

AFRICA ISRAEL PROPERTIES LTD.

FINANCIAL STATEMENTS

AFRICA ISRAEL PROPERTIES LIMITED

Consolidated Financial Statements as of December 31, 2005

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**Auditors' report to the shareholders
of
AFRICA ISRAEL PROPERTIES LIMITED**

We have examined the accompanying balance sheets of AFRICA ISRAEL PROPERTIES LIMITED (hereafter – “the Company”) as of December 31, 2004 and 2005, and the consolidated balance sheets as of those dates and the Company's related statements of income, statements of changes in shareholders' equity (capital deficiency) for the Company, and statements of cash flows for each of the three years the last of which ended on December 31, 2005. These financial statements are on the responsibility of the Company's Board of Directors and management. Our responsibility relates to our opinion on these financial statements, based on our audit.

We have not audited the financial statements of fully and proportionately consolidated subsidiaries and joint ventures whose consolidated assets constitute some 7% and 9% respectively of total consolidated assets as of December 31, 2005 and 2004 respectively, and whose consolidated revenues constitute approximately 5% and 5% and 65% of total consolidated revenues for the years ended December 31, 2005, 2004 and 2003 respectively. The financial statements of those companies and joint ventures were examined by other auditors whose reports were issued to us, and our opinion, insofar as it relates to amounts included in respect of such companies and joint ventures, is based on the reports of the other auditors. Likewise, we have not audited the financial statements of affiliated companies the investment in which amounts to some NIS 18,803 thousands as of December 31, 2004, and the Group's share their profits is approximately NIS 4,404 thousands for the year ended December 31, 2003. The financial statements of those companies were examined by other auditors whose reports were issued to us, and our opinion, insofar as it relates to amounts included in respect of such companies, is based on the reports of the other auditors.

Our examination was made in accordance with generally accepted auditing standards, including those prescribed under the Auditors' Regulations (Auditor's Mode of Performance), 5733-1973. Under these Regulations, we are required to plan and execute our audit with the aim of obtaining a reasonable measure of assurance that these financial statements do not contain any material misrepresentation. An audit includes a sample examination of evidence in support of the amounts and information in the financial statements. An audit also includes an examination of the accounting principles applied and of significant estimates made by the Company's board of directors and management, as well as an assessment of the propriety of financial statement presentation as a whole. We believe our audit and the reports of the other auditors provide an appropriate basis for our opinion.

In our opinion, based on our audit and on the reports of other auditors, the above-mentioned financial statements reflect fairly, from all material aspects, in conformance with generally accepted accounting principles, the financial position of the Company and the Group as of December 31, 2005 and 2004, the Company's results of operations, the changes in shareholders' equity (capital deficiency) and cash flows of the Company and in particular for each of the three years the last of which ended on December 31, 2005. Likewise, in our opinion, the abovementioned financial statements have been prepared in conformity with the Securities Regulations (Preparation of Annual Financial Statements), 5743-1993.

As explained in Note 2A, the financial statements as of the dates and the reporting periods subsequent to December 31, 2003, are presented in reported amounts, as prescribed by the Accounting Standards of the Israel Accounting Standards Board. The financial statements as of the dates and for the reporting periods ended prior to the abovementioned date are presented in values adjusted to that date on the basis of the changes in the general purchasing power of the Israeli currency, as prescribed by Opinions of the Institute of Certified Public Accountants in Israel.

Somekh Chaikin
Accountants

Zohar, Zohar & Co.
Accountants

March 23, 2006

AFRICA ISRAEL PROPERTIES LIMITED

Balance sheets

NIS 000s

	<u>Note</u>	<u>Consolidated</u>		<u>Company</u>	
		<u>As of December 31</u>		<u>As of December 31</u>	
		<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Fixed assets	3	2,069,258	2,026,045	571,196	587,070
Investments in investee companies	4	21,971	46,969	578,613	576,665
Long-term loans and receivables	5	44,357	48,234	39,970	33,946
Other assets and deferred charges	6	18,852	18,819	9,660	8,382
Current assets					
Deferred taxes	25	22,068	(**)15,463	-	(**)-
Trade	7	9,717	6,852	2,724	2,296
Accounts receivable	8	72,018	158,197	16,929	16,424
Related companies	27	377,664	216,313	409,440	250,050
Deposits at Bank	9	281	3,972	-	-
Cash and cash equivalents	10	217,818	247,169	187,908	223,856
		<u>699,566</u>	<u>647,966</u>	<u>617,001</u>	<u>492,626</u>
		<u>2,854,004</u>	<u>2,788,033</u>	<u>1,816,440</u>	<u>1,698,689</u>

(*) Regarding the discontinuation of adjustment for the effects of inflation on the basis of the December 2003 CPI, see Note 2A.

(**) Reclassified

AFRICA ISRAEL PROPERTIES LIMITED

Balance sheets (cont.)

NIS 000s

Reported Amounts (*)

	<u>Note</u>	<u>Consolidated</u>		<u>Company</u>	
		<u>As of December 31</u>	<u>As of December 31</u>	<u>As of December 31</u>	<u>As of December 31</u>
		<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Shareholders' equity	11	967,574	955,687	967,574	955,687
Minority rights in subsidiaries		96,640	90,864	-	-
Capital note	12	40,000	40,000	40,000	40,000
Contingent liabilities, commitments, guarantees and liens	26				
Long-term liabilities					
Loans from banks	13	582,638	596,047	-	-
Loans from related companies	14	77,851	74,922	77,851	74,922
Debentures	15	237,106	263,888	237,106	263,888
Debentures convertible into shares	16	197,236	156,102	197,236	156,102
Other long-term liabilities	17	111,469	91,260	26,000	26,000
Obligations in respect of severance of employee-employer relations	18	389	146	387	-
Deferred taxes	25	45,582	(**)41,462	8,763	(**)5,873
		<u>1,252,271</u>	<u>1,223,827</u>	<u>547,343</u>	<u>526,785</u>
Current liabilities					
Short-term loans from banks and others	19	407,168	319,071	99,973	26,436
Related companies	27	7,731	31,619	132,900	118,463
Accounts payable	20	82,620	126,965	28,650	31,318
		<u>497,519</u>	<u>477,655</u>	<u>261,523</u>	<u>176,217</u>
		<u>2,854,004</u>	<u>2,788,033</u>	<u>1,816,440</u>	<u>1,698,689</u>

(*) Regarding the discontinuation of adjustment for the effects of inflation on the basis of the December 2003 CPI, see Note 2A.

(**) Reclassified

..... Chairman of the Board of Directors
Lev Leviev

..... CEO and Member of the Board of Directors
Pinchas Cohen

..... VP Finance and Member of the Board of Directors
Avi Barzilay

Date of approval of the financial statements: March 23, 2006

The accompanying notes form an integral part of these financial statements

AFRICA ISRAEL PROPERTIES LIMITED
Statements of Income
NIS 000s

	<u>Note</u>	<u>Consolidated</u>			<u>Company</u>		
		<u>For the year ended December 31</u> <u>2005</u>	<u>2004</u>	<u>2003</u> Inflation- adjusted amounts in shekels of December 2003	<u>For the year ended December 31</u> <u>2005</u>	<u>2004</u>	<u>2003</u> Inflation- adjusted amounts in shekels of December 2003
		<u>Reported amounts (*)</u>			<u>Reported amounts (*)</u>		
Income		<u>234,163</u>	<u>231,962</u>	<u>80,792</u>	<u>60,377</u>	<u>62,301</u>	<u>31,335</u>
From leasing and operation of properties							
Expenses							
Operation and maintenance of properties	21	36,761	34,297	21,122	10,304	9,855	4,929
Depreciation and amortization		42,294	45,281	19,218	13,212	13,067	7,874
Administrative and general	22	15,547	21,247	4,748	7,976	13,069	3,233
Financing, net	23	58,067	40,670	17,706	17,780	7,337	6,532
		<u>152,669</u>	<u>141,495</u>	<u>62,794</u>	<u>49,272</u>	<u>43,328</u>	<u>22,568</u>
Profit from ordinary operations		<u>81,494</u>	<u>90,467</u>	<u>17,998</u>	<u>11,105</u>	<u>18,973</u>	<u>8,767</u>
Other income (expenses) net	24	22,935	124,988	(9,561)	(221)	-	(9,644)
Profit (loss) before taxes on income		<u>104,429</u>	<u>215,455</u>	<u>8,437</u>	<u>10,884</u>	<u>18,973</u>	<u>(877)</u>
Taxes on income (tax benefit)	25	19,321	57,076	(1,326)	212	4,381	(284)
Profit (loss) after taxes on income		<u>85,108</u>	<u>158,379</u>	<u>9,763</u>	<u>10,672</u>	<u>14,592</u>	<u>(593)</u>
Company equity in profits (losses) of investee companies, net		(14,157)	(6,967)	2,166	42,669	125,993	10,630
Minority share in earnings of subsidiaries, net		(16,312)	(10,827)	(1,892)	-	-	-
Profit from ongoing operations		<u>54,639</u>	<u>140,585</u>	<u>10,037</u>	<u>53,341</u>	<u>140,585</u>	<u>10,037</u>
Cumulative effect due to change in method of accounting	2J(2)	(1,314)	-	-	(16)	-	-
Net profit for the year		<u>53,325</u>	<u>140,585</u>	<u>10,037</u>	<u>53,325</u>	<u>140,585</u>	<u>10,037</u>
Net earnings per share (NIS) calculated per NIS 1 n.v. share capital		<u>NIS</u>	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>
Base earnings per share		<u>4.44</u>	<u>13.38</u>	<u>3.51</u>	<u>4.44</u>	<u>13.38</u>	<u>3.51</u>
Diluted earnings per share		<u>-</u>	<u>12.15</u>	<u>-</u>	<u>-</u>	<u>12.15</u>	<u>-</u>
Share capital used in calculating base earnings per share		<u>12,003,461</u>	<u>10,508,197</u>	<u>10,000,000</u>	<u>12,003,461</u>	<u>10,508,197</u>	<u>10,000,000</u>
Share capital used in calculating diluted earnings per share		<u>-</u>	<u>11,667,125</u>	<u>-</u>	<u>-</u>	<u>11,667,125</u>	<u>-</u>

(*) Regarding the discontinuation of adjustment for the effects of inflation on the basis of the December 2003 CPI, see Note 2A.

The accompanying notes form an integral part of these financial statements

AFRICA ISRAEL PROPERTIES LIMITED

Statements of changes in shareholders' equity (capital deficiency)

NIS 000s

	<u>Share capital</u>	<u>Premium</u>	<u>Translation adjustme nts</u>	<u>Retained earnings (Loss)</u>	<u>Total</u>
<u>For the year ended December 31, 2003</u>					
Balance at January 1, 2003	27,999	-	-	(73,279)	(45,280)
Adjustments arising from the translation of the financial statements of autonomous investee companies	-	-	2,172	-	2,172
Erosion of capital note	-	-	-	(754)	(754)
Shares issued in consideration of the acquisition of companies and properties from the parent company	10	626,887	-	-	626,897
Net profit for the year	-	-	-	10,037	10,037
Balance as of December 31, 2003	<u>28,009</u>	<u>626,887</u>	<u>2,172</u>	<u>(63,996)</u>	<u>593,072</u>

AFRICA ISRAEL PROPERTIES LIMITED

Statements of changes in shareholders' equity (capital deficiency) (cont.)

NIS 000s

	<u>Share capital</u>	<u>Premium</u>	<u>Receipts on issuance of options</u>	<u>Translation adjustments</u>	<u>Dividend proposed subsequent to balance sheet date</u>	<u>Retained earnings (Loss)</u>	<u>Total</u>
	Reported amounts (*)						
For the two years ended December 31, 2005							
Balance at January 1, 2004	28,009	626,887	-	2,172	-	(63,996)	593,072
Adjustments deriving from translation of the financial statements of autonomous investee companies	-	-	-	(**)4,689	-	-	4,689
Issuance of shares in consideration of the acquisition of properties from the parent company (***)	9	399	-	-	-	-	408
Issuance of bonus shares	9,875	(9,875)	-	-	-	-	-
Issuance of shares (1)	2,000	194,898	-	-	-	-	196,898
Issuance of options (2)	-	-	20,035	-	-	-	20,035
Dividend proposed subsequent to balance sheet date	-	-	-	-	75,000	(75,000)	-
Net profit for the year	-	-	-	-	-	140,585	140,585
Balance as of December 31, 2004	<u>39,893</u>	<u>812,309</u>	<u>20,035</u>	<u>6,861</u>	<u>75,000</u>	<u>1,589</u>	<u>955,687</u>
Adjustments deriving from translating financial statements of autonomous investee companies	-	-	-	(4,693)	-	-	(4,693)
Credited in respect of related company transactions	-	-	-	-	-	(320)	(320)
Issuance of shares	632	77,943	-	-	-	-	78,575
Dividend paid	-	-	-	-	(75,000)	(40,000)	(115,000)
Net profit for year	-	-	-	-	-	53,325	53,325
Balance as at December 31, 2005	<u>40,525</u>	<u>890,252</u>	<u>20,035</u>	<u>2,168</u>	<u>-</u>	<u>14,594</u>	<u>967,574</u>

(1) Net of approximately NIS 6.6 million attributed issuance expenses

(2) Net of approximately NIS 0.6 million attributed issuance expenses

(*) Regarding the discontinuation of adjustment for the effects of inflation on the basis of the December 2003 index, see Note 2A.

(**) Reclassified

(***) See Note 26 (A) (15).

The accompanying notes form an integral part of these financial statements

AFRICA ISRAEL PROPERTIES LIMITED

Statements of cash flows

NIS 000s

	Consolidated For the year ended December 31			Company For the year ended December 31		
	2005	2004	2003 Inflation- adjusted amounts in shekels of December 2003	2005	2004	2003 Inflation- adjusted amounts in shekels of December 2003
	Reported amounts (*)			Reported amounts (*)		
Cash flows from ordinary activity						
Net profit for year	53,325	140,585	10,037	53,325	140,585	10,037
Adjustments required to present cash flows from ordinary activity (Appendix "A")	6,803	(20,240)	(15,078)	(17,047)	(107,633)	(17,023)
Net cash deriving from (used for) ordinary activity	<u>60,128</u>	<u>120,345</u>	<u>(5,041)</u>	<u>36,278</u>	<u>32,952</u>	<u>(6,986)</u>
Cash flows to investment activity						
Acquisition of newly consolidated subsidiaries (including in partial consolidation) (Appendix "B")	-	1,807	4,802	-	-	-
Realization a company that was formerly consolidated and proportionately consolidated (Appendix "C")	-	6,596	-	-	-	-
Investment in fixed assets	(162,828)	(192,011)	(150,051)	(6,571)	(6,491)	(11,352)
Consideration on disposal of fixed assets, net	79,413	6,608	-	1,674	-	-
Investment in other assets	(5,219)	(4,217)	(2,720)	(3,995)	-	-
Proceeds from sale of investment in Investee Companies	140,390	-	-	-	-	-
Investment in long-term loans and receivables	(18,652)	(3,696)	(6,776)	-	-	(3,600)
Repayment of long-term loans and receivables	10,654	50,607	-	-	-	-
Loans granted to investee companies	(6,758)	(1,660)	(922)	(31,094)	(128,377)	(922)
Dividend received from investee companies	-	-	-	68,000	116,040	-
Investment in deposits	-	-	(2,099)	-	-	-
Repayment of deposits	4,120	-	-	-	-	-
Net cash deriving from (used in) investment activity	<u>41,120</u>	<u>(135,966)</u>	<u>(157,766)</u>	<u>28,014</u>	<u>(18,828)</u>	<u>(15,874)</u>
Cash flows to financing activity						
Loans from related companies, short term, net	(181,568)	(534,220)	25,491	(144,953)	(393,877)	24,939
Short-term credit from banks and others, net	(31,650)	(142,240)	(738)	(26,080)	(23,782)	(738)
Long-term loans from banks	82,265	318,046	151,525	-	-	-
Repayment of long-term loans from banks	(82,646)	(20,938)	(6,103)	-	-	-
Long-term loans from others	25,636	14,711	4,247	-	-	-
Repayment of long-term loans from others	(398)	(15,972)	(647)	-	-	-
Consideration on disposal of fixed assets	-	29,110	-	-	-	-
Issuance of debentures convertible into shares, net	107,218	149,940	-	107,218	149,940	-
Issuance of debentures, net	-	258,469	-	-	258,469	-
Issuance of share capital, net	78,575	216,933	-	78,575	216,933	-
Dividend paid	(115,000)	-	-	(115,000)	-	-
Dividend paid to minority in subsidiaries	(12,000)	(33,960)	-	-	-	-
Net cash deriving from (used for) financing activity	<u>(129,841)</u>	<u>239,879</u>	<u>173,775</u>	<u>(100,240)</u>	<u>207,683</u>	<u>24,201</u>
Translation differences in respect of cash balance in autonomous investee companies	<u>(758)</u>	<u>166</u>	<u>1,482</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in cash and cash equivalents	<u>(29,351)</u>	<u>224,424</u>	<u>12,450</u>	<u>(35,948)</u>	<u>221,807</u>	<u>1,341</u>
Balance of cash and cash equivalents at beginning of the year	<u>247,169</u>	<u>22,745</u>	<u>10,295</u>	<u>223,856</u>	<u>2,049</u>	<u>708</u>
Balance of cash and cash equivalents at end of year	<u><u>217,818</u></u>	<u><u>247,169</u></u>	<u><u>22,745</u></u>	<u><u>187,908</u></u>	<u><u>223,856</u></u>	<u><u>2,049</u></u>

(*) Regarding the discontinuation of adjustment for the effects of inflation on the basis of the December 2003 CPI, see Note 2A.

The accompanying notes form an integral part of these financial statements

AFRICA ISRAEL PROPERTIES LIMITED

Statements of cash flows (cont.)

	NIS 000s					
	Consolidated			Company		
	For the year ended			For the year ended		
	December 31			December 31		
	2005	2004	2003	2005	2004	2003
			Inflation- adjusted amounts in shekels of December 2003			Inflation- adjusted amounts in shekels of December 2003
	Reported amounts (*)			Reported amounts (*)		
Appendix "A"						
Adjustments required in order to present cash flows from ordinary activity						
<u>Expenses (income) not involving cash flows</u>						
Company's equity in losses (profits) of affiliated companies, net	14,157	6,967	(2,166)	(42,669)	(125,997)	(10,630)
Minority share in profits of subsidiaries	16,312	10,827	1,892	-	-	-
Allowances for decrease in value	-	-	9,644	-	-	9,644
Depreciation and amortization	45,328	46,255	19,525	15,929	13,794	7,874
Change in deferred taxes, net	(2,316)	7,327	(3,597)	2,890	3,142	(957)
Change in inventory of apartments	-	1,037	-	-	-	-
Increase in value of deposits	-	(8)	-	-	-	-
Increase (decrease) in value of long-term loans from banks	18,641	13,340	(1,870)	-	-	-
Increase (decrease) in value of long-term loans from related companies	2,929	1,589	(1,065)	2,929	1,589	(1,065)
Decrease (increase) in value of long-term loans and receivables	(3,384)	(2,218)	1,058	(402)	530	1,058
Increase in value of loans to investee companies	(1,203)	(1,852)	(577)	(961)	(14,443)	(577)
Erosion of capital notes	-	(40)	-	-	(5,182)	-
Erosion of other long-term liabilities	(2,394)	(10)	(143)	-	(12)	-
Increase in value of debentures	13,546	2,888	-	13,546	2,888	-
Change in obligation in respect of severance of employee-employer relations	246	2	-	387	-	-
Capital loss (gain), net	(22,691)	(125,162)	315	259	-	-
Write-down of premium on convertible debentures	(6,795)	(416)	-	(6,795)	(416)	-
Erosion of receivables due to sale of investment in previously consolidated company and proportionately consolidated	3,530	-	-	-	-	-
<u>Changes in asset and liability items</u>						
Trade	(3,019)	2,907	(5,507)	(428)	(1,879)	266
Accounts receivable	(6,315)	808	(12,287)	1,173	(2,039)	(11,990)
Accounts payable	(59,769)	15,519	(20,300)	(2,905)	20,392	(10,646)
	6,803	(20,240)	(15,078)	(17,047)	(107,633)	(17,023)

AFRICA ISRAEL PROPERTIES LIMITED

Statements of cash flows (cont.)

NIS 000s

	<u>Consolidated</u>			<u>Company</u>		
	<u>For the year ended</u>			<u>For the year ended</u>		
	<u>December 31</u>			<u>December 31</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
				Inflation-		
				adjusted		
				amounts in		
				shekels of		
				December		
				2003		
	<u>Reported amounts (*)</u>			<u>Reported amounts (*)</u>		<u>Inflation-</u>
						<u>adjusted</u>
						<u>amounts</u>
						<u>in shekels</u>
						<u>of</u>
						<u>December</u>
						<u>2003</u>
Appendix "B"						
Acquisition of newly consolidated subsidiaries (including under proportionate consolidation)						
Working capital (excepting cash and equivalents)	-	(16,402)	(178,425)	-	-	-
Long-term loans and receivables	-	1,760	54,960	-	-	-
Investment in affiliated companies	-	-	12,468	-	-	-
Fixed assets	-	80,497	801,440	-	-	-
Other assets and deferred charges	-	-	340	-	-	-
Long-term liabilities	-	(49,025)	(224,587)	-	-	-
Deferred taxes, net	-	-	(21,771)	-	-	-
Minority rights as of acquisition date	-	(18,637)	(86,507)	-	-	-
Issuance of shares in respect of acquisition of assets and liabilities of related companies	-	-	(362,720)	-	-	-
	<u>-</u>	<u>(1,807)</u>	<u>(4,802)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Appendix "C"						
Consideration on disposal of investment in former subsidiary						
Working capital (excepting cash)	-	(2,270)	-	-	-	-
Fixed and other assets	-	(218,117)	-	-	-	-
Deferred taxes, net	-	1,157	-	-	-	-
Long-term liabilities	-	212,634	-	-	-	-
	<u>-</u>	<u>(6,596)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Appendix "D"						
Material non-cash transactions						
Repayment of long-term liability against fixed assets	-	466	-	-	466	-
Acquisition of investments in investee companies and certain assets in consideration of issuance of shares	-	408	264,177	-	408	626,897
Receivables for realization of sale of shares	2,520	123,983	-	-	-	-
Issuance of capital note against credit balance of related company	-	-	-	-	-	105,869
Receivables for sale of fixed assets	12,858	-	-	7,300	-	-
Accounts payable in respect of fixed assets, sale of shares in investee company and others	16,289	19,660	19,978	-	-	11,338

(*) Regarding the discontinuation of adjustment for the effects of inflation on the basis of the December 2003 index, see Note 2A.

The accompanying notes form an integral part of these financial statements

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005
Amounts presented in NIS 000s unless otherwise indicated

Note 1 – General

A. Definitions

- | | | | |
|------|---|---|---|
| (1) | Subsidiaries | - | Companies whose financial statements have been consolidated with the Company's financial statements |
| (2) | Proportionately consolidated subsidiaries | - | Companies, including joint ventures, whose financial statements have been proportionately consolidated with the Company's financial statements. |
| (3) | Affiliated companies | - | Companies, excepting subsidiaries and proportionately consolidated companies, the Company's investments in which are included in the financial statements by the equity method. |
| (4) | Investee companies | - | Subsidiaries, proportionately consolidated companies or affiliated companies. |
| (5) | The Group | - | The Company and its investee companies, as set forth in the Appendix to the Financial Statements– Schedule of Group Companies. |
| (6) | Related parties | - | Within the meaning thereof in Opinion No. 29 of the Institute of Certified Public Accountants in Israel |
| (7) | Interested parties | - | Within the meaning thereof in Clause (1) of the definition of "interested parties" in a corporation in Section 1 of the Securities Law, 5728 – 1968. |
| (8) | Controlling shareholder | - | Within the meaning thereof in the Securities (financial statement presentation of transactions between a corporation and a controlling shareholder therein) Regulations 5756 – 1996 (hereafter – Controlling Shareholder Regulations) . |
| (9) | Index | - | The Consumer Price Index published by the Central Bureau of Statistics. |
| (10) | Adjusted amount | - | An historical nominal amount adjusted as prescribed by Opinions 23, 34, 36 and 37 of the Institute of Certified Public Accountants in Israel. |
| (11) | Reported amount | - | An amount adjusted to the transition date (December 31, 2003) plus amounts in nominal values, added subsequent to transition date, net of amounts deducted after transition date. |
| (12) | Adjusted financial reporting | - | Financial reporting as prescribed by Opinions 23, 34, 36, 37 and 50 of the Institute of Certified Public Accountants in Israel. |
| (13) | Nominal financial reporting | - | Financial reporting on the basis of reported amounts. |

B. Activity

- (1) Africa Israel Properties Ltd. (hereinafter: "the Company") was incorporated in January 1971 and is a consolidated subsidiary of Africa Israel Investments Ltd. (hereafter: "Africa Israel Investments" or "the parent company").
- (2) The Group's activity consists in entrepreneurship, set-up, leasing and operation of industrial buildings, offices and commercial buildings in Israel and elsewhere.
- (3) In November 2002, the Company established a wholly owned consolidated company, by the name of Africa Israel International Properties (2002) Ltd. (hereafter – International Properties) founded in order to centralize the investments of the Africa Israel Group in revenue producing overseas properties.
- (4) At the end of December 2002, International Properties acquired its holdings in companies operating in Europe from Africa Israel (East Europe) Investments B.V. (hereafter – AIEE) and Malford Holdings Limited (hereafter – Malford), which are (indirectly) wholly owned subsidiaries of Africa Israel, at the balance sheet value thereof. Financial statement presentation is as required by the Controlling Shareholders Regulations and accordingly, the above-mentioned holdings were presented on acquisition date at their adjusted value in the balance sheets of the vendor companies as against the debiting of a capital reserve in the amount of the differences between the aforesaid values. Moneys received in consideration of the acquisition were credited to the vendor companies. In January 2003, the credit balance of AIEE was replaced by way of assignment of rights in a capital note in the amount of some NIS 108 million issued to the Company by International Properties.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 1 - General (cont.)

B. Activity (cont.)

- (5) On December 31, 2003, the Company signed an agreement with Africa Israel whereby, pursuant to the restructuring of the revenue producing holdings of Africa Israel, certain of the properties of Africa Israel and also investments in certain of its investee companies, would be transferred to the Company, as against an allocation of shares at par value of NIS 10 thousands and a premium on shares in the amount of NIS 626,887,000. To secure completion of the transfer of rights in realty from Africa Israel to the Company, caveats were recorded in favour of the Company or pledges were recorded on the contractual rights of Africa Israel in the properties, and Africa Israel deposited in the hands of trustees a monetary deposit in the amount of NIS 5 million in favour of the Company. The Company applied to the income tax authorities, requesting a settlement in respect of the aforesaid restructuring. Under the terms of an agreement as of October 2003, and a complementary letter as of December 2004 (hereafter - "the agreement") with the tax authorities, transfer of the assets was facilitated as provided by Section 104A of the Income Tax Ordinance with a tax deferral. The value of the transferred assets, for the purpose of debiting with acquisition tax following the restructuring, was specified in the agreement at an amount of NIS 969,529,000, each property being the valued separately for the purpose of the calculation. The future sale of properties and companies as aforesaid by the Company will be subject to a tax liability, and the value and acquisition date of these properties and companies will be deemed, for the purpose of calculating tax, as the value and the date that would have been designated had the parent company sold them. In accordance with the Controlling Shareholders Regulations, the properties and the investment in the companies were transferred at their adjusted balance sheet value in the parent company as of December 31, 2003. In addition, the parent company sold to the Company other assets and liabilities at the value thereof in the parent company's balance sheet as of December 31, 2003.

Note 2 - Reporting principles and accounting policy

A. Financial statements in reported amounts

- (1) In October 2001, the Israel Accounting Standards Board (hereafter – IASB) published Accounting Standard No. 12: "Discontinuance of the Adjustment of Financial Statements" (hereinafter-Standard 12). In conformity with Standard 12, and in compliance with Accounting Standard No. 17 published in December 2002, adjustment of financial statements for inflation was to be discontinued commencing January 1, 2004. Until December 31, 2003, the Company continued to prepare adjusted financial statements in accordance with Opinion 36 of the Institute of Certified Public Accountants in Israel.

The Company is applying the provisions of Standard 12, and accordingly, adjustment was discontinued commencing January 1, 2004.

- (2) In the past, the Company prepared its financial statements on the basis of historical cost adjusted for the Consumer Price Index. The adjusted amounts, as stated, which were included in the financial statements as of December 31, 2003, served as a starting point for nominal financial reporting commencing January 1, 2004. Additions made during the year were included at nominal values.
- (3) The amounts of non-monetary assets do not purport to represent realisation value or current economic value, but rather the reported amounts of those assets.
- (4) In these financial statements, "cost," means cost in reported amount.
- (5) The financial statements of certain subsidiaries are presented on the basis of the changes in the exchange rate of their relevant active currencies – see B (3) below.
- (6) The comparative data for 2003 are presented in amounts adjusted for the CPI of December 2003.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 2 - Reporting principles and accounting policy (cont.)

B. Reporting principles

- (1) Balance sheets
- A) Non-monetary items (such as: investments, fixed assets and share capital) are presented at reported amounts.
 - B) Monetary items are presented in nominal historical values as of balance sheet date.
 - C) The balance sheet equalization of investments in the Investee Companies has been determined on the basis of the reported financial statements of these companies.
- (2) Statements of income and expenditure
- A) Income and expenses deriving from non-monetary items (primarily depreciation) or from differences included in the balance sheet are derived from the movement between a reported amount in the opening balance and a reported amount in the closing balance.
 - B) The other income statement components are presented in nominal values.
 - C) The share of the Company in the operating expenses of the Investee Companies and the share of the outside shareholders in the expenses of the consolidated companies has been determined on the basis of the reported financial statements of these companies.
- (3) Adjustment based on exchange rate and companies operating abroad
- The Company has investee companies operating abroad. These companies operate autonomously. The differences arising from the fact that the shareholders' equity of the autonomous units is to be translated at the exchange rate of the relevant currency as of the end of the year, while the investment in the autonomous units as recorded in the Company's books, are presented in reported amounts (until December 31, 2003, the investment in autonomous units was presented in adjusted amounts), are carried to a separate shareholders' equity item called "adjustments deriving from the translation of the financial statements of autonomous investee companies" – see also (T) hereafter.

C. Consolidation of the financial statements

- (1) The consolidated financial statements include the financial statements of the Company and also financial statements of companies in which the Company holds control. Companies under common control are proportionately consolidated.
- (2) Significant inter-company transactions and balances between subsidiaries were eliminated, and the adjustments necessitated by the application of the uniform accounting principles used by the Africa Israel Group were made.
- (3) The schedule of active investee companies and the rates of holding therein are shown in an appendix to the financial statements.

D. Fixed assets

- (1) Fixed assets are presented at cost net of accumulated depreciation. Depreciation is computed in annual rates as follows:
- | | |
|---|--------------------------|
| | % |
| Investments in buildings and parking lots | 1.5 – 3.7 (primarily 2%) |
| Air conditioning units and elevators | 10 |
| Motor vehicles | 15 |
| Furniture, office equipment & computers | 6 – 33.3 (primarily 6%) |
- (2) Financing expenses relating to the set-up of projects classified as fixed assets and also other costs relating to the acquisition of set-up of fixed assets, are carried, in the pre-operating period, to cost of the asset, see also paragraph I below.
 - (3) Improvements and betterments are carried to the cost of the assets while maintenance and repair expenses are carried to income on accrual.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 2 - Reporting Principles and accounting policy (cont.)

D. Fixed assets (cont.)

- (4) Fixed asset items leased under capital leasing are presented as assets at ordinary acquisition prices and are written down at the rates generally in effect for such assets. Leasehold fee amounts payable in future years, net of the grossed up interest component, are including among liabilities. Interest in respect of such amounts is accrued on a current basis and carried to the income statement.
- (5) Investments in leased buildings and parking lots are written down over the lease term, which does not exceed the economic life of the asset.
- (6) Cost of assets respecting which an investment grant was received is presented net of the grant amount.
- (7) Vacant lands are presented at cost including development and betterment expenses and various taxes, which management estimates at lower than their realisation value.

E. Other assets and deferred charges

The item includes, *inter alia*:

- (1) Refund in respect of investment in fixed assets written down over a 12-year period.
- (2) Capital-raising costs written down by the straight line method over the period of the loans (6 – 10 years)
- (3) Specific costs in respect of populating a shopping mall and commercial properties under construction, written down over the lease terms to which they relate (6 – 10 years).

F. Investments in affiliated companies

Investments in non-consolidated companies that fulfil the conditions respecting material influence in accordance with Opinion No. 68 of the Institute of Certified Public Accountants in Israel are presented by the equity method. Taken into account in calculating the Company's share are the amounts as they appear in the financial statements of the investee companies, together with cost surpluses, if any, and following the adjustments prescribed by application of normally accepted accounting principles.

G. Cash and cash equivalents

The item "cash and cash equivalents" includes cash and also deposits made with banking corporations for a period not exceeding three months on date of deposit and the utilization of which is unrestricted.

H. Allowance for doubtful accounts

The allowance for doubtful accounts is computed specifically in respect of debts the collectibility of which management considers doubtful. In computing the allowance, management relied, *inter alia*, on an estimate of the risk based on available information as regards the debtors' financial position and an evaluation of the collateral received.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 2 - Reporting principles and accounting policy (cont.)

I. Capitalization of credit costs

The Group companies capitalize costs of credit in accordance with Accounting Standard No. 3 - Capitalization of Credit Costs (hereinafter - Standard 3).

Pursuant to Standard 3, specific and non-specific credit costs are to be capitalized to qualifying assets as defined in Standard 3. Non-specific credit costs are capitalized to the investment or portion of the investment not financed by specific credit using a rate being the weighted average of the cost rates in respect of those credit sources the cost of which was not capitalized specifically.

J. Deferred taxes

- (1) Group companies attribute taxes in respect of temporary differences. Temporary differences are the differences between the value of assets and liabilities for tax purposes and their book value.

Deferred tax balances (asset or liability) are computed at the tax rates expected to be in effect on utilization of the deferred taxes or on realisation of the tax benefits, based on the tax rates and tax laws enacted, or the legislation of which has to all intents and purposes been completed, by the balance sheet date (see Note 25, Items G and H hereunder).

The principal factors in respect to which deferred taxes were not computed are as follows:

- (A) The temporary difference arising at the time of the initial recognition of goodwill
- (B) The temporary difference arising at the time of the initial recognition of an asset or of a liability in a non business related transaction and at the date of such initial recognition there is no effect on the book profit or on the chargeable income (tax loss)
- (C) Deferred tax liability in respect of the adjustment component non-financial assets that are capable of amortization that is defined as a protected asset in the Income Tax Law (Taxation under Inflationary Conditions), 5742-1982 and which were acquired before such Law came into force and the period of their amortization is at least 20 years from the date of their activation.
- (D) Investments in investee companies, since the Company intends to maintain and not realise these investments.
- (E) Tax benefit receivable in respect of temporary differences where it is doubtful that the benefit can be realised.
- (F) Deferred taxes in respect of land-related temporary differentials arising from addition of businesses occurring prior to January 1, 2005.

- (2) The Company, commencing from January 1, 2005, is implementing Accounting Standard No. 19 relating to "The Taxation of Income" (hereinafter - "the Standard"). Standard 19 prescribes that a deferred tax liability must be recognized in respect of all the taxable temporary differences except for a limited number of exceptions. Furthermore, a deferred taxes asset must be recognized in respect of all deductible temporary differences, tax losses and tax benefits not yet utilized, to the degree that it is anticipated that there will be taxable income against which they can be offset, except in a limited number of exceptional cases. The Standard prescribes that it must be adopted by way of cumulative effect on the change in the methods of accounting commencing from January 1, 2005.

The transition to Accounting Standard 19 amounts in terms of consolidation, to a one time expense of approximately NIS 1.3 million.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 2 - Reporting principles and accounting policy (cont.)

K. Recognition of income

- (1) Income from the leasing and operation of properties is recorded on accrual.
- (2) Other income – is recorded on accrual basis. This income includes, *inter alia*, revenues from building transactions in a subsidiary.

L. Presentation of transactions between a corporation and a controlling shareholder therein

Transactions between the Company and its controlling shareholder are presented as prescribed by the Securities Regulations (Financial Statement Presentation of Transactions between a Corporation and a Controlling Shareholder Therein) 5756-1996. Accordingly, the difference between the consideration received by the controlling shareholder from the sale of a property, and the book value of the property as shown in the Company's books, is carried to shareholders' equity.

M. Use of estimates

In preparing the financial statements in accordance with General Accepted Accounting Principles, management is required to use estimates and evaluations affecting the reported data of assets and liabilities, data concerning contingent liabilities and commitments disclosed in the financial statements and income and expense data in the reporting periods. It is stated that the actual results may differ from these estimates.

N. Foreign currency and linkage

Assets and liabilities in or linked to foreign currency were included as follows:

- (1) Balances linked to the Consumer Price Index were presented in the balance sheet in accordance with the known index on balance sheet date or the index in respect of the balance sheet month, all-according.
- (2) Balances in or linked to foreign currency were adjusted at the representative rates of exchange as of balance sheet date as published by the central banks in the countries in which those companies operate.
- (3) Consumer Price Indices and exchange rates and the rates of change therein -

	Consumer Price Index		Shekel exchange rate of foreign currencies			
	In respect of	Known	US dollar	Czech koruna	Euro	Pound Sterling
As of December 31, 2005	185.05	185.41	4.60	0.19	5.45	7.94
As of December 31, 2004	180.74	180.55	4.31	0.19	5.88	8.31
As of December 31, 2003	178.58	178.94	4.38	0.17	5.53	7.85

	Rate of change in Consumer Price Index		Rate of change in foreign currency exchange rates			
	In respect of	Known	US dollar	Czech koruna	Euro	Pound Sterling
	%	%	%	%	%	%
For the year ended						
December 31, 2005	2.38	2.69	6.85	-	(7.31)	(4.45)
December 31, 2004	1.21	0.90	(1.62)	11.76	6.33	5.86
December 31, 2003	(1.88)	(1.96)	(7.56)	6.25	11.27	2.88

O. Segment –based reporting

Segment-based reporting is presented in accordance with IASB 11. See also Note 29.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 2 - Reporting principles and accounting policy (cont.)

P. Earnings per share

Earnings per share were computed in accordance with Opinion No. 55 of the Institute of Certified Public Accountants in Israel.

Taken into account in computing base earnings per share were convertible securities issued by the Company if there is a probability of their being converted or exercised in accordance with tests prescribed by the Opinion.

Taken into account in computing diluted earnings per share were convertible securities issued by the Company and not included in the base earnings per share computation if their conversion or realisation does not result in an increase in earnings per share (anti-dilutive effect).

Q. Debentures convertible into shares

Debentures convertible into shares are included in accordance with the likelihood of their being converted, as prescribed by Opinion No. 53 of the Institute of Certified Public Accountants in Israel. Debentures unlikely to be converted are included as liabilities at their liability value. Debentures likely to be converted are included between the long-term liabilities item and shareholders' equity, at the higher of their liability value or their capital value.

R. Derivative financial instruments

The fair value of derivative financial instruments is determined in accordance with their market prices or prices for quotation from financial institutions, and absent a market price or a quotation from a financial institution, fair value is determined in accordance with a valuation model.

S. Impairment of assets

Group companies apply IASB 15 – Impairment of Assets (hereinafter – Standard 15). Standard 15 prescribes procedures to be applied by the Company in order to ensure that its consolidated balance sheet assets (to which the Standard applies) are not presented at an amount exceeding their recoverable amount, which is the higher of net selling price and value in use (the current value of the estimated of future cash flows expected to derive from the use and disposal of the asset).

Standard 15 applies to all consolidated balance sheet assets, other than inventory of buildings for sale, tax assets and monetary assets (with the exception of monetary assets constituting investments in investee companies not being subsidiaries). Standard 15 also prescribes principles of presentation and disclosure in respect of impaired assets. When the value of a consolidated balance sheet asset exceeds its recoverable amount, the Company recognises an impairment loss in the amount of the difference between the book value of the asset and its recoverable amount. A loss so recognized will be cancelled only if changes have occurred in the estimates serving to determine the recoverable amount of the asset since the date on which the latest impairment loss was recognized.

In September 2004, the IASB published Clarification No. 1 concerning the accounting treatment of impairment of an investment in an investee company not being a subsidiary (hereinafter – clarification). The clarification determines that in the reporting periods succeeding the period in which an impairment allowance was first created in respect of an investee company not being a subsidiary, the investments in the investee company should be presented at the lower of recoverable amount and investment account by the equity method, recoverable amount being computed for each reporting period in which there are indications that the recoverable amount has changed. Losses from asset impairment in an investee company not being a subsidiary, that were recognised or eliminated during the period are included under Company's equity in the profits (losses) of affiliates.

In February 2005 the IASB published Clarification No.6 concerning the accounting treatment of impairment of assets of an investee company not being a subsidiary. The clarification renders the determination of a refundable sum obligatory in relation to each of the identifiable cash or asset generating units of the affiliate, in respect of which signs exist that indicate an impairment or signs that indicate that a loss resulting from impairment recognized in previous years no longer exists or is small. An impairment or increase in value will be examined from the standpoint of the investee company.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 2 - Reporting principles and accounting policy (cont.)

S. Impairment of assets (cont.)

Utilization value of the assets was computed by capitalizing cash flows expected to derive from the assets at a capitalization rate of between 7.5% and 9% depending on the type and location of the assets and the nature of the lessee. Selling prices was estimated in a number of buildings in accordance with the appraisals of a real estate appraiser.

T. Effect of the changes in foreign currency exchange rates

The Company applies IASB 13 regarding "The Effect of the Changes in Foreign Currency Exchange Rates" (hereinafter - Standard 13) effective as from January 1, 2004. Standard 13 addresses the translation of foreign currency transactions and the financial statement translation of foreign operations for the purpose of their inclusion in the financial statements of the reporting corporation. Standard 13 prescribes principles for classifying foreign operations as an autonomous overseas investee unit or as a long arm, based on indications set forth in the Standard and the use of discretion, and also the mode of translation of the financial statements of such autonomous investee units.

It has been the Company's practice in the past to adjust the reports of certain overseas autonomous companies to the rate of inflation in the countries of domicile of such autonomous overseas companies. These companies do not fall within the definition of a hyper-inflationary environment in accordance with the Standard, and their adjustment to inflation abroad was discontinued effective from January 1, 2004.

The income statements of a foreign autonomous investee unit will be translated in accordance with the exchange rate as of transaction date or, for practical reasons, at the average exchange rate for the period, as distinct from the precedent principles whereby financial statements were to be translated at closing rate.

Impairment of an investment in an overseas autonomous investee unit does not constitute parties realization and therefore part of the translated difference will not be attributed in income and expenditure account when the difference for impairment is recorded.

U. Disclosure of the effect of New Accounting Standards in the period prior to their application

(1) **Accounting Standard No. 22: Financial Instruments: Disclosure and Presentation**

In July 2005 the IASB published Accounting Standard No.22, "Financial Instruments: Disclosure and Presentation" (hereinafter - the Standard). The Standard prescribes the rules of presentation of financial instruments in the financial statements and specifies the proper disclosure required for it. Likewise, the Standard prescribes the mode of classification of financial instruments for a financial liability and for shareholders equity, classification of interest, dividends losses and profits related to them and the circumstances in which financial assets and financial obligations are to be offset. The new Standard will apply to the financial statements for the periods commencing on January 1, 2006 or thereafter. The Standard prescribes that it has to be adopted in a "from here on in" basis. The comparative numbers that are shown in the financial statements for the periods commencing on the date the Standard becomes effective will not be re-presented.

The transition to the Standard will amount to an increase in the shareholders equity of NIS 7,642 thousands as a result of the division of convertible debentures into an obligatory and a capital element, a decrease in long term liabilities amounting to NIS 12,331 thousands as a result of the division of convertible debentures as aforesaid, classification of perpetual capital bonds and classification of transaction costs.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 2 - Reporting principles and accounting policy (cont.)

U. Disclosure of the effect of New Accounting Standards in the period prior to their application
(cont.)

(2) Accounting Standard No. 24: Share-based payment

In September 2005 the IASB published Accounting Standard No.24, "Share-Based Payment" (hereinafter - the Standard). The Standard makes the recognition of share-based payment obligatory in the financial statements, including transactions with employees or other parties which have to be settled by instruments of a capital nature, in cash, or in other assets. Under the Standard, share based payment transactions, in respect of which goods or services are receivable, "are to be recorded according to the fair value". In addition the Standard prescribes various disclosure requirements in relation to the substance and scope of the share-based payment arrangements which would have existed during the year, and in relation to the manner in which the fair value of such arrangements was determined.

The Standard will apply to the financial statements effective from January 1, 2006. Early implementation of the Standard is recommended. The provisions of the Standard must be applied with regard to any share-based payment transaction carried out after March 15, 2005 and which has not yet vested by the date of on which the Standard takes effect. It is also necessary to re-present comparative information in relation to periods from March 15, 2005.

As regards share-based payments which are classified as liabilities (such as phantom schemes) which are in existence on the effective date, the Standard must be applied retroactively and comparative information must be re-presented. Changes in the terms of a share-based payment transaction which are settled by instruments of a capital nature, carried out after March 15, 2005, will be dealt with under the provisions of the new Standard, and it will be necessary to re-present the comparative information that relates to periods from March 15, 2005.

Implementation of the Standard is not expected have an effect on the results of the Company's activities and on its financial position.

(3) Position paper concerning arrangements for the establishment and operation of public assets by the private sector.

In June 2005 the IASB published a position paper concerning arrangements for the establishment and operation of public assets by the private sector (hereinafter: "the position paper"). The position paper, which is based on the English Standard (FRS5), is intended act as a guide for companies in the treatment of such arrangements from an accounting standpoint. According to what is stated in the position paper, the Professional Committee of the IASP intends to adopt the international standard on this subject following its final approval. According to the guidelines in the position paper, an operator that is a public company must apply to the Securities Authority in order to obtain its consent to the adoption of the accounting treatment set forth in the position paper. The proportionately consolidated subsidiary company has entered into an PFI type contract for the planning, construction operation and management of student dormitories in the Hebrew University.

As at the date of the balance sheet construction works on the project are in progress and the amount of construction costs that have been incurred are not significant. In light of the foregoing the Company is examining the implications of the position paper on the treatment of this project from an accounting standpoint.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 2 - Reporting principles and accounting policy (cont.)

U. Disclosure of the effect of New Accounting Standards in the period prior to their application
(cont.)

(4) **Accounting Standard No. 21: Profit per Share**

In February 2006 the IASP published Accounting Standard No.21, "profit per share" (hereinafter - the Standard). The Standard provides that an entity shall calculate the amounts of the basic profit per share as regards profit or loss, that is attributed to ordinary shareholders of the reporting body and further the body shall calculate the amounts of the basic profit per share as regards profit or loss from continuing activities, that are attributable to the ordinary shareholders of the reporting body in the event of such a profit being shown. The basic profit per share is to be calculated by dividing profit or loss, attributable to ordinary shareholders of the reporting body, by the weighted average of the number of ordinary shares existing in circulation during the period. For the purpose of calculating such diluted profit per share a body shall adjust the profit or the loss that is attributable to the ordinary shareholders of the reporting body and the weighted average of the number of existing shares in circulation, in respect of the effect of all the potentially diluted ordinary shares. The Standard will apply to the financial statements for the periods commencing on January 1, 2006 or thereafter. The provisions of the Standard are to be applied retroactively to the comparative data of the profit per share in reference to previous years.

(5) **Accounting Standard No.25: Revenues**

In February 2006 the IASP published Accounting Standard No.25, "Revenues" (hereinafter - the Standard). The Standard prescribes the required accounting treatment (rules as to recognition, measurement presentation and disclosure) regarding revenues arising from the sale of goods, discontinuance of services and the use by others of the body's interest, royalties and dividend - generating assets. The Standard prescribes that a body shall measure its revenues according to the fair value of the consideration that it has received and/or the consideration that such body is entitled to receive. The Standard will apply to financial statements for periods commencing on January 1, 2006, or thereafter. A body that has not previously presented its revenues in accordance with the Standard's requirements as to reporting of gross or net revenues, will retroactively apply the provision of the Standard as regards its revenues for all the reporting periods as comparative figures in the financial statements for the periods commencing on the date on which the Standard takes effect. Assets and liabilities that are included in the financial statements as at December 31, 2005, in amounts that are different from those that would have been acknowledged had the provisions of the Standard been applied, will be adjusted on January 1, 2006 to such amounts as would have been acknowledged in accordance with the provisions of this Standard. The aforementioned effect of the adjustment of the amounts of the assets and liabilities as at January 1, 2006, will be recognized as an accumulative effect of a change in the method of accounting. Except as aforesaid, the comparative figures in the financial statements for the periods commencing on the date on which the Standard becomes effective, will be presented as they have been presented in the past.

Application of the Standard is not expected to have an effect on results of the Company's activities and on its financial position.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 2 - Reporting principles and accounting policy (cont.)

U. Disclosure of the effect of New Accounting Standards in the period prior to their application
(cont.)

(6) **Accounting Standard No.20 (amended): the treatment from an accounting standpoint of goodwill and intangible assets in the acquisition of an investee company.**

In February 2006, the IASP published an amendment to Accounting Standard No.20, "the treatment from an accounting standpoint of goodwill and intangible assets in the acquisition of an investee company" (hereinafter - the Standard). The new Standard replaces Accounting Standard No.20 "the Goodwill Amortization Period". In accordance with the Standard, goodwill and an intangible asset with unlimited practical life spans that were identified at the time of acquisition of an investee company will not be amortized. Instead of this, an impairment of value examination must be carried out once annually, or at a greater frequency if events or changes in circumstances indicate the likelihood of a fall in value of goodwill or of an intangible asset with a long practical use lifespan. The Standard will apply to financial statements for periods that commence on January 1, 2006, or thereafter. The date of the transition to discontinuance of the amortization of goodwill in accordance with the Standard is January 1, 2006. Accordingly, a body shall cease to amortize goodwill that is included in the financial statements, including goodwill included as part of a non-subsiary investee company's investment account, commencing from the financial statements for the periods commencing on the day following the transition date. On the transition date the body will examine impairment of value of the goodwill in accordance with Accounting Standard No.15. The financial statements for the periods in respect of which the Standard has not yet been applied will not be re-presented.

Application of the Standard is not expected to have an effect on results of the Company's activities and on its financial position.

V. Preparation of financial statements

The financial statements are prepared in accordance with the Securities Regulations (preparation of Annual Financial Statements), 5753-1993. Nevertheless, these financial statements, items are classified in the format which, in the opinion of management, is best suited to the nature of the Company's business as a company engaging in investments and holdings, and whose principal assets (investments, fixed assets and land), are not current assets. This format is different from that required under the Securities Regulations (Preparation of Annual Financial Statements) 5753-1993, but is given on the strength of Regulation No. 8 of the aforesaid Regulations, permitting such deviation.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 3 – Fixed assets

A. Composition

Consolidated

	<u>Vacant land</u>	<u>Land & buildings</u>	<u>Furniture & equipment</u>	<u>Motor vehicles</u>	<u>Total</u>
As of December 31, 2005					
Reported amounts					
Cost					
Balance as of January 1, 2005	12,960	2,265,005	15,920	410	2,294,295
Additions	-	175,767	1,547	190	177,504
Translation differences	-	(22,015)	(1,492)	1,257	(22,250)
Disposals	(2,431)	(73,786)	(534)	-	(76,751)
Balance at December 31, 2005	<u>10,529</u>	<u>2,344,971</u>	<u>15,441</u>	<u>1,857</u>	<u>2,372,798</u>
Accumulated depreciation					
Balance at January 1, 2005	-	247,552	11,025	229	258,806
Additions	-	39,648	1,135	55	40,838
Translation differences	-	(1,692)	(126)	(14)	(1,832)
Disposals	-	(3,065)	(283)	(168)	(3,516)
Balance at December 31, 2005	<u>-</u>	<u>282,443</u>	<u>11,751</u>	<u>102</u>	<u>294,296</u>
Allowance for impairment					
Balance at January 1, 2005	-	9,444	-	-	9,444
Depreciation for the period	-	(200)	-	-	(200)
Balance at December 31, 2005	<u>-</u>	<u>9,244</u>	<u>-</u>	<u>-</u>	<u>9,244</u>
Net book value at December 31, 2005	<u>10,529</u>	<u>2,053,284</u>	<u>3,690</u>	<u>1,755</u>	<u>2,069,258</u>
Net book value at December 31, 2004	<u>12,960</u>	<u>2,008,009</u>	<u>4,895</u>	<u>181</u>	<u>2,026,045</u>

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 3 – Fixed assets (cont.)

A. Composition (cont.)

Company

	<u>Vacant land</u>	<u>Land & buildings</u>	<u>Furniture & equipment</u>	<u>Total</u>
As of December 31, 2005				
Reported amounts				
Cost				
Balance as of January 1, 2005	7,870	714,901	1,464	724,235
Additions	-	6,571	-	6,571
Disposals	-	(11,503)	-	(11,503)
Balance at December 31, 2005	<u>7,870</u>	<u>709,969</u>	<u>1,464</u>	<u>719,303</u>
Accumulated depreciation				
Balance at January 1, 2005	-	127,042	679	127,721
Additions	-	13,354	58	13,412
Disposals	-	(2,270)	-	(2,270)
Balance at December 31, 2005	<u>-</u>	<u>138,126</u>	<u>737</u>	<u>138,863</u>
Allowance for impairment				
Balance at January 1, 2005	-	9,444	-	9,444
Depreciation for the year	-	(200)	-	(200)
Balance at December 31, 2005	<u>-</u>	<u>9,444</u>	<u>-</u>	<u>9,444</u>
Net book value at December 31, 2005	<u>7,870</u>	<u>562,599</u>	<u>727</u>	<u>571,196</u>
Net book value at December 31, 2004	<u>7,870</u>	<u>578,415</u>	<u>785</u>	<u>587,070</u>

(*) Reclassified

B. Capitalized costs

<u>Consolidated</u>		<u>Company</u>	
<u>As of December 31</u>	<u>As of December 31</u>	<u>As of December 31</u>	<u>As of December 31</u>
<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Reported amounts		Reported amounts	
<u>129,562</u>	<u>(*)116,195</u>	<u>12,498</u>	<u>12,498</u>

(*) Reclassified

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 3 – Fixed assets (cont.)

C. Additional information

(1) Details on leased real estate

(A) Company

- 1) Includes buildings located on leased land at a net book value of NIS 114,835 as of December 31, 2005 (NIS 118,546 as of December 31, 2004) for which an agreement was executed between the Company and the Weizmann Institute of Science (hereafter: "The Institute"), whereby the Company obtained a right to a lease of land for the establishment of a science park for industries approved by the Institute. Under the terms of the agreement, the land and the buildings that are to be constructed, together with their facilities, will become the property of the Institute, free of consideration, at the ending of the lease term in 2029. In respect of this leasehold, the Company is to pay annual lease fees at a rate of 7% of the value of the land excluding development and betterments made by the Company, as valued by a real estate appraiser every ten years. The latest valuation regarding the area developed at Stage 1 is at 2001 land prices, and in respect of Stage 2 at 1999 land prices. The leasehold fees are linked to the Consumer Price Index.
- 2) Africa Israel House in Yehud at a net book value of NIS 15,480 thousands as of December 31, 2005 (NIS 15,757 thousands as of December 31, 2004). The land is held under capitalized lease conditions for a period of 49 years (until 2042) with an option to extend for another 49 years.
- 3) Land in Yehud on which the Company has built a commercial centre, the amortized cost of which (including the buildings thereon) as at December 31, 2005, is approximately NIS 92,154 thousands (approx. NIS 94,029 thousands as of December 31, 2004) as at December 31, 2004, which is leased on a capitalized lease term from the Israel Lands Administration until 2042.

(B) Consolidated

- 1) Real estate in Prague (Czech Republic)

Rights in land and buildings at a net book value of NIS 51,541 as of December 31, 2005 (NIS 64,051 as of December 31, 2004) acquired in Prague by subsidiaries and leased on completion of renovations. The lands were leased from the Czech authorities for periods of 30 and 50 years in consideration of annual lease fees.
- 2) Real estate in Amsterdam (Holland)

Rights in land and in a building at a net book value of NIS 35,075 thousands as of December 31, 2005 (NIS 38,664 thousands as of December 31, 2004) acquired in Amsterdam by a subsidiary and leased out in part. The land is leased from the Municipality of Amsterdam until 2040.
- 3) Real estate in Toronto (Canada)

Rights in land and in a building at a cost of NIS 121,630 thousands as of December 31, 2005 (NIS 52,947 thousands as of December 31, 2004), acquired by a subsidiary and leased for 99 years in consideration of annual lease fees. A rental apartment project is being built on the land.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 3 – Fixed assets (cont.)

C. Additional information (cont.)

(1) Details on leased real estate (cont.)

B) Consolidated (cont.)

- 4) Land and buildings for leasing in Migdal Haemeq, at a net book value as of December 31, 2005 of NIS 17,052 thousands (NIS 19,920 thousands as of December 31, 2004) serving as science park. The rights in the land are held under a capitalized lease at a rate of 91% until 2044 with an option to extend for a further 49 years.
- 5) Land in Lod owned by a subsidiary in an area of some 26.2 dunam (6.55 acres) at a cost of NIS 6,551 thousands as of December 31, 2005 and December 31, 2004, held under a capitalized lease from the Israel Lands Administration for a period of 49 years (ending in part in 2052 and in part in 2043) with an option to extend for a further 49 years. Buildings for high-tech and computer industries have been erected on the land. The leasehold rights are not yet registered in the name of the subsidiary.
- 6) Land in the "Kiryat HaMemshala" ("Government Compound") Project - the share of the Company (consolidated) in the cost of the land including construction thereon as of December 31, 2005 is NIS 317,674 thousands (NIS 295,855 thousands as of December 31, 2004). On land in an area of 6.7 dunam (1.675 acres) in Tel-Aviv owned by a proportionately consolidated (50%) subsidiary, an office building and commercial areas are being constructed. The land is leased for a period of 49 years (until 2053) with a right to extend for a further 49 years.
- 7) Includes the share of a subsidiary in the cost of acquiring fully (91%) capitalized leasehold rights of land in an area of 2.5 dunam (0.625 acres) on which a shipping mall is being built in the Talpiot Industrial Zone of Jerusalem, plus costs incidental to the acquisition of some NIS 4 million. The leasehold rights were acquired for a period of 49 years ending 2018, with an option to extend on such conditions as shall be generally accepted at that period.
- 8) In October 1979 a subsidiary purchased from the Weitzman Institute for Science (by way of a perpetual lease) land covering an area of approximately 30 dunams, in the high-tech science based industries complex in Ness Ziona (Kiryat Weitzman). According to the approved town planning scheme buildings can be erected on this area of the land which is intended for high-tech industry.
In this context the Company has completed the construction of 7 multi-use buildings covering a total area of 31,300 square meters which have been leased at economic rents.

(2) Additional details

- (A) The fixed assets Includes the cost of industrial buildings for leasing in a subsidiary net of investment grants received correct to December 31, 2005 at an original amount of NIS 7,328 thousands. See also Note 26 (C) (2)
- (B) On September 18, 2005, the Company signed an agreement for the sale of the Company's share in the car park. Under the agreement the purchaser undertook to pay the Company NIS 9.3 million partially in cash and in 10 half yearly instalments each of NIS 589 thousands, and with the addition of NIS 500 thousands in each of the ensuing 4 years. The Company has posted a capital loss of NIS 259 thousands from this transaction.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 3 – Fixed assets (cont.)

C. Additional information (cont.)

(2) Additional details (cont.)

(C) On September 29, 2005 a subsidiary signed an agreement with a third party (hereinafter: "the Buyer") for sale of the vacant land in the Company's possession. The sale consideration, totalling NIS 5,882 thousands was deposited in its entirety with a trustee until fulfilment of all the terms and conditions in the agreement which are of a technical nature. The subsidiary company has posted a profit in its books of NIS 3,127 thousands.

The agreement contains a requirement of the furnishing of certificates from government institutions certifying approval of the sale and transfer of the rights, by January 31, 2006.

(D) In 2003 a loss was recorded from a fall in value of assets, amounting to approximately NIS 9, 644 thousands (approximately NIS 6,172 thousands net after tax) which has been included in the other expenses item in the statement of income and expenditure.

In examining a recoverable amount of the assets based on utilization value a capitalization rate of 7.5% was used.

(E) The following are details of real estate rights:

	<u>Year of expiry of leasehold (without options)</u>	<u>Company</u>	<u>Consolidated</u>
		<u>Net book value as of December 31, 2005 (*)</u>	
		<u>Reported amounts</u>	
Freehold		348,727	1,078,296
Under a capitalized lease	2040	-	35,075
	2042	107,634	107,634
	2043	-	6,551
	2044	-	17,052
	2052	-	96,623
		<u>107,634</u>	<u>262,935</u>
Under a non-capitalized lease	2018	-	4,073
	2027	-	1,934
	2029	114,835	114,835
	2033	-	28,386
	2048	-	49,607
	2102	-	121,630
		<u>114,835</u>	<u>320,465</u>
Development rights	2048	-	317674
Other		-	89,888
Total		<u>571,196</u>	<u>2,069,258</u>

Part of the freehold or leasehold lands have yet to be registered in the name of the Group companies in the Registry of Lands, primarily for technical reasons.

(*) Includes furniture and equipment serving as an integral part of the buildings.

D. Guarantees and liens (see Note 26)

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 4 – Investments in investee companies

A. Composition

	<u>Consolidated</u>		<u>Company</u>	
	<u>As of December 31</u>		<u>As of December 31</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	<u>Reported</u>	<u>Reported</u>	<u>Reported</u>	<u>Reported</u>
	<u>amounts</u>	<u>amounts</u>	<u>amounts</u>	<u>amounts</u>
<u>Investment in share capital</u>				
Subsidiaries	-	-	198,241	198,241
Affiliates	13,071	27,296	13,071	13,071
Proportionately consolidated company	-	-	532	532
	<u>13,071</u>	<u>27,296</u>	<u>211,844</u>	<u>211,844</u>
<u>Loans</u>				
Subsidiaries	-	-	141,221	132,606
Affiliates	45,938	37,976	23,519	21,579
Proportionately consolidated company	-	-	30,694	8,500
	<u>45,938</u>	<u>37,976</u>	<u>195,434</u>	<u>162,685</u>
Allowance for impairment of investment in affiliate	(6,718)	(1,618)	(1,618)	(1,618)
<u>Company's equity in capital reserves and accrued profit (loss), net</u>				
Subsidiaries	-	-	80,911	110,028
Affiliates	(30,320)	(16,685)	(16,719)	(13,943)
Proportionately consolidated company	-	-	855	(237)
	<u>(30,320)</u>	<u>(16,685)</u>	<u>65,047</u>	<u>95,848</u>
Investment in capital note in subsidiary (*)	-	-	107,906	107,906
	<u>21,971</u>	<u>46,969</u>	<u>578,613</u>	<u>576,665</u>

(*) A capital note issued to the Company by a subsidiary is non-interest-bearing and unlinked and no repayment date has been specified thereto – see also Note 1B (4).

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 4 – Investments in investee companies (cont.)

B. Movement in investment in investee companies for the year ended December 31, 2005

Reported amounts	Consolidated	Company
Balance at January 1, 2005	46,969	576,665
Movement in the period:		
Company equity in capital reserves and profits (losses), net	(9,057)	42,669
Dividends	-	(68,000)
Adjustments from translation of financial statements of autonomous investee companies	-	(4,693)
Capital fund because of controlling shareholder	-	(777)
Loans	7,962	32,749
Realization of investment in subsidiaries overseas (1)	(18,803)	-
Provision for impairment of investment in affiliate	(5,100)	-
Balance at December 31, 2005	<u>21,971</u>	<u>578,613</u>

(1) See Note 4D (7)

C. Composition of loans to investee companies

	<u>Annual interest rate</u>	<u>Consolidated</u>		<u>Company</u>	
		<u>As of December 31</u>		<u>As of December 31</u>	
		<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
		<u>Reported amounts</u>	<u>Reported amounts</u>	<u>Reported amounts</u>	<u>Reported amounts</u>
Linked to the Consumer Price Index (1)	3%	23,519	21,580	23,519	21,580
Linked to the Consumer Price Index (2)	5.2%	17,570	16,396	-	-
Linked to the Consumer Price Index (3)	-	4,849	-	-	-
Linked to the Consumer Price Index (4)	4%	-	-	7,762	13,712
Linked to the euro (4)	(*) 3M Eurobour +1.8% - 2.5%	-	-	111,062	67,665
Linked to the euro (4)	-	-	-	-	17,589
Linked to the Canadian dollar (4)	-	-	-	22,397	33,639
Linked to the Consumer Price Index (5)	-	-	-	30,694	8,500
		<u>45,938</u>	<u>37,976</u>	<u>195,434</u>	<u>162,685</u>

(*) The 3M Eurobour interest rate is 2.2% as of December 31, 2005.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 4 – Investments in investee companies (cont.)

C. Composition of loans to investee companies (cont.)

- (1) In October 1994, the Company contracted in an agreement with Haifa Quarries Ltd. and its shareholders whereby Haifa Quarries Ltd. would allocate shares to the Company in such a way that following the allocation, the Company would hold 45% of the share capital of Haifa Quarries Ltd.. Haifa Quarries Ltd. holds the Lev HaMoshava project in Haifa (hereafter: "the project").

Under the terms of the agreement, the Company undertook to provide Haifa Quarries Ltd. with a long-term owners' loan in the amount of NIS 12,000,000 linked to the Consumer Price Index and bearing linked interest at a rate of 3% per annum from date of execution of the agreement to date of every actual payment. In the reported period, the Company provided an additional loan on identical terms in the amount of NIS 735, thousands. As of December 31, 2005, there remained outstanding in respect of the owners' loans a sum of NIS 1.4 million. No repayment date has yet been set for the above-mentioned loans.

- (2) A subsidiary extended to a joint venture (subsidiary's share – 40%) an index-linked loan bearing interest at a rate identical to the interest rate to be agreement with the lending bank pursuant to the bank's financial coverage of the joint venture. The loan is repayable out of the first receipts available for distribution in the joint venture, as defined in the contractual agreement. See also D (3) below.
- (3) A subsidiary company has made available to the Management Company of the Talpiot Shopping Mall in Jerusalem, an index linked loan. Dates of repayment of the loan have not yet been fixed.
- (4) Loans granted in the past to subsidiaries by Africa Israel and companies in the Africa Israel group for investment financing were replaced on October 1, 2004, by the above-mentioned loans. No repayment date has yet been set for the loans. The interest on the loans will be payable on demand.
- (5) The loan was granted to a proportionately consolidated company, is linked to the Consumer Price Index, is non-interest-bearing and has no repayment date.

D. Additional details

- (1) In 2002, City Centre (M.A.T.) Management Ltd. was founded, being wholly owned by Haifa Quarries Ltd. and is responsible for operating and managing the project. For the purpose of the operation and management of the project, City Centre (M.A.T.) Management Ltd. contracted with a 3rd party, which, in consideration of its services, is entitled to management fees.
- (2) In the Report, the subsidiary deducted NIS 5.1 million from the surplus balance of the investment in an affiliated joint transaction and with an affiliated company, due to impairment of the value of the investment, which is shown by the balance sheet value. method. The use value of the asset is calculated by capitalization of the cash flows that are expected to be generated from the asset as a capitalization rate of 7.5%. This amount has been recorded in the "Company's share of investee companies losses" item in the statement of income expenditure.
- (3) A subsidiary contracted together with other partners (subsidiary's share – 40%) in a joint venture (hereafter: "the JV") for the construction of a shopping mall in the Talpiot Industrial Zone in Jerusalem, presented in the subsidiary's books by the equity method. For the purpose of setting up the project, the JV acquired rights in land in an area of 2.5 dunam (0.625 acres). The rights in this land are recorded in the books of the joint venturers pro rata to their share. Also, the JV acquired rights in additional lands adjacent to the abovementioned lot. In addition, the JV leased an adjacent lot in an area of 6.5 dunam (1.625 acres) for a period of 132 months commencing February 1, 2000, with an option to extend for a further period of 120 months. On expiry of the lease term, the lot and construction thereon will be restored to the lessor's possession.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 4 – Investments in investee companies (cont.)

D. Additional details (cont.)

- (3) (cont.)
A shopping mall has been built on all the above-mentioned lands, which incorporates commercial areas, offices and a parking lot..
Differences of opinion have arisen between the subsidiary and some (20%) of the joint venture partners. The subsidiary is demanding that the partners contribute to certain costs in respect of construction and operation of the project, and put up some of the shareholder's equity that is required for the project, as well as additional demands, of which the Company's share amounts to approximately NIS 14.3 million. The partners are refuting some of these demands. The disputes between the parties in connection with the aforementioned demands were referred to an independent external arbitrator appointed for such purpose by agreement between the parties.
The project is proceeding with the assistance of banking facilities, in order to secure the bank credit facility the rights in the transaction have been charged in favor of the bank. Africa Israel has guaranteed the consolidated company's liabilities to the bank.
- (4) In the financing agreements with the Austrian Bank as stated in Note 26B(8) it was provided in respect of three companies in which the Austrian Bank is a shareholder that the profits during the first three years following completion of the renovation of the properties of two companies and during the first five years following completion of the renovations in the project of a third company, would be divided in a 25/75 ratio between international properties and the Bank (as opposed to shareholdings of 63% and 64%)
- (5) In February 2005 a transaction was completed in which a subsidiary sold properties and operations of one of its Canadian subsidiaries in which the subsidiary holds (indirectly) 55% of the share capital.
Under the terms of the purchase agreement 2 foreign companies purchased from the Canadian Company, the lands, buildings, lease contracts and the Canadian Company's rights to goods and chattels in relation to the apartments project consisting of about 103 housing units in Toronto - Canada, for a consideration of 20.7 million Canadian Dollars. The subsidiary posted a profit (after tax) in respect of this transaction in its financial statements for the reporting period, amounting to NIS 6.6 approx.
- (6) In December 2005, a subsidiary closed a contractual agreement with a foreign company (hereinafter: "the Seller"), owned by American Investment Funds dealing in investments in the field of real estate in Europe, for their purchase (directly or indirectly through a joint corporation) of 50% of the Seller's rights in a Cypriot Company (hereinafter: "the purchased company"), which owns land of an area of approximately 120 dunams in central Bucharest, Romania (hereinafter: "the plot"). At the date of signature of the memorandum of understanding the Seller owns 98% of the rights in the purchased company.
The consideration for the rights in the purchased company was fixed at 9 million Euros approx. Real Estate projects can be constructed on the plot under various zonings and in this regard it has been decided that the zoning of the plot be determined subsequently by agreement between the parties. In the Company's estimation it will be possible to build various projects on the plot amounting to at least 150,000 square meters. It was further agreed that the purchasing company would be granted a right of first refusal for the acquisition of a further area of 40 dunams adjacent to the plot.
The transaction was completed at the beginning of 2006.
- (7) During the year transactions were completed in which affiliates of the subsidiary (the subsidiary's share - 49%) sold 3 properties in England for a consideration of approximately 45.4 million Pounds Sterling. The sale consideration was utilized principally in repaying loans to banks amounting to approximately 37.3 million Pounds Sterling and in repayment of loans to the shareholders amounting to approximately 4.0 million Pounds Sterling, the Company's share being approximately 2.0 million Pounds Sterling.
As a result of sale of their assets the affiliates ceased their operations and entered into the processes of voluntary liquidation. The overall effect of the sale and liquidation (after tax) is a profit of approximately NIS 0.6 million in the statements of the subsidiary.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2004

Note 4 – Investments in investee companies (cont.)

D. Additional details (cont.)

- (8) In December 2005 a transaction was completed for sale of rights in the Vltava Park project in Prague (Czech Republic) from a Czech company which is wholly owned by the subsidiary, to another Czech company in which the subsidiary holds (indirectly) 50%. The financial statements of this company are consolidated in the financial statements of the subsidiary as it is controlled by it.
- (9) In 2003 there was for the first time a proportionate consolidation of the financial statements of the company's in Canada held by the subsidiary at a rate of 55%. See also Section D (11) (b) hereunder.
- (10) The Company's share in the assets and liabilities of the proportionately consolidated companies as included in these financial statements:

	<u>As of December 31</u>	
	<u>2005</u>	<u>2004</u>
	<u>Reported Amounts</u>	
Fixed assets	547,835	518,268
Working capital, net	(50,087)	(36,474)
Long –term liabilities	(477,338)	(479,372)
Deferred taxes, net	(1,551)	(896)

- (11) Newly consolidated companies for the first time in 2004
- (A) The financial statements of a Serbian company building a precinct of offices for leasing in Belgrade, and which is 100% invested were consolidated for the first time in 2004.

The following are details of the aforementioned company as included in the Financial Statements:

	<u>On date of commencement of control therein</u>	<u>As of December 31, 2004</u>
	<u>Reported amounts</u>	
Cash and cash equivalents	952	1,070
Working capital (other than cash and cash equivalents), net	(12,223)	(833)
Fixed assets, net	43,836	51,881
Long term loans received	(32,565)	(52,118)

- (B) In 2004 the financial statements of two related companies that had been previously proportionately consolidated, were fully consolidated.

	<u>On date of commencement of control therein</u>	<u>As of December 31, 2004</u>
	<u>Reported amounts</u>	
Cash and cash equivalents	855	2,201
Working capital (other than cash and cash equivalents), net	(1,239)	(55,921)
Fixed assets, net	36,661	109,666
Long-term receivables	1,760	-
Long-term loans	(17,945)	(33,658)
Other long-term liabilities	(1,455)	(3,779)
Minority rights	(18,637)	(18,509)

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2004

Note 4 – Investments in investee companies (cont.)

D. Additional details (cont.)

- (12) (A) Previously consolidated company included in proportionate consolidation in 2004
 Commencing December 31, 2004, the consolidated financial statements include the proportionate consolidation of a company previously fully consolidated, due to a decrease in the rate of holding from 100% to 50%, deriving from the sale of a portion of the shares in that company to a 3rd party.
 During December 2004 the Company signed an agreement with an Irish Company for sale of 50% of the issued share capital of its foreign subsidiary, which owns the entire rights in the Palace Flora shopping mall in Prague, Czech Republic (hereinafter - Flora). The consideration for the transaction was fixed at NIS137 million approx.
 In 2004 the Company posted a profit on the transaction amounting to 99.2 million shekels approx.
 In the year of the report an additional capital gain was posted due to completion of the said transaction, amounting to NIS 1.8 million approx.
 In addition a memorandum of understanding was signed between Flora and an Austrian Banking Corporation for the refinancing of the mall. As part of the said refinancing, all the owners' loans that had been made available to Flora were repaid.
- (B) The following are details of the aforementioned company which were included previously

**On date of
deconsolidation**

Balance sheet

Cash and cash equivalents	6,920
Working capital (other than cash and cash equivalents)	(3,104)
Fixed assets, net	210,918
Long-term debit balance	7,199
Deferred taxes, net	(887)
Long-term liabilities (net of current maturities)	(212,626)

**For the period
from the
beginning of 2004
to the selling date**

Income statement

Income turnover	43,906
Net profit	5,508
Group equity in profit	5,508

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2004

Note 5 – Loans and long-term liabilities

A. Composition

	Annual interest rate	Consolidated		Company	
		As of December 31 2005	As of December 31 2004	As of December 31 2005	As of December 31 2004
		Reported amounts		Reported amounts	
Loans – linkage conditions					
Linked to the Consumer Price Index (1)	5.2%	4,387	3,742	-	-
Linked to the US dollar (2)	-	34,348	32,146	34,348	32,146
Linked to the Canadian dollar	2%+Libor(*)	20,217	10,546	-	-
		58,952	46,434	34,348	32,146
After deduction of current maturities		(20,217)	-	-	-
		38,735	46,434	34,348	32,146
Long-term receivables					
Receivables for sale of land (3)		5,622	-	5,622	-
Other receivables		-	1,800	-	1,800
		44,357	48,234	39,970	33,946

(*) The Libor interest rate as at December 31, 2005 is 3.5%

- (1) A subsidiary provided loans to some of the joint venturers. The loans are linked to the Consumer Price Index and bear interest at a rate that is to be identical to the interest rate to be agreed with the lending bank pursuant to the bank's financial coverage of the Joint Venture. Loans and interest are repayable forthwith after repayment of the debts to the lending bank or within 5 years as of commencement of the commercial operation of the JV project, whichever is the earlier.
- (2) As agreed with a third party with which a combined transaction is being pursued, the Company granted it shekel loans in an amount equivalent to US \$ 4 million. Rules were prescribed in the loan agreements for calculating the interest. Payments made by the Company for a 3rd party were carried to long-term loans, on conditions identical to those of the original loan. As security for the above-mentioned loans, a mortgage was recorded in favour of the Company on 3rd party real estate serving as the object of the aforesaid transaction, and also, all the 3rd party's rights to any receipts from the leasing and/or sale of units to be built pursuant to the aforesaid transaction were converted.. For reasons of conservatism, interest on the aforesaid loans was not attributed commencing as from January 1, 2004. Africa Israel stands guarantor towards a 3rd party for the fulfilment of the Company's undertakings pursuant to the combined transaction agreement.
- A third party undertook to repay the loan within 12 months as from date of obtaining Form 4 for the building due to be constructed. But if, other than by reason of omissions on the part of the Company, such form is not issued within 67 months as of date of execution of the agreement, despite the project already being under actual construction, the repayment date of the loan shall be upon obtaining Form 4.
- Differences of opinion arose between the Company and a 3rd party. According to the Company, even though the loans fell due on receipt of Form 4, i.e. in July 2001, the 3rd party did not repay the loans. The 3rd party has various complaints against the Company, and *inter alia*, 3rd party alleges delays on the part of the Company in building permit issuance procedures for the project, delays in promoting approval of the new plan, and delays in executing construction works on the project. 3rd party alleges that it is entitled to offset NIS 45 million from the loan moneys in respect of its complaints. The Company has notified 3rd party that it rejects these allegations. Accordingly, the Company has called for repayment of the loan together with arrears interest from the day on which it became repayable and also compensation in respect of additional damages occasioned to it by 3rd party. The Company's total claims amount to NIS 54 million. The disputes between the parties were placed before an independent external arbitrator appointed by mutual consent of the parties.
- In the estimation of the Company's management, based, *inter alia*, on the collateral received by the Company, no material loss will be occasioned to it and accordingly, no allowance was created in the financial statements in respect of the aforesaid disputes.
- (3) As regards sale of the land, see Note 3C (2) (c) above.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 5 – Loans and long-term liabilities (cont.)

B. Repayment dates

	<u>Consolidated</u>	<u>Company</u>
	<u>As of December 31, 2005</u>	
	<u>Reported amounts</u>	
First year - current maturities	20,217	-
Second year	1,678	1,678
Third year	1,678	1,678
Fourth year	1,678	1,678
Fifth year	588	588
Repayment date not set	38,735	34,348
	44,357	39,970
	64,574	39,970

C. Breakdown by size

	<u>As at December 31, 2005</u>			
	<u>Consolidated</u>		<u>Company</u>	
	<u>Balance sheet</u>		<u>Balance sheet</u>	
	<u>Number of</u> <u>deposits</u> <u>and loans</u>	<u>balance</u> <u>Reported</u> <u>amounts</u>	<u>Number of</u> <u>deposits</u> <u>and loans</u>	<u>balance</u> <u>Reported</u> <u>amounts</u>
<u>Amount of loans</u>				
Up to 10 thousands	3	10,009	1	5,622
Over 10 thousands	2	54,565	1	34,348
	5	64,574	2	39,970

Note 6 – Other assets and deferred charges

	<u>Consolidated</u>		<u>Company</u>	
	<u>As of December 31</u>		<u>As of December 31</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	<u>Reported amounts</u>		<u>Reported amounts</u>	
Leasehold property improvements:				
Original amount	2,400	5,279	-	-
Less – accumulated amortization	(390)	(2,752)	-	-
	2,010	2,527	-	-
Expenses in respect of debenture issuance:				
Original amount	13,104	9,109	13,104	9,109
Less – accumulated amortization	(3,444)	(727)	(3,444)	(727)
	9,660	8,382	9,660	8,382
Long-term prepaid expenses:				
Original amount	8,065	9,273	-	-
Less – accumulated amortization	(1,385)	(1,926)	-	-
	6,680	7,347	-	-
Others:				
Original amount	700	722	-	-
Less – accumulated amortization	(198)	(159)	-	-
	502	563	-	-
	18,852	18,819	9,660	8,382

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 7 – Trade

	Consolidated		Company	
	As of December 31		As of December 31	
	2005	2004	2005	2004
	Reported amounts		Reported amounts	
Tenants, lessees of properties	11,681	8,761	2,757	2,329
Less – allowance for doubtful accounts	(1,964)	(1,909)	(33)	(33)
	<u>9,717</u>	<u>6,852</u>	<u>2,724</u>	<u>2,296</u>

Note 8 – Accounts receivable

	Consolidated		Company	
	As of December 31		As of December 31	
	2005	2004	2005	2004
	Reported amounts		Reported amounts	
Advances to suppliers and prepaid expenses	16,144	9,441	5,867	5,572
Institutions	7,079	2,538	906	368
Receivables in respect of sale of shares in an investee company	2,520	123,983	-	-
Receivables in respect of fixed assets	12,187	6,007	1,885	-
Current maturities of long term loans	20,217	-	-	-
Receivables	3,791	7,672	3,791	7,672
Other	10,080	8,556	4,480	2,812
	<u>72,018</u>	<u>158,197</u>	<u>16,929</u>	<u>16,424</u>

Note 9 – Deposits

Represents Canadian dollar deposits with a bank by a subsidiary, bearing interest at 2% per annum and repayable at the beginning of 2006.

Note 10 – Cash and cash equivalents

	Consolidated		Company	
	As of December 31		As of December 31	
	2005	2004	2005	2004
	Reported amounts		Reported amounts	
In Israeli currency	1,553	1,418	1,293	450
In foreign currency	99,715	137,610	14	116,739
Bank deposits	116,550	108,141	186,601	106,667
	<u>217,818</u>	<u>247,169</u>	<u>187,908</u>	<u>223,856</u>

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 11 – Shareholders' equity

A. Composition as of December 31, 2004:

	<u>As of December 31</u> <u>2005</u>		<u>As of December 31</u> <u>2004</u>	
	<u>Authorized</u> <u>shares</u>	<u>Issued and</u> <u>paid up</u>	<u>Authorized</u> <u>shares</u>	<u>Issued and</u> <u>paid up</u>
Ordinary shares of NIS 1 n.v.	<u>20,000,000</u>	<u>12,631,579</u>	<u>20,000,000</u>	<u>12,000,000</u>

B. The Company, in general meeting in August 2004, resolved to increase the Company's authorized share capital by NIS 14,880,000. The Company also resolved to consolidate and modify the rights attaching to the existing shares in such a way that the Company's authorized capital will stand at NIS 1,500,000 divided into 15,000,000 ordinary shares of NIS 1. n.v.

In addition to the aforesaid, the Company allocated additional shares to its shareholders aggregating NIS 2 n.v.

Also, in September 2004, 9,000 ordinary shares of NIS 1 n.v were allocated to Africa Israel in consideration of all of Africa Israel's rights and obligations in connection with the Ramle-Gezer-Modi'in transaction (hereinafter: "RGM") (see Note 26A (15) and in addition, 9,875,000 ordinary shares of NIS 1 n.v. were allocated as bonus shares.

In September 2004, the Company resolved in general meeting to increase the Company's authorized share capital in such a way that the Company's authorized share capital will stand at NIS 20,000,000.

C. In September 2004, the Company issued, pursuant to a Prospectus, shares, "B" series convertible debentures (hereafter: "the debentures"), Series 1 options, and Series 2 options as follows:

(1) Shares

- 2,000,000 ordinary registered shares of NIS 1 n.v.
- The net issuance proceeds attributed to the shares amounted to NIS 197 million altogether.

(2) Convertible debentures (Series B)

- The convertible debentures (Series B) were issued in excess of their nominal value. The premium rate following attribution of value to the shares, the Series 1 options and the Series 2 options was 3.87%.

The exact premium rate, also taking into account an additional issuance of convertible debentures following exercise of its share of the Series 2 options, is approximately 1.75%.

- The net issuance proceeds attributed to the "B" Series debentures amounted to NIS 151 million (not including issuance as a result of conversion of warrants (Series 2)
- As regards the conditions of the convertible debentures, see Note 16.
- As regards additional issuance following conversion of a Series 2 option warrant, see sub-paragraph D hereafter.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 11 – Shareholders' equity (cont.)

- C. Convertible debentures (cont.)
- (3) Series 1 options
- 1,000,000 registered Series 1 options exercisable until December 31, 2007, other than on the 12th to the 16th of every calendar month, into ordinary shares of NIS 1 n.v, such that each Series 1 option shall be exercised into one ordinary share as against cash payment of NIS 130 linked to the Consumer Price Index (subject to adjustments).
 - The net proceeds of the issuance attributed to the Series 1 options amounted to NIS 20 million.
 - As a result of a distribution of dividends to the Company's shareholders on April 19, 2005 and December 20 2005 the conversion rate was adjusted and it stands at NIS 122.29 per option warrant (Series 1) index linked.
 - As part of the Company's prospectus Africa Israel undertook that on December 29 2005, it would offer to acquire, during trading on the Stock Exchange, all the option warrants (Series 1) at a price of NIS 20 per option warrant (Series 1), linked to the Consumer Price Index. In accordance with such undertaking Africa Israel, on December 29, 2005, acquired 273,259 option warrants (Series 1) at a price of NIS 20.52 per option (Series 1). As at the date of this report Africa Israel holds 261,316 option warrants (Series 1).
With reference to exercise of options (Series 1) after the balance sheet date, see note 31(D).
- (4) Series 2 options
- 1,000,000 registered Series 2 options exercisable until September 30, 2004 into NIS 100,000,000 n.v "B" Series convertible debentures in such a way that each 2 Series option is exercisable into NIS 100 n.v "B" Series convertible debentures as against cash payment of NIS 95 linked to the Consumer Price Index.
 - The net proceeds of the issuance attributed to 2 Series options amount to NIS 9 million.
- Net issuance proceeds were attributed proportionate to the relative weight of the value of the issued securities (shares, convertible debentures, Series 1 options and Series 2 options), out of total issued securities value. The issued securities value was reached on the basis of the average market price of the securities in the three first post-issuance trading days.
- Re the conversion of certain options, see sub-paragraph D below.
- D. Up to the balance sheet date, a total of 995,695 2 Series options were converted into NIS 99,569,500 n.v debentures. The remaining un-exercised options have expired.
- E. In December 2005, a related party exercised the option at his disposal and acquired 631,579 ordinary shares of the Company (see Note 27B hereunder).
- F. In September 2004, the Company's Board of Directors resolved to approve a plan for the allocation of options to employees of the Company, of a subsidiary and of the parent company (hereafter: "the plan"). In addition to the approval of the Company's Board of Directors, the plan was also approved by the Company in general meeting. Under this plan, the Company will allocate to 15 employees of Africa Israel discharging some office in the Company (of whom 5 serve as company directors and two are office holders in the Company) or who provide it with services, and also an employee of its subsidiary, 235,500 non-marketable options (hereafter: "the options") exercisable into 235,500 ordinary shares of NIS 1 n.v of the Company (subject to adjustments) (hereafter: "the exercise shares"). In any event of the options being exercised, the entire quantity of exercise shares will not be issued, but only that quantity of exercise shares that reflects the bonus component of the exercised options, as shall be computed on date of exercise of such options.
In December 2004, options were allocated in accordance with the resolution of the Board of Directors and the approval of the general meeting as aforesaid and by the date of signature of the financial statements 38,650 option warrants had expired due to termination of employee-employer relationships
- G. As regards the resolution of the Company's Board of Directors on setting dividend policy, see Note 26 A (18).

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 12 – Capital note

On April 1, 1995, the parent company was issued with an unlinked, non-interest bearing, and non-repayable NIS 40 million capital note.

Note 13 – Loans from banks (consolidated)

A. **Composition**

<u>Linkage conditions</u>	<u>Interest rates as of December 31, 2004</u>	<u>Consolidated As of December 31</u>	
		<u>2005</u>	<u>2004</u>
		<u>Reported amounts</u>	
Linked to the Consumer Price Index	3.6% - 3.8%	277,764	303,404
Linked to the euro	(*) 3M Eurobour +1.9% - 2.45%	279,458	275,671
Linked to the euro	6.65%	23,354	25,762
Linked to the Canadian dollar	(**) Prime + 1%	76,032	68,179
Unlinked	5.25%	47,134	27,006
		703,742	700,022
Net of current maturities		(121,104)	(103,975)
		582,638	596,047

(*) The 3M-Euribour interest rate as of December 31, 2005 is 2.2%.

(**) The prime interest rate as of December 31, 2005 is 6.05%.

B. **Repayment dates**

	<u>Consolidated As of December 31 2005 Reported amounts</u>
First year – current maturities	121,104
Second year	92,743
Third year	177,762
Fourth year	44,060
Fifth year	8,297
Sixth year and thereafter	259,776
	582,638
	703,742

C. As regards financial criteria – see Note 26D.

D. Guarantees and liens – see Note 26B.

Note 14 – Loans from related companies

The loan received from a subsidiary of Africa Israel, bears variable annual interest at the prime rate in effect from time to time with Bank Leumi, net of 1.25% per annum. The repayment term of the loan is until shortly after the expiry of the “A” Series debentures as per Note 15A, (2013), and in a manner compatible with the Company’s obligation pursuant to the debentures, see Note 26 D (1).

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 15 – Debentures

- A. In February 2004, the Company issued “A” series CPI-linked debentures bearing annual interest at a rate of 5.6%, repayable in 8 equal annual instalments at the beginning of every calendar year commencing January 2006. As regards financial criteria, see Note 26D.
- B. Repayment dates

	Consolidated & company As of December 31, 2005 Reported amounts
First year – current maturities	33,872
Second year	33,872
Third year	33,872
Fourth year	33,872
Fifth year	33,872
Sixth year and thereafter	101,618
	237,106
	270,978

Note 16 – Debentures convertible into shares

- A. In September 2004, the Company issued NIS 150,000,000 n.v registered convertible debentures (Series B), registered for trading on the stock exchange bearing annual interest at a rate of 4.65%, CPI-linked. The principal of the convertible debentures is linked the CPI and is repayable in four equal annual instalments on October 2 of each of the years 2006 – 2009 (inclusive). As a result of the exercise of options (Series 2) (see Note 11C (4)) the balance of the debentures (Series B) in circulation as of December 31, 2005 stands at NIS 249,569.500 n.v. The debentures are convertible into the Company's ordinary shares of NIS 1 n.v, in such a way that by September 18, 2006, the conversion rate is at NIS 130 n.v convertible debentures per 1 ordinary share of NIS 1 n.v (subject to adjustments), and from September 19, 2006 and up to September 18 2009 the conversion rate is at NIS 145 n.v convertible debentures per one ordinary share of NIS 1 n.v (subject to adjustments). As a result of the distribution of a dividend to the Company's shareholders on April 19, 2005 and on December 20, 2005 the conversion rate was adjusted and now stands at NIS 122.29 n.v. of debentures (Series B) per one NIS n.v. ordinary share of the Company for the period up to September 18, 2006 and from September 19, 2006 and up to September 18, 2009 the conversion rate will be NIS 136.40 n.v. of debentures (Series B) per one NIS n.v. ordinary share of the Company.
- B. Repayment dates

	Consolidated & company As of December 31, 2005 Reported amounts
First year - current maturities	65,745
Second year	65,745
Third year	65,745
Fourth year	65,745
	197,236
	262,981

- C. As regards debentures (Series B) that were converted to shares after the balance sheet date, see Note 31 (E).

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 17 – Other long-term liabilities

A. **Composition**

	Linkage basis	Consolidated As of December 31		Company As of December 31	
		2005 <u>Reported amounts</u>	2004 <u>Reported amounts</u>	2005 <u>Reported amounts</u>	2004 <u>Reported amounts</u>
Expenses payable	Euro	6,476	6,727	-	-
Lessees' deposits	Euro	5,811	5,532	-	-
Suppliers' quality deposits	Euro	-	3,385	-	-
Liabilities to real estate vendors (*)	Unlinked	26,000	26,000	26,000	26,000
Institutions	Euro	19,395	20,927	-	-
Loans from others (**)	CPI	25,736	14,396	-	-
Others	Euro	28,245	(***)14,383	-	-
		<u>111,663</u>	<u>91,350</u>	<u>26,000</u>	<u>26,000</u>
Net of current maturities		<u>(194)</u>	<u>(90)</u>	<u>-</u>	<u>-</u>
		<u>111,469</u>	<u>91,260</u>	<u>26,000</u>	<u>26,000</u>

(*) The liability to real estate vendors is for providing additional areas to be set up in the project. The amounts shown above were debited against the costs of the real estate, on the basis of the anticipated cost of construction. No repayment date has yet been set for this liability. See also Note 5A (2).

(**) The loan was granted to a proportionately consolidated company by one of its shareholders. The loan is interest free and no repayment date as yet been set.

(***) Reclassified.

B. **Repayment dates**

	<u>Consolidated</u> <u>As of December 31,</u> <u>2005</u> <u>NIS 000s</u> <u>Reported amounts</u>
First year – current maturities	194
Second year	26,713
Third year	447
Fourth year	4,074
Fifth year	430
Sixth year and thereafter	28,069
Repayment date not yet set	51,736
	<u>111,469</u>
	<u>111,663</u>

Note 18 - Obligation in respect of severance of employee-employer relations

The Company's obligation for the payment of unutilized retirement compensation, severance pay and adjustment grant to its employees is in the main covered by current deposits in the name of employees in recognized pension and compensation funds, and by purchase of insurance company policies. The amounts deposited as aforesaid are not under the control and management of the Company and accordingly neither they nor the obligations in respect of which they have been deposited are expressed in the balance sheet.

The obligations in respect of severance of employee-employer relations that are included in the balance sheet represent the obligations that are not covered by the aforementioned deposits and/or insurance policies. In respect of this part of the obligation there is an existing provision deposited in the name of the Company in a recognized compensation fund.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 19 – Short term credit from banking corporations and from other parties

A. **Composition**

	Interest rates as of December 31, 2005	<u>Consolidated</u> <u>As of December</u> <u>31</u>		<u>Company</u> <u>As of December</u> <u>31</u>	
		<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Overdraft	Current account	11,280	5,693	356	2,225
Shorted bonds	-	-	38,189	-	-
 <u>Short term loans:</u>					
Linked to the US dollar	5.97%	46,220	43,191	-	-
Linked to the US dollar	4.2%-5.95%	6,724	6,287	-	-
Unlinked	Prime (*)	122,027	121,646	-	24,211
Current maturities of loans and other long-term liabilities		121,300	104,065	-	-
Current maturities of debentures		33,872	-	33,872	-
Current maturities of convertible debentures		65,745	-	65,745	-
		<u>407,168</u>	<u>319,071</u>	<u>99,973</u>	<u>26,436</u>

* The prime interest rate as at December 31, 2005 is 6.05%

B. **Liens and security** – see Note 26B.

Note 20 – Accounts payable

	<u>Consolidated</u> <u>As of December 31</u>		<u>Company</u> <u>As of December 31</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Prepaid expenses	7,072	7,218	1,565	934
Expenses payable	31,382	26,639	18,256	14,982
Suppliers	25,675	31,853	584	844
Institutions	8,663	41,626	658	42
Series 2 Options (*)	-	8,813	-	8,813
Other payables	9,828	10,816	7,587	5,703
	<u>82,620</u>	<u>126,965</u>	<u>28,650</u>	<u>31,318</u>

(*) See also Note 11D and E

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 21 – Operating and property maintenance expenses

	Consolidated			Company		
	For the year ended December			For the year ended		
	2005	2004	2003	2005	2004	2003
		31			December 31	
			Inflation- adjusted amounts in shekels of December 2003			Inflation- adjusted amounts in shekels of December 2003
	Reported amounts			Reported amounts		
Leasing of land	7,509	8,257	8,853	2,847	3,975	3,917
Maintenance and repairs, net of refund of expense from lessees	10,062	8,003	1,947	4,307	3,972	236
Advertising	5,608	5,318	3,998	1,256	1,100	-
Payroll and related expenses	10,757	8,443	5,558	1,894	808	776
Others, net	2,825	4,490	766	-	-	-
	<u>36,761</u>	<u>34,511</u>	<u>21,122</u>	<u>10,304</u>	<u>9,855</u>	<u>4,929</u>
Net of expenses capitalized to fixed assets	-	(214)	-	-	-	-
	<u><u>36,761</u></u>	<u><u>34,297</u></u>	<u><u>21,122</u></u>	<u><u>10,304</u></u>	<u><u>9,855</u></u>	<u><u>4,929</u></u>

Note 22 – Administrative and general expenses

	Consolidated			Company		
	For the year ended December 31			For the year ended December 31		
	2005	2004	2003	2005	2004	2003
			Inflation- adjusted amounts in shekels of December 2003			Inflation- adjusted amounts in shekels of December 2003
	Reported amounts			Reported amounts		
Management fees to the parent company, net	8,852	17,328	3,133	5,869	12,867	3,133
Depreciation and amortization	314	250	307	-	-	-
Doubtful and bad accounts	55	167	311	-	-	-
Others	6,326	3,883	997	2,107	202	100
	<u>15,547</u>	<u>21,628</u>	<u>4,748</u>	<u>7,976</u>	<u>13,069</u>	<u>3,233</u>
Net of expenses capitalized to fixed assets	-	(381)	-	-	-	-
	<u><u>15,547</u></u>	<u><u>21,247</u></u>	<u><u>4,748</u></u>	<u><u>7,976</u></u>	<u><u>13,069</u></u>	<u><u>3,233</u></u>

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 23 – Financing expenses (income), net

	Consolidated			Company		
	For the year ended December 31			For the year ended December 31		
	2005	2004	2003	2005	2004	2003
			Inflation- adjusted amounts in shekels of December 2003			Inflation- adjusted amounts in shekels of December 2003
	Reported amounts		2003	Reported amounts		2003
In respect of long-term loans to related companies, net	(961)	(16,090)	(573)	(961)	(14,443)	(573)
In respect of long-term loans to others, net	(3,712)	(1,295)	1,056	(2,200)	530	1,056
In respect of long-term loans from related companies, net	7,722	15,934	(570)	2,929	-	(570)
In respect of long-term liabilities to others, net	74,872	48,881	14,383	35,317	18,161	-
In respect of current balances with related companies, net	(10,266)	(5,270)	18,436	(13,173)	4,595	10,488
In respect of short-term liabilities to related companies	1,129	11,631	-	-	2,188	-
In respect of short-term loans from others, net	8,940	1,288	(1,097)	(1,742)	1,288	(1,097)
In respect of foreign currency transactions, net	(4,456)	(313)	(802)	(3,284)	200	(802)
Others, net	(1,834)	32	(7,871)	894	(5,182)	31
	<u>71,434</u>	<u>54,798</u>	<u>22,962</u>	<u>17,780</u>	<u>7,337</u>	<u>8,533</u>
Less – financing capitalized to fixed assets	(13,367)	(14,128)	(5,256)	-	-	(2,001)
	<u>58,067</u>	<u>40,670</u>	<u>17,706</u>	<u>17,780</u>	<u>7,337</u>	<u>6,532</u>

Note 24 – Other income (expenses), net

	Consolidated			Company		
	For the year ended December 31			For the year ended December 31		
	2005	2004	2003	2005	2004	2003
			Inflation- adjusted amounts in shekels of December 2003			Inflation- adjusted amounts in shekels of December 2003
	Reported amounts		2003	Reported amounts		2003
Allowance for impairment	-	-	(9,644)	-	-	(9,644)
Capital gain on sale of shares in investee company	3,655	124,572	-	-	-	-
Capital Gain/ (loss) from sale of fixed assets, net	19,036	-	-	(259)	-	-
Others, net	244	416	83	38	-	-
	<u>22,935</u>	<u>124,988</u>	<u>(9,561)</u>	<u>(221)</u>	<u>-</u>	<u>(9,644)</u>

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 25 – Taxes on income

- A. On June 29, 2004 the Income Tax Ordinance Amendment Law (No.140 and Temporary Provisions), 5764-2004 was passed by the Knesset (hereinafter - "Amendment 140"). Amendment 140 provides for a gradual reduction in the rate of Corporation Tax from a rate of 36% to a rate of 30% in the following manner: In the 2004 tax year a tax rate of 35% will apply, in 2005 a tax of 34% will apply, in 2006 a tax rate of 32% will apply and from 2007 and thenceforth a tax rate of 30% will apply.

The current taxes and balances of deferred taxes as at December 31, 2004 in relation to the companies that are operating in Israel will be calculated in accordance with the new tax rates. The effect of the change on the consolidated statements for the beginning of 2004 is a decrease in the tax expenditure on income amounting to approximately NIS 2.2 million.

- B. On July 25, 2004 the Income Tax Ordinance Amendment Law (No.147 and Temporary Provisions), 5765-2005 was passed by the Knesset (hereinafter - "Amendment 147"). Amendment 147 provides for a gradual reduction in the rate of Corporation Tax in the following manner: In the 2006 tax year a tax rate of 31% will apply, in 2007 a tax of 29% will apply, in 2008 a tax rate of 27% will apply, in 2009 a tax rate of 26% will apply and from 2010 and thenceforth a tax rate of 25% will apply.

The current taxes and balances of deferred taxes as at December 31, 2005 in relation to the companies that are operating in Israel will be calculated in accordance with the new tax rates. The effect of the change on the consolidated statements for the beginning of 2005 is a decrease in the tax expenditure on income amounting to approximately NIS 6.5 million.

- C. The Company and the Group companies in Israel are assessed for tax purposes on the basis of the Income Tax Law (Adjustments in Respect of Inflation), 5745 – 1985, and allowances for taxes were calculated accordingly.

The Group's overseas companies are assessed in accordance with the tax laws in effect in those countries, and allowances for taxes and loss carry-forwards were computed accordingly.

- D. Taxes on income included in the statements of income:

	<u>Consolidated</u>			<u>Company</u>		
	<u>For the year ended December 31</u>			<u>For the year ended December 31</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
			<u>Inflation- adjusted amounts in shekels of December 2003</u>			<u>Inflation- adjusted amounts in shekels of December 2003</u>
	<u>Reported amounts</u>			<u>Reported amounts</u>		
Current taxes	23,917	51,324	2,271	2,632	1,489	673
Deferred taxes	(5,736)	7,327	(3,597)	(2,525)	3,142	(957)
Taxes in respect of previous years	1,140	(1,575)	-	105	(250)	-
	<u>19,321</u>	<u>57,076</u>	<u>(1,326)</u>	<u>212</u>	<u>4,381</u>	<u>(284)</u>

- E. The Company has received assessments from the Income Tax Authorities in respect of the years 2000 – 2002, according to which the Company is to pay a total of NIS 5.2 million (not including interest and indexation differences). This is due to the non-allowance of part of the Company's financing expenses not being allowed as a deduction for income tax purposes. Management rejects the tax authorities' demand and has filed an appeal against these assessments in the District Court. In the estimation of management, based on legal advice, the prospects of the Company's allegations prevailing are good. Accordingly, no allowance has been included in the financial statements in respect of this demand.

Except as aforesaid, the Company has final assessments up to and including the 2002 tax year. Likewise, some of the consolidated companies also have final assessments up to 2002, and in respect of others final assessments have not been issued since the commencement of their activities.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 25 – Taxes on income (cont.)

- F. Principal differences between theoretical tax on reported earnings before taxes on income and the allowance for taxes as recorded in the year of account:

	Consolidated			Company		
	For the year ended December 31			For the year ended December 31		
	2005	2004	2003	2005	2004	2003
	Reported amounts			Reported amounts		
			Inflation-adjusted amounts in shekels of December 2003			Inflation-adjusted amounts in shekels of December 2003
Profit (loss) before taxes on income	104,429	215,455	8,437	10,884	18,973	(877)
Statutory tax rate	34%	35%	36%	34%	35%	36%
Theoretical tax on profit for the year per the income statement	<u>35,506</u>	<u>75,409</u>	<u>3,037</u>	<u>3,701</u>	<u>6,641</u>	<u>(316)</u>
Amounts respecting which deferred taxes were not recorded	(3,222)	673	360	-	698	-
Disallowed expenses (exempt income), net	(3,802)	1,533	(700)	64	(1,790)	-
Effect of the change in the tax rate	(6,458)	(2,194)	-	(2,368)	(833)	-
Deferred taxes in respect of part of the Company in partnerships	(3,331)	-	-	-	-	-
Taxes in respect of preceding years, net	1,140	*(1,575)	-	105	(250)	-
Revenues (expenditure) chargeable at a special rate of tax	(1,018)	(9,460)	358	(235)	-	-
Differences in definition of capital and non-monetary assets for tax purposes	(854)	(1,878)	(2,067)	(2,083)	(465)	-
Other	1,360	*(5,432)	(2,314)	1,028	380	32
	<u>(16,185)</u>	<u>(18,333)</u>	<u>(4,363)</u>	<u>(3,489)</u>	<u>(2,260)</u>	<u>32</u>
Allowance for the year account	<u>19,321</u>	<u>57,076</u>	<u>(1,326)</u>	<u>212</u>	<u>4,381</u>	<u>(284)</u>

(*) Reclassified.

G. **Deferred taxes receivable**

- (1) Composition

	Consolidated		Company	
	As of December 31		As of December 31	
	2005	2004	2005	2004
	Reported amounts		Reported amounts	
Losses carried forward	13,106	10,187	-	-
Depreciation differences	996	84	-	-
Other temporary differences in respect of income and expenses	7,966	5,192	-	- (*)
	<u>22,068</u>	<u>(*)15,463</u>	<u>-</u>	<u>- (*)</u>

(*) Reclassified.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 25 – Taxes on income (cont.)

G. **Deferred taxes receivable** (cont.)

(2) Movement

	<u>Consolidated</u>		<u>Company</u>	
	<u>As of December 31</u>		<u>As of December 31</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	<u>Reported amounts</u>		<u>Reported amounts</u>	
Balance at the beginning of the year	15,463	28,041	-	- (*)
Disposal in respect of the sale of shares in an investee company	-	(1,750)	-	-
Changes related to ordinary activity	7,351	(6,295)	-	- (*)
Translation differences	(746)	965	-	-
Deconsolidation	-	(5,498)	-	-
Balance at the end of the year	<u>22,068</u>	<u>(*)15,463</u>	<u>-</u>	<u>- (*)</u>

(*) Reclassified

H. **Provision for deferred taxes**

(1) Composition:

	<u>Consolidated</u>		<u>Company</u>	
	<u>As of December 31</u>		<u>As of December 31</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	<u>Reported amounts</u>		<u>Reported amounts</u>	
Depreciation differences	37,028	39,482	8,763	(*)5,873
Other temporary differences in respect of income and expenses	8,554	(*)1,980	-	-
	<u>45,582</u>	<u>(*)41,462</u>	<u>8,763</u>	<u>(*)5,873</u>

(2) Movement:

	<u>Consolidated</u>		<u>Company</u>	
	<u>As of December 31</u>		<u>As of December 31</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	<u>Reported amounts</u>		<u>Reported amounts</u>	
Balance at the beginning of the year	41,462	(*)43,886	5,873	9,233
Changes related to ordinary activity	5,035	(*)3,162	2,890	(*)3,360
Translations differences	(915)	799	-	-
Deconsolidation	-	(6,385)	-	-
Balance at end of year	<u>45,582</u>	<u>(*)41,462</u>	<u>8,763</u>	<u>(*)5,873</u>

(*) Reclassified

- I. The subsidiary Companies have loss carry-forwards for tax purposes that amounted, as of the balance sheet date, to some NIS 72 million. The Company recorded a tax asset in respect of an accrued loss in the amount of NIS 13 million in accordance with management's estimate that there exists a reasonably high likelihood that these losses will be realised in the foreseeable future.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 25 – Taxes on income (cont.)

- J. On December 30, 2002, AFRICA ISRAEL applied to the income tax authorities requesting an arrangement in respect of accrued profits and a restructuring in anticipation of the tax reform including in connection with a subsidiary and its investee companies. On December 31, 2003, an agreement was signed with the Income Tax Authorities. Under the aforesaid arrangement, a sum of NIS 5,382 thousands will be paid to the income tax authorities in respect of profits accrued in the books of a related company by December 31, 2002, in respect of investee companies acquired from it by the subsidiary (not including companies acquired from Malford). Following the acquisition of the companies as per Note 1B(4) aforesaid, the cost of the investment of the subsidiary in the investee companies for tax purposes is higher than the cost of the investment included in the financial statements.
- K. As regards the agreement with the tax authorities pertaining to the restructuring of holdings in Africa Israel's revenue producing properties, see Note 1B(5).

Note 26 – Contingent liabilities, commitments, guarantees and liens

A. **Contingent liabilities and commitments**

- (1) Regarding the acquisition of holdings in companies operating in Europe from related companies, see Note 1B(4).
- (2) Contingent liabilities exist in subsidiaries in a generally accepted framework of construction quality warranty for apartments completed and delivered to the householders.
- (3) A liability exists in a subsidiary in respect of guarantees given by banks to apartment purchasers under the Law of Sale (Apartments) (Security of Apartment Purchasers' Investments) 5735 – 1974 in respect of a joint venture in the New Givat Savyon in the amount of NIS 136, thousands (2004 – NIS 127 thousands).
- (4) A subsidiary signed a schedule to the development agreement executed with the Israel Lands Administration (hereafter: "ILA") in connection with vacant land in an area of some 16 dunam (4 acres) leased by the subsidiary. The subsidiary deposited with the ILA a NIS 2.5 million guarantee to secure its compliance with the term of the aforesaid agreement. The development agreement was extended until April 1, 2006. The said land was sold in 2005.
- (5) A proportionately consolidated company won a tender for the leasing of land in Tel Aviv (a lease from the Israel Lands Administration of 6.7 dunams for 49 years with a right of extension for a further 49 years) on which it has constructed an office building of an area of approximately 46,000 square meters, a parking lot intended for about 1,100 parking places and commercial areas covering an area of some 1,500 square meters in a 25 storey tower block (hereinafter: "the project").

The said office building and part of the parking lot will serve as the regional government compound and will be leased to the State for a term of 20 years.

In the agreement the State undertook to take a letting of the office floors 1-25 in the building for a consideration of NIS 41.76 per month per gross square meter of construction (linked to the July 1998 index) with the addition of VAT. The subsidiary also undertook to put parking places at the client's disposal at a tariff fixed between the parties. In addition the option was reserved to the client to request that the subsidiary prepare basement areas for its use, which it would lease for 45% of the aforementioned tariff, such areas have been prepared for use at the client's request.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 26 – Contingent liabilities, commitments, guarantees and liens (cont.)

A. **Contingent liabilities and commitments** (cont.)

(5) (cont.)

The aforesaid lease agreement constitutes an integral part of a transaction in which the State was granted an option to acquire the leased premises from the private company either in its entirety or in parts and this are with effect from the end of the 5th year and up to the end of the 19th year of the term of the lease. The sale consideration is an element of various components that relate to the sale property in accordance with a formula prescribed in the agreement.

In July 2003 the subsidiary obtained the consent of the Ministry of Finance for the construction of an additional 12 storeys this being an addition to the building constructed for the State. In August 2004 a permit was granted for construction of the additional floors.

Completion of construction of the project and its occupation, excluding the 12 additional floors, was carried out in the fourth quarter of 2004. Completion of the additional floors is anticipated during the first half of 2006.

Construction of the government compound is being carried out by Danya Cebus Ltd. - Minrav Engineering and Construction (1983) Ltd. - a related party and being financed by loans from the shareholders and banking finance.

Under the agreement with the Israel Lands Administration of January 1999, the development period should have been concluded in January 2003. Under the agreement, at the end of one year from the end of the development period a lease contract is to be signed with Israel Lands Administration. In the estimation of the subsidiary there is no significant expose to damage, if at all, because of the fact that the development period has elapsed.

Due to the obligations to the bank amounting to approximately NIS 520 million, a floating charge exists in favour of the bank over the assets of the subsidiary. A first charge is also registered over the land and on account of the project as well as a second charge over the rights of the subsidiary under the agreement between it and the State as aforesaid.

In addition, the shareholders of the subsidiary, including the Company, have put up guarantees in connection with the project in favour of the bank in a sum not exceeding NIS 250 million (linked to the July 1998 index).

- (6) In December 2002, a proportionately consolidated company contracted with another company in equal shares in an agreement with the Hebrew University for the planning, construction, operation and management of student dormitories amounting to approximately 1500 beds in a number of buildings on Mount Scopus in Jerusalem.

During 2003 the parties to the contract with the University transferred their rights under the agreement to One Half Jubilee.

Under the agreement the project would be constructed managed and operated on land which would be leased from the University for a term of 24 years and eleven months. At the end of the leased term the project would be delivered to the University for Nil Consideration.

The University has a right to terminate the lease early commencing from the end of 5 years from the activation of the project, at prescribed times, upon payment of compensation under a formula set forth in the agreement.

The University made a commitment to certain minimum rates of occupation and in addition the University made a commitment for the payment of minimum rentals.

The investment in the project is estimated at approximately NIS 212 million, of which NIS 81 million will be invested by the University. The building works for the project are being carried out by Danya Cebus Ltd - Minrav Engineering and Construction (1983) Ltd- a related party. The project building works commenced during the fourth quarter of 2004 and is expected to finish during 2007.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 26 – Contingent liabilities, commitments, guarantees and liens (cont.)

A. **Contingent liabilities and commitments (cont.)**

(6) (cont.)

The shareholders of the subsidiary, including the company, have put up guarantees in respect of the project in favour of a bank in a sum of not exceeding NIS 75 million (linked to the September 2002 index). The University has also been given performance bank guarantees and guarantees to secure credit of approximately NIS 11.7 million.

(7) Under a contract in December 2002 a subsidiary sold its entire rights in land at Ganei Tikva on which a shopping centre has been built as well as an open parking lot and a garden (hereinafter: "the special plot").

Under an arbitration award which was ratified as a Judgment on February 1998, various disputes that have occurred between the subsidiary and the Ganei Tikva local council (hereinafter "the Council"), were resolved in the framework of which the Council was obligated to transfer an alternative plot to that of the special plot, to the possession of the subsidiary, this being until October 2002. In the event of it not doing so the subsidiary is entitled to continue to insist on receiving the alternative plot or to waive it, and in the event of it having elected to waive it, possession of the special class would be returned to the subsidiary and it could use it however it wished.

Up to the present time the Council has not provided the subsidiary with the alternative plot. Under the contract of December 2002 all the subsidiaries rights under the arbitration award have been assigned to the purchaser. As a result of the purchaser's request for approval of the Council to registration of the land in the purchaser's name the Council has given notice that it objects to such registration in all matters pertaining to the area of the special plot, discussions are being conducted between the parties for a resolution of the disputes between them.

The subsidiary's position is that the council has no legal cause for withholding permission as aforesaid. In the estimation of the subsidiary's management, based on legal advice, were the subsidiary to apply to the court to order the council to give the aforesaid permission, the prospects of such application being upheld would be good. Accordingly, no provision has been made in the financial statements of the subsidiary.

(8) A. As regards a dispute with a third party that was brought before an independent external arbitrator, see Note 5A (2).

B. As regards a dispute with the joint venturers (subsidiary's share – 40%) - see Note 4 D (3).

(9) Commitments per leasing agreements

A. The Company has engaged to lease land for the construction of a science park, see Note 3C (1) (A).

B. Subsidiaries operating in the Czech Republic, Holland and in Canada have entered into long-term lease agreements.

C. Anticipated lease fees (consolidated) for the next five years and thereafter, are as follows:

	NIS 000s
	Reported amounts
First year	194
Second year	26,713
Third year	447
Fourth year	4,074
Fifth year	430
Sixth year and thereafter	28,069
	59,927

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 26 – Contingent liabilities, commitments, guarantees and liens (cont.)

A. **Contingent liabilities and commitments** (cont.)

- (10) Legal actions have been brought against the Company and some of the subsidiaries (including proportionately consolidated), in connection with construction and land transactions in respect of which because of the terms of performance thereof and/or the interpretation thereof, disputes exist between the parties. The total amount of such claims is some NIS 3,900 thousands. In the estimation of the Company's management based on the professional opinion of the legal advisers of the said companies, they will not be required to make significant payments in respect of these claims and accordingly no provision has been included in the financial statements.

There are also existing claims for carrying out repairs in buildings that have been constructed by a subsidiary. In the estimation of the Company's management it will not be required to make significant payments in respect of such claims and therefore no provision has been included in the financial statements.

- (11) The Company has not yet been issued with a completion certificate for Africa Israel Tower in Tel Aviv, including the parking lot.. In the estimation of the Company's management, no significant effect is anticipated for this, if at all, on the Company.
- (12) In connection with the contractual arrangements in a management agreement with the parent company, see Note 27 F.
- (13) On July 27, 2004 it was resolved by the Company to give an undertaking to indemnify office holders, as detailed below:

To issue individually to each of the directors and other office holders in the Company (hereafter: "the office holders"), subject to the provisions of any law, a pre-commitment for indemnification in respect of any monetary liability that may be imposed on any of them in respect of reasonable litigation expenses in all matters directly or indirectly pertaining to a prospectus regarding an offering of the Company's securities published in September 2004 (hereafter – "the prospectus") by reason of any of the following:

- 1) Monetary indebtedness imposed on an office holder in favour of another person, in accordance with a decision handed down by way of compromise or arbitration ruling by a court, in respect of an act having been or that shall be performed, by virtue of his being an office holder in the Company and/or in a subsidiary of the Company.
- 2) Reasonable litigation expenses, including lawyer's fees, disbursed by an office holder or which a court ordered him to pay, in a proceeding brought against him by or on behalf of the Company or by another person, on a criminal charge of which he was acquitted, or on a criminal charge in which he was convicted of an offence not entailing proof of malice aforethought. and all by reason of an act he performed or is to perform by virtue of a being an office holder in the Company and/or in a subsidiary of the Company's.

The commitment to indemnify will apply only in respect of monetary indebtedness and/or expenses respecting which, the incurring party is statutorily entitled to indemnification.

The indemnity amount payable by the Company in accordance with the letters of indemnity to be issued to all office holders in the Company, on aggregate, shall not exceed the lower of the following two amounts:

- 1) The total (gross) consideration amount in respect of the securities offered under the prospectus;
- 2) An amount equivalent in New Israeli Shekels to 20 million US dollars.

The indemnification shall be paid on the conditions set forth in the letter of indemnity.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 26 – Contingent liabilities, commitments, guarantees and liens (cont.)

A. **Contingent liabilities and commitments** (cont.)

- (14) In September 2004, the Company signed an agreement with Africa Israel whereby Africa Israel transferred its rights and obligations under agreements relating to the RGM (Ramle - Gezer – Modi'in) transaction described below, to the Company, as against an allocation of 9,000 ordinary shares of NIS 1 n.v of the Company.

Pursuant to the aforesaid agreement, Africa Israel will continue to guarantee the fulfilment of the Company's commitments.

In February 1994, Africa Israel together with a 3rd party (hereafter, jointly: "the entrepreneurs") contracted under an agreement with Kibbutz Netzer Sereni (hereafter: "the kibbutz") whereby the entrepreneurs undertake to take steps for the rezoning of an area of some 1,575 dunam (393.75 acres) in the RGM precinct near the Nesher factory in Ramle (hereafter: "the real estate"), in which the kibbutz is entitled to leasehold rights under a contract between it and the Israel Lands Administration (hereafter: "ILA"), and which, on date of execution of the agreement, was zoned for agriculture, to be zoned for the purposes of the construction and sale of industrial and commercial buildings. The rights of the kibbutz in the real estate are mortgaged under a floating charge in favour of various banks.

Under the agreements between the entrepreneurs and the kibbutz, various matters were agreed between the parties to the agreement, including, *inter alia*: the designated use of the real estate, investment amounts and the parties' rates of holding.

To the best of the Company's knowledge, in the framework of the kibbutz arrangements and for the purpose of the repayment of its debts, the kibbutz restored lands to the ILA such that the balance of the kibbutz lands remaining for the purpose of the RGM project is not more than 536 dunam (134 acres).

The real estate is subject to ILA resolutions 717 and 727 whereby part of the real estate is to be allocated to the kibbutz and the balance is to be restored to the ILA. In connection with ILA resolutions 717, 727 and 737, legal proceedings took place in which it was determined that those resolutions were null and void. The court also ruled that new interim provisions must be outlined which would determine which transactions may and which may not be brought to fruition.

In September 2003, interim provisions were approved. Thereupon, the entrepreneurs and the kibbutz in September 2003 filed a demand with the ILA for realisation of the transaction.

Correct to date of signing the financial statements, the ILA's response to the demand has yet to be received. This being so, no legal certainty exists as to the possibility of the transaction being implemented or, if implemented, on what scale.

- (15) In September 2004, an agreement was signed between the Company and Africa Israel for the regulation of their spheres of activity and legal relations in that context (hereafter: "the activity demarcation agreement").

Pursuant to the activity demarcation agreement, Africa Israel undertook that, commencing from date of registration of the Company's shares for trading on the Tel-Aviv Stock Exchange - September 29, 2004 (hereafter: "the determining date") and until 5 years as from the determining date, it would not engage in revenue producing property activity, as defined in the agreement, anywhere in the world except in the United States, Russia and the Commonwealth of Independent States (CIS), except for a corporation as aforesaid being a "public company" within the definition thereof in the Companies Law 5759 – 1999 (hereafter: "The Companies Law").

Notwithstanding the aforesaid, the parties to the activity demarcation agreement agreed that the restriction would not apply in certain situations set forth in the agreement, and including:

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 26 – Contingent liabilities, commitments, guarantees and liens (cont.)

A. **Contingent liabilities and commitments** (cont.)

(15) (cont.)

- (1) In relation to revenue producing property activity in which Africa Israel and/or a corporation under its control are engaged on the determining date.
- (2) In relation to revenue producing properties constituting part of a real estate project not being essentially revenue producing property project (such as commercial centres in residential neighbourhoods).
- (3) In relation to activity the implementation of which by the Company or a corporation under its control would result in a breach of undertaking given by the Company to any 3rd party.
- (4) In relation to activity in revenue producing properties on real estate which, on date of acquisition of the rights, Africa Israel or a corporation under its control, all according, intended to utilize other than as a revenue producing property or other than for the establishment of a revenue producing property.
- (5) In relation to revenue producing property activity following an invitation to tender (or a similar competitive procedure) for the acquisition and/or management of a revenue producing property, any of the conditions of which the Company does not meet and with which condition it cannot reasonably expect to comply.
- (6) In relation to a business opportunity in the revenue producing property field, in which the Company has decided it is not interested, provided that such decision be approved by the Company as provided in Chapter Five of the Companies Law in the matter of the approval of an "exceptional transaction" within the definition thereof in the Companies Law.

The parties agreed that if, for any reason whatsoever, Africa Israel ceased to hold more than 50% of the means of control in the Company, either party would be entitled to avoid the agreement during the agreement term (i.e. prior to the lapse of a 5 year period as from the determining date), by serving at least 90 days written notice, as set forth in the activity demarcation agreement.

It was likewise agreed between the parties that if the Company ceases to be a subsidiary of Africa Israel within the meaning of that term in the Trade Restrictions Law 5748-1988 (hereafter "Anti-Trust Law") and under the provisions of the Anti-Trust law as may be in effect at the said time this agreement shall constitute a restrictive agreement contravening the provisions of the Anti-Trust Law, then the activity demarcation agreement shall automatically become null and void, (unless permission shall have been obtained for the fulfilment thereof), as set forth in the activity demarcation agreement.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 26 – Contingent liabilities, commitments, guarantees and liens (cont.)

A. **Contingent liabilities and commitments** (cont.)

- (16) In September 2004, an agreement was executed between the Company and a subsidiary of Africa Israel (hereafter: "the related company") whereby the Company may, by mutual consent from time to time, deposit moneys with the related company and, from time to time, at the request of the Company and with the consent of the related company, the related company may deposit moneys with the Company. The deposits shall be of the "On Call" type for a period not exceeding one year from date of deposit and shall bear variable annual interest at prime rate being in effect from time to time with Bank Leumi net of 1.25% per annum.

Interest shall be computed once a week. Every deposit or any portion thereof, together with the interest thereon, shall be restored to the Company by the related company within one bank business day as of the Company's first written demand and similarly, any deposit or portion thereof, together with interest, shall be restored to the related company by the Company within one bank business day as of the related company's first written demand, all according. The related company is entitled to repay any deposit made with it by the Company, together with the interest, on service of one bank business day's written notice and similarly, the Company is entitled to repay any deposit made with it by the related company, together with the interest, on service of one bank business day's written notice. Within one year of the making of the deposit, the deposit shall become automatically repayable even without notice from the Company or from the related company. It is also stipulated that if a party to the framework agreement shall be in fundamental breach of its undertakings pursuant to the framework agreement, the party fulfilling the agreement shall be entitled to call for immediate repayment all deposits made with the breaching party and offset them against any deposit made by the fulfilling party on arrival of the repayment date thereof. Africa Israel guarantees all the aforesaid undertakings of the related party. This agreement may be voided on service of 3 months notice and it replaces the current financing activity that took place between the parties until the date of the agreement. This agreement was approved in 2005 as a framework agreement pursuant to Section 275 of the Companies Law.

As at December 31, 2005 the balance of the deposit made by the Company with the related company stood at approximately NIS 272 million.

After the balance sheet date the Company deposited NIS 380 million in the related company in the framework of the agreement.

- (17) In September 2004, the Company's Board of Directors resolved to establish a dividend policy whereby, once every calendar year, a dividend would be distributed in the amount of 50% of the lower of the two following amounts: (A) the Company's net profit in the calendar year preceding the year in which the dividend is to be distributed; (B) the Company's cash flow from ordinary activity according to the Company's consolidated cash flow statement in the calendar year preceding the year in which the dividend is to be distributed.

The foregoing is subject to the provision of any law and in particular to the existence of distributable profits, as provided by the Companies Law, 5759 – 1999, as regards the Company's meeting its 3rd party commitments, as may be from time to time, for the purposes of the Company's cash flow and its sources at any time, and also subject to specific resolutions of the Company's Board of Directors in respect of any distribution and to any other resolution the Company's Board of Directors is entitled to adopt at any time, including in the matter of any other appropriation of the Company's profits and any change in such policy.

- (18) On June 1, 2003, there came into effect an amendment to Section 15 of the Stamps Duty on Written Instruments Law, 5621-1961 adding to and detracting from the list of instruments subject to stamp duty.

During the summer of 2004, the tax authorities being sending individual requests to Israeli companies, including the Company, to furnish agreements including instruments being memoranda of understanding executed after June 1, 2003.

In the opinion of the Company's management, based on legal advice, the possible liability for stamp duty is not significant, and accordingly, no provision has been made in the financial statements.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 26 – Contingent liabilities, commitments, guarantees and liens (cont.)

B. Guarantees and liens to secure credit from banking corporations

- (1) The rights of Machzevot. in the Lev HaMoshava Project owned by Machzevot (hereafter: "the project"), including its rights in land and its rights vis-à-vis purchasers of areas in the project, were mortgaged under a lien of unlimited amount to secure a liability towards a bank. Africa Israel stands guarantor toward the bank under a limited guarantee in the amount of 50% of the debt that Machzevot. will owe to the bank in respect of the project. Total debt as of December 31, 2005 is NIS 67 million.
In addition, the Company signed mutual guarantees with an additional shareholder in Machzevot in favour of the same bank in an amount of up to NIS 4 million.
In respect of this guarantee, the equity of the additional shareholder (in Machzevot - amount of Machzevot's holdings - 45%) was mortgaged in favour of the Company and the Company is also entitled to record a second ranking mortgage on the property owned by Machzevot.
- (2) The Company mortgaged its rights in the Concorde Towers in Bnei Berak, including its rights in a loan as per Note 5A(2).
- (3) The Company mortgaged its rights in the Africa Israel Tower in Tel-Aviv, to secure commitments of the parent company in the amount of NIS 9 million correct to December 31, 2005.
- (4) To secure long-term and short-term liabilities, investee companies mortgaged properties under floating and fixed charges.
- (5) A subsidiary charged its rights in the New Givat Savyon commercial centre in favour of Bank Leumi Lelsrael BM.(hereinafter - Bank Leumi) . Total credit as of December 31, 2005 in respect of which the lien was recorded stands at NIS 13 million.
- (6) A subsidiary mortgaged in favour of Bank Leumi its rights in land in Ramat Aviv, its unpaid shareholders' equity, goodwill and its other assets. Total credit as of December 31, 2005 in respect of which the liens were recorded stands at NIS 218 million.
- (7) In respect of a liability to a bank in the amount of NIS 520 million, in connection with the construction of the Government Compound project (hereafter: "the project"), of a proportionately consolidated subsidiary, there exists in favour of the bank a first-ranking fixed and floating charge, unlimited as to amount, on the receipts, the assets and the rights in lands of the project and also a second-ranking charge on the rights of the aforesaid company pursuant to an agreement between it and the Government Housing as aforesaid. In addition, Africa Israel and the additional shareholder of the proportionately consolidated subsidiary stand pro rata guarantors for the proportionately consolidated subsidiary toward the bank, under a standing guarantee.
The Company also mortgaged in favour of the State of Israel its rights under an agreement between it and Government Housing as aforesaid, under a first ranking fixed charge of unlimited amount and prevailing over the floating charge in favour of the bank. Africa Israel and the additional shareholder of the proportionately consolidated subsidiary guarantee the liabilities of the aforesaid company.
- (8) An Austrian bank provided loans (being non-recourse loans) in the amount of 11 million euro correct to December 31, 2005, to investee companies in the Czech Republic for the purpose of the repayment of owners' loans and for the purpose of the financial coverage of construction in properties belonging to the aforesaid investee companies. The Austrian bank is a shareholder in some of the aforesaid companies.
As security for the repayment of the loans, the shares of the investee companies are held in trust by a foreign corporation (hereafter: "the trustee corporation") related to the Austrian bank, and their assets were mortgaged in favour of the Austrian bank. The subsidiary - International Properties has an option, realisable at all times subject to the repayment of financing provided by the Austrian bank and the fulfilment of the other conditions set forth in agreements with the Austrian bank, to acquire these shares at a token consideration (hereafter: "the option").

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 26 – Contingent liabilities, commitments, guarantees and liens (cont.)

B. Guarantees and liens to secure credit from banking corporations (cont.)

(8) (cont.)

The option will expire if the loan in respect of the acquisition of the property is not repaid on due date thereof, and failing fulfilment of the other provisions of agreements relating to the debtor company in relation to the acquisition of the aforesaid property and the financing of such acquisition.

If the option expires, the trustee corporation may either sell or retain the shares, as provided in the financing agreements. The Austrian bank has undertaken to ascertain that the trustee corporation complies with the option conditions as required. The financing agreements also stipulate rules for the dilution of the holdings of either party in the event that the loan is repaid by the other party; also each party has first right of refusal on sale of the other party's shares to a 3rd party.

Likewise, the above-mentioned investee companies have contracted with the Austrian bank in connection with obtaining additional non-recourse loans.

Some of the above-mentioned investee companies are cross collaterals for securing the loans. Also, International Properties has provided a guarantee in the amount of 2.3 million euros, which will remain in force as long as certain conditions pursuant to the agreement have not been fulfilled.

(9) A joint venture (subsidiary's share – 40%) mortgaged its rights in a project for the construction of a shopping mall in the Talpiot Industrial Zone, Jerusalem. The joint venture's total credit as of December 31, 2005 amounts to NIS 98 million. Africa Israel guarantees commitments of the subsidiary vis-à-vis the bank.

(10) A subsidiary in the Netherlands recorded a first ranking mortgage on a property it owns in favour of a Dutch bank to secure a liability of NIS 23,354 thousands.

(11) A subsidiary in Canada recorded a first ranking mortgage on a property it owns in favour of a Canadian bank to security a liability of NIS 121,630 thousands. Africa Israel guarantees this liability.

C. Other guarantees and liens

(1) A subsidiary provided guarantees in favour of Tel Aviv - Jaffa Municipality in the amount of NIS 420 thousands in relation to registration of a lease on Aviv Shopping Mall, and in addition a guarantee in the sum of NIS 886 thousands in relation to internal renovations in Aviv Mall.

(2) **A subsidiary** obtained investment grants subject to a number of conditions. If the subsidiary fails to meet the stipulated conditions, it must repay the grants together with interest and indexation from date of receipt thereof. To secure the fulfilment of the conditions involved in receipt of the investment grants, the subsidiary recorded a floating charge on its assets in favour of the State of Israel. The amounts of the grants received to December 31, 2005, and respecting which the said charge was recorded, totalled NIS 7,328,000. Correct to date of the financial statements the subsidiary was in compliance with all conditions as aforesaid.

(3) A subsidiary recorded in favour of real estate purchasers a first ranking pledge on its contractual rights of the subsidiary pursuant to a lease contract with the Israel Lands Administration dated November 11, 1992, in respect of properties purchased by them.

(4) The Company and a 50% proportionately consolidated subsidiary put up performance guarantees in the amount of NIS 17 million. In addition, Africa Israel and the additional shareholder in the proportionately consolidated subsidiary provided performance guarantees in the amount of NIS 25 million.

(5) A subsidiary in Serbia provided a bank guarantee in favour of the local authority of Belgrade in the amount of 3.5 million euros. International Properties and an additional shareholder provided a guarantee in favour of the bank to secure the guarantee provided by the bank in favour of the local authority.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 26 – Contingent liabilities, commitments, guarantees and liens (cont.)

D. Financial criteria

- (1) In February 2004, a deed of trust was signed between the Company and the Trust Company of Union Bank of Israel Ltd. serving as trustee for the "A" Series debentures issued by the Company during the period of account, see also Note 15.
In addition, in September 2004, a deed of trust was signed between the Company and Deloitte & Touche (Israel) Brightman, Almagor Trust Group Ltd serving as trustee for "B" Series convertible debentures issued by the Company; see also Note 11 (C) and Note 16.
Pursuant to the deeds of trust, the Company undertook to comply at all times, as long as the debentures are not fully paid up, with certain financial criteria including, inter alia:
- (A) The debt ratio between total capital and debt, as defined in the deeds of trust, shall not exceed 60%.
 - (B) The ratio of net book value of the Company's mortgaged assets, as defined in the deeds of trust, to the total net book value of its assets, shall not exceed 40%.
 - (C) The ratio of the Company's annual volume of investments in new properties under construction, as defined in the deed of trust, and the total net book value of the real properties net of the investment in new properties under construction, shall not exceed 15%.
 - (D) The Company shall be entitled to distribute a dividend and/or to grant loans to its group companies as defined in the deeds of trust, subject to the ratio of debt to total capital and debt not exceeding 60%.
 - (E) The Company shall not pay any amount for repayment of the loans granted to it by group companies as defined in the deeds of trust, in excess of the issuance consideration amount.

In case of non-compliance of at least one of the above-mentioned financial criteria, such non-compliance not being corrected by the end of the calendar quarter subsequent to the calendar quarter in which the non-compliance occurred, the trustee shall be entitled to call the outstanding balance of the debentures for immediate payment, in whole or in part.
Correct to the balance sheet date, the Company is in compliance with the above-mentioned financial criteria.

- (2) To finance the construction of a commercial and office centre in Prague (hereafter: "the project"), a proportionately consolidated subsidiary operating in the Czech Republic took a bank loan in the amount of 80 million euros repayable by December 31, 2016. Pursuant to the conditions of the loan, the proportionately consolidated subsidiary undertook to preserve a coverage ratio (the ratio between project revenues and principal and interest payments) of not less than 1.2. Likewise, the ratio between the balance of the loan and the market value of the property shall not exceed 80% unless the coverage ratio exceeds 1.2.
If the proportionately consolidated subsidiary fails to comply with the financial criteria, the bank is entitled to call the loan for early repayment.
Correct to the balance sheet date, the proportionately consolidated subsidiary is in compliance with the above-mentioned financial criteria.
- (3) A subsidiary has a long-term liability to a bank amounting to NIS 23,354 thousands that served for the acquisition of a property in Holland, which is mortgaged to a bank. Correct to date of signing the financial statements, the rent from the abovementioned property is lower than the rent on date of receipt of the loan. Unless this situation changes, the bank is entitled to demand that the rate of the repayment of the principal be doubled. Up to the date of signature of the financial statements, no such demand has been received from the bank.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 26 – Contingent liabilities, commitments, guarantees and liens (cont.)

D. **Financial criteria** (cont.)

- (4) For financing the establishment of offices in Belgrade, Serbia (hereinafter - the project), a Serbian subsidiary (hereinafter - ACB) signing a financing agreement with and Austrian Bank. The financing facility amounted to 14 million Euros.
As security for the loan ACB mortgaged all its rights in the project to the Bank. Furthermore, all ACB shares that the subsidiary holds and the partner holds we charged to the Bank.
As part of the terms of the loan ACB undertook to maintain the cover ratio (the ratio between the revenues from the project and the payments of principal and interest) at a level that shall not be less than 1.2. Furthermore, the ratio between the balance of the loan and the market value of the project is not to exceed 70%
In the event of ACB not meeting the financial criteria, the Bank may bring forward the date of repayment of the loan. As of the balance sheet date ACB is meeting the aforementioned financial criteria.
As part of the financing agreement the Company has provided a guarantee to the Austrian Bank amounting to 143 thousands Euros to secure the interest payments by ACB during the construction of the project. As far as concerns the guarantee given to the Local Authority in the context of the project, see also C (5) above.

Note 27 – Interested and related parties

- A. (1) The Company is a subsidiary of Africa Israel, itself an affiliate of Bank Leumi Lelsrael BM (hereafter: "Bank Leumi"). The abovementioned companies and also some of their subsidiaries maintain business ties with the Company and are deemed to be parties related to the Company.
- (2) On July 22, 2004 an option agreement was signed between the Company and Africa Investments and Bank Leumi in connection with acquisition of shares in the Company. As part of this agreement the Company granted Bank Leumi an option to acquire a quantity of the Company's shares that would constitute 5% of every class of means of control of the Company (within the meaning of this term in the Securities Law 5728-1968). Following the allotment on December 29, 2005, Bank Leumi assigned the option in its possession to Leumi and Co. - Investment House Ltd. (hereinafter and above - "Leumi & Co.").
On the same day Leumi & Co. exercised the option and acquired 631, 579 ordinary shares of the Company in consideration of NIS 124.4 per share (a price that reflects the average price of the share on the Stock Exchange in the 90 days preceding the exercise date) in other words a consideration amounting to approximately NIS 78.6 million.
- B. Various directives have been stipulated in relations between Bank Leumi and Africa Israel as regards the grant of certain rights in a subsidiary (20% invested by bank Leumi) to Bank Leumi, and a list has been prepared of matters that may be put into execution only after obtaining the prior written consent of Bank Leumi. Africa Israel engaged in a further agreement with Bank Leumi in August 2003, in which Africa Israel granted Bank Leumi a right to sell to Africa Israel (put option) all of its shares in the subsidiary. The right is exercisable at all times until December 31, 2005, and was extended until March 8, 2006.
The exercise price will be determined on the basis of an evaluation to be made by an appraiser not named in the agreement.
Incidental to the restructuring of the revenue producing properties of Africa Israel as per Note 1 B (5), the subsidiary's shares were transferred to the Company as provided in the options agreement, and the Company assumed, in writing, all of the undertakings of Africa Israel toward Bank Leumi as set forth in the above-mentioned agreements, jointly and severally with Africa Israel.
In addition, Africa Israel consented and authorized the Company that, if Bank Leumi exercises the put option vis-à-vis Africa Israel, then Africa Israel shall cause the aforesaid shares to be transferred to the Company, subject to the exercise price in respect of the shares, as determined in the options agreement, being paid by the Company to Bank Leumi in accordance with the terms of the options agreement. As to exercise of the option after the balance sheet date, see Note 31B.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 27 – Interested and related parties (cont.)

C. The following data relate to parties at interest and related parties and are included in the consolidated balance sheet:

(1) Current assets

	<u>Annual interest rate</u>	<u>As of December 31</u>	
		<u>2005</u>	<u>2004</u>
		<u>Reported amounts</u>	
Trade		97	43
Accounts receivable (*)		4,053	4,870
Related companies	5.3%	377,664	216,313
Cash and cash equivalents:			
In current account		71,571	207
In short-term deposits		115,259	223,530
		<u>186,830</u>	<u>223,737</u>
		<u>568,644</u>	<u>444,963</u>

(*) Highest debit balance during the period – NIS 4,870 thousands.

(2) Long-term liabilities

	<u>Linkage</u>	<u>Interest rates as of December 31, 2005</u>	<u>As of December 31</u>	
			<u>2005</u>	<u>2004</u>
			<u>Reported amounts</u>	
Capital note	-	-	40,000	40,000
Loans from Bank Leumi group (including current maturities) (*)	CPI	3.75%	64,884	78,983
Debentures(*)	CPI	5.6%	46,824	45,999
Loans from related companies (*)	-	3.95%	77,851	74,922
			<u>229,559</u>	<u>239,904</u>

	<u>As of December 31, 2005</u>
	<u>NIS 000s</u>
	<u>Reported amounts</u>
(*) Repayment dates	
First year – current maturities	22,074
Second year	22,074
Third year	22,074
Fourth year	22,074
Fifth year	5,853
Sixth year and thereafter	95,410
	<u>189,559</u>

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 27 – Interested and related parties (cont.)

- C. The following data relate to parties at interest and related parties and are included in the consolidated balance sheet: (cont.)

(3) Current liabilities

	Interest rates as of December 31, 2005	As of December 31	
		<u>2005</u>	<u>2004</u>
		<u>Reported amounts</u>	
Short-term credit from Bank Leumi group			
Overdraft	Current account	2,450	4,289
Unlinked loans	5.9%-4.8%	113,077	121,646
Foreign currency credit	6.70%-3.72%	52,449	49,478
Shorted bonds		-	38,189
		<u>167,976</u>	<u>213,602</u>
Related companies			
CPI-linked		5,913	5,909
CPI-linked		-	22,036
Linked to the euro		1,818	3,674
		<u>7,731</u>	<u>31,619</u>
Accounts payable		<u>23,618</u>	<u>25,652</u>
		<u>199,325</u>	<u>270,873</u>

- D. The following data relate to interested and related parties and are included in the Consolidated statement of income (*):

	As of December 31	
	<u>2005</u>	<u>2004</u>
		<u>Reported amounts</u>
Revenues from leasing and operation of properties	12,076	9,426
Financing expenses in respect of long-term loans from related companies, net	7,722	15,934
Financing income in respect of long-term loans to related companies, net	(961)	(16,090)
Financing expenses (income) in respect of current balances with related companies, net	(10,266)	(5,270)
Financing expenses in respect of short-term liabilities from a related company, net	1,129	11,631
Management fee expenses to the parent company, net	9,085	12,106
Administrative and general	83	16

(*) All interested party transactions were concluded on ordinary commercial terms. The above data do not include commissions and management fees debited to the Company in the ordinary course of business.

	As of December 31	
	<u>2005</u>	<u>2004</u>
		<u>Reported amounts</u>
E. Amounts carried to a capital reserve in respect of a capital note	-	40

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 27 – Interested and related parties (cont.)

- F. In July 2004 (effective as from January 2004) the Company signed a management agreement with the parent company for management, consultation and financial coverage services for the Company, for the subsidiaries in Israel and abroad, and also for certain joint ventures. The management services include, inter alia: Director-General and director services, financial management, accountancy and bookkeeping, internal audit, computer services, legal consultation and building maintenance.

In consideration of the provision of the management services, the Company will pay the parent company on a quarterly basis an amount equivalent to NIS 750,000 linked to the Consumer Price Index of December 2003 plus an amount equivalent to 6.5% of the quarterly pre-tax earnings according to the Company's quarterly consolidated financial statements. In addition, the Company will pay the parent company the full amount of the payroll cost of those of the Company's employees that actually engaged in the marketing management and maintenance management of the Company's group assets.

The agreement term is for two years commencing January 1, 2004 and will be automatically renewable for one year more on conclusion of each calendar year. Each party is entitled to terminate the agreement by serving at least 90 days written notice prior to expiry of the agreement.

In accordance with the schedule to the management agreement as of August 2004, commencing January 2004 (hereafter: "the transfer date") the transfer occurred of employees of Africa Israel who are actually engaged in the marketing and maintenance of the Company's properties and will be employed direct by the Company, and in respect of whom details of their functions and salaries were set forth in the management agreement. Africa Israel has undertaken towards the Company to bear the full amount of the payments in connection with the employment of the transferred employees up to date of transfer and/or in connection with the discontinuation of their employment as provided by the contract of employment with the transferred employees and under any law, including, and without derogating, payments for the purpose of the payment of severance pay of the transferred employees.

Africa Israel also undertook to indemnify the Company in respect of any payment borne directly or indirectly by the Company in respect of the period up to the transfer date.

- G. As regards the undertaking to provide a loan to an affiliate – see Note 4C (1).
- H. As regards guarantees given by the parent company in favour of the Company and its investee companies:
1. The parent company provided bank guarantees in connection with the Africa Israel Tower project in Tel-Aviv, to secure performance of the contracts, issuance of a certificate of completion and the making of necessary registrations in a sum total of 662 thousands dollars.
 2. As regards additional guarantees, see Notes 26A (6), 26B (1), (7), (9), (11), 26C (4) and 5A (2).
- I. As regards guarantees and lines given by the Company in favour of the parent company – see Note 26B (3).
- J. As regards guarantees and lines given by group companies to Bank Leumi – see Note 26B (3), (5) and (6).
- K. As regards the acquisition of the holdings in companies operating in Europe from related companies, see Note 1B (4).

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2004

Note 27 – Interested and related parties (cont.)

- L. As regards an agreement signed by the Company with Africa Israel further to the restructuring of the revenue producing properties holding, see Note 1B(5).
- M. The parent company has undertaken to provide financial support for part of the Group's companies overseas, which are not financed by bank credit.
- N. See Note 26A (14), (15), (16) and (17).
- O. As part of the options scheme referred to in Note 11F, 135,000 options have been allotted to five of the Company's Directors. After the balance sheet date 32,400 options expired due to termination of employee/employer relationships in the Africa Israel Group.

Note 28 – Additional information on financial instruments

The Company and its investee companies have financial assets including, inter alia, cash and cash equivalents, short-term receivables and financial liabilities, including, inter alia, short-term and long-term loans from banks and related companies and sundry payables.

- A. Due to the nature of the financial instruments included in the Company's balance items, the fair value of such instruments does not differ materially from their value as presented in the financial statements, with the exception of a capital note as described in Note 12.
- B. Interest rate risk is the risk inhering in changes in interest rates and its effect on the financial instruments held by the Company and the investee companies. The Company has instruments bearing fixed interest and also instruments bearing variable interest. For details on instruments bearing interest rate risks – see Notes 4C, 5, 9, 10, 13, 14, 15, 16, 17 and 19.
- C. Credit risk represents the book loss liable to be occasioned to the Company as of the balance sheet date due to failure on the part of debtors to meet their commitments towards it.

The trade balance derives primarily from the debts of customers being tenants, lessees of properties. This balance is presented net of an allowance for doubtful accounts.

- D. Currency risk represents the risk of fluctuations in the value of financial instruments following changes in foreign currency exchange rates.

For further details on financial instruments exposed to currency risk see Notes 4C, 5, 8, 9, 10, 13, 17, 19 and 20.

- E. Currency-derived financial instruments –

The Group is involved in various currency derived financial instrument transactions. The following are the transactions outstanding as of the balance sheet date:

	<u>Currency receivable</u>	<u>Currency payable</u>	<u>Consolidated</u>		<u>Company</u>	
			<u>Amount</u>	<u>Fair value (**)</u>	<u>Amount</u>	<u>Fair value (**)</u>
<u>Options sold (*)</u>						
Dollar		NIS	9,206	(36)	-	-

(*) These transactions are not for commercial purposes but rather for reducing exposure deriving from existing liabilities. At the same time, these transactions do not meet all the criteria attributed to hedging transactions in accordance with generally accepted accounting principles, and accordingly, the results of these transactions are carried to income on a current basis.

(**) The transactions were presented in the financial statements at fair value.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 29 – Information on geographic segments

The Company and its investee companies engaged in investments in projects in the real estate field in Israel and elsewhere, for leasing purposes.

The accounting principles followed in segment reporting conform to the generally accepted accounting principles for the purpose of preparing and presenting the Company's consolidated financial statements.

For the year ended December 31, 2005

	<u>Czech Republic</u>	<u>Israel Reported amounts</u>	<u>Other</u>	<u>Total</u>
Segment income	35,420	192,016	6,727	234,163
Segment expenses	17,122	123,010	(571)	139,561
Financing expenses, net	10,854	43,690	3,523	58,067
Other income net	2,380	3,023	17,532	22,935
Profit before taxes on income				104,429
Taxes on income				(19,321)
Company equity in losses of affiliates, net				(14,157)
Minority equity in profits of subsidiaries, net				(16,312)
Cumulative effect due to change in system				(1,314)
Net profit				53,325
<u>Additional information</u>				
Segment assets	562,206	2,015,975	231,784	2,809,965
Non-attributed assets				22,068
Investments by the balance sheet value method	-	21,971	-	21,971
Total consolidated assets				<u>2,854,004</u>
Segment liabilities	43,222	417,780	40,490	501,492
Non-attributed liabilities				1,384,938
Total consolidated liabilities				<u>1,886,430</u>
Cost of acquisition of long-term assets	14,168	40,905	99,607	154,680
Depreciation and amortization	9,231	34,237	1,860	45,328

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 29 – Information on geographic segments (cont.)

For the year ended December 31, 2004

	<u>Czech Republic</u>	<u>Israel</u>	<u>Other</u>	<u>Total</u>
	<u>Reported amounts</u>			
Segment income	60,945	166,404	4,613	231,962
Segment expenses	32,892	96,627	1,618	131,137
Financing expenses, net	19,158	19,194	2,318	40,670
Other income (expenses), net	125,339	(351)	-	124,988
Profit before taxes on income				215,455
Taxes on income				(57,076)
Company equity in profits of affiliates, net	-	(6,967)	-	(6,967)
Minority equity in profits of subsidiaries, net				(10,827)
Net profit				<u>140,585</u>
<u>Additional information</u>				
Segment assets	549,388	1,971,091	205,122	2,725,601
Non-attributed assets				(*) 15,463
Investments by the balance sheet value method	-	28,166	18,803	46,969
Total consolidated assets				<u>2,788,033</u>
Segment liabilities	(*)52,226	(*)412,060	(*)92,837	(*)557,123
Non-attributed liabilities				(*)1,275,223
Total consolidated liabilities				<u>1,832,346</u>
Acquisition cost of long-term assets	56,037	125,390	52,797	<u>234,224</u>
Depreciation and amortization	14,094	30,791	1,370	<u>46,255</u>

(*) Reclassified

For the year ended on December 31, 2003

	<u>Czech Republic</u>	<u>Israel</u>	<u>Other</u>	<u>Total</u>
	<u>Adjusted amounts for the effect of inflation in NIS December 2003</u>			
Segment income	46,873	31,335	2,584	80,792
Segment expenses	19,423	15,299	982	35,704
Financing expenses, net				17,706
Other expenses, net				9,561
Profit before taxes on income				8,437
Tax benefits				1,326
Company's share in profits (losses) of affiliate companies, net	-	(2,238)	4,404	2,166
Minority share in profits of subsidiaries, net				(1,892)
Net profit				<u>10,037</u>

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 30 – Company data in historical nominal values for tax purposes

A. **The accounting principles applied in presenting data in nominal historical values for tax purposes are as follows:**

1. These financial statements were prepared on the basis of historical cost.
2. These financial statements include Company data only.
3. Commencing from the financial statements as of December 31, 2004, investments in investee companies are presented exclusive of the Company's equity in the profits (losses) and capital reserves of those companies that were created commencing as from 2004.

B. **Balance sheets – the Company**

	December 31	
	2005	2004
Fixed assets	433,857	440,601
Investments in investee companies	282,189	317,912
Long-term liabilities	39,970	33,946
Other assets and deferred charges	9,660	8,382
Current assets		
Trade	2,724	2,296
Accounts receivable	16,929	16,424
Related companies	409,440	250,050
Cash and cash equivalents	187,908	223,856
	617,001	492,626
	1,382,677	1,293,467
Shareholders' equity	542,574	556,338
Capital note	40,000	40,000
Long-term liabilities		
Loans from related companies	77,851	74,922
Debentures	237,106	263,888
Debentures convertible into shares	197,236	156,102
Termination of employment related liabilities	387	-
Other long-term liabilities	26,000	26,000
	538,580	520,912
Current liabilities		
Short-term loans from banks and others	99,973	26,436
Related companies	132,900	118,463
Accounts payable	28,650	31,318
	261,523	176,217
	1,382,677	1,293,467

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 30 – Company data in historical nominal values for tax purposes (cont.)

C. **Statements of income – the Company**

	For the year ended December 31		
	2005	2004	2003
Income			
From leasing and operation of properties	60,377	62,301	31,728
Expenses			
Operation and maintenance of properties	10,304	9,855	4,929
Depreciation and amortization	9,784	9,414	6,186
Administrative and general	7,976	13,069	3,233
Financing, net	17,780	7,337	708
	<u>45,844</u>	<u>39,675</u>	<u>15,056</u>
Profit (loss) from ordinary operations	14,533	22,626	16,672
Other income (expenses)	5,480	-	(530)
Profit (loss) before taxes on income	20,013	22,626	16,142
Taxes on income (tax benefit)	(2,648)	23,236	(14,797)
Profit (loss) after taxes on income	22,661	(610)	30,939
Company's share in losses of affiliates, net	-	-	(1,269)
Net profit (loss) for the year	<u>22,661</u>	<u>(610)</u>	<u>29,670</u>

D. **Statements of changes in shareholders' equity (capital deficiency)**

	Share capital	Premium	Receipts from issuance of options	Dividend proposed after balance sheet date	Retained earnings	Total
Balance at January 1, 2003	106	-	-	-	(167,975)	(167,869)
Shares issued against acquisition of properties from parent company	10	482,978	-	-	-	482,988
Net profit for the year	-	-	-	-	29,670	29,670
Balance at December 31, 2003	116	482,978	-	-	(138,305)	344,789
Credited in respect of related party transactions	-	-	-	-	(5,182)	(5,182)
Shares issued against acquisition of properties from parent company (*)	9	399	-	-	-	408
Issuance of bonus shares	9,875	(9,875)	-	-	-	-
Issuance of shares	2,000	194,898	-	-	-	196,898
Issuance of options	-	-	20,035	-	-	20,035
Dividend proposed after balance sheet date	-	-	-	75,000	(75,000)	-
Loss for the year	-	-	-	-	(610)	(610)
Balance at December 31, 2004	12,000	668,400	20,035	75,000	(219,097)	556,338
Issuance of option warrants	632	77,943	-	-	-	78,575
Dividend payment	-	-	-	(75,000)	(40,000)	(115,000)
Profit for the year	-	-	-	-	22,661	22,661
Balance as at December 31, 2005	<u>12,632</u>	<u>746,343</u>	<u>20,035</u>	<u>-</u>	<u>(236,436)</u>	<u>542,574</u>

(*) See Note 26 (A) (15)

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 30 – Company data in historical nominal values for tax purposes (cont.)

E. **Nominal share capital**

	<u>As of December 31</u>			
	<u>2005</u>			<u>2004</u>
	<u>Authorized</u>	<u>Issued and paid up</u>	<u>Authorized</u>	<u>Issued and paid up</u>
Number of shares				
Ordinary shares of NIS 1 n.v	<u>20,000,000</u>	<u>12,631,579</u>	<u>20,000,000</u>	<u>12,000,000</u>
Shares in New Israeli Shekels				
Ordinary shares of NIS 1 n.v	<u>20,000,000</u>	<u>12,631,579</u>	<u>20,000,000</u>	<u>12,000,000</u>

Note 31 – Post balance sheet events

- A. After the balance sheet date International Properties entered into a contract with Cyberzone Properties, a foreign corporation registered in the Philippines (hereinafter; "the project company"), for the acquisition of 40% of the issued share capital of the project company (hereinafter: "the shares"). The project company owns (directly or indirectly) leasing rights in the project in the establishment of a office buildings park for companies operating in the field of information technology in the metropolitan area of Manila in the Philippines (hereinafter: " the project"). The following is a brief description of the main points of the transaction:

The subsidiary has entered into a contractual agreement with the project company for the acquisition of the shares by way of allotment (hereinafter: "investment agreement") in consideration of a total sum of 10,000,000 US dollars.

In the investment agreement it was provided that the investment would be made in three stages as detailed below:

On the date of signature of the investment agreement shares of the project company will be allotted to the subsidiary, to the effect that following such allotment the subsidiary will hold 25% of the issued capital of the project company, this inconsideration of approximately 5.1 million US dollars.

In February 2007 additional shares of the project company will be allotted to the subsidiary to the effect that following such allotment the subsidiary will hold 35% of the issued capital of the project company, this inconsideration of approximately 3 million US dollars.

In February 2008 additional shares of the project company will be allotted to the subsidiary to the effect that following such allotment the subsidiary will hold 40% of the issued capital of the project company, this inconsideration of approximately 2 million US dollars.

As at the date of the balance sheet, 5 buildings covering a total leased area of approximately 40,000 square meters have been built and leased in their entirety of the area of the project, the amount of revenues from rentals in respect of the said buildings, amounted, in the forth quarter of 2005, to approximately 1.1 million US dollars.

Within one full month of the date of signature of the investment agreement completion of construction of a further building is expected in the project covering a total leased area of approximately 11,000 square meters and the building works of the construction of building no. 7 in the project, covering a total leased area of approximately 11,000 square meters, are expected to begin upon completion of construction of building no. 6 as aforementioned.

Upon completion of construction in the project, the number of buildings is anticipated to amount to 19, this constituting a total area of construction of approximately 210,000 square meters.

AFRICA ISRAEL PROPERTIES LIMITED
Notes to the financial statements as of December 31, 2005

Note 31 – Post balance sheet events (cont.)

A. (cont.)

The rights in the land have been leased from a company that is owned by a party related to the other share holders of the project company to the effect that the project company will be entitled to the rents for every building for a period of 15 years.

In the estimation of the project company, completion date of the project in its entirety is scheduled to occur in 2012 and the total amount of the investment in the project is, at this stage estimated at approximately 136 million US dollars.

B. On March 8 2006, the Company received notice from Bank Leumi according to which Bank Leumi exercised its right to sell (put option) to the Company and to obligate it to require from Bank Leumi all Bank Leumi's shares in a subsidiary, meaning 20% of the issued and paid up capital of the subsidiary.

In accordance with the notice of Bank Leumi the date of exercise of the said option will occur on April 9 2006 and the exercised priced has been set at NIS 51,400,000. Upon completion of the exercise and payment of the consideration as aforesaid, the company will become the holder of the entire issued share capital of the subsidiary.

C. After the balance sheet date a Canadian subsidiary, in which the subsidiary holds (in directly) approximately 55% of the share capital entered into an agreement for sale of its assets and its operation (hereinafter: "the sale agreement").

Under the sale agreement, a foreign company will acquire from the Canadian company its rights in land, buildings, lease contracts, its rights in other contracts and goods and chattels, in relation to a 10 storey apartment building containing 232 housing units in Toronto, Canada, for a consideration of 43 million Canadian dollars.

The subsidiary, upon completion of the transaction expects to post a profit (after tax) in the financial statements amounting to approximately NIS 18 million.

D. After the balance sheet date 130 option warrants (series 1) were exercised for the company's ordinary shares of NIS 1 n.v.

E. After the balance sheet date 2,452,892.82 n.v. debentures (series B) were converted for 20,058 of the company's ordinary NIS 1 n.v. shares.

F. The company has commenced preliminary procedures for a possible flotation on the AIM Exchange in London, in respect of a subsidiary of the Company in the framework of which the activity of the Company Group in Europe will be concentrated. In this context meetings have taken place with investment banks, potential underwriters and other professional parties in order to realise this intention of the Company. The extent of the issue and its date has not been decided and it is by no means certain that the process outlined above will indeed be completed.

The audit committee of the Company and the Board of Directors approved a transaction on March 23 2005 by virtue of which the aforementioned subsidiary will enter into an agreement with companies of the Africa Israel Group, the controlling shareholder of the Company, and pursuant to which a number of foreign Czech and Bulgarian companies will be transferred to the subsidiary, they being the owners of the rights and/or having entered into agreements for acquisition of rights in projects in the residential field in Prague and in Sofia, as well as balances of owners loans, and all for a consideration equivalent to the cost of the acquisition of such projects, the expenses that have accumulated in respect thereof up to the date of completion of the transaction, and the balances of the owners loans. The agreement is subject to the approval of the general meeting of the Company's Shareholders in accordance with Section 275 of the Companies Law, 5759-1999 being an agreement in which the controlling shareholder of the company has a personal interest.

AFRICA ISRAEL PROPERTIES LIMITED

Appendix to the Financial Statement – Schedule of active investee companies

	Rate of Company's ownership and control as of balance-sheet date %	As presented in the Company's <u>financial statements</u>
<u>Israel</u>		
Africa Israel International Properties (2002) Ltd.	100	Subsidiary
Machzevot Haifa Ltd.	45	Affiliate
City Centre (MAT) Management Ltd (1)	45	Affiliate
Givat Savyon Ltd.	85	Subsidiary
Af-Sar Ltd.	80	Subsidiary
Meqarqe'e Merkaz Ltd.	73.4	Subsidiary
One Half Jubilee Ltd.	50	Proportionately consolidated
Kiryat Hamada BeMigdal Ha'emek Ltd. (4)	85	Subsidiary
Flamingo Ltd.	100	Subsidiary
Merkaz Savionim - Management and Maintenance Ltd.	100	Subsidiary
Aviv Mall Management & Maintenance Ltd. (5)	73.4	Subsidiary
Lev Talpiot Management & Maintenance Ltd. (6)	40	Affiliate
<u>The Netherlands (2)</u>		
A.I.E.E. Overschie B.V.	100	Subsidiary
A.I.I.P. Fin B.V.	100	Subsidiary
<u>Czech Republic (2)</u>		
M.I.C.C. Prague s.r.o.	64	Subsidiary
Adut s.r.o.	63	Subsidiary
Broadway Creseus s.r.o.	100	Subsidiary
Flora-Management s.r.o.	100	Subsidiary
Flora-Sen s.r.o.	50	Proportionately consolidated
Balabenka s.r.o.	100	Subsidiary
Praha-Jeruzalem s.r.o.	63	Subsidiary
Evropa-Sen s.r.o.	100	Subsidiary
Bohemia-Sen s.r.o.	100	Subsidiary
National Technological Park s.r.o.	100	Subsidiary
Nofim Czech Republic s.r.o.	50	Subsidiary
<u>Cyprus</u>		
<u>Faringer Enterprises Ltd.</u>	50	Subsidiary
<u>Canada</u>		
2024589 Ontario Inc (2)	100	Subsidiary
2024590 Ontario Inc (2)	100	Subsidiary
Victoria Square Residences Ltd. (7)	55	Subsidiary
Mod Village Residences Ltd. (8)	55	Subsidiary
<u>B.V.I.</u>		
Intrastar International Ltd. (2)	50	Subsidiary
Galway Consolidated Ltd. (9)	25.3	Subsidiary
<u>Serbia</u>		
Airport City Belgrade d.o.o. (10)	46.3	Subsidiary
(1)	100% invested by Haifa Quarries Ltd.	
(2)	Investee companies of Africa Israel International Properties (2002) Ltd.	
(3)	A subsidiary of Adut s.r.o.	
(4)	100% invested by Givat Savyon Ltd.	
(5)	100% invested by Mekarkaei Merkaz Ltd.	
(6)	An investee of Flamingo Ltd.	
(7)	55% invested by 2024590 Ontario Inc.	
(8)	55% invested by 2024589 Ontario Inc.	
(9)	50.7% invested by Intrastar International Ltd.	
(10)	85% invested by Intrastar International Ltd. and 15% invested by Galway Consolidated Ltd.	
(11)	See note 31B	
(12)	100% invested by Faringer Enterprises Ltd.	