2006

Annual Financial Report

Metis Capital Ltd.

Metis Capital Ltd.
INVESTMENT HOUSE

C o n t e n t

Consolidated Financial Report as of December 31, 2006

Letter to the shareholders

Dear Shareholders,

In fiscal year 2006, we achieved important strategic developments that support our aim to become a sustainable investment company.

The change of name from Electronics Line (E.L.) Ltd. to Metis Capital Ltd. further positioned us as a company that is engaged in investments in high growth markets.

Following a phase of re-organization and renewal, the Company today focuses on investment opportunities within the automotive related field and real estate.

We put focus on investments where synergies between the company's business areas can be established, thus supporting the success and growth of one another.

On August 2005 we completed our first investment in the automotive industry, when we acquired 50% of the issued share capital of Japan Auto Israel, and obtained the exclusive rights for the marketing of Subaru automobiles in Israel.

On October 2006 we entered into a franchise agreement with Europcar International S.A.S.U.

According to the agreement, our subsidiary will operate under the Europcar brand name in providing car rental and vehicle leasing services as well as outgoing services for connecting customers with car rental agencies overseas.

It is our intention to increase the involvement in the real estate field in 2007, by establishing a Real Estate division (the corporate structure is yet to be decided). The division will aim at both the purchase of built assets for the purpose of cash yield and the development of new projects. The company will focus on locations and countries with steady and growing economies.

Also, Japan Auto Group is assessing the opportunity to move the logistic center from Herzliah to the periphery and to develop real estate on the land that will be cleared.

We aim to identify potential growth markets and areas of business, use our strengths and exploit every opportunity to the benefit of our 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 essential to our effort and success, and we thank you for your trust and support during the last year. We are looking forward to 2007 with optimism.

Yours sincerely,

Amnon Barzilai
Chairman of the Board

Itsik Cohen
Chief Executive Officer

Company status review

1. Status Review to the Board of Directors- December 31, 2006

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, 2006, 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 also prepared according to International Financial Reporting Standards.

2. Corporate Description, Business Environment, Changes in the Corporate Description and Subsequent Events

On August 18, 2005, the Company acquired 50% of Japan Auto Group through Japan Auto Holdings ("**Holdings**") and 50% from G.T Part Trading Ltd. (**G.T**). The "Japan Auto Group" includes Japan Auto Israel Automobile Company Ltd. ("**Japan Auto**"), the owner of a franchise granted to it by the Fuji Company from Japan, the manufacturer of Subaru Vehicles to market and sell Subaru vehicles and Subaru spare parts in Israel. The "Japan Auto Group" further includes additional companies whose activities, directly or indirectly, serve the activities of the franchise (i.e. the central garage, real estate holdings).

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.

As from the third quarter of 2005, the financial reports include 50% from Holdings and G.T balance sheets and half of the profit and loss according their relative union system. The financial report of 2005 includes 50% from Holdings and G.T profit and loss paragraph since finishing the purchase agreement from August 18, 2005 up to the end of 2005. Therefore, as from the third quarter of 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.

Further, as from of December 31, 2006, the financial reports include all the balance sheets and all the profit and loss from Metis Capital Rent A Car Ltd. ("**Metis Car**"), that was established on October 4, 2006, and began his business activity on the beginning of 2007.

For liabilities to banking corporations, Japan Auto has undertaken to meet a number of stipulations in connection with banking corporations' debt. On January 2006, Japan Auto signed an agreement with the banking corporations that mainly canceled some stipulations and added a few stipulations, among them undertaking of Japan Auto that in case it shall not redeem its debt to the banking corporations until December 31, 2006, the banking corporations will confiscate the guarantees issued by the Company and Mirage Israeli Development Ltd. (which holds 50% of Holdings, "**Mirage**") in amount of € 7.3 million (€ 3.9 million of it - from the Company) without having to give a notice or warning.

On September 26, 2006, Japan Auto reached an arrangement with Bank Mizrahi Tefahot Ltd. ("**Bank Mizrahi**") according to which Bank Mizrahi shall provide Japan Auto with credit. According to the terms of the arrangement, Japan Auto has undertaken toward Bank Mizrahi to meet financial stipulations (as detailed below) and to provide collaterals by floating charge on all of the assets of Japan Auto and a specific charge on real estate properties of Japan Auto and its subsidiaries. The arrangement was made under the consent of Bank Discount of Israel Ltd. ("**Bank Discount**") and the First International Bank of Israel Ltd. ("**the International Bank**") which has financed the activity of Japan Auto up to that time. The Company repaid the balance of credit from these banking corporations by the credit received from Bank Mizrahi.

The financial stipulations that Japan Auto has undertaken according to the arrangement with Bank Mizrahi:

a) Japan Auto's ratio of shareholders' equity (including capital notes subject to the bank borrowings) to total balance sheet will not be below 20%.
b) Japan Auto's amount of shareholders' equity (including capital notes subject to the bank borrowings) will not be below € 5.4 million.
c) Holdings has undertaken towards Bank Mizrahi not to approve or consent to Japan Auto repaying funds and/or loans to Holdings, other than the interest on the capital note and this by December 31, 2010, based on the information published by Holdings in the prospectus of February 2006. According to the prospectus, the capital note (principal and linkage differences) totaling € 6.3 million (obtained by Holdings from Japan Auto in exchange for assigning € 6.3 million to Japan Auto out of the issuance proceeds, net) will not be redeemed before December 31, 2010.

As of December 31, 2006, Japan Auto is complying with said financial covenants and liabilities.

On February 13, 2006, Holdings published a prospectus pursuant to which it issued a total of €29 million in nominal value debentures (The principal of the debentures and the interest thereon will be linked to the Israeli consumer price index (CPI), and the interest to be paid in respect of the debentures is 6.3% per annum). As surety for repayment the bonds, Holdings registered liens on the shares of Mirage Investments, the shares of Mirage 2000, the shares of Japan Auto and an ongoing lien on the assets of Holdings.

The debentures were issued, at a discount of 7.5% - net proceeds were € 25.4 million after Issuance expenses. The proceeds were used as follows: € 6.4 million were used for transfer to Japan Auto against a capital note, which was issued to Japan Auto, € 8.8 million were used to repay a loan (principal and interest) from third party, € 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 favor of banks providing credit to Japan Auto (€ 3.9 million of it – to and from the Company), € 1.8 million was used to repay loans made by the Company and Mirage in Holdings (€ 1 million of it – to the Company), € 0.8 million was deposited at the trustee for the debentures as a surety for the first payment of the interest and € 0.3 million are using by Holdings.

On August 1, 2006, Holdings made the first payment of the interest to the debenture. On the same day Holdings remitted to the trustee an additional sum of € 0.1 million (this amount added to the initial sum of € 0.8 million that was left with the trustee since the issue of the debentures added to the interest accumulated on the € 0.9 million) as a security to the second interest payment which was paid on February 1, 2007.

On February 1, 2007, Holdings paid the second interest payment to the debenture holders, the trustee holds € 0.9 million, pending to the meeting of certain preconditions that were set forth in the trust deed, and Holdings will have the right to receive these funds. On March 12, 2007 Holdings approached the trustee in order to get back the funds.

On May 22, 2006, the Company signed two settlement agreements which were conditional: the first with Electronics Line 3000 Ltd. ("**EL3000**") in connection with the consulting agreement between the Company and EL3000, and the second with C.H.T. Management and Consulting Ltd. ("**CHT**") and O.T.M.K. Management and Consulting Ltd. ("**OTMK**") in connection with the management agreements between the Company and those companies.

1. The Settlement Agreement with EL3000

In accordance with this settlement agreement and after fulfilment of all the suspending conditions therein, the Consulting Agreement has been terminated. In accordance with this settlement agreement, the Company received from EL3000 an amount equal to 1,275,000 US dollars (€ 1 million) plus VAT in cash on July 3, 2006 and will receive two payments, in an amount equal to 637,500 US dollars (€ 0.5 million) plus VAT each on 1 January 2007 and 1 January 2008. These amounts are instead of the amount of 3,600,000 US dollars (€ 2.8 million) plus VAT, which was laid down in the Consulting Agreement.

2. The Settlement Agreement with CHT and OTMK

In accordance with the settlement agreement between the Company and CHT and OTMK, and after fulfilment of all the suspending conditions stipulate therein, the Management Agreements have been terminated. The Company paid OTMK and CHT, on July 3, 2006, the amount of 506,000 US dollars (€ 0.4 million) plus VAT. An amount of 171,000 US dollars which was held by OTMK and CHT, pursuant to a prior understanding, was set off against this sum. The Company also paid OTMK and CHT an amount of 97,500 US dollars (€ 0.08 million) as a refund of expenses that actually incurred by CHT and OTMK in order to acquire a run-off insurance policy in connection with the management services which were provided to the Company by them and/or anyone acting on their behalf. These amounts are instead of 3,000,000 US dollars (€ 2.4 million) - the amount the Company should have paid to CHT and to OTMK pursuant to the Management Agreements, had the Management Agreements continued in force until the end of their original periods.

Both settlement agreements were approved on June 29, 2006 by of the general meeting of the Company and revenue (net of expenses) of € 1.2 million was recorded in the reported period – as other income.

On June 30, 2006, the Company signed an agreement for the sale of its entire rights to a property situated in Granite St. Kiryat Arie, Petach Tikva ("**the property**") with Isralom Ltd. ("**Isralom**"). The property covers 2,760 sq. m. of land, on which there is a seven-story building with offices, parking space and storerooms for hi-tech companies all of which belong to the Company (with the exception of space in the fourth floor which has been sold) plus the existing and future building rights of the land. The Company received a payment of € 5.6 million with the addition of VAT and recorded a capital gain of approximately € 0.9 million in other income. According to the agreement, the Company is responsible for the accuracy of the lease and management terms as agreed upon between the Company as the lessee of areas on the property and EL3000 as the lessor. The Company shall indemnify Isralom for any damages incurred as a result of any claim and/or lawsuit brought up by EL3000 against the lease and management terms. The indemnification shall only be provided once all the legal proceedings undertaken by Isralom against EL3000 are exhausted. It

was also determined in the agreement that the Company shall provide Isralom a bank guarantee of 70,000 US dollars to secure the liabilities of EL3000 according to the lease terms as an alternative for the security placed for the Company by EL3000.

On May 21, 2006, Japan Auto received a letter entitled "an amendment to the municipal tax assessment of January 1, 1999 through April 30, 2006" in respect of a property used by the Japan Auto Group ("**the letter regarding municipal taxes**").

The letter regarding municipal taxes requires Japan Auto to pay the Municipality an additional € 2.7 million, retroactively, for a period of some seven years terminating on December 31, 2005 – a principal of approximately € 1.8 million and interest and linkage differences of approximately € 0.9 million ("**the retroactive charge**").

The Municipality claims that the following findings had been detected based on tests and assessments it performed recently:

1) The property includes additional built areas of 7,051 sq. m. and land of 522 sq. m. that had not been charged with municipal taxes in the past (in addition to about 8,900 sq. m. that had been charged to date).
2) The land's designation had been changed from industrial to commercial and the tax rate was amended accordingly.

Furthermore, and in view of the above, the updated tax assessment for 2006 amounts to € 353 thousand instead of € 96 thousand that had been originally charged to Japan Auto until the assessment was issued.

On August 2006, Japan Auto filed an objection to the municipal tax assessment with the Municipality's Appeals Committee alleging, inter alia, that the retroactive charge is illegal based, among others, on legal precedents. Japan Auto Automobile is also arguing that the charge in its respect derives mainly from additional land in respect of internal passages and service areas for which it claims the Municipality knowingly did not charge it for municipal taxes. As of the date of the financial statements, the Municipality's response to said objection has not been obtained.

The management of Japan Auto, based on the opinion of its legal counsel, believes that the retroactive charge will be revoked and accordingly, no provision has been recorded in the financial statements in its respect.

In respect of the updated tax assessment for 2006, Japan Auto recorded a provision in the financial statements, which the management and the legal counsel believe is adequate.

Against a lessee of areas, who operates the gas station in the area which is leased from Japan Auto, was filed a claim in respect of an offence of managing a business without a license or a temporary permit pursuant to the Business Licensing Law. In May 2006, said lessee received from Court an extension to settle the license issue by December 31, 2006. The lessee was granted several extensions by the Court in order to settle the matter of the license, the latest of which ended on December 31, 2006. In view of the fact that such license or permit has not been produced by December 31, 2006, Japan Auto wrote down in the financial statements the carry amount to the recoverable amount of the land on which the gas station is located in a total amount of approximately € 200 thousand, net of the tax effect.

On May, 2006 a triangle agreement was signed between F.H.I. (manufacturer of Subaru vehicles) Japan Auto and Sojitz (a commerce company from Japan) which replaced the existing franchise

agreement in such a manner that expresses the purchases and imports made through credit supplier from Sojitz.

On May 31, 2006 the option of Japan Auto to purchase land in Lod from a company controlled by Mirage expired.

On August 1, 2006 there was a change in the quantity of the securities of the Company following an expiration of 201,000 options of the Company.

On August 31, 2006 Mr. Eran Gluksman has been appointed as CFO and Company Secretary and Holdings' Company Secretary, replacing Mr. Eli Pevzner who has served as CFO and Company Secretary and Holdings' Company Secretary until the aforesaid date.

On October 5, 2006, a subsidiary of the Company, Metis Car (50% held upon the date of engagement and 100% held as of December 31, 2006), which had been jointly established with Trade Mobile Ltd. ("**Trade Mobile**") on October 4, 2006, entered into a franchise agreement with Europcar International S.A.S.U. ("**Europcar**").

According to the agreement, Metis Car will operate under the Europcar brand name in providing car rental and vehicle leasing services as well as outgoing services for connecting customers with car rental agencies overseas.

Metis Car was granted exclusivity for a period of five years in providing car rental and leasing services, subject to complying with the terms of the franchise.

On January 30, 2007, an agreement was engaged (came into force from December 21, 2006) between the Company, Metis Car and Trade Mobile according to which Trade Mobile will transfer all of its possessions in Metis Car (50%) to the Company. In reward, the Company will undertake all the rights and obligations of Trade Mobile in Metis Car and its subsidiaries, including appointing equity or another guarantee in connection with activity of Metis Car.

The Agreement is conditioned with the fulfilments of several conditions which correct to the date of this report, become filled except for signing a vehicle sale agreement between the Company, Metis Car and Trade Mobile, which supposed to take place until the date of April 1, 2007, or until any later date agreed upon by the parties.

At November 15, 2006 Gmul Investment Co. ("**Gmul**"), a controlling shareholder at the Company, has increased its holding at the Company to approximately 68.53% of the issued and paid up share capital of the Company and the voting rights therein, instead of holding 43.23%, according to the date of the annual report of the Company as of the date of December 31, 2005. The increase in Gmul's holdings at the Company is due to the following:

According to special purchase offer of the Company, Gmul has purchase 402,500 ordinary shares NIS 1 par value each of the Company, which is equivalent to 5% of the issued and paid up share capital of the Company and the voting rights therein, and according to purchase agreement between Gmul, Discount Investments Corp. ("**DIC**") and PEC–Israel Economic Corp. ("**PEC**"), dated June 29, 2006. Gmul has acquired from DIC and PEC, 1,634,017 ordinary shares NIS 1 par value each of the Company. This equivalent to approximately 20.30% of the issued and paid up share capital of the Company and voting rights therein. As a result of the purchase agreement, DIC and PEC are no longer an interested party at the Company.

As part of the transaction for the acquisition of half the holdings in the Japan Auto Group, the Company extended a loan in the amount of 10,000,000 US dollars to Mirage for a period of 18

months, until February 15, 2007. The loan bears annual interest at a rate that is the higher of the interest that the party financing the outside financing would be liable to pay, or the average interest for financing the working capital of the Japan Auto Group. The loan is secured by a first priority fixed charge on all of the Holdings shares that are held by Mirage.

A dispute arose between Mirage and the Company as to the calculation of the interest rate and linkage differences that Mirage will pay the Company in respect of the loan principal. Mirage claims that the loan is dollar-linked and therefore bears an annual interest rate of 7% whereas the Company claims that the loan is dollar-linked and bears annual interest of 7% until February 22, 2006 and from that date onward is NIS-linked and bears annual interest of about 9.43% ("**The disputed amount**"). On February 14, 2007, the Company and Mirage entered into an agreement whereby on February 15, 2007, Mirage repaid the loan to the Company excluding the disputed amount (in a total of € 8,442 thousand) plus VAT as required by law (in a total of € 45 thousand) and the disputed amount (totaling € 1,233 thousand) was placed in trust on behalf of the representatives of the parties until a legal decision is rendered. In addition and in order to guarantee the payment of VAT in respect of the disputed amount, Mirage deposited with its representative a blank signed check. As part of the agreement, the Company offered Mirage to assign the decision in the dispute to arbitration and on February 27, 2007, Mirage agreed. It was further agreed that no later than 45 days from the date of the court's or arbitrator's ruling and subject to the decision regarding the delay in executing the ruling, should it be filed by either of the parties, the trustees will assign the amount of the deposit, in whole or in part, plus the accrued interest and returns and less the expenses and commissions charged by the bank to either of the parties, as instructed by the court or the arbitrator.

Based on its legal counsel, the management believes that the Company is likely to receive the entire sum involving the dispute.

During 2006, Japan Auto provided several of its vehicles for use by officers in the joint controlling shareholders in Japan Auto Holdings, the Company and Mirage. Most of these vehicles were used by the controlling shareholders before the publication of the prospectus. Subsequent to balance sheet date, on February 28, 2007, once the matter was cleared, said vehicles were returned to Japan Auto Automobile and their use was discontinued.

On the same date, the Company and Mirage transferred to Japan Auto an overall amount of approximately € 161 thousand plus VAT as required by law (in an immaterial amount to Japan Auto Automobile), in order to reflect Japan Auto's calculation of the total costs of using the vehicles borne by Japan Auto in the period from January 1, 2006 until the vehicles were returned (of which an amount of € 139 thousand in respect of 2006), all with the addition of annual financing expenses at a rate of 5%.

On February 11, 2007, EL3000 addressed the Company in a letter claiming that the property on Ha'amal St., Kiryat Aryeh, Petach Tikva (see above) is built using the Pal-Kal method (rippled tin), based on an opinion and tests conducted by an engineer on behalf of EL3000 and the Israeli Standards Institute. The letter also contains a price offer for the property's renovation from a contractor.

In furtherance to the above, on March 4, 2007, the Company received a letter from EL3000's representative whereby the Company is requested to inform EL3000, no later than seven days from

receiving the letter, that it undertakes to act for the physical safety of the property in such a manner that will allow EL3000 to continue its renovation work on the leased property for the duration of the lease period while settling all expenses incurred to EL3000 as a result of the evacuation of the property for as long as it takes to assure the leased property's safety. Should the Company fail to produce such a commitment towards EL3000, EL3000 has informed the Company that it will be required to seek for an alternative location and announce the termination of their engagement with all the expenses and damages incurred by EL3000 to be borne by the Company.

On March 5, 2007, the Company contacted Krubiner Ormor (the owner of the two top floors in the property from which the Company is leasing said floors to lease to EL3000) in order for the latter to collaborate in the evaluation of the matter (and the related costs, as they may be) and assigned all the relevant documents received from EL3000 to Krubiner Ormor.

On March 6, 2007, the Company informed EL3000's representative that it was in contact and collaborating with EL3000 and Krubiner Ormor to complete the examination of the matter as soon as possible, in coordination with all the parties involved in order to reach a solution that will be accepted by everyone concerned. A t this stage, the Company is unable to address the damages claimed by EL3000 in the representative's letter, including in relation to the evacuation of the property by EL3000.

On March 8, 2007, EL3000's representative responded that due to the urgency of the matter and the safety issue involved, the Company should inform EL3000, no later than within seven days from receiving said letter, of its detailed and professional reference to the subject of the property's required renovation work, the schedule for its performance and the indemnification payable to EL3000 for the consequent damages. Furthermore, in the event that the Company does not produce a detailed and professional response to EL3000's demand within seven days from receiving the letter, EL3000 will be forced to seek an alternative location, announce the termination of the lease agreement and demand reimbursement of expenses and damages, as incurred, from the Company.

On March 15, 2007, the Company's representative replied to EL3000's representative stating that the Company is handling the case without delay and is scheduled to obtain another engineer's opinion and another renovation offer from a contractor, if and as far as the renovations are required, within a few days, all in collaboration with Krubiner Ormor. The Company's representative also informed EL3000's representative that even based on the opinions granted so far, there is no justification and/or safety reason for evacuating the property and/or terminating the activities taking place thereon by EL3000.

On March 20, 2007, the representative of EL3000 addressed the Company in a letter replying that EL3000 considers the Company's attempts to prolong the time frame required to carry out the renovation work on the property as grave and due to the urgency of the matter and the safety risk that it poses, the Company is requested to notify EL3000 no later than within seven days from receiving the letter of its specific and professional reference to the matter of the renovation work on the property, the schedule for its performance and the indemnification payable to EL3000 for the damages incurred to it as a result of the above. The letter further states that failure to produce a qualified and specific response by the Company will be construed as an attempt to foil the provisions of the lease agreement signed between the parties and EL3000 will be forced to seek an

alternative location for carrying out its activities with all the consequent expenses and damages borne by the Company.

On March 21, 2007, the Company's attorney replied in a letter to the attorney of EL3000, in which he proposes to hold a meeting as soon as possible with the participation of the Company, EL3000, Krubiner Ormor and the involved engineers and this is in order advance the matter. In addition, an engineering opinion, which the Company received from Krubiner Ormor, is attached to the letter, according to which, the ceilings are not constructed by the Pal-Kal Method.

3. General Results Review

3.1 Statement of Income

As from the third quarter of 2005, the financial reports include 50% from the result of holdings and G.T according to their relative union system. In this review, the financial results of December 31, 2005 include financial report of the Company and half of the financial report of holdings and G.T from August 18, 2005 until December 31, 2005.

Also, as from of December 31, 2006, the financial reports include all the result of Metis Car.

Total revenues of the consolidated company in the fiscal year 2006 amounted to € 76.9 million, compared to € 28.4 million in the fiscal year 2005.

Of the total revenues, € 75.7 million were derived from the sales of cars and spare parts, compared to € 26.8 million in the fiscal year 2005, € 1.0 million were derived from rental income compared to € 1.1 million in the fiscal year 2005 (The decrease was mainly as a result of the selling the property in Granite St, Petach Tikva to Isralom), € 0.19 million were derived from business consulting services compared to € 0.51 million in the fiscal year 2005.

Revenues from consulting services were derived in the fiscal year 2006 from Holdings, while in the fiscal year 2005 the consulting services were derived from EL3000.

The total cost of revenues of the consolidated company in the fiscal year 2006 amounted to € 67.3 million, compared to € 24.3 million in the fiscal year 2005.

Of the total cost of revenues, € 66.9 million were derived from the cost of cars and spare parts, compared to € 23.8 million in the fiscal year 2005 and € 0.4 million were derived from property maintenance costs, compared to € 0.5 million in the fiscal year 2005.

The gross profit of the consolidated company in the fiscal year 2006 amounted to € 9.6 million – 12.4% of revenues, compared to € 4.1 million – 14.5% of revenues in the fiscal year 2005. The decrease of the gross margin was mainly a result of a growth of vehicle sales to institutional customers – i.e. leasing, rental companies and transaction of trade in for private customers.

The selling and marketing expenses of the consolidated company in the fiscal year 2006 amounted to € 2.2 million, compared to € 1.0 million in the fiscal year 2005.

The general and administrative expenses of the consolidated company in the fiscal year 2006 amounted to € 4.7 million, compared to € 4.0 million in the fiscal year 2005.

The other income of the consolidated company in the fiscal year 2006 amounted to € 1.9 million, compared to € 0.04 million in the fiscal year 2005, mainly as the result of the revenue from the two settlement agreements with EL3000 and the second with CHT and OTMK, and also from the selling of its entire rights in the property situated in Granite St. Kiryat Arie, Petach Tikva to Isralom.

The operating profit of the consolidated company in the fiscal year 2006 amounted to € 4.6 million – 5.9% of revenues, compared to operating loss of € 0.8 million in the s fiscal year 2005.

The financing income of the consolidated company in the fiscal year 2006 amounted to € 1.9 million, compared to € 1.3 million in the fiscal year 2005.

The financing expenses of the consolidated company in the fiscal year 2006 amounted to € 4.1 million, compared to € 1.4 million in the fiscal year 2005.

The profit before income taxes of the consolidated company in the fiscal year 2006 amounted to € 2.4 million, compared to a loss before income taxes of € 0.9 million in the fiscal year 2005.

The tax expenses of the consolidated company (including betterment tax about the selling of its entire rights in the property situated in Granite St. Kiryat Arie, Petach Tikva to Isralom) in the fiscal year 2006 amounted to € 0.8 million, compared to a revenues tax of € 0.17 million in the fiscal year 2005.

The net profit of the consolidated company in the fiscal year 2006 amounted to € 1.6 million, compared to net loss of € 0.7 million in the fiscal year 2005. The net profit per share of the consolidated company in the fiscal year 2006 amounted to € 0.2, compared to loss per share of € 0.86 in the fiscal year 2005.

3.2 Balance Sheet

As explained above, as from the third quarter of 2005, the financial reports include 50% of the balance sheet items of Holdings and of G.T according to their relative union system. Consequently, the comparative figures of the balance sheet items as of December 31, 2005 include items of the Company and 50% of the balance sheet items of the Holdings and G.T, as of the same dates.

Also, as from of December 31, 2006, the financial reports include also all the balance sheet items of Metis Car.

Financial Ratios:

Finance Ratio	September 30, 2006	December 31, 2005
Current Ratio	1.71	0.77
Quick Ratio	1.24	0.25

The current assets of the Company consolidated as of December 31, 2006 amounted to € 42.5 million, compared to € 31.7 million by the end of 2005.

The growth derives mainly from an increase of cash and cash equivalent of the Company consolidated as of December 31, 2006, amounted to € 9.9 million, compared to € 2.75 million by the end of 2005, an increase of short term investments of the Company consolidated as of December 31, 2006, amounted to € 1.0 million compared to € 0.2 million by the end of 2005, a loan to Mirage of the Company consolidated as of December 31, 2006, amounted to € 9.6 million, these being nonexistent at the end of 2005 and classified during 2006 pending the current financial reports as a long term loan, an increase (mainly as a result of a growth of vehicle sales to institutional customers – i.e. leasing and rental companies) in the number of trade receivables of the consolidated company as of December 31, 2006, amounted to € 6.1 million, compared to € 5.5 million by the end of 2005, and an increase in the number of other receivables of the consolidated company as of December 31, 2006, amounted to € 1.7 million, compared to € 1.1 million by the end of 2005.

The said growth is offset mainly by a reduction of the inventory of the consolidated Company as of December 31, 2006, amounted to € 11.8 million, compared to € 21.4 million by the end of 2005. This reduction of inventory can be attributed mainly to increased vehicle purchases at the end of 2005 because of vehicle standardization changes and it was sold in the course of 2006.

The investment property of the consolidated company as of December 31, 2006 amounted to € 1.5 million, compared to € 6.3 million by the end of 2005. The decrease derives from the sale of its entire rights to a property situated in Granit Street, Petah Tikva, to Isralom, as mentioned above.

The current liabilities of the consolidated company as of December 31, 2006, amounted to € 24.8 million, compared to € 41.3 million by the end of 2005.

This decrease derives mainly to the decrease (owing to repayment following the issuance of debentures of the Holdings) of loan from others of the consolidated company as of December 31, 2006, which is non-existent, compared to € 4.2 million by the end of 2005, a decrease (owing to repayment following the issuance of debentures of the holdings) in credit from banking corporations of the consolidated company as of December 31, 2006, amounted to € 4.6 million, compared to € 19.0 million by the end of 2005.

The above decrease is offset mainly by the growth under trade payables of the consolidated company as of December 31, 2006, amounted to € 12.5 million, compared to € 11.9 million by the end of 2005, a growth under income tax payable of the consolidated company as of December 31, 2006, amounted to € 2.2 million, compared to € 1.5 million by the end of 2005 and a growth under other payables of the consolidated company as of December 31, 2006, amounted to € 5.0 million, compared to € 2.8 million by the end of 2005.

The non-current liabilities of the consolidated company as of December 31, 2006, amounted to € 25.2 million, compared to € 16.6 million by the end of 2005.

This growth derives mainly from an increase in debentures of the consolidated company as of December 31, 2006, amounted to € 12.8 million, which is nonexistent by the end of 2005.

This above growth is offset mainly by a decrease (due to repayment following the issuance of debentures of the Holdings) loans to jointly controlled entities from Mirage to the consolidated company as of December 31, 2006, amounted to € 4.4 million, compared to € 6.4 million by the end of 2005 and a decrease (owing to repayment following the issuance of debentures of the Holdings) of the long term liabilities to banking corporations of the consolidated company as of December 31, 2006 which is non-existent, compared to € 1.7 million by the end of 2005.

3.3 Liquidity

The liquid assets (cash, cash equivalent and short term investments) of the consolidated company as of December 31, 2006 amounted to € 10.9 million, compared to € 2.9 million by the end of 2005. This increase derives mainly from repayment of part of the loans extended by the Company to Holdings, and a receipt from the sale of its entire rights to a property situated in Granite St. Kiryat Arie, Petach Tikva to Isralom, as mentioned above.

3.4 Cash Flow

The net cash provided by operating activities of the consolidated company in the fiscal year 2006 amounted to € 11.2 million, compared to the net cash used in operating activities of the consolidated company, amounted to € 1.3 million in the fiscal year 2005. The cash flow from operating activities was affected mainly by a reduction of the vehicle inventory bought at the end of

2005 in connection with vehicle standardization changes, though this effect was partly offset by the decrease under trade payable.

The net cash provided by investing activities of the consolidated company in the fiscal year 2006 amounted to € 5.4 million, compared to net cash used in investing activities of the consolidated company, amounted to € 17.1 million in the fiscal year 2005. The cash flow from investing activities was affected mainly by proceeds from the sale of its entire rights to a property situated in Granite St. Kiryat Arie, Petach Tikva to Isralom, as mentioned above.

The net cash used in financing activities of the consolidated company in the fiscal year 2006 amounted to € 9.3 million, compared to net cash provided by financing activities of the consolidated company, amounted to € 5.4 million in the fiscal year 2005. The cash flow from financing activities was affected mainly by the issuance of debentures by Holdings and repayment of loans to banking and other corporations.

3.5 Financing Sources

The total equity of the Company as of December 31, 2006 amounted to € 31.2 million, bringing its proportion in the balance sheet total as of the same date to approximately 38.4%, compared to € 30.2 million and 34.3%, respectively, by the end of 2005.

The total credit extended to the consolidated company (from banking and other corporations in the short term, long term and from debentures issued by Holdings) as of December 31, 2006, amounted to € 17.4 million, compared to € 24.9 million by the end of 2005.

The Company has obtained a loan of 6 million US dollars from Mizrahi Bank till February 15, 2007. For securing the loan, the Company made a deposit of 1.5 million US dollars with Mizrahi Bank and submitted a guarantee by Gmul in the amount of 4.5 million US dollars.

The guarantee by Gmul was submitted at no return and it was in effect till February 28, 2007.

4. Reporting on Exposure to and Management of Market Risk

4.1 The Japan Auto Group

Description of Market Risks - The Japan Auto Group is exposed to market risks of which the most serious are currency exposure in the linkage balance (owing to the impossibility of fully indexing the vehicle sale prices to the exchange rate of the Japanese yen, in which the import transactions are denominated), changes in the exchange rates of the import countries, changes of bank interest rates in Israel and abroad, changes of the exchange rates used by competing importers.

Risk Management Policy Applied by the Japan Auto Group - The Japan Auto Group regularly monitors the exposure resulting from exchange rate fluctuations and interest rate changes in the national economy. Accordingly, it makes appropriate hedging transactions. Decisions on the choice and performance of hedging transactions are at the discretion of Japan Auto Group officers in charge of market risks. The applied policy consists in protecting the import and customs value of the new vehicles imported by the Japan Auto Group starting from the day of ordering from the manufacturer and up to the moment of actual payment. This policy varies according to the extent of exposure and the incurred cost of hedging. The hedging transactions are most commonly of the option and forward types. All hedging transactions of the Japan Auto Group involve banking corporations committed to comply with the requirements for capital adequacy.

Supervision and Implementation of the Market Risks Management Policy - The policy applied by the Japan Auto Group with regard to market risks and their management has been approved by the corporate management. It involves monthly sessions on market risks and quarterly reports to the Board of the Company. The reports cover the status of exposure to market risks and the hedging transactions applied for minimizing the risks.

Japan Auto Group Persons in Charge of Market Risks Management - These are the CEO and the CFO of the Company, in regular consultation with an economic company specializing in foreign currency.

4.2 The Company

The Company applies a policy of using financial instruments for reducing the exposure to exchange rate fluctuations as well as for profit. The commonest hedging transactions are of the options and forward categories. The Company operates with derivatives through banking corporations committed to compliance with the requirements for capital adequacy. The Company officers in charge of market risk management are the Board chairman and the CEO, who handle this task by means of an internal committee in consultation with an economic company specializing in the foreign exchange market.

5. Donations

The Company applies a policy of making donations to entities dedicated to helping the community through activities for the advancement of health, welfare, care of children, elderly and incapacitated persons.

Donations by the Company in the fiscal year 2006 amounted to € 9 thousand.

6. Valuation

The following valuations as of February 12, 2006, were added to the holdings prospectus published on February 13, 2006: (1) Valuation of the automotive operations of the Japan Auto Group, prepared by Ziv & Haft Consulting & Management Ltd.; (2) Four valuations of the real estate of the Japan Auto Group, prepared by Joseph Sarnitzky, civil engineer and real estate appraisers.

Valuations of the Company are enclosed with the financial reports of Gmul as of June 30, 2006.

To the best of the board assessment and after consulting the valuators, it seems there are no major differences between the assumptions and the forecasts that were the basis for the valuations and the values if the assets were to be realized on the date of this report, excluding the asset in Achoshlim Street asset were holdings depreciated it by a total amount of approximately € 200 thousand, net of the tax effect.

Amnon Barzilai	Itsik Cohen	Eran Gluksman	Date
Chairman of the Board	Chief Executive Officer	Chief Financial Officer	March 26, 2007

METIS CAPITAL LTD. AND ITS SUBSIDIARIES
(FORMERLY: ELECTRONICS LINE (E.L.) LTD.)

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2006

EUROS IN THOUSANDS

INDEX

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ERNST & YOUNG

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INDEPENDENT AUDITORS' REPORT

To the shareholders of

METIS CAPITAL LTD.

We have audited the accompanying consolidated financial statements of Metis Capital Ltd. and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at December 31, 2006, and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of December 31, 2006, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Tel-Aviv, Israel
March 26, 2007

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

CONSOLIDATED BALANCE SHEETS

	Note	December 31, 2006	December 31, *) 2005
		Euros in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	9,899	2,750
Short-term investments	4a	1,026	153
Restricted deposit		1,998	423
Loan to Mirage	8	9,554	-
Trade receivables	5	6,146	5,478
Prepaid expenses		327	227
Advances to suppliers		2	126
Other receivables	6	1,728	1,116
Inventories	7	11,777	21,405
Total current assets		42,457	31,678
NON-CURRENT ASSETS:			
Long-term investments	4b	344	328
Prepaid lease expenses	10	1,572	1,634
Investment property	12	1,462	6,347
Property, plant and equipment	13	7,794	7,973
Intangible assets, net	14	22,647	24,380
Loan to Mirage	8	-	8,670
Loan to jointly controlled entity	9	4,478	6,800
Deferred assets	24	505	231
Total non-current assets		38,802	56,363
Total assets		81,259	88,041

*) Reclassified, see Notes 4b, 6, 10, 12 and 13.

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

CONSOLIDATED BALANCE SHEETS

	Note	December 31, 2006	December 31, *) 2005
		Euros in thousands	
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Bank credit	16	4,582	18,998
Credit from others	15	-	4,226
Trade payables	17	12,483	11,871
Income tax payable		2,166	1,509
Customer advances		607	1,903
Other payables	18	4,998	2,801
Total current liabilities		24,836	41,308
NON-CURRENT LIABILITIES:			
Loans from banks	21	-	1,661
Debentures	22	12,772	-
Provision for repairs and warranty	20	594	513
Loans to jointly controlled entities from Mirage	19	4,409	6,421
Liabilities in respect of employee benefits	23	601	616
Deferred taxes liabilities	24	6,818	7,313
Total non-current liabilities		25,194	16,524
EQUITY:	27		
Share capital		2,406	2,406
Additional paid-in capital		34,762	34,762
Foreign currency translation adjustments		(555)	58
Accumulated deficit		(5,384)	(7,017)
Total equity		31,229	30,209
Total liabilities and equity		81,259	88,041

*) Reclassified, see Notes 18 and 23.

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

March 26, 2007			
Date of approval of the financial statements	Amnon Barzilay Chairman of the Board of Directors	Itsik Cohen Chief Executive Officer	Eran Gluksman Chief Financial Officer

CONSOLIDATED STATEMENTS OF OPERATIONS

	Note	Year ended December 31, 2006	Year ended December 31, 2005
		Euros in thousands (except per share data)	
Revenues:			
Sales and services	29	75,668	26,804
Rental income		1,011	1,127
Consulting services		189	505
		76,868	28,436
Cost of revenues:			
Cost of sales	30	66,898	23,766
Property maintenance costs		405	543
		67,303	24,309
Gross profit		9,565	4,127
Selling and marketing expenses	31	2,175	956
General and administrative expenses	32	4,727	3,963
Other income (expenses), net	35	1,909	38
		4,993	4,881
Operating profit (loss)		4,572	(754)
Financing income	33	1,902	1,291
Financing expenses	33	(4,064)	(1,396)
Income (loss) before income taxes		2,410	(859)
Tax expense (tax benefit)	24	777	(165)
Net profit (loss)		1,633	(694)
Basic and diluted net earnings (loss) per share (in Euros)	36	0.20	(0.86)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Additional paid-in capital	Foreign currency translation adjustments	Accumulated deficit	Total	Total recognized income and expense
	Euros in thousands					
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)
						1,547
Balance as of December 31, 2005	2,406	34,762	58	(7,017)	30,209	-
Foreign currency translation adjustments	-	-	(613)	-	(613)	(613)
Net profit	-	-	-	1,633	1,633	1,633
						1,020
Balance as of December 31, 2006	2,406	34,762	(555)	(5,384)	31,229	

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2006	2005
	Euros in thousands	
Cash flows from operating activities:		
Net profit (loss)	1,633	(694)
Adjustments for:		
Depreciation and amortization	1,671	839
Loss from decrease in value of investment property	148	-
Loss (gain) on sale of property, plant and equipment	(19)	20
Gain on sale of investment property	(846)	-
Change in liabilities in respect of employee benefits	(23)	126
Loss (gain) on short-term investments	4	71
Deferred taxes	(621)	(367)
Exchange rate differences of long-term liabilities to banks	(54)	322
Exchange rate differences on loans to jointly controlled entities and Mirage, net	(1,072)	(345)
Exchange rate differences on debentures	230	-
Exchange rate differences on deposit in trust and long-term investments	(5)	-
Lease expenses	27	1
Changes in operating assets and liabilities:		
Decrease (increase) in trade receivables	(750)	87
Decrease (increase) in other receivables	(610)	263
Decrease (increase) in inventories	8,990	(12,603)
Increase in trade payables	999	9,027
Increase in other payables	1,357	1,794
Increase in provision for repairs and warranty	91	134
Net cash provided by (used in) operating activities	11,150	(1,325)
Cash flows from investing activities:		
Placement of deposit in trust	(1,001)	-
Proceeds from sale of marketable securities, net	143	11,076
Placement of restricted deposit in banks	(1,892)	408
Proceeds of restricted deposit in banks	408	-
Proceeds from sale of property, plant and equipment	299	134
Acquisition of newly consolidated jointly controlled entities (a)	-	(7,280)
Acquisition of plant and equipment	(634)	(345)
Proceeds from sale of investment property	5,582	-
Grant (repayment) of loans to jointly controlled entities and Mirage	2,446	(21,037)
Acquisition of property	-	(6)
Net cash provided by (used in) investing activities	5,351	(17,050)
Cash flows from financing activities:		
Issuance of debentures (net of issuance expenses)	12,414	-
Repayment of other long-term loans	(4,097)	-
Repayment of long-term loans from banks	(1,941)	(369)
Short-term bank credit, net	(13,539)	5,734
Repayment loans from related parties	(2,139)	-
Net cash provided by (used in) financing activities	(9,302)	5,365
Effect of exchange rate changes on cash and cash equivalents	(50)	996
Increase (decrease) in cash and cash equivalents	7,149	(12,014)
Cash and cash equivalents at beginning of year	2,750	14,764
Cash and cash equivalents at end of year	9,899	2,750

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2006	2005
	Euros in thousands	
(a) Acquisition of newly consolidated jointly controlled entities:		
The jointly controlled entities' assets and liabilities as of the date of acquisition:		
Working capital (excluding cash and cash equivalents)	-	6,635
Non-current assets	-	(9,839)
Other assets	-	(24,535)
Long-term liability		1,002
Loans to related companies	-	12,137
Deferred tax reserve		7,320
	-	(7,280)
(b) Significant cash flow information:		
Interest received	482	297
Interest paid	(377)	(270)
Income taxes paid	(1,449)	(139)
Income taxes received	59	35

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

NOTE 1:- GENERAL

a. The consolidated statements of the company as of December 31, 2006, were approved for publication according to the resolution of the board of directors, dated March 26, 2007.

Metis Capital Ltd. (formerly: Electronics Line E.L. Ltd.) ("the Company") is a public company incorporated in Israel. The registered office of the Company is in 30 Hamasger Street, Tel Aviv, Israel.

The Company principally markets and services automobiles in Israel and holds investments in real estate in Israel.

The Company's shares are publicly traded on the Prime Standard, a market operated by the Frankfurt Stock Exchange and also traded on the Tel-Aviv Stock Exchange ("TASE").

b. In December 2002, the Company's board of directors resolved to approve the restructuring of the Company. Commencing January 1, 2003, the assets, liabilities and activities of the Company, including the development, manufacture, sale and marketing activities ("the technological activity") 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.

Subsequent to the distributions in kind, described in c. below, the Company principally held real estate properties, cash balances and marketable securities in Israel.

c. During 2004, the Company effected two distributions of the entire shares of EL3000 which were held by it to shareholders of the Company, see Note 11b. As of October 5, 2004, the Company has no interest in EL3000.

d. On February 3, 2005, the members of the Krubiner family ("the Krubiner companies") entered into an agreement with Gmul Investment Company Ltd. ("Gmul"). According to the agreement, the Krubiner companies sold all their shares in the Company, representing 43.23% of the Company's issued and outstanding share capital and voting rights.

e. On June 23, 2005, the Company changed its name from Electronics Line (E.L.) Ltd. to Metis Capital Ltd.

f. On August 18, 2005, the Company reported the closing of the acquisition of a jointly controlled entity, Japan Auto Holdings Ltd. ("Japan Auto Holdings"), see Note 11c, as well as the acquisition of a jointly controlled entity, G.T. Trade Spare Parts Ltd. ("G.T."). The results of operations of these companies have been consolidated since August 18, 2005.

g. On October 4, 2006, Metis Capital Car Rental Ltd. was established. The results of operations of this company have been consolidated since its inception, see Note 11a(9).

NOTE 1:- GENERAL (Cont.)

h. Definitions:

In these financial statements:

The Company	-	Metis Capital Ltd. (formerly: Electronics Line (E.L.) Ltd.)
The Group	-	Metis Capital Ltd. (formerly: Electronics Line (E.L.) Ltd., its former subsidiaries, subsidiaries and jointly controlled entities.
Subsidiaries	-	companies over which the Company has control (as defined in IAS 27) and whose accounts are consolidated with those of the Company.
Jointly controlled entities	-	companies owned by various entities that have a contractual arrangement for joint control, and whose accounts are consolidated with those of the Company using the proportionate consolidation method.
Mirage	-	Mirage Development Israel Ltd., holding the remaining 50% in jointly controlled entities.
Related parties	-	as defined in IAS 24.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) that are effective at December 31, 2006, on the historical cost basis, except for financial derivatives that are measured at fair value. The significant accounting policies followed in the preparation of these consolidated financial statements, on a consistent basis, are as follows:

a. Use of estimates:

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Operating Lease - Group as Lessee

The Group has entered into commercial property leases on investment property of third parties. The Group has determined that all the significant risks and rewards of ownership of these properties were not transferred to the Group and so accounts for them as operating leases.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of Intangible Assets

The Group determines whether the franchise is impaired whenever events or changes in circumstances indicate that the carrying amount of the franchise may not be recoverable. This requires an estimation of the "value in use" of the cash-generating unites to which the franchise belongs. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the franchise as of 31 December 2006 is € 22,647 thousand (2005 - € 24,380 thousand).

Deferred Tax Assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The unrecognised tax losses as of 31 December 2006 are € 1.3 million. Further details are contained in Note 24.

Pension and Other Post Employment Benefits

The cost of defined benefit pension plans and other post employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The net employee liability as of 31 December 2006 is € 601 thousand (2005 - € 664 thousand). Further details are given in Note 23.

Contingencies from lawsuits

The Group examines the need for recognition of provisions for contingencies arising from lawsuits. The examination includes an estimation involving assumptions about the probability, if any, for an outflow of amounts that might be need to settle the obligation. There is a significant uncertainty regarding these assumptions. In order to determine the probability for the realization of lawsuits and the estimations of cash flows expected for settlement in the future, the Group is relying on its legal counsel. Accordingly, provisions are recognised as liabilities, when needed.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Consolidated financial statements:

The consolidated financial statements include the accounts of companies over which the Company has control. Control is fulfilled when the Company has the ability directly or indirectly to outline the financial and operating policy of the controlled company. When reviewing the control, the effect of the potential voting rights that are exercisable as of the balance sheet date, is taken into account. The consolidated financial statements include jointly controlled entities and joint ventures, subsidiaries commencing with the date on which the control began until the date the control ceased.

Significant intercompany balances and transactions among the group companies have been eliminated in the consolidated financial statements.

The financial statements of the company and those of the subsidiaries are prepared for identical dates and periods. The accounting policy in the financial statements of the subsidiaries was applied consistently and uniformly with the policy applied in the financial statements of the company.

c. 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:

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 weighted average monthly exchange rates. Translation differences resulting from the translation are recognized as a separate component of equity ("foreign currency translation adjustments").

Foreign currency transactions:

Transactions in foreign currencies are translated at the exchange rates prevailing at the dates of the individual transactions. At the end of the accounting period, the unsettled balances of foreign currency receivables and liabilities are translated at the exchange rates prevailing at the period-end. Foreign exchange gains and losses resulting from the translation are included as a net amount under financial income and expenses, net.

The representative rate of exchange of the Euro in relation to the New Israeli Shekel ("NIS") at December 31, 2006 was €1 = NIS 5.56 (2005 - NIS 5.45). In 2006, the NIS was revalued in relation to the Euro by 2.2% (2005 - devalued by 7.9%).

d. 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, see Note 2q.

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.

e. 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.

The structure of the consolidated cash flow statements, for all periods presented was changed to the current presentation, according to IAS7, in order to provide information that is more relevant and better reflects the cash flow activities.

f. Short-term investments:

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

g. Allowance for doubtful accounts:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. 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.

i. Financial instruments:

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.
All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

1. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit and loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated and effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in profit and loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the statement of operations when the loans and receivables are derecognized or impaired.

3. *Fair value*

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

4. Derecognition of financial assets and liabilities:

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

j. Property, plant and equipment:

Property, plant and equipment are presented at cost less accumulated depreciation and accumulated impairment in value. 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.

The annual depreciation rates are as follows:

	%	
Buildings *)	2 - 4	(mainly 2%)
Leasehold improvements	term of lease, including the renewal option	
Machinery and equipment	6 - 10	(mainly 10%)
Motor vehicles	15	
Office furniture and equipment	6 - 33	(mainly 33%)

*) See l below.

k. 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 1% - 4%.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Intangible assets:

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

The cost of intangible assets derived from the acquisition of a jointly controlled entity is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The Group has an intangible asset, a franchise, with a finite useful life.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

m. 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.

n. 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

4. Revenues from consulting services are recognized in the statement of operations as earned.

5. Revenue from interest is recognized as interest accrues using the effective interest method.

o. 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.

p. 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Impairment of non-financial assets:

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.

r. Interest in a joint venture:

The Group has an interest in a joint venture which is a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest. The Group recognizes its interest in the joint venture using proportionate consolidation.

The Group combines its share of each of the assets, liabilities, income and expenses of the joint venture with the similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting year as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

When the Group contributes or sells assets to the joint venture, any portion of gain or loss from the transaction is recognized based on the substance of the transaction. When the Group purchases assets from the joint venture, the Group does not recognize its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

s. Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Borrowing costs:

Borrowing costs are generally expensed as incurred.

u. 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.

v. 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.

w. 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.

x. Liabilities in respect of employee benefits

1. Benefits to short term employees:

Benefits to short term employees include salaries and deposits to the national insurance and are recognized as expenses upon providing the services.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Post retirement benefits:

The Group has defined deposit plans, pursuant to Section 14 of The Severance Compensation Act, according to which, the Group makes regular payments without having legal obligation or an implied obligation to pay additional payments even if the fund does is short of amounts sufficient to pay all the benefits to the employee and which are attributed to the employee's service in the current period and prior periods. Deposits to defined plans are recorded as an expense when the deposit is made simultaneously with receiving the labor services from the employee and no additional provision is required to be recorded in the books.

In addition, the Group operates defined benefit plan for the payment of severance pay according to severance pay law. Pursuant to the law, the employees are entitled to severance pay upon their retirement or dismissal. Severance pay is computed according to the most recent salary of the employee multiplied the number of years of employment.

The Group makes regular deposits to pension funds and insurance companies in respect of its severance pay liabilities for certain of its employees (plan assets).

The cost of severance pay is determined by the expected actuarial value of a unit. Actuarial gains and losses are immediately recorded as they occur.

The severance pay liability recorded in the balance sheet represents the present value of the defined benefit liability net of the fair value of the plan assets. Assets deriving from such calculation are limited to the previous cost of services in addition to the present value of available funds and deductions in future amounts that will be deposited in the plan.

Furthermore, the amounts accumulated are controlled by the Company and can be withdrawn only after the fulfillment of the liabilities pursuant to severance pay law or labor agreements. Such deposits are not considered as the plan assets and therefore are presented separately from liabilities for employee benefits.

The amounts accumulated are controlled by the Company and can be withdrawn only after the fulfillment of the liabilities pursuant to severance pay law or labor agreements. Such deposits are not considered as the plan assets and therefore are presented separately from liabilities for employee benefits.

y. New IFRS standards:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Group. They did however give rise to additional disclosures.

- IAS 19 Amendment-Employee Benefits
- IAS 21 Amendment-The Effects of Changes in Foreign Exchange Rates
- IAS 39 Amendments-Financial Instruments: Recognition and Measurement
- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

z. Future changes in accounting policies:

1. IFRS 7 - Financial Instruments: Disclosures and Amendment to IAS 1 - Presentation of Financial Statements:

   Pursuant to these standards, comprehensive disclosures are required in respect of capital and the substance of financial instruments and their impact on the entity's financial position and results of operations as well as qualitative and quantitative disclosures of the nature and scope of risks. The standards will be adopted for annual financial statements for periods beginning on or after January 1, 2007. The effect of adopting the standards will require the Company to provide comprehensive disclosure, as discussed above.

2. IFRS 8 - Operating Segments:

   IFRS 8 ("the Standard") discusses operating segments and replaces IAS 14. The Standard applies to companies whose securities are listed or undergoing listing for trade on any securities stock exchange. The Standard will be applicable to annual financial statements for periods commencing after January 1, 2009. The Standard can be applied early. The provisions of the Standard will be applied retrospectively, by restatement, unless the disclosure required is unavailable or impractical to obtain.

   The Standard determines that an entity will adopt a management approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments.

3. IFRIC 8 - Adoption of IFRS 2 discussing Share-based Payment:

   IFRIC 8 discusses share-based payment transactions where part or all of the goods or services are not specifically identifiable. These goods or services are measured upon the date of grant as the difference between the fair value of the share-based payment and the fair value of the identifiable goods or services.

   The Company believes that the adoption of IFRIC 8 is not expected to have any effect on the Company's financial statements for 2007.

4. IFRIC 9 - Reassessment of Embedded Derivatives:

   In accordance with IFRIC 9, the reassessment of an embedded derivative has to be separated from the host contract only when there are significant changes in the contract.

   The Company believes the effect of IFRIC 9, adopted in its financial statements for 2007, is not expected to be material.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

5. IFRIC 10 - Interim Financial Reporting and Impairment:

   IFRIC 10 prohibits the reversal of an impairment loss recognized in the past in the interim financial statements with respect to goodwill, investment in an equity instrument or financial asset presented at cost. IFRIC 10 will be adopted in the Group's financial statements as of 2007 and apply to goodwill, investments in equity instruments and financial assets presented at cost from the date on which the Company first adopts the measurement principles of IAS 36 and IAS 39 retrospectively.

   The Company believes the effect of IFRIC 10, adopted in its financial statements for 2007, is not expected to be material.

6. IFRIC 11 - Group and Treasury Share Transactions:

   IFRIC 11 ("the Interpretation") clarifies the adoption provisions of IFRS 2 regarding share-based payment transactions in respect of arrangements that include the Company's equity instruments and in respect of arrangements that include the parent company's equity instruments. This Interpretation will be adopted in the annual financial statements for periods commencing on March 1, 2007 and thereafter and can be adopted early.

   The Company believes the new Interpretation is not expected to have an effect on its financial position, results of operations and cash flows.

7. IFRIC 12 – Service Concession Agreements:

   IFRIC 12 ("the Interpretation") deals with the settlement of concession based payments. The Interpretation will be adopted retrospectively in financial statements for periods commencing on January 1, 2008 or thereafter. The Interpretation can be adopted early.

   Service concession arrangements are arrangements whereby a government or another public body grants contracts for the supply of public services – such as roads, airports, water and energy distribution, prisons or hospitals – to private operators. The control over the assets is held with the public sector. The private operator is in charge of construction, operation and maintenance of the public infrastructures.

   The Company believes the new Interpretation is not expected to be material.

NOTE 3:- CASH AND CASH EQUIVALENTS

	December 31,	
	2006	2005
	Euros in thousands	
In Euros	-	320
In U.S. dollars	1	2,105
In Israeli currency	9,890	299
In other currencies	8	26
	9,899	2,750

NOTE 4a:- SHORT-TERM INVESTMENTS

	December 31,	
	2006	2005
	Euros in thousands	
Deposit in trust *)	1,025	-
Mutual fund and participation units	1	147
Corporate debentures	-	6
	1,026	153

*) The carrying amounts as of December 31, 2006 and 2005 approximate their fair values.

NOTE 4b:- LONG-TERM INVESTMENTS

Central severance pay fund *)	344	376

*) The Group makes current deposits in designated deposits (central severance pay fund) which are used for severance payments upon dismissal or retirement.

As for reclassification, see Note 23b.

NOTE 5:- TRADE RECEIVABLES

	December 31,	
	2006	2005
	Euros in thousands	
Open accounts (1)	1,536	1,761
Checks receivable	4,663	3,826
	6,199	5,587
(1) Less - allowance for doubtful accounts	53	109
	6,146	5,478

NOTE 6:- OTHER RECEIVABLES

	December 31,	
	2006	2005
	Euros in thousands	
Financial derivative investments	248	-
Related parties (2)	-	18
Institutions	68	91
Current account with EL3000 (1)	994	147
Income receivable	114	610
Due from supplier for participation in advertising	303	212
Other receivables	1	38
	1,728	1,116

(1) See Note 37e(3).
(2) See Note 37a.
(3) See Note 10.

NOTE 7:- INVENTORIES

	December 31,	
	2006	2005
	Euros in thousands	
Vehicles (1)	10,600	20,259
Spare parts (2)	1,177	1,146
	11,777	21,405
(1) The balance includes inventory in transit and in bonded warehouses	10,160	5,330

(2) The cost of inventory of spare parts is presented net of a write-down of slow-moving inventories of € 992 thousand as of December 31, 2006 (December 31, 2005 - € 920 thousand) which was recognized as an expense in cost of sales.

NOTE 8:- LOAN TO MIRAGE

	December 31,	
	2006	2005
	Euros in thousands	
Linked loan (1)	9,554	8,670

(1) A loan to Mirage was granted under the acquisition agreement in respect of the jointly controlled entities. The loan is linked to the U.S. dollar and bears annual interest of 7%, until February 22, 2006 and from that date until repayment, on February 15, 2007, the loan will be linked to the Israeli CPI and bear annual interest of 9.4%. As for the dispute between the Company and Mirage, see Note 26c.

NOTE 9:- LOAN TO JOINTLY CONTROLLED ENTITY

	December 31,	
	2006	2005
	Euros in thousands	
Consumer Price Index -linked loan (1)	4,478	6,800

The loans are linked to the CPI and bear annual interest of 6.5% (effective - 6.7%)

(1) In December 2005, the related parties agreed 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 to 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 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 loan from August 18, 2005, the date the loans were actually made. In March 2007, the Company and Mirage ratified their consent in the agreement signed between them and Japan Auto Holdings. The loans will be subordinate to the debentures issued by Japan Auto Holdings to the public in February 2006.

NOTE 10:- PREPAID LEASE EXPENSES

a. Composition:

	December 31,	
	2006	2005
	Euros in thousands	
Prepaid lease expenses	1,600	1,661
Less - current maturities	27	27
	1,572	1,634

b. The remaining prepaid lease expenses include land under capitalized lease. The leasehold rights to the land end in 2037 with an option for their extension by another 49 years. The land has not yet been registered with the Land Registry Office in the Company's name due to lack of parcel distribution.

c. Japan Auto - Israel Automobile Company Ltd. ("Japan Auto Automobile") entered into a lease agreement with the Israel Lands Administration for 49 years ending in 2013 with an option for extension by another 49 years.

d. The Company reclassified its property, plant and equipment and investment property to prepaid lease expenses in the balance sheet as of December 31, 2005 in a total of € 1,661 thousand. This reclassification had no material impact on the statements of operations for the year ended December 31, 2005.

NOTE 11:- INVESTMENT IN SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

a. Following is a list of subsidiaries and jointly controlled entities:

1. Japan Auto Holdings Ltd. ("Japan Auto Holdings"):

   Japan Auto Holdings was established on July 21, 2005 and began its operations on August 18, 2005. It is 50% held by the Company.

2. G.T. Trade Spare Parts Ltd. ("G.T."):

   The Company owns 50% of G.T., which is engaged in importing and marketing automobile spare parts and accessories.

3. Japan Auto Israel Automobile Company Ltd. ("Japan Auto Automobile"):

   Japan Auto Automobile is indirectly wholly owned by Japan Auto Holdings. Japan Auto Automobile imports and markets Subaru made automobiles and spare parts. It is also engaged in providing various car mechanical services through a subsidiary, The Garage.

4. Japan Auto Central Garage Ltd. ("the Garage"):

   The Garage was founded in 1984 and is 66.6% (indirectly) owned by Japan Auto Automobile and 33.3% owned by Mirage Investments and Mirage 2000 in equal parts (16.6% each) (and is in fact indirectly wholly owned by Japan Auto Holdings). The Garage manages and operates a garage for Subaru made automobiles.

5. Tarshit Properties Company Ltd. ("Tarshit"):

   Tarshit was established in 1978 and is equally owned by Japan Auto Automobile, Mirage Investments and Mirage 2000 (and is in fact indirectly wholly owned by Japan Auto Holdings). Tarshit owns land in Herzliya, Israel, known as bloc 6592, parcels 32 and 33 spanning about 8,000 sq. m. The company's revenues derive from leasing said land to the Group companies.

6. Alumit Properties Company Ltd. ("Alumit"):

   Alumit is wholly owned by Japan Auto Automobile. Japan Auto Automobile owns a real estate property known as bloc 7067 parcel 49, registered with the Land Registry Office under Alumit's name. Alumit is inactive.

7. Mirage Holdings 2000 Ltd. ("Mirage 2000"):

   Mirage 2000 is wholly owned by Japan Auto Holdings. It holds half of the share capital of Japan Auto Automobile 16.6% of the Garage and 33.33% of Tarshit. Mirage 2000 has no other activities.

NOTE 11:- INVESTMENT IN SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES (Cont.)

8. Mirage Israel Investments Development Ltd. ("Mirage Investments"):

   Mirage Investments is wholly owned by the Company. It holds half of the share capital of Japan Auto Automobile, the Garage and Tarshit. It has no other activities.

9. Metis Capital Car Rental Ltd. ("Metis Car Rental"):

   Metis Car Rental was established on October 4, 2006 and provides car rental and operating leasing services as well as customer connection to car rental agencies outside Israel. As of December 31, 2006, Metis Car Rental is wholly owned by the Company. Metis Car Rental commenced its business operations in early 2007.

b. Acquisition of jointly controlled entities:

1. On April 21, 2005, the Company signed an agreement with Mirage regarding the purchase transaction of one half of the corporations comprising G.T., Mirage 2000, Mirage Investments Ltd., and Japan Auto Automobile ("the Japan Auto Group") and half of the debt of Japan Auto Group to Mirage, by the Company, and a release of the Company's shares of Japan Auto Group 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 own 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 agreement, the Company paid a down payment of US$ 6 million out of the proceeds, against collateral ("the Advance").

   Pursuant to the agreement (as subsequently extended) ("the Agreement"), and the latest addendum from August 8, 2005 ("the Closing") 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.

2. The transaction:

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

   a) US$ 36 million was paid by the Company - US$ 10 million to Japan Auto Holdings in equity, US$ 16 million to Japan Auto Holdings as a loan and US$ 10 million to Mirage, which transferred the sum to Japan Auto Holdings as equity, see Note 26c.

   b) US$ 24 million – US$ 10 million through outside financing and US$ 14 million as a loan extended by Mirage to Japan Auto Holdings under the same terms as the loans extended by the Company to Japan Auto Holdings and against the same collateral (pari passu).

NOTE 11:- INVESTMENT IN SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES (Cont.)

3. 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 € 1,287 thousand 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 over 20 years.

4. Pursuant to the agreement, the outside financing of US$ 10 million paid to Japan Auto Holdings by FoxCombe Holdings Corporation, a company holding charges and collateral in the Japan Auto Group ("FoxCombe").

   The loan granted to Japan Auto Holdings is dollar-linked and bears annual interest of 7% from August 18, 2005 onwards. The loan was secured but the collateral was removed in March 2006, with the loan's repayment.

c. On October 5, 2006, a subsidiary of the Company, Metis Car Rental (50% held upon the date of engagement and 100% held as of December 31, 2006), which had been jointly established with Trade Mobile Ltd. on October 4, 2006, entered into a franchise agreement with Europcar International S.A.S.U. ("Europcar").

   According to the agreement, the subsidiary will operate under the Europcar brand name in providing car rental and vehicle leasing services as well as outgoing services for connecting customers with car rental agencies overseas.

   Metis Car Rental was granted exclusivity for a period of five years in providing car rental and leasing services, subject to complying with the terms of the franchise.

d. Aggregated amounts related to the Group's share of interests in jointly controlled are not presented since the amounts presented in the consolidated financial statements are mostly comprised of the amount related to those entities.

NOTE 12:- INVESTMENT PROPERTY

a. Composition and movement:

	December 31, 2005
	Euros in thousands
Cost:	
As of January 1, 2005	8,382
Additions	6
Disposals	-
Acquisition of Japan Auto Group	1,339
Currency translation differences	695
As of December 31, 2005	10,442
Accumulated depreciation:	
As of January 1, 2005	779
Provisions	193
Disposals	-
Acquisition of Japan Auto Group	490
Currency translation differences	79
	1,541
Impairment of investment property	2,534
As of December 31, 2005	4,075
Net book value:	
As of December 31, 2005	6,347

NOTE 12:- INVESTMENT PROPERTY (Cont.)

	December 31, 2006
	Euros in thousands
Cost:	
As of January 1, 2006	7,890
Additions	5
Disposals	(5,136)
Currency translation differences	(164)
As of December 31, 2006	2,595
Accumulated depreciation:	
As of January 1, 2006	1,542
Provisions	128
Disposals	(653)
Currency translation differences	(32)
	985
Impairment of investment property	148
As of December 31, 2006	1,133
Net book value:	
As of December 31, 2006	1,462

b. Provision for impairment of investment property:

Due to the deterioration in the economic conditions prevailing in the Company's business environment, in 2004, the Company concluded that there were indications of the impairment of one of its investment properties ("the property"). The value in use of the property was calculated based on an outside appraisal by discounting the cash flows expected to derive from the property at 10%.

As for the sale of the property in the reported year, see Note 26b.

c. As for recording an impairment loss in respect of building in Japan Auto Holdings, see Note 35.

d. The fair value of investment property as of December 31, 2006, with the addition of leasehold rights from the Israel Lands Administration presented in prepaid lease expenses in a total of € 854 thousand, is approximately € 2,946 thousand.

e. As for the reclassification, see Note 10d.

f. As for charges, see Note 25a(1) and (2).

NOTE 13:- PROPERTY, PLANT AND EQUIPMENT

Composition and movement:

	Land and buildings	Installations and leasehold improvements	Machinery and equipment	Motor vehicles	Office furniture and equipment	Total
	Euros in thousands					
Acquisition cost:						
As of January 1, 2005	-	-	-	329	70	399
Acquisition	17	77	-	194	49	336
Disposals	-	-	-	(185)	-	(185)
Acquisition of Japan Auto Group	*) 8,432	438	310	582	928	10,690
Currency translation differences	209	13	8	41	31	303
As of December 31, 2005	8,658	528	318	961	1,078	11,543
Accumulated depreciation:						
As of January 1, 2005	-	-	-	77	9	86
Provision	57	77	-	194	49	377
Disposals	-	-	-	(185)	-	(185)
Acquisition of Japan Auto Group	1,695	331	290	125	828	3,269
Currency translation differences	44	(63)	9	32	(1)	20
As of December 31, 2005	1,796	345	299	242	885	3,567
Net book value:						
As of December 31, 2005	*) 6,859	183	19	719	193	7,973

	Land and buildings	Installations and leasehold improvements	Machinery and equipment	Motor vehicles	Office furniture and equipment	Total
	Euros in thousands					
Acquisition cost:						
As of January 1, 2006	*) 8,658	528	318	961	1,078	11,543
Acquisition	83	18	49	435	50	635
Disposals	-	-	-	(385)	(72)	(457)
Currency translation differences	(185)	(12)	(7)	(21)	(24)	(248)
As of December 31, 2006	8,556	534	360	990	1,032	11,473
Accumulated depreciation:						
As of January 1, 2006	1,796	345	299	242	885	3,567
Provision	132	23	7	124	49	335
Disposals	-	-	-	(127)	(21)	(148)
Currency translation differences	(38)	(7)	(6)	(5)	(19)	(75)
As of December 31, 2006	1,890	361	300	234	894	3,679
Net book value:						
As of December 31, 2006	6,666	173	60	756	138	7,794

*) As for the reclassification, see Note 10d.

NOTE 14:- INTANGIBLE ASSETS, NET

Composition and movement:

	December 31,	
	2006	2005
	Euros in thousands	
Cost:		
As of January 1,	24,898	-
Franchise created from acquisition of Japan Auto Group (1)	-	24,508
Currency translation differences	(527)	390
As of December 31,	24,371	24,898
Accumulated amortization:		
As of January 1,	518	-
Provision	1,211	510
Currency translation differences	(5)	8
As of December 31,	1,724	518
Net book value:		
As of December 31,	22,647	24,380

(1) See Note 11c(3).

NOTE 15:- CREDIT FROM OTHERS

a. Composition:

	Linkage	Weighted interest rate 31.12.06	December 31, 2006	December 31, 2005
		%	Euros in thousands	
Loan from others *)	U.S. dollar	7	-	4,226

*) See Note 11c(4).

b. In the course of 2006, the loan was repaid.

NOTE 16:- BANK CREDIT

	Weighted Interest rate *)	December 31,	
	2006	2006	2005
	%	Euros in thousands	
Linked to CPI	Prime +3	-	55
In Pound Sterling	-	-	2
In unlinked NIS	Prime +0.6	-	9,464
In U.S. dollars	Libor +3	4,582	5,234
In Japanese Yen	Libor +1.75	-	3,851
Current maturities of long-term loans		-	392
		4,582	18,998

The carrying amounts as of December 31, 2006 and 2005 approximate their fair value.

*) Variable interest as of December 31, 2006.

NOTE 17:- TRADE PAYABLES

	December 31,	
	2006	2005
	Euros in thousands	
Open accounts	11,389	10,020
Checks payable	1,094	1,851
	12,483	11,871

NOTE 18:- OTHER PAYABLES

a. Composition:

	December 31	
	2006	2005
	Euros in thousands	
Institutions	123	46
Employees and payroll accruals	545	438
Accrued expenses	1,445	733
Related parties	87	30
Provision for warranty (1)	560	474
Financial derivative instruments	2,238	1,072
Other	-	8
	4,998	2,801

(1) See Note 20.

b. As for the reclassification, see Note 10d.

NOTE 19:- LOANS TO JOINTLY CONTROLLED ENTITIES FROM MIRAGE

	December 31,	
	2006	2005
	Euros in thousands	
Loans (1)	3,919	5,950
Loans (2)	490	471
	4,409	6,421

The loans are linked to the CPI and bear annual interest of 6.5% (effective - 6.7%).

(1) In December 2005, the controlling shareholders gave their consent to one of the long terms that the balance of the loans that will not be 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, 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. In March 2007, the Company and Mirage ratified their consent in an agreement signed between them and Japan Auto Holdings.

The loans will be subordinate to the debentures issued by Japan Auto Holdings to the public, see Note 22.

(2) Another loan amounting to € 490 thousand was extended by Mirage to Japan Auto Automobile. The loan is repayable once the Company and Mirage are refunded by an amount equivalent to the equity placed by them in favor of Japan Auto Holdings, whether in cash or by way of dividend distribution or payment of management fees in that amount (collectively US$ 20 million). Should the refund of equity fail to occur, the loan will be repayable in five annual equal installments, the first of which on April 21, 2015. The interest will accrue to the principal.

The loan will be subordinate to the debentures issued by Japan Auto Holdings to the public, see Note 22.

NOTE 20:- PROVISION FOR REPAIRS AND WARRANTY

	December 31,	
	2006	2005
	Euros in thousands	
Provision for repairs and warranty	1,154	987
Less - current portion 2006 (see Note 18)	560	474
	594	513

NOTE 21:- LOANS FROM BANKS

	December 31, 2005	
	Weighted interest rate	
	%	Euros in thousands
In or linked to foreign currency - U.S. dollars	Libor + 2.2	2,050
Less - current maturities		389
		1,661

The carrying amounts as of December 31, 2005 approximate their fair value.

NOTE 22:- DEBENTURES

a. As of December 31, 2006:

	Par value	Principal amount	Maturity date	Denominated interest rate	Effective interest rate	Balance in the books
	Euros in thousands	Euros in thousands	February 1, 2009 to February 1, 2015 *)	%	%	Euros in thousands
Debentures (1)	14,377	14,405		6.3%	9.43%	12,772

*) The debentures are listed on the TASE and were issued to the public by Japan Auto Holdings in February 2006.

(1) Composition of debentures:

	Euros in thousands
Principal	14,405
Discount *)	(1,633)
	12,772

*) The amount includes issuance expenses.

NOTE 22:- DEBENTURES (Cont.)

b. The principal maturity dates subsequent to balance sheet date:

As of December 31, 2006:

	First year	Second year	Third year	Fourth year	Fifth year	Sixth year and thereafter	Total
	Euros in thousands						
Debentures	-	-	2,058	2,058	2,058	8,231	14,405

c. Terms of debentures:

1. The debenture principal and interest thereon will be linked to the Israeli CPI based on the index for January 2006 published in February 2006. The payment index will be the known CPI on the date of settlement on account of the principal and/or interest, but in the event that the payment index is lower than the base index, the base index will be calculated for the purpose of settlement.

2. The interest paid in respect of the debentures will be at 6.3% per annum. The interest will be paid twice a year, on August 1 and February 1, the final payment being on February 1, 2015.

3. The principal payments - on February 1 of each of the years 2009 through 2015 (inclusive), the Company shall repay one seventh of the principal of the overall par value of the debentures plus linkage differences accrued on the principal (as state in a above).

d. The fair value of the debentures as of December 31, 2006 is € 14,223 thousand.

e. Issuance of debentures to the public in 2006:

1. In February 2006, Japan Auto Holdings published a prospectus offering debentures to the public. According to said prospectus, Japan Auto Holdings issued debentures with a par value of NIS 160 million on February 21, 2006. The debentures were listed for trade on the TASE.

2. Said debentures were issued with a 7.5% discount rate.

3. Following are details of the net proceeds from the issuance:

	Euros in millions
Total net proceeds	14.3
7.5% discount	(1.1)
Issuance expenses (1)	(0.8)
Net proceeds	14.4

(1) The expenses include underwriters' commissions, fees to professional consultants and other.

NOTE 22:- DEBENTURES (Cont.)

4. The proceeds were utilized as follows:

   a) A total of € 6.4 million was transferred to Japan Auto Automobile against a capital note that had been issued to Japan Auto Holdings, and served Japan Auto Automobile for repaying bank credit.

   b) A total of € 8.8 million was used to repay a loan (principal + interest) to a third party. See Note 11c(4).

   c) A total of € 9 million was used to repay loans to the Company and Mirage.

   d) The first interest payment for the debentures was executed on August 1, 2006.

5. On February 1, 2007, the interest on the debentures to the public was fully repaid, in a total of approximately € 840 thousand.

NOTE 23:- LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS

a. In 2005, due to lack of materiality, the Group treated its liability to its employees for severance pay based on the employees' last salary as of balance sheet date. In 2006, the Group started to use actuarial calculations. Consequently, comparative data for 2005 are not presented in the following tables.

   The Group has a defined pension benefit plan, covering substantially all of its employees, which requires making contributions to separately administered funds.

b. As to part of severance payments, the provisions of Section 14 of The Severance Compensation Act -1963 apply according to which the regular deposits of the Group in pension funds and/or policies of insurance companies release the Group from any additional liability to the employees, in respect of which the said amounts were deposited (defined deposit plan).

   Information on defined deposit plans:

   Composition:

	Year ended December 31, 2006
	Euros in thousands
Expenses for employee benefits	4

Expenses were presented in the statement of operations as follows:

General and administrative expenses	4

NOTE 23:- LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS (Cont.)

c. The portion of severance pay which is not covered by such deposits, is treated by the Group as defined benefit plan according to which the liability for employee benefits is recorded.

d. The following tables summarize the funded status and amounts recognized in the balance sheet and the components of net benefit expenses recognized in the statement of operations.

Benefit liability:

	December 31, 2006
	Euros in thousands
Defined benefit obligation	1,110
Fair value of plan assets	(509)
Benefit liability, net	601

Changes in the present value of the defined benefit obligation are as follows:

	Euros in thousands
Defined benefit obligation at January 1, 2006	1,207
Interest cost	41
Current service cost	101
Benefits paid	(98)
Actuarial gains on obligation	(119)
Currency translation differences	(22)
Defined benefit obligation at December 31, 2006	1,110

Changes in the fair value of the plan assets are as follow:

Fair value of plan assets at January 1, 2006	591
Expected return	20
Contributions by employer	90
Benefits paid	(61)
Actuarial gains	(124)
Currency translation differences	(7)
Fair value of plan assets at December 31, 2006	509

NOTE 23:- LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS (Cont.)

Net benefit expenses:

	Euros in thousands
Current service cost	101
Interest cost on benefit obligation	41
Expected return on plan assets	(20)
Actuarial gains	5
Net benefit expense	127
Actual return on plan assets	(104)

The principal assumptions used in determining employee benefit obligations for the Group's plans are shown below:

	December 31, 2006
	%
Discount rate	6
Expected rate of return on assets	3.5
Future salary increases	6

e. The Company has reclassified other payables to long-term investments and liabilities in respect of employee benefits in the balance sheet as of December 31, 2005 in a total of € 376 thousand and € 664 thousand, respectively. The above reclassification had no material impact on the statements of operations for the year ended December 31, 2005.

NOTE 24:- TAXES ON INCOME

a. Income taxes applicable in Israel:

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's 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 two years:

	Year ended December 31,	
	2006	**2005**
CPI	(0.1%)	2.45%
€ : NIS	2.2%	(7.9%)

Capital gains/losses:

Pursuant to the provisions of the Law for Amendment of the Income Tax Ordinance (No. 132), 2003 ("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 carried forward for tax purposes may be offset against capital gains indefinitely. 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 rates applicable to the income of the Group companies:

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. As for the effect of said amendment, see d below.

c. Final tax assessments:

The Company received final tax assessment through 2002 (see also Note 11b).
Subsidiaries received final tax assessments through 2002.
Japan Auto Holdings and Metis Car Rental have not received final tax assessments since their incorporation.

NOTE 24:- TAXES ON INCOME (Cont.)

d. Tax expense (tax benefit):

	Year ended December 31,	
	2006	2005
	Euros in thousands	
Current taxes	1,156	212
Deferred taxes	(540)	(367)
Land betterment tax	147	-
Taxes in respect of previous years	14	-
Adjustment of deferred tax balances due to change in tax rates	-	(10)
	777	(165)

e. 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,	
	2006	2005
	Euros in thousands	
Income (loss) before taxes on income	2,410	(859)
Statutory tax rate	31%	34%
Tax (tax saving) calculated at the statutory tax rate	747	(292)
Taxes in respect of previous years	14	-
Non-deductible expenses	136	34
Deferred taxes created at different tax rates	27	46
Update of deferred tax balances in respect of changes in tax rates	-	10
Loss for tax purposes for which deferred taxes were not provided	162	224
Offsetting carryforward losses for which deferred taxes were not provided	(218)	-
Other differences (mainly in the basis of measurement) - CPI and nominal amounts (*)	(91)	(187)
Tax expense (tax benefit)	777	(165)

(*) 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.

NOTE 24:- TAXES ON INCOME (Cont.)

f. Deferred taxes:

1. Composition:

	December 31,	
	2006	2005
	Euros in thousands	
Depreciable fixed assets	(92)	178
Excess of cost attributed to franchise	(5,786)	(6,231)
Excess of cost attributed to land	(940)	(1,006)
Other temporary differences in recognition of income and expenses	505	(23)
	(6,313)	(7,082)

2. The deferred taxes are presented in the balance sheet as follows:

	December 31,	
	2006	2005
	Euros in thousands	
Non-current assets	505	231
Non-current liabilities	(6,818)	(7,313)
	(6,313)	(7,082)

The deferred taxes are computed at average tax rates of about 29% and 31% as of December 31, 2006 and 2005, respectively under short-term reconciliation and about 25% for long-term reconciliation (the tax rates that are expected to be in effect based on the enacted tax laws at balance sheet date).

3. Movement in deferred taxes, net:

	December 31,	
	2006	2005
	Euros in thousands	
Balance at the beginning of the year	(7,082)	(46)
Recognized in income	540	386
Currency translation differences	229	(102)
Acquisition of Japan Auto	-	(7,320)
Balance at the end of the year	(6,313)	(7,082)

NOTE 24:- TAXES ON INCOME (Cont.)

g. Carryforward losses for tax purposes and other temporary differences:

Japan Auto Holdings has carryforward losses for tax purposes and other temporary differences totaling € 1.3 million as of December 31, 2006, of which the Company's share is € 0.7 million.

Metis Car Rental has carryforward losses for tax purposes and other temporary differences totaling € 144 thousand as of December 31, 2006.

Deferred tax assets relating to the losses were not recorded due to uncertainty of their utilization in the foreseeable future.

NOTE 25:- CHARGES, CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS

a. Charges:

1. To secure credit facilities extended to the Group by banks, charges were recorded on its assets, including all the assets, rights, funds, notes and documents, buildings, investments in shares of associates, securities and goodwill. All the documentary credit facilities and liabilities that are secured by said charges amount to approximately € 0 as of balance sheet date (as of December 31, 2005 - € 9,464) .

2. Japan Auto Automobile pledged land owned by it as follows:

   a) Mortgages were recorded on bloc 6592 parcels 98 and 100.
   b) Mortgages were recorded on bloc 7067 parcels 1 and 49.

3. To secure the loans from the Company and Mirage, Japan Auto Holdings placed the following securities:

   a) A second priority charge on Japan Auto Holdings' entire assets, including unpaid capital and goodwill.
   b) A second priority charge on the shares of Mirage 2000 and Mirage Investments.

4. Charges on debentures:

   To secure the repayment of the debentures issued to the public, Japan Auto Holdings undertook to record the following charges:

   a) A first priority fixed charge on the shares of Mirage Investments, Mirage 2000 and Japan Auto Automobile in favor of the trustee and the debenture holders.
   b) A first priority floating charge on Japan Auto Holdings' assets in favor of the trustee and the debenture holders.
   c) The charges described in subsections a) and b) above will be hereby referred to as the pledged assets. Japan Auto Holdings is not entitled to create any other charges on the pledged assets, other than a second priority fixed charge on the shares of Japan Auto Automobile in favor of the Company and Mirage, by notice to the trustee.

NOTE 25:- CHARGES, CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

d) On February 12, 2006, the Company and Mirage signed an irrevocable deed of consent towards the trustee, Japan Auto Holdings and the Companies' Registrar for recording the charges on the pledged assets, providing for them to be first in priority and in preference to any other charges.

5. On February 12, 2006, Japan Auto Automobile undertook towards the trustee and the debenture holders that undertaking new covenants and/or amendment of existing covenants between Japan Auto Automobile and the lending bank or others or undertaking new covenants in respect of each bank or lender, which might, directly and/or indirectly, affect Japan Auto Automobile's ability to pay the Company management fees or the principal, linkage differences and interest on the loans extended by Japan Auto Holdings to Japan Auto Automobile or a divided or any other payment, will be subject to the consent of the trustee in advance and in writing.

6. Japan Auto Holdings has undertaken that as long as the restrictions imposed by the bank on Japan Auto Automobile, the amount of the deposit placed with the trustee will equal the next interest and/or principal instalment in the period during which Japan Auto Holdings begins principal repayment.

b. Contingent liabilities:

1. Financial covenants:

Japan Auto Automobile has undertaken towards a lending bank to meet the following financial covenants:

a) Japan Auto Automobile's ratio of shareholders' equity (including capital notes subject to the bank borrowings) to total balance sheet will not be below 20%.

b) Japan Auto Automobile's amount of shareholders' equity (including capital notes subject to the bank borrowings) will not be below € 5.4 million.

Japan Auto Automobile has also undertaken to meet the following financial covenants towards a bank that provided credit to the Company:

a) Japan Auto Automobile will not grant its shareholders or third parties (except the bank) any guarantees or charges on Japan Auto Automobile's assets to secure credit received by the shareholders or third parties without the bank's written and advance consent.

b) Japan Auto Automobile will not grant its shareholders any loans or credit facilities, directly or indirectly, without the bank's written and advance consent.

c) Japan Auto Automobile will not pay its shareholders, in any form or manner, any loans or funds that the shareholders had lent or will lend Japan Auto Automobile or any funds invested or that will be invested by the shareholders in Japan Auto Automobile, including against capital notes and/or debentures issued or that will be issued by Japan Auto Automobile to the shareholders in Japan Auto Automobile, unless with the bank's written advance consent and under the bank's terms, except the interest on the capital note.

NOTE 25:- CHARGES, CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

As of December 31, 2006 and 2005, Japan Auto Automobile is complying with said financial covenants and liabilities.

Japan Auto Holdings has also undertaken towards Mizrahi Tefahot Bank Ltd. not to approve or consent to Japan Auto Automobile repaying funds and/or loans to Japan Auto Holdings, other than the interest on the capital note and this by December 31, 2010, based on the information published by Japan Auto Holdings in the prospectus of February 2006. According to the prospectus, the capital note (principal and linkage differences) totaling € 6.3 million (obtained by Japan Auto Holdings from Japan Auto Automobile in exchange for assigning € 6.3 million to Japan Auto Automobile out of the issuance proceeds, net) will not be redeemed before December 31, 2010.

2. Legal claims filed against the Group:

   a) A legal claim amounting to approximately € 21 thousand was filed by a customer against Japan Auto Automobile alleging a basic defect in an automobile purchased from Japan Auto Automobile. Based on its legal counsel, Japan Auto Automobile believes that it has good defenses against the claim and accordingly, it did not include a provision in respect of the claim in the financial statements.

   b) A claim totaling € 30 thousand was filed against Japan Auto Automobile, its associate, and Hadar Insurance Company Ltd. and another third party for the theft of a vehicle manufactured by Subaru out of an area owned by the associate. The associate has insurance coverage with Hadar Insurance Company Ltd. Japan Auto Automobile and its associate, based on the opinion of their legal counsel, believe that the claim is covered by the insurance policy and therefore, no provision has been included in its respect in the financial statements.

3. Other contingent liabilities:

   a) 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

NOTE 25:- CHARGES, CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

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.

Based on the opinion of its legal advisors, Japan Auto Automobile estimates that the monetary exposure in respect of the above is covered by the provision for repairs and warranty included in its books.

b) On January 27, 2005, a hearing was held at the Ministry of Transportation in the matter of the Ministry's claim that Japan Auto Automobile had imported tires of over 18 months old and that it failed to act properly to change the tires in the vehicles (in fact, it claims that Japan Auto Automobile had given its consent to selling tires that had been imported for changing defective tires on the open market). The Ministry of Transportation also claims that even if such tires had been imported, as above, Japan Auto Automobile was obligated to identify them during early tests conducted on the vehicles where the tires had been installed.

NOTE 25:- CHARGES, CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

During the hearing, Japan Auto Automobile gave an account of the lessons learned from the incident and the actions it was taking to prevent them from recurring. It also dismissed the claim that it had given its consent to selling the new imported tires on the open market. On February 23, 2005, the Ministry of Transportation rendered its decision whereby Japan Auto Automobile did not act in an orderly, efficient and effective manner in replacing the tires. Furthermore, in the event that it becomes clear that by March 1, 2007 Japan Auto Automobile will be selling vehicles that do not comply with the standards and guidelines of the Ministry of Transportation and the defect may be found on its licensing post, then its import licenses would be suspended for three months. This conditional suspension was recorded in the vehicle importer's file.

The decision stipulates that Japan Auto Automobile is to carry out the following:

1) Determine new procedures so that such cases will not recur in the future.
2) Employ a standards engineer.
3) Report the progress in replacing the tires.

On April 10, 2005, Japan Auto Automobile submitted a report to the Ministry of Transportation according to which the tires in over 95% of the vehicles had been replaced.

Based on meetings held with the representative of the Ministry of Transportation, it has been made clear to Japan Auto Automobile that the Ministry of Transportation regards it as having implemented in full the decision of the hearing regarding the tires.

c) In March 2004, Japan Auto Automobile received a claim from the Herzliya Municipality ("the Municipality") for payment of municipal taxes for 2002-2003 in respect of a property owned by it. The Municipality argues that Japan Auto Automobile had not accounted for the change in property holders and is therefore liable to debts for said years in an amount of approximately € 101 thousand. Japan Auto Automobile argues that a notification of the change in holding had been filed with the Municipality both by the current lessors and by Japan Auto Automobile. It also claims that in an agreement signed between Japan Auto Automobile and the former lessor, there is a clause that allows the lessor to enter into an engagement with a sub-lessor so that the current lessor is to be viewed at least as the sub-lessor. The Director of Municipal Taxes at the Municipality rejected Japan Auto Automobile's objection in the matter. A subsequent appeal was filed with the Municipality's Municipal Tax Committee.

As of the date of signing the financial statements, a preliminary meeting was held before the Appeals Committee at the end of which the Director of Municipal Taxes at the Municipality stated that he would be willing to end the affair with a settlement whereby Japan Auto Automobile will pay less than what it had been required to pay. The financial statements include a provision of € 18 thousand in respect of said claim, which the management of Japan Auto Automobile believes is adequate to cover the outcome of the settlement.

NOTE 25:- CHARGES, CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

d) On May 21, 2006, Japan Auto Automobile received a letter entitled "an amendment to the municipal tax assessment of January 1, 1999 through April 30, 2006" in respect of a property used by the Japan Auto Group ("the letter regarding municipal taxes").

The letter regarding municipal taxes requires Japan Auto Automobile to pay the Municipality an additional € 2.7 million, retroactively, for a period of some seven years terminating on December 31, 2005 – a principal of approximately € 1.8 million and interest and linkage differences of approximately € 0.9 million ("the retroactive charge").

The Municipality claims that the following findings had been detected based on tests and assessments it performed recently:

1) The property includes additional built areas of 7,051 sq. m. and land of 522 sq. m. that had not been charged with municipal taxes in the past (in addition to about 8,900 sq. m. that had been charged to date).

2) The land's designation had been changed from industrial to commercial and the tax rate was amended accordingly.

Furthermore, and in view of the above, the updated tax assessment for 2006 amounts to € 353 thousand instead of € 96 thousand that had been originally charged to Japan Auto Automobile until the assessment was issued.

Japan Auto Automobile disputes the factual findings – namely, the scope of the areas and their proper designation and entrusted their examination with an expert company specializing in this field.

In August 2006, Japan Auto Automobile filed an objection to the municipal tax assessment with the Municipality's Appeals Committee alleging, inter alia, that the retroactive charge is illegal based, among others, on legal precedents. Japan Auto Automobile is also arguing that the charge in its respect derives mainly from additional land in respect of internal passages and service areas for which it claims the Municipality knowingly did not charge it for municipal taxes. As of the date of the financial statements, the Municipality's response to said objection has not been obtained.

The management of Japan Auto Automobile, based on the opinion of its legal counsel, believes that the retroactive charge will be revoked and accordingly, no provision has been recorded in the financial statements in its respect.

In respect of the updated tax assessment for 2006, Japan Auto Automobile recorded a provision in the financial statements, which management and the legal counsel believe is adequate.

NOTE 25:- CHARGES, CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

e) On January 31, 2007, Japan Auto Automobile received a letter entitled "municipal tax assessment for January 1, 2001 through October 30, 2002" in respect of the property used by the Japan Auto Group. The letter regarding the municipal taxes contains a demand from Japan Auto Automobile to pay the Municipality a sum of approximately € 47 thousand including interest and linkage of approximately € 16 thousand, retroactively, in respect of a property used by the Japan Auto Group during said period.

The Municipality claims that no report had been submitted in respect of this property during the period of its use by the Japan Auto Group.

It should be stated that the property was used as a gas station operated by a third party under a lease agreement. Japan Auto Automobile is acting to assign the municipal tax charge directly to the third party yet it is of the opinion that the retroactive charge will be revoked and accordingly, no provision was recorded in the financial statements in respect of the charge.

f) A hearing held for Japan Auto Automobile by the Anti-trust Commissioner:

A complaint was filed with the Anti-trust Commissioner ("the Commissioner") according to which the Japan Auto Group is accustomed to posting a sticker on new vehicles stating that the warranty granted to the new vehicles is conditional upon carrying out repairs and servicing in the Group's licensed garages. The phrasing on the sticker does not coincide with the agreed directives of the branch's decree. The Commissioner applied to the Japan Auto Group and requested that it publish a letter sent to all the customers that had purchased a vehicle from the Group in the last three years. The Commissioner's approval has not yet been obtained. The management of the Group, based on the opinion of its legal counsel, believes that subject to meeting all the Commissioner's directives and guidelines as above, it has no monetary exposure in respect of the complaint.

g) Pursuant to a local outlining scheme of September 4, 2003 of the Municipality of Herzliya, parcels and sub-parcels owned by jointly controlled entities in Herzliya are designated for consolidation, increase of rights in respect of some of the sub-parcels and the expropriation of some of the sub-parcels.

In August 2006, jointly controlled entities filed a demand for compensation amounting to € 9.7 million as of September 4, 2004, pursuant to the Building and Planning Law, 1965 in respect of the change in designation and expropriation. No asset has been included in the Japan Auto Group's books in respect of this demand.

c. Guarantees:

As of December 31, 2006 and near the date of these financial statements, the Company has placed an unlimited guarantee in favor of the First International Bank of Israel Ltd./Poaley Agudat Israel Bank Ltd., at no consideration, in connection with the activity of Metis Car Rental. The guarantee amounts to 0 and € 388 thousands, respectively.

NOTE 25:- CHARGES, CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

The Company has placed a guarantee of US$ 70 thousand in favor of a third party, at no consideration, in connection with the lease of real estate of Metis Car Rental.

Near the date of these financial statements, the Company placed an unlimited guarantee in favor of a third party, at no consideration, in connection with raising capital for the Metis Group. The guarantee secures an amounted NIS 3.1 million.

Japan Auto Automobile has placed guarantees totaling approximately € 180 thousand in favor of the Ministry of Transportation in connection with its activity in the automobile industry.

d. Commitments:

1. During September 2000, the franchise agreement signed between Japan Auto Automobile and Fuji Heavy Industries, the Japanese company that makes the Subaru models ("F.H.I"), for the exclusive distribution of Subaru models in Israel was extended through December 31, 2005.

   The agreement determines that Japan Auto Automobile and its dealers are committed to keep an inventory of spare parts sufficient to service all existing models and to service the Subaru models even after the agreement terminates. Japan Auto Automobile is also obligated to file various reports to F.H.I regarding sales, prices and market conditions.

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

2. On December 12, 2005, Japan Auto Automobile, with the mediation of a third party (that is not a related party directly and/or indirectly), signed an agreement with Sojitz Corp. ("Sojitz"), one of Japan's leading trade companies, for the import of Subaru models manufactured by F.H.I through Sojitz and their sale in Israel. The purpose of the agreement is to provide supplier's credit from Sojitz. Japan Auto Automobile will bear the costs relating to the engagement. Japan Auto Automobile will make all the sales of vehicles through Sojitz and if Sojitz chooses not to accommodate it (for its own considerations), it shall place the orders directly with F.H.I.

   The price of the vehicles will be agreed upon between the parties from time to time; the agreement determines a revolving credit facility based on the vehicles' target market.

   The consideration for the vehicles will be settled using supplier's credit by Sojitz to Japan Auto Automobile according to two alternatives, as decided by Japan Auto Automobile: by documents against acceptance or by financing against the inventory of vehicles (remaining with Sojitz) at the Israeli port warehouses and in retaining it for Sojitz until disbursement.

   In May 2006, a triple agreement was signed between F.H.I, Japan Auto Automobile and Sojitz to replace the previous franchise agreement in such a manner as to bring into play the purchase and import activities through Sojitz.

NOTE 25:- CHARGES, CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

The agreement will be renewed each year. Each party is entitled to terminate the agreement, for whatever cause, provided that an advance written notice of at least 90 days is granted; in such case, the agreement will apply to the outstanding open orders until their repayment. In the event of violation of the agreement by Japan Auto Automobile (according to a list of causes specified in the agreement), Sojitz is entitled to terminate the agreement immediately by providing a written notice.

3. As for commitments to related parties, see Note 37.

NOTE 26:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD

a. On May 22, 2006, the Company entered into two contingent settlement agreements: the first with EL3000 regarding the consulting agreement between EL3000 and the Company ("the consulting agreement") and the other with C.H.T Management and Consulting Ltd. ("Gad") and O.T.M.K Management and Consulting Ltd. ("Dan").

Settlement with EL3000:

In accordance with the settlement agreement signed with EL3000, and after the fulfillment of all the suspending conditions stipulated therein, the consulting agreement became null and void, except for the Company's non-competition commitment towards EL3000 regarding the development and manufacture of products competing with products developed and manufactured by EL3000 by June 1, 2004, to be in effect until January 1, 2008. According to the settlement agreement, the Company received from EL3000 an amount equivalent to US$ 1,275 thousand plus VAT in cash on July 3, 2006 and will receive two installments each equivalent to US$ 637,500 plus VAT on January 1, 2007 and January 1, 2008. In total, the Company will receive from EL3000 as settlement US$ 2,550 thousand plus VAT instead of US$ 3,600 thousand plus VAT as determined in the consulting agreement.

The agreement settled the Company's engagement with EL3000 in the matter of consulting services and dismisses any other claims by either of the parties, as they might be (see Note 37e(3).

The settlement with Gad and Dan:

In accordance with the settlement agreement between the Company and Gad and Dan, and after the fulfillment of all the suspending conditions stipulated therein, the Company paid Dan and Gad the amount of US$ 506 thousand with the addition of VAT as required by law on July 3, 2006 and an amount of US$ 171 thousand which was held by Dan and Gad, pursuant to a prior understanding, was set off against this sum. The Company also paid Dan and Gad an amount of US$ 97,500 as a refund of expenses which were actually incurred by Gad and Dan in order to acquire a run-off insurance policy in connection with the management services which were provided to the Company by them and/or anyone acting on their behalf.

NOTE 26:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD (Cont.)

On completion of this settlement agreement, the management agreements terminated and have no effect thereafter. The payments which the Company made to Gad and Dan as a settlement between the parties, as stated above, are a final and absolute settlement of accounts in connection with all the payments, set-offs and similar transactions in accordance with the management agreements and/or arising from any other cause.

The abovementioned discharge of claims and settlement of accounts do not apply to the lease agreements between the Company and Krubiner Ormor Properties and Investments Ltd ("Krubiner Ormor") of October 31, 1991 and February 2, 1997, as amended on July 18, 2001 and as they may be amended from time to time ("the lease agreements"). Regarding the lease agreements, it has been agreed that each of the parties to the agreement waives any claim, demand or action against the other party in everything connected to the entry into the lease agreements, the validity of the terms of the lease agreements and fulfillment of the parties' obligations in terms thereof and any claim concerning the rental and the amounts thereof and fulfillment of the parties' obligations in connection with the rental (as they are at the time of signing this settlement agreement) and payment thereof. The parties agreed that all the waivers of the parties in this settlement agreement in connection with the lease agreements, as mentioned above, shall apply to Krubiner Ormor. Krubiner Ormor confirmed the applicability of the above with respect to itself by signing said settlement agreement.

On June 29, 2006, after the receipt of the approval from the general meeting, all the conditions were fulfilled and the transactions according to the settlement agreements with EL3000 and the management companies, Gad and Dan, controlled by Gad Krubiner and Dan Krubiner ("the settlement agreements") were completed.

As a result of the completion of the transactions according to the settlement agreements, the Company recorded in its books net profit of approximately € 1.2 million in other income.

b. On June 21, 2006, the Board approved the Company's entry into a preliminary agreement of principles ("the preliminary agreement") with Isralom Properties Ltd. according to which the Company will sell to Isralom all its leasehold rights to a property situated in Granite St. Kiryat Arie, Petach Tikva ("the property"). The property covers 2,760 sq.m. of land, on which there is a seven-story building with offices, parking space and storerooms for hi-tech companies all of which belong to the Company (with the exception of space in the fourth floor which has been sold) plus the existing and future building rights of the land.

On June 30, 2006, the Company signed a detailed agreement and completed the transaction for the sale of its entire rights to the property situated in Granite St. Kiryat Arie, Petach Tikva to Isralom. The Company received a payment of € 5.6 million with the addition of VAT and recorded a capital gain of approximately € 0.9 million in other income.

NOTE 26:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD (Cont.)

According to the agreement, the Company is responsible for the accuracy of the lease and management terms as agreed upon between the Company as the lessee of areas on the property and EL3000 as the lessor. The Company shall indemnify Isralom for any damages incurred as a result of any claim and/or lawsuit brought up by EL3000 against the lease and management terms. The indemnification shall only be provided once all the legal proceedings undertaken by Isralom against EL3000 are exhausted. It was also determined in the agreement that the Company shall provide Isralom a bank guarantee of US$ 70 thousand to secure the liabilities of EL3000 according to the lease terms as an alternative for the security placed for the Company by EL3000.

c. As part of the transaction for the acquisition of half the holdings in the Japan Auto Group, the Company extended a loan in the amount of US$ 10 million to Mirage Development Israel Ltd., a related company, for a period of 18 months, until February 15, 2007.

A dispute arose between Mirage Development and the Company as to the calculation of the interest rate and linkage differences that Mirage will pay the Company in respect of the loan principal. Mirage claims that the loan is dollar-linked and therefore bears an annual interest rate of 7% whereas the Company claims that the loan is dollar-linked and bears annual interest of 7% until February 22, 2006 and from that date onward is NIS-linked and bears annual interest of about 9.43% ("the disputed amount"). On February 14, 2007, the Company and Mirage entered into an agreement whereby on February 15, 2007, Mirage repaid the loan to the Company excluding the disputed amount (in a total of € 8,442thousand) plus VAT as required by law (in a total of € 45 thousand) and the disputed amount (totaling € 1,233 thousand) was placed in trust on behalf of the representatives of the parties until a legal decision is rendered. In addition and in order to guarantee the payment of VAT in respect of the disputed amount, Mirage deposited with its representative a blank signed check. As part of the agreement, the Company offered Mirage to assign the decision in the dispute to arbitration and on February 27, 2007, Mirage agreed. It was further agreed that no later than 45 days from the date of the court's or arbitrator's ruling and subject to the decision regarding the delay in executing the ruling, should it be filed by either of the parties, the trustees will assign the amount of the deposit, in whole or in part, plus the accrued interest and returns and less the expenses and commissions charged by the bank to either of the parties, as instructed by the court or the arbitrator.

Based on its legal counsel, management believes that the Company is likely to receive the entire sum involving the dispute.

NOTE 27:- SHARE CAPITAL

a. Share capital as of December 31, 2006 and 2005 is comprised of Ordinary shares of NIS 1 par value each, as follows:

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

NOTE 27:- SHARE CAPITAL (Cont.)

b. Rights attached to shares:

Voting rights in general meetings, rights in dividends and upon liquidation.

c. Allocation of options:

On March 25, 2002 and according to an amended decision of the Board of Directors from May 28, 2002, the Company approved a stock option plan for the grant of up to 400,000 options to individuals who are presently not related parties and who will not become related parties as a result of the grant (up to 300,000 options to the Company's employees in Israel and up to 100,000 options to employees of foreign subsidiaries and the Company's consultants and subcontractors and their employees) . The options are each exercisable into one Ordinary share of NIS 1 par value of the Company. If the options are not exercised, they will expire in August 2006.

In July 2002, 201,000 options were allocated to employees of the Company and of former subsidiaries, of which 51,500 options expired due to employee retirement. Of the outstanding options, 75,900 have an exercise increment of € 5.6 per Ordinary share and the remaining 73,600 options have an exercise increment of € 10.8 per Ordinary share.

On August 1, 2006, the unexercised options expired.

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

NOTE 28:- FINANCIAL INSTRUMENTS

a. Financial risk factors:

The Group's activities expose it to various financial risks such as market risk (including foreign currency risk, fair value risk in respect of interest rate and price risk), credit risk, liquidity risk and cash flow risk in respect of interest rate. The Group's comprehensive risk management plan focuses on activities that reduce to a minimum any possible adverse effects on the Group's financial performances. The Group utilizes derivatives in order to hedge itself against certain exposures to risks.

1. Exchange rate risk:

The Company imports automobiles from Japan and is exposed to exchange rate risks resulting from the exposure to different currencies, mainly to the Japanese Yen. Exchange rate risks derive from forward commercial transactions, recognized assets and liabilities denominated in a currency other than the Group's measurement currency. The Group has a currency exposure in the balance sheet due to the fact that the automobile prices cannot be fully linked to the Japanese Yen when it revaluates. The Group is also exposed to the effect of the increasing of the Yen on customs and purchase tax costs.

NOTE 28:- FINANCIAL INSTRUMENTS (Cont.)

2. Credit risk:

The Group maintains policies that guarantee that wholesale sales of its products are carried out to customers with an adequate credit history, that its sales to individuals are performed in cash or using credit cards and that sales of vehicle fleets are performed in cash or using checks receivable.

The Group is exposed to credit loss in respect of loans to related parties as a result of a default in case the related parties fall to meet their obligation to the Group.

3. Interest rate risk:

The Group's interest rate risk is mainly derived from long-term loans. Loans bearing fixed interest rates expose the Group to interest rate risk in respect of fair value.

4. Liquidity risk:

The Group aims to preserve the existing ratio between obtaining continued financing and its flexibility in using overdrafts, credit from others, credit from suppliers, loans to a jointly controlled entity from Mirage and debentures. The scope of short-term financing is adjusted to the Group's varying needs. Short-term bank credit, credit from others and suppliers' credit as of December 31, 2006 amounted to € 17,076 thousand (€ 34,379 thousand as of December 31, 2005).

b. Fair value of financial instruments:

1. General:

The Group's financial instruments include mainly cash and cash equivalents, trade receivables, other receivables, other long-term receivables, short-term credit, trade payables, other payables, long-term loans and debentures.

2. The principal methods and assumptions used in computing the estimated fair value of the financial instruments:

a) Financial instruments included in current assets:

Cash and cash equivalents, trade receivables, other receivables and a loan to a jointly controlled entity from Mirage – the balance sheet balances as of December 31, 2006 approximate their fair value.

b) Financial instruments included in current liabilities:

Short-term credit, trade payables and other payables – the balance sheet balances as of December 31, 2006 approximate their fair value.

NOTE 28:- FINANCIAL INSTRUMENTS (Cont.)

c) Financial instruments included in non-current liabilities:

Loans to a jointly controlled entity from Mirage and debentures – the loans are linked and bear interest at market conditions and accordingly, the balance sheet balances as of December 31, 2006 approximate their fair value.

As for the fair value of debentures issued to the public, see Note 22d.

c. Forward transactions:

As of December 31, 2006, the excess of monetary liabilities denominated in foreign currency over monetary assets in foreign currency amounted to € 14,141 thousand, which is also the excess of current liabilities over current assets in foreign currency. The excess of unlinked monetary assets over unlinked monetary liabilities amounted to € 10,749 thousand, including approximately € 11,601 thousand in excess of current unlinked monetary assets.

The Group takes steps to minimize the exposure in respect of this excess by carrying out forward transactions in foreign currency and by purchasing currency options.

As of balance sheet date, the Group had the following open transactions:

Forward transactions:

The purchase of US$ 5,000 thousand in return for 594,600 thousand Japanese Yen.
The purchase of 535,000 thousand Japanese Yen in return for US$ 5,000 thousand.
The purchase of 1,821,000 thousand Japanese Yen in return for NIS 57,322 thousand.
The purchase of NIS 12,646 thousand in return for 350,000 thousand Japanese Yen.
The purchase of US$ 4,500 thousand in return for NIS 20,079 thousand.

Foreign currency options purchased:

The purchase of US$ 1,000 thousand in return for 115,000 thousand Japanese Yen.
The purchase of US$ 12,000 thousand in return for NIS 51,700 thousand.
The purchase of NIS 4,150 thousand in return for US$ 1,000 thousand.
The purchase of 812,000 thousand Japanese Yen in return for NIS 28,710 thousand.
The purchase of 1,031,700 thousand Japanese Yen in return for US$ 9,000 thousand.

The purchase of options of CHF 7.5 million in return for U.S.$ 6,148 thousand against premium payment of CHF 112 thousand.
The purchase of an option of € 3 million in return for U.S.$ 3,900 thousand against premium payment of € 20 thousand.
The purchase of an option of £ 9 million in return for U.S.$ 17,100 thousand against premium payment of £ 179 thousand.
The purchase of an option of U.S.$ 2.5 million in return for Can$ 2,900 thousand against premium payment of U.S.$ 66 thousand.

NOTE 28:- FINANCIAL INSTRUMENTS (Cont.)

Foreign currency options written:

The purchase of US$ 10,000 thousand in return for 1,152,000 thousand Japanese Yen.
The purchase of NIS 55,985 thousand in return for US$ 13,000 thousand.
The purchase of NIS 45,965 thousand in return for 1,164,000 thousand Japanese Yen.

The writing of an option of CHF 13.5 million in return for U.S.$ 11,250 thousand against receipts of CHF 199 thousand.
The writing of an option of € 21.6 million in return for U.S.$ 28,080 thousand against receipts of € 294 thousand.
The writing of an option of £ 9.05 million in return for U.S.$ 17,195 thousand against receipts of £ 169 thousand.
The writing of an option of U.S.$ 5 million in return for Can$ 4,310 thousand against receipts of U.S.$ 106 thousand.
The purchase of U.S.$ 4,500 thousand in return for NIS 20,079.

Most of these transactions are for periods of up to three months.

The net fair value of all the above transactions as of December 31, 2006 is € (1,990) thousand. The above transactions are recorded in their gross amounts in the balance sheet under other receivables in a total of € 248 thousand and under other payables in a total of € (2,238) thousand.

NOTE 28:- FINANCIAL INSTRUMENTS (Cont.)

d. Linkage terms of balance items:

	December 31, 2006						
	Foreign currency			Israeli currency			
				NIS			
	Japanese yen	U.S. dollar	Other currency	Linked	Unlinked	Non-monetary items	Total
	Euros in thousands						
Assets:							
Cash and cash equivalents	-	1	8	-	9,890	-	9,899
Short-term investments	-	-	-	-	1,026	-	1,026
Restricted deposit	-	1,899	-	-	99	-	1,998
Loans to Mirage	-	-	-	9,554	-	-	9,554
Trade receivables	-	-	-	-	6,146	-	6,146
Other receivables	554	-	1	85	1,088	-	1,728
Prepaid expenses	-	-	-	-	-	327	327
Advances to suppliers	-	-	-	-	-	2	2
Inventories	-	-	-	-	-	11,777	11,777
Long-term investments	-	-	-	-	344	-	344
Lease expenses	-	-	-	-	-	1,572	1,572
Investment property	-	-	-	-	-	1,462	1,462
Property, plant and equipment, net	-	-	-	-	-	7,794	7,794
Intangible assets, net	-	-	-	-	-	22,647	22,647
Loan to jointly controlled entity	-	-	-	4,478	-	-	4,478
Deferred taxes	-	-	-	-	-	505	505
Total assets	554	1,900	9	14,117	18,593	46,086	81,259
Liabilities:							
Bank credit	-	4,582	-	-	-	-	4,582
Trade payables	10,671	365	4	-	1,442	-	12,483
Taxes payable	-	-	-	-	2,166	-	2,166
Customer advances	-	-	-	-	-	607	607
Other payables	983	-	-	449	3,566	-	4,998
Debentures	-	-	-	12,772	-	-	12,772
Provision for warranty	-	-	-	-	594	-	594
Liabilities in respect of employee benefits	-	-	-	-	601	-	601
Loans to jointly controlled entities from Mirage	-	-	-	4,409	-	-	4,409
Deferred taxes	-	-	-	-	-	6,818	6,818
Total liabilities	11,654	4,947	4	17,631	8,369	7,425	50,030
Net balance	(11,100)	(3,047)	5	(3,514)	10,224	38,661	31,229

NOTE 28:- FINANCIAL INSTRUMENTS (Cont.)

	December 31, 2005						
	Foreign currency			Israeli currency			
	Japanese yen	U.S. dollar	Other currency	NIS Linked	NIS Unlinked	Non-monetary items	Total
	Euros in thousands						
Assets:							
Cash and cash equivalents	-	2,105	346	-	299	-	2,750
Short-term investments	-	-	-	-	153	-	153
Restricted deposit	-	-	-	-	423	-	423
Loan to Mirage	-	-	-	-	-	-	-
Trade receivables	-	-	-	-	5,478	-	5,478
Prepaid expenses	-	-	-	-	-	227	227
Advances to suppliers	-	-	-	-	-	126	126
Other receivables	212	-	-	-	904	-	1,116
Inventories	-	-	-	-	-	21,405	21,405
Long-term investments	-	-	-	-	328	-	328
Lease expenses	-	-	-	-	-	1,634	1,634
Investment property	-	-	-	-	-	6,347	6,347
Property, plant and equipment, net	-	-	-	-	-	7,973	7,973
Intangible assets, net	-	-	-	-	-	24,380	24,380
Loan to Mirage	-	8,670	-	-	-	-	8,670
Loan to jointly controlled entity	-	-	-	6,800	-	-	6,800
Deferred taxes	-	-	-	-	-	231	231
Total assets	212	10,775	346	6,800	7,585	62,323	88,041
Liabilities:							
Bank credit	3,851	5,626	2	55	9,464	-	18,998
Credit from others	-	4,226	-	-	-	-	4,226
Trade payables	7,966	1,177	52	-	2,676	-	11,871
Taxes payable	-	-	-	-	1,509	-	1,509
Customer advances	-	-	-	-	-	1,903	1,903
Other payables	-	778	-	-	2,023		2,801
Loan from banks	-	1,661	-	-	-	-	1,661
Provision for warranty	-	-	-	-	513	-	513
Loans to jointly controlled entities from Mirage	-	-	-	6,421	-	-	6,421
Liabilities in respect of employee benefits	-	-	-	-	616	-	616
Deferred taxes	-	-	-	-	-	7,313	7,313
Total liabilities	11,817	13,468	54	6,476	16,801	9,296	57,832
Net balanced	(11,605)	(2,693)	292	324	(9,216)	53,027	30,209

NOTE 29:- REVENUES FROM SALES AND SERVICES

	Year ended December 31,	
	2006	2005
	Euros in thousands	
Sale of automobiles	69,132	24,834
Sale of spare parts and garage services	6,536	1,970
	75,668	26,804

NOTE 30:- COST OF SALES

Outsourced garage and subcontracting services	394	-
Purchases and changes in raw and auxiliary materials	55,734	35,954
Salaries and related expenses	726	241
Other manufacturing expenses	373	151
Depreciation and amortization	176	34
Repairs and warranty	370	-
	57,773	36,380
Changes in inventories of finished products, work-in-process, automobiles and spare parts	9,125	(12,614)
	66,898	23,766

NOTE 31:- SELLING AND MARKETING EXPENSES

Depreciation	49	52
Salaries and related expenses	392	103
Commissions	162	56
Advertising (1)	1,247	660
Transportation	-	27
Rent, maintenance and related expenses	304	52
Other	21	6
	2,175	956

(1) Advertising expenses for the years ended December 31, 2006 and 2005 are presented net of the participation of F.H.I. in these expenses.

NOTE 32:- GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,	
	2006	2005
	Euros in thousands	
Professional services	710	-
Salaries and related expenses	1,417	1,012
Consulting and management fees	455	1,373
Provision for bad debts and doubtful accounts	(11)	(21)
Amortization of franchise (*)	1,211	510
Depreciation	110	73
Other	835	1,016
	4,727	3,963

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

NOTE 33:- FINANCING INCOME (EXPENSE), NET

Foreign exchange gain, net	450	174
Income on short-term deposits	373	927
Related companies	1,079	179
Other items	-	11
	1,902	1,291
Expense on loans from others	(130)	(222)
Loss on marketable securities, net	(4)	(79)
Loss on forward transactions and derivatives	(1,437)	(601)
Expense on bank borrowings for short term	(1,413)	(369)
Expense on bank borrowings for long term	(66)	(125)
Financing expenses on debentures	(1,014)	-
	(4,064)	(1,396)
	(2,162)	(105)

NOTE 34:- DEPRECIATION AND AMORTIZATION EXPENSE

Property, plant and equipment:		
Cost of revenues	176	34
General and administrative expenses	110	73
Selling and marketing expenses	49	52
	335	159
Investment property:		
Property maintenance costs	128	170
Intangible assets:		
General and administrative expenses	1,211	510
	1,674	839

NOTE 35:- OTHER INCOME (EXPENSES), NET

	Year ended December 31,	
	2006	2005
	Euros in thousands	
Revenues from settlement agreements	1,168	-
Revenues from previous years	24	-
Loss from decrease in value of investment property (1) (2)	(148)	-
Gain (loss) from sale of property, plant and equipment, and investment property, net	865	(20)
Other	-	58
	1,909	38

(1) On November 27, 2005, the Herzliya court rendered its sentencing in the lawsuit filed against a lessor that operates the gas station leased from Japan Auto Automobile. According to the sentence, the operating lessor is instructed to terminate the operation of the gas station on the grounds of operating a business without a license or temporary permit, pursuant to the Business Licensing Law, 1968, unless it can produce a license or permit as above. The lessor was granted several extensions by the Court in order to settle the matter of the license, the latest of which ended on December 31 2006. In view of the fact that such license or permit have not been produced by December 31, 2006, the Group wrote down in the financial statements the carry amount to the recoverable amount of the land on which the gas station is located in a total of € 148 thousand.

(2) See Note 12b.

NOTE 36:- EARNINGS (LOSS) PER SHARE

	Year ended December 31,	
	2006	2005
Weighted number of shares used in the computation of basic and diluted net earnings (loss) per share	8,050	8,050
Net income (loss) used in the computation of basic and diluted net earnings (loss) per share (in Euros in thousands)	1,633	(694)

In the computation of diluted net earnings (loss) per share for the periods presented in the financial statements, 149,500 options to the Company's employees, as specified in Note 27c were not taken into the calculation since their inclusion increases the diluted net earnings (reduces the diluted loss) per share compared to the basic net earnings (loss) per share (anti-dilutive effect).

NOTE 37:- RELATED PARTIES

a. Balances with related parties:

	December 31,	
	2006	2005
	Euros in thousands	
Other receivables	-	18
Loans to jointly controlled entity (see Note 9)	4,478	6,780

As for other balances with related parties, see Notes 6 and 18.

b. Transactions with related parties:

	Year ended December 31,	
	2006	2005
	Euros in thousands	
Costs and expenses:		
Interest and linkage income from jointly controlled entity	373	218
Revenues from marketing services granted to jointly controlled entity	107	54
Revenues from consulting services granted to jointly controlled entity	81	45
Lease expenses to jointly controlled entity	10	1
	571	318

c. Remuneration to related parties:

	Number of people		Year ended December 31,	
	2006	2005	2006	2005
			Euros in thousands	
Management fees	1	3	344	258
Remuneration to directors not employed by the Company	8	7	95	67
Key management Personnel compensation:				
Short-term and post-transaction benefits to key management personnel			*) 827	460

*) Includes modification fees and compensation to the former general manager and modification fees to the former CFO.

NOTE 37:- RELATED PARTIES (Cont.)

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 Gad and Dan Krubiner, who served as directors in the Company ("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 six years from July 2002.

   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 thousand a month for each of the former general managers.

   In March 2003, Messrs. Gad and Dan Krubiner resigned from their positions as general manager and joint general manager in the Company, but continued to act as directors and began providing consultancy services.

   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 issued and outstanding share capital and voting rights.

   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 until April 15, 2008.

   The Company has raised claims against the billings for payments from the above management companies, and as a result, it has halted the payments effective as of September 2005. As a consequence, a request was received by the Company from the management companies' representative, pursuant to which they view the nonpayment as a fundamental breach of the agreements.

   As for the settlement agreement signed with the former general managers on May 22, 2006, see Note 26a.

NOTE 37:- RELATED PARTIES (Cont.)

2. On February 3, 2005, Mr. Amnon Barzilay, a controlling shareholder in the Company, was appointed as the Chairman of the Board. On August 18, 2005, the general meeting approved a service agreement with a private management company owned by Mr. Barzilay. Under the agreement, the Chairman of the Board, through the company owned by him, will receive US$ 20,000 per month and the following: an additional annual bonus of 2% from the Company's pre-tax income based on the financial statements in respect of any year in which the Company's pre-tax income is between 5% and 7% above the return on its equity as it was as of December 31 of the previous year; an additional annual bonus of 3% of the Company's pre-tax income, according to the financial statements, provided the Company's pre-tax income exceeds 7% to 12% of the return on the Company's equity as it was as of December 31 of the previous year; and an additional annual bonus of 4% from the Company's pre-tax income based on the financial statements in respect of any year in which the Company's pre-tax income exceeds 12% of the return on its equity as it was as of December 31 of the previous year. 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, placing a group 7 car at his disposal, including bearing the fixed and ongoing car related expenses (the income tax applying to the value in use of the car will be grossed up by the Company). At the management company's decision, the Company will pay it a monthly fee covering its car expenses before providing the car and the required equipment for the management company, including credit cards.

   The agreement came into effect on the date of the appointment (February 3, 2005) and each party may terminate it by providing a 6 months' prior notice. If Mr. Barzilay's term as active Chairman of the Board is terminated, he shall be entitled to a six-month adjustment period during which he will receive the same terms as during his office. The detailed fees will include all the payments made in favor of Mr. Barzilay in respect of his position, including participation in meetings, as required.

   Mr. Barzilay informed the Company, and the Company's board approved the announcement 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.

e. Transactions with EL3000:

1. Lease agreements - The Plant Building:

   a) EL3000's production plant is located in a four-story building at Ha'amal St., Kiryat Aryeh, Petach Tikva ("the property"). 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 EL3000.

NOTE 37:- RELATED PARTIES (Cont.)

In addition, the Company has a lease agreement with a former related party, in respect to the asset's third and fourth stories, which it subleases to EL3000, 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 EL3000 areas on the first and second stories of the property 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 approximately NIS 110 thousand (€ 20 thousand), plus VAT, 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.

In addition, beginning on January 1, 2003, the Company is subleasing to EL3000 areas on the third and fourth stories of the property aggregating to about 1,900 sq. m. On February 1, 2004, an agreement was signed and came into force between the Company and EL3000, 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 approximately US$ 8,400 thousand (€ 7 thousand), plus VAT, 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 US$ 11,230 plus VAT (€ 9 thousand), 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).

b) On February 11, 2007, EL3000 addressed the Company in a letter claiming that the property on Ha'amal St., Kiryat Aryeh, Petach Tikva (see a above) is built using the Pal-kal method (rippled tin), based on an opinion and tests conducted by an engineer on behalf of EL3000 and the Israeli Standards Institute. The letter also contains a price offer for the property's renovation from a contractor.

In furtherance to the above, on March 4, 2007, the Company received a letter from EL3000's representative whereby the Company is requested to inform EL3000, no later than seven days from receiving the letter, that it undertakes to act for the physical safety of the property in such a manner that will allow EL3000 to continue its renovation work on the leased property for the duration of the lease period while settling all expenses incurred to EL3000 as a result of the evacuation of the property for as long as it takes to assure the leased property's safety. Should the Company fail to produce such a commitment towards EL3000, EL3000 has informed the Company that it will be required to seek for an alternative location and announce the termination of their engagement with all the expenses and damages incurred by EL3000 to be borne by the Company.

NOTE 37:- RELATED PARTIES (Cont.)

On March 5, 2007, the Company contacted Krubiner Ormor (the owner of the two top floors in the property from which the Company is leasing said floors to lease to EL3000) in order for the latter to collaborate in the evaluation of the matter (and the related costs, as they may be) and assigned all the relevant documents received from EL3000 to Krubiner Ormor.

On March 6, 2007, the Company informed EL3000's representative that it was in contact and collaborating with EL3000 and Krubiner Ormor to complete the examination of the matter as soon as possible, in coordination with all the parties involved in order to reach a solution that will be accepted by everyone concerned. A t this stage, the Company is unable to address the damages claimed by EL3000 in the representative's letter, including in relation to the evacuation of the property by EL3000.

On March 8, 2007, EL3000's representative responded that due to the urgency of the matter and the safety issue involved, the Company should inform EL3000, no later than within seven days from receiving said letter, of its detailed and professional reference to the subject of the property's required renovation work, the schedule for its performance and the indemnification payable to EL3000 for the consequent damages. Furthermore, in the event that the Company does not produce a detailed and professional response to EL3000's demand within seven days from receiving the letter, EL3000 will be forced to seek an alternative location, announce the termination of the lease agreement and demand reimbursement of expenses and damages, as incurred, from the Company.

On March 15, 2007, the Company's representative replied to EL3000's representative stating that the Company is handling the case without delay and is scheduled to obtain another engineer's opinion and another renovation offer from a contractor, if and as far as the renovations are required, within a few days, all in collaboration with Krubiner Ormor. The Company's representative also informed EL3000's representative that even based on the opinions granted so far, there is no justification and/or safety reason for evacuating the property and/or terminating the activities taking place thereon by EL3000.

On March 20, 2007, the representative of EL3000 addressed the Company in a letter replying that EL3000 considers the Company's attempts to prolong the time frame required to carry out the renovation work on the property as grave and due to the urgency of the matter and the safety risk that it poses, the Company is requested to notify EL3000 no later than within seven days from receiving the letter of its specific and professional reference to the matter of the renovation work on the property, the schedule for its performance and the indemnification payable to EL3000 for the damages incurred to it as a result of the above. The letter further states that failure to produce a qualified and specific response by the Company will be construed as an attempt to foil the provisions of the lease agreement signed between the parties and EL3000 will be forced to seek an alternative location for carrying out its activities with all the consequent expenses and damages borne by the Company.

NOTE 37:- RELATED PARTIES (Cont.)

On March 21, 2007, the Company's attorney replied in a letter to the attorney of Electronics Line 3000, in which he proposes to hold a meeting as soon as possible with the participation of the Company, Electronics Line 3000, Oramor and the involved engineers and this is in order advance the matter. In addition, an engineering opinion, which the Company received from Oramor, is attached to the letter, according to which, the ceilings are not constructed by the Pal Kal Method.

2. Lease agreements - The Office Building:

Effective January 1, 2003 until June 30, 2006, the Company leases to EL3000 two stories in the aggregate area of approximately 1,308 sq. m in an office building located at 2 Granit Street, Kiryat Arieh, Petach Tikva ("the asset"). On February 1, 2004, a new agreement was entered into between the Company and EL3000, and was amended in May 2004. Pursuant to the lease agreement the asset is leased for a monthly rent paid semi-annually of US$ 17,658 (€ 14 thousand), plus VAT and 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. EL3000 also pays the Company for parking spaces and maintenance services related to this property.

3. The minimum future lease fees expected to be received in the Company as of December 31, 2006 are as follows:

	Euros in thousands
First year	726
Second to fifth years	2,293
Sixth year and thereafter	509
	3,528

The minimum future lease fees expected to be paid by the Company as of December 31, 2006 are as follows:

	Euros in thousands
First year	263
Second to fifth years	833
Sixth year and thereafter	-
	1,096

NOTE 37:- RELATED PARTIES (Cont.)

4. Consulting and management agreements:

According to an agreement signed on May 2, 2004, and which came into force on June 1, 2004, between EL3000 and the Company, the Company provides EL3000 with consultancy services in the area of alarm systems in consideration of US$ 900 thousand plus VAT per year. In addition, EL3000 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 EL3000 wishes to receive consultancy services from the Company that will require expenditure by the Company exceeding the said amount, EL3000 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 EL3000 with consultancy services pursuant to an agreement signed on January 1, 2003, whereby EL3000 undertook to pay the Company for consultancy services a sum equivalent to US$ 2 million a year, plus VAT as required by law and expenses.

On March 13, 2005, an application was received from EL3000, 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, EL3000 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. The Company rejects these demands outright.

As for the settlement agreement signed with EL3000 on May 22, 2006, see Note 26a.

f. Transactions with the Group companies:

1. In July 2005, it was agreed that the Company would receive monthly management fees from Japan Auto Holdings totaling approximately US$ 18 thousand, plus VAT as required by law.

It was also agreed that in the event that the agreement is terminated by either of the parties before the end of 2006, the Company would receive a lump sum of approximately US$ 360 thousand. If the agreement is terminated by either of the parties after 2006, the Company will receive a lump sum of approximately US$ 180 thousand.

The accounts of Japan Auto Holdings for 2005 include a provision recorded in general and administrative expenses in respect of the above lump sum totaling € 290 thousand. The financial statements for 2006 include a decrease in the provision of € 145 thousand, bringing the total provision as of December 31, 2006 to € 145 thousand. The Company did not record said expenses in the consolidated financial statements.

NOTE 37:- RELATED PARTIES (Cont.)

An agreement was signed between the parties on December 28, 2005 pursuant to the above and is in effect until December 31, 2010.

2. In July 2005, it was agreed that the Company would receive monthly marketing fees from Japan Auto Holdings totaling € 18 thousand, plus VAT as required by law.

   An agreement was signed between the parties on December 28, 2005 pursuant to the above and is in effect until December 31, 2010.

3. The Company signed a lease agreement with Japan Auto Automobile whereby it will lease from Japan Auto Automobile an office space in a building owned by Japan Auto Automobile to use as the Company's headquarters as of December 31, 2005 for monthly rental fees of US$ 2,000. The agreement is in effect for a period of five years. The Company has the option of extending the lease period by an additional five years with a 5% increase in rental fees.

4. Subsequent to balance sheet date, an agreement was signed between Metis Car Rental and Japan Auto Automobile whereby Metis Car Rental will lease an office space in a building owned by Japan Auto Automobile, in effect from January 18, 2007, in consideration of approximately € 205 thousand a month for 36 months, linked to the known CPI as of January 15, 2007. During the last 18 months of the lease period, the rental fees will increase by 2%. The agreement was approved by the board of Japan Auto Automobile and the trustee.

5. Subsequent to balance sheet date, Japan Auto Automobile sold about 120 vehicles to Metis Car Rental in a number of transactions. The transactions were approved by the board of Japan Auto Automobile and the trustee.

6. During 2006, Japan Auto Automobile provided several of its vehicles for use by officers in the joint controlling shareholders in Japan Auto Holdings, the Company and Mirage. Most of these vehicles were used by the controlling shareholders prior to the publication of the Company's prospectus on February 13, 2006 as customary before the publication of the prospectus. Subsequent to balance sheet date, on February 28, 2007, once the matter was cleared, said vehicles were returned to Japan Auto Automobile and their use was discontinued.

   On the same date, the Company and Mirage transferred to Japan Auto Automobile an overall amount of approximately € 161 thousand plus VAT as required by law (in an immaterial amount to Japan Auto Automobile), in order to reflect Japan Auto Automobile's calculation of the total costs of using the vehicles borne by Japan Auto Automobile in the period from January 1, 2006 until the vehicles were returned (of which an amount of € 139 thousand in respect of 2006), all with the addition of annual financing expenses at a rate of 5%.

NOTE 38:- BUSINESS SEGMENT INFORMATION

The Group companies operate in four reportable segments:

Motor vehicles – Most of the activity is importing vehicles made by Subaru and selling them to clients.

Spare parts – Most of the activity is importing and marketing spare parts for vehicles made by Subaru and selling them to garages as well as providing garage service by the Company's central garage.

Rental and other – Most of the activity is renting real estate.

Other – Most of the activity is consulting services.

The following data is presented in accordance with IAS 14:

	Year ended December 31, 2006					
	Motor vehicles	Spare parts	Rental	Other	Elimination	Total
	Euros in thousands					
Revenues						
Sale to external customers	69,131	6,537	1,011	189	-	76,868
Inter-segment sales	-	2,331	159	189	(2,679)	-
Total revenues	69,131	8,868	1,170	378	(2,679)	76,868
Results						
Segment results	2,396	2,922	731	188	-	6,237
Unallocated expenses						(3,574)
Operating loss						2,663
Financing expenses, net						2,162
Other income, net						1,909
Loss before income tax						2,410
Income tax expenses						777
Net profit				-		1,633
Additional information:						
Segment assets	44,311	4,637	2,364			51,312
Unallocated assets						29,947
Total assets						81,259
Segment liabilities	13,794	327	324			14,445
Unallocated liabilities						35,585
Total liabilities						50,030
Other segment information						
Capital expenditure						
Long-term assets	344	62	5			411
Depreciation and amortization	1,386	50	277			1,713
Impairment of investment property			148			148

NOTE 38:- BUSINESS SEGMENT INFORMATION (Cont.)

	Year ended December 31, 2005					
	Motor vehicles	Spare parts	Rental	Other	Elimination	Total
	Euros in thousands					
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						21,757
Total assets						88,041
Segment liabilities	12,946	1,024				13,970
Unallocated liabilities						43,862
Total liabilities						57,832
Other segment information						
Capital expenditure						
Long-term assets	25,017	5	4,058			29,080
Depreciation and amortization	551	2	203			756

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