

**ALONY-HETZ PROPERTIES AND INVESTMENTS LTD.**  
**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED ON MARCH 31, 2005**  
**(UNAUDITED)**

**ALONY-HETZ PROPERTIES AND INVESTMENTS LTD.**

**CONTENTS**

	<u>Page</u>
<b><u>Report of the Board of Directors</u></b>	2-15
<b><u>Accountants' review report</u></b>	16
<b><u>Condensed interim consolidated financial statements (Unaudited)</u></b>	
Balance Sheet	17-18
Statements of Income	19
Statements of Changes in Shareholders' Equity	20
Statements of Cash Flows	21-22
Notes to the condensed interim consolidated financial statements	23-28

Ramat-Gan, May 22, 2005

**Report of the Board of Directors on the State of the Entity's Affairs**  
**For the Period of Three Months Ended March 31, 2005**

The Board of Directors of Alony-Hetz Properties and Investments Ltd. are pleased to present the financial statements of the company and of its consolidated companies (hereinafter: "The group") for the three months ended on March 31, 2005 (hereinafter: "The reporting period").

The review that is presented below is of a limited scope and relates to the events and changes that occurred in the state of the entity's affairs in the reporting period that have a material effect.

The report of the Board of Directors for the reporting period should be read in conjunction with the annual report of the Board of directors for the year 2004.

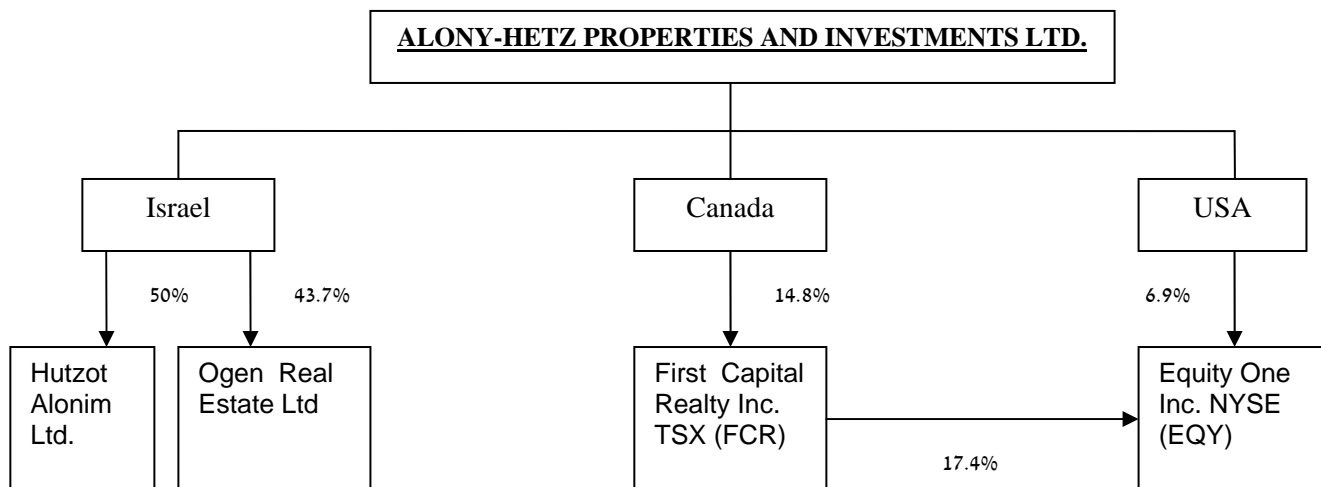
**Description of the Company and its Business Environment**

The group focuses primarily on long-term investments in the fields of income generating realty in Western countries and in Israel as follows:

- a. A holding of 6.9% in Equity One Inc. (hereinafter: "EQY"), an American public company that holds income generating realty for rental in the USA.
- b. A holding of 14.8% in First Capital Realty Inc. (hereinafter: "FCR"), a Canadian public company that holds income generating realty for rental in Canada. In addition, FCR holds 17.4% of the share capital of EQY.
- c. A holding of 43.7% in Ogen Real Estate Ltd.. (hereinafter: "Ogen"), an Israeli public company that is engaged in the initiation, development, construction and purchase of office buildings and commercial buildings and their leasing by Ogen as income generating assets, and a holding of 50% in Hutzot Alonim Ltd., which owns and operates the Hutzot Alonim mall..

Regarding the realization of the group's assets in Great Britain, see the section on "The group's activities in Great Britain" below.

The following is the company's principle holdings structure at a time close to the signing of this report:



(FCR holds 17.4% in EQY)

As a result of what is described above, the group's primary income, investments and activities are in foreign currency.

### Stock Exchange Indices

The company's shares are traded on the Tel-Aviv Stock Exchange. The Stock Exchange indices in which the company's shares appear are: The TA 100 index, the TA 75 index, the Ma'ala 20 index and the Realty 15 index.

### Credit rating

All of the company's debentures are rated by Ma'a lot, the Israeli Company For Rating Securities Ltd. (hereinafter: "Ma'a lot") with a rating of AA-.

### The group's profitability

The group's profitability in the first quarter of the year 2005 was **NIS 167 million (including a net gain on the realization of part of the group's assets in Great Britain in the amount of NIS 147 million)**, as compared with a profit of NIS 8.5 million in the comparative period in the previous year. The group's continuing activities generated a profit **in the amount of NIS 18 million** in the first quarter of the year 2005 as compared with an amount of NIS 7 million in the comparative period in the previous year.

### **The group's activities in Great Britain**

As of the balance sheet date the group held three income generating realty assets for rental in Great Britain, which were realized after the balance sheet date.

In November 2004 the consolidated companies signed on agreements in respect of the sale of 8 realty assets of the group in Great Britain, for a consideration of 216 million Pounds Sterling (NIS 1,772 million). **Since the transaction for the sale of all of the group's assets in Great Britain meets the definition of a "discontinued segment of activities", all of this geographical segment's assets are presented under one item, all of its liabilities are presented under one item and the results of the segments activities are presented under one item in the statement of income. See Note 3a to the financial statements in respect of the business results of the activities in Great Britain.**

During the reporting period, the sale of 5 of the 8 assets was completed for an overall consideration of 142.8 million Pounds Sterling (NIS 1,172 million) and the group recorded a capital gain in the amount of NIS 167 million. The group is expected to record a further capital gain in the second quarter of the year 2005 in the amount of 21 million Pounds Sterling in respect of the sale of the three assets. With the completion of the sale, the loans that were secured on the assets were repaid.

The surplus cash flows that remained in the hands of the group after the said disposal, in the amount of approximately 41 million Pounds sterling (approximately NIS 340 million) and the overall tax charge that is expected in respect of the capital gain, taking into account the agreements that the group has signed in the past with the income tax authorities, and in accordance with the law that is in force today, will come to NIS 40 million.

### **The group's activities in the United States of America**

**As of the balance sheet date the group held 5.1 million shares in EQY, which constitute 6.9% of EQY's capital.**

**The group's total investment in EQY as of the balance sheet date came to 62.4 million Dollars (NIS 272 million), and the value in accordance with EQY's share price as quoted on the New-York Stock Exchange as of the balance sheet date is 105 million Dollars (NIS 458 million).**

**As of the balance sheet date the credit from banks that is secured on the EQY shares amounted to 34 million Dollars (NIS 149 million).**

**EQY is a realty investments company (REIT), which is registered for trade on the New York Stock Exchange.** EQY was held, as of the balance sheet date, at a rate of 40% directly and indirectly by the Gazit-Globe Group (1982) Ltd. (hereinafter: "Gazit Globe"). EQY is managed independently and is active in urban regions of the South Eastern USA and primarily Florida, Texas, Georgia, Boston and Massachusetts.

EQY purchases, develops and manages community and neighborhood commercial centers, which are anchored by supermarket chains.

**As of today, EQY holds assets with a built area of 1.82 million square meters.**

During the course of the reporting period the group received dividend income from EQY in the amount of 1.5 million Dollars (NIS 6.4 million). The company expects that its dividend income from EQY will amount to approximately 5.9 million Dollars in the year 2005 (according to an annual dividend of 1.16 Dollars per share), and this in reliance upon the announcement by EQY in respect of the quarterly dividends which it intends to distribute in the year 2005, and based upon the quantity of shares that are held by the group as of today.

### **The group's activities in Canada**

**As of the balance sheet date, the group held 9.4 million shares in FCR, which as of that date constituted 14.8% of the share capital of FCR and 10.7 million par value of debentures (convertible into shares) of FCR's Series One.**

**FCR is a Canadian public company, whose shares are registered for trade on the Toronto Stock Exchange in Canada. FCR was 55% held, as of the balance sheet date, by the Gazit-Globe Group. FCR is engaged in the purchase, development and management of neighborhood and community shopping centers, which are for the most part anchored by supermarkets, in Canada. Close to the time of the signing of this report, FCR held 114 commercial centers and 12.9 million shares in EQY, constituting 17.4% of EQY's shares.**

During the course of the reporting period, within the framework of a private issue of 2.7 million shares that FCR carried out for institutional investors, at a price of 19.25 Canadian Dollars a share, the group invested from its independent sources an amount of 3.7 million Canadian Dollars in the purchase of 193 thousand shares

On March 31, 2005 FCR converted the convertible debentures (Series D') into shares at the rate of 19.2 Canadian Dollars per share. The group held 22 million par value of debentures (Series D') which were converted into 1.2 million shares.

**The total amount of the group's investment in shares and debentures of FCR as of the balance sheet date amounted to 146 million Canadian Dollars (NIS 524 million), and the value in accordance with the share price of the said shares as quoted on the Toronto Stock Exchange as of the balance sheet date is 189 million Canadian Dollars (NIS 681 million).**

**As of the balance sheet date the credit from banks that is secured on the FCR shares amounted to 94 million Canadian Dollars (NIS 338 million).**

During the course of the reporting period the group received dividend income from FCR in the amount of 4 million Canadian Dollars (NIS 15 million). Similarly, the group recorded income from debenture interest in the amount of 0.8 million Canadian Dollars (NIS 3 million). In accordance with the group's holdings in FCR's securities as of a time close to the signing of this report, and in reliance upon announcement by FCR in respect of the quarterly dividends which it intends to distribute in the year 2005, the company expects that its receipts from dividends and its income from interest from FCR will amount to an amount of approximately 15 million Canadian Dollars in the year 2005 (NIS 54 million).

### **Investments in realty in Israel**

The company holds 43.7% of Ogen, which ended the first quarter of the year 2005 with a net income of NIS 0.1 million, as compared with a loss of NIS 0.1 million in the comparative period in the previous year, and a net income of NIS 5.1 million in the year 2004.

In accordance with the prospectus dated February 7, 2005, Ogen raised capital from the public and from its shareholders in the net overall amount of NIS 155 million, for the purpose of developing its business. Ogen intends to purchase income generating assets and/or land for development purposes in Israel. This capital issue included the issue of shares and option warrants by way of a rights issue to shareholders in Ogen in the amount of NIS 31 million and the issue to the public of convertible debentures and option warrants in the immediate amount of NIS 130 million. Within the framework of the rights issue to the shareholders the company purchased 12.3 million par value of shares and 3.4 million par value of option warrants (Series 1) at an overall cost of NIS 13.6 million.

**As of today, following the exercise of the said rights, the company holds 13.5 million par value of shares in Ogen and 3.4 million par value if option warrants at an overall investment in the amount of NIS 86 million. The value of this investment as quoted on the Tel Aviv Stock Exchange, as of the balance sheet date, amounted to NIS 102 million.**

### **Other investments**

During the reporting period the company invested an amount of NIS 24 million in the purchase of shares and option warrants in the company B.S.R. Europe Ltd. The investment is presented under other investments in the company's balance sheet

**The following table summarized the group's marketable investments**

The investments recorded below are presented in the consolidated balance sheet under long-term investments in investee and other companies.

Name of company	Stock Exchange on which traded	As of March 31, 2005	
		Book value	Value at Market prices
		NIS millions	NIS millions
Ogen	Tel-Aviv	86	102
EQY	NYSE (New-York)	272	458
FCR	TSX (Toronto)	524	681
Others		56	74
<b>Total</b>		<b>938</b>	<b>1,315</b>

As of the balance sheet date, the value of the group's marketable investments that are held for the long-term exceeds their book value by NIS 377 million. Close to the time of the signing of the report, the market value of the said holdings, in accordance with their prices as quoted on the stock exchange, exceeded their value in the company's books by NIS 452 million.

**Operating results**

The following table summarizes the operating results (In NIS thousands):

	<u>Quarter 1</u> <u>2005</u>	<u>Quarter 1</u> <u>2004</u>	<u>Annual</u> <u>2004</u>
<b><u>Income</u></b>			
Rental and maintenance fees	1,497	1,250	5,681
Dividends from other companies	21,295	13,742	58,316
Interest on debentures	2,954	,3762	13,804
Income on other investments	7,844	-	30,698
Others, net	2,596	596	6,499
	<u>36,186</u>	<u>19,350</u>	<u>114,998</u>
<b><u>Expenses</u></b>			
Operating and depreciation of buildings	646	651	2,773
Administrative and general	4,457	2,807	11,958
Donations	2,809	250	1,100
Financing, net	8,370	6,292	28,197
	<u>16,282</u>	<u>10,000</u>	<u>44,028</u>
Income before taxes on income	19,904	9,350	70,970
Taxes on income	1,866	1,870	(4,626)
Income from continuing activities after taxes on income	18,038	7,480	66,344
Income from discontinued activities, net (Great Britain)	148,937	1,067	5,764
Net income for the period	<u>166,975</u>	<u>8,547</u>	<u>72,108</u>

\* See Note 3a to the financial statements

## **General**

In the reporting period changes occurred in the average exchange rates of the Shekel against the Pound Sterling, the Dollar and the Canadian Dollar, as detailed in the following table. These changes caused changes in the ratios of the elements of the statement of income, as compared with the figures in the statement of income for the comparative period in the previous year and for the year ended December 31, 2004.

The following are details of the changes in the exchange rate of the principal currencies in which the group operates:

	<b><u>Quarter 1</u></b> <b><u>2005</u></b> <b><u>Average %</u></b>	<b><u>Quarter 1</u></b> <b><u>2004</u></b> <b><u>Average %</u></b>	<b><u>Annual</u></b> <b><u>2004</u></b> <b><u>Average %</u></b>
Increase (decrease) in the exchange rate of the Pound Sterling	(0.8)	4.5	4.6
(Decrease) increase in the exchange rate of the Canadian Dollar	(0.7)	(0.6)	1.2
Increase (decrease) in the exchange rate of the Dollar	1.2	1.9	2.3

**Dividend income from other companies** - The increase in the reporting period by comparison with the comparative period in the previous year derived primarily from the purchase of additional shares in FCR and in EQY and as a result of a special dividend that FCR paid of which the company's share amounted to NIS 5.8 million. The increase was offset by a decline in the amount of NIS 0.9 million in dividends received from the investments in other companies.

**Interest from debentures** – the decline in the reporting period by comparison with the comparative period in the previous year derived from the redemption of the FCR debentures in the third quarter of the year 2004.

**Gains in connection with other investments** – in the reporting period capital gains on the early redemption of FCR debentures.

**Others, net** – in the reporting period include a net gain on marketable securities in the amount of NIS 2.4 million by comparison with NIS 0.5 million in the comparative period in the previous year.

**Administrative and general expenses** – in the reporting period include a provision for grants in respect of the year 2005 for the company's General Manager and the Chairman of the Board of Directors in the amount of NIS 2.2 million by comparison with NIS 0.5 million in the comparative period in the previous year. **The increase derived from the recording of the full annual grant to which they are entitled**, in accordance with their employment agreements.

**Donations expenses** – the company's Board of Directors reached a decision in the year 1999 that on an ongoing basis up to 1.4% of the group's profits would be provided for the purposes of contributing to the community, which is earmarked primarily for support, for education and for helping youth in distress. The main part of the expenses relate to 3 youth clubs that the company has set up in Ramle, in Rehovot and in Kiryat Malachi. In addition, the company makes donations to a number of additional bodies, which are engaged primarily in the education of youth and in improving the standard of living of youth in various sorts of distress, such as autistic children, children who are sick with cancer and homeless children. **The increase in the donations in the reporting period derives from the significant increase in the group's profit in the reporting period by comparison with the comparative period in the previous year.**

**Finance expenses** – The main factor that explains the changes that occurred in the financing expenses in the reporting period by comparison with the comparative period in the previous year is the increase in the level of the group's loans for the financing of the investments in FCR.

### **Financial position**

#### **Liquidity**

As of the balance sheet date, the group has balances of cash, deposits and marketable securities amounting to NIS 311 million. Similarly, the company holds a portfolio of marketable securities, which are invested for the long-term, in the amount of NIS 56 million. Most of the marketable securities are invested in solid channels of investment and are managed by a number of portfolio managers. In addition to the aforesaid, the group holds deposits within the framework of "assets attributed to discontinued activities", in the amount of NIS 12 million.

#### **Cash flows**

**The cash flows generated by continuing operating activities** amounted, in the reporting period, to an amount of NIS 8 million, as compared with an amount of NIS 10 million in the comparative period in the previous year and an amount of NIS 36 million in the entire year 2004. The cash flows absorbed by discontinued operating activities amounted to an amount of NIS 27 million, as compared with an amount of NIS 7 million generated in the comparative period in the previous year and an amount of NIS 31 million in the entire year 2004.

The cash flows absorbed by continuing investment activities amounted, in the reporting period, to an amount of NIS 98 million. This amount includes an amount of NIS 96 million deriving from the expansion of the investment by the group in FCR, an amount of NIS 24 million from the investment in B.S. R. Europe Ltd., the expansion of the investment in Ogen by an amount of NIS 14 million and from the net investment in the amount of NIS 38 million in deposits and marketable securities. The cash flows generated from discontinued operating activities amounted to an amount of NIS 1,166 million, which was absorbed primarily for the repayment of long-term loans from banks subsequent to the sale of the group's assets in Great Britain (see above).

The cash flows absorbed by continuing financing activities amounted, in the reporting period, to an amount of NIS 7 million and served primarily for the redemption of long-term convertible debentures. The cash flows absorbed by discontinued operating activities amounted to an amount of NIS 1,098 million, which served primarily for the repayment of long-term loans from banks subsequent to the sale of the group's assets in Great Britain (see above).

### **Credit facilities**

The group has authorized open credit facilities from banks in Israel in the amount of 20 million Dollars, which have not been exploited as of the balance sheet date.

### **Shareholders' equity**

The shareholders' equity as of the balance sheet date amounted to NIS 582 million (capital per share of NIS 8.2), as compared with NIS 414 million at the end of the year 2004. The main factors behind the increase in the shareholders' equity are as follows:

1. The profit for the reporting period in the amount of **NIS 167 million.**
2. The increase in the capital deriving from the exercise of option warrants by way of the sale of dormant shares in the amount of **NIS 2 million.**
3. The increase in the capital deriving from the conversion of debentures into shares in the amount of **NIS 4 million.**
4. The decrease in the capital subsequent to the payment of a dividend in the amount of **NIS 9 million.**

### **FFO (Funds From Operations)**

The FFO is an index that is widely used in the USA, Canada and Europe, and which is not required in accordance with generally accepted accounting principles for the provision of additional information on the operating results of income generating realty companies, which grants a fair basis for the making of comparisons between income generating realty companies.

FFO, as defined, expresses the net income (calculated in accordance with generally accepted accounting principles), after eliminating gains (or losses) from the sale of assets, with the addition of depreciation and amortization (in respect of realty).

The company believes that analysts, investors and shareholders may receive information containing added value from the measurement of the group's operating results on the FFO basis. **It should be emphasized that the FFO:**

- (a) Does not present cash flows from operating activities in accordance with generally accepted accounting principles.
- (b) Does not reflect the cash that is available to finance all of the group's cash flows, including its ability to make a distribution of funds.
- (c) Is not supposed to be considered to be a replacement for the net profit for the purpose of the evaluation of the group's operating results.

**The following is the calculation of the FFO for the reporting period (In NIS thousands)**

	<u>Quarter 1</u> 2005	<u>Quarter 1</u> 2004	<u>Annual</u> 2004
<b>Profit from continuing activities after taxes on income</b>	18,038	7,480	66,344
With the addition of depreciation on realty	245	245	931
Less profits on the disposal of marketable securities and other investments	(10,186)	(517)	(32,753)
With the addition of the impairment of the value of buildings for rental	-	-	3,792
Total FFO from continuing activities	<u>8,097</u>	<u>7,208</u>	<u>38,314</u>
With the addition of FFO from discontinued activities	3,617	3,885	17,043
Total FFO	<u><u>11,714</u></u>	<u><u>11,093</u></u>	<u><u>55,357</u></u>
<b>FFO per share from continuing activities (In NIS)</b>	<u><b>0.11</b></u>	<u><b>0.13</b></u>	<u><b>0.54</b></u>
<b>FFO per share (In NIS)</b>	<u><b>0.16</b></u>	<u><b>0.20</b></u>	<u><b>0.78</b></u>

**Dividend**

- a. In accordance with the company's declared dividend policy, as determined in the past by the company's Board of Directors, the company's Board of Directors announced at the beginning of the year that the company intends to distribute an annual dividend in the year 2005 in the minimum amount of 48 Agorot per share, which will be paid in four quarterly payments. This minimum dividend constitutes an annual yield of 4% in accordance with the price of the share immediately before the publication of this report. The Board of Directors will be entitled at any time, taking into account business considerations and in accordance with any legal provisions, to change the amounts that will be distributed as a dividend.

- b. **With the completion of the sale of the group's assets in Great Britain, the company decided to pay an additional dividend** (over and above the quarterly dividend as aforesaid) in the amount of NIS 0.58 per share, such that the total dividend that will be paid in the coming July will come to 70 Agorot per share (approximately NIS 49.8 million).

### **Critical accounting estimates**

With the completion of the sale of the realty assets in Great Britain, which constituted the main part of the group's realty assets, the economic lifetime of the assets for rental does no longer constitute an accounting estimate with the potential to have an especially significant impact, which the company is required to make at the time of the preparation of its consolidated financial statements.

### **Details in respect of the exposure to market risks and the ways in which they are managed**

1. The managerial responsibility for the management of risks in the company: The company's General Manager. Details in respect of him can be seen in the report in accordance with Regulation 26 in the periodic report for the year 2004.
2. The market risks to which the group is exposed:
  - a. A significant part of the group's continuing activities are carried out through the holding of shares in two companies that hold income generating realty in the USA and in Canada. As a result of this changes in the interest rates and in the exchange rates in the aforementioned countries may have a significant impact on the group's business results.
  - b. The group has an exposure to changes in the long-term interest rates in the international markets in which the group operates. The following are details of the balances of long-term loans that the group has taken **at variable interest rates:**

	In Pounds Sterling	In US Dollars	In Canadian Dollars
	NIS thousands	NIS thousands	NIS thousands
Balance at the balance sheet date	286,405	149,017	338,262
SWAP transactions	(286,405)	(69,776)	(-)
	<u>-</u>	<u>79,241</u>	<u>338,262</u>

- c. The following are details in respect of the surplus of assets over liabilities in foreign currency in the consolidated balance sheet as of March 31, 2005:

	In Pounds Sterling	In US Dollars NIS thousands	In Canadian Dollars NIS thousands	In Euros NIS thousands
Non-monetary assets	-	288,913	486,858	6,370
Surplus of monetary assets (liabilities), net as detailed in Appendix A' section 1	92,292	(142,843)	(184,978)	41
Net assets, attributed to discontinued activities	99,170	-	-	-
Surplus of assets over liabilities in foreign currency	191,462	146,070	301,880	6,411
Exchange rate at the balance sheet date	8.2059	4.361	3.5958	5.6488
<b>Surplus of assets over liabilities in foreign currency, translated into the relevant foreign currency (in thousands)</b>	<b>23,332 Pounds Sterling</b>	<b>33,495 US Dollars</b>	<b>83,954 Canadian Dollars</b>	<b>1,135 Euros</b>

**The total amount of the surplus of the group's assets over its liabilities in foreign currency as aforesaid amounts to NIS 646 million, constituting 111% of the company's shareholders' equity. A change in the exchange rates of the Shekel as compared with the aforementioned currencies might have a significant impact on the group's profitability.**

- d. The group has marketable securities, whose value is impacted by fluctuations in the market prices of securities.
- e. Ogen, which operates in the income generating realty market in Israel is exposed to risk, including: a decline in demand for rental space (which is dependent, inter alia, on government policy in relation to the marketing of land), a decline in rental prices, an increase in the cost of raising capital, the stability of its main tenants and an increase in the prices of building inputs.

3. The entity's policy on the management of market risks

- a. The group is in the habit of financing its overseas investments in each country in the currency of the investment, except for shareholders' equity that is invested in the overseas investments and which is financed in sources that are index linked.

- b. The company is in the habit of carrying out forward, swap and swap option transactions from time to time, primarily for the purposes of hedging on interest and exchange rates in the currencies that are relevant to the group's activities, in accordance with the developments in the international markets and decisions by management. The main activities are to prevent economic exposures.

From time to time the company operates in the foreign currency market for purposes other than hedging. These activities are specific and follow expectations for exceptional developments in the currency market.

- c. The company's policy on derivatives transactions is to act only opposite banking institutions, which are committed to complying with capital adequacy requirements and the maintenance of a level of collateral.
- d. No change occurred in the market risks management policy during the course of the reporting period

4. The means of supervision and the implementation of the policy

The General Manager of the company monitors the developments in the relevant markets on a current basis. The company's Board of Directors has determined that the company's General Manager will report on a current basis to the Chairman of the Board of Directors in respect of the level of exposure that exists. In the event of exceptional developments in the currency and interest markets, the figures are considered by them and from time decisions are made to act in the derivatives market in order to hedge against interest and exchange rate risks

The company's board of directors has not set quantitative restrictions and it receives reports once a quarter on the developments in this sphere, if any have occurred.

5. Report on bases of indexation

For the balance sheet showing bases of indexation - see section 1 of Appendix A to the report of the Board of Directors

6. Derivative positions

See section 2 of Appendix A to the report of the Board of Directors

The company's Board of Directors thanks the holders of its securities for their belief that they place in the company.

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Aviram Vertheim  
Chairman of the Board of Directors

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Nathan Hetz  
Director and General Manager

## Appendix A – To the Report of the Board of Directors on the state of the Entity's affairs

### 1. Balance sheet of the bases of linkage of the monetary balances

	Pound Sterling <u>NIS'000</u>	US Dollar <u>NIS'000</u>	Canadian Dollar <u>NIS'000</u>	Euro <u>NIS'000</u>	Index linked <u>NIS'000</u>	Unlinked <u>NIS'000</u>	Adjustment <u>NIS'000</u>	Total <u>NIS'000</u>
As of 31.3.2005								
<b>Current assets</b>								
Cash and cash equivalents	92,292	6,576	106,865	41	-	18,196	-	223,970
Deposits and marketable securities	-	2,156	28	-	-	84,906	-	87,090
Debtors and debit balances	-	2	15,093	-	98	2,809	332	18,334
	<u>92,292</u>	<u>8,734</u>	<u>121,986</u>	<u>41</u>	<u>98</u>	<u>105,911</u>	<u>332</u>	<u>329,394</u>
<b>Other investments</b>	-	-	34,740	-	-	-	-	34,740
<b>Total monetary assets</b>	<u>92,292</u>	<u>8,734</u>	<u>156,726</u>	<u>41</u>	<u>98</u>	<u>105,911</u>	<u>332</u>	<u>364,134</u>
<b>Current liabilities</b>								
Short-term credits	-	47,703	89,539	-	43,154	11,543	-	191,939
Creditors and credit balances	-	2,560	3,442	-	8,706	9,446	144	24,298
Dividend proposed for payment	-	-	-	-	-	8,537	-	8,537
	<u>-</u>	<u>50,263</u>	<u>92,981</u>	<u>-</u>	<u>51,860</u>	<u>29,526</u>	<u>144</u>	<u>224,774</u>
<b>Long-term liabilities</b>								
Convertible debentures	-	-	-	-	90,714	-	1,452	92,166
Debentures	-	-	-	-	191,795	-	-	191,795
Loans from banking institutions	-	101,314	248,723	-	12,954	-	-	362,991
Deferred taxes	-	-	-	-	-	-	5,817	5,817
	<u>-</u>	<u>101,314</u>	<u>248,723</u>	<u>-</u>	<u>295,463</u>	<u>-</u>	<u>7,269</u>	<u>652,769</u>
<b>Total monetary liabilities</b>	<u>-</u>	<u>151,577</u>	<u>341,704</u>	<u>-</u>	<u>347,323</u>	<u>29,526</u>	<u>7,413</u>	<u>877,543</u>
Excess of monetary liabilities over monetary assets	<u>92,292</u>	<u>(142,843)</u>	<u>(184,978)</u>	<u>41</u>	<u>(347,225)</u>	<u>76,385</u>	<u>(7,081)</u>	<u>(513,409)</u>

### 2. Derivative positions

The following are the derivative positions as of the balance sheet date:

- A. For the purpose of protection and the elimination of the exposure of consolidated companies to changes in the interest rates in Great Britain, consolidated companies have carried out a SWAP transaction, in the amount of their loans, whose balance as of the balance sheet date are 35 million Pounds Sterling. The transaction is to set the interest rate at 5.31% (instead of the LIBOR interest rate). The transaction is for a period ending in July 2009. With the completion of the sale of the group's assets in Great Britain, shortly after the balance sheet date, the SWAP transaction was closed.
- B. For the purpose of protection and reducing the group's exposure to future changes in the interest rates in the USA, the group has carried out a SWAP transaction, in respect of 8 million Dollars in order to set the interest rate at 3% (instead of the LIBOR interest rate), for a period of two years ending in November 2005. The fair value of the hedging transaction as of March 31, 2005 is a gain of 10 thousand Dollars (NIS 44 thousand).
- C. For the purpose of protection and reducing the group's exposure to future changes in the interest rates in the USA, the group has carried out a SWAP transaction, in respect of 8 million Dollars in order to set the interest rate at 2.17% (instead of the LIBOR interest rate), for a period of three years ending in October 2006. The fair value of the hedging transaction as of March 31, 2005 is a gain of 183 thousand Dollars (NIS 799 thousand).

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

Ladies and Gentlemen,

**Re: Review of the unaudited interim consolidated financial statements  
for the period of three months ended March 31, 2006**

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

- Consolidated balance sheet as of March 31, 2005.
- Consolidated statement of income for the period of three months ended March 31, 2005.
- Statement of changes in shareholders' equity for the period of three months ended March 31, 2005.
- Consolidated statement of cash flows for the period of three months ended March 31, 2005.

Our review was carried out in accordance with procedures established by the Institute of Certified Public Accountants in Israel. The procedures included: reading the above-mentioned interim financial statements, reading the minutes of the meetings of the shareholders and of the Board of Directors and its committees and making inquiries of persons responsible for financial and accounting matters.

Since the review that was conducted is of a reduced scope and it does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the interim consolidated financial statements.

In the performance of our review, including the review of the reports of other auditors, as aforesaid, nothing came to our attention that indicates the need to make material changes to the said statements in order for them to be in conformity with generally accepted accounting principles and in accordance with the Securities Regulations (Periodic and Immediate Reports) 1970.

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

Tel Aviv, May 22, 2005

**ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED**  
**CONSOLIDATED BALANCE SHEET**  
**(IN NIS Thousands - Reported Amounts)**

	<u>March 31</u>		<u>December 31</u>
	<u>2005</u>	<u>2004</u>	<u>2004</u>
	<u>Unaudited</u>		
<b>Current Assets</b>			
Cash and cash equivalents	223,970	32,291	273,446
Deposits and securities	87,090	33,202	46,318
Other accounts receivable	<u>18,334</u>	<u>6,337</u>	<u>1,777</u>
	<u>329,394</u>	<u>71,830</u>	<u>331,541</u>
<b>Investments and Long-Term Accounts Receivable</b>			
Investee companies	85,705	70,936	73,238
Others	<u>869,720</u>	<u>815,574</u>	<u>809,711</u>
	<u>955,425</u>	<u>886,510</u>	<u>882,949</u>
<b>Rental property, net</b>			
Cost	67,040	(*) 69,870	66,517
Less- accumulated depreciation	<u>10,110</u>	<u>8,941</u>	<u>9,829</u>
	<u>56,930</u>	<u>60,929</u>	<u>56,688</u>
<b>Fixed Assets</b>	<u>7,243</u>	(*) 7,100	<u>7,323</u>
<b>Other Assets and Deferred Expenses</b>	<u>6,383</u>	<u>9,376</u>	<u>6,881</u>
<b><u>Assets Attributed to Discontinued Activities (Note 3a)</u></b>	<u>435,640</u>	<u>1,480,338</u>	<u>1,472,635</u>
	<u>1,791,015</u>	<u>2,516,083</u>	<u>2,758,017</u>
	=====	=====	=====

(\*) Reclassified

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

	<u>March 31</u> <u>2005</u> <u>Unaudited</u>	<u>2004</u>	<u>December 31</u> <u>2004</u>
<b>Current Liabilities</b>			
Short-term credit	191,939	63,230	82,366
Current maturities of convertible debentures	-	-	2,115
Current maturities of debentures	24,298	16,140	-
Other creditors and credit balances	<u>8,537</u>	<u>16,518</u>	<u>18,361</u>
	<u>224,774</u>	<u>95,888</u>	<u>102,842</u>
<b>Long-Term Liabilities</b>			
Convertible debentures	90,714	115,077	92,150
Debentures	191,795	90,308	191,720
Loans from banking institutions and others	362,991	408,542	476,083
Deferred taxes	<u>5,817</u>	<u>3,945</u>	<u>6,176</u>
	<u>651,317</u>	<u>617,872</u>	<u>766,129</u>
<b>Liabilities Attributed to Discontinued Activities (Note 3a)</b>	<u>331,785</u>	<u>1,484,090</u>	<u>1,470,240</u>
<b>Convertible Debentures</b>	<u>1,452</u>	<u>8,801</u>	<u>4,513</u>
<b>Shareholders' Equity</b>			
Share capital	92,509	75,115	91,859
Capital reserves	289,450	159,550	283,823
Reserves	170,540	91,767	53,443
Dividend declared after the balance sheet date	<u>49,801</u>	<u>5,873</u>	<u>8,460</u>
	602,300	332,305	437,585
<b>Less treasury shares and loans secured on the company's shares</b>	<u>20,613</u>	<u>22,873</u>	<u>23,292</u>
	<u>581,687</u>	<u>309,432</u>	<u>414,293</u>
	1,791,015	2,516,083	2,758,017
	=====	=====	=====

May 22, 2005

Date of approval of the financial statements

**ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED**  
**STATEMENTS OF INCOME**  
**(IN NIS Thousands – Reported Amounts)**

	<u>For the period of three months</u>		<u>For the year ended</u>
	<u>ended March 31</u>		<u>December 31</u>
	<u>2005</u>	<u>2004</u>	<u>2004</u>
	<u>Unaudited</u>		
<b>Revenues</b>			
Rental and maintenance fees	1,497	1,250	5,681
Dividend from other companies	21,295	13,742	58,316
Interest from bonds	2,954	3,762	13,804
Gains from other investments	7,844	-	30,698
Others, net	<u>2,596</u>	<u>596</u>	<u>6,499</u>
	<u>36,186</u>	<u>19,350</u>	<u>114,998</u>
<b>Expenses</b>			
Operating and depreciation of buildings	646	651	2,773
Marketing, general and administrative	4,457	(*) 2,807	(*) 11,958
Donations	2,809	(*) 250	(*) 1,100
Financing , net	<u>8,307</u>	<u>6,292</u>	<u>28,197</u>
	<u>16,282</u>	<u>10,000</u>	<u>44,028</u>
<b>Income before taxes on income</b>	19,904	9,350	70,970
Taxes on income	<u>1,866</u>	<u>1,870</u>	<u>4,626</u>
<b>Income from continuing activities after taxes on income</b>	18,038	7,480	66,344
Income from discontinued activities, net (Note 3a)	<u>148,937</u>	<u>1,067</u>	<u>5,764</u>
<b>Net income for the year</b>	<u>166,975</u>	<u>8,547</u>	<u>72,108</u>
<b>Earnings per share of (In NIS)</b>			
Basic from continuing activities	0.25	0.13	1.04
Basic from discontinued activities	<u>2.08</u>	<u>0.02</u>	<u>0.08</u>
	<u>2.33</u>	<u>0.15</u>	<u>1.12</u>
Fully diluted from continuing activities	0.24	0.11	0.93
Fully diluted discontinued activities	<u>1.69</u>	<u>0.01</u>	<u>0.07</u>
	<u>1.93</u>	<u>0.12</u>	<u>1.00</u>
<b>Weighted average number of shares used in computing the earnings per share</b>			
<b>Basic</b>	<u>71,499</u>	<u>54,894</u>	<u>71,149</u>
<b>Fully diluted</b>	<u>87,979</u>	<u>76,492</u>	<u>88,329</u>

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

**ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED**

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

**(IN NIS Thousands – Reported Amounts)**

	Par value	Share capital	Share premium	Capital reserve on the translation of the financial statements of overseas investee companies and other reserves	Retained earnings	Dividend declared after the balance sheet date	Total
<b>Balance as at January 1, 2005</b>	73,871	91,859	261,987	21,836	53,443	8,460	437,585
<b>Movements in the period of three months (Unaudited)</b>							
Dividend declared subsequent to the balance sheet date					(49,801)	49,801	-
Adjustments on the translation of the financial statements of overseas investee companies				2,924			2,924
Proposed dividend for payment					(77)	(8,460)	(8,537)
Conversion of debentures into shares, net	650	650	3,642				4,292
Loss on sale of dormant shares in respect of the exercise of option warrants			(939)				(939)
Net income for the period					166,975		166,975
<b>Balance as of March 31, 2005</b>	<u>74,521</u>	<u>92,509</u>	<u>264,690</u>	<u>24,760</u>	<u>170,540</u>	<u>49,801</u>	<u>602,300</u>
<b>Balance as at January 1, 2004</b>	52,293	71,281	116,931	18,332	89,462	16,149	312,155
<b>Movements in the period of three months (Unaudited)</b>							
Dividend declared subsequent to the balance sheet date					(5,873)	5,873	-
Adjustments on the translation of the financial statements of overseas investee companies				2,924			2,924
Proposed dividend for payment					(369)	(16,149)	(16,518)
Conversion of debentures into shares, net	3,834	3,834	18,708				22,542
Loss on sale of dormant shares in respect of the exercise of option warrants			(969)				(969)
Net income for the period					8,547		8,547
<b>Balance as of March 31, 2004</b>	<u>57,127</u>	<u>75,115</u>	<u>134,670</u>	<u>24,880</u>	<u>91,767</u>	<u>5,873</u>	<u>332,305</u>
<b>Balance as at January 1, 2004</b>	52,293	71,281	116,931	18,332	89,462	16,149	312,155
<b>Movements in the year 2004</b>							
Conversion of debentures into shares, net	6,675	6,675	41,376				48,051
Adjustments on the translation of the financial statements of overseas investee companies				3,504			3,504
Dividend paid					(99,667)	(16,149)	(115,816)
Loss on sale of dormant shares in respect of the exercise of option warrants			(969)				(969)
Exercise of option warrants into shares	13,796	13,796	104,302				118,098
Exercise of option warrants into shares by employees	107	107	159,347				454
Dividend declared subsequent to the balance sheet date					(8,460)	8,460	-
Net income for the year					72,108		72,108
<b>Balance as of December 31, 2004</b>	<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 financial statements.

**ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED**

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(IN NIS Thousands – Reported Amounts)**

	For the period of six months ended March 31		For the year ended December 31
	2005	2004	2005
	<u>Unaudited</u>		
<b>Cash flows from operating activities</b>			
Net income for the year	166,975	8,547	72,108
Adjustments required to present cash flows from continuing operating activities (Appendix A)	(159,113)	1,837	(36,199)
Net cash generated (absorbed) by continuing operating activities	7,862	10,384	35,909
Net cash generated (absorbed) by discontinued operating activities	(27,454)	6,627	30,588
Net cash generated (absorbed) by operating activities	(19,592)	17,011	66,497
<b>Cash flows from investment activities</b>			
Investment in other companies, net	(125,478)	(43,653)	(101,055)
Proceeds on disposal of investment in other companies	80,003	-	95,527
Decrease (increase) in marketable securities and deposits, net	(38,430)	(26,909)	(38,706)
Investment in fixed assets and rental buildings	(539)	(40)	(1,055)
Investment in affiliated companies	(13,569)	-	-
Return of investment in affiliated company	3,362	-	-
Return of investment in venture capital fund (partnership)	-	-	7,048
Net cash (absorbed) by continuing investment activities	(98,013)	(70,602)	(38,241)
Net cash generated (absorbed) by discontinued investment activities	1,165,674	(107)	(937)
Net cash generated (absorbed) by investment activities	1,067,661	(70,709)	(39,178)
<b>Cash flows from financing activities</b>			
Repayment of long-term loans	(6,676)	(5,767)	(30,438)
Increase (decrease) in short-term credit from banks	(68)	(218)	(19,996)
Repayment of debentures	(2,115)	(6,107)	(6,107)
Consideration on disposal of treasury shares	1,494	3,919	3,919
Repayment of loans for the purchase of the company's shares	243	31	66
Receipt of long-term loans less costs of raising loans	-	-	129,005
Issuance expenses	-	(1,015)	(1,015)
Consideration on the exercise of option warrants into shares in the company	-	-	118,098
Sales of company's bonds by the group, net	-	-	99,044
Dividend paid	-	-	(115,816)
Net cash generated (absorbed) by continuing financing activities	(7,122)	(9,157)	176,760
Net cash generated (absorbed) by discontinued financing activities	(1,097,988)	(5,888)	(24,530)
Net cash generated (absorbed) by financing activities	(1,105,110)	(15,045)	152,230
<b>Exchange differences – cash balances in overseas consolidated companies</b>			
From continuing activities	345	(1,711)	(1,711)
From discontinued activities	(144)	(166)	(166)
Total, net	201	(1,877)	(1,877)
Increase (decrease) in cash and cash equivalents	(56,840)	(69,277)	177,672
Increase (decrease) from discontinued activities	7,364	(430)	(6,224)
Balance of cash and cash equivalents at the beginning of the year	273,446	101,998	101,998
Balance of cash and cash equivalents at the end of the year	223,970	32,971	273,446

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

**ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED**  
**APPENDICES TO THE STATEMENTS OF CASH FLOWS**  
**(IN NIS Thousands – Reported Amounts)**

	For the period		For the year ended
	of six months ended March 31		December 31
	2005	2004	2005
	Unaudited		
<b>A. Adjustments required to present cash flows from operating activities</b>			
Income and expenses not involving the movement of funds:			
Discontinued activities	(148,937)	(1,067)	(5,764)
Share of losses (profits) of investee companies and capital venture fund (partnership), net	179	315	(6,337)
Dividends received from investee companies	-	-	875
Distribution of profits by capital venture fund (partnership), net	-	-	1,379
Depreciation and amortization	(50)	(191)	(725)
Deferred taxes, net	(239)	696	1,529
Gains on other investments	(7,884)	-	(30,698)
Write down of value of securities	-	-	3,534
Revaluation (erosion) of loans received from banks and from others	(164)	(86)	409
Amortization of discount, interest and revaluations of debentures	3,111	1,705	3,909
Profit on marketable securities, net	(2,342)	(517)	(2,055)
Changes in assets and liabilities items, net:			
Decrease (increase) in receivables and debit balances	(5,487)	4,127	(2,097)
Increase (decrease) in payables and credit balances	2,660	(3,145)	(158)
	<u>(159,113)</u>	<u>1,837</u>	<u>(36,199)</u>
<b>B. Non-cash transactions</b>			
Conversion of debentures (Series B') to shares-net	<u>3,060</u>	<u>22,542</u>	<u>24,872</u>
Conversion of debentures (Series D') to shares-net	<u>1,232</u>	<u>-</u>	<u>23,267</u>
Dividend proposed for payment	<u>8,537</u>	<u>16,518</u>	<u>-</u>

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

**ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED MARCH 31 2005**

**(UNAUDITED)**

**NOTE 1 GENERAL**

These interim financial statements have been prepared as of March 31, 2005 and for the period of three months ended on that date (hereinafter the interim financial statements). These financial statements should be read in conjunction with the annual financial statements of the company as of December 31, 2004 and for the year ended on that date and with the noted attached thereto.

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES**

- a. The interim financial statements are prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as determined in Accounting Standard Number 14 of the Israeli Accounting Standards Board and in accordance with Chapter D' of the Securities Regulations (Periodic and Immediate Reports), 1970.
- b. In the preparation of these interim financial statements the group adopted, in a consistent manner, the significant accounting principles that were adopted in the preparation of its financial statements as of December 31, 2004 and for the year ended on that date.
- c. The following are details of the increase (decrease) in the Consumer Prices Index and of the changes in the exchange rates of the following currencies against the NIS:

	<b>For the period of three months ended March 31</b>		<b>For the year ended December 31</b>
	<b>2005</b>	<b>2004</b>	<b>2005</b>
	<b>%</b>	<b>%</b>	<b>%</b>
<b>The Consumer Prices Index</b>			
In Israel (In respect of the last month)	(0.60)	(0.10)	1.21
USA	1.58	1.68	3.26
Canada	0.88	0.65	2.12
Great Britain	0.32	0.60	3.49
<b>Exchange rates against the NIS</b>			
The US Dollar	1.23	(1.62)	(1.62)
The Canadian Dollar	0.48	5.02	5.02
The Euro	(3.88)	6.21	6.21
The Pound Sterling	(1.22)	5.83	5.83

**ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MARCH 31 2005**  
**(UNAUDITED)**

**NOTE 3      ADDITIONAL INFORMATION AND POST BALANCE SHEET DATE EVENTS**

**a. Discontinued activities**

- (1) In November 2004 the group entered into agreements for the sale of all of its holdings in income generating realty in Great Britain (8 assets) for a consideration of 216 million Pounds Sterling (NIS 1,772 million). Until the transfer of the ownership of the assets to the purchasers, as described below, the ownership of the assets will remain in the hands of the group and the income from rental fees in respect of them will be attributable to it. In January 2005 the sale of three of the eight assets was completed and in March 2005 the sale of two further assets was completed. The overall consideration from the sale of these assets amounted to 142.8 million Pounds Sterling (NIS 1,172 million) and the capital gain on the disposals amounted to NIS 167 million. The tax is expected to amount to NIS 20 million. The overall consideration as aforesaid will serve for the repayment of long-term loans.
- (2) In April 2005 the sale of the remaining three assets was completed for an overall consideration of 73.2 million Pounds Sterling. The capital gain is expected to amount to NIS 21 million. The tax is expected to amount to NIS 20 million.
- (3) The total capital gain that is expected for the group in respect of all eight assets amounts to approximately NIS 340 million, before taxes on income. Taking into account the agreements that the group has signed with the Israeli tax authorities, the amount of tax in respect of the aforesaid capital gain is estimated at approximately NIS 40 million, such that the net capital gain after setting the attributable tax is expected to amount to approximately NIS 300 million.

**ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MARCH 31 2005**  
**(UNAUDITED)**

**NOTE 3      ADDITIONAL INFORMATION AND POST BALANCE SHEET DATE EVENTS (CONTINUED)**

**a.      Discontinued activities (Continued)**

(4) The following are details of the assets and liabilities attributable to the discontinued activities:

	As of March 31		As of December 31
	2005	2004	2005
	Reported amounts	Reported amounts	Reported amounts
	Unaudited		
<b><u>Current assets</u></b>			
Cash and cash equivalents			
Deposits	-	1,571	7,364
Debtors and debit balances	11,646	36,878	37,714
	760	321	2,658
	12,406	38,770	47,736
<b><u>Buildings for rental</u></b>	396,207	1,349,060	1,340,793
<b><u>Fixed and other assets</u></b>	27,027	92,508	84,106
	435,640	1,480,338	1,472,635
 <b><u>Current liabilities</u></b>			
Short-term credit	-	25,914	28,246
Creditors and credit balances	45,380	52,166	56,888
	45,380	78,080	85,134
 <b><u>Long-term liabilities</u></b>			
Loans from banking institutions	286,405	1,394,527	1,373,479
Deferred taxes	-	11,483	11,627
	286,405	1,406,010	1,385,106
	331,785	1,484,090	1,470,240

**ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MARCH 31 2005**  
**(UNAUDITED)**

**NOTE 3 ADDITIONAL INFORMATION AND POST BALANCE SHEET DATE EVENTS (CONTINUED)**

**a. Discontinued activities (Continued)**

(5) The following are details of the income and expenses that are attributable to the discontinued activities:

	For the period of three months ended March 31		For the year ended December 31
	2005	2004	2005
	Reported amounts	Reported amounts	Reported amounts
	Unaudited		
<b><u>Income from rental and maintenance fees</u></b>	16,487	31,778	129,298
<b><u>Expenses</u></b>			
Operating, depreciation of buildings	1,504	2,818	11,279
Administrative and general	321	433	2,105
Financing, net	11,979	26,884	107,928
	13,804	30,135	121,312
<b><u>Income before taxes on income</u></b>	2,683	1,643	7,986
Taxes on income	570	576	2,222
Capital gain on the sale of asset for rental (less tax in the amount of NIS 19,914 thousand)	146,824	-	-
<b><u>Net income for the period</u></b>	148,937	1,067	5,764

**b. Investment in First Capital Realty Inc. (hereinafter – "FCR")**

During the course of the reporting period, the group invested the amount of NIS 96.1 million (26.7 million Canadian Dollars) in the purchase of shares in FCR. Of the said amount, NIS 80 million (2.2 million Canadian Dollars) were sourced in the early repayment of convertible debentures of FCR against shares in FCR. Following the said investment, the group holds, as of March 31, 2005 approximately 9.4 million shares in FCR, which at that time constituted 14.8% of the share capital of FCR and approximately 10.7 million par value of debentures convertible into shares of FCR (Series C).

The balance of the group's investment in marketable securities of FCR as of March 31, 2005 is NIS 524 million (145.6 million Canadian Dollars). The market value of the said investments at that time, according to the closing prices as quoted on the Toronto Stock Exchange, is NIS 681 million (189 million Canadian Dollars).

**ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MARCH 31 2005**  
**(UNAUDITED)**

**NOTE 3      ADDITIONAL INFORMATION AND POST BALANCE SHEET DATE EVENTS (CONTINUED)**

**c. Dividend declared**

Within the framework of the dividend distribution policy that has been adopted by the company's board of directors, according to which the company will distribute a minimal annual dividend for the year 2005 of 48 Agorot per share, in April 2005 the company paid an interim dividend in the amount of NIS 8,537 thousand.

In May 2005 the company declared the distribution of an interim dividend for the second quarter in the amount of 12 Agorot per share (NIS 8,537 thousand). In addition, with the completion of the sale of the group's assets in Great Britain, the company declared the payment of an additional interim dividend for the year 2005 in the amount of 58 Agorot per share (NIS 41,264 thousand). The total dividend that the company declared is 70 Agorot per share (NIS 49,801 thousand), to be paid in July 2005.

**d. Conversion of debentures (Series D')**

During the reporting period NIS 1,303,110 par value of debentures (Series D') were converted into 130,311 regular shares of par value NIS 1 each in the company. In the period from the balance sheet date to the time of the approval of the interim financial statements NIS 16,500 par value of debentures (Series D') were converted into 1,650 regular shares of par value NIS 1 each in the company. Following the said conversions, the balance of debentures (Series D') in circulation at the time of the approval of the interim financial statements is NIS 94,064,790 par value.

**e. Debentures**

In the period from the balance sheet date to the time of the approval of the interim financial statements, a consolidated company realized NIS 15,500,000 par value of debentures (Series C') for a consideration of NIS 16,956 thousand. The balance of debentures (Series C') in circulation at the time of the approval of the interim financial statements is NIS 211,843,700 par value, of which NIS 4,374,011 (approximately 2.1%) are held by the consolidated company.

**f. Exercise of option warrants**

In the reporting period office holders in the company, who are interested parties, exercised 425,000 option warrants into 461,100 regular shares of par value NIS 1 in the company, against the payment of an additional amount on exercise in the overall amount of NIS 1,491 thousand. In the plan according to which the said option warrants were issued it was determined that the shares that are sourced in the exercise of the option warrants will be given to the exercisers of the option warrants out of the shares that the company holds in itself. Accordingly, during the reporting period 461,100 of the shares that the company holds in itself were sold for a consideration that was identical to the said additional payment on exercise.

**g. Investments in Ogen**

According to a prospectus for the issue of shares, option warrants and convertible debentures dated November 7, 2005, Ogen Income Generating Realty Ltd. (hereinafter: "Ogen") raised an overall net amount of approximately NIS 155 million from the public and from its shareholders for the purpose of business development. Ogen intends to acquire income generating assets and/or land in Israel for the purposes of development. The capital issue included the issue of shares and option warrants by way of a rights issue to shareholders in Ogen in the amount of approximately NIS 31 million and the issue to the public of convertible debentures and option warrants in the immediate amount of NIS 130 million.

**ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MARCH 31 2005**  
**(UNAUDITED)**

**NOTE 3      ADDITIONAL INFORMATION AND POST BALANCE SHEET DATE EVENTS (CONTINUED)**

**g. Investments in Ogen (Continued)**

Within the framework of the rights issue to the shareholders the company purchased 12.3 million par value of shares and 3.4 million par value of option warrants in Ogen at an overall cost of NIS 13.6 million. The exercise price of the option warrants is NIS 8 (linked to the Consumer Prices Index and subject to adjustment)

**h. Investment in B.S.R.Europe Ltd.**

In March 2005 the company purchased regular shares and option warrants (Series 4) in B.S.R.Europe Ltd. for consideration in the amount of NIS 23.8 million. These purchases have been classified in the interim financial statements of the company under other investments. Following these purchases the company became an interested party in B.S.R.Europe Ltd.

**NOTE 4      DISTRIBUTION BY GEOGRAPHICAL SEGMENTS**

	<u>Israel</u> <u>NIS'000</u>	<u>USA</u> <u>NIS'000</u>	<u>Canada</u> <u>NIS'000</u>	<u>Total</u> <u>NIS'000</u>
<b><u>In the three months ended March 31,</u></b>				
<b><u>2005 (Unaudited)</u></b>				
Income	<u>4,384</u>	<u>6,400</u>	<u>25,402</u>	<u>36,186</u>
Income (loss) before taxes in income	<u>(5,891)</u>	<u>4,267</u>	<u>21,528</u>	<u>19,904</u>
<b><u>In the three months ended March 31,</u></b>				
<b><u>2004 (Unaudited)</u></b>				
Income	<u>2,995</u>	<u>6,374</u>	<u>9,981</u>	<u>19,350</u>
Income (loss) before taxes in income	<u>(2,590)</u>	<u>4,452</u>	<u>7,488</u>	<u>9,350</u>
<b><u>In the year 2004</u></b>				
Income	<u>43,989</u>	<u>25,687</u>	<u>45,322</u>	<u>114,998</u>
Income before taxes on income	<u>17,509</u>	<u>17,839</u>	<u>35,622</u>	<u>70,970</u>