

**ADGAR INVESTMENTS AND DEVELOPMENT LIMITED**

**FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2001**

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**ADJUSTED TO THE NIS OF DECEMBER 2001**

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**AUDITORS' REPORT**

To the Shareholders of

**ADGAR INVESTMENTS AND DEVELOPMENT LIMITED**

We have audited the accompanying balance sheets of Adgar Investments and Development Limited (hereunder - the Company) as of December 31, 2001 and 2000, the consolidated balance sheets as of the same dates, and the statements of profit and loss, changes in shareholders' equity and cash flows - of the Company and consolidated - for each of the three years in the period ended as of December 31, 2001. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express our opinion on these financial statements based on our audits.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed by the Israeli Auditors Regulations (Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and Management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position - of the Company and consolidated - as of December 31, 2001 and 2000, and the results of its operations, changes in shareholders' equity and cash flows - of the Company and consolidated - for each of the three years in the period ended as of December 31, 2001, in conformity with generally accepted accounting principles. In addition, in our opinion the above financial statements are prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements), 1993.

As detailed in note 2, the aforementioned financial statements have been adjusted to reflect the changes in the general purchasing power of the Israeli currency in accordance with the Statements of the Institute of Certified Public Accountants in Israel.

Tel-Aviv, Israel  
March 7, 2002**KOST FORER & GABBAY**  
A Member of Ernst & Young International

**ADGAR INVESTMENTS & DEVELOPMENT LTD.**
**BALANCE SHEETS**
**Adjusted to the NIS of December 2001**

	Note	CONSOLIDATED			COMPANY	
		December 31,		Convenience translation into U.S.\$ in thousands	December 31,	
		2001	2000		2001	2000
		Adjusted NIS in thousands			Adjusted NIS in thousands	
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	3	21,15	83,47	4,789	2,1	
Deposits with financial institutions and others	4	2,8	6,2	63 <sup>9</sup>	2,8	6,2
Short term investments	5	7,1	4,5	1,629	7,1	4,5
Customers	6	20,80	7,0	4,712	5,4	
Debtors and debit balances	7	15,64	19,22	3,542	12,64	14,42
		<u>67,61</u>	<u>120,626</u>	<u>15,311</u>	<u>30,23</u>	<u>26,92</u>
<b>INVENTORY OF BUILDINGS FOR SALE</b>						
	8	<u>12,26</u>	<u>14,86</u>	<u>2,778</u>	<u>12,26</u>	<u>14,86</u>
<b>INVESTMENTS, LOANS AND LONG TERM DEBIT BALANCES</b>						
In subsidiaries	9				301,938	259,051
In securities	10	24,46	93,16	5,540	24,46	93,16
In parent company's shares	11		7,1			
Deposit in a related company	12		1,3	20 <sup>4</sup>		1,3
Loans	13	13,16		2,982		
		<u>38,53</u>	<u>101,604</u>	<u>8,726</u>	<u>327,306</u>	<u>353,544</u>
<b>FIXED ASSETS</b>						
Cost	14	719,229	480,688	162,869	90,64	34,50
Less accumulated depreciation		<u>45,95</u>	<u>34,60</u>	<u>10,407</u>	<u>15,32</u>	<u>14,04</u>
		<u>673,272</u>	<u>446,086</u>	<u>152,462</u>	<u>75,32</u>	<u>20,45</u>
<b>OTHER ASSETS AND DEFERRED EXPENSES</b>						
Other assets, net	15	4,0	2,0	91 <sup>0</sup>	4,0	2,1
Deferred expenses, net	16	<u>1,4</u>	<u>1,4</u>	<u>33<sup>1</sup></u>		
		<u>5,4</u>	<u>3,4</u>	<u>1,241</u>	<u>4,0</u>	<u>2,1</u>
		<u>797,171</u>	<u>686,679</u>	<u>180,518</u>	<u>449,164</u>	<u>417,912</u>

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

**ADGAR INVESTMENTS & DEVELOPMENT LTD.**

**BALANCE SHEETS**

**Adjusted to the NIS of December 2001**

	Note	CONSOLIDATED			COMPANY	
		December 31,		Convenience translation into U.S.\$ in thousands	December 31,	
		2001	2000		2001	2000
		Adjusted NIS in thousands			Adjusted NIS in thousands	
<b>CURRENT LIABILITIES</b>						
Short term credit from banking institutions	17	192,485	135,909	43,588	177,802	127,539
Suppliers and service providers	18	2,3	3,1	531		
Creditors in respect of investment in securities	10		16,54			16,54
Creditors and credit balances	19	14,60	9,4	3,308	7,4	2,8
Current maturities of convertible debentures	20	5,0	6,3	1,150	9,6	10,80
		<u>214,515</u>	<u>171,389</u>	<u>48,577</u>	<u>195,062</u>	<u>157,885</u>
<b>LONG TERM LIABILITIES</b>						
Convertible debentures	20	30,47	44,33	6,901	57,83	75,60
Liabilities to banking institutions and others	21	366,365	304,681	82,963	25,91	28,93
Deferred taxes	26	9,1	6,7	2,063		
Liabilities for severance pay, net	22			1		
		<u>406,022</u>	<u>355,852</u>	<u>91,943</u>	<u>84,00</u>	<u>104,662</u>
<b>PLEDGES AND GUARANTEES</b>	23					
<b>MINORITY INTEREST</b>		<u>6,5</u>	<u>4,0</u>	<u>1,479</u>		
<b>SHAREHOLDERS' EQUITY</b>	24	<u>170,099</u>	<u>155,365</u>	<u>38,519</u>	<u>170,099</u>	<u>155,365</u>
		<u><u>797,171</u></u>	<u><u>686,679</u></u>	<u><u>180,518</u></u>	<u><u>449,164</u></u>	<u><u>417,912</u></u>

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

March 7, 2002  
Date of approval of the  
financial statements

Doron Schneidman  
Chairman of the Board

Moshe Schneidman  
Member of the Board

Ronen Nakar  
Finance Manager

**ADGAR INVESTMENTS & DEVELOPMENT LTD.**
**STATEMENTS OF PROFIT AND LOSS**
**Adjusted to the NIS of December 2001**

	Note	CONSOLIDATED			Convenience translation into U.S.\$ in thousands	COMPANY		
		Year ended December 31,				Year ended December 31,		
		2001	2000	1999		2001	2000	1999
		Adjusted NIS in thousands				Adjusted NIS in thousands		
Income:								
From leasing of real estate		72,8:	43,5:	25,3:	16,4'	9,:	3,:	3,:
From construction business		4,	29,8'			4,	29,8'	
		<u>76,9:</u>	<u>73,3:</u>	<u>25,3:</u>	<u>17,4:</u>	<u>13,5'</u>	<u>33,3:</u>	<u>3,:</u>
Costs and expenses:								
Maintenance of leased real estate	25a	12,8:	9,:	6,:	2,:	1,:	1,:	1,:
From construction business	25b	2,:	19,4:			2,:	19,4:	
Sales and marketing	25c	1,:	1,:	1,:			1,	1,:
Administrative and general expenses	25d	14,3	9,:	5,:	3,:	10,4'	6,:	4,:
Financing, net	25e	27,9'	19,7:	10,7'	6,:	4,:		5,:
		<u>59,2</u>	<u>60,6'</u>	<u>24,9:</u>	<u>13,4</u>	<u>19,4'</u>	<u>29,6'</u>	<u>12,2'</u>
Profit (loss) from ordinary activities		17,7:	12,6'		4,:	(5,9€)	3,:	(8,7€)
Capital gain (loss) from sale of fixed assets		(						
Profit (loss) before income taxes		17,3'	12,6'		3,:	(5,9€)	3,:	(8,6€)
Income taxes (tax benefit)	26	7,:	2,:	(1,5€)	1,:	1,:	1,:	(2,6)
Profit (loss) after income taxes		9,:	10,0'	1,:	2,	(7,8€)	1,:	(6,0€)
Company's share in profits of subsidiaries, net						14,9'	6,	7,:
Minority's interest in subsidiaries		(2,2€)	(2,2€)	(	(			
Net profit for the year		<u>7,</u>	<u>7,:</u>	<u>1,</u>	<u>1,:</u>	<u>7,</u>	<u>7,:</u>	<u>1,</u>
Earnings per share:								
Earnings per NIS 1 nominal value of ordinary shares (in adjusted NIS):	30							
Basic		<u>0.13</u>	<u>0.16</u>	<u>0.02</u>				
Diluted		<u>*</u>	<u>0.14</u>	<u>*</u>				

\* Not applicable for this year.

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

**ADGAR INVESTMENTS & DEVELOPMENT LTD.**

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

**Adjusted to the NIS of December 2001**

	<u>Share capital</u>	<u>Receipts on account of options</u>	<u>Capital reserves</u>	<u>Adjustments due to translation of financial statements of investees</u>	<u>Surplus</u>	<u>Total</u>
	<u>Adjusted NIS in thousands</u>					
<u>Balance as of January 1, 1999</u>	87,0	11,4	23,349	3,	19,7	144,65
Conversion of convertible debentures			1,061			1,
Adjustments due to the translation of financial statements of foreign investees			-	(2,3		(2,3
Net profit for the year			-		1,	1,
<u>Balance as of December 31, 1999</u>	87,6	11,4	24,410		20,9	145,16
Conversion of convertible debentures			874			1,
Adjustments due to the translation of financial statements of foreign investees			-	1,		1,
Net profit for the year			-		7,	7,
<u>Balance as of December 31, 2000</u>	88,0	11,4	25,284	1,	28,7	155,36
Conversion of convertible debentures	3,		6,646			9,
Exercise of options into shares	8,	(3,8	18,451			22,6
Options that have expired		(7,6	7,618			
Adjustments due to the translation of financial statements of foreign investees			-	1,		1,
Dividend paid			-		(17,98	(17,98
Distribution of parent company's shares to the shareholders			-		(8,8	(8,8
Net profit for the year			-		7,	7,
<u>Balance as of December 31, 2001</u>	<u>99,4</u>	<u>11,4</u>	<u>57,999</u>	<u>3,</u>	<u>9,</u>	<u>170,09</u>

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

**STATEMENTS OF CASH FLOWS**  
Adjusted to the NIS of December 2001

	CONSOLIDATED			COMPANY		
	Year ended December 31,			Year ended December 31,		
	2001	2000	1999	2001	2000	1999
	<b>Adjusted NIS in thousands</b>					
<b>CASH FLOWS FROM CURRENT ACTIVITIES</b>						
Net profit for the year	7,	7,	1,176	7,131	7,826	1,176
Adjustments required to reconcile the cash flows from current activities (A)	2,	2,	7,892	(13,382)	(6,737)	(2,939)
Net cash provided by (used in) current operations	10,0	10,7	9,068	(6,251)	1,089	(1,763)
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>						
Proceeds from realization of investment in a subsidiary			-	-	134	-
Investment in a subsidiary first consolidated (B)	(54,87)		-	-	-	-
Realization of investment in deposits in financial institutions and others	4,	8,	5,535	4,108	8,458	5,535
Investment in long term securities			(16,801)	-	-	(16,801)
Proceeds from exercise (acquisition) of marketable securities, net			3,067	(11,138)	618	3,067
Acquisition of fixed assets	(13,85)	(91,07)	(71,834)	(8,677)	(271)	(815)
Proceeds from sale of fixed assets			125	44	-	125
Granting of long term loans, net	(11,73)		-	(17,772)	(45,101)	(42,295)
Other assets and deferred expenses		(1,6)	-	-	-	-
Net cash used in investment activities	(175,647)	(83,62)	(79,908)	(33,435)	(36,162)	(51,184)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Receipt (repayment) of short term credit from banking institutions, net	64,2	31,5	(28,187)	64,234	53,957	(
Receipt of long term loans	69,0	173,55	98,628	-	-	53,6
Repayment of long term loans	(33,75)	(49,81)	(7,591)	(17,617)	(6,759)	(4,8
Redemption of convertible debentures	(5,5	(7,1	(7,331)	(10,187)	(11,776)	(11,92
Dividend paid	(17,98)		-	(17,983)	-	
Exercise of options into shares	22,6		-	22,698	-	
Net cash provided by financing activities	98,7	148,06	55,519	41,145	35,422	36,0
Translation difference in relation to the cash balances of foreign autonomic subsidiaries	4,	(	230	-	-	
<b>Increase (decrease) in cash and cash equivalents</b>	(62,32)	74,6	(15,091)	1,459	349	(16,90
<b>Balance of cash and cash equivalents as of the beginning of the year</b>	83,4	8,	23,920	664	315	17,2
<b>Balance of cash and cash equivalents as of the end of the year</b>	21,1	83,4	8,829	2,123	664	

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

**ADGAR INVESTMENTS & DEVELOPMENT LTD.**
**STATEMENTS OF CASH FLOWS**  
**Adjusted to the NIS of December 2001**

	CONSOLIDATED			COMPANY		
	Year ended December 31,			Year ended December 31,		
	2001	2000	1999	2001	2000	1999
	Adjusted NIS in thousands					
<b>A. Adjustments required to reconcile cash flows from current operations</b>						
Income and expenses not involving cash flows:						
Depreciation and amortization	12,63	9,7	7,888	3,279	3,398	3,8
Capital loss (gain) from sale of fixed assets			(69)	9	-	
Company's share in profits of subsidiaries net of dividend received, net			-	(14,993)	(6,011)	(7,16
Deferred taxes, net			(2,462)	(2,219)	1,788	(3,04
Erosion of liabilities to banking institutions and convertible debentures	(5,91	(6,39	(1,554)	378	(5,233)	(1,46
Erosion of loans granted	(1,41		(81)	(3,528)	4,165	1,6
Decrease in value (increase in value) of marketable securities	(2	(6	(2,338)	(219)	(642)	(2,33
Liabilities for severance pay, net			437	(54)	48	
Minority's interest in results of subsidiaries	2,2	2,2	798	-	-	
Revaluation of interest on deposit in a related company			-	(67)	-	
Changes in assets and liabilities:						
Decrease (increase) in customers	(13,482	(4,03	3,775	(4,494)	892	
Decrease (increase) in debtors and debit balances	2,6	(4,40	(3,593)	1,467	(5,297)	(2,17
Decrease (increase) in inventory of buildings for sale	2,6	(1,34	9,095	2,600	(1,341)	9,0
Increase (decrease) in suppliers and service providers	(6		1,078	59	(33)	
Increase (decrease) in creditors and credit balances	3,8	6,6	(5,082)	4,400	1,529	(2,64
	<u>2,8</u>	<u>2,5</u>	<u>7,892</u>	<u>(13,382)</u>	<u>(6,737)</u>	<u>(2,93</u>

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

**STATEMENTS OF CASH FLOWS**  
Adjusted to the NIS of December 2001

	CONSOLIDATED			COMPANY		
	Year ended December 31,			Year ended December 31,		
	2001	2000	1999	2001	2000	1999
	Adjusted NIS in thousands					
<b>B. Acquisition of a subsidiary first consolidated</b>						
Assets and liabilities of the subsidiary as of acquisition date:						
Fixed assets, net	55,55	-	-	-		
Working capital (not including cash)	(54,87)	-	-	-		
	<u>54,87</u>	<u>-</u>	<u>-</u>	<u>-</u>		
<b>C. Material transactions not involving cash flows</b>						
Issue of capital against conversion of convertible debentures	<u>9,5</u>	<u>1,3</u>	<u>1,660</u>	<u>9,966</u>	<u>1,348</u>	<u>1,6</u>
Issue of capital to minority against conversion of liability		<u>1,1</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Investment in securities against creditors			<u>16,548</u>	<u>-</u>	<u>-</u>	<u>16,54</u>
Acquisition of a building in consideration for investment in long term securities	<u>47,55</u>		<u>-</u>	<u>47,590</u>	<u>-</u>	
Distribution of dividend in kind	<u>8,8</u>		<u>-</u>	<u>8,882</u>	<u>-</u>	

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

**NOTE 1:- GENERAL**

a. Company's activities

1. Leasing of assets and office premises in Israel and abroad (by the Company and through subsidiaries).
2. Building of a residential construction project.
3. Project development.

b. Acquisition offer for the acquisition of the Company's shares by the parent company

- 1) On November 15, 2001 the parent company, Zur Shamir Holdings Ltd. (hereunder - Zur Shamir) announced, in an immediate report to the stock exchange, that in the Board's meeting and following the decision of Zur Shamir's auditing committee, it was decided to approve that Zur Shamir will make an acquisition offer for the acquisition of all the issued and paid-up ordinary shares of NIS 1 each ("the ordinary shares") and the debentures (Serial C) ("the debentures") of the Company, from all the holders of the ordinary shares and debentures except for debentures held by Adgar Nachalot Ltd. (a subsidiary fully owned and controlled by the Company, hereunder - Adgar Nachalot).

On January 8, 2002, pursuant to the Securities Regulations (Acquisition offer), 2000 and the Companies' Law, 1999, Zur Shamir published a specification of a full plan for an acquisition offer (hereunder - the acquisition offer) by which Zur Shamir, which held 86.82% of the Company's share capital as of the date of the specification, requested to acquire all the Company's issued and paid-up shares of NIS 1 each and the debentures (Serial C) from all the holders of the ordinary shares and the debentures, except for the debentures held by Adgar Nachalot, for the price of NIS 3.9 per share and NIS 1.32203 per debenture (Serial C). The acquisition offer was subject to the approval of the general meeting of Zur Shamir which was received on January 31, 2002, as well as a minimum rate of response, a condition which was fulfilled, see hereunder. The acquisition offer was addressed, as mentioned, to all the shareholders including Messrs. Shalom Shneidman and Doron Shneidman who hold 0.42% and 2.74%, respectively, of the Company's shares and who are "the shareholders in control" in the Company as implied in Section 268 to the Companies' Law.

The results of the full acquisition offer which was published by Zur Shamir provided Zur Shamir a 100% holding of the Company's issued and paid-up share capital. The public still holds 1,997,491.5 nominal value of debentures (Serial C). On February 5, 2002 Zur Shamir issued a specification for an ordinary acquisition offer to acquire the balance of the debentures from the owners of the Company's debentures at the price of NIS 1.32 per debenture (Serial C). The holders of 987,773.78 debentures (Serial C) nominal value responded to this acquisition offer, thus the public still holds 1,009,717.72 nominal value of debentures (Serial C).

**NOTE 1:- GENERAL (Cont.)**b. Acquisition offer for the acquisition of the Company's shares by the parent company (Cont.)

## 1) (Cont.)

In view of the results of the acquisition offer the Company's shares were cancelled for trade in the stock exchange on January 31, 2002 and therefore the shares in cycle are convertible into non-marketable shares. In accordance with the instructions of the stock exchange, since the value of the public's holdings of the debentures (Serial C) based on the stock price of the debentures on February 19, 2002 (NIS 1.32 per debenture), is lower than NIS 1.6 million, the debentures (Serial C) will be cancelled from trade in the stock exchange within 60 days of the date for reporting the results of the ordinary acquisition offer to the owners of the debentures which was published on February 20, 2002.

- 2) Within the framework of the acquisition offer, the option plan for 3 senior employees of the Company was cancelled. As an alternative to the option plan the employees received compensation in the total amount of NIS 5,570 thousand (out of this the chairman of the board received NIS 2,864 thousand). The amount of compensation was determined according to the difference between the share price per the acquisition offer, namely, 3.9 per share, and the updated exercise price according to the option plan namely NIS 2.58. See also note 24c hereunder.

c. Definitions

In these financial statements:

The Company	-	Adgar Investments and Development Ltd.
The group	-	the Company and its subsidiaries as detailed in the attached list.
Subsidiaries	-	companies in which the Company has control (as determined by Statement No. 57 of the Institute of Certified Public Accountants in Israel) and their financial statements are consolidated with the Company's financial statements.
Shareholders in control	-	as defined by the Securities Regulations (Presentation of Activities between a Corporation and its Shareholder in Control in the Financial Statements), 1996.
Interested parties	-	as defined in the Securities Regulations (Preparation of Annual Financial Statements), 1993.
Related parties	-	as defined in Statement No. 29 of the Institute of Certified Public Accountants in Israel.

- d. The notes relate to the Company's financial statements and the consolidated financial statements, except where stated that the note relates to the Company only or consolidated only.

**NOTE 2:- ACCOUNTING PRINCIPLES**

The main accounting policies which are applied in the financial statements are as follows:

a. Financial statements in adjusted values

- 1) The Company and its subsidiaries in Israel maintain their financial records in nominal NIS. In accordance with the Statements of the Institute of Certified Public Accountants in Israel, all the amounts in the financial statements (including the comparative figures), are stated in adjusted NIS of the same purchasing power. The adjusted purchasing power of the adjusted NIS reflects the average price level in December 2001, based on the CPI published on January 15, 2002 (170.9 points on an average basis of 1993 = 100).
- 2) The values of the non-monetary assets do not purport to reflect their realization or financial value but, rather, their original historical value as adjusted for changes in the general purchasing power of the Israeli currency.
- 3) The term "cost" in the financial statements represents adjusted cost in NIS.
- 4) The Company's condensed nominal data is presented in note 31.

b. Principles of adjustment

1) Balance sheet

- (a) The values of non-monetary items (items whose amounts in the balance sheet reflect their historical value at the time of their acquisition or creation - see hereunder), have been adjusted according to changes in the CPI since their acquisition or creation.

The following items have been treated as non-monetary items: prepaid expenses, inventory of buildings for sale, fixed assets and the related accumulated depreciation, long term investments, other assets, net, deferred expenses net, the accounts of the capital and reserves derived from capital received from the shareholders.

- (b) The equity value of investments in subsidiaries is determined on the basis of these companies' adjusted statements.
- (c) Monetary items (items whose amounts in the balance sheet reflect the updated or realization value as of balance sheet date) are presented in the adjusted balance sheet as of December 31, 2001, in the same amount as their nominal value for that day (comparative figures have been adjusted to the NIS of December 2001).

**NOTE 2:- ACCOUNTING PRINCIPLES (Cont.)**

b. Principles of adjustment (Cont.)

2) Statement of profit and loss

- (a) Profit and loss components (except for financing), which reflect transactions performed during the reporting year - income, expenses, etc. - have been adjusted based on the date these transactions were performed, according to monthly CPIs. The erosion of monetary balances which relate to the above transactions is included under the financing item.
- (b) Profit and loss components which are related to non-monetary items in the balance sheet, have been adjusted according to the same basis that served as the basis for the adjustment of the relating balance sheet items: depreciation and amortization, capital profit (loss), etc.
- (c) The profit and loss components which are related to the provisions included in the balance sheet - liabilities for severance pay, net, provision for vacation, etc. are determined on the basis of the change in the balance of the relating balance sheet items, after taking into account the related cash flows.
- (d) Current income taxes include the erosion of tax payments from the date of payment up to the balance sheet date.
- (e) The Company's share in the results of subsidiaries' activities is determined on the basis of the adjusted statements of these companies.
- (f) The financing item reflects the real financing income and expenses, including the erosion of monetary items during the year.

3) Adjustment on basis of changes in the exchange rate and investees abroad

Certain investees, that operate autonomically, adjust their financial statements in accordance with Clarification No. 8 of Statement No. 36 of the Institute of Certified Public Accountants in Israel, based on the changes in the foreign currency exchange rates.

The difference in respect of these companies, between the adjustment of the investment of the holding companies based on the changes in the CPI and that of the adjustment of the shareholders' equity of investees in accordance with the changes in the exchange rate, is charged to a separate item under shareholders' equity ("adjustments due to translation of financial statements of subsidiaries").

**NOTE 2:- ACCOUNTING PRINCIPLES (Cont.)**

c. Consolidation of financial statements

The Company's financial statements have been consolidated with those of its subsidiaries. The balances of material transactions between the Company and consolidated companies were eliminated in the consolidated financial statements.

d. Investment in investees

- 1) The Company's investment in subsidiaries is reported on the basis of the equity value.

The excess of cost of investment in subsidiaries over their equity value at the time of acquisition was allocated to buildings for lease and transferred to the statement of profit and loss in parallel with the amortization of the assets.

- 2) Regarding deferred taxes - see (l) hereunder.

e. Cash equivalents

The Company regards cash equivalents as highly liquid assets, which include short term bank deposits that are not originally invested for more than three months and are not bound by any pledge.

f. Deposits with financial institutions and others

Including deposits which were deposited in financial institutions and others, redeemable upon request and without limitations as to their use.

g. Marketable securities

- 1) Pursuant to opinion no. 44 of the Institute of Certified Public Accountants in Israel, marketable securities invested for short terms and realizable immediately, are reported at their market value in the stock exchange as of balance sheet date. Changes in their value are charged to the profit and loss statements under the financing item, net.
- 2) Marketable securities invested as long term investments are reported at cost less provision for decrease in value if there is a permanent decrease in their value.

h. Provision for doubtful debts

The provision is calculated specifically for debts that management is doubtful as to their collection.

**NOTE 2:- ACCOUNTING PRINCIPLES (Cont.)**i. Inventory of buildings under construction

Each project which is constructed by the Company represents one building or a set of buildings. A set of buildings is regarded as one project if the buildings are at the same site, built according to the same construction and license program and offered for sale at the same time.

Joint construction costs for a number of neighboring projects (such as: land, engineering planning, environmental development, etc.) are charged to the projects according to the proportion of the anticipated proceeds from each project.

Buildings under construction are recorded at cost which does not exceed the realization value less advances received from customers. The cost includes direct cost of the land, cost of land development and taxation and costs of construction by the performing contractor.

j. Fixed assets

- 1) Fixed assets are reported at cost. Financing expenses relating to the financing of fixed assets acquisitions, calculated according to the real cost of the specific financing sources which were used for the investment during the period until operation, are included at the fixed assets cost. Improvements are charged to cost.
- 2) Depreciation is calculated on the straight-line method at rates which are considered to be sufficient for the depreciation of assets over their estimated useful lives as follows:

	<u>%</u>	
Office buildings for lease	1-3	(improvements and betterment 2-10%)
Vehicles	15-20	(mainly 15%)
Furniture and office equipment	6-33	(mainly 33%)
Installments and improvements in leased property		(over the leasing period including the option period).

k. Other assets and deferred expenses

- 1) Basic expenses, increase and capital issue are amortized over three to five years (presently - three years).
- 2) Deferred expenses relating to the issue of convertible debentures, are amortized during the period the debentures are in issue, in accordance with their repayment dates.
- 3) Selling expenses for lease of buildings are amortized over the leasing period.

**NOTE 2:- ACCOUNTING PRINCIPLES (Cont.)**

l. Deferred taxes

- 1) Deferred taxes are calculated for timing differences between the amounts included in the adjusted statements and the amounts taken into account for tax purposes. Deferred taxes are calculated in the following cases:

Differences between the value of real estate and fixed assets in the adjusted statements and their value for tax purposes (taking into account the determinations in Statement No. 40 to the Certified Public Accountants in Israel), provision for vacation, liabilities for severance pay, net, provision for doubtful debts, inventory of work in progress net of payments in advance from customers, marketable securities and losses carried forward for tax purposes.

The balances of the deferred taxes are calculated at the tax rates expected to be in force when these taxes are charged to the profit and loss statement. The amount of the deferred taxes in the profit and loss statement reflects the changes in the above balances during the reporting year.

- 2) For calculating deferred taxes, the taxes that would be applicable at the time of realization of investments in subsidiaries were not taken into account, since the Company intends to keep these investments and not realize them.

In addition, deferred taxes in relation to distribution of profits by subsidiaries as dividends were not taken into account, since the distribution of the dividend does not cause any additional tax liability and due to the Company's policy not to initiate distribution of dividends which will be liable to an additional tax liability.

m. Recognition of income

- 1) Income from leasing of assets - allocated on an accumulative basis over the asset's leasing period.
- 2) Income from construction business - In the year 2000 the Company applied the Accounting Standard No. 2 - Construction of Buildings for Sale, for the first time. The Company's recognition of income from sale of projects is usually upon its sale, but not before the proceeds from the sales of the project constitute at least 50% of its total expected income and at least 25% of the project is completed. The recognition of income in these cases is by multiplying the proceeds from the sale with the rate of completion of the project.

The transition to the method of reporting according to this Standard did not cause any change in the profits of previous years for projects whose construction began before December 31, 1999, since the Company did not meet the criteria determined for recognition of income in accordance with Standard No. 2 and Statement No. 6 of the Institute of Certified Public Accountants in Israel.

**NOTE 2:- ACCOUNTING PRINCIPLES (Cont.)**n. Earnings per share

Earnings per share is calculated in accordance with Statement No. 55 of the Institute of Certified Public Accountants in Israel.

o. Convertible debentures

Convertible debentures are included on the basis of conversion probability tests, as determined by Statement No. 53 of the Institute of Certified Public Accountants in Israel. If they are not expected to be converted they are included as a liability based on their liability value. If their conversion is expected they are included between the liabilities and shareholders' equity, based on the liability value or the capital value, whichever is higher.

p. Exchange rates and linkage

- 1) Assets and liabilities in foreign currency or linked thereto are included at the representative exchange rates published by the Bank of Israel which were effective as of balance sheet date.
- 2) Assets and liabilities linked to the CPI are included in accordance with the CPI that matches the asset or the liability.

Hereunder is relevant information regarding the foreign exchange rate and the CPI:

As of	Representative exchange rate of					CPI for December in points *
	U.S. dollars	Canada dollars	Euro	Pound Sterling	Belgian Franc	
31.12.2001	4.416	2.776	3.907	6.400	0.0969	170.9
31.12.2000	4.041	2.691	3.763	6.032	0.0933	168.5
31.12.1999	4.153	2.857	4.175	6.711	0.1035	168.5
31.12.1998	4.160	2.687	4.855	6.922	0.1203	166.3
<b>Rate of change in the year ended</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
31.12.2001	9.3	3.2	3.8	6.1	2.8	1.4
31.12.2000	(2.7)	(5.8)	(9.9)	(10.1)	(9.9)	-
31.12.1999	(0.2)	6.3	(14.0)	(3.0)	(14.0)	1.3

\* The CPI is at the average basis of 100 = 1993.

**NOTE 2:- ACCOUNTING PRINCIPLES (Cont.)**

q. Derivative financial instruments

The Company engages in options in order to reduce the risks involved in exposure to changes in foreign currency interest rates. The results from the options are allocated to the financing item in the profit and loss statement in the period of change in the interest rate applicable to the underlying balances.

r. Fair value of financial instruments

The Company and its subsidiaries have financial instruments which include, amongst others, cash and cash equivalents, marketable securities, debtors and customers, financial liabilities which include, amongst others, short term credit, creditors, suppliers, convertible debentures and long term liabilities.

The fair value of the above financial instruments, based on management's estimate, is not materially different from their value in the balance sheet, except for the fair value of a permanent investment in securities and the market value of convertible debentures (see note 20 hereunder).

s. Use of estimates for the preparation of financial statements

For the preparation of financial statements in conformity with generally accepted accounting principles, the management is required to make use of valuations and estimates which affect the reported amounts of assets and liabilities, and the disclosures in relation to contingent assets and outstanding liabilities in the financial statements, as well as amounts of income and expenses during the reported periods. The actual results may differ from these estimates.

t. Presentation of activities between a corporation and its shareholder in control

Transactions between the Company and its shareholder in control are presented in accordance with the Securities Regulations (Presentation of Activities Between a Corporation and its Shareholder in Control in the Financial Statements), 1996. Accordingly, the difference between the proceeds paid to the shareholder in control for the transfer of the asset to the Company and the asset's book value in the books of the shareholder in control is allocated to the Company's equity.

**NOTE 2:- ACCOUNTING PRINCIPLES (Cont.)**

u. Adoption of recently issued accounting standards and their impact on the financial statements

Accounting Standard No. 8 prescribes provisions for presentation and disclosure with regard to the treatment of discontinued operations, among them provisions regarding presentation which are different from those applied until now. Accounting Standard No. 8 will apply to financial statements for periods beginning on or after January 1, 2002.

Accounting Standard No. 11 prescribes provisions with respect to segment reporting. Accounting Standard No. 11 is based on International Accounting Standard No. 14, pursuant to which the Company prepared its financial statements, since International Standard No. 14 constituted the accepted practice in Israel. Accounting Standard No. 11 will apply to financial statements for periods beginning January 1, 2002.

During October 2001, the Israel Accounting Standard Board published Accounting Standards No. 12 and 13.

Accounting Standard No. 12 which deals with the discontinuance of adjusting financial statements. According to this Standard, beginning January 1, 2003, financial statements will discontinue to be adjusted for inflation in Israel. Until December 31, 2002, the Company will continue to prepare adjusted financial statements in conformity with Opinion No. 36 of the Institute of Certified Public Accountants in Israel. The adjusted amounts included in the financial statements as of December 31, 2002, will serve as the starting point for nominal financial reporting beginning January 1, 2003.

Accounting Standard No. 13 prescribes provisions with respect to the effects of changes in foreign exchange rates. This Standard replaces Interpretation No. 8 and Interpretation No. 9 to Opinion No. 36 of the Institute of Certified Public Accountants in Israel, which are eliminated at the time of discontinuance of the adjustment of the financial statements. The Standard deals with translation of foreign transactions and translation of financial statements of foreign operations for the purpose of their inclusion in the financial statements of the reporting company. The translation principles of Accounting Standard No. 13 are different from those applied until now. Accounting Standard No. 13 will apply to financial statements for periods beginning after December 31, 2002.

The Company anticipates that when Accounting Standards No. 12 and 13 are applied, from the year 2003, as a result of the change in the Reporting Standards, the Company's profits according to future reports may be substantially lower than the Company's profits according to the last few years reports which were based on the existing Accounting Standards. The above change will not effect the Company's cash flows.

v. Convenience translation into U.S. Dollars

The adjusted financial statements as of December 31, 2001 have been translated into United States dollars using the representative exchange rate of the United States dollar as of December 31, 2001 (U.S. \$ 1 = NIS 4.416). The translation was made solely for the convenience of the readers. It should be noted that the adjusted New Israeli Shekel figures do not necessarily represent the current cost amounts of the various elements presented and that the translated United States dollar figures should not be construed to represent amounts that are receivable, payable or convertible into dollars.

## NOTE 3:- CASH AND CASH EQUIVALENTS

	<b>CONSOLIDATED</b>		<b>C O M P A N Y</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<b>Adjusted NIS in thousands</b>			
Cash in hand and in the bank in NIS				
Cash in hand and in the bank in foreign currency				
Short term deposits in NIS	1	1	1	
Short term deposits in foreign currency	19,	81,		
	<u>21,</u>	<u>83,</u>	<u>2</u>	<u></u>

## NOTE 4:- DEPOSITS WITH FINANCIAL INSTITUTIONS AND OTHERS

	<b>Interest rate * in %</b>	<b>December 31,</b>	
		<b>2001</b>	<b>2000</b>
		<b>Adjusted NIS in thousands</b>	
Deposits with financial institutions linked to the CPI	6.0	2,383	5,857
Current maturity deposit to a related company (see note 12)	-	438	425
		<u>2,821</u>	<u>6,282</u>

\*As of December 31, 2001.

## NOTE 5:- SHORT TERM INVESTMENTS

- a. Marketable securities are presented at market value:

	<b>December 31,</b>	
	<b>2001</b>	<b>2000</b>
	<b>Adjusted NIS in thousands</b>	
Marketable capital notes linked to the dollar	381	444
Shares and options	623	3,522
Corporate bonds	-	629
	<u>1,004</u>	<u>4,595</u>
b. Marketable securities are presented at cost		
Current maturity of bonds (see note 10b)	<u>6,190</u>	<u>-</u>
Total *	<u>7,194</u>	<u>4,595</u>
* Including parent company's securities	<u>827</u>	<u>2,405</u>

## NOTE 6:- CUSTOMERS

	<b>CONSOLIDATED</b>		<b>C O M P A N Y</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<b>Adjusted NIS in thousands</b>			
Construction project - Chen Hatzafon	183	766	183	766
Lease of real estate *	<u>20,645</u>	<u>6,328</u>	<u>5,273</u>	<u>196</u>
Total	20,828	7,094	5,456	962
Less: provision for doubtful debts	<u>20</u>	<u>46</u>	<u>-</u>	<u>-</u>
	<u>20,808</u>	<u>7,048</u>	<u>5,456</u>	<u>962</u>
* Including customers in foreign currency (mainly Pound Sterling)	<u>14,650</u>	<u>5,814</u>	<u>-</u>	<u>-</u>

## NOTE 7:- DEBTORS AND DEBIT BALANCES

	CONSOLIDATED		C O M P A N Y	
	December 31,		December 31,	
	2001	2000	2001	2000
	Adjusted NIS in thousands			
Value Added Tax	-	-	141	-
Loan to a former employee	-	320	-	320
Income tax	5,510	8,148	5,582	7,097
Deferred taxes *	8,503	9,451	5,984	6,295
Prepaid expenses	199	787	55	700
Other debtors				
	15	19	12	14
	15	19	12	14

\* See note 26d hereunder.

## NOTE 8:- INVENTORY OF BUILDINGS FOR SALE

a. Composition:

	December 31,	
	2001	2000
	Adjusted NIS in thousands	
Land		
Cost of land development and construction (by a performing contractor)	10	13
Total *	12	14
* From this - inventory of completed apartments	12	14

b. In accordance with the building permits which the Company received, the Company built six residential buildings in three construction units, which contain 200 apartments in Chen Hatzafon project in Petach Tikva.

Hereunder are details regarding the apartments that were sold in each construction unit:

	Total apartments in a construction unit	Number of apartments sold in the reporting year	Number of apartments sold	
			2001	2000
			First unit	66
Second unit	68	-	67 *	68 *
Third unit	66	7	43	36
	200	7	176	170
	200	7	176	170

\* An agreement for the sale of an apartment which was signed in the year 1996 was cancelled in the reporting year.

## NOTE 9:- INVESTMENT IN SUBSIDIARIES

## a. Composition of investment

		<b>Company</b>						
		<b>December 31, 2001</b>						
	<b>Rate of holding %</b>	<b>Cost of shares</b>	<b>Capital reserves</b>	<b>Accumulated profits (losses) since acquisition date</b>	<b>Adjustments due to the translation of financial statements of foreign subsidiaries</b>	<b>Loans and capital notes</b>	<b>Total</b>	
<b>Adjusted NIS in thousands</b>								
Adgar Nachalot Ltd.	(1)	100	1	-	4,467	-	92,805	97,273
Adgar International Holdings Ltd.	(2)	100	-	-	24,372	2,628	509	27,509
Adgar investment and Development Belgium N.V.	(3)		-	-	-	-	169,345	169,345
Adgar Capital Investments Ltd.	(4)	100	-	6,074	(9)	-	(6,061)	4
Adgar Trust	(5)	100	-	-	(272)	-	8,079	7,807
Adgar Chen Hatzafon Management and Services Ltd.	(6)	100	-	-	(1)	-	1	-
		<u>1</u>	<u>6,074</u>	<u>28,557</u>	<u>2,628</u>	<u>264,678</u>	<u>301,938</u>	
		<b>Company</b>						
		<b>December 31, 2000</b>						
	<b>Rate of holding %</b>	<b>Cost of shares</b>	<b>Capital reserves</b>	<b>Accumulated profits (losses) since acquisition date</b>	<b>Adjustments due to the translation of financial statements of foreign subsidiaries</b>	<b>Loans and capital notes</b>	<b>Total</b>	
<b>Adjusted NIS in thousands</b>								
Adgar Nachalot Ltd.	(1)	100	1	-	2,407	-	98,787	101,195
Adgar International Holdings Ltd.	(2)	100	-	-	11,166	1,366	509	13,041
Adgar investment and Development Belgium N.V.	(3)		-	-	-	-	137,702	137,702
Adgar Capital Investments Ltd.	(4)	100	-	1,202	(8)	-	5,919	7,113
Adgar Chen Hatzafon Management and Services Ltd.	(6)	100	-	-	(1)	-	1	-
		<u>1</u>	<u>1,202</u>	<u>13,564</u>	<u>1,366</u>	<u>242,918</u>	<u>259,051</u>	

**NOTE 9:- INVESTMENT IN SUBSIDIARIES (Cont.)**

b. Additional information on subsidiaries

1) Adgar Nachalot Ltd. (hereunder - Adgar Nachalot)

(a) Adgar Nachalot Ltd. was established in the year 1996 and is a real estate company which holds real estate in Israel.

(b) In November 2001 the Company signed a merger agreement with Adgar Nachalot. The merger received the approval of the companies' general meetings subject to the approval of the Income Tax Commission which has not yet been received.

2) Adgar International Holdings Ltd.

Adgar International Holdings was established in January 1993 and it fully owns Adgar Investment and Development Belgium N.V. see also paragraph 3 hereunder.

3) Adgar Investment and Development Belgium N.V. (hereunder - Adgar Belgium)

Adgar Belgium was registered in Belgium in 1997 in order to purchase real estate which earns profits through its subsidiaries which are registered in Belgium.

4) Adgar Capital Investments Ltd.

Dealt in investments in the parent company's securities not for commercial purposes. In October 2001 Adgar Capital Investments sold its securities to the Company. These securities were distributed as dividends to the Company's shareholders (see note 11 hereunder).

5) Adgar Trust

Adgar Trust was established during the year 2001 and holds 92.5% of the partnership which holds a building for lease in Canada.

6) Adgar Chen Hatzafon Management and Services Ltd.

Adgar Chen Hatzafon Management and Services Ltd. dealt with the building management and services of the Company's project Chen Hatzafon.

**NOTE 9:- INVESTMENT IN SUBSIDIARIES (Cont.)**c. Loans and capital notes

1) Hereunder is the linkage basis and the interest rates:

<u>Interest rate</u> <u>%</u>	<u>December 31, 2001</u>			
	<u>In foreign currency</u>	<u>Linked to the CPI</u> <u>Adjusted NIS in thousands</u>	<u>Unlinked</u>	<u>Total</u>
-	-	81,428	5,826	87,254
5.4-9.5	177,424	-	-	177,424
	<u>177,424</u>	<u>81,428</u>	<u>5,826</u>	<u>264,678</u>

<u>Interest rate</u> <u>%</u>	<u>December 31, 2000</u>			
	<u>In foreign currency</u>	<u>Linked to the CPI</u> <u>Adjusted NIS in thousands</u>	<u>Unlinked</u>	<u>Total</u>
-	-	99,297	5,919	105,216
5.7-9.0	137,702	-	-	137,702
	<u>137,702</u>	<u>99,297</u>	<u>5,919</u>	<u>242,918</u>

2) Repayment dates for the loans and capital notes have not yet been determined.

**NOTE 10:- INVESTMENT IN SECURITIES**

a. General

- 1) In January, 2001 a document was signed determining the principles by which the legal dispute between the Company, the shareholders in control in Meshulam Levinstein Engineering and Contractors Ltd. (hereunder - Levinstein) due to the acquisition of Levinstein's securities (shares, options and debentures) by the Company will come to an end. The settlement was drawn up by the mediator Prof. Itzhak Swary, approved by the Tel Aviv District Court and anchored by agreements between the parties and Levinstein in March 2001. The agreement contains technical steps which the parties had to undertake and which were applied up to January 7, 2002.
- 2) The following actions were taken as part of the arrangement:
  - (a) The Company sold to Levinstein all the shares and options (Serial 2) it held in consideration for the amount of about NIS 49.7 million.
  - (b) The Company will continue to hold Levinstein's debentures (Serial A), but will relinquish their conversion right in a manner which will prevent their conversion by anyone who holds them. Levinstein issued a security (a second degree pledge on a company real estate asset, in an unlimited amount, and subject to a first degree pledge issued in favour of the bank), in order to secure the redemption of the debentures at their redemption date.
  - (c) Levinstein sold the Company its whole share (50%) in an asset which is constructed by Levinstein on Hanechoshet 6, Tel Aviv (hereunder - the asset), in consideration for the amount of about NIS 49 million plus V.A.T.
  - (d) Levinstein will bear all tax payments applicable on the seller of the asset and the Company will bear all tax payments applicable on the purchaser of the asset.
  - (e) The Company accepted Levinstein's rights and liabilities on the asset, including those that are included in the leasehold agreements regarding the project that were already signed, and including the right to the prepaid rental fees, starting from January 1, 2001.
- 3) The Company divided the cost of the shares and the option in the Company's books between the cost of the building and the debentures. The debentures were presented in the Company's books at their present value which was calculated according to the market interest rate at the time of the agreement (hereunder - the fair value) in the amount of NIS 29,029 thousand, and the building was presented at NIS 47,590 thousand representing the difference between the adjusted cost that was paid for all Levinstein's shares, options and debentures and the fair value of the above debentures.

The debentures are redeemable in six equal annual installments starting from January 31, 2002 and bear the interest of 2.45% per annum.



**NOTE 12:- DEPOSIT IN A RELATED COMPANY**

The deposit was granted to a related company - Zur Shamir Finances Ltd., a subsidiary of Zur Shamir Holdings Ltd. The deposit is linked to the CPI and bears 4% interest per annum which is accumulated to the deposit. The deposit is to be repaid in five equal annual installments as from October 2000. The deposit was redeemed after the balance sheet date.

**NOTE 13:- LOANS**

	<u>Annual interest rate %</u>	<u>Consolidated December 31,</u>	
		<u>2001</u>	<u>2000</u>
		<u>Adjusted NIS in thousands</u>	
Linked to the Pound Sterling, redeemable in one installment in march 2010		12,	
Linked to the Canadian dollar, redemption date has not yet been determined		_____	_____
		<u>13,</u>	<u>_____</u>

The loans were granted to a minority in the subsidiaries and are secured by a pledge on the subsidiaries shares which are held by the minority.

## NOTE 14:- FIXED ASSETS

a. Composition:

**Consolidated:**

	<b>Real estate and office buildings for lease *</b>	<b>Vehicles</b>	<b>Furniture and office equipment</b>	<b>Improvements in leased property</b>	<b>Total</b>
	<b>Adjusted NIS in thousands</b>				
<b>Cost</b>					
Balance as of January 1, 2001	476,865	587	3,107	129	480,688
Adjustments in relation to foreign autonomic subsidiaries	21,991	-	-	-	21,991
Additions	160,541	185	717	-	161,443
Additions regarding a subsidiary first consolidated	55,590	-	-	-	55,590
Disposals	358	106	19	-	483
Balance as of December 31, 2001	<u>714,629</u>	<u>666</u>	<u>3,805</u>	<u>129</u>	<u>719,229</u>
<b>Accumulated depreciation</b>					
Balance as of January 1, 2001	32,056	162	2,353	31	34,602
Adjustments in relation to foreign autonomic subsidiaries	612	-	-	-	612
Additions	10,393	99	297	26	10,815
Disposals	-	58	14	-	72
Balance as of December 31, 2001	<u>43,061</u>	<u>203</u>	<u>2,636</u>	<u>57</u>	<u>45,957</u>
<b>Depreciated cost as of December 31, 2001</b>	<u>671,568</u>	<u>463</u>	<u>1,169</u>	<u>72</u>	<u>673,272</u>
<b>Depreciated cost as of December 31, 2000</b>	<u>444,809</u>	<u>425</u>	<u>754</u>	<u>98</u>	<u>446,086</u>

\* Including initial difference in the amount of NIS 12,261 thousand which is allocated to office buildings for lease in subsidiaries. In addition, see (b) hereunder.

Including a component which is allocated to land in the amount of NIS 166,672 thousand.

**NOTE 14:- FIXED ASSETS (Cont.)**

a. Composition: (Cont.)

**Company:**

	<u>Office buildings for lease *</u>	<u>Vehicles</u>	<u>Furniture and office equipment</u>	<u>Improvements in leased property</u>	<u>Total</u>
<b>Cost</b>					
Balance as of January 1, 2001	30,748	587	3,040	129	34,504
Additions	55,800	185	282	-	56,267
Disposals	-	106	19	-	125
Balance as of December 31, 2001	<u>86,548</u>	<u>666</u>	<u>3,303</u>	<u>129</u>	<u>90,646</u>
<b>Accumulated depreciation</b>					
Balance as of January 1, 2001	11,514	162	2,342	31	14,049
Additions	1,023	99	195	26	1,343
Disposals	-	58	14	-	72
Balance as of December 31, 2001	<u>12,537</u>	<u>203</u>	<u>2,523</u>	<u>57</u>	<u>15,320</u>
<b>Depreciated cost as of December 31, 2001</b>	<u>74,011</u>	<u>463</u>	<u>780</u>	<u>72</u>	<u>75,326</u>
<b>Depreciated cost as of December 31, 2000</b>	<u>19,234</u>	<u>425</u>	<u>698</u>	<u>98</u>	<u>20,455</u>

\* Including a component which is allocated to land in the amount of NIS 22,724 thousand.

## NOTE 14:- FIXED ASSETS (Cont.)

b. Additional information

Real estate and buildings for lease:

	<u>December 31,</u>	
	<u>2001</u>	<u>2000</u>
	<u>Adjusted NIS in thousands</u>	
<u>Investments in Israel:</u>		
<u>The Company:</u>		
Office premises on Efal St. Kiryat Aryeh	15,607	11,223
Office premises on Hamifalim St. Kiryat Aryeh	4,324	4,537
Building on Jabotinsky St., Ofakim	3,376	3,474
Office premises on Hanehoshet St., Tel Aviv	50,704	-
	<u>74,011</u>	<u>19,234</u>
<u>A subsidiary, Adgar Nachalot Ltd.:</u>		
Office premises on Hamasger St., Tel Aviv	29,471	29,961
Two office buildings on Nachalat Benyamin, Tel Aviv	22,135	21,405
A building for lease on Shlomo Ben Yosef St., Haifa	9,219	9,354
	<u>60,825</u>	<u>60,720</u>
<u>A subsidiary, Adgar Nof Tivon Ltd.:</u>		
Real estate and building for lease in Kiryat Tivon	13,425	13,571
	<u>13,425</u>	<u>13,571</u>
<u>Investments abroad:</u>		
<u>In Belgium - through subsidiaries:</u>		
Adgar Plantin N.V., office premises in Antwerp	11,563	11,411
Antwerp Invest N.V., office premises in Antwerp	14,987	14,857
Mondriaan N.V., commercial building in Antwerp	7,104	7,004
Adgar Properties N.V., office premises in Antwerp	2,879	2,829
Adgar Building N.V., office premises in Antwerp	10,469	10,340
Adgar Aartselaar N.V., office premises in Antwerp	7,966	7,859
Adgar Jezustreet N.V., office premises in Antwerp	3,902	3,884
	<u>58,870</u>	<u>58,184</u>
<u>In Great Britain - through subsidiaries:</u>		
Adgar UK N.V., office premises in London	95,240	91,685
Adgar Sutherland N.V., office premises in London	34,609	33,306
Adgar Lemanstreet N.V., office premises in London	100,780	94,673
Gilquest Ltd., office premises in London	57,879	-
	<u>288,508</u>	<u>219,664</u>
<u>In Poland - through a subsidiary:</u>		
Adgar Poland N.V. - Real estate and two office buildings in Warsaw	149,431	73,436
	<u>149,431</u>	<u>73,436</u>
<u>In Canada - through a partnership</u>		
AD - AM - LP - Office premises in Montreal	26,498	-
	<u>26,498</u>	<u>-</u>
	<u>671,568</u>	<u>444,809</u>

## NOTE 14:- FIXED ASSETS (Cont.)

c. Depreciated cost of buildings including land is composed as follows:

	<u>December 31,</u>	
	<u>2001</u>	<u>2000</u>
	<u>Adjusted NIS in thousands</u>	
<u>The Company:</u>		
Under ownership	19,931	15,760
Under lease for generations	<u>54,080</u>	<u>3,474</u>
Total in the Company's balance sheet	<u>74,011</u>	<u>19,234</u>
<u>Subsidiaries:</u>		
Under ownership	434,701	338,568
Under lease for generations	<u>162,856</u>	<u>87,007</u>
	<u>597,557</u>	<u>425,575</u>
Total in the consolidated balance sheet	<u>671,568</u>	<u>444,809</u>

d. Real estate which were not yet registered in the books of the Land Registrar, for technical reasons.

	<u>Consolidated</u>
	<u>December 31,</u>
	<u>2001</u>
	<u>Adjusted NIS</u>
	<u>in thousands</u>
Depreciated cost	<u>29,471</u>

## NOTE 15:- OTHER ASSETS, NET

	<u>Consolidated</u>		<u>Company</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	<u>Adjusted NIS in thousands</u>			
<b>Convertible debentures issue expenses</b>				
Initial amount	2,895	3,627	3,824	4,009
Less: accumulated amortization	<u>1,740</u>	<u>1,691</u>	<u>2,514</u>	<u>1,891</u>
	<u>1,155</u>	<u>1,936</u>	<u>1,310</u>	<u>2,118</u>
<b>Foundation costs, increase in capital and capital issue expenses</b>				
Initial amount	204	107	-	-
Less: accumulated amortization	<u>54</u>	<u>34</u>	<u>-</u>	<u>-</u>
	<u>150</u>	<u>73</u>	<u>-</u>	<u>-</u>
Deferred taxes *	<u>2,714</u>	<u>-</u>	<u>2,714</u>	<u>-</u>
	<u>4,019</u>	<u>2,009</u>	<u>4,024</u>	<u>2,118</u>

\* See note 26d hereunder.

## NOTE 16:- DEFERRED EXPENSES, NET

	<u>December 31,</u>	
	<u>2001</u>	<u>2000</u>
	<u>Adjusted NIS in thousands</u>	
Selling expenses for lease of buildings:		
Initial amount	1,657	1,567
Less accumulated amortization	<u>197</u>	<u>82</u>
	<u>1,460</u>	<u>1,485</u>

## NOTE 17:- SHORT TERM CREDIT FROM BANKING INSTITUTIONS

a. Composition:

	Interest rate as of December 31, 2001 %	CONSOLIDATED		C O M P A N Y	
		December 31,		December 31,	
		2001	2000	2001	2000
Adjusted NIS in thousands					
Unlinked	4.5-5	33,145	14,631	33,145	14,631
Linked to the Pound Sterling	5.4	29,729	408	29,729	408
Linked to the dollar	4.8-5	97,223	92,272	97,223	92,272
Linked to the Belgium franc/Euro	6.9	5,034	1,700	5,034	1,700
Linked to the Canadian dollar	4-5.25	8,114	-	8,114	-
Current maturities of long term loans (note 21)		19,240	26,898	4,557	18,528
		192,485	135,909	177,802	127,539

b. Pledges - see note 23 hereunder.

## NOTE 18:- SUPPLIERS AND SERVICE PROVIDERS

	CONSOLIDATED		C O M P A N Y	
	December 31,		December 31,	
	2001	2000	2001	2000
Adjusted NIS in thousands				
Suppliers and service providers	2	3		
From this - suppliers and service providers in foreign currency	2	3		

## NOTE 19:- CREDITORS AND CREDIT BALANCES

	CONSOLIDATED		C O M P A N Y	
	December 31,		December 31,	
	2001	2000	2001	2000
	Adjusted NIS in thousands			
Prepaid income and advances from customers				
Employees and institutions in relation to salaries	5		5	
Interest payable	2	2		
Institutions	2	2		
Provision for vacation and recreation pay				
Provision for completion of construction work				
Accrued expenses and sundry creditors	3	1		
	<u>14</u>	<u>5</u>	<u>5</u>	<u>2</u>

## NOTE 20:- CONVERTIBLE DEBENTURES

- a. In accordance with the Company's prospectus from July 24, 1997 NIS 71,000 thousand nominal value registered debentures (Serial C) were issued. In January 1998 346,410 options (Serial 4) were exercised by a subsidiary, Adgar Nachalot Ltd. (hereunder - Adgar Nachalot) into NIS 34,641 thousand nominal value debentures (Serial C).

The difference between the debentures principal and the amount allocated in consideration for their issue, represents a discount which is deducted from the liability.

During the years 2001, 2000 and 1999, 9,763,456, 1,372,281 and 1,729,175 nominal value of debentures (Serial C), respectively, were converted into 3,309,646, 465,180 and 586,161 nominal value ordinary shares of NIS 1 nominal value each, respectively.

- b. Acquisition offer for debentures (see also note 1b)

On January 8, 2002 the parent company Zur Shamir Holdings Ltd. (hereunder - Zur Shamir) published an acquisition offer for debentures (Serial C), not including debentures (Serial C) held by Adgar Nachalot. After the acquisition offer the public still held 1,997,491.5 nominal value debentures (Serial C). Regarding this balance of debentures Zur Shamir made an ordinary acquisition offer specification on February 5, 2002 to the Company's shareholders to acquire the debentures they hold at the price of NIS 1.32 per debenture (Serial C). The holders of 987,773.78 nominal value debentures (Serial C) responded to this acquisition offer and therefore the public still holds 1,009,717.72 nominal value debentures (Serial C).

## NOTE 20:- CONVERTIBLE DEBENTURES (Cont.)

b. Acquisition offer for debentures (see also note 1b) (Cont.)

According to the stock exchange instructions, since the value of the public's holdings of the debentures (Serial C) based on the stock exchange rate of the debentures on February 19, 2002 (NIS 1.32 per debenture), is lower than NIS 1.6 million, the debentures (Serial C) will be cancelled for trade in the stock exchange within 60 days from the date of report of the results of the ordinary acquisition offer to the owners of debentures which was published on February 20, 2002.

## c. Hereunder are the balances in nominal values and the amount in the balance sheet:

	December 31, 2001		December 31, 2000	
	Balance sheet amount	Nominal value	Balance sheet amount	Nominal value
	Adjusted NIS in thousands			
<u>Consolidated</u>				
Total bonds **	38,	<u>34,077</u>	56,	<u>49,289</u> *
Less discount *	<u>3</u>		<u>4</u>	
	<u>35,</u>		<u>50,</u>	
* Initial amount	10,		10,	
Amortization (including conversions)	<u>3</u>		<u>4</u>	
	<u>7</u>		<u>6</u>	
** Less mutual holding by a subsidiary		<u>28,</u>		<u>32,</u>
<u>Company</u>				
Total bonds	71,	<u>62,903</u>	93,	<u>81,654</u>
Less discount *	<u>4</u>		<u>6</u>	
	<u>67,</u>		<u>86,</u>	
* Initial amount	12,		12,	
Amortization (including conversions)	<u>3</u>		<u>6</u>	
	<u>9</u>		<u>12</u>	

**NOTE 20:- CONVERTIBLE DEBENTURES (Cont.)**

d. Hereunder are the debentures redemption dates, net

	<u>Consolidated</u>		<u>Company</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	<u>Adjusted NIS in thousands</u>			
In the first year (current maturity)	5	6	5	10
In the second year	5	6	5	10
In the third year	5	6	5	10
In the fourth year	5	6	5	10
In the fifth year	5	6	5	10
In the sixth year onwards	10	19	19	32
	<u>35</u>	<u>50</u>	<u>67</u>	<u>86</u>

e. Hereunder are details regarding the debentures:

1) Interest and linkage terms

The principal and interest are linked to the CPI of June 1997.

The debentures bear annual interest at the rate of 1.85% per annum, paid on the 31st of July each year.

2) Redemption date

The debentures are redeemable in ten equal and consecutive installments on the 31st of July of each of the years from 1999 to 2008 (inclusive).

3) Terms of conversion

The debentures are convertible into ordinary registered shares, of NIS 1 nominal value each, in the manner that each NIS 2.95 nominal value of debentures is convertible into an ordinary share of NIS 1 nominal value (subject to adjustments).

4) Market value

The market value of the debentures, relating to the nominal value in consolidation, in the stock exchange as of December 31, 2001 is NIS 43,891 thousand (see also b above).

5) Security

As security for the payment of the debentures (Serial C) the Company registered a symbolic pledge of NIS 1 out of the proceeds of the issue. In addition, the Company undertook not to create, in favour of any third party, a current pledge on its assets, at an equal degree or superior to the pledge of the debentures, unless the Company registers a current pledge in favour of the debentures (Serial C) at an equal degree Pari Passu with the pledge in favour of the third party.

## NOTE 21:- LIABILITIES TO BANKING INSTITUTIONS AND OTHERS

a. Composition

	Annual interest rate %	CONSOLIDATED		COMPANY	
		December 31,		December 31,	
		2001	2000	2001	2000
<b>Adjusted NIS in thousands</b>					
<u>From banking institutions:</u>					
Linked to the CPI	5.3	-	2,436	-	2,436
Linked to the CPI	(1)	7,831	9,136	-	-
Linked to the Belgian Franc/Euro	4.80	4,018	4,372	-	-
Linked to the Belgian Franc/Euro	(2)	54,709	46,292	17,665	18,920
Linked to the Pound Sterling	6.8 - 7.5	249,276	242,431	-	-
Linked to the Pound Sterling	(3)	12,807	26,106	12,807	26,106
Linked to the dollar	(4)	36,406	-	-	-
Linked to the Canadian dollar	6.8	19,703	-	-	-
		<u>384,750</u>	<u>330,773</u>	<u>30,472</u>	<u>47,462</u>
<u>From others:</u>					
Linked to the CPI	6.0	855	806	-	-
		<u>385,605</u>	<u>331,579</u>	<u>30,472</u>	<u>47,462</u>
Less: current maturities		<u>19,240</u>	<u>26,898</u>	<u>4,557</u>	<u>18,528</u>
		<u><u>366,365</u></u>	<u><u>304,681</u></u>	<u><u>25,915</u></u>	<u><u>28,934</u></u>

- 1) At variable interest rates. The interest rate is 5% as of balance sheet date.
- 2) At variable interest rates. The interest rates are 4.3% - 4.6% as of balance sheet date.
- 3) At variable interest rates. The interest rates are 5.4% - 5.7% as of balance sheet date.
- 4) At variable interest rates. The interest rates are 4.1% - 4.4% as of balance sheet date.

b. Redemption dates:

	CONSOLIDATED		COMPANY	
	December 31,		December 31,	
	2001	2000	2001	2000
<b>Adjusted NIS in thousands</b>				
First year - current maturities	19,240	26,898	4,557	18,528
In the second year	19,013	12,396	3,987	3,858
In the third year	23,214	12,817	3,987	3,858
In the fourth year	25,461	16,808	3,987	3,858
In the fifth year	59,644	18,917	3,987	3,858
In the sixth year onwards	239,033	243,743	9,967	13,502
	<u>385,605</u>	<u>331,579</u>	<u>30,472</u>	<u>47,462</u>

## c. Pledges - see note 23(a) hereunder.

## NOTE 22:- LIABILITIES FOR SEVERANCE PAY

a. Composition:

	<u>December 31,</u>	
	<u>2001</u>	<u>2000</u>
	<u>Adjusted NIS in</u>	
	<u>thousands</u>	
Balance of liabilities for severance pay	=====	=====

- b. The Company and its subsidiaries' liability for severance pay is calculated on the basis of the employees' last salary as of balance sheet date and in accordance with the severance pay law, and is fully covered by current payments to insurance companies for managers insurance policies and provident funds, as well as the balance of liability for severance pay.
- c. The accumulated amounts in the management insurance policies and provident funds in the names of the employees and the liabilities thereto, are not recorded in the balance sheet since they are not controlled or managed by the Company.

## NOTE 23:- PLEDGES AND GUARANTEES

a. Pledges

In the Company:

- 1) In order to secure its liabilities to the banks, in the amount of NIS 123,485 thousand, the Company registered permanent unlimited pledges on its assets, insurance rights, unpaid-up share capital and goodwill and in relation to post- dated checks in the banks. In addition, the Company registered a first degree mortgage on real estate assets in favour of the banks.
- 2) As a security for the redemption of the debentures (Serial C) the Company registered a symbolic pledge of NIS 1 out of the proceeds of the issue. In addition, the Company undertook not to create, in favour of any third party, a current pledge on its assets of an equal degree or superior to the pledge of the debentures, unless the Company registers a current pledge in favour of the debentures (Serial C) at an equal degree Pari Passu with the pledge in favour of the third party.

In subsidiaries:

Liabilities to banks in the amount of NIS 334,575 thousand are secured by first degree permanent pledges on real estate and all the contractual rights in relation thereto.

**NOTE 23:- PLEDGES AND GUARANTEES (Cont.)**b. Guarantees

- 1) The Company deposited with the Petach-Tikva Municipality a bank guarantee in the amount of NIS 30 thousand linked to the construction input index, to secure the performance of work it undertook to perform. This guarantee will be in force until the work is completed.
- 2) The Israel Discount Bank Ltd. is a guarantor to the purchasers of apartments in the Chen Hatzafon Project in the amount of about NIS 233 thousand. The guarantee is to secure the Company's liabilities, pursuant to the regulations under item 2(1) to the Sales Law (apartments) (security of investments of purchasers of apartments), 1974.
- 3) Other guarantees issued by banks in relation to legal deliberations in favour of the courts amount to about NIS 250 thousand. This guarantee was removed after the balance sheet date.
- 4) The Company and a subsidiary are the guarantors at a rate of 74%, for a loan in the amount of about NIS 7.8 million, which was given to another subsidiary by Bank Leumi Le-Israel B.M.

c. Commitments

The Company entered an agreement with a banking institution for the acquisition and sale of an option to hedge against changes in interest in foreign currency. The amount of the commitment as of December 31, 2001 is 8.5 million Pounds Sterling. The option will expire on February 27, 2002. As of balance sheet date and as of the date of approval of the financial statements no loss was recorded for the above mentioned transaction.

**NOTE 24:- SHAREHOLDERS' EQUITY**

- a. The paid-up share capital, including premium received, is adjusted for the effect of inflation from the dates of receipt up to December 31, 2001.

b. Composition of share capital

	<b>December 31,</b>			
	<b>2001</b>		<b>2000</b>	
	<u>Registered</u>	<u>Issued and paid-up</u>	<u>Registered</u>	<u>Issued and paid-up</u>
Ordinary shares of NIS 1 nominal value	<u>120,0'</u>	<u>60,0'</u>	<u>120,0'</u>	<u>48,0'</u>

**NOTE 24:- SHAREHOLDERS' EQUITY (Cont.)**c. Issue of options (Serial 5) in the year 1997

1) Pursuant to the Company's prospectus dated July 24, 1997 the Company issued:

- (a) 16,330,000 options (Serial 5), realizable into ordinary shares of NIS 1 each, on every business day up to July 31, 2001 (inclusive), except for the days between the 12th and the 16th (inclusive) of each month, so that each option is realizable into an ordinary share of NIS 1 nominal value against the cash payment of the realization price of NIS 2.5 for each option, linked to the CPI.
- (b) 5,319,997 options (Serial 5) (in addition to the options in paragraph (a) above), which were offered by way of rights to the Company's shareholders and were fully realized on August 10, 1997.
- 2) On September 17, 1997 the Company issued 1,000,000 options (Serial 5) in favour of the prospectus issue advisor. This issue is in accordance with the Company's commitment outlined in the prospectus.
- 3) In October 8, 1997 the general meeting approved the issue in the total amount of 1,290,000 options (Serial 5) in favour of the chairman of the board of directors (who served at that time as the general manager), and two other senior employees.
- 4) During the reporting year 8,031,215 options were exercised into shares of NIS 1 each of the Company. As a result of the realization of the options the Company's equity increased by NIS 22,698 thousand. The balance of 15,908,782 options expired on July 31, 2001.

d. Issue of options in the year 2000

On March 30, 2000 the general meeting approved the allocation of 4,220,000 options to senior employees of the Company, including the chairman of the board of directors who served at that time as the general manager (2,170,000 options). Each option is exercisable into an ordinary share of NIS 1 nominal value, in consideration for an exercise price of NIS 3.06 (subject to adjustments) linked to the CPI for January 2000. The options are valid for five years since the date of allocation (hereunder - the expiry date).

Within the framework of the acquisition offer the option plan was cancelled and the employers received a substitute compensation for the option plan in the amount of NIS 5,570 thousand, see note 1b above.

d. Distribution of dividend1) Distribution of parent company's shares as a dividend to the shareholders

During the reporting period the Company's board of directors came to a decision to distribute ordinary and preferred shares of the parent company, Zur Shamir Holdings Ltd., which it holds, as a dividend in kind to all its shareholders.

The nominal value of the parent company's shares which were distributed as dividends amounts to about NIS 6,323 thousand nominal value of ordinary shares and about NIS 1,374 thousand nominal value of preferred shares. The cost of the shares in the Company's books amounted to about NIS 8,882 thousand. The market value in the stock exchange of the shares that are distributed as dividends as of the date of distribution amounted to about NIS 14,230 thousand, which constitutes a dividend at the rate of about 23.61% of the paid-up share capital.

2) Distribution of cash dividend

During the reporting period the Company distributed a cash dividend to its shareholders in the amount of NIS 17,983 thousand which constitutes a dividend at the rate of about 36.8% of the paid-up share capital.

## NOTE 25:- INFORMATION IN RELATION TO PROFIT AND LOSS STATEMENTS

a. Leased real estate maintenance costs

	CONSOLIDATED			COMPANY		
	Year ended December 31,			Year ended December 31,		
	2001	2000	1999	2001	2000	1999
	Adjusted NIS in thousands					
Depreciation	10,269	7,278	5,266	1,033	834	876
Others	2,614	2,585	1,439	576	771	491
	<u>12,883</u>	<u>9,863</u>	<u>6,705</u>	<u>1,609</u>	<u>1,605</u>	<u>1,367</u>

b. Costs from construction business

	Year ended December 31,		
	2001	2000	1999
	Adjusted NIS in thousands		
Land	308	2,282	-
Development and construction costs (through a performing contractor)	2,325	17,177	-
	<u>2,633</u>	<u>19,459</u>	<u>-</u>

c. Sales and marketing expenses

	Consolidated			Company		
	Year ended December 31,			Year ended December 31,		
	2001	2000	1999	2001	2000	1999
	Adjusted NIS in thousands					
Marketing expenses	227	302	821	227	302	821
Sales commissions	761	715	209	102	112	209
Legal	62	150	186	62	150	186
Others	356	579	389	356	579	389
	<u>1,406</u>	<u>1,746</u>	<u>1,605</u>	<u>747</u>	<u>1,143</u>	<u>1,605</u>

## NOTE 25:- INFORMATION IN RELATION TO PROFIT AND LOSS STATEMENTS (Cont.)

d. Administrative and general expenses

	CONSOLIDATED			COMPANY		
	Year ended December 31,			Year ended December 31,		
	2001	2000	1999	2001	2000	1999
	<b>Adjusted NIS in thousands</b>					
Salaries and related expenses	7,714	2,358	1,566	7,714	2,340	1,514
Legal, audit and professional services	3,273	4,808	2,235	757	2,063	685
Maintenance, taxes and insurance	295	279	232	295	292	232
Economic assessments and travel	1,346	921	409	247	496	409
Others	707	486	350	584	486	350
Depreciation and amortization	310	284	569	137	284	559
Relating to Chen Hatzafon construction project	674	743	483	674	743	483
	<u>14,319</u>	<u>9,879</u>	<u>5,844</u>	<u>10,408</u>	<u>6,704</u>	<u>4,232</u>

e. Financing expenses (income)

	CONSOLIDATED			COMPANY		
	Year ended December 31,			Year ended December 31,		
	2001	2000	1999	2001	2000	1999
	<b>Adjusted NIS in thousands</b>					
Profit from securities	(876)	(642)	(2,434)	(876)	(642)	(2,434)
Real interest in relation to loans to subsidiaries and related companies	(396)	(81)	(109)	(5,742)	(10,650)	(2,098)
Financing expenses in relation to long term liabilities	19,867	11,004	9,523	950	3,406	4,367
Amortization of convertible debentures discount	1,171	1,384	1,519	1,469	1,662	1,828
Amortization of convertible debentures issue expenses	415	587	533	470	598	582
In relation to short term credit, net	7,796	7,472	1,767	7,796	6,389	2,849
	<u>27,977</u>	<u>19,724</u>	<u>10,799</u>	<u>4,067</u>	<u>763</u>	<u>5,094</u>

## NOTE 26:- INCOME TAXES

a. Composition:

	CONSOLIDATED			COMPANY		
	Year ended December 31,			Year ended December 31,		
	2001	2000	1999	2001	2000	1999
	Adjusted NIS in thousands					
Current taxes	3,042	2,172	1,042	(239)	169	513
Deferred taxes	591	404	(2,462)	(2,219)	1,789	(3,048)
Taxes in respect of previous years	4,350	32	(82)	4,350	32	(82)
Income taxes	7,983	2,608	(1,502)	1,892	1,990	(2,617)

- b. The Company has an inflationary deduction in relation to the inventory of buildings under construction in the amount of NIS 3,118 thousand, which is carried forward to the following years. The deduction is linked to the CPI and will be deducted from the income at the time of sale of the inventory. The Company recorded deferred tax receivable in relation to this deduction.

The Company has a loss carried forward for tax purposes in the amount of about NIS 2 million and the subsidiaries have a loss carried forward in the amount of about NIS 4.6 million for which deferred taxes were recorded.

The Company created deferred tax assets as there is reasonable probability that they will be utilized.

Deferred taxes were calculated on the basis of the tax rate expected to be in force at the time of their realization.

## NOTE 26:- INCOME TAXES (Cont.)

- c. Reconciliation of the theoretical tax amount due, had all the business results been liable to taxes at the tax rate applicable on the Company compared to the actual tax amount:

	CONSOLIDATED			COMPANY		
	Year ended December 31,			Year ended December 31,		
	2001	2000	1999	2001	2000	1999
	<b>Adjusted NIS in thousands</b>					
Balance of profit (loss) before income taxes	17,370	12,669	472	(5,970)	3,669	(8,691)
Statutory tax rate applicable on the Company	36%	36%	36%	36%	36%	36%
Tax amount on basis of the statutory tax rate	6,253	4,560	169	(2,149)	1,320	(3,128)
Income taxed at other tax rates and timing differences for which no deferred taxes were created for foreign companies	(1,690)	(2,491)	(1,747)	-	-	-
Tax (tax saving) in relation to:						
Inadmissible expenses less exempt income	496	725	431	1,117	856	953
Utilization of deferred taxes due to losses from previous years	(2,137)	-	-	(2,137)	-	-
Loss (profit) from marketable securities, net	711	(229)	(370)	711	(229)	(370)
Erosion of tax advances	-	-	10	-	-	10
Others	-	11	87	-	11	-
Taxes in relation to previous years	4,350	32	(82)	4,350	32	(82)
	7,983	2,608	(1,502)	1,892	1,990	(2,617)

## NOTE 26:- INCOME TAXES (Cont.)

d. Composition and movement of deferred taxes

	<u>Depreciable fixed assets</u>	<u>Inventory net of advances from customers</u>	<u>Investment in securities</u>	<u>Provisions for employees' rights</u>	<u>Losses for tax purposes</u>	<u>Others</u>	<u>Total</u>
	<u>Adjusted NIS in thousands</u>						
<u>Consolidated</u>							
Balance as of January 1, 2001	(6,707)	3,582	-	91	2,532	3,246	2,744
Adjustments in relation to foreign autonomic subsidiaries	(204)	-	-	-	53	103	(48)
Allocation to statement of profit and loss	(2,201)	(704)	3,257	(38)	90	(995)	(591)
Balance as of December 31, 2001	<u>(9,112)</u>	<u>2,878</u>	<u>3,257</u>	<u>53</u>	<u>2,675</u>	<u>2,354</u>	<u>2,105</u>
<u>Company</u>							
Balance as of January 1, 2001	-	3,582	-	91	1,815	807	6,295
Allocation to statement of profit and loss	(184)	(704)	3,257	(38)	(983)	871	2,219
Balance as of December 31, 2001	<u>(184)</u>	<u>2,878</u>	<u>3,257</u>	<u>53</u>	<u>832</u>	<u>1,678</u>	<u>8,514</u>

## NOTE 26:- INCOME TAXES (Cont.)

d. Composition and movement of deferred taxes (Cont.)

The deferred taxes are presented in the balance sheet as follows:

	<u>Consolidated</u>		<u>Company</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	<u>Adjusted NIS in thousands</u>			
Within current assets	8,503	9,451	5,984	6,295
Within other assets	2,714	-	2,714	-
Within long term liabilities	(9,112)	(6,707)	(184)	-
	<u>2,105</u>	<u>2,744</u>	<u>8,514</u>	<u>6,295</u>

- e. The Company did not provide for long term liability for deferred taxes in relation to the above difference, for buildings, in accordance with the guidance of Statement No. 40 of the Institute of Certified Public Accountants in Israel, as specified below:

	<u>December 31,</u>	
	<u>2001</u>	<u>2000</u>
	<u>Adjusted NIS in thousands</u>	
Balance as of beginning of the year	1,808	1,732
Changes during the year	<u>74</u>	<u>76</u>
The total amount not deductible up to the end of the year	<u>1,882</u>	<u>1,808</u>

- f. Regarding an agreement which is being formulated with the tax authorities with respect to the taxation of the increase in the value of securities held by the Company, see note 10a(4) above.
- g. The Company received final tax assessments up to and including 1991. Subsidiaries did not receive final tax assessments. Tax returns issued in the years up to and including 1997 are considered as final tax assessment pursuant to Section 145 to the Income Tax Ordinance and subject to the conditions as determined by the Income Tax Ordinance.

## NOTE 27:- GEOGRAPHIC SEGMENTS

a. General

The Company and its subsidiaries deal in real estate business (asset leasing and construction) in Israel, Great Britain, Belgium, Poland and Canada.

b. Allocation according to geographic segments

	Year ended December 31, 2001					Total
	Israel	Great Britain	Belgium	Poland	Canada	
	Adjusted NIS in thousands					
Income	<u>17,784</u>	<u>32,350</u>	<u>5,863</u>	<u>20,382</u>	<u>576</u>	<u>76,955</u>
Profit (loss) before taxes	<u>(5,384)</u>	<u>14,139</u>	<u>479</u>	<u>8,409</u>	<u>(273)</u>	<u>17,370</u>
Income taxes						<u>(7,983)</u>
Minority interest in results of subsidiaries						<u>9,387</u>
Net profit for the year						<u>(2,256)</u>
Assets as of December 31, 2001	<u>220,577</u>	<u>326,068</u>	<u>60,622</u>	<u>150,490</u>	<u>28,197</u>	<u>785,954</u>
Liabilities as of December 31, 2001	<u>255,364</u>	<u>253,904</u>	<u>31,703</u>	<u>50,545</u>	<u>19,909</u>	<u>611,425</u>
Depreciation and amortization for the year	<u>3,924</u>	<u>3,441</u>	<u>2,089</u>	<u>3,089</u>	<u>92</u>	<u>12,635</u>
Capital investments for the year	<u>57,208</u>	<u>59,536</u>	<u>79</u>	<u>72,868</u>	<u>26,587</u>	<u>216,278</u>

## NOTE 27:- GEOGRAPHIC SEGMENTS (Cont.)

b. Allocation according to geographic segments (Cont.)

	Year ended December 31, 2000				
	Israel	Great Britain	Belgium	Poland	Total
	Adjusted NIS in thousands				
Income	38,000	22,228	5,643	7,469	73,340
Profit before taxes	2,178	10,645	1,131	(1,285)	12,669
Income taxes					(2,608)
Minority interest in results of a subsidiary					10,061
Net profit for the year					(2,235)
Assets as of December 31, 2000	239,936	285,601	59,463	95,679	680,679
Liabilities as of December 31, 2000	236,521	242,782	38,356	2,875	520,534
Depreciation and amortization for the year	4,095	2,849	1,830	948	9,722
Capital investments for the year	4,821	29,153	650	56,447	91,071

## NOTE 27:- GEOGRAPHIC SEGMENTS (Cont.)

b. Allocation according to geographic segments (Cont.)

	Year ended December 31, 1999				
	Israel	Great Britain	Belgium	Poland	Total
	Adjusted NIS in thousands				
Income	7,872	12,699	4,785	-	25,356
Profit (loss) before taxes	(4,685)	3,952	1,205	-	472
Tax benefit					1,502
					1,974
Minority interest in results of subsidiaries					(798)
Net profit for the year					1,176
Assets as of December 31, 1999	235,830	217,185	66,184	18,297	537,496
Liabilities as of December 31, 1999	203,784	160,831	29,689	-	394,304
Depreciation and amortization for the year	4,457	1,929	1,502	-	7,888
Capital investments for the year	5,955	25,950	21,667	18,262	71,834

c. Main customers

	Year ended December 31,	
	2001	2000
	Adjusted NIS in thousands	
Turnover with customers in relation to leased real estate	72,834	43,540
	In percentage	
Customer A	18.1	23.7
Customer B	17.4	17.8
Customer C	8.2	-
Customer D	5.6	7.4
Customer E	5.2	7.3
	54.5	56.2

## NOTE 28:- LINKAGE TERMS OF MONETARY BALANCES

a. Consolidated balance sheet

	December 31, 2001						Total
	Pound sterling	Belgian Franc/Eur	Dollar	Canadian dollar	Unlinked		
Linked to the CPI	or linked thereto	or linked thereto	or linked thereto	or linked thereto			
Adjusted NIS in thousands							
<b>Assets</b>							
Cash and cash equivalents	-	12,731	1,205	4,310	929	1,975	21,150
Deposits (not including current maturities)	2,383	-	-	-	-	-	2,383
Deposit with a related company (including current maturity)	1,339	-	-	-	-	-	1,339
Customers	6,158	13,725	802	123	-	-	20,808
Debtors and debit balances	5,510	105	107	247	4	967	6,940
Loans	-	12,582	-	-	586	-	13,168
	<u>15,390</u>	<u>39,143</u>	<u>2,114</u>	<u>4,680</u>	<u>1,519</u>	<u>2,942</u>	<u>65,788</u>
<b>Liabilities</b>							
Short term credit (not including current maturities)	-	29,729	5,034	97,223	8,114	33,145	173,245
Suppliers	-	405	527	789	451	173	2,345
Creditors and credit balances	300	3,464	1,521	2,183	220	6,136	13,824
Loans from banks and from others including current maturities	8,686	262,083	58,727	36,406	19,703	-	385,605
Convertible debentures	35,553	-	-	-	-	-	35,553
	<u>44,539</u>	<u>295,681</u>	<u>65,809</u>	<u>136,601</u>	<u>28,488</u>	<u>39,454</u>	<u>610,572</u>

## NOTE 28:- LINKAGE TERMS OF MONETARY BALANCES (Cont.)

a. Consolidated balance sheet (Cont.)

	December 31, 2000					Total
	Linked to the CPI	Pound sterling or linked thereto	Belgian Franc/Eur o or linked thereto	Dollar or linked thereto	Unlinked	
Adjusted NIS in thousands						
<b>Assets</b>						
Cash and cash equivalents	-	58,855	5,123	17,676	1,821	83,475
Deposits (not including current maturities)	5,857	-	-	-	-	5,857
Deposit with a related company (including current maturity)	1,751	-	-	-	-	1,751
Customers	1,234	5,534	227	53	-	7,048
Debtors and debit balances	8,148	8	98	390	344	8,988
	<u>16,990</u>	<u>64,397</u>	<u>5,448</u>	<u>18,119</u>	<u>2,165</u>	<u>107,119</u>
<b>Liabilities</b>						
Short term credit (not including current maturities)	-	408	1,700	92,272	14,631	109,011
Suppliers	-	1,062	519	1,421	114	3,116
Creditors in relation to investment in securities	16,548	-	-	-	-	16,548
Creditors and credit balances	438	3,362	1,581	1,184	2,076	8,641
Loans from banks and from others including current maturities	12,378	268,538	50,663	-	-	331,579
Convertible debentures	50,672	-	-	-	-	50,672
	<u>80,036</u>	<u>273,370</u>	<u>54,463</u>	<u>94,877</u>	<u>16,821</u>	<u>519,567</u>

## NOTE 28:- LINKAGE TERMS OF MONETARY BALANCES

b. Company's balance sheet

	December 31, 2001						
	Linked to the CPI	Pound sterling or linked thereto	Belgian Franc/Eur o or linked thereto	Dollar or linked thereto	Canadian dollar or linked thereto	Unlinked	Total
	Adjusted NIS in thousands						
<b>Assets</b>							
Cash and cash equivalents	-	742	143	51	-	1,187	2,123
Deposits (not including current maturities)	2,383	-	-	-	-	-	2,383
Deposit with a related company (including current maturity)	1,339	-	-	-	-	-	1,339
Customers	5,456	-	-	-	-	-	5,456
Debtors and debit balances	5,582	-	-	-	-	1,024	6,606
	<u>14,760</u>	<u>742</u>	<u>143</u>	<u>51</u>	<u>-</u>	<u>2,211</u>	<u>17,907</u>
<b>Liabilities</b>							
Short term credit (not including current maturities)	-	29,729	5,034	97,223	8,114	33,145	173,245
Suppliers	-	-	-	-	-	173	173
Creditors and credit balances	553	-	-	-	-	6,895	7,448
Loans from banks and from others including current maturities	-	12,807	17,665	-	-	-	30,472
Convertible debentures	67,472	-	-	-	-	-	67,472
	<u>68,025</u>	<u>42,536</u>	<u>22,699</u>	<u>97,223</u>	<u>8,114</u>	<u>40,213</u>	<u>278,810</u>

## NOTE 28:- LINKAGE TERMS OF MONETARY BALANCES (Cont.)

	December 31, 2000					Total
	Linked to the CPI	Pound sterling or linked thereto	Belgian Franc/Eur o or linked thereto	Dollar or linked thereto	Unlinked	
	Adjusted NIS in thousands					
<b>Assets</b>						
Cash and cash equivalents	-	74	-	-	590	664
Deposits (not including current maturities)	5,857	-	-	-	-	5,857
Deposit with a related company including current maturity	1,751	-	-	-	-	1,751
Customers	962	-	-	-	-	962
Debtors and debit balances	7,418	-	-	-	10	7,428
	<u>15,988</u>	<u>74</u>	<u>-</u>	<u>-</u>	<u>600</u>	<u>16,662</u>
<b>Liabilities</b>						
Short term credit (not including current maturities)	-	408	1,700	92,272	14,631	109,011
Suppliers	-	-	-	-	114	114
Creditors in relation to investment in securities	16,548	-	-	-	-	16,548
Creditors and credit balances	722	-	-	-	2,028	2,750
Loans from banks and from others (including current maturities)	2,436	26,106	18,920	-	-	47,462
Convertible debentures	86,403	-	-	-	-	86,403
	<u>106,109</u>	<u>26,514</u>	<u>20,620</u>	<u>92,272</u>	<u>16,773</u>	<u>262,288</u>

**NOTE 29:- DETAILS ABOUT TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES**

- a.
- The balance of related parties is included under balances with related parties

	CONSOLIDATED		C O M P A N Y	
	December 31,		December 31,	
	2001	2000	2001	2000
	Adjusted NIS in thousands			
Deposit with a related party	1	1	1	1
Parent company's securities		9		2
Related parties current account in current liabilities				
Loans and capital notes to subsidiaries			264,6	242,9

- b.
- Income (expenses) in the reporting year

	CONSOLIDATED			COMPANY		
	Year ended December 31,			Year ended December 31,		
	2001	2000	1999	2001	2000	1999
	Adjusted NIS in thousands					
Income						
from interest	396	81	109	5,742	10,650	2,098
Directors fees	(178)	(303)	(243)	(178)	(303)	(243)
Number of directors	5	6	6	5	6	6
Salaries and related expenses to fully employed interested parties:						
Number of receivers	2	2	2	2	2	2
Amount	(3,959) **	(1,753) *	(1,212)	(3,959) **	(1,753) *	(1,212)
Lease expenses	(157)	(157)	(135)	(157)	(157)	(135)

\* Including an annual bonus in the amount of NIS 406 thousand.

\*\* Including compensation for canceling the option plan in the amount of NIS 2,864 thousand, see note 1b.

**NOTE 29:- DETAILS ABOUT TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES (Cont.)**c. Officeholders' insurance and liability compensation

- 1) The Company insured the officeholders' liability, in accordance with its regulations, within the Zur Shamir group which includes Zur Shamir Holdings Ltd. and Direct Insurance - Financial Investments Ltd. and their subsidiaries. The sum insured for each year in the period 1998 - 2000 is in the total amount of \$ 5 million, for the year 2001 - \$ 7.5 million and for the year 2002 - \$ 10 million for each case and for the period. In addition, the insurance includes a refund for legal expenses in Israel only for the years 1998 - 2001 in the amount of \$ 1 million for each year and for the year 2002 - \$ 2 million.
- 2) The Company issued letters of indemnity to all its directors and officeholders who have been or are in the Company's service since February 28, 1993, and who do not hold 25% or more of the Company's shares.

The letters of indemnity are in relation to any monetary liability, including litigation expenses, pursuant to a judgment, on condition that they acted bona fide and in the Company's favour.

**NOTE 30:- EARNINGS PER SHARE**

- a. Hereunder are the amounts of the net profit and the nominal value of the share capital which were taken into account for the purpose of calculating the net profit per share and the adjustments made to the figures in order to determine the profit in full dilution:

	Year ended December 31,					
	2001	2000	1999	2001	2000	1999
	Net profit			Weighted average share capital		
	Adjusted NIS in thousands					
Information used to determine the basic net profit per share	7,	7,	1,	56,2	48,9	48,1
Add - the effect of conversion of debentures (serial C)		1,	*		16,7	
Add - the effect of exercise of options (Serial 5)		*	*		*	
Number of shares and net diluted profit	<u>7,</u>	<u>9,</u>	<u>1,</u>	<u>56,2</u>	<u>65,6</u>	<u>48,1</u>

\* Not applicable this year.

- b. The examination of the probability of conversion of debentures and exercise of options, linked to the CPI in 2001 was calculated according to the interest rate of 5% and in the years 1999 and 2000 the calculation was according to the interest rate of 7% and 6%, respectively.

## NOTE 31:- CONDENSED FINANCIAL STATEMENTS IN TERMS OF NOMINAL VALUES

a. Balance sheets

	<b>December 31,</b>	
	<b>2001</b>	<b>2000</b>
	<b>Adjusted NIS in thousands</b>	
<b><u>Current assets</u></b>		
Cash and cash equivalents	2	
Deposits with financial institutions and others	2	6
Short term deposits	7	4
Customers	5	
Debtors and debit balances	13,	15,
	<u>31,</u>	<u>27,</u>
<b><u>Inventory of buildings for sale</u></b>	<u>9</u>	<u>11,</u>
<b><u>Investments and long term debit balances</u></b>		
In subsidiaries	263,4	220,6
In securities	24,	90,
Deposit in a related company		1
	<u>288,7</u>	<u>312,7</u>
<b><u>Fixed assets, net</u></b>	<u>61,</u>	<u>7</u>
<b><u>Other Assets, net</u></b>	<u>3</u>	<u>1</u>
	<u>394,6</u>	<u>361,7</u>
<b><u>Current liabilities</u></b>		
Short term credit from banking institutions	177,8	125,7
Suppliers and service providers		
Creditors in respect of investment in securities		16,
Creditors and credit balances	7	2
Current maturities of convertible debentures	9	10,
	<u>195,1</u>	<u>155,7</u>
<b><u>Long term liabilities</u></b>		
Convertible debentures	58,	75,
Liabilities to banking institutions	25,	28,
Deferred taxes		
Liability for severance pay, net		
	<u>84,</u>	<u>103,7</u>
<b><u>Shareholders' equity</u></b>	<u>115,1</u>	<u>102,1</u>
	<u>394,6</u>	<u>361,7</u>

## NOTE 31:- FINANCIAL STATEMENTS IN TERMS OF NOMINAL VALUES (Cont.)

b. Statements of profit and loss - Company

	<u>Year ended December 31,</u>		
	<u>2001</u>	<u>2000</u>	<u>1999</u>
	<u>Adjusted NIS in thousands</u>		
Income:			
From leasing of real estate	9	3	3
From construction business	4	28,	
From securities, net		1	2
	<u>13,</u>	<u>33,</u>	<u>5</u>
Costs and expenses:			
Maintenance of leased real estate	1	1	
From construction business	2	15,	
Selling and marketing		1	1
Administrative and general expenses	10,	6	3
Financing, net	<u>2</u>	<u>1</u>	<u>7</u>
	<u>17,</u>	<u>25,</u>	<u>13,</u>
Profit (loss) from ordinary activities	(4,0	8	(7,6
Capital gain (loss)			
Profit (loss) before income taxes	(4,0	8	(7,5
Income taxes (tax benefit)	<u>1</u>	<u>3</u>	<u>(2,6</u>
Profit (loss) after income taxes	(5,9	4	(4,9
Company's share in profits of subsidiaries, net	<u>11,</u>		<u>2</u>
Net profit (loss) for the year	<u><u>5</u></u>	<u><u>5</u></u>	<u><u>(1,9</u></u>

## NOTE 31:- FINANCIAL STATEMENTS IN TERMS OF NOMINAL VALUES (Cont.)

c. Statements of changes in shareholders' equity

	<u>Share capital</u>	<u>Receipts on account of options</u>	<u>Capital reserves</u>	<u>Surplus</u>	<u>Total</u>
	<u>Adjusted NIS in thousands</u>				
<b>Balance as of January 1, 1999</b>	47,3	10,147	15,3	23,3	97,3
Conversion of debentures		-	1		1
Adjustments due to translation of financial statements of foreign subsidiaries		-	(2,3		(2,3
Loss for the year		-		(1,9	(1,9
<b>Balance as of December 31, 1999</b>	48,3	10,147	14,3	21,3	95,3
Conversion of debentures		-			1
Adjustments due to translation of financial statements of foreign subsidiaries		-			
Net profit for the year		-		5	5
<b>Balance as of December 31, 2000</b>	48,3	10,147	15,3	27,3	102,3
Conversion of debentures	3	-	€		10,3
Exercise of options	8	(3,381)	17,3		22,3
Adjustments due to translation of financial statements of foreign subsidiaries		-			
Expired options		(6,766)	€		
Dividend paid		-		(18,00	(18,00
Distribution of parent company's shares to shareholders		-		(7,6	(7,6
Net profit for the year		-		5	5
<b>Balance as of December 31, 2001</b>	<u>60,3</u>	<u>-</u>	<u>47,3</u>	<u>7</u>	<u>115,1</u>

## List of Subsidiaries

## Rate of ownership and control by the holding company as of December 31, 2001:

Holding company	Name of the company	Rate of ownership %	Rate of control %
Adgar Investments and Development Ltd.	Adgar Nachalot Ltd.	100%	100%
	Adgar Capital Investments Ltd.	100%	100%
	Adgar Hatzafon Management and Services Ltd.	100%	100%
	Adgar International Holdings Ltd.	100%	100%
	Adgar Trust	100%	100%
Adgar Nachalot Ltd.	Adgar Nof Tivon Ltd.	74%	74%
Adgar International Holdings Ltd.	Adgar Investment and Development Belgium N.V.	100%	100%
Adgar Investment and Development Belgium N.V.	Antwerp Invest N.V.	100%	100%
	Mondriaan N.V.	100%	100%
	Adgar Properties N.V.	100%	100%
	Adgar UK N.V.	82.5%	82.5%
	Adgar Sutherland N.V.	90%	90%
	Adgar Building N.V.	100%	100%
	Adgar Jezusstreet N.V.	100%	100%
	Adgar Aartselaar N.V.	100%	100%
	Adgar Lemanstreet N.V.	75%	75%
	Adgar Plantin N.V.	100%	100%
	Adgar Investment and Development Poland N.V.	100%	100%
	Adgar Solar House N.V.	100%	100%
	Wingate Ltd.	100%	100%
Gilquest Ltd.	100%	100%	
Adgar Investment and Development Poland N.V.	Adgar Postepu S.P.Z.O.O.	100%	100%
Adgar Trust	AD-AM L.P	92.5%	92.5%

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