

ALONY-HETZ PROPERTIES AND INVESTMENTS LTD.

**UNAUDITED CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS**

AS OF JUNE 30, 2005

ALONY-HETZ PROPERTIES AND INVESTMENTS LTD.

CONTENTS

	<u>Page</u>
Board of Directors' Report	1-13
Accountants Review Report	14
Condensed Interim Consolidated Financial Statements (Unaudited):	
Balance Sheet	15-16
Statements of Income	17
Statements of Changes in Shareholders' Equity	18-19
Statements of Cash Flows	20-21
Notes to Condensed Interim Consolidated Financial Statements	22-29

Ramat Gan, Israel, August 16, 2005

Board of Directors' Report on the Company's Operations for the Six-Month Period Ended June 30, 2005

The Board of Directors of Alony-Hetz Properties and Investments Ltd. is pleased to submit the financial statements of the Company and its Subsidiaries ("the Group") for the period ended June 30, 2005 (the "reporting period"). The following review is limited in scope and relates to events and changes that have occurred in the Company's operations during the reporting period, and the impact of which is material.

The board of directors' report for the interim period should be read in conjunction with the 2004 annual board of director's report.

The Company and Its Operating Environment

The Group is engaged primarily in long-term investments in holding rental properties located in Western countries and in Israel. As of the approval date of this report, the Group is engaged in:

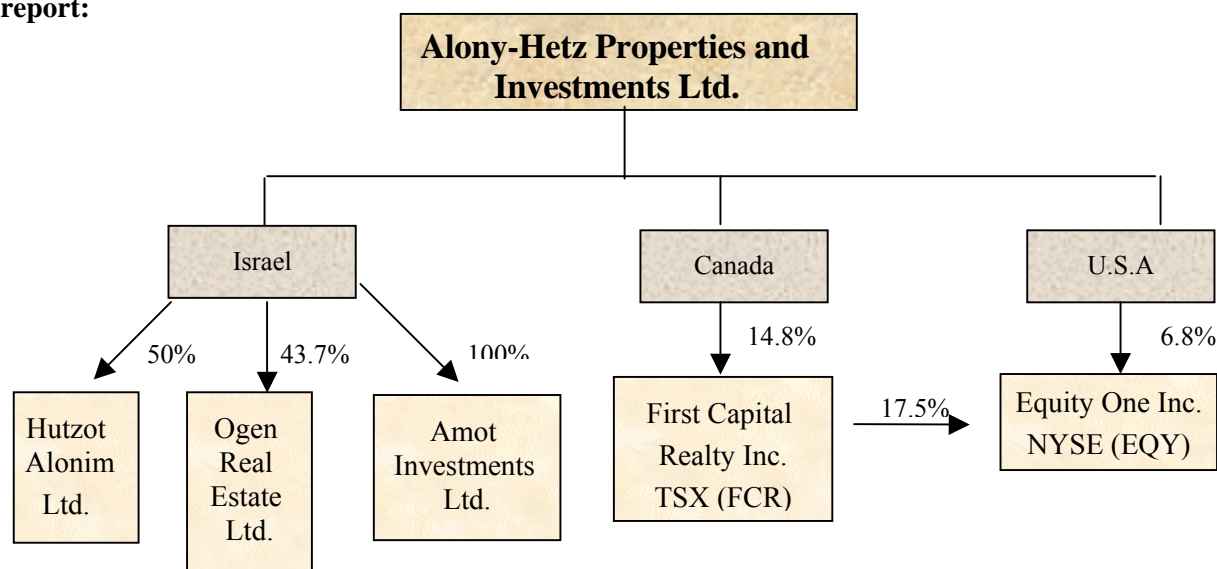
Operations in the US and Canada

- a. Holding of 6.8% in Equity One Inc. ("EQY"), a US public corporation that holds rental properties in the US.
- b. Holding of 14.8% in First Capital Realty Inc. ("FCR"), a Canadian public company that holds rental properties in Canada. In addition, FCR holds 17.4% of the share capital of EQY.

Operation in Israel

- a. Holding 43.7% in Ogen Real Estate Ltd. ("Ogen"), an Israeli public company engaged in the development, building and acquisition of office and commercial real estate for the purpose of long-term leasing.
- b. Holding 50% of Hutzot Alonim Ltd., the owner and operator of the Hutzot Alonim Shopping Center.
- c. Subsequent to the balance sheet date, the Company acquired the entire ownership and control in Amot Investments Ltd. ("Amot"). Amot holds a wide range of rental property in Israel. **The financial statements of Amot, including its results of operations, will be reflected in the consolidated financial statements of the Group commencing in the third quarter of 2005** (see below subsequent events).

The following illustrates the main holdings of the Company immediately prior to the approval date of this report:



Stock-Exchange Indices

The shares of the Company are traded on the Tel Aviv Stock Exchange. The indices of this exchange in which the Company is included are: Tel Aviv 100, Tel Aviv 75 and Real Estate 15.

Credit Rating

The Company's debentures are rated "AA-" by Ma'alot the Israeli Company for Rating Securities Ltd. ("Ma'alot") and Aa3 by Midrug Ltd. ("Midrug"). Both Ma'alot and Midrug announced subsequent to the balance-sheet date that following the Company's acquisition of Amot they are reexamining the rating and placed the Company on their Watch List.

Profitability

The net income of the Group for the reporting period amounted to **NIS 323 million** comparison to NIS 24 million in the corresponding period. The net income of the Group for the second quarter of 2005 amounted to **NIS 156 million**, in comparison to NIS 15 million in the corresponding period.

The net income for the reporting period includes net capital gain from the sale of the Group's assets in the UK in the amount of NIS 299 million, of which NIS 152 million was recorded in the second quarter.

The net income of the Group from continued operation for the reporting period amounted to **NIS 22 million (of which NIS 4 million was recorded in the second quarter of 2005)**, in comparison to NIS 22 million in the corresponding period (of which NIS 15 million was recorded in the second quarter of 2004).

Subsequent events

a. Acquisition of Amot Investments Ltd.'s Shares

On August 11, 2005, the Company acquired all of the shares of Amot Investments Ltd. ("Amot"), "as is", in exchange for NIS 956 million. The transaction was financed partly by the issuance of debentures to institutional investors (see paragraph b. below) and partly by own sources.

Amot, directly and indirectly through its controlled entities, is engaged in the initiation, development, leasing, holding and sale of real estate in Israel and abroad. Amot owns, directly and indirectly, real estate assets consisting of central bus stations, commercial centers, shopping malls and industrial and office buildings.

The Amot Group possess rights in 90 real estate assets in Israel, on a total built area of 300,000 sq. meters, which are leased to approximately 600 tenants. Part of these assets are fully-owned by Amot, part are jointly held with others and part are held through a subsidiary, Ayalot Investments in Real Estate Ltd. In addition, Amot holds rights in five assets in Germany and three in Canada, with a total area of 60,000 sq. meters.

Following is selected financial data as presented in Amot's consolidated financial statements (NIS in thousand):

	1-6/2005	2004	2003
Total assets (total active)	2,208,200	2,068,547	2,377,183
Revenues	108,389	245,076	244,171
Income from continued operations	61,351	135,101	145,999
Net income (loss)	12,256	40,785	(43,156)
Shareholder's equity	699,830	687,423	647,110

Amot's results of operations will be reflected in the Group's consolidated financial statements commencing in the third quarter for 2005.

b. Private Placement

In August 2005, the Group issued to institutional investors 455 million par-value debentures (Series C) in consideration for **NIS 507 million, at a price reflecting an effective interest rate of 4.31%.**

Operations in the UK

In the second quarter the Group concluded the sale of all the real estate assets in the UK in exchange for £216 million (NIS 1,779 million). As for the transaction for the sale of the Group's rental properties in the UK meets the definition of a "segments that discontinued its operations", all the assets and all the liabilities of this geographical segment are presented in the balance sheet under single line items, and its results of operations are presented in the income statement under a single line item. As for the results of operations of the activities in the UK, see Note 4a to the financial statements.

During the reporting period, the Group recorded a capital gain of NIS 339 million from the sale of the assets, of which NIS 172 million were recorded in the second quarter. Pursuant to agreements previously signed by the Group with the income-tax authorities, and based on the law currently in effect, the overall tax on the capital-gain is estimated for NIS 40 million.

As a result of abovementioned sale of real estate assets, the Group generated a cash flow surplus of £42 million, which has been added to its working capital.

Operations in the US

As of the balance sheet date, the Group held 5.1 million shares of EQY constituting 6.8% of EQY's share capital.

The Group's total investment in EQY as of the balance sheet date amounted to US\$62.4 million (NIS 286 million), the market value of which as of such date amounted to US\$116 million (NIS 529 million), based on the closing prices as quoted on the New York Stock Exchange as of that date.

As of the balance sheet date, the bank loans secured by EQY's shares amounted to US\$34 million (NIS 155 million) constituting approximately 30% of the market value of EQY's shares.

EQY is a Real Estate Investment Trust ("REIT") listed on the New-York Stock Exchange. As of the balance sheet date, Gazit-Globe (1982) Ltd. ("Gazit-Globe") held, directly and indirectly, 40% of EQY's share capital. EQY is managed independently and operates in urban areas located in southeast of the US, primarily Florida, Texas, Georgia, Boston and Massachusetts. EQY is engaged in the acquisition, development and management of commercial and community centers, anchored by supermarket chains.

As of to date, EQY holds 188 yielding assets comprising constructed area of 1.81 million sq. m.

During the reporting period, the Group received from EQY dividend income of US\$2.9 million (NIS 12.7 million). The Company expects that the income dividend from EQY in 2005 will be approximately US\$5.9 million (based on an annual dividend of US\$1.16 per share). Said forecast is based on the announcement of EQY regarding the quarterly dividends it intends to distribute in 2005 and based on the amount of shares currently held by the Group.

Operations in Canada

As of the balance sheet date, the Group held 9.4 million shares of FCR constituting 14.8% of FCR's share capital, and 10.7 million par-value of FCR's debentures of one series (convertible into shares).

FCR is a Canadian public company its shares are traded on the Toronto Stock Exchange. As of the balance sheet date, FCR was approximately 55%-held by the Gazit Globe Group. FCR is engaged in the acquisition, development and management of community shopping centers in Canada, mostly anchored by supermarket chains. **At a date immediately prior to the approval date of this report, FCR held 119 shopping centers and 13.1 million shares of EQY, constituting 17.5% of EQY's share capital.**

During the reporting period, in the framework of a private placement of 2.7 million shares that FCR issued to institutional investors, at a price of C\$19.25 per share, the Group invested by its own sources a total of C\$3.7 million for acquiring 193 thousand shares of FCR.

On March 31, 2005, FCR converted its debentures (Series D) into shares, at a conversion price of C\$19.2 per share. The Group held 22 million par-value debentures (Series D) which were converted into 1.2 million shares.

As of the balance sheet date, the Group's total investment in FCR shares and debentures amounted to C\$146 million (NIS 543 million). The market value of these securities as of such date amounted to C\$203 million (NIS 753 million), based on the closing prices of these securities as quoted on the Toronto Stock Exchange as of that date.

Bank loans secured by FCR securities as of the balance sheet date amounted to C\$93 million (NIS 344 million), constituting approximately 45% of the market value of FCR's shares.

During the reporting period, the Group received from FCR dividend income of C\$7 million (NIS 25 million). The Group also recorded interest income from debentures of C\$1 million (NIS 4 million). Based on the Group's holdings in FCR securities immediately prior to the approval date of this report and the announcement of FCR regarding the annual dividends it intends to distribute in 2005, the Company forecasts that its dividend and interest income from FCR in 2005 will be approximately C\$14 million (approximately NIS 53 million).

Investments in Real Estate in Israel

The Company holds 43.7% of Ogen's share capital. Ogen's loss for the first half of 2005 was NIS 3 million, compared to a net income of NIS 2 million in the corresponding period of 2004 and net income of NIS 5.1 million for the year ended December 31, 2004.

According to a prospectus dated February 7, 2005, Ogen raised from the public and its shareholders a net amount of NIS 155 million for the purpose developing its businesses. Ogen intends to purchase yielding assets and/or land designed for development purposes in Israel. The above capital raising included issuance of shares and options by way of rights offerings to Ogen's shareholders for NIS 31 million, and issuance of convertible debentures and options to the public for an immediate amount of NIS 130 million. Within the framework of the rights offerings, the Company acquired 12.3 million par-value shares and 3.4 million options (Series 1) of Ogen in consideration for a total of NIS 13.6 million.

As of to date, following exercising the rights described above, the Company holds 13.5 million of Ogen's par-value shares and 3.4 million options at a total investment of NIS 84 million. The market value of these securities as of the balance sheet date amounted to NIS 97 million, based on the closing prices of these securities as quoted on the Tel-Aviv Stock Exchange as of that date.

Other Investments

During the reporting period, the Company invested NIS 24 million in **B.S.R Europe Ltd.**'s shares and options. Said investment is presented in other investments line item in the balance sheet.

Following Is a Table Summarizing the Group's Traded Investments

The following investments are presented at the consolidated balance sheet under the "Long-term Investments - Investees and Other" line items.

Company	Traded in Stock Exchange of	As of June 30, 2005		
		Book Value	Market Value	Market Value Over Book Value
		NIS - million	NIS - million	NIS - million
Ogen	Tel-Aviv	84	97	13
EQY	NYSE (New-York)	286	529	243
FCR	TSX (Toronto)	543	753	210
Other		54	69	15
Total		967	1,448	481

At a date immediately prior to the approval date of this report, the market value of these investments, as quoted on the Stock Exchanges, exceeds their over book value by NIS 520 million.

Results of Operations

Following is a table summarizing the results of operations (NIS in thousands):

	First half		2nd Quarter	1st Quarter	Year Ended
	2005	2004	2005	2005	2004
Revenues					
Rent and maintenance fees	2,978	2,756	1,481	1,497	5,681
Dividends from other companies	38,713	27,857	17,418	21,295	58,316
Interest on debentures	3,903	7,507	949	2,954	13,804
Gains from realization of other investments	7,844	11,184	-	7,844	30,698
Other, net	1,727	2,035	-	2,596	6,499
	<u>55,165</u>	<u>51,339</u>	<u>19,848</u>	<u>36,186</u>	<u>114,998</u>
Expenses					
Depreciation of buildings and operating expenses	1,344	1,465	698	646	2,773
General and administrative	6,743	5,580	2,286	4,457	11,958
Donations	5,149	300	2,340	2,809	1,100
Financing, net	17,140	18,632	8,770	8,370	28,197
Other, net	-	-	869	-	-
	<u>30,376</u>	<u>25,977</u>	<u>14,963</u>	<u>16,282</u>	<u>44,028</u>
Income before income taxes	<u>24,789</u>	<u>25,362</u>	<u>4,885</u>	<u>19,904</u>	<u>70,970</u>
Income taxes	2,673	3,317	807	1,866	4,626
Income from continued operation after income taxes	22,116	22,045	4,078	18,038	66,344
Net income from discontinued operations (in the UK) (*)	300,571	1,721	151,634	148,937	5,764
Net income for the period	322,687	23,766	155,712	166,975	72,108

(*) See Note 4.a. to the financial statements.

General – During the reporting period, the **average exchange rate** of the US dollar, the Canadian dollar and Sterling have changed vis-à-vis the NIS, as indicated in the table below. These changes caused a relative changes in statement of operation line-items, as compared with those for the corresponding period and for the year ended December 31, 2004.

The following table illustrates the changes in the average exchange rates of the major currencies in which the Group operates:

	Reporting period		2nd Quarter		Year Ended
	2005	2004	2005	2004	2004
	%	%	%	%	%
Increase (decrease) in the Canadian Dollar	(0.8)	(1.2)	(1.4)	(3.5)	1.2
Increase (decrease) in the US Dollar	1.8	2.9	1.2	0.5	2.3
Increase (decrease) in the Sterling	(1.1)	4.6	(0.24)	(1.1)	4.6

Dividend Income from Other Companies – The increase in the reporting period in comparison to the corresponding period derives mainly from the acquisition of additional shares of FCR, from an increase in the amount of dividends distributed by FCR and EQY, and from a special dividend distributed by FCR, the Company's share in which was NIS 5.8 million.

Interest on Debentures – The decrease in the reporting period in comparison to the corresponding period derives from redemption of convertible debentures of FCR made in the third quarter of 2004 and in the end of the first quarter of 2005.

Gains from Realization of Other Investments – The balance in the reporting period includes a gain from early redemption of FCR's debentures. The balance in second quarter of 2004 includes a gain of NIS 11.2 million from a realization of other investments.

Other Income, Net – The balance in the reporting period includes a net gain from marketable securities of NIS 2.7 million, in comparison to a gain from marketable securities of NIS 1 million in the corresponding period.

General and Administrative – The balance in the reporting period includes provision for bonuses for the CEO and the Chairman of the Board of Directors in respect of 2005 in the amount of NIS 2.2 million, in comparison to NIS 1 million in the corresponding period. **That increase derives from the recognition of the entire annual bonuses said officers are entitled to** according to their agreements.

Donations – In 1999, the Company's Board of Directors resolved to allot, on a current basis, up to 1.4% of the Group's earnings as donations to the community, designated primarily for activities to support, educate and assist youth in distress. **The increase in donation expenses in the reporting period derives from the significant increase in the Group's net income for the reporting period in comparison to previous reporting periods.**

Financial Position

Liquidity

As of the balance-sheet date, the Group had cash, deposits and marketable securities totaling NIS 633 million, as well as a portfolio of long-term marketable securities amounting to NIS 54 million. The majority of the marketable securities is invested in solid channels and placed in accounts handled by several brokers.

Cash Flows

Cash flows provided by continued operations totaled NIS 29 million in the reporting period as compared with NIS 16 million in the corresponding period and NIS 36 million for the year ended December 31, 2004. Cash flows used in discontinued operations amounted to NIS 43 million as compared with NIS 13 million in the corresponding period and NIS 31 million for the year ended December 31, 2004.

Cash flows used in continued investing activities totaled NIS 116 million in the reporting period. Such amount includes NIS 98 million relating to the expansion of the Group's investments in FCR, NIS 24 million an investment in B.S.R. Europe Ltd., NIS 14 million an expansion of the investments in Ogen, and net investment in marketable securities and deposits of NIS 56 million. Cash flows provided by discontinued investing operations amounted to NIS 1,774 million. Such amount derives from the sale of the Group's assets in the UK (see above).

Cash flows used in continued financing activities during the reporting period totaled NIS 5 million. Such amount includes repayments of long-term bank loans and convertible debentures of NIS 15 million, and payment of dividends in the amount of NIS 9 million. The balance includes cash flows derived from the sale of the Company's securities held by the Group in the amount of NIS 18 million. Cash flows used in discontinued financing operations totaled NIS 1,387 million, attributable mainly to the repayment of long-term bank loans following the sale of the Group's assets in the UK (see above).

Credit Facilities

As of the balance sheet date, the Company had outstanding credit facilities from Israeli banks totaling US\$20 million, none of which have been utilized. Subsequent to the balance-sheet date, an Israeli bank provided the Company with a credit facility of US\$100 million for financing the acquisition of Amot.

Shareholders' Equity

As of the balance sheet date, the shareholders' equity totaled NIS 706 million (equity per share of NIS 9.9), in comparison to total shareholders' equity as of the end of 2004 of NIS 414 million. Following are the major factors for the increase in the shareholders' equity:

1. Net income for the reporting period of **NIS 323 million**.
2. An increase in the Company's shareholders' equity deriving from the exercise of options by way of selling dormant shares of **NIS 2 million**.
3. An increase in the capital reserve from the translation of foreign investees' financial statements of **NIS 16 million**.
4. An increase in the shareholders' equity following the conversion of debentures into shares of **NIS 10 million**.
5. Decrease in shareholder's equity due to dividends paid in the amount of **NIS 59 million**.

Funds From Operations (“FFO”)

FFO is a widely applied financial measure used in the US, Canada and Europe, which provides additional information about the operating performance of real estate companies. Though the disclosure of this measure is not required by generally accepted accounting principles (“GAAP”), FFO enables adequate comparison between real estate companies. FFO defined as net income (determined based on GAAP), excluding gains (or losses) from sales of property, plus depreciation and amortization related to real estate.

The Company believes that financial analysts, investors and shareholders may be better served by presenting a measure of the results of the Group’s operations generated from FFO. **It should be emphasized that FFO:**

- a. Does not represent cash flows from operations, as defined by GAAP;
- b. Is not indicative of cash available to fund all cash flow needs and liquidity of the Group, including the ability to make distributions;
- c. Should not be considered as an alternative to net income for purposes of evaluating the operating performance of the Group.

The following is the calculation of the FFO for the reporting period (NIS in thousand):

	Six months ended		Full
	June 30,		Year
	2005	2004	2004
Income from continued operations after income taxes	22,116	22,045	66,334
Add – depreciation related to real estate	493	511	931
Subtract – gains from realization of marketable securities and other investments	(10,485)	(12,148)	(32,753)
Add – impairment related to rental properties	-	-	3,792
Total FFO from continued operations	12,124	10,408	38,314
Add – FFO from discontinued operations	3,605	7,359	17,043
Total FFO	15,729	17,767	55,357
FFO per share from continued operations (NIS)	0.17	0.19	0.54
Total FFO per share (NIS)	0.22	0.33	0.78

Dividends

- a. Pursuant to the Company’s declared policy as established in the past by its board of directors, the board of directors announced at the beginning of this year of the Company’s intention to distribute a minimal annual dividend of NIS 0.48 per share in 2005, to be paid in four quarterly installments. This dividend would constitute an annual return of 4%, based on the share price prior to the time this report is published. The board of directors is authorized to change, at any time, the amount of dividends to be distributed based on business considerations and relevant laws.

Accordingly, in April and July the Company paid, in respect of the first and second quarters of 2005, an aggregate interim dividend of NIS 17.1 million. In July 2005, the Company paid additional dividends of NIS 0.58 per share (NIS 41.6 million).

- b. Together with the publication of this report, the Company declared a dividend of NIS 0.12 per share (NIS 8.6 million) in respect of the third quarter, to be paid in October 2005.

Peer Review

On July 28, 2005, the Israeli Securities Authority published a Guideline requiring disclosure concerning consent to carry out a “peer review”, the purpose of which, as outlined in the Guideline, is to motivate a control process over the work performed by independent accounting firms. The Company does not object the performance of peer review, and generally is willing to cooperate for the promotion of this process. However, the consent for participating in peer review entails significant legal issues, which are in common to many public companies. Such issues include, amongst other matters, securing confidentiality of information provided by a company to its independent auditors, averting conflict of interest and responsibility towards the company in the event of failure by the peers to adhere to confidentiality. As of the approval date of this report, a satisfactory solution for these issues has not yet been found. Consequently, the board of directors authorized management to postpone its decision concerning the request submitted to the Company to consent for the performance of the peer review, until a solution for said issues is found.

The Company has satisfied the quality of the audit of its financial statements performed by independent auditors partly by engaging with an accounting firm which is one of the biggest international accounting firms which have defined procedures. In any event, the Company intends to submit the board’s future recommendation for approval by the annual general meeting of the Company’s shareholders, in which the Company’s independent auditors for 2006 will be appointed.

New Accounting Pronouncement – Financial Instruments: Disclosure and Presentation

In July 2005, the Israeli Accounting Standards Board approved for publication Accounting Standard No. 22 “Financial Instruments: Disclosure and Presentation”. This Standard is effective for financial statements for reporting periods commencing January 1, 2006, or thereafter. The adoption of the Standard will be accounted for by the “prospective method”, i.e. financial instruments issued before the effective date of the Standard will be classified and presented in accordance with its provisions commencing the effective date. The initial adoption of the Standard is expected to affect primarily the presentation of the Company’s convertible debentures (the split of the convertible debentures into debt component and equity component, as these terms are defined by the Standard). Consequently, on January 1, 2006 the Company’s shareholders equity and long-term liabilities will be one-time affected and commencing in that date the Company’s future financing expenses will be affected as well. The Company is currently examining the Standard and its implications on its financial position and results of operations.

Details Concerning Exposure to Market Risks and Methods for Managing Them

1. **Officer Responsible for the Risk Management in the Company:** the CEO. For additional details regarding the CEO, see Regulation 26 in the Company’s annual report for 2004.
2. **The Group’s Risks Exposure**
 - a. Significant portion of the Group’s continuing operations is carried out through shares in two companies holding yielding real estate in Canada and the USA. Consequently, due to the changes in interest and exchange rates in those countries, the Group’s results of operations may materially be affected.

- b. The Group is exposed to changes in short-term as well as long-term interest rates in the international markets in which it operates. The following table details long-term loans received under **variable interest rates** (NIS in thousands):

	<u>US Dollars</u>	<u>Canadian Dollars</u>
As of the balance sheet date	155,433	343,915
Swap transactions (see Appendix A, item 2)	<u>(73,184)</u>	<u>--</u>
	<u>82,249</u>	<u>343,915</u>

- c. The following table provides details concerning excess of assets over liabilities in foreign currencies as of June 30, 2005 as presented in the consolidated balance sheet as of

such date (NIS in thousands):

	<u>Pound Sterling</u>	<u>US Dollars</u>	<u>Canadian Dollars</u>	<u>Euro</u>
Balances in foreign currencies				
Non-monetary assets	--	302,171	505,540	6,370
Excess of monetary assets (liabilities), net - as detailed in Appendix A, item 1	390,494	(147,706)	(183,792)	432
Liabilities, net attributable to discontinued operations	<u>(6,918)</u>	<u>--</u>	<u>--</u>	<u>--</u>
Excess of assets over liabilities (denominated in foreign currency)	383,576	154,465	321,748	6,802
Exchange rate as of the balance sheet date	<u>8.1966</u>	<u>4.574</u>	<u>3.711</u>	<u>5.527</u>
Excess of assets over liabilities (denominated in foreign currency), translated to the relevant currency (in thousands)	<u>£ 46,797</u>	<u>\$ 33,770</u>	<u>C\$ 86,701</u>	<u>€1,231</u>

The Group's excess of assets over liabilities, denominated in foreign currency, as noted above, amounted to NIS 867 million, constituting 123% of the Company's shareholders' equity. The changes in the exchange rates of the NIS vis-a-vis the above currencies could have a material effect on the Group's net income. Subsequent to the balance sheet date, the Group converted approximately half of the above excess, and as a result its exposure was relatively mitigated as well.

- d. The Group holds marketable securities in Israel and abroad, the value of which is affected by market fluctuations.
- e. Ogen and Amot which operate in the Israeli yielding real estate market, are exposed to risks that include: a decrease in demand for leasing space (also contingent upon the Government's policy regarding the marketing of lands), a decline in rental fees, increase in capital-raising costs, financial stability of major lessees and an increase in construction costs.
- f. The Company's financing sources are denominated in CPI-linked NIS (primarily debentures). The Company is exposed to changes in the CPI.

3. Company's Policy Regarding Market Risk Management

- a. The Group finances its investments abroad, in general, in the currency of each given country, with exception to shareholders' equity invested abroad, which is financed by Israeli CPI linked sources.
- b. The Company enters, from time to time, into forward, swap and swaption transactions, mainly designated to hedge changes in interest rates and exchange rates on currencies relevant to the Group's operations, in accordance with trends in international markets and management decisions. The transactions are mainly designated to avoid exposure to economical risks.

The Company enters, from time to time, into currency transactions on a non-hedging basis. These transactions are made only when unusual trends in the foreign exchange markets are anticipated.

- c. It is the Company's policy to enter into derivative transactions only through banks, which are legally required to maintain minimum levels of equity and securities.
- d. During the reporting period, no changes were made in the Company's market risk management policy.

4. Means of Control and Policy Implementation

The Company's CEO monitors, on a current basis, trends in the relevant markets. The Company's board of directors has established that the CEO will report, on a regular basis, to the Chairman concerning the level of the existing exposure. Should there be any unusual trends in the currency or interest rate markets, the data would then be examined and evaluated by both, and from time to time decisions are taken to engage in activity in the derivative markets in order to mitigate interest and exchange rate risks.

The board of directors has not established quantitative limits and it receives quarterly reports outlining any trends in these areas, if occurred.

5. Linkage Report

As for linkage report, see Appendix A, item 1, to the board of directors' report.

6. Outstanding Derivative Positions

As for derivative positions, see Appendix A, item 2, to the board of directors' report.

The Company's board of directors wishes to thank its securities holders for their confidence in the Company.

Aviram Wertheim
Chairman of the Board of Directors

Nathan Hetz
Director and CEO

Appendix A to the Board of Directors' Report on the Company's Operations

1. Linkage Terms of Monetary Balances As of June 30, 2005 (NIS in thousands):

	In Sterling	In US Dollar	In Canadian Dollar	In Euro	CPI Linked	Unlinked	Adjust- ments	Total
Current assets								
Cash and cash equivalents	390,494	11,177	115,677	432	--	10,096	--	527,876
Deposits and marketable securities	--	592	597	--	--	104,247	--	105,436
Receivables and other current assets	--	10	11,501	--	200	1,141	639	13,491
	<u>390,494</u>	<u>11,779</u>	<u>127,775</u>	<u>432</u>	<u>200</u>	<u>115,484</u>	<u>639</u>	<u>646,803</u>
Other investments	--	--	36,334	--	--	--	--	36,334
Total monetary assets	<u>390,494</u>	<u>11,779</u>	<u>164,109</u>	<u>432</u>	<u>200</u>	<u>115,484</u>	<u>639</u>	<u>683,137</u>
Current liabilities								
Short-term credit	--	50,023	89,624	--	1,088	11,536	--	152,271
Payables and other current liabilities	--	3,652	3,986	--	12,641	11,158	678	32,115
Dividend declared	--	--	--	--	--	50,217	--	50,217
	<u>--</u>	<u>53,675</u>	<u>93,610</u>	<u>--</u>	<u>13,729</u>	<u>72,911</u>	<u>678</u>	<u>234,603</u>
Long-term liabilities								
Convertible debentures	--	--	--	--	85,857	--	1,392	87,249
Debentures	--	--	--	--	210,729	--	--	210,729
Bank loans	--	105,410	254,291	--	55,205	--	--	414,906
Deferred income taxes	--	400	--	--	--	--	6,220	6,620
	<u>--</u>	<u>105,810</u>	<u>254,291</u>	<u>--</u>	<u>351,791</u>	<u>--</u>	<u>7,612</u>	<u>719,504</u>
Total								
Monetary liabilities	<u>--</u>	<u>159,485</u>	<u>347,901</u>	<u>--</u>	<u>365,520</u>	<u>72,911</u>	<u>8,290</u>	<u>954,107</u>
Excess of monetary liabilities over monetary assets	<u>390,494</u>	<u>(147,706)</u>	<u>(183,792)</u>	<u>432</u>	<u>(365,320)</u>	<u>42,573</u>	<u>(7,651)</u>	<u>(270,970)</u>

Appendix A to the Board of Directors' Report on the Company's Operations (cont.)

2. Outstanding Derivative Positions

Following are the outstanding derivative positions as of the balance sheet date:

- a. In order to hedge and reduce the Group's exposure to future interest rate fluctuations in the US, the Group entered into a swap transaction of US\$8 million for fixing the interest rate at 3% (rather than the LIBOR rate), for a two-year period ending November 2005. The fair value of this transaction as of June 30, 2005 resulted in a gain of US\$17 thousand (NIS 79 thousand).
- b. In order to hedge and reduce the Group's exposure to future interest rate fluctuations in the US, the Group entered into a swap transaction of US\$8 million for fixing the interest rate at 2.17% (rather than the LIBOR rate), for a three-year period ending October 2006. The fair value of this transaction as of June 30, 2005 resulted in a gain of US\$180 thousand (NIS 822 thousand).
- c. In April 2005, the Company wrote, in exchange for a premium, a call option for the Canadian dollar against a put of US dollars on a total amount of C\$20 million for a period of three months. According to the provisions of the transaction, should the exchange rate of the US dollar vis-à-vis the Canadian dollar on the settlement date be less than 1.22, the Company will incur a loss equaling the difference. As of the balance-sheet date, the Company recognized a profit of NIS 200 thousand related to this transaction. Subsequent to the balance-sheet date, the Company exercised the option, recognizing an additional profit of NIS 700 thousand.

The Board of Directors
Alony-Hetz Properties and Investments Ltd.
Ramat Gan

Gentlemen:

Re: Review of Unaudited Condensed Interim
Consolidated Financial Statements as of June 30, 2005

At your request, we have reviewed the condensed interim consolidated financial statements of **Alony-Hetz Properties and Investments Ltd.**, as follows:

- Consolidated balance sheet as of June 30, 2005.
- Consolidated statements of income for the six months and three months ended June 30, 2005.
- Consolidated statements of changes in shareholders' equity for the six months and three months ended June 30, 2005.
- Consolidated statements of cash flows for the six months and three months ended June 30, 2005.

Our review was conducted in accordance with procedures prescribed by the Institute of Certified Public Accountants in Israel. The procedures included, inter alia, reading the aforementioned financial statements, reading the minutes of the shareholders' meetings and meetings of the board of directors and its committees, and making inquiries with the persons responsible for financial and accounting matters.

Since the review that was performed is limited in scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the condensed interim consolidated financial statements.

In performing our review, nothing came to our attention which indicates that material adjustments are required to the aforementioned financial statements for them to be deemed financial statements prepared in accordance with generally accepted accounting principles and Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Brightman Almagor & Co.
Certified Public Accountants
A Member Firm of Deloitte Touche Tohmatsu

Tel Aviv, Israel
August 16, 2005

ALONY-HETZ PROPERTIES AND INVESTMENTS LTD.
CONSOLIDATED BALANCE SHEET
(NIS in thousands; Reported Amounts)

	As of June 30,		As of December 31,
	2 0 0 5	2 0 0 4	2 0 0 4
	(unaudited)		
Current Assets			
Cash and cash equivalents	527,876	47,070	273,446
Deposits and marketable securities	105,436	34,051	46,318
Receivables and other current assets	13,491	10,889	11,777
	646,803	92,010	331,541
Long-Term Investments			
Investee	84,321	71,753	73,238
Other	900,969	782,444	809,711
	985,290	854,197	882,949
Rental Property			
Cost	67,031	(*) 69,832	66,517
Less - accumulated depreciation	10,394	9,239	9,829
	56,637	60,593	56,688
Fixed Assets			
	7,220	(*) 7,151	7,323
Other Assets and Deferred Charges			
	5,865	8,852	6,881
Assets Attributable to Discontinued Operations (Note 4.a.)			
	2,396	1,447,059	1,472,635
	1,704,211	2,469,862	2,758,017

(*) Reclassified.

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

	As of		As of
	June 30,		December 31,
	2 0 0 5	2 0 0 4	2 0 0 4
	(unaudited)		
Current Liabilities			
Short-term credit	152,271	42,720	82,366
Current maturities of convertible debentures	--	--	2,115
Payables and other current liabilities	32,116	19,723	18,361
Dividend declared	50,217	--	--
	<u>234,604</u>	<u>62,443</u>	<u>102,842</u>
Long-Term Liabilities			
Convertible debentures	85,857	116,377	92,150
Debentures	210,729	92,061	191,720
Bank loans	414,906	422,842	476,083
Deferred income taxes	6,620	4,199	6,176
	<u>718,112</u>	<u>635,479</u>	<u>766,129</u>
Liabilities Attributable to Discontinued operations (Note 4.a.)	<u>44,370</u>	<u>1,450,648</u>	<u>1,470,240</u>
Convertible Debentures	<u>1,392</u>	<u>7,993</u>	<u>4,513</u>
Shareholders' Equity			
Share capital	93,107	75,262	91,859
Capital reserves	307,383	153,896	283,823
Retained earnings	317,227	101,098	53,443
Dividend declared subsequent to the balance-sheet date	8,609	5,885	8,460
	<u>726,326</u>	<u>336,141</u>	<u>437,585</u>
Less - shares held by the Group and loans secured by Company shares	<u>20,593</u>	<u>22,842</u>	<u>23,292</u>
	<u>705,733</u>	<u>313,299</u>	<u>414,293</u>
	<u>1,704,211</u>	<u>2,469,862</u>	<u>2,758,017</u>

On behalf of the Board of Directors:

Aviram Wertheim	Chairman of the Board of Directors
Nathan Hetz	CEO and Member of the Board of Directors
Varda Levy	Chief Financial Officer

Approval date of the financial statements: August 16, 2005.

ALONY-HETZ PROPERTIES AND INVESTMENTS LTD.
CONSOLIDATED STATEMENTS OF INCOME
(NIS in thousands; Reported Amounts)

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December 31,
	2005	2004	2005	2004	2004
	(unaudited)		(unaudited)		
Revenues					
Rent and maintenance fees	2,978	2,756	1,481	1,506	5,681
Dividend from other companies	38,713	27,857	17,418	14,115	558,316
Interest on debentures	3,903	7,507	949	3,745	13,804
Gains from realization of other investments	7,844	(*) 11,184	--	(*) 11,184	30,698
Other, net	1,727	(*) 2,035	--	(*) 1,439	6,499
	<u>55,165</u>	<u>51,339</u>	<u>19,848</u>	<u>31,989</u>	<u>114,998</u>
Expenses					
Depreciation of buildings and operating expenses	1,344	1,465	698	814	2,773
General and administrative	6,743	(*) 5,580	2,286	(*) 2,773	(*) 11,958
Donations	5,149	(*) 300	2,340	(*) 50	(*) 1,100
Financing, net	17,140	18,632	8,770	12,340	28,197
Other, net	--	--	869	--	--
	<u>30,376</u>	<u>25,977</u>	<u>14,963</u>	<u>15,977</u>	<u>44,028</u>
Income before income taxes	24,789	25,362	4,885	16,012	70,970
Income taxes	2,673	3,317	807	1,447	4,626
Income from continued operations after income taxes	22,116	22,045	4,078	14,565	66,344
Net income from discontinued operations (Note 4.a.)	300,571	1,721	151,634	654	5,764
Net income for the period	<u>322,687</u>	<u>23,766</u>	<u>155,712</u>	<u>15,219</u>	<u>72,108</u>
Earnings per share (in NIS):					
Basic from continued operations	0.31	0.40	0.06	0.27	1.04
Basic from discontinued operations	4.17	0.03	2.10	0.01	0.08
Basic	<u>4.48</u>	<u>0.43</u>	<u>2.16</u>	<u>0.28</u>	<u>1.12</u>
Fully diluted from continued operations		0.38			0.93
Fully diluted from discontinued operations		0.02			0.07
Fully diluted		<u>0.40</u>			<u>1.00</u>
Weighted average number of shares used in computation of earnings per share					
Basic	<u>72,085</u>	<u>54,892</u>	<u>72,085</u>	<u>54,892</u>	<u>71,149</u>
Fully diluted		<u>88,329</u>			<u>88,329</u>

(*) Reclassified.

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

ALONY-HETZ PROPERTIES AND INVESTMENTS LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(NIS in thousands; Reported Amounts)

	Number of shares <u>outstanding</u> (thousands)	Share Capital	Share premiu m	Foreign currency translation adjustments and other capital reserves	Retained earnings	Dividend declared subsequent to the balance- sheet date	Total
Balance - January 1, 2005	73,871	91,859	261,987	21,836	53,443	8,460	437,585
Changes during the six-month period (unaudited)							
Dividend declared subsequent to the balance-sheet date					(8,609)	8,609	--
Dividend paid					(77)	(8,460)	(8,537)
Dividend declared					(50,217)		(50,217)
Foreign currency translation adjustments				15,831			15,831
Conversion of debentures into shares, net	1,241	1,241	8,612				9,853
Loss from the sale of treasury stock in connection with exercise of options			(939)				(939)
Exercise of share options	7	7	56				63
Net income for the period					322,687		322,687
Balance – June 30, 2005	<u>75,119</u>	<u>93,107</u>	<u>269,716</u>	<u>37,667</u>	<u>317,227</u>	<u>8,609</u>	<u>726,326</u>
Balance – January 1, 2004	53,293	71,281	116,931	18,332	89,462	16,149	312,155
Changes during six-month period (unaudited)							
Dividend declared subsequent to the balance-sheet date					(5,885)	5,885	--
Dividend paid					(6,245)	(16,149)	(22,394)
Foreign currency translation adjustments				173			173
Conversion of debentures into shares, net	3,981	3,981	19,429				23,410
Loss from the sale of treasury stock in connection with exercise of options			(969)				(969)
Net income for the period					23,766		23,766
Balance – June 30, 2004	<u>57,274</u>	<u>75,262</u>	<u>135,391</u>	<u>18,505</u>	<u>101,098</u>	<u>5,885</u>	<u>336,141</u>

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

ALONY-HETZ PROPERTIES AND INVESTMENTS LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(NIS in thousands; Reported Amounts)

	Number of shares outstanding (thousands)	Share capital	Share premium	Foreign currency translation adjustments and other capital reserves	Retained earnings	Dividend declared subsequent to the balance- sheet date	Total
Balance - April 1, 2005	74,521	92,509	264,690	24,760	170,540	49,801	602,300
Changes during the three-month period (unaudited)							
Dividend declared subsequent to the balance-sheet date					(8,609)	8,609	--
Dividend declared					(416)	(49,801)	(50,217)
Foreign currency translation adjustments				12,907			12,907
Conversion of debentures into shares, net	591	591	4,970				5,561
Exercise of share options	7	7	56				63
Net income for the period					155,712		155,712
Balance – June 30, 2005	<u>75,119</u>	<u>93,107</u>	<u>269,716</u>	<u>37,667</u>	<u>317,227</u>	<u>8,609</u>	<u>726,326</u>
Balance – April 1, 2004	57,127	75,115	134,670	24,880	91,767	5,873	332,305
Changes during the three-month period (unaudited)							
Dividend declared subsequent to the balance-sheet date					(5,885)	5,885	--
Foreign currency translation adjustments				(6,375)			(6,375)
Dividend paid					(3)	(5,873)	(5,876)
Conversion of debentures into shares, net	147	147	721				868
Net income for the period					15,219		15,219
Balance – June 30, 2004	<u>57,274</u>	<u>75,262</u>	<u>135,391</u>	<u>18,505</u>	<u>101,098</u>	<u>5,885</u>	<u>336,141</u>
Balance – January 1, 2004	53,293	71,281	116,931	18,332	89,462	16,149	312,155
Changes during 2004							
Conversion of debentures into shares, net	6,675	6,675	41,376				48,051
Foreign currency translation adjustments				3,504			3,504
Dividend paid					(99,667)	(16,149)	(115,816)
Loss from the sale of treasury stock in connection with exercise of options			(969)				(969)
Exercise of share options	13,796	13,796	104,302				118,098
Exercise of share options by the Company's employees	107	107	347				454
Dividend declared subsequent to the balance-sheet date					(8,460)	8,460	--
Net income for the year					72,108		72,108
Balance - December 31, 2004	<u>73,871</u>	<u>91,859</u>	<u>261,987</u>	<u>21,836</u>	<u>53,443</u>	<u>8,460</u>	<u>437,585</u>

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

ALONY-HETZ PROPERTIES AND INVESTMENTS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(NIS in thousands; Reported Amounts)

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December 31,
	2005	2004	2005	2004	2004
	<u>(unaudited)</u>		<u>(unaudited)</u>		
Cash flows - operating activities					
Net income per statement of income	322,687	23,766	155,712	15,219	72,108
Adjustments to reconcile net income to net cash from continued operations (Appendix A)	<u>(293,598)</u>	<u>(7,852)</u>	<u>(134,485)</u>	<u>(9,689)</u>	<u>(36,199)</u>
Net cash provided by continued operations	29,089	15,914	21,227	5,530	35,909
Net cash provided by (used in) discontinued operations	<u>(43,341)</u>	<u>12,636</u>	<u>(15,887)</u>	<u>6,009</u>	<u>30,588</u>
Net cash provided by (used in) operating activities	<u>.....(14,252)</u>	<u>.....28,550</u>	<u>.....5,340</u>	<u>.....11,539</u>	<u>.....66,497</u>
Cash flows - investing activities					
Investment in other companies	(127,515)	(67,614)	(2,037)	(23,961)	(101,055)
Proceeds from disposition of investment in other companies	80,003	52,665	--	52,665	95,527
Dividend received from other company	1,946	--	1,946	--	--
Increase in marketable securities and deposits, net	(56,476)	(27,310)	(18,046)	(401)	(38,706)
Investments in fixed assets and rental properties	(598)	(488)	(59)	(448)	(1,055)
Investment in an Affiliate	(13,689)	--	(120)	--	--
Return of investment in venture capital (Partnership)	--	--	--	--	7,048
Net cash provided by (used in) continued investing activities	(116,329)	(42,747)	(18,316)	27,855	(38,241)
Net cash provided by (used in) discontinued investing activities	<u>1,773,868</u>	<u>--</u>	<u>608,194</u>	<u>107</u>	<u>(937)</u>
Net cash provided by (used in) investing activities	<u>1,657,539</u>	<u>(42,747)</u>	<u>589,878</u>	<u>27,962</u>	<u>(39,178)</u>
Cash flows - financing activities					
Repayment of long-term loans	(12,710)	(10,139)	(6,034)	(4,372)	(30,438)
Decrease in short-term bank borrowings	(76)	(19,999)	(8)	(19,781)	(19,996)
Redemption of convertible debentures	(2,115)	(6,107)	--	--	(6,107)
Proceeds from the sale of Company's shares by the Company	1,494	3,919	--	--	3,919
Loan collected to purchase Company's shares	265	62	22	31	66
Receipt of long-term loans, net of related expenses	--	26,960	--	26,960	129,005
Issuance expenses	--	(1,015)	--	--	(1,015)
Proceeds from exercise of share options	63	--	63	--	118,098
Sale of Company's debentures by the Group, net	16,603	--	16,603	--	99,044
Dividend paid	<u>(8,537)</u>	<u>(22,394)</u>	<u>(8,537)</u>	<u>(22,394)</u>	<u>(115,816)</u>
Net cash provided by (used in) continued financing activities	(5,013)	(28,713)	2,109	(19,556)	176,760
Net cash used in discontinued financing activities	<u>(1,386,884)</u>	<u>(11,775)</u>	<u>(288,896)</u>	<u>(5,887)</u>	<u>(24,530)</u>
Net cash provided by (used in) financing activities	<u>(1,391,897)</u>	<u>(40,488)</u>	<u>(286,787)</u>	<u>(25,443)</u>	<u>152,230</u>
Translation differences - cash balances in Subsidiaries abroad					
From continued operations, net	995	(43)	650	419	(1,711)
From discontinued operations, net	<u>(3,019)</u>	<u>(208)</u>	<u>(2,875)</u>	<u>(136)</u>	<u>(166)</u>
Total, net	<u>(2,024)</u>	<u>(251)</u>	<u>(2,225)</u>	<u>283</u>	<u>(1,877)</u>
Increase (decrease) in cash and cash equivalents	249,366	(54,936)	306,206	14,341	177,672
Add (subtract) cash from discontinued operations	5,064	8	(2,300)	438	(6,224)
Cash and cash equivalents - beginning of period	273,446	101,998	223,970	32,291	101,998
Cash and cash equivalents - end of period	<u>527,876</u>	<u>47,070</u>	<u>527,876</u>	<u>47,070</u>	<u>273,446</u>

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

ALONY-HETZ PROPERTIES AND INVESTMENTS LTD.
APPENDICES TO CONSOLIDATED STATEMENTS OF CASH FLOWS
(NIS in thousands; Reported Amounts)

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December 31,
	2005	2004	2005	2004	2004
	(unaudited)		(unaudited)		
Appendix A - Adjustments to reconcile net income to net cash from continued operating activities					
Income and expenses items not involving cash flows:					
Discontinued operations	(300,571)	(1,721)	(151,634)	(654)	(5,764)
Share in losses (income) of investees and venture capital (Partnership), net	1,767	(253)	1,588	(568)	(6,337)
Dividends received from an Affiliate	1,143	875	1,143	875	875
Distribution of venture capital (Partnership) earnings	--	--	--	--	1,379
Depreciation and amortization	200	(303)	250	(112)	(725)
Deferred income taxes, net	(1,080)	962	(841)	266	1,529
Gains from realization of other investments	(7,844)	(11,184)	--	(11,184)	(30,698)
Impairment of long lived assets	--	--	--	--	3,534
Increase in value of loans from banks and others	264	615	428	701	409
Amortization of discount, interest and increase in value of debentures	10,092	7,456	6,981	5,751	3,909
Gain from marketable securities, net	(2,641)	(964)	(299)	(447)	(2,055)
Changes in assets and liabilities, net:					
Decrease (increase) in receivables and other current assets	(1,203)	(1,596)	4,284	(5,723)	(2,097)
Increase (decrease) in payables and other current liabilities	6,275	(1,739)	3,615	1,406	(158)
	<u>(293,598)</u>	<u>(7,852)</u>	<u>(134,485)</u>	<u>(9,689)</u>	<u>(36,199)</u>
Appendix B - Non-cash activities					
Conversion of debentures (Series B) into shares, net	<u>3,134</u>	<u>23,410</u>	<u>74</u>	<u>868</u>	<u>24,784</u>
Conversion of debentures (Series D) into shares, net	<u>6,719</u>	<u>--</u>	<u>5,487</u>	<u>--</u>	<u>23,267</u>
Dividend declared	<u>50,217</u>	<u>--</u>	<u>50,217</u>	<u>--</u>	<u>--</u>

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

ALONY-HETZ PROPERTIES AND INVESTMENTS LTD.
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2005

NOTE 1 - GENERAL

The unaudited condensed interim consolidated financial statements have been prepared as of June 30, 2005 and for the six-month and three-month periods then ended ("Interim Financial Statements"). These Interim Financial Statements should be read in conjunction with the Company's annual financial statements as of December 31, 2004 and for the year then ended, including the notes thereto.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

- a. The Interim Financial Statements have been prepared in conformity with generally accepted accounting principles applicable to interim financial statements, as established by Standard No. 14 of the Israeli Accounting Standards Board and in accordance with paragraph D of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.
- b. The significant accounting principles applied in the preparation of the Interim Financial Statements are in a manner consistent with those applied in the preparation of the Company's audited financial statements as of December 31, 2004 and for the year then ended.
- c. **Accounting Standard No.22 – Financial Instruments: Disclosure and Presentation**

In July 2005, the Israeli Accounting Standards Board approved for publication Accounting Standard No. 22 "Financial Instruments: Disclosure and Presentation". A Financial instrument under this Standard is, in general, any contract that establishes a financial asset of an entity, or a financial liability or equity instrument of other entity. This Standard establishes the requirements for presentation of financial instruments in the financial statements and identifies the information that should be disclosed in relation thereto, and in some certain cases the method to measure their impact on the entity's financial statements. The presentation requirements relate to the classification of financial instruments as financial assets, financial liabilities or equity instruments. It also deals with the classification of interest, dividends, losses and gains related thereto, and to the circumstances under which financial assets and financial liabilities derived from financial instruments are to be offset. This Standard establishes requirements for disclosure of information relating to factors affecting the amount, timing and certainty of the entity's future cash flows relating to financial instruments and accounting policy implemented in respect of these instruments. The Standard also establishes requirements for disclosure of information about the nature and the scope of an entity's use of financial instruments, the business purposes they serve, the risks associated with them and management's policies for the oversight of those risks.

This Standard is effective for financial statements for periods commencing January 1, 2006 or thereafter. The initial adoption of the Standard will be accounted for by the "prospective method", i.e. financial instruments issued before the effective date of the Standard will be classified and presented in accordance with its provisions commencing the effective date. Comparative financial statements for prior periods shall not be restated. The new Standard supersedes Opinion No.53 "Accounting for Convertible Liabilities" and Opinion No.48 "Accounting for Options".

**ALONY-HETZ PROPERTIES AND INVESTMENTS LTD.
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2005**

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

c. Accounting Standard No.22 – Financial Instruments: Disclosure and Presentation (cont.)

The Company is currently examining the provisions of the Standard and its effect on the Company's financial position and results of operations.

The initial adoption of the Standard is expected to affect primarily the presentation of the Company's convertible debentures (the split of the convertible debentures into debt component and equity component, as these terms are defined by the Standard). Consequently, on January 1, 2006 the Company's shareholders equity and long-term liabilities will be one-time affected and commencing in that date the Company's future financing expenses will be affected as well.

d. The following table outlines the increase (decrease) in the consumer price index ("CPI") and changes in exchange rates of the relevant currencies vis-a-vis the New Israeli Shekel ("NIS"):

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December 31,
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2004</u>
	%	%	%	%	%
CPI					
In Israel (CPI "in respect of")	0.50	1.41	1.10	1.51	1.21
In the US	2.21	2.93	0.62	1.23	3.26
In Canada	1.44	1.87	0.55	1.21	2.12
In the UK	1.21	1.80	0.89	1.19	3.49
Exchange rates vis-a-vis the NIS					
US Dollar	6.17	2.69	4.88	(0.68)	(1.62)
Canadian Dollar	3.70	(1.85)	3.20	(3.47)	5.02
Euro	(5.95)	(1.22)	(2.16)	(1.26)	6.21
Pound Sterling	(1.33)	3.79	(0.11)	(1.91)	5.83

NOTE 3 – INVESTMENT IN AMOT

a. Acquisition of Amot Shares

On August 11, 2005, the Company acquired all of the shares of Amot Investments Ltd. ("Amot"), "as is", in exchange for NIS 956 million. The transaction was financed partly by the issuance of debentures to institutional investors (see paragraph b. below) and partly by own sources. Amot, directly and indirectly through its controlled entities, is engaged in the initiation, development, leasing, holding and sale of real estate in Israel and abroad.

Amot owns, directly and indirectly, real estate assets consisting of central bus stations, commercial centers, shopping malls and industrial and office buildings. Amot and its investees possess rights in 90 real estate assets in Israel, on a total built area of 300,000 sq. meters, which are leased to approximately 600 tenants. Part of these assets are fully-owned by Amot, and part are jointly held with others. In addition, Amot holds rights in five assets in Germany and three in Canada.

ALONY-HETZ PROPERTIES AND INVESTMENTS LTD.
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2005

NOTE 3 – INVESTMENT IN AMOT (cont.)

a. Acquisition of Amot Shares (cont.)

The consolidated net book value of the yielding real estate assets held by Amot and its investees as of June 30, 2005 amounted to NIS 2,066 million. The consolidated revenues in respect thereof for the six-month and three-month periods ended June 30, 2005 amounted to NIS 108 million and NIS 55 million, respectively.

The financial statements of Amot, including its results of operations, will be fully consolidated with those of the Group commencing the third quarter of 2005.

**b. Issuance of Debentures (Series C)
and Banks Credit Facility for Financing the Amot Acquisition**

In August 2005, the Company raised NIS 507 million from institutional investors by way of a private placement of 455 million par-value debentures through an increase in the Company's outstanding debentures (Series C). The issued debentures bear an effective annual interest rate of 4.31% and are payable in eight equal annual installments on November 5 of each of the years 2006 and 2013. Debenture principal and related interest thereon are linked to the CPI. Following the private placement, the total outstanding debentures (Series C) as of the approval date of the interim financial statements amounted to NIS 712 million par-value, of which NIS 49 million par-value (7%) was held by a Subsidiary. See also Note 4.e(3) below.

Subsequent to the balance-sheet date, a bank in Israel approved for the Company a credit facility of \$100 million for financing the Amot acquisition.

NOTE 4 - ADDITIONAL DATA AND SUBSEQUENT EVENTS

a. Discontinued Operations

In November 2004, the Group entered into agreements for the sale of its entire rental property in the UK (8 assets) in exchange for £216 million (NIS 1,779 million). During the six-month period ended June 30, 2005, the sale of all these assets was closed. Through the transfer date of the ownership of the assets to the purchasers, the ownership of these assets remained in the hands of the Group, and the rental fees and operating costs in respect thereof have been recorded in the Group's financial statements.

The total pre-tax capital gain the Group recorded in the six-month period ended June 30, 2005 in respect of the sale of all of the 8 assets amounted to NIS 339 million. The total tax expenses in respect of this capital gain, while taking into account the provisions of agreements previously signed between the Group and the income tax authorities, is estimated to be approximately NIS 40 million. Consequently, the capital gain, net of income tax, for the six-month period ended June 30, 2005 amounted to NIS 299 million (for the three-month period ended June 30, 2005 - NIS 172 million, NIS 20 million, and NIS 152 million, respectively).

The Company utilized the consideration from the sale of all of the assets for the repayment of all the long-term loans which originally funded the acquisition of those assets, in the total amount of NIS 1,384 million.

**ALONY-HETZ PROPERTIES AND INVESTMENTS LTD.
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2005**

NOTE 4 - ADDITIONAL DATA AND SUBSEQUENT EVENTS (cont.)

a. Discontinued Operations (cont.)

The following details the assets and liabilities related to the discontinued operations (Reported Amounts):

	As of June 30,		As of December 31,
	2 0 0 5	2 0 0 4	2 0 0 4
	(unaudited)		
Current Assets			
Cash and cash equivalents	2,300	1,133	7,364
Deposits	-	36,068	37,714
Receivables and other current assets	96	571	2,658
	2,396	37,772	47,736
	-	1,320,518	1,340,793
Rental Property	-	1,320,518	1,340,793
Other Assets and Deferred Charges	-	88,769	84,106
Total assets related to discontinued operations	2,396	1,447,059	1,472,635
Current Liabilities			
Short-term credit	-	26,234	28,246
Payables and other current liabilities	44,370	51,828	56,888
	44,370	78,062	85,134
	-	1,361,153	1,373,479
Long-Term Liabilities	-	1,361,153	1,373,479
Bank loans	-	11,433	11,627
Deferred income taxes	-	1,372,586	1,385,106
	-	1,372,586	1,385,106
Total liabilities related to discontinued operations	44,370	1,450,648	1,470,240

ALONY-HETZ PROPERTIES AND INVESTMENTS LTD.
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2005

NOTE 4 - ADDITIONAL DATA AND SUBSEQUENT EVENTS (cont.)

a. Discontinued Operations (cont.)

The following details the revenues and expenses related to the discontinued operations (Reported Amounts):

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2005	2004	2005	2004	2004
	(unaudited)		(unaudited)		
Revenues - rent and maintenance fees	18,428	63,615	1,941	31,837	129,298
Expenses					
Depreciation of buildings and operating expenses	1,629	5,638	125	2,820	11,279
General and administrative	339	1,290	18	857	2,105
Financing, net	13,754	54,006	1,775	27,122	107,928
	<u>15,722</u>	<u>60,934</u>	<u>1,918</u>	<u>30,799</u>	<u>121,312</u>
Income before income taxes	2,706	2,681	23	1,038	7,986
Income taxes	(714)	(960)	(144)	(384)	(2,222)
	<u>1,992</u>	<u>1,721</u>	<u>(121)</u>	<u>654</u>	<u>5,764</u>
Capital gain from sale of rental property (*)	298,579	--	151,755	--	--
Net income for the period	<u>300,571</u>	<u>1,721</u>	<u>151,634</u>	<u>654</u>	<u>5,764</u>

(*) The capital gain for the six-month period ended June 30, 2005 is presented net of tax expenses in the amount of NIS 40,388 thousand; for the three-month period ended June 30, 2005 - net of tax expenses in the amount of NIS 20,384 thousand.

b. Investment in First Capital Reality Inc. ("FCR")

During the reporting period, the Group acquired, in exchange for NIS 101.3 million (C\$27.3 million), securities of FCR, of which NIS 82.5 million (C\$22.2 million) originated from an early redemption of FCR convertible debentures for FCR shares. Following these investments, as of June 30, 2005 the Group held 9.4 million shares of FCR, constituting as of that date 14.8% of FCR's share capital, and 10.7 million par-value debentures (Series C) convertible into FCR shares.

The balance of the Group's investment in FCR's securities as of June 30, 2005, amounted to NIS 543 million (C\$146.3 million). The market value of these securities as of such date, as quoted on the Toronto Stock Exchange, amounted to NIS 752.5 million (C\$202.8 million).

ALONY-HETZ PROPERTIES AND INVESTMENTS LTD.
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2005

NOTE 4 - ADDITIONAL DATA AND SUBSEQUENT EVENTS (cont.)

c. Investments in Ogen

According to a prospectus dated February 7, 2005 for the issuance of shares, options and convertible debentures, Ogen Real Estate Ltd. ("Ogen", an affiliate) raised from the public and its shareholders a net amount of NIS 155 million for the purpose developing its operations. Ogen intends to purchase yielding assets and/or land designed for development purposes in Israel. The above raising included issuance of shares and options by way of rights offerings to Ogen's shareholders for NIS 31 million, and issuance of convertible debentures and options to the public for an immediate amount of NIS 130 million. Within the framework of the rights offerings, the Company acquired 12.3 million par-value shares and 3.4 million options of Ogen in consideration for a total of NIS 13.6 million. The exercise price of the options is NIS 8 (linked to the Israeli CPI and subject to adjustments).

d. Dividend Declared

In the framework of the dividend distribution policy adopted by the Company's Board of Directors according to which the Company would distribute a minimum annual dividend of NIS 0.48 per share in 2005, the Company paid in April and July 2005 interim dividends of NIS 8,537 thousand and NIS 8,609 thousand, respectively. Following the completion of the sale of its entire rental property in the UK, the Company paid in July 2005 an additional dividend of NIS 0.58 per share (NIS 41,608 thousands). The aggregate amount of dividends paid by the Company until the approval date of the Interim Financial Statements in respect of 2005 is NIS 0.82 per share (NIS 58,754 thousands).

In August 2005, the Company declared an interim dividend in respect of the third quarter of 2005 of NIS 0.12 per share (NIS 8.6 million) to be paid in October 2005.

e. Raising Capital through Issuance of Debentures

(1) Conversion of Debentures (Series B)

During the reporting period, NIS 2,696,708 par-value debentures (Series B) were converted into 531,958 ordinary shares of NIS 1.00 par value of the Company. Subsequent to the balance sheet date and through the approval date of the Interim Financial Statements, additional NIS 2,200 par-value debentures (Series B) were converted into 434 ordinary shares of NIS 1.00 par-value of the Company. Following these conversions, the outstanding debentures (Series B) as of the approval date of the Interim Financial Statements amounted to NIS 1,204,897 par-value.

(2) Conversion of Debenture (Series D)

During the reporting period, NIS 7,086,450 par-value debentures (Series D) were converted into 708,645 ordinary shares of NIS 1.00 par-value of the Company. The outstanding debentures (Series D) as of the approval date of the Interim Financial Statements amounted to NIS 88,297,950 par-value.

ALONY-HETZ PROPERTIES AND INVESTMENTS LTD.
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2005

NOTE 4 - ADDITIONAL DATA AND SUBSEQUENT EVENTS (cont.)

e. Raising Capital through Issuance of Debentures (cont.)

(3) Sale of Debenture (Series C)

During the reporting period, a Subsidiary realized NIS 15,500,000 par-value of debentures (Series C) in consideration for NIS 16,956 thousand. See also Note 3.b. above.

f. Exercise of Options

During the reporting period, officers of the Company, who are also Interested Parties, exercised 425,000 options into 461,100 ordinary shares of NIS 1.00 par-value of the Company, in consideration for total exercise price of NIS 1,494 thousand. The plan according to which these options were granted, provides that the shares underlying the options shall be issued to those who exercise the options out of the Company's shares held by the Company. Accordingly, during the reporting period, the Company sold 461,100 treasury shares (ordinary shares of the Company held by the Company) for a consideration identical to said total exercise price.

g. Investing in B.S.R Europe Ltd.

In March 2005, the Company acquired ordinary shares and options (Series 4) of B.S.R Europe Ltd. in consideration for NIS 23.8 million. Said investments were classified in the interim financial statements of the Company as other long-term investments. As a result of the above acquisitions, the Company became an Interested Party in B.S.R Europe Ltd.

h. Ramifications of the Law for Amending the Income Tax Ordinance (No. 147), 2005

In July 2005, the Israeli Knesset passed in second and third reading the Law for Amending the Income Tax Ordinance (No. 147), 2005 (the "Amendment") by reducing the current corporate tax rate of 34%. According to the Amendment, commencing in 2006 and through 2010 the corporate income-tax rate would be gradually reduced from 31% (a tax rate which was established for 2006) to 25% (a tax rate which was established for 2010). Management of the Group estimates that the applying the Amendment will not have a material effect on the Group's financial position and results of operations.

ALONY-HETZ PROPERTIES AND INVESTMENTS LTD.
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2005

NOTE 5 - GEOGRAPHICAL SEGMENTS

	<u>Israel</u>	<u>US of America</u>	<u>Canada</u>	<u>Total</u>
	<u>NIS in thousands; Reported Amounts</u>			
Six months ended				
June 30, 2005 (unaudited)				
Revenues	<u>5,796</u>	<u>12,997</u>	<u>36,372</u>	<u>55,165</u>
Income (loss) before income taxes	<u>(12,791)</u>	<u>8,596</u>	<u>28,984</u>	<u>24,789</u>
Six months ended				
June 30, 2004 (unaudited)				
Revenues	<u>18,245</u>	<u>12,838</u>	<u>20,256</u>	<u>51,339</u>
Income before income taxes	<u>999</u>	<u>9,083</u>	<u>15,280</u>	<u>25,362</u>
Three months ended				
June 30, 2005 (unaudited)				
Revenues	<u>2,281</u>	<u>6,597</u>	<u>10,970</u>	<u>19,848</u>
Income (loss) before income taxes	<u>(6,900)</u>	<u>4,329</u>	<u>7,456</u>	<u>4,885</u>
Three months ended				
June 30, 2004 (unaudited)				
Revenues	<u>15,250</u>	<u>6,464</u>	<u>10,275</u>	<u>31,989</u>
Income before income taxes	<u>3,590</u>	<u>4,630</u>	<u>7,792</u>	<u>16,012</u>
During 2004				
Revenues	<u>43,989</u>	<u>25,687</u>	<u>45,322</u>	<u>114,998</u>
Income before income taxes	<u>17,509</u>	<u>17,839</u>	<u>35,622</u>	<u>70,970</u>