dollar (USD) linked (2)	8,670	-
	15,470	-

- 1) A loan to related companies has been made within the framework of the acquisition agreement of the invested companies (see Note 3d). The loan bears interest at 6.5% per annum. The balance of the principal is due for repayment on August 15, 2008. The interest in respect of the loan will be repaid in quarterly installments commencing March 31, 2006.

In December 2005, the Company gave its consent to the fact that the balance of the principal of the loans that will not repaid out of the proceeds to be received from the public from the issuance of the debentures in a subsidiary, in accordance with the designation of the proceeds as provided in the prospectus for the debenture issuance by the Company published in February 2006 (see note 36), but will be due for repayment no later than 36 months from the final repayment date of the debentures – February 1, 2015. The interest on the balance of the loan principal will be repaid in quarterly installments commencing the quarter immediately following the final repayment of the aforesaid debentures. The first payment of interest will be for the interest accrued on the balance of the principal from August 18, 2005, the date the loan was actually granted.

The loans will be subordinate to the debentures issued by the subsidiary to the public in February 2006. Subsequent to the balance sheet date, a balance of approx. €4590 of these loans was repaid, see Note 36.

- (2) A loan to related companies has been made within the framework of the acquisition agreement of the invested companies (see Note 3f). The loan bears interest at 7% per annum, with the balance of the loan due for repayment on February 18, 2007.

14. BANK CREDIT AND CURRENT MATURITIES

A. Composition

	Annual interest rate	December 31	
		2005	2004
	% (*)		
Overdrafts:			
In NIS		-	76
In U.S. dollars		-	107
Short-term loans:			
Linked to NIS	prime +3	55	
In NIS	prime +0.6	9,464	273
In Pound sterling	-	2	-
In U.S. dollars	Libor +3	5,234	-
In Japanese yen	Libor +1.75	3,851	-
Current maturities of long term bank loans- in NIS		392	339
		18,998	795

(*) The weighted average annual interest rate as of December 31, 2005.

All numbers are in thousand of Euros,
except share and per share data.

B. Liens

1. As collateral for bank loans, the Company registered liens on part of the investment property, situated in Kiryat Arie in favor of the bank.
2. See also note 23a.

15. TRADE PAYABLES

	December 31	
	2005	2004
Open accounts	10,020	67
Checks payable	1,851	6
	<u>11,871</u>	<u>73</u>

16. LOAN FROM OTHERS

	Effective interest rate	December 31
	%	2005
Loan from others(*)	<u>7</u>	<u>4,226</u>

(*) see notes 3 ,36

17. OTHER CURRENT LIABILITIES

	December 31	
	2005	2004
Provision for loss on forward currency contracts	1,072	-
Advances from customers	1,983	-
Salaries and related expenses	438	50
Accrued expenses	733	542
Related parties	30	91
Provision for warranty (note 21)	474	-
Others	297	40
	<u>4,946</u>	<u>723</u>

All numbers are in thousand of Euros,
except share and per share data.

18. LONG-TERM LOANS FROM OTHERS

	December 31	
	2005	2004
Loans from others	471	-

A loan totaling €471 is a loan of a subsidiary to a former controlling shareholder in the subsidiary. The loan is due for repayment after the Company and Mirage refund to themselves an amount equal to the shareholders' equity that was extended by them to the Company whether in cash or by way of a distribution of dividends or the payment of the management fees totaling the shareholders' equity invested (all together US\$ 20 million). In the event that the aforesaid will not be fulfilled regarding the return of the shareholders' equity, the loan will be due for repayment in five equal annual installments, with the first of them being on April 21, 2015. The loan bears bank interest paid by the subsidiary to finance the working capital.

The loan will be subordinate to the debentures issued by the subsidiary to the public subsequent to the balance sheet date in February 2006.

19. LONG-TERM LOANS FROM BANKS

A. Composition

	Annual interest rate	December 31	
	% (*)	2005	2004
In U.S. dollar	Libor +2.2	2,050	2,119
Less- current maturities		332	339
		1,661	1,780

(*) The weighted average annual interest rate as of December 31, 2005.

B. Loan Maturity

The loans mature in the following years subsequent to the balance sheet date:

First year (current maturities)	392
Second Year	391
Third Year	391
Fourth Year	391
Fifth Year	391
Sixth Year and thereafter	96
	<u>2,052</u>

C. Liens

As collateral for bank loans, the Company registered liens on part of the investment property, situated in Kiryat Arie in favor of the bank.

All numbers are in thousand of Euros,
except share and per share data.

20. TAXES ON INCOME

A. Income Taxes Applicable in Israel

- (1) Measurement of results for tax purposes under the Israeli Income Tax (Inflationary Adjustments) Law, 1985:

Under the Income Tax (Inflationary Adjustments) Law, 1985, the Company results are measured in accordance with the changes in the Israeli Consumer Price Index (CPI). The following are the changes in the CPI and the Euro in relation to the NIS for the past three years:

	Year ended December 31	
	2005	2004
CPI	2.45%	1.2%
€ : NIS	(4.8)%	6.2%

Until December 31, 2003, the regular tax rate applicable to income of companies (which are not entitled to benefits due to "approved enterprise", as described above) was 36 per cent. In June 2004, an amendment to the Income Tax Ordinance (No. 140 and Temporary Provision), 2004 was passed by the "Knesset" (Israeli parliament) and on July 25, 2005, another law was passed, the amendment to the Income Tax Ordinance (No. 147) 2005, according to which the corporate tax rate is to be progressively reduced to the following tax rates: 2004 - 35 per cent, 2005 - 34 per cent, 2006 - 31 per cent, 2007 - 29 per cent, 2008 - 27 per cent, 2009 - 26 per cent, 2010 and thereafter - 25 per cent.

- (2) Reform in the Israeli Tax System:

In 2003, the provisions of the Law for Amendment of the Income Tax Ordinance (No. 132), 2003, became effective ("the reform law"), which deal with a comprehensive reform in certain aspects of the Israeli tax system. It is expected that the adoption of the law will result in gradual decreases in the companies tax liabilities, since a certain portion of the companies income derives from profits, which are subject to capital gains tax. According to the provisions of the reform law, tax at a reduced rate of 25% will apply on capital gains accrued after January 1, 2003, instead of the regular tax rate. In case of the sale of properties purchased before the adoption of the reform law, the reduced tax rate will apply only to the portion of the profit, which accrued after the adoption of the law, as computed according to the law. Further, the reform law states that capital losses are carried forward for tax purposes may be offset against capital gains for an indefinite period. The reform law also provides for the possibility to offset capital losses from sales of properties outside Israel against capital gains in Israel.

B. Tax Expense

	Year ended December 31	
	2005	2004
Current taxes	221	268
Deferred taxes	(386)	(1,293)
	(165)	(1,025)

All numbers are in thousand of Euros,
except share and per share data.

C. Theoretical Tax

The difference between income taxes on income before taxes computed at regular tax rates and income tax expense in the statement of operations is explained as follows:

	Year ended December 31	
	2005	2004
Tax computed at statutory		
Tax rate of 34% (2004-35%)	(295)	(1,201)
Non-deductible expenses	34	111
Capital gain tax for the distribution in kind	-	103
Adjustment of deferred taxes due to changes in tax rates	56	(3)
Deferred taxes have not been provided due to loss for taxes	224	-
Differences in the basis of measurement (EURO – CPI and nominal amounts- CPI) (*)	(184)	(35)
	<u>(165)</u>	<u>(1,025)</u>

(*) The amount represents the difference resulting from the basis of measurement for income tax purposes in Israel (calculated based on the New Israeli Shekel linked to the Israeli Consumer Price Index) and the functional currency of the Company (the EURO until June 30, 2004 and the NIS since then). For changes in the CPI and the Euro see 16A.

D. Deferred Taxes

Deferred tax assets (liabilities) are computed at an average tax rate of 31%, and are computed in respect of the following:

	December 31	
	2005	2004
Property, plant and equipment, and investment in property	221	162
Other temporary differences in recognition of income and expenses	19	(208)
	<u>240</u>	<u>(46)</u>
	December 31	
	2005	2004
Net deferred tax liability	(7,313)	(46)
Net deferred tax asset	<u>231</u>	<u>-</u>

All numbers are in thousand of Euros,
except share and per share data.

E. Movement in Deferred Taxes

	December 31	
	2005	2004
Balance at the beginning of the year	(46)	(145)
Deferred taxes of EL3000 as of distribution date	-	(1,190)
Recognized in income	386	1,293
Currency translation differences	(102)	(4)
Aquisition of Japan Auto	(7,320)	-
Balance at end of year	(7,082)	(46)

F. Final Tax Assessments

The Company and its subsidiaries have received final tax assessments through the year 2000.

G. Dividend In Kind

In general, the distribution in kind of the shares of EL 3000 to the Company's shareholders as described in note 2D results in two tax events on two levels, one on the Company level and the second on the level of the shareholders, as follows:

On the Company level, the distribution of EL 3000's shares to the Company's shareholders is similar to the sale of an "asset". This is liable for capital gains tax in the event that income accrues from that sale, and subject to the provisions of the Israeli Income Tax Ordinance (New Version), 1961 ("the Ordinance") in this respect. Based on the average value of the shares of EL 3000 during the first three trading days (that are supposed to reflect the value of EL 3000's shares at the time of their distribution), the Company incurred a capital loss. In addition, the distribution of EL 3000's shares to the shareholders constituted a violation of the conditions of section 104a to the Ordinance.

The Company believes that the violation of section 104a to the Ordinance, does not result in any additional tax liability, on the assumption that the average value of EL 3000's shares during the first three trading days also reflects the value of the operations that were transferred to EL 3000 at the time the transfer was carried out.

On the level of the shareholders, and in accordance with the Company's approach, this is viewed as a tax event treated as a capital transaction. The Company is relying on a circular that was published by the Israeli Income Tax Commission (circular 10/2001) that in substance determines that in the event a distribution to shareholders does not meet the profitability criteria in the Israeli companies law and receives the approval of the court, the distribution will be classified on the level of the shareholders as a capital reduction, that is a tax event treated as a capital transaction.

The Company submitted a request to the Israeli Income Tax Commission ("Commission") to rule that the distribution of the shares will be viewed as a capital transaction for tax purposes on the level of the shareholders, as described above. At this stage, the Commission decided not to rule with regard to the question of the classification of the aforesaid distribution of EL 3000's shares; however, it did rule regarding the question of the withholding of tax. In accordance with the arrangement that was achieved with the Commission on May 27, 2004, the Commission ruled that the Company will not be liable for the withholding of tax from the distribution to the shareholders, except for: (a) A distribution to Israeli public shareholders, who are not controlling shareholders as this term is defined in section 3(i) to the Ordinance ("the controlling shareholders"). In accordance with this determination, within seven days from the date of the distribution, the Company withheld tax at a rate of 15% from the average value of EL 3000's shares, during the first three trading days, in an amount aggregating to NIS 82 thousand (€15). (b) A distribution to public shareholders who are not Israel residents, and who are not controlling shareholders, who hold shares that are traded on the German stock exchange; in their respect, the withholding tax will be restricted to a rate that does not exceed 15%.

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Of the average value of EL3000's shares during the first three trading days, which is solely if it will be determined in a final binding tax assessment that it is a dividend

As to the withholding of tax in respect to the distribution to public shareholders who are not controlling shareholders, the Company decided that it would assume the tax burden. Accordingly, the Company paid tax in the amount of NIS 82 thousand (€15) in respect to the public shareholders who are Israel residents, as detailed above. In respect to the public shareholders who are not Israel residents, the Company will only pay tax if a final binding tax assessment will be issued, as stated above. In the Company's estimation, the amount of the maximum tax exposure that will be imposed on it as a result of the change in the classification of the distribution, in a final binding tax assessment, will not exceed about NIS 4,200 thousand (€770). The Company believes that, the likelihood that there will be a change in the classification of the distribution in a final assessment is low.

On September 23, 2004, the Company received a clarification from the Income Tax Commission, pursuant to which the provisions of the arrangement it reached with the Income Tax Commission on May 27, 2004, will also apply to the additional distribution in kind. According to the Company's calculations the additional distribution in kind is subject to capital gain tax of about NIS 605 thousand (€110). In addition, the Company paid tax in the amount of NIS 22 thousand (€4) in respect to the distribution to the Israeli shareholders who are not controlling shareholders.

In addition, the maximum tax exposure that will arise to the Company as a result of the change in the classification of the distribution, as described above should not exceed about NIS 407 thousand (€74) which, as aforesaid, is only in the event that in the final tax assessment it will be determined that it is a dividend. As described above the Company believes the likelihood that there will be such a change in the classification of the distribution in a final tax assessment is low.

H. Carry forward losses for tax purposes:

Carry forward tax losses of the subsidiary total approximately €700. Deferred tax assets relating to the losses were not recorded due to uncertainty of their utilization in the foreseeable future.

21. PROVISION FOR WARRANTY COSTS

	December 31
	2005
Provision for warranty costs	987
Less current portion 2005	474
	<u>513</u>
Balance as of January 1, 2005	-
Aquisition of subsidiary	438
Additions during the period	75
	<u><u>513</u></u>

22. LOANS FROM RELATED PARTIES

	December 31
	2005
Loan index linked	5,950

The Company's loans (totaling €5950) were received from related companies within the framework of the acquisition agreement of the invested companies (see Note 3d). The loans bear interest at 6.5% per annum, with the balance of the principal due for repayment on August 15, 2008. The interest on the loans will be repaid in quarterly installments commencing March 31, 2006.

In December 2005, the related companies gave their consent to the fact that the balance of the principal on the loans which will not be repaid out of the proceeds to be received from the issuance of debentures from the public in the subsidiary, in accordance with the designation of the proceeds as provided in the prospectus for the debenture issuance by the Company published in February 2006, will be due for repayment no later than 36 months from the final repayment date of the debentures - February 1, 2015. The interest on the balance of the principal of the loan will be repaid in quarterly installments commencing the quarter immediately after the final repayment of the debentures, as aforesaid. The first payment of the interest will be for the interest accrued on the balance of the principal from August 18, 2005, the date the loans were actually made.

The loans will be convertible into debentures that were issued by the subsidiary to the public in February 2006. Subsequent to the balance sheet date, the balance of €4590 out of these loans was paid, see Note 34.

23. COMMITMENTS AND CONTINGENT LIABILITIES

A. Liens

- To secure the loan to Bank Hapoalim, the Company has registered a lien on some of the land it owns in favour of the bank.
- To secure credit received by the Group from banks, liens have been registered on its assets, including all property, rights, monies, notes and documents, buildings, investments in shares of invested companies, securities and goodwill. The total liabilities and documentary credit secured in the said liens, at the balance sheet date, amount to €9464.
- Japan Auto has pledged land that it owns as follows:
 - Mortgages on block 6592, plots 98 and 100.
 - Mortgages registered on block 7067, plot 1 and 49
- Japan Auto is obliged vis-à-vis a bank not to create any lien on any of its assets and not to give any third party a guarantee without obtaining its written consent for this in advance.
- In favour of loan from others - third party, liens have been imposed - as set forth in Note 3F.
- To secure the loans from Metis and Mirage, the Company gave the following collateral:
 - A second-ranking lien on all of the Company's assets including unpaid capital and including goodwill.
 - A second-ranking lien on the shares of Mirage 2000 and Mirage Investments.

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7. At the request of Japan Auto and with the agreement of the banks that have provided the credit to Japan Auto as stated in paragraph 1 above, another bank has extended documentary credit to secure a supplier's balance of an aggregate amount at the balance sheet date of €9.8 million (of which €3.5 million is a short-term loan).

To secure the payments to the bank, the following securities were given:

- The motor vehicles for which the credit was given.
- A guarantee of US\$ 2 million.
- A bank deposit totaling US\$ 1 million.

Subsequent to the balance sheet date, the short-term loan and part of the supplier's balance were repaid, so that the balance of the supplier's credit secured by the said bank amounted to a total of €3.2 million.

B. Contingent Liabilities

In respect of liabilities to two banks, which, as of the balance sheet date, amount to €9464, Japan Auto undertook to one of the banks to comply with a number of stipulations including, inter alia, the following:

1. Japan Auto and its controlling shareholders undertook not to change the ratio of their shareholdings.
2. Japan Auto undertook not to create any lien on its assets in favour of any third party and not to give any guarantee to a third party without obtaining the written agreement of the bank for this in advance.
3. Japan Auto undertook not to lend to its shareholders and not to repay to its shareholders any existing or future loans whose due date for repayment is more than one year, which is not the agreed repayment date at the time of making the loan. In addition, Japan Auto undertook not to pay management fees, consultancy fees, dividends, expenses or any other payments to its shareholders as long as Japan Auto has not paid its debts to the bank, without obtaining the bank's written agreement in advance.
4. Japan Auto undertook that its shareholders' equity would not fall below 20% of its assets at any time, and in any event, its shareholders' equity would not be less than €5.5 million linked to the Israeli consumer price index for December 1999.

Pursuant to the agreement, in the event that Japan Auto does not comply with any one or more of the above stipulations, the bank will be entitled to make due for immediate repayment the amounts, or any part thereof, given within the framework of the banking services.

On January 8, September 10, 2002 and May 9, 2004, Japan Auto received letters from the bank stating that Japan Auto was not complying with the aforesaid stipulations.

On June 29, 2004, as a result of the failure to comply with the stipulations, Japan Auto received notification from the bank of an increase in the rate of interest on its loans with effect from the date of the notice.

Subsequent to the balance sheet date, on January 25, 2006 (and an addendum thereto dated February 2, 2006), the Company and Japan Auto signed a special arrangement with the bank, canceling stipulations c. and d. stated above (which have been breached in the past by Japan Auto) and adding the stipulations outlined below:

- a. Approval will be obtained for the publication of a prospectus to issue debentures of the Company to be carried out by February 15, 2006, providing that the issuance is effected no later than 7 days from the date the abovementioned approval is given.

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- b. The proceeds of the issuance will be designated as follows:
- 1) The first €6.5 million will be injected and transferred directly to Japan Auto, half to repay part of its loan to the bank, within 60 days from the date of the issuance.
 - 2) The next €10 million will be used by the Company for its requirements.
 - 3) The first amount after the €16.5 million and up to the next €7.3 million will be placed in a special deposit on behalf of the Company in the bank and will be subject to a single and exclusive first-ranking lien in favour of the bank to secure the Company's debt to the bank and without any limit on the amount, subject to the provisions of this special arrangement. The deposit will bear standard bank interest, and will be subject to the rights of lien and set-off of the bank and no use will be made of it, except as outlined in this paragraph, or, alternatively, the shareholders will give a bank guarantee for up to €7.3 million (in accordance with the aforesaid) to secure performance and/or exercise as outlined in this paragraph, as if it was the same bank guarantee of the said deposit. The shareholders in the Company elected for the alternative of the bank guarantee.
- c. In the event that Japan Auto does not repay its debt to the bank (which, as of the date of signing the special arrangement, was approx. €6.2 million) through December 31, 2006, then the bank will offset the deposit stated in paragraph b3 above against the debt, without the need for notice or warning.
- d. In the event that Japan Auto pays any management fees to the Company or to any other party (with the exception of salary payments to the management of Japan Auto and the directors therein up to a total of €0.6 million per annum), then the right to offset the deposit as aforesaid in paragraph b.3 above will rise to the bank. However, Japan Auto is entitled to record a credit of management fees in favour of the Company in its books of account without making any actual payment.
- e. The injection of the amounts by the Company to Japan Auto as stated in b.3 above will be irrevocable, and, in any event, they will be subordinated to Japan Auto's debt to the bank.
- f. The bank is entitled not to renew the credit facility to Japan Auto at its sole discretion.
- g. In the event that the issue of the debentures by the Company is cancelled or an amount lower than €6.4 million, then this special arrangement will be cancelled and it will return to the period of the obligation by Japan Auto to the bank of August 9, 2000, including the original paragraphs c and d, as stated above.

In order to obtain a credit facility from the second bank, Japan Auto did not undertake, vis-à-vis the bank, any obligation corresponding to the undertaking made to the bank as aforesaid, but the business conduct with effect from 2000 in relation to the two banks was similar. On the basis of legal advice received by Japan Auto, there is nothing in this similar conduct that creates an obligation to the second bank that corresponds to the undertaking made to the bank, as aforesaid. However, the joint activity of the Company and of Japan Auto to reduce the credit facility extended by the two banks to Japan Auto (see Note d.6.2 regarding an agreement between Japan Auto and Sojitz, and the signing of an arrangement with the bank, as aforesaid), together imply that the business conduct will have repercussions vis-à-vis the two banks. According to the Group management, these repercussions will not contain anything to restrict it from repaying the liabilities in accordance with the terms of the debentures as they are included in Holdings' prospectus for the debenture issuance to the public in February 2006.

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Subsequent to the balance sheet date, in February 2006, Japan Auto issued debentures to the public and accordingly, the amounts and the guarantees were deposited as stated in paragraphs B.b above (see also Note 36).

C. Legal Claims Served Against the Group

1. On May 19, 2004, an application was received by the Company from an agent of the Discount Group, which is an interested party in the Company, according to which the Discount Group alleges that it appears from the information in its possession that the distribution in lieu of money should have been brought before the general meeting of the Company as a transaction of the controlling shareholders pursuant to Section 270 (4) of the Companies Law. In addition, during May 2004, additional documents and details relating to the distribution in lieu of money were requested by the Discount Group. The Company's position is that all of the details that the Company were bound by law to give were furnished to the Discount Group. The agent of the Company applied to the agent of the Discount Group to receive a summary of their explanations to the said claim and received a reply, stating that since the Discount Group has no further details, they could not outline the Discount Group's explanations for its claim as aforesaid.
2. On November 24, 2003, a former employee of the Company served a claim against the Company in the Magistrates Court in Kfar Saba in respect of bodily injury allegedly incurred by him as a result of his work in the Company, the amount of which is restricted to the limit of the authority of the Magistrates Court (the sum of NIS 2.5 million, correct as of the date of submitting the claim). According to the undertaking by Electronics Line 3000, Electronics Line 3000 will bear the consequences of any legal proceedings that will be brought against the Company after the date of the effecting the re-organization. On March 22, 2004, a letter of defence was submitted by Migdal Insurance Company Ltd. (hereinafter - Migdal), with which the Company has an insurance policy with effect from July 1, 1999, rejecting the claims of the former employee. Migdal also submitted on behalf of the Company a third party notice against Menora Insurance Company Ltd. and Phoenix Insurance Company Ltd, whereby Migdal claimed that in the event that the court finds that the Company is somehow responsible for paying any amount to the plaintiff, the Company will be entitled to indemnification by virtue of their being the Company's insurers in the periods of the plaintiff's claimed employment in the Company. According to the Company, since the claim is covered by an insurance policy of Electronics Line 3000 and since Electronics Line 3000 will bear the consequences of any legal proceedings that will be brought against the Company after the date of effecting the re-organization; no provision was made in respect of this claim in the Company's financial statements.
3. See Note 35D and 35 E
4. Other claims pending
 - (1) Hearing held for Holdings by the Ministry of Transport in respect of engine improvement kits

In 2002, Japan Auto installed in the Impreza WRX models of its Subaru motor vehicles an improvement kit produced by "Pro Drive". According to the Ministry of Transport, the installation of the improvement kit amounts to a structural change and therefore, Japan Auto exceeded its authority under its letter of authorization to act as the licensing authority for motor vehicles and registered motor vehicles in which there had been a structural change. On December 2, 2004, a hearing on the issue was held in the Ministry of Transport. During the hearing, Japan Auto presented its position on the issue, with its main argument being that the Transport Ministry had given its approval for importing the improvement kits and that in meetings that took place between representatives of Japan Auto and representatives of the Transport Ministry, it was made clear to the Japan Auto representatives that the improvement kits do not contain anything that

alters the structure of the vehicles. On February 20, 2005, a decision was made in the Transport Ministry in the hearing, whereby the Transport Ministry refused to accept the position of Japan Auto that the Japan Auto representatives had been told by the Transport Ministry representatives that the improvement kit does not amount to a structural change in the motor vehicles. In addition, it was pointed out in the decision that Japan Auto acted without clarifying as to which of the authorities that had been granted to it by virtue of the letter of authorization to act as the vehicle licensing authority and as a result, had exceeded the authorities granted to it within the framework of this letter of authorization. The Transport Ministry gave Japan Auto a warning that was noted in its vehicle importer file.

The decision stipulated that Japan Auto was obliged to carry out the following actions:

- a. To determine new procedures so that in the future cases such as these (exceeding the authority given by virtue of the authorization letter) would not recur.
- b. To employ a standards engineer.
- c. With regard to the kits, Japan Auto was given the opportunity of receiving a license to install the kits, but the matter requires the approval of the vehicle manufacturer and the approval of the European laboratory regarding the compliance of the motor vehicles with the air pollution standards. If Japan Auto is unable to provide these approvals, it would have to take steps to remove the kits from the vehicles.

On June 27, 2005, Japan Auto transferred to the Transport Ministry a summary of new procedures, which are intended to prevent a repetition of such cases, including the recruitment of an employee to coordinate the area of standards. In addition, Japan Auto is taking steps on a number of levels in order to transfer to the Transport Ministry an opinion from laboratories in Israel and abroad, in order to prevent the dismantling of the kits that have been installed in the motor vehicles. Up to now, Japan Auto has informed the Transport Ministry that it has ceased importing and installing the kits.

In the opinion of the Japan Auto management, based on its legal advisors, the financial exposure in respect of the abovementioned is covered within the framework of the provision for warranty and repairs included in the books of Japan Auto.

- (2) On January 27, 2005, a hearing was held in the Transport Ministry in which it was claimed by the Transport Ministry that Japan Auto imported into Israel tyres that were more than 18 months old and that Japan Auto did not take appropriate measures in order to replace the tyres on the vehicles. (In fact, it was claimed that Japan Auto gave its agreement for the sale of the tyres that were imported for replacing the defective tyres on the free market.) In addition, it was claimed by the Transport Ministry that even if the tyres were imported as aforesaid, Japan Auto would be obliged to identify them in the preliminary tests that are carried out on the vehicles in which those tyres are installed. In the course of the hearing, Japan Auto detailed the lessons that had been learned from the case and the courses of action Japan Auto would take so that such cases would not recur. In addition, Japan Auto disputed the claim that it had given its consent for the new tyres that were imported to be sold on the free market. On February 23, 2005, a decision was reached in the Transport Ministry in the hearing according to which Japan Auto had not acted in the proper, effective and efficient fashion for replacing the tyres and, so if it becomes clear that through March 1, 2007, that Japan Auto is selling vehicles that do not comply with the standards provisions and directives of the Transport Ministry, and it is possible to detect a fault in the licensing position of Japan Auto, then the import licenses of Japanauto will be suspended for

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a period of 3 months. The conditional suspension was recorded in the vehicle importer's file.

In the decision, it was provided that Japan Auto must take the following measures:

- a. To determine new procedures so that in the future, cases such as these would not recur.
- b. To employ a standards engineer.
- c. To report on the progress of the process of replacing the tyres.

On April 10, 2005, Japan Auto sent a report to the Transport Ministry noting that the tyres had been replaced in 95% of the vehicles.

- (3) In March 2004, Japan Auto received a demand for the payment of municipal rates from Herzliya Municipality (hereinafter - the Municipality) for 2002-2003 in respect of the property that it owns. According to the Municipality, Japan Auto did not report to it for a change of owners of the property and therefore, Japan Auto is obliged to bear the amount owing for municipal rates for the said years, amounting to €103. According to Japan Auto, a notice regarding the change of property-holders was sent to the Municipality, both by the present tenants and by Japan Auto. A further claim of Japan Auto is that, in the agreement signed by Japan Auto and the previous tenant, there is a clause that enables the tenant to contract with a sub-tenant, such that at least, the present tenant should be considered as a sub-tenant. The municipal rates manager in the Municipality has rejected the understanding reached by Japan Auto on the matter and subsequently an appeal was submitted to the Municipal Rates Committee of the Municipality.

As of the date of signing the financial statements, a preliminary meeting had been held before the Appeals Committee at the end of which the municipal rates manager noted that he would be willing to end the matter in a compromise in which Japan Auto would pay an amount lower than the sum which it was required to pay. The financial statements include a provision of €18 in respect of this demand. In the opinion of the Japan Auto management, the amount of the compromise to be determined will not exceed the said amount.

- (4) On November 27, 2005, the Magistrates Court in Herzliya gave its verdict on a claim submitted against the tenant of land operated as a petrol filling station on leased land. According to abovementioned verdict, the tenant that operates the petrol-filling station should cease its activities through February 27, 2006 because of the offence of maintaining a business without a license or temporary permit according to the Licensing of Businesses Law, 5728 - 1968, unless he furnishes the abovementioned license or permit.

In February 2006, the said tenant received an extension from the court for arranging the matter of the license until May 27, 2006.

In the event that the license, as aforesaid, is not furnished, the recoverable amount of the land on which the petrol filling station is located will be reduced by €300. The said reduction will be included in the operating results of Holdings in 2006.

- (5) A complaint was made recently to the Antitrust Commissioner, stating that the Group tends to affix a sticker on new cars on which is written the period of warranty available for new vehicles is contingent on carrying out repairs and services at the Group's authorized garages, and this is contrary to the order outlined above. The Antitrust Commissioner has contacted the Group and requested it to publish a letter to be sent to customers that purchased vehicles that are still under warranty and that the warranty is not contingent on carrying out repairs and services at the Group's authorized garages and/or on the purchase of spare parts from the Group.

In March 2006, the Group sent a letter, as requested by the Antitrust Commissioner and in its previously approved format to its customers.

D. Guarantees

1. The Company has given a limited guarantee totaling approx US\$ 2 million, in favor of an obligation of the subsidiary, Japan Auto, for extending a letter of credit from the bank totaling US\$ 8.2 million for the importation of vehicles from Fuji - Japan.
2. There are cross-guarantees, unlimited in amount, between Japan Auto and the companies it holds, to secure credit made available to Japan Auto by banks amounting, as of the balance sheet date, to €9.5 million.
3. Japan Auto has previously signed guarantees, unlimited in amount, to secure a loan received by Mirage in the past from banks.

During the period, an agreement was signed by third party and those banks, stating that the third party had acquired the said loans from those banks and the said acquisition was completed on August 18, 2005.

Pursuant to the agreement for the acquisition of the loans as aforesaid, the banks undertook to that third party that, on completing the acquisition pursuant to the agreement, the banks would consider the debts of Mirage to them repaid and they would not have any claims or demands on them in this matter. After completing the aforesaid transaction, the debt, which the abovementioned guarantees secured, was cleared. Accordingly, as of the balance sheet date, Japan Auto was not a guarantor for securing the aforesaid debt of Mirage Development Israel Ltd. to banks.

4. On August 18, 2005, the third party mentioned in paragraph b. above, signed an agreement granting a loan of US\$ 5 million to Holdings. The loan is linked to the U.S. dollar and bears interest at 7% per annum. The loan will be repaid at the end of three months from the date of signing the agreement. If the third party agrees, the repayment date of the loan will be extended by five periods of three months each, subject to accepting a request for an extension from Holdings 14 days before the repayment date, and subject to the fact that at the end of every six months commencing with the signing of the agreement, Holdings will pay the amount of the accrued interest through that date, and 5% of the principal of the loan.

Subsequent to the balance sheet date, the repayment date was extended to three months through February 18, 2006 and by a further three months from February 18, 2006 to May 18, 2006.

Pursuant to the agreement, the parties are entitled to make the loan available for immediate repayment in accordance with the terms of the loan agreement.

In respect of the repayment of the loan subsequent to the balance sheet date, see Note 36

To secure the loan, Holdings made available the following collateral:

- a. A first-ranking lien, unlimited in amount, on the shares of Holdings.
 - b. A first floating lien, unlimited in amount, on all of the Company's property, plant and assets, including, unpaid share capital, and including goodwill, equipment, chattels and right of any type or kind.
 - c. A first-ranking lien, unlimited in amount, on the shares of Mirage 2000 and Mirage Investments.
5. Japan Auto has given guarantees totaling €235 in favour of the Transport Ministry, the Finance Ministry and other third parties in connection with its activities in the vehicle industry.

6. Commitments

- (1) In September 2000, the franchise agreement between Japan Auto and Fuji Heavy Industries, the company that manufactures Subaru model motor vehicles (hereinafter - F.H.I.) for the exclusive distribution of "Subaru" models in the State of Israel was extended December 31, 2005.

The agreement provided that Japan Auto and its agents are obliged to hold an inventory of spare-parts in a sufficient quantity with regard to the existing models and to provide service to "Subaru" models, even after the end of the agreement.

In addition, it was provided that Holdings would submit various reports with regard to sales, prices and market conditions.

On June 24, 2005, the abovementioned franchise agreement was extended through December 31, 2008.

- (2) On December 12, 2005, Japan Auto, in intermediation with a third party (not an interested party, directly and/or indirectly), signed an agreement with Sojitz Corp (hereinafter Sojitz Corp"), which is one of the largest trading companies in Japan, for the importation of Subaru vehicles manufactured by F.H.I. through Sojitz and will sell them to its customers in Israel. The object of this agreement, to enable the receipt of supplier credit from Sojitz, Japan Auto will bear the costs involved in the commitment. Japan Auto will make the purchases of all the motor vehicles through Sojitz, as long as Sojitz will choose not to reply to an order on the part of Japan Auto (for any reasons) Japan Auto will be entitled to make an order for vehicles directly from F.H.I.

The price of the vehicle will be determined by agreement from time to time between the parties. The agreement fixes a ceiling of a revolving credit facility in accordance with the target market of the vehicle.

Payment for the vehicle will be made through the supplier credit of Sojitz to Japan Auto, in two alternative ways, at the election of Japan Auto. Alternative I - financing the transaction by way of "documents against acceptance"; Alternative II - financing the transaction against inventory of vehicles (that will remain in the ownership of Sojitz) in a port warehouse in Israel and keeping it for Sojitz until the date of payment to Sojitz.

This agreement will be extended from year to year. Each party is entitled to end the agreement for any reason, providing that at least 90 days prior notice is given to this effect. In such a case, the agreement will apply to the balance of the outstanding orders until the related payments are made. In the case of a breach of the agreement by Japan Auto (according to the list of costs in the agreement), Sojitz is entitled to end the agreement with immediate effect by notification in writing.

The agreement is with the knowledge and approval of F.H.I. and accordingly, a triangular agreement is expected to be signed between F.H.I., Japan Auto and Sojitz, replacing the existing franchise agreement (see Note 17d.2), in such a way that will reflect the making of the purchases and importation through Sojitz. As long as the agreement with Sojitz comes to an end, the commitment between Japan Auto and F.H.I. will continue in a similar format to the existing one.

- (3) Japan Auto has entered into lease agreements with the Israel Lands Administration for various periods ending in the years 2013 to 2057
- (4) With regard to commitments with related parties, see Note 35.

All numbers are in thousand of Euros,
except share and per share data.

D. Operating Leases

(1) Lessee

The Company has an agreement with related parties according to which the Company leases two floors in a building for the period ending February 28, 2021. The Company is entitled to terminate the rental agreement on February 28, 2011. Annual rent - NIS 1,402 thousand (€253).

Future minimum lease payments in years subsequent to December 31, 2005 are as follows:

First year	276
Second through fifth years	1,102
Thereafter	1,061
Total	<u>2,438</u>

(2) Lessor

Future minimum lease payments receivable in years subsequent to December 31, 2005, under non-cancellable operating leases are as follows:

First year	849
Second through fifth year	2,240
Thereafter	2,250
	<u>5,339</u>

For description of leasing arrangement, see Notes 9D and 30E.

24. SHARE CAPITAL

- A. Share capital as of December 31, 2005 and 2004 is comprised of ordinary shares of NIS 1 par value, as follows

	Number of shares
Authorized	15,000,000
Issued and outstanding	8,050,000

- B. In May 2002, the Board of Directors approved a stock option plan for the grant of up to 400,000 options to employees, consultants and subcontractors who are not presently related parties and who will not become related parties as a result of the grant. The options expire in August 2006.

Upon the exercise of an option the grantee will receive, for no consideration, a number of shares reflecting the economic gain embodied in the option. Such gain is calculated as the number of shares equal to the difference between the closing market price of the Company's shares prior to the date of exercise ("the closing price") and the exercise price of the option, divided by the closing price.

The maximum exercise price of the options granted under the stock option plan is €10.8 per share.

The market price of the Company's shares on the Tel Aviv Stock Exchange on the day prior to the meeting of the Board of Directors, which approved the plan was NIS 50.5 (approximately €12.4 on that date) and on the Neuer Markt in Frankfurt, Germany, the price of an ordinary share was €9.8.

All numbers are in thousand of Euros,
except share and per share data.

In July 2002, the Company granted 201,000 options to employees of the Group. Of the options granted, 88,700 have an exercise price of € 5.6 per share and 112,300 have an exercise price of € 10.8 per share. Half of the options granted are exercisable from August 2002. The remaining options are exercisable in two equal portions from August 2003 and August 2004, respectively. The market price of one ordinary share of the Company on December 31, 2004, is €2.13.

- C. The additional paid in capital is comprised of share premium.

25. FINANCIAL INSTRUMENTS

A. Credit Risks

Cash and cash equivalents as of December 31, 2005 are deposited with large banks in Israel and abroad. Marketable securities mainly comprise government bonds and debentures of large companies. Accordingly, management does not anticipate losses on liquid assets arising from credit risks.

The Company performs ongoing credit evaluations of its customers and to date has not experienced any material losses. An allowance for doubtful accounts is determined with respect to those amounts that the Company has determined to be doubtful of collection.

B. Foreign Currency Exposure

As of December 31, 2005, the Company's trade payables are mainly derive from purchases from car suppliers in Japan. The balance as of that date amounts to 11,871 €. As for Lease Agreement see note 35 E.

The Company does not designate hedging transactions for foreign currency exposure.

C. Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, marketable securities and receivables and payables approximates their fair value due to the short-term maturity of these financial instruments.

The carrying amounts of the Company's long-term bank loans approximate their fair value based on the Company's incremental borrowing rates for similar type of borrowing arrangements.

26. REVENUES FROM SALES OF GOODS

	Year ended December 31	
	2005	2004
Motor vehicles	24,834	-
Spare Parts	1,970	-
Products (electronic security system)	-	14,401
	<u>26,804</u>	<u>14,401</u>
Includes:		
Sales to major customers		
A	-	1,450
B	-	1,335
C	<u>9,392</u>	<u>-</u>

All numbers are in thousand of Euros,
except share and per share data.

27. COST OF REVENUES

	Year ended December 31	
	2005	2004
Purchases and changes in raw and auxiliary material	35,954	7,392
Labor	241	1,157
Manufacturing and other expenses	151	448
Depreciation and amortization	34	479
	36,380	9,476
Changes in finished products and work-in-process inventories	(12,614)	(675)
	23,766	8,801

28. Research and Development Costs

	Year ended December 31	
	2005	2004
Salaries and related expenses	-	439
Other	-	113
	-	552

29. SELLING AND MARKETING EXPENSES

	Year ended December 31	
	2005	2004
Salaries and related expenses	103	1,844
Commissions	56	114
Advertising (1)	660	11
Foreign travel	-	135
Transportation	27	449
Rent	52	254
Royalties	-	5
Depreciation	52	-
Other	6	609
	956	3,421

(1) Advertising expenses for the year ended December 31, 2005 are presented net, after the participation of Fuji Heavy Industries in these expenses

All numbers are in thousand of Euros,
except share and per share data.

30. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31	
	2005	2004
Salaries and related expenses	1,012	647
Consulting expenses	1,373	922
Provision for bad and doubtful accounts	(21)	78
Depreciation of Property, plant and equipment	73	313
Amortization of franchise (*)	510	-
Other	1,016	1,615
	<u>3,963</u>	<u>3,575</u>

(*) Franchise record upon acquisition of Japan Auto Group relates to the entire business of vehicles

31. FINANCING INCOME

	Year ended December 31	
	2005	2004
Income on short-term deposits, net	927	376
Foreign exchange gain (loss), net	174	24
income from marketable securities		1,075
		-
Income on loans from related parties	179	-
Other, net	11	13
	<u>1291</u>	<u>1488</u>

FINANCING EXPENSE

	Year ended December 31	
	2005	2004
expense on bank borrowings	(494)	(513)
loss on derivatives	(601)	(66)
loss on marketable securities	(79)	
expense on loans from others	(222)	-
	<u>(1,396)</u>	<u>(579)</u>
Financing (expense) Income, Net	(105)	909

All numbers are in thousand of Euros,
except share and per share data.

32. DEPRECIATION AND AMORTIZATION EXPENSE

	Year ended December 31	
	2005	2004
Property, plant and equipment		
Cost of revenues	34	367
Research and development costs	-	16
General and administrative expenses	73	313
Selling and marketing expenses	52	6
	159	702
Investment property		
Maintenance costs	170	122
Intangible assets		
General and administrative expenses	510	112
	839	936

33. OTHER EXPENSES, NET

	Year ended December 31	
	2005	2004
Impairment of investment property(*)	-	(2,418)
Distribution in kind expenses	-	(573)
Loss on sale of plant and equipment	(20)	(1)
Other	58	-
	38	(2,992)

(*) See note 11

34. EARNINGS (LOSS) PER SHARE

	Year ended December 31	
	2005	2004
Number of shares and net loss used in computing earnings (loss) per share:		
Weighted average number of shares outstanding	8,050,000	8,050,000
Net loss used in computation	(694)	(2,407)

All numbers are in thousand of Euros,
except share and per share data.

35. RELATED PARTIES

A. Balances with Related Parties

As for balances with related parties, see notes 9 and 13, 17, 22

B. Transactions with Related Parties

	Year ended December 31	
	2005	2004
Costs and expenses -		
Cost of sales	-	127
Maintenance costs	-	126
Finance income from subsidiary	158	-
Financial income from related parties	444	-
Financial expenses from related parties	193	-
	409	253

C. Remuneration to Related Parties

	Number of people 2005	Number of people 2004	Year ended December 31	Year ended December 31
			2004	2005
Salaries and related expenses of related parties employed by the Company			-	-
Consulting expenses	3	2	922	258
Remuneration to directors not employed by the Company	7	3	32	67

D. Management and Service Agreements

1. In October 2002, the general meeting of the shareholders of the Company approved the Company's commitment in agreements for the provision of management services of the two management companies under the control and ownership of former general managers, who served as directors in the company (hereinafter - the former general managers). According to the agreements, the Company was granted the management services of a general manager or joint general manager, by the management companies, through the former general managers - this, in lieu of the services provided until then by the former general managers, within the framework of employer-employee relationships under contracts of employment. The term of the said agreements is for a period of seven years from July 2002.

All numbers are in thousand of Euros,
except share and per share data.

It was further agreed that subject to the consent of the Board of Directors of the Company and the prior receipt of approval, the management companies would be entitled to cease the provision of the management services and, instead, provide consultancy and management and business support services for the same consideration

The basis of the monthly amount for the services is identical in its cost to the cost of the transaction on a monthly basis according to the contracts of employment that existed prior to the engagement, approx €37.6 a month for each of the former general managers.

In March 2003, Mr. Gad Krubiner resigned from his position as general manager in the Company, but continued to act as Chairman of the Board of Directors.

In addition, pursuant to the management agreement that came into effect on July 10, 2002, the management services were discontinued and in their stead, consultancy services were provided.

On February 3, 2005, the former general managers signed an agreement with Gemul Investment Company Ltd. Pursuant to the agreement; the former general managers sold their entire holdings in the Company, which had constituted 43.23% of the Company's share capital.

It was agreed that the management companies would continue to extend consultancy services to the Company, in accordance with the existing agreements between them and the Company.

The Company has claims against it's for payments to the management companies as aforesaid, and as a result, stopped the payments with effect from September 2005. As a consequence, an application was received in the Company from an agent of the management companies stating that they regard the failure to pay as a fundamental breach of the agreements, and declare that if the Company does not make the payments that it stopped by December 10, 2005, these agreements will be cancelled, and these companies are considering claiming for the entire amount of the payments that are allegedly due to them according to the agreements. The Company is examining subsequent measures with its legal advisors.

In the opinion of the Company management and its legal advisors, the Company has made sufficient provision in its financial statements in respect of this claim.

2. August 18, 2005, the general meeting approved the agreement for providing chairman of the Board services by Amnon Barzilay, who serves as the Chairman of the Board, and who is a controlling party in the Company. Under the Agreement, the Chairman of the Board will receive, via a company owned by him, US\$20,000 per month, and an additional annual bonus of 3% of the Company's pretax profit, according to the financial statements, provided the Company's pretax profit exceeds 7% of the yield on the Company's equity. The chairman of the Board will also receive reimbursement of the management company's and/or Mr. Barzilay's expenses in connection with the position, as customary in the Company, in an amount not exceeding approximately US\$3,000 per month. The agreement enters into force from the date of the appointment (February 3, 2005) and each party may terminate the same by 6 months' prior notice.

Mr. Barzilay informed the Company, and the Company approved on November 30, 2005, that the agreement relating to the annual bonus above, will be for a period of 5 years; after which, should the parties be interested to renew their engagement with respect to the annual bonus, it will be brought to the approval pursuant to the legal requirements at such time.

Due to claims that the Company has regarding charges for payments made by these management companies, the Company suspended making the payments from September 2005. In consequence, the Company received a letter from the attorney representing the management companies indicating that the non-payment was being regarded as a fundamental breach of the agreements and giving notice that if the Company failed to pay the outstanding payments by December 10, 2005, the agreements would be rescinded and that it was the companies' intention to sue for the full amount of the payments which they claim is due under the agreements.

The Company is currently examining with its legal advisors, the steps that will be taken on the matter.

In the opinion of the Company's management and its legal advisors, the Company has made sufficient provision for this claim in its financial reports.

E. Transactions with EL3000

(1) Lease Agreements-The Plant Building

EL 3000's production plant is located in a four-story building at Ha'amal St., Kiryat Aryeh, Petach Tikva ("the asset"). The total area for the four stories is about 3,700 sq. m.

The Company has leasehold rights from the Israel Land Administration for the second story and the majority of the first story of the asset, which it leases to EL 3000. A small section of the first story, in which the Company does not have any rights whatsoever, is in use by another party.

In addition, the Company has a lease agreement with a related party, in respect to the asset's third and fourth stories, which it subleases to EL 3000, at terms that are identical to the original lease terms. The following are details of the agreements:

Beginning on January 1, 2003, the Company leased to EL 3000 areas on the first and second stories of the assets with a total area of about 1,760 sq. m. On February 1, 2004, a new agreement was signed and came into force between the Company and EL3000, and was amended in May 2004. Pursuant to the conditions of the agreement, the areas on the aforesaid stories are leased for a monthly rent of NIS 109 thousand (€20), linked to the higher of the change in Israel's CPI or the exchange rate of the NIS in relation to the U.S. dollar. The lease is for a period of 10 years.

The rental fees in respect to the asset's first and second stories amounted to € 211 in 2004.

In addition, beginning on January 1, 2003, the Company is subleasing to EL 3000 areas on the third and fourth stories of the asset aggregating to about 1,900 sq. m. On February 1, 2004, an agreement was signed and came into force between the Company and EL 3000, at conditions that are identical to the lease conditions in the lease agreement between the Company and a related party. The third story, the area of which is 947 sq. m., is leased for a monthly rent of U.S.\$ 8 thousand (€ 7), linked to the higher of the change in Israel's CPI or the exchange rate of the NIS in relation to the U.S. dollar. The lease includes an automatic escalation clause (10% every three years). The fourth story, with an area of 947 sq. m., is leased for a monthly rent of U.S.\$ 11 thousand (€ 9), linked to the higher of the change in Israel's CPI or the exchange rate of the NIS in relation to the U.S. dollar. The lease includes an automatic escalation clause (10% after every three years).

The rental fees in respect to the asset's third and fourth stories amounted to €254 in 2004.

(2) Lease Agreements-The Office Building

Effective January 1, 2003, the Company leases to EL 3000 two stories in the aggregate area of approximately 1,308 sq. m in an office building located at 2 Granit Street, Kiryat Arie, Petach Tikva ("the asset"). On February 1, 2004, a new agreement was entered into between the Company and EL 3000, and was amended in May 2004. Pursuant to the lease agreement the asset is leased for a monthly rent of U.S.\$ 18 thousand (€ 14), linked to the change in Israel's CPI or the exchange rate of the NIS in relation to the U.S. dollar - whichever is higher. EL 3000 also pays the Company for parking spaces and maintenance services related to this property. The remaining terms of this lease agreement are identical to the lease agreement of the plant building.

The rental fees with respect to the asset in 2004 were € 211.

(3) Consulting Services Agreements

According to an agreement signed on May 2, 2004, and which came into force on June 1, 2004, between Electronics 3000 and the Company, the Company provides Electronics 3000 with consultancy services in the area of alarm systems in consideration of US\$ 900 thousand plus VAT per year. In addition, Electronics 3000 bears all of the Company's expenses involved in or connected to the provision of the consultancy services up to the amount of US\$ 250 thousand per year. In the event that Electronics 3000 wishes to receive consultancy services from the Company that will require expenditure by the Company exceeding the said amount, Electronics 3000 will be required to approve these expenses in advance as a condition for receiving consultancy services. The term of this agreement is 4 years with an automatic option for its extension on termination for an additional year each year.

It should be noted that with effect from January 1, 2003, through the date that this agreement comes into force, the Company provided Electronics 3000 with consultancy services pursuant to an agreement signed on January 1, 2003, whereby Electronics 3000 undertook to pay the Company for consultancy services a sum equivalent to US\$ 2 million a year, plus VAT and expenses.

On March 13, 2005, an application was received from Electronics 3000, wherein it rejected the Company's demands for payment of charges pursuant to the consultancy services agreement, which raised various claims against the Company in this regard. In addition, Electronics 3000 made claims in connection with the amount of the rental fees to which they were committed according to the rental agreements between it and the Company. Electronics 3000 asked for the dispute to be decided by an arbitrator, agreed by the parties. The Company rejects these demands outright. According to the Company and its legal advisors, the contract in this case is legally valid and Electronics 3000 has no cause for not paying the consultancy fees provided in the consultancy agreement to the Company. In addition, the Company claims that the prospects of collecting the debt are very good (The balance of the debt at the balance sheet date is approx 734 €.) and it is considering its attitude to Electronics 3000's application.

On October 17, 2005, the Company served a writ as part of the arbitration proceedings between it and Electronics 3000.

F. Transactions with the Japan Auto Group

1. On June 29, 2000, Japan Auto signed an agreement with former controlling shareholders, wherein Japan Auto would receive from them day-to-day consultancy services for a period of 5 years in consideration of 60 equal and consecutive monthly installments of US\$ 25 thousand per month each. The payment in respect of the said consultancy services terminated on July 31, 2005.
2. In July 2005, it was agreed that the Company would receive monthly management fees totaling approx. US\$ 18 thousand.

In addition, it was agreed that in the event that the agreement is terminated by the parties before the end of 2006, the Company would receive a lump-sum amount totaling approx. US\$ 360 thousand. In the event that the agreement is terminated by the parties after the end of 2006, the Company would receive a lump-sum payment of half of the abovementioned amount, i.e., approx. US\$ 180 thousand.

Accordingly, on December 28, 2005, an agreement was signed by the parties. The agreement is in effect through December 31, 2010.

3. The Company has signed a rental agreement between it and Japan Auto wherein the Company would rent Japan Auto office space in a building owned by Japan Auto for use as the premises of the Company management, with effect from December 1, 2005, for a monthly rent of US\$ 1,900 per month. The term of the agreement is a period of years. The Company has an option to extend the agreement for a further 5 years. The rent for the second period will be increased by 5%.

All numbers are in thousand of Euros,
except share and per share data.

4. On December 28, 2005, Japan Auto acquired an option (for US\$ 10 thousand) to purchase land in Lod for a total of US\$ 11 million or the lease of the land for US\$ 250 thousand per annum. In the event that Japan Auto leases the land, it will be able to mortgage the land for its requirements. The said land is owned by Mirage Development Israel Real Estate Properties Ltd. (a subsidiary of the controlling shareholder). The term of the option pursuant to agreement is for 50 days. On February 7, 2006, the term of the option was extended through March 31, 2006. Japan Auto submitted a request to exempt from the payment of purchase tax until the transaction is executed, if it will be so.

In the event that purchase option is exercised, the credit balance of the seller, the controlling shareholder in Holdings, including the accrued interest will be subordinate to the debentures issued by Holdings to the public in February 2006.

5. On December 28, 2005, the Company signed a marketing services agreement between it and Holdings, wherein the Company provided these services to Holdings and to the Group companies, in consideration of € 18 per month. The term of the agreement is from July 1, 2005 to December 31, 2010.

36. Subsequent Events

- a. In February 2006, Holdings published a prospectus pursuant to which it offered debentures to the public. In accordance with the said prospectus, on February 21, 2006, Holdings issued a total of € 29 million in nominal value debentures. These debentures are registered for trading on the Tel Aviv Stock Exchange and accordingly, Holdings has become a company reporting in accordance with the Securities Law.
- b. The said debentures were issued at a discount of 7.5%.
- c. The net proceeds were comprised as follows:

	Reported euro in millions
Total gross proceeds	29
Discount - 7.5%	(2.2)
Issuance expenses	(1.1)
	25.7

The expenses include: Underwriters' commission, payments to professional consultants and others.

- d. Use of net proceeds
 1. A total of € 6.4 million was used for transfer to Japan Auto against a capital note, which was issued to Japan Auto. Japan Auto paid the said amount of credit to two banks, see Note 23b.
 2. A total of € 9 million (half belongs to the Company) was used to repay a loan (principal + interest) from a third party, see Notes 13 and 23.
 3. A total of € 7.3 million was used to repay loans made by the Company and the other controlling shareholder in Holdings, who gave a bank guarantee of this amount in favour of a bank providing credit to Japan Auto, see Notes 14 and 23.

All numbers are in thousand of Euros,
except share and per share data.

4. A total of NIS 10 million was used to repay loans made by the Company and other controlling shareholder in Holdings, see Note 18.
5. The balance of NIS 6 million was left in a deposit with the trustee for the debentures and will be used by the Company for the first payment of the interest in respect of the debentures on August 1, 2006 (see paragraph e. above).

e. Terms of the debentures

1. The principal of the debentures and the interest thereon will be linked to the Israeli consumer price index (CPI), with the base index being the index of January 2006, which was published in February 2006. The index for the payments will be the known index that is known on the date of making the any payment on account of the principal and/or the interest. However, if the index for the payment is lower than the base index, the payment index will be the base index.
 2. The interest to be paid in respect of the debentures is 6.3% per annum. The interest will be paid on two dates in each year, on August 1 and February 1, with the first payment being on August 1, 2006, on which the payment of interest will be in respect of the period from the date of issuance (February 21, 2006) to August 1, 2006. Thereafter, the payments will be made every six months, on the abovementioned dates, with the last payment being on February 1, 2015.
 3. Payments of principal - On February 1 of each of the years from 2009 - 2015 (inclusive), the Company will pay a seventh of the nominal value of the principal of the debentures, together with linkage differences accrued on that payment of principal (as stated above in paragraph a).
- f. On 12th February 2006 Japan Auto undertook toward the trustee and bond holders that any undertaking of new terms and/or amendments to existing terms between the company and the banking corporation extending the credit or providing an undertaking for all new terms pertaining to each banking corporation or any lender, which prejudices, directly and/or indirectly Japan Auto's ability to pay the company's management fees or principal, linkage differentials and interest on loans that the company gave to Japan Auto or dividends or any other payment will be subject to the Trustee's advance and written consent.
- g. The company undertook that insofar as the restrictions imposed by the banking corporation upon the Japan Auto Company exist as noted in clarification 22B, the deposit amount to be deposited with the Trustee will be equal to the next interest and/or principal payment during the period in which the Holdings commence payment on the capital.

All numbers are in thousand of Euros,
except share and per share data.

37. FINANCIAL REPORTING IN ISRAEL

The Company's shares are also listed for trading on the Tel Aviv Stock Exchange in Israel.

The Company's financial statements published in Israel are prepared in accordance with accounting standards generally accepted in Israel ("IG"). Consequently, shareholders' equity and results of operations of the financial statements published in Germany and Israel can differ slightly.

In accordance with the provision of Israel Accounting Standard No.3, the borrowing costs incurred in connection with an investment in property have been capitalized as from July 1, 1999.

In accordance with International Accounting Standard No. 23, these costs are capitalized as of the date on which the Company begins receiving financing for construction of the qualifying asset, expenditures for asset are being incurred and activities necessary to prepare the asset for its intended use or sale are in progress. The calculation of capital gains arising on disposal property, and depreciation of property to which borrowing costs have been capitalized will be different.

In accordance with the provision of Israel Accounting Standards No.12 and No.13, the functional currency of the Company in the financial statements published in Israel from January 1, 2004 is the NIS instead of the Euro.

Following the distribution in kind of EL3000's issued share capital, commencing July1, 2004 the functional currency of the Company in these financial statements is the NIS.

Under IG, distribution in kind expenses were reflected as a deduction from additional paid in capital. Under IFRS, these expenses were charged to operations as they do not involve the issuance of equity instruments.

The effect of the above differences on the results of operations is immaterial, and the effect on shareholders' equity between the financial statements published in Germany and in Israel are as follows:

	As reported in accordance with IFRS	As reported in accordance with IG*
Shareholders' equity as of December 31, 2005	30,209	30,078

*Translated from NIS at the exchange rate prevailing on December 31, 2005

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