AMERICAN REAL ESTATE PARTNERS L P
Form 8-K
July 18, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): July 16, 2007

**American Real Estate Partners, L.P.**

(Exact name of registrant as specified in its charter)

| **Delaware** | **1-9516** | **13-3398766** |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

767 Fifth Avenue, Suite 4700, New York, NY 10153
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(212) 702-4300**

**N/A**
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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**Section 1 - Registrant's Business and Operations**

**Item 1.02. - Termination of a Material Definitive Agreement.**

On July 16, 2007, the Agreement and Plan of Merger, dated February 9, 2007, as amended by Amendment No. 1 to the Agreement and Plan of Merger, dated July 9, 2007, or, collectively, the Merger Agreement, by and among Lear Corporation, a Delaware corporation, or Lear, and our indirect wholly-owned subsidiaries, AREP Car Holdings Corp., a Delaware corporation, or Parent, and AREP Car Acquisition Corp., a Delaware corporation, or Merger Sub, terminated automatically pursuant to its terms. The Merger Agreement terminated because the requisite vote of Lear's shareholders in favor of the proposed merger of Merger Sub with and into Lear, or the Requisite Vote, was not obtained prior to 5:00 p.m., Eastern Time, on July 16, 2007.

Because the Requisite Vote was not obtained, pursuant to the Merger Agreement, Lear will (1) pay Parent $12.5 million (2) issue to Parent 335,570 shares of Lear's common stock, or the Common Stock, and (3) increase from 24.5% to 27% the share ownership limitation under the waiver of Section 203 of the Delaware General Corporation Law granted by Lear to affiliates of and funds managed by Carl C. Icahn. In addition, if (1) Lear stockholders enters into a definitive agreement with respect to an Acquisition Proposal, as defined, within 12 months after the termination of the Merger Agreement and such transaction is completed and (2) such Acquisition Proposal has received approval, if required by applicable Law, by the affirmative vote or consent of the holders of a majority of the outstanding shares of Lear common stock within such 12 month period, Lear will be required to pay to Parent an amount in cash equal to the Superior Fee, as defined, less $12.5 million.

In connection with the termination of the Merger Agreement, the commitment letter, dated as of February 9, 2007, or the Commitment Letter, by and among Merger Sub, Bank of America, N.A. and Banc of America Securities LLC, also terminated pursuant to its terms. The Commitment Letter contemplated that Bank of America would act as the initial lender under two senior secured credit facilities in an aggregate amount of $3.6 billion, consisting of a $1.0 billion senior secured revolving facility and a $2.6 billion senior secured term loan B facility. The credit facilities were intended to refinance and replace Lear's existing credit facilities and to fund the transactions contemplated by the Merger Agreement. The Commitment Letter terminated due to the failure of Parent, Merger Sub and Lear to consummate the proposed merger.

Carl C. Icahn beneficially owns approximately 90% of our outstanding depositary units and 86.5% of our preferred units and also beneficially owns approximately 15.8% of the outstanding common stock of Lear through certain of his affiliated entities. Vincent J. Intrieri is a member of the board of directors of American Property Investors, Inc., our general partner, and is also a member of the board of directors of Lear.

**Section 8 - Other Events**

**Item 8.01. Other Events.**

On July 16, 2007, we issued a press release, a copy of which is furnished as Exhibit 99.1.

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**Section 9 - Financial Statements and Exhibits**

**Item 9.01 Financial Statements and Exhibits**

**(d) Exhibits.**

2.1 Agreement and Plan of Merger, dated as of February 9, 2007, by and among AREP Car Holdings Corp., AREP Car Acquisition Corp. and Lear Corporation (incorporated by reference to Exhibit 2.1 to AREP's Form 8-K (SEC File No. 1-9516), filed on February 9, 2007).

2.2 Amendment No. 1, dated as of July 9, 2007, to the Agreement and Plan of Merger, dated as of February 9, 2007, by and among AREP Car Holdings Corp., AREP Car Acquisition Corp. and Lear Corporation (incorporated by reference to Exhibit 2.1 to Lear's Current Report on Form 8-K (SEC File No. 1-11311), filed on July 9, 2007).

10.3 Commitment Letter, dated as of July 9, 2007, by Bank of America, N.A. and Banc of Americas Securities LLC (incorporated by reference to Exhibit 10.3 to AREP's Form 8-K (SEC File No. 1-9516), filed on February 9, 2007).

99.1 Press Release, issued by AREP on July 16, 2007.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN REAL ESTATE PARTNERS, L.P.
(Registrant)

By: American Property Investors, Inc.,
its General Partner

By: /s/ Andrew Skobe

Andrew Skobe
Interim Chief Financial Officer
American Property Investors, Inc.,
the General Partner of
American Real Estate Partners, L.P.

Date: July 18, 2007

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> NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**N. Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

**(1) Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

The amount of revenue can be measured reliably;

It is probable that the economic benefits associated with the transaction will flow to the entity; and

The costs incurred or to be incurred in respect of the transaction can be measured reliably.

**(2) Interest revenue**

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset s net carrying amount.

**O. Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

**(1) Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.





**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**O. Taxation (Cont.)**

**(2) Deferred tax**

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**(3) Current and deferred tax for the period**

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer s interest in the net fair value of the acquiree s identifiable

assets, liabilities and contingent liabilities over the cost of the business combination.

**P. leasing**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. the Company s lands in Afula which were leased from the Israel Land Administration, shall be presented in the Company s balance sheet as lease receivables in respect of lease, and amortized over the remaining period of the lease.



**HOGLA-KIMBERLY LTD. AND SUBSIDIARIES**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
**FINANCIAL STATEMENTS AS OF JUNE 30, 2008**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**Q. Retirement benefit costs**

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due and include early retirement pay, severance pay and pensioner s gifts.

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur in the income statement.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

With regards to the publication of IFRIC 14 see note 2S below.

**R. Exchange Rates and Linkage Basis**

Following are the changes in the representative exchange rates of the U.S. dollar vis-a-vis the NIS and the Turkish Lira and in the Israeli Consumer Price Index ( CPI ):

| As of: | Turkish Lira exchange rate vis-a-vis the U.S. dollar (TL'000 per $1) | Representative exchange rate of the dollar (NIS per $1) | CPI "in respect of" (in points) |
|---|---|---|---|
| June 30, 2008 | 1,224 | 3,352 | 108.88 |
| June 30, 2007 | 1,313 | 4,249 | 103.9 |
| December 31, 2007 | 1,176 | 3.846 | 106.40 |
| **Increase (decrease) during the:** | % | % | % |
| Six months ended June 30, 2008 | 4.08 | (12.84) | 2.33 |
| Three months ended June 30, 2008 | (8.25) | (5.66) | 2.23 |

| Increase (decrease) during the: | % | % | % |
|---|---|---|---|
| Six months ended June 30, 2007 | (7.27) | 0.57 | 0.97 |
| Three months ended June 30, 2007 | (5.81) | 2.26 | 1.21 |
| Year ended December 31, 2007 | (16.95) | (8.97) | 3.4 |



**HOGLA-KIMBERLY LTD. AND SUBSIDIARIES**
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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**S. Adoption of new and revised Standards and interpretations**

**(1) Standards and Interpretations which are effective and have been applied in these financial statements as of June 30, 2008 and for the six and three months then ended.**

Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are:

IFRIC 11 IFRS 2: Group and Treasury Share Transactions (effective 1 March 2007);

IFRIC 12 Service Concession Arrangements (effective 1 January 2008);

IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 2008).

The adoption of IFRIC 11 will effect the Group s accounting policies with regards to the stock options granted by AIPM to senior management of the Company (see Note 3).

Except for the above, the adoption of the Interpretations has not led to any changes in the Group s accounting policies.

**(2) Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective**

At the date of authorization of these interim financial statements, other than the Standards and Interpretations adopted by the Group in advance of their effective dates the following Interpretations were in issue but not yet effective:

**IAS 1 (Amended) Presentation of Financial Statements**

The standard stipulates the presentation required in the financial statements, and itemizes a general framework for the structure of the financial statements and the minimal contents which must be included in the context of the report. Changes have been made to the existing presentation format of the financial statements, and the presentation and disclosure requirements for the financial statements have been broadened, including the presentation of an additional report in the framework of the financial statements known as the report of comprehensive income , and the addition of a balance sheet as of the beginning of the earliest period that was presented in the financial statements, in cases of changes in accounting policy by means of retroactive implementation, in cases of restatement and in cases of reclassifications.

The standard will be effective for reporting periods beginning from January 1, 2009. The standard permits earlier application.

At this stage, the management of the Group estimated that the implementation of the standard is not expected to have any influence on the financial statements of the Group.

**HOGLA-KIMBERLY LTD. AND SUBSIDIARIES**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
**FINANCIAL STATEMENTS AS OF JUNE 30, 2008**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**S. Adoption of new and revised Standards and interpretations (Cont.)**

**(2) Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (Cont.)**

**IAS 23 (Amended) Borrowing Costs**

The standard stipulates the accounting treatment of borrowing costs. In the context of the amendment to this standard, the possibility of immediately recognizing borrowing costs related to assets with an uncommon period of eligibility or construction in the statement of operations was cancelled. The standard will apply to borrowing costs that relate to eligible assets as to which the capitalization period began from January 1, 2009. The standard permits earlier implementation.

At this stage, the management of the Group estimated that the implementation of the standard is not expected to have any influence on the financial statements of the Group.

**IAS 27 (Amended) Consolidated and Separate Financial Statements**

The standard prescribes the rules for the accounting treatment of consolidated and separate financial statements. Among other things, the standard stipulates that transactions with minority shareholders, in the context of which the Company holds control of the subsidiary before and after the transaction, will be treated as capital transactions. In the context of transactions, subsequent to which the Company loses control in the subsidiary, the remaining investment is to be measured as of the date that control is lost, at fair value, with the difference as compared to book value to be recorded to the statement of operations. The minority interest in the losses of a subsidiary, which exceed its share in shareholders equity, will be allocated to it in every case, while ignoring its obligations and ability to make additional investments in the subsidiary.

The provisions of the standard apply to annual financial reporting periods which start on January 1, 2010 and thereafter. Earlier adoption is permitted, on the condition that it will be done simultaneous with early adoption of IFRS 3 (amended). The standard will be implemented retrospectively, excluding a number of exceptions, as to which the provisions of the standard will be implemented prospectively. At this stage, the management of the Group estimated that the implementation of the standard is not expected to have any influence on the financial statements of the Group.



**HOGLA-KIMBERLY LTD. AND SUBSIDIARIES**
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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**S. Adoption of new and revised Standards and interpretations (Cont.)**

**(2)**

**Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (Cont.)**

**IFRS 3 (Amended) Business Combinations**

The new standard stipulates the rules for the accounting treatment of business combinations. Among other things, the standard determines measurement rules for contingent consideration in business combinations which is to be measured as a derivative financial instrument. The transaction costs directly connected with the business combination will be recorded to the statement of operations when incurred. Minority interests will be measured at the time of the business combination to the extent of their share in the fair value of the assets, including goodwill, liabilities and contingent liabilities of the acquired entity, or to the extent of their share in the fair value of the net assets, as aforementioned, but excluding their share in goodwill.

As for business combinations where control is achieved after a number of acquisitions (acquisition in stages), the earlier purchases of the acquired company, will be measured at the time that control is achieved at their fair value, while recording the difference to the statement of operations.

The standard will apply to business combinations that take place from January 1, 2010 and thereafter. Earlier adoption is possible, on the condition that it will be simultaneous with early adoption of IAS 27 (amended).

At this stage, the management of the Group estimated that the implementation of the standard is not expected to have any influence on the financial statements of the Group.

**IFRIC 13, Customer Loyalty Programs**

The clarification stipulates that transactions for the sale of goods and services, for which the Company confers reward grants to its customers, will be treated as multiple component transactions and the payment received from the customer will be allocated between the different components, based upon the fair value of the reward grants. The consideration attributed to the grant will be recognized as revenue when the reward grants are redeemed and the Company has made a commitment to provide the grants.

The directives of the clarification apply to annual reporting periods commencing on January 1, 2009. Earlier implementation is permissible.

At this stage, the management of the Group estimated that the implementation of the standard is not expected to have any influence on the financial statements of the Group.



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**HOGLA-KIMBERLY LTD. AND SUBSIDIARIES**
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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**S. Adoption of new and revised Standards and interpretations (Cont.)**

**(2) Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (Cont.)**

**Amendment to IFRS 2, Share Based Payment- Vesting and Revocation Conditions**

The amendment to the standard stipulates the conditions under which the measurement of fair value must be considered on the date of the grant of a share based payment and explains the accounting treatment of instruments without terms of vesting and revocation. The provisions of the standard apply to annual financial reporting periods which start on January 1,

2009 and thereafter. Earlier adoption is permitted.

At this stage, the management of the Group estimated that the implementation of the standard is not expected to have any influence on the financial statements of the Group.

**Amendment to IAS 32, Financial Instruments: Presentation, and IAS 1, Presentation of Financial Statements**

The amendment to IAS 32 changes the definition of a financial liability, financial asset and capital instrument and determines that certain financial instruments, which are exercisable by their holder, will be classified as capital instruments.

The provisions of the standard apply to annual financial reporting periods which start on January 1, 2009 and thereafter. Earlier adoption is permitted.

At this stage, the management of the Group estimated that the implementation of the standard is not expected to have any influence on the financial statements of the Group.

**IFRS 1 "First Time Adoption of IFRS" and IAS 27 "Consolidated and Separate Financial Statements**

The amendment states, among other things, the method in which the measurement of the investments in subsidiaries, associated entities and joint control entities should be applied at firs time adopting IFRS, and the method in which income from dividends received should be recognized.

The amendment is effective for annual periods commencing January 1, 2009.

At this stage, the management of the Group estimated that the implementation of the standard is not expected to have any material influence on the financial statements of the Group.



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**NOTE 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

**(1) General**

In the application of the Group s accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

**(2) Critical judgments in applying accounting policies**

The following are the critical judgments, apart from those involving estimations (see below), that the management have made in the process of applying the entity s accounting policies and that have the most significant effect on the amounts recognized in financial statements.

**Revenue recognition**

In making their judgment, the management considered the detailed criteria for the recognition of revenue from the sale of goods set out in IAS 18 Revenue and, in particular, whether the Group had transferred to the buyer the significant risks and rewards of ownership of the goods. Following the detailed quantification of the Group s liability in respect of rectification work, and the agreed limitation on the customer s ability to require further work or to require replacement of the goods, the management is satisfied that the significant risks and rewards have been transferred and that recognition of the revenue in the current year is appropriate, in conjunction with the recognition of an appropriate provision for the rectification costs.

**Impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at the balance sheet date was NIS 20 million.

**Useful lives of property, plant and equipment**

As described at 2G above, the Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

**(3) Key sources of estimation uncertainty**

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



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**HOGLA-KIMBERLY LTD. AND SUBSIDIARIES**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
**FINANCIAL STATEMENTS AS OF JUNE 30, 2008**

**NOTE 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont.)**

**(3) Key sources of estimation uncertainty (Cont.)**

**Employee retirement benefits**

The present value of the employee retirement benefits is based on an actuarial valuation using many assumptions inter alia the capitalization rate. Changes in the assumptions may influence the book value of the liabilities for retirement benefits. The Company determines the capitalization rate once a year based on the basis of the capitalization rate of government bonds. Other key assumptions are based on the current prevailing terms in the market and the past experience of the Company (see also note 2Q above).

**NOTE 4 SEGNIFICANT TRANSACTIONS AND EVENTS**

**A.** On January 2008, the Company made an agreement with an Israeli bank for an prime linked interest loan in the amount of NIS 100 million which will be repaid during 4 year period. As part of the agreement the Company agreed to the following covenants:

**1.** It s shareholder s equity will not be less than NIS 250 million and not less than 25% of the total consolidated assets.

**2.** Both the Company s shareholder s Kimberly Clark and AIPM separately or together, will not hold less than 51% of the Company s share capital.

**B.** On May 20, 2008 the Company received from the Israeli tax authority a compensation in the amount of about NIS 4.5 millions. The compensation is due to loss of earnings during a security situation that occurred in July 2006 in northern Israel and caused the Company to partially stop its manufacturing activity in its Naharia plant.

**NOTE 5 RELATED PARTIES AND INTERESTED PARTIES**

**A. Balances with Related Parties**

| | As of June 30, | | As of December 31, |
|---|---|---|---|
| | 2008 | 2007 | 2007 |
| | (Unaudited) | | |
| Trade receivables | 29,502 | 2,487 | 22,678 |
| Capital note - shareholder | 31,990 | 31,990 | 32,770 |
| Trade payables | 57,370 | 51,914 | 55,099 |



**HOGLA-KIMBERLY LTD. AND SUBSIDIARIES**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008**

**NOTE 5 RELATED PARTIES AND INTERESTED PARTIES**

**B. Transactions with Related Parties**

| | Six months ended June 30, | | Three months ended June 30, | | Year ended December 31, |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2007 |
| | (Unaudited) | | (Unaudited) | | |
| Sales to related parties | 91,299 | 12,950 | 46,223 | 3,696 | 82,217 |
| Cost of sales | 73,208 | 88,312 | 26,897 | 46,502 | 188,252 |
| Royalties to the shareholders | 15,051 | 14,516 | 7,528 | 7,158 | 28,069 |
| General and administrative expenses | 4,706 | 4,738 | 1,726 | 1,974 | 10,944 |

**NOTE 6 INCOME TAX CHARGE**

(1) The effective tax rate for the six and three months period ended June 30, 2008 is 31.6% and 28.8% respectively and is mainly due to unrecorded deferred taxes in connection with tax loss carry foreword in KCTR, income in reduced tax rate and non deductible expenses.

(2) Under the inflationary adjustments law, results for tax purposes are measured in real terms, having regard to the changes in the Israeli CPI. The Company and its subsidiaries in Israel are taxed under this law.

On February 26, 2008, the Knesset ratified the third reading of the Income Tax Law ( Inflation Adjustments ) (Amendment 20) (Limitation of Term of Validity) 2008 (hereinafter: The Amendment ), pursuant to which the application of the inflationary adjustment law will terminate in tax year 2007 and as of tax year 2008, the law will no longer apply, other than transition regulations whose intention it is to vent distortions in tax calculations.

According to the amendment, in tax year 2008 and thereafter, the adjustment of revenues for tax purposes will no longer be considered a real-term basis for measurement. Moreover, the linkage to the CPI of the deciated sums of fixed assets and carryover losses for tax purposes will be discontinued, in a manner whereby these sums will be adjusted until the CPI at the end of 2007 and their linkage to the CPI will end as of that date.

**NOTE 7 DISCLOSURE REGARDING THE ADOPTION OF IFRS**

**A. General**

Following the publication of Accounting Standard No. 29, the Adoption of International Financial Reporting Standards (IFRS) in July 2006, the Company adopted IFRS starting January 1, 2008.

**HOGLA-KIMBERLY LTD. AND SUBSIDIARIES**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
**FINANCIAL STATEMENTS AS OF JUNE 30, 2008**

## NOTE 7 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)

### A. General (Cont.)

Pursuant to the provisions of IFRS1, which deals with the first-time adoption of IFRS, and considering the date in which the Company elected to adopt these standards for the first time, the financial statements which the Company must draw up in accordance with IFRS rules, are the consolidated financial statement as of December 31, 2008, and for the year ended on that date. The date of transition of the Company to reporting under IFRS, as it is defined in IFRS 1, is January 1, 2007 (hereinafter: the transition date ), with an opening balance sheet as of January 1, 2007 (hereinafter: Opening Balance ). The Company s interim financial statements for 2008 will also be drawn up in accordance with IFRS, and shall include comparative figures for the year.

Under the opening balance sheet, the Company performed the following reconciliations:

Recognition of all assets and liabilities whose recognition is required by IFRS.

De-recognition of assets and liabilities if IFRS do not permit such recognition.

Classification of assets, liabilities and components of equity according to IFRS.

Application of IFRS in the measurement of all recognized assets and liabilities.

IFRS 1 states that all IFRS shall be adopted retroactively for the opening balance sheet. At the same time, IFRS 1 includes 14 reliefs, in respect of which the mandatory retroactive implementation does not apply. As to the reliefs implemented by the Company, see section F below.

Changes in the accounting policy which the Company implemented retroactively in the opening balance sheet under IFRS, compared to the accounting policy in accordance with Generally Accepted Accounting Principles in Israel, were recognized directly under Retained Earnings or another item of Shareholders Equity, as the case may be.

This note is formulated on the basis of International Financial Reporting Standards and the notes thereto as they stand today, that have been published and shall enter into force or that may be adopted earlier as at the Group s first annual reporting date according to IFRS, December 31, 2008. Pursuant to the above, the Company s management has made assumptions regarding the anticipated financial reporting regulations that are expected to be implemented when the first annual financial statements are pared according to IFRS, for the year ended December 31, 2008.

The IFRS standards that will be in force or that may be adopted in the financial statements for the year ended December 31, 2008 are subject to changes and the publication of additional clarifications. Consequently, the financial reporting standards that shall be applied to the resented periods will be determined finally only upon paration of the first financial statements according to IFRS, as at December 31, 2008.

Listed below are the Company s consolidated balance sheets as of January 1, 2007, June 30, 2007 and December 31, 2007, the consolidated statement of income and the shareholders equity for the year ended on December 31, 2007 and the six and three months ended June 30, 2007 pared in accordance with International Accounting Standards. In addition, the table sents the material reconciliations required for the transition from reporting under Israeli GAAP to reporting under IFRS.

**HOGLA-KIMBERLY LTD. AND SUBSIDIARIES**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008**

**NOTE 7 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)**

**B. Reconciliation of balance sheets from Israeli GAAP to IFRS**

| | | Juen 30, 2007 | | |
|---|---|---|---|---|
| | | Israeli GAAP | Effect of Transition to IFRS | IFRS |
| | Note | NIS in thousands | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | | 17,000 | - | 17,000 |
| Trade receivables | | 280,338 | - | 280,338 |
| Inventories | | 194,718 | - | 194,718 |
| Current tax assets | F2 | - | 12,071 | 12,071 |
| Other current assets | F1, F2 | 21,777 | (17,911) | 3,866 |
| | | 513,833 | (5,840) | 507,993 |
| **Non-Current Assets** | | | | |
| Capital note of shareholder | F7 | 32,770 | (780) | 31,990 |
| VAT Receivable | | 36,907 | - | 36,907 |
| Property, plant and equipment | F3 | 301,986 | (4,485) | 297,501 |
| Goodwill | | 24,227 | - | 24,227 |
| Other non current assets - land leases | F3 | - | 2,087 | 2,087 |
| Deferred tax assets | F1, F4 | 20,680 | 5,975 | 26,655 |
| | | 416,570 | 2,797 | 419,367 |
| | | 930,403 | (3,043) | 927,360 |
| **Current Liabilities** | | | | |
| Borrowings | | 159,623 | - | 159,623 |
| Trade payables | | 254,136 | - | 254,136 |
| Current tax liabilities | F2 | - | 12,509 | 12,509 |
| Other payables and accrued expenses | F2, F4 | 63,614 | (13,340) | 50,274 |
| | | 477,373 | (831) | 476,542 |
| **Non-Current Liabilities** | | | | |
| Employee benefit obligations | F4 | 1,587 | 1,502 | 3,089 |
| Deferred tax liabilities | F3 | 36,977 | (511) | 36,466 |
| | | 38,564 | 991 | 39,555 |
| **Capital and reserves** | | | | |
| Issued capital | | 265,246 | - | 265,246 |
| Reserves | | (5,179) | - | (5,179) |
| Retained earnings | | 154,399 | (3,203) | 151,196 |

| | Juen 30, 2007 | | |
|---|---|---|---|
| | 414,466 | (3,203) | 414,466 |
| | 930,403 | (3,043) | 411,263 |

**HOGLA-KIMBERLY LTD. AND SUBSIDIARIES**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008**

**NOTE 7 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)**

**B. Reconciliation of balance sheets from Israeli GAAP to IFRS (Cont.)**

| | | December 31, 2007 | | |
|---|---|---|---|---|
| | | Israeli GAAP | Effect of Transition to IFRS | IFRS |
| | Note | NIS in thousands | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | | 23,082 | - | 23,082 |
| Trade receivables | | 274,232 | - | 274,232 |
| Inventories | | 184,424 | - | 184,424 |
| Current tax assets | F2 | - | 9,959 | 9,959 |
| Other current assets | F1,F2 | 39,098 | (27,556) | 11,542 |
| | | 520,836 | (17,597) | 503,239 |
| **Non-Current Assets** | | | | |
| Capital note of shareholder | F7 | 32,770 | (1,560) | 31,210 |
| VAT Receivable | | 43,317 | - | 43,317 |
| Property plant and equipment | F3 | 314,853 | (4,485) | 310,368 |
| Goodwill | | 24,495 | - | 24,495 |
| Lease receivables | F3 | - | 2,022 | 2,022 |
| Deferred tax assets | F1,F4 | 5,261 | 5,984 | 11,245 |
| | | 420,696 | 1,961 | 422,657 |
| | | 941,532 | (15,636) | 925,896 |
| **Current Liabilities** | | | | |
| Borrowings | | 155,302 | - | 155,302 |
| Trade payables | | 265,827 | - | 265,827 |
| Other payables and accrued expenses | F2,F4 | 71,525 | (12,725) | 58,800 |
| | | 492,654 | (12,725) | 479,929 |
| **Non-Current Liabilities** | | | | |
| Employee benefit obligations | F4 | 3,402 | 1,899 | 5,301 |
| Deferred tax liabilities | F3 | 40,333 | (603) | 39,730 |
| | | 43,735 | 1,296 | 45,031 |
| **Capital and reserves** | | | | |
| Issued capital | | 265,246 | - | 265,246 |
| Reserves | | (8,106) | - | (8,106) |
| Retained earnings | | 148,003 | (4,207) | 143,796 |

| | December 31, 2007 | | |
|---|---|---|---|
| | 405,143 | (4,207) | 400,936 |
| | 941,532 | (15,636) | 925,896 |

**HOGLA-KIMBERLY LTD. AND SUBSIDIARIES**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008**

**NOTE 7 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)**

**B. Reconciliation of balance sheets from Israeli GAAP to IFRS (Cont.)**

| | | January 1, 2007 | | |
|---|---|---|---|---|
| | | Israeli GAAP | Effect of Transition to IFRS | IFRS |
| | Note | NIS in thousands | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | | 7,190 | - | 7,190 |
| Trade receivables | | 263,126 | - | 263,126 |
| Inventories | | 172,709 | - | 172,709 |
| Current tax assets | F2 | - | 10,471 | 10,471 |
| Other current assets | F1, F2 | 27,576 | (17,112) | 10,464 |
| | | 470,601 | (6,641) | 463,960 |
| **Non-Current Assets** | | | | |
| Capital note of shareholder | F7 | 32,770 | (1,560) | 31,210 |
| VAT Receivable | | 26,170 | - | 26,170 |
| Property plant and equipment | F3 | 299,294 | (4,485) | 294,809 |
| Goodwill | | 22,338 | - | 22,338 |
| Lease receivables | F3 | - | 2,151 | 2,151 |
| Deferred tax assets | F1, F4 | 30,788 | 6,816 | 37,604 |
| | | 411,360 | 2,922 | 414,282 |
| | | 881,961 | (3,719) | 878,242 |
| **Current Liabilities** | | | | |
| Borrowings | | 152,856 | - | 152,856 |
| Trade payables | | 204,936 | - | 204,936 |
| Current tax liabilities | F2 | - | 11,303 | 11,303 |
| Other payables and accrued expenses | F2, F4 | 58,040 | (12,249) | 45,791 |
| | | 415,832 | (946) | 414,886 |
| **Non-Current Liabilities** | | | | |
| Employee benefit obligations | F4 | - | 1,799 | 1,799 |
| Deferred tax liabilities | F3 | 35,364 | (572) | 34,792 |
| | | 35,364 | 1,227 | 36,591 |
| **Capital and reserves** | | | | |
| Issued capital | | 259,791 | - | 259,791 |
| Reserves | | (14,469) | - | (14,469) |
| Retained earnings | | 185,443 | (4,000) | 181,443 |
| | | 430,765 | (4,000) | 426,765 |

| January 1, 2007 | | |
|---|---|---|
| 881,961 | (3,719) | 878,242 |

**HOGLA-KIMBERLY LTD. AND SUBSIDIARIES**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008**

**NOTE 7 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)**

**C. Reconciliation of Income Statements from Israeli GAAP to IFRS**

| | | Six months ended | | | Three months ended | | | Year ended December 31, 2007 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | June 30, 2007 | | | June 30, 2007 | | | | | |
| | | Israeli GAAP | Effect of Transition to IFRS | IFRS | Israeli GAAP | Effect of Transition to IFRS | IFRS | Israeli GAAP | Effect of Transition to IFRS | IFRS |
| | | NIS in thousands | | | NIS in thousands | | | NIS in thousands | | |
| | Note | (Unaudited) | | | (Unaudited) | | | | | |
| Revenue | | 644,049 | - | 644,049 | 313,859 | - | 313,859 | 1,375,674 | - | 1,375,674 |
| Cost of sales | F3, F4, F6 | 449,737 | 23 | 449,760 | 218,683 | (70) | 218,613 | 968,374 | 220 | 968,594 |
| **Gross profit** | | 194,312 | (23) | 194,289 | 95,176 | 70 | 95,246 | 407,300 | (220) | 407,080 |
| **Operating costs and expenses** | | | | | | | | | | |
| Selling expenses | F4 | 139,552 | (122) | 139,430 | 67,898 | (84) | 67,814 | 279,868 | 33 | 279,901 |
| General and Administrative expenses | F4 | 33,384 | (42) | 33,342 | 14,897 | (18) | 14,879 | 65,710 | 19 | 65,729 |
| **Operating profit** | | 21,376 | 141 | 21,517 | 12,381 | 172 | 12,553 | 61,722 | (272) | 61,450 |
| Finance expenses | F5 | (16,504) | (133) | (16,637) | (8,962) | 348 | (8,614) | (29,097) | (230) | (29,327) |
| Finance income | F5, F7 | - | 913 | 913 | - | 42 | 42 | - | 1,790 | 1,790 |
| Other income (expenses), net | F6 | 23 | (23) | - | 247 | (247) | - | 5 | (5) | - |
| **Profit before tax** | | 4,895 | 898 | 5,793 | 3,666 | | 3,981 | 32,630 | 1,283 | 33,913 |
| Income tax charge | | (30,484) | (101) | (30,585) | (8,104) | (57) | (8,161) | (64,615) | 70 | (64,545) |
| **Profit (loss) for the period** | | (25,589) | 797 | (24,792) | (4,438) | 258 | (4,180) | (31,985) | 1,353 | (30,632) |

**HOGLA-KIMBERLY LTD. AND SUBSIDIARIES**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
**FINANCIAL STATEMENTS AS OF JUNE 30, 2008**

**NOTE 7 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)**

**D. Capital and Reserves Reconciliation**

| | Note | Share capita | Capital reserves | Foreign currency translation reserve | Accumulated other comhensive income | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| | | NIS in thousands | | | | | |
| **As of June 30, 2007 (unaudited)** | | | | | | | |
| **Israeli GAAP** | | 29,638 | 235,608 | (5,651) | 472 | 154,399 | 414,466 |
| **Effect of Transition to IFRS:** | | | | | | | |
| Employee benefits net of tax effects | F4 | - | - | - | - | (536) | (536) |
| Amortization of pre-paid expenses in respect of lease of land | F3 | - | - | - | - | (1,887) | (1,887) |
| Movement in capital note revaluation reserve | F7 | - | - | - | - | (780) | (780) |
| **Under IFRS rules** | | 29,638 | 235,608 | (5,651) | 472 | 151,196 | 411,263 |

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**HOGLA-KIMBERLY LTD. AND SUBSIDIARIES**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
**FINANCIAL STATEMENTS AS OF JUNE 30, 2008**

**NOTE 7 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)**

**D. Capital and Reserves Reconciliation**

| | Note | Share capital | Capital reserves | Foreign currency translation reserve | Accumulated other comhensive income | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| | | NIS in thousands | | | | | |
| **As of December 31, 2007** | | | | | | | |
| **Israeli GAAP** | | 29,638 | 235,608 | (6,757) | (1,349) | 148,003 | 405,143 |
| **Effect of Transition to IFRS:** | | | | | | | |
| Employee benefits net of tax effects | F4 | - | - | - | - | (787) | (787) |
| Amortization of pre-paid expenses in respect of lease of land | F3 | - | - | - | - | (1,860) | (1,860) |
| Movement in capital note revaluation reserve | F7 | - | - | - | - | (1,560) | (1,560) |
| **Under IFRS rules** | | 29,638 | 235,608 | (6,757) | (1,349) | 143,796 | 400,936 |

**HOGLA-KIMBERLY LTD. AND SUBSIDIARIES**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
**FINANCIAL STATEMENTS AS OF JUNE 30, 2008**

**NOTE 7 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)**

**D. Capital and Reserves Reconciliation (Cont.)**

| | Note | Share capital | Capital reserves | Foreign currency translation reserve | Accumulated other comhensive income | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| | | NIS in thousands | | | | | |
| **As of January 1, 2007** | | | | | | | |
| **Israeli GAAP** | | 29,638 | 230,153 | (14,393) | (76) | 185,443 | 430,765 |
| **Effect of Transition to IFRS:** | | | | | | | |
| Employee benefits net of tax effects | F4 | - | - | - | - | (678) | (678) |
| Amortization of pre-paid expenses in respect of lease of land | F3 | - | - | - | - | (1,762) | (1,762) |
| Movement in capital note revaluation reserve | F7 | - | - | - | - | (1,560) | (1,560) |
| **Under IFRS rules** | | 29,638 | 230,153 | (14,393) | (76) | 181,443 | 426,765 |

**HOGLA-KIMBERLY LTD. AND SUBSIDIARIES**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
**FINANCIAL STATEMENTS AS OF JUNE 30, 2008**

## NOTE 7 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)

### E. Statement of cash flows reconciliation

**(1) Classification of Interest Received**

In accordance with generally accepted accounting principles in Israel, Interest received were classified as cash flows provided from operating activity.

Pursuant to IAS 7, Interest received can be classified as cash flows provided from operating activities or cash flows provided by investing activities.

Consequently, amounts in the sum of NIS 334 thousand, NIS 187 thousand were classified as cash flows provided from investing activities for the six and three months ended June 30, 2007 respectively.

A sum of NIS 720 thousand was classified as cash flow provided by investing activities for the year ended December 31, 2007.

**(2) Classification of Interest paid**

In accordance with generally accepted accounting principles in Israel, Interest paid were classified as cash flows used for operating activities.

Pursuant to IAS 7, Interest paid can be classified as cash flows provided from operating activities or cash flows provided by investing activities.

Consequently, amounts in the sum of NIS 1,380 thousand, NIS 531 thousand were classified as cash flows used for financing activities for the six and three months ended June 30, 2007 respectively.

A sum of NIS 27,291 thousand was classified as cash flow used for financing activities for the year ended December 31, 2007.

### F. Additional information

**(1) Deferred Taxes**

In accordance with generally accepted accounting principles in Israel, deferred tax assets or liabilities were classified as current assets or liabilities depending on the classification of the assets in respect of which they were created.

Pursuant to IAS 1, deferred tax assets or liabilities are classified as non-current assets or liabilities, respectively.

Consequently, amounts of NIS 6,641 thousand, NIS 5,840 thousand and NIS 5,770 thousand which were viously sented under accounts receivable were reclassified to deferred taxes under non-current taxes as of January 1, 2007, June 30, 2007 and December 31, 2007 respectively.

**(2) Current Taxes**

In accordance with generally accepted accounting principles in Israel, current tax assets or liabilities were classified as other current assets or liabilities.

Pursuant to IAS 1, current tax assets or liabilities are classified as separate balance in the balance sheet.

**HOGLA-KIMBERLY LTD. AND SUBSIDIARIES**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
**FINANCIAL STATEMENTS AS OF JUNE 30, 2008**

**NOTE 7 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)**

**F. Additional information (cont)**

**(2) Current Taxes (cont)**

consequently, amounts of NIS 10,471 thousand, NIS 12,071 thousand and NIS 21,786 thousand which were viously sented under other current assets were reclassified to current tax assets as of January 1, 2007, June 30, 2007 and December 31, 2007 respectively. And amounts of NIS 11,303 thousand, NIS 12,509 thousand and NIS 11,827 thousand which were viously sented under other current liabilities were reclassified to current tax liabilities as of January 1, 2007, June 30, 2007 and December 31, 2007 respectively.

**(3) Land leased from the Israel Land Administration**

In accordance with generally accepted accounting principles in Israel, land leased from the Israel Land Administration, was classified as property, plant and equipment and included in the amount of the capitalized leasing fees that were paid. The amount paid was not deciated.

Pursuant to IAS 17, Lease , land lease arrangements, whereunder at the end of the leasing period, the land is not transferred to the lessor, are classified as operating lease arrangements. As a result, the Company s lands in Afula which were leased from the Israel Land Administration, shall be sented in the Company s balance sheet as lease receivables in respect of lease, and amortized over the remaining period of the lease.

Consequently, the lease receivables balance in respect of an operating lease increased by NIS 2,151 thousand, NIS 2,087 thousand and by NIS 2,022 thousand and the balance of property, plant and equipment decreased by NIS 4,485 thousand. The change was partly carried to retained earnings in the amounts of NIS 1,762 thousand, NIS 1,887 thousand and NIS 1,860 thousand and partly against deferred taxes in the amounts of NIS 572 thousand, NIS 511 thousand and NIS 603 thousand on January 1, 2007, June 30, 2007 and on December 31, 2007, respectively.

**HOGLA-KIMBERLY LTD. AND SUBSIDIARIES**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
**FINANCIAL STATEMENTS AS OF JUNE 30, 2008**

**NOTE 7 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)**

**F. Additional information (Cont.)**

**(4) Employee Benefits**

In accordance with generally accepted accounting principles in Israel, the Company s liability for severance pay is calculated based on the recent salary of the employee multiplied by the number of years of employment.

Pursuant to IAS 19, the provision for severance pay is calculated according to an actuarial basis taking into account the anticipated duration of employment, the value of time, the expected salary increases until retirement and the possible retirement under conditions not entitling severance pay.

In addition, under Israeli GAAP, deposits made with regular policies or directors insurance policies which are not in the employee s name, but in the name of the employer, were also deducted from the Company s liability.

Under IFRS, regular policies or directors insurance policies as aforesaid, which do not meet the definition of plan assets under IAS 19, will be sented in the balance sheet under a separate item and will not be deducted from the employer s liability.

Most of the Group s employees are covered according to Section 14 of the Compensation Law. Employee deposits are not reflected in the Company s financial statements and accordingly, no provision is necessary in the books.

However, the Company is required to pay employees differences from entitlement to severance pay and unutilized vacation pay. These liabilities are computed in accordance with the actuary s assessment based on an estimate of their utilization and redemption.

In addition, net liabilities in respect of benefits to employees after retirement, which relate to defined benefit plans, are measured based on actuarial estimates and discounted amounts.

The impact of the aforesaid on the balance sheet is decrease in other payables and accrued expenses due to unutilized vacation pay in the amounts of NIS 946 thousand, NIS 831 thousand and NIS 898 thousand and an increase in respect of employee benefit obligation in the amounts of NIS 1,799 thousand, NIS 1,502 thousand and NIS 1,899 thousand as of January 1, 2007, June 30, 2007 and December 31, 2007, respectively,

The change was partly carried to retained earnings in the amounts of NIS 678 thousand, NIS 536 thousand and NIS 787 thousand and partly against deferred taxes in the amounts of NIS 175 thousand, NIS 135 thousand and NIS 214 thousand on January 1, 2007, June 30, 2007 and on December 31, 2007, respectively.

**HOGLA-KIMBERLY LTD. AND SUBSIDIARIES**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
**FINANCIAL STATEMENTS AS OF JUNE 30, 2008**

**NOTE 7 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)**

**F. Additional information (Cont.)**

**(5) Financial Income and Expenses**

In accordance with generally accepted accounting principles in Israel, financing income and expenses are sented under the statement of income in one amount.

Pursuant to IAS 1, financing income and expenses should be sented separately.

Consequently, financing expenses in the amounts of NIS 16,637 thousand and financing income in the amount of NIS 913 thousand were sented in the income statements for the six months ended June 30, 2007.

Financing expenses in the amount of NIS 8,614 thousands and financing income in the amount of NIS 42 thousands were sented in the income statements for the three months ended June 30, 2007.

Financing expenses in the amount of NIS 29,327 thousand and financing income in the amount of NIS 1,790 thousand were sented in the income statement for the year ended December 31, 2007.

**(6) Other Income and Expenses**

In accordance with generally accepted accounting principles in Israel, other income and expenses are sented in the income statements after the Operating profit.

Pursuant to IAS 1, other income and expenses should be sented as a part of Gross profit or / and as a part of Operating costs and expenses.

Consequently, other income in the amounts of NIS 23 thousand and NIS 247 thousand were classified as cost of sales in the income statements for the six and three months ended June 30, 2007 respectively.

Other income in the amount of NIS 5 thousand were classified as cost of sales in the income statements for the year ended December 31, 2007.

**(7) Capital note of shareholder**

In accordance with generally accepted accounting principles in Israel, the capital note to AIPM was stated at nominal value and not capitalized.

Pursuant to IAS 32 and IAS 39 the capital note to AIPM is considered financial asset and need to be measured at amortized cost using the effective interest method, less any impairment.

Consequently, the capital note balance decreased by NIS 1,560 thousand, NIS 780 thousand and NIS 1,560 thousand as of January 1, 2007, June 30, 2007 and December 31, 2007, respectively. The retained earnings decreased in the same amounts respectively. Finance income was increased in the amounts of NIS 1,560 thousand, NIS 780 thousand and NIS 390 thousand for the six and three months ended June 30, 2007 and the year ended December 31, 2007 respectively.

**HOGLA-KIMBERLY LTD. AND SUBSIDIARIES**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
**FINANCIAL STATEMENTS AS OF JUNE 30, 2008**

**NOTE 7 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)**

**G. Reliefs with respect to the retroactive implementation of IFRS adopted by the Company**

IFRS 1 includes several reliefs, in respect of which the mandatory retroactive implementation does not apply. The Company elected to adopt in its opening balance sheet under IFRS as of January 1, 2007 (hereinafter: the opening balance sheet ) the reliefs with regards to:

**(1)** Business Combinations, in accordance to the relief, the Company chose not to retroactively implement the provisions of IFRS 3 regarding to business combination which occurred before January 1, 2007.

Consequently goodwill and adjustments due to fair value of subsidiaries that where acquired before January 1, 2007 is treated in accordance to generally accepted accounting principles in Israel.

**(2)** IFRS 1 allows to measure fixed assets, as of the transition date, or before it, based on revaluation that was carried out in accordance to prior accounting principles, as deemed cost, on the time of the revaluation, if the revaluation was comparable in general, to the cost or to the cost net of accumulated deciation according to the IFRS standards, adjusted to changes such as changes in the CPI.

Until December 31, 2003 the Company adjusted its financial statements to the changes in foreign rate of the U.S dollar, in accordance with opinion No. 36 of the institute of Certified Accountancy in Israel.

For the purpose of adapting the IFRS standards, the Company chose to implement the above said relief allowed under IFRS 1, and to measure fixed assets items that were purchased or established up to December 31, 2003 according to the affective cost for that date, based on their adjusted value to the foreign exchange rate of the U.S dollar up to that date.



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**Exhibit 6**

**CARMEL CONTAINER SYSTEMS LTD. AND SUBSIDIARY**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF JUNE 30, 2008**

**(UNAUDITED)**

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**CARMEL CONTAINER SYSTEMS LTD. AND SUBSIDIARY**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF JUNE 30, 2008**

**UNAUDITED**

**IN NIS**

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**The Board of Directors**

**Carmel Container Systems Ltd.**

**Re: Review report of unaudited interim consolidated financial statements for the six and three months ended June 30, 2008**

At your request, we have reviewed the accompanying interim consolidated balance sheet of Carmel Container Systems Ltd. ( the Company ) as of June 30, 2008, and the related interim consolidated statements of income, consolidated statements of recognized income and expenses and cash flows for the six and three months then ended. Our review was made in accordance with procedures established by the Institute of Certified Public Accountants in Israel. These procedures included reading the above mentioned interim consolidated financial statements, reading minutes of meetings of the shareholders and of the board of directors and its committees, and making inquiries of persons responsible for financial and accounting matters.

A review is substantially less in scope than an audit in accordance with generally accepted auditing standards in Israel, and accordingly, we do not express an opinion on the interim consolidated financial statements.

Based on our review, we are not aware of any material modifications that should be made to the interim consolidated financial statements in order for them to be in conformity with International financial standard IAS 34, Interim Financial Reporting , and with the disclosure requirements of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

Haifa, Israel
August 4, 2008

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

**CARMEL CONTAINER SYSTEMS LTD. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

| | December 31, 2007 | June 30, 2007 | June 30, 2008 | Convenience translation (Note 4) June 30, 2008 |
|---|---|---|---|---|
| | Audited | Unaudited | | Unaudited |
| | N I S | | | U.S. dollars |
| | (In thousands) | | | |
| ASSETS | | | | |
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents | 2,522 | 1,593 | 1,318 | 393 |
| Trade receivables | 185,153 | 180,939 | 164,994 | 49,222 |
| Other accounts receivable and prepaid expenses | 2,546 | 2,241 | 3,105 | 926 |
| Inventories | 55,149 | 66,678 | 61,871 | 18,459 |
| Total current assets | 245,370 | 251,451 | 231,288 | 69,000 |
| NON CURRENT ASSETS | | | | |
| Long term receivables | 141 | 246 | 1,754 | 523 |
| Assets in respect of employee benefits | 623 | 974 | - | - |
| Investment in associated company | 8,651 | 8,607 | 8,402 | 2,507 |
| Property and equipment, net | 72,454 | 76,668 | 67,020 | 19,994 |
| Intangible assets, net (see Note 6) | 2,127 | 2,127 | - | - |
| Total non - current assets | 83,996 | 88,622 | 77,176 | 23,024 |
| Total assets | 329,366 | 340,073 | 308,464 | 92,024 |

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

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**CARMEL CONTAINER SYSTEMS LTD. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

| | December 31, 2007 | June 30, 2007 | June 30, 2008 | Convenience translation (Note 4) June 30, 2008 |
|---|---|---|---|---|
| | Audited | Unaudited | | Unaudited |
| | N I S | | | U.S. dollars |
| | (In thousands) | | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| CURRENT LIABILITIES: | | | | |
| Short-term credit from banks and others | 16,903 | 22,839 | 25,482 | 7,602 |
| Current maturities of long-term loans | 25,602 | 27,150 | 23,053 | 6,877 |
| Trade payables | 87,423 | 88,761 | 71,482 | 21,327 |
| Derivative financial instruments | 537 | - | 12,090 | 3,606 |
| Provision for Tax | 3,993 | - | - | - |
| Other accounts payable and accrued expenses | 17,190 | 14,693 | 17,463 | 5,210 |
| Total current liabilities | 151,648 | 153,443 | 149,570 | 44,622 |
| NON - CURRENT LIABILITIES: | | | | |
| Long-term liabilities from banks | 49,376 | 61,363 | 39,313 | 11,728 |
| Liabilities in respect of employee benefits, net | - | - | 454 | 135 |
| Deferred income taxes, net | 6,959 | 9,383 | 7,053 | 2,104 |
| Total non - current liabilities | 56,335 | 70,746 | 46,820 | 13,967 |
| SHAREHOLDERS' EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT | | | | |
| Share capital | 23,716 | 23,716 | 23,716 | 7,075 |
| Treasury shares | (27,565) | (27,565) | (27,565) | (8,223) |
| Share premium | 45,413 | 45,413 | 45,413 | 13,548 |
| Retained earnings | 80,211 | 74,320 | 79,340 | 23,669 |
| Other capital reserves | (392) | - | (8,830) | (2,634) |
| Total shareholders' equity | 121,383 | 115,884 | 112,074 | 33,435 |
| Total liabilities and shareholders' equity | 329,366 | 340,073 | 308,464 | 92,024 |

| August 4, 2008 | | | | |
|---|---|---|---|---|
| Date of approval of the financial | Menachem Kalach Director | Zvika Livnat Vice Chairman of the | Doron Kempler General Manager | Jacob Konkol Chief Financial |

| statements | Broad of Directors | Officer |
|---|---|---|

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



**CARMEL CONTAINER SYSTEMS LTD. AND SUBSIDIARIES**

**CONSOLIDATED INCOME STATEMENTS**

| | Year ended December 31, 2007 | Three months ended June 30, 2007 | Three months ended June 30, 2008 | Six months ended June 30, 2007 | Six months ended June 30, 2008 | Convenience Translation (Note 4) Six months ended June 30, 2008 |
|---|---|---|---|---|---|---|
| | Audited | Unaudited | | | | Unaudited |
| | N I S | | | | | U.S. dollars |
| | (In thousands, except share and per share amounts) | | | | | |
| Revenues | 471,428 | 110,632 | 100,131 | 232,569 | 217,109 | 64,770 |
| Cost of revenues | 416,719 | 97,432 | 94,912 | 207,727 | 198,546 | 59,232 |
| Gross profit | 54,709 | 13,200 | 5,219 | 24,842 | 18,563 | 5,538 |
| Selling and marketing expenses | 24,185 | 5,904 | 5,455 | 12,563 | 11,648 | 3,475 |
| General and administrative expenses | 16,621 | 3,980 | 4,399 | 8,022 | 9,621 | 2,870 |
| Other income | (102) | - | (1,437) | - | (1,108) | (331) |
| Operating income (loss) | 14,005 | 3,316 | (3,198) | 4,257 | (1,598) | (476) |
| Capital gain (loss) from sale of fixed assets | 235 | 9 | 18 | 49 | 59 | 17 |
| Financial income | 1,783 | 141 | 1,962 | 550 | 3,787 | 1,130 |
| Financial expenses | (6,112) | (2,297) | (1,758) | (3,256) | (3,287) | (981) |
| Equity in losses of an associated company | (324) | (90) | (370) | (124) | (212) | (63) |
| Income (loss) before taxes on income | 9,587 | 1,079 | (3,346) | 1,476 | (1,251) | (373) |
| Taxes on income (tax benefit) | 1,931 | 87 | (1,060) | 27 | (693) | (207) |
| Income (loss) after taxes on income | 7,656 | 992 | (2,286) | 1,449 | (558) | (166) |

| | | | | | | Convenience Translation (Note 4) |
|---|---|---|---|---|---|---|
| Net income (loss) | 7,656 | 992 | (2,286) | 1,449 | (558) | (166) |
| Net income (loss) per share attributable to equity holders of the parent | 3.79 | 0.49 | (1.31) | 0.66 | (0.32) | (0.09) |
| Weighted average number of shares outstanding during the period (in thousands) | 2,022 | 2,026 | 1,740 | 2,211 | 1,740 | 1,740 |

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

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**CARMEL CONTAINER SYSTEMS LTD. AND SUBSIDIARIES**

**CONSLIDATED STATEMENTS OF RECOGNIZED INCOME AND EXPENSES**

| | Year ended December 31, 2007 | Three months ended June 30, | | Six months ended June 30, | | Convenience Translation (Note 4) Six months ended June 30, 2008 |
|---|---|---|---|---|---|---|
| | | 2007 | 2008 | 2007 | 2008 | |
| | Audited | Unaudited | | | | Unaudited |
| | N I S | | | | | U.S. dollars |
| | (In thousands) | | | | | |
| Loss in respect of hedging derivative ,net | (392) | - | (950) | - | (8,830) | (2,634) |
| Amounts transferred to the income statements in respect of hedging derivative | - | - | 330 | - | 392 | 117 |
| Actuarial losses in respect of defined benefit plans, net | (560) | - | - | - | (276) | (83) |
| Equity in actuarial earnings (losses) in respect of defined benefit plans of associated company, net | 244 | - | - | - | (37) | (11) |
| Total expenses recognized directly in equity | (708) | - | (620) | - | (8,751) | (2,611) |
| Net income (loss) | 7,656 | 992 | (2,286) | 1,449 | (558) | (166) |
| Total recognized income (expenses) | 6,948 | 992 | (2,906) | 1,449 | (9,309) | (2,777) |

| | | | | | | Convenience Translation (Note 4) |
|---|---|---|---|---|---|---|
| | | | | | | |

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

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**CARMEL CONTAINER SYSTEMS LTD. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Year ended December 31, 2007 | Three months ended June 30, 2007 | Three months ended June 30, 2008 | Six months ended June 30, 2007 | Six months ended June 30, 2008 | Convenience Translation (Note 4) Six months ended June 30, 2008 |
|---|---|---|---|---|---|---|
| | Audited | Unaudited | | | | Unaudited |
| | N I S | | | | | U.S. dollars |
| | (In thousands) | | | | | |
| Cash flows from operating activities: | | | | | | |
| Net income (loss) | 7,656 | 992 | (2,286) | 1,449 | (558) | (166) |
| Adjustments required to reconcile net income to net cash provided by (used in) operating activities: | | | | | | |
| Equity in losses of an affiliated company | 324 | 90 | 370 | 124 | 212 | 63 |
| Depreciation | 21,920 | 4,650 | 5,500 | 9,212 | 10,933 | 3,262 |
| Deferred income taxes, net | (2,062) | 87 | (831) | 27 | (693) | (206) |
| Liabilities in respect of employee benefits, net | 199 | (173) | 308 | 489 | 709 | 212 |
| Erosion and Linkage differentials of long-term loans from banks | 710 | 185 | 437 | 114 | 555 | 166 |
| Capital gain from sale of property and equipment, net | (235) | (9) | (18) | (49) | (59) | (18) |
| Impairment of Ashkelon assets | - | - | 1,943 | - | 1,943 | 580 |
| Impairment of intangible assets | - | - | - | - | 2,127 | 635 |
| Decrease (increase) in trade receivables | (24,259) | 1,470 | 15,211 | (17,663) | 20,159 | 6,014 |
| Increase in long-term receivables | - | - | - | - | (1,706) | (509) |
| Decrease (increase) in other accounts receivable and prepaid expenses | 545 | 843 | (524) | 833 | (549) | (164) |
| Decrease (increase) in inventories | 16,776 | (8) | 768 | 7,247 | (7,822) | (2,334) |
| Increase (decrease) in trade payables | (2,105) | 577 | (22,303) | (983) | (15,940) | (4,755) |
| Increase (decrease) in other accounts payable and accrued expenses | 6,611 | (792) | (2,045) | (2,152) | 273 | 81 |

| | | | | | | Convenience Translation (Note 4) |
|---|---|---|---|---|---|---|
| Net cash provided by (used in) operating activities | 26,080 | 7,912 | (3,470) | (1,352) | 9,584 | 2,861 |
| Cash flows from investing activities: | | | | | | |
| Purchase of property and equipment | (9,045) | (1,247) | (3,706) | (3,094) | (6,354) | (1,897) |
| Proceeds from sale of property and equipment | 276 | 10 | 19 | 50 | 71 | 21 |
| Refund of long-term loan | 153 | 24 | 83 | 65 | 83 | 25 |
| Net cash used in investing activities | (8,616) | (1,213) | (3,604) | (2,979) | (6,200) | (1,851) |
| Cash flows from financing activities: | | | | | | |
| Purchase of equipment with credit | (4,600) | (3,800) | - | (3,800) | - | - |
| Proceeds from long-term loans from banks | 29,000 | 13,000 | - | 29,000 | - | - |
| Principal payment of long-term loans from banks | (27,113) | (6,603) | (6,376) | (12,983) | (13,167) | (3,928) |
| Short-term credit from banks and others, net | 9,258 | 13,861 | 13,539 | 15,194 | 8,579 | 2,559 |
| Repurchase of the Company's shares | (23,307) | (23,307) | | (23,307) | - | - |
| Net cash provided by (used in) financing activities | (16,762) | (6,849) | 7,163 | 4,104 | (4,588) | (1,369) |
| Increase (decrease) in cash and cash equivalents | 702 | (150) | 89 | (227) | (1,204) | (359) |
| Cash and cash equivalents at the beginning of the period | 1,820 | 1,743 | 1,229 | 1,820 | 2,522 | 752 |
| Cash and cash equivalents at the end of the period | 2,522 | 1,593 | 1,318 | 1,593 | 1,318 | 393 |

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

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**CARMEL CONTAINER SYSTEMS LTD. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Convenience Translation (Note 4)**

| | Year ended December 31, 2006 | Three months ended June 30, | | Six months ended June 30, | | Convenience Translation (Note 4) Six months ended June 30, 2008 |
|---|---|---|---|---|---|---|
| | | 2007 | 2008 | 2007 | 2008 | |
| | | Unaudited | | | | Unaudited |
| | Audited | N I S | | | | U.S. dollars |
| | (In thousands) | | | | | |
| a. Non-cash transactions: | | | | | | |
| Purchase of property and equipment with credit | 584 | - | - | - | - | - |
| Reclassification of Auxiliary equipment to inventory | - | (2,500) | - | (2,500) | - | - |
| b. Supplemental disclosure of cash flows activities: | | | | | | |
| Cash paid during the year for: | | | | | | |
| Interest | 5,523 | 1,107 | 1,227 | 2,330 | 2,294 | 684 |
| Income taxes | 40 | 20 | - | 40 | - | - |

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





**NOTES TO CONSLIDATED FINANCIAL STATEMENTS**

**NOTE 1: GENERAL**

These financial statements have been prepared for the first time in accordance with International Financial Reporting Standards ( IFRS ) in a condensed format as of June 30, 2008 and for the six and three months then ended ( interim consolidated financial statements ). With respect to certain notes, such as disclosures regarding commitments, liabilities, contingent liabilities and such, the interim consolidated financial statements should be read in conjunction with the Company s annual financial statements and accompanying notes as of December 31, 2007, and for the year then ended, which are the Company s latest annual financial statements prepared in accordance with generally accepted accounting principles in Israel ( Israeli GAAP ).

The IFRS on the basis of which the accounting policies were determined in the interim consolidated financial statements are the same IFRS that will be in effect or that may be adopted early in the first annual financial statements prepared in accordance with IFRS as of December 31, 2008 and for the year then ended, and are therefore subject to the relevant changes and their effective adoption in the annual financial statements. Accordingly, the accounting policies adopted in the annual financial statements, as far as they are relevant to these interim financial statements, will be definitively determined upon the preparation of the annual financial statements.

The Company first adopted IFRS in 2008 and accordingly, the date of transition to reporting pursuant to IFRS is January 1, 2007. Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with Israeli GAAP. The Company s latest annual financial statements prepared in accordance with Israeli GAAP were as of December 31, 2007 and for the year then ended.

See Note 7 for the reconciliations between reporting pursuant to Israeli GAAP and reporting pursuant to IFRS.

Basis of preparation of the interim consolidated financial statements:

The interim consolidated financial statements have been prepared in conformity with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in International Financial Reporting Standard IAS 34 ( Interim Financial Reporting ) and in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES**

Below are the significant accounting policies followed by the Company in these financial statements upon the first-time adoption of IFRS that were consistently applied in all the presented periods:

a. Basis of presentation of the financial statements:

The Company s financial statements are prepared on a cost basis, except investment property, land and buildings, derivatives and financial instruments, liabilities for share-based payment arrangements, liabilities for dismantling and evacuating sites, liabilities in respect of employee benefits and assets presented at deemed cost pursuant to IFRS 1, which are measured at fair value.





**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

a. Basis of presentation of the financial statements (cont.):

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 eliminated in full in the consolidated financial statements.

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.

b. Functional and foreign currencies:

1. Functional and presentation currencies:

The financial statements are prepared in New Israeli Shekels ( NIS ), which is the Company s functional currency.

The functional currency, which is the currency that best reflects the economic environment in which the Company operates and conducts its transactions, is separately determined for each Group member, including an associate which is presented at equity, and is used to measure its financial position and operating results.

2. Foreign currency transactions, assets and liabilities:

Transactions denominated in foreign currency (other than the functional currency) are recorded on initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the date of the balance sheet. Exchange differences are recognized in the statement of income. Non-monetary assets and liabilities denominated in foreign currency and presented at fair value are translated into the functional currency using the exchange rate at the date when the fair value was determined.

3. Index-linked monetary items:

Monetary assets and liabilities linked under various terms to the changes in the Israeli Consumer Price Index ( CPI ) are adjusted at the relevant index at each balance sheet date according to the terms of the agreement. Linkage differences arising from the adjustment are carried to the income statement.





**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

c. 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.

d. Allowance for doubtful accounts:

The allowance for doubtful accounts is principally determined in respect of specific debts whose collection, in the opinion of the management of the companies, is doubtful, in addition to a general allowance. Impaired customer debs are written off only after all reasonable collection efforts have been exhausted.

e. Inventories:

Inventories are valued at the lower of cost and net realizable value. 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 incurred in bringing each product to its present location and condition is accounted for as follows:

Raw Materials and goods in transit using the first-in, first-out method.

Supplies and packaging material on the basis of moving average cost

Work in progress and Finished products on the basis of computed with allocable indirect manufacturing cost.

The Company periodically evaluates the condition and age of inventories and provides for slow moving inventories accordingly. If in a particular period, production is not at normal capacity, the cost of inventories does not include fixed overhead costs in excess of those allocated based on normal capacity. Such unallocated overhead costs are recognized as an expense in the statement of income in the period in which they are incurred. Furthermore, cost of inventories does not include abnormal amounts of materials, labor and other costs resulting from inefficiency.

f. 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 profit and loss in respect of which transaction costs are carried to profit and loss.

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.





**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

f. Financial instruments (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 taking into consideration the transaction costs and less any provision for impairment. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

2. Derecognition of financial instruments:

Financial assets:

A financial asset (such as a receivable in a transaction for the sale of a customer debt) 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 (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the

transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities:

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. A financial liability is settled once the borrower (the Group):

Has settled the liability by payment in cash, other financial assets, goods or services, or
Is legally dismissed from the obligation.





**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

f. Financial instruments (cont.):

2. Derecognition of financial instruments:

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement. If the exchange or modification is immaterial, it is treated as a change in the terms of the original commitment and no gain or loss is recognized from the exchange.

3. Treasury shares:

Company shares held by the Company and subsidiaries are carried at cost and presented as a deduction from equity. Gains or losses from the purchase, sale, issuance or cancellation of treasury shares are carried directly to equity.

g. 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 carried to the income statement 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 (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

h. Derivative financial instruments:

The Company uses derivative financial instruments such as forward currency contracts and interest rate swaps (IRS) to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into 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 Company maintains derivative financial instruments in order to hedge foreign currency and CPI related risks. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.





**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

h. Derivative financial instruments (cont.):

For the purpose of hedge accounting, hedges are classified as:

Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk); or
Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or
Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument s effectiveness in offsetting the exposure to changes in the hedged item s fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the criteria for hedge accounting are accounted for as follows:

Cash flow hedges:

The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while any ineffective portion is recognized immediately in profit or loss.

Amounts taken to equity are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction or firm commitment occurs.

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

i. Investments in associates:

Associates are companies in which the Company exercises significant influence over the operating and financial policies without having control.

The investment in an associate is accounted for using the equity method of accounting. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Group s share of net assets and the capital reserves of the associate.

The income statement reflects the share of the results of operations of the associate. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

Losses of associates in amounts which exceed their shareholders equity are recognized by the Company to the extent of its investment in the associates with the addition of any losses that the Company may incur as a result of a guarantee or other financial support provided in respect of these associates.

The reporting dates of the associate and the Company are identical and the associate s accounting policies conform to those used by the Company for like transactions and events in similar circumstances.

j. Property and equipment:

Fixed assets are stated at cost with the addition of direct acquisition costs, less accumulated impairment losses, less accumulated depreciation and less investment grants 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 at annual rates as follows:

| | % |
|---|---|
| Buildings | 8 |
| Machinery and equipment | 6 - 10 (mainly 8%) |
| Motor vehicles and forklifts | 15 |
| Office furniture and equipment | 6 - 33 |
| Leasehold improvements | over the term of the lease |

Leasehold improvements are depreciated using the straight-line method over the lease period (including the extension option held by the Group and intended to be exercised) 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 fixed assets, see (o) below.



**CARMEL CONTAINER SYSTEMS LTD. AND SUBSIDIARIES**

**NOTES TO CONSLIDATED FINANCIAL STATEMENTS**

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

j. Property and equipment (cont.):

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 income statement in the year the asset is derecognized.

k. Intangible assets:

Software:

The Company s assets include computer systems comprised of hardware and software. Software forming an integral part of the hardware to the extent that the hardware cannot function without the programs installed on it is classified as fixed assets. In contrast, self-sufficient software licenses that add another dimension of functionality to the hardware are classified as intangible assets.

l. Impairment of non-financial assets:

The Company assesses at each reporting date whether events or changes in circumstances indicate that an asset may be impaired. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in income. The recoverable amount is the higher of an asset s 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 current market assessments specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the income-generating unit of that asset.

Impairment losses are carried to the statement of income in other expenses except impairment of previously revalued property and the revaluation is carried to capital reserve. In such event, the impairment is carried to capital reserve up to the amount of revaluation and the balance is carried to the income statement.

m. Taxes on income:

Taxes on income in the income statement include current and deferred taxes. The tax results in respect of current or deferred taxes are carried to the income statement 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:

The current income tax liability is measured using tax rates and tax laws that are enacted or substantively enacted by the balance sheet date as well as adjustments required in connection with the tax liability in respect of previous years.

2. Deferred income 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 described in the Standard.

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

m. Taxes on income (cont.):

2. Deferred income taxes (cont.)

Deferred tax balances are measured using the enacted tax rates expected to be in effect when these taxes are carried to the income statement, based on the applicable tax laws at 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 the sale of investments in investees have not been taken into account in computing the deferred taxes, as long as it is probable that the sale of the investments 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.

Deferred tax assets and deferred tax liabilities are presented as non-current assets and non current 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.

n. Liabilities in respect of employee benefits:

The Company 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 Company 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 Company 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 financial statements.





**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

n. Liabilities in respect of employee benefits:

2. Post-retirement benefits (cont.):

The Company 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. The accrued severance pay is presented using the projected unit credit method. The actuarial calculation takes into consideration future salary increases and the rate of employee departure, based on an evaluation of the timing of payment. The amounts are presented based on discounted expected future cash flows at interest rates on Government bonds whose redemption date approximates the period of the liability in respect of the severance pay.

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.

All actuarial gains or losses are directly recognized in equity and are included in the retained earning.

The Company s Accounting policy of actuarial gains (losses) formerly was to recognize it to the income statement as incurred. In connection with comparable numbers presented according with the accounting policy of recognition of actuarial gains (losses) directly in the equity see note 7.

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.

o. Revenue recognition:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company, the revenue can be reliably measured and the costs incurred or to be incurred in respect of the transaction can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales taxes or duty.

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, usually on dispatch of the goods, and the seller does not maintain continuing managerial involvement.

Interest income:

Interest income is recognized on an accrual basis using the effective interest rate method.

Customer discounts:

Current customer discounts are recognized in the financial statements upon receipt and are deducted from sales revenues.





**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

o. Revenue recognition (cont.):

Customer discounts given at the end of the year and in respect of which the customer is not obligated to comply with certain targets, are recognized in the financial statements as the purchases which entitle the customer to said discounts are made.

Customer discounts for which the customer is required to meet certain targets, such as a minimum amount of annual purchases (either quantitative or monetary), an increase in purchases compared to previous periods, etc. are recognized in the financial statements in proportion to the purchases made by the customer during the year that qualify for the target, provided that it is expected that the targets will be achieved and the amount of the discount can be reasonably estimated. The estimate as to meeting the targets is based, among others, on past experience, on the Company s relationship with the customers and on the expected amount of purchases by the customers in the remaining period.

p. Cost of supplier revenues and discounts:

Cost of sales includes expenses for loss, storage and conveyance of inventories to the end point of sale. Cost of sales also includes impairment losses in respect of inventories, inventory write offs and provisions for slow-moving inventories.

Supplier discounts are deducted from cost of purchase when the conditions entitling to those discounts are met. Certain of the discounts in respect of that portion of the purchases that are added to closing inventories are attributed to inventories and the balance reduces the cost of sales.

Supplier discounts received at the end of the year and in respect of which the Company is not obligated to comply with certain targets, are recognized in the financial statements as the purchases which entitle the Company to say discounts are made.

Supplier discounts for which the Company is required to meet certain targets, such as a minimum amount of annual purchases (either quantitative or monetary), an increase in purchases compared to previous periods, etc. are recognized in the financial statements in proportion to the purchases made by the Company during the year that qualify for the target, provided that it is expected that the targets will be achieved and the amount of the discount can be reasonably estimated. The estimate as to meeting the targets is based, among others, on past experience, on the Company s relationship with the suppliers and on the expected amount of purchases from the suppliers in the remaining period.

q. Earnings (loss) per share:

Earnings per share are computed by dividing the weighted number of Ordinary shares outstanding during the period by the net income attributable to the equity holders of the parent. Basic earnings per share only include shares that were actually outstanding during the period.





**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

r. Provisions:

Provisions are recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. If the effect is material, provisions are discounted using a current pre-tax interest rate that reflects, where appropriate, the market s expectations of the time value of money and in certain cases, the risks specific to the liability.

s. 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 1 (Revised) Presentation of Financial Statements:

The revised IAS 1, Presentation of Financial Statements , was issued in September 2007 and becomes effective for financial years beginning on or after January 1, 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognized in profit or loss, together will all other items of recognized income and expense, either in one single statement, or in two liked statements.

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





**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

s. Disclosure of the effects of new IFRS in the period prior to their adoption (cont.):

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

The revised Standards were issued in January 2008 and become effective for financial years beginning on or after July 1, 2009. IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss.

Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3 (Revised) and IAS 27 (Revised) must be applied prospectively and will affect future acquisitions and transactions with minority interests.

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





**NOTE 3: STATEMENT OF CHANGES IN SHARHOLDERS EQUITY**

| | Six months ended June 30, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Share Capital | Share Premium | Other Capital reserves | Retained earnings | Less- treasury shares | Total Shareholders' Equity |
| | (In thousands) | | | | | |
| Balance at the beginning of the period (audited) | 23,716 | 45,413 | (392) | 80,211 | (27,565) | 121,383 |
| Total recognized expenses | - | - | (8,438) | (871) | - | (9,309) |
| Balance at the end of the period (unaudited) | 23,716 | 45,413 | (8,830) | 79,340 | (27,565) | 112,074 |

| | Six months ended June 30, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Share Capital | Share Premium | Other Capital reserves | Retained earnings | Less- treasury shares | Total Shareholders' Equity |
| | NIS | | | | | |
| | (In thousands) | | | | | |
| Balance at the beginning of the period (audited) | 23,716 | 45,413 | - | 72,871 | (4,258) | 137,743 |
| Total recognized income | - | - | - | 1,449 | - | 1,449 |
| Repurchase of company shares | - | - | - | - | (23,307) | (23,307) |
| Balance at the end of the period (unaudited) | 23,716 | 45,413 | - | 74,320 | (27,565) | 115,884 |

**Three months ended June 30, 2008**

| | Three months ended June 30, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Share Capital | Share Premium | Other Capital reserves | Retained earnings | Less- treasury shares | Total Shareholders' Equity |
| | NIS (In thousands) Unaudited | | | | | |
| Balance at the beginning of the period | 23,716 | 45,413 | (8,210) | 81,626 | (27,565) | 114,980 |
| Total recognized expenses | - | - | (620) | (2,286) | - | (2,906) |
| Balance at the end of the period | 23,716 | 45,413 | (8,830) | 79,340 | (27,565) | 112,074 |

| | Three months ended June 30, 2007 | | | | |
|---|---|---|---|---|---|
| | Share Capital | Share Premium | Retained earnings | Less- treasury shares | Total Shareholders' Equity |
| | NIS (In thousands) Unaudited | | | | |
| Balance at the beginning of the period | 23,716 | 45,413 | 73,328 | (4,258) | 138,199 |
| Total recognized income | - | - | 992 | - | 992 |
| Repurchase of company shares | - | - | - | (23,307) | (23,307) |
| Balance at the end of the period | 23,716 | 45,413 | 74,320 | (27,565) | 115,884 |





**NOTE 3: STATEMENT OF CHANGES IN SHARHOLDERS EQUITY (CONT.)**

**Year ended December 31, 2007**

| | Year ended December 31, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Share Capital | Share Premium | Other Capital reserves | Retained earnings | Less- treasury shares | Total Shareholders' Equity |
| | NIS | | | | | |
| | (In thousands) | | | | | |
| | Audited | | | | | |
| Balance at the beginning of the year | 23,716 | 45,413 | - | 72,871 | (4,258) | 137,742 |
| Total recognized income (expenses) | - | - | (392) | 7,340 | - | 6,948 |
| Repurchase of company shares | - | - | - | - | (23,307) | (23,307) |
| Balance at the end of the year | 23,716 | 45,413 | (392) | 80,211 | (27,565) | 121,383 |

| | Six months ended June 30, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Share Capital | Share Premium | Other Capital reserves | Retained earnings | Less- treasury shares | Total Shareholders' Equity |
| | Convenience translation into U.S. dollars (Note 4) | | | | | |
| | (In thousands) | | | | | |
| Balance at the beginning of the period (audited) | 7,075 | 13,548 | (117) | 23,929 | (8,223) | 36,212 |
| Total recognized expenses | - | - | (2,517) | (260) | - | (2,777) |
| Balance at the end of the period (unaudited) | 7,075 | 13,548 | (2,634) | 23,669 | (8,223) | 33,435 |

**NOTE 4: CONVENIENCE TRANSLATION INTO U.S. DOLLARS**

The financial statements as of June 30, 2008 and for the six months then ended have been translated into U.S. dollars using the representative exchange rate as of such date ($ 1 = NIS 3.352). The translation was made solely for the convenience of the readers. It should be noted that the reported New Israel Shekel figures do not necessarily represent the current costs of the various elements presented, and that the translated US Dollar figures should not be construed unless otherwise indicated in these statements.

**NOTE 5: OPERATING SEGMENTS DATA**

The Company operates in two operating segments, the manufacturing of shipping containers, consumer packaging products and packaging wooden pallets and boxes, (see Note 1a in the annual financial statements for a brief description of the Company s business) and follows the requirements of Accounting Standard No. 11 Segment Reporting .

| | Six months ended June 30, 2008 (unaudited) | | | |
|---|---|---|---|---|
| | Shipping containers | Tri-Wall packaging wooden pallets and boxes | Eliminations | Total |
| | NIS (In thousands) | | | |
| Revenues: | | | | |
| Sales to external customers | 182,058 | 35,051 | - | 217,109 |
| Intersegment sales | 3,606 | 1,526 | (5,132) | - |
| Total revenues | 185,664 | 36,577 | (5,132) | 217,109 |
| Segments operating income (loss) | (2,887) | 1,289 | | (1,598) |

| | Six months ended June 30, 2007 (unaudited) | | | |
|---|---|---|---|---|
| | Shipping containers | Tri-Wall packaging wooden pallets and boxes | Eliminations | Total |
| | NIS (In thousands) | | | |
| Revenues: | | | | |
| Sales to external customers | 196,595 | 35,974 | - | 232,569 |
| Intersegment sales | 4,179 | 847 | (5,026) | - |
| Total revenues | 200,774 | 36,821 | (5,026) | 232,569 |
| Segments operating income | 2,610 | 1,647 | | 4,257 |

**Three months ended June 30, 2008 (unaudited)**

| | Three months ended June 30, 2008 (unaudited) | | | |
|---|---|---|---|---|
| | Shipping containers | Tri-Wall packaging wooden pallets and boxes | Eliminations | Total |
| | NIS | | | |
| | (In thousands) | | | |
| Revenues: | | | | |
| Sales to external customers | 83,719 | 16,412 | - | 100,131 |
| Intersegment sales | 1,644 | 692 | (2,336) | - |
| Total revenues | 85,263 | 17,104 | (2,336) | 100,131 |
| Segments operating income (loss) | (3,817) | 619 | | (3,198) |





**NOTE 5: OPERATING SEGMENTS DATA (CONT.)**

| | Three months ended June 30, 2007 (unaudited) | | | |
|---|---|---|---|---|
| | Shipping containers | Tri-Wall packaging wooden pallets and boxes | Eliminations | Total |
| | NIS | | | |
| | (In thousands) | | | |
| Revenues: | | | | |
| Sales to external customers | 92,125 | 18,507 | - | 110,632 |
| Intersegment sales | 2,406 | 273 | (2,679) | - |
| Total revenues | 94,531 | 18,780 | (2,679) | 110,632 |
| Segments operating income | 2,293 | 1,023 | | 3,316 |

| | Three months ended June 30, 2007 (unaudited) | | | |
|---|---|---|---|---|

| | Year ended December 31, 2007 (audited) | | | |
|---|---|---|---|---|
| | Shipping containers | Tri-Wall packaging wooden pallets and boxes | Eliminations | Total |
| | NIS (In thousands) | | | |
| Revenues: | | | | |
| Sales to external customers | 398,089 | 73,339 | - | 471,428 |
| Intersegment sales | 8,133 | 1,981 | (10,114) | - |
| Total revenues | 406,222 | 75,320 | (10,114) | 471,428 |
| Segments operating income | 9,748 | 4,257 | | 14,005 |

| | Six months ended June 30, 2008 (unaudited) | | | |
|---|---|---|---|---|
| | Shipping containers | Tri-Wall packaging wooden pallets and boxes | Eliminations | Total |
| | Convenience translation U.S. dollars (In thousands) | | | |
| Revenues: | | | | |
| Sales to external customers | 54,313 | 10,457 | - | 64,770 |
| Intersegment sales | 987 | 544 | (1,531) | - |
| Total revenues | 55,300 | 11,001 | (1,531) | 64,770 |
| Segments operating income (loss) | (860) | 384 | | (476) |

**NOTE 6: SIGNIFICANT EVENTS DURING THE PERIOD OF THE FINANCICAL STATEMENT**

a. In April 2008, The Company decided to file a law suit against a certain supplier as a result of his failure to provide the Company an ERP system. The Company, based on its legal council opinion, believes that all direct costs paid to the supplier, in the amount of NIS 1,706 thousands will be returned in a very high probability, and all indirect costs have decent chances to be repaid. As a result the Company recorded a long term receivable in the amount of NIS 1,706 thousands, regarding the direct amount to be receivable in the low suit, and impairment of intangible asset in the amount of NIS 2,127 thousands.

b. In April 2008, as a result of a fire in the Company s Ashkelon site, 11 machines and inventory burned down completely including the site facility. The Company rcorded an impairment of fixed assests in the amount of NIS 0.8 Million and inventory write-off of NIS 1.1 Million. The Company is insured against all risks of physical loss or damage (including also any delays damages). The Company s insurance policy includes a self participation in the amount of $ 175 thousands. In June the Company had received 3.4 Million NIS in advance remuneration payment from the insurer and have ordered 11 folding machines and its accessories to replace the burned machinery.

**NOTE 7: RECONCILIATIONS BETWEEN ISRAELI GAAP AND IFRS**

As described in Note 2a, these interim financial statements are the Company s first interim financial statements prepared in accordance with IFRS. The Company first adopted IFRS in 2008 and accordingly, the date of transition to reporting pursuant to IFRS is January 1, 2007. The Company prepared an opening balance sheet as of the date of transition to IFRS reporting.

Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with Israeli GAAP. The Company s latest interim financial statements prepared in accordance with Israeli GAAP were as of September 30, 2007 and for the nine and three months then ended. The Company s first annual financial statements prepared in accordance with IFRS will be for December 31, 2008 and for the year then ended.

Accordingly, the Company presents the following reconciliations between the amounts reported under Israeli GAAP and amounts reported under IFRS as of January 1, 2007 (the transition date to IFRS reporting), as of December 31, 2007 and for the year then ended, and as of June 30, 2007 and for the six and three months then ended.

According to IFRS 1, the adoption of IFRS in the opening balance sheet as of the transition date is to be applied retrospectively.



**CARMEL CONTAINER SYSTEMS LTD. AND SUBSIDIARIES**

**NOTES TO CONSLIDATED FINANCIAL STATEMENTS**

**NOTE 7: RECONCILIATIONS BETWEEN ISRAELI GAAP AND IFRS (Cont.)**

a. Reconciliations to balance sheets:

| January 1, 2007 | | | June 30, 2007 | | | December 31, 2007 | | |
|---|---|---|---|---|---|---|---|---|
| Israeli GAAP | Effect of transition to IFRS | IFRS | Israeli GAAP | Effect of transition to IFRS | IFRS | Israeli GAAP | Effect of transition to IFRS | IFRS |

| | | January 1, 2007 | | | June 30, 2007 | | | December 31, 2007 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Audited | | | Unaudited | | | Audited | | |
| | Note | NIS in thousands | | | | | | | | |
| ASSETS | | | | | | | | | | |
| CURRENT ASSETS: | | | | | | | | | | |
| Cash and cash equivalents | | 1,820 | - | 1,820 | 1,593 | - | 1,593 | 2,522 | - | 2,522 |
| Trade receivables | | 163,276 | - | 163,276 | 180,939 | - | 180,939 | 185,153 | - | 185,153 |
| Other accounts receivable | c | 3,574 | (500) | 3,074 | 2,741 | (500) | 2,241 | 2,546 | - | 2,546 |
| Inventories | | 71,925 | - | 71,925 | 66,678 | - | 66,678 | 55,149 | - | 55,149 |
| Total current assets | | 240,595 | (500) | 240,095 | 251,951 | (500) | 251,451 | 245,370 | - | 245,370 |
| NON-CURRENT ASSETS: | | | | | | | | | | |
| Long term receivables | | 311 | - | 311 | 246 | - | 246 | 141 | - | 141 |
| Severance pay fund, net | d1 | 133 | 1,330 | 1,463 | 110 | 864 | 974 | - | 623 | 623 |
| Investments in affiliated company | | 8,368 | 363 | 8,731 | 8,276 | 331 | 8,607 | 8,378 | 273 | 8,651 |
| Fixed assets, net | | 84,916 | - | 84,916 | 76,345 | | 76,345 | 72,454 | - | 72,454 |
| Intangible assets | | 1,997 | - | 1,997 | 2,450 | - | 2,450 | 2,127 | - | 2,127 |
| Total non current assets | | 95,725 | (807) | 97,418 | 87,427 | 1,195 | 88,622 | 83,100 | 896 | 83,996 |
| Total assets | | 336,320 | 1,193 | 337,513 | 339,378 | 695 | 340,073 | 328,470 | 896 | 329,366 |
| LIABILITIES AND EQUITY | | | | | | | | | | |
| CURRENT LIABILITIES: | | | | | | | | | | |
| Credit from banks and others | | 31,856 | - | 31,856 | 49,989 | - | 49,989 | 42,505 | - | 42,505 |
| Trade payables | | 93,544 | - | 93,544 | 88,761 | - | 88,761 | 87,423 | - | 87,423 |
| Other accounts payable | d3 | 17,395 | (550) | 16,845 | 15,306 | (613) | 14,693 | 17,631 | (441) | 17,190 |
| Derivative instruments liabilities | | - | - | - | | - | - | 537 | | 537 |
| Provision for Tax | | - | - | - | - | - | - | 3,993 | - | 3,993 |
| Total current liabilities | | 142,795 | (550) | 142,245 | 154,056 | (613) | 153,443 | 152,089 | (441) | 151,648 |
| Long-Term Liabilities | | | | | | | | | | |
| Long from banks | | 48,170 | - | 48,170 | 61,363 | - | 61,363 | 49,376 | - | 49,376 |
| Liabilities in respect of employee benefits, net | | - | - | - | - | - | - | 298 | (298) | - |
| Deferred taxes | d2 | 9,336 | 20 | 9,356 | 9,504 | (121) | 9,383 | 6,614 | 345 | 6,959 |
| Total Long-Term Liabilities | | 57,506 | 20 | 57,526 | 70,867 | (121) | 70,746 | 56,288 | 47 | 56,335 |

**NOTE 7: RECONCILIATIONS BETWEEN ISRAELI GAAP AND IFRS (Cont.)**

a. Reconciliations to balance sheets (cont.):

| | Note | January 1, 2007 | | | June 30, 2007 | | | December 31, 2007 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Israeli GAAP | Effect of transition to IFRS | IFRS | Israeli GAAP | Effect of transition to IFRS | IFRS | Israeli GAAP | Effect of transition to IFRS | IFRS |
| | | Audited | | | Unaudited | | | Audited | | |
| | | NIS in thousands | | | | | | | | |
| EQUITY: | | | | | | | | | | |
| Issued capital | | 23,716 | - | 23,716 | 23,716 | - | 23,716 | 23,716 | - | 23,716 |
| Share premium | | 45,413 | - | 45,413 | 45,413 | - | 45,413 | 45,413 | - | 45,413 |
| Treasury shares | | (4,258) | - | (4,258) | (27,565) | - | (27,565) | (27,565) | - | (27,565) |
| Retained earnings | | 71,148 | 1,723 | 72,871 | 72,891 | 1,429 | 74,320 | 78,921 | 1,290 | 80,211 |
| Other capital reserves | | - | - | - | - | - | - | (392) | - | (392) |
| TOTAL EQUITY | | 136,019 | 1,723 | 137,742 | 114,455 | 1,429 | 115,884 | 120,093 | (*)1,290 | 121,383 |
| Total liabilities and equity | | 336,320 | 1,193 | 337,513 | 339,378 | (695) | 340,073 | 328,470 | 896 | 329,366 |

(*) Certain amounts (NIS 1.7M) presented at the reconciliation note in the 2007 financial statements, were classified to the 12 months ended December 31, 2007 income regarding employee benefits expenses, instead of cumulative earnings as of January 1, 2007. The presentation was corrected in these financial statements.





**NOTE 7: RECONCILIATIONS BETWEEN ISRAELI GAAP AND IFRS (Cont.)**

b. Reconciliations to profit or loss:

| Three months ended June 30, 2007 | | | Six months ended June 30, 2007 | | | Year ended December 31, 2007 | | |
|---|---|---|---|---|---|---|---|---|
| Israeli GAAP | Effect of transition to IFRS | IFRS | Israeli GAAP | Effect of transition to IFRS | IFRS | Israeli GAAP | Effect of transition to IFRS | IFRS |

| | | Three months ended June 30, 2007 | | | Six months ended June 30, 2007 | | | Year ended December 31, 2007 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Unaudited | | | | | | Audited | | |
| | Note | NIS in thousands | | | | | | | | |
| Revenues from sales | | 110,632 | - | 110,632 | 232,569 | - | 232,569 | 471,428 | | 471,428 |
| Total revenues | | 110,632 | - | 110,632 | 232,569 | - | 232,569 | 471,428 | | 471,428 |
| Cost of sales | | 97,629 | (197) | 97,432 | 207,324 | 403 | 207,727 | 416,951 | (232) | 416,719 |
| Total cost of sales and services | | 97,629 | (197) | 97,432 | 207,324 | 403 | 207,727 | 416,951 | (232) | 416,719 |
| Gross profit (loss) | | 13,003 | 197 | 13,200 | 25,245 | (403) | 24,842 | 54,477 | 232 | 54,709 |
| Other income | f | - | - | - | - | - | - | - | 102 | 102 |
| Selling and marketing expenses | | 5,904 | - | 5,904 | 12,563 | - | 12,563 | 24,185 | - | 24,185 |
| General and administrative expenses | | 3,980 | - | 3,980 | 8,022 | - | 8,022 | 16,621 | - | 16,621 |
| Operating income (loss) | | 3,119 | 197 | 3,316 | 4,660 | (403) | 4,257 | 13,671 | 334 | 14,005 |
| Gain from sale of fixed assets, net | | 9 | - | 9 | 49 | - | 49 | 337 | (102) | 235 |
| Financial income | e | - | 141 | 141 | - | 550 | 550 | - | 1,783 | 1,783 |
| Financial expenses | | (2,156) | (141) | (2,297) | (2,706) | (550) | (3,256) | (4,329) | (1,783) | (6,112) |
| Equity in earnings (losses) of associates, net | | (98) | 8 | (90) | (92) | (32) | (124) | 10 | (334) | (324) |
| Income before taxes on income | | 874 | 205 | 1,079 | 1,911 | (435) | 1,476 | 9,689 | (102) | 9,587 |
| Taxes on income | | 48 | 39 | 87 | 168 | (141) | 27 | 1,916 | 15 | 1,931 |
| Income after taxes on income | | 826 | 166 | 992 | 1,743 | (294) | 1,449 | 7,773 | (117) | 7,656 |
| Net income | | 826 | 166 | 992 | 1,743 | (294) | 1,449 | 7,773 | (117) | 7,656 |





**NOTE 7: RECONCILIATIONS BETWEEN ISRAELI GAAP AND IFRS (Cont.)**

c. Deferred taxes:

According to Israeli GAAP, deferred taxes in a total of approximately NIS 500 thousand were presented in current assets under other accounts receivable. Upon the transition to IFRS and according to IAS 12, Income Taxes , the balances of deferred taxes are presented in long-term investments and liabilities, respectively.

d. Employee benefits:

According to Israeli GAAP, the severance pay liability is measured based on the employee s last monthly salary multiplied by the number of employment years at each balance sheet date using the shut down method and severance pay funds are measured at their redemption values at each balance sheet date.

1. According to IAS 19, Employee Benefits , the Company s and affiliates benefit plan is considered a Defined benefit plan and requires it to present the severance pay liability on an actuarial basis. The actuarial calculation takes into consideration future salary increases and the percentage of employee retirement based on the evaluation of payment timing.

   The employee benefit plan assets are measured at fair value.

   The actuarial Liabilities were based on Governments bonds interest, because the Company believes that there is no wide market for Concerns bonds in Israel.

   The capitalization interest issue is being examined and it might be decided that the proper capitalization interest in Israel should be based on Concerns bonds.

   If this decision will be taken the numbers that were calculated and considered in this note will be effected due to calculations based on higher interest rate. It will cause a decrease in the actuarial Liabilities in the one hand and increase in the current finance expenses related to actuarial Liabilities on the other hand.

2. Upon the transition to IFRS, the balance of accrued severance pay has decreased by approximately NIS 859 thousand and NIS 767 thousand, the employee benefit and remuneration plan assets have increased by approximately NIS 1,361 and NIS 883 thousand and the deferred tax reserve has increased by approximately NIS 560 and NIS 410 thousand in such a manner that the net difference between the net liability as of December 31, 2007 and March 31, 2007respectively amounts to a decrease of approximately NIS 1,660 and NIS 1240 thousand (net of income taxes of approximately NIS 560 and NIS 410 thousand).

3. Employees provision for vacation is differed in IFRS since according to Israeli GAAP social security cost part of the provision.





**NOTE 7: RECONCILIATIONS BETWEEN ISRAELI GAAP AND IFRS (Cont.)**

e. Financial income and expenses:

According to Israeli GAAP, financial income and expenses, net are presented in the income statement. According to IFRS, financial income should be disclosed separately from financial expenses in the income statement and accordingly, the Company recorded financial expenses of approximately NIS 6,112 and NIS 2,297 thousand and financial income of approximately NIS 1,783 and NIS 141 thousand for the year ended December 31, 2007 and for three months ended June 30,2007 respectively.

f. According to ISGAAP all other income are recorded in the net income, whereas in the IFRS only capital gain should be recorded in the operating income.

**NOTE 8: SUBSEQUENT EVENTS**

On July 10th AIPM, (owns about 36% of the company s shares) have signed a shares purchase agreement with Mr. Robert Kreaft, (owns about 49% of the company s shares) and other shareholders to purchase their shares at a cost of $20.77M USD. The transaction is subject to the antitrust authority approval and all other formal approvals if needed.

Should the transaction be approved AIPM will own about 89% of the company s shares.

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