GAZIT-GLOBE (1982) LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2001

ADJUSTED TO THE NIS OF MARCH 2001

UNAUDITED

INDEX

- - - - - - - -

ERNST & YOUNG

■ **Kost Forer & Gabbay**
3 Aminadav St.
Tel-Aviv 67067, Israel

■ Phone: 972-3-6232525
Fax: 972-3-5622555

The Board of Directors
Gazit-Globe (1982) Ltd.

Re: Review of unaudited interim consolidated financial statements for the three months ended March 31, 2001

At your request, we have reviewed the interim consolidated balance sheet of Gazit-Globe (1982) Ltd. and its subsidiaries as of March 31, 2001, and the related interim consolidated statements of income, changes in shareholders' equity and cash flows for the three months then ended.

Our review was made in accordance with the procedures prescribed by the Institute of Certified Public Accountants in Israel, and included, inter-alia, reading of the aforementioned interim consolidated financial statements, reading of the minutes of meetings of the shareholders and the Board of Directors and its committees, and making inquiries of certain officers responsible for financial and accounting matters.

We did not review the financial statements of certain subsidiaries, which statements reflect total assets constituting approximately 96.9% as of March 31, 2001, and total revenues constituting approximately 99.5% of the related consolidated totals for the three months then ended. These statements were reviewed by other auditors whose reports have been furnished to us.

The foregoing procedures do not constitute an examination made in accordance with generally accepted auditing standards in Israel, and are limited in scope. Therefore, we do not express an opinion on the aforementioned interim consolidated financial statements.

In the course of our review, including the reading of the review reports of other auditors, as referred to above, nothing came to our attention as a result of our review that would indicate that material changes of the interim consolidated financial statements are required in order that they may be considered prepared in accordance with generally accepted accounting principles in Israel and in accordance with the Israeli Securities Regulations (Periodic and Immediate Statements), 1970.

Tel-Aviv, Israel
May 23, 2001

KOST FORER & GABBAY
A Member of Ernst & Young International

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED BALANCE SHEETS

Adjusted to the NIS of March 2001

	March 31, 2001	March 31, 2000	December 31, 2000
	Unaudited	Unaudited	Audited
	Adjusted NIS in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	158,265	26,263	101,942
Short-term investments	100,051	21,467	168,309
Receivables from tenants	17,619	5,541	35,584
Accounts receivable	21,698	7,124	35,224
Loans to a partner in jointly controlled entities	91,021	-	86,901
	388,654	60,395	427,960
LONG-TERM INVESTMENTS AND LOANS:			
Long-term investments	169,851	272,399	151,834
Long-term loans	50,621	8,924	49,793
	220,472	281,323	201,627
FIXED ASSETS:			
Cost	4,596,106	1,116,006	4,308,346
Less - accumulated depreciation	135,489	67,035	110,171
	4,460,617	1,048,971	4,198,175
OTHER ASSETS AND DEFERRED CHARGES, NET	120,840	10,161	106,471
	5,190,583	1,400,850	4,934,233

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

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED BALANCE SHEETS
Adjusted to the NIS of March 2001

	March 31,		December 31,
	2001	**2000**	**2000**
	Unaudited		**Audited**
	Adjusted NIS in thousands		
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit from banks and others	278,599	28,531	294,093
Trade payables	39,370	2,045	37,903
Other accounts payable	68,365	13,897	83,159
Dividend declared	7,221	3,950	6,803
	393,555	48,423	421,958
LONG-TERM LIABILITIES:			
Debentures	256,560	107,714	154,752
Convertible debentures	-	27,222	-
Liabilities to financial institutions and others	2,758,349	728,244	2,614,411
Lessees and tenants' security deposits	127,907	5,570	122,169
Accrued severance pay	688	101	600
Deferred taxes	462	433	462
	3,143,966	869,284	2,892,394
CONVERTIBLE DEBENTURES REDEEMABLE FOR SUBSIDIARY'S SHARES	832,626	-	895,645
MINORITY INTEREST	294,518	146,646	270,172
CONVERTIBLE DEBENTURES	1,005	-	1,004
SHAREHOLDERS' EQUITY	524,913	336,497	453,060
	5,190,583	1,400,850	4,934,233

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

May 23, 2001		
Date of approval of the financial statements	D. Segal Managing Director	G. Kotler Financial Officer

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED STATEMENTS OF INCOME

Adjusted to the NIS of March 2001

	Three months ended March 31, 2001	Three months ended March 31, 2000	Year ended December 31, 2000
	Unaudited	Unaudited	Audited
	Adjusted NIS in thousands (except per share amounts)		
Revenues:			
Rental income	155,703	37,488	356,250
Other income	15,954	(* 20,567	70,243
	171,657	58,055	426,493
Costs and expenses:			
Operating properties for rent	54,779	10,742	119,340
Depreciation of properties for rent	22,021	5,024	47,804
General and administrative	12,311	6,675	34,876
Financial, net	36,749	(* 7,306	103,114
Other expenses	4,164	301	8,251
	130,024	30,048	313,385
Income before taxes on income	41,633	28,007	113,108
Taxes on income	5,547	886	12,121
Income after taxes on income	36,086	27,121	100,987
Minority interest in earnings of subsidiaries	(14,520)	(6,382)	(25,825)
Former shareholders share in earnings of newly consolidated subsidiary	-	-	(8,311)
Net income for the period	21,566	20,739	66,851
Earning per NIS 1 par value of Common shares (in adjusted NIS):			
Basic earnings	0.48	0.69	1.69
Diluted earnings		0.53	

*) Reclassified.

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

GAZIT-GLOBE (1982) LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of March 2001
Unaudited

	Three months ended March 31, 2001						
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Retained earnings	Less - shares held by the Company	Total
	Adjusted NIS in thousands						
Balance at the beginning of the period	94,969	310,717	13,659	11,104	23,231	(620)	453,060
Issuance of share capital (net of issuance expenses)	3,271	42,702	-	-	-	(17,499)	28,474
Exercise of stock options into shares	365	2,935	-	-	-	-	3,300
Foreign currency translation adjustments for foreign autonomous units	-	-	-	25,734	-	-	25,734
Net income for the period	-	-	-	-	21,566	-	21,566
Dividend declared	-	-	-	-	(7,221)	-	(7,221)
Balance at the end of the period	98,605	356,354	13,659	36,838	37,576	(18,119)	524,913

	Three months ended March 31, 2000						
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Retained earnings	Less - shares held by the Company	Total
	Adjusted NIS in thousands						
Balance at the beginning of the period	80,898	171,416	13,659	9,996	(24,329)	-	251,640
Issuance of share capital (net of issuance expenses)	6,775	71,499	-	-	-	-	78,274
Buy back of Company's shares by the Company	-	-	-	-	-	(9,713)	(9,713)
Foreign currency translation adjustments for foreign autonomous units	-	-	-	(493)	-	-	(493)
Net income for the period	-	-	-	-	20,739	-	20,739
Dividend declared	-	-	-	-	(3,950)	-	(3,950)
Balance at the end of the period	87,673	242,915	13,659	9,503	(7,540)	(9,713)	336,497

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

GAZIT-GLOBE (1982) LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Adjusted to the NIS of March 2001
Audited

	Year ended December 31, 2000						
	Share capital	Share premium	Capital reserve	Foreign currency translation adjustments for foreign autonomous units	Retained earnings	Less - shares held by the Company	Total
	Adjusted NIS in thousands						
Balance at the beginning of the year	80,898	171,416	13,659	9,996	(24,329)	-	251,640
Issuance of share capital, net	6,895	72,592	-	-	-	(12,141)	67,346
Conversion of debentures into shares	2,430	23,612	-	-	-	-	26,042
Exercise of stock options into shares	4,746	39,150	-	-	-	(5,964)	37,932
Sale of Company's shares by subsidiary	-	3,299	-	-	-	17,485	20,784
Reimbursement of issuance expenses	-	648	-	-	-	-	648
Foreign currency translation adjustments for foreign autonomous units	-	-	-	1,108	-	-	1,108
Net income for the year	-	-	-	-	66,851	-	66,851
Dividend paid	-	-	-	-	(12,488)	-	(12,488)
Dividend declared	-	-	-	-	(6,803)	-	(6,803)
Balance at the end of the year	94,969	310,717	13,659	11,104	23,231	(620)	453,060

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

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Adjusted to the NIS of March 2001

	Three months ended March 31,		Year ended December 31,
	2001	2000	2000
	Unaudited		Audited
	Adjusted NIS in thousands		
Cash flows from operating activities:			
Net income for the period	21,566	20,739	66,851
Adjustments to reconcile net income to net cash provided by operating activities (a)	840	9,475	12,357
Net cash provided by operating activities	22,406	30,214	79,208
Cash flows from investing activities:			
Investment in newly consolidated subsidiaries (b)	-	-	(447,536)
Investment in subsidiary and in jointly controlled entity	(16,542)	(10,613)	(21,823)
Investments in fixed assets	(155,082)	(20,991)	(216,855)
Proceeds on sale of fixed assets	-	57	-
Proceeds from sale of real estate	-	-	60,211
Granting of long-term loans	-	-	(60,045)
Repayment of long-term loans	-	-	55,521
Short-term investments, net	78,116	(3,864)	(59,058)
Purchase of marketable securities and long-term investments	(20,853)	(100,632)	(184,138)
Proceeds from sale of long-term investments	13,671	-	216,569
Proceeds from sale of land to former minority in subsidiary	-	2,335	2,533
Granting of loan to a partner in jointly controlled entities	(1,037)	-	-
Net cash used in investing activities	(101,727)	(133,708)	(654,621)
Cash flows from financing activities:			
Issuance of share capital, net	28,474	78,274	67,346
Exercise of stock options into shares	3,300	-	37,932
Sale of Company's shares by the Company and subsidiary	-	-	20,784
Reimbursement of issuance expenses	-	-	648
Issuance to minorities in subsidiary, net	-	-	43,751
Deferred charges in respect of raising loans and debentures	(8,665)	(438)	(18,205)
Dividend paid	(6,803)	-	(12,488)
Dividend paid to minorities in subsidiary	(8,204)	(4,118)	(20,131)
Receipt of long-term loans	186,637	85,139	718,802
Early redemption of debentures and convertible debentures	(53,459)	-	(45,744)
Sale of Company's debentures by subsidiaries	-	3,440	7,190
Principal payment of long-term loans	(99,858)	(36,972)	(153,527)
Short-term bank credit, net	(2,309)	(21,441)	(3,100)
Buy back of Company's shares by the Company	-	(9,713)	-
Issuance of convertible debentures	-	11,000	11,047
Issuance of debentures	95,089	-	-
Net cash provided by financing activities	134,202	105,171	654,305
Effect of exchange rate differences from cash balances of foreign autonomous units on cash and cash equivalents	1,442	(20)	(1,556)
Increase in cash and cash equivalents	56,323	1,657	77,336
Cash and cash equivalents at the beginning of the period	101,942	24,606	24,606
Cash and cash equivalents at the end of the period	158,265	26,263	101,942

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

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Adjusted to the NIS of March 2001

	Three months ended March 31,		Year ended December 31,
	2001	**2000**	**2000**
	Unaudited		**Audited**
	Adjusted NIS in thousands		
(a) Adjustments to reconcile net income to net cash provided by operating activities:			
Income and expenses not involving cash flows:			
Loss (gain) on realization and revaluation of marketable securities, net	(13,998)	221	(35,441)
Minority interest in earnings of subsidiaries	14,520	6,382	25,825
Depreciation	22,136	5,062	47,804
Deferred taxes, net	(8,153)	(162)	(821)
Gain from early redemption of debentures and convertible debentures of subsidiary	(16,325)	-	(9,461)
Adjustment differences on monetary assets and long-term liabilities, net	(35,148)	(9,166)	(52,199)
Amortization of other assets and deferred charges	1,793	389	22,438
Gain on sale of fixed assets	-	(26)	(2,917)
Increase in accrued severance pay	88	-	28
Loss (gain) on issuance to third party and related party	266	178	(2,435)
Changes in asset and liability items:			
Decrease in tenants and other accounts receivable	34,211	5,572	15,890
Increase (decrease) in trade payables and other accounts payable	(6,067)	849	3,358
Increase in tenants' security deposits	7,517	176	288
	840	9,475	12,357

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

GAZIT-GLOBE (1982) LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Adjusted to the NIS of March 2001

	Year ended December 31, 2000
	Audited
	Adjusted NIS in thousands
(b) Investment in newly consolidated subsidiaries:	
Subsidiaries' assets and liabilities at date of acquisition:	
Working capital (excluding cash and cash equivalents):	
Current assets	(53,989)
Current liabilities	133,644
	79,655
Fixed assets, long-term loans and investments (mainly land)	(3,232,503)
Other assets	(130,132)
Long-term liabilities	2,742,819
	(619,816)
Minority interest in subsidiary's shareholders' equity	92,625
	(447,536)

	Three months ended March 31, 2001	Three months ended March 31, 2000	Year ended December 31, 2000
	Unaudited		**Audited**
	Adjusted NIS in thousands		
(c) Significant non-cash operations:			
Dividend declared	7,221	3,950	6,803
Purchase of fixed assets against long-term liabilities	-	-	29,452
Acquisition of jointly controlled entity	-	-	14,338
Sale of land to former minority in subsidiary	-	17,467	17,367
Conversion of convertible debentures into Company shares	-	-	26,042

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

NOTE 1:- GENERAL

These interim consolidated financial statements have been prepared as of March 31, 2001 and for the three months then ended. These financial statements are to be read in conjunction with the audited annual financial statements of the Company as of December 31, 2000 and their accompanying notes.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the annual financial statements as of December 31, 2000 are applied consistently in these financial statements.

NOTE 3:- FINANCIAL STATEMENTS IN ADJUSTED VALUES

The financial statements are prepared on the basis of the historical cost adjusted for the changes in the general purchasing power of the NIS based on the changes in the Israeli CPI. Comparative figures in these financial statements were adjusted to the NIS of March 2001.

The following are details of the index in Israel, U.S. and Canada and the exchanges rate of the U.S. dollar and the Canadian dollar:

	Consumer Price Index			Exchange rate of $ 1 of	
	Israel	U.S.	Canada	U.S.	Canada
	Points *)			NIS	
As of:					
March 31, 2001	99.7	176.2	115.6	4.192	2.6623
December 31, 2000	100.2	174.0	115.1	4.041	2.6913
March 31, 2000	99.0	171.2	112.8	4.026	2.7683
December 31, 1999	100.2	168.3	111.5	4.153	2.8568
Change for the period	%				
March 31, 2001	(0.5)	1.3	0.4	3.7	(1.1)
December 31, 2000	-	3.4	3.2	(2.7)	(5.8)
March 31, 2000	(1.2)	1.7	1.2	(3.1)	(3.1)

*) According to the index for the month ending on balance sheet date on an average basis of:

Israel	-	2000 = 100
U.S.	-	1984 = 100
Canada	-	1992 = 100

NOTE 4:- ADDITIONAL INFORMATION

a. In January 2001, the Company issued debentures in the amount of NIS 95 million to two provident funds. The debentures are linked to the Israeli CPI and bear interest which reflects a gross annual yield of 8.25%. The debentures are redeemable in the years 2006 - 2015.

In a transaction with an Israeli bank, the Company changed the linkage basis for part of the debentures in the amount of $ 20 million to the U.S. dollar at an additional cost of 0.2% per year.

b. In February 2001, the Company issued to institutional entities and the parent company about 2 million Common shares and about 1.6 million stock options (series 4). Each stock option (series 4) is exercisable into one share in exchange for NIS 13.6, linked to the U.S. dollar (base exchange rate of $ 1 = NIS 4.15) until February 20, 2004. In any case, the exercise price will not be below NIS 13.6. The securities were issued in 403,260 units which contain 5 Common shares and 4 sock options (series 4) at NIS 70.25 per unit.

The parent company acquired at the issuance 120,000 units, representing an immediate investment of NIS 8.4 million. In addition, the Company offered additional 250,000 units to a wholly owned subsidiary. The securities to be held by the subsidiary will be asleep until sold to third parties.

The total net immediate capital raising amounts to NIS 28.4 million. Assuming that the options are fully exercised, the total capital raising is expected to amount approximately NIS 50.4 million.

c. In February 2001, a subsidiary published a tender for two series of convertible debentures of CFE.

Approximately CD 12 million called the tender of the convertible debentures (which bear interest of 7.875%) in consideration for 80% of their par value and approximately CD 7.5 million par value in convertible debentures (bearing interest of 7%) in consideration for 72% of their par value.

By virtue of the agreement with Aloni Hetz Properties and Investments Ltd. ("Aloni Hetz"), approximately 22% of the debentures which were called in the tender were purchased by Aloni Hetz.

In addition to the aforesaid, the subsidiary purchased additional debentures of CFE during trade on the Stock Exchange. In respect of the purchase of the above debentures, the Company derived gain on early redemption during the reported period of NIS 7.1 million.

As of the date on which these financial statements were approved, the subsidiary holds approximately CD 35,822 thousand par value of convertible debentures of CFE (10% of the amount issued).

d. During the reported period, 400 thousand stock options (series 3) were exercised into shares for the total consideration of NIS 3.3 million.

e. On May 18, 2001, EQ1 and CFE announced that they have entered into a binding agreement whereby EQ1 will acquire CFE wholly owned subsidiary which owns properties in the United States in exchange for the issuance of 10.5 million of EQ1 shares.

The transaction is pending the approval of the authorized factors.

\- - - - - - - - - - - - - - - - -

GAZIT-GLOBE (1982) LTD.

<u>Directors' Report to Shareholders</u>
<u>For the period ended March 31, 2001</u>

The Board of Directors of Gazit-Globe (1982) Ltd. (hereinafter – "the Company") is honored to present the financial statements of the Company and its consolidated subsidiaries for the period ended March 31, 2001:

1. **A. <u>General</u>**

The Company is an investment company engaged in the acquisition, development, and management of income-producing properties in the USA, Canada, and Israel. The Company focuses mainly on supermarket anchored shopping centers.

In addition, the Company seeks business opportunities in the acquisition of companies engaged in its areas of activity and/or in synergetic businesses.

As of the date of the financial statements, the Company owns – directly and indirectly – 114 properties with Gross Leasable Area (G.L.A.) of close to 14 million square feet, with a book value of NIS 4.4 billion, generating annual rental income of NIS 575 million (based on gross annual rent for the properties owned), as well as 50% in a senior citizens' residences company.

In the USA, the Company operates via Equity One Inc. (hereinafter – "EQ1"), a self-administered, self-managed REIT (real estate investment trust) traded on the NYSE. As of the date of the financial statements, the Company owns some 63.8% of EQ1. EQ1 operates mainly in the state of Florida, in the acquisition and development of primarily supermarket anchored shopping centers, owning 33 properties with G.L.A. of some 3.2 million square feet. The company also owns 9.8% of a public REIT based in Houston, Texas.

The operations in Canada are carried out via Centrefund Realty Corporation (hereinafter – "CFE"), a public company traded on the TSE. As of the approval date of the financial statements, the company owns some 68% of CFE. CFE operates in Canada (about 60% of its property portfolio) and in the USA (40%), in Florida and Texas (regarding properties in Florida and Texas, see Par. 6.A below). CFE holds interest in 72 properties with total G.L.A. of approx. 10.7 million square feet, as well as additional properties under development. In addition, the Company owns 100% of the shares of First Capital Inc. (a Canadian company) (hereinafter – "F.C.I."), which, as of the date of the financial statements, owns 8 shopping centers with G.L.A. of more than 850,000 square feet.

In Israel, the company owns 50% of the controlling interest in Mishkenot Clal (1982) Ltd., a leading senior citizens' residences company in Israel. In addition, the Company owns an office building in Tel-Aviv.

B. Operating Results in the Period

In the three-month period ended March 31, 2001, net income was NIS 21.6 million, compared with NIS 20.7 million in the first quarter last year and

NIS 66.9 million in the full year 2000.

Earnings per share in the reported period were NIS 0.48 compared with NIS 0.69 last year.

In addition, depreciation on assets (net of the minority interest) for the reported year totaled NIS 15.5 million, which is NIS 0.34 depreciation per share, compared with NIS 3.5 million, which is NIS 0.12 depreciation per share, last year. Total earnings, including gains from the Supersol transaction, and dividends and gains from investments in public real estate companies in the USA and Canada, and excluding non-recurring income and expenses, plus depreciation per share (F.F.O.) amounted to NIS 0.82 per share, compared with NIS 0.81 per share in the same period last year. This represents growth of 1%, and excluding the effect of the Supersol transaction, the increase in F.F.O. per share is 107%.

As of March 31, 2001, shareholders' equity per share was NIS 11.63, compared with NIS 9.81 per share in the same quarter last year, an increase of 18.5%.

Regarding the results of operations see Item 3 below.

2. The Company and its Business Environment – Main Events and Changes Occurring in the Reported period

General

In the reported period, the Company invested– directly and through subsidiaries – the sum of NIS 162.3 million, net, in the acquisition, development, and improvement of properties and long-term investments. Their effect on the results of operations will be expressed in full in the coming quarters.

A. Acquisition of shopping center

On February 12, 2001, CFE completed the acquisition of a 290,000 square foot shopping center located in Brampton, Ontario, for C$ 40.8 million. This well located center is anchored by a Wal-Mart store and a Fortinos (Part of Canada's leading chain – Loblaw's) supermarket. In addition, the shopping center has expansion potential of approximately 18,000 square feet.

B. Additional investments

As of March 31, 2001, the Company's investments in the shares of public real estate companies (REIT's) and shares of other companies in the USA and Canada (excluding subsidiaries) total NIS 141,819 thousand.

Most of the investment in these shares is in companies whose principal activity is similar in nature to that of CFE, EQ1 and F.C.I., and operate in the areas in which the Company operates.

C. **<u>Acquisition of shares in EQ1</u>**

In the reported period, the Company acquired some 47,000 shares in EQ1 on the New York Stock Exchange, at prices ranging between US$ 9.4-9.9 per share.

In total, the Company invested NIS 1.9 million in the acquisition of EQ1 shares during the reported period.

D. **<u>Investment in the shares of Supersol</u>**

In the reported period, and up until the approval date of the financial statements, the Company sold 1.8 million shares of Supersol Ltd., for total proceeds of NIS 26 million, and a gross gain of NIS 4 million.

E. **<u>Acquisition of CFE debentures by the Company in the reported period</u>**

During 2001, the Company acquired – through a wholly-owned Canadian subsidiary –on the Toronto Stock Exchange (TSE) and as part of a tender offer it made, $C 26,677 thousand convertible debentures of CFE, at a cost of NIS 53.3 million.

As a result of the acquisition of these debentures, at a purchase price which was lower than CFE's liability on its books, the Company recorded a gain in its financial statements.

The financing expenses in the income statement, includes a gain from the early redemption of debentures, as described above, of NIS 16.3 million. The Company's share in the gain, after a provision for taxes, deduction of the discount on the debentures and the minority interest in the gain, is NIS 7.1 million.

F. **<u>Private placement of shares</u>**

On February 20, 2001, the Company issued to provident funds, pension funds, insurance companies and to the parent company, 2 million ordinary shares and another 1.6 million warrants (Series 4) that may be exercised for ordinary shares.

The securities were offered in 403,260 units containing 5 ordinary shares and 4 warrants (Series 4) at a price of NIS 70.25 per share.

The parent company acquired 120,000 units in the offering, representing an immediate investment of NIS 8.4 million. In addition, the Company issued another 250,000 units to a subsidiary it controls, which were later sold to the Company.

The total net capital raised was NIS 28.5 million. Assuming full exercise of the warrants, the offering is expected to total NIS 50.4 million.

G. Private placement of debentures

On January 2, 2001, the Company raised NIS 95 million by issuing interest-bearing Index-linked debentures (that will not be listed for trading) to two provident funds. The debentures are to be repaid over a period of 15 years.

H. Investments in technology companies related to the shopping center industry

The Company's management views investments in technology companies related to the shopping center industry as a complement to its business.

In the reported period, the Company continued to invest US$ 0.5 million in MSC, and wrote down its entire investment in MSC of US$ 1 million (NIS 4 million). The Company is evaluating the developments and trends in the markets relating to such companies (which are currently negative), and, accordingly, will decide on the continuation of its investments in MSC.

I. Exercise of warrants (Series 3) of the Company

During the reported period and until the approval date of the financial statements, 0.4 million of the Company's warrants (Series 3) were exercised, for total proceeds of NIS 3.3 million.

J. Dividend policy

Pursuant to the Company's annual dividend policy, in which the Company announces at the end of each year the dividend for the subsequent year, the Company announced that the dividend in 2001 would be at least NIS 0.64 per share, representing, as of the date of the resolution, a dividend yield of about 5%. In the year 2000, the Company distributed a dividend of NIS 0.53 per share.

The aforesaid is subject to the existence of adequate amounts of distributable income on the relevant dates, and is subject to the provision of any law relating to dividend distributions and to decisions that the Company is permitted to reach, including the appropriation of its income for another purpose and changing this policy.

3. Results of Operations

Net Income for the reported period was NIS 21.6 million, compared with NIS 20.7 million last year and NIS 66.8 million in the full year 2000.

In the reported period, revenues totaled NIS 171,657 thousand, compared with NIS 58,055 thousand last year and NIS 426,493 thousand in the full year 2000.

The revenues item includes revenues from rent, investments in securities, dividend income, and other revenues, as follows:

The Company's rental income in the above periods totaled NIS 155,703 thousand, compared with NIS 37,488 thousand last year and NIS 356,250 thousand in the full year 2000.

Income from dividends and investments in marketable securities totaled NIS 15,880 thousand in the reported period, compared with NIS 20,541 thousand in the same period last year and NIS 64,706 thousand in the full year 2000. In the reported period, this income stems mainly from investments in real estate companies and some NIS 2,700 thousand from the shares of other companies. In the same period last year and in the full year 2000, this income stemmed mainly from dividends from Supersol and from the gain on the sale of Supersol shares and other securities totaling NIS 13,180 thousand.

The results of operations in the reported period include the consolidation of the financial statements of CFE and the proportionate consolidation of Mishkenot Clal. In the same period last year, these companies had not yet been acquired. Therefore, a comparison to this period in most of the items is not relevant.
The operations of EQ1 were characterized by growth in revenues as a result of the increase in the number of properties and moderate growth in the revenues from existing properties. Net income in the reported period was US$ 3.1 million, compared with
US$ 2.6 million in the same period last year, growth of 17.2%.
The operations of CFE were characterized by growth in revenues, as a result of the increase in the number of owned properties, completion of the development of new properties and of the expansion of existing properties on one hand, while contrasted by the increase in financing expenses, due to the additional mortgages assumed on the other hand. This comparison is with the fourth quarter of 2000.
In the reported period, rental income totaled C$ 39.1 million and operating income of the properties totaled C$ 24.4 million.
The operations of F.C.I. were characterized by growth in rental income on buildings, attributable to the acquisition of 2 new properties during 2000, of which the full effect is reflected in the reported period, and to an increase in the occupancy rates of the properties.
The increase in general and administrative expenses in the reported period stems from the consolidation of CFE. The increase in net financing expenses stems from the increase in interest expenses on loans used to finance additional investment in fixed assets and long-term investments and to real erosion in the value of deposits from residents of Mishkenot Clal, which are linked to the U.S. dollars. The increase was offset by inflationary effects in the USA and Canada and the gross gain from the early redemption of CFE debentures that were acquired by the Company.
In the reported year, the Company wrote off its investments in technology ventures, as discussed previously, in the amount of NIS 3,981 thousand.

4. Liquidity and Financing Sources

The Company policy is of maintaining a high level of liquidity while striving to increase its shareholders' equity, so it will be able to pursue business opportunities in its areas of operation.

A. The Company's shareholders' equity, together with minority interest and convertible debentures in CFE, which may be redeemed by CFE issuance of NIS 1,653 million, financed 31.8% of total assets, compared with NIS 483 million, that financed 34.5% of total assets last year.

B. The current ratio of current assets to current liabilities reached 0.99, compared with 1.05 last year.

C. Cash flows from operating activities for the reported period totaled NIS 22.4 million, compared with NIS 30.2 million in the previous quarter last year (which included a special dividend of NIS 18 million, gross, from Supersol Ltd.).

5. **Financial Status**

Most of the balances and transactions included in the consolidated financial statements are in U.S. dollars and Canadian dollars, deriving from the operations of CFE, EQ1 and F.C.I., except for long-term investments, most of which are from the Company and its wholly-owned subsidiaries.

As of March 31, 2001, the total liquidity assets available to the Company and its subsidiaries, including cash and short-term investments, was NIS 258.3 million, compared with NIS 270.9 million as of December 31, 2000, and NIS 47.7 million as of March 31, 2000. The change is mainly from the receipts from the Company's equity and debt offerings to the public and other parties, plus the increase in the Company's working capital, less the amounts used by CFE to acquire a property and by the Company to acquire shares of EQ1 and to acquire long-term investments.

The increase of NIS 453.1 million in shareholders' equity to NIS 524.9 million stems from the net offering of shares amounting to NIS 28.5 million and from the exercise of options into shares in the amount of NIS 3.3 million. It is also attributable to the NIS 25.7 million increase in the item "translation adjustments deriving from translation of financial statements of CFE, EQ1 and F.C.I. (due to the real devaluation of the U.S. dollar compounded by the inflation in the USA during the reported period which together amounted to 5.5%), plus the Company's net earnings for the reported period of NIS 21.6 million, less a dividend declared by the Company of NIS 7.2 million.

6. **Additional Information and Subsequent Events**

A. **Sales of CEFUS properties to EQ1**

On May 18, 2001, EQ1 and CFE announced that they had entered into a definitive stock exchange agreement whereby EQ1 would acquire Centrefund Realty (U.S.) Corporation ("CEFUS"), a wholly owned subsidiary of CFE, a publicly traded Canadian real estate company (TSE:CFE). CEFUS owns 28 properties and 9 joint venture interests in Florida and Texas.

Under the terms of the transaction, EQ1 is acquiring CEFUS for 10.5 million of its shares.

The transaction is subject to the approval of the shareholders of EQ1 and of the minority shareholders of CFE, as well as other customary conditions.

The transaction is expected to close in the third quarter of the year. Following the closing of the transaction, the Company expects to effectively hold – directly and indirectly – 64.8% of the share capital of EQ1.

B. **Conversion of debentures to shares**

In April 2001, 1 million debentures that the Company had issued in February 2000 were converted into 85 thousand shares of the Company.

C. **50% interest in Mishkenot Clal (1982) Ltd.**

Pursuant to a shareholders agreement between the Company and Azorim Properties Ltd., the Company acquired 1% of the share capital of Mishkenot Clal for NIS 1.3 million, net, and reached an equity interest of 50% in Mishkenot Clal.

D. **Expected changes in accounting standards**

At the beginning of 2001, the Israeli Accountancy Standards Board issued Standard No. 12 dealing with discontinuation of the measurement of financial statements based on changes in purchasing power in countries in which companies' real activities are conducted. Application of this standard is expected from 2002. The Company operates in Israel, USA and Canada through companies that are defined as autonomous operating units, and which adjust their financial statements for changes in purchasing power in their domicile countries. **The Company's management estimates that discontinuation of such measurement, without the enactment of other accounting standards that affect the results of real estate companies, would have a material adverse effect on the Company's reported accounting results beginning from the year of the change.**

7. **Reporting of Exposures to Market Risks and their Management**

A. The individuals responsible for managing the Company's market risks are Mr. Dori Segal, the Company's President, and Mr. Gil Kotler, the Company's Chief Financial Officer.

B. The main market risks to which the Company is exposed are:

1. The Company's holdings in the shares of CFE, EQ1 and F.C.I. are the most significant assets of the Company and therefore the risk factors to which CFE, EQ1 and F.C.I. are exposed are indirectly relevant to the Company.

   The key risk factors involved in the operations of EQ1 and F.C.I. are as follows:

   a. The financial stability of the tenants.
   b. Changes in consumption habits.
   c. Changes in the rental policies of retail chains and major tenants.
   d. The business cycle of the businesses in the regions in which the Company's properties are located (economic condition).
   e. The status of EQ1 as a REIT.
   f. Activities in the renovation and development of properties.

2. Changes in the exchange rate of the U.S. dollar and the Canadian dollar relative to the shekel will have an effect, mainly on the Company's adjusted shareholders' equity. An increase in the exchange

rate of the U.S. dollar and the Canadian dollar will increase the Company's shareholders' equity, while a decrease in the U.S. dollar and the Canadian dollar will reduce the Company's shareholders' equity.

3. Changes in interest rates in the USA, Canada, and Israel will have an effect on the Company's results.

4. Occasional foreign currency exposure of the U.S. dollar against the Canadian dollar due to CFE's activities in Canada and the USA.

C. The Company's policies for risk management are as follows:

1. CFE, EQ1 and F.C.I. monitor, on an ongoing basis, developments in the markets in which they operate. The companies have hired local experts in the field of income-producing real estate development and acquisition in the USA and Canada. In addition, there is a geographic dispersal of the companies' assets. Thus, the exposure to economic fluctuations in specific regions is small. The companies also try to reduce the exposure to specific individual tenants, thus reducing their sensitivity to the financial status of these or other tenants.

2. It is the Company's policy to maintain as high as possible a coefficient between the currency in which properties are acquired and the currency in which the liabilities to finance the acquisition of the properties are taken out. As to the Company's shareholders' equity, management evaluates the linkage basis balance sheet on an ongoing basis, and reacts in accordance with developments. In principle, the Company tries to be less exposed to currency fluctuations.

3. The Company finances most of its foreign currency debt in U.S. and Canadian dollars, at fixed interest rates under long-term mortgages. The Company finances most of its investment in shekel assets in shekels, at fixed rates, and monitors, on a regular basis, developments and changes in the interest policy of the Bank of Israel.

4. The Company is evaluating ways to reduce the effect of the exposure of the U.S. dollar against the Canadian dollar.

D. Means of implementing and monitoring policies:

1. The Company's management, supervised by the board of directors, regularly monitors the management of risks and ways in which to minimize the Company's exposure to these risks.

2. The Chairman of the board of directors, Mr. Chaim Katzman, who is also the Chairman of the board of directors of EQ1 and CFE, and the Company's President, Mr. Dori Segal, who is also the President of CFE and F.C.I., reside permanently in the countries in which the Company's subsidiaries operate.

Dori Segal President	Varda Zuntz Director