

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

**FOR THE PERIOD ENDED ON SEPTEMBER 30, 2005**  
**(UNAUDITED)**

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

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Ramat-Gan, November 28, 2005

## **Report of the Board of Directors on the State of the Entity's Affairs**

### **For the Period of Nine Months Ended September 30, 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 nine months ended on September 30, 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 Israel and in Western countries. As of the time of the signing of this report the company operates as follows:

#### **Activities in Israel**

- a. **During the course of the quarter the company acquired the entire ownership and control of Amot Investments Ltd. (hereinafter: "Amot"). Amot holds a large volume of income generating realty in Israel. Amot's financial statements, including the results of its activities have been reflected in the group's consolidated financial statements as from the third quarter of the year 2005.**
- b. A holding of 43.7% in Ogen Real Estate Ltd. (hereinafter: "Ogen"), an Israeli public company, which is engaged in the initiation, development, building and acquisition of office buildings and commercial buildings and their leasing as income generating assets.
- c. A holding of 50% in Hutzot Alonim Ltd., the owner and operator of the Hitzot Alonim mall.

#### **Activities in Canada, the USA and in Germany**

##### **In Canada**

- a. A holding of 14.6% in First Capital Realty Inc. (hereinafter: "FCR"), a Canadian public company that holds income earning properties for rental in Canada. In addition, FCR holds 17.6% of the share capital of EQY.
- b. A holding of three buildings in Canada, which are leased for a period of 20 years.

In the USA

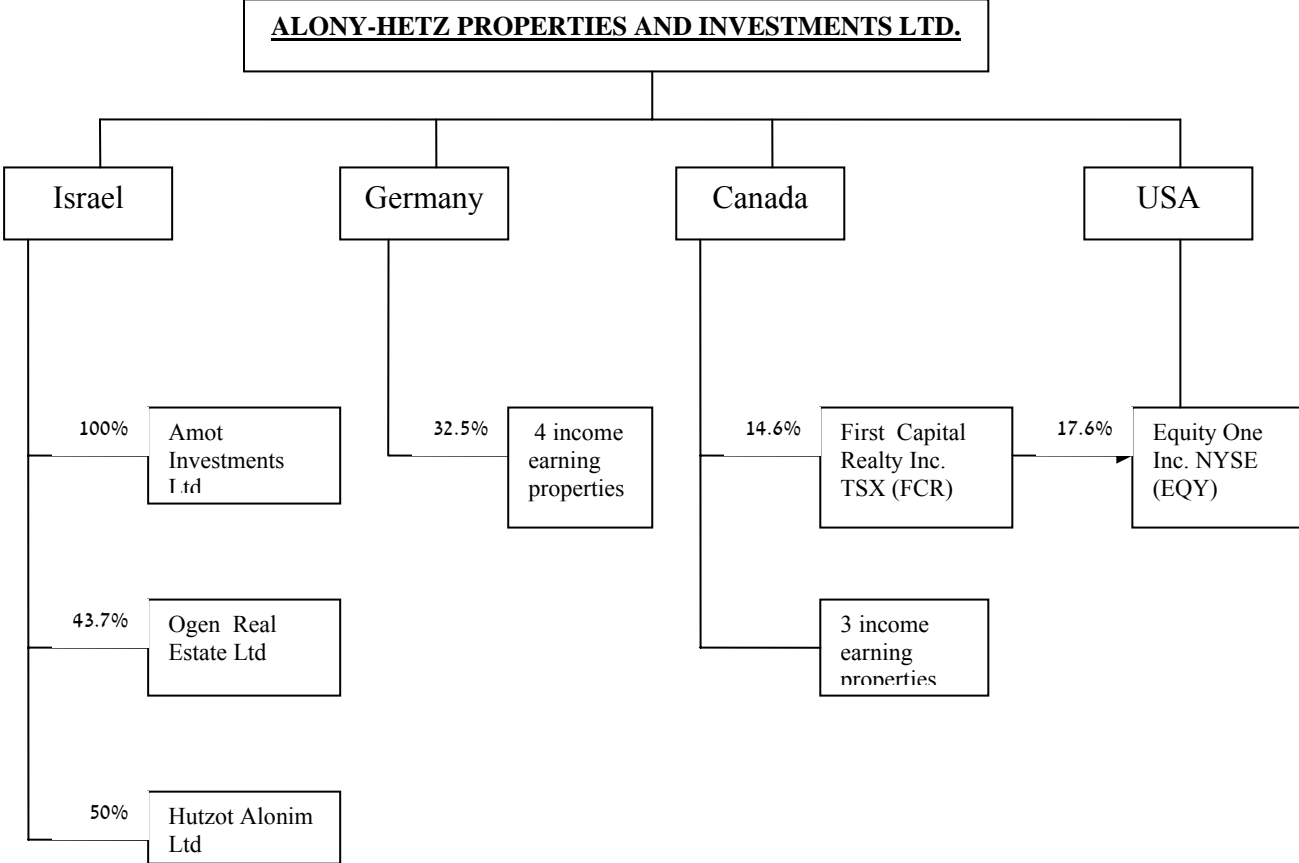
A holding of 6.8% in Equity One Inc. (hereinafter: "EQY"), an American public company that holds income generating realty for rental in the USA.

Activities in Europe

In Germany

A holding of 32.5% in four facilities with an overall area of approximately 93 thousand square meters and approximately 36 thousand square meters of residential property (approximately 550 apartments are rented).

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



## **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 company has been given a credit rating of Aa3 by Midrug Ltd. (hereinafter: "Midrug").

Both Maalot and Midrug have informed the company that their ratings remain unchanged following the acquisition of Amot.

## **The group's profitability**

The group's profit in the reporting period was **NIS 339 million**, as compared with a profit of NIS 42 million in the comparative period in the previous year. In the third quarter of 2005 the group's profit was **NIS 16 million** as compared with NIS 18 million in the comparative quarter in the previous year.

The group's profit included the net capital gain on the exercise of the group's assets in Great Britain in the amount of NIS 42 million.

The group's continuing activities generated a profit **in the amount of NIS 38 million in the reporting period (of which NIS 16 million in the third quarter of the year 2005)** as compared with an amount of NIS 38 million in the comparative period in the previous year (of which NIS 17 million in the third quarter of the year 2004).

**In respect of the increase in capital reserves, see the section "shareholders' equity" below.**

## **Investments in realty in Israel**

### **a. Amot Investments Ltd. (hereinafter: "Amot")**

On July 26, 2005 the company's offer for the acquisition of Amot's shares was accepted, at a consideration of NIS 956 million. The purchase was completed on August 11, 2005, and was funded in part by the raising of debentures from institutional investors (see the section "raising capital" below) and in part from independent sources. The shares were acquired as is.

Amot is engaged, directly and indirectly via entities under its control, in the initiation, development, leasing, maintenance and sale of income generating assets in Israel and abroad.

Amot owns realty, directly and indirectly, including offices, commercial centers, supermarkets, central bus stations, industrial parks and industrial buildings.

Amot's assets in Israel include 87 assets with an area of 297 thousand square meters that are leased to approximately 600 tenants. Some of the assets are wholly owned by Amot, some of them are held in partnership with others and some of them are held via the subsidiary company Ayalot Investments and Properties Ltd. (13 assets with an area of approximately 105 thousand square meters). These assets are spread throughout the country. Most of Amot's and Ayalot's assets are located in the large cities and in areas in demand and are leased to stable tenants under medium and long-term contracts.

The average occupancy rate (excluding assets under construction/ undergoing enhancement/ for sale) stands at approximately 92%.

Similarly, Amot has rights in three assets in Canada with an area of approximately 80 thousand square meters (see "the group's activities in Canada" – section b', below).

Amot's results have been reflected in the group's consolidated financial statements as from the third quarter of the year 2005.

The following are details of Amot's assets:

Type of property	Total area	% of total area	Occupancy rate at 30.9.05	Total rental income	
				1-9/2005	7-9/2005
Industrial parks	102,851	27.5%	89.1%	17,766	6,124
Central bus stations	18,466	4.9%	100.0%	9,431	3,202
Malls and commercial space	34,999	9.4%	96.2%	31,877	10,805
Supermarkets	34,943	9.4%	100.0%	18,489	6,221
Offices	102,375	27.4%	84.1%	48,903	16,157
<b>Total in Israel</b>	<b>293,634</b>			<b>126,466</b>	<b>42,509</b>
Overseas – Canada	80,082	21.4%	99.8%	30,713	12,819
<b>Total assets - Amot</b>	<b>373,716</b>	<b>100.0%</b>	<b>92.3%</b>	<b>157,179</b>	<b>55,328</b>

The surplus of the cost of the investment in Amot over its equity value at the time of acquisition, in the amount of NIS 260 million, has been attributed to Amot's identifiable assets and identifiable liabilities in accordance with their fair value. The fair value of assets for rental has been determined on the basis of evaluations made by management.

On the subject of the classification of debentures that were issued by some of Amot's investee companies and whose balance as of September 30, 2005 amounted to NIS 660 million, see Note 3d to the financial statements.

**b. Ogen Real Estate Ltd. (hereinafter: "Ogen")**

The company holds 43.7% of Ogen, which ended the first nine months of the year 2005 with a loss of NIS4 million, as compared with a net income of NIS 3 million in the comparative period in the previous year, and net income of NIS 5.1 million in the year 2004. The change in Ogen's results derives primarily from the higher financing expenses in the reporting period, deriving from interest on the debentures that were issued during the reporting period, linkage differences relating to index-linked loans and exchange difference relating to Dollar-linked loans.

The company holds 13.5 million par value of shares in Ogen and 3.4 million par value of option warrants at an overall investment in the amount of NIS 84 million. The value of this investment as quoted on the Tel-Aviv Stock Exchange at the balance sheet date amounted to NIS 100 million.

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

- a. During the second quarter the group completed the sale of all of the group's realty assets in Great Britain, for a consideration of 216 million Pounds Sterling (NIS 1,779 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 4 to the financial statements in respect of the business results of the activities in Great Britain.

During the reporting period the group recorded a profit on discontinued activities in the amount of NIS 300 million (including a net capital gain in the amount of NIS 298 million in respect of the sale of assets)

.The surplus cash flows that remained in the hands of the group after the said disposals, in the amount of approximately 42 million Pounds sterling was added to its working capital.

- b. **After the balance sheet date**, the company's Board of Directors approved an agreement in principle for an investment of up to 30 million Pounds Sterling (approximately NIS 250 million) in a realty fund that is being set up at this time in Great Britain. The fund will be engaged in investments in income generating realty, in realty for development, entrepreneurship and enhancement in Great Britain. The size of the fund will be between 100 and 150 million Pounds Sterling. The company will be a partner in the setting up of the fund, including in its management company and will have representation on its Board of directors and its investments committee. A detailed, final and binding investment agreement has not yet been signed.

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

- a. **As of the balance sheet date, the group held 10.1 million shares in FCR, which as of that date constituted 14.5% of the share capital of FCR.**

**FCR is a Canadian public company, whose shares are registered for trade on the Toronto Stock Exchange in Canada.** FCR was 54% 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 129 commercial centers and 13.2 million shares in EQY, constituting 17.6% of EQY's shares.**

**The total amount of the group's investment in shares of FCR as of the balance sheet date amounted to 150 million Canadian Dollars (NIS 93 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 215 million Canadian Dollars (NIS 848 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 14 million Canadian Dollars in the year 2005 (NIS 56 million).

- b. The group, via Amot, holds 50% in an office building in Montreal in Canada, with an overall floor space of 49 thousand square meters, which is leased to one tenant (95% of the area) for a period of approximately 20 years. In addition, the group holds, via Amot, 2 logistical centers with an area of 55 thousand square meters, which are leased to one tenant for a period of twenty years. The group's share of the annual net operating income from the rental of the buildings from the said income generating assets is approximately 12 million Canadian Dollars, and their overall balance in the group's accounting records is approximately 112 million Canadian Dollars (approximately NIS 443 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 6.8% of EQY's capital.**

**The group's total investment in EQY as of the balance sheet date came to 62.4 million Dollars (NIS 287 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 121 million Dollars (NIS 558 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 192 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 4.4 million Dollars (NIS 19.7 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 Germany**

The group holds, via an affiliated company, 32.5% of 4 assets in Germany. 2 of the assets are in Berlin (an office building in the center of Berlin with an area of 4,700 square meters and an industrial park with an overall area of 67,000 square meters), an asset in Hamburg, which includes 336 residential units that are rented and a commercial area of 13,000 square meters and an asset in the city of Assen, which includes 220 residential units that are rented and a commercial area of 8,600 square meters.

The overall area of all of the assets is approximately 130 thousand square meters. The assets generate income of approximately 10 million Euros (approximately NIS 54 million) a year. The total cost of the assets as of the balance sheet date amount to approximately 94 million Euros and they have been financed by bank loans, whose balance as of the balance sheet date is 89 million Euros. **As of the balance sheet date the balance of the investment in the affiliated company in the group's balance sheet amounted to an amount of 3 million Euros (approximately NIS 17 million).**

## Raising capital

- a. In August 2005 the company raised a **total of NIS 507 million** from institutional investors by way of the issue of 455 million par value of debentures (Series C') in a private offering, **at a price that reflects interest to redemption of 4.31%.**
- b. **Issues after the balance sheet date**
- (1) On October 27 the company completed a private issue to institutional investors of 8.5 million units of shares and option warrants (see below), **for an immediate overall consideration of NIS 127.5 million.**
- (2) On November 6 the company completed a private issue to controlling interests in the company of 4.4 million units of shares and option warrants (see below), **for an immediate overall consideration of NIS 66 million.**

The investors and controlling interests paid NIS 15 for each unit, which includes 1 share of par value NIS 1 and 1 option warrant (non-marketable), which can be converted into 1 share of par value NIS 1 (subject to adjustment). The option warrants are exercisable up to 30.9.2009, at an exercise price of NIS 15 for each option warrant, linked to the Consumer Prices Index in respect of the month of August 2005. **In the event that all of the aforementioned option warrants are exercised into shares, the company is expected to receive an additional amount of approximately NIS 194 million within 4 years.**

## 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 September 30, 2005		
		Book value	Value at market prices	Excess of the market over the book value
		NIS millions	NIS millions	NIS millions
Ogen	Tel-Aviv	84	100	16
EQY	NYSE (New-York)	287	558	271
FCR	TSX (Toronto)	593	848	255
Others		54	79	25
<b>Total</b>		<b>1,018</b>	<b>1,585</b>	<b>567</b>

**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 608 million.**

## Operating results

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

	For the nine months ended September 30		Quarter 3 (*)	Quarter 2	Quarter 1	Annual
	2005 (*)	2004	2005	2005	2005	2004
<b><u>Income</u></b>						
Rental and maintenance fees	65,22	4,144	62,244	1,481	1,497	5,681
Dividends from other companies	56,605	42,500	17,892	17,418	21,295	58,316
Interest in debentures	4,940	10,766	1,037	949	2,954	13,804
Income on other investments	11,086	13,403	3,242	-	7,844	30,698
Others, net	13,302	7,217	11,575	-	2,596	6,499
	<u>151,155</u>	<u>78,030</u>	<u>95,990</u>	<u>19,848</u>	<u>36,186</u>	<u>114,998</u>
<b><u>Expenses</u></b>						
Operating and depreciation of buildings	18,261	2,124	16,917	698	646	2,773
Administrative and general	13,3914	8,909	6,648	2,286	4,457	11,958
Donations	5,439	700	290	2,340	2,809	1,100
Financing, net	79,618	22,625	62,478	8,770	8,370	28,197
Others, net	-	-	-	869	-	-
	<u>116,709</u>	<u>34,358</u>	<u>86,333</u>	<u>14,963</u>	<u>16,282</u>	<u>44,028</u>
<b>Income before taxes on income</b>	34,446	43,672	9,657	4,885	19,904	70,970
Taxes on income	6,054	4,952	3,381	807	1,866	4,626
Minority's share in losses of consolidated companies, net	9,953	-	9,953	-	-	-
<b>Income (loss) from continuing activities after taxes on income</b>	<b>38,345</b>	<b>38,720</b>	<b>16,229</b>	<b>4,078</b>	<b>18,038</b>	<b>66,344</b>
Income from discontinued activities, net (Great Britain) (**)	300,449	3,454	(122)	151,634	148,937	5,764
<b>Net income for the period</b>	<b><u>338,794</u></b>	<b><u>42,174</u></b>	<b><u>16,107</u></b>	<b><u>155,712</u></b>	<b><u>166,975</u></b>	<b><u>72,108</u></b>

\* Including the consolidation for the first time of the business results of Amot

\*\* See Note 4 to the financial statements

**The figures for the third quarter of the year 2005 and for the nine months ended on September 30, 2005 include the consolidation for the first time of Amot's business results for the quarter. Accordingly, there has been an increase in every section of the statement of income, both for the third quarter and also for the reporting period.**

**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, from an increase in the rate of dividends paid by FCR and EQY and as a result of a special dividend that FCR paid of which the company's share amounted to NIS 5.8 million, which was paid in the first quarter of 2005.

**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 and at the end of the first and the third quarters of 2005. With the redemption of the balance of the debentures of FCR at the end of the third quarter of 2005 the group is not expected to have further income from this item.

**Gains in connection with other Investments** – in the reporting period derived from the early redemption of an FCR debenture. In the third quarter of the previous year included a gain of NIS 11 million on the realization of other investments.

**Others, net** – in the reporting period include a net gain on marketable securities in the amount of NIS 5 million (of which NIS 2.5 million was in the third quarter) by comparison with NIS 0.4 million in the comparative period in the previous year. In the third quarter of the year 2005 includes the amount of NIS 5 million in respect of a decision by an arbitrator in favor of Amot.

**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 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** – In addition to the aforesaid, the following are the main factors that explain the increase that occurred in the financing expenses in the third quarter as compared with the first and the third quarters:

- a. The increase in the rate of inflation in Israel, from deflation of 0.3% in the first quarter to inflation of 0.8% in the second quarter and inflation of 1.4% in the third quarter.
- b. An increase in interest expenses in respect of the issue of the company's debentures (Series C') in the third quarter (see the section "raising capital" above), for the purpose of the acquisition of Amot.
- c. In the third quarter expenses were included in respect of exchange differences in the amount of NIS 5 million, which derive from the decline in the exchange rate of the Shekel against the Pound Sterling at a rate of 1.35%.

## **Financial position**

### **Liquidity**

As of the balance sheet date, the group has balances of cash, deposits and marketable securities amounting to NIS 118 million. Similarly, the company holds a portfolio of marketable securities, which are invested for the long-term, in the amount of NIS 54 million, whose value at the balance sheet date was NIS 79 million. Most of the marketable securities are invested in solid channels of investment and are managed by a number of portfolio managers.

## Cash flows

The cash flows include **the consolidation for the first time of the cash flows of Amot** as from the third quarter of the year 2005. Accordingly, there occurred an increase in every section of the statements of cash flows in the third quarter and in the reporting period.

The cash flows generated by continuing operating activities amounted, in the reporting period, to an amount of NIS 72 million, as compared with an amount of NIS 41 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 44 million, as compared with an amount of NIS 19 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 953 million. This amount includes the overall amount of NIS 915 million (after setting off NIS 44 million cash and cash equivalents held by Amot at the time of acquisition) which was absorbed by the acquisition of Amot, which was consolidated for the first time, an amount of NIS 152 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. and the expansion of the investment in Ogen by an amount of NIS 14 million. On the other side, debentures of FCR in the amount of NIS 122 million were redeemed and there was a net decrease in the amount of NIS 33 million in deposits and marketable securities. The cash flows generated from discontinued operating activities amounted to an amount of NIS 1,774 million, which derived from the sale of the group's assets in Great Britain (see above).

The cash flows generated by continuing financing activities amounted, in the reporting period, to an amount of NIS 343 million. The amount includes the net amount of NIS 488 million, comprising the consideration from the issue of debentures (see the section "raising capital") and an amount of NIS 17 million from the sale of the company's debentures by a subsidiary company. The amount was partially offset by an amount of NIS 96 million, which was absorbed primarily by the redemption of long-term loans convertible debentures and the amount of NIS 59 million which was absorbed by the payment of dividends. The cash flows absorbed by discontinued operating activities amounted to an amount of NIS 1,387 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 112 million Dollars (approximately NIS 525 million), which have not been exploited as of the date of the report.

## **Shareholders' equity**

The shareholders' equity as of the balance sheet date amounted to NIS 733 million (capital per share of NIS 10.2), 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 339 million.**
2. The increase in the capital reserve on the translation of the financial statements of overseas investee companies in the amount of **NIS 31 million/**
3. The increase in the capital deriving from the conversion of debentures into shares and the exercise of option warrants in the amount of **NIS 15million.**
4. The decrease in the capital subsequent to the payment of a dividend in the amount of **NIS 67 million.**

**After the balance sheet date the shareholders' equity increased by an amount of NIS 194 million,** as the result of the issue of capital (see the section: "raising capital" below).

## **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)**

	Quarter 3 2005	Quarter 2 2005	Quarter 1 2005	Annual 2004
<b>Profit from continuing activities after taxes on income</b>	16,229	4,078	18,038	66,344
With the addition of depreciation on realty	7,943	248	245	931
Less profits on the disposal of marketable securities and other investments	(5,836)	(299)	(10,186)	(32,753)
Gain on disposal of buildings for rental	(1,012)	-	-	-
With the addition of the impairment of the value of buildings for rental	-	-	-	3,792
<b>Total FFO from continuing activities</b>	<b>17,325</b>	<b>4,027</b>	<b>8,097</b>	<b>38,314</b>
With the addition of FFO from discontinued activities	453	(12)	3,617	17,043
<b>Total FFO</b>	<b>17,778</b>	<b>4,015</b>	<b>11,714</b>	<b>55,357</b>
<b>FFO per share from continuing activities (In NIS)</b>	<b>0.24</b>	<b>0.06</b>	<b>0.11</b>	<b>0.54</b>
<b>FFO per share (In NIS)</b>	<b>0.25</b>	<b>0.06</b>	<b>0.16</b>	<b>0.78</b>

\* Including the consolidation for the first time of the business results of Amot

**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.

In accordance with the aforesaid, in April, July and October the company paid a dividend in the overall amount of NIS 25.8 million, in respect of the first, second and third quarters of the year 2005. In July 2005 the company paid an additional dividend of NIS 0.58 per share (NIS 41.6 million).

b. With the publication of this report the company declared a dividend of 12 Agorot per share (NIS 10.3 million) for the fourth quarter of the year, which will be paid in this December.

The total cumulative dividend that the company has paid and will pay for the year 2005 amounts to NIS 78 million (NIS1.06 per share).

## Peer Review

On July 28, 2005 the Securities authority issued a directive requiring the making of disclosure on the matter of agreement for the conducting of a “peer review”, whose objective, as stated in the directive, is to move forward a process of control over the work of the auditing offices. The directive raises questions, including legal questions that are connected primarily to the protection of the confidentiality of material that is passed over to the auditors and to the damage that might be caused to the company as the result of the exposure of this material. The company’s Board of Directors has given its agreement for the company to participate in the said review, **subject to a solution being found for the question of confidentiality.**

## New accounting standards

### 1. Financial instruments: Disclosure and presentation

In July 2005 the Israeli Accounting Standards Board issued Accounting Standard Number 22 – Financial instruments – Disclosure and presentation. The standard will apply to financial statements for reporting periods commencing on January 1, 2006 or thereafter. The implementation of the standard will be carried out by way of “from here onwards”, that is to say – financial instruments that were issued prior to the time of the implementation of the standard will be classified in accordance with the provisions of the standard from the time that it enters into force. The implementation of the standard for the first time is expected to affect, primarily, the manner in which the company’s convertible debentures are presented (their split into a liabilities component and a capital component, as those terms are defined in the standard). Subsequently, on January 1, 2006, the elements of the company’s shareholders’ equity and its long-term liabilities will be effected on a one-time basis, and as from that time the company’s future financing expenses will also be affected. The company is examining the standard and its implications for its financial position and the results of its activities.

### 2. Share based payments

In July 2005 the Israeli Accounting Standards Board issued Accounting Standard Number 24 – Share based payments. The standard will apply to financial statements for reporting periods commencing on January 1, 2006 or thereafter and it should also be implemented in respect of option warrants that were issued after March 15, 2005 that had not yet vested by December 31, 2005. The company is examining the provisions of the standard and in management’s opinion, the effect of the provisions of the standard on its financial position and the results of its activities is not expected to be material.

The standard requires the recognition of share based payment transactions, including transactions with employees of other parties that are to be cleared in cash, by means of other assets or by the use of capital instruments, in the financial statements. Consequently, inter alia, expenses will be reflected in respect of grants of shares and option warrants to employees, office holders and directors over the length of the vesting period of those grants, based upon the fair value of each grant at the time that it was granted.

**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. Ogen and Amot, which operate 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.
  - b. 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.
  - c. The group has sources of finance in index-linked Shekels (primarily debenture). Accordingly, the group has an exposure to changes in the rate of the increase in the index.
  - d. 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 US Dollars	In Canadian Dollars
	NIS thousands	NIS thousands
Balance at the balance sheet date	155,390	421,780
SWAP transactions (see Appendix A, section 2)	(73,568)	(-)
	<u>81,822</u>	<u>421,780</u>

- e. The following are details in respect of the surplus of assets over liabilities in foreign currency in the consolidated balance sheet as of September 30, 2005:

	In Pounds Sterling	In US Dollars NIS thousands	In Canadian Dollars NIS thousands	In Euros NIS thousands
Non-monetary assets	-	303,369	988,746	22,339
Surplus of monetary assets (liabilities), net as detailed in Appendix A' section 1	6,373	(149,549)	(681,946)	432
Net liabilities, attributed to discontinued activities	(9,326)	-	-	-
Surplus of assets over liabilities in foreign currency	(2,953)	153,819	306,800	23,771
Exchange rate at the balance sheet date	8.0858	4.598	3.937	5.5275
<b>Surplus of assets over liabilities in foreign currency, translated into the relevant foreign currency (in thousands)</b>	<b>(365) Pounds Sterling</b>	<b>33,453 US Dollars</b>	<b>77,913 Canadian Dollars</b>	<b>4,301 Euros</b>

**The total amount of the surplus of the group's assets over its liabilities in foreign currency as aforesaid amounts to NIS 481 million, constituting 66% 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.**

- f. The group has marketable securities, whose value is impacted by fluctuations in the market prices of securities

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 Wertheim  
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 NIS'000	US Dollar NIS'000	Canadian Dollar NIS'000	Euro NIS'000	Index linked NIS'000	Unlinked NIS'000	Adjustment NIS'000	Total NIS'000
As of 31.3.2005								
<b>Current assets</b>								
Cash and cash equivalents	6,373	11,942	26,029	432	-	37,757	-	82,533
Deposits and marketable securities	-	408	2,863	-	-	31,978	-	35,249
Debtors and debit balances	-	1,303	26,601	-	164	34,399	6,681	69,148
<b>Total monetary assets</b>	<u>6,373</u>	<u>13,653</u>	<u>55,493</u>	<u>432</u>	<u>164</u>	<u>104,134</u>	<u>6,681</u>	<u>186,930</u>
<b>Current liabilities</b>								
Short-term credits	-	50,285	99,453	-	145,446	90,683	-	386,067
Creditors and credit balances	-	7,813	20,585	-	38,544	60,513	11,152	138,607
Dividend proposed for payment	-	-	-	-	-	8,644	-	8,644
	<u>-</u>	<u>58,098</u>	<u>120,038</u>	<u>-</u>	<u>51,860</u>	<u>159,840</u>	<u>11,152</u>	<u>533,318</u>
<b>Long-term liabilities</b>								
Convertible debentures	-	-	-	-	84,379	-	1,367	85,746
Debentures	-	-	142,198	-	1,276,313	-	-	1,418,511
Loans from banking institutions	-	105,105	475,203	-	252,720	-	2,395	835,423
Deferred taxes	-	-	-	-	-	82,821	12,827	95,648
	<u>-</u>	<u>105,105</u>	<u>617,401</u>	<u>-</u>	<u>1,613,412</u>	<u>82,821</u>	<u>16,589</u>	<u>2,435,328</u>
<b>Total monetary liabilities</b>	<u>-</u>	<u>163,203</u>	<u>737,439</u>	<u>-</u>	<u>1,797,602</u>	<u>242,661</u>	<u>27,741</u>	<u>2,968,646</u>
Excess of monetary liabilities over monetary assets	<u>6,373</u>	<u>(149,550)</u>	<u>(681,946)</u>	<u>432</u>	<u>(1,797,438)</u>	<u>(138,527)</u>	<u>(21,060)</u>	<u>(2,781,716)</u>

### 2. Derivative positions

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

- A. 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 September 30, 2005 is a gain of 14 thousand Dollars (NIS 67 thousand).
- 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 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 September 30, 2005 is a gain of 198 thousand Dollars (NIS 910 thousand).
- C. In April the company wrote a Canadian Dollar call, US Dollar put option in the overall amount of 20 million Canadian Dollars for a period of three months in consideration for a premium that it received. On the expiry of the option the company recognized an overall gain of NIS 962 thousand, of which NIS 734 thousand were reflected in income in the third quarter.

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 periods of nine months and of three months ended September 30, 2005**

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 September 30, 2005.
- Consolidated statement of income for the periods of nine and of three months ended September 30, 2005.
- Statement of changes in shareholders' equity for the periods of nine and of three months ended September 30, 2005.
- Consolidated statement of cash flows for the periods of nine and of three months ended September 30, 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.

We were furnished with the reports of other accountants in respect of the review of the condensed interim financial statements of consolidated companies and joint ventures, whose assets constitute approximately 36% of the total assets recorded in the interim consolidated balance sheet as of September 30, 2005 and whose income constitutes approximately 30% and approximately 47% of the overall income included in the consolidated interim statement of income for the periods of nine and of three months ended on that date, respectively

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, November 28, 2005

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

	<b><u>September 30</u></b>	<b><u>December 31</u></b>	
	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2004</u></b>
	<u>Unaudited</u>		
<b>Current Assets</b>			
Cash and cash equivalents	82,533	76,157	273,446
Deposits and securities	35,249	39,458	46,318
Trade receivables	19,188	(*) 169	(*) 229
Other accounts receivable	<u>49,960</u>	<u>(*) 2,726</u>	<u>11,548</u>
	<u>186,930</u>	<u>118,510</u>	<u>331,541</u>
<b>Investments and Long-Term Accounts Receivable</b>			
Investee companies	101,027	82,323	73,238
Others	<u>955,082</u>	<u>834,539</u>	<u>809,711</u>
	<u>1,056,109</u>	<u>906,862</u>	<u>882,949</u>
<b>Rental property, net</b>	<u>2,477,794</u>	<u>(*) 60,359</u>	<u>56,688</u>
<b>Fixed Assets</b>	<u>8,889</u>	<u>(*) ,088</u>	<u>7,323</u>
<b>Other Assets and Deferred Expenses</b>	<u>12,057</u>	<u>,340</u>	<u>6,881</u>
<b><u>Assets Attributed to Discontinued Activities (Note 4)</u></b>	<u>3,342</u>	<u>1,439,121</u>	<u>1,472,635</u>
	<u>3,745,121</u>	<u>2,540,280</u>	<u>2,758,017</u>

(\*) Reclassified

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

	<u>September 30</u>		<u>December 31</u>
	<u>2005</u>	<u>2004</u>	<u>2004</u>
	<u>Unaudited</u>		
<b>Current Liabilities</b>			
Short-term credit	293,538	44,704	82,366
Current maturities of convertible debentures	-	-	2,115
Current maturities of debentures and debentures that have not yet been repaid in consolidated companies	92,529	-	-
Other creditors and credit balances	138,607	(*) 24,873	(*) 18,335
Dividend proposed for payment	<u>8,644</u>	<u>-</u>	<u>-</u>
	<u>533,318</u>	<u>95,888</u>	<u>102,816</u>
<b>Long-Term Liabilities</b>			
Convertible debentures	84,379	116,526	92,150
Debentures	905,261	140,694	191,720
Loans from banking institutions and others	827,329	427,249	476,083
Deferred taxes	95,137	4,443	6,176
Others	<u>8,605</u>	(*) <u>44</u>	(*) <u>26</u>
	1,902,711	688,956	766,155
Debentures in consolidated companies (see Note 3 d)	660,310	-	-
Less minority interests in capital deficits of those companies	<u>(147,060)</u>	<u>-</u>	<u>-</u>
	<u>2,433,961</u>	<u>688,956</u>	<u>766,155</u>
<b>Liabilities Attributed to Discontinued Activities (Note 4)</b>	<u>43,528</u>	<u>1,439,086</u>	<u>1,470,240</u>
<b>Convertible Debentures</b>	<u>1,367</u>	<u>7,050</u>	<u>4,513</u>
<b>Shareholders' Equity</b>			
Share capital	93,591	75,423	91,859
Capital reserves	326,580	163,533	283,823
Reserves	322,990	113,601	53,443
Dividend declared after the balance sheet date	<u>10,309</u>	<u>5,896</u>	<u>8,460</u>
	753,470	358,453	437,585
<b>Less treasury shares and loans secured on the company's shares</b>	<u>20,523</u>	<u>22,842</u>	<u>23,292</u>
	<u>732,947</u>	<u>335,611</u>	<u>414,293</u>
	<u>3,745,121</u>	<u>2,540,280</u>	<u>2,758,017</u>

In the name of the Board of Directors:

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

November 28, 2005  
Date of approval of the financial statements

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

	<b>For the period of nine months ended March 31</b>		<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>2004</b>	<b>2004</b>
	<b>Unaudited</b>		<b>Unaudited</b>		
<b>Revenues</b>					
Rental and maintenance fees	65,222	4,144	62,244	1,388	5,681
Dividend from other companies	56,605	42,500	17,892	14,643	58,316
Interest from bonds	4,940	10,766	1,037	3,259	13,804
Gains from other investments	11,086	13,403	3,242	2,219	30,698
Others, net	13,302	7,217	11,575	5,182	6,499
	<u>151,155</u>	<u>78,030</u>	<u>95,990</u>	<u>26,691</u>	<u>114,998</u>
<b>Expenses</b>					
Operating and depreciation of buildings	18,261	2,124	16,917	659	2,773
Marketing, general and administrative	13,391	(*) 8,909	6,648	(*) 3,329	(*) 11,958
Donations	5,439	(*) 700	290	(*) 400	(*) 1,100
Financing, net	79,618	22,625	62,478	3,993	28,197
	<u>116,709</u>	<u>34,358</u>	<u>86,333</u>	<u>8,381</u>	<u>44,028</u>
<b>Income before taxes on income</b>	34,446	43,672	9,657	18,310	70,970
Taxes on income	6,054	4,952	3,381	1,635	4,626
<b>Income from continuing activities after taxes on income</b>	28,392	38,720	6,276	16,675	66,344
Minority's share of losses of subsidiary companies, net	9,953	-	9,953	-	-
<b>Income from continuing activities</b>	38,345	38,720	16,229	16,675	66,344
<b>Income from discontinued activities, net (Note 4)</b>	300,449	3,454	(122)	1,733	5,764
<b>Net income for the year</b>	<u>338,794</u>	<u>42,174</u>	<u>18,408</u>	<u>18,408</u>	<u>72,108</u>
<b>Earnings per share of (In NIS)</b>					
Basic from continuing activities	<u>0.53</u>	<u>0.70</u>	<u>0.23</u>	<u>0.30</u>	<u>1.04</u>
Basic from discontinued activities	<u>4.14</u>	<u>0.06</u>	<u>0.00</u>	<u>0.03</u>	<u>0.08</u>
	<u>4.67</u>	<u>0.76</u>	<u>0.23</u>	<u>0.33</u>	<u>1.12</u>
Fully diluted from continuing activities		<u>0.60</u>		<u>0.23</u>	<u>0.93</u>
Fully diluted discontinued activities		<u>0.04</u>		<u>0.02</u>	<u>0.07</u>
		<u>0.64</u>		<u>0.25</u>	<u>1.00</u>
<b>Weighted average number of shares used in computing the earnings per share</b>					
<b>Basic</b>	<u>72,561</u>	<u>54,892</u>	<u>72,561</u>	<u>54,892</u>	<u>71,149</u>
<b>Fully diluted</b>		<u>88,329</u>		<u>88,329</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 nine months (Unaudited)</b>							
Dividend declared subsequent to the balance sheet date					(10,309)	10,309	-
Dividend paid					(50,294)	(8,460)	-
Proposed dividend for payment					(8,644)		(8,644)
Adjustments on the translation of the financial statements of overseas investee companies				31,042			31,042
Conversion of debentures into shares, net	1,523	1,523	11,038				12,561
Loss on sale of dormant shares in respect of the exercise of option warrants			(939)				(939)
Exercise of option warrants into shares	209	209	1,616				1,825
Net income for the period					338,794		338,794
<b>Balance as of September 30, 2005</b>	<b>75,603</b>	<b>93,591</b>	<b>273,702</b>	<b>52,878</b>	<b>322,990</b>	<b>10,309</b>	<b>753,470</b>
<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 nine months (Unaudited)</b>							
Dividend declared subsequent to the balance sheet date					(5,896)	5,896	-
Dividend paid					(12,139)	(12,139)	-
Adjustments on the translation of the financial statements of overseas investee companies				9,020			9,020
Conversion of debentures into shares, net	4,142	4,142	2,219				24,361
Loss on sale of dormant shares in respect of the exercise of option warrants			(969)				(969)
Net income for the period					42,174		42,174
<b>Balance as of September 30, 2004</b>	<b>57,435</b>	<b>75,423</b>	<b>27,352</b>	<b>136,181</b>	<b>113,601</b>	<b>5,896</b>	<b>358,453</b>

**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 July 1, 2005</b>	75,119	93,107	269,716	37,667	317,227	8,609	726,326
<b>Movements in the period of three months (Unaudited)</b>							
Dividend declared subsequent to the balance sheet date					(10,309)	10,309	-
Proposed dividend for payment					(35)	(8,609)	(8,644)
Adjustments on the translation of the financial statements of overseas investee companies				15,211			15,211
Conversion of debentures into shares, net	282	282	2,426				2,708
Exercise of option warrants into shares	202	202	1,500				1,762
Net income for the period					16,107		16,107
<b>Balance as of September 30, 2005</b>	<u>75,603</u>	<u>93,591</u>	<u>273,702</u>	<u>52,878</u>	<u>322,990</u>	<u>10,309</u>	<u>753,470</u>
<b>Balance as at July 1, 2004</b>	57,274	75,262	135,391	18,505	101,098	5,885	336,141
<b>Movements in the period of three months (Unaudited)</b>							
Dividend declared subsequent to the balance sheet date					(5,896)	5,896	-
Dividend paid					(9)	(5,885)	(5,894)
Adjustments on the translation of the financial statements of overseas investee companies				8,847			8,847
Conversion of debentures into shares, net	161	161	790				951
Net income for the period					18,408		18,408
<b>Balance as of September 30, 2004</b>	<u>57,435</u>	<u>75,423</u>	<u>27,352</u>	<u>136,181</u>	<u>113,601</u>	<u>5,896</u>	<u>358,453</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 nine months ended March 31		For the period of three months ended March 31		For the year ended December 31
	2005	2004	2005	2004	2004
	Unaudited		Unaudited		
<b>Cash flows from operating activities</b>					
Net income for the year	338,794	42,174	16,107	18,408	72,108
Adjustments required to present cash flows from continuing operating activities (Appendix A)	(263,967)	(1,204)	29,326	6,648	(36,199)
Net cash generated (absorbed) by continuing operating activities	74,827	40,970	45,433	25,056	35,909
Net cash generated (absorbed) by discontinued operating activities	(44,456)	18,990	(1,115)	6,354	30,588
Net cash generated (absorbed) by operating activities	<u>30,371</u>	<u>59,960</u>	<u>44,318</u>	<u>31,410</u>	<u>66,497</u>
<b>Cash flows from investment activities</b>					
Acquisition of initially consolidated company (Appendix C)	(914,977)	-	(914,857)	-	-
Investment in other companies, net	(179,811)	(96,681)	(54,242)	(29,067)	(101,055)
Proceeds on disposal of investment in other companies	122,136	52,665	42,133	-	95,527
Decrease (increase) in marketable securities and deposits, net	33,493	(33,551)	89,969	(6,241)	(38,706)
Investment in fixed assets and rental buildings	(3,311)	(571)	(2,713)	(83)	(1,055)
Investment in affiliated company	(14,216)	-	(647)	-	-
Return of investment in affiliated company	(3,362)	-	3,362	-	-
Return of investment in venture capital fund (partnership)	-	7,048	-	7,048	7,048
Net cash (absorbed) by continuing investment activities	(953,324)	(71,090)	(836,995)	(28,343)	(38,241)
Net cash generated (absorbed) by discontinued investment activities	1,773,868	(831)	-	(831)	(937)
Net cash generated (absorbed) by investment activities	<u>820,544</u>	<u>(71,921)</u>	<u>(836,995)</u>	<u>(29,174)</u>	<u>(39,178)</u>
<b>Cash flows from financing activities</b>					
Consideration of issue of debentures and sale of the company's debentures by the group, net	504,797	47,173	488,194	48,188	98,029
Repayment of long-term loans	(89,553)	(16,236)	(76,843)	(6,097)	(30,438)
Increase (decrease) in short-term credit from banks	(10,349)	(19,311)	(10,273)	688	(19,996)
Repayment of debentures	(6,783)	(6,107)	(4,668)	-	(6,107)
Consideration on disposal of the company's shares and option warrants	3,654	3,981	1,832	-	122,083
Receipt of long-term loans less costs of raising loans	-	26,960	-	-	129,005
Dividend paid	(58,754)	(28,288)	(50,217)	(5,894)	(115,816)
Net cash generated (absorbed) by continuing financing activities	343,012	8,172	348,025	36,885	176,760
Net cash generated (absorbed) by discontinued financing activities	(1,386,884)	(17,870)	-	(6,095)	(24,530)
Net cash generated (absorbed) by financing activities	<u>(1,043,872)</u>	<u>(9,698)</u>	<u>348,025</u>	<u>30,790</u>	<u>152,230</u>
Exchange differences – cash balances in overseas consolidated companies					
From continuing activities	807	(2,663)	117	(2,620)	(1,711)
From discontinued activities	(3,019)	(136)	-	72	(166)
Total, net	<u>(2,212)</u>	<u>(2,799)</u>	<u>117</u>	<u>(2,548)</u>	<u>(1,877)</u>
Increase (decrease) in cash and cash equivalents	(195,169)	(24,458)	(444,535)	30,478	177,672
Increase (decrease) from discontinued activities	4,256	(1,383)	(808)	(1,391)	(6,224)
Balance of cash and cash equivalents at the beginning of the year	273,446	101,998	527,876	47,070	101,998
Balance of cash and cash equivalents at the end of the year	<u>82,533</u>	<u>76,157</u>	<u>82,533</u>	<u>76,157</u>	<u>273,446</u>

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 of nine months ended March 31		For the period of three months ended March 31		For the year ended December 31
	2005	2004	2005	2004	2004
	Unaudited		Unaudited		
<b>A Adjustments required to present cash flows from operating activities</b>					
Income and expenses not involving the movement of funds:					
Income (loss) on discontinued activities, net	(300,449)	(3,454)	122	(1,733)	(5,764)
Share of profits of investee companies and capital venture fund (partnership), net	(192)	(5,610)	(1,959)	(5,357)	(6,337)
Dividends received from investee companies	1,143	875	-	-	875
Distribution of profits by capital venture fund (partnership), net	1,926	1,379	1,926	1,379	1,379
Minority's share of losses of subsidiary companies, net	(9,953)	-	(9,953)	-	-
Depreciation and amortization	9,149	(617)	8,644	(314)	(725)
Deferred taxes, net	(4,515)	1,670	(3,435)	708	1,529
Gains on other investments	(11,086)	(13,403)	(3,242)	(2,219)	(30,698)
Impairments of value	-	-	-	-	3,584
Adjustment differences and interest on loans and debentures	53,726	13,417	43,370	5,346	4,318
Loss (gain) on marketable securities, net:	(5,172)	(351)	(2,531)	613	(2,055)
Changes in assets and liabilities items, net:					
Decrease (increase) in receivables and debit balances	(6,997)	6,339	(5,794)	7,935	(2,097)
Increase (decrease) in payables and credit balances	8,453	(1,449)	2,178	290	(158)
	<u>(263,967)</u>	<u>(1,204)</u>	<u>29,326</u>	<u>6,648</u>	<u>(36,199)</u>
<b>B Non-cash transactions</b>					
Conversion of debentures (Series B') to shares-net	<u>3,178</u>	<u>24,361</u>	<u>44</u>	<u>851</u>	<u>24,784</u>
Conversion of debentures (Series D') to shares-net	<u>9,383</u>	<u>-</u>	<u>2,664</u>	<u>-</u>	<u>23,267</u>
Dividend proposed for payment	<u>8,644</u>	<u>-</u>	<u>8,644</u>	<u>-</u>	<u>-</u>
Investments in fixed assets against payables	<u>2,799</u>	<u>-</u>	<u>2,799</u>	<u>-</u>	<u>-</u>
Investments in affiliated companies against payables	<u>45</u>	<u>-</u>	<u>45</u>	<u>-</u>	<u>-</u>
<b>C Acquisition of initially consolidated company</b>					
Assets and liabilities of the consolidated company on the day of acquisition:					
Current assets (except cash)	(64,030)		(64,030)		
Fixed assets (investments, fixed assets and other assets)	(2,432,549)		(2,432,549)		
Current liabilities	333,469		333,469		
Long-term liabilities	1,385,240		1,385,240		
Minority interests on the day of acquisition	(137,107)		(137,107)		
	(914,977)		(914,977)		
Amount paid in the previous quarter	-		-		
	<u>(914,977)</u>		<u>(914,977)</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 SEPTEMBER 30 2005**

**(UNAUDITED)**

**NOTE 1 GENERAL**

- a. These interim financial statements have been prepared as of September 30, 2005 and for the periods of nine and 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.
- b. Regarding the full consolidation of the financial statements of Amot with the group's financial statements for the first time as from the third quarter of 2005, see Note 3a.

**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. Except for what is stated in paragraph c' below:
- c. The surplus cost of the investment in Amot (see Note 3.a. below) over its equity value at the time of acquisition has been attributed to Amot's identifiable assets and to its identifiable liabilities, in accordance with their fair values. The buildings for rental that were acquired and the surplus of the cost that was attributed to them, except for part of the cost that was attributed to the land on which those buildings are located (1/3 of the fair value of the buildings for rental) are amortized on the straight line method, at annual rates of 2%, which reflects the period of the buildings' estimated useful lives.
- d. New accounting standards that have been issued and their impact

(1) Accounting Standard Number 22 – Financial Instruments: Disclosure and Presentation

In July 2005 the Israeli Accounting Standards Board issued Accounting Standard Number 22 – Financial instruments – Disclosure and presentation. As a rule, a financial instrument is any contract that creates both a financial assets on the part of one entity and a financial liability or capital instrument on the part of another entity. The standard determines the principles for the presentation of financial instruments in the financial statements and details the disclosures that are required in respect of them and in certain circumstances, also manner in which their impact on the entity is to be measured. The standard's presentation requirements relate to the classification of financial instruments as financial assets, liabilities or capital instruments, to the classification of interest, dividends, losses and gains that are connected to them and to the circumstances in which financial assets and financial liabilities which are sourced in financial instruments should be set off. The standard requires the disclosure of information in respect of the factors that affect the amount, the timing and the certainty of the group's future cash flows, which are connected to financial instruments and to the accounting policy that has been implemented in respect of those instruments. The standard also requires the disclosure of information on the significance and the extent of the use that the group makes of financial instruments, the business purposes that the transactions serve, the risks that relate to them and the policy of management in respect of the control of those risk.

The standard will apply to financial statements for reporting periods commencing on January 1, 2006 or thereafter. The implementation of the standard will be carried out by way of "from here onwards", that is to say – financial instruments that were issued prior to the time of the implementation of the standard will be classified in accordance with the provisions of the standard from the time that it enters into force. The comparative figures that are presented in the financial statements for period commencing from the said time will not be restated.

**ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED SEPTEMBER 30 2005**

**(UNAUDITED)**

**NOTE 2      SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**d. New accounting standards that have been issued and their impact (Continued)**

(1) Accounting Standard Number 22 – Financial Instruments: Disclosure and Presentation (Continued)

The new standard cancels, with its entry into force, Statement of Opinion 48 - the accounting treatment of convertible liabilities and Statement of Opinion 53- the accounting treatment of option warrants.

The implementation of the standard for the first time is expected to affect, primarily, the manner in which the company's convertible debentures are presented (their split into a liabilities component and a capital component, as those terms are defined in the standard). Subsequently, on January 1, 2006, the elements of the company's shareholders' equity and its long-term liabilities will be effected on a one-time basis, and as from that time the company's future financing expenses will also be affected.

(2) Accounting Standard Number 24 – Share Based Payment

In September 2005 the Israeli Accounting Standards Board issued Accounting Standard Number 24 – Share based payment (hereinafter: "The standard"). The standard requires the recognition in the financial statements of share based payment transactions, including transactions with employees and other parties which are to be cleared in cash, in other assets, or by capital instruments. As a result of this, inter alia, expenses will be reflected in respect of grants of shares or options to employees, office holders and directors over the length of the vesting period of those grants, based upon the fair value of each grant at the time that it was granted. The standard determined principles for the measurement of each type of each share based payment transaction in accordance with the manner in which the transaction will be cleared (by a capital instrument or in cash). Similarly, the standard determines requirements for disclosure in respect of share based payment transactions.

In respect of share based payment transactions that are cleared by the use of capital instruments, the standard requires the measurement of the goods or services that are received, and the parallel increase in shareholders' equity, in accordance with the fair value of the goods or services that are received, unless it is not possible to estimate the fair value in a reliable manner. In such a case, the fair value and the parallel increase in shareholders' equity should be measured indirectly, by relating to the fair value of the capital instruments that are granted.

The standard will apply to financial statements for reporting periods commencing on January 1, 2006 or thereafter and it should also be implemented in respect of option warrants that were issued after March 15, 2005 that had not yet vested by December 31, 2005. The early implementation of the standard is recommended. As of the time of the approval of the interim financial statements, the company has no option warrants to which the standard is expected to apply and accordingly, the company's management is of the opinion that the affect of the provisions of the standard on its financial position and the results of its activities is not expected to be material.

**ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED SEPTEMBER 30 2005**

**(UNAUDITED)**

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- e. 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:

	For the period of nine months ended March 31		For the period of three months ended March 31		For the year ended December 31
	2005	2004	2005	2004	2004
	Unaudited		Unaudited		
<b>The Consumer Prices Index</b>					
In Israel (In respect of the last month)	1.89	1.21	1.39	(0.20)	1.21
<b>Exchange rates opposite the Shekel</b>					
The US Dollar	6.73	2.35	0.52	(0.33)	(1.62)
The Canadian Dollar	10.03	3.49	6.11	5.44	5.02
The Euro	(5.94)	(0.15)	0.01	1.08	6.21
The Pound Sterling	(2.67)	3.33	(1.35)	(0.44)	5.83

**NOTE 3 INVESTMENT IN AMOT**

**a. The purchase of shares in Amot**

On July 26, 2005 the company's offer for the acquisition of all of the shares of the company Amot investments Ltd. (hereinafter: "Amot") was accepted, at a consideration of NIS 956 million, which was paid on August 11, 2005, the time of the closing of the transaction. The purchase was funded in part by the raising of debentures from institutional investors (see section c' below) and in part from independent sources. Amot is engaged, directly and indirectly via entities under its control, in the initiation, development, leasing, maintenance and sale of income generating assets in Israel and abroad. The shares were purchased as is.

Amot owns realty assets, directly and indirectly, including offices, commercial centers, supermarkets, central bus stations, industrial parks and industrial buildings. Amot and entities that are held by it hold rights in approximately 90 realty assets in Israel with an overall constructed area of approximately 294 thousand square meters that are leased to approximately 600 tenants. Some of the assets are wholly owned by Amot and some of them are held in partnership with others. These assets are spread throughout the country. Similarly, Amot has rights in three assets in Canada).

Amot's financial statements have been fully consolidated with the group's financial statements as from the third quarter of the year 2005. The company's share in the results of Amot's activities has been reflected, as from July 27, 2005, the time at which the company won the tender for the purchase of Amot.

At the time of the consolidation of Amot for the first time, Amot's identifiable assets and identifiable liabilities were included in accordance with their fair value, as required in accordance with Statement of Opinion 57 issued by the Institute of Certified Public Accountants in Israel. The surplus of the cost of acquisition over the equity value of Amot at the time of the acquisition amounted to approximately NIS 260 million, which has been attributed primarily to income generating realty assets and to liabilities in respect of deferred taxes.

**ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED SEPTEMBER 30 2005**

**(UNAUDITED)**

**NOTE 3 INVESTMENT IN AMOT (Continued)**

**a. The purchase of shares in Amot (continued)**

As of the time of the approval of the interim financial statements, Amot is conducting negotiations with holders of debentures that were issued by Amot's subsidiary companies (see section d' below), with the objective of crystallizing solutions for the non-compliance with the repayment terms of debentures. In the event that the parties reach a different agreement in respect of the economic value of the debentures, the company will reflect the agreement in the financial statements as required. Accordingly, in accordance with generally accepted accounting principles, changes may occur in the attribution of the surplus cost that arose on the acquisition of Amot.

**b. Condensed interim financial statements of Amot**

The following are condensed details from Amot's balance sheet as of September 30, 2005 and its statement of income for the period of three months ended September 30, 2005, as included in the group's interim consolidated financial statements (including the attribution of the surplus cost):

<b>Principle balance sheet data as included in the group's consolidated balance sheet</b>	<b>As of September 30 2005</b>
	<b>NIS'000 Reported</b>
	<b>(Unaudited)</b>
<b>Assets</b>	
Trade receivables and debit balances	54,141
Buildings for rental and land designated for construction	2,422,528
Other assets	5,568
<b>Liabilities</b>	
Short-term credit	120,836
Current maturities of debentures	92,529
Payables and credit balances	100,477
Long-term loans from banks	401,355
Debentures issued to interested parties and to others (after setting off the minority's share in the capital deficits of consolidated companies)	708,864

**ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED SEPTEMBER 30 2005**

**(UNAUDITED)**

**NOTE 3 INVESTMENT IN AMOT (Continued)**

**b. Condensed interim financial statements of Amot (continued)**

<b>Principle data from the statement of income as included in the group's consolidated statement of income</b>	<b>For the period of three months ended September 30 2005</b>
	<b>NIS'000 Reported (Unaudited)</b>
<b>Income</b>	
Rental and maintenance fees	60,618
Others net	7,144
	<u>67,762</u>
<b>Expenses</b>	
Operating and depreciation of buildings	16,165
Marketing, administrative and general	4,253
Financing, net	38,341
	<u>58,759</u>
Profit before taxes on income	9,003
Taxes on income	3,273
Operating profit after taxes on income	5,730
Minority's share of losses of consolidated companies, net	9,953
Net income	<u>15,683</u>

**c. The issue of debentures (Series C') to finance the acquisition of Amot**

In August 2005 the company raised an amount of approximately NIS 507 million (including accumulated interest up to that time) from institutional investors, by way of a private issue of 455 million par value of debentures by increasing the volume of the company's debentures (Series C'). The debentures and the interest on them are linked to the Consumer Prices Index. Subsequent to the private issue, as aforesaid, the balance of debentures (Series C') as of the balance sheet date amounted to NIS 711,843,700 par value, of which a consolidated company holds NIS 48,983,711 par value (approximately 6.9%). See also Note 5.d.(3) below.

**d. Debentures issued by consolidated companies of Amot**

During the course of the years 1992 to 1992 12 debentures were signed by nine consolidated companies (hereinafter: "The Ayalot subsidiaries") of Ayalot Investments Ltd. (hereinafter – Ayalot the parent company"), a company in which Amot has a 51% holding in the ownership rights and the entire rights to control.

The balance of the debentures and the loans as of September 30, 2005, including interest (including arrears interest) and linkage differences, is NIS 993 million, of which NIS 761 million were issued to external bodies and the balance in the amount of NIS 232 was issued to Amot.

**ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED SEPTEMBER 30 2005**

**(UNAUDITED)**

**NOTE 3 INVESTMENT IN AMOT (Continued)**

**d. Debentures issued by consolidated companies of Amot (continued)**

As collateral for the repayment of the debentures, the Ayalot subsidiary companies recorded first ranking fixed charges and assignment by way of charge, in an unlimited amount, on every right of every company in the asset that it purchased, and of the rights of that company in respect of the insurance of the asset, and a first ranking current charge on all of the income from the asset, existing and future. In addition, general current charges have been recorded, which relate to all of the monies, the property and the rights in connection with the asset.

The loan period for some of the debentures was 25 years and for some of them it was 28 years. The loans are linked to the Consumer Prices Index and bear interest at the rate of 6.5% per annum. The lenders have the right to demand the early repayment of the loans, in whole or in part, by giving written notice six months in advance, and this every five years. In addition, the lender have the right to demand the immediate repayment of the loans and to exercise the collateral if events that are detailed in the debenture occur, and these include: a change in the control in Ayalot – the parent company, a breach of the terms of the debenture, dissolution, including voluntary or involuntary dissolution, the appointment of a receiver for the company which is not cancelled within 30 days, the placing of a restraining order of some similar debt collection action which is not cancelled within 30 days.

In the event of arrears in payment, the debt in arrears will bear interest at a rate of 7.8% per annum instead of 6.5% per annum from the day that it became in arrears. Such interest will also be added in the event of a demand by the lender for the early repayment of the loan in accordance with the terms of the debenture as described above.

As a result of working capital deficits, which derive from the state of the income generating realty market, as from mid 2002 the Ayalot subsidiary companies have been and are experiencing difficulty in meeting the repayments of the debentures in accordance with their repayment schedules. The companies have deferred, in accordance with the right afforded them in accordance with the debentures, the current repayments of the debentures, in whole or in part, by 12 months. As of September 30, 2005 the balance of the liabilities in respect of the debentures of he Ayalot subsidiary companies that have not yet been repaid, even though their due repayment date has passed, including interest (including arrears interest) and linkage differences, is NIS 105 million, of which NIS 75 million is due to external parties and NIS 30 million is due to Amot.

In recent years the Ayalot subsidiary companies have not met the repayment of the debentures in accordance with their repayment schedules. As a result of this, the lenders, in accordance with the terms of the debentures, have the right to demand the immediate repayment of the loans. In addition, the transfer of control in Amot to the company affords the lenders a similar right. As of the tome of the approval of the interim financial statements, the group has not received a demand for early repayment as aforesaid. Amot is conducting negotiations with the borrowers with the objective of crystallizing solutions for the partial non-compliance with the repayment terms of debentures, by way of re-spreading the debt, by way of the purchase of the debentures or by way of the repayment of the debentures, and this in accordance with their economic value. The company's management estimates, based, inter alia, on the behavior of the lenders in respect of the aforesaid, that the balance of the debentures that are not in arrears, in the amount of NIS 660 million should be classified under long-term liabilities.

**ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED SEPTEMBER 30 2005**

**(UNAUDITED)**

**NOTE 3 INVESTMENT IN AMOT (Continued)**

**e. Charges on Amot's assets**

As collateral for the long-term loans that were received from former interested parties in Amot, from holders of minority interests in a consolidated company and from banks, whose balance, as of September 30, 2005 amounted to NIS 1,403 million (exclusive of accumulated interest), the Amot group has charged land, assets, property and some of the income that derives from the assets that it owns. See also paragraph d. above.

**f. The indemnification of office holders**

Within the framework of the acquisition of control in Amot, the company undertook to cause it that the letters of indemnity that were given by Amot and its investee companies to office holders in those companies not to be changed or cancelled and that Amot and its investee companies will operate within their provisions, in so far as they relate to events that took place up to the month of August 2005. The amount of the general indemnity that is due to all of the directors will not exceed NIS 300 million.

**g. Legal actions against the Amot group – see Note 6 below.**

**NOTE 4 DISCONTINUED ACTIVITIES**

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 1,779 million). During the course of the first half of 2005 the sale of all eight assets was completed. Until the transfer of the ownership in the assets to the purchasers, the ownership remains in the hands of the group and the income from rental fees in respect of them are reflected in its favor, and it bears the costs of their operation.

The total capital gain less tax that the group recorded in the period of nine months ended September 30, 2005 in respect of the sale of all eight assets amounted to approximately NIS 298 million.

The consideration for the sale of all of the assets was used by the company in order to repay in full the long-term loans that were used to acquire the assets, in the overall amount of NIS 1,387 million.

**ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED SEPTEMBER 30 2005**

**(UNAUDITED)**

**NOTE 4 DISCONTINUED ACTIVITIES (Continued)**

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

	As of September 30		As of December 31
	2005	2004	2005
	NIS'000	NIS'000	NIS'000
	Unaudited		
<b><u>Current assets</u></b>			
Cash and cash equivalents			
Deposits	3,108	2,524	7,364
Debtors and debit balances	-	36,744	37,714
	234	1,560	2,658
	<u>3,342</u>	<u>40,828</u>	<u>47,736</u>
<b><u>Buildings for rental</u></b>	-	1,311,913	1,340,793
<b><u>Fixed and other assets</u></b>	-	86,380	84,106
<b>Total assets of discontinued activities</b>	<u>3,342</u>	<u>1,439,121</u>	<u>1,472,635</u>
<b><u>Current liabilities</u></b>			
Short-term credit	-	26,930	28,246
Creditors and credit balances	43,528	52,345	56,888
	<u>43,528</u>	<u>79,275</u>	<u>85,134</u>
<b><u>Long-term liabilities</u></b>			
Loans from banking institutions	-	1,348,423	1,373,479
Deferred taxes	-	11,388	11,627
	<u>-</u>	<u>1,359,811</u>	<u>1,385,106</u>
<b>Total liabilities of discontinued activities</b>	<u>43,528</u>	<u>1,438,086</u>	<u>1,470,240</u>

**ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED SEPTEMBER 30 2005**

**(UNAUDITED)**

**NOTE 4 DISCONTINUED ACTIVITIES (CONTINUED)**

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

	For the period of nine months ended March 31		For the period of three months ended March 31		For the year ended December 31
	2005	2004	2005	2004	2004
	Unaudited		Unaudited		
<b><u>Income from rental and maintenance fees</u></b>	18,428	95,873	-	32,258	129,298
<b><u>Expenses</u></b>					
Operating, depreciation of buildings	1,629	8,457	-	2,819	11,279
Administrative and general	510	1,573	171	282	2,105
Financing, net	13,812	81,045	58	27,040	107,928
	<u>15,951</u>	<u>91,075</u>	<u>229</u>	<u>30,141</u>	<u>121,312</u>
<b><u>Income (loss) before taxes on income</u></b>	2,477	4,798	(229)	2,117	7,986
Taxes on income	(32)	(1,344)	682	(384)	(2,222)
	2,445	3,454	453	1,733	5,764
Capital gain (loss) on the sale of assets for rental	298,004	-	(575)	-	-
<b><u>Net income (loss) for the period</u></b>	<u>300,449</u>	<u>3,454</u>	<u>(122)</u>	<u>1,733</u>	<u>5,764</u>

(\*) The capital gain for the period of nine months ended on September 30, 2005 is presented after setting off tax expenses in the amount of NIS 40,962 thousand.

**NOTE 5 ADDITIONAL INFORMATION AND POST BALANCE SHEET DATE EVENTS**

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

During the course of the reporting period, the group invested the amount of NIS 152 million (41.2 million Canadian Dollars) in the purchase of securities in FCR. Of the said amount, NIS 130 million (32.9 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 September 30, 2005 approximately 10.1 million shares in FCR, which at that time constituted 14.5% of the share capital of FCR.

The balance of the group's investment in marketable securities of FCR as of September 30, 2005 is NIS 593 million (150.5 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 848 million (215 million Canadian Dollars).

**b. Investment in Ogen**

According to a prospectus for the issue of shares, option warrants and convertible debentures dated November 7, 2005, Ogen Real Estate Ltd. (hereinafter: "Ogen, affiliated company") 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.

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**NOTE 5 ADDITIONAL INFORMATION AND POST BALANCE SHEET DATE EVENTS (Continued)**

**b. Investment 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)

**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, July and October 2005 the company paid an interim dividend in the amounts of NIS 8,537 thousand, NIS 8,609 thousand and NIS 8,644 thousand, respectively. With the completion of the sale of the group's assets in Great Britain, the company paid an additional interim dividend for the year 2005 in the amount of 58 Agorot per share (NIS 41,608 thousand). The total dividend that the company has paid for the year 2005, up to the time of the approval of the interim financial statements is 94 Agorot per share (NIS 67,398 thousand)

In November 2005 the company declared the distribution of an interim dividend for the fourth quarter of 2005 in the amount of 12 Agorot per share (NIS 10,309 thousand), to be paid in December 2005.

**d. The raising of capital by means of debentures**

The following is information in respect of the conversion of debentures and the realization of debentures by a consolidated company during the period of the report and thereafter:

**(1) Conversion of debentures (Series B')**

During the reporting period NIS 2,736,538 par value of debentures (Series B') were converted into 539,815 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 6,504 par value of debentures (Series B') were converted into 1,283 regular shares of par value NIS 1 each in the company. The balance of the debentures (Series B') in circulation as of the time of the approval of the interim financial statements was NIS 1,160,801 par value. .

**(2) Conversion of debentures (Series D')**

During the reporting period NIS 9,828,980 par value of debentures (Series D') were converted into 982,898 par value of regular shares of par value NIS 1 each in the company. During the period from the balance sheet date and until the time of the approval of the interim financial statements a further NIS 6,760,000 par value of debentures (Series D') were converted into 676,000 par value of regular shares of par value NIS 1 each in the company. Subsequent to the said conversions, the balance of debentures (Series D') in circulation at the time of the approval of the interim financial statements is NIS 78,795,420 par value (of which a consolidated company holds 1,564,000 debentures (Series D')).

**(3) Conversion of debentures (Series C')**

During the reporting period a consolidated company sold NIS 15,500,000 par value of debentures (Series C') for a consideration of NIS 16,956 thousand. See also Note 3.c above

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**NOTE 5 ADDITIONAL INFORMATION AND POST BALANCE SHEET DATE EVENTS (Continued)**

**e. Issues after the balance sheet date**

- (1) On October 27 the company completed a private issue to institutional investors of 8.5 million units of shares and option warrants (see below), **for an immediate overall consideration of NIS 127.5 million.**
- (2) On November 6 the company completed a private issue to controlling interests in the company of 4.4 million units of shares and option warrants (see below), for an immediate overall consideration of NIS 66 million.

NIS 15 was paid for each unit, which includes 1 share of par value NIS 1 and 1 option warrant (non-marketable), which can be converted into 1 share of par value NIS 1. The option warrants are exercisable up to 30.9.2009, at an exercise price of NIS 15 for each option warrant, linked to the Consumer Prices Index in respect of the month of August 2005. In the event that all of the aforementioned option warrants are exercised into shares, the company is expected to receive an additional amount of approximately NIS 194 million.

The price of the company's shares at a time close to the time at which the issue of the units to the interest parties was approved by the Board of Directors was NIS 13.47.

**f. The exercise of option warrants by interested parties**

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. 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.

**h. Credit facility**

At the time of the approval of the financial statements, the company had open credit facilities in banks in Israel in the amount of 112 million US Dollars that had not been exploited.

**i. Agreement in principle to set up a realty investment fund in Great Britain**

After the balance sheet date, the company's Board of Directors approved the entry into an agreement in principle for the investment of up to 30 million Pounds Sterling (approximately NIS 250 million) in a realty investment fund that is being set up at this time in Great Britain. The fund will be engaged in investments in income generating realty, in realty for development, in entrepreneurship and in enhancement in Great Britain. The size of the fund will be between 100 million and 150 million Pounds Sterling. The company will be a partner in the setting up of the fund, including its management company and will have representation on its Board of Directors and on its investments committee. A detailed, final and binding investment agreement has not yet been signed.

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**NOTE 5      ADDITIONAL INFORMATION AND POST BALANCE SHEET DATE EVENTS (Continued)**

**j.    The implications of the Law to amend the Income Tax Ordinance (No. 147) - 2005**

In July 2005 the Law to amend the Income Tax Ordinance (No. 147) (hereinafter: "The amendment") passed its second and third readings in the Israeli Knesset. In accordance with the amendment the rate of tax that applies to companies will be reduced from 34% in 2005 to 31% in 2006 and then gradually to 25% in respect of the year 2010. The group's management is of the opinion that the implementation of the amendment will have an insignificant impact on the group's financial position and on the results of its activities.

**NOTE 6      INFORMATION IN RESPECT OF LEGAL CLAIMS AGAINST AMOT INVESTMENTS LTD.**

There are outstanding and pending 23 claims against Amot Investments Ltd. ("Amot" or "the company") and other parties as of the balance sheet date in the overall amount of approximately NIS 116 million, of which Amot's share as defendant amounts to approximately NIS 31 million.

Against Ayalot Asset Investment Ltd. (a fully controlled subsidiary company of Amot's and 51% of which is owned by Amot and against its consolidated companies (hereinafter together – "Ayalot") and other parties there are outstanding and pending 11 claims as of the balance sheet date in the overall amount of approximately NIS 50 million of which Ayalot's share as defendant amounts to approximately NIS 17 million.

Provisions have been recorded in Amot's consolidated financial statements in respect of the claims that are being made against Amot and against Ayalot, in the overall amount of approximately NIS 8 million. In the opinion of the management of the said companies, in reliance upon the opinion of legal advisors, the said provisions are reasonable.

The following is a description of the material claims from among the said claims:

- a.    A claim has been filed against the partners in a construction venture for a mall project in Rehovot (Amot among them), by the Municipality of Rehovot and this is being conducted in front of an arbitrator. The overall amount of the claim is approximately NIS 26 million. The grounds that are claimed in the action derive primarily from building defects, the non-preparation of a sufficient basis which would enable the construction of a public building on top of the mall, the non-performance of landscaping works, exaggerations in respect of the value of the other works that were carried out and the difference between the development levies and the value of the development works the Municipality claims it is entitled to.

In the statement of defense, which was presented on behalf of the defendants, it is claimed that some of the claims are covered by the stature of limitations and that in any event the claims are incorrect and the amounts at which they are stated are significantly exaggerated.

An agreement exists between Amot and its partners in the project, according to which at the end of the arbitration and in the light of its results, Amot can raise any claim on the plain of the relationships between it and the partners, which enables it to claim indemnification from the partners in the project.

The partners in the joint construction project have presented a counter-claim against the Municipality of Rehovot in the overall amount of approximately NIS 3 million.

Amot's share of the said claims is 1/6.

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**NOTE 6 INFORMATION IN RESPECT OF LEGAL CLAIMS AGAINST AMOT INVESTMENTS LTD.**

(Continued)

- b. Amot owns 50% of the leasing rights at the central bus station in Haifa. Claims have been filed against the other partner in the leasing rights in the project by purchasers of sub-leasing rights and shops in the station for compensation in the amount of approximately NIS 18 million, for damages, which they claim have been caused to them, as a result of the their leasing rights not having been yet registered in the Lands Registry and also in respect of the impairment in the value of their asset since "Egged" has discontinued the use of the station as its main station in Haifa.

The defendant denies responsibility vis-à-vis the plaintiffs in respect of "Egged's leaving the station and it also contests the amount that are claimed. Similarly, the defendant has presented a third party pronouncement against 'Egged'"

Amot is not a party (as defendant) to the claims, however it has been required to give and has given its partner in the project a commitment to bear half of any amount that is adjudicated against it because the company is the joint-owner of the project

Amot's share of the said claims is, as a foresaid, 50%.

- c. A claim has been filed against the Cfar Saba Arim Mall Management Company Ltd. (a company in which Amot holds 20% and Ayalot 33.3%), the seller of the rights in the Cfar Saba Arim Mall project and also against others in an overall amount equivalent to 4 million Dollars on a claim that the defendants should compensate the plaintiff in respect of the loss of profits that it was caused as the result of the non-rental of a shop in the Cfar Saba Arim Mall commercial center (hereinafter: "The shop") and this for a period of 10 years. In the statement of defense, the plaintiffs reject the claim entirely.

Inter alia the defendants claim that the negotiations were conducted with the plaintiff in good faith, In this connection the defendants draw attention to the determination of the Magistrates Court which dealt with a claim for enforcement that the plaintiff filed in the past and to the fact that all of the legal bodies that dealt with the claim for enforcement in the past rejected it, while determining that the fact that the parties were only at the negotiating stage and that this did not mature into a binding agreement.

It should be noted that the Cfar Saba Arim Mall Management Company has a specific defense claim in the light of the fact that it was only set up two years after the completion of the negotiations between the parties.

Amot acquired its share of the project (20%) and took upon itself vis-à-vis the other partners in the project all of the liabilities of the seller whilst receiving a letter of indemnity from the seller, according to which the seller will indemnify it in respect of every charge or other liability. Amot's share, as aforesaid, of the claim is 20%.

- d. A claim has been field against Amot and against its partners (in equal parts) in the rights in land at the new central bus station project in Jerusalem by the trustee for sanctity on the claim that he is entitled to receive a relative share of the profits of the new central bus station, both past and present, in his position as the owner of part of the land on which the station is built.

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**NOTE 6 INFORMATION IN RESPECT OF LEGAL CLAIMS AGAINST AMOT INVESTMENTS LTD.**

(Continued)

d. (Continued)

Alternatively, the plaintiff has asked for arbitration on the removal of the buildings and the returning of the situation to what it was before, with the addition of the payment of his relative portion of the receipts in the past.

In accordance with an agreement from the year 1965 between the Company and the aforementioned partners, Amot purchased 50% of the ownership rights in the land on which the station is built from its partners and it was agreed to build the Jerusalem central bus station project. The ownership of the land for the project was a subject of dispute. In practice the rights were recorded in part in the land registry in the name of the Company and of its partners as aforesaid in equal parts. In November 2000 the estate of a deceased person was registers as the owner of 3.1% of the land (that is the portion that is the subject of the dispute) jointly with the plaintiffs.

The Jerusalem Central Bus Station Ltd. has leased the new central bus station in Jerusalem and Amot has undertaken vis-à-vis the company to indemnify it in respect of any damage caused to it, inter alia, as a result of the above claim.

e. During the course of the year 2003 the Rehovot Shopping Center and Transport Management Company Ltd. (a company in which Ayalot holds 1/3 of the rights and Amot holds 1/6 of the rights) (hereinafter – "The management company") received an announcement from the Municipality of Rehovot (hereinafter – "The municipality") in respect of the charge with municipal taxes for the years 1996-2003 in which it was required to pay a total of approximately NIS 13 million, as a result of additional municipal taxes in respect of communal areas which the municipality claimed were not charged for by mistake (an area of approximately 6,500 square meters) where most of the communal area was charges at the "business" rate. In February 2004 the municipality sent a further notice, in according to which the management company is required to pay approximately NIS 2 million in respect of the year 2004.

In parallel to the demands in respect of the communal areas, the municipality sent demands for the payment of municipal taxes in respect of the areas of the anchor stores and this was subsequent to the set-off agreements, which were made with the municipality. The total amount of the demands for payment in respect of the area of these stores for the years 1996-2003 is approximately NIS 6.4 million and in respect of the year 2004 the demand for payment is in the amount of approximately NIS 1.3 million.

The management company has field appeals and objections against the abovementioned demands, with the main claim being that these areas are not held by the management company and that therefore the management company should not be charged at all In parallel, the management company has also presented administrative appeals against the said demands, in respect of which an appeal has been made to the supreme court.

The objections for the years 1996-2004 have been rejected, and within the framework of the appeals committee the Municipality of Rehovot presented new figures, according to which the additional areas, which it claims were not charged with municipal taxes by mistake, are an area of approximately 4,500 square meters and not 6,500 square meters, as was previously claimed by the municipality.

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**NOTE 6 INFORMATION IN RESPECT OF LEGAL CLAIMS AGAINST AMOT INVESTMENTS LTD.**

(Continued)

e. (Continued)

In the year 2005 the Municipality of Rehovot issued the management company with notices of an assessment in respect of the communal areas in the mall and in respect of the areas of the anchor stores in an overall amount of approximately NIS 2 million in respect of the year 2005. Objections were filed in respect of these demands, against the charges with municipal taxes, inter alia, on the claim that the management company should not be charged in respect of the anchor stores and that the additional areas that were charged are not chargeable with municipal taxes at all and that in any event their area is lower than the area that was measured by the municipality. These objections were rejected by the municipality. Appeals have been filed against these rejections. In addition, an administrative appeal has been filed with the Court for Administrative Affairs against the charges with municipal taxes, which were levied on the management company in the year 2005.

The management company claims that the charges, which were sent, at least in respect of the period up to the year 2003 inclusive, are invalid retroactive charges. In respect of the period thereafter, in the light of the fact that an additional amendment was made in the second half of 2005, so the charge should be levied, at the very most, from the year 2006 and thereafter. In addition, from its initial examination it arises that the communal areas are smaller than the area that the municipality claims and in part they are unfit for use and they should not be charged for, and in any event, the classification should be changed to the classification of passageways and sundry buildings which is significantly lower than the charge levied on businesses.

Amot's share of the claim is 1/6 and Ayalot's share of the claim is 1/3.

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**NOTE 7      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>Adjustments</u> <u>NIS'000</u>	<u>Total</u> <u>NIS'000</u>
<b><u>In the nine months ended September 30,</u></b>					
<b><u>2005 (Unaudited)</u></b>					
Income	<u>65,534</u>	<u>20,722</u>	<u>64,323</u>	576	<u>151,155</u>
Income (loss) before taxes in income	<u>(25,022)</u>	<u>13,760</u>	<u>45,142</u>	576	<u>34,446</u>
<b><u>In the nine months ended September 30,</u></b>					
<b><u>2004 (Unaudited)</u></b>					
Income	<u>25,090</u>	<u>19,269</u>	<u>33,671</u>		<u>78,030</u>
Income before taxes in income	<u>3,643</u>	<u>13,484</u>	<u>26,545</u>		<u>43,672</u>
<b><u>In the three months ended September 30,</u></b>					
<b><u>2005 (Unaudited)</u></b>					
Income	<u>59,738</u>	<u>7,725</u>	<u>27,951</u>	576	<u>95,990</u>
Income (loss) before taxes in income	<u>(12,241)</u>	<u>5,164</u>	<u>16,158</u>	576	<u>9,657</u>
<b><u>In the three months ended September 30,</u></b>					
<b><u>2004 (Unaudited)</u></b>					
Income	<u>6,845</u>	<u>6,431</u>	<u>13,415</u>		<u>26,691</u>
Income before taxes in income	<u>2,644</u>	<u>4,401</u>	<u>11,265</u>		<u>18,310</u>
<b><u>In the year ended December 31, 2004</u></b>					
Income	<u>43,989</u>	<u>25,687</u>	<u>45,322</u>		<u>114,998</u>
Income before taxes in income	<u>17,509</u>	<u>17,839</u>	<u>35,622</u>		<u>70,970</u>