2007

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, 2007

Letter to the shareholders

Dear Shareholders,

In fiscal year 2007, we achieved important strategic developments that emphasise our goal to become a sustainable investment company. The Company today focuses on investment opportunities within the automotive related field and real estate. Metis Capital recorded impressive growth in the 2007 financial year: Total revenues increased by 35.7 percent to € 104.3 million, the gross profit of the consolidated company amounted to € 17.1 million (16.4%).

In January 2007 Amnon Barzilay and Eyal Yona have signed an agreement which will separate their holdings in Gmul Investments Company. Amnon Barzilay and Shimon Harel acquired the control in Metis Capital Ltd. in January 2008.

In January 2007 Metis also became controlling shareholder of the Europcar franchisee in Israel through the acquisition of all the possessions of Trade Mobile in Metis Car.

We announced in March 2007, that we filed a draft prospectus for the offerings of debentures and options for debentures with the Israel Securities Authority and Tel-Aviv Stock Exchange. According to the prospectus, Metis offered NIS 118,000,000 worth of debentures (series A), 295,000 warrants (series 2), exercisable into Company shares and 590,000 warrants (series 3) exercisable into debentures (series A). In June 2007 the Company had received a total of 78 orders for the purchase of 316,716 units at a total sum of NIS 119,085 thousand. The surplus underwriting is 1.37. The interest rate set in the tender is 6.5%.

In March 2007 our fully-controlled subsidiary Metis Capital Real Estate Ltd. acquired the hotel Cerena in the centre of Bucharest, Romania. Our subsidiary Japan Auto Holdings Ltd. announced in October that it has submitted to the Israeli Securities Authority and to the Tel-Aviv Stock Exchange a draft of a prospectus for the issuance of securities.

In December 2007 Metis Capital Real Estate Ltd. sold NIS 20,017,000 worth of debentures (series A) of the company and received a total amount of approximately € 3,360 thousands net off commissions. Since then Metis Capital Real Estate sold 8,053,114 debentures and received approximately € 1,373 thousands net off commissions.

On March 3, 2008, a subsidiary of the Company, Metis Austria, signed an agreement for the acquisition of a hotel in Vienna with cost of approximately € 7.5 million. The Company through Metis Real Estate is holding negotiations as to the acquisition of a hotel in Vienna with cost of approximately € 7 million.

It is our intention to further increase the involvement in the real estate field in 2008. Our Real Estate division will aim at both the purchase of built assets for the purpose of cash yield and the development of new projects. As it has in the acquisition of hotels in 2007, Metis will focus on locations with steady and growing economies.

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.

We thank you, as our shareholders, for your trust and support during the financial year 2007. We look optimistically into 2008.

Yours sincerely,

Amnon Barzilai
Chairman of the Board

Itsik Cohen
Chief Executive Office

Company status review

1. Status Review to the Board of Directors- December 31, 2007

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, 2007, 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

As of January 1, 2007 the Company is active in five areas:

A. Import, distribution and sales of vehicles.

B. Import, distribution and sales of spare parts and provision of garage services.

C. Income yielding real estate.

D. Car rental.

E. Operational leasing.

Changes in the Corporate Business and Subsequent Events

2.1

On May 21, 2006, Japan Auto received a letter bearing the heading "Amendment to the Municipal Tax Assessment for the Periods January 1, 1999 to April 30, 2006", in respect of a property which is used by the Japan Auto Group ("**the Municipal Tax Letter**").

In the Municipal Tax Letter, Japan Auto was required to pay to the Municipality of Herzliya ("**the Municipality**") a supplement in the amount of approximately € 2.7 million, retroactively, for a period of approximately seven years - the principal of the municipal tax in the amount of approximately € 1.8 million, and interest and linkage differentials in the amount of approximately € 0.9 million, in respect of the retroactive charge.

According to the Municipality, based on an examination that was conducted and measurements that were taken by it recently, the following findings were received: The property includes a supplement of constructed areas in an amount of 7,051 sqm, and areas of land in an amount of 522 sqm, which have not been charged, to date, with municipal tax (in addition to approximately 8,900 sqm, which have been charged, to date), the classification of the land was changed from industry/work to business/services, and the rate of the municipal tax has been changed accordingly.

Japan Auto disputes the factual findings, in other words, the scope of the areas and the proper classification thereof, and the examination thereof has been entrusted to a company which specializes in examinations of this kind.

In August 2006 Japan Auto appealed to the municipality appeal committee in which it claims that the imposition of the retroactive municipal tax charge for a period of seven years is illegal. Japan Auto bases it's claims on legal precedence's and on the fact that the additional charges are for additional areas that are used as passages and service areas and that the municipality knowingly did not charge municipal taxes for these areas.

On August 19, 2007, the Municipality sent its response to the appeal in which it claims that a significant part of the areas in the amendment assessment were built without permission. Because of the new claims and based on the opinion of its legal advisors, Japan Auto has made a provision in an amount of € 0.4 million for the period until and include year 2005.

In respect of the year 2006 onward, Japan Auto has made a provision in an amount with which, in the opinion of Japan Auto management, based on its legal counsel advisors, is likely to be charged.

2 . 2

As part of the transaction for the acquisition of half the holdings in Japan Auto Group, the Company extended a loan in the amount of $ 10 million to Mirage Development Israel Ltd. ("**Mirage Development**") for a period of 18 months, until February 15, 2007. The loan bears annual interest at a rate that is the greater of either the rate charged by the lending entity for the external financing or the average interest for financing the working capital of Japan Auto. The loan was secured by a senior fixed charge on all of Japan Auto shares that Mirage Development has.

A dispute arose between Mirage Development and the Company as to the interest rate and linkage differences that Mirage Development will pay the Company in respect of the loan principal. Mirage Development claims that the loan is dollar-linked and 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%.

On February 14, 2007, the Company and Mirage Development entered into an agreement whereby on February 15, 2007, Mirage Development repaid the loan to the Company excluding the disputed amount (totalling € 8.25 million) plus VAT as required by law (totalling € 45 thousand) and the disputed amount (totalling € 1.2 million) 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 Development deposited with its representative a blank signed check.

As part of the agreement, the Company offered Mirage Development to assign the decision in the dispute to arbitration and on February 27, 2007. Mirage Development 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.

The parties nominated an arbitrator which has agreed to be the arbitrator in the dispute between the parties. On November 4, 2007, the company received the arbitrator verdict regarding the dispute. According to the verdict, the disputed sum, which was deposited with a trustee by the parties' lawyers until the verdict was presented, will be returned to Mirage.

As a result of the verdict, the Company recorded a net expense of approximately € 1.02 million in its financial statements for the year ended December 31, 2007.

2.3

On February 11, 2007, Electronics Line 3000 Ltd. ("**EL3000**") addressed the Company in a letter claiming that the property on Ha'amal St., Petach Tikva ("**the property**") 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.

In other letters, EL3000 requested from the Company to immediately inform it that it undertakes to act for the physical safety of the property in such a manner that will allow EL3000 to continue its work in 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.

The Company informed the other owners of the property, Krubiner Ormor Properties and Investments Ltd ("**Ormor**") of the appeal and asked the latter to collaborate in the evaluation of EL3000 appeal and the related costs, as they may be.

The Company received from Ormor an engineer's opinion which was prepared for Ormor on March 27, 2007, determines that the ceiling 12+ is absolutely firm and do not constitute a danger both as ceiling and as part of the entire property and, accordingly, there is no safety problem if the ceilings/floors bear additional usage loading of 500 kg per sqm (as argued by EL3000).

After additional exchange of words between the parties and their representatives, on May 15, 2007, in a letter that the Company delivered to EL3000 it undertakes towards EL3000 in connection with the lease agreement between them for the first and second floor in the property that the Company will act immediately and perform all what is required from it based on a professional decision that the parties' experts accept in the dispute regarding the ceilings/floors in the property and, if they do not decide, then by a decision of another outside expert whose decision in the issue of fastening and securing the ceilings/floors of the property and in general, if any, will be final and binding, and only the Company will bear the expenses. The Company has also undertaken to fully compensate EL3000 for any damage to equipment or body injury that it will sustain, if sustained, due to the collapse or fall of these ceilings/floors, provided that EL3000 uses and maintains the property according to the purpose of the lease and in the same manner that the property was used and maintained by EL3000 up to that day.

On November 18, 2007, the Company received an engineer's opinion according to which ceilings

6+ and 9+ bear additional usage loading of 200 kg per sqm, that is the maximal loading for the use of offices according to the Israeli standard. Also, as to give an answer to the production activity preformed by EL3000 in part of ceiling 9+, it is offered by the engineer's opinion that this activity will be transferred to ceiling 12+ or, alternatively, that a fastening for usage loading of 500 kg per sqm will be made to this part with cost estimated at approximately € 21 thousand that will last about 7 work days. Also, the engineer's opinion indicates that the production activity does not immediately endanger ceiling 9+ and its fastening may take place at times that are convenient to EL3000 without discontinuing production. The Company intends to start the fastening of ceiling 9+ during April 2008. While cooperating with Ormor and EL 3000, the Company estimates that the cost of reinforcing the ceiling 9+ shall amount to approximately € 133 thousands and shall take 25 working days.

2.4

On March 29, 2007, after the Board gave its approval, the Company entered into an agreement ("**the agreement**") for acquiring the full control over a company that was incorporated in Romania and is the owner of the rights to acquire a hotel in Bucharest, Romania ("**the hotel**").

According to the agreement, the Company acquired, through its wholly controlled subsidiary, Metis Capital Real Estate Ltd. ("**Metis Real Estate**"), all of the share capital of Finit Investment & Development Srl. ("**Finit**"), a company without activity as of the date of acquisition, as above, which as from May 17, 2007 ("**the closing date**") owns full rights in Hotel Cerna.

In consideration for the shares and the hotel, the Company committed to pay € 2.6 million in cash plus the par value of Finit shares which equals to 200 Ron (approximately € 66). In addition, the Company committed to pay €400 thousand to a third party for brokerage services, consulting upon acquisition and assisting in obtaining bank financing for the acquisition ("**the consulting company**"), according to the stages detailed below.

On April 11, 2007, as consideration for concluding the registration of Finit shares in Metis Real Estate name, Metis Real Estate Group paid € 300 thousand to the consulting company. On April 12, 2007 as consideration for the transfer of the ownership of the hotel to Finit, Metis Real Estate Group paid € 1 million to the seller.

On May 15, 2007, the remaining consideration (an amount of € 1.6 million) was paid to the seller and the full rights in the hotel were assigned to Metis Real Estate upon conclusion of the transaction.

The acquisition of the hotel was financed by the Company by shareholders' loan to Metis Real Estate. As of December 31, 2007, Finit borrowed € 2,067 thousand from a bank in Romania which was designated to replace part of the Company's financing for the acquisition and the renovation of the hotel.

The loan bears interest at the rate of the Euribor plus 2.5% per year and is repayable in 132 equal monthly instalments from July 6, 2008 through June 6, 2019. The interest is paid on a current basis at the end of each month.

The Company undertook to pay the remaining consideration (an amount of € 100 thousand) to the consulting company after 90 days from signing the agreement, contingent on the receipt of bank financing for the acquisition. The Company has extended said undertaking until December 31, 2007. This payment was made on January 24, 2008, after the financing was received.

On April 30, 2007, Finit signed an agreement with a foreign company specializing in operating hotels ("**the lessee**") for the rental of a hotel for a one-year period starting May 1, 2007 through April 30, 2008 in return for monthly rental fees of € 20 thousand. The lessee has the option of extending the lease term by one more year through May 31, 2009, subject to Finit's approval, in return for monthly rental fees of € 35 thousand. Finit may cancel the agreement by providing an advance notice of 30 days to the lessee.

On August 1, 2007, addendum No. 1 to the agreement was signed pursuant to which the monthly rental fees are increased to € 25,000 starting September 1, 2007. On December 5, 2007, addendum No. 2 to the agreement was signed pursuant to which the monthly rental fees are increased to € 45,000 starting January 1, 2008 and the lease period is changed to 6 years. It was also determined that the monthly rental fees starting January 1, 2010 are to be determined after negotiation but shall not be less than minimum rental fees of € 45,000 per month. On January 24, 2008, addendum No. 3 to the agreement was signed pursuant to which the monthly rental fees for the first three months of 2008 are lowered to € 5,000 and this due to the renovation of the hotel in that period. Starting April 1, 2007, the monthly rental fees are restored to € 45,000.

On February 4, 2008, Finit's name was changed to Metis Cerna Property S.R.L.

2.5

On May 29, 2007, the Company published a prospectus for the public offering of the following securities: € 20,653,924 par value of debentures (series A) for 94% of their par value; 295,000 stock options (series 2) that are exercisable into Company shares in consideration of an exercise increment of an unlinked amount of € 4.2 per stock option and 590,000 stock options (series 3) that are exercisable into € 17.5 par value of debentures (series A) for an exercise increment of € 16.8, linked to the Israeli CPI per stock option, all at 295,000 units for a price of € 65.8 per unit by way of tender on the interest rate on the debentures (series A) not below 5% and not exceeding 6.5% as well as the Company's undertaking to offer to purchase all the stock options (series 3) on the first trading day for a price of € 0.52 per stock option.

On June 6, 2007, the Company completed the offering with an overall net money value of approximately € 19,472 thousand (net of issuance expenses totaling approximately € 675 thousand). The interest rate was set at 6.5%.

On June 12, 2007, under its said undertaking, the Company purchased 169,309 stock options (series 3) for € 0.52 per stock option.

Pursuant to IFRS, the immediate proceeds from the issuance were recorded in the Company's financial statements as follows: approximately € 19,813 thousand gross on account of debentures (series A) (approximately € 19,150 thousand net of issuance expenses) and approximately € 0 thousand on account of stock options (series 2) and approximately € 322 thousand on account of stock options (series 3).

In August and September 2007 the Company purchased 73,711 stock options (series 3).

2.6

On June 28, 2007, an agreement was signed between the Company and Mirage.

Pursuant to the Agreement, on July 1, 2007 the Company loaned Mirage the sum of € 3.53 million for a period of up to 12 months (until June 30, 2008). Repayment of the loan shall be subject to linkage differentials to the consumer price index, starting with the index published on June 15, 2007; interest at an annual rate of 15% and Value Added Tax ("**VAT**") in accordance with applicable laws. Payment of the linkage differentials, interest and VAT shall begin on October 1, 2007 for the first three months and thereafter shall be paid monthly separately. Full repayment of the loan together with linkage differential, interest and VAT due thereon shall be made no later than June 30, 2008.

Mirage is entitled to repay the loan at a date before the end of the loan period, provided that Mirage give the Company advance notice in writing at least 30 days prior to the date of such repayment and that Mirage repays the loan fund in full along with linkage differentials, interest and VAT prior to the end of the aforementioned advance notice period.

The Company shall be entitled to demand that Mirage repay the loan at a date before the end of the loan period, provided that the Company gives Mirage advance notice in writing at least 60 days prior to the date of such repayment.

The loan is secured by a first degree lien (including assignment of rights by way of lien) in favor of the Company of 30% of all of Mirage's shares in Japan Auto Holdings (the Company and Mirage both hold equal shares in Japan Auto Holdings), meaning 15% of Japan Auto Holding's issued shares will be subject to a lien in favor of the Company. The lien was registered with the Israeli Companies Registrar on July 1, 2007.

2.7

As of November 6, 2007, the deadline for exercising 590,000 Company's exercisable into debentures (Series A) warrants (Series 3), which were offered in a prospectus published by the Company on May 29, 2007, 548,922 of the warrants were exercised, while 41,078 expired.

The warrants were exercised into debentures (Series A) according to a ratio of € 17.4 par value debentures (Series A) for each warrant, and thus the Company issued € 9,575,112 debentures (series A).

The exercise price of each warrant was € 17.08, and thus the Company received a return amount of € 9,377,043. The warrants were all exercised by a fully owned subsidiary, Metis Capital Real Estate Ltd.

The debentures (Series A), which were issued to Metis Real Estate against the warrants realization, will be considered as Metis Real Estate property and will not be deleted from the stock exchange trade.

As of December 31, 2007, Metis Real Estate sold 20,017,000 debentures of the Company (series A) and received a total amount of approximately € 3,360 thousands net off commissions.

Subsequent to the balance sheet, Metis Real Estate sold 8,053,114 debentures of the Company (series A) and received a total amount of approximately € 1,373 thousands net off commissions.

2.8

On December 30, 2007, the general meeting of Japan Auto Holdings' debenture holders (series A) of Japan Auto Holdings approved the changes in the trust deed as follows:

1. The interest paid on debentures (series A) of Japan Auto Holdings is 7.05% (instead of 6.3%) for a period from December 1, 2007 and thereafter. A positive differential shall be added to the proposed interest rate that shall not exceed 0.25% between the average of returns on debentures (series A) of Japan Auto Holdings as published at the end of each trading day, over 180 trading days from December 31, 2007, and the interest rate to be paid on debentures (series A) of Japan Auto Holdings (7.05%). Namely, the ultimate interest rate to be paid on debentures (series A) of Japan Auto Holdings shall not fall below 7.05% and shall not exceed 7.3%. This interest increase shall be paid no later than the payment date on debentures (series A) of Japan Auto Holdings that shall occur after the elapse of 180 days, as above.
2. If and as far as Japan auto Holdings shall publish prospectus for new securities and in return of the IPO its share shall serve as return of shareholders' loans, as above, Japan Auto shall not exploit its repayment right according to Section 7.1.1 to the trust deed before 2010 instead of 2008.
3. Despite Japan Auto Holdings' liability pursuant to Section 8.1.14 to the trust deed, it was agreed that 55% of a future issuance of share capital (except for the issuance of debentures) shall be designated for the repayment of shareholders' loans and the balance shall be designated to strengthen the capital base of Japan Auto Holdings and/or its subsidiaries. The shareholders' loan principal balance as far as is unpaid from the proceeds of the issuance shall be subordinate and deferred in respect of the debenture holders' debt and shall be repaid (pari passu) in seven annual installments effective 2009, a week after the repayment of the debentures principal (series A) of Japan Auto Holdings at each repayment date and subject to actual repayment. The cumulative interest payments on shareholders' loans shall be made a week after the repayment of interest to the debenture holders (series A) of Japan Auto Holdings after each repayment date.
4. The management fees to which Japan Auto Holdings is entitled to pay to its shareholders, shall increase in amount not exceeding € 0.89 million per year as determined in the prospectus published by Japan Auto Holdings in February 2006 to an amount not exceeding € 1.42 million per year effective January 1, 2008.
5. Japan Auto Holdings shall be entitled to distribute dividends to its shareholders in respect of each calendar year, effective 2007, from an amount that exceeds net earnings, after taxes, of € 7.08 million per year or alternatively, repay the shareholders' loan balances from these amounts, by early repayment, in whole or in part, prior to the repayment dates, as detailed the in above section 3. If and as far as Japan Auto Holdings shall raise additional capital by issuing shares to the public (except for the issuance of debentures) Japan Auto Holdings shall be entitled to do so from the net earnings, after taxes, in an amount exceeding € 6.19 million.
6. The release of the deposit made with the trustee for debentures (series A) of Japan Auto Holdings such that the amount shall be returned to Japan Auto Holdings. The above amount was returned to Japan Auto Holdings out of which Japan Auto Holdings transferred € 0.88 million on account of related parties' long term loans pursuant to the chapter dealing with the

designation of consideration as contained in Japan Auto Holdings' prospectus dated February 2006.

2.9

On January 9, 2008, Mr. Amnon Barzilay ("Barzilay"), a controlling shareholder in the Company, entered by himself and companies under his control into an agreement with Mr. Shimon Harel ("Harel") and company owned by him, Harel, S. Harmon Holdings and Properties Ltd. ("Harmon") whose principles are as follows:

a) A private company owned by Barzilay (50.5% of its share capital is owned by Barzilay and 49.5% by Harel) ("the private company") will act to acquire about 47.72% of the issued share capital of the Company (before dilution) according to a right assigned to Barzilay in an agreement between him and Mr. Eyal Yona. The acquisition will be carried out by an offer tender according to a prospectus published by Gmul and the Company on August 1, 2007.

b) To finance the acquisition, the private company will take loans from a financial entity and from Harmon and. Barzilay will extend to it a complementary loan.

c) The parties agreed that they will use their voting power in the private company and through it in the Company so that after the exercise of the right to acquire Company shares according to a prospectus, the Company's Board shall appoint eight directors: two outside directors, four directors to be recommended by Barzilay and additional two directors to be recommended by Harmon. Also, the parties have committed to use their voting power so that Barzilay continues to act as the Company's chairman, Harel be appointed as a deputy and vice chairman and Mr. Itsik Cohen, the present CEO continues his office for additional four years.

On January 30, 2008, Barzilay delivered a "response notice" according to which a private company under his control acquires from Gmul 3,841,470 of the Company's ordinary shares, representing about 47.72% of total issued and outstanding share capital of the Company and all as per an offer tender according to a prospectus published by Gmul and the Company on August 1, 2007 ("the prospectus") in consideration of € 15,035,779. The date to complete the acquisition as required according to the prospectus is January 31, 2008.

Barzilay also informed the Company that for the purpose of the acquisition, the aforesaid private company took a loan from Mizrahi Tefahot Bank Ltd. ("the Bank"), that as part of the terms of the loan the private company has undertaken financial covenants and any failure to meet them entitle the Bank a cause to demand immediate repayment and that among the financial covenants are also the following:

1) If, in any given time, the Company shareholders' equity, as defined in the financial covenants, is below the amount of € 26.5 million linked to the Israeli CPI of December 2007.

2) If, in any given time, the Company does not maintain cash balance of at least € 3.53 million.

3) If until the issuance of Japan Auto Holdings, the total net financial debt (meaning balance of financial credit and debentures less cash) in Japan Auto Holdings is more than € 35.34 million.

4) If the Company's holdings in Japan Auto Holdings falls below 50% and if after the issuance of Japan Auto Holdings the Company's holdings in the control core in Japan Auto Holdings falls below 50%.

5) If the Bank does not accept the outline of the expected issuance of Japan Auto Holdings, including the value of Japan Auto Holdings for the purpose of issuance.

6) If the holdings of Japan Auto Holdings in Japan Auto Israel Automobile Company Ltd. falls below 100%.

2.10

On January 13, 2008, Japan Auto board of directors resolved to enter into an agreement with Mirage Real Estate Ltd. (Mirage Real Estate), a company controlled by Mirage, to acquire a plot of land owned by Mirage Real Estate, which is located in the northern industrial region of Lod. For the purpose of the acquisition, Japan Auto Holdings shall consider financing the acquisition from independent sources or alternatively by obtaining finance whether from financial institution or IPO, the proceeds of which shall be available to Japan Auto, not falling below 50% of the cost of the project no later than June 30, 2008. Entering into the acquisition agreement by Japan Auto shall take effect after a resolution is received regarding the issue of finance.

Japan Auto Motors intends to relocate to this area its logistic center and offices in Herzelia. The transfer of activity shall be done in line with Japan Auto Holdings intention to vacate its premises (by subsidiaries) in Herzelia Pituach to another site that has the capacity to meet Japan Auto Holdings growth in recent years and Japan Auto Holdings needs in the future, by establishing a modern facility that will upgrade the vehicle delivery process to the customer. In addition, it will promote the vacating of existing premises, its development and maximizing their economical benefit.

The area of the plot of land in Lod amounts to 25 dunams, on which Japan auto Holdings by Japan Auto, intends to build, among others, 30,000 sq.m. for its activities.

According to the municipal building scheme applied on that plot of land (LD/230/2) it is permissible to build 150% principal building area and 230% service area. The authorized plan for building is 95% of the area of the plot of land and the maximum number of floors is 11 stories above ground and/or parking floors up to a maximum height of 60 meters above ground.

Japan Auto Holdings intends to realize in the future, by Japan Auto, the surplus building rights over those that are required for the building activity, as described above.

For the rights of Mirage Real estate in the plot of land, Japan Auto shall pay $ 8.75 million at a representative rate as of the payment date (€ 5.9 million as of the date the board's resolution) plus VAT upon the signing of a formal agreement.

Whereas according to the planning status it is possible to establish a gas station and whereas the Lod municipality supports the establishment of the gas station, Japan Auto shall act to promote the establishment of the gas station in the plot of land if a due diligence will show that this is the best use of the real estate.

The consummation of the transaction is subject to signing a formal agreement, which will include full presentations as to the compatibility of the municipal building scheme and the designated use and that there are no outstanding debts regarding appreciation levies and other presentations as acceptable in these agreements.

The agreement is subject to the following prerequisites:

a. Obtaining an opinion from an appraiser, who is agreed upon by the parties to the transaction supporting the consideration amount, as abovementioned.

b. Obtaining an approval from the trustee for the debentures (series A) of Japan Auto Holdings and/or the meeting of the debenture holders (series A) of Japan Auto Holdings, as required.

c. Obtaining an approval from the Company board of directors.

2.11

On January 13, 2008, the Board of Japan Auto Holdings, as per the approval of the general meeting of holders of debentures (series A) of Japan Auto Holdings, decided to pay additional monthly management fees of approximately € 56.5 thousand to the controlling shareholders in Japan Auto Holdings, Mirage and the company (a total of approximately € 0.67 million a year) regarding the expansion in the scope of services provided by them to the Group effective January 1, 2008. Until the date of this report, the mentioned agreements have not been signed.

2.12

On February 18, 2008 and March 6, 2008, Japan Auto received a claim from the Herzliya Municipality for payment of approximately € 0.85 million in respect of different levies (laying water pipe, sewage, sewerage and road paving). Japan Auto addressed Herzliya Municipality with a request to receive a 60-day extension for the payment so as to receive from the Herzliya Municipality the entire details pertaining to such payment demands.

Until the date of the approval of the financial statements, Japan Auto has not been furnished with such details. We are speaking of amounts that if ultimately Japan Auto will be liable to they may have no effect on the operating results as they are charged to cost of land. No provision was recorded in the financial statements in respect of the aforesaid.

2.13

On March 3, 2008, a subsidiary of the Company, Metis Austria Immobilien und Beteiligungsgesellschaft mbH ("**Metis Austria**") signed an agreement ("**the agreement**") for the acquisition of a hotel in Vienna ("**the hotel**").

Description of the hotel:

The hotel is a 4-star hotel, in advance building stages and is expected to be opened in September 2008. The hotel has 8 stories above a lobby and underground parking and it shall comprise about 67 rooms. The hotel is built on a plot with area of 347 sqm with about 2,700 sqm built area located in Landstrasse. Metis Austria intends to sign an agreement with a company specializing in operating hotels for the rental of the hotel.

Delivery of the hotel after building is completed will be at the latest on June 30, 2008 ("**the first delivery date**"). Delivery of the hotel when it is ready for operation will be at the latest on August 31, 2008 ("**the second delivery date**").

The principles of the transaction:

According to the agreement, Metis Austria will acquire the hotel when it is ready for operation, including furniture and equipment, with cost of € 7.5 million (plus VAT), as follows: € 4.9 million, not in cash, by acquiring the seller's debts to Erste Bank der Oesterreichischen Sparkassen AG ("**the credit provider**"), € 1.85 million for the plot and € 750,000 for the furniture and equipment. Metis Austria will also pay € 375 thousand to a third party for brokerage and consulting services on the acquisition and for assisting in obtaining the bank financing for the transaction ("**the brokerage services**") and additional approximately € 365 thousand for land and registration taxes.

The acquisition of all of the seller's debts to the credit provider amounting € 4.9 million and the payment of € 365 thousand for land registration taxes is within five business days from the end of the month of the first delivery date. Additional € 600 thousand is payable to the seller after the rights are registered in favor of Metis Austria with the Land Registry. Additional € 1.85 million is payable the seller after the second delivery date. Additional € 150 thousand is held in a trust account as the seller's guarantee in favor of Metis Austria over three years from the second delivery date. The seller is entitled to receive such amount against the provision of a counter bank guarantee. The payment for the brokerage services shall be made after the second delivery date.

Simultaneously, Metis Austria contacted the credit provider to extend financing for the acquisition of the hotel with up to € 6.8 million for a period of 12 years. In the first two years, Metis Austria pays the interest only. The outstanding principal is repayable in 40 unequal installments. The first four installments amount to € 50,000, additional eight installments - € 75,000, additional 27 installments - € 100,000 and the last payment - € 3.3 million. The loan bears interest at the Euribor rate for three months + 1.4% per annum.

For the purpose of receiving the credit, a mortgage on the hotel, a charge on Metis Austria shares, a charge on Metis Austria bank accounts and a charge on Metis Austria notes were placed in favor of the credit provider. Repayment of shareholders' loans and the respective interest thereon, dividends and other payments are subordinated to the bank financing.

The financial covenants of the loan are a maximal ratio of 75% between the loan and the hotel value and ratio of over 1.1 between the EBITDA and DSCR.

The suspending conditions to receive the financing are: an independent valuation of the hotel, fulfillment of all permits and licenses and approval of an expert as to completion of the building the hotel.

The Company will provide a guarantee to secure the financing in favor of Metis Austria. Also, the Company will provide Metis Austria with loan of € 1.7 million to finance the shareholders' equity necessary for the acquisition of the hotel. The credit provider will provide against such amount a bank guarantee of € 2.6 million in favor of the seller. The acquisition transaction was closed after a due diligence procedure that the Company conducted by consultants.

2.14

The Company is holding negotiations as to the acquisition of a hotel in central Europe through Metis Real Estate, as detailed below:

A hotel in Vienna with cost of approximately € 7 million (excluding taxes and other costs). Metis Real Estate will also pay to a third party a commission for brokerage services in the amount of 1.5% of cost of acquisition.

The Company estimates that closing the transaction for the acquisition of the hotel, including a due diligence procedure and finalizing the negotiation (as far as agreement as to the conditions is reached) will be by the end of 2008.

Description of the hotel:

The hotel is a 4-star hotel, built in 1970 and renovated in 2005. The hotel comprises 77 rooms, underground parking, lobby, dinning hall and conference hall.

2.15

On March 19, 2008 the company announced that it is currently conducting negotiations for the sale of its holdings in Metis Capital Rent a Car Ltd, a subsidiary which is in the full ownership of Metis Capital and which is also the owner of concession to the brand "Europcar" in Israel and is engaged in the area of car rental and leasing.

The matter has yet to be mentioned at the Company's board of directors and the Company has not reached a decision to engage in any transaction. Should the company engage in a transaction, it will be following the signature stage of a detailed, binding agreement, subject to the Company's board of directors' approval and subject to suspended conditions including obligations and undertakings from its activities according to the law.

2.16

On March 4, 2008, the Company received from Israel Lands Administration a demand for payment of approximately € 247 thousands in respect permit fees of the asset.

The demand is in accordance with a valuation of a real estate appraiser and is based on 2 plans: municipal building scheme Petach Tiqua/2000 from 1992 and municipal building scheme Petach Tiqua 1241/90 from 2006.

The demand is under a legal and appraising review and with the representatives of the Israel Lands Administration including the charge in itself and to the party it applies since in respect of the construction done in the asset under municipal building scheme Petach Tiqua /2000, permit fees, among others, were paid to Israel Lands Administration and since under the sale agreement to Isralum it was determined that it will pay the permit fees to the Israel Lands Administration for exercising the rights according to the new municipal building scheme Petach Tiqua 1241/90. In view of the above, and the opinion of the legal advisors, the Company provided in its financial statements an amount reflecting the exposure for the above demand.

3. General Results Review

3.1 Statement of Income

Total revenues of the consolidated company in the fiscal year 2007 amounted to € 104.3 million, compared to € 76.9 million in the fiscal year 2006.

Of the total revenues, € 97.5 million were derived from the sales of cars and spare parts, compared to € 75.7 million in the fiscal year 2006, € 1 million were derived from rental income compared to the same amount in the fiscal year 2006, € 0.2 million were derived from business consulting services compared to the same amount in the fiscal year 2006 and € 5.7 million were derived from car rental and vehicle operating leasing services.

The total cost of revenues of the consolidated company in the fiscal year 2007 amounted to € 87.3 million, compared to € 67.3 million in the fiscal year 2006.

Of the total cost of revenues, € 81.9 million were derived from the cost of cars and spare parts, compared to € 66.9 million in the fiscal year 2006, € 0.4 million were derived from property maintenance costs, compared to the same amount in the fiscal year 2006 and € 5 million were derived from the cost of car rental and vehicle operating leasing services.

The gross profit of the consolidated company in the fiscal year 2007 amounted to € 17.1 million – 16.4%, compared to € 9.6 million – 9.2% in the fiscal year 2006. The increase of the gross margin percent was mainly as a result of a growth of vehicle sales and the favouring exchange rates.

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

The selling and marketing expenses of the consolidated company in the fiscal year 2007 amounted to € 3.4 million, compared to € 2.2 million in the fiscal year 2006.

The general and administrative expenses of the consolidated company in the fiscal year 2007 amounted to € 6 million, compared to € 4.7 million in the fiscal year 2006.

The other incomes of the consolidated company in the fiscal year 2007 amounted to € 0.1 million, compared to € 2 million in the fiscal year 2006 (derived 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 2007 amounted to € 7.6 million – 7.8%, compared to operating profit of € 4.6 million - 6% in the fiscal year 2006.

The financing income of the consolidated company in the fiscal year 2007 amounted to € 2 million, compared to € 1.9 million in the fiscal year 2006.

The financing expenses of the consolidated company in the fiscal year 2007 amounted to € 8.4 million, compared to € 4.1 million in the fiscal year 2006.

The profit before income taxes of the consolidated company in the fiscal year 2007 amounted to € 1.3 million, compared to a profit before income taxes of € 2.4 million in the fiscal year 2006.

The tax expenses of the consolidated company in the fiscal year 2007 amounted to € 1.6 million, compared to € 0.8 million in the fiscal year 2006.

The net loss of the consolidated company in the fiscal year 2007 amounted to € 0.3 million, compared to net profit of € 1.6 million in the fiscal year 2006. The net loss per share of the consolidated company in the fiscal year 2007 amounted to € 0.04, compared to net profit per share of € 0.20 in the fiscal year 2006.

3.2 Balance Sheet

Financial Ratios:

Finance Ratio	December 31, 2007	December 31, 2006
Current Ratio	1.62	1.71
Quick Ratio	1.22	1.23

The current assets of the consolidated Company as of December 31, 2007 amounted to € 62.3 million, compared to € 42.5 million by the end of 2006.

The growth derives mainly from an increase in cash and cash equivalent of the consolidated Company as of December 31, 2007, amounted to € 17.7 million, compared to € 9.9 million by the end of 2006, an increase in short term investments (mainly due to depositing part of the immediate proceeds from the issuance of debentures in marketable securities) of the consolidated Company as of December 31, 2007, amounted to € 10.5 million, compared to € 1 million by the end of 2006, an increase in the trade receivables of the consolidated Company as of December 31, 2007 amounted to € 7.9 million, compared to € 6.1 million by the end of 2006, an increase in the current maturities of loans to jointly controlled entity of the consolidated Company as of December 31, 2007 amounted to € 2.8 million, compared to € 0 million by the end of 2006 and an increase in the inventories of the consolidated Company as of December 31, 2007 amounted to € 15.5 million, compared to € 11.8 million by the end of 2006.

The said growth is offset mainly by a reduction in the Loan to Mirage of the consolidated Company that as of December 31, 2007, amounted to € 3.6 million, compared to € 9.6 million by the end of 2006 and by a reduction in the restricted deposit of the consolidated Company that as of December 31, 2007 amounted to € 1 million, compared to € 2.0 million by the end of 2006.

The non current assets of the consolidated Company as of December 31, 2007 amounted to € 60.8 million, compared to € 38.8 million by the end of 2006.

The growth derives mainly from an increase in motor vehicles for leasing and operating lease of the consolidated Company as of December 31, 2007, amounted to € 22.6 million that as of December 31, 2006 were non existent and an increase in investment property (mainly due to the acquisition of the hotel in Romania) of the consolidated Company as of December 31, 2007, amounted to € 4.3 million, compared to € 1.5 million by the end of 2006.

The said growth is offset mainly by a reduction in the Loan to jointly controlled entity of the consolidated Company that as of December 31, 2007, amounted to € 2 million, compared to € 4.5 million by the end of 2006 and in the reduction in the intangible assets of the consolidated Company that as of December 31, 2007 amounted to € 21.1 million, compared to € 22.6 million by the end of 2006.

The current liabilities of the consolidated Company as of December 31, 2007, amounted to € 38.4 million, compared to € 24.8 million by the end of 2006.

This increase derives mainly from an increase in credit from banks and others of the consolidated Company as of December 31, 2007, amounted to € 7.7 million, compared to € 4.6 million by the end of 2006, an increase in trade payables of the consolidated Company as of December 31, 2007, amounted to € 19.9 million, compared to € 12.5 million by the end of 2006 and from increase in current maturities of loans to jointly controlled entities from Mirage of the consolidated Company as of December 31, 2007 amounted to € 2.5 million, compared to € 0 million by the end of 2006.

The non-current liabilities of the consolidated Company as of December 31, 2007, amounted to € 54.4 million, compared to € 25.2 million by the end of 2006.

This increase derives mainly from the increase in loans from banks and others of the consolidated Company as of December 31, 2007, amounted to € 7.9 million that as of December 31, 2006 were non existent and from an increase in debentures (due to the prospectus) of the consolidated Company as of December 31, 2007, amounted to € 35.9 million, compared to € 12.8 million by the end of 2006.

The said growth is offset mainly by a reduction in the Loans to jointly controlled entities from Mirage of the consolidated Company that as of December 31, 2007, amounted to € 2.3 million, compared to € 4.4 million by the end of 2006.

3.3 Liquidity

The liquid assets (cash, cash equivalent short term investments and restricted deposit) of the consolidated Company as of December 31, 2007 amounted to € 29.1 million, compared to € 12.9 million by the end of 2006. This increase derives mainly from the increase in cash and cash equivalent and in short term investments as mentioned above.

3.4 Cash Flow

The net cash provided by operating activities of the consolidated Company in the fiscal year of 2007 amounted to € 2.1 million, compared to €11.1 million in the in the fiscal year 2006.

The net cash used in investing activities of the consolidated Company in the fiscal year 2007 amounted to € 28.2 million, compared to net cash provided by investing activities € 5.4 million in the fiscal year 2006. The cash flow from investing activities was affected mainly by acquisitions of vehicles for leasing and operating lease, acquisitions of plant, equipment and investment property, purchase of marketable securities, net, loan to Mirage and proceeds from loans to jointly controlled entities and Mirage.

The net cash provided by financing activities of the consolidated Company in the fiscal year 2007 amounted to € 34.2 million, compared to net cash used in financing activities amounted to € 9.3 million in the fiscal year 2006. The cash flow from financing activities was affected mainly by issuance of debentures and by receipt of long-term loans from bank and others.

3.5 Financing Sources

The total equity of the Company as of December 31, 2007 amounted to € 30.3 million, bringing its proportion in the balance sheet total as of the same date to 24.6%, compared to € 31.2 million and 38.4%, respectively, by the end of 2006.

The total credit extended to the consolidated Company (from banking and other corporations in the short and long term, from jointly controlled entities and from debentures) as of December 31, 2007, amounted to € 51.9 million, compared to € 17.4 million by the end of 2006.

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 2007 amounted to € 27 thousand.

Amnon Barzilai	Itsik Cohen	Yaakov Dovrat	Date
Chairman of the Board	Chief Executive Officer	Chief Financial Officer	April 3, 2008

METIS CAPITAL LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007

EUROS IN THOUSANDS

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INDEPENDENT AUDITORS' REPORT

To the shareholders of

METIS CAPITAL LTD.

We have audited the accompanying financial statements of Metis Capital Ltd. and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement 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 in 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 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Tel-Aviv, Israel
April 3, 2008

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

CONSOLIDATED BALANCE SHEETS

	Note	December 31, 2007	December 31, 2006
		Euros in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	17,660	9,899
Short-term investments	4a	10,491	1,026
Restricted deposit		961	1,998
Loan to Mirage	8	3,593	9,554
Current maturities of loans to jointly controlled entity		2,827	-
Trade receivables	5	7,858	6,146
Prepaid expenses		1,579	327
Advances to suppliers		228	2
Other receivables	6	1,647	1,728
Inventories	7	15,450	11,777
		62,294	42,457
NON-CURRENT ASSETS:			
Long-term investments	4b	365	344
Prepaid lease expenses	10	1,519	1,572
Motor vehicles for rental and operating lease	12	22,563	-
Investment property	13	4,345	1,462
Property, plant and equipment	14	8,538	7,794
Intangible assets	15	21,071	22,647
Loan to jointly controlled entity	9	2,000	4,478
Deferred tax assets	26	392	505
		60,793	38,802
Total assets		123,087	81,259

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

CONSOLIDATED BALANCE SHEETS

	Note	December 31, 2007	December 31, 2006
		Euros in thousands	
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Current maturities of loans to jointly controlled entities from Mirage	20	2,474	-
Loans from jointly controlled entities	16	433	-
Credit from banks and others	17	7,734	4,582
Trade payables	18	19,852	12,483
Taxes payable		1,487	2,166
Customer advances and deferred revenues		883	607
Other payables	19	5,514	4,998
		38,377	24,836
NON-CURRENT LIABILITIES:			
Customer deposits		663	-
Deferred revenues		33	-
Loans from banks and others	22	7,874	-
Debentures	23	35,894	12,772
Provision for repairs and warranty	21	777	594
Loans to jointly controlled entities from Mirage	20	2,278	4,409
Employee benefit liability	25	509	601
Deferred tax liabilities	26	6,366	6,818
		54,394	25,194
EQUITY:	28		
Share capital		2,406	2,406
Capital reserves		34,762	34,762
Foreign currency translation adjustments		(1,171)	(555)
Accumulated deficit		(5,681)	(5,384)
Total equity		30,316	31,229
Total liabilities and equity		123,087	81,259

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

April 3, 2008			
Date of approval of the financial statements	Amnon Barzilay Chairman of the Board	Itsik Cohen Chief Executive Officer	Yaakov Dovrat Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

	Note	Year ended December 31, 2007	2006
		Euros in thousands (except per share data)	
Revenues:			
Sales and services	29a	97,536	75,668
Rental income from investment property		954	1,011
Consulting services		186	189
Car rental		4,255	-
Vehicle operating leasing services		1,417	-
		104,348	76,868
Cost of revenues:			
Cost of sales and services	29b(1)	81,915	66,898
Cost of maintenance of investment property		442	405
Cost of car rental	29b(2)	3,457	-
Cost of vehicle operating leasing services	29b(3)	1,460	-
		87,274	67,303
Gross profit		17,074	9,565
Selling and marketing expenses	29c	3,372	2,175
General and administrative expenses	29d	6,019	4,727
Other income	29e	77	2,057
Other expenses	29e	(112)	(148)
		9,426	4,993
Operating profit		7,648	4,572
Financial income	29f	2,008	1,902
Financial expenses	29g	(8,352)	(4,064)
Profit before income taxes		1,304	2,410
Income taxes	26	1,601	777
Net profit (loss)		(297)	1,633
Basic and diluted net earnings (loss) per share (in Euros)	30	(0.04)	0.2

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Capital reserves	Foreign currency translation adjustments	Accumulated deficit	Total	Total recognized income and expense
	Euros in thousands					
Balance as of January 1, 2006	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	
Foreign currency translation adjustments	-	-	(616)	-	(616)	(616)
Net loss	-	-	-	(297)	(297)	(297)
						(913)
Balance as of December 31, 2007	2,406	34,762	(1,171)	(5,681)	30,316	

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2007	2006
	Euros in thousands	
Cash flows from operating activities:		
Net profit (loss)	(297)	1,633
Adjustment to reconcile profit to net cash flows for:		
Depreciation and amortization	3,767	1,671
Loss (gain) on disposal of property, plant and equipment	51	(19)
Decrease in value of investment properties	-	148
Capital gain on disposal of Motor vehicles for rental and operating lease	(77)	-
Gain on disposal of investment property	-	(846)
Change in employee benefits liability	(107)	(23)
Loss (gain) on available for sale financial instruments	(36)	4
Deferred taxes	(230)	(621)
Loss on arbitration with Mirage	1,219	-
Exchange rate differences on long-term liabilities to banks and others	11	(54)
Exchange rate differences on loans to jointly controlled entities and Mirage	(180)	(1,072)
Exchange rate differences on debentures	1,290	230
Gain on expiration of bond options	(3)	-
Gain on early redemption of bond options	(168)	-
Exchange rate differences on deposit in trust and long-term investments	-	(5)
Lease expenses	27	27
Adjustments from current accounts with foreign operations	(154)	-
Increase in trade receivables	(1,968)	(750)
increase in other receivables	(1,457)	(610)
Decrease (increase) in inventories	(7,562)	8,990
Increase in trade payables	6,789	999
Increase in other payables	986	1,357
Increase in provision for repairs and warranty	200	91
Net cash provided by operating activities	2,101	11,150

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2007	**2006**
	Euros in thousands	
Cash flows from investing activities:		
Placement of deposit in trust	(1,844)	(1,001)
Proceeds from deposit in trust	2,461	-
Placement of restricted deposit in banks	(616)	(1,892)
Proceeds of restricted deposit in banks	1,646	408
Placement of deposit in banks	(93)	-
Purchase of plant and equipment and investment property	(4,715)	(634)
Proceeds from sale of property, plant and equipment	307	299
Proceeds from sale of investment property	-	5,582
Purchase of motor vehicles for rental and operating lease	(21,239)	-
Proceeds from sale of motor vehicles for rental and operating lease	1,165	-
Grant of loan to Mirage	(3,478)	-
Proceeds from loans given to jointly controlled entities and Mirage	8,519	2,446
Purchase of available for sale financial instruments	8,524	-
Proceeds from available for sale financial instruments	(18,852)	143
Net cash provided by (used in) investing activities	(28,215)	5,351
Cash flows from financing activities:		
Issue of debentures (net of issuance expenses)	19,150	12,414
Sale of Company's debentures by subsidiary	3,360	-
Short-term credit from banks	(4,472)	(13,539)
Receipt of long-term loans from banks and others	20,905	-
Repayment of long-term loans from banks and others	(5,355)	(1,941)
Receipt of loans from jointly controlled entity	1,136	-
Repayment of loans from jointly controlled entity	(679)	(2,139)
Repayment of other long-term loans	-	(4,097)
Issue of bond options	322	-
Purchase of Company's bond options by the Company and subsidiary	(142)	-
Net cash provided by (used in) financing activities	34,225	(9,302)
Effect of exchange rate on cash and cash equivalents	(350)	(50)
Increase in cash and cash equivalents	7,761	7,149
Cash and cash equivalents at beginning of year	9,899	2,750
Cash and cash equivalents at end of year	17,660	9,899

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2007	**2006**
	Euros in thousands	
(a) Significant non-cash activity:		
Inventories classified to motor vehicles for rental and operating lease	3,725	-
Purchase of motor vehicles for rental and operating lease by credit	4,599	-
	8,324	-
(b) Additional cash flow information:		
Cash paid during the year for:		
Interest	1,697	(377)
Income taxes	2,456	(1,449)
Cash received during the year for:		
Interest	1,777	482
Income taxes	22	59

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, 2007, were approved for publication according to the resolution of the Board dated March 30, 2008.

Metis Capital 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. Definitions:

In these financial statements:

The Company	-	Metis Capital Ltd.
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 that establishes joint control, and whose accounts are consolidated with those of the Company using the proportionate consolidation.
The Group	-	Metis Capital Ltd., its subsidiaries and jointly controlled entities.
Metis car rental group	-	Consists of the activity of Metis Car and Metis Leasing.
Metis real estate group	-	Consists of the activity of Metis Real Estate and Finit.
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

a. Basis of presentation of the financial statements:

The Company's financial statements are prepared on a historical cost basis, except investment property, financial derivatives and available for sale financial assets which are measured at fair value.

The preparation of the financial statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Consolidation of the financial statements:

The consolidated financial statements include the accounts of companies over which the Company has control (subsidiaries). 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 consolidation of the financial statements commences from the date on which the control begins until the date the control ceases.

Significant inter-company balances and transactions and gains or losses arising from transactions carried out among the Group companies have been fully eliminated in the consolidated financial statements.

The consolidated financial statements include the accounts of a joint venture where by the shareholders have a contractual arrangement that establishes joint control and which is consolidated in the Company's accounts using the proportionate consolidation. The Company 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.

Significant inter-company balances and transactions and gains or losses arising from transactions between the Group and the jointly controlled entity are eliminated upon consolidation in accordance with the interest in the joint venture.

The financial statements of the Company and 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.

Consistent accounting policies:

The accounting policies applied in the financial statements are consistent with those applied in the previous period, except for the initial adoption of the following IFRS in these financial statements, which included new disclosure and presentation requirements:

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

IFRS 7, "Financial Instruments: Disclosures":

This Standard expands the disclosure requirements of financial instruments by referring to the nature and extent of the financial instruments and financial risks and their possible impact on the financial position and operating results. The disclosure encompasses all the financial instruments in the financial statements and includes providing qualitative and quantitative information of the nature and extent of the risks, their exposure and the Company's respective policy. The initial adoption of the Standard is expressed by broader disclosures as above in these financial statements with respect to comparative data as well.

IAS 1 (Revised), "Presentation of Financial Statements":

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital. These new disclosures are shown in these financial statements.

IFRIC 8 Scope of IFRS 2:

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share scheme, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 9 "Reassessment of Embedded Derivatives":

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 10 "Interim Financial Reporting and Impairment":

The Group adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements:

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Judgments:

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements:

- Operating lease:

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

Also, the Group rents vehicles by operating lease. The Group has determined that it retains the risks and rewards of ownership of these properties and so accounts for them as operating leases.

Estimates and assumptions:

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the adoption of the accounting policy and the reported amounts of assets, liabilities, income and expenses. The basis of the estimates and assumptions is reviewed regularly. The changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the balance sheet concerning uncertainty at the balance sheet date and critical estimates computed by the Group and a significant change in the assumptions and estimates may change the carrying amounts of assets and liabilities within the next financial year are discussed below.

- Impairment of intangible assets:

  The Group evaluates an impairment of a franchise whenever events or changes in circumstances indicate that the carrying amount of the franchise is impaired. The test includes also by assessing the recoverable amount of the cash-generating unit to which the franchise relates. The test requires management to make an estimate of the expected future cash flows from the continuous use of the cash-generating unit and also to estimate the suitable discount rate for these cash flows.

- Deferred tax assets:

  Deferred tax assets are recognized for unutilized carryforward tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the timing and level of future taxable profits together with tax planning strategies. Further details are given in Note 26f.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- Pensions and other post-employment benefits:

  The liability in respect of defined post-employment benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in Note 25.

- 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 needed to settle the obligation (if any). Such assumptions are subject to significant uncertainty. 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 recognized as liabilities, when needed.

b. Functional currency and foreign currency:

1. Functional currency:

   The NIS is the currency of the primary economic environment of the Company, and its functional currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

   Financial statements in Euros - the presentation currency:

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. 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 exchange rate of the Euro in relation to the New Israeli Shekel ("NIS") at December 31, 2007 was €1 = NIS 5.659 (2006 - NIS 5.564). In 2007, the NIS was revalued in relation to the Euro by 1.7% (2006 - devalued by 2.2%).

c. Translation of financial statements of foreign operations:

The functional currency is separately determined for each investee and is used to measure the investee's financial position and operating results. When the investee's functional currency differs from that of the Company, the investee represents a foreign operation whose financial statements are translated in order to be included in the Company's financial statements as follows:

a) Assets and liabilities in all balance sheets presented (including comparative data) are translated at the closing rate as of each balance sheet presented. Goodwill and all adjustments of the assets and liabilities' fair value to their carrying amount on the date of acquisition of the foreign operation are treated as the foreign operation's assets and liabilities and are translated at the closing rate at each balance sheet date.

b) Income and expenses for all periods presented in the statements of income (including comparative data) are translated at the average exchange rates for each of the periods presented; however, if there have been significant changes in foreign exchange rates, income and expenses are translated at the exchange rate prevailing on the dates of the actual transactions.

c) Share capital, capital reserves and other changes in capital are translated at the exchange rate prevailing as of the date of incurrence.

d) Retained earnings are translated based on the opening balance at the exchange rate as of that date and other relevant transactions during the period are translated as described in b) and c) above.

e) All exchange differences arising on the translation are taken to a separate component of equity, in capital reserve "foreign currency translation adjustments of foreign operations".

Inter-company loans in the Group which are not intended to be settled and which are not expected to be repaid in the foreseeable future and, therefore, essentially represent part of the investment in the foreign operation, are treated as a portion of the investment and the exchange differences arising on these loans are taken to the same component of equity, as discussed in e) above.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Cash equivalents:

The Company considers all highly liquid investments, including unrestricted short-term bank deposits purchased with original maturities of three months or less, to be cash equivalents.

e. Short-term deposits:

Short-term bank deposits are deposits purchased with original maturities of more than three months that are presented according to their different terms.

f. Allowance for doubtful accounts:

The allowance for doubtful accounts is principally determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful. Likewise, the Company records a provision for groups of customers that are collectively estimated for impairment based on the characteristics of their credit risks. Impaired customer debs are written off only after all reasonable collection efforts have been exhausted.

g. Inventories:

Inventories are valued at the lower of cost and net realizable value. Cost of inventories includes costs for buying the inventories and bringing it to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Costs is determined as follows:

Materials, parts and fuel - using the weighted average cost.

New and used cars - using the identified cost method.

The Company periodically evaluates the condition and age of inventories and provides for slow moving inventories accordingly.

h. Financial instruments:

Financial assets under the scope of IAS 39 are initially recognized at fair value with the addition of directly attributable transaction costs, other than investments presented at fair value with the changes in fair value carried to the statement of income.

After initial recognition, the accounting treatment of investments in financial assets is based on their classification into one of the following groups:

- Financial assets measured at fair value through profit or loss.
- Held-to-maturity investments.
- Loans and receivables.
- Available-for-sale financial assets.

The classification of the financial assets is re-evaluated at each financial year ended where allowed and appropriate.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

1. 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. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired, as well as through the systematic amortization process.

2. Available-for-sale financial assets:

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value. Unrealized gains or losses from fair value adjustments are recognized directly in equity in the net unrealized gains reserve, excluding exchange differences on debt instruments that are carried to statement of income as financing. When the investment is disposed of or in case of impairment, the cumulative gain or loss previously recorded in equity is recognized in the statement of income. Interest earned or paid on the investments is reported in statement of income using the effective interest method. Dividends earned on investments are recognized in the statement of income when the right of payment has been established.

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. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

4. Interest-bearing loans and borrowings:

Loans and borrowings are initially recognized at the fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method which also takes into account directly attributable transaction costs. Gains and losses are recognized in the statement of income when the loan is disposed of as well as through the systematic amortization process.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

5. Derecognition of financial instruments:

Financial assets:

A financial asset is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Company 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 Company has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities:

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

6. Derivative financial instruments:

The Group sometimes enters into transactions in derivative financial instruments such as forward currency contracts associated with foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to profit or loss.

The fair value of forward currency contracts is calculated by reference to current exchange rates for contracts with similar maturity profiles.

i. Impairment of financial assets:

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

Assets carried at amortized cost:

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 (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 the statement of income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Assets available for sale:

If there is objective evidence that an impairment loss incurred, the loss amount is measured as the difference between the cost (net of principal payment and amortization) and fair value, net of impairment loss previously included in the statements of income. This loss is carried from shareholders' equity to the statements of income. Reversal of loss from impairment is not carried to the statements of income. Reversal of impairment loss for debt instruments is carried to the statements of income, if the increase in the fair value of the instrument can objectively be attributed to the event that occurred after the loss was carried to the statements of income.

j Leases:

The tests for classifying leases as finance or operating leases are performed at the date of engagement according to the provisions of IAS 17.

The Group as a lessor:

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred are added to the carrying amount of the leased asset and recognized over the lease term.

The Group leases investment property by an operating lease and rents vehicles by an operating lease.

The Group as lessee:

Lease of land from the Israel Lands Administration whether a part of investment property or property, plant and equipment is treated as operating lease when the amount attributed to land under capitalized lease is presented in the balance sheet as prepaid lease expenses and recognized as an expense in the statement of income using the straight-line method over the lease term, including the option, of 57 years.

k. Motor vehicles for rental:

Motor vehicles for rental during the pre-operating period are stated at cost net of accumulated depreciation and impairment loss. Motor vehicles for rental are depreciated over the term of the lease which takes into account the scrap value embedded in the transaction (on straight-line basis-15%).

l. Deferred revenues:

Deferred rental income relating to operating lease transactions is recognized in the statement of income over the term of the lease.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Customer deposits:

Deposits received from customers to secure the Metis car rental group rights to the motor vehicles leased under operating lease are recognized in the statement of income as revenues over the period of the operating lease for which the respective deposits have been made or upon their forfeiture.

n. Investment property:

An investment property is property (land or a building or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, and not for use in manufacture or supply of goods or services or for administrative purposes or sale in the ordinary course of business.

Investment properties are measured 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 on a straight-line basis is 1%-4%.

o. Property, plant and equipment:

Property, plant and equipment are stated at cost with the addition of direct acquisition costs, less accumulated depreciation, less accumulated impairment losses and excluding day-to-day servicing expenses. Cost includes spare parts and auxiliary equipment that can be used only in connection with the machinery and equipment.

Depreciation is calculated on a straight-line basis over the useful life of the assets.

The depreciate rate of property, plant and equipment components are as follows:

	%	Mainly %
Buildings	2 - 4	2
Machinery and equipment	6 - 10	10
Motor vehicles	15	15
Office furniture and equipment	6 - 33	33
Installation and leasehold improvements	Over the term of the lease including renewal option	

Components of property, plant and equipment items with significant cost compared to the item's total cost are separately depreciated using the component method. Depreciation is calculated using the straight-line method at annual rates that are adequate for the depreciation of the assets over the term of their expected useful lives.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Leasehold improvements are depreciated using the straight-line method over the lease period (including the option period) or based on the expected life of the assets, whichever is shorter.

The residual value and useful life of an asset are tested at least once at year end and the changes are accounted for as a prospective change in accounting estimate. As for testing the impairment of property, plant and equipment, see p below.

The depreciation of the assets is discontinued at the sooner of the date on which the asset is classified as held for sale and the date on which the asset is derecognized. An asset is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognized.

Property, plant and equipment are derecognized upon sale or when no economic benefits are expected from the use of the asset. Any gain or loss arising on derecognition of the asset is included in the statement of income.

Borrowing costs:

Borrowing costs are recognized as an expense when incurred.

p. Intangible assets:

Intangible assets generated upon the acquisition of a jointly controlled entity are included at fair value as of 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, which, according to management, has a finite life. The asset is amortized over the useful economic life and assessed for impairment whenever there is an indication that the franchise may be impaired. The amortization period and the amortization method for the franchise are 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 statement of income.

The useful life of the franchise is determined to be 20 years.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Impairment of non financial assets:

The Company evaluates the need to record an impairment of the carrying amount of investment properties, property, plant and equipment, motor vehicles for rental and intangible assets whenever events or changes in circumstances indicate that the carrying amount of the asset is not recoverable. Where the carrying amount of these assets exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted using a pre-tax discount rate that reflects specific risks to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset relates. Impairment losses are carried to the statement of income.

r. Income taxes:

Income taxes in the statement of income include current and deferred taxes. The tax results in respect of current or deferred taxes are carried to the statement of income other than if they relate to items that are directly carried to equity. In such cases, the tax effect is also carried to the relevant item in equity.

1. Current income taxes:

Current income tax liability is measured at the tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date as well as adjustments required in connection with the tax liability payable in respect of prior years.

2. Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the amounts included in the financial statements and the amounts allowable for tax purposes, other than a limited number of exceptions.

Deferred tax balances are measured using the enacted tax rates expected to be in effect when these taxes are carried to the statement of income or to equity, based on the applicable tax laws that are enacted or substantively enacted by the balance sheet date. The amount for deferred taxes in the statement of income represents the changes in said balances during the reported year.

Taxes that would apply in the event of sale of investments in investees have not been taken into account in computing the deferred taxes, as long as the sale of the investments in investees is not expected in the foreseeable future. Similarly, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing the deferred taxes, since the distribution of dividends does not involve an additional tax liability.

Deferred taxes attributed to items carried directly to equity are also carried to equity.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Deferred tax assets and deferred tax liabilities are presented as non-current assets and long-term liabilities, respectively. Deferred taxes are offset if there is a legal enforceable right that allows offsetting a current tax asset against a current tax liability and the deferred taxes refer to the same taxpayer and the same tax authority.

s. Liabilities in respect of employee benefits:

The Group has several post-employment benefit plans. The plans are usually financed by deposits in insurance companies and are classified as defined contribution plans and defined benefit plans.

1. Short-term employee benefits:

Short-term employee benefits include salaries, vacation pay, sick leave, recreation and deposits in respect of national insurance rights and are presented as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to pay this amount for a past service rendered by an employee and the amount can be reliably measured.

2. Post-retirement benefits:

The Group has defined contribution plans pursuant to Section 14 to the Severance Pay Law according to which the Group makes current payments without incurring a legal or constructive obligation to pay additional amounts, even if adequate amounts did not accrue in the funds in order to settle all the employee benefits referring to services rendered by the employees in the current period and in prior periods. Deposits in the defined contribution plan are recorded as an expense upon the deposit simultaneously with receiving the employee's work services and no additional provision is required in the books.

The Group also operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. Severance pay is computed at the employee's last monthly salary upon termination of employment multiplied by the number of years of employment.

The Company makes current deposits in respect of its severance pay liabilities to certain of its employees in pension funds and insurance companies ("the plan's assets").

The cost of severance pay is determined using the projected unit credit method. Actuarial gains and losses are immediately carried to the statement of income as incurred.

The liability for severance pay recorded in the balance sheet represents the present value of the defined benefit obligation less the fair value of the plan's assets. Assets arising from this calculation are limited to previous cost of providing services with the addition of the present value of available funds and amortization of future amounts to be contributed to the plan.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Further, the Group makes current deposits in designated deposits (central severance pay fund) which are used for severance payments upon dismissal

The amounts accrued in the deposits are under the control of the Company and may be withdrawn only after compliance with the obligations under the Severance Pay Law or labor agreements applicable to employees.

These deposits are not considered as the plan's assets and, accordingly, they are presented separately from the liabilities in respect of employee benefits.

t. Revenue recognition:

Revenues are recognized in the statement of income when they can be measured reliably, the economic benefits associated with the transaction are expected to flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues are measured at the fair value of the consideration in the transaction less commercial rebates, volume discounts and returns.

The following specific recognition criteria must also be met before revenue is recognized:

Revenues from sale of goods:

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, and the seller does not maintain continuing managerial involvement. Generally, the delivery date is the date when the ownership has passed.

Revenues from "bill and hold" sales are recognized prior to delivery provided that:

1. It is probable that delivery will be made;
2. The item is on hand, identified and ready for delivery to the buyer at the time the sale is recognized;
3. The buyer specifically acknowledges, preferably in writing, the deferred delivery instructions;
4. The delivery instructions as stated in 3 above specify a fixed delivery date that is reasonable and consistent with the buyer's business objectives; and
5. The usual payment terms apply.

Revenues from rendering of services:

Revenue from the rendering of services is recognized by reference to the stage of completion as of balance sheet date. Stage of completion is measured according to the reporting periods during which the services were rendered. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Rental income:

Rental income is accounted for on a straight-line basis over the lease terms. Rental income where there is a rise in rental fees over the term of the contract, is recognized using the straight-line method only when the collection of future rent differences is certain.

Revenues from car rental and vehicle operating lease:

Revenues from car rental and vehicle operating lease, including rendering other services (such as maintenance, insurance, licensing, etc.) are recognized over the term of the lease contract.

Interest income:

Interest income is recognized on a cumulative basis using the effective interest rate method.

u. Earnings (loss) per share:

Earnings per share are computed according to the number of Ordinary shares. Basic earnings per share only include shares that were actually outstanding during the period and potential Ordinary shares (convertible securities such as convertible debentures, warrants and employee options) are only included in the computation of diluted earnings per share if their effect dilutes earnings per share by reducing earnings per share upon conversion or by increasing loss per share from continuing operations. Furthermore, convertible securities that have been converted during the period are included in diluted earnings per share only until the conversion date and starting from that date included in basic earnings per share. The investor's share of earnings of an investee is included based on the earnings per share of the investee multiplied by the number of shares held by the investor.

v. Provision for repairs during the warranty period:

The provision for repairs during the warranty period is computed based on an estimate of Company's management and past experience.

w. Share-based payment to employees:

On January 1, 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 the adoption of IFRS 2, IFRS 2 had no effect on the financial statements of the Company.

x. Disclosure of the effects of new IFRS in the period prior to their adoption:

1. 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.

Furthermore, disclosure is required regarding revenues deriving from the entity's products or services (or from a group of products and similar services), the countries in which these revenues are derived or the assets or principal customers are located, regardless of whether management uses this information for making operating decisions.

The Company believes that the effect of the new Standard on its current presentation of segments is not expected to be material.

2. IAS 23 (Revised) - Borrowing Costs:

In accordance with IAS 23 (Revised) ("the Standard"), borrowing costs that relate directly to the acquisition and establishment or manufacture of a qualifying asset must be capitalized. A qualifying asset is an asset that requires a significant period of time for its preparation for its intended use or sale and includes property, plant and equipment, investment property and inventories whose preparation for sale requires a lengthy period of time. The possibility of immediately carrying these costs as an expense has been cancelled.

The revised Standard will become effective for the financial statements for the year commencing on January 1, 2009. Early adoption is permissible.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company estimates that the revised Standard is not expected to have a material impact on its financial condition, results of operations and cash flows.

3. IAS 1 (Revised) - Presentation of Financial Statements:

IAS 1 (Revised) requires entities to present a separate statement of comprehensive income disclosing, other than the net income as stated in the statement of income, all the items carried in the reported period directly to equity that do not derive from transactions with the shareholders in their capacity as shareholders (other comprehensive income) such as foreign currency translation adjustments of foreign operations, reclassification of fair value to available-for-sale financial assets, adjustments to revaluation reserve of property, plant and equipment and such and the tax effect of these items carried directly to equity, while properly allocated between the Company and the minority interests. Alternatively, the items of other comprehensive income may be disclosed along with the items of the statement of income in one single statement entitled statement of comprehensive income, replacing the statement of income with proper allocation between the Company and the minority interests. Only the items carried to equity deriving from transactions with the shareholders in their capacity as shareholders (such as capital issuances, dividend distribution etc.) will be disclosed in the statement of changes in equity as will the summary line carried forward from the statement of comprehensive income, while properly allocated between the Company and the minority interests.

IAS 1 (Revised) also prescribes that in cases of change of comparative figures as a result of the retrospective application of a change in accounting policy, restatement or reclassification the entity must include an opening balance sheet disclosing the restated comparative figures.

IAS 1 (Revised) is effective for annual financial statements for periods commencing on January 1, 2009 with early adoption permitted.

The effect of the adoption of IAS 1 (Revised) will require the Company to present the above disclosure in the financial statements.

4. IFRS 3 (Revised) - Business Combinations and IAS 27 (Revised) - Consolidated and Separate Financial Statements:

IFRS 3 (Revised) and IAS 27 (Revised) ("the Standards") will be applied in annual financial statements for periods commencing on January 1, 2010. The combined early adoption of the two Standards is permitted from the financial statements for periods commencing on January 1, 2008.

The principal changes expected to take place following the adoption of the Standards are:

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- IFRS 3 currently prescribes that goodwill, as opposed to the acquiree's other identifiable assets and liabilities, will be measured as the excess of the cost of the acquisition over the acquirer's share in the fair value of the identifiable assets, net on the date of acquisition. According to the Standards, goodwill can be measured at its full fair value and not only based on the acquired part, this in respect of each business combination transaction measured separately.

- A contingent consideration in a business combination will be measured at fair value and changes in the fair value of the contingent liability, which do not represent adjustments to the acquisition cost in the measurement period, will not be simultaneously recognized as goodwill adjustment. Normally, the contingent consideration will be considered a financial derivative under the scope of IAS 39 and will be presented at fair value with the changes carried to statement of income.

- Direct acquisition costs attributed to a business combination transaction will be recognized in statement of income as incurred as opposed to the previous requirement of carrying them as part of the consideration of the cost of the business combination, which has been cancelled.

- A minority transaction, whether a sale or an acquisition, will be accounted for as an equity transaction and will therefore not be recognized in profit or loss or have any effect on the amount of goodwill, respectively.

- A subsidiary's losses, although resulting in the subsidiary's deficiency, will be allocated between the parent company and minority interests, even if the minority has not guaranteed or has no contractual obligation of sustaining the subsidiary or carrying out another investment.

- In the event of loss of control over the subsidiary, the remaining holding, if any, will be revalued to fair value against profit and loss from the sale and this fair value will represent the cost basis for the purpose of subsequent treatment.

The Company estimates that the Standards are not expected to have a material effect on its financial position, operating results and cash flows.

5. IFRS 2 (Revised) - Share-based Payment:

Pursuant to the revised IFRS 2 ("the Standard"), the definition of vesting terms will only include service terms and performance terms and the settlement of a grant that consists of other than vesting terms, whether by the Company or by the counterparty, will be accounted for by way of vesting acceleration and not by forfeiture. The Standard will be applied retrospectively in financial statements for periods commencing on January 1, 2009. Early adoption is possible.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Vesting terms include service terms that obligate the counterparty to complete a defined service period and performance terms that require meeting defined performance targets. Conditions that are not service or performance terms will be viewed as other than vesting terms and must therefore be taken into consideration in estimating the fair value of the granted instrument.

The Company estimates that the revised Standard is not expected to have a material effect on its financial position, operating results and cash flows.

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 Interpretation will be adopted retrospectively by way of restatement, pursuant to the provisions of IFRS 2. Companies that adopt IFRS for the first time will act according to the provisions of IFRS 1.

The Company estimates that the new Interpretation is not expected to have a material effect on its financial position, operating results and cash flows.

7. IFRIC 12 - Service Concession Arrangements:

IFRIC 12 ("the Interpretation") discusses service concession arrangements and will be retrospectively applied in the financial statements for periods commencing on January 1, 2008 and thereafter. The Interpretation can be adopted early.

Service concession arrangements are services where the local government or another public sector ("the provider") enters into contracts for the supply of public services such as roads, airports, prisons and energy and water supply systems with a private operator. The control of the assets is retained by the public sector. The private operator is in charge of construction, operation and maintenance of the public infrastructure.

The Interpretation prescribes the accounting treatment of the private concession operator's books regarding the liabilities undertaken by it and due to the benefits received in the context of the concession services. According to the Interpretation, infrastructure that is in the scope of the Interpretation will not be recognized as property, plant and equipment in the operator's books since the terms of the arrangement do not confer the operator the right to control the infrastructure usage terms. Also according to the Interpretation, the proceeds received or receivable from the construction or renovation services will be recognized by the operator at fair value.

The Company estimates that the effect of the new Interpretation on its financial position, operating results and cash flows is not expected to be material.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

8. IFRIC 13 - Customer Loyalty Programmes:

IFRIC 13 ("the Interpretation") applies to annual financial statements for periods commencing on July 1, 2008 or thereafter and is to be adopted by way of retroactively restating comparative data. Early adoption is permitted. The Interpretation applies to customer loyalty award credits (such as club points, credit points, vouchers) which the company grants as part of the sale transaction in order to promote future purchases by the same customers. Subject to meeting certain conditions, the customer is able to redeem the award in the future and receive a certain product or service for free or for a discount.

The Interpretation prescribes that customer credit awards granted will be accounted for as a separate component of the sale transaction in respect of which they were granted. The fair value of the sale consideration will be allocated between the award granted and the remaining sale components (such as the main product or service). The amount attributed to the award will be based on its fair value, which is the amount that would have been received from the separate sale of the award.

If the company grants the award, the amount attributed to the award will be deferred until its redemption. The amount recognized as income from the awards granted is determined based on the redeemed award rate in the period in relation to total awards that are expected to be redeemed. If a third party has granted the award, the selling company must determine if it has acted as the main supplier in the transaction and must therefore recognize the income from the award on a gross basis, or if it has acted as an agent or broker for the third party and must therefore recognize the income from the award on a net basis (the consideration for the award net of the cost of providing the award).

The Company believes that the adoption of the new Interpretation is not expected to have a material effect on its financial position, operating results and cash flows.

NOTE 3:- CASH AND CASH EQUIVALENTS

	December 31,	
	2007	**2006**
	Euros in thousands	
In Euros	4,483	-
In U.S. dollars	591	1
In Israeli currency	12,539	9,890
In other currency (1)	47	8
	17,660	9,899

(1) Mainly in Yen.

As for linkage terms and interest of cash and cash equivalents, see Note 24e.

NOTE 4a:- SHORT-TERM INVESTMENTS

	December 31, 2007	December 31, 2006
	Euros in thousands	
Bank deposits	94	-
Deposit in trust (1)	339	1,025
Available-for-sale financial instruments (2)	10,058	1
	10,491	1,026

(1) The carrying amounts as of December 31, 2007 and 2006 approximate their fair values.
(2) Corporate and government bonds.

NOTE 4b:- LONG-TERM INVESTMENTS

	December 31, 2007	December 31, 2006
	Euros in thousands	
Central severance pay fund	365	344

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

NOTE 5:- TRADE RECEIVABLES

	December 31, 2007	December 31, 2006
	Euros in thousands	
Open accounts (1) (2)	4,048	1,536
Checks receivable (1) (2)	3,892	4,663
	7,940	6,199
(1) Less allowance for doubtful accounts	82	53
(2) Trade receivables, net	7,858	6,146

As for linkage terms of trade receivables, see Note 24e.

Trade receivables are non-interest bearing and are generally on 60-90 days' terms.

Trade receivables impaired are provided for in an allowance for doubtful accounts.

NOTE 5:- TRADE RECEIVABLES (Cont.)

The movement in the allowance for doubtful accounts is as follows:

	Specific provision	General provision	Total
	Euros in thousands		
Balance at January 1, 2006	96	13	109
Charge for the year	1	2	3
Reverse of doubtful accounts	(14)	-	(14)
Unused bad debts reversed	(43)	-	(43)
Currency translation differences	(2)	-	(2)
Balance at December 31, 2006	38	15	53
Charge for the year	26	5	31
Currency translation difference	(1)	(1)	(2)
Balance at December 31, 2007	63	19	82

An analysis of past due but not impaired trade receivables (trade receivables net) with reference to balance sheet date:

	Neither past due nor impaired	Past due but not impaired < 30 days	30 – 60 days	60 – 90 days	90 – 120 days	>120 days	Total
	Euros in thousands						
December 31, 2007	7,490	180	96	64	26	2	7,858
December 31, 2006	5,997	89	27	21	12	-	6,146

NOTE 6:- OTHER RECEIVABLES

	December 31, 2007	December 31, 2006
	Euros in thousands	
Related party (2)	160	-
Derivative financial instruments	188	248
Government authorities	441	68
Current account with EL3000 (1)	497	971
Accrued income	150	114
Due from supplier for participation in advertising	173	303
Employees	7	-
Other receivables	31	24
	1,647	1,728

(1) See Note 27d(4).
(2) See Note 31a and 31d(1).
As for linkage terms of other receivables, see Note 24e.

NOTE 7:- INVENTORIES

	December 31, 2007	December 31, 2006
	Euros in thousands	
Fuel	47	-
Vehicles (1)	13,855	10,600
Spare parts (2)	1,548	1,177
	15,450	11,777
(1) The balance includes inventories in transit and in bonded warehouses	4,479	5,080

(2) The cost of inventories of spare parts is presented less write-down of slow-moving inventories of € 539 thousand as of December 31, 2007 (December 31, 2006 - € 496 thousand) which was recognized as an expense in cost of sales in the statement of income.

NOTE 8:- LOAN TO MIRAGE

	December 31, 2007	December 31, 2006
	Euros in thousands	
Linked loans (1) (2)	3,593	9,554

(1) A loan to Mirage was granted under the acquisition agreement in respect of the jointly controlled entities. The loan is dollar-linked and bears annual interest at the rate of 7%, until February 22, 2006 and from that date until repayment, on February 15, 2007, the loan is linked to the Israeli CPI and bears annual interest at the rate of about 9.43%. As for the dispute between the Company and Mirage and its settlement in the reported year, see Note 27b(10).

(2) On June 28, 2007, the Company entered into an agreement with Mirage in order to extend a loan to the latter ("the agreement").

According to the agreement, on July 1, 2007, the Company extended a loan of € 3.53 million to Mirage for a period of up to 12 months (June 30, 2008). Mirage will repay the loan with the addition of linkage to the Israeli CPI according to the index published on June 15, 2007, interest at an annual rate of 15% linked to the Israeli CPI and VAT as required by law. The payment of linkage differences, interest and VAT will commence on October 1, 2007 for the first three months and thereafter will continue on a monthly basis. The loan principal shall be repaid no later than June 30, 2008.

Mirage is entitled to make an early repayment of the loan before the end of the loan period provided that it provides the Company an advance written notice of at least 30 days and provided that by the end of the date of the advance notice, Mirage will have actually repaid the Company the loan principal in full with the addition of linkage differences, interest and VAT.

NOTE 8:- LOAN TO MIRAGE (Cont.)

The Company will be entitled to demand the early repayment of the loan from Mirage before the end of the loan period provided that it grants Mirage an advance written notice of at least 60 days.

The loan is secured by a first priority charge (including assignment of rights by a pledge) on 30% of Mirage shares in Japan Auto Holdings, namely a charge on shares representing 15% of Japan Auto Holdings' entire issued share capital in favor of the Company. The charge was registered with the Registrar of Companies on July 1, 2007

NOTE 9:- LOAN TO JOINTLY CONTROLLED ENTITY

	December 31,	
	2007	**2006**
	Euros in thousands	
Israeli CPI-linked loan (1)	4,827	4,478
Less - current maturities	2,827	-
	2,000	4,478

(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 public issuance of debentures, in accordance with the designation of the proceeds as provided in the prospectus for the debenture issuance by Japan Auto Holdings 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 are linked to the CPI and bear annual interest at the rate of 6.5% (effective : 6.7%).

The loans will be subordinate to the debentures issued by Japan Auto Holdings to the public in February 2006, see Note 23b(3)(c).

NOTE 10:- PREPAID LEASE EXPENSES

a. Composition:

	December 31,	
	2007	2006
	Euros in thousands	
Prepaid lease expenses	1,546	1,599
Less - current maturities	27	27
	1,519	1,572

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. 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.

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. The Company owns 50% of Japan Auto Holdings.

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 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"):

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

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 16.66% of the Garage and 33.33% of Tarshit. Mirage 2000 has no other activities.

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

   Mirage Investments is wholly owned by Japan Auto Holdings. It holds half of the share capital of Japan Auto Automobile, 16.66% of the Garage and 33.33% of Tarshit. Mirage Investments 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 outgoing services for connecting customers with car rental agencies overseas. Metis Car Rental commenced its business operations in early 2007.

10. Metis Capital Leasing General Registered Partnership ("Metis Leasing"):

    Metis Leasing was established on December 13, 2006 and operates in the business segment of vehicle operating leasing services. Metis Leasing commenced its business operations in early 2007.

11. Metis Capital Real Estate ("Metis Real Estate"):

    Metis Real Estate was established on March 27, 2007 and operates in the business segment of yielding properties. Metis Real Estate commenced its business operations in early April 2007.

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

b. Distribution of EL3000 shares to shareholders:

1. On June 24, 2004, the Company effected a distribution of 7,315,783 Ordinary shares of EL3000 of NIS 5 par value each, representing about 84% of the issued and outstanding share capital of EL3000 to the Company's shareholders ("in-kind distribution"). From the time of distribution until effecting the complementary distribution, as detailed below, the Company held about 16% of the issued and outstanding share capital of EL3000.

   In all, the distribution of EL3000 shares to the Company's shareholders involves two tax events in two levels, the first in the Company's level and the other in the shareholders' level, as follows:

   In the Company's level - the distribution of EL3000 shares to the Company's shareholder is similar to selling an asset. This event is liable to capital gains tax if a "gain" arose on that sale and subject to the provisions of the Income Tax Ordinance (New Version), 1961 ("the Ordinance") in this issue. Based on the average value for EL3000 shares in the first three trading days (that are to reflect the value for EL3000 shares upon distribution), no capital gain arose to the Company. In addition, the distribution of EL3000 shares to the shareholders constitutes a violation of the condition in section 104A to the Ordinance. The Company estimates that as a result of the violation of section 104A to the Ordinance, no additional tax liability arises to the Company and this under the assumption that the average value for EL3000 shares in the first three trading days also reflects the value of the activity transferred to EL3000 when the transfer was performed.

   In the shareholders' level - and according to the Company's approach, we are speaking of a tax event in the capital level. The Company relies on a circular published by the Income Tax Commission (circular 10/2001) which determines a material aspect as classification of a distribution to shareholders that does not satisfy the profit criteria and receives the court's approval as a capital reduction in the shareholders' level, meaning a tax event in the capital level.

   The Company addressed the Income Tax Commission ("the Commission") with a request to approve that the distribution of shares be accounted for as a capital tax event in the shareholders' level, as described above. The Commission resolved not to decide in the issue of classification of EL3000 shares, as above, at this stage, but it did decide in the issue of tax withholding. According to a settlement reached with the Commission on May 24, 2007, the Commission ratified that the Company shall not be liable for withholding tax on the distribution to the shareholders, excluding a) distribution to shareholders from the Israeli public that are not controlling shareholders as this term is defined in section 3(I) to the Ordinance (in this paragraph, "the controlling shareholders"). According to this determination, the Company withheld tax at the rate of 15% of the average value for EL3000 shares in the first three trading days in the total of € 13,935 within 7 days from the date of distribution; b) distribution to shareholders from the public, other than Israeli residents and controlling shareholders, who hold shares that are listed on the stock exchange in Germany and for whom the withholding tax is limited to a rate of not more than 15% of the average value for EL3000 shares in the first three trading days and this only if in a final assessment that can not be jeopardize it is determined that it is about a capital tax event.

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

In all related to tax withholding in respect of the distribution to shareholders from the public who are not controlling shareholders, the Company decided to bear itself the tax expense. For shareholders from the public who are non-Israeli residents the Company will pay the tax only if a non-appealable final assessment, as above, is issued. The Company estimates that the maximal tax exposure it may be liable for as a result of change in the classification of the distribution in a non-appealable final assessment will not be more than € 715 thousand. The Company believes that the probability of changing the classification of the distribution in a final assessment is unlikely.

2. On October 5, 2004, the Company effected a complementary in-kind distribution of additional 16% of the issued and outstanding share capital of EL3000 ("the complementary distribution"). After the complementary distribution, the Company no longer holds EL3000 shares.

   On September 23, 2004, the Company received a clarification from the Commission, whereby the provisions of the settlement reached with the Commission on May 27, 2004 apply also to the complementary distribution. According to this determination, the Company withheld tax at the rate of 15% of the average value for EL3000 shares in the first three trading days in the total of € 3,681 within 7 days from the date of distribution that the maximal tax exposure it may be liable for as a result of change in the classification of the distribution in a non-appealable final assessment will not be more than € 69 thousand. The Company believes that the probability of changing the classification of the distribution in a final assessment is unlikely.

c. 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 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 transaction.

   The Japan Auto Group owns a franchise granted to it by the manufacturer of Subaru vehicles (Fuji Company from Japan), 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 agreement as subsequently extended (together, "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 was paid by the parties as follows:

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

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 27b(10).

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).

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 impairment of € 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, see Note 23b(3)(c).

d. 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").

   On December 13, 2006, Metis Car (99%) and Metis Trade In (1%) established a general registered partnership, Metis Capital Leasing General Registered Partnership ("Metis Leasing")

   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.

e. On March 27, 2007, the Company established Metis Capital Real Estate ("Metis Real Estate") which operates in the business segment of investment property.

   On March 29, 2007, after the Board gave its approval, the Company entered into an agreement ("the agreement") for acquiring the full control over a company that was incorporated in Romania and is the owner of the rights to acquire a hotel in Bucharest, Romania ("the hotel").

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

According to the agreement, the Company acquired, through its wholly controlled subsidiary, Metis Capital Real Estate Ltd. ("Metis Real Estate") all of the share capital of Finit Investment & Development S.R.L. ("Finit"), a company without activity as of the date of acquisition, as above, which as from May 17, 2007 ("the closing date") owns full rights in Cerna Hotel.

In consideration for the shares and the hotel, the Company committed to pay € 2.6 million in cash plus the par value of Finit shares which equals to 200 Ron (approximately € 66). In addition, the Company committed to pay € 400 thousand to a third party for brokerage services, consulting upon acquisition and assisting in obtaining bank financing for the acquisition ("the consulting company"), according to the stages detailed below:

On April 11, 2007, as consideration for concluding the registration of Finit shares in Metis Real Estate name, Metis Real Estate paid € 300 thousand to the consulting company. On April 12, 2007 as consideration for the transfer of the ownership of the hotel to Finit, Metis Real Estate paid € 1 million to the seller.

On May 15, 2007, the remaining consideration (an amount of € 1.6 million) was paid to the seller and the full rights in the hotel were assigned to Metis Real Estate upon conclusion of the transaction.

The acquisition of the hotel was financed by the Company by shareholders' loan to Metis Real Estate. As of December 31, 2007, Finit borrowed € 2,067 thousand from a bank in Romania which was designated to replace part of the Company's financing for the acquisition and the renovation of the hotel.

The loan bears interest at the rate of the Euribor plus 2.5% per year and is repayable in 132 equal monthly instalments from July 6, 2008 through June 6, 2019. The interest is paid on a current basis at the end of each month.

Transaction costs relating to this loan total approximately € 119 thousand and the effective interest rate on this loan is Euribor+4.08%.

As of the date of the approval of the financial statements, Finit borrowed approximately € 2,399 thousand.

The Company undertook to pay the remaining consideration (an amount of € 100 thousand) to the consulting company after 90 days from signing the agreement, contingent on the receipt of bank financing for the acquisition. The Company has extended said undertaking until December 31, 2007. This payment was made on January 24, 2008, after the financing was received.

On April 30, 2007, Finit signed an agreement with a foreign company specializing in operating hotels ("the lessee") for the rental of a hotel for a one-year period starting May 1, 2007 through April 30, 2008 in return for monthly rental fees of € 20 thousand. The lessee has the option of extending the lease term by one more year through May 31, 2009, subject to Finit's approval, in return for monthly rental fees of € 35 thousand. Finit may cancel the agreement by providing an advance notice of 30 days to the lessee.

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

On August 1, 2007, addendum No. 1 to the agreement was signed pursuant to which the monthly rental fees are increased to € 25,000 starting September 1, 2007. On December 5, 2007, addendum No. 2 to the agreement was signed pursuant to which the monthly rental fees are increased to € 45,000 starting January 1, 2008 and the lease period is changed to 6 years. It was also determined that the monthly rental fees starting January 1, 2010 are to be determined after negotiation but shall not be less than minimum rental fees of € 45,000 per month. On January 24, 2008, addendum No. 3 to the agreement was signed pursuant to which the monthly rental fees for the first three months of 2008 are lowered to € 5,000 due to the renovation of the hotel in that period. Starting April 1, 2007, the monthly rental fees were restored to € 45,000.

On February 4, 2008, Finit's name was changed to Metis Cerna Property S.R.L.

f. The share of the assets, liabilities, income and expenses of the jointly controlled entity at 31 December 2007 and 2006 and for the years then ended, which are included in the consolidated financial statements, are as follows:

	December 31,	
	2007	**2006**
	Euros in thousands	
Current assets	33,624	21,406
Non-current assets	31,052	32,726
Current liabilities	25,082	16,643
Non-current liabilities	20,158	24,850

	Year ended December 31,	
	2007	**2006**
	Euros in thousands	
Income	97,661	75,867
Expenses	95,792	75,685

NOTE 12:- MOTOR VEHICLES FOR RENTAL AND OPERATING LEASE

	Rental	Operating lease	Total
	Euros in thousands		
Cost:			
Balance at January 1, 2007	-	-	-
Additions during the year	15,123	10,713	25,836
Disposals during the year	(677)	(381)	(1,058)
Currency translation differences	(215)	(50)	(265)
Balance at December 31, 2007	14,231	10,282	24,513
Accumulated depreciation:			
Balance at January 1, 2007	-	-	-
Additions during the year	(1,340)	(715)	(2,055)
Disposals during the year	72	20	92
Currency translation differences	9	4	13
Balance at December 31, 2007	(1,259)	(691)	(1,950)
Depreciated cost at December 31, 2007	12,972	9,591	22,563

NOTE 13:- INVESTMENT PROPERTY

a.

	December 31, 2007	December 31, 2006
	Euros in thousands	
Cost:		
As of January 1	2,595	7,890
Additions	2,961	5
Disposals	-	(5,136)
Exchange adjustment	122	-
Currency translation differences	(101)	(164)
As of December 31	5,577	2,595
Accumulated depreciation:		
As of January 1	985	1,542
Additions	100	128
Exchange adjustment	9	-
Disposals	-	(653)
Currency translation differences	(10)	(32)
	1,084	985
Impairment of investment property	148	148
As of December 31	1,232	1,133
Net book value:		
As of December 31	4,345	1,462

b. Fair value of investment property:

December 31, 2007		December 31, 2006	
Euros in thousands			
Fair value	Depreciated cost	Fair value	Depreciated cost
8,077	4,345	3,222	1,462

c. On November 27, 2005, the Herzliya court rendered its sentencing in the lawsuit filed against a lessor that operates t he gas station leased from Japan Auto Automobile. According to the sentence, the operating lessor is instructed to terminate the operation of t he gas station on the ground of operating and 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 statement of 2006 the carry amount to the recoverable amount of the land on which the gas station is located in a total of € 148 thousand.

NOTE 13:- INVESTMENT PROPERTY (Cont.)

d. Investment properties are stated at fair value, which has been determined based on valuations performed by Adi Naor and DTZ, independent outside appraisers with reputable professional expertise and vast experience as to the location and type of the valued property. The fair value was measured with reference to recent real estate transactions with similar characteristics and location to the property owned by the Company and based on the expected future cash flows from the property. The assessment takes into consideration the structured risk of the cash flows. In computing the fair values as for the balance sheet dates, the appraisers used discount rate of from 8% to 10%.

The investment property comprises commercial real estate buildings and a hotel leased to third parties.

e. The fair value includes capitalized leasehold rights to the land from Israel Land Administration as presented in Note 10.

f. On June 21, 2006, the Board approved the Company's entry into a preliminary agreement of principles ("the preliminary agreement") with Isralom Properties Ltd. ("Isralom") according to which the Company will sell to Isralom all its leasehold rights to a property located 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 as aforesaid. The Company received a payment of € 5.6 million with the addition of VAT and recorded a capital gain of approximately € 0.8 million in other income.

On March 4, 2008, the Company received from Israel Lands Administration a demand for payment of € 247 thousand in respect permit fees of the property.

The demand is in accordance with a valuation of a real estate appraiser and is based on 2 plans: municipal building scheme Petach Tikva/2000 from 1992 and municipal building scheme Petach Tikva 1241/90 from 2006.

The demand is under a legal and appraising review and with the representatives of the Israel Lands Administration including the charge in itself and to the party it applies since in respect of the construction done in the asset under municipal building scheme Petach Tikva /2000, permit fees, among others, were paid to Israel Lands Administration and since under the sale agreement to Isralum it was determined that it will pay the permit fees to the Israel Lands Administration for exercising the rights according to the new municipal building scheme Petach Tikva 1241/90. In view of the above, and the opinion of the legal advisors, the Company provided in its financial statements an amount reflecting the exposure for the above demand.

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.

NOTE 13:- INVESTMENT PROPERTY (Cont.)

g. As for charges, see Note 27a.

h. As for investment property acquired, see Note 11e.

NOTE 14:- PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Motor vehicles	Office furniture and equipment	Installations and leasehold improvements	Total
			Euros in thousands			
Cost:						
As of January 1, 2007	8,556	360	990	1,032	534	11,472
Additions during the year	189	101	793	404	267	1,754
Disposals during the year	-	-	(553)	-	-	(553)
Currency translation differences	(145)	(3)	(16)	(20)	(11)	(195)
As of December 31, 2007	8,600	458	1,214	1,416	790	12,478
Accumulated depreciation:						
As of January 1, 2007	1,890	300	234	894	361	3,679
Additions during the year	158	64	165	86	52	525
Disposals during the year	-	-	(199)	-	-	(199)
Currency translation differences	(34)	(5)	(4)	(16)	(6)	(65)
As of December 31, 2007	2,014	359	196	964	407	3,940
Net book value:						
As of December 31, 2007	6,586	99	1,018	452	383	8,538

	Land and buildings	Machinery and equipment	Motor vehicles	Office furniture and equipment	Installations and leasehold improvements	Total
			Euros in thousands			
Cost:						
As of January 1, 2006	8,658	318	961	1,078	528	11,543
Additions during the year	83	49	435	50	18	635
Disposals during the year	-	-	(385)	(72)	-	(457)
Currency translation differences	(185)	(7)	(21)	(24)	(11)	(248)
As of December 31, 2006	8,556	360	990	1,032	535	11,473
Accumulated depreciation:						
As of January 1, 2006	1,796	299	242	885	345	3,567
Additions during the year	132	7	124	49	23	335
Disposals during the year	-	-	(127)	(21)	-	(148)
Currency translation differences	(38)	(6)	(5)	(19)	(7)	(75)
	1,890	300	234	894	361	3,679
Net book value:						
As of December 31, 2006	6,666	60	756	138	174	7,794

NOTE 15:- INTANGIBLE ASSETS, NET

Composition and movement:

	December 31, 2007	December 31, 2006
	Euros in thousands	
Cost:		
As of January 1,	24,371	24,898
Currency translation differences	(409)	(527)
As of December 31,	23,962	24,371
Accumulated amortization:		
As of January 1,	1,724	518
Provision	1,204	1,211
Currency translation differences	(37)	(5)
As of December 31,	2,891	1,724
Net book value:		
As of December 31,	21,071	22,647

NOTE 16:- LOANS FROM JOINTLY CONTROLLED ENTITIES

Composition:

	Weighted interest 31.12.07	December 31, 2007	December 31, 2006
	%	Euros in thousands	
Loan from Japan Auto	Prime + 1	433	-

NOTE 17:- CREDIT FROM BANKS AND OTHERS

a. Composition:

	Weighted interest *) 31.12.07	2007 Total	2007 Unlinked	2007 Linked to Israeli CPI	2007 In Euros	2006 In US$
	%		Euros in thousands			
Short-term credit from banks	Prime + 3	143	143	-	-	4,582
Current maturities of long-term loans		7,591	7,199	314	78	-
		7,734	7,342	314	78	4,582

*) Variable interest as of December 31, 2007.

b. As for charges and guarantees, see Note 27a and 27c.

NOTE 18:- TRADE PAYABLES

	December 31, 2007	December 31, 2006
	Euros in thousands	
Open accounts (1)	17,566	11,389
Checks payable	2,286	1,094
	19,852	12,483

(1) As for linkage terms of trade payables, see Note 24e.

Trade payables are non-interest bearing and are settled on average current + 107 days' terms.

NOTE 19:- OTHER PAYABLES

a. Composition:

	December 31, 2007	December 31, 2006
	Euros in thousands	
Government authorities	163	123
Employees and payroll accruals	868	545
Accrued expenses (2)	2,082	1,445
Provision for warranty (1)	689	560
Derivative financial instruments	1,678	2,238
Other	34	87
	5,514	4,998

(1) See Note 21.

(2) The bulk accrued expenses are settled quarterly through the financial year.

b. As for linkage terms of other payables, see Note 24e.

NOTE 20:- LOANS TO JOINTLY CONTROLLED ENTITIES FROM MIRAGE

	December 31, 2007	December 31, 2006
	Euros in thousands	
Loans (1)	4,223	3,919
Less - current maturities	2,474	-
	1,749	3,919
Loans (2)	529	490
	2,278	4,409

(1) In December 2005, the controlling shareholders agreed that the balance of the principal on the loans which will not be repaid out of the proceeds to be received from the public issuance of debentures, in accordance with the designation of the proceeds as provided in the prospectus for the debenture issuance by Japan Auto Holdings 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 loan is linked to the Israeli CPI and bears annual interest at the rate of 6.5% (effective: 6.7%).

The loans will be subordinate to the debentures issued by Japan Auto Holdings to the public (see Note 23b(3)).

(2) Another loan amounting to approximately € 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 (together 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 is linked to the Israeli CPI and bears annual interest at the rate of 6.5% (effective: 6.7%).

The loan will be subordinate to the debentures issued by Japan Auto Holdings to the public (see Note 23b(3)).

NOTE 21:- PROVISION FOR REPAIRS AND WARRANTY

	2007	2006
	Euros in thousands	
Provision for repairs and warranty	1,466	1,154
Less - provision for repairs and warranty presented in current liabilities (see Note 19)	689	560
	777	594
As of January 1	1,154	986
Arising during the year	912	557
Utilized	(578)	(370)
Currency translation differences	(22)	(19)
As of December 31	1,466	1,154

NOTE 22:- LOANS FROM BANKS AND OTHERS

a. Composition as of December 31, 2007:

	Principal	Nominal interest	Effective interest	Carrying amount	Balance less current maturities
	Euros in thousands	%		Euros in thousands	
Long-term loans from banks:					
Loans from banks in NIS	7,608	Prime + 0.5	Prime + 0.5	7,608	4,772
Loans from banks in Euro	2,067	Euribor + 2.5	Euribor + 4.08	1,948	1,869
Loans from insurance company in NIS	1,423	CPI +6	CPI +6.17	1,423	1,109
	11,098			10,979	7,750
Other long-term liabilities:					
Liabilities from importers in NIS	4,485	Prime + 1	Prime + 1	4,485	124
Liabilities from jointly controlled entities in NIS	433	Prime + 1	Prime + 1	433	-
	4,918			4,918	124
Total	16,016			15,897	7,874

NOTE 22:- LOANS FROM BANKS AND OTHERS (Cont).

b. Maturity dates subsequent to the balance sheet date as of December 31, 2007:

	First year	Second year	Third year	Fourth year	Fifth year	Sixth year and thereafter	Total
	Euros in thousands						
Long-term loans from banks	3,244	2,958	3,254	232	188	1,222	11,098
Long-term loans from importers	4,795	123	-	-	-	-	4,918
	8,039	3,081	3,254	232	188	1,222	16,016
Less - cost of raising loan							119
Total							15,897

c. Financial covenants:

1. As of the date of the approval of the financial statements, the credit facility of the Metis car rental group from the First International Bank of Israel Ltd./Poaley Agudat Israel Bank Ltd. amounts to approximately € 5.3 million.

2. As of the date of the approval of the financial statements, the credit facility of the Metis car rental group from Bank Mizrahi amounts to approximately € 7.07 million.

3. As of the date of the approval of the financial statements, the credit facility of the Metis car rental group from Bank Massad amounts to approximately € 0.88 million.

4. As of the date of the approval of the financial statements, the credit facility of the Metis car rental group from Clal Insurance amounts to approximately € 1.76 million.

5. The Metis car rental group has credit facilities from corporations other than banks in the amount of approximately € 5.3 million (including from Japan Auto Automotive) as loans to acquire new cars. As of the date of the approval of the financial statements, such credit amounts to approximately € 4.59 million.

6. As of the date of the approval of the financial statements, the credit facility of the Japan Auto group from Bank Mizrahi amounts to approximately € 21.2 million.

Restrictions under credit arrangements of the Metis car rental group:

Metis car rental group has undertaken towards the First International Bank of Israel Ltd./Poaley Agudat Israel Bank Ltd. to meet the following financial covenants:

1. Equity will be at least 15% (placed as a shareholders' loan by the Company).

2. Total debt to the bank will not exceed 30% of Metis car rental group's total debt to other banks and others.

3. Negative charge on the assets of Metis car rental group.

NOTE 22:- LOANS FROM BANKS AND OTHERS (Cont.)

4. First priority fixed charge on all the motor vehicles in respect of which the credit facility was obtained.

5. Assignment of right by way of a charge on the rights of Metis car rental group to receive cash according to contracts for car leasing for which the credit facility was obtained.

Metis car rental group has undertaken towards Bank Mizrahi to meet the following financial covenants:

1. Equity will be at least 25% (placed as a shareholders' loan by the Company).

2. The ratio between the market value of the pledged vehicles and total credit will not fall below 166%.

3. First priority fixed charge on all the motor vehicles in respect of which the credit facility was obtained.

4. Assignment of right by way of a charge on the rights of Metis car rental group to receive cash according to contracts for car leasing for which the credit facility was obtained.

Metis car rental group has undertaken towards Bank Massad to meet the following financial covenants:

1. Equity will be at least 15% (placed as a shareholders' loan by the Company).

2. The ratio between total credit and the market value of the pledged vehicles will not exceed 70%.

3. First priority fixed charge on all the motor vehicles in respect of which the credit facility was obtained.

4. Assignment of right by way of a charge on the rights of Metis car rental group to receive cash according to contracts for car leasing for which the credit facility was obtained.

Metis car rental group has undertaken towards Clal Insurance to meet the following financial covenants:

1. Equity will be at least 15% (placed as a shareholders' loan by the Company).

2. First priority fixed charge on all the motor vehicles in respect of which the credit facility was obtained.

3. Assignment of right by way of a charge on the rights of Metis car rental group to receive cash according to contracts for car leasing for which the credit facility was obtained.

4. A deposit in the amount of three monthly payments of the credit facility.

NOTE 22:- LOANS FROM BANKS AND OTHERS (Cont.)

5. First priority fixed charge on a special purpose bank account of Metis car rental group where cash for the contracts for car leasing is being deposited.

Restrictions according to the credit arrangements of Finit:

1. Mortgage on the real estate and the hotel.
2. Charge on Metis Real Estate shares in Finit in favor of the bank.
3. Negative charge of Finit's assets
4. Charge on the existing and future bank accounts of Finit.
5. Assignment of the right to lease agreement.
6. A commitment that the value of collaterals shall not fall below the loan amount.

NOTE 23:- DEBENTURES

a. The Group's debentures:

1. As of December 31, 2007:

	Par value	Principal	Maturity date	Nominal interest	Effective interest	Carrying amount
	Euros in thousands			%		Euros in thousands
Japan Auto debentures	14,136	14,559	1.2.2015	*) 7.05	10.27	13,190
Company debentures	30,551	31,319	1.4.2015	6.5	8.81	29,074
Company debentures held by subsidiary	(6,163)	(6,370)				(6,370)
Total	38,524	39,508				35,894

*) As for a change in the rate of the par value interest, see b(3) below.

2. Composition of the debentures as of December 31, 2007:

	Japan Auto	The Company	Total
	Euros in thousands		
Principal	14,559	25,001	39,560
Discount *)	1,369	12,996	14,365
	13,190	12,005	25,195

*) The amount includes issuance expenses.

NOTE 23:- DEBENTURES (Cont.)

3. The principal is repayable subsequent to balance sheet date as of December 31, 2007:

	Second year	Third year	Fourth year	Fifth year	Sixth year and thereafter	Total
	Euros in thousands					
Japan Auto debentures	2,080	2,080	2,080	2,080	6,239	14,559
Company debentures (1)	-	4,167	4,167	4,167	12,500	25,001
Total	2,080	6,247	6,247	6,247	18,739	39,560

(1) Less debentures held by a subsidiary.

b. Japan Auto debentures:

1. Issuance of debentures:

a) 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 28.8 million Euros on February 21, 2006. The debentures were listed for trade on the TASE and, consequently, the company became a corporation subject to the reporting principles of the Securities Law.

b) Said debentures were issued with a 7.5% discount.

c) Following are details of the net proceeds from the issuance as reflected in the Group's consolidated statements :

	Euros in millions
Total net proceeds	14.3
7.5% discount	(1.1)
Issuance expenses (1)	(0.8)
Net proceeds	12.4

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

NOTE 23:- DEBENTURES (Cont.)

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 also 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.

2. Terms of debentures:

a) 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 payment index will be the base index.

b) The interest paid on debentures will be at the rate of 7.05% per annum. The interest will be paid twice a year, on August 1 and February 1, the final payment being on February 1, 2015.

c) 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).

3. Change in the interest rate on debentures:

On December 30, 2007, the general meeting of Japan Auto's debenture holders (series A) of Japan Auto approved the changes in the trust deed as follows:

a) The interest paid on debentures (series A) of Japan Auto Holdings is 7.05% (instead of 6.3%) for a period from December 1, 2007 and thereafter. A positive differential shall be added to the proposed interest rate that shall not exceed 0.25% between the average of returns on debentures (series A) of Japan Auto Holdings as published at the end of each trading day, over 180 trading days from December 31, 2007, and the interest rate to be paid on debentures (series A) of Japan Auto Holdings (7.05%). Namely, the ultimate interest rate to be paid on debentures (series A) of Japan Auto Holdings shall not fall below 7.05% and shall not exceed 7.3%. This interest increase shall be paid no later than the payment date of debentures (series A) of Japan Auto Holdings that shall occur after the elapse of 180 days, as above.

NOTE 23:- DEBENTURES (Cont.)

b) If and as far as Japan Auto Holdings shall publish prospectus for new securities and part of the issuance proceeds shall serve as repayment of shareholders' loans, as above, Japan Auto Holdings shall not use its repayment right according to section 7.1.1 to the trust deed before 2010 instead of 2008.

c) Despite Japan Auto liability pursuant to section 8.1.14 to the trust deed, it was agreed that 55% of a future issuance of share capital (except for the issuance of debentures) shall be designated for the repayment of shareholders' loans and the balance shall be designated to strengthen the capital base of Japan Auto and/or its subsidiaries. The shareholders' loan principal balance as far as is unpaid from the proceeds of the issuance shall be subordinate and deferred in respect of the debenture holders' debt and shall be repaid (pari passu) in seven annual installments effective 2009, a week after the repayment of the debentures principal (series A) at each repayment date and subject to actual repayment. The cumulative interest payments on shareholders' loans shall be made a week after the repayment of interest to the debenture holders (series A) after each repayment date.

d) The management fees to which Japan Auto Holdings is entitled to pay to its shareholders, shall increase from amount not exceeding € 0.89 million per year as determined in the prospectus published by Japan Auto Holdings in February 2006 to an amount not exceeding € 1.42 million per year effective January 1, 2008. As of the date of the approval of the financial statements, agreements to increase the management fees, as above, have not yet been signed.

e) Japan Auto Holdings shall be entitled to distribute dividends to its shareholders in respect of each calendar year, effective 2007 and onward, from an amount that exceeds net earnings, after taxes, of € 7.08 million per year or alternatively, repay the shareholders' loan balances from these amounts, by early repayment, in whole or in part, prior to the repayment dates, detailed in 3 above. If and as far as Japan Auto Holdings shall raise additional capital by issuing shares to the public (except for the issuance of debentures) Japan Auto Holdings shall be entitled to do so from the net earnings, after taxes, in an amount exceeding € 6.19 million.

f) The release of the deposit made with the trustee for debentures (series A) of Japan Auto Holdings such that the amount shall be refunded to Japan Auto Holdings. The above amount was refunded to Japan Auto Holdings out of which Japan Auto Holdings transferred € 0.88 million on account of shareholders' long-term loans pursuant to the chapter dealing with the designation of consideration as contained in Japan Auto Holdings' prospectus dated February 2006.

4. As for charges, see Note 27a.

NOTE 23:- DEBENTURES (Cont.)

c. Company debentures:

1. Issuance of debentures:

On May 29, 2007, the Company published a prospectus for the public offering of the following securities: € 20,653,924 par value of debentures (series A) for 94% of their par value; 295,000 stock options (series 2) that are exercisable into Company shares in consideration of an exercise increment of an unlinked amount of € 4.2 per stock option and 590,000 bond options (series 3) that are exercisable into € 17.5 par value of debentures (series A) in consideration of an exercise increment of € 16.8, linked to the Israeli CPI, per stock option, all at 295,000 units for a price of € 65.8 per unit by way of tender on the interest rate on the debentures (series A) not below 5% and not exceeding 6.5% as well as the Company's undertaking to offer to purchase all the bond options (series 3) on the first trading day for a price of € 0.52 per stock option.

On June 6, 2007, the Company completed the offering with an overall net cash value of approximately € 19,472 thousand (net of issuance expenses totaling approximately € 675 thousand). The interest rate was set at 6.5%.

On June 12, 2007, under its said undertaking, the Company purchased 169,309 stock options (series 3) for € 0.52 per stock option. The loss from early redemption was reported in the statement of income as financial expenses, net.

Pursuant to IFRS, the immediate gross proceeds from the issuance were recorded in the Company's financial statements as follows: approximately € 19,813 thousand gross on account of debentures (series A) (approximately € 19,150 thousand net of issuance expenses) and approximately € 0 on account of stock options (series 2) and approximately € 322 thousand on account of bond options (series 3).

In August and October 2007, the Company purchased 285,681 bond options (series 3). On October 25, 2007, 285,681 bond options (series 3) were transferred to Metis Real Estate at cost. In October and November 2007, Metis Real Estate acquired additional 263,241 stock options (series 3).

On November 6, 2007, the last date of exercise, out of the 590,000 bond options (series 3) of the Company offered according to the Company's prospectus from May 29, 2007, 548,922 bond options were converted by Metis Real Estate into debentures (series A) of the Company ("the stock options") and 41,078 bond options expired.

The bond options were exercised into debentures (series A) at the ratio of 1 bond option per € 17.4 in debentures (series A) and, accordingly, the Company issued € 9,575,112 in debentures (series A). The exercise price per each bond option was € 17.08 and, accordingly, the proceeds received by the Company amounted to € 9,377,043.

On December 16, 2007, Metis Real Estate sold 14,536,000 debentures of the Company (series A) at a rate of € 0.1659 per debenture. Metis Real Estate received a total amount of € 2,426 thousand net of commissions.

NOTE 23:- DEBENTURES (Cont.)

On December 26, 2007, Metis Real Estate sold 5,000,000 debentures of the Company (series A) at a rate of € 0.1696 per debenture.

On December 27, 2007, Metis Real Estate sold 481,000 debentures of the Company at a rate of € 0.1781 per debenture.

Metis Real Estate received a total amount of € 3,360 thousand from these sales, net of commissions.

Subsequent to the balance sheet date, Metis Real Estate sold debentures (series A), as follows:

On January 17, 2008, Metis Real Estate sold 2,000,000 debentures of the Company (series A) at a rate of € 0.1714 per debenture.

On February 19, 2008, Metis Real Estate sold 5,000,000 debentures of the Company (series A) at a rate of € 0.1701 per debenture.

On February 21, 2008, Metis Real Estate sold 44,022 debentures of the Company (series A) at a rate of € 0.1714 per debenture.

On February 27, 2008, Metis Real Estate sold 740,278 debentures of the Company (series A) at a rate of € 0.1724 per debenture.

On February 28, 2008, Metis Real Estate sold 68,000 debentures of the Company (series A) at a rate of € 0.1728 per debenture.

On March 2, 2008, Metis Real Estate sold 31,000 debentures of the Company (series A) at a rate of € 0.1728 per debenture.

On March 3, 2008, Metis Real Estate sold 149,737 debentures of the Company (series A) at a rate of € 0.1728 per debenture.

On March 5, 2008, Metis Real Estate sold 20,077 debentures of the Company (series A) at a rate of € 0.1731 per debenture.

Metis Real Estate received a total amount of approximately € 1,373 thousand from sales subsequent to the balance sheet date, net of commissions.

2. As for charges, see Note 27a.

d. The fair value of the Group debentures:

1. The fair value for Japan Auto debentures as of December 31, 2007 is € 15,044 thousand (the value includes accrued interest as of December 31, 2007). The fair value as of December 31, 2006 was € 14,223 thousand.

2. The fair value for Company debentures as of December 31, 2007 is € 23,583 thousand (the value includes accrued interest as of December 31, 2007).

NOTE 24:- FINANCIAL INSTRUMENTS

a. Financial risk factors:

The Group's activities expose it to various financial risks such as market risk (foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. 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 Group imports vehicles 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 foreign currency other than the functional currency. The Group has a currency exposure in the balance sheet due to the fact that the vehicle 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.

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 performs ongoing evaluations of the prospects of collecting debts of customers and borrowers, if necessary, it records a provision in the books reflecting the losses anticipated by management. The financial statements include an allowance for doubtful accounts when management believes the chances of collecting some of the debts of customers and borrowers are not good. The maximum credit risk is the carrying amount of the financial assets in the balance sheet.

The Group is exposed to credit loss in respect of loan to a jointly controlled entity and Mirage ("the receivables") as a result of a default in case the receivables fail to meet their obligation to the Group.

3. Interest rate risk:

The Group's interest rate risk mainly arises from long-term loans. Loans bearing variable interest rates expose the Group to interest rate risk in respect of cash flows. At the end of the reported year, about 26.3% of the loans were at a variable interest rate.

4. Liquidity risk:

The Group aims to preserve the existing ratio between long-term financing and the flexibility in using overdrafts, credit from others, credit from suppliers, loans to a jointly controlled entity and from Mirage and debentures. The scope of short-term financing is adjusted to the Group's varying needs. The Company sells, through its subsidiary, debentures of the Company held by the subsidiary, from time to time when funds are needed to finance real estate acquisitions.

NOTE 24:- FINANCIAL INSTRUMENTS (Cont.)

b. Concentration of liquidity risk:

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

As of December 31, 2007:

	Less than 3 months	3 - 12 months	1 to 2 years	2 - 3 years	3 - 4 years	4 - 5 years	> 5 years	Total
	Euros in thousands							
Loans from banks and others	4,347	9,129	3,274	3,528	289	276	1,490	22,333
Trade payables	16,033	3,819	-	-	-	-	-	19,852
Other payables	4,725	789	-	-	-	-	-	5,514
Debentures	477	2,138	4,658	8,543	8,125	7,708	20,589	52,238
Loans to jointly controlled entities from Mirage	-	2,474	726	445	424	403	1,080	5,552
Loans from jointly controlled entities	207	237	-	-	-	-	-	444
	25,789	18,586	8,658	12,516	8,838	8,387	23,159	105,933

As of December 31, 2006:

	Less than 3 months	3 - 12 months	1 to 2 years	2 - 3 years	3 - 4 years	4 - 5 years	> 5 years	Total
	Euros in thousands							
Loans from banks	4,556	-	-	-	-	-	-	4,556
Trade payables	12,464	-	-	-	-	-	-	12,464
Other payables	4,291	524	-	-	-	-	-	4,815
Debentures	454	454	908	2,901	2,771	2,641	9,227	19,356
Loans to jointly controlled entities from Mirage	-	-	-	-	-	-	8,868	8,868
	21,765	978	908	2,901	2,771	2,641	18,095	50,059

The financial derivatives are presented in other payables, net settled and with maturity of less than 3 months.

NOTE 24:- FINANCIAL INSTRUMENTS (Cont.)

c. Fair value of financial instruments:

1. General:

The Group's financial instruments include mainly cash and cash equivalents, trade receivables, other receivables, 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 assets:

Cash and cash equivalents, short-term investments, trade receivables, other receivables and a loan to a jointly controlled entity and a loan to Mirage - the balance sheet balances as of December 31, 2007 approximate their fair value.

b) Financial instruments included in current liabilities:

Short-term credit from banks and others, trade payables, other payables and loans from a jointly controlled entity - the balance sheet balances as of December 31, 2007 approximate their fair value.

c) Financial instruments included in non-current liabilities:

Loans to jointly controlled entities from Mirage and loans from banks and others are linked and bear interest which, according to management, are on an arm's length basis and, accordingly, the balance sheet balances as of December 31, 2007 approximate their fair value.

As for the fair value of Group debentures issued to the public, see Note 23d.

d. Derivatives position:

As of December 31, 2007, the excess of monetary liabilities denominated in foreign currency over monetary assets in foreign currency amounted to € 11,305 thousand, including 9,358 thousand excess of current monetary liabilities denominated in foreoign currency on current monetary liabilities in foreign currency. The excess of unlinked monetary assets over unlinked monetary assets amounted to € 2,543 thousand, including € 14,272 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:

NOTE 24:- FINANCIAL INSTRUMENTS (Cont.)

Forward transactions:

The purchase of US$ 4,500 thousand in return for 502,845 thousand Japanese Yen
The purchase of 1,592,000 thousand Japanese Yen in return for NIS 55,793 thousand
The purchase of US$ 1,000 thousand in return for NIS 3,890 thousand
The purchase of C$ 10,000 thousand in return for £ 5,157 thousand
The sale of C$ 10,000 thousand in return for £ 4,971 thousand
The purchase of £ 186 thousand in return for US$ 382 thousand
The sale of CHF 5,800 thousand in return for C$ 4,710 thousand
The purchase of CHF 5,800 thousand in return for C$ 5,102 thousand
The purchase of C$ 392 thousand in return for US$ 400 thousand

Foreign currency options purchased:

The purchase of US$ 29,500 thousand in return for NIS 120,395 thousand
The purchase of NIS 3,780 thousand in return for US$ 1,000 thousand
The purchase of 1,010,000 thousand Japanese Yen in return for NIS 36,234 thousand
The purchase of 1,123,500 thousand Japanese Yen in return for US$ 10,000 thousand
The purchase of NIS 7,337 thousand in return for 230,000 thousand Japanese Yen
The purchase of US$ 25,000 thousand in return for NIS 100,675 thousand

Foreign currency options written:

The purchase of US$ 10,000 thousand in return for 1,123,500 thousand Japanese Yen
The purchase of NIS 74,230 thousand in return for US$ 18,500 thousand
The purchase of NIS 58,283 thousand in return for 1,607,000 thousand Japanese Yen
The purchase of US$ 25,000 thousand in return for NIS 103,250 thousand

Most of these transactions are for periods of less than three months.

The net fair value of all the above transactions as of December 31, 2007 is € 1,490 thousand. The above transactions are recorded in their gross amounts in the balance sheet under other receivables in a total of € 188 thousand and under other payables in a total of € 1,678 thousand.

NOTE 24:- FINANCIAL INSTRUMENTS (Cont.)

e. Linkage terms of monetary balances:

	December 31, 2007							
	Foreign currency				Israeli currency			
	Yen	US$	Other currency	Euro	Linked	Unlinked	Fair value	Total
	Euros in thousands							
Assets:								
Cash and cash equivalents	42	591	6	4,490	-	12,531	-	17,660
Short-term investments	-	-	-	-	-	433	10,058	10,491
Restricted deposit	-	961	-	-	-	-	-	961
Loans to Mirage	-	-	-	-	3,593	-	-	3,593
Current maturities of loans to jointly controlled entity	-	-	-	-	2,827	-	-	2,827
Trade receivables	-	9	-	138	-	7,711	-	7,858
Other receivables	111	61	65	-	94	1,128	188	1,647
Long-term investments	-	-	-	-	-	365	-	365
Loan to jointly controlled entity	-	-	-	-	2,000	-	-	2,000
	153	1,622	71	4,628	8,514	22,168	10,246	47,402
Liabilities:								
Current maturities of loans to jointly controlled entities from Mirage	-	-	-	-	2,474	-	-	2,474
Loan from jointly controlled entity	-	-	-	-	-	433	-	433
Trade payables	15,390	106	10	219	-	4,127	-	19,852
Credit from banks	-	-	-	-	-	144	-	144
Other payables	-	99	-	8	902	2,827	1,678	5,514
Loan from banks and others	-	-	-	1,947	1,423	12,094	-	15,464
Loans to jointly controlled entities from Mirage	-	-	-	-	2,278	-	-	2,278
Debentures	-	-	-	-	35,894	-	-	35,894
	15,390	205	10	2,174	42,971	19,625	1,678	82,053
Net balance sheet balance	(15,237)	1,417	61	2,454	(34,457)	2,543	8,568	(34,651)

NOTE 24:- FINANCIAL INSTRUMENTS (Cont.)

	December 31, 2006						
	Foreign currency			Israeli currency			
	Yen	US$	Other currency	Linked	Unlinked	Fair value	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	306	-	1	86	1,087	248	1,728
Long-term investments	-	-	-	-	344	-	344
Loan to jointly controlled entity	-	-	-	4,478	-	-	4,478
	306	1,900	9	14,118	18,592	248	35,173
Liabilities:							
Credit from banks and others	-	4,582	-	-	-	-	4,582
Trade payables	10,672	365	4	-	1,442	-	12,483
Other payables	-	-	-	449	3,566	983	4,998
Debentures	-	-	-	12,772	-	-	12,772
Loans to jointly controlled entities from Mirage	-	-	-	4,409	-	-	4,409
	10,672	4,947	4	17,630	5,008	983	39,244
Net balance sheet balance	(10,366)	(3,047)	5	(3,512)	13,584	(735)	(4,071)

NOTE 24:- FINANCIAL INSTRUMENTS (Cont.)

f. Sensitivity tests relating to changes in market factors as of December 31, 2007:

	Sensitivity test to changes in interest rates				
	Gain (loss) from change			Gain (loss) from change	
	Increase of 1% in interest	Increase of 0.5% in interest	Carrying Amount	Decrease of 0.5% in interest	Decrease of 1% in interest
Instrument	Euro in thousands				
Cash, short-term deposits and investments	181	90	18,093	(90)	(181)
Restricted deposit	2	1	961	(1)	(2)
Loans from banks and others	(142)	(71)	(14,185)	71	142
Loan to jointly controlled entity	(1)	-	(433)	-	1
Total	40	20	4,436	(20)	(40)

	Sensitivity test to changes in the exchange rate of the US$				
	Gain (loss) from change			Gain (loss) from change	
	Increase of 10% in exchange rate	Increase of 5% in exchange rate	Carrying Amount	Decrease of 5% in exchange rate	Decrease of 10% in exchange rate
Instrument	Euro in thousands				
Cash and cash equivalents	10	5	591	(5)	(10)
Restricted deposit	96	48	961	(48)	(96)
Other receivables	7	4	70	(4)	(7)
Trade payables, other payables and current liabilities	(21)	(10)	(205)	10	21
Total	92	47	1,417	(47)	(92)

	Sensitivity test to change in the exchange rate of the €				
	Gain (loss) from change			Gain (loss) from change	
	Increase of 10% in exchange rate	Increase of 5% in exchange rate	Carrying Amount	Decrease of 5% in exchange rate	Decrease of 10% in exchange rate
Instrument	Euro in thousands				
Cash and cash equivalents	449	224	4,490	(224)	(449)
Trade receivables	14	7	138	(7)	(14)
Loans from banks	(23)	(11)	(227)	11	23
Trade payables and other payables	(195)	(97)	(1,948)	97	195
Total	245	123	2,453	(123)	(245)

NOTE 24:- FINANCIAL INSTRUMENTS (Cont.)

	Sensitivity test to change in the exchange rate of the Yen				
	Gain (loss) from change			Gain (loss) from change	
Instrument	Increase of 10% in exchange rate	Increase of 5% in exchange rate	Carrying Amount	Decrease of 5% in exchange rate	Decrease of 10% in exchange rate
	Euro in thousands				
Cash and cash equivalents	4	2	42	(2)	(4)
Other receivables	11	6	111	(6)	(11)
Trade payables and other payables	(1,539)	(769)	(15,390)	769	1,539
Total	(1,524)	(761)	(15,237)	761	1,524

	Sensitivity test to change in the quotation for marketable securities				
	Change in equity			Change in equity	
Instrument	Increase of 10% in rate	Increase of 5% in rate	Carrying Amount	Decrease of 5% in rate	Decrease of 10% in rate
	Euro in thousands				
Available-for-sale financial instruments	1,006	503	10,058	(503)	(1,006)

	Sensitivity test to change in the Israeli CPI				
	Gain (loss) from change			Gain (loss) from change	
Instrument	Increase of 4% in index	Increase of 2% in index	Carrying Amount	Decrease of 2% in index	Decrease of 4% in index
	Euro in thousands				
Other receivables	4	2	94	(2)	(4)
Loans granted	337	168	8,420	(168)	(337)
Debentures	(1,436)	(718)	(35,894)	718	1,436
Loan to jointly controlled entities from Mirage	(10)	(5)	(4,752)	5	10
Loan form insurance company	(190)	(95)	(1,423)	95	190
Other payables	(6)	(3)	(902)	3	6
Total	(1,301)	(651)	(34,457)	651	1,301

NOTE 24:- FINANCIAL INSTRUMENTS (Cont.)

	Sensitivity test to change in foreign currency				
	Gain (loss) from change			Gain (loss) from change	
Instrument	Increase of 10% in market factor	Increase of 5% in market factor	Carrying Amount	Decrease of 5% in market factor	Decrease of 10% in market factor
	Euro in thousands				
US$:					
Option transactions	468	(79)	(613)	(976)	(1,267)
Forward transactions	30	13	(4)	(21)	(38)
C$/CHF:					
Forward transactions	(272)	(272)	(272)	(272)	(272)
£/C$:					
Forward transactions	(253)	(253)	(253)	(253)	(253)
Yen/NIS:					
Option transactions	406	164	(77)	(319)	(560)
Forward/option transactions	63	(138)	(316)	(509)	(710)
US$/Yen:					
Option transactions	(136)	(70)	2	83	172
Forward/option transactions	(283)	(121)	43	206	403

Sensitivity tests relating to changes in market factors as of December 31, 2006:

	Sensitivity test to changes in interest rates				
	Gain (loss) from change			Gain (loss) from change	
Instrument	Increase of 1% in interest	Increase of 0.5% in interest	Carrying Amount	Decrease of 0.5% in interest	Decrease of 1% in interest
	Euro in thousands				
Cash, short-term cash equivalents and investments	20	10	10,925	(10)	(20)
Restricted deposit	4	2	1,998	(2)	(4)
Loans from banks	(8)	(4)	(4,582)	4	8
Total	16	8	8,341	(8)	(16)

	Sensitivity test to changes in the exchange rate of the US$				
	Gain (loss) from change			Gain (loss) from change	
Instrument	Increase of 10% in exchange rate	Increase of 5% in exchange rate	Carrying Amount	Decrease of 5% in exchange rate	Decrease of 10% in exchange rate
	Euro in thousands				
Cash and cash equivalents	-	-	1	-	-
Restricted deposit	190	95	1,899	(95)	(190)
Trade payables, other payables	(37)	(18)	(365)	18	37
Loans to banks	(458)	(229)	(4,582)	229	458
Total	(305)	(152)	(3,047)	152	305

NOTE 24:- FINANCIAL INSTRUMENTS (Cont.)

	Sensitivity test to change in the exchange rate of the Yen				
	Gain (loss) from change			Gain (loss) from change	
	Increase of 10% in exchange rate	Increase of 5% in exchange rate	Carrying Amount	Decrease of 5% in exchange rate	Decrease of 10% in exchange rate
Instrument	Euro in thousands				
Other receivables	31	15	306	(15)	(31)
Trade payables and other payables	(1,067)	(534)	(10,672)	534	1,067
Total	(1,036)	(519)	(10,366)	519	1,036

	Sensitivity test to change in the Israeli CPI				
	Gain (loss) from change			Gain (loss) from change	
	Increase of 4% in index	Increase of 2% in index	Carrying Amount	Decrease of 2% in index	Decrease of 4% in index
Instrument	Euro in thousands				
Other receivables	3	2	86	(2)	(3)
Loans granted	561	281	14,032	(281)	(561)
Debentures	(510)	(255)	(12,772)	255	510
Other payables	(18)	(9)	(449)	9	18
Loan to jointly controlled entities from Mirage	(176)	(88)	(4,409)	88	176
Total	(140)	(69)	(3,512)	69	140

Sensitivity tests and principal work assumptions:

The Company has performed sensitivity tests of principal market risk factors that are liable to affect its reported operating results or financial position. The sensitivity tests present the profit or loss and/or change in equity (before income taxes) in respect of each financial instrument for the relevant risk variable chosen for that instrument as of each reporting date. The test of risk factors and the financial assets and liabilities were determined based on the materiality of the exposure in relation to each risk assuming that all other variables are held constant. The sensitivity tests include the companies which are exposed to the risk factors other than companies that have negligible exposure to those risks when financial assets and liabilities do not exceed 12 months and whose currency exposure is neutralized in full.

1. Option sensitivity tests are performed using the Black & Scholes model.

2. Since the market value of the options is not necessarily their value according to the Black & Scholes model, scenarios were used to calculate the changes in the value of the option for each scenario compared to the original Black & Scholes value and not compared to market value. These changes were added to fair value.

3. In forward transactions annual interest was used as follows: forward transactions against the dollar - 4.22% - 4.25%, forward transactions against the Canadian dollar - 3.803%, forward transactions against the Pound sterling - 5.744%, forward transactions against the Swiss franc - 2.977%, forward transactions against the NIS - 4.943%, forward transactions against the Yen - 0.987%.

NOTE 24:- FINANCIAL INSTRUMENTS (Cont.)

4. The sensitivity test for long-term loans with variable interest was only performed on the variable interest component.

The fair value of marketable assets was measured according to their market value. Forward transactions and options are traded over the counter.

The Company performed a sensitivity analysis for assets that are sensitive to risk factors examining the extreme case scenarios presented in the sensitivity tables.

g. Capital management:

The Company's capital management objectives are:

1. To preserve the Group's ability to guarantee business continuity thereby creating a return for the shareholders, investors and other related parties.

2. To secure adequate return for the shareholders by pricing of products and services that is adjusted to the level of risk in the Group's business operation.

3. To maintain good capital relations to secure support of the business operation and create maximum value to the shareholders.

The Company acts to achieve a capital rate of return at a level that is customary in the industry and markets in which the Company operates. This rate of return is subject to changes depending on market factors in the Company's industry and business environment. In accordance with the trust deed of debentures (series A) of the Company, if the Company shall distribute dividends and/or withdraw shareholders' loans, in the manner that due to the distribution of dividends or the shareholders' loans, shareholders' equity as reported in the financial statements shall fall below € 31.8 million, the trustee may call all unpaid debentures (series A) for immediate payment or part thereof.

The Company manages its capital structure and performs adjustments required by changes in the economic conditions and risk characteristics of its activities. In order to preserve or adapt the required capital structure, the Company adopts various measures such as raising capital by way of offering shares, equity purchases from shareholders and disposal of assets so as to reduce its debts.

NOTE 25:- EMPLOYEE BENEFIT LIABILITY

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

The following tables summarize the funded status and amounts recognized in the balance sheet and the components of net benefit expense recognized in the statement of income.

b. Section 14 to the Severance Pay Law, 1963 applies to part of the compensation payments, pursuant 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 said amounts were deposited (defined deposit plan).

Information on defined deposit plans:

Composition:

	Year ended December 31,	
	2007	**2006**
	Euros in thousands	
Expenses for employee benefits		
The expenses are presented in the statement of income as follows:	4	4
General and administrative expenses	4	4

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.

Plan liability:

	December 31,	
	2007	**2006**
	Euros in thousands	
Defined benefit obligation	1,095	1,110
Fair value of plan assets	(586)	(509)
Benefit liability, net	509	601

NOTE 25:- EMPLOYEE BENEFIT LIABILITY (Cont.)

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

	2007	2006
	Euros in thousands	
Obligation at January 1,	1,110	1,207
Interest cost	57	41
Current service cost	248	101
Benefits paid	(295)	(98)
Severance pay fund to dismissed employees – yet unpaid	(93)	-
Actuarial loss (gain), net	90	(119)
Currency translation differences	(22)	(22)
Obligation at December 31,	1,095	1,110

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

	2007	2006
	Euros in thousands	
Plan assets at January 1,	509	591
Expected return	30	20
Contributions by employer	169	90
Benefits paid	(160)	(61)
Severance pay that was not yet paid out of the assets	(17)	-
Actuarial gain (loss), net	68	(124)
Currency translation differences	(13)	(7)
Plan assets at December 31,	586	509

Net benefit expenses:

	December 31,	
	2007	2006
	Euros in thousands	
Current service cost	248	101
Interest cost on benefit obligation	57	41
Expected return on plan assets	(30)	(20)
Actuarial loss	22	5
Net benefit expense	297	127
Actual return on plan assets	98	(104)

NOTE 25:- EMPLOYEE BENEFIT LIABILITY (Cont.)

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

	2007	2006
	%	
Discount rate	5.9	6
Expected rate of return on assets	3.5	3.5
Future salary increases	5	6

NOTE 26:- 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 CPI. The following are the changes in the CPI and the Euro in relation to the NIS for the past two years:

	2007	2006
	%	
CPI	3.4%	(0.1%)
€ : NIS	1.7%	2.2%

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. Changes in the tax laws applicable to the Group:

In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law (Amendment No. 20), 2008, which limits the scope of the inflationary adjustments law starting 2008. According to the new law and the transition provisions determined thereunder, starting 2008, the results for tax purposes will be measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. The amended law includes, inter alia, the elimination of the inflationary additions and deductions and the additional deduction for depreciation starting 2008.

NOTE 26:- TAXES ON INCOME (Cont.)

c. Tax rates applicable to the income of the Group companies:

1. 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%, 2005 - 34%, 2006 - 31%, 2007 - 29%, 2008 - 27%, 2009 - 26%, 2010 and thereafter - 25%.

2. The principal tax rates applicable to the subsidiaries whose place of incorporation is outside Israel are:

   A company incorporated in Romania - tax at the rate of 16%.

d. 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, Metis car rental group and Metis Real Estate group have not received final tax assessments since their incorporation.

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

Carryforward losses for tax purposes and other temporary differences of subsidiaries total approximately € 3.18 thousand as of December 31, 2007.

Carryforward losses for tax purposes and other temporary differences of the Company total € 2.12 million as of December 31, 2007.

Deferred tax assets relating to these carryforward tax losses and to other temporary differences were not recorded due to the uncertainty of their utilization in the foreseeable future.

NOTE 26:- TAXES ON INCOME (Cont.)

f. Deferred taxes:

1. Composition:

	December 31, 2007	December 31, 2006
	Euros in thousands	
Depreciable property, plant and equipment	(80)	(92)
Excess of cost attributed to franchise	(5,384)	(5,786)
Excess of cost attributed to land	(916)	(940)
Other temporary differences in recognition of income and expenses	406	505
	(5,974)	(6,313)

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

	December 31, 2007	December 31, 2006
	Euros in thousands	
Non-current assets	392	505
Non-current liabilities	(6,366)	(6,818)
	(5,974)	(6,313)

The deferred taxes are computed at average tax rates of about 27% and 29% as of December 31, 2007 and 2006, 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, 2007	December 31, 2006
	Euros in thousands	
Balance at beginning of year	(6,313)	(7,082)
Recognized in income	230	540
Currency translation differences	109	229
Balance at end of year	(5,974)	(6,313)

NOTE 26:- TAXES ON INCOME (Cont.)

g. Income taxes included in the statements of income:

	Year ended December 31, 2007	Year ended December 31, 2006
	Euros in thousands	
Current taxes	2,176	1,156
Deferred taxes	(230)	(540)
Land betterment tax	(87)	147
Taxes in respect of previous years	(258)	14
	1,601	777

h. Theoretical tax:

Below is a reconciliation between the tax amount assuming that all the income, expenses, gains and losses were taxed at the statutory tax rate in Israel and the income tax amount recorded in the statements of income:

	Year ended December 31, 2007	Year ended December 31, 2006
	Euros in thousands	
Profit before income taxes	1,304	2,410
Statutory tax rate	29%	31%
Tax calculated at the statutory tax rate	378	747
Taxes in respect of previous years	(87)	14
Non-deductible expenses	138	136
Deferred taxes created at different tax rates	(31)	27
Loss for tax purposes for which no deferred taxes were provided	1,519	162
Utilisation of carryforward losses for which no deferred taxes were provided	(353)	(218)
Other differences (mainly in the basis of measurement)	37	(91)
Income taxes	1,601	777
Average effective tax rate	123%	32%

NOTE 27:- CHARGES, CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS

a. Charges:

1. To secure credit received by Japan Auto Automobile from banks, charges were recorded on its assets, including all the assets, rights, funds, notes and documents, buildings, investments in shares of investees, securities and goodwill. All the liabilities, guarantees and documentary credit that are secured by said charges amount to approximately € 1,637 thousand as of balance sheet date.

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

   a) Mortgages were recorded on bloc 6592 parcels 32, 33, 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. In the ordinary course of its business, Metis car rental group pledges the cars it owns in favour of the lending banks or third parties. Also, Metis car rental group placed a negative charge on its assets in favour of the First International Bank of Israel Ltd./Poaley Agudat Israel Bank Ltd.

5. Charges to secure repayment of Japan Auto Holdings 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 favour of the trustee and the debenture holders.

   b) A first priority floating charge on Japan Auto Holdings' assets in favour 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 favour of the Company and Mirage, by notice to the trustee.

   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.

NOTE 27:- CHARGES, CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

6. 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, impair Japan Auto Automobile's ability to pay Japan Auto Holdings management fees or the principal, linkage differences and interest on the loans extended by Japan Auto Holdings to Japan Auto Automobile or a dividend or any other payment, will be subject to the consent of the trustee in advance and in writing.

7. To secure credit received by Finit, mortgage was placed on the hotel, a negative charge was placed on Finit's assets, a charge was placed on the shares of Metis Real Estate in Finit and a charge was placed on the existing and future bank accounts of Finit. In addition, it granted an assignment of right to lease agreement to the bank.

b. Contingent liabilities:

1. Hearing held for Japan Auto Holdings by the Ministry of Transport in respect of engine improvement kits:

In 2002, Japan Auto Automobile 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 constitutes to a structural change and, therefore, Japan Auto Automobile exceeded its authority under its letter of authorization to act as the vehicle licensing authority 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 Automobile presented its position on the issue, with its main argument being that the Ministry of Transport had given its approval for importing the improvement kits and that in meetings that took place between representatives of Japan Auto Automobile and representatives of the Ministry of Transport, it was made clear to the Japan Auto Automobile representatives that the improvement kits do not contain anything that alters the structure of the vehicles. On February 20, 2005, a decision was made by the Ministry of Transport in the hearing, whereby the Ministry of Transport refused to accept the position of Japan Auto Automobile that Japan Auto Automobile representatives had been told by the Transport Ministry representatives that the improvement kit does not constitute a structural change in the motor vehicles.

In addition, it was pointed out in the decision that Japan Auto Automobile 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 Ministry of Transport gave Japan Auto Automobile a warning that was noted in its vehicle importer file.

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

NOTE 27:- CHARGES, CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

a) To determine new procedures so that in 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 Automobile 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 Automobile is unable to provide these approvals, it would have to take steps to remove the kits from the vehicles.

Japan Auto has informed the Ministry of Transport 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.

2. On January 27, 2005, a hearing was held at the Ministry of Transport 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 Transport 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. 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 Transport 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 Transport 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 file.

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

a) To determine new procedures so that in the future cases such as these would not recur.

b) To employ a standards engineer.

c) Report the progress in replacing the tires.

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

NOTE 27:- CHARGES, CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

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

3. 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.

   In a preliminary meeting 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 matter with a settlement it was resolved that 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. The management of Japan Auto Automobile believes the amount of the compromise will not be more than such amount.

4. 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 revealed based on tests and measurements it performed recently:

   a) 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).

   b) The land's designation had been changed from industrial/workshop to commercial/service 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.

NOTE 27:- CHARGES, CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

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.

On August 19, 2007, the Municipality sent its response to the objection filed by Japan Auto Automobile, as aforesaid, in which the Municipality, among others, is arguing that a large part of the additional areas that are the object to the Municipality's assessment are areas that were built without building permits (we are speaking of areas that were built some 20 or more years ago before the Company was acquired by any of its shareholders) and other arguments to justify the retroactive charge. As a result of these new arguments, based on its legal advisors and in view of the fact that the Company's examinations have not yet been concluded, the Company recorded a provision in its financial statements in the amount of € 0.37 million for the period through 2005 in cost of sales for the year ended December 31, 2007. The Company also intends to file an objection to the assessment.

In respect of the updated tax assessment for 2006 onward, Japan Auto Automobile recorded a provision in the financial statements, which management, based on its legal counsel advisors, believe it may be liable to.

5. 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 municipal taxes"). 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.

NOTE 27:- CHARGES, CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

6. 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 send a letter 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 advisors, believes that subject to meeting all the Commissioner's directives and guidelines as above, it has no monetary exposure in respect of the complaint.

7. In June 2007, Japan Auto Automobile informed one of its dealers on its intention to terminate the authorization relations with it in effect from November 2007 and, accordingly, the latter will discontinue to act as an authorized dealer on its behalf and this since the latter refused to make changes in the show room and in the building according to the standards established by Japan Auto Automobile. The dealer refuses to accept Japan Auto Automobile notice and through its attorney it requests that Japan Auto Automobile retreat, alternatively, it demands to receive a monetary compensation for past investments. Japan Auto Automobile clarified the dealer who does not intend to retreat and that, in its opinion, there is no situation to compensate it. Japan Auto Automobile, based on its legal advisors, estimates that there is no substance in the dealer's claims. No provision was recorded in the financial statements in respect of the aforesaid.

8. On February 18, 2008 and March 6, 2008, Japan Auto received a claim from the Herzliya Municipality for payment of approximately € 0.85 million in respect of different levies (laying water pipe, sewage, sewerage and road paving). Japan Auto addressed Herzliya Municipality with a request to receive a 60-day extension for the payment so as to receive from the Herzliya Municipality the entire details pertaining to such payment demands.

   Until the date of the approval of the financial statements, Japan Auto has not been furnished with such details. We are speaking of amounts that if ultimately Japan Auto will be liable to, they may have no effect on the operating results as they are charged to cost of land. No provision was recorded in the financial statements in respect of the aforesaid.

9. Pursuant to a local outlining scheme of September 4, 2003 of the Herzliya Municipality, 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, 2003, 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.

NOTE 27:- CHARGES, CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

10. As part of the transaction for the acquisition of half of Japan Auto group, the Company provided Mirage with a loan in the amount of US$ 10 million for a period of 18 months, until February 15, 2007. The loan bears annual interest at a rate that is the greater of either the rate charged by the lending entity for the external financing or the average interest for financing the working capital of Japan Auto. The loan was secured by a first priority fixed charge on all of Japan Auto shares held by Mirage.

    A dispute broke between Mirage and the Company as to 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 bears annual interest at the rate of 7%, whereas the Company claims that until February 22, 2006 the loan was dollar-linked with annual interest at the rate of 7% and from that date onward it is NIS-linked and bears annual interest at the rate of about 9.43%.

    On February 14, 2007, the Company and Mirage entered into an agreement whereby on February 15, 2007, Mirage Development repaid the loan to the Company, excluding the disputed amount (totalling approximately € 8.25 million) plus VAT as required by law (totaling approximately € 45 thousand) and the disputed amount (totaling approximately € 1.2 million) 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 Development deposited with its representative a blank signed check.

    As part of the agreement, the Company offered Mirage to refer the decision in the dispute to arbitration and on February 27, 2007, Mirage Development 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.

    The parties appointed an arbitrator who has agreed to hear the dispute between the parties.

    On November 4, 2007, the arbitrator's reward in the dispute was rendered according to which the amount in dispute between the parties, as deposited in a trust on behalf of the representatives of the parties until the reward is rendered, is to be refunded to Mirage.

    As a result of the reward, the Company recorded a net expense of approximately € 1.02 million in its financial statements for the year ended December 31, 2007.

NOTE 27:- CHARGES, CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

c. Guarantees:

1. The Metis car rental group provided a guarantee in favor of the Israel Airports Authority for its activity in the car rental market in the total of approximately € 111 thousand.

2. Japan Auto group provided a guarantee in favor of the Ministry of Transport for its activity in the car market in the total of approximately € 0.18 million.

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 to customers 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 27:- 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.

A third party which, as above, has mediated the transaction, is entitled to a commission from Japan Auto Automobile at the rate of 0.5% of transactions turnover with Sojitz over a year in which the turnover is the highest of the first five years of the engagement with Sojitz and same rate applies over another year of the following five years, insofar as Japan Auto Automobile continues its engagement with Sojitz for a period of more than five years.

3. Lease agreements - Amal Building:

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 property, which it leases to EL3000.

In addition, the Company has a lease agreement with a former related party, in respect to the property'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 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 Israeli CPI or the exchange rate of the NIS in relation to the U.S. dollar and payable every six months. The lease is for a period of 10 years commencing with the date of the approval of the agreement.

In addition, beginning 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, as above.

NOTE 27:- CHARGES, CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

The third story, with area of 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 Israeli CPI or the exchange rate of the NIS in relation to the U.S. dollar and payable every six months. The lease includes an automatic escalation clause (10% every three years) which is practically not paid. The fourth story, with 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 Israeli CPI or the exchange rate of the NIS in relation to the U.S. dollar and payable every six months. The lease includes an automatic escalation clause (10% after every three years) which is practically not paid.

4. On February 11, 2007, Electronics Line 3000 Ltd. ("EL3000") addressed the Company in a letter claiming that the property on Ha'amal St., Petach Tikva ("the property") 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.

   In other letters, EL3000 requested from the Company to immediately inform that it undertakes to act for the physical safety of the property in such a manner that will allow EL3000 to continue its work in 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 issue such a commitment towards EL3000, EL3000 has informed the Company that it will be required to seek 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.

   The Company informed the other owners of the property, Krubiner Ormor Properties and Investments Ltd. ("Ormor") of the appeal and asked the latter to collaborate in the evaluation of EL3000 appeal and the related costs, as they may be.

   The Company received an engineer's opinion which was prepared for Ormor on March 27, 2007 that determines that the ceilings are absolutely firm and do not constitute a danger both as ceilings and as part of the entire property and, accordingly, there is no safety problem if the ceilings/floors bear additional usage loading of 500 kg per sq.m. (as argued by EL3000).

   After an additional negotiation between the parties and their representatives, on May 15, 2007, in a letter that the Company delivered to EL3000 it undertakes towards EL3000 in connection with the lease agreement between them for the first and second floor in the property that the Company will act immediately and perform all the required measures based on a professional decision that the parties' experts accept in the dispute regarding the ceilings/floors in the property and, if they do not agree, then by a decision of another outside expert whose decision on securing the ceilings/floors of the property, if any, will be final and binding, and only the Company will bear the expenses.

   The Company has also undertaken to fully compensate EL3000 for any damage to equipment or bodily injury it will sustain, if sustained, due to the collapse or fall of these ceilings/floors, provided that EL3000 uses and maintains the property according to the purpose of the lease and at the same time the property was used and maintained by EL3000 up to that day.

NOTE 27:- CHARGES, CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

On November 18, 2007, the Company received an engineer's opinion according to which ceilings 6+ and 9+ bear additional usage loading of 200 kg per sq.m. that is the maximal loading for the use of offices according to the Israeli standard. Also, as to an answer to the production activity preformed by EL3000 in part of ceiling 9+, it is offered by the engineer's opinion that this activity will be transferred to ceiling 12+ or, alternatively, that a reinforcement of loading of 500 kg per sq.m. will be made to this part with cost estimated at approximately € 21.09 thousand that will last about 7 work days. Also, the engineer's opinion indicates that the production activity does not immediately endanger ceiling 9+ and its fastening may take place at times that are convenient to EL3000 without discontinuing production. The Company intends to start reinforcement of ceiling 9+ during April 2008. While cooperating with Ormor and EL 3000, the Company estimates that the cost of reinforcing the ceiling 9+ shall amount to € 133 thousand and shall take 25 working days.

5. Lease agreements - office building:

Effective January 1, 2003 until June 30, 2006, the Company leased to EL3000 two stories in the aggregate area of about 1,308 sq. m in an office building located at 2 Granit Street, Kiryat Arieh, Petach Tikva.

6. The minimum future lease fees expected to be received by the Group as of December 31, 2007 are as follows:

Future leased payments receivable from operating lease of motor vehicles are as follows:

	Euros in thousands
Until the end of 2008	3,469
2009 - 2012	5,515
	8,984

The future lease fees expected to be received by the Group from the lease of its income producing properties and the lease of Japan Auto Holdings' and Finit income producing properties:

	Euros in thousands
Until the end of 2008	1,098
2009 - 2012	4,375
2013 onward	1,168
	6,641

NOTE 27:- CHARGES, CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

The minimum future lease fees expected to be paid by the Group as of December 31, 2007 are as follows:

The future lease fees expected to be paid by the Company for an income producing property that the Company leases, under the assumption that the option to extend the lease agreement is not realized:

	Euros in thousands
Until the end of 2008	247
2009 - 2012	988
2013 onward	2,018
	3,253

7. 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 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, approximately € 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 managers and joint general managers in the Company, but continued to act as directors and began providing consultancy services in lieu of management services.

   In addition, pursuant to the management agreement that came into force on July 10, 2002, the management services were discontinued and instead, consultancy services were provided.

   On February 3, 2005, the former general managers signed an agreement with Gmul 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.

NOTE 27:- CHARGES, CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

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 in respect of its charges 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.

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 this settlement agreement 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 this settlement agreement, the Company received from EL3000 an amount equivalent to US$ 1,275 thousand plus VAT in cash on July 3, 2006 and received 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.

This agreement settles 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.

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 plus VAT as required by law on July 3, 2007 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$ 97.5 thousand 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 27:- CHARGES, CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

On completion of this settlement agreement, the management agreements became null and void. 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 on 2006 net income of approximately € 1.2 million in other income.

8. On July 8, 2007, the Company and Metis Leasing entered into an agreement with Leumi Card Ltd. ("Leumi Card") in effect from July 5, 2007 and this in order to cooperate in the joint venture whose purpose is to perform finance lease transactions with customers ("the agreement"). Following are the principles of the agreement:

   a) The Company and Metis Leasing are responsible to buy the vehicles from an authorized importer and to provide all the operating services, if acquired, under a leasing agreement signed with the customer. Leumi Card is responsible to check the financial stability of the customers and to provide in their favor the financing necessary to perform the finance lease transaction. Providing the borrowing to the customer by Leumi Card and repayment of the borrowing by the customer are operated by Leumi Card through a loan either by a credit card issued to the customer or a credit card the customer posses all under the sole discretion of Leumi Card ("the loan"). The loan bears interest as fixed between the parties and matures after 36 months. The loan amounts up to 80% of the car's price in the authorized importer's price list. The loan is repayable by a standing monthly charge of the bank account linked to the customer's credit card.

NOTE 27:- CHARGES, CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS (Cont.)

b) The Company and Metis Leasing undertake to offer to each customer interested in a finance lease transaction to receive the financing from Leumi Card.

c) To secure the loan extended by Leumi Card to finance lease customers, an unlimited first priority fixed charge will be placed in favor of Leumi Card on all the vehicles.

d) The Company, Metis Leasing and Leumi Card cooperation in the joint venture is based on distribution of income and expenses (among others, revenues from sale of vehicles, importer discount, loss on collection, expenses required to reserve and sell the vehicle and registration costs) as follows: Metis Leasing - 80%, Leumi Card - 20%. In all related to the interest income on the loan actually collected, the distribution of income is as follows: Metis Leasing - 20% and Leumi Card - 80%. Notwithstanding the above, Metis Leasing is entitled to the full consideration from operating services acquired by customer.

e) The agreement is in force for two years. The period of the agreement is renewed automatically for additional 12-month periods each, unless one of the parties provides the other with an advance written notice of 60 days on its willingness not to renew the agreement before the end of the agreement or the end of the extended agreement.

f) As of the balance sheet date, no transactions were preformed.

9. As for commitments to related parties, see Note 31.

NOTE 28:- SHARE CAPITAL

a. Composition:

	December 31, 2007 and 2006	
	Authorized	Issued and outstanding
	Number of shares	
Ordinary shares of NIS 1 par value each	15,000,000	8,050,000

b. Rights attached to shares:

1. Rights in the general meetings, to dividends and upon liquidation.

2. Marketability on the Tel Aviv Stock Exchange.

3. Marketability on the stock exchange in Germany.

NOTE 28:- SHARE CAPITAL (Cont.)

c. Stock options:

The Company has 295,000 registered stock options (series 2) exercisable on each trading day starting from their registration for trade until June 6, 2011 (inclusive) in such a manner that each stock option (series 2) is exercisable into one Ordinary share of the Company with par value of NIS 1 (subject to adjustments) against the cash payment of the exercise increment of NIS 24, unlinked. Stock option that is not exercised by June 6, 2011 (inclusive) expires and does not entitle its holder to any right whatsoever toward the Company.

As for additional information, see Note 23c(1).

d. Allocation of options to Company's employees:

On March 25, 2002 and according to an amended decision of the Board from May 28, 2002, the Company approved a stock option plan for the allocation 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) at no consideration. Each option is exercisable into one Ordinary share of the Company of NIS 1 par value. If the options are not exercised, they expire in August 2006.

In July 2002, 201,000 options were actually 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 options 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 without being exercised by any of the option holders.

NOTE 29:- ADDITIONAL INFORMATION TO THE STATEMENTS OF INCOME ITEMS

	Year ended December 31, 2007	Year ended December 31, 2006
	Euros in thousands	
a. Revenues from sales and services:		
Sale of automobiles	89,604	69,132
Sale of spare parts and garage services	7,932	6,536
	97,536	75,668

NOTE 29:- ADDITIONAL INFORMATION TO THE STATEMENTS OF INCOME ITEMS (Cont.)

	Year ended December 31, 2007	Year ended December 31, 2006
	Euros in thousands	
b. 1. Cost of sales and services:		
Outsourced garage and subcontracting services	510	394
Purchases and changes in raw and auxiliary materials	82,857	55,734
Salaries and related expenses	751	726
Other manufacturing expenses	773	373
Depreciation and amortization	117	176
Repairs and warranty	578	370
	85,586	57,773
Decrease (increase) in inventories of finished products, work in progress, automobiles and spare parts	(3,671)	9,125
	81,915	66,898
2. Cost of car rental:		
Car maintenance	1,042	-
Salaries and related expenses	541	-
Cost of car leasing vouchers	520	-
Depreciation	1,354	-
	3,457	-
3. Cost of vehicle operating leasing services:		
Car maintenance	736	-
Depreciation	724	-
	1,460	-
c. Selling and marketing expenses:		
Depreciation	61	49
Salaries and related expenses	383	392
Commissions	602	162
Advertising (1)	1,950	1,247
Vehicle and transportation	166	-
Rent, maintenance and related expenses	185	304
Other	25	21
	3,372	2,175

(1) Advertising expenses for the years ended December 31, 2007 and 2006 are presented net of the participation of F.H.I. in these expenses.

NOTE 29:- ADDITIONAL INFORMATION TO THE STATEMENTS OF INCOME ITEMS (Cont.)

	Year ended December 31, 2007	Year ended December 31, 2006
	Euros in thousands	
d. General and administrative expenses:		
Professional services	657	710
Salaries and related expenses	2,274	1,417
Consulting and management fees	237	455
Bad debts and doubtful accounts	31	(11)
Amortization of franchise	1,203	1,211
Depreciation	153	110
Other	1,464	835
	6,019	4,727
e. 1. Other income:		
Revenues from settlement agreements	-	1,168
Revenues from previous years	-	24
Gain on disposal of investment property	-	846
Gain on disposal of property, plant and equipment	-	19
Gain from disposal of motor vehicles for rental and operating lease, net	77	-
	77	2,057
2. Other expenses:		
Expenses from previous years	61	-
Loss on disposal of property, plant and equipment	51	-
Loss from decrease in value of investment property (1)(2)	-	148
	112	148
f. Financial income:		
Interest from key management personnel	4	-
Short-term deposits	208	373
Interest from Available for sale financial investments	143	-
Gain from realization of available for sale financial investments	46	-
Foreign exchange differences items and others, net	568	461
Related companies	427	288
Loan to Mirage (1)	438	1,063
Gain from bond options	174	-
	2,008	2,185

NOTE 29:- ADDITIONAL INFORMATION TO THE STATEMENTS OF INCOME ITEMS (Cont.)

	Year ended December 31, 2007	Year ended December 31, 2006
	Euros in thousands	
g. Financial expenses:		
Loans from others	(340)	(130)
Marketable securities	-	(4)
Impairment of Available for sale financial investments	(10)	-
Forward transactions and derivatives	(1,745)	(1,438)
Short-term credit and loans from banks and payables	(1,361)	(1,412)
Long-term loans from banks	(172)	(66)
Foreign exchange differences items and others, net	(200)	(285)
Financial expenses relating to debentures	(3,110)	(1,014)
Related companies	(46)	-
Arbitration award - Mirage (2)	(1,041)	-
Loan to Mirage	(327)	-
	(8,352)	(4,349)

(1) See Note 8.

(2) See Note 27b(10).

NOTE 30:- EARNINGS PER SHARE

	Year ended December 31, 2007	Year ended December 31, 2006
Weighted number of shares for basic and diluted net earnings per share calculations	8,050	8,050
Net income for basic and diluted net earnings per share calculations (in Euros in thousands)	(297)	1,633

In the calculation of diluted net earnings per share for the periods presented, 149,500 options to the Company's employees in 2006, as specified in Note 28d and 295,000 options (series 2), as specified in Note 23c(1) were not taken into the calculation since their inclusion increases the basic earnings per share from continuing operations (anti-dilutive effect).

NOTE 31:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a. Balances with related parties:

As of December 31, 2007:

	Joint ventures	Key management personnel	Total
	Euros in thousands		
Loans from joint venture	433	-	433
Trade payables	510	-	510
Other receivables	30	160	190
Loan to jointly controlled entities	4,827	-	4,827
Other payables	-	110	110
	5,800	270	6,070

As of December 31, 2006:

	Joint ventures	Key management personnel	Total
	Euros in thousands		
Loan to joint venture	4,403	-	4,403
Other payables	62	25	87
	4,465	25	4,490

b. Transactions with related parties:

Year ended December 31, 2007:

	Joint ventures	Key management personnel
	Euros in thousands	
Interest and linkage income from joint venture	424	-
Revenues from marketing services granted to joint venture	106	-
Revenues from consulting services granted to joint venture	78	-
Purchase of motor vehicles from joint venture	3,881	-
Interest expenses to joint venture	45	-
Rental expenses to joint venture	26	-
Lease expenses to joint venture	8	-
Interest incomes from key management personnel	-	4
	4,568	4

NOTE 31:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

Year ended December 31, 2006:

	Joint ventures
	Euros in thousands
Interest and linkage income from joint venture	373
Revenues from marketing services granted to joint venture	107
Revenues from consulting services granted to joint venture	81
Lease expenses to joint venture	10
	571

c. Compensation to related parties:

	Number of individuals	Year ended December 31, 2007	2006
		Euros in thousands	
Management fees	1	164	344
Directors'' fee to directors in the Company and jointly controlled entity that are not employed by the Company	10	95	95

d. 1. 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 thousand 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 on December 31 of the previous year; an 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 on December 31 of the previous year; and an 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 on 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 force on the date of the appointment (February 3, 2005) and each party may terminate it by providing a 6 months' prior notice.

NOTE 31:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

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.

Mr. Barzilay informed the Company, and the Company's audit committee and Board approved the announcement on May 27, 2007, that the agreement relating to the management company will be for a period of 5 years from the effective date, meaning until February 2, 2010.

According to the agreement signed between the Company and the management company controlled by the Company's Chairman of the Board, in the course of 2007, based on the monetary results of each quarter, the Company assigned to the management company an amount of € 149 thousand as an advance on account of the annual bonus payable to the management company in respect of 2007. According to this agreement, the final settling of accounts between the management company and the Company will be done within 15 days from the date of the approval of the financial statements in respect of each calendar year for the grants carried over that calendar year.

From the outset, the agreement that was presented for approval and signed included the controlling shareholder's right to receive advances based on quarterly results, and the liabilities of the Company and the controlling shareholder to carry out a final settling of accounts for the entire calendar year at the end of the of that year, within 15 days of the approval of the financial statements. However, this specific detail was not indicated separately in the summons for the general meeting for the approval of the terms of his employment. In the Company's opinion, there is nothing in this matter that would impair the force of the agreement between the controlling shareholder and the Company. The Company, together with its attorneys, will study if it is necessary to raise this issue separately for approval before the general meeting insofar as it concerns the remaining balance of the agreement.

On January 9, 2008, Mr. Barzilay ("Barzilay"), a controlling shareholder in the Company, entered himself and companies under his control into an agreement with Mr. Shimon Harel ("Harel") and company owned by him, Harel, S. Harmon Holdings and Properties Ltd. ("Harmon") whose principles are as follows:

a) A private company owned by Barzilay (50.5% of its share capital is owned by Barzilay and 49.5% by Harel) ("the private company") will act to acquire about 47.7% of the issued share capital of the Company (before dilution) according to a right assigned to Barzilay in an agreement between him and Mr. Eyal Yona. The acquisition will be carried out by an offer tender according to a prospectus published by Gmul and the Company on August 1, 2007.

NOTE 31:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

b) To finance the acquisition, the private company will take loans from a financial entity and from Harmon and Mr. Barzilay will extend to it a complementary loan.

c) The parties agreed that they will use their voting power in the private company and through it in the Company so that after the exercise of the right to acquire Company shares according to a prospectus, the Company's Board shall appoint eight directors: two outside directors, four directors to be recommended by Barzilay and additional two directors to be recommended by Harmon. Also, the parties have committed to use their voting power so that Barzilay continues to act as the Company's chairman, Harel be appointed as a deputy and vice chairman and Mr. Itsik Cohen, the present CEO continues his office for additional four years.

On January 30, 2008, Barzilay delivered a "response notice" according to which a private company under his control acquires from Gmul 3,841,470 of the Company's Ordinary shares, representing about 47.7% of total issued and outstanding share capital of the Company and all as per an offer tender according to a prospectus published by Gmul and the Company on August 1, 2007 ("the prospectus") in consideration of € 15,035,779. The date to complete the acquisition as required according to the prospectus is January 31, 2008.

Barzilay also informed the Company that for the purpose of the acquisition, the aforesaid private company took a loan from Mizrahi Tefahot Bank Ltd. ("the Bank"), that as part of the terms of the loan the private company has undertaken financial covenants and any failure to meet them entitle the Bank a cause to demand immediate repayment and that among the financial covenants are also the following:

1) If, in any given time, the Company shareholders' equity, as defined in the financial covenants, is below the amount of € 26.5 million linked to the Israeli CPI of December 2007.

2) If, in any given time, the Company does not maintain cash balance of at least € 3.53 million.

3) If until the issuance of Japan Auto Holdings, the total net financial debt (meaning balance of financial credit and debentures less cash) in Japan Auto Holdings is more than € 35.34 million.

4) If the Company's holdings in Japan Auto Holdings falls below 50% and if after the issuance of Japan Auto Holdings the Company's holdings in the control core in Japan Auto Holdings falls below 50%.

5) If the Bank does not accept the outline of the expected issuance of Japan Auto Holdings, including the value of Japan Auto Holdings for the purpose of issuance.

6) If the holdings of Japan Auto Holdings in Japan Auto Israel Automobile Company Ltd. falls below 100%.

NOTE 31:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

2. On January 13, 2008, the Company's audit committee and board of directors approved the commitment of Metis Auto with Savana Garage owned by Mr. Pinhas Cohen, the father of the Company's CEO.

   The total commitment scope in 2007 amounts to € 224 thousand.

e. Transactions with the Group companies:

1. In July 2005, it was agreed that the Company would receive monthly management fees from Japan Auto Holdings totalling 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 half of the above amount, meaning 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 totalling € 290 thousand. The financial statements for 2006 include a decrease in the provision of € 145 thousand. The financial statements for 2007 include a decrease in the provision as a result of exchange differences of approximately € 20 thousand, bringing the provision as of December 31, 2007 to € 122 thousand. The Company did not record said expenses in the consolidated financial statements.

   An agreement was signed between the parties on December 28, 2005. The agreement is in force until December 31, 2010.

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

   An agreement was signed between the parties on December 28, 2005. The agreement is in force 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 starting 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.

   On November 1, 2007, the Company leased from Japan Auto Automobile additional space of about 76 sq.m. under terms similar to the lease agreement detailed above and in consideration for monthly rental fees of US$ 874 in force until December 31, 2010.

NOTE 31:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

4. On January 17, 2007, an agreement was signed between Metis Car Rental group 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.

   On December 31, 2007, Metis Car Rental group signed a sub-lease agreement with Metis Real Estate in respect of part of the space it is leasing from Japan Auto Automobile. The lease is for a period of 24 months starting January 1, 2008. The rental fees are approximately € 925 a month, linked to the Israeli CPI for the first six months of the lease period. During the last 18 months of the lease period, the rental fees will increase by 2%.

   On December 19, 2007, Metis Car Rental group signed a sub-lease agreement with a third party in respect of the remaining space it is leasing from Japan Auto Automobile. The lease is for a period of 24 months starting January 1, 2008. The rental fees are approximately € 2,400 a month, linked to the Israeli CPI for the first six months of the lease period. During the last 18 months of the lease period, the rental fees will increase by 2%.

5. Starting January 2007, Japan Auto Automobile sales vehicles to Metis Car Rental group. The transactions are approved by the Board of Japan Auto Automobile and the trustee. In part of the transactions, Japan Auto Automobile provides Metis Car Rental group borrowing and loans, see Note 16.

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. 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 to Japan Auto Automobile (of which an amount of € 139 thousand in respect of 2006), all with the addition of annual financial expenses at a rate of 5%.

NOTE 32:- BUSINESS SEGMENTS

Beginning January 1, 2007, the Group companies are engaged in six business segments. Until December 31, 2006, the Group companies were engaged in four business segments (see also Notes 11a(9) and 11a(10).

Import and sale of motor vehicles - most of the activity is importing vehicles made by Subaru and selling them to clients.

Spare parts and garage services - 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 Japan Auto Automobile's central garage.

Rental - most of the activity is renting to external parties real estate owned by the Company.

Car rental - most of the activity is renting cars in Israel and overseas to customers.

Vehicle operating leasing services - most of the activity is vehicle operating leasing services in Israel and overseas to customers.

Other - consulting - most of the activity is providing consulting services, see Note 31.

Additional information:

Transfers between business segments:

Segment revenues, segment expense and segment results include transfers between business segments. The Company believes that transfer prices between business segments are set on an arm's length basis in a manner similar to transactions in same products with third parties. Those transfers are eliminated in consolidation.

NOTE 32:- BUSINESS SEGMENTS (Cont.)

The following data is presented in accordance with IAS 14:

	Year ended December 31, 2007							
	Motor vehicles	Spare parts	Rental	Car rental	Vehicle operating leasing services	Other	Adjustment and elimination	Total
	Euros in thousands							
Revenues:								
Sale to external customers	89,604	7,932	954	4,255	1,417	186	-	104,348
Inter-segment sales	4,811	3,939	168	285	-	185	(9,388)	-
Total revenues	94,415	11,871	1,122	4,540	1,417	371	(9,388)	104,348
Results:								
Segment results	8,694	3,725	439	(1,479)	(115)	171	2,670	14,105
Unallocated expenses								(6,422)
Other expenses, net								(35)
Operating profit								7,648
Financial expenses, net								(6,344)
Loss before income tax								1,304
Income tax expenses								1,601
Net profit								(297)
Additional information:								
Segment assets	44,785	6,151	5,197	15,065	9,845	-	-	81,043
Unallocated assets								42,044
Total assets								123,087
Segment liabilities	18,641	1,268	195	7,942	814	-	-	28,860
Unallocated liabilities								63,911
Total liabilities								92,771
Other segment information:								
Capital expenditure	406	52	2,908	15,026	10,742	-	-	29,134
Depreciation and amortization	1,369	49	99	1,340	715	-	-	3,572

NOTE 32:- BUSINESS SEGMENTS (Cont.)

	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 profit						2,663
Financial 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	344	62	5	-	-	411
Depreciation and amortization	1,386	50	277	-	-	1,713
Impairment of investment property	-	-	148	-	-	148

NOTE 33:- SUBSEQUENT EVENTS

a. On January 13, 2008, Japan Auto Automobile Board resolved to enter into an agreement with Mirage Real Estate Ltd. ("Mirage Real Estate"), a company controlled by Mirage, to acquire a plot owned by Mirage Real Estate, which is located in the northern industrial region of Lod. For the purpose of the acquisition, Japan Auto Holdings shall consider financing the acquisition from independent sources or, alternatively, by obtaining finance whether from financial institution or raising equity from the public through the issuance of Japan Auto Holdings, the proceeds of which shall be available to Japan Auto Automobile, not falling below 50% of total cost of the project no later than June 30, 2008. Entering into the acquisition agreement by Japan Auto Automobile shall take effect after a resolution is received regarding the issue of finance.

Japan Auto Automobile intends to relocate to this area its logistic center and offices in Herzliya. The transfer of activity shall be done in line with Japan Auto Holdings intention to vacate premises it owns (through subsidiaries) in Herzliya Pituach industrial zone to another site that has the capacity to meet Japan Auto Holdings growth in recent years and Japan Auto Holdings needs in the future, by establishing a modern facility that will upgrade the vehicle delivery process to the customer. In addition, it will promote the vacating of existing premises, their development and maximizing their economical benefit.

The area of the plot in Lod amounts to 25 thousand sq.m., on which Japan Auto Holdings by Japan Auto Automobile intends to build, among others, about 30,000 sq.m. for its activities.

According to the municipal building scheme applied to that plot of land (LD/230/2) it is permissible to build 150% principal building area and 230% service area. The authorized plan for building is 95% of the area of the plot and the maximum number of floors is 11 stories above a very high lobby and/or parking floors up to a maximum height of 60 meters above ground.

Japan Auto Holdings intends to realize in the future, by Japan Auto Automobile, the surplus building rights over those that are required for the building, as described above.

For the rights of Mirage Real estate in the plot, Japan Auto Automobile shall pay $ 8.75 million at the representative rate as of the payment date (€ 5.9 million as of the date the Board's resolution) plus VAT upon the signing of a formal agreement.

Whereas according to the planning status it is possible to establish a gas station and whereas the Lod Municipality supports the establishment of the gas station, Japan Auto Automobile shall act to promote the establishment of the gas station in the plot if a due diligence will show that this is the best use of the land.

The consummation of the transaction is subject to signing a formal agreement, which will include full presentations as to the compatibility of the municipal building scheme and the designated use and that there are no outstanding debts regarding appreciation levies and other presentations as acceptable in these agreements.

The agreement is subject to the following prerequisites:

a) Obtaining an updated opinion from an appraiser, who is agreed upon by the parties to the transaction supporting the consideration amount, as abovementioned.

NOTE 33:- SUBSEQUENT EVENTS (Cont.)

b) Obtaining an approval from the trustee for the debentures (series A) of Japan Auto Holdings and/or the meeting of the debenture holders (series A) of Japan Auto Holdings, as required.

c) Obtaining an approval from the Company's Board.

b. On January 13, 2008, the Board of Japan Auto Holdings, as per the approval of the general meeting of holders of debentures (series A) of Japan Auto Holdings, decided to pay additional monthly management fees of approximately € 56.5 thousand to the controlling shareholders in Japan Auto Holdings, Mirage and the company (a total of approximately € 0.67 million a year) regarding the expansion in the scope of services provided by them to the Group effective January 1, 2008.

c. On March 3, 2008, a subsidiary of the Company, Metis Austria Immobilien und Beteligungsgesellschaft mbH ("Metis Austria") signed an agreement ("the agreement") for the acquisition of a hotel in Vienna ("the hotel").

Description of the hotel:

The hotel is a 4-star hotel, in advance building stages and is expected to be opened in September 2008. The hotel has 8 stories above a lobby and underground parking and it shall comprise about 67 rooms. The hotel is built on a plot with area of 347 sq.m. with about 2,700 sq.m. built area located in Landstrasse. Metis Austria intends to sign an agreement with a company specializing in operating hotels for the rental of the hotel.

Delivery of the hotel after building is completed will be at the latest on June 30, 2008 ("the first delivery date"). Delivery of the hotel when it is ready for operation will be at the latest on August 31, 2008 ("the second delivery date").

The principles of the transaction:

According to the agreement, Metis Austria will acquire the hotel when it is ready for operation, including furniture and equipment, with cost of € 7.5 million (plus VAT), as follows: € 4.9 million, not in cash, by acquiring the seller's debts to Erste Bank der Oesterrishen Sparkassen AG ("the credit provider"), € 1.85 million for the plot and € 750,000 for the furniture and equipment. Metis Austria will also pay € 375 thousand to a third party for brokerage and consulting services on the acquisition and for assisting in obtaining the bank financing for the transaction ("the brokerage services") and additional approximately € 365 thousand for land and registration taxes.

The acquisition of all of the seller's debts to the credit provider amounting € 4.9 million and the payment of € 365 thousand for land registration taxes is within five business days from the end of the month of the first delivery date. Additional € 600 thousand is payable to the seller after the rights are registered in favor of Metis Austria with the Land Registry. Additional € 1.85 million is payable the seller after the second delivery date. Additional € 150 thousand is held in a trust account as the seller's guarantee in favor of Metis Austria over three years from the second delivery date. The seller is entitled to receive such amount against the provision of a counter bank guarantee. The payment for the brokerage services shall be made after the second delivery date.

NOTE 33:- SUBSEQUENT EVENTS (Cont.)

Simultaneously, Metis Austria contacted the credit provider to extend financing for the acquisition of the hotel with up to € 6.8 million for a period of 12 years. In the first two years, Metis Austria pays the interest only. The outstanding principal is repayable in 40 unequal installments. The first four installments amount to € 50,000, additional eight installments - € 75,000, additional 27 installments - € 100,000 and the last payment - € 3.3 million. The loan bears interest at the Euribor rate for three months + 1.4% per annum.

For the purpose of receiving the credit, a mortgage on the hotel, a charge on Metis Austria shares, a charge on Metis Austria bank accounts and a charge on Metis Austria notes were placed in favor of the credit provider. Repayment of shareholders' loans and the respective interest thereon, dividends and other payments are subordinated to the bank financing.

The financial covenants of the loan are a maximal ratio of 75% between the loan and the hotel value and ratio of over 1.1 between the EBITDA and DSCR.

The suspending conditions to receive the financing are: an independent valuation of the hotel, fulfillment of all permits and licenses and approval of an expert as to completion of the building the hotel.

The Company will provide a guarantee to secure the financing in favor of Metis Austria. Also, the Company will provide Metis Austria with loan of € 1.7 million to finance the shareholders' equity necessary for the acquisition of the hotel. The credit provider will provide against such amount a bank guarantee of € 2.6 million in favor of the seller. The acquisition transaction was closed after a due diligence procedure that the Company conducted by consultants.

d. As of the date of the approval of the financial statements, the Company is holding negotiations as to the acquisition of a hotel in central Europe through Metis Real Estate, as detailed below:

A hotel in Vienna with cost of approximately € 7 million (excluding taxes and other costs). Metis Real Estate will also pay to a third party a commission for brokerage services in the amount of 1.5% of cost of acquisition.

The Company estimates that closing the transaction for the acquisition of the hotel, including a due diligence procedure and finalizing the negotiation (as far as agreement as to the conditions is reached) will be by the end of 2008.

Description of the hotel:

The hotel is a 4-star hotel, built in 1970 and renovated in 2005. The hotel comprises 77 rooms, underground parking, lobby, dinning hall and conference hall.

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