



AlonyHetz
Properties & Investments Ltd.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED ON MARCH 31, 2006

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TABLE OF CONTENTS

| | |
|----------------------------------------------------------------------------|-------------|
| Report of the Board of Directors | 2-22 |
| Accounts' review report | 23 |
| Condensed interim consolidated financial statements (Unaudited) | |
| Balance Sheet | 24-25 |
| Statements of Income | 26 |
| Statements of Changes in Shareholders' Equity | 27 |
| Statements of Cash Flows | 28-29 |
| Notes of the condensed interim consolidated financial statements | 30-34 |

Ramat-Gan, May 31, 2006

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

For the Period of Three Months Ended March 31, 2006

The Board of Directors of Alony-Hetz Properties and Investments Ltd. are pleased to present the financial statements of the company and of its consolidated companies (hereinafter: "The group") for the three months ended on March 31, 2006 (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 2005.

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 third quarter of the year 2005 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. On May 30, 2006, with the completion of the issue of securities to the public by Amot, the rate of the group's holding in Amot fell to 81.2%.
- b. A holding of 44.1% in Ogen Real Estate Ltd., 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.

Activities in North America

In Canada

- a. A holding of 14.4% in First Capital Realty Inc. (hereinafter: "FCR"), a Canadian public company that holds 4 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 6.7% in Equity One Inc. (hereinafter: "RQY"), an American public company that holds income generating realty for rental in the USA.

Activities in Europe

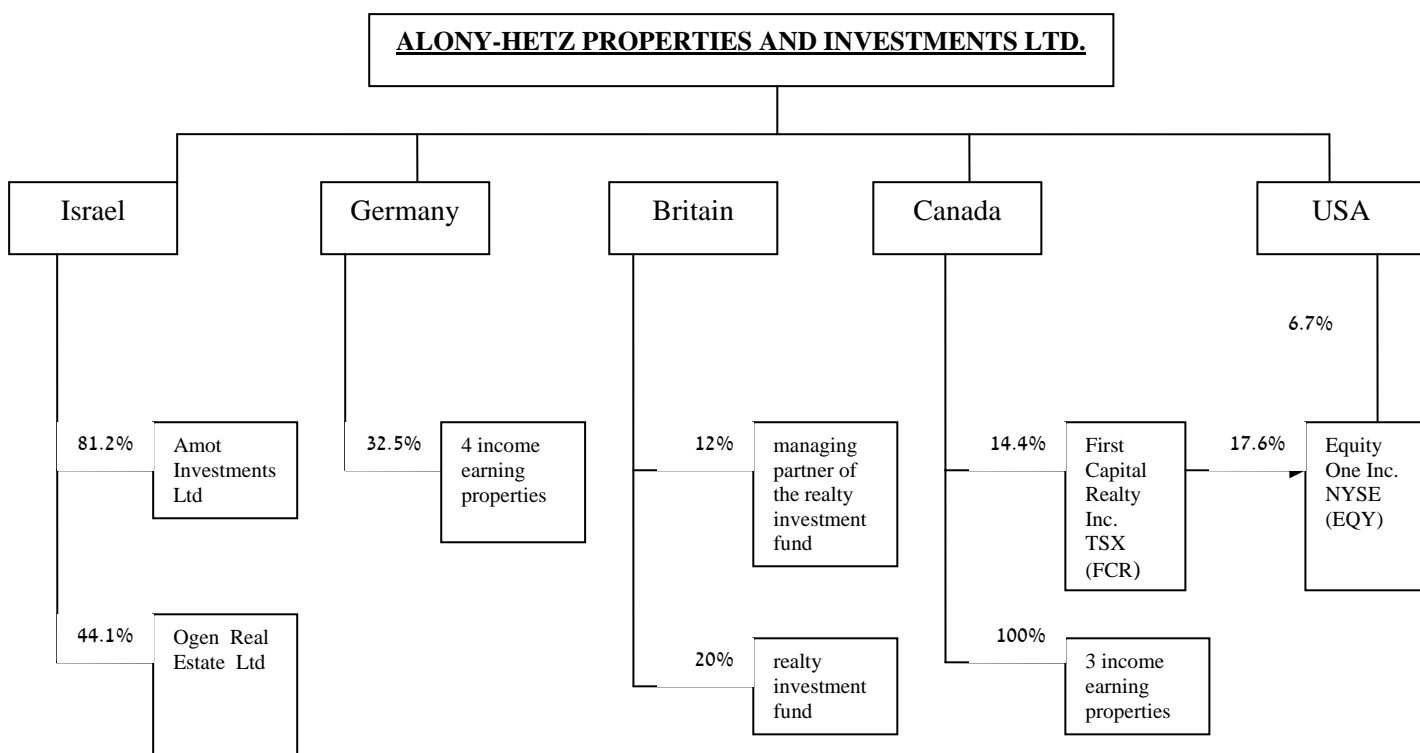
In Great Britain

A holding of approximately 20% in a British realty fund and 12% in the managing partner of the fund.

In Germany

A holding of 32.5% in four facilities with an overall area of approximately 103 thousand square meters of office space, commercial areas and parks and approximately 37 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:



Investment targets and events in the reporting period

1. Investment in India

The company has reached an agreement in principle with others to set up a venture to identify investments in the commercial and residential realty field in India. Inter alia, the types of projects in which it is intended to invest via a venture are: the setting up of residential neighborhoods, the construction of industrial parks and logistical centers. The size of the venture's shareholders equity, in accordance with the aforesaid agreement in principle is expected to reach approximately 100 million Dollars. The company's share of the venture at this stage is 25% and its total commitment to invest in shareholders' equity is 25 million Dollars. The investments in the aforesaid venture are supposed to be made in cooperation with Indian entrepreneurs with proven experience in investments of the aforesaid nature in India.

2. Investment in a European country

The company's Board of Directors has approved a plan for the acquisition of shares of European public company (hereinafter: "the target company"), whose shares are traded on the stock exchange in the country in which it is located and which is engaged in investment in income generating realty in that country.

The total framework of the investment may reach up to some NIS 1,400 million, of which approximately NIS 410 million has been invested up to the time of the publication of this report. The company intends to hold the aforesaid target company at a rate that will afford it influence. The company has received a document of principles from a foreign bank in respect of the financing of approximately 60% of the said investment. **At this stage the company cannot be sure that it can reach a position of influence in the target company and there is no certainty that it can acquire additional securities in the target company at a price that accords with the criteria that have been determined by the company's management**

Post balance sheet date events

1. The issue to the public by Amot – see below
2. Within the framework of the initial public offering (IPO) of all of the shares of the company Trio on the main stock exchange in London, the company undertook to purchase 1 million shares, constituting 10% of the share capital of Trio for a consideration of 10 million US Dollars.

Trio is a company that is registered in the island of Jersey and which is engaged in the purchase of land and mortgage portfolios, which are supported by income generating realty with an investment rating of BBB and above (hereinafter: "the mortgage portfolios"). Trio intends to purchase mortgage portfolios in Great Britain, the USA and in Western Europe. Trio is managed by the Wharton Asset Management group, which is a group that has been specializing for more than a decade in the purchase and management of investment portfolios. Within the framework of the prospectus that Trio published it was announced that it intends to distribute a dividend to its shareholders every six months (subject to generally acceptable legal restrictions) at an annual rate of approximately 10%.

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'ala, the Israeli Company For Rating Securities Ltd. (hereinafter: "Ma'ala") with a rating of AA-.

The company has been granted a credit rating of Aa3 by Midrug Ltd.

The group's profitability

The group's profit in the first quarter of the year 2006 was **NIS 43 million**, as compared with a profit of NIS 185 million in the comparative period in the previous year (including a net gain on the realization of part of the group's assets in Great Britain) in the amount of NIS 167 million in the comparative period in the previous year.

Realty investments in Israel

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

At the time of the signing of this report the company held 81.25 of Amot's shares. Amot is engaged, directly and indirectly via entities under its control, in the leasing, management and maintenance of income generating assets in Israel and overseas, and also in the initiation and development for self-use of land that it owns (subject to restrictions arising out of the controlling interests' agreement between the company and between Osef Investments Ltd. in connection with Ogen and stated in section c' below). Amot owns realty, directly and indirectly, including offices, commercial centers, supermarkets, central bus stations, industrial parks and industrial buildings.

In May Amot published a prospectus for the public in order to raise an amount of NIS 319 million in share capital and option warrants, and an amount of NIS 500 million in debentures and option warrants for debentures. The debentures have been rated with an AA- rating by Maalot and with an Aa3 rating by Midrug. The tenders for obtaining orders for the securities that are being offered were executed on May 30, 2006.

Subsequent to the issue, the company's holding rate in Amot was reduced from 100% to 81.2% and the company estimates that in the second quarter of the 2006 it will record a capital gain of approximately NIS 70 million as the result of the dilution of its holding in Amot.

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

The company and Osef Investments Ltd. (hereinafter: "Osef") each hold 44.1% of Ogen, which ended the reporting period with a net income of NIS 0.4 million, as compared with a net income of NIS 0.1 million in the comparative period in the previous year.

Ogen's principal realty assets are: a facility on Ha'Barzel Street in Ramat Ha'Hayal, land in the industrial area of Rehovot, land in Kiryat- Arie in Petach –Tikva, Team house as well as half of the rights in the "Orot mall" (hereinafter: "The mall") in Or Akiva, which was acquired in January 2006 for a consideration of NIS 48 million. The second half of the rights in the mall was acquired by Amot.

The company holds 13.6 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 85 million. The value of this investment as quoted on the Tel-Aviv Stock Exchange at the balance sheet date amounted to NIS 132 million.

The company estimates, on the basis of the prices for the issue, that the value of its holdings in Amot's securities, as traded on the Tel-Aviv Stock Exchange will increase **by approximately NIS 350 million** in excess of the balance of the investment in Amot as it will be recorded after the issue in the company's accounting records.

The aforesaid is forward looking information, which is based upon assumptions and data that was in the company's hands at the time of the publication of this report and which relates to future matters, whose occurrence is not certain and is not under the group's control and accordingly there is no certainty that it will come to fruition.

The company intends, in parallel to its holding in Ogen, to consolidate the group's income generating realty activities in Israel via Amot by way of expanding and deepening its activities.

Amot's assets in Israel include 84 assets with an area of 313 thousand square meters. The average occupancy rate is approximately 92%. 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 108 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.

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. As of the balance sheet date the group's total investment in Amot amounted to NIS 981 million (including a Shekel loan in the amount of NIS 292 million).

Regarding the arrangements with the owners of the debentures that were issued by some of Amot's investee companies, see Note 3.c. to the financial statements.

c. Amot/ Ogen's field of activities

Ogen's core business is the development and construction of offices and other commercial buildings in Israel for rental purposes, for long periods as income generating assets, including the purchase of land that is designated for those purposes (hereinafter: "**income generating projects**").

Under the force of a control agreement between the company and Osef (hereinafter, together: "the parties"), from June 1999, the principle was determined that during a period of three years from June 1999 (hereinafter: "The period of the restriction") and subject to any legal provisions, each of the parties to the agreement will grant Ogen the right of first refusal to purchase or to participate in the purchase or setting up of income generating projects as defined above. The period of the restriction is automatically renewed for additional periods of three years each, unless one of the parties informs the other in writing before the end of any extended period of its desire to discontinue the arrangement. As of the time of this report, the current period of restriction ends on June 7, 2008.

During the course of the period of restriction, each of the parties undertakes to present in front of Ogen every proposal that is handed to it to purchase or to participate in the purchase or setting up of income generating projects, as defined above, shortly after its receipt, and Ogen will decide its position on the matter within thirty days of the time of the receipt of the proposal (hereinafter: "the arrangement"). If Ogen has not responded in writing within the same period or if it has responded in the negative or if it has responded positively but subject to conditions that are not acceptable to the owner of the rights in the land or to the entrepreneur who is participating in the project, then the party making the proposal will be entitled to carry out the project without the participation of Ogen.

In addition to the aforesaid, it was agreed that the group and the Osef group will not manage, will not be involved in any form whatsoever and will not invest, whether directly or indirectly, in income generating projects, as defined above, **which are within Ogen's core sphere of activity. In accordance with this agreement, the core activities are defined as the development and construction in Israel of offices and other commercial buildings for the purposes of rental for long periods as income generating assets, including the purchase of land that is designated for those purposes.**

The restriction on competition will not apply to projects in which one of the parties was engaged at the time of the signing of the agreement or if the business does not constitute direct competition with Ogen's business or if conditions exist affording either of the parties such a right under the provisions of the arrangement.

The period of validity of the control agreement in Ogen is for twenty years, ending in June 2019, however, each of the parties will be entitled to cancel the agreement if at any time the other party ceases or transfers with the agreement of the other party, to hold shares constituting half of the control core.

During the course of the year 2005 Ogen entered the field of the purchase of income generating assets in Israel whose construction and development has ended and this with the desire to diversify the range of its investments. This activity is not included in the income generating projects as defined above.

Until the time of this report, the group has not found itself in a situation in which it would have been prevented from exploiting a business opportunity which was open to it and to the best of its knowledge there has been nothing in Ogen's commitments that has prevented opportunities for it.

At the same time, it is possible that from considerations of the significant financial scope of potential transactions and a desire to reduce risk the group is likely to approach Ogen and Ogen is likely to approach the group and this with the objective of offering each other the opportunity of participating with it in other transactions.

Ogen and Amot have independent and sovereign management, which examine transactions separately, subject to the aforesaid.

The group's activities in Great Britain

At the beginning of March 2006 the group entered into an agreement with others for the setting up of a realty investment fund in Great Britain by the name of Brockton Capital (hereinafter: "the fund"). The fund is engaged in investments in income generating realty, the development of realty, entrepreneurship and enhancement in Great Britain.

The fund's management have informed the company that in their estimate, in reliance upon letters of intention and on letters of commitment that have been received from investors and from potential investors, the extent of the capital that the fund will raise will reach approximately 150 million Pounds Sterling. The said amount is supposed to enable the fund, in reliance upon banking finance, to make investments in the overall amount of approximately 750 million Pounds Sterling, According to the fund's plans, this volume of investment will be carried out during the course of a period that will not exceed 7 years.

The group's total commitment to invest in the fund's capital stands at 30 million Pounds Sterling. The investments in the funds will be carried out "on demand" as is customary and will be spread over a number of years. In addition the group holds 12% of the overall rights in the management company, which is the managing partner in the fund, including representation on the Board of Directors and in its investment committee (one representative out of six members).

Among the investors in the fund one can number a British public company, which is engaged in the field of income generating realty and leading British and American pension funds and hedging funds as well as private investors.

After the balance sheet date the fund purchased, together with others, the largest chain of private hospitals in Great Britain, including its realty, which constitutes approximately 80% of the investment in the transaction, for an overall consideration of approximately 2.4 billion Pounds sterling. The fund invested 20 million Pounds Sterling in the transaction in consideration for approximately 3% of the investment in the said transaction. As from March 2006 and until the time of this report the group has invested an amount of approximately 8 million Pounds Sterling (of which 3.5 million Pounds Sterling was invested in the reporting period) in the fund.

The group's activities in Canada

- a. **As of the balance sheet date, the group held 10.4 million shares in FCR, which as of that date constituted 14.6% of the share capital of FCR and 3.3 million par value of debentures (convertible into shares) of FCR's Series One.**

FCR is a Canadian public company, whose shares are registered for trade on the Toronto Stock Exchange in Canada. FCR was 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 138 commercial centers and 13.3 million shares in EQY, constituting 17.6% of EQY's shares.

The total amount of the group's investment in shares and debentures of FCR as of the balance sheet date amounted to 160 million Canadian Dollars (NIS 644 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 269 million Canadian Dollars (NIS 1,082 million).

During the course of the reporting period the group received dividend income from FCR in the amount of 10 million Canadian Dollars (NIS 35 million). Similarly, the group recorded income from interest on debentures in the amount of 1.4 million Canadian Dollars (NIS 5 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 from FCR will amount to an amount of approximately 12.7 million Canadian Dollars in the year 2006 (NIS 51 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 (NOI) from the said income generating assets is approximately 12.5 million Canadian Dollars (approximately NIS 50 million), and their overall balance in the group's accounting records is approximately 121 million Canadian Dollars (approximately NIS 487 million).

The group's activities in the USA

As of the balance sheet date the group held 5.1 million shares in EQY, which constitute 6.7% of EQY's capital.

The group's total investment in EQY as of the balance sheet date came to 62.4 million Dollars (NIS 291 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 125 million Dollars (NIS 584 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 approximately 197 assets with a built area of 1.9 million square meters.

During the course of the reporting period the group received dividend income from EQY in the amount of 1.5 million Dollars (NIS 7.1 million). The company expects that its dividend income from EQY will amount to approximately 11.2 million Dollars in the year 2006 (according to an annual dividend of 1.2 Dollars per share and a special dividend, which has been declared, of 1.0 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 2006, 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 77,000 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 140 thousand square meters. The assets generate income of approximately 10 million Euros (approximately NIS 54 million) a year. The total assets of the affiliated company as of the balance sheet date amount to approximately 98 million Euros (approximately NIS 555 million) and they have been financed by bank loans, whose balance as of the balance sheet date is 88 million Euros (approximately NIS 498 million). **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 2.5 million Euros (approximately NIS 14.4 million).** The group and its partner in the assets intend to put them up for sale.

The following table summarized the group's marketable investments

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

| Name of company | Stock Exchange on which traded | As of March 31, 2006 | | |
|-----------------|--------------------------------|----------------------|------------------------|------------------------------------------|
| | | Book value | Value at market prices | Excess of the market over the book value |
| | | NIS millions | NIS millions | NIS millions |
| Ogen | Tel-Aviv | 85 | 132 | 47 |
| EQY | NYSE (New-York) | 291 | 584 | 293 |
| FCR | TSX (Toronto) | 644 | 1,082 | 438 |
| Others | | 346 | 379 | 33 |
| Total | | 1,366 | 2,177 | 811 |

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 700 million.

Regarding the value of Amot in the issue to the public, see “Investments in realty in Israel” – section a. above.

Operating results

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

| | <u>Quarter 1</u> <u>2006</u> | <u>Quarter 1</u> <u>2005</u> | <u>Annual</u> <u>2005</u> |
|----------------------------------------------------------------|---------------------------------|---------------------------------|------------------------------|
| <u>Income</u> | | | |
| Rental and maintenance fees | 65,123 | 1,497 | 128,267 |
| Dividends from other companies | 19,793 | 21,295 | 76,220 |
| Interest on debentures | 191 | 2,954 | 4,964 |
| Income on other investments | 33,363 | 7,844 | 11,085 |
| Others, net | 5,137 | 2,596 | 21,571 |
| | <u>123,607</u> | <u>36,186</u> | <u>242,107</u> |
| <u>Expenses</u> | | | |
| Operating and depreciation of buildings | 15,336 | 646 | 35,273 |
| Administrative and general | 7,350 | 4,457 | 21,868 |
| Donations | 885 | 2,809 | 5,765 |
| Financing, net | 39,458 | 8,370 | 131,573 |
| | <u>63,029</u> | <u>16,282</u> | <u>194,479</u> |
| Income before taxes on income | 60,578 | 19,904 | 47,628 |
| Taxes on income | 21,138 | 1,866 | 10,305 |
| Income from continuing activities after taxes on income | 39,440 | 18,038 | 37,323 |
| Minority's share of losses of consolidated companies, net | 3,534 | - | 16,525 |
| Income from continuing activities after taxes on income | 42,974 | 18,038 | 53,848 |
| Income from discontinued activities, net (Great Britain) | - | 148,937 | 300,201 |
| Net income for the period | 42,974 | 166,975 | 354,049 |

The figures for the first quarter of the year 2006 and for the year 2005, include the consolidation for the first time of Amot's business results (as from the third quarter of the year 2005). Accordingly, there has been an increase in every section of the statement of income in the reporting period by comparison with the comparative period in the previous year.

Dividend income from other companies - The decrease in the reporting period by comparison with the comparative period in the previous year derived primarily from the special dividend that FCR paid in the comparative quarter of the previous year, the company's share of which was NIS 5.8 million. The decrease was offset by the purchase of additional shares in FCR during the course of the reporting period and by the increase in the rate of dividend per share that EQY is paying.

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 2005.

Gains in connection with other investments – in the reporting period comprises capital gains on the realization of the investment in two other marketable investments by income generating realty companies, in the comparative period in the previous year the gains included capital gains on the early redemption of FCR debentures.

Others, net – The increase in the reporting period by comparison with the comparative period in the previous year derives from the a net gain on marketable securities in the amount of NIS 3.3 million by comparison with NIS 2.4 million in the comparative period in the previous year and from a capital gain in the amount of NIS 1 million on the sale of an asset in Israel

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

Finance expenses – The increase in financing expenses in the reporting period by comparison with the comparative period in the previous year derives primarily from the consolidation of Amot for the first time as described above and also from the rise in interest expenses in respect of the issuance of debentures (Series C') by the company in the third quarter of the year 2005.

Tax expenses – Tax expenses in the amount of NIS 12 million are primarily in respect of the realization of other investments.

Financial position

Liquidity

As of the balance sheet date, the group has balances of cash, deposits and marketable securities amounting to NIS 117 million. Similarly, the company holds a portfolio of marketable securities, which are invested for the long-term, in the amount of NIS 23 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 reporting period by comparison with the comparative period in the previous year.

The cash flows generated by continuing operating activities amounted, in the reporting period, to an amount of **NIS 38 million**, as compared with an amount of NIS 8 million in the comparative period in the previous year and an amount of NIS 102 million in the entire year 2005. The increase derived primarily from the consolidation of Amot as from the third quarter of the year 2005.

The cash flows absorbed by continuing investment activities amounted, in the reporting period, to an amount of NIS 264 million. This amount includes an amount of NIS 266 million deriving from the investment by the group in target companies, an amount of NIS 48 million from the acquisition of the rights in the Orot mall, and amount of NIS 28 million from the investment in the Rockton Capital fund and an amount of NIS 12 million from the expansion of the investment in FCR. Against this, two investments in other companies were realized for consideration in the amount of NIS 60 million and there was a net decrease in the amount of NIS 28 million in deposits and marketable securities.

The cash flows absorbed by continuing financing activities amounted, in the reporting period, to an amount of NIS 140 million. This amount includes the increase in short-term credit from banks in the amount of NIS 155 million, which was partially offset by an amount of NIS 17 million, which was absorbed by the repayment of long-term liabilities.

Credit facilities

The group has authorized open credit facilities from banks in Israel in the amount of 112 million Dollars (approximately NIS 522 million), which have not been exploited as of the balance sheet date.

Shareholders' equity

The shareholders' equity as of the balance sheet date amounted to NIS 1,005 million (capital per share of NIS 11), as compared with NIS 948 million at the end of the year 2005. 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 43 million.**
2. The increase in the capital reserve on the translation of the financial statements of overseas holdings in the amount of **NIS 10 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 12 million.**
4. The decrease in the capital subsequent to the payment of a dividend in the amount of **NIS 12 million.**

FFO (Funds From Operations)

The FFO is an index that is widely used in the USA, Canada and Europe, and which is not required in accordance with generally accepted accounting principles for the provision of additional information on the operating results of income generating realty companies, which grants a fair basis for the making of comparisons between income generating realty companies. FFO, as defined, expresses the net income (calculated in accordance with generally accepted accounting principles), after eliminating gains (or losses) from the sale of assets, with the addition of depreciation and amortization (in respect of realty) and the elimination of deferred taxes.

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 (In NIS thousands)

| | <u>Quarter 1</u> 2006 (*) | <u>Quarter 1</u> 2005 | <u>Annual</u> 2005 (*) |
|------------------------------------------------------------------------|------------------------------|--------------------------|---------------------------|
| Profit from continuing activities after taxes on income | 42,974 | 18,038 | 53,848 |
| With the addition of depreciation on realty | 8,219 | 245 | 16,535 |
| Less gains on realization of other investments less tax effects | (20,773) | (7,844) | (11,085) |
| (Less) add share of (profits) losses of affiliated company | (183) | (41) | 1,814 |
| Add company's share of FFO of affiliated company | 833 | 482 | (1,101) |
| (Less) add deferred tax (income) expense | 924 | (239) | 865 |
| Less gain on disposal of buildings for rental | (1,073) | - | (1,012) |
| Total FFO from continuing activities | 30,921 | 10,641 | 59,864 |
| With the addition of FFO from discontinued activities | - | 3,530 | 3,621 |
| Total FFO | 30,921 | 14,171 | 63,485 |
| FFO per share from continuing activities (In NIS) | 0.35 | 0.15 | 0.81 |
| FFO per share (In NIS) | 0.35 | 0.20 | 0.86 |
| Weighted average share capital used in the calculation of the FFO (**) | 87,719 | 70,475 | 73,823 |

(*) Including the consolidation of the business results of Amot as from the third quarter of 2005.

(**) In accordance with the shares used in the calculation of the basic earnings per share.

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 2006 in the minimum amount of 52 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 the company paid a dividend in the amount of NIS 12 million, in respect of the first quarter of the year 2006, and declared a dividend in the amount of 13 Agorot per share (NIS 12 million) for the second quarter, which will be paid this June.

- b. **The company decided to pay an additional dividend** (over and above the quarterly dividend as aforesaid) in the amount of NIS 1.07 per share (NIS 95 million, in accordance with the issued share capital at a time close to the publication of this report), such that the total dividend that will be paid in the coming June will come to 120 Agorot per share (approximately NIS 107 million).

Critical accounting estimates

In the preparation of the financial statements in accordance with generally accepted accounting principles, the company's management is required to use estimates or evaluations in respect of transactions or matters whose impact on the financial statements cannot be determined accurately at the time that they are prepared. The main basis for the determination of the quantitative values of the said estimates is the figure that the company's management decides to adopt, taking into account the circumstances surrounding the estimate, and also the best information that it has available at the time that it is prepared. By the very nature of things, since these estimates and evaluations are the result of the exercise of judgment in an environment of uncertainty, which is sometimes especially significant, changes in the base assumptions as a derivative of changes that are not necessarily under the control of the company's management, as well as the addition of further information in the future that was not available to the company at the time at which the estimate was made, might result in changes in the quantitative evaluation of an estimate, and therefore also affect the financial position of the company and the results of its activities.

Accordingly, even though the estimates or evaluations are made in accordance with the management's best judgment, the final quantitative effect of the transactions or the matters that need to be estimated will only become clear when these transactions or matters reach their conclusion. In certain cases, the final results of matters that were estimated can be very significantly different from the quantitative amount that was determined for it at the time that the estimate was prepared.

The following is a description of the accounting estimates that have the potential to make the most significant impact that the company was required to make at the time of the preparation of the consolidated financial statements:

The impairment in the value of assets – Where it is forecast, inter alia, in the wake of indications as to the occupancy rate of an asset, the stability of the existing tenants and the rental prices for similar assets, that the economic value of income generating realty is lower than the amount at which they are presented in the group’s accounting records, the group is required to estimate the amount of the write-down for the impairment in the value of the assets, which it has to reflect in its financial statements. The company is in the practice of determining the economic value of its assets in accordance with their net selling price, with the assistance of experts in realty, or in reliance upon estimates of value made by realty valuers. Changes in the assumptions that serve the said external experts, in combination with changes in the company’s management’s evaluations, which are based upon its cumulative experience, can lead to changes in the amount of a write down that was estimated in the past, and thus effect the company’s financial position and the results of its activities. In addition, changes in the economic value of land assets that are held by Ogen may impact the value of the company’s investment in Ogen.

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 company’s Board of Directors has given its agreement for the company to participate in the said review.

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 2005.
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 part of the group's continuing activities are carried out through the holding of shares in three companies that hold income-generating realty in the USA, in Canada and in European countries. As a result of this changes in the interest rates, in the exchange rates and in the demand for realty 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 | 156,480 | 412,933 |
| SWAP transactions | (37,320) | (-) |
| | <u>119,160</u> | <u>412,933</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 March 31, 2006:

| | In US Dollars | In Canadian Dollars | In European currencies (1) |
|------------------------------------------------------------------------------------|---------------------|---------------------------|----------------------------------|
| | NIS | NIS | NIS |
| | thousands | thousands | thousands |
| Non-monetary assets | 307,042 | 1,100,525 | 365,771 |
| Surplus of monetary assets (liabilities), net as detailed in Appendix A' section 1 | (141,924) | (676,025) | (148,210) |
| Net assets, attributed to discontinued activities | - | - | (11,174) |
| Surplus of assets over liabilities in foreign currency | <u>165,118</u> | <u>424,500</u> | <u>206,387</u> |

(1) Pounds Sterling, Swiss Francs and Euros

The total amount of the surplus of the group's assets over its liabilities in foreign currency as aforesaid amounts to NIS 797 million, constituting 79% of the company's shareholders' equity.

- 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. During the course of the reporting period no change occurred in the group's market risks management policy as compared with the policy that was presented in the report of the Board of Directors for the year 2005.

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.

Aviram Wertheim
Chairman of the Board of Directors

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

| | US Dollar | Canadian Dollar | European currencies (1) | Index linked | Unlinked | Adjustment | Total |
|--------------------------------------------------------|------------------|--------------------|-------------------------------|--------------------|-----------------|------------------|--------------------|
| | <u>NIS'000</u> | <u>NIS'000</u> | <u>NIS'000</u> | <u>NIS'000</u> | <u>NIS'000</u> | <u>NIS'000</u> | <u>NIS'000</u> |
| As of 31.3.2006 | | | | | | | |
| <u>Current assets</u> | | | | | | | |
| Cash and cash equivalents | 16,142 | 8,584 | 57,738 | - | 35,019 | - | 117,483 |
| Deposits and marketable securities | 2,712 | 7,005 | - | - | 7,848 | - | 17,565 |
| Debtors and debit balances | 3 | 25,410 | - | 127 | 15,543 | 5,181 | 46,264 |
| | <u>18,857</u> | <u>40,999</u> | <u>57,738</u> | <u>127</u> | <u>58,410</u> | <u>5,181</u> | <u>181,312</u> |
| <u>Other investments</u> | - | 12,677 | 1,455 | - | - | - | 14,132 |
| Total monetary assets | <u>18,857</u> | <u>53,676</u> | <u>59,193</u> | <u>127</u> | <u>58,997</u> | <u>5,912</u> | <u>195,444</u> |
| <u>Current liabilities</u> | | | | | | | |
| Short-term credits | 682 | 102,085 | 151,424 | 222,823 | 32,035 | - | 509,049 |
| Creditors and credit balances | 4,301 | 18,535 | 55,979 | 50,800 | 50,604 | 8,454 | 188,673 |
| Dividend proposed for payment | - | - | - | - | 11,542 | - | 11,542 |
| | <u>4,983</u> | <u>120,620</u> | <u>207,403</u> | <u>273,623</u> | <u>94,181</u> | <u>8,454</u> | <u>709,264</u> |
| <u>Long-term liabilities</u> | | | | | | | |
| Convertible debentures | - | - | - | 56,572 | - | - | 56,572 |
| Debentures | - | 138,668 | - | 1,254,904 | - | - | 1,393,572 |
| Loans from banking institutions | 155,798 | 470,413 | - | 241,832 | - | - | 868,043 |
| Deferred taxes | - | - | - | - | 2,203 | 106,892 | 109,195 |
| | <u>155,798</u> | <u>609,081</u> | <u>-</u> | <u>1,553,308</u> | <u>2,203</u> | <u>106,892</u> | <u>2,427,382</u> |
| Total monetary liabilities | <u>160,781</u> | <u>729,701</u> | <u>207,403</u> | <u>1,826,931</u> | <u>96,484</u> | <u>115,346</u> | <u>3,136,646</u> |
| Excess of monetary liabilities over monetary assets | <u>(141,924)</u> | <u>(676,025)</u> | <u>(148,210)</u> | <u>(1,826,804)</u> | <u>(38,074)</u> | <u>(110,165)</u> | <u>(2,941,202)</u> |

2. Derivative positions

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

For the purpose of protection and in order to reduce the exposure of the group to future changes in the interest rates in the USA, the group has carried out a SWAP transaction, in respect of 8 million Dollars in order to set the interest rate at 2.17% (instead of the LIBOR interest rate), for a period of three years ending in October 2006. The fair value of the hedging transaction as of March 31, 2006 is a gain of 165 thousand Dollars (NIS 770 thousand).

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

Ladies and Gentlemen,

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

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

- Consolidated balance sheet as of March 31, 2006.
- Consolidated statement of income for the period of three months ended March 31, 2006.
- Statement of changes in shareholders' equity for the period of three months ended March 31, 2006.
- Consolidated statement of cash flows for the period of three months ended March 31, 2006.

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 did not review the condensed interim financial statements of consolidated companies and joint ventures, whose assets constitute approximately 28% of the total assets recorded in the interim consolidated balance sheet as of March 31, 2006 and whose income constitutes approximately 37% of the overall income included in the consolidated interim statement of income for the period of three months ended on that date. The interim financial statements of those entities were reviewed by other accountants whose review reports were furnished to us, and this review report, in so far as it related to the amounts recorded in respect of those entities, is based upon the review reports of the other accountants.

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

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

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

Tel Aviv, May 31, 2006

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

| | <u>March 31</u> | <u>2005</u> | <u>December 31</u> |
|------------------------------------------------------------|------------------|------------------|----------------------|
| | <u>2006</u> | | <u>2004</u> |
| | Unaudited | | |
| Current Assets | | | |
| Cash and cash equivalents | 117,483 | 223,970 | 228,584 |
| Deposits and securities | 17,565 | 87,090 | 41,153 |
| Trade receivables | 13,721 | 124 | (*) 11,997 |
| Other accounts receivable | <u>32,543</u> | <u>18,210</u> | <u>29,336</u> |
| | <u>181,312</u> | <u>329,394</u> | <u>311,070</u> |
| Investments and Long-Term Accounts Receivable | | | |
| Investee companies | 84,861 | 85,705 | (*) 84,674 |
| Others | <u>1,357,382</u> | <u>869,720</u> | (*) <u>1,007,337</u> |
| | <u>1,442,243</u> | <u>955,425</u> | <u>1,092,011</u> |
| Rental property, net | <u>2,524,162</u> | <u>56,930</u> | <u>2,446,926</u> |
| Fixed Assets, net | <u>1,576</u> | <u>7,243</u> | <u>9,172</u> |
| Other Assets and Deferred Expenses | <u>6,383</u> | <u>9,376</u> | <u>6,881</u> |
| <u>Assets Attributed to Discontinued Activities</u> | <u>825</u> | <u>435,640</u> | <u>1,678</u> |
| | <u>4,159,271</u> | <u>1,791,015</u> | <u>3,898,206</u> |
| | ===== | ===== | ===== |

(*) Reclassified

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

| | <u>March 31</u> | | <u>December 31</u> |
|----------------------------------------------------------------------------------------------------------|------------------|----------------|--------------------|
| | <u>2006</u> | <u>2005</u> | <u>2005</u> |
| | <u>Unaudited</u> | | |
| Current Liabilities | | | |
| Short-term credit | 393,243 | (*) 149,849 | 319,950 |
| Current maturities of convertible debentures | - | - | 525 |
| Current maturities of debentures | 115,806 | 24,298 | 115,742 |
| Other creditors and credit balances | 188,673 | 8,537 | 99,419 |
| Dividend proposed for payment | <u>11,542</u> | <u>-</u> | <u>-</u> |
| | 709,264 | 182,684 | 536,636 |
| Debentures in consolidated companies less the minority's share of the capital deficit of those companies | <u>578,371</u> | <u>-</u> | <u>579,632</u> |
| | 1,287,635 | 182,684 | 1,115,268 |
| Long-Term Liabilities | | | |
| Convertible debentures | 56,572 | 90,714 | 70,617 |
| Debentures | 815,201 | 191,795 | 820,685 |
| Loans from banking institutions and others | 868,043 | (*) 405,081 | 791,693 |
| Deferred taxes | 106,892 | 5,817 | 105,771 |
| Others | <u>2,303</u> | <u>-</u> | <u>2,727</u> |
| | <u>1,849,011</u> | <u>693,407</u> | <u>1,791,493</u> |
| Liabilities Attributed to Discontinued Activities | <u>17,858</u> | <u>331,785</u> | <u>42,995</u> |
| Convertible Debentures | <u>-</u> | <u>1,452</u> | <u>746</u> |
| Shareholders' Equity | | | |
| Share capital | 109,622 | 92,509 | 108,107 |
| Capital reserves | 522,925 | 289,450 | 502,572 |
| Receipts on account of option warrants and the capital element of convertible debentures | 21,217 | - | 19,350 |
| Reserves | 262,826 | 170,540 | 326,766 |
| Dividend declared after the balance sheet date | <u>106,788</u> | <u>49,801</u> | <u>11,416</u> |
| | 1,023,378 | 602,300 | 968,211 |
| Less treasury shares and loans secured on the company's shares | <u>18,611</u> | <u>20,613</u> | <u>20,507</u> |
| | <u>1,004,767</u> | <u>581,687</u> | <u>947,704</u> |
| | 4,159,271 | 1,791,015 | 3,898,206 |
| | ===== | ===== | ===== |

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

May 31, 2006

Date of approval of the financial statements

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

| | <u>For the period of three months</u> | | <u>For the year ended</u> |
|-----------------------------------------------------------------------------------|----------------------------------------------|--------------------|----------------------------------|
| | <u>ended March 31</u> | | <u>December 31</u> |
| | <u>2006</u> | <u>2005</u> | <u>2005</u> |
| | <u>Unaudited</u> | | |
| Revenues | | | |
| Rental and maintenance fees | 65,123 | 1,497 | 128,267 |
| Dividend from other companies | 19,793 | 21,295 | 76,220 |
| Interest from bonds | 191 | 2,954 | 4,964 |
| Gains from other investments | 33,363 | 7,844 | 11,085 |
| Others, net | <u>5,137</u> | <u>2,596</u> | <u>21,571</u> |
| | <u>123,607</u> | <u>36,186</u> | <u>242,107</u> |
| Expenses | | | |
| Operating and depreciation of buildings | 15,336 | 646 | 35,273 |
| Marketing, general and administrative | 7,350 | 4,457 | 21,868 |
| Donations | 885 | 2,809 | 5,765 |
| Financing , net | <u>39,458</u> | <u>8,307</u> | <u>131,573</u> |
| | <u>63,029</u> | <u>16,282</u> | <u>194,479</u> |
| Income before taxes on income | 60,578 | 19,904 | 47,628 |
| Taxes on income | <u>21,138</u> | <u>1,866</u> | <u>10,305</u> |
| Income from continuing activities after taxes on income | 39,440 | 18,038 | 37,323 |
| Minority interests in the losses of consolidated companies, net | <u>3,534</u> | - | <u>16,525</u> |
| | 42,974 | 18,038 | 53,848 |
| Income from discontinued activities, net | - | <u>148,937</u> | <u>300,201</u> |
| Net income for the year | <u>42,974</u> | <u>166,975</u> | <u>354,049</u> |
| Earnings per share of (In NIS) (*) | | | |
| Basic from continuing activities | 0.26 | 0.26 | 0.73 |
| Basic from discontinued activities | <u>2.11</u> | <u>2.11</u> | <u>4.07</u> |
| | <u>2.373</u> | <u>2.373</u> | <u>4.80</u> |
| Fully diluted from continuing activities | 0.23 | 0.23 | 0.70 |
| Fully diluted discontinued activities | <u>1.79</u> | <u>1.79</u> | <u>3.92</u> |
| | <u>2.02</u> | <u>2.02</u> | <u>4.62</u> |
| Weighted average number of shares used in computing the earnings per share | | | |
| Basic | <u>87,693</u> | <u>70,475</u> | <u>73,823</u> |
| Fully diluted | <u>97,672</u> | <u>82,999</u> | <u>76,662</u> |

(*) The comparative figures have been retrospectively adjusted in accordance with the provisions of Standard 21: "Profit per Share". See Note 2.c.1

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 | Receipts on account of option warrants and the capital element of convertible debentures | Retained earnings | Dividend declared after the balance sheet date | Total |
|-------------------------------------------------------------------------------------------|---------------|----------------|----------------|------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|-------------------|------------------------------------------------|------------------|
| Balance as at January 1, 2006 | 90,119 | 108,107 | 447,424 | 55,148 | 19,350 | 326,766 | 326,766 | 968,211 |
| Movements in the period of three months (Unaudited) | | | | | | | | |
| Capital element in respect of convertible debentures, net | | | | | 2,198 | | | 2,198 |
| Exercise of option warrants into shares | 336 | 336 | 1,332 | | | | | 1,668 |
| Dividend declared subsequent to the balance sheet date | | | | | | (106,788) | 106,788 | - |
| Adjustments on the translation of the financial statements of overseas investee companies | | | | 10,221 | | | | 10,221 |
| Proposed dividend for payment | | | | | | (126) | (11,416) | (11,542) |
| Conversion of debentures into shares, net | 1,179 | 1,179 | 9,921 | | (331) | | | 10,769 |
| Loss on sale of dormant shares in respect of the exercise of option warrants | | | (1,121) | | | | | (1,121) |
| Net income for the period | | | | | | 42,974 | | 42,974 |
| Balance as of March 31, 2006 | <u>91,634</u> | <u>109,622</u> | <u>457,556</u> | <u>65,369</u> | <u>21,217</u> | <u>262,826</u> | <u>106,788</u> | <u>1,023,378</u> |
| Balance as at January 1, 2005 | 73,871 | 91,859 | 261,987 | 21,836 | - | 53,443 | 8,460 | 437,585 |
| Movements in the period of three months (Unaudited) | | | | | | | | |
| Dividend declared subsequent to the balance sheet date | | | | | | (49,801) | 49,801 | - |
| Adjustments on the translation of the financial statements of overseas investee companies | | | | 2,924 | | | | 2,924 |
| Proposed dividend for payment | | | | | | (77) | (8,460) | (8,537) |
| Conversion of debentures into shares, net | 650 | 650 | 3,642 | | | | | 4,292 |
| Loss on sale of dormant shares in respect of the exercise of option warrants | | | (939) | | | | | (939) |
| Net income for the period | | | | | | 166,975 | | 166,975 |
| Balance as of March 31, 2005 | <u>74,521</u> | <u>92,509</u> | <u>264,690</u> | <u>24,760</u> | <u>-</u> | <u>170,540</u> | <u>49,801</u> | <u>602,300</u> |
| Balance as at January 1, 2005 | 73,871 | 91,859 | 261,987 | 21,836 | - | 53,443 | 8,460 | 437,585 |
| Movements in the year 2005 | | | | | | | | |
| Conversion of debentures into shares, net | 2,966 | 2,966 | 23,723 | | | | | 26,689 |
| Adjustments on the translation of the financial statements of overseas investee companies | | | | 33,312 | | | | 33,312 |
| Dividend paid | | | | | | (69,310) | (8,460) | (77,770) |
| Loss on sale of dormant shares in respect of the exercise of option warrants | | | (939) | | | | | (939) |
| Exercise of option warrants into shares | 382 | 382 | 2,951 | | | | | 3,333 |
| Issuance of marketable securities, net | 12,900 | 12,900 | 159,702 | | 19,350 | | | 191,952 |
| Dividend declared subsequent to the balance sheet date | | | | | | (11,416) | 11,416 | - |
| Net income for the year | | | | | | 354,049 | | 354,049 |
| Balance as of December 31, 2006 | <u>90,119</u> | <u>108,107</u> | <u>447,424</u> | <u>55,148</u> | <u>19,350</u> | <u>326,766</u> | <u>326,766</u> | <u>968,211</u> |

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

ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED

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

| | For the period of six months ended March 31 | | For the year ended December 31 |
|-------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|-------------|-----------------------------------|
| | 2006 | 2005 | 2006 |
| | <u>Unaudited</u> | | |
| Cash flows from operating activities | | | |
| Net income for the year | 42,974 | 166,975 | 354,049 |
| Adjustments required to present cash flows from continuing operating activities (Appendix A) | (5,448) | (159,113) | (251,854) |
| Net cash generated (absorbed) by continuing operating activities | 37,526 | 7,862 | 102,195 |
| Net cash generated (absorbed) by discontinued operating activities | (25,142) | (27,454) | (45,185) |
| Net cash generated (absorbed) by operating activities | 12,384 | (19,592) | 57,010 |
| Cash flows from investment activities | | | |
| Investment in other companies, net | (306,750) | (125,478) | (206,568) |
| Proceeds on disposal of investment in other companies | 60,282 | 80,003 | 122,136 |
| Investment in other assets | (518) | - | - |
| Investment in fixed assets and rental buildings | (49,839) | (539) | (15,782) |
| Consideration on the disposal of fixed assets and buildings for rental, net | 3,460 | - | 2,232 |
| Decrease (increase) in marketable securities and deposits, net | 26,876 | (38,430) | 42,114 |
| Repayment of investment in other company | 3,436 | - | 3,362 |
| Provision of loans to others | (1,435) | - | - |
| Receipts in respect of leasing | 116 | - | 136 |
| Purchase of initially consolidated company (Appendix c') | - | - | (914,994) |
| Investment in affiliated companies | - | (13,569) | (15,126) |
| Net cash (absorbed) by continuing investment activities | (264,392) | (98,013) | (982,490) |
| Net cash generated (absorbed) by discontinued investment activities | - | 1,165,674 | 1,773,868 |
| Net cash generated (absorbed) by investment activities | (264,392) | 1,067,661 | 791,378 |
| Cash flows from financing activities | | | |
| Increase (decrease) in short-term credit from banks | 154,726 | (68) | (15,394) |
| Repayment of long-term loans | (15,543) | (6,676) | (105,846) |
| Consideration on exercise of option warrants and the sale of dormant shares and the repayment of loans for the purchase of the company's shares | 2,443 | 1,773 | 5,180 |
| Repayment of debentures | (1,597) | (2,115) | (12,697) |
| Consideration on the issuance of marketable securities less issuance expenses (issuance expenses) | (160) | - | 191,952 |
| Consideration on the issue of debentures and the sale of the company's debentures by the group | - | - | 504,797 |
| Dividend paid | - | - | (77,770) |
| Net cash generated (absorbed) by continuing financing activities | 139,859 | (7,122) | 490,222 |
| Net cash generated (absorbed) by discontinued financing activities | - | (1,097,988) | (1,386,884) |
| Net cash generated (absorbed) by financing activities | 139,859 | (1,105,110) | (896,662) |
| Exchange differences – cash balances in overseas consolidated companies | | | |
| From continuing activities | 179 | 345 | 516 |
| From discontinued activities | - | (144) | (3,019) |
| Total, net | 179 | 201 | (2,503) |
| Decrease in cash and cash equivalents | (111,960) | (56,840) | (50,777) |
| Increase from discontinued activities | 859 | 7,364 | 5,915 |
| Balance of cash and cash equivalents at the beginning of the year | 228,584 | 273,446 | 273,446 |
| Balance of cash and cash equivalents at the end of the year | 117,483 | 223,970 | 273,446 |

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

ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED

APPENDICES TO THE STATEMENTS OF CASH FLOWS
(IN NIS Thousands – Reported Amounts)

| | For the period of six months ended March 31 | | For the year ended December 31 |
|---------------------------------------------------------------------------------------------|------------------------------------------------|-----------|-----------------------------------|
| | 2006 | 2005 | 2006 |
| | Unaudited | | |
| A Adjustments required to present cash flows from | | | |
| operating activities | | | |
| Income and expenses not involving the movement of funds: | | | |
| Gains on other investments | (33,363) | (7,884) | (11,085) |
| Differences on revaluation, interest and write downs in respect of debentures and loans | 24,702 | 2,947 | 58,097 |
| Depreciation and amortization | 8,555 | (50) | 19,014 |
| Minority's share of losses of consolidated companies, net | (3,534) | - | - |
| Profit on marketable securities, net | (3,288) | (2,342) | (13,383) |
| Capital gain on sale of building for rental | (1,073) | - | - |
| Interest and linkage on loan provided to other company` | (769) | - | - |
| Deferred taxes, net | 924 | (239) | 865 |
| Share of losses (profits) of investee companies and capital venture fund (partnership), net | (218) | 179 | 138 |
| Dividends received from investee companies | - | - | 1,143 |
| Distribution of profits by capital venture fund (partnership) | - | - | 1,926 |
| Discontinued activities | - | (148,937) | (300,201) |
| Changes in assets and liabilities items, net: | | | |
| Decrease (increase) in receivables and debit balances | (7,802) | (5,487) | 9,953 |
| Increase (decrease) in payables and credit balances | 10,418 | 2,660 | (1,796) |
| | (5,448) | (159,113) | (251,854) |
| B Non-cash transactions | | | |
| Conversion of debentures (Series B') to shares-net | 3,060 | 3,060 | 24,872 |
| Conversion of debentures (Series D') to shares-net | 1,232 | 1,232 | 23,267 |
| Dividend proposed for payment | 8,537 | 8,537 | - |
| Investment in other company against payables | 54,856 | - | - |
| Investment in fixed assets and buildings for rental against payables | - | - | 1,592 |
| C. Acquisition of initially consolidated company | | | |
| Assets and liabilities of the consolidated company on the day of acquisition: | | | |
| Current assets (except cash) | | | (64,030) |
| Fixed assets (investments, fixed assets and other assets) | | | (2,426,191) |
| Current liabilities | | | 985,605 |
| Long-term liabilities | | | 726,729 |
| Minority interests on the day of acquisition | | | (137,107) |
| | | | (914,994) |

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

ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31 2006

(UNAUDITED)

NOTE 1 GENERAL

- a. These interim financial statements have been prepared as of March 31, 2006 and for the period of three months ended on that date (hereinafter the interim financial statements). These financial statements should be read in conjunction with the annual financial statements of the company as of December 31, 2005 and for the year ended on that date and with the noted attached thereto.
- b. These financial statements include the full consolidation of Amot Investments Ltd. (hereinafter – Amot), whose financial position and operating results have been included into the company's consolidated financial statements as for the third quarter of the year 2005. In respect of further information in connection with Amot, see Note 3 below.
- c. On the matter of the issue of securities to the public by Amot on May 30, 2006, see Note 3b below.
- d. On the matter of the purchase and arrangement of debentures and loans after the balance sheet date in the overall extent of NIS 590 million, see Note 3c below.

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, 2005 and for the year ended on that date, except for the implementation for the first time of new accounting standards that entered into force as from January 1, 2006, as detailed in section c below.
- c. **New accounting standards that have been issued and their impact**

(1) Accounting Standard Number 21 – Profit per share

In February 2006 the Israeli Accounting Standards Board issued Accounting Standard Number 21 – Profit per share. With the entry into force of this standard, Statement of Opinion number 55 of the Institute of Certified Public Accountants in Israel on the subject of profit per share was cancelled.

The standard determines that an entity is to calculate the amounts of the basic profit per share in respect of the profit or loss, which is attributed to the owners of the regular shares in the reporting entity and that the calculation should calculate the amount of the basic profit per share in respect of the profit or loss from continuing activities, which is attributed to the owners of the regular shares in the reporting entity in the event that such a profit is presented. The basic profit per share will be calculated by dividing the profit or loss, which is attributed to the owners of the regular shares in the reporting entity (the numerator) by weighted average number of regular shares in circulation (the denominator) during the course of the reporting period. For the purposes of the calculation of the diluted profit per share the entity is to adjust the profit or loss that is attributed to the owners of the regular shares in the reporting entity and the weighted average of the number of shares in circulation, in respect of the impact of all of the potential dilutionary regular shares.

ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31 2006

(UNAUDITED)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(1) Accounting Standard Number 21 – Profit per share (Continued)

In accordance with its provisions, this standard applies as from the financial statements relating to reporting periods commencing on January 1, 2006 or thereafter. Similarly, the standard determines that the provisions that it contains should be implemented retrospectively to the comparative figures for the profit per share in respect of previous periods.

In accordance with the transitional arrangements contained in the standard, the comparative figures for the profit per share, which related to previous accounting periods have been retrospectively adjusted. As a result of this, the company's basic profit per share for the year 2005 and for the period of three months ending on March 31, 2005 has increased by NIS 0.15 (of which NIS 0.01 relates to continuing activities and NIS 0.14 relates to discontinued activities) and an amount of NIS 0.04 (of which NIS 0.01 relates to continuing activities and NIS 0.03 relates to discontinued activities), respectively.

The diluted earnings per share for the year 2005 (taking into account the correction of an error in the weighted average number of shares in the calculation and for the period of three months ending on March 31, 2005 has increased by NIS 0.44 (of which NIS 0.04 relates to continuing activities and NIS 0.40 relates to discontinued activities) and an amount of NIS 0.09 (of which (NIS 0.01) relates to continuing activities and NIS 0.10 relates to discontinued activities), respectively.

(2) 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.

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.

In accordance with the provisions of the standard it applies 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 MARCH 31 2006

(UNAUDITED)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(2) Accounting Standard Number 22 – Financial instruments: Disclosure and presentation (Continued)

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

The following are the implications of the initial implementation of the standard:

- In respect of convertible debentures that were issued in the past a capital element has been determined whose value (less issuance expenses) as of January 1, 2006 was estimated at an amount of NIS 2,198 thousand. This amount has been reflected as a separate item within shareholders' equity "capital element of convertible debentures" against an increase in the discounting of the liabilities element of the convertible bonds.

The splitting of the convertible debentures as aforesaid resulted, taking into account the set off of the costs of raising the debentures as stated below, in an effective interest rate of 6.5%, which will serve the company from here onwards in the determination of the financing expenses that will be reflected in respect of them.

- Costs of raising credit and debentures, whose overall amortized cost as of December 31, 2005 amounted to NIS 9,730 thousand (of which NIS 2,088 thousand was in respect of convertible debentures), were set off against the balance of the said liabilities. As from January 1, 2006 these costs are amortized against the statement of income in accordance with the interest method. Up to December 31, 2005 the amortized cost of the said costs was presented under other assets, and they were amortized under the straight-line method. The change in the method of amortization, as aforesaid is not expected to have a significant impact on the state of the company's financial position or on the results of its activities.

(3) Accounting Standard Number 24 – Share based payments

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.

ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31 2006

(UNAUDITED)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(3) Accounting Standard Number 24 – Share based payment (Continued)

In respect of transactions with employees and other who provide similar services, the standard requires the measurement of the fair value of the capital instruments that are granted at the time that the grant is made.

In accordance with its provisions, the standard applies 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.

As of December 31, 2005 the company has no option warrants to which the standard applies. The implementation of the provisions of the standard in connection with the option warrants that the company granted at the end of the first quarter of the year 2006 (see Note 4 j) will result in the recording of salaries expenses at the level of the fair value of the option warrants that were granted, in the overall amount of NIS 5.1 million, over the course of the vesting period (2006 – 2010), commencing from April 1, 2006.

(4) New accounting standards that were issued and whose implementation for the first time had an immaterial impact

The initial implementation during the reporting period of the following standards did not have a significant impact on the financial position and the results of the activities of the group as of March 31, 2006 and in the period of three months ended on that date.

- Accounting Standard Number 20 (Amended) – the accounting treatment of goodwill and intangible assets on the acquisition of an investee company. In respect of the amount of approximately NIS 27 million which in the consolidated financial statements as of December 31, 2005 was presented as goodwill and in these interim financial statements is attributed to buildings for rental, see note 3a below.
- Accounting Standard Number 25, Income

d. 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 three months ended March 31 | | For the year ended December 31 |
|------------------------------------------|--------------------------------------------------------------|-------------|-----------------------------------------------|
| | 2006 | 2005 | 2006 |
| | % | % | % |
| The Consumer Prices Index | | | |
| In Israel (In respect of the last month) | (0.58) | (0.60) | 2.39 |
| Exchange rates against the NIS | | | |
| The US Dollar | 1.35 | 1.23 | 6.85 |
| The Canadian Dollar | 1.41 | 0.48 | 10.77 |
| The Euro | 3.95 | (3.88) | (7.32) |
| The Pound Sterling | 2.35 | (1.22) | (4.42) |

ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31 2006
(UNAUDITED)

NOTE 3 INVESTMENT IN AMOT

a. The acquisition of shares in Amot

On July 26, 2005 the company's offer for the purchase of all of Amot's shares for consideration in the amount of NIS 956 million was accepted and this amount was paid on August 11, 2005, the time of the closing of the transaction. Amot is engaged, directly and indirectly, via entities under its control, in the leasing, management and maintenance of income generating assets in Israel and overseas, and also in the initiation and development for independent uses of land, subject to restrictions that are sourced in the controlling interests agreement in the Ogen company.

The results of Amot's activities have been included in the company's consolidated financial statements as from the third quarter of the year 2005.

At the time of the preparation of the company's consolidated financial statements for the year 2005, and as a result of the determination of the fair value of Amot's identifiable assets and identifiable liabilities, as required in accordance with Statement of Opinion Number 57 issued by the Institute of Certified Public Accountants in Israel, based upon information that the company's management had available to it at that time, goodwill in the amount of NIS 27 was created for the company, which was reflected under other assets. In continuation to what is stated in Note 4.c.(1).a to the company's financial statements for the year 2005 and subsequent to the purchase and arrangement of the debentures and loans as stated in section c' below, which reflect the up to date fair value of Amot's identifiable assets and identifiable liabilities, the said amount has been attributed to Amot's buildings for rental, despite their presentation in the consolidated financial statements as of December 31, 2005 as goodwill. The results of the said attribution, if it were to have been implemented at the time that Amot was consolidated for the first time, would not have had a significant impact on the group's financial position as of December 31, 2005 or on the results of its activities for the year ended on that date.

b. The issue of Amot's securities to the public

On May 30, 2006 Amot carried out an issue to the public of shares, option warrants, debentures and option warrants convertible into debentures. Within the framework of the issue Amot raised, shareholders' equity, in an immediate amount of NIS 319 million and debt by means of the issue of debentures in the amount of NIS 500 million, both stated before the costs in connection with the raising of funds. The costs of raising the funds amounted to approximately NIS 21 million.

The said securities were issued as units under the following terms:

- (1) **Regular shares** – 25,000,000 regular shares in Amot with a par value of NIS 1 each at a price of NIS 12.75 per share.
- (2) **Debentures (Series A')** – 500,000,000 par value of debentures (Series A'), which were issued at 100% of their par value. The debentures are repayable in 10 equal payments in the month of July in each of the years 2010 to 2019; bear interest at an annual rate of 4.955 and are linked (principal and interest) to the Consumer Prices Index in respect of the month of April 2006. The debentures are secured by a symbolic charge on a deposit of NIS 1.

ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31 2006
(UNAUDITED)

NOTE 3 INVESTMENT IN AMOT (Continued)

b. The issue of Amot's securities to the public (Continued)

- (3) **Option warrants (Series 1)** – 10,000,000 option warrants (Series 1), which were issued for no consideration and which are exercisable up to May 2010, into regular shares in Amot of par value NIS 1 each, such that each option warrant (Series 1) will be exercised into one regular shares (subject to adjustment), in consideration for an exercise price of NIS 16.00, linked to the Consumer Prices Index in respect of the month of April 2006. Option warrants that have not been exercised by May 31, 2010 will expire, will be annulled and will not afford their holders any right whatsoever.
- (4) **Option warrants (Series 2)** – 7,500,000 option warrants (Series 21), which were issued for no consideration and which are exercisable up to November 2006, into regular shares in Amot of par value NIS 1 each, such that each option warrant (Series 2) will be exercised into one regular shares (subject to adjustment), in consideration for an exercise price of NIS 14.40 which is not linked to the Consumer Prices Index.. Option warrants that have not been exercised by November 30, 2006 will expire, will be annulled and will not afford their holders any right whatsoever.
- (5) **Option warrants (Series 3)** – 2,500,000 option warrants (Series 31), which were issued for no consideration and which are exercisable up to May 2007, into debentures (Series A'), such that each option warrant (Series 3) will be exercised into NIS 100 par value of debentures (subject to adjustment), in consideration for an exercise price of NIS 104, linked to the Consumer Prices Index in respect of the month of April 2006. Option warrants that have not been exercised by May 31, 2007 will expire, will be annulled and will not afford their holders any right whatsoever.

One of the company's consolidated company and controlling parties in the company purchased 6.2% and 5.25, respectively, of the quantity of shares that were issued in accordance with the prospectus, at an overall monetary amount of NIS 36 million (the company's consolidated company's share amounted to NIS 20 million). With the purchase of the shares the consolidated company and the controlling parties were issued, for no consideration, 6.2% and 5.25, respectively, of the option warrants (Series 1) and option warrants (Series 2).

After the issue, the group's holding rate in Amot was reduced from 100% as of March 31, 2006 to 81.2% shortly after the issue. In the wake of the said reduction, the company is expected to record a capital gain in the amount of approximately NIS 70 million. At full dilution, taking all of the above securities and the holdings by the consolidated company into account, the group's holding rate would stand at 72%.

c. The purchase and arrangement of debentures and loans

- (1) 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.

ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31 2006
(UNAUDITED)

NOTE 3 INVESTMENT IN AMOT (Continued)

c. The purchase and arrangement of debentures and loans (Continued)

The balance of the debentures and the loans as of March 31, 2006, including interest (including arrears interest) and linkage differences, stood at NIS 1,024 million, of which NIS 780 million were issued to external bodies and the balance in the amount of NIS 244 was issued to Amot. Subsequent to the agreements and the arrangements that are described in section (2) and (3) below, the debentures are divided such that NIS 152 million of them is owed to external parties and the balance in the amount of NIS 872 million is owed to Amot

- (2) In the months of April and May 2006 Amot entered into various agreements and reached agreements to purchase the entire rights of some of the holders of debentures and various loans, whose overall balance as of March 31, 2005 amounted to NIS 438 million, for consideration in the amount of NIS 401 million.

Of the said amount, up to the time of the approval of the financial statements an amount of NIS 288 million has been paid, by means of short term from banks and from the company and the balance in the amount of NIS 113 million will be repaid in the years 2006 to 2008 and bears a rate of interest calculated as the higher between linkage to the index and 2.75%. The company has guaranteed an amount of NIS 91 million of the amount that has not yet been paid.

- (3) In May 2006 Amot, Ayalot the parent company and two of their consolidated companies entered into an agreement with some of the holders of the debentures for the arrangement of loans, whose overall balance as of March 31, 2006 amounted to approximately NIS 190 million, under the following terms: Debentures in the amount of approximately NIS 97 million will be converted into new debentures bearing annual interest of up to 5%, linked to the index and repayable over a period of up to 13 years. The balance of NIS 93 million will be converted into capital notes that are non-interest bearing and unlinked and which will be repayable on the disposal of the assets or on the winding up of the consolidated companies, or after all of the new debentures have been repaid so long as the consolidated companies' operating activities permit this. Amot has not guaranteed the new debentures and capital notes.

In accordance with the agreement, so long as Amot does not purchase loans, whose balance as of March 31, 2006 amounted to NIS 18 million, from additional borrowers, who are not part to the abovementioned agreement, the terms that were in force before the agreement entered into force will continue to apply to the loans that are within the framework of the agreement. If by September 2006 Amot has not succeeded in purchasing all of the additional loans as aforesaid, the parties to the agreement have agreed to make an effort to coordinate by way of co-operation to arrange their relationships opposite the additional lenders.

The two aforementioned subsidiary companies hold income-generating assets, whose net book value as of March 31, 2006 amounted to NIS 211 million.

Within the framework of the agreement it was determined that the Amot group will not be entitled to sell its holdings in the consolidated companies so long as the new debentures and capital notes have not been repaid in full, unless it receives the agreement of lenders holding at least 75% of the balance of the debt and it was further agreed that the consolidated companies will not be entitled to sell their income-generating asset before November 2007, unless they receive the agreement of lenders holding at least 75% of the balance of the debt

ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31 2006
(UNAUDITED)

NOTE 3 INVESTMENT IN AMOT (Continued)

c. The purchase and arrangement of debentures and loans (Continued)

- (4) As of March 31, 2006 the balance of the liabilities in respect of the debentures of the Ayalot subsidiary companies, which had not yet been repaid even though the due date for their repayment has passed, including interest (including arrears interest) and linkage differenced, in respect of which Amot has not yet reached arrangements with the borrowers, as mentioned in sections (2) and (3) above, is NIS 18 million. The aforesaid amounts are stated after the Ayalot subsidiary companies deferred, in accordance with their right in accordance with the terms of the debentures, the current repayment of the debentures, in whole or in part, by 12 months.
- (5) In recent years, including on March 31, 2006, some of the Ayalot subsidiary companies have not met the repayments of debentures in accordance with their repayment schedules. As a result of this, the borrowers have, in accordance with the terms of the debentures, the right to require the immediate repayment of the loans. In addition, the transfer of control in Amot affords the borrowers a similar right. In the light of this, and as required in accordance with generally accepted accounting principles, all of the debentures that afford the lenders a right as aforesaid, have been classified as short-term liabilities in these interim financial statements (NIS 754 million as of March 31, 2006). As of the time of the approval of the interim financial statements the group has not received a demand for early repayment as aforesaid. With the group reaching agreements with most of the holders of the debentures after the balance sheet date, as aforesaid in sections (2) and (3) above, most of the balance of the debentures that were not repaid is expected to be included as long-term liabilities. Amot is conducting negotiations with holders of debentures with whom Amot has not reached arrangements as aforesaid in sections (2) and (3) above, with the objective of crystallizing a solution to the partial non-meeting of the repayment of the debentures and this by way of re-spreading the debt or by way of purchasing the debentures and this in accordance with their economic value.

In the opinion of the company's management, based, inter alia, on the economic significance of the debentures and the terms that they contain, and on the behavior of the lenders in connection with what is stated above, including in the period after the balance sheet date, the debentures should be classified as long-term liabilities, which in accordance with their original terms, only NIS 19 million of them are repayable up to March 31, 2007.

NOTE 4 ADDITIONAL INFORMATION AND POST BALANCE SHEET DATE EVENTS

a. Investment in the shares of a public company in Europe (hereinafter: "The target company")

During the reporting period the group purchased regular shares in the target company for consideration in the amount of NIS 323 million, of which NIS 55 million was paid after the balance sheet date. This investment has been classified in the group's interim financial statements as a long-term investment. The value of the investment on the Stock Exchange at that time was NIS 351 million.

During the period from the balance sheet date to a time close to the approval of the interim financial statements further regular shares were purchased for consideration in the amount of approximately NIS 85 million.

ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31 2006

(UNAUDITED)

NOTE 4 ADDITIONAL INFORMATION AND POST BALANCE SHEET DATE EVENTS (Continued)

a. Investment in the shares of a public company in Europe (hereinafter: "The target company") (Continued)

The group intends to hold the target company at a rate that it will afford it influence and up to the time of the approval of these interim financial statements this had not yet been achieved. The company has received a letter of principles from a foreign bank in respect of the financing of approximately 60% of the aforementioned investment.

b. Agreement in principle to carry out investments in India

During the reporting period the company reached an agreement in principle with others to set up a venture to identify investments in the commercial and residential realty field in India. Inter alia, the types of projects in which it is intended to invest via a venture are: the setting up of residential neighborhoods, the construction of industrial parks and logistical centers. The size of the venture's shareholders equity, in accordance with the aforesaid agreement in principle is expected to reach approximately 100 million Dollars. The company's share of the venture at this stage is 25% and its total commitment to invest in shareholders' equity is 25 million Dollars.

c. Agreement in principle to set up a realty fund in Great Britain

In March 2006 the company entered into a range of agreements in respect of the setting up of a realty fund in England by the name of by the name of Brockton Capital (hereinafter: "the fund"). The fund's management have estimated that the fund will raise will reach approximately 150 million Pounds Sterling, where the company's total commitment to invest in the fund's capital stands at 30 million Pounds Sterling.. The said amount is supposed to enable the fund, in reliance upon banking finance, to make investments in the overall amount of approximately 750 million Pounds Sterling, According to the fund's plans, this volume of investment will be carried out during the course of a period that will not exceed 7 years. The group holds 12% of the rights in the fund's management company, including representation on the Board of Directors and in its investment committee (one representative out of six members). The fund is engaged in investments in income-generating realty, realty for development, entrepreneurship and enhancement in Great Britain.

As from March 2006 and until the time of the signing of this report the group has invested an amount of approximately 8 million Pounds Sterling, of which 3.5 million Pounds Sterling (NIS 28 million) was invested in the reporting period.

After the balance sheet date the fund purchased, together with others, the largest chain of private hospitals in Great Britain, including its realty, which constitutes approximately 80% of the investment in the transaction, for an overall consideration of approximately 2.4 billion Pounds sterling. The fund invested 20 million Pounds Sterling in the said transaction.

d. Transactions in connection with buildings for rental

(1) In January 2006 Amot, together with a related party (Ogen) , acquired, in equal parts, the Orot mall in Or Akiva for an overall consideration of approximately NIS 91 million (Amot's share was approximately NIS 45.5 million).

ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31 2006

(UNAUDITED)

NOTE 4 ADDITIONAL INFORMATION AND POST BALANCE SHEET DATE EVENTS (Continued)

d. Transactions in connection with buildings for rental (Continued)

- (2) In May 2006 the company and Amot reached an agreement according to which the company will transfer to Amot the rights in two assets as follows: (1) two floors of office space in the Moshe Aviv building in Ramat Gan; (2) 49% of the ownership rights and 50% of the control in the company Hutzot Alonim Ltd., which holds the Hutzot Alonim mall, with validity as from April 1, 2006. Against the receipt of the rights in the aforementioned assets, Amot issued the company with 4,103,024 regular shares, which consideration was identical to the balance of the assets that were transferred in the company's financial statements as of March 31, 2006 (approximately NIS 29 million).
- (3) In March 2006 Amot and its partner in the Rehovot mall entered into an agreement within the framework of which the partner was granted a one directional and irrevocable option, exercisable during the course of the month of June 2007, to acquire an additional 10% of the ownership rights in the Rehovot mall and in the shares of the management company of that mall, for consideration in the amount of NIS 60 million, linked to the index. If the said option is exercised the group will hold 40% of the ownership rights in the mall and in the capital of the management company of that mall, and the partner will hold 60%. In consideration for the granting of the said option the partner will pay Amot an amount of NIS 100 thousand.

e. The realization of a permanent investment in marketable shares

During the reporting period the company realized part of its investment in the marketable shares of two companies that operate in the income-generating realty sector and which were classified under other investments in the balance sheet as of December 31, 2005, for an overall consideration in the amount of approximately NIS 60 million. As a result of the said realization, the company recorded a gain before taxes in the overall amount of approximately NIS 33 million during the reporting period.

f. The exercise of option warrants by interested parties

During the reporting period office holders in the company, who are interested parties exercised 435,000 option warrants into 461,100 regular shares of par value NIS 1 each in the company, against the payment of an additional amount on exercise in the overall amount of NIS 1,310 thousand.

It was determined in the plan under which the said option warrants were issued that the shares that would be sourced in the exercise of the option warrants would be provided out of the company's shares that it was holding. Accordingly, during the reporting period, 461,100 of the shares in the company that it was holding were sold for a consideration that was identical to the said additional payment on the exercise of the options.

g. The exercise of option warrants by employees

During the reporting period employees of the company exercised 199,000 option warrants into 215,903 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 613 thousand. For the purposes of the exercise of those option warrants the company made loans available to its employees at the level of the additional payment on the exercise of the option warrants, which are secured on the bank accounts in which the shares are held. The said loans are linked to the Consumer Prices Index, bear interest at an annual rate of 4% and are repayable up to December 31, 2006.

ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31 2006

(UNAUDITED)

NOTE 4 ADDITIONAL INFORMATION AND POST BALANCE SHEET DATE EVENTS (Continued)

h. 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 655,001 par value of debentures (Series B') were converted into 129,207 par value of regular shares of par value NIS 1 each in the company. The balance of the debentures that were not converted as aforesaid (NIS 525 thousand par value) was repaid in the month of February 2006.

(2) Conversion of debentures (Series D')

During the reporting period NIS 10,493,560 par value of debentures (Series D') were converted into 1,049,356 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 2,756,500 par value of debentures (Series D') were converted into 275,650 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 58,031,060 par value (of which a consolidated company holds 1,564,000 debentures (Series D')).

(3) Conversion of debentures (Series C')

During the period from the balance sheet date and until the time of the approval of the interim financial statements a consolidated company realized NIS 48,983,711 par value of debentures (Series C') for a consideration of NIS 54,877 thousand. The

balance of debentures (Series C') in circulation at the time of the approval of the interim financial statements is NIS 711,843,700 par value

(4) For the matter of the implications of the implementation for the first time of Accounting Standard Number 22, see Note 2.c.(2).

i. 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 2006 of 52 Agorot per share, in April 2006 the company paid an interim dividend in the amount of 13 Agorot per share (NIS 11,542 thousand)

In May 2006 the company declared the distribution of an interim dividend for the second quarter of the year 2006 in the amount of 13 Agorot per share (NIS 11,569 thousand), to be paid in June 2006.

In addition, the company declared the payment of an special dividend (over and above the quarterly dividend as aforesaid) in the amount of 107 Agorot per share (NIS 95,219 thousand) such that the total dividend that will be paid amounts to 120 Agorot per share (NIS 106,788 thousand).

ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31 2006
(UNAUDITED)

NOTE 4 ADDITIONAL INFORMATION AND POST BALANCE SHEET DATE EVENTS (Continued)

j. The issuance of option warrants to employees

During the reporting period the company's Board of Directors approved a private allocation plan of 800,000 option warrants for shares in the company to an office holder and an employee of the company. The option warrants are non-marketable and will be exercisable into 1 regular share of par value NIS 1 against a payment of an additional amount on exercise (subject to adjustment) of NIS 13.5 linked to the Consumer Prices Index. The option warrants are exercisable in 5 equal tranches over 5 years, commencing on January 1, 2007. On December 31, 2011 the option warrants that have not been exercised as aforesaid will expire.

The fair value of the option warrants that were granted in the amount of NIS 5.1 million, was estimated using the Black and Scholes model. The parameters that served in the application of the model are as follows:

| | |
|-----------------------------------|---------------|
| Share price (In NIS) | 15.98 |
| Exercise price (In NIS) | 13.5 |
| Expected fluctuation | 35% |
| Lifespan of the option (in years) | 3 .25-5.25 |
| Risk free interest rate | 3.5% |
| Rate of expected dividend | - |

The expected fluctuation was determined on the basis of historical fluctuations in the company's share price.

On the matter of the implication of the implementation for the first time of Accounting Standard Number 24, share-based payment, see Note 2.b.(3).

k. Arrangement for refinancing after the balance sheet date

During the course of the month of May 2006, the group signed on a refinancing agreement with a bank in respect of loans whose balance as of that time amounted to 29.6 million Dollars. In accordance with the agreement, the said loans were repaid and replaced by a new loan in the overall amount of 50.5 million Dollars, which will be repaid in full in one amount in May 2008. The company was given a n option to extend the period of the loan by an additional year. The loan bears interest at an annual rate of Libor + 1.1%, which is paid every quarter. The loan is secured by a specific charge on approximately 4.5 million par value of shares in EQY and in addition by guarantees of the company on 50% of the balance of the loans.

ALONY-HETZ PROPERTIES AND INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31 2006
(UNAUDITED)

NOTE 5 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> |
|---------------------------------------------------|---------------------------------|------------------------------|---------------------------------|--------------------------------------|--------------------------------|
| <u>In the three months ended March 31,</u> | | | | | |
| <u>2006 (Unaudited)</u> | | | | | |
| Income | <u>89,585</u> | <u>7,152</u> | <u>26,870</u> | | <u>123,607</u> |
| Income before taxes in income | <u>42,873</u> | <u>4,465</u> | <u>13,240</u> | | <u>60,578</u> |
| <u>In the three months ended March 31,</u> | | | | | |
| <u>2005 (Unaudited)</u> | | | | | |
| Income | <u>4,384</u> | <u>6,400</u> | <u>25,402</u> | | <u>36,186</u> |
| Income before taxes in income | <u>(5,891)</u> | <u>4,267</u> | <u>21,528</u> | | <u>19,904</u> |
| <u>In the year ended December 31, 2005</u> | | | | | |
| Income | <u>123,816</u> | <u>27,606</u> | <u>90,109</u> | 576 | <u>242,107</u> |
| Income (loss) before taxes in income | <u>(29,384)</u> | <u>17,940</u> | <u>58,496</u> | 576- | <u>47,628</u> |

