

March 23, 2005

**BOARD OF DIRECTORS REPORT
FOR THE PERIOD JANUARY – DECEMBER 2004**

1. General

In September 2004 the Company issued for the first time 16.7% of its shares to the public by means of a prospectus. In addition bonds and options for bonds and shares were issued

Over the years 2002-2003 most of the income producing properties of the Africa Israel Investments Group (hereinafter - "Africa Israel") were transferred to the Company.

The Company's net consolidated income together with those of its subsidiaries (hereinafter - "the Company" or "Africa Properties") in 2004 reached NIS 140.6 million.

The Company's net income in the fourth quarter of 2004 totaled NIS 108.4 million.

The following are the highlights of the financial statements (in NIS millions):

	For the year ended December 31, 2004	For the 3 months Ended December 31, 2004
Revenues from leasing and operating properties	232.0	60.6
Operating and maintenance expenses of properties	34.3	9.6
Depreciation and amortization	45.3	11.5
General and administrative expenses	21.2	12.5
Financing expenses, net	40.7	2.3
Income from regular operations	90.5	24.6
Income from the sale of 50% of the Palace Flora Shopping Mall in Prague, net	99.2	99.2
Net income	140.6	108.4

2. The main data from the description of the Corporation's business

The Company operates in the field of income producing real estate since its establishment in 1971. It owns buildings used for industry, commerce and offices in Israel and abroad. In addition, it has building properties, land and building rights not yet utilized.

- 2.1 Offices in Israel – the Group of Companies' main offices in Israel are: the Africa Israel Tower in Tel Aviv; the Kirya Tower in Tel Aviv; a building office over the Ramat Aviv Shopping Mall; the Concorde Towers in Bnei Barak; various offices above the Savyonim Shopping Mall in Yahud.
- 2.2 High tech industrial parks in Israel – the Group of Companies have hi-tech industrial parks including the Kiryat Weizmann – Ness Ziona Science park; Kiryat Hamada BeMigdal Ha'emek; the Global Park in Lod; and the park in Rehovot.
- 2.3 Commerce in Israel – the Group of Companies' has shopping malls and additional trading areas in Israel, the main one being: the Ramat Aviv Mall in Tel Aviv and the Savyonim Mall in Yahud.
- 2.4 Offices and commercial areas abroad – the Group of Companies' has a number of properties abroad, the main one being the Palace Flora Mall in Prague, the Czech Republic. In addition, the Group of Companies' has additional commercial and office areas in the Czech Republic in Holland and in England.
- 2.5 Others – in addition to Group of Companies' operations as detailed above, the Group of Companies' have two apartment buildings for lease in Toronto Canada. One of the buildings was sold after the balance sheet date and the second on the date of the statement is under construction. In addition, recently the Group of Companies' started erecting student housing on Har Hatzofim, Jerusalem by the B.O.T method. In addition, the Group of Companies' purchased land in the Czech Republic earmarked to establish a logistic park.

3. Financial condition

The following are the highlights from the balance sheet in NIS millions:

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Total balance sheet	2,796	2,392
Shareholders' equity and minority rights	1,046	688
Long-term liabilities (including capital note)	1,272	654
Short-term credit from banks and others	319	415
Current and other liabilities	159	635
Fixed assets	2,026	1,961
Investments in investee companies	47	50
Long-term loans and receivables	48	94
Cash and cash equivalents	247	23
Other current assets	409	248

The assets of the Company and its subsidiaries presented in the consolidated balance sheet on December 31, 2004 reached NIS 2,796 million compared to NIS 2,392 million on December 31, 2003. This increase results from the following main items:

- ◆ Increase in the item of fixed assets from NIS 1,961 million on December 31, 2003 to NIS 2,026 million on December 31, 2004 resulting from additional investments in fixed assets during the year, less withdrawals of 50% of the Palace Flora Mall in Prague, which was sold in December 2004.
- ◆ An increase in the Company's shareholders' equity from NIS 593 million on December 31, 2003 to NIS 956 million on December 31, 2004 as a result of the issue of shares to the public in September 2004 and income of 2004 of NIS 141 million.
- ◆ An increase in long-term liabilities and shareholders' equity was used to reduce short-term credit, to repay credit from related parties and to increase the cash item.

4. The results of the business operations

4.1 In December 2002 the Company acquired the main income producing real estate properties of the Africa Israel Group abroad. In December 2003 the main income producing real estate assets of the Group in Israel were transferred to it, and therefore it is not possible to compare the results of the Company's operations in 2004 to those of previous periods.

4.2 The following are the main data from the statement of income (in NIS millions):

	For the year ended December 31, 2004	For the 3 months ended December 31, 2004
Revenues from leasing and operating properties	232.0	60.6
Expenses from operating and maintaining properties	(34.3)	(9.6)
Depreciation and amortization	<u>(45.3)</u>	<u>(11.5)</u>
Operating income	152.4	39.5
General and administrative expenses	<u>(21.3)</u>	(12.5)
Income before financing	131.1	<u>27.0</u>
Financing expenses	(40.7)	(2.3)
Other revenues	<u>125.0</u>	<u>124.4</u>
Income before taxes on income	215.4	149.1
Taxes on income	<u>(57.0)</u>	<u>(36.4)</u>
Income after tax	158.4	112.7
Company's share in losses of affiliated companies	(7.0)	(1.2)
Minority share in income of subsidiaries	<u>(10.8)</u>	<u>(3.1)</u>
Net income	<u><u>140.6</u></u>	<u><u>108.4</u></u>

4.3 **The Company's statement of income for 2004 on a quarterly basis in reported amounts (in NIS thousands):**

	<u>1-3/04</u>	<u>4-6/04</u>	<u>7-9/04</u>	<u>10-12/04</u>	For the year ended 31.12.04
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
<u>Revenues</u>					
From leasing and operating properties	56,195	56,345	58,791	60,631	231,962
<u>Expenses</u>					
From operations and maintenance of properties	8,594	7,304	8,768	9,631	34,297
Depreciation and amortization	11,284	11,091	11,346	11,560	45,281
General and administrative	2,675	3,055	3,034	12,483	21,247
Net financing	15,436	12,007	10,907	2,320	40,670
	<u>37,989</u>	<u>33,457</u>	<u>34,055</u>	<u>35,994</u>	<u>141,495</u>
Income from regular operations	18,206	22,888	24,736	24,637	90,467
Other revenues (expenses), net	643	(101)	62	124,384	124,988
Income before taxes on income	18,849	22,787	24,798	149,021	215,455
Taxes on income	7,191	4,579	8,971	36,335	57,076
Income after taxes on income	11,658	18,208	15,827	112,686	158,379
Company's share of losses in affiliated companies, net	(1,588)	(2,287)	(1,888)	(1,204)	(6,967)
Minority's share in income of subsidiaries, net	(789)	(3,951)	(3,015)	(3,072)	(10,827)
Net income for the period	<u><u>9,281</u></u>	<u><u>11,970</u></u>	<u><u>10,924</u></u>	<u><u>108,410</u></u>	<u><u>140,585</u></u>

4.4 **Significant events during the period of report**

4.4.1 On September 27, 2004 the Company made an issue to the public by way of a Prospectus–

- 1) 2,000,000 ordinary registered shares of NIS 1 par value each.
- 2) 1,000,000 registered option warrants (Series 1) which can be exercised to 1,000,000 ordinary shares of NIS 1 par value each of the Company, on every trading day, starting from the date of listing of the option warrants for trading on the Stock Exchange until December 31, 2007 (inclusive) so that every option warrant (Series 1) can be exercised to one ordinary share of NIS 1 par value against the payments of an exercise price of NIS 130 for each option warrant, linked to the index, subject to adjustments. Option warrants (Series 1) not exercised up to the end of the exercise period will expire and their holders will not have any rights whatsoever.
- 3) NIS 150,000,000 par value of registered bonds (Series B) of the Company repayable in four annual equal installments. The bonds are linked to the consumer price index and bear interest at a rate of 4.65% p.a. which will be paid once a year. The bonds may be converted to ordinary shares of NIS 1 par value each of the Company, in such a way that up to September 18, 2006 every NIS 130 par value of bonds may be converted to one ordinary share of NIS 1 par value of the Company and from September 19, 2006 and up to September 18, 2009 every NIS 145 par value of bonds may be converted to NIS 1 par value share of the Company.
- 4) 100,000,000 registered option warrants (Series 2) which can be realized to NIS 100,000,000 par value of bonds (Series B) against a cash payment of the exercise price for each option warrant of NIS 95, linked to the index. Option warrant (Series 2) not exercised by September 30, 2005 will expire.

Up to December 31, 2004 6,607 option warrants (Series 2) have been exercised to 660,770 par value of bonds (Series B).

Proceeds from the issue aggregated NIS 392.5 million (gross). Net proceeds less issue expenses totaled NIS 376.5 million.

A total of NIS 206 million from the proceeds of the issue were used to repay shareholders loans and the balance was used to reduce the credit that the Company took on itself from banks and to make a short-term deposit with banks.

- 4.4.2 On September 13, 2004 the Company's Board of Directors decided to approve a plan according to which 235,500 option warrants will be issued gratis to officers, directors, an employee of a subsidiary and employees of the Africa Israel Investments Ltd. Group (the Parent Company). The option warrants may be exercised to 235,500 ordinary shares of NIS 1 par value each of the Company (subject to adjustments). The additional exercise of every option is 90% of the average opening rates of the stock exchange in a period of 30 trading days, starting from the date of listing the Company's shares for trading on the Stock Exchange, and is linked to the consumer price index. In the event of exercising options, the full quantity of the exercised shares will not be issued, but only the quantity of shares which affect the benefit component of the options exercised as calculated on the date of exercising the options, as detailed below.
- 4.4.3 On July 22, 2004 an agreement was signed between the Company and Africa Israel Investments Ltd. and between Bank Leumi Le-Israel B.M. for options in connection with the acquisition of the Company's shares. In the framework of this agreement the Company granted Bank Leumi an option to purchase a quantity of the Company shares which will comprise 5% of every type of means of control (within the meaning of this term in the Securities Law – 1968) in the Company after the allotment.
- 4.4.4 In December 2004 an agreement was signed with an Irish corporation for the sale of 50% of the issued share capital of Flora Sen s.r.o. (hereinafter - "**the Sold Shares**") in consideration for an amount of 23 million euro. Flora Sen s.r.o. is the holder of all the rights is Palace Flora Mall in Prague, Czech Republic. In addition, an agreement was signed between Flora Sen s.r.o. and an Austrian bank to refinance the shopping mall in an amount of 80 million euro. In the framework of the additional financing all the shareholders loans provided to Flora Sen s.r.o. totaling 23 million euro were repaid.
The Company as a result of the sale registered a net profit in its financial statements of NIS 99 million.
- 4.4.5 Regarding other agreements signed during the year, see the description of the Company's business in clause 21.

4.5 Events after the balance sheet date

- 4.5.1 After the balance sheet date the agreement for the sale of assets and properties and operations of a Canadian subsidiary in which the Company (indirectly) held 55% of its share capital came into force.

According to the agreement two foreign companies purchased from the subsidiary land, buildings, lease agreements and rights of the subsidiary in movables in connection with an apartment project of 103 residential units in Toronto, Canada in consideration for 24.7 million Canadian dollars (subject to possible adjustments). In February 2005 the transaction, the subject of the sales agreement mentioned above, was completed. For this transaction the Company will register for the first quarter of 2005 profits (after tax) of about NIS 4 million.

- 4.5.2 After the balance sheet date the subsidiary engaged in a memorandum of understanding with the foreign company (hereinafter - "**the Seller**"), controlled by an American investment fund engaged in investments in real estate in Europe. In connection with the acquisition (directly or indirectly through a joint corporation) of 50% of the Seller's rights in a Romanian company (hereinafter - "**the Purchased Company**") which holds real estate in the area of 120 dunam (30 acres) in the center of Bucharest, Romania (hereinafter - "**the Plot**"). On the date of signing the memorandum of understanding the Seller held 95% of the rights in the purchased company.

In the negotiation between the parties the consideration for the rights in the purchased company was determined at 9 million euro,. A project in the field of real estate can be constructed on the Plot with different uses, and for this purpose it was decided that the uses of the Plot will be determined by agreement between the parties mentioned below. In the Company's opinion it will be possible to build different projects on the Plot with an area of at least 100,000 sq. meters. It was also agreed that the Purchased Company will be given the first right of refusal to acquire an area of additional 40 dunams (10 acres) adjacent to the Plot. In the framework of the memorandum of understanding it was agreed, that the detailed agreement will be signed between the parties within 90 days, subject to the preparation of a due diligence by the subsidiary.

- 4.5.3 After the balance sheet date the Company's Board of Directors at a meeting of March 23, 2005 decided to distribute a dividend of NIS 75 million to the shareholders from retained earnings, which the Company may distribute.

5. Liquidity and sources of financing

During the year of account the Company's sources of financing were mainly cash flows from operating activities and raising capital.

In February 2004 the Company raised 261 million through an issue of non-negotiable bonds to institutional investors and in addition in September 2004 the Company, by way of a prospectus issued shares, convertible bonds and options for NIS 392.5 million (the net proceeds less issue expenses totaled NIS 376.5).

These sources were used mainly to invest in fixed assets, to repay credit from the Africa Israel Group, to repay short-term credit from banks and to make short-term deposits with banks. During the period of report the Company had positive cash flows from operating activities totaling NIS 120.3 million.

5.1 Total Company's assets were financed as follows:

	<u>NIS millions</u>	<u>%</u>
Shareholders' equity and minority rights	1,046	37.4
Long-term liabilities (including capital note)	1,272	45.5
Current liabilities (including short-term credit from banks)	<u>478</u>	<u>17.1</u>
	<u>2,796</u>	<u>100.0</u>

About 37.4% of the Company's assets are financed by shareholders' equity and minority rights.

The working capital ratio as at December 31, 2004 was 1.37 (compared to 0.26 on December 31, 2003).

5.2 The following is a condensed statement of cash flows (in NIS millions):

Sources

Net income	140.6	
Adjustments to income	<u>(20.3)</u>	
Net cash provided by operating activities		120.3
Issue of shares		216.9
Issue of bonds		408.4
Repayment of loans and long-term receivables, net		46.9
Proceeds from realizing fixed assets		35.7
Acquisition of companies consolidated for the first time less a company that left the full consolidation and less providing loans to affiliated companies		6.9
Receiving long-term loans from banks, net		<u>297.1</u>
		<u>1,132.2</u>

Uses

Increase in cash balances	224.4
Repayment of credit to related companies, net	534.2
Repayment of short-term credit from banks	142.2
Repayment of long-term loans from others, net	1.3
Investment in fixed assets and other assets	196.2
Dividend paid to minority	33.9
	<u>1,132.2</u>

6. Qualitative report regarding exposure to market risks and the methods of their management

6.1 General

*"Market risk" – risk to the business results, to shareholders' equity, to cash flows or to the Company's value resulting from changes in interest, rates of exchange, inflation, price of raw materials, other prices, prices of securities in Israel and abroad and economic indices which significantly affect the Company's assets or liabilities, including the Company's liabilities to suppliers, trade receivables to the Company and other assets and loans.

The risks detailed below are managed on a current management level by the Company and the person responsible for their management is Mr. Pinchas Cohen – the Company's CEO and Chairman of the Board.

Currency risks

The Company has credit in foreign currency and lease agreements denominated in foreign currency.

A revaluation of the loans that the Company took to finance its operations abroad and the proceeds of the lease agreements denominated in foreign currency are affected by fluctuations in rates of exchange.

The Company has an accounting exposure to changes in the rates of exchange on autonomous companies abroad. This exposure is for the difference between the value of the loans to these companies and their assets.

The Company has a surplus of liabilities linked to the euro resulting from financing its operations abroad (mainly in the Czech Republic) and a surplus of liabilities linked to the US dollar and to the Canadian dollar. Fluctuations in the rates of exchange Affect the revaluation of these liabilities.

Interest risk

The Company makes use of short-term credit interest, short-term credit linked to the dollar, long-term credit linked to the index from banks, and long-term credit linked to the index from bond holders. In addition, the Company makes use of the financial instruments of borrowing bonds short.

For the financing of the operations abroad the Company takes credit in the currency of operations from banks abroad.

The Company considers from time to time the method of linkage of the loans according to its evaluations regarding developments in the rates of interest and the rates of inflation.

Changes in rates of “prime” interest in the economy are likely to cause a negative affect on the profitability of the Company.

Index risks

The Company has a surplus of liabilities linked to the index. In October 2001 the Israel Accounting Standards Board published Accounting Standard No. 12 which deals with the discontinuation of the adjustment of financial statements. On the new Standard coming into force at the beginning of 2004, the Company had an accounting exposure.

In the Company’s opinion the exposure is not economic as in its evaluation the value of the Company’s real estate assets over time increases at least by the rate of increase of the index.

The Corporation’s policy regarding managing currency and interest risks

The Corporation has adopted a policy of taking loans or investing in deposits according to the currency of that relevant operation.

A decision regarding investments or taking credit in foreign currency are taken by the Company’s Board of Directors or that of its subsidiaries.

The Company’s management examines on a current basis the extent of its exposure and consults with local and international factors to reduce such exposure.

Supervision of the policy of managing market risks: The Company’s Board of Directors at its periodic meetings receives current reports from the Company’s management regarding market risk and the policy of managing these risks. No quantitative frameworks have been determined regarding exposure to market risk.

6.2 **Balance sheet as at December 31, 2004 according to linkage (in NIS millions)**

Assets	Unlinked	Index linked	Euro linked	USD linked	CAD linked	Other	Non monetary items	Total
Current assets							2,026	2,026
Investments in investee companies		38					9	47
Long-term loans and receivables	2	4		32	10			48
Other assets and deferred expenses							19	19
Deferred taxes receivable							24	24
Trade receivables	5		1		1			7
Other receivables	26	2	128		1	1		158
Related companies		216						216
Deposits					4			4
Cash and cash equivalents	108	1	134		4			247
	141	261	263	32	20	1	2,078	2,796

6.2 **Balance sheet as at December 31, 2004 according to linkage (in NIS millions) (contd.)**

Shareholders' equity and liabilities	Unlinked	Index linked	Euro linked	USD linked	CAD linked	Other	Non monetary items	Total
Shareholders equity							956	956
Minority rights in investee companies							91	91
Capital note	40							40
<u>Long-term liabilities</u>								
Loans from banks	27	274	295					596
Loans from related companies	75							75
Bonds		420						420
Other long-term liabilities	26	14	51					91
Liabilities for severance pay								-
Reserve for deferred taxes							50	50
<u>Short-term liabilities</u>								
Short-term credit from banks and others	165	30	7	49	68			319
Related companies		28		3				31
Other payables	87	23	5	1	4	7		127
	420	789	358	53	72	7	1,097	2,796
Net balance of balance sheet	(279)	(528)	(95)	(21)	(52)	(6)	981	-

6.3 **Balance sheet as at December 31, 2003 according to linkage (in NIS millions)**

Assets	Unlinked	Index linked	Euro linked	USD linked	CAD linked	Other	Non monetary items	Total
Current assets							1,961	1,961
Investments in investee companies		34					16	50
Long-term loans and receivables	52	4		32	6			94
Other assets and deferred expenses							14	14
Deferred taxes receivable							28	28
Inventory of apartments							1	1
Trade receivables	10							10
Other receivables	64							64
Related companies		144						144
Deposits					2			2
Cash and cash equivalents	4		19					23
	130	182	19	32	8	-	2,020	2,391

6.3 **Balance sheet as at December 31 2003 on the linkage basis (in NIS millions)**
(contd.)

Shareholders equity and liabilities	Unlinked	Index linked	Euro linked	USD linked	CAD linked	Other	Non monetary items	Total
Shareholders equity							593	593
Minority rights in investee companies							95	95
Capital note	40							40
<u>Long-term liabilities</u>								
Loans from banks		170	334		12			516
Other long-term liabilities		36	14					50
Liabilities for employer/employee relations								-
Reserve for deferred taxes							48	48
<u>Short-term liabilities</u>								
Short-term credit from banks and others	204	81	42	88				415
Related companies		370	141	19	24	12		566
Other payables	68							68
	312	657	531	107	36	12	736	2,391
Net balance of balance sheet	(182)	(475)	(512)	(75)	(28)	(12)	1,284	-

6.4 Positions in the Company's financial derivatives as at December 31, 2004

The Group of Companies has various transactions in derivative financial instruments in currencies. The following are details of the exposure to market risks and the methods of their management as at December 31, 2004 (in NIS thousands).

	Up to a year			
	Nominal value		Fair value	
	Long	Short	Assets	Liabilities
<u>Dollar/Shekel</u>				
<u>Options</u>				
Sale of PUT dollar option (2)	84,006			2,246
Sale of CALL dollar option (1)		116,316		627
Undertaking to sell euro against NIS		27,033		740

- (1) Not for hedging purposes
- (2) For hedging purposes – not recognized for accounting purposes (PUT options sold are against loans in foreign currency that the Company borrowed. (the hedging is the amount of the premium)).

Maximum holdings of derivatives

The highest value during the year of account of total sale positions in derivatives is identical to that at the end of the period of report.

7. Disclosure regarding the internal auditor

According to the directives of Section 36 a (b) of the Securities Law – 1968, the following is a disclosure regarding the internal auditor and his activities:

Clause 'a' of the directive: Name of auditor: Uriel Azran
Date of start of serving: 12/97
Qualifications: Certified Public Accountant

Clause 'b' of the directive: The auditor provides external services to the Corporation in the framework of a basket of services provided from the Parent Company.

Clause 'c' of the directive: The extent of employment: About one third of a full-time job.
The team of employees comprises three audit employees.

- Clause ‘d’ of the directive:** The audit program is based on a survey of risks carried out in the Corporation and by the current audit needs of the Company’s management. The internal audit program includes significant Corporation matters based on the risks review carried out.
- Clause ‘e’ of the directive:** The internal audit program includes audit subjects in those Corporations which are significant holdings of the Corporation based on the risks survey carried out in them.
- Clause ‘f’ of the directive:** The internal auditor carries out an audit according to generally accepted professional standards in Israel and internationally.
- Clause ‘g’ of the directive:** The internal auditor reports to the Chairman of the Company’s Board of Directors.
- Clause ‘h’ of the directive:** The audit reports are submitted to the Chairman of the Board and to the Company’s CEO, the Chairman of the Audit Committee, but they have not yet been discussed in the Audit Committee as the Company’s securities were only issued a few months ago.
- Clause ‘i’ of the directive:** The level of the internal audit work is determined according to a rotation which enables the auditor to check significant matters in the Company about once every four years.

This extent, the character, the continuity of operations and the work program of the internal auditor, are reasonable in the opinion of the Company’s Audit Committee and are suitable to achieve the internal audit objectives in the Corporation. The Company declares that it has given the internal auditor in the Corporation free, continuous, and direct access to all information held by the Company.

8. Critical accounting estimates

In the preparation of the financial statements in accordance with generally accepted accounting principles management is required to use estimates and evaluations which affect the amounts reported of contingent assets and contingent liabilities which are disclosed in the financial statements and of data on revenues and expenses during the period of report. When preparing these estimates, the Company’s management is required to make assumptions regarding the circumstances and the events connected with significant uncertainty.

Decline in value of assets

The Company has adopted Accounting Standard No. 15 “Decline in the Value of Assets”. This Standard sets forth the accounting treatment and presentation required in the event in a decline in the value of the assets. The Standard applies to all assets appearing in the balance sheet excluding inventory, assets resulting from construction contracts, assets resulting from benefits to employees, and deferred tax assets and current assets (apart from investments in investee companies which are not subsidiaries).

According to this Standard, should there be any signs which would show a decline in the value of an asset, the Company must examine whether there was a decline in the value of the asset by comparing the book value of the asset to its recoverable value. The recoverable amount is the higher of the net selling price of the asset and the value of its use calculated by the present value of estimated future cash flows expected to be derived from the use of the assets and its realization at the end of its life.

Should the book value of an asset exceed its recoverable value, the loss on the decline in the value must be recognized as the difference between the assets book value and its recoverable value. The loss from the decline in value will be cancelled only if there were changes in the estimates used determining the recoverable value of an asset on the date of recognizing the loss from the decline in value.

The value of using the Company’s assets (in consolidated) is generally calculated by discounting cash flows expected to result from the Company’s assets (rate of discounting ranges between 7.5% - 9%) in the Dan region, in Haifa and the capitals abroad, it is calculated by using a discounting rate of 7.5%.

In buildings where there are vacant areas, a reduction of 10% of the average rent in the building is taken into account.

In some of the projects where the Company has additional building rights on or attached to an existing project, and which the Company expects that it will make use of these rights in the future, some of the costs of the project are related to the second stage, i.e. to the stage of realizing the additional building rights.

In addition, where in an income producing property the value of all those areas that the Company has earmarked for sale is presented at an appraiser’s value.

With regard to existing shopping malls – the rent resulting from them has a direct connection to the turnover of the shops in the shopping mall. The Company’s evaluation of the recoverable amounts of a shopping mall are based on the Company’s expectations to the malls’ performance after a period of running-in of about two years. This is based on its experience in the field of shopping malls.

As a result of implementing the provisions of Accounting Standard No. 15 in the Company’s financial statements (consolidated) for 2003 a loss from the

decline in the value of assets of NIS 9,644 thousand (and about NIS 6,172 thousand net after tax) was posted which is included in the item 'other expenses, net' in the statement of income.

In calculating the value of the Company's buildings (consolidated) future capital expenses were not taken into account, as in the opinion of the Company's management, current maintenance expenses, paid by tenants enable it to maintain the buildings in a conditions which does not required significant periodic capital investments.

Deferred taxes

Deferred taxes are calculated at tax rates expected to apply at the time of their realization. The tax benefit is included in the financial statements as according to the Company's business plan realization of the tax benefit is expected. Naturally, the actual business results can be different from the business plans, which could affect the realization of the tax benefit in the future.

Contingent liabilities

The Company has contingent liabilities in amounts where the maximum possible exposure for them is significant. The Company periodically makes an evaluation of the potential liabilities relating to each claim and demand. Naturally, it is difficult to determine the results of claims and demands. The Company judges to the best of its ability and with the assistance of its legal advisors, in order to determine whether it is reasonable for the Company to bear costs in connection with settling claims and demands and whether it is possible to reasonably estimate them.

Taking into account the structural uncertainty which exists in legal claims, it is possible that all or part of them will end with a debit to the Company for different amounts.

With regard to details of contingent liabilities see Note 26 to the financial statements.

9. The Company's Board of Directors and management

During the period of report 11 meetings of the Company's Board of Directors and its committees took place and also 3 written resolutions were passed.

On March 21, 2004 Mr. Pinchas Cohen was appointed a Director in the Company and chosen as Chairman of the Board.

On July 25, 2004 Messrs. Avi Nota and Beny Cohen were appointed Directors in the Company. In addition Mr. Pinchas Cohen was appointed the Company's CEO.

On July 25, 2004 Mr. Avi Barzilai was appointed as the Company's VP Finance.

On August 29, 2004 the Board of Directors decided, after that taking into account all the relevant circumstances, that the minimum amount of directors with accounting and financial skills, as defined in the directives of the Securities Authority, should be two directors.

In a special meeting of the Company's shareholders on September 19, 2004, it was decided to appoint Ms. Zvia Leviev Alazarov to the Company's Board of Directors.

On November 23, 2004 Mr. Mordechai Leibovich was appointed as a Director in the Company.

In a special meeting of shareholders of the Company on December 19, 2004 it was decided to appoint Mrs. Nina Admoni and Dr. Zvi Shtarber as external directors in the Company.

In a special postponed meeting of shareholders of the Company on December 26, 2004 it was decided to approve and empower Mr. Pinchas Cohen, who serves as Chairman of the Company's Board of Directors to also perform the function of the Company's CEO and to use such authority for a period of a year from the date of passing this resolution by the General Meeting.

9.1 Directors with special accounting and financial skill

According to the directives published by the Securities Authority, the Company's Board of Directors determined, at its meeting on August 29, 2004 that the suitable minimum number of directors in the Company with accounting and financial skills is two directors.

This decision was taken considering, inter alia, the size of the Company, the type of operations, the number of members of the Board of Directors and its complexity.

In the Company's opinion, taking into account the relevant circumstances as detailed below, and taking into account that this relates to determining a minimum number only, the minimum number determined as mentioned, will enable the Company's Board of Directors to meet the obligation imposed on it according to the Law and the documents of incorporation, and particularly relating to its responsibility to examine the financial condition of the Company and to prepare the Company's financial statements, and this also in the event of a absence or illness of one director with such skills.

The following are details of the directors who have accounting and financial skills, while stating the facts regarding each of them from which it can be seen that they are directors with accounting and financial skills:

Mr. Avraham Meron, Certified Public Accountant, holds a degree in auditing and economics, serves as the Senior VP Finance and Controller in Africa Israel Investments Ltd., and serves as a Director in subsidiaries in the Group.

Mr. Mordechai Leibovich, Certified Public Accountant, holds a degree in accounting and economics, serves as the Head of the Finance and Control Administration in Africa Israel Investments, and serves as a Director in subsidiaries of the Group.

10. The Company's employees

The Board of Directors expresses its appreciation to the Company's management, to the management of the Company's subsidiaries and to all the employees for their dedicated work and contribution to advancing the Company.

Pinchas Cohen
Chairman of the Board and CEO

Avi Barzilai
Director and VP Finance