

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 20-F (Mark One)

- ☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
- OR**
- ☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2005
- OR**
- ☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____
- OR**
- ☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report _____

Commission file number 0-28996 _____

ELBIT MEDICAL IMAGING LTD.

(Exact Name of Registrant as specified in its charter)

ISRAEL

(Jurisdiction of incorporation or organization)

13 MOZES STREET, TEL-AVIV 67442, ISRAEL

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
NONE	NONE

Securities registered or to be registered pursuant to Section 12(g) of the Act:

ORDINARY SHARES, NIS 1.0 PAR VALUE PER SHARE

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **NONE**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 25,426,298 ordinary shares, NIS 1.0 par value per share

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. YES ☒ NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: YES ☒ NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 in the Exchange Act. (Check one).

Large Accelerated Filer ☐ Accelerated Filer ☒ Non-Accelerated Filer ☐

Indicate by check mark which financial statement item the registrant has elected to follow: **ITEM 17** **ITEM 18** ☒

If this is an annual report indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) YES NO ☒

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Currency Translation

For the reader's convenience, financial information for 2005 has been translated from various foreign currencies to the U.S. dollar (" \$" or U.S. dollar), as of December 31, 2005 in accordance with the following exchange rates:

Currency	December 31, 2005 \$
1 EURO	1.18
1 GBP	1.73
1 HUF	0.04
1 RAND	0.11
1 PLN	0.31

The dollar amounts reflected in these convenience translations should not be construed as representing amounts that actually can be received or paid in dollars or convertible into dollars (unless otherwise indicated), nor do such convenience translations mean that the NIS amounts (i) actually represent the corresponding dollar amounts stated, or (ii) could be converted into dollars at the assumed rate. The Federal Reserve Bank of New York does not certify for customs purposes a buying rate for cable transfers in NIS. Therefore all information about exchange rates is based on the Bank of Israel rates.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The following selected consolidated financial data of Elbit Medical Imaging Ltd. and its subsidiaries (together, "EMI," the "Company," "our Company," "we" or "us") are derived from our 2005 consolidated financial statements and are set forth below in table format. Our 2005 consolidated financial statements and notes included elsewhere in this report were prepared in accordance with Israeli generally accepted accounting principles ("GAAP"), and audited by Brightman Almagor & Co., a firm of certified public accountants in Israel and a member of Deloitte Touche Tohmatsu, except for certain subsidiaries and an associate which were audited by other auditors. Our selected consolidated financial data are presented in NIS. A convenience translation to U.S. dollars is presented for 2005 only.

Our consolidated financial statements have been prepared in accordance with Israeli GAAP, which differs in significant respects from U.S. GAAP. We have summarized principal differences relevant to us between Israeli GAAP and U.S. GAAP in Note 25 to our consolidated financial statements included in Item 18 of this Annual Report. You should read the information in the following tables in conjunction with "Operating and Financial Review and Prospects" and the consolidated financial statements and Notes to the consolidated financial statements included in Item 18 of this Annual Report.

Through December 31, 2003, our financial statements were prepared in adjusted values (in NIS of constant purchase power), on the basis of changes in the consumer price index ("Inflation" and "CPI"), in accordance with Israeli GAAP. On January 1, 2004, Accounting Standard No. 12 of the Israel Accounting Standards Board ("IASB") came into force and effect ("Standard 12"). In accordance with the provisions of Standard 12, adjustment of financial statements to the inflation shall cease commencing January 1, 2004, with adjusted amounts of non-monetary items which were included in the balance sheet as of December 31, 2003, used as basis for the nominal financial reporting as and from January 1, 2004. Amounts presented in the financial statements for periods commencing January 1, 2004 were, therefore, included in values to be hereinafter referred to as "Reported amounts".

CONSOLIDATED STATEMENTS OF OPERATIONS (in thousands, except share and per share amounts)

FOR THE YEAR ENDED DECEMBER 31

	2005 Reported	2005 Reported	2004 Reported	2003 Adjusted	2002 Adjusted	2001 Adjusted
	Convenience Translation \$'000					
	(In Thousand NIS)					
REVENUES						
Sale of real estate assets and investments, net	61,191	281,661	131,921	-	-	-
Commercial centers operations	31,057	142,957	311,893	347,056	279,776	132,212
Hotels operations and management	58,670	270,057	218,365	189,205	206,679	139,226
Sale of medical systems	16,449	75,713	44,049	-	-	-
Realization of investments	425	1,958	16,415	45,129	24,710	-
Other operational income	9,648	44,409	13,238	13,495	1,509	10,030
Other income	-	-	-	-	30,760	54,394
	<u>177,440</u>	<u>816,755</u>	<u>735,881</u>	<u>594,885</u>	<u>543,434</u>	<u>335,862</u>
COSTS OF EXPENSES						
Commercial centers operations	34,248	157,640	271,392	257,913	218,673	85,786
Hotels operations and management	56,331	259,293	207,152	188,672	205,635	133,652
Cost and expenses of medical systems operation	10,771	49,577	26,039	8,720	8,015	7,023
Other operational expenses	10,166	46,793	3,655	3,510	1,392	7,311
Research and development expenses, net	12,796	58,899	38,158	43,719	28,454	24,198
General and administrative expenses	8,025	36,939	43,627	42,144	44,070	42,839
Share in losses of associated companies, net	2,613	12,028	15,968	20,951	2,906	9,712
Financial expenses (income), net	26,574	122,321	53,569	211,821	5,440	(101,559)
Other expenses	12,406	57,106	51,428	10,477	45,965	20,317
	<u>173,930</u>	<u>800,596</u>	<u>710,988</u>	<u>787,927</u>	<u>560,551</u>	<u>229,279</u>
PROFIT (LOSS) BEFORE INCOME TAXES	3,511	16,159	24,893	(193,042)	(17,117)	106,583
Income taxes (tax benefits)	1,694	7,798	15,804	(20,217)	21,711	13,596
PROFIT (LOSS) AFTER INCOME TAXES	<u>1,816</u>	<u>8,361</u>	<u>9,089</u>	<u>(172,825)</u>	<u>(38,828)</u>	<u>92,987</u>
Minority-interest in results of subsidiaries, Net	15,922	73,287	27,448	48,671	24,490	(5,915)
PROFIT (LOSS) FROM CONTINUING OPERATIONS	<u>17,738</u>	<u>81,648</u>	<u>36,537</u>	<u>(124,154)</u>	<u>(14,338)</u>	<u>87,072</u>
Profit from discontinued operations, net	1,285	5,917	6,810	12,073	54,752	18,759
Cumulative effect of accounting change at the beginning of the year	<u>(135)</u>	<u>(622)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET INCOME (LOSS)	<u><u>18,888</u></u>	<u><u>86,943</u></u>	<u><u>43,347</u></u>	<u><u>(112,081)</u></u>	<u><u>40,414</u></u>	<u><u>105,831</u></u>
EARNINGS (LOSS) PER SHARE						
	(In NIS)					
From continuing operations	0.80	3.66	1.59	(5.56)	(0.64)	3.92
From discontinued operations	0.06	0.27	0.30	0.54	2.45	0.84
Cumulative effect of accounting change at the beginning of the year	<u>(0.01)</u>	<u>(0.03)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Basic earnings (loss) per share	<u>0.85</u>	<u>3.90</u>	<u>1.89</u>	<u>(5.02)</u>	<u>1.81</u>	<u>4.76</u>
Dividend declared per share	<u>2.69</u>	<u>12.39*</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

* We declared distribution of dividends twice during 2005, see "Item 4. Information on the Company – A. History and Development of the Company - Recent Developments" below.

INCOME STATEMENT DATA

AS PER U.S. GAAP (*):

	Convenience Translation	YEAR ENDED DECEMBER 31,				
		2005	2004	2003	2002	2001
		<u>Reported</u>	<u>Reported</u>	<u>Adjusted</u>	<u>Adjusted</u>	<u>Adjusted</u>
		\$'000	(In thousand NIS)			
A) NET INCOME (LOSS) AND COMPREHENSIVE INCOME:						
Net income (loss) according to U.S. GAAP	21,800	103,344	(92,446)	(19,251)	(27,747)	(21,112)
Total comprehensive income (loss) according to U.S. GAAP	26,816	123,429	(149,915)	35,545	143,360	16,373
Basic earning (loss) per ordinary share as per U.S. GAAP (NIS)	0.98	4.53	(4.02)	(0.86)	(1.24)	(0.94)
Diluted earning (loss) per ordinary share as per U.S. GAAP (NIS)	0.98	4.53	(4.02)	(0.86)	(1.35)	(0.96)
Weighted average of number of shares and share equivalents under U.S. GAAP (thousands)	22,154	22,154	23,025	22,337	22,337	22,224

(*) For further information as to the differences between Israeli and U.S. GAAP, as applicable to the Company's financial statements, see Note 25 to our consolidated financial statements, included in Item 18 below.

SELECTED BALANCE SHEET DATA (Including as per U.S. GAAP)

	DECEMBER 31					
	2005 Reported	2005 Reported	2004 Reported	2003 Adjusted	2002 Adjusted	2001 Adjusted
	Convenience Translation \$'000	(In Thousand NIS)				
Current Assets	188,058	865,632	736,339	577,687	1,006,237	1,132,194
Long term investments and receivables	25,839	118,937	185,393	218,407	453,839	477,052
Hotels, commercial centers and other fixed assets	599,275	2,758,465	3,527,988	4,629,675	4,090,936	2,858,129
Other assets and deferred expenses	6,621	30,476	55,859	85,798	73,024	60,596
Assets related to discontinued operations	2,739	12,607	14,700	16,228	111,984	199,360
Total	822,532	3,786,117	4,520,279	5,527,795	5,736,020	4,727,331
Current Liabilities	150,397	692,278	794,741	1,178,415	1,901,506	1,612,532
Long-term liabilities	413,294	1,902,391	2,418,897	2,841,326	2,176,301	1,446,923
Liabilities related to discontinued operations	13,563	62,430	71,986	82,802	110,007	253,854
Convertible debentures	13,514	62,159	-	-	-	-
Minority interest	2,487	11,449	430,687	471,606	486,670	497,257
Shareholders' equity	229,287	1,055,410	803,968	953,646	1,061,536	916,765
Total	822,532	3,786,117	4,520,279	5,527,795	5,736,020	4,727,331
Total assets according to U.S. GAAP	835,635	3,846,427	4,676,008	5,917,917	6,007,937	4,772,914
Total liabilities according to U.S. GAAP	608,633	2,801,532	3,905,673	4,891,985	5,040,903	3,955,945
Total shareholders equity according to U.S. GAAP	227,002	1,044,894	770,335	1,025,932	967,034	816,969

EXCHANGE RATES

The exchange rate between the NIS and U.S. dollar published by the Bank of Israel was NIS 4.518 to the dollar on May 31, 2006. The exchange rate has fluctuated during the six months period beginning December 2005 through May 2006 from a high of NIS 4.725 to the dollar to a low of NIS 4.428 to the dollar. The monthly high and low exchange rates between the NIS and the U.S. dollar during the six months period beginning December 2005 through May 2006, as published by the Bank of Israel, were as follows:

MONTH	HIGH 1 U.S. dollar =	LOW 1 U.S. dollar =
December 2005	4.662 NIS	4.579 NIS
January 2006	4.658 NIS	4.577 NIS
February 2006	4.725 NIS	4.664 NIS
March 2006	4.717 NIS	4.658 NIS
April 2006	4.671 NIS	4.503 NIS
May 2006	4.522 NIS	4.428 NIS

The average exchange rate between the NIS and U.S. dollar, using the average of the exchange rates on the last day of each month during the period, for each of the five most recent fiscal years was as follows:

PERIOD	EXCHANGE RATE
January 1, 2001 - December 31, 2001	4.219 NIS/\$1
January 1, 2002 - December 31, 2002	4.738 NIS/\$1
January 1, 2003 - December 31, 2003	4.544 NIS/\$1
January 1, 2004 - December 31, 2004	4.483 NIS/\$1
January 1, 2005 - December 31, 2005	4.488 NIS/\$1

FORWARD LOOKING STATEMENTS

This annual report on Form 20-F contains "forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "1934 Act") (collectively, the "Safe Harbor Provisions"). Forward-looking statements are typically identified by the words "believe," "expect," "intend," "estimate" and similar expressions. Such statements appear in this annual report and include statements regarding the intent, belief or current expectation of EMI or its directors or officers. Actual results may differ materially from those projected, expressed or implied in the forward-looking statements as a result of various factors including, without limitation, the factors set forth below under the caption "Risk Factors" (we refer to these factors as "Cautionary Statements"). Any forward-looking statements contained in this annual report speak only as of the date hereof, and we caution potential investors not to place undue reliance on such statements. We undertake no obligation to update or revise any forward-looking statements. All subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the Cautionary Statements.

B. CAPITALIZATION AND INDEBTEDNESS

Not Applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not Applicable.

D. RISK FACTORS

We have made some statements in this annual report about our future activities that may or may not come true. Factors, over which we have no or limited control, may affect our actual performance and results of operations and may cause them to be different from what we present to you in this Annual Report.

Our statements in this annual report are accurate to the best of our knowledge and belief as of the date of this document is filed with the SEC. We take no responsibility to publicly update or revise such statements.

During 2005, our activities were divided into five principal fields: (i) initiation, construction, operation, management and sale of shopping and entertainment centers in Israel and in Central and Eastern Europe; (ii) ownership, operation, management, and sale of hotels in major European cities; (iii) long term lease of real estate property, (iv) investments in the research and development, production and marketing of magnetic resonance imaging guided focused ultrasound treatment equipment, through InSightec Ltd. ("InSightec"); (v) other activities which consist of the distribution and marketing of women's fashion and accessories through our wholly-owned Israeli subsidiary, Mango Israel Clothing and Footwear Ltd. ("Mango") and venture-capital investments. In December 2005 we sold all of our holdings in the company holding one of our hotel in London (referred to in clause (iii) above) which is subject to a long term lease agreement.

The following is a list of the material risk factors that affect our business and our results of operation. We cannot predict nor can we assess the impact, if any, of such risk factors on our business or the extent which any factor, or a combination of factors, may cause actual results to differ materially from those projected in any forward looking statement.

RISKS RELATING TO THE SHOPPING AND ENTERTAINMENT CENTERS BUSINESS

Suitable locations are critical to the success of a shopping and entertainment center.

The choice of suitable locations for the development of shopping and entertainment center projects is an important factor in the success of the individual projects. Ideally, these sites should be located: (i) within the city center, with well-developed transportation infrastructure (road and rail) located in close proximity to facilitate customer access; and (ii) within local areas with sufficient population to support the centers. If we are not able to find sites in the target cities which meet these criteria, either at all or at viable prices, this may materially adversely affect our business and results of operation.

Historically, most of the centers developed by us have been in Budapest and other locations in Hungary. We do not currently believe that there are additional suitable locations for the development of shopping and entertainment centers in Hungary beyond those currently under development that satisfy our investment criteria. Therefore, our future success will depend in large part on our ability to identify locations and develop centers in other countries where we may have less experience and less market knowledge than in Hungary. As a result, we may not be as successful in the identification and development of future projects as we have been historically in Hungary.

Zoning restriction and local opposition can delay or preclude construction of a center.

Sites which meet our criteria must be zoned for commercial activities of the type contained in shopping and entertainment centers. In instances where the existing zoning is not suitable or in which the zoning has yet to be determined, we will apply for the required zoning classifications. This procedure may be protracted, particularly in countries where the bureaucracy is cumbersome and inefficient, and we cannot be certain that the process of obtaining proper zoning will be completed with sufficient speed to enable the centers to open ahead of the competition or at all. Opposition by local residents to zoning and/or building permit applications may also cause considerable delays. Certain of our site acquisitions are conditioned upon the grant of a building permit. In addition, arbitrary changes to applicable zoning may jeopardize projects that have already commenced. For example, a ministerial decision was issued in Greece which changed the land use of certain property owned by our Greek subsidiary and as a result thereof a shopping and entertainment center may not be built on such land. See “Item 4. Information on the Company – B. Business Overview – Shopping and Entertainment Centers – Other Real Estate Properties” below. Therefore, if we cannot receive zoning approvals or if the procedures for the receipt of such zoning approvals are delayed, our cost will increase which will have an adverse affect on our business.

We depend on contractors and subcontractors to construct our centers.

We rely on subcontractors for all of our construction and development activities. If we cannot enter into subcontracting arrangements on terms acceptable to us or at all, we will incur additional costs which will have an adverse affect on our business. The competition for the services of quality contractors and subcontractors may cause delays in construction, thus exposing us to a loss of our competitive advantage. Subcontracting arrangements may be on less favorable terms than would otherwise be available, which may result in increased development and construction costs. By relying on subcontractors, we become subject to a number of risks relating to these entities, such as quality of performance, varied work ethics, performance delays, construction defects and the financial stability of the subcontractors. A shortage of workers would have a detrimental effect on us and our subcontractors and, as a result, on our ability to conclude the construction phase on time and within budget. We generally require our subcontractors to provide bank guarantees in our favor to financially secure their performance. In the event the subcontractor fails to perform, the bank guarantees provide for a monetary payment to us. The guarantees do not, however, obligate the subcontractors to complete the project and may not adequately cover our costs of completing the project or our lost profits during the period while alternative means of completing the project are sought.

Delays in the completion of construction projects could affect our success.

An important element in the success of our shopping and entertainment center projects is the short construction time (generally 12 to 18 months from the receipt of building permits, depending on the size of the project), and our ability to open the centers ahead of our competition, particularly in cities which do not have shopping and entertainment centers of the type constructed by us.

This makes us subject to a number of risks relating to these activities, including:

- ❖ delays in obtaining zoning and other approvals;
- ❖ the unavailability of materials and labor;
- ❖ the abilities of sub-contractors to complete work competently and on schedule;
- ❖ the surface and subsurface condition of the land underlying the project;
- ❖ environmental uncertainties;
- ❖ extraordinary circumstances or “acts of god”; and
- ❖ ordinary risks of construction that may hinder or delay the successful completion of a particular project.

In addition, under our development contracts with local municipalities, we have deadlines for most of our projects (subject to limited exceptions). If construction of a project does not proceed in accordance with our schedule, we may in some

instances be required to pay penalties to the vendor (usually local municipalities) based on the extent of the delay and in isolated instances to forfeit rights in the land. The failure to complete a particular project on schedule or on budget may have a material adverse effect on our business, prospects, results of operations or financial condition.

We are dependent on attracting third parties to enter into lease agreements.

We are dependent on our ability to enter into new leases on favorable terms in order to receive a profitable price for each shopping and entertainment center. We may find it more difficult to engage third parties enter into leases during periods when market rents are increasing, or when general consumer activity is decreasing. We seek agreements in principle with anchor tenants (such as the operators of cinemas, supermarkets, department stores and electrical appliances stores), either generally or on a property-by property basis, prior to entering into a formal lease. The termination of a lease by any anchor tenant may adversely affect the relevant specific shopping and entertainment center and the price obtainable for it. The failure of an anchor tenant to abide by these agreements may cause delays, or result in a decline in rental income (temporary or long term), the effect of which we may not be able to offset due to difficulties in finding a suitable replacement tenant.

Our results of operations may be affected by retail climates and tenant bankruptcies.

Bankruptcy filings by retailers are normal in the course of our operations. We are continually re-leasing vacant spaces arising out of tenant terminations. Pressures that affect consumer confidence, job growth, energy costs and income gains can affect retail sales growth, and a continuing soft economic cycle may impact our ability to find new tenants for property vacancies that result from store closings or bankruptcies.

General economic conditions in a region will affect our tenants.

If an economic recession occurs, the demand and rents for neighborhood and community shopping and entertainment centers could decline and adversely affect our financial condition and results of operations. Our financial condition and results of operations could also be adversely affected if our tenants are unable to make lease payments or fail to renew their leases as a result of declining consumer spending.

We are dependent on the presence of anchor tenants.

We rely on the presence of “anchor” tenants in our entertainment and commercial centers. Anchor stores in entertainment and commercial centers play an important part in generating customer traffic and making a center a desirable location for other tenants. The failure of an anchor store to renew its lease, the termination of an anchor store’s lease, or the bankruptcy or economic decline of an anchor tenant can have a material adverse effect on the economic performance of the centers. There can be no assurance that if the anchor stores were to close or fail to renew their leases, we would be able to replace such anchor stores in a timely manner or that we could do so without incurring material additional costs and adverse economic effects. The expiration of an anchor lease at an entertainment and commercial center may make refinancing of such center difficult.

Competition is becoming more rapid in the certain Eastern European countries.

The shopping and entertainment centers business in Eastern Europe is rapidly becoming more competitive, with a number of developers (particularly from Germany and France) becoming active in our target areas. The shopping and entertainment centers concept we promote is gaining increasing popularity due to its potentially high yields. Developers compete not only for patrons, but also for desirable properties, financing, raw materials, qualified contractors, experienced system consultants, expert marketing agents and skilled labor. The public bidding process (the process through which we often acquire new properties) is subject to intense competition and some of our competitors have longer operating histories and greater resources than us, all of which may limit our ability to obtain such projects. There can be no assurance that we will be successful in winning projects that we bid for or which are awarded pursuant to fixed price tenders or that we will otherwise continue to be successful in competing in Eastern Europe.

RISKS RELATING TO THE HOTEL BUSINESS

The hotels industry may be affected by economic conditions, oversupply, travel patterns, weather and other conditions beyond our control which may adversely affect our business and results of operations.

The hotels industry may be adversely affected by changes in national or local economic conditions and other local market conditions. Our hotels generally, and in particular, in London, Amsterdam and Budapest, may be subject to the risk of oversupply of hotel rooms. Other general risks that may affect our hotels business are changes in travel patterns, extreme weather conditions, changes in governmental regulations which influence or determine wages, workers’ union activities, increases in land acquisition prices or construction costs, changes in interest rates, the availability of financing for operating or capital needs, and changes in real estate tax rates and other current operating expenses. Unforeseen events, such as terrorist attacks, outbreaks of epidemics and economic recessions have had and may continue to have an adverse effect on local and international travel patterns and, as a result, on occupancy rates and prices in our hotels. Downturns or prolonged adverse

conditions in the real estate or capital markets or in national or local economies and difficulties in securing financing for the development of hotels could have a material adverse effect on our business, results of operations, ability to develop new projects and the attainment of our strategic goals.

Competition in the hotels industry could have a material adverse effect on our business and results of operations.

The hotels business is highly competitive. This is particularly the case in those areas where there is an over supply of rooms, such as in London, Amsterdam and Budapest. Competitive factors within the industry include:

- convenience of location and accessibility to business centers;
- room rates;
- quality of accommodations;
- name recognition;
- quality and nature of service and guest facilities provided;
- reputation;
- convenience and ease of reservation systems; and
- the supply and availability of alternative lodging.

We operate, and intend to develop or acquire, most of our hotels in geographic locations where other hotels are or may be located. We expect to compete for guests and development sites with national chains, large franchisees and independent operators. Many of these competitors have greater financial resources and better brand name recognition than we do, and may have more established relationships with prospective franchisers, representatives in the construction industry and other parties engaged in the lodging industry. The number of competitive lodging facilities in a particular area could have a material adverse effect on our hotel occupancy and rates and, therefore, revenues of our hotels. We believe that competition within the lodging market may increase in the foreseeable future in particular in our hotels located in Eastern Europe. New or existing competitors may significantly reduce their rates or offer greater convenience, services or amenities or significantly expand or improve hotels in the markets in which we currently or may subsequently compete, thereby materially adversely affecting our business and results of operations.

Acquiring, developing and renovating hotels involves substantial risks, and we cannot be certain of the success of any future projects.

Part of our strategy is to develop new hotels and to acquire and redevelop old or under-performing hotels. Acquiring, developing and renovating hotels involves substantial risks, including:

- costs exceeding budget or amounts agreed to with contractors, because of several factors, including delays in completion of construction;
- competition for acquisition of suitable development sites from competitors, who may have greater financial resources;
- the failure to obtain zoning and construction permits;
- unavailability of financing on favorable terms, if at all;
- the failure of hotels to earn profits sufficient to service debt incurred in construction or renovation, or at all;
- the failure to comply with labor and workers' union legal requirements;
- relationships with and quality and timely performance by contractors; and
- compliance with changes in governmental rules, regulations, planning and interpretations.

As of May 31, 2006, we were involved in the following construction hotel projects: (i) we commenced the renovation and the refurbishment of the Bucuresti Hotel in Bucharest, Romania; and (ii) we commenced the internal renovation of the Ballet Institute Building in Budapest, Hungary. We cannot be certain that present or future development or renovation will be successful. If we are not successful in future projects, it will have a material adverse affect on our business. For successful growth, we must be able to develop or acquire hotels on attractive terms and integrate the new or acquired hotels into our existing operations. For acquired hotels, we must consolidate management, operations, systems, personnel and procedures, which may not be immediately possible due to collective labor agreements or other legal or operational obstacles. Any substantial delays or unexpected costs in this integration process could materially affect our business, financial condition or results of operations. We cannot be certain that our newly acquired hotels will perform as we expect or that we will be able to realize projected cost savings.

Continuous delays with respect to renovations of the physical environment approximate to the Astrid Park Plaza Hotel in Belgium may continue to have an adverse effect on its operations.

The Municipality of Antwerp is engaged in extensive construction in the Astridplein, located directly opposite the Astrid Park Plaza Hotel since 2000. The construction is intended to prepare the square to accommodate the increased traffic which will result once the TGV services to the railway station located adjacent to the square become operational. The completion of this construction has been delayed several times, and has caused and continues to cause obstructions to access to the hotel. In the past, this had an adverse effect on the occupancy rate at our hotel and on the performance of the Aquatopia attraction located within the hotel. The continuation of the construction, the permanent changes to the traffic flow around the hotel and the less convenient access for the hotel's patrons may have an adverse effect on our results of operations.

We depend on partners in our joint ventures and collaborative arrangements.

We own interests in seven operational hotels and are developing two additional hotels, in partnership with other entities, including in particular, the Red Sea Group of companies ("Red Sea") (for information regarding our partnership with Red Sea, see "Item 4. Information on the Company – B. Business Overview – Hotels" below). Red Sea is engaged in the initiation and development of residential and commercial real estate projects in Israel and in the operation of chain of hotels and income producing real estate abroad. We may in the future enter into joint ventures or other collaborative arrangements. Our investments in these joint ventures, including in particular our numerous partnerships with Red Sea, may, under certain circumstances, be subject to (i) the risk that one of our partners may become bankrupt or insolvent, which may cause us to be unable to fulfill our financial obligations, may trigger a default under our bank financing agreements or, in the event of a liquidation, may prevent us from managing or administering our business; (ii) the risk that one of our partners may have economic or other interests or goals that are inconsistent with our interests and goals, and that such partner may be in a position to veto actions which may be in our best interests; and (iii) the possibility that disputes may arise regarding the continued operational requirements of our hotels that are jointly owned.

We rely on management agreements with Park Plaza which may not provide the intended benefits, and may be terminated.

All of the operating hotels in which we have an interest (other than the Centreville Apartment hotel in Bucharest) are either directly or indirectly operated under long-term management agreements with Park Plaza Hotels Europe Ltd. ("Park Plaza"). Park Plaza is the franchisee for certain territories under territorial license and franchise agreements with Golden Wall Investment Ltd., which entitles Park Plaza to use the "Park Plaza" tradename. Any significant decline in the reputation of Park Plaza or in its ability to ensure the performance of our hotels at anticipated levels could adversely affect our results of operations. If for any reason Park Plaza loses its principal franchise, we will automatically lose our ability to use the Park Plaza name and other benefits, in which case we may suffer in the areas of brand name recognition, marketing, and centralized reservations systems provided by Park Plaza, which, in turn, could materially affect our operations. If our agreement with Park Plaza is terminated, we would not be certain that we would be able to obtain alternative management services of the same standard on similar or better terms.

Our agreements with Park Plaza and the Rezidor group impose obligations on us that may force us to incur significant costs.

Our agreements with Park Plaza (for the management of the operational hotels) and the Rezidor group (for the future management of two hotels, which are currently under construction and/or renovation: the National Ballet Building in Hungary, which is intended to be operated under the "Regent" brand name, and the Bucuresti hotel in Bucharest, which is intended to be operated under the brand name "Radisson SAS") contain specific standards for, and restrictions and limitations on, hotel operation and maintenance. These standards, restrictions and limitations may conflict with our priorities, and impose capital demands upon us. In addition, Park Plaza and the Rezidor group may alter their standards or hinder our ability to improve or modify our hotels. In order to comply with their requirements, or alternatively, to change a franchise affiliation for a particular hotel and disassociate ourselves from any of the "Park Plaza", "Regent" or "Radisson" tradenames, we may be forced to incur significant costs or make capital improvements.

The value of our investment in our hotel properties is subject to various risks related to ownership and operation of real property.

Our investment in hotel properties is subject to varying degrees of risk related to the ownership and operation of real property. The intrinsic value of our hotels and income from the hotels may be materially adversely affected by:

- changes in global and national economic conditions, including global or national recession;
- a general or local slowdown in the real property, market which may make it difficult to sell a property;
- political events that may have a material adverse effect on the hotel industry;
- competition from other lodging facilities, and oversupply of hotel rooms in a specific location;
- material changes in operating expenses, including as a result of changes in real property tax

- systems or rates;
- changes in the availability, cost and terms of financing;
- the effect of present or future environmental laws;
- our ongoing need for capital improvements and refurbishments; and
- material changes in governmental rules and policies.

Our ownership rights in the Bucuresti Hotel have been challenged.

Since we acquired a controlling interest in the Bucuresti Hotel complex in Bucharest, Romania (which includes the Bucuresti Hotel and the Centerville apartment hotel), we have encountered a number of attempts to challenge both the validity of the acquisition of the complex and our control over the company owning the rights to the hotel. To date, two claims have been filed challenging our ownership in the Bucuresti Hotel Complex both of which are currently pending in the Bucuresti court of appeal (See “Item 8. Financial Information - Legal Proceedings” below). In addition, another appeal to the Romanian Supreme Court was filed requesting to nullify the public tender for the sale of Bucuresti shares, the privatization contract and the transfer of the Bucuresti shares to our Company, Domino. We anticipate, based on our legal counsel’s advice, that the appeal will be rejected by the Supreme Court. Nevertheless, if any of the above appeals will be accepted, our results of operation will be materially adversely affected

RISKS RELATING TO BOTH THE SHOPPING AND ENTERTAINMENT CENTERS BUSINESS AND TO THE HOTEL BUSINESS

The failure to comply with government regulation may adversely affect our business and results of operations

Both the shopping and entertainment centers business and the hotel industry are subject to numerous national and local government regulations, including those relating to building and zoning requirements and fire safety control. In addition, we are subject to laws governing our relationships with employees, including minimum wage requirements, overtime, working conditions, and work permit requirements, and in some localities to collective labor agreements. A determination that we are not in compliance with these regulations could result in the imposition of fines, an award of damages to private litigants and significant expenses in bringing our shopping and entertainment centers and hotels into compliance with the regulations. In addition, our ability to dismiss unneeded staff may be hampered by local labor laws and courts which traditionally favor employees in disputes with former employers, particularly in countries with strong socialist histories such as those in Eastern Europe.

We may be held liable for design or construction defects of third-party contractors.

We rely on the quality and timely performance of construction activities by third-party contractors. Claims may be asserted against us by local government and zoning authorities or by third parties for personal injury and design or construction defects. These claims may not be covered by the professional liability insurance of the contractors or of the architects and consultants. These claims may give rise to significant liabilities.

We may be affected by shortages in raw materials and employees.

The building industry may from time to time experience fluctuating prices and shortages in the supply of raw materials as well as shortages of labor and other materials. The inability to obtain sufficient amounts of raw materials and to retain efficient employees on terms acceptable to us may result in delay in the construction of the project and increase in the budget of the project and, consequently may have a material adverse effect on the results of our operations.

We may experience fluctuations in our annual and quarterly results as a result of our opening new centers, entering into new businesses and disposing of other centers, hotels or other businesses.

We periodically review our business to identify properties or other assets that we believe either no longer complement our business, or could be sold at significant premiums. We are focused on restructuring and enhancing real estate returns and monetizing investments and from time to time, attempt to sell these identified properties and assets. There can be no assurance, however, that we will be able to complete dispositions on commercially reasonable terms or at all. We also periodically review our business to identify opportunities for the acquisition or development of new centers and/or hotels. There can be no assurance that we will be able to develop or acquire centers and/or hotels that will become successful. As a result of our disposition and acquisition or development of centers, we may experience significant fluctuations in our annual and quarterly results. As a result, we believe that period-to-period comparisons of our historical results of operations may not necessarily be meaningful and that investors should not rely on them as an indication for future performance.

Factors that affect the value of our real-estate assets and our investments may adversely change and therefore we will need to charge an impairment loss not previously recorded.

Certain specific circumstances may affect the fair value of our real estate assets (operating or under construction) and investments. An impairment loss not previously recorded may be required and/or depreciation may be accelerated, upon the occurrence of one or more of the following circumstances:

- (i) Absence of or modifications to permits or approvals. A construction permit may be revoked as a result of unauthorized delays in commencing construction; a construction permit may be cancelled altogether under certain circumstances, such as where the use of land does not correspond to the permitted usage; a need for a revised construction permit arises by reasons of governmental or other instructions to carry out modifications to our original architectural plans so as to comply, among other things, with environmental and traffic impact plan or obtain archeological clearance; new laws and regulations are enacted which limit the use of our land for structures other than centers or hotels; voluntary modifications to original plans where we encounter opportunities to substantially upgrade our project by acquisitions of adjacent land plots or expansion of original project or otherwise, may trigger the need for a revision to or modification of the issued construction permit if the permit becomes inapplicable; a revised construction permit may be required where changes occur to zoning plans which indirectly affect our proposed commercial center; a new, revised permit, when required, may nevertheless be denied for reasons beyond our control or following our failure to fulfill preconditions or otherwise;
- (ii) Strategy in respect of long term lease commitments. In commercial centers, where a significant part of the rental areas is subject to long term leases with a small group of retailers which is distinguished (from other lessees) by a direct correlation between the rental fees paid by such retailer and the revenues from their respective rental areas, we may be exposed to a risk of rental fees rates being significantly lower than originally anticipated. A material decline in the long run in the business operations of such retailers may therefore, have an adverse affect on the results of operations of these commercial centers as well as on their recoverable amount. Other commercial centers, the rental areas of which have not been fully rented or which we have designated for an interim period as free of charge public areas, may be required to alter their original designation of use so as to serve, in the best optimal manner, our strategy for the center. Should these areas remain vacant or public, for a period longer than originally anticipated, our long-term cash flows may be negatively impacted and, as a result, it may decrease the value of the center;
- (iii) External Interruptions. Circumstances having significant impact on our real estate may include extensive and continuous infrastructure works carried out by municipalities or other legal authorities. Delays in completion of such works, beyond the anticipated target, may cause harm and damages to the results of operations of the real estate; and
- (iv) Legal Issues and Other Uncertainties. Lawsuits that are pending, whether or not we are a party thereto, may have a significant impact on our real estate assets and/or on certain of our shareholding rights in the companies owning such assets. Certain laws and regulations, applicable to our business in certain countries where the legislation process undergoes constant changes, may be subject to frequent and substantially different interpretations; agreements which may be interpreted by governmental authorities so as to shorten term of use of real estate, and which may be accompanied with a demand to demolish the construction thereon erected, be that with or without compensation, may significantly affect the value of such real estate asset.

Since market conditions and other parameters (such as macroeconomic environment trends, and others), which affect the fair value of our real-estate and investment, vary from time to time, the fair value may not be adequate on a date other than the date the measurement was executed (immediately prior to the balance sheet date). In the event the projected forecasts regarding the future cash flows generated by those assets are not met, we may have to record an additional impairment loss not previously recorded.

RISKS RELATING TO THE IMAGE GUIDED TREATMENT BUSINESS

InSightec is currently dependent on sales of the ExAblate 2000 for the treatment of uterine fibroids for virtually all of its revenue.

The ExAblate 2000 is in an early stage of commercialization. InSightec received FDA approval in October 2004 to market the ExAblate 2000 in the United States only for the treatment of uterine fibroids. InSightec expects sales of the ExAblate 2000 for this application to account for virtually all of its revenues for the foreseeable future, depending upon the timing of regulatory approval of additional applications for the ExAblate 2000. As a result, factors adversely affecting InSightec's ability to sell, or pricing of or demand for, InSightec's product for this application would have a material adverse effect on its financial condition and results of operations, which would in turn adversely affect the Company's results of operations.

If the ExAblate 2000 does not achieve broad market acceptance for the treatment of uterine fibroids, InSightec will not be able to generate sufficient sales to support its business.

InSightec must achieve broad market acceptance of the ExAblate 2000 for the treatment of uterine fibroids among physicians, patients and third party payors in order to generate a sufficient amount of sales to support its business. Physicians will not recommend the use of the ExAblate 2000 unless InSightec can demonstrate that it produces results comparable or superior to existing treatments for uterine fibroids. If long-term patient studies do not support InSightec's existing clinical results, or if they indicate that the use of the ExAblate 2000 has negative side effects on patients, physicians may not adopt or continue to use the ExAblate 2000. Even if InSightec demonstrates the effectiveness of the ExAblate 2000, physicians may still not use the system for a number of other reasons. Physicians may continue to recommend traditional uterine fibroid treatment options simply because those methods are already widely accepted and are based on established technologies. Patients may also be reluctant to undergo new, less established treatments for uterine fibroids. If, due to any of these factors, the ExAblate 2000 does not receive broad market acceptance among physicians or patients, InSightec will not generate significant sales. In this event, InSightec's business, financial condition and results of operations would be seriously harmed, and InSightec's ability to develop additional treatment applications for the ExAblate 2000 would be adversely affected.

If physicians, hospitals and other healthcare providers are unable to obtain coverage and sufficient reimbursement from third party healthcare payors for treatment procedures using the ExAblate 2000, InSightec may be unable to generate sufficient sales to support its business.

Demand for the ExAblate 2000 is likely to depend substantially on the extent to which sufficient reimbursement for treatment procedures using InSightec's system will be available from third party payors such as private health insurance plans and health maintenance organizations and, to a lesser degree, government payor programs such as Medicare and Medicaid. In the United States, the assignment of a Current Procedural Terminology, or CPT, code is generally necessary to facilitate claims for reimbursement. In July 2004, two CPT III codes were implemented allowing to track the use of the ExAblate 2000 system to treat uterine fibroids. However, the assignment of these codes does not require third party payors to provide reimbursement for procedures performed with the ExAblate 2000. InSightec believes that third party payors will not provide reimbursement on a national basis for treatments using the ExAblate 2000 unless InSightec can generate a sufficient amount of data through long-term patient studies to demonstrate that such treatments produce favorable results in a cost-effective manner relative to other treatments. Furthermore, InSightec could be adversely affected by changes in reimbursement policies of private healthcare or governmental payors to the extent any such changes affect reimbursement for treatment procedures using the ExAblate 2000. If physicians, hospitals and other healthcare providers are unable to obtain sufficient coverage and reimbursement from third-party payors for treatment procedures using the ExAblate 2000, InSightec may be unable to generate sufficient sales to support its business.

InSightec's success in non-U.S. markets also depends on treatment procedures using the ExAblate 2000 being eligible for reimbursement through government-sponsored healthcare payment systems, private third-party payors and labor unions. Reimbursement practices vary significantly from country to country and within some countries, by region. Many non-U.S. markets have government-managed healthcare systems that control reimbursement for new products and procedures. Other non-U.S. markets have private insurance systems, labor union-sponsored programs and government-managed systems that control reimbursement for new products and procedures. To date, only one third party payor, a health maintenance organization in Israel, has approved reimbursement coverage for treatments using the ExAblate 2000. We cannot assure you that such coverage will be approved by additional payors in other markets in a timely manner, if at all, thereby materially adversely affecting our results our operation. In the event that InSightec is unable to timely obtain acceptable levels of reimbursement coverage in its targeted markets outside of the United States, InSightec's ability to generate sales may be adversely affected.

InSightec's future growth substantially depends on its ability to develop and obtain regulatory clearance for additional treatment applications for the ExAblate 2000.

Currently, InSightec has received regulatory approvals to market the ExAblate 2000 in the United States, Israel, Russia, Taiwan, Australia, Singapore and the European Union Economic Area, or EEA, which is comprised of the member

nations of the European Union and certain additional European nations, solely for the treatment of uterine fibroids. InSightec's objective is to expand the use of the ExAblate 2000 by developing and introducing new treatment applications. InSightec is currently in various stages of product development and clinical studies for a number of new treatment applications for the ExAblate 2000. It will be required to obtain FDA approval in the United States and other regulatory approvals outside of the United States before marketing the ExAblate 2000 for these additional treatment applications. Furthermore, InSightec cannot guarantee that InSightec's product development activities for these other applications will be successful and in such event, InSightec's future growth will be harmed. In particular, InSightec's future oncology treatment applications are subject to significant risks since these applications must be able to demonstrate complete ablation of malignant tumors. If InSightec is unable to demonstrate this degree of efficacy, its future oncology treatment applications may not prove to be successful. In addition, assuming product development is successful, the regulatory processes can be lengthy, lasting many years in some cases, and expensive. We cannot assure you that FDA approval or other regulatory approvals will be granted.

In order to obtain FDA clearance and other regulatory approvals, and to obtain reimbursement coverage for use of the ExAblate 2000 treatment for additional applications, InSightec is required to conduct clinical studies to demonstrate the therapeutic benefits and cost-effectiveness of these new treatment applications and products. Clinical trials are expensive and may take several years to complete. If future clinical trials indicate that the ExAblate 2000 is not as beneficial or cost-effective as existing treatment methods, or that such products cause unexpected complications or other unforeseen adverse events, InSightec may not obtain regulatory clearance to market and sell the ExAblate 2000 for these additional treatment applications or obtain reimbursement coverage, and InSightec's long-term growth would be seriously harmed.

The product development and regulatory approval process for each of InSightec's future applications is subject to a number of application-specific risks and uncertainties. For example, the life expectancy from existing surgical treatment options for breast cancer is long and the survival rate is relatively high. As a result, InSightec will have to conduct extensive clinical trials which may include several thousand participants and extend over several years of follow-up. This may delay the commercial introduction of InSightec's applications by several years. In addition, InSightec is still in the process of developing and improving clinical prototypes for its liver, bone metastatic tumors, prostate and brain treatment applications. If it is unable to surmount these challenges, as well as the challenges relating to its other future applications, its business and results of operations may be adversely affected.

InSightec is dependent on General Electric.

The ExAblate 2000 is compatible only with certain of GE Healthcare, a division of the General Electric Company ("GE") Healthcare's Magnetic Resonance Imaging (MRI) systems, which may limit InSightec's potential market. A significant portion of the MRI systems in use in the United States and elsewhere are not GE MRI systems. InSightec estimates that there are over 2,400 GE MRI systems in the United States that are compatible with the ExAblate 2000 and InSightec estimates that there are a similar number of such GE MRI systems outside of the United States. InSightec has no current plans to develop a system that would be compatible with MRI systems manufactured by companies other than GE and is, therefore, limited in its target market to potential customers who already own or otherwise have access to a compatible GE MRI system, or are willing to purchase such a system in order to use the ExAblate 2000. In addition, in the event that GE is unable to effectively market its MRI systems, InSightec's ability to generate additional sales of the ExAblate 2000 may be adversely affected.

InSightec depends on its collaboration with GE to ensure the compatibility of the ExAblate 2000 with new models of GE MRI systems and upgrades to existing GE MRI systems. GE regularly develops new models of its MRI systems, as well as new capabilities for its existing MRI systems, which could affect their compatibility with the ExAblate 2000. If InSightec is unable to receive information regarding new models of the GE MRI systems or upgrades to existing GE MRI systems, and coordinate corresponding upgrades to the ExAblate 2000 to ensure continued compatibility with new and existing GE MRI systems, its ability to generate sales of its system will be adversely affected. In addition, If InSightec is unable to coordinate new applications or upgrades with GE's research and development team, it may be unable to develop such applications or upgrades in a timely manner and its future revenue growth may be seriously harmed.

In addition, InSightec entered into a five year exclusive worldwide (excluding Japan and Russia) sales and marketing agreement with GE with respect to the ExAblate 2000. Although the agreement does not prohibit InSightec from marketing and selling the ExAblate 2000 directly, InSightec expects that a substantial portion of its sales of the ExAblate 2000 will be developed through this agreement with GE. Since InSightec has no direct control over GE's sales and marketing personnel, InSightec must rely on incentives provided by GE to its personnel to encourage effective marketing of the ExAblate 2000, as well as contractual provisions contained in the agreement. In addition, GE has a right of first negotiation with respect to the distribution, financing and servicing of our focused ultrasound products, and the design and supply of imaging devices to be used in connection with our current and future MRgFUS products. These rights continue until five years after the sale by GE of all of our ordinary shares that it holds or, with respect to any distribution agreement, until the earlier of three years after such sale of our ordinary shares or the date on which GE fails to meet minimum thresholds provided in such distribution agreement. We cannot assure you that GE will be successful in efforts to generate sales of the ExAblate 2000 or any other products developed by us as to which it obtains distribution rights. In such event InSightec's results of operation may be materially adversely affected.

The sales and marketing agreement does not prohibit GE from marketing or manufacturing other focused ultrasound-based products that may compete with the ExAblate 2000. In addition, GE retained the right to use certain focused ultrasound-related patents which it assigned to InSightec at the time of its formation and InSightec has granted to GE a non-exclusive license to certain of our patents derived from technology and patent rights licensed to InSightec by GE. GE may use such patents to develop its own focused ultrasound based products without InSightec's consent. In the event that GE chooses to distribute or manufacture medical devices that may compete with the ExAblate 2000 or other products based on the Magnetic Resonance Guided Focused Ultrasound (MRgFUS) technology, InSightec's sales may be adversely affected.

If InSightec is unable to protect its intellectual property rights, its competitive position could be harmed. Third-party claims of infringement could require InSightec to redesign its products, seek licenses, or engage in future costly intellectual property litigation, which could impact InSightec's future business and financial performance.

InSightec's success and ability to compete depend in large part upon its ability to protect its proprietary technology. InSightec relies on a combination of patent, copyright, trademark and trade secret laws, and on confidentiality and invention assignment agreements, in order to protect its intellectual property rights. A few of InSightec's patents were transferred to InSightec from GE at the time of its formation, and GE retains a non-exclusive license to make, use and sell products covered under these patents in the imaging field only without InSightec's permission. Prior to the transfer, GE had entered into cross-license agreements with respect to these patents with a number of companies, including some that may be potential competitors of InSightec. As a result of these cross license agreements, InSightec may not be able to enforce these patents against one or more of these companies.

The process of seeking patent protection can be long and expensive, and there can be no assurance that InSightec's existing or future patent applications will result in patents being issued, or that InSightec's existing patents, or any patents which may be issued as a result of existing or future applications, will provide meaningful protection or commercial advantage to InSightec. Any issued patents may be challenged, invalidated or legally circumvented by third parties. InSightec cannot be certain that its patents will be upheld as valid, proven enforceable, or prevent the development of competitive products. Consequently, competitors could develop, manufacture and sell products that directly compete with InSightec's product, which could decrease its sales and diminish its ability to compete.

Claims by competitors and other third parties that InSightec products allegedly infringe the patent rights of others could have a material adverse effect on InSightec's business. The medical device industry is characterized by frequent and substantial intellectual property litigation. Intellectual property litigation is complex and expensive, and the outcome of this type of litigation is difficult to predict. Any future litigation, regardless of outcome, could result in substantial expense and significant diversion of the efforts of InSightec's technical and management personnel. An adverse determination in any such proceeding could subject InSightec to significant liabilities or require InSightec to seek licenses from third parties or pay royalties that may be substantial.

RISKS RELATING TO OUR OTHER ACTIVITIES

Our Mango business is dependent on a single franchise and supplier which could cause delays or disruptions in the delivery of our Mango products, which could harm our business and results of operations.

Mango, an apparel company which we acquired in May 2005, depends on its franchise with and supply of products from Punto Fa, S.L., a contemporary women's apparel company, and its international brand name MANGO-MNG™ (which supplier we refer to collectively herein as Mango International). If Mango International ends its relationship with Mango or enters into liquidation, Mango's business in Israel will be terminated. In addition, Mango relies on the supply of its products from Mango International and may face a shortage of inventory if there is a worldwide excess demand for Mango International's products. If either of these events occurs, our results of operations may be materially adversely affected.

A rise in wage levels in Israel could adversely affect Mango's financial results.

Mango relies mainly on minimum wage employees. The Israeli government increased the applicable minimum wage effective as of July 2006. If wage levels generally, and particularly the minimum wage in Israel, increase, Mango's results of operations could be harmed.

The apparel industry is subject to changes in fashion preferences. If the manufacturer of Mango products misjudges fashion trends, or if we fail to choose from the Mango International inventory design products that appeal to our customers, our sales could decline and our results of operations could be adversely affected.

Neither the manufacturer of Mango products nor Mango may be successful in anticipating and responding to fashion trends in the future. Customer tastes and fashion trends change rapidly. Our success depends in part on Mango International's ability to effectively anticipate and respond to changing fashion tastes and consumer demands and to translate market trends into appropriate, saleable product offerings far in advance. If Mango International is unable to successfully anticipate, identify or react to changing styles or trends and misjudges the market for its products or any new product lines, or if we fail to choose from the Mango International inventory design products that appeal to our customers' changing fashion preferences, Mango's sales will be lower and we may be faced with a significant amount of unsold finished goods inventory. As a result, we may be forced to increase our marketing promotions or price markdowns, which could have a material adverse effect on our business.

Our Mango brand image may also suffer if customers believe merchandise misjudgments indicate that Mango no longer offers the latest fashions.

A change in customs rates and custom and harbor strikes could adversely affect Mango's financial results.

Mango is subject to Israeli customs since all of its products are imported. An increase in customs rates on Mango's products could adversely affect Mango's ability to compete against local manufacturers or with products from countries which enjoy more favorable customs rates in Israel. On the other hand, a reduction in customs rates may encourage entrance penetration of new competitors to the market. In addition, since most of Mango's products are imported, custom and harbor strikes and delays could adversely affect Mango's ability to meet customer demands and adversely affect Mango's financial results.

Mango may be unable to compete favorably in the highly competitive women's apparel industry, and Mango's competitors may have greater financial, geographic and other resources.

The sale of fashionable women's apparel is highly competitive. Mango competes directly with a number of Israeli and international brands (such as Zara, Castro, Honigman, Renuar and Dan Casidi, some of which have longer operating histories and enjoy greater financial and marketing resources than Mango, for example, Mango's competitors may have the ability to obtain better geographic locations for their stores in commercial centers, with better traffic flow and access to customers, which would have a positive impact on their sales.

Increased competition could result in pricing pressure, increased marketing expenditures or loss of market share to Mango and adversely affect Mango's revenues and profitability. There can be no assurance that Mango will be able to compete successfully against existing or new competitors.

Mango has no control over fluctuations in the cost of the raw materials it uses and a rise in costs could harm Mango's profitability.

Mango buys its entire inventory from Mango International, which is responsible for the design and manufacturing of all of Mango's products. The prices of the inventory that Mango purchases from Mango International are dependent on the manufacturing costs of Mango International. Mango International's manufacturing costs are substantially dependent on the prices of raw materials and level of wages in the countries where its products are manufactured. Therefore, an increase in the manufacturing costs of Mango International will cause an increase in Mango's cost of goods sold and Mango may not be able to pass on the increased costs to its customers. Such increased costs would likely adversely affect Mango's profitability, operational results and its financial condition.

A devaluation of the NIS against the Euro could harm Mango's profitability.

Mango buys its entire inventory from Mango International. The price of this inventory is denominated in Euros. Therefore, a devaluation of the NIS against the Euro will cause an increase in Mango's cost of goods sold expressed in NIS, and Mango may not be able to pass the increased costs to its customers. This would likely adversely affect Mango's profitability, operational results and its financial conditions.

Our venture capital investments are made in development stage companies and involve high risks.

Investments in biotechnology development stage companies involve high risks. These companies are subject to various risks generally encountered by new enterprises, including costly, delayed or protracted research and development programs, the need for acceptance of their products in the market place, and the need for additional financing which might not be available. We cannot be certain that the assessments we made at the time of investment in our venture capital investments, as to the quality of the concept or the prototype, will prove correct, or that there will be an adequate return on investment, if at all. If our assessment of the venture capital investments are incorrect, our results of operations may be adversely affected.

Our venture capital investments are speculative in nature and we may never realize any revenues or profits from these investments.

We cannot be certain that our venture capital investments will result in revenues or profits. Economic, governmental, regulatory and industry factors outside our control affect our venture capital investments. If our venture capital investments will not successfully implement its business plan we will not be able to realize any profits from it. Our ability to realize profits from these investments will be dependent upon the management of these companies, the success of its research and development activities, the timing of the marketing of its products and numerous other factors beyond our control.

RISKS RELATING TO ISRAEL

Security and economic conditions in Israel may affect our operations.

We are incorporated under Israeli law and our principal offices are located in Israel. In addition, the Arena shopping and entertainment center is located in Herzliya, Israel as well as our operations in our other activities segment, such as Mango and other venture capital investment operating in Israel. Political, economic and security conditions in Israel directly affect our operations. Since the establishment of the State of Israel in 1948, various armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Israel signed a peace treaty with Egypt in 1979 and a peace treaty with Jordan in 1994. As of the date of this annual report, Israel has not entered into any peace agreement with Syria or Lebanon. Since 1993, several agreements have been signed between Israel and the Palestinians, but a final agreement has not been achieved. Since October 2000, there has been a marked increase in hostilities between Israel and the Palestinians, characterized by terrorist attacks on civilian targets, suicide bombings and military incursions into areas under the control of the Palestinian Authority. These developments have adversely affected the peace process, placed the Israeli economy under significant stress, and have negatively influenced Israel's relationship with several Arab countries. In January 2006, Hamas, an Islamic movement responsible for many attacks against Israelis, won the majority of the seats in the Parliament of the Palestinian Authority. The election of a majority of Hamas-supported candidates is expected to be a major obstacle to relations between Israel and the Palestinian Authority, as well as to the stability in the Middle East as a whole. In addition, some neighboring countries, as well as certain companies and organizations, continue to participate in a boycott of Israeli firms and others doing business with Israel or with Israeli companies. Restrictive laws, policies or practices directed towards Israel or Israeli businesses could have an adverse impact on the expansion of our business. In addition, we could be adversely affected by the interruption or curtailment of trade between Israel and its trading partners, a significant increase in the rate of inflation, or a significant downturn in the economic or financial condition of Israel.

Many of our directors, officers and employees are obligated to perform annual military reserve duty in Israel. We cannot assess the potential impact of these obligations on our business.

Our directors, officers and employees who are male adult citizens and permanent residents of Israel under the age of 45 are, unless exempt, obligated to perform annual military reserve duty and are subject to being called to active duty at any time under emergency circumstances. The deteriorating security situation in the Middle East has caused, and will continue to cause, a sharp increase in the army reserve obligations of our directors, officers and employees who are subject to such reserve duty obligations. Although we have operated effectively under these requirements in the past, including during recent hostilities with the Palestinians and the war in Iraq, we cannot assess the full impact of these requirements on our workforce or business if conditions should change, and we cannot predict the effect of any increase or reduction of these requirements on us.

An income tax reform in Israel may adversely affect us.

Effective as of January 2003, the Israeli Parliament has enacted a wide-ranging reform of the Israeli income tax system. These tax reforms have resulted in significant changes to the Israeli tax system. The main effect of this new tax reform on us is that we might be subject to additional tax arising from profits from our foreign companies which would be defined as "Controlled Foreign Companies" (CFC) in accordance with the provisions of the law. See "Item 10. Additional Information – E. Taxation - Taxation in Israel – Tax Reform in Israel" below. This may have adverse tax consequences for us.

Israeli courts might not enforce judgments rendered outside of Israel, which may make it difficult to collect on judgments rendered against us.

We are incorporated in Israel. Some of our directors and officers are not residents of the United States and some of their assets and our assets are located outside the United States. Service of process upon our non-U.S. resident directors and officers and enforcement of judgments obtained in the United States against us, and our directors and executive officers may be difficult to obtain within the United States.

We have been informed by our Israeli legal counsel, that there is doubt as to the enforceability of civil liabilities under U.S. securities laws in original actions instituted in Israel. However, subject to certain time limitations, an Israeli court may declare a foreign civil judgment enforceable if it finds that all of the following terms are met: (i) the judgment was rendered by a court which was, according to the laws of the state of the court, competent to render the judgment; (ii) the judgment can longer be appealed; (iii) the obligation imposed by the judgment is enforceable according to the rules relating to the enforceability of judgments in Israel and the substance of the judgment is not contrary to public policy; and (iv) the judgment is executory in the state in which it was rendered or issued..

Even if the above conditions are satisfied, an Israeli court will not enforce a foreign judgment if it was given in a state whose laws do not provide for the enforcement of judgments of Israeli courts (subject to exceptional cases) or if its enforcement is likely to prejudice the sovereignty or security of the State of Israel. An Israeli court will also not declare a foreign judgment enforceable in the occurrence of any of the following: (i) the judgment was obtained by fraud; (ii) there was no due process; (iii) the judgment was rendered by a court not competent to render it according to the laws of private

international law in Israel; (iv) the judgment is at variance with another judgment that was given in the same matter between the same parties and which is still valid; or (v) at the time the action was brought in the foreign court a suit in the same matter and between the same parties was pending before a court or tribunal in Israel.

Anti-takeover provisions could negatively impact our shareholders.

The Israeli Companies Law of 1999 (the “Companies Law”) provides that an acquisition of shares in a public company must be made by means of a special tender offer if as a result of such acquisition the purchaser becomes a holder of 25% or more of the voting rights in the company. This rule does not apply if there already is another holder of 25% or more of the voting rights in the company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a special tender offer, if as a result of the acquisition the purchaser becomes a holder of more than 45% of the voting rights in the company. This rule does not apply if another party already holds more than 45% of the voting rights in the company.

Furthermore, under the Companies Law, a person is not permitted to acquire shares of a public company or a class of shares of a public company, if following such acquisition such person holds 90% or more of the company’s shares or class of shares, unless such person conducts a tender offer for all of the company’s shares or class of shares (a “Full Tender Offer”). In the event that holders of less than 5% of the company’s issued share capital or of the issued class of shares did not respond to the tender offer, then such offer will be accepted and all of the company’s shares or class of shares with respect to which the offer was made will be transferred to the offeror, including all of the company’s shares or class of shares held by such non-responsive shareholders that will be transferred to the offeror by way of a compulsory sale of shares. In the event that holders of 5% or more of the issued shares did not respond to the tender offer, the offeror may not purchase more than 90% of the shares or class of shares of such company.

At the request of an offeree of a Full Tender Offer which was accepted, the court may determine that the consideration for the shares purchased under the tender offer, was lower than their fair value and compel the offeror to pay to the offerees the fair value of the shares. Such application to the court may be filed as a class action.

The Companies Law provides that for as long as a shareholder in a publicly held company holds more than 90% of the company’s shares or of a class of shares, such shareholder shall be precluded from purchasing any additional shares.

The violation of certain conditions under the Israeli Tax Ordinance and/or the pre-ruling issued by the Israeli tax authorities in connection with the merger by way of exchange of shares between EMI and its subsidiary, Elscint, may result in the merger not being treated as tax exempt by the Israeli tax authorities and the imposition of capital gains tax on the exchange of shares.

In November 2005, a merger between Elscint Limited (“Elscint”), our subsidiary, and EMI was consummated pursuant to which EMI purchased the entire outstanding share capital of Elscint not already owned by EMI and by or for the benefit of Elscint, in consideration for 0.53 ordinary shares of EMI for each 1 ordinary share of Elscint. If any requirement or condition of the merger under the Israeli Tax Ordinance [New Version] of 1961, the regulations promulgated thereunder or the pre-ruling issued by the Israeli tax authorities in connection with the merger is breached and/or is not met, the merger will not be treated as tax exempt for Israeli tax purposes. As part of the final pre-ruling issued by the Israeli tax authorities, EMI, Elscint and their controlling shareholders were subject to certain restrictions and conditions. In that event, the Israeli tax authorities may impose, in accordance with the Ordinance, Israeli capital gains tax on EMI and on the former Elscint shareholders in respect of the exchange of shares under the merger.

RISKS RELATING TO OPERATIONS IN EASTERN EUROPE

We are subject to various risks related to our operations in Eastern Europe, including economic and political instability, political and criminal corruption.

Many of the Eastern European countries in which we operate are countries that until the last decade were allied with the former Soviet Union under a communist economic system, and they are still subject to various risks. Certain Eastern European countries, in particular those countries that are not expected to join the European Union in the near future, are still economically and politically unstable and suffer from political and criminal corruption, lack of commercial experience, and unpredictability of the civil justice system. Certain Eastern European countries also continue to suffer from high unemployment, low wages and low literacy rates. These risks could be harmful to us and are very difficult to quantify or predict. Although many governments of the Eastern European countries have liberalized policies on international trade, foreign ownership and development, investment, and currency repatriation to increase both international trade and investment, such policies might change unexpectedly. We will be affected by the rules and regulations regarding foreign ownership of real and personal property. Such rules may change quickly and dramatically and thus may have an adverse impact on ownership and may result in a loss without recourse of our property or assets. Domestic and international laws and regulations, whether existing today or in the future, could adversely affect our ability to market and sell our products and could impair our profitability.

Certain Eastern European countries may regulate or require governmental approval for the repatriation of investment income, capital or the proceeds of sales of securities by foreign investors. In addition, if there is deterioration in a country's balance of payments or for other reasons, a country may impose temporary restrictions on foreign capital remittances abroad. Any such restrictions may adversely affect our ability to repatriate investment loans or to remit dividends. Many emerging countries have experienced substantial, and in some periods extremely high, rates of inflation for many years. Inflation and rapid fluctuations in inflation rates have had and may continue to have negative effects on the economies and securities markets of certain emerging countries. In addition, in an attempt to control inflation, price controls at our hotels have been imposed at times in certain countries, which may affect our ability to increase our room rates.

Environmental issues are becoming of increasing significance in Eastern Europe which may result in delays in construction and increased costs.

There is increasing awareness of environmental issues in Eastern Europe. This may be of critical importance in areas previously occupied by the Soviet Army, where soil pollution may be prevalent. We generally insist upon receiving an environmental report as a condition for purchase, or alternatively, conduct environmental tests during our due diligence investigations. Also, some countries such as Poland and the Czech Republic require that a developer carry out an environmental report on the land before building permit applications are considered. Nevertheless, we cannot be certain that all sites acquired will be free of environmental pollution. If a property that we acquire turns out to be polluted, such a finding will adversely affect our ability to construct, develop and operate a shopping and entertainment center on such property, and may cause us to suffer expenses incurred in cleaning up the polluted site which may be significant. We have found subterranean oil storage tanks in our property in Rybnik, Poland, which caused a delay of eight months in the construction works of this center and an increase in construction costs.

We are subject to various risks related to our operations in Romania including the unpredictability of the civil justice system.

Our Bucuresti Hotel is generally affected by risks of doing business in Romania. Any foreign company or litigant may encounter difficulty in prevailing in any dispute with, or enforcing any judgment against, the Romanian government or any officers or directors under the Romanian legal system. If our ownership rights in the company that owns the Bucuresti Hotel Complex are successfully challenged, this may affect our ability to obtain compensation for our original investment. We have faced several challenges to our acquisition under the privatization contract. In addition, the privatization process itself has been challenged as illegal. All of these claims have been dismissed (See "Item 3. Key Information – D. Risk Factors – Risks Relating to the Hotel Business" above and "Item 8. Financial Information – Legal Proceedings" below).

GENERAL

If we are characterized as a passive foreign investment company for U.S. federal income tax purpose, holders of ordinary shares may suffer adverse tax consequences.

Generally, if for any taxable year 75% or more of our gross income is passive income, or at least 50% of the our assets are held for the production of, or produce, passive income, we will be characterized as a passive foreign investment company ("PFIC"), for U.S. federal income tax purposes. A determination that we are a PFIC could cause our U.S. shareholders to suffer adverse tax consequences, including having gains realized on the sale of our shares taxed at ordinary income rates, rather than capital gains rates and could have an adverse effect on the price and marketability of our shares. See "Item 10. Additional Information - E. Taxation– Tax consequences if we are a Passive Foreign Investment Company" below.

We are subject to various legal proceedings that may have a material adverse effect on our results of operations.

Certain legal proceedings have been initiated against us, including litigation in connection with the change of control of EMI and our subsidiary Elscint Ltd. in May 1999 and the acquisition of the hotel businesses by Elscint in September 1999, including motions to certify such claims as class actions. See also "Item 8. Financial Information – Legal Proceedings" below. A claim has also been made by an individual that a percentage of EMI and certain of our subsidiaries belongs to him. We cannot estimate the results of these proceedings. A determination against us in some or all of these proceedings may materially adversely affect our results of operations.

We have significant capital needs and additional financing may not be available.

The sectors in which we compete are capital intensive. We require substantial up-front expenditures for land acquisition, development and construction costs as well as certain investments in research and development. In addition, following construction capital expenditures are necessary to maintain the centers in good condition. As part of our growth strategy, we intend to acquire, renovate and redevelop additional hotels and to develop new hotels. In addition, in order for our hotels to remain competitive, they must be maintained and refurbished on an ongoing basis. Accordingly, we require substantial amounts of cash and construction financing from banks for our operations and require financing for the development, renovation and maintenance of our hotels. We cannot be certain that such external financing would be available on favorable terms or on a timely basis or at all. In addition, construction loan agreements generally permit the draw down of

the loan funds against the achievement of pre-determined construction and space leasing milestones. If we fail to achieve these milestones, the availability of the loan funds may be delayed, thereby causing a further delay in the construction schedule. If we are not successful in obtaining financing to fund our planned projects and other expenditures, our ability to undertake additional development projects may be limited and our future profits and results of operations could be materially adversely affected. Our inability to obtain financing may affect our ability to construct or acquire additional centers and hotels, and we may experience delays in planned renovation or maintenance of our hotels that could have a material adverse effect on our results of operations.

Our high leverage could adversely affect our ability to operate our business.

We are highly leveraged and have significant debt service obligations. As of December 31, 2005, we had total debts to banks and other financial institutions in the aggregate amount of NIS 2,258 million (approximately \$491 million). In addition, we and our subsidiaries may incur additional debt from time to time to finance acquisitions or capital expenditures or for other purposes. We will have substantial debt service obligations, consisting of required cash payments of principal and interest, for the foreseeable future.

Our lenders require us to maintain and comply with certain financial and operational covenants. Our ability to comply with these covenants may be affected by events beyond our control. A breach of any of the covenants in our debt instruments or our inability to comply with the required covenants could result in an event of default, which, if not cured or waived, could have a material adverse effect on us. In the event of any default under the loan agreements, the lenders thereunder could elect to declare all borrowings outstanding immediately due together with accrued and unpaid interest and other fees. Furthermore, in the event of any default under the loan agreements, such loans could be reclassified as short-term debt. Such classification in our financial statements may improperly reflect our working capital ratio as well as other financial indicators since the assets which were financed by these loans are classified as non-current assets. As a result of our substantial indebtedness:

- we could be more vulnerable to general adverse economic and industry conditions;
- we may find it more difficult to obtain additional financing to fund future working capital, capital expenditures and other general corporate requirements;
- we will be required to dedicate a substantial portion of our cash flow from operations to the payment of principal and interest on our debt, reducing the available cash flow to fund other projects;
- we may have limited flexibility in planning for, or reacting to, changes in our business and in the industry; and
- we may have a competitive disadvantage relative to other companies in our business segments with less debt.

We cannot guarantee that we will be able to generate enough cash flow from operations or that we will be able to obtain enough capital to service our debt or fund our planned capital expenditures. In addition, we may need to refinance some or all of our indebtedness on or before maturity. We cannot guarantee that we will be able to refinance our indebtedness on commercially reasonable terms or at all. We have the ability under our debt instruments to incur substantial additional indebtedness and any additional indebtedness we incur could exacerbate the risks described above.

Results of operations for us fluctuate due to the seasonality of our various businesses.

The annual revenues and earnings of our shopping and entertainment centers business, hotels business and Mango, are substantially dependent upon general business activity, vacation and holiday seasons and the influence of weather conditions. As a result, changes in any of the above have a disproportionate effect on the annual results of operations of our shopping and entertainment centers, hotels and Mango businesses.

One of our shareholders beneficially owns a substantial amount of our ordinary shares and, therefore, effectively controls our affairs.

As of May 31, 2006, Mordechay Zisser, the Executive Chairman of our board of directors, held, directly or indirectly, approximately 48.73% of our issued share capital. As a result of such holdings he has the ability, in effect, to elect the members of our board of directors and to effectively control our business.

A loss of the services of members of the senior management of EMI, including in particular that of Mr. Mordechay Zisser, could materially adversely affect our business and results of operations

We depend on the continued services of the members of our senior management team, including in particular that of Mr. Mordechay Zisser, our Executive Chairman of the board of directors. Any loss of the services of Mr. Mordechay Zisser or other member of our senior management team could result in the loss of expertise necessary for us to succeed, which could cause our revenues to decline and impair our ability to meet our objectives.

Our annual and quarterly results may vary which may cause the market price of our ordinary shares to decline.

We have experienced at times in the past, and may in the future experience, significant fluctuations in our quarterly and annual operating results which may cause the market price of our ordinary shares to decline. These fluctuations may be

caused by various factors, particularly due to significant sales of our properties and the frequency of such transactions. During 2005, we changed our business strategy to the entrepreneurship and development of shopping and entertainment centers supported by short term management and operation activities with the principal objective of founding and stabilizing the centers in order to sell them during their construction or as closely as possible to their completion. Our decision to sell properties is based on various factors, including market conditions, and we cannot predict when such sales will actually occur. Accordingly, investors should not rely on the results of any past periods as an indication of our future performance. It is likely that in some future periods, our operating results may be below expectations of public market analysts or investors. If this occurs, our share price may drop.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Elbit Medical Imaging Ltd. was incorporated in 1996. EMI is a company incorporated under the laws of the State of Israel and is subject to the Israeli Companies Law 1999 - 5759 and the Israeli Securities Law 1968 - 5728 and any regulations published under these laws. Our shares are listed on the NASDAQ National Market (ticker symbol: EMITF) and on the Tel Aviv Stock Exchange. Our executive offices are located at 13 Mozes Street, Tel-Aviv 67442, Israel. You may reach us by telephone at (972-3) 608-6010 or by fax at (972-3) 695-3080. Our U.S. agent is CSC Corporation Service Company 2711 Centerville Road, Suite 400 Wilmington, DE 19808.

The following is a summary of the principal fields of our businesses during 2005:

- Initiation, construction, operation, management and sale of shopping and entertainment centers in Israel and in Central and Eastern Europe.
- Hotels ownership, primarily in major European cities, as well as operation, management and sale of same.
- Long-term lease of real estate property.
- Investments in the research and development, production and marketing of magnetic resonance imaging guided focused ultrasound treatment equipment, through InSightec.
- Other activities consisting of the distribution and marketing of women's fashion and accessories through our wholly-owned Israeli subsidiary, Mango, and venture-capital investments.

In December 2005 we sold all of our holdings in the company holding one of our hotel in London (referred to in clause (iii) above) which is subject to a long term lease agreement.

The following are the highlights of our main business activities and investments during 2005 and through the date of this filing by order of occurrence:

- ***Private issuance of unsecured non-convertible debentures***

Between February and June 2006 we have issued two series of unsecured non-convertible debentures to investors in Israel in the aggregate principal amount of approximately NIS 527 million (approximately \$114 million). For additional information on the terms of this private issuance, including certain undertaking we have taken towards our investors. See "Item 5. Operating and Financial Review and Prospects - B. – Liquidity and Capital Resources - Liquidity" below.

- ***Approval of the town plan ("KSZT") of the Dream Island project on the Obuda Island in the Danube River and signing of a Framework City Regulation Agreement with the Budapest Capital 3rd district and Budapest Capital Municipality***

On May 25, 2006, a Framework City Regulation Agreement was signed with the Budapest Capital 3rd district and the Budapest Capital Municipality for the development and infrastructure of the Dream Island project in the Danube River, Budapest, in accordance with the city regulation plans and in the KSZT. Formal regulatory approvals of the KSZT modification contained in the Budapest General Assembly resolution are currently pending. The proposed plan of the Dream Island project is to construct on approximately 3.2 million square feet of land located on the Obuda Island in the Danube River, a tourist and entertainment area in central Budapest which includes designations for offices, commercial space, tourism, entertainment and leisure and hotels. See "- B. Business Overview – Shopping and Entertainment Centers – Other Real Estate Properties" below.

- ***Refinancing of three hotels in the United Kingdom***

On March 2, 2006, we (through our three jointly-controlled subsidiary companies) refinanced our three hotels in London (the Riverbank Park Plaza Hotel, the Victoria Park Plaza Hotel and the Sherlock Holmes Park Plaza Hotel) for a non-recourse refinancing loan in the amount of £195 million (in which our share amounted to approximately £97.5 million

(approximately \$168 million)). See “Item 5. Operating and Financial Results and Prospects. - B. Liquidity and Capital Resources - Loans” below.

- ***Dividend Declared and Paid***

On December 22, 2005, we declared a dividend in an aggregate amount of approximately NIS 130 million (approximately \$28.2 million). The dividend was paid on January 17, 2006 to shareholders of record as of January 4, 2006.

- ***Sale of One of our Hotels in London***

In December 2005, we, together with the remaining holders of Shaw Hotel Holding B.V., sold all of our holdings (in which we were a 30% shareholder) in Shaw Hotel Holding B.V., the owner of one of our hotels in London, to an unrelated third party at an asset value of £74.8 million (approximately \$129 million). The net consideration received by us (after deduction of bank loans and other working capital items) was approximately £4 million (approximately \$6.9 million). The hotel is located in London, the United Kingdom, and is subject to a long-term lease agreement executed in 2003 for a period of 25 years. See “- B. Business Overview – Long Term Lease of Real Estate Property” below.

- ***Purchase of a land in Kerepesi Street in Budapest, Hungary***

In November 2005, we (through our subsidiary) purchased a large area of land measuring approximately 1.32 million square feet situated on Kerepesi Street in central Budapest, the former site of the Hypodrome. . The acquisition was carried out by the purchase of the entire equity rights of four companies holding all the freehold ownership and usage rights to the site. The purchase price of the entire equity rights represents a site value of approximately €21 million (approximately \$24 million), out of which €3.9 million is the quota (similar to shares) purchase price and the remaining are assumed liabilities.

- ***Consummation of a merger by way of exchange of shares with Elscint***

On August 21, 2005, EMI and Elscint signed an Agreement and Plan of Merger pursuant to which each ordinary share of Elscint (other than Elscint ordinary shares held by EMI and by or for the benefit of Elscint) was converted into 0.53 ordinary share of EMI. The merger was completed on November 23, 2005 and as of such date, Elscint ordinary shares have ceased to trade on the New York Stock Exchange and Elscint became a wholly-owned subsidiary of EMI. See “Item 10. Additional Information – Material Contracts - General” below.

- ***Sale of Four Operational Shopping and Entertainment Centers in Poland and Entering Into Agreements for the Sale of Additional Four Centers Under Development in Poland and the Czech Republic***

In July 2005, our indirect wholly-owned subsidiary, Plaza Centers (Europe) B.V. (“PC”) sold to the Klépierre Group of France (“Klepierre”), one of the leading owners and operators of shopping centers in Europe, four operational shopping and entertainment centers in Poland as well as PC’s management company in Poland at an aggregate asset value of approximately €204 million (approximately \$241 million). The aggregate net consideration was approximately €73.8 million (approximately \$88.7 million) which is subject to post closing adjustments. In addition, Klépierre has also undertaken, subject to the fulfillment of certain conditions, to acquire four additional shopping and entertainment centers in Poland and in the Czech Republic which are currently under construction, at a price calculated on the basis of the gross rentals on the date of delivery, capitalized at agreed yields. Klepierre was also awarded an option to acquire an additional shopping center presently under development in Poland, upon the fulfillment of certain conditions. For additional information regarding the agreement including its material terms, see “Item 10. Additional Information - C. Material Contracts – Shopping and Entertainment Centers” below.

- ***Acquisition of Mango***

In May 2005, Elscint completed the acquisition of the entire equity and voting rights of Mango Israel Clothing and Footwear Ltd. (“Mango”), the Israeli distributor and retailer of the international retail brand name MANGO-MNG™ in consideration for approximately €2.6 million (\$3.1 million) and additional consideration paid for inventories and other working capital items. Concurrently with the above agreement, Mango executed a distribution agreement with the owners of the MANGO-MNG™ brand name for a 10-year period.

- ***Sale of four Operational Shopping and Entertainment Centers in Hungary***

On April 21, 2005, PC sold four shopping centers in Hungary to a subsidiary of the Dawnay Day Group ("Dawnay Day"), a leading financial and property group in the United Kingdom, at an aggregate asset value of approximately €54.4 million (approximately \$64.3 million) determined as of the closing date. The aggregate net consideration (after deduction of bank loans and other working capital items) was approximately €17.2 million (approximately \$20.7 million). See "Item 10. Additional Information – Material Contracts – Shopping and Entertainment Centers" below.

- ***Dividend Declared and Paid***

On February 7, 2005, we declared a dividend in an aggregate amount of \$37 million. The dividend was paid on March 17, 2005 to shareholders of record as of March 2, 2005.

PRINCIPAL CAPITAL EXPENDITURES AND DIVESTITURES

The following is a description of our capital expenditures and divestitures during the years 2003, 2004 and 2005 and capital expenditures and divestitures in progress (our share in each expenditure and divestment is 100% unless otherwise indicated):

Fiscal Year 2003

The Shopping and Entertainment Centers Business

- *Continuing investments in shopping and entertainment centers projects* – Throughout 2003, we continued the construction of the shopping and entertainment centers (mainly in the "Arena" center Herzliya and Poznan project) for a total investment of approximately \$62.7 million. We financed the construction of the centers through long term bank facilities and shareholder loans provided to the subsidiary.

The Hotel Business

- *Riverbank Park Plaza Hotel* - The total additional amount invested by our jointly controlled subsidiary in the Riverbank Park Plaza Hotel during 2003 was £22.6 million of which our share is 50%. These amounts were expended principally on construction. We financed the construction of the hotel through long term bank facilities and our available funds.
- *Aquatopia project* - The total cost of the construction of the Aquatopia within the Astrid Park Plaza Hotel facility was approximately €12.5 million. During 2003 our subsidiary invested €11.1 million in this project. Elscint financed these costs mainly through shareholders loans.
- *Centerville Apartment Hotel* - The total amount invested by our subsidiary in the renovation of the Centerville Apartment Hotel in the Bucuresti complex during 2003 was €3.1 million.

Fiscal Year 2004

- *Klepierre transaction* - Acquisition from PC by Klepierre of 12 shopping and entertainment malls owned and operated by PC in Hungary. The net consideration received by PC amounted to €94.1 million. See Item 10. Additional Information – Material Contracts – Shopping and Entertainment Center" below. Such investments were financed mainly by bank loans and shareholders loans.
- *Continuing investments in shopping and entertainment centers projects* - During 2004, we were in the process of constructing, through subsidiaries, ten shopping and entertainment centers (Poznan, Rybnik, Sosnoweic, Bestes, Pilsen, Lublin, Riga, Lodz, Helios and Arena) as well as an extension to another center (Duna extension). The total additional amount invested in these projects was approximately \$36 million. These amounts were expended principally on construction. We financed the construction of the centers through long term bank facilities and shareholder loans provided to the subsidiary.

The Hotel Business

- *Riverbank Park Plaza Hotel* - The total additional amount invested by our jointly controlled subsidiary in this project during 2004 was £34 million of which our share is 50%. These amounts were expended principally on construction. We financed the construction of the hotel through long term bank facilities and shareholder loans provided to the subsidiary.
- *Apartment Hotel Bucuresti Complex (Centerville)*-The total amount invested by our subsidiary in the renovation of

the hotel apartment in the Bucuresti complex during 2004 was €2 million. We financed these costs through short-term facility and available free cash flow from the operations of the Centreville apartment hotel.

The Image Guided Treatment Business

In 2004, InSightec signed an agreement for an internal round of financing totaling \$21 million from its existing shareholders in which our share totaled \$7.5 million. The convertible notes may be converted in whole or in part at any time into ordinary shares of InSightec at a conversion rate of \$7.30 per share.

Fiscal Year 2005

The Shopping and Entertainment Centers Business

- *Klépierre transaction* - In July 2005 PC sold to Klépierre a portfolio that includes our four operational shopping and entertainment centers in Poland. The net consideration received by PC for the sale of these centers amount to €73.8 million (\$87.1 million). In addition, PC and Klepierre have entered into an agreement for the future sale of an additional four centers under development in Poland and the Czech Republic. Klépierre also has an option to acquire a fifth shopping center under development in Poland, subject to the attainment of certain conditions.
- *Dawnay Day Transaction* -In April 2005, PC sold four shopping and entertainment centers in Hungary to the Dawnay Day Group (“Dawnay Day”), in the aggregate net consideration (after deduction of bank loans and other working capital items) of approximately €17.2 million (\$20.7 million).
- *Continuing investments in shopping and entertainment centers projects* - During 2005, we were in the process of constructing, through subsidiaries, ten shopping and entertainment centers (Poznan, Rybnik, Sosnoweic, Bestes, Pilsen, Lublin, Riga, Lodz Kerepesi and Helios). The total additional amount invested in these projects was approximately \$ 63 million. These amounts were expended principally on construction. We financed the construction of the centers through long term bank facilities and shareholder loans provided to the subsidiary.
- *Kerepesi Budapest project* - In November 2005, we purchased a large area of land situated on Kerepesi Street in central Budapest, the former site of the Hypodrome. The purchase price of the entire equity rights represents a site value of €21 million (approximately \$24 million), out of which € 3.9 million is the quota purchase price and the remaining are assumed liabilities.
- *Acquisition of the Remaining 50% of Sadyba Best-Mall* - In May 2005 PC completed the acquisition of the 50% not owned by it in the Sadyba commercial and entertainment center in Warsaw, Poland, for a purchase price of approximately US\$19.5 million.

The Hotel Business

- *Sale of Shaw hotel* - In December 2005, we sold all of our holdings (in which we were a 30% shareholder) in Shaw Hotel Holding B.V., the owner of one of our hotels in London, to an unrelated third party for a net consideration of £4.0 million (\$6.9 million).
- *Construction and renovation of the Centerville apartment hotels* - The total amount invested in this project during 2005 was €7.0 million (\$8.3 million). Such investments are in connection with the renovation of additional 60 apartments as well as other facilities in the hotel. We financed this project through bank facility and cash resulted from operational activities.
- *Riverbank hotel* - The total amount invested by our subsidiary in this project was £18.6 million (\$32.4 million) in which our share is 50%. We financed this project through bank loan and shareholder loans to the subsidiary.
- *Aquotopia project* - During 2005 we invested an amount of €3.0 million (\$3.5 million) in the refurbishment of the Aquotopia project within the Astrid Plaza facility. We financed this Project through shareholders loans to the subsidiary.

Other Activities

In May 2005, we completed the acquisition of the entire equity and voting rights of Mango in consideration for approximately €2.6 million (\$3.1 million) as well as working capital adjustments.

PRINCIPAL CAPITAL EXPENDITURES AND DIVESTITURES CURRENTLY IN PROGRESS

Currently, we are either in the process of making or are planning to make additional capital expenditures, as follows:

Shopping and Entertainment Centers Business

- The additional estimated costs expected to be invested in our projects which are currently under construction (Rybnik, Sosnowiec, Pilsen, Lublin, Riga, Lodz, Kerepesi and Helios) is €353 million. We expect to finance these projects by long term banks loans and shareholders loans. We expect to complete the construction of these projects in 2007 - 2009.
- *Dream Island project* - In May 2006, the Budapest General Assembly approved the amendment to the local town-planning scheme (KSZT), which approves the construction plans for this site. Formal regulatory approvals of the KSZT modification contained in the Budapest General Assembly resolution are currently pending. We plan to commence the construction of this Project in 2007 and we expect to complete it within six years. The total estimated costs expected to be invested in this project is €1,100 million.

Hotel Business

Bucuresti Hotel Complex, Bucharest, Romania - In January 2006 we commenced the renovation of the Bucuresti Hotel in order to enable compliance with the international standards required for a four star business hotel. The additional estimated costs expected to be invested in this project is €33 million. We expect to complete the construction of this project in late 2007. Such investment will be financed by bank loans.

B. BUSINESS OVERVIEW

During 2005, our activities were divided into five principal fields: (i) initiation, construction, operation, management and sale of shopping and entertainment centers in Israel and in Central and Eastern Europe; (ii) ownership, operation, management, and sale of hotels in major European cities; (iii) long term lease of real estate property, (iv) investments in the research and development, production and marketing of magnetic resonance imaging guided focused ultrasound treatment equipment, through InSightec Ltd. ("InSightec"); (v) other activities consisting of the distribution and marketing of women's fashion and accessories through our wholly-owned Israeli subsidiary, Mango Israel Clothing and Footwear Ltd.; and venture-capital investments. In December 2005, we sold all of our holdings in the company holding one of our hotels in London, which was the subject of the long term lease agreement referred to in clause (iii) above.

Below is a description of our five principal fields of activity since 2005:

Shopping and Entertainment Centers

The shopping and entertainment centers business includes our operational shopping and entertainment centers and other shopping and entertainment centers which are currently under construction and/or development. In addition, this business includes the Dream Island project, a tourist and entertainment area in central Budapest which includes designations for commercial space, tourism, entertainment and leisure hotels and apartments hotel, which is currently in preliminary stages of development as well as other income producing real estate properties and other properties.

Shopping and Entertainment Centers - General

We presently have one operating shopping and entertainment center in the Czech Republic (which is expected to be sold to Klepierre effective as of June 30, 2006, see “- material transactions in the shopping and entertainment centers” below), one in Israel and seven other projects in various stages of planning and development in Poland, Hungary, the Czech Republic and Latvia. The operations of each of our shopping and entertainment center projects are conducted through a special purpose project corporation.

Generally, approximately 75% of the total constructed area of each shopping and entertainment center is set aside to be leased. The focus of our centers is on two principal elements: shopping and entertainment. The anchor tenants form the core of these elements, around which the smaller businesses and activities are introduced, and provide a wide range and choice of activities to patrons. The entertainment facilities generally include a cinema complex of between 8-12 screens, a video and gaming arcade, bowling alleys, billiard halls, fitness centers, bars, discotheques, children's playgrounds and, in some projects, an IMAX three-dimensional cinema screen. The food court consists of a range of restaurants, offering a variety of culinary opportunities from fast food to gourmet foods. Unless otherwise indicated in the tables below, we own 100% of each identified center.

The commercial activities focus on supermarket and department store anchor tenants, and are carefully monitored to allow an optimal mix of stores and services to cater for all requirements and to offer the maximum range of commodities to patrons.

Our shopping and entertainment centers business currently consists of the following projects:

Operational Centers

NAME OF CENTER	Commencement Of Operation	Title	Approximate Land Area (Sq.Ft.)	Approximate Constructed Area (Sq.Ft.)	Approximate Leaseable Area (Sq. Ft.)	Approximate Occupancy At 03/31/06	Parking Spaces	Encumbrances	Miscellaneous
NOVO PLAZA Prague, Czech Rep (1)	March 2006	Freehold Leasehold	355,500 86,080	591,800	Retail: 243,000 Offices & Storage: 35,000	Retail: 92% Office & Storage: 40%	900	First ranking mortgage on the land and on the center. Two second ranking mortgages are currently being carried out on the land and on a new building that is being constructed.	Sub lease rights for 25 years until 2024 with an option to extend the lease for additional 25 years which expires in 2049.
ARENA Herzliya, Israel	June 2003	Leasehold	269,000	830,000	Retail: 274,000 Offices & Storage: 45,000	Retail: 95% Offices & Storage: 56%	1,250	First ranking mortgage on the land and on the center.	Capitalized lease rights for 49 years until 2037 with an option to extend the lease for additional 49 years which expires in 2086. Lease may be terminated if Arena does not meet the terms of the lease.

(1) This center is the subject of a sale agreement with Klepierre. Delivery is expected on June 30, 2006. See below.

Centers under Development

Name of Project	Scheduled Opening	Title	Approximate Land Area (Sq.Ft.)	Leaseable Area (Sq.Ft.) (1)	Parking Spaces (1)	Encumbrances	Permits	Miscellaneous
Lublin Plaza Lublin, Poland (2) (3)	2007	Perpetual Usufruct	182,812	277,000	690	First ranking mortgage on the building. Certain easements were granted to owners of adjacent plots.	All required permits were issued with respect to the first stage (congress and commercial areas). No permits were issued with respect to the second stage (hotel and office building). We are currently not considering the development of the second stage.	The property is subject to a joint venture agreement, see below. Perpetual usufruct for 99 years until 2097. The perpetual usufruct may be terminated if the use of the land does not correspond to the approved usage, or in the occurrence of unauthorized delays. We undertook to complete the first stage of the project by August 31, 2006 and to commence the second stage by September 30, 2009 and ending it by the end of 2011. Failure to meet these dates requires the payment of a penalty in the amount of \$0.8 million. If the perpetual usufruct is terminated, we will be entitled to reimbursement of our investment in the construction of the complex until the date of termination. We have the right to acquire the land upon completion of construction in consideration for up to approximately \$2.6 million. If we choose not to conduct the second stage of the transaction we are required to pay a penalty of approximately PLN 2.5 million (approximately \$0.8 million)
Rybnik Plaza Rybnik, Poland (4)	2007	Freehold	198,823	195,000	470	First ranking mortgage on the land.	All required permits were issued.	
Sosnowiec Plaza Sosnowiec, Poland (4)	2007	Freehold Perpetual Usufruct	127,600 16,170	139,000	400	---	All required permits were issued.	Perpetual usufruct right until December 17, 2092. The perpetual usufruct may be terminated before the lapse of the specified time if the perpetual usufructee uses the land in a manner self-evidently inconsistent with its designation in the agreement, in particular if he has not erected the buildings or facilities specified in the agreement. If the perpetual usufruct is terminated, we will be entitled to claim the reimbursement of our investment in the construction of the complex.
Pilzen Plaza Pilzen, Czech Republic (4)	2007	Leasehold	370,600 + 561,000 as a park	220,000	600	---	Building permits pending.	Leasehold rights for 99 years (and 97 years for a land area of approximately 89,523 square leased for the construction of a parking building) until 2102.

Name of Project	Scheduled Opening	Title	Approximate Land Area (Sq.Ft.)	Leaseable Area (Sq.Ft.) (1)	Parking Spaces (1)	Encumbrances	Permits	Miscellaneous
Riga Plaza Riga, Latvia (2)	2007	Freehold	856,000	479,000	1,500	Undertaking to encumber the land upon drawdown from the facility agreement.	City approval for the plans was received in May 2006.	The property is subject to a joint venture agreement, see below.
Lodz Plaza Lodz, Poland (4)	Not yet determined	Freehold Perpetual Usufruct tenancy	44,589 311,964 2,636	---	---	First ranking mortgage on land.	Demolition permits were issued.	Perpetual usufruct right until December 5, 2089. Tenancy for 30 years until August 29, 2031, with two options to extend for additional 30 years which expires in 2061 and for 20 years which expires in 2081. This project is in the preliminary planning and development stage as a shopping center integrated with a public market. Due to strong competition, we are currently assessing the scope and nature of this project.
Arena Plaza (Kerepesi) Budapest, Hungary	2007	Freehold	1.32 million	713,000	2,600	First ranking mortgage on the land	All required permits were issued.	

(2) Details provided in these items are presented according to the plans and designs of each respective center and may subsequently differ.

(3) PC has 50% interest in this project.

(4) This center is the subject of a purchase option awarded to Klepierre, see below.

(5) This center is the subject of a sale agreement with Klepierre, see below.

The expected future costs for the completion of each of the above shopping and entertainment centers are detailed in “Item 4. Information on the Company - A. Business and Development of the Company – Recent Developments – Principal Capital Expenditures and Divestitures” above.

Set forth below is additional information with respect to our ownership of certain of the above real estate properties:

LUBLIN PLAZA

In May 2002, PC entered into a joint venture agreement with an unrelated third party for the purchase of 50% of the ownership of Movement Poland S.A. (“MPSA”), a company registered in Lublin, Poland, for a consideration of approximately \$1.5 million.

Under the joint venture agreement each party was granted a right of first offer and a tag along right in the event the other party wishes to sell its rights in MPSA. The agreement further provides for a buy-out mechanism in the event of certain deadlocks. Financing of the project is to be made by both parties in equal share, except for an initial \$4 million investment to be provided by PC. PC and the other party are currently in dispute regarding the shareholders loan required to be invested by the other party. The other party alleges that the increase in the project budget in comparison with the original one was caused by the acts or omissions of PC and, accordingly, that PC alone should bear all additional equity loans. PC disputes this allegation and has demanded the fulfillment of the agreement in accordance with its terms. PC decided, without waiving its right towards the other party, to provide MPSA with an additional financing by way of equity loans. Through December 31, 2005, PC invested indirectly in MPSA a total amount of approximately \$10.5 million.

RIGA PLAZA

In February 2004, PC and Development Capital Corporation (Lativa) (“DCC”) entered into a joint venture agreement pursuant to which PC purchased from DCC in consideration for approximately \$2.7 million, 50% of the outstanding share capital of SIA Diskna (“SIA”), a Latvian corporation wholly owned by DCC. The agreement provides for a buy-out mechanism in the event of certain deadlocks. In addition, the joint venture agreement provides for certain limitations on the sale of each party’s holdings in SIA, including a right of first offer and a tag along right to all of each party’s shares. Future financing of the project will be provided by the parties as shareholders’ loans. In the even to failure by any party to provide such shareholders’ loans, the other party may elect to provide SIA with such shareholders’ loans at an increased interest rate or to invest the required amounts, while diluting the defaulting party’s holdings in SIA.

Material Transactions in the Shopping and Entertainment Centers business during 2005

In April 2005, PC sold its entire equity and voting rights in the companies owning four shopping and entertainment centers in Hungary (Pecs Plaza, Szombathely Plaza, Veszprem Plaza and Sopron Plaza) to a subsidiary of Dawnay Day. The aggregate net cash consideration paid to PC totaled approximately €17.2 million (approximately \$20.7 million).

During July 2005, PC entered into definitive agreements with Klépierre which consisted of a two-stage transaction. Within the framework of first stage of the transaction, consummated on July 29, 2005, Klépierre acquired the entire equity and voting rights in the companies owning four operational shopping centers in Poland (Sadyba Best Center, Krakow Plaza, Ruda Slaska Plaza and Poznan Plaza) as well as the management company in Poland. The aggregate net consideration paid for the purchase of the above companies was approximately €73.8 million (approximately \$88.7 million) which is subject to post closing adjustments. Under the second stage of the transaction, Klépierre has undertaken to acquire the entire equity and voting rights in the companies presently developing two shopping centers in Poland (Rybnik Plaza and Sosnowiec Plaza) and two companies developing shopping centers in the Czech Republic (Novo Plaza and Pilsen Plaza). Upon the completion and delivery of the shopping centers, Klépierre will pay a purchase price calculated on the basis of the gross rentals on the date of delivery, capitalized at agreed yields. In addition, PC granted to Klepierre an option to acquire an additional shopping center presently under development in Poland (Lublin Plaza), upon the fulfillment of certain conditions.

On the same day, PC entered into an additional agreement with Klepierre pursuant to which Klepierre purchased the remaining 50% of the equity and voting rights in our Hungarian management company (in addition to the 50% of the equity and voting rights already purchased by Klepierre from PC in 2004), in consideration for €0.9 million (\$1.1 million).

For additional information on all of the above agreements, including price adjustments and guarantees, see “Item 10. Additional Information - C. Material Contracts - Shopping and Entertainment Centers” below.

Project Management and Supervision

During the planning and construction of our shopping and entertainment centers, we enter into transactions with various contractors and subcontractors for the planning, design and construction of each shopping and entertainment centers. The supervision over the construction project is usually conducted by Control Centers Ltd. (“Control Centers”), our indirect parent, which provides us services of coordination, planning, execution and supervision over construction projects of shopping and entertainment centers and other real estate projects initiated by us. See “Item 7. Major Shareholders and Related Party Transactions – B. Related Party Transactions - Agreements for the Purchase of Coordination Planning and Supervision Services over Construction Projects” below. Immediately following the completion and opening of each shopping and entertainment center, the subsidiary that constructed the center enters into a management agreement with one of our

subsidiaries which renders services relating to the ongoing administration, maintenance and operation of the shopping and entertainment center, and receives service fees which are paid by the tenants of the center.

Business Concept and Strategy

The business concept and strategy of the shopping and entertainment centers business include the following elements:

Development. Develop modern western-style shopping and entertainment centers in the capital and regional cities of selected countries, primarily in Central and Eastern Europe and focusing in the medium term on Poland, the Czech Republic and Romania. We are currently reviewing investments in various other selected countries including in India.

Acquisitions. Acquire operating shopping centers that show significant redevelopment potential (either as individual assets or as portfolios) for refurbishment and subsequent re-sale.

Pre-sale. Pre-sell, where prevailing market and economic conditions are favorable, the centers prior to, or shortly after, commencement of construction or redevelopment.

Where the opportunity exists, extend in developments beyond shopping and entertainment centers by leveraging our strengths and drawing upon our experience and skills to participate in residential, hotel and other development schemes where such development forms a part of integrated large scale business and leisure developments, such as the Dream Island project.

We will also assess and consider specific development opportunities that satisfy our development parameters and investment criteria in countries not previously targeted by us.

While our current strategy is to dispose of a shopping and entertainment center upon completion, if economic conditions, including property yields, change such that retaining and operating a shopping and entertainment center on completion is likely to be more profitable to us than disposing of it, we will consider retaining and operating the completed shopping and entertainment center until economic conditions warrant a profitable sale.

Other Real Estate Properties

In addition to our engagement in the shopping and entertainment centers business, we own several other real estate projects of various types, as described below.

The Dream Island Project

Dream Island 2004 Real Property Development Ltd. ("Dream Island"), a Hungarian company, owns approximately 3.5 million square feet of land located on the Obuda Island in the Danube River, a leisure and entertainment area in central Budapest. The construction rights on this area are for approximately 350,000 square (approximately 3.8 million square feet, with designations for offices, commercial space, tourism, entertainment and leisure and hotels. The buildings presently located on these properties, measuring approximately 600,000 square feet are leased out as offices, restaurants and entertainment outlets, generating rental revenues of approximately €2.8 million (approximately \$3.5 million) per year.

Approximately 67% of Dream Island was originally acquired by Ercorner, our indirect subsidiary, in October 2003 through a privatization tender won by us. The purchase of the our holdings in Dream Island was made in consideration for approximately HUF 4.6 billion (approximately \$21.5 million).

We have obtained financing for the purchase by Ercorner of Dream Island through an arrangement between PC (Ercorner's parent) and MKB Bank Nyrt., pursuant to which MKB provided Ercorner with a loan in the amount of approximately HUF 3.7 billion (approximately \$17.3 million), constituting approximately 80% of the purchase price for the acquisition of the interests in Dream Island by Ercorner. The loan was provided for a two-year period and was extended until March 2007. In addition, PC granted an option to MKB to acquire 50% of the equity interest in Ercorner, which MKB exercised in 2004 in consideration for the same price per share paid by Ercorner to purchase the holdings in Dream Island.

In April 2004, a shareholders agreement was signed between Ercorner, Obuda Holdings Limited ("CPH"), an unrelated third party, which held at that time, approximately 33% of Dream Island's quotas, ESI Associates Holdings Ltd. ("ESI"), the management company of Dream Island and Dream Island. Under the agreement, the parties agreed on the equalization of voting rights in Dream Island in consideration for which CPH paid Ercorner an aggregate amount of \$1 million. Ercorner and CPH further agreed to grant ESI 10% of their respective holdings in Dream Island in consideration for the same price per share paid by Ercorner to purchase the holdings in Dream Island. 80% of the above consideration was assigned to MKB decreasing the outstanding loan while CPH and Ercorner provided ESI with a loan, in equal shares, with regard to the remaining 20%. As of today, PC, MKB, CPH and ESI hold approximately 30%, 30%, 27% and 10% respectively directly or indirectly in Dream Island. A fourth unrelated company – Minesol Magyarország Vagyonkezelő Korlátolt Felelősségű, holds approximately 3% of Dream Island's shares.

Under the above shareholders agreement, CPH was also granted a put option, exercisable during the 3-year period after the closing of the agreement (April 2005), to sell all its holdings in Dream Island to Ercorner at a price reflecting the cost of acquisition of the quotas by Ercorner plus interest less profits paid out by Ercorner until the date of sale. The parties have agreed to make necessary contributions with regard to any additional financing pro-rata to their holdings.

In the event of a change of control in one of the parties or in the event of a defaulting party, as stipulated in the agreement, a “buy-out” option is triggered for the benefit of the remaining parties pro rata to their holdings at a price to be determined by the shareholders, or where the shareholder are unable to reach an agreement-by specified experts. The parties undertook certain restrictions on the transfer of quotas within Dream Island during a period of two years from the closing of the transactions.

Dream Island has submitted applications to local planning authorities in order to modify the permitted urban usage designations, so as to maximize the development potential of the area owned by Dream Island. As security for obtaining these permits, EMI has executed a corporate guarantee in favor of MKB. In May 2006, the Budapest General Assembly approved the amendment to the local town-planning scheme (KSZT), which approves the construction plans for this site. Formal regulatory approvals of the KSZT modification contained in the Budapest General Assembly resolution are currently pending. As part of the above approval provided, Dream Island has undertaken to ensure the traffic connections to, from and within the island and to develop detailed landscape works. The additional investment required of Dream Island in consideration of the traffic connections and the development of landscape is estimated in HUF 14.5 billion (approximately \$67.9 million).

Plaza House Building

Plaza House Kft., our indirect wholly owned subsidiary, owns an office building located on the prestigious Andrássy Boulevard, in the center of Budapest. The building is located on a property totaling approximately 6,600 square feet and consists of four floors, an atrium and a basement, with a total constructed area of approximately 26,000 square feet. The site is located in an exclusive area of the city in which several foreign embassies are located. Parts of the building have been leased to subsidiaries of PC. The building is also used as the headquarters of PC’s management.

Duna Plaza Offices

Within the framework of the 2004 Klepierre sale agreement (as described above), Klepierre has acquired from PC all of the equity rights in Duna Plaza. Duna Plaza is the owner of the Duna Plaza complex, which is comprised of Duna Plaza shopping and entertainment center and the Duna Plaza offices (“DPO”). The DPO are located on the third, fourth and fifth floors of the building and having approximately 120,000 square feet leasable area of offices and approximately 5,700 square feet leasable area of storage.

Since DPO was specifically excluded from the framework of the transaction, Klepierre and PC have agreed to implement certain procedures to cause: (i) the registration of the DPO as a separate condominium unit the rights of which will be initially held by Duna Plaza; (ii) implementation of a de-merger of the Duna Plaza complex in such manner that DPO will be owned by a newly incorporated company; and (iii) the sale and transfer to PC of the of the new company that will hold the DPO. The assets of the Duna Plaza complex will be divided in such manner that Duna Plaza will retain ownership of the Duna Plaza shopping center, while the DPO will be owned indirectly by PC. The liabilities of Duna Plaza shall be divided in such a manner that Duna Plaza shall retain the liabilities associated with the sold center, while DPO Owner shall assume the liabilities associated with the DPO. PC shall indemnify Duna Plaza for the liabilities assumed by DPO Owner. All costs, liabilities and expenses incurred or to be incurred in connection with the de-merger procedures shall be at PC’s sole cost.

During the interim period prior to the consummation of the de-merger procedures, PC shall be entitled to all rental and other revenues (excluding from the sale of utilities) which shall received by Duna Plaza from the DPO tenants, after deducting the aggregate amount of: (i) all direct costs and expenses and taxes which shall be incurred or paid by Duna Plaza which directly relate to the ownership, operation and management of the DPO; and (ii) that proportion of the general costs and expenses and taxes of the Duna Plaza Complex, which may reasonably be attributed and apportioned to the DPO. During the interim period, PC shall be responsible for and shall manage and operate the DPO. Duna Plaza shall have a lien over DPO’s funds, as security for payment of the DPO costs. PC will indemnify Klepierre for and against any cost, debt, actions, suits and liability that may arise as a result of or in connection with the ownership, possession, operation and transfer of the DPO.

As of the date of this annual report, the condominium was registered in June 2006 and we expect the de-merger to be completed by the end of 2006.

The Praha Plaza Commercial Complex

Praha Plaza s.r.o., our indirect wholly-owned subsidiary, owns a commercial complex comprised of a number of buildings located in the Third District of Prague, the Czech Republic. The building’s strategic location allows for convenient transportation to the complex.

The buildings are located on property totaling approximately 500,000 square feet and consist of a five floor main building and a basement, an office building consisting of four floors and an office building of two floors. In addition, there are a number of other buildings of one floor each. The total leaseable area of the buildings is approximately 477,000 square feet. The property is currently operating as a commercial complex with a 45% occupancy rate as at May 31, 2006.

We are currently considering the construction of residential apartments on the land.

Helios Plaza

We own a plot of land measuring approximately 160,000 square feet located adjacent to the Piraeus Avenue in Athens, Greece. The book value of the investment in the land (including development and other costs) equaled on December 31, 2005, approximately €22.5 million (approximately \$26.6 million). Following the issue of a ministerial decision which changed the land use along the Piraeus Avenue, the permitted land use applicable to this site are presently unclear. We have filed in April 2005 a petition in the Constitutional Court against this ministerial decision. We, together with our legal counsel and professional advisers, are presently examining the ministerial decision and assessing the development opportunities for this site.

In addition to the above, we own several other plots in Central and Eastern Europe whose costs is not material to us.

The following table summarizes the principle characteristics of each of the real estate properties described above.

Name, Location	Title	Approximate Land Area (Sq.Ft.)	Approximate Constructed Area (Sq.Ft.)	Leaseable area (Sq. Ft)	Occupancy rate	Encumbrances	Permits	Miscellaneous
Dream Island Project Budapest, Hungary	Freehold	Estimated at 3.5 million	Estimated at 3.5 million	Estimated as 3.8 million	---	First ranking mortgage on the land and on the buildings.	Amendment to the local town planning scheme (KSZT) was approved. Formal regulatory approvals of the KSZT modification contained in the Budapest General Assembly resolution are currently pending.	Scheduled opening is expected to be in 2002.
Plaza House Building, Budapest, Hungary	Freehold	6,600	26,400	19,874	100%	First ranking mortgage on the land and the building.	---	
Duna Plaza Offices Budapest, Hungary	Freehold	part of the Duna Plaza center	147,000	120,157	81%	After de-merger the real estate will be mortgaged.	---	The Duna Plaza offices are currently owned by Klepierre. Upon the completion of the de- merger, Klepierre will maintain ownership over the Duna Plaza center and we will own the Duna Plaza Offices
The Praha Plaza Commercial Complex, Prague, Czech Republic	Freehold	538,000	505,720	484,000	45%	First ranking mortgage on land and buildings.	---	
Helios Plaza, Athens Greece	Freehold	160,000	---	---	---	Prenotation of mortgage (similar to a mortgage) on the land.	---	Due to changes in the relevant zoning scheme applicable to the project, we are presently re- assessing this project.

Hotels

The goal of our hotel business is to acquire and manage, via management companies, four-star hotel properties which provide, at four star hotel prices, the business and vacation traveler with five star quality accommodations that are conveniently located near major transportation stations.

Our ownership percentage in our hotels varies, and the remaining interests in those hotels that are not wholly-owned by us are owned by various unrelated third parties, including subsidiaries of the Red Sea group of companies (“Red Sea”) which is our business partner in six of our eight operating hotels and in one of the hotels which is currently under development. Red Sea is engaged in the initiation and development of residential and commercial real estate projects in Israel and in the operation of chain of hotels and income producing real estate abroad. In certain hotels, Park Plaza received 5% or 10% of the equity rights in the companies holding these hotels. See “- Management of Hotels” below.

Set forth below is our percentage ownership and other certain information relating to our hotels:

Operating Hotels

Name and Rate of Hotel	Title	Approximate Constructed Area (Sq. Ft.)	Total Rooms	Average Occupancy Rates During 2005	Other Information	Encumbrances	Miscellaneous
Victoria Hotel, Amsterdam, The Netherlands Four Star	Freehold	220,000	305 (27 Suites)	93%	<ul style="list-style-type: none"> • business center • health center 	Mortgage on the hotel.	The hotel is jointly owned (50% EMI, 50% Red Sea).
Utrecht Park Plaza Hotel, Utrecht, the Netherlands Four Star	Leasehold	55,880	120 (40 executive rooms)	74%	<ul style="list-style-type: none"> • 11 conference rooms 	Pledge on long term lease rights. Mortgage on the hotel.	The hotel is jointly owned (50% EMI, 50% Red Sea). Leasehold rights capitalized for a 50-year period until 2036. The municipality has the right to terminate the leasehold rights should it determine that the land is required for public use or in the event a court determines that the lessee failed to fulfill its undertakings under the terms of the lease.
Astrid Park Plaza Hotel, Antwerp, Belgium Four Star	Freehold	223,300	229 (19 business suites)	74%	<ul style="list-style-type: none"> • includes an oceanarium attraction (Aquatopia) • 12 boardrooms • 18 conference rooms 	An undertaking to mortgage the hotel. The mortgage has not yet been registered.	
Centerville Hotel Apartments Bucaresti, Romania	Freehold	409,000	230	89%	<ul style="list-style-type: none"> • fully operational since May 2003. 	First ranking mortgage on the apartments hotel.	We hold 70% interest and the remaining are held by unrelated third parties and the public.
Sherlock Holmes Park Plaza Hotel, London, the United Kingdom Four Star	Leasehold	67,460	119 (17 executive studios, 3 split level "loft" suites)	83%	<ul style="list-style-type: none"> • fitness center • main meeting room for 600 people • 6 board rooms 	First ranking mortgage on the land and the hotel.	Equity rights are held: 50% - EMI and 50% - Red Sea; Voting rights are held: 45% - EMI, 45% - Red Sea and 10% - Park Plaza. Sub-lease for 99 years since 1996. The company holding the property has an option to terminate the lease in 2059 with an advance notice of 2.5 years.

Name and Rate of Hotel	Title	Approximate Constructed Area (Sq. Ft.)	Total Rooms	Average Occupancy Rates During 2005	Other Information	Encumbrances	Miscellaneous
Victoria Park Plaza Hotel, London, the United Kingdom Four Star Deluxe	Freehold	242,000	287 (22 business suite and 12 main suites) and 12 apartments	87%	<ul style="list-style-type: none"> Executive lounge health center main conference room for up to 750 people 13 additional conference rooms underground parking facilities 	First ranking mortgage on the land and the hotel.	Equity rights are held: 50% - EMI and 50% - Red Sea; Voting rights are held: 50% - EMI, 45% - Red Sea and 5% - Park Plaza.
Riverbank Park Plaza Hotel, London, the United Kingdom Four Star Deluxe	Leasehold	337,100	396 and an additional 66 apartment hotel luxury suites	soft opening since April 2005	<ul style="list-style-type: none"> full leisure center two main conference rooms, each with capacity of up to 650 people 20 additional conference rooms 	First ranking mortgage on the land and the hotel	<p>Equity rights are held: 50% - EMI, 50% - Red Sea; Voting rights are held: 45% - EMI, 45% - Red Sea and 10% - Park Plaza.</p> <p>Leasehold rights for 125 years. Should the lessee breach any of its undertakings under the lease agreement, the lessor would have a right of forfeiture of the property, all as stipulated in the lease agreement.</p>
Sandton Park Plaza Hotel, (1) Johannesburg, South Africa Four Star	Freehold	99,000	138 (61 suites)	53%	business center	First priority mortgage on the hotel	<p>The hotel is owned by number of parties (EMI 33.33%, Red Sea - 33.33% and Jack Dallal 33.33%.</p> <p>The hotel is subject to a sale agreement.</p>

(1) Subject to a sale agreement, see below.

Hotels Under Development

Name and Rate of Hotel	Title	Approximate Land Area (Sq.Ft.)	Approximate Constructed Area (Sq.Ft.)	Total Rooms	Encumbrances	Miscellaneous
Ballet Building Project, Budapest, Hungary Five star	Freehold	29,000	180,500	199	---	The hotel is jointly owned (50% EMI, 50% Red Sea). We are currently re-assessing our development plans for the project in light of offers for the sale of the premises which are currently under consideration.
Bucuresti Hotel, Bucharest, Romania Four Star	Freehold	80,700	484,000	438	First ranking mortgage on the hotel.	We hold 70% interest and the remaining is hold by the public.

During 2005, we opened the Riverbank Park Plaza Hotel located on the bank of the River Thames in London, the United Kingdom. We also continued our plans for the development of two additional hotel projects described in the table above. In Hungary, we made progress on the project for the conversion of the former National Ballet Institute Building, centrally located on Budapest's prestigious Andrassy Boulevard, into a Western business oriented hotel. We commenced the renovation and the refurbishment, and expect to be completed by June 2008. However, we are currently re-assessing our development plans for the project in the light of offers for the sale of the premises which are currently under consideration. In addition, we commenced the renovation and refurbishment of the Bucuresti Hotel in order to enable compliance with the international standards required for a four star business hotel. We expect the renovation works in the Bucuresti hotel to be completed during the fourth quarter of 2007.

On May 30, 2006, we, together with the other owners of the Sandton Hotel, have entered into an agreement for the sale of the entire issued share capital of Park Plaza Hotel Sandton (Pty) Ltd, the company owning the Sandton Hotel, and assignment of all shareholders' loans to an unrelated third party effective as of June 30, 2006. This transaction reflects an asset value of the Sandton Hotel of approximately Rand 52 million (approximately \$8 million). The net consideration to be received by us is estimated at \$1.6 million. The execution of the agreement is subject, *inter alia*, to the completion of a due diligence investigation to the satisfaction of the Purchaser.

Agreements with Respect to Ownership of the Hotels

We are a party to a shareholder agreement with Red Sea dated February 15, 1993, as amended, with respect to our indirect ownership of the Victoria Park Plaza hotel in Amsterdam. Under the agreement, in the event Control Centers or Red Sea no longer controls the entities owning the Victoria Park Plaza hotel, then the party who ceased to control such entity must offer its holdings in the entities owning the Victoria Park Plaza hotel to the other party at value to be agreed upon by the parties. We are also a party to a shareholder agreement with all unrelated third parties that hold interests in the company owning the Sandton Hotel, dated April 1, 1999, with regard to the Sandton Hotel. The agreement includes right of first offer and tag along provisions applicable to all parties. For the sale of the company holding the Sandton Hotel see above.

With respect to all the other properties we have no written agreements governing the operation of the hotels and the sale of our respective shares.

Hotels under Development

We are a party to an agreement with Control Centers, our indirect parent, for the receipt of services of coordination, planning, execution and supervision over with respect to the renovation works of the Bucuresti Hotel complex, which include the Bucuresti hotel and the Centerville hotel apartments. See "Item 7. Major Shareholders and Related Party Transactions - B. Related Party Transactions - Agreements for the Purchase of Coordination Planning and Supervision Services over Construction Projects" below.

Management of Hotels

Management agreement with Park Plaza

Most of our operating hotels have appointed Park Plaza Europe B.V. ("Park Plaza"), an unrelated third party management company, as their management company. Park Plaza owns the franchise to the "Park Plaza" brand name in the Benelux countries, the United Kingdom, various countries in Eastern Europe, South Africa and a number of countries in the Middle East. Park Plaza is responsible for the operation of the hotels, including the supervision of the local management and staff. Local management is employed by the respective company owning the hotel and not by Park Plaza, although Park Plaza does render hiring services.

Each of our subsidiaries holding interests in the Victoria, Utrecht, Astrid, Sherlock Holmes, Victoria London and Riverbank hotels has entered into a restated management agreement with Park Plaza, the principal provisions of which include:

- Payment to Park Plaza of an annual incentive fee of 7% of the gross operating profit (as defined in the applicable agreement) of the hotel ("Incentive Fee").
- Payment to Park Plaza of an annual base fee of 2% of the gross hotel room revenues ("Annual Base Fee")
- Reimbursement of reasonable out-of-pocket expenses, including advertising expenses, office expenses (at a fixed amount) and other expenses incurred by Park Plaza in carrying out its duties of up to 3% of the aforementioned gross operating profit.
- In consideration for monthly royalties of up to 1.5% of the gross hotel-room revenues ("Franchise Fee"), our hotels may use the brand name "Park Plaza", certain Park Plaza trademarks, Park Plaza's international marketing network and international booking center, Park Plaza's marketing and advertising material, Park Plaza's

international hotel conferences, Park Plaza's assistance in planning, developing and applying its methods with respect to the hotels, training of staff and senior management of the hotels, and inclusion in the list of Park Plaza hotels worldwide. We design and refurbish our hotels in order to comply with Park Plaza's operational standards.

- Each management agreement is valid for an initial fifteen-year period, and renewable automatically for an additional period of ten years, subject to the right of either party to terminate the agreement by giving twelve months advance notice (or six months advance notice in the event that we decide on early termination of the management agreement). If any of the hotel-owning companies should decide on early termination of the management agreement, then it would be required to pay to Park Plaza an amount equal to the Incentive Fee, the Annual Base Fee and the Franchise Fee for the year immediately preceding the date of that sale. In the event the company holding the Victoria hotel (Amsterdam) sells the hotel or should the control of the hotel be transferred to third party, we are also required to pay 2.5% of any gain derived from the sale of the hotel.

No formal agreement has been signed with Park Plaza in respect of the management of the Sandton Hotel in South Africa, although Park Plaza manages the hotel on a de-facto basis on the same terms and conditions as the remaining operational hotels.

Park Plaza has been awarded 5% or 10% of the equity rights (excluding voting rights) in the companies holding the Riverbank (10%), Sherlock Holmes (10%) and Victoria London (5%) hotels.

Option to purchase Park Plaza's Operations

BEA Hotels N.V., our wholly owned indirect subsidiary, ("BEA"), was granted an option in June 2001 from Park Plaza, exercisable until December 31, 2006, to purchase from Park Plaza 33% of the ownership and controlling rights in a company under its ownership, which was incorporated to acquire the business (including tangible assets, hotel management agreements, management rights, rights to use trade names, etc.) of the Park Plaza chain in Europe (the "Acquired Company"). As part of the agreement, BEA granted Park Plaza two loans in the aggregate amount of \$5 million. The terms of the loans are as follows: (i) a loan of \$1.67 million linked to the U.S. Dollar, which bears annual interest at the rate of Libor plus 1% and (ii) an additional loan of \$3.33 million in exchange for an option to convert the principal of \$3.33 million into shares of the Acquired Company. As part of this agreement, if BEA decides not to exercise the option, the additional loan of \$3.33 million would have the same terms of the \$1.67 million loan described above. As security for the repayment of the loans, we will hold back amounts payable to Park Plaza with respect to Park Plaza's rights in our hotels, except for management fees of the hotels. In addition, we have further agreed to provide the Acquired Company with an additional loan of up to an additional \$2.25 million, if and to the extent this amount is required for the purchase of other assets by the Acquired Company. As part of this agreement, in the event of exercise of the option by us, Park Plaza has an option, exercisable at any time prior to December 31, 2006, in the event of disagreement between the parties regarding Park Plaza's rights, to acquire BEA's shares in the Acquired Company in consideration for the refund of the cost of BEA's original investment.

Management Agreement with the Rezidor Group

On June 9, 2004, our indirect subsidiary, S.C. Bucuresti Turism S.A., the owner of the Bucuresti hotel (the "Owner"), which is currently undergoing renovation works, entered into an agreement with the Rezidor Group (through its subsidiaries) (the "Management Company") regarding the future management of the Bucuresti hotel to be operated under the "Radisson SAS" trade name.

Under the agreement the Owner undertook to pay the Management Company an annual base fee of 3.5% of the total revenue and an annual management fee of 10% of the gross operating profit. Both fees payable to the Management Company shall be no less than certain agreed minimum amounts depending on the relevant year. In addition, the Owner will pay the Management Company 2.5% of gross room revenue for marketing and advertising services as well as an agreed fee per room for reservations of rooms.

The Management Company guarantees the Owner that the adjusted gross operating profit (the total revenue less expense, permitted deductions, management fee and property insurance) for the hotel operation shall not be less than fixed annual amounts.

On the same day, our indirect subsidiary, Andrassy 25 kft, the owner of the "Ballet Institute" building in Budapest (the "Owner"), which is currently under development, entered into an agreement with the Management Company regarding the future management of the "Ballet Institute" to be operated under the "Regent" trade name.

Under the agreement the Owner undertook to pay the Management Company an annual base fee ranging from 3.5% to 4.25% of the total revenue depending on the relevant year, and an annual management fee ranging from 10% to 13% of the gross operating profit depending on the relevant year. Both fees payable to the Management Company shall be no less than certain agreed minimum amounts depending on the relevant year. In addition, the Owner will pay the Management Company 2.5% of gross room revenue for marketing and advertising services as well as an agreed fee per room for reservations of

rooms.

The Management Company guarantees the Owner that the adjusted gross operating profit (the total revenue less expense, permitted deductions, management fee and property insurance) for the hotel operation shall not be less than fixed annual amounts.

Business Concept and Strategy

The business concept and strategy of the hotels include the following elements:

Location. Our hotels are generally situated in close proximity to major railway links into cities, such as the central railway station in Amsterdam (situated across from our Victoria Hotel), the central railway station in Antwerp (situated close to our Astrid Park Plaza hotel) and the Victoria railway station in London (situated close to our Victoria Park Plaza hotel). The London and Antwerp stations are scheduled to accommodate the services of the Train de Grand Vitesse (the “TGV”), when such services become operational in those areas.

Service. Our hotels make considerable efforts to offer personal services at a five-star level but at four-star level prices.

Customer base. Our hotels’ principal target customer base is the business traveler and the tourist industry, both individuals and groups.

Management. Our hotels focus on strategic cooperation and affiliation with management companies with know-how and expertise in hotel management, which enables optimal use of a centralized reservation system, and which provides the advantage of a unified management system that promotes the efficiency of the operation and control of hotels in diverse locations.

Strategy. Our strategy for the hotels business is increasing the number of hotel rooms in both Western and Eastern Europe, with emphasis on those cities in which a shortage of rooms exists, or where a shortage of quality rooms exists. This strategy is being implemented both by the acquisition and renovation of existing operational hotels and by the construction and development of new hotels on land purchased or leased in optimal locations. Where appropriate, we may draw on the experience and resources of our group affiliates to develop integrated projects which will include hotels and shopping and entertainment centers, subject to applicable restrictions. When opportunities arise, we also seek to lease hotels or sell our interests in hotels.

Long-Term Lease of Real Estate Property

In January 2003 one of our hotels in London, England owned by Shaw Hotel Holding B.V (in which we are a 30% shareholder) was leased to a company engaged in the hotels business for a period of 25 years in consideration for fixed rental fees for each of the initial four years of the lease. Commencing the fifth year and throughout the term of the lease period, rental fees are to increase at an annual rate of 2.5%. Payment of the rental fees were guaranteed by a deposit in the amount of approximately £2.5 million (approximately \$4.3 million) (our part being approximately £0.75 million (approximately \$1.3 million)). The lessee was granted on option to extend the lease period by two consecutive periods of 15 years each.

In December 2005, we, together with the remaining holders of Shaw Hotel Holding B.V, sold all of our holdings in Shaw Hotel Holding B.V., the owner of the above hotel, to an unrelated third party at an asset value of £74.8 million (approximately \$129 million). The net consideration received (after deduction of bank loans and other working capital items) was approximately £4 million (approximately \$6.9 million).

The Image Guided Treatment Business

All of our activities in the image guided treatment field are performed through InSightec.

As of December 31, 2005, the principal shareholders of InSightec were EMI (69.40% shareholder and 52.15% shareholder on a fully diluted basis), GE (25.25% shareholder and 20.63% shareholder on a fully diluted basis) and MTA (3.87% shareholder and 6.87% shareholder on a fully diluted basis). The remaining holdings of InSightec are held by employees, directors and officers.

We are a party to an amended and restated shareholders agreement together with GE and MTA dated September 27, 2004. For so long as we continue to beneficially hold 50.01% or more of the outstanding share capital of InSightec on a fully diluted basis, we are allowed to appoint three directors to serve on InSightec’s board of directors and no action shall be taken without the affirmative vote of a majority of our designated directors present. GE was granted veto rights over the execution of certain significant transactions or activities not in the ordinary course of business of InSightec. The parties have a right to participate in any new financing pro rata to their holdings.

The agreement further provides for certain limitations on the transfer of each party's holdings in InSightec, including, transfer to a competing entity and a right of first refusal granted to us and GE in the event of sale by either of us of its holdings. In the event we sell our holdings, GE and MTA have a right of co-sale. A change of control in us to a competing entity of GE in the focused ultrasound therapy or medical imaging business while we control or own 30% of InSightec's outstanding shares on a fully diluted basis, grants GE and MTA a right to sell their holdings in InSightec to us at fair value (in accordance with a mechanism provided in the agreement) or acquire our holdings in InSightec at fair value. Termination of the agreement by either us or GE following a material breach of the other party grants the other party a right to purchase the defaulting party's securities at 90% of their fair value. If GE terminates the agreement as aforementioned, GE has a right to sell its holding to us at 110% of their fair value. If the rights to purchase or sell the other party's holdings in the event of termination, as described above, is exercised, the terminating party who purchases the other party's holdings has an option to include all of MTA's holdings in the transaction. MTA has a right to include its holdings in such transaction under the same terms and conditions in the event a purchase transaction is consummated (upon termination as described above) without the exercise of the option.

Business description

InSightec has developed and markets the ExAblate 2000, the first FDA-approved system for Magnetic Resonance guided Focused Ultrasound Surgery ("MRgFUS"). InSightec's objective is to transform the surgical environment for the treatment of a limited number of forms of benign and malignant tumors by replacing invasive and minimally invasive surgical procedures with an incisionless surgical treatment solution. The system is designed to deliver safe and effective non-invasive treatments while reducing the risk of morbidity and potential complications, as well as the direct and indirect costs associated with conventional surgery. In October 2004, InSightec received FDA approval to market the ExAblate 2000 in the United States for the treatment of uterine fibroids, a type of benign tumor of the uterus. Prior to that, in October 2002, InSightec received authorization to affix the CE mark to the ExAblate 2000, enabling it to market the system in the European Economic Area for the treatment of uterine fibroids. InSightec also has regulatory approval for the ExAblate 2000 for uterine fibroids in Russia, Taiwan, Australia and Singapore. InSightec is also in various stages of development and clinical research for the application of its MRgFUS technology to the treatment of other types of benign and malignant tumors. These additional applications are being developed to take advantage of the modular design of the ExAblate 2000, which enables it to function as a common platform for multiple MRgFUS-based surgical applications. Currently, InSightec has an installed base of 36 units around the world in academic hospitals, community hospitals, MRI clinics and physician-formed joint ventures. The ExAblate 2000 is operable only with certain MRI systems manufactured by GE. InSightec estimates that the ExAblate 2000 is compatible with approximately 2,400, or 34%, of the estimated 7,000 MRI systems installed in the United States. InSightec recently signed an exclusive worldwide (except for Russia and Japan) sales and marketing agreement with GE with respect to the ExAblate 2000. InSightec believes that its relationship with GE will enable us to leverage GE's marketing and sales resources to accelerate its market penetration.

InSightec's MRgFUS technology integrates the therapeutic effects of focused ultrasound energy with the precision guidance and treatment outcome monitoring provided by MRI systems. Ultrasound is a form of energy that can pass harmlessly through skin, muscle, fat and other soft tissue, and is widely used in diagnostic applications. The ExAblate 2000 uses a phased-array transducer that generates a high intensity, focused beam of ultrasound energy, or a sonication, aimed at a small volume of targeted tissue. The focused ultrasound energy provides an incisionless therapeutic effect by raising the temperature of the targeted tissue mass high enough to ablate, or destroy it, while minimizing the risk of damage to overlaying and surrounding tissue.

Magnetic resonance imaging provides an effective guidance system for the use of focused ultrasound energy in InSightec's therapeutic applications. Used in conjunction with the ExAblate 2000, the MRI system precisely maps the treatment area in three dimensions immediately prior to the treatment, providing information on the location and shape of the targeted tissue mass. The high-quality images produced by the MRI system enable the operating physician to easily differentiate between the targeted tissue mass and the surrounding tissue. Based upon this information, the operating physician delineates the targeted tissue mass and our system calculates an optimal treatment plan which is displayed to the operating physician. The operating physician is then able to alter the pathway of the ultrasound beam by adjusting the position of the transducer before initiating the sonication of the targeted tissue mass. At three second intervals during the procedure, the MRI system provides "real-time" imaging and other data that are used by the ExAblate 2000 to calculate and display temperature maps of the treatment area in what is known as a "closed loop process." This continuous stream of data enables the operating physician to make adjustments during the treatment to achieve the desired outcome. At the end of the procedure, the operating physician can initiate a MRI scan to immediately assess the overall treatment outcome. InSightec believes that by combining the non-invasive therapeutic effects of focused ultrasound energy and the precise "real-time" data provided by the MRI system, it has developed an effective, non-invasive treatment solution for uterine fibroids.

Concurrent with FDA approval for the use of the ExAblate 2000 to treat uterine fibroids, the FDA issued a "Talk Paper" stating that the ExAblate 2000 provides significant advantages over existing uterine fibroid treatment options. The FDA issues "Talk Papers" in situations where the FDA desires to increase awareness of certain issues or developments, including significant new product approvals. InSightec believes that its MRgFUS technology can be applied to the treatment of other medical conditions, providing similar advantages by presenting both physicians and patients with a safe and effective incisionless surgical treatment option for several medical conditions, including a number of indications for which there are currently few effective treatment options.

The following table summarizes the current indications for which InSightec has developed or is developing the ExAblate 2000:

<u>Treatment Application</u>	<u>Product Development Status</u>	<u>Clinical Study Status</u>
Uterine fibroids	Complete	FDA and CE mark approval received. Follow-up studies underway.
Breast fibroadenomas	Final stages	Feasibility study started in Japan.
Breast cancer	Final stages	Feasibility study finished outside the United States. Phase 2 study to start in the United States soon.
Metastatic bone tumors (palliative treatment only)	Ongoing	Feasibility study underway outside the United States.
Liver cancer	Ongoing	Feasibility study underway outside the United States.
Prostate cancer	Prototype under development	Phase I study in the United States in planning stages.
Brain tumors	Ongoing	Feasibility study underway outside the United States; Phase I study underway in the United States.

Distribution and Marketing

InSightec distributes and markets its products directly and through the entering into distribution agreements with third parties.

In June 2005, InSightec entered into a worldwide distribution and sale representation agreement with GE granting GE the exclusive worldwide distribution rights to market and promote InSightec's product subject to the achievement of a minimum sales targets, except in territories where InSightec already has existing distributors and representatives (Russia and Japan as described below). Subject to the terms of the agreement, in consideration of the services rendered, InSightec shall pay GE a commission on the net sales invoiced and actual payments received by InSightec for each order for the sale of products from an end-user resulting from GE Healthcare's activities. InSightec undertook not to enter into any new arrangements with third parties for so long as GE maintains its exclusive rights as described herein. Nevertheless, InSightec retains the right to promote, market and sell its products to end-users directly, through its employees. In case GE desires to market or sell any competing MRgFUS product in a territory, which InSightec holds all authorizations required to market its product in, then GE will notify InSightec of such intention. If despite InSightec's objection, GE chooses to market such competing product, then its rights in such country, for InSightec's product will automatically become non-exclusive. The agreement is for a five-year term ending in June 2010, unless earlier terminated in accordance with the terms of the agreement. Thereafter, the agreement will automatically renew, each time, for an additional year, unless either party provides a written notice of its intent to terminate the agreement.

InSightec retains an exclusive distributor in Russia and a non-exclusive distributor in Japan. Each of these distributors undertook not to distribute any other systems, which compete or may compete with InSightec's FUS system for specific periods determined in the agreements.

In addition, since September 2002, InSightec has been a party to an agreement with MTA, as amended, pursuant to which InSightec received advisory and consultation activities as well as marketing activities from MTA in consideration for a fixed monthly amount and a success fee commission of 2% of the value of any signed purchase order, for which MTA was involved. The agreement was terminated on April 1, 2006.

Business Concept and Strategy

InSightec's strategic objective in this area is to continue its follow-up studies for uterine fibroids, as well as its product development efforts and clinical studies for additional applications. If the results of its clinical studies are positive, InSightec intends to pursue regulatory approval in the United States and other targeted jurisdictions to market the ExAblate 2000 for these additional treatment applications.

In addition, InSightec aims to become the market leader in MRgFUS systems, and to achieve a significant improvement in the quality and efficacy of the treatment while demonstrating cost effectiveness.

Other Activities

Mango

In May 2005, Elscint has purchased from Punto FA the entire equity and voting rights in Mango Israel Clothing and Footwear Ltd., the Israeli distributor and retailer of the internationally renowned retail brand name MANGO-MNG™ in consideration for €2.85 million. Under the agreement, Elscint has undertaken to develop at least two stores in Israel within five years and additional two stores during the five years thereafter. Under the agreement Punto FA is allowed to continue operating an additional store in Eilat and to sell the MANGO products in Israel via Internet. Elscint was awarded an option to purchase the store in Eilat by February 2007 in consideration for €250,000 (\$295,000).

Concurrently with the purchase agreement, Mango executed an exclusive distribution agreement of Mango products in Israel for a ten-year period. Under the agreement, Elscint has agreed to guarantee annual minimum purchases at rates and subject to terms and conditions specified in the agreement. Mango Israel has undertaken to pay Punto FA seasonal marketing, public relations, and store-support fees as specified in the agreement.

Mango currently leases six stores in Israel: in Tel Aviv (Azrieli shopping center), Kfar-Saba, the Kraiot (Kyrion shopping center), Haifa (Grand Canyon shopping center), Petah-Tikva (The Grand Canyon), Herzliya (the Arena) and an additional three outlet stores in Haifa, Natanya and Beer-Sheva.

The key elements of Mango's strategy are to:

- Increase sales to existing and new customers by adjusting our pricing strategy and market behavior. Mango believes its customer service and reliability as a franchisee of a leading international brand to provide it with a competitive advantage.
- Localization and enhancing the Mango brand in Israel by improving its marketing and branding strategy.
- Open new stores in strategic locations across Israel with emphasis on opening smaller shops of 250-300 square meters rather than stores of larger square meters, which are currently in operation, as well as by reducing the size of the stores currently in operation.
- Reduce the percentage of outlet stores out of the total Mango stores in Israel, and relocate the outlet stores to the suburbs.

Venture Capital Investments

In addition to our core operations, we hold interests in the following companies. Our investments in these companies are not significant to our results of operations.

Gamida Cell Ltd.

Since its establishment in early 2000, Elscint Bio-Medical Ltd. ("EBM"), our indirect wholly owned subsidiary, has focused on investments in early stage biotechnology companies. During 2001 and 2002, EBM expanded its investment in Gamida, an Israeli company that engages in the expansion of hematopoietic (blood) stem cells therapeutics in clinical development for cancer and autoimmune diseases, as well as future regenerative cell-based medicines including cardiac and pancreatic repair. Cord blood stem cells have the ability to treat the same diseases as bone marrow with significantly less rejection. In addition, stem cells could become the vehicle of choice for gene therapy and, ultimately, be used for tissue regeneration.

Elscint is a party to an agreement pursuant to which mainly the existing shareholders of Gamida invested during July 2005 an aggregate amount of \$4 million (out of which our share was \$1.36 million) in consideration for the issuance of Gamida's securities which have the same rights as the securities issued during Gamida's last equity financing round.

As of December 31, 2005, EBM holds approximately 33.46% of the outstanding shares of Gamida (approximately 30.3% on a fully-diluted basis. EBM has the right to appoint one quarter of the members of Gamida's board of directors. The aggregate investment made by EBM in Gamida since Gamida's establishment is approximately \$9.2 million (out of which approximately \$1.6 million was invested in 2005).

In May 2003, Teva Pharmaceuticals Ltd. ("Teva") invested \$3 million in Gamida in exchange for approximately 9% (on a fully-diluted basis) of Gamida's outstanding share capital.

On February 12, 2006, Gamida Cell Holding Ltd. ("Holding"), Gamida, Teva and Holding signed a founders agreement. The sole purpose of Holding shall be commercialization of the products and obtaining all required registrations and

marketing approvals.

Teva shall make an equity investment in Holding of up to \$25 million in consideration for up to 50% of Holding shares. The funding shall be payable as follows: as of the closing date, Teva will sign an irrevocable commitment for payment of a total amount of \$10 million payable in installments. The additional funding totaling \$15 million shall be paid quarterly based on the budget of Holding. Teva shall be entitled to accelerate the funding payments schedule.

In the framework of the agreement Gamida and Holding shall sign a license agreement according to which Gamida shall grant Holding a royalty free, worldwide license to exploit the products and Gamida's IP necessary for developing, manufacturing sale and distribution of the product and a royalty free, illimitable, worldwide exclusive license to manufacture, develop, market, offer for sale, distribute and sell the products and the right to sublicense. The license agreement is subject to the approvals required from Office of the Chief Scientist. Certain cancellation arrangements were determined between Gamida and Teva.

EBM was bound in the past by agreements with a company controlled by its former Chief Executive Officer ("CEO") entitling him to shares representing 2% of EBM's issued and paid-up capital, in consideration for their nominal value. The agreement also provided that EBM would invest 92% and the CEO's company would invest 8% in venture capital investments. The CEO's company's investment would be financed by a dollar-linked non-recourse loan bearing LIBOR+1% interest from EBM. In the event of cancellation of this agreement (or another agreement between the parties for the provision of consulting services), EBM would be entitled, under certain conditions, to acquire all or any of the CEO's company's holdings in the venture capital investments and in EBM at cost or at market value, as relevant (depending on the purchase date).

In November 2002, the employment agreement between EBM and its CEO was terminated. Pursuant to the termination agreement, EBM transferred to itself the CEO's rights in EBM and its portfolio investee companies, in consideration for the repayment of the loans provided by EBM to the CEO.

A dispute arose between the parties, with the CEO contending that EBM had lost its right to acquire his holdings, claiming the deadline according to the agreement for giving notice to acquire had expired. EBM's management disputes this contention and is acting to realize its rights under the agreement. The parties have yet to sign a full and final agreement for the waiver and/or settlement of their mutual claims. EBM's management estimates that in any event, it will not incur significant costs from the termination of the agreements.

Concurrently with the termination of the employment agreement of the CEO, EBM's management postponed for the foreseeable future further investment opportunities in biotechnology related companies, other than Gamida, pending its re-assessment of the market situation.

Olive Software Inc.

Olive Software Inc. ("Olive"), a Delaware corporation, is engaged in the development and marketing of products that enable a transparent link between the newspapers' traditional printing systems and the world of e-publishing. These products enable newspapers and magazines to automatically present their printed edition on the Internet, while supporting the e-commerce applications, personalization and interactive advertising. In addition, Olive develops and markets digital archive services for newspapers and libraries. In January 2000, the Dafnit fund invested \$1.2 million in Olive in consideration for an 8.5% interest in Olive (on a fully diluted basis), in March 2004, the Sequoia fund invested \$6 million in Olive in exchange for approximately 26% interest in Olive (on a fully-diluted basis) and in August 2005, the Sequoia and Pitango funds invested \$9 million in Olive in exchange for 5% and 15% interest in Olive (on a fully-diluted basis), respectively. Following the above issuances and as of May 31, 2006, our interest in Olive is 18.3% on a fully diluted basis.

Easyrun Ltd.

Easyrun Ltd. ("Easyrun"), an Israeli corporation, is engaged in the development and marketing of "call centers" solutions, which support under one platform, diversified infrastructure from historical telephony and up to futuristic telecom equipment (IP switchboards) and modern e-commerce applications (Web). We hold a total of 42% of the outstanding shares of Easyrun and the right to appoint 40% of the directors of Easyrun. We also hold other convertible instruments of Easyrun.

Within the framework of the rights offering executed by Easyrun in August 2004, we invested \$0.4 million (out of a \$0.65 million total funding) calculated at \$0.13 per share. In consideration for our investment, we were also granted warrants exercisable into shares, at \$0.13 per share, up to a total amount of \$0.8 million. In addition, we converted a \$0.3 million loan into shares of Easyrun. Assuming all loans are converted and warrants are exercised, our interest in Easyrun would be increased to approximately 53% on a fully diluted basis.

VCON Telecommunications Ltd. ("Vcon"), an Israeli company is a developer and manufacturer of software videoconferencing systems for ISDN and Internet Protocol networks. Vcon offers comprehensive meeting solutions for desk top, portable and group conferencing over ISDN, Transmission Control Protocol or TCP/IP, ATM, Satellite, xDSL and other carriers. Vcon is publicly traded on the Paris Stock Exchange (Nouveau Marche). In August 2005, Vcon reported that following the failure in its previously announced fund raising negotiations, it has determined that it can no longer independently pursue its current mode of operations, and has entered into an agreement for the sale of its business, activities and the majority of its assets, to Emblaze group in consideration of \$1.6 million. Emblaze has also agreed to establish a limited line of credit in an amount, in NIS, equal to \$250,000. Following this transaction, Vcon only engages, under the given circumstances, in maximizing the payments and satisfaction of its debts to its creditors and in its dissolution. Vcon estimates that none of the consideration from the sale will be allocated to its shareholders, accordingly, we recorded a provision for loss in our investment in Vbox amounting to NIS 13.9 million (\$3 million), which constitutes the entire balance of our investment in Vcon.

Revenues classified by business segments and by geographical markets

The following table sets forth our breakdown of revenues by each geographic market in which we operate, for each of the last three years (in thousands of NIS):

		Fiscal Year Ended December 31,		Convenience Translation in U.S. Dollars For 2005
	2005	2004	2003	
(in thousands of NIS)				
Western Europe	304,731	203,615	181,668	66,203
Eastern and Central Europe	359,420	414,457	346,200	78,084
Israel	92,226	71,678	65,235	20,036
Others	60,378	46,131	1,782	13,117
Total Revenues	816,755	735,881	594,885	177,440

The breakdown of revenue by business segments for each of the last three years is presented in the following table (in NIS thousands):

		Fiscal Year Ended December 31,		Convenience Translation in U.S. Dollars For 2005
	2005	2004	2003	
Shopping and Entertainment centers	366,237	443,814	347,056	79,565
Hotels	270,057	218,365	189,205	58,670
Image Guided Treatment	75,713	57,052	20,412	16,449
Lease of an Asset	71,000	15,425	13,495	15,425
Other Activities	33,748	3,412	24,717	7,331
Total Revenues	816,755	735,881	594,885	177,440

Seasonality

Shopping and entertainment centers

Each shopping and entertainment center may experience seasonal shifts in retail activity. Generally speaking, during peak holiday seasons (such as Christmas, Easter, Passover, the Jewish New Year and other national holidays generally in the third and fourth quarter), there is generally an increase in patron traffic, both for the purchase of holiday gifts and for utilizing the entertainment facilities offered by the center. During the period immediately following such periods, there is generally a decrease in the number of patrons visiting the centers and a corresponding slow down in retail activity. However, this slow down may be offset by the fact that the indoor facilities offer an air-conditioned environment for shoppers and patrons, which is of particular significance during the warm summer months in Israel (April/May to October/November), particularly in July and August when schools are in recess and it is customary in Israel to take summer vacations.

Hotels

The business activities of the various hotels, especially in Western Europe, are influenced by several factors that affect the revenues and gross operating profit. These factors include (i) fluctuations in business activity in certain seasons (which affects the volume of traffic in the business community), (ii) holiday seasons (such as Christmas and Easter), and (iii) weather

conditions. In Western Europe, these factors generally cause the first and third quarters to be weaker than the second and fourth quarters. Similarly, in England, differences in the weather and certain other factors cause the first and third quarters to be weaker than the second and fourth quarters.

The first quarter, which is the period immediately following the Christmas season and the height of the European winter, is traditionally characterized by lower revenues and gross operating profit resulting from lower occupancy rates and reduced room rates. During the third quarter, there is generally a decrease in local business activities due to the summer holidays which, together with a tendency for local tourist traffic to seek out resort destinations, also generates slower results. This is offset somewhat by increase in international tourism but the impact of this increase is, in turn, offset by lower room rates, particularly for groups.

However, during the second quarter, there is generally a marked increase due to more favorable weather conditions (spring to early summer), the Easter holiday and the corresponding revival of both business and tourist activity. The fourth quarter is usually the strongest period due to the Christmas and New Year's holiday season and a significant year-end increase in business activities.

For our South African hotel, generally the holiday seasons (Christmas and Easter) show slightly stronger results, although the depressed economy and the political uncertainty of the region have resulted in reduced occupancy rates to the point that seasonal comparisons are largely irrelevant.

Other activities

Mango's business is influenced by seasonal shifts in the apparel market. During the winter season (December – January) and summer season (June- July), the apparel market, including Mango, commences discount sales to the public which consequently increases Mango's revenues and causes a decrease in the gross profit margin for such periods. In addition, Mango's revenues may fluctuate due to seasonal purchasing by consumers especially in peak holiday seasons such as Passover generally in the second quarter, the Jewish New Year and other Jewish and national holidays generally in the third and fourth quarter.

Patents And Proprietary Rights; Licenses

Our parent Europe-Israel was registered by mistake as the owner of a European community Trademark "Plaza Centers+figures" in classes 35, 36, 37 and 42. Europe-Israel has signed an agreement for the assignment of such trademark to Park Plaza. As of the date of this annual report, the assignment agreement has not yet been registered with the European patent and trademark office.

Within the framework of our agreements with Park Plaza and the Rezidor Group for the management of our hotels we were granted rights to use the trade names "Park Plaza" "Regent" and "Radisson SAS". See "- Hotels – Management of the Hotels" above.

In December 1998, InSightec's subsidiary acquired focused ultrasound technology from GE Medical Systems, and all relevant intellectual property including 14 United States patents, as well as 3 applications pending in other countries of which two have subsequently been approved, at an aggregate purchase price of \$5 million and the minority interest in TexSonics Ltd. As of May 31, 2006, InSightec has submitted 72 additional patent applications, out of which 21 have already been approved (19 in the United States and the other two in Europe), with another 40 that remain pending and in process.

In addition, we use the MANGO-MNG™ brand name in accordance with our distribution agreement with Punto FA. See "- Other Activities - Mango" above.

Competition

Shopping and entertainment centers

There are a number of competitors in the Eastern and Central European countries in which we operate or intend to operate in the shopping and entertainment centers business, particularly in larger cities such as Budapest and Warsaw. The following factors, however, should be noted: (a) shopping centers which are not in close proximity and which do not draw their clientele from the same catchment areas are not considered as being competitive; (b) we believe that large retail centers (known as "power centers"), even if they compete with our centers directly merely by virtue of their proximity to our shopping and entertainment centers, are at a disadvantage because they do not offer the entertainment facilities that are offered at our shopping and entertainment centers, and which we consider to be a significant element in the attraction of our patrons; and (c) in the regional cities of Hungary, Poland, Latvia, Romania and the Czech Republic competitive activity is more limited.

In addition to several *ad hoc* entrepreneurial projects, there are two significant groups operating a number of shopping and entertainment centers in the Eastern and Central Europe with whom we compete directly, namely the Tri-Granit based in

Hungary and the ECE chain based in Germany. We compete with these chains in the pre-development stage (for acquisition of suitable sites), in the development stage (obtaining suitably qualified architects, consultants and contractors) and in the operational stage, if the centers compete for the patronage of the same population. We also compete for quality “brand name” tenants to occupy rental units. In locations where competing centers are being constructed simultaneously, the first center to open generally enjoys an advantage over its competitor, which is the reason behind our emphasis on the expeditious completion of construction operations.

Our project in Lodz, Poland is in preliminary planning and development stage as a shopping center integrated with a public market. Due to strong competition, we are currently assessing the scope and nature of this project.

In most of the cities in Poland in which we operate or are developing shopping and entertainment centers, our centers are the only ones of their type in the city, and competition from other centers is minimal or non-existent. In these cities, we compete with traditional shopping outlets. These outlets lack the added benefit of the entertainment activities which our centers offer and, accordingly, we believe that they have difficulty competing with us.

Our Arena shopping and entertainment center in Herzliya, Israel competes directly with a shopping center located in Herzliya and another center located in northern Tel-Aviv, and is approximately 8 kilometers from the site. All these centers compete vigorously for tenants and customers. We are attempting to establish a competitive edge, based on the unique location of the Marina, overlooking the Mediterranean Sea and the strong emphasis on the entertainment facilities offered to its patrons.

Hotels

The lodging industry in Europe has traditionally been classified on a grading system, with five-star representing a luxury hotel and one-star a budget hotel. All of our hotels (except for the Centerville hotel apartments) enjoy a four-star grading, or qualify as four-star establishments, while some are designated as “Four Star Deluxe” establishments.

Each of our hotels competes with other hotels in its geographic area for clientele, including hotels associated with franchisers, which may have more extensive reservation networks than those which may be available to us. We compete with other facilities on various bases, including room prices, quality, service, location and amenities customarily offered to the traveling public. Levels of demand are dependent upon many factors including general and local economic conditions and changes in levels of tourism and business-related travel. Our hotels depend upon both business and tourist travelers for revenues.

Many of these other companies are larger than us. Our hotel in Utrecht, The Netherlands competes directly with the NH Utrecht (which is located directly opposite our hotel), the Mercure Hotel and the Carlton President Hotel. The Victoria Hotel in Amsterdam is located in the city center and is in direct competition with the Barbizon Palace, Swissotel, Golden Tulip Intell, Krasnapolsky and the Crown Plaza. Our Astrid Park Plaza hotel in Antwerp, Belgium competes directly with the Hilton, Holiday Inn, Crown Plaza and Park Lane hotels. The Victoria Park Plaza Hotel in London is in direct competition with a number of three-star plus and four-star rated hotels within relatively close proximity to the Victoria railway station, including the Thistle Grosvenor and the Victoria Holiday Inn hotels, both of which benefit from their close proximity to Victoria station, as well as the Thistle Royal Westminster, Rubens, Status Street, Jolly St Ermins, St. James’s Court and Merchant Court hotels. In addition, there is a considerable number of traditional budget hotels in the proximity of the Victoria Hotel. The Sherlock Holmes Park Plaza Hotel in London competes directly with a number of four-star rated hotels such as Dorst Square Hotel, Myhotel Bloomsbury, Radisson SAS and the Radisson Edwardian. The New Riverbank Park Plaza in London is in direct competition with a number of four-star and five-star rated hotels in relative proximity to the River Thames, including the City Inn Westminster, Crowne Plaza Hotel, County Hall Marriott, Royal Lancaster and the Grosvenor House. The hotel we are planning to construct in Budapest, Hungary will compete directly with the Kempinski, Marriott, Hilton, Inter-Continental and Hyatt hotels. The Bucuresti Hotel in Bucharest competes with the Hilton situated directly across the street, the Intercontinental, and the Marriott Grand Palace hotel. We believe that the average room rate in our hotels is competitive. In addition, we compete with other companies in the hotel industry for opportunities to purchase or build new hotels.

The Image Guided Treatment Business

The competition in the MRgFUS products field can be divided into two main categories: alternative Minimally Invasive Surgery methods (MIS) and competing image guided high intensity focused ultrasound systems (HIFUS).

With respect to MIS methods, in general, there are already tissue ablation methods in various MIS versions (e.g., radio frequency electromagnetic energy inserted into the body by a special needle, laser and cryogenic, and embolization), which are potential competitors with InSightec’s application market. InSightec is not presently aware of any approved non-invasive method in the clinical applications of breast tumors, uterine fibroids or brain tumors. Although these techniques might be somewhat less expensive, they are invasive and may be less accurate and less effective.

InSightec faces competition from both traditional and minimally invasive solutions for the treatment of uterine fibroids and the other medical conditions that InSightec has targeted for its future applications. Traditional treatment methods

for uterine fibroids and other medical conditions that InSightec has targeted for product development are more established and widely-accepted among physicians. In addition, there are potential competitors developing alternative treatment options for various medical indications, some of which may be relevant for the treatment of uterine fibroids. However, we are not aware of any MRI-guided treatments for uterine fibroids or other medical conditions that are approved for commercial use or are in advanced stages of clinical trials. These potentially competitive technologies include laser therapies, radio frequency therapies, microwave therapies, cryogenic surgery, external beam radiation therapy, brachytherapy and radiation surgery.

We are currently aware of two Chinese companies, one French company and one U.S. company which offer ultrasound-guided focused ultrasound solutions, or ULSgFUS, for a number of medical conditions. We believe that InSightec's magnetic resonance guidance solution is superior to the products offered by these competitors. In a non-MRI guided treatment, the operating physician cannot see the effects of the treatment in real time and must complete the treatment, follow up with diagnostic testing and then plan future treatment sessions. The ExAblate 2000 allows the operating physician to complete all of these steps within a single treatment session while also enabling the operating physician to alter treatment parameters to optimize the treatment outcome. None of these potential competitors have received FDA pre-market approval for the marketing of their products in the United States.

At present, to our knowledge, the Chinese ULSgFUS companies have focused their marketing efforts in Asia, and have not received any regulatory approvals outside of Asia. One of the companies, China Medical (NASDAQ: CMED), has placed a system in the United States and announced plans to initiate clinical trials in the United States. The other company, HAIFU, has placed a system in the United Kingdom and obtained a CE mark approval for treating liver and kidney cancer. In addition, it has signed an agreement with Siemens AG to develop a MR-guided version of its product. Philips Medical has also announced plans to introduce a MR-guided FUS product based on collaboration it has with the University of Bordeaux, France.

The French (EDAP) and U.S. (Focus Surgery) FUS companies focus on ultrasound guided treatment of prostate cancer disease. To the extent InSightec enters the U.S. or European markets for the treatment of prostate cancer or other applications, it may face competition from both of these companies. These competitors may have access to greater resources allowing them to offer their products at lower prices and they may have other advantages. EDAP has now started a phase II/III trial in the United State while Focus Surgery has initiated a phase I trial, both for prostate cancer.

Other Activities

Mango

Mango operates in a competitive market characterized by a large and increasing number of international and local brand stores and independent stores in Israel. Mango's direct competitors include brand stores such as Zara, Castro, Honigman, Renuar and Dan Casidi which are located in the vast majority of the shopping centers in Israel. Increased competition could result in pricing pressure or loss of market share and adversely affect Mango's revenues and profitability. Mango's competition strategy includes: attempting to be a fashion trend leader, investing in branding, maintaining a compatible pricing strategy and maintaining leadership in fashion trends.

Venture Capital Investments

Start up companies, including companies in the biotechnology field, tend to operate in a highly competitive environment. In order to succeed, the products or services require a unique "added value" factor, relatively brief concept to market parameters, and aggressive marketing. Our venture capital companies face competition from large international companies with access to financial resources and with well-established research and development capabilities. The biotechnology field, which is dominated by large multi-national conglomerates and may be affected by global pressures on the investment market, is more resilient to market trends than the more volatile high technology industry.

Governmental Regulation

Shopping and entertainment centers

The development, construction and operation of shopping and entertainment centers are subject to various regulatory controls, which vary according to the country of activity. In addition, some countries such as Poland and the Czech Republic require that a developer carry out an environmental report on the land before building permit applications are considered.

In certain countries, acquisitions of shares of a local company or of a foreign company that controls a local company in some instances require a permit from the Anti-Monopoly Office.

In order to begin construction works in Poland an investor must obtain a construction permit. A prerequisite for applying for a construction permit is receipt of a decision stating the conditions for construction and development of a site (a site permit). The site permit is issued for specific real property and specifies the designated purpose of the real property, *i.e.*,

what kind of buildings and business activity may be carried out on the real property. However, in the case of areas for which local zoning plans have been established, an investor will be entitled to apply for a decision granting a construction permit based directly on the purpose of the real estate as determined in the local zoning plan. The following must be attached to the application for a construction permit: (i) a final and legally valid site permit - if there is no local zoning plan; (ii) proof of the investor's right to use the land for construction purposes; and (iii) the technical design along with opinions, consents and permits required by detailed provisions of law.

In the Czech Republic a planning decision and the construction permit must be obtained prior to beginning of construction. In the planning decision proceedings the building office examines the planned construction from the various perspectives (in co-operation with various other authorities, including without limitation the environment protection authorities). The owners of neighboring real estate property as well as organizations for environmental protection may also be parties to the proceedings and submit their opinions as to whether or not the building office should issue the planning decision in favor of the proposed construction. In the event the planning decision is issued, it is necessary to apply for the construction permit with the building office within two years. In the construction permit proceedings the building office examines the compliance of the contemplated construction with the planning decision as well as various other aspects, including, without limitation, the environmental aspects. Owners of the neighboring real estate property as well as organizations for environmental protection may take part in the proceedings. If the zoning plan was already approved for the location in which the construction shall take place, the building office may join the planning decision proceedings with construction permit proceedings.

In Hungary building permits are ordinarily issued in two stages. The first stage determines the “building conditions”, which addresses factors such as the proposed area to be constructed and its distribution over the floors of the building, the building “foot-print” within the plot, building lines, access routes, and conceptual design. Once the building conditions have been approved and have become lawful (see below), the application for the formal building permit is submitted, which includes detailed architectural building plans, sections, elevations etc. all of which must comply with the approved building conditions. Following the issuance of both the “building conditions” approval and the building permit approval, a period of time is allowed (which varies from country to country) for third parties whose rights are allegedly affected by the permits to file objections. Only in the event that this period passes without objection, or in the event that objections raised are dismissed by the competent authorities, do the permits become lawful, valid and available for execution. The rule described above applies also to Poland, where construction works may be commenced only once the construction permit becomes valid and binding. Such a situation occurs when no party to the proceedings, (which may be an investor and owners, perpetual usufructuaries or managers of the real properties situated within the area that might be affected by the constructed building), appeals against the construction permit within 14 days of issue or the competent authority dismisses the objections raised by the appealing party. In the Czech Republic the construction may begin once the construction permit becomes valid and effective. The validity of construction permit is two years.

In Latvia, approval of a construction plan is ordinarily though not always also divided into two stages, such stages generally being the approval of sketch design stage and approval of technical design stage. However, for larger projects it may be required that an interim approval from the local construction authority be obtained before finalization of the sketch design. The number of stages is set out in the architectural planning authorization. Sometimes it may be necessary to work out a detailed plan of the intended development site. In order to initiate the approval procedure of a construction plan in Latvia, initially a construction application must be submitted to the local construction authority, which reviews it and issues an architectural planning authorization. Under some circumstances it may be required that public discussion be arranged prior to the issue of such authorization. The resulting construction permit is issued after the construction authority has approved the technical plan of the building. Sometimes it is possible to get a fast track construction permit for underground parts of the building only.

In some instances where the applicable local plan scheme does not permit commercial activities of the type characterized by our centers, it is necessary to apply for an amendment to the zoning scheme, which may be a protracted process and may not necessarily be successful.

Apart from the building permits which are required for the construction of the shopping and entertainment centers as mentioned above, the developers are required to obtain operating permits from the municipal authorities before the center can be opened to the public and commence operation. Such permits will typically address issues such as fire fighting facilities, escape routes, mechanical integrity of systems, public sanitation, and compliance with the approved building conditions and building permits. In addition, the individual tenants are required to obtain operating or business licenses in order to commence business within the centers. This requirement is not applicable in Poland, since no special operating or business licenses are needed to carry out business activity within centers. In certain countries, video arcade operators may be required to obtain gaming licenses. The developers are also required to comply with local regulations governing the employment of its employees.

Hotels

The development, construction and operation of hotels and leisure facilities, including advertising tariffs and hotels, health safety issues, activities conducted within the premises of the hotels (such as restaurants, bars, shops, health clubs, and in particular the sale of alcohol, food and beverage to the public), installations and systems operating within the hotel (elevators, sprinkler systems, sanitation, fire department etc.), terms of employing personnel, as well as methods of rating the hotels are all subject to various regulatory controls, which vary according to the country of activity.

The lodging industry in Europe has traditionally been classified on a grading system, with five-star representing a luxury hotel and one-star a budget hotel. The rating of hotels is established based on, among other things, the following criteria: size of rooms; suite-to-room ratio; number of restaurants and other catering facilities; level of room service provided; level of room amenities provided; air-conditioning; guest facilities; and the quality and periods of food and beverage services provided. The rating of our hotels is conducted by various organizations which are either established by law, operate under the authorities and regulations of the tourism ministries in different countries, or conducted by the ministry of tourism. In some countries hotels that are not graded are prohibited from operating as a hotel. All of our hotels have received a four-star rating.

In all the countries we operate, the operation of hotels requires licenses for the operation of the building as a hotel and the obtaining of local municipal and police approvals for the means of access to and egress from the hotel for motor vehicles. In addition, in most countries we are required to receive licenses for the sale of alcohol on the premises and the operation of a restaurant and tourism services. Our hotels are also required to comply with regulations regarding food, hygiene, the operation and maintenance of the swimming pool, casino, elevators, health, sanitation, electricity and fire hazards prevention.

In most of the countries we operate hotels we are required to comply with various regulations in connection with employees, in particular working hours' regulations. For example: the hotel and restaurant industry in the Netherlands has a collective labor agreement which provides a grading system for employees in the hotel and restaurant industry. For each grade there is a minimum wage mandated. Among other things, the provisions of the collective labor agreement obligate the employer to provide money for employees for a number of funds. Also, the total obligations of companies that might arise from the termination of employees cannot be predicted.

With regard to our hotel in Hungary which is currently under construction, the hotel building (the Ballet Institute Building) has a historical landmark status, under the protection of the Hungarian Historical Building Office (which has authority for the administration and preservation of the building). This status mandates that the planning consents and requisite permits for the proposed renovation of the Ballet Institute Building and its conversion into a hotel must be applied for and obtained from the Historical Building Office. In order to obtain such consents and permits, it is necessary to ensure that the renovation plans provide for the restoration of the building and the preservation of its historical status. In addition, our hotel in Romania which is being renovated required the receipt of building permits under local applicable laws, in order to enable the re-opening of the hotel following renovation.

The Image Guided Treatment Business

The testing, manufacture and sale of InSightec's products are subject to regulation by numerous governmental authorities, principally the FDA, the European Economic Community (the "EEC"), and corresponding state and foreign regulatory agencies.

The U.S. Safe Medical Devices Act of 1990 (the "SMDA") includes various provisions which are applicable to each of the existing products of InSightec and may result in the pre-market approval process (a process whereby the FDA approves a new system that has no predicate devices that have been approved in the past) for such products becoming lengthier and more costly. Under the SMDA, the FDA can impose new special controls on medical products. These include the promulgation of performance standards, post-market surveillance requirements, patient registries, and the development and dissemination of guidelines and other actions as the FDA may deem necessary to provide a reasonable assurance of safety and effectiveness.

In June 1993, directive 93/42/EEC for medical devices was adopted by the EEC. In June 1998, this directive replaced the local regulations and ensured free transfer of qualified medical equipment among member states. Medical devices that meet the established standards receive certification represented by the symbol "CE". There are two types of certifications that are granted: (i) general certification of a company and (ii) certification for a specific product. Instead of choosing to comply with directive 93/42/EEC InSightec decided to comply with the then effective International Standard ISO 9001 (European Standard EN 29001) entitled "Model for Quality Assurance in Design, Development, Production, Installation and Servicing" and its extension to medical products EN 46001 which satisfies the medical device directive. On May 10, 2001, InSightec obtained a certification by the European Notified Body that it complies with the requirements of ISO 9001 and EN 46001. ISO 9001 and EN 46001 have been replaced by International Standard ISO 13485 entitled: "Medical Devices - Quality management systems - Requirements for regulatory purposes." InSightec obtained certification of compliance with the new standard in March 2004 and is subject to annual audits by the European Notified Body to renew the certification in accordance with all applicable updates of the standard.

Other Activities

The principal regulatory requirements for the operation of Mango in Israel include: (i) compliance with the Israeli consumer protection law, (ii) maintaining various licenses and permits issued by governmental authorities (including receiving applicable standards from the Israeli consumer standard institute for certain imported accessories), and (iii) compliance with employment regulations.

C. ORGANIZATIONAL STRUCTURE

EMI is a subsidiary of Europe-Israel (M.M.S.) Ltd. (approximately 48% shareholder). Europe Israel is wholly owned by Control Centers Ltd., an Israeli privately held company, controlled by Mr. Mordechai Zisser, who serves as EMI's Executive Chairman of the Board. EMI's significant subsidiaries and companies in which EMI has a significant interest as of December 31, 2005 are as follows:

NAME OF COMPANY	ABBREVIATED NAME	COUNTRY OF ORGANIZATION	EMI'S DIRECT/INDIRECT OWNERSHIP PERCENTAGE	
			EQUITY	VOTING
Elscint Ltd.	Elscint	Israel	100%	100%
BEA Hotels NV	BEA	The Netherlands	100%	100%
S.L.S. Sails Ltd.	SLS	Israel	100%	100%
Elbit Ultrasound (Netherlands) BV	EUBV	The Netherlands	100%	100%
InSightec - Image Guided Treatment Ltd.	InSightec	Israel	52.2%*	69.4%
Plaza Centers (Europe) BV	PC or Plaza Centers	The Netherlands	100%	100%
Mango Israel Clothing and Footwear Ltd.	Mango	Israel	100%	100%

(*) on a fully diluted basis.

D. PROPERTY, PLANTS AND EQUIPMENT

EMI leases approximately 8,607 square feet in Tel Aviv, Israel for management and administration purposes, of which approximately 3,604 square feet are leased from Control Centers. The lease agreement with Control Centers expired on December 31, 2005, but EMI continues to lease the office space on the same terms. The other lease expires on February 28, 2007. The aggregate rental fees paid by EMI in 2005 with respect to such lease were approximately \$125,720 out of which approximately \$56,120 were paid to Control Centers. The leased property is adequate for EMI's needs in the foreseeable future.

Elscint leases approximately 4,929 square feet of office space in Tel Aviv, Israel for its management and administration activities of which approximately 4,218 square feet are leased from Control Centers. The lease agreements expired in July-August 2005, however, Elscint continues to lease the office space on the same terms. The aggregate rental fees paid by Elscint in 2005 with respect to such lease were approximately \$100,000 out of which approximately \$65,000 were paid to Control Centers. The leased property is adequate for Elscint's needs in the foreseeable future.

InSightec leases its main office and research and development facilities, located in Tirat Carmel, Israel, pursuant to a lease that expires in August 2010, with an option to renew the lease for up to five years. InSightec occupies approximately 52,000 square feet in Tirat Hacarmel and Or-Yehuda, with an option to lease another 13,520 square feet. Total annual rental expenses under these leases are \$700,000. The leased property is adequate for InSightec's needs in the foreseeable future.

Mango leases from May 2005 approximately 2,700 square feet of office space in Tel Aviv, Israel, from Europe-Israel. The aggregate rental fees paid to Europe-Israel in 2005 were approximately \$44,000 (approximately NIS 196,000).

ITEM 4A. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS.

Overview

Our revenues from the sale of real estate assets are recognized upon consummation of the sale of real estate and/or the investments (see also below revenue recognition). Our revenues from shopping and entertainment centers derive primarily from leasing assets and management fees, both recognized pro rata over the respective term of the lease and/or the management services provided. Our revenues derive also from ownership of hotels owned by Elscint, which revenues are recognized upon performance of service. Operating lease fees, gradually received over the period of the lease, are recognized as revenues by the straight-line method throughout the period of the lease. In December 2005, we sold all of our holdings in the company holding one of our hotels in London, which was the subject of a long term lease agreement, and we are therefore no longer party to the long term lease. Revenues from sale of medical products are recognized provided the following factors are fulfilled: there exists persuasive evidence of an arrangement; delivery has occurred or services have been rendered; the price is fixed or

determinable; and collectibility is reasonably assured. As to arrangements with multiple deliverables, revenue therefrom will be recognized while consideration is allocated by and between the various items of the agreement.

Our functional currency is NIS, and our financial statements are prepared in accordance with Israeli GAAP. Israeli GAAP and U.S. GAAP differ in certain respects, which are summarized in detail in Note 25 to our consolidated financial statements included in Item 18 below.

Because our revenues and expenses are recorded in various currencies, our results of operations are affected by several inter-related factors, including the ratio between the value of the operational and functional currencies of the Company and the timing and amount of the devaluation of the Israeli currency compared to other functional currencies. For additional information relating to the impact of fluctuation on currency exchange rates, see “- Critical Accounting Policies and Estimates - Functional Currency of Investee Companies” below.

Financial data included in this discussion were derived from our consolidated financial statements and analyses based on our general accounting records and published statistical data. Such financial data have been rounded to the nearest thousand. For convenience purposes, financial data 2005 presented herein for the fiscal year ended December 31, 2005, have been translated into dollars using the representative exchange rate on December 31, 2005 of NIS 4.603 = \$1.00.

Critical Accounting Policies And Estimates

General

The following discussion should be read in conjunction with our consolidated financial statements included in Item 18 and the accompanying Notes thereto ("Consolidated Financial Statements").

A "critical accounting policy", is one that (i) is important to the portrayal of an entity's financial condition and results of operations and (ii) requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We believe that our critical accounting policies, estimates and assumptions, the impact of which are material to our financial condition or operating performance, or the nature of which are material because of the level of subjectivity and judgment necessary for highly uncertain matters, are those described below.

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in Israel ("Israeli GAAP") requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate, on an on-going basis, our estimates, including, but not limited to, those related to impairment of real estate assets and investments, investments in non-marketable securities, allocation of the consideration within a business combination, assessment of the probable outcome of litigation matters in which we are involved and other contingent liabilities, allowance for doubtful debts, determination of subsidiaries' functional currency, revenue recognition, current and deferred taxes and capitalization of costs. We base our estimates on past experience, on professional advice or on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments as to the carrying values of assets and liabilities that are not readily apparent from other sources. In preparing the consolidated financial statements and forming our estimates and judgments with respect to certain amounts included therein, we have utilized available information including, among other factors, our past history as above mentioned, industry standards and the current economic environment, while giving due consideration to materiality. It is possible that the ultimate outcome, as anticipated by us in formulating our estimates inherent in these consolidated financial statements, will either not materialize or prove to be substantially different. Moreover, application of the critical accounting policies described below involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, the actual outcome could differ from these estimates. Other companies may use different estimates, which may have an impact on the comparability of our results of operations to those of companies in similar businesses.

Issues regarding our consolidated financial statements, that (i) in accordance with Israeli GAAP, are subject to considerable judgment; and (ii) involve critical assumption and estimates, are in general similar to those under U.S. GAAP, except for the accounting treatment regarding derivative financial instruments embedded within non-derivative instruments, in accordance with SFAS No. 133 and the accounting for stock - based compensation, in accordance with APB 25 described below.

Impairment and depreciation of real estate properties, development assets

We evaluate the existence of any other-than-temporary decline, and hence, the need for an impairment loss on our real estate assets (operating or under construction), when indicators of impairment are present. Our evaluation is based, on the higher of (i) our estimated selling price in the open market or (ii) the estimated value-in-use, based on discounted operational cash flows (before interest and income tax charges), expected to be generated by those assets ("cash flows"; and collectively - "recoverable amounts").

Fair value estimates represent the best estimates based on industry trends, market rates, prices and transactions. Our value-in-use estimation involves estimating the future cash flows expected to be derived from continuing use of the assets and from their ultimate disposal. Such value is based on reasonable and supportable assumptions as well as on historical results adjusted to reflect our best estimate of future market and economic conditions that we believe will exist during the remaining useful life of the assets. The discount rate used in measuring the value-in-use estimation reflects economic environment risks, current market assessments regarding the time value of money, industry risks as a whole and risks specific to the assets, and is the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the enterprise expects to derive from the assets. Such rate is generally estimated from the rate implied in current market transactions for similar assets. When an asset-specific-rate is not directly available in the market, we use a substitute rate to estimate the discount rate, by evaluating, as much as possible, a market assessment of: (a) the time value of money for the periods through the end of the assets' useful life; and (b) the possible risk that future cash flows will differ in amount or timing from estimates.

Based on our estimates of future cash flows, our real estate assets were determined to be recoverable, with the exception of the provisions for impairment made by us in previous and current years. As for the current and accumulated provisions for impairment loss - see Notes 10A, 10C, and 19L, to our Consolidated Financial Statements.

The recognition of an impairment to property and the potential impairment calculation are subject to a considerable degree of judgment, the results of which, when applied under different principles or different conditions or assumptions, are likely to result in materially different amounts and could have a material adverse impact on our consolidated financial statements. The evaluation of future cash flows expected to be generated by each property is subject to significant uncertainty in the estimation of future income and expenses of each hotel's and/or each shopping and entertainment center's operations, and the future capital expenditures. In preparing these projections, we make a number of assumptions concerning market share of the asset, benchmark operating figures such as occupancy rates, average room rate (in respect of hotels), rental and management fees rates (in respect of the shopping and entertainment centers), collection rates, market prospects, industry labor cost prospects, operating efficiency of the management companies and the scope of maintenance and other operating expenses, as well as the value of similar real estate assets in the approximate area of our real estate assets having similar zoning and planning status to our real estate assets.

Depreciation of real estate is based on the estimated useful life of the property (50 years, in respect of shopping and entertainment centers and 67 or 95 years, as the case may be, in respect of hotels), using the straight-line method. Changes in our estimates regarding the expected economic useful life of our assets might significantly affect our depreciation expenses.

Under different assumptions or conditions, the asset impairment analysis or the depreciation rates may yield a different outcome, which may alter the impairment analysis on our assets, as well as the gain or loss on the eventual disposition of the assets.

For information on the material differences between Israeli GAAP and US GAAP relating to impairment of real estate assets and/or investments in investee companies - see subsections A8, and A9, to Note 25 to our consolidated financial statements. In accordance with U.S GAAP, we should also use critical estimates by determining the useful life of each group of assets. An indication that an asset may be impaired may sometimes indicate that the remaining useful life, the depreciation rates or the residual value for the asset, needs to be reviewed and adjusted under accounting standards applicable to the asset, even if no impairment loss is to be recognized for the asset and vice versa.

Equity securities

We invest in non-marketable equity securities of private companies or companies, whose securities are traded in low volume trading markets, ranging from early-stage companies that are often still defining their strategic direction.

Investments in non-marketable equity securities are inherently risky, and a number of these companies are likely to fail. Their success (or lack thereof) is dependent on product development, time-to-market factors, market acceptance, operational efficiency and other key business success factors. In addition, depending on their future prospects, these companies may not be able to raise additional funds when needed or they may receive lower valuations, with less favorable investment terms than in previous financings, and the investments are then likely to become impaired. In the current equity market environment, while the availability of additional funding from venture capital sources has improved, the companies' ability to take advantage of liquidity events, such as initial public offerings, mergers and private equity funding, nevertheless remains limited.

We evaluate impairment on individual investments in our portfolio when an investment has experienced a sustained decline in fair value below the carrying amount as of the date of evaluation. Investments identified as having an indicator of impairment are subject to further analysis to determine if the investment is other-than-temporarily impaired, in which case we write the investment down to its impaired value. However, for non-marketable equity securities, the impairment analysis requires significant judgment to identify events or circumstances that are likely to have a significant adverse effect on the fair value of the investment. The indicators that we use and factors we consider in order to identify those events or circumstances include, but are

not limited to the following: (a) the investee's revenue and earnings relative to predefined milestones and overall business prospects which may indicate a significant under-performance of historical or projected operating results or under-achievement of business plan objectives and milestones; (b) the technological feasibility of the investee's products and technologies; (c) the general market conditions in the investee's industry or geographical area, including adverse regulatory or economic changes or a significant adverse industry or economic trend; (d) factors relating to the investee's ability to remain in business, such as the investee's liquidity, debt ratios, burn rate of the investee's cash and the general financial condition and prospects of the investee, including obtaining funding at a valuation lower than our carrying amount or which requires a new round of equity funding to stay in operation when funding does not appear imminent; (e) the value of each ownership interest in relation to the carrying amount and the length of time during which that value has experienced a decline; (f) the volatility inherent in the external markets for these investments; and (g) several other relevant factors and indicators. In such case, we presume that the investment is other-than-temporarily impaired, unless specific facts and circumstances indicate otherwise. In cases where securities of an investee are traded in the market, our evaluation is based principally on the shares' market price and the trends thereof. These evaluations are subjective in nature. A permanent decline in value results in a charge, reducing the carrying amount of the investment to its fair value.

Since market conditions and other parameters, which affect the recoverable amount, vary from time to time, the recoverable amount may not be adequate on a date other than the date the measurement was done (which is close to the balance sheet date). Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to generate the anticipated cash flow from holding the investee company and recover the carrying amount of the investments, thereby possibly requiring an impairment charge in the future not previously recorded.

For the current and accumulated provisions for impairment loss - see Notes 9A.(1) c. (3) to our Consolidated Financial Statements.

Business combinations

We allocate the purchase price of acquired companies and properties to the tangible and intangible assets acquired and liabilities assumed, based on their estimated fair values. In order to allocate the purchase price attributed to each acquired company and/or asset (tangible and intangible; monetary and non-monetary) and liabilities, we identify and estimate the fair value of each of the main acquired tangible assets (land, building, improvement, other equipment and other monetary and non-monetary items) and estimate any other identifiable intangible assets. Such valuations require us to make significant estimates and assumptions. We believe that our estimates used as the basis for this allocation are reasonable under the circumstances. A different method of allocation may cause (i) an increase or decrease (as the case may be) in our depreciation costs; (ii) the need to provide an impairment loss for each of the acquired companies' assets, or to amend it; and (iii) an increase or decrease (as the case may be) in gain (loss) derived from the disposal of these assets.

Litigation, other contingent liabilities and allowance for doubtful debts

A. We are currently involved in various litigation disputes in substantial amounts. We make provision for contingent obligations (including those in respect of discontinuing operation) when the obligations are probable and their amounts can reasonably be estimated. We include in our consolidated financial statements provisions which are based on, among other factors, legal consultation and past experience, and which in our opinion are deemed adequate to cover the costs and resources necessary to satisfy the potential liabilities under these claims. The outcome of such contingent liabilities may differ materially from our assessment. We periodically evaluate these assessments and make appropriate adjustments to our consolidated financial statements. In addition, as facts concerning contingencies become known, we reassess our position and make appropriate adjustments to our consolidated financial statements.

We are involved in litigation matters, the amount or outcome of which may not be estimable (e.g., class actions). Due to the uncertainties related to the possible outcome and/or the amounts and/or ranges of losses in these litigation matters, neither our management nor our legal advisors are able to make a reasonable estimate of the liability that could result from an unfavorable outcome and accordingly no provision is provided for such claims in our consolidated financial statements. As additional information becomes available, we will re-assess the potential liability related to our pending litigation and will revise our estimates accordingly. Such revisions in our estimates of the potential liability could materially impact our results of operations and financial position.

See also Note 17B, 17C. and 24A, B and D to our Consolidated Financial Statements.

B. We examine, on an ongoing basis, the volume of credit extended to our customers in the ordinary course of business (including long term loans to third parties, in line with and regarding our business) and accordingly, record a provision for doubtful debts based on those factors affecting credit risks, based upon our best judgment. We periodically evaluate the quality and value of loans granted by us to various third parties in the ordinary course of business, taking into consideration the security that was provided, the term of the loans and our past experience with these third parties. If our estimate of collectibility differs from the cash received, the timing and amount of our reported results of operations could be adversely affected.

Functional currency of investee companies

In preparing our consolidated financial statements, we are required to evaluate the functional currency of certain subsidiaries operating outside of Israel (especially in central Europe). In principle, the functional currency is the currency which management believes, based on qualitative criteria, reflects the economic nature of the events and circumstances relevant to the operating subsidiary ("investee") or currency that is extensively used in or has a significant effect on its activity. The functional currency is determined based on management's judgment and involves consideration of all relevant economic factors and circumstances affecting each subsidiary (e.g., the currency of the financial environment that significantly influences management in determining, *inter alia*, selling prices and payment conditions, or the currency used by management for the purpose of decision making). Generally, the currency in which each subsidiary executed (denominated and settled) the majority of its financing and transactions, which include purchases, billings, collections and payments (*i.e.*, currency in which receivables and payments from current activity are denominated and settled or in which they are retained following their conversion) and the currency in which a majority of costs pertaining to the supply of services (*e.g.*, payroll, maintenance, subcontractors expenses and other expenditures) are denominated and settled, may indicate the functional currency. In these instances, the nature of the subsidiary's operations must also be considered. A significant change in the financial environment, or in the foregoing factors in whole or in part, may require management to re-assess its determination of the functional currency.

When any subsidiary's functional currency is deemed to be other than the reporting currency, then any gain or loss associated with the translation of that subsidiary's financial statements, for consolidation purposes, is charged directly to a separate item in the shareholders' equity, namely "cumulative foreign currency translation adjustments". Exchange rate differences on net monetary items included in the subsidiary's financial statements which are denominated in, or linked to, currencies other than the functional currency, are recorded directly to the statements of operations. See also "Item 11. Quantitative and Qualitative Disclosure About Market Risks - Exchange Rate Exposure" and "Exposure to Net Investment Value of Foreign Entity" below.

In the event the functional currency changes into a currency other than the local one, the amount of the foreign currency translation adjustment and/or the net income in each reported year following the date the change was implemented could be materially affected (see below).

As described in Note 2A.(3)(iii) to our consolidated financial statements, several countries, among them Hungary, Poland and the Czech Republic (countries in which the majority of our operations in the field of shopping and entertainment centers is concentrated), joined the European Union on May 1, 2004. The joining countries undertook to manage an economic policy which conforms to certain monetary and regulatory targets, aiming at the implementing required conditions for the adoption of the Euro as the country's legal currency. Prior to their joining, those countries took significant actions pertaining thereto, such as: altering their monetary and fiscal policies, including full liberalization of their currency regimes and lifting of foreign currency controls (such as liberty to transact, transfer and execute payment in foreign currency, allowing free trading in the local currency abroad, lifting of the restrictions on transferring foreign currency abroad, allowing free unlimited trading in foreign securities, reporting, etc.). As a result, our subsidiaries, which are incorporated and operate in Hungary, Poland and the Czech Republic (the "Companies") deemed it necessary to reconsider their settlement currency with lessees ("Settlement Currency"), the nature and scope of protection of the value of their financial assets and liabilities, their currency risk management policy, etc. In light of the foregoing and concurrently therewith, the Companies reconsidered their operational and measurement currency. According to the nature of the Companies' operations and the changes in the economic environment in which they operate, and in accordance with Israeli and U.S. Standards, we are of the opinion that as and from April 1, 2004, the Euro, rather than the local currency, more adequately reflects the business condition and the results of operations (transactions) of the Companies, affecting the management policy and decision-making processes as well as the transactions (revenues and cost of acquisition/construction of assets), the scope and prices thereof, the currency risk policy and the financing operations thereof. Accordingly, the Euro serves as the functional currency of the Companies starting from April 1, 2004.

For information on currencies involved in our global operations, see "Item 11. Quantitative and Qualitative Disclosure About Market Risks - Table I - Foreign Currency Risks" below.

Revenue recognition

Revenue recognition in the image guided treatment segment:

Revenue recognition criteria. InSightec recognizes revenue from sales of the ExAblate 2000 in accordance with SAB 101, as amended by SAB 104 when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services has been rendered, (iii) the price is fixed or determinable and (iv) collectibility is reasonably assured. InSightec's sales arrangements with customers may include a number of elements or multiple deliverables that represent individual units of accounting. These deliverables typically consist of system sales, installation at the customer's site and training.

For these arrangements, we implement the guidance in EITF No. 00-21 "Revenue Arrangements with Multiple Deliverables". The principles and guidance outlined in EITF No. 00-21 provide a framework to (a) determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, and (b) determine how the arrangement

consideration should be measured and allocated to the separate units of accounting in the arrangement. Each of these deliverables in the arrangement represents individual units of accounting if the delivered system has (i) value to the customer on a stand-alone basis; and (ii) objective and reliable evidence of fair value exists for the installation and training. The arrangements generally do not contain a right of return of the delivered system. Typically, the deliverables are considered separate units of accounting when there are independent third parties who can render the installation and training services. InSightec determines fair value for those services based on the prices required by third parties for the undelivered elements (i.e., installation and training) when they are sold separately. Currently, InSightec does not have fair value for the system sold. Therefore, InSightec uses the residual method to allocate the arrangement consideration. Under the residual method, the amount of consideration allocated to the delivered item equals the total arrangement consideration less the aggregate fair value of the undelivered items. Assuming all the abovementioned criteria for revenue recognition have been met, InSightec recognizes revenue for system sales when delivery occurs and recognize revenue for installation and training when the services are rendered.

In cases where the deliverables in the arrangement do not constitute separate units of accounting, based on the criteria in EITF 00-21, InSightec recognizes revenue when all the deliverables that are considered essential to the functionality of the system has been delivered to the customer. This is generally deemed to have occurred upon the completion of installation and training.

In the past InSightec has entered into sales arrangements with customers where payment for InSightec's product was contingent upon its receipt of FDA approval to market the ExAblate 2000, or upon its provision of certain hardware and software upgrades. Accordingly, InSightec did not recognize revenue from such sales until the applicable contingency was fulfilled.

Revenue related to separately priced service contracts is recognized ratably over the service period. All costs associated with the provision of service and maintenance, including salaries, benefits, travel, spare parts and equipment, are recognized in cost of revenues as incurred.

Warranty costs. Accrued warranty costs are calculated in respect of the warranty period on InSightec's products, which is generally one-year. InSightec's warranty reserves is based on its best estimate of the amounts necessary to settle future claims on products sold as of the balance sheet date, based on contractual warranty rights and its accumulated experience with regard to service of its products. InSightec may need to revise or reconsider its estimates in the future based on its additional accumulated experience, over time, with respect to warranty claims. To date, InSightec's warranty reserve has been minimal and InSightec's warranty costs have not exceeded this reserve.

Revenue recognition from sales of real estate assets and investments:

The Company recognizes gain on sales of real estate assets and investment properties when a sale has been consummated, the buyer's initial and continuing investment is adequate to demonstrate commitment to pay, any receivable obtained is not subject to future subordination and the usual risks and rewards of ownership have been transferred.

As described in Note 9B. (3) to our consolidated financial statements, we have entered into several sale agreements with Klepierre and Dawny Day for the sale of our shopping and entertainment centers portfolio. In the framework of these sale agreements we took upon ourselves to have continuing involvement in the form of a guarantee of a return on the buyer's investment for limited period or in a limited amount, profit is recognized when there is reasonable assurance that total estimated future rent receipts will cover operating expenses and debt service including payments due the buyer under the terms of the transaction. In making this determination, total estimated future rent receipts of the property are reduced by a reasonable safety factor, unless the amount so computed is less than the rents to be received from signed leases. For the Company, these conditions are usually fulfilled at the time of sale.

If, according to the terms of the transaction, the Company will participate in future profit from the property without risk of loss, and the transaction otherwise qualifies for profit recognition under the full accrual method, the contingent future profits are recognized when they are realized.

Accounting for income taxes

As part of the preparation of our Consolidated Financial Statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves an estimate by us of our actual current tax exposure, together with assessing temporary differences resulting from different treatment of items, for tax and accounting purposes. These differences result in deferred tax assets and liabilities that are included in our balance sheet. Considerable management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We evaluate the weight of all available evidence to determine whether it is probable that some portion or all of the deferred income tax assets could be realized. As of December 31, 2005 we recorded a valuation allowance for substantially all of our deferred tax assets (net, after provisions) primarily consisting of certain net operating losses, as well as other temporary differences between book and tax accounting, (see Note 16F. to our consolidated financial statements). The valuation allowance was recorded due to uncertainties surrounding our ability to utilize some or all of our deferred tax assets. In assessing the need for the valuation allowance, we consider future taxable income, the fulfillment of conditions stipulated in the certificates in respect of the "approved enterprise", the time limitations on the utilization of losses

(see Note 16D. to our consolidated financial statements), and ongoing, prudent and feasible tax planning strategies. In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application and/or interpretation of complex tax laws, tax regulations, and tax treaties in respect of various jurisdiction in which we operate and which frequently vary.

Tax authorities may interpret certain tax issues in a manner other than that which we have adopted. Should such contrary interpretive principles be adopted upon adjudication of such cases, our tax burden of the group may be significantly increased. If the realization of deferred tax assets in the future is considered probable, an adjustment to the deferred tax assets would increase net income during the period in respect of which such determination is made. In the event that actual results differ from these estimates or that we adjust these estimates in future periods, we may incur additional taxes, which could materially affect our financial position and results of operations. We have recorded liabilities for anticipated tax issues based on our estimate of whether, and the extent to which, we may become subject to additional tax payments. If we ultimately determine that payment of these amounts is unnecessary, we will reverse the liability and recognize a tax benefit during the period of the determination. As to tax issues affecting our U.S. subsidiary - see Note 16B.(2) to our consolidated financial statements.

The computation of current and deferred tax liabilities does not include taxes that would have arisen in the event of a sale of the investments in investees (except those that are to be liquidated), or upon receiving the retained earnings as dividends, since in respect of some dividends from profits thereof and/or gains to be generated from their realization are tax exempt, and in respect of others, it is management's policy not to dispose of such investments and/or not to offer, in the foreseeable future, their retained earnings as a dividend distribution or otherwise, in a manner causing a material tax burden on us (see Note 16B.(1)c. to our consolidated financial statements). In assessing the need to provide a tax liability in respect of the abovementioned, we consider, among others, feasible tax planning strategies. Different assumptions or other policies adopted by management, might significantly affect our tax expenses.

The allocation of the proceeds in respect of properties sold at an aggregate amount ("package"), is based on an estimate of the fair value of each asset sold and on the basis of the provisions stipulated in the sale agreements. A different method of allocation may cause additional liabilities and/or expense. We believe that our estimates used as the basis for this allocation of proceeds is reasonable under the circumstances. Certain foreign group companies have received final tax assessments for the years through 1999, while others have not been assessed since their incorporation. See, in addition, Note 17C.(5) to our consolidated financial statements. Tax authorities may, at this stage, challenge our tax strategy, and thus our income or loss for tax purposes could be significantly affected, so that our tax expenses (current and deferred) may, therefore, increase. Furthermore, our tax strategy might be impacted by new laws or rulings.

Capitalization of Costs (Tangible and intangible)

We capitalize direct acquisition, construction and development costs, including initiation, pre-development and financing costs, as well as property taxes, insurance, and indirect allocated project costs, that are associated with the acquisition, development or construction of real estate projects, as and from the pre-acquisition stage until the time that construction of such real-estate project is completed and its development is ready for its intended use, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 67. Our cost capitalization method requires the use of management estimates regarding the fair value of each project component. We base our estimates on replacement costs, existing offers, past experience and other various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the fair market value of real estate assets. Management estimation is also required in determining whether it is probable that a real estate project in its pre acquisition stage or in its early stage would be executed. Actual results may differ from these estimates and anticipated returns on a project, as well as the gain or loss from disposition of individual project components, could vary significantly from estimated amounts. We are actively pursuing acquisition opportunities although no assurance can be provided as to which opportunity will succeed. Costs previously capitalized that relate to (i) an abandoned development opportunity; (ii) a project not reasonably expected to materialize; or (iii) a project the expected economic benefit of which is doubtful, are written off and charged to the statement of operations.

Furthermore, should development and construction activities decrease substantially, or be interrupted or delayed for a lengthy period, a portion of financial costs and project expenses may no longer be eligible for capitalization, and would be charged to the statement of operations.

Our finance costs capitalization method requires us to use critical estimations and assumptions as well as management judgment to determine whether a specific asset under construction or development is qualified for capitalization. The date of commencement and/or the cessation of capitalization, the fulfillment of conditions, the period for suspension of capitalization (if any) and capitalization rate, are also subject to significant estimates and assumptions. Under other conditions or assumptions, the outcome might significantly differ.

In valuing certain tangible and/or intangible assets (such as capital rental costs and costs incurred to obtain lease contracts or bank loans), we use critical estimates and assumptions on what marketplace participants would use in making estimates of fair value. Capitalized rental costs directly related to revenue from specific operating leases are amortized over lease terms. Other capitalized rental costs (not related directly to revenue) are amortized over the period of expected benefit. The amortization period begins when the project is substantially completed and deemed available for occupancy. Capitalized

costs for obtaining bank loans are amortized over loan periods. Estimated unrecoverable amounts of unamortized capitalized rental costs associated with a lease or costs of obtaining loans or a group of leases or loans, are charged to expenses when it becomes probable that the lease or the loans will be terminated or extinguished, as applicable. Our estimates of fair value are based upon assumptions believed to be reasonable, but which may be reversed due to changes in circumstances in the future (such as the assumptions regarding the period of time the obtained lease or loan will continue to be used in our portfolio or the level of judgment that should be used in determining whether a change or modification of a debt instrument should be considered as a debt extinguishments or not, etc.). Assumptions may not necessarily reflect unanticipated changes in circumstances that may occur.

Critical accounting policies which effect our U.S GAAP reconciliation Note:

Derivative financial instruments

We have adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS 149 ("SFAS 133"). Derivatives, as defined within SFAS 133 that are embedded within non-derivative instruments, must be bifurcated from the host instrument and accounted for when the embedded derivative is not clearly and closely related to the host instrument. However, rental for the use of leased assets and adjustments for inflation on similar property are considered to be clearly and closely related. Thus, the inflation-related derivative embedded in an inflation-indexed lease contract is not bifurcated from the host contract.

In conformity with SFAS 133, foreign currency forward contracts that are embedded within a lease contract ("the host contract") should be bifurcated and accounted for separately ("bifurcation"). The bifurcated forward contracts are recorded at their fair value while changes in their fair values are charged to the statement of operations and classified under financial income (expenses), net. An embedded foreign currency instrument is not bifurcated from the host contract, if (i) contracts in which specified volumes of sales of one of the parties to the contract serve as the basis for settlement ("underlying"); and (ii) the host contract is not a financial instrument and it requires payments denominated in the functional currency of any substantial party to that contract. The evaluation of whether a contract qualifies for the exception abovementioned should be performed only at inception of each contract.

In determining the fair value of currency transactions, especially the fair value of derivatives, we are required to make critical estimates and judgments in respect of certain parameters, such as (i) lease contract firmness; (ii) interest rates; (iii) exchange rates (spot rates); (iv) forward rates; and (v) period of lease. When using our computation methodology, determination of fair value may not practically be carried out, without significant reliance upon critical estimations and judgment, mainly due to (a) the existence of many lease agreements between lessees (including anchor tenants) in each of our operating centers; (b) such leases are signed for various long term periods (between 5 to 20 years) to which volatility is highly sensitive; (c) the existence of different type of conditions in different leases (including (i) frequency of installments; (ii) options to extend the lease periods; and (iii) the right to withdraw from lease agreements or to reduce, in certain events, rent fees by significant amounts); (d) a major part of the leases were executed prior to the issuance of SFAS 133, thus causing us extensive burden in collecting some important unavailable market information; (e) frequent changes, in the ordinary course of business, in the terms of leases (including (i) increase or decrease of rental fees for the whole or a part of the lease period; (ii) alteration of the fee base from a fixed sum to variable, and vice versa; (iii) shortage of lease period; and the like). These changes are usually carried out in the ordinary course of business, in accordance with changes in circumstances, (mainly as a result of (i) poor collectibility in respect of specific tenant; (ii) demand of a potential purchaser, in as much as same may be implemented; and others); and (f) our lease activities that are subject to embedded derivatives are being carried out mainly in Hungary and Poland, countries having no past experience in quotation of complicated derivative financial instruments and in a functional currency of which there is little experience in derivative operations.

Lease agreements signed and executed while projects were under construction, and which are not yet operational, are considered a firm commitment following April 1, 2004 - the date of the change of the functional currency of the contracted companies from the local currency into the EURO (see Note 2A.(3)(iii) to our consolidated financial statements) - and therefore the embedded foreign currency instrument (the Euro) is not bifurcated from the host contract.

Determination of whether an embedded foreign currency instrument is subject to bifurcation or is considered to be clearly and closely related to the lease agreement (mainly due to conditions according to which volume of sales of one of the parties to the agreement serve as the basis of settlement) requires significant judgment and critical reasonable estimates by management.

The estimated fair values in our financial instruments have been determined by us, using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we could realize in a current market exchange. The use of different market assumptions or estimation methodologies may have a material effect on the estimated fair value amounts, and accordingly on the profit and loss accounts, in accordance with U.S. GAAP.

The fair value estimates presented herein are based on pertinent information available to management as of each date of measurement or evaluation. Management is not aware of any factors that would significantly affect the estimated fair value amounts as of these dates. Future estimates of fair value and the amounts which may be paid or realized in the future may differ significantly from amounts presented.

Stock-based compensation

We calculate this amount using the Black-Scholes method of valuing the option to estimate the fair value of the options grant. This method requires that we make several estimates, including the volatility of our stock price, and the expected life of the option. In making these estimates, we have used historical data as well as management judgment to arrive at the data inputs.

We expect to comply with FASB issued Statement No. 123 (revised 2004), "Share-Based Payment," ("Statement 123R"), beginning in the first quarter of 2006.

In August 2005, the Israel Accounting Standards Board ("IASB") published Standard - No. 24 - "Share-Based Payment" ("Standard No. 24"). The objective of Standard No. 24 is to specify the principles of financial reporting by an entity where it enters into a share-based payment transaction. In particular, it requires an entity to reflect in its profit or loss and financial position, the effects of share-based payment transactions, including expenses associated with transactions in which stock options are granted to employees. For equity-settled share-based payment transactions, we should measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot reliably be estimated. If so, we should measure their value, and corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted, by measuring their fair value at the measurement date, based on market prices if available. If market prices are not available, fair value of the equity instruments granted should be estimated using a valuation technique consistent with generally accepted valuation methodologies for pricing financial instruments, taking into account the terms and conditions upon which those equity instruments were granted. For transactions with employees and others providing similar services, the fair value of the transaction should be measured directly by reference to the fair value of the equity instrument granted, at the date of grant.

As for the impact of this standard on our 2005 consolidated financial statements, as it will be reported in the first quarter of 2006 and on 2006 consolidated financial statements, see Note 2X. (ii) to our consolidated financial statements included in Item 18 below.

Recently issued accounting standards

For information on recently issued accounting standards under US GAAP, see Note 25 A. to our consolidated financial statements.

For information on recently issued accounting standards under Israeli GAAP, see Note 2 X. to our consolidated financial statements.

A. Operating Results

Presentation method of statement of operations and the change thereof

Significant recent global changes, particularly in the real estate business in which we operate, enable us to utilize our relative advantage in such field of operation. Such changes include, among others, a decrease in commercial assets' long-term yield rates; low short term interest rates, geo-political evolutions including rapid financial progress in developing markets and transformation thereof to much more readily accessible geographical targets. Concurrently with such changes and consequently thereto, a significant increase was noted in the quest for real assets, both by private, as well as by institutional investors, pension funds, REIT funds, and others. The above mentioned global changes together with the completion of the July 2005 transaction between PC and Klepierre, (See "Item 10. Additional Information – Material Contracts – Shopping and Entertainment Centers" below), led the management to reexamine our nature of activity while attempting to strategically alter its business. The core of such change is expressed in evolving the major part of our business activities from the entrepreneurship, development and operation of various commercial real estate assets in the medium to long term, into the entrepreneurship and development of such assets supported by short term management and operation activities with the principal objective of founding and stabilizing the assets for their sale, as closely as possible to completion of construction, and/or into the construction of assets under pre-sale development agreements executed with third parties (such as investment or management companies on the basis of turnkey construction agreements). This new business model is intended to reap the advantages of our strengths and expertise in the entrepreneurship and development of projects, rather than investing precious financial and manpower resources for the operation of its assets for the long term. The reexamination resulted in redefinition of the our operational and business model so that sales of its operational assets are included therein, whereas during previous reporting periods such sales and the results thereof were excluded from our operational results.

Following the consummation of the various "exit" transactions which commenced during 2004 and continued in 2005, and as a result of the change to our business model as specified above, our management believe that the historical presentation format of our statement of operations ("Multiple - step form") is no longer a meaningful measure and presentation of our business activities, nor does it optimally reflect same. Our management believes that all costs and expenses (including selling and marketing, general and administrative as well as finance costs) should be considered as continuously contributing to obtaining overall income and profits, and that any attempt to classify only part of the expenses directly to the income revenues, may be construed as artificial. Management also believes that splitting such operational costs, to separate items such as "cost of sale", "selling and marketing costs", and "general and administrative expenses", is not meaningful to us, as we are an investment company (containing a wide range of different activities), but rather an alternative classification should be applied which recognizes two types of costs: (i) those directly related to the sales; and (ii) overhead expenses which serve the business in general and are to be determined as general and administrative expenses. Moreover, distinction between those costs which are or are not taken into account in determining the gross profit, requires significant discretion, often entailing inconsistent and insufficiently reliable accounting classification.

Accordingly, we have adopted a new method for the presentation of our consolidated statement of operations reports, whereby all expenses are presented in one group, which is deducted as a whole from the total revenues which are also represented in one group ("Single - Step Form"), as opposed to the previous presentation, used through the previous reporting period ("Multiple - Step Form"). Accordingly, expense items were classified - as part of such change - by differentiating those costs directly relating to each income, and those which serve the business in general.

In the view of our management, this new method of presentation more adequately and suitably reflects the nature of our operations on a consolidated basis, in the light of our modified strategy and goals. Comparative figures for the previous accounting years have been reclassified accordingly.

The following table presents for the periods indicated the statements of operation of EMI for the years period the last of which ended December 31, 2005:

	2005 Reported Convenience Translation \$'000	2005 Reported	2004 Reported	2003 Adjusted
		(In Thousand NIS)		
REVENUES				
Sale of real estate assets and investments, net	61,191	281,661	131,921	-
Commercial centers operations	31,057	142,957	311,893	347,056
Hotels operations and management	58,670	270,057	218,365	189,205
Sale of medical systems	16,449	75,713	44,049	-
Realization of investments	425	1,958	16,415	45,129
Other operational income	9,648	44,409	13,238	13,495
	<u>177,440</u>	<u>816,755</u>	<u>735,881</u>	<u>594,885</u>
COSTS AND EXPENSES				
Commercial centers operations	34,248	157,640	271,392	257,913
Hotels operations and management	56,331	259,293	207,152	188,672
Cost and expenses of medical systems operation	10,771	49,577	26,039	8,720
Other operational expenses	10,166	46,793	3,655	3,510
Research and development expenses, net	12,796	58,899	38,158	43,719
General and administrative expenses	8,025	36,939	43,627	42,144
Share in losses of associated companies, net	2,613	12,028	15,968	20,951
Financial expenses, net	26,574	122,321	53,569	211,821
Other expenses, net	12,406	57,106	51,428	10,477
	<u>173,930</u>	<u>800,596</u>	<u>710,988</u>	<u>787,927</u>
PROFIT (LOSS) BEFORE INCOME TAXES	3,511	16,159	24,893	(193,042)
Income taxes (tax benefits)	1,694	7,798	15,804	(20,217)
PROFIT (LOSS) AFTER INCOME TAXES	1,816	8,361	9,089	(172,825)
Minority-interest in results of subsidiaries, Net	15,922	73,287	27,448	48,671
PROFIT (LOSS) FROM CONTINUING OPERATIONS	17,738	81,648	36,537	(124,154)
Profit from discontinued operations, net	1,285	5,917	6,810	12,073
Cumulative effect of accounting change at the beginning of the year	(135)	(622)	-	-
NET INCOME (LOSS)	18,888	86,943	43,347	(112,081)

Fiscal 2005 compared to Fiscal 2004

Most of our businesses, which operate in various countries, report their operational results in their functional currency, being other than NIS (our reporting currency). We translate our subsidiaries' result of operations into NIS based on the average quarterly exchange rate of the functional currency against the NIS. Therefore, a devaluation of the NIS against each functional currency would cause an increase in our reported revenues and the costs related to such revenues in NIS while a revaluation of the NIS against each functional currency would cause a decrease in our revenues and costs related to such revenues in NIS.

Revenues

Total consolidated revenues for 2005 were NIS 816.8 million (\$177.4 million) compared to NIS 735.9 million for 2004, an increase of NIS 80.9 million, or 11%.

Revenues from sale of real estate assets and investments, net, for 2005 were NIS 281.7 million (\$61.2 million) compared to NIS 131.9 million in 2004.

Revenues from sale of real estate assets and investments in 2005 were derived from (i) sale of four Polish shopping and entertainment centers to Klepierre in July 2005, which contributed net revenue of NIS 166.4 million; (ii) purchase price adjustment to the sale transaction of 12 Hungarian shopping and entertainment centers to Klepierre in July 2004, which contributed net revenues of NIS 53.4 million (\$11.6 million); (iii) sale of four Hungarian shopping and entertainment centers to Dawney Day in April 2005, which contributed net revenues of NIS 3.5 million (\$0.8 million); and (iv) sale of our interest (30%) in Shaw in December 2005, which contributed net revenues of NIS 58.4 million (\$12.7 million).

Revenues from sale of real estate assets and investments in 2004 derived from the sale of twelve Hungarian shopping and entertainment centers to Klepierre in July 2004.

For further elaboration of these transactions see "Item 10. Additional Information – Material Contracts – Shopping and Entertainment Centers" below.

Revenues from shopping and entertainment centers operations in 2005 were NIS 143.0 million (\$31 million) compared to NIS 311.9 million in 2004, a decrease of NIS 168.9 million or 54%. Such decrease resulted mainly from (i) the sale of the activities of 12 shopping centers in Hungary, which were sold to Klépierre Group at the beginning of the third quarter of 2004 and which did not contribute any revenues in 2005 in comparison with NIS 115.5 million in the first half of 2004; (ii) the sale of the activities of four operational centers in Hungary which were sold to Dawny Day at the beginning of the second quarter of 2005, which contributed revenues of NIS 11.5 million (\$2.5 million) in first quarter 2005 compared to NIS 46 million in 2004; and (iii) the sale of the activities of four operational centers in Poland which were sold to Klépierre at the beginning of the third quarter of 2005 and which contributed revenues of NIS 40.0 million (\$ 8.7 million) in the first half of 2005 compared to NIS 60.0 million in 2004.

Revenues from our hotel operations and management for 2005 were NIS 270.1 million (\$58.7 million) as compared to NIS 218.4 million for 2004, an increase of NIS 51.7 million or 23.7%. The increase in revenues in the hotel division resulted primarily from the commencement of operations of the Riverbank Park Plaza Hotel in April 2005, which contributed additional revenues of NIS 39.1 (\$8.5 million) in 2005; from an increase in revenues from the operations of Victoria London hotel mainly attributed to higher occupancy rate and higher average room rate; and from an increase in revenue from the Centerville apartments hotel in Bucharest mainly attributed to renovation and commencement of operations of an additional 60 apartments during 2005.

Revenues from InSightec's sale of medical systems in fiscal 2005 were NIS 75.7 million (\$16.4 million) as compared to NIS 44.0 million in 2004. The sales in fiscal 2005 represent sales of 15 "ExAblate 2000" Systems as compared to 10 systems in 2004.

Revenues from realization of investments in 2005 were NIS 2.0 million (\$ 0.4 million) which were attributed to additional proceeds received from the sale of our interest in Algotech in November 2003 as compared to NIS 16.4 million in 2004 which were attributed to gain deriving from decrease in shareholding of our interest in InSightec amounting to NIS 13.0 million and certain additional proceeds received from the sale of Algotech amounting to NIS 3.4 million.

Revenues from other operational income in 2005 were NIS 44.4 million (\$9.6 million), out of which NIS 31.8 million (\$6.9 million) being revenues from the operation of Mango which was acquired in May 2005 and NIS 12.7 million (\$2.7 million) representing lease of assets, as compared to NIS 13.2 million in 2004, all of which deriving from lease of assets.

Profits before Income Taxes

Set forth is an analysis of our profits before income taxes and the analysis of the decrease in our profits before income taxes from NIS 24.9 million in 2004 to NIS 16.2 million (\$3.5 million) in 2005:

Profit from the sale of real estate assets and investments is presented net, after cost of assets or investments sold, therefore; the profits from such sales are equal to the revenues derived therefrom.

Costs and expenses from shopping and entertainment centers operations less revenues from shopping and entertainment centers in 2005 was NIS 14.7 million (\$ 3.2 million) compared to Revenues from shopping and entertainment centers operations less costs and expenses related to such revenues in 2004 of NIS 40.5 million. This decrease was attributed mainly to a decrease in the revenues of the shopping and entertainment centers as a result of the sales described above. The decrease in revenues was not followed by a matching decrease in other operational expenses related to the shopping and entertainment centers operations (*i.e.*, initiation, selling & marketing as well as general and administrative expenses).

Revenues from hotels operations less costs and expenses related to such revenues in 2005 was NIS 10.7million (\$ 2.3 million) compared to NIS 11.2 million in 2004. This decrease is attributed mainly to the fact that the Riverbank Hotel which commenced operation in April 2005 was not operating on a full-scale basis while its fixed expenses (e.g. property tax, insurance, depreciation, etc.) corresponded to full-scale operations of such hotel resulting in losses of approximately NIS 12 million (\$2.6 million) from this hotel which are typical to hotel in its preliminary stages of operation. Such losses were partially offset by an increase in profits of the Centerville apartments hotel in Bucharest and the Victoria London Hotel.

Revenues from sale of medical system less costs and expenses related to such revenues in 2005 was NIS 26.1million (\$ 5.7 million) compared to NIS 18.0 million in 2004. This increase is attributed mainly to growth in sales, as described in preceding paragraphs, offset by increase in selling and marketing expenses and general and administrative expenses attributed to sale of medical systems from NIS 16.2 million in 2004 to NIS 30.2 million (\$ 6.6 million) in 2005. This increase in selling and marketing expenses was attributed to extensive efforts and resources InSightec's devoted to expand its scope of sales and the increase in general & administrative expenses attributable to increase in InSightec headquarter personnel in order to expand InSightec's activities.

Profit from realization of investments is presented net, after cost of the investments sold and therefore the profit from such item is equal to the revenues derived therefrom.

Costs and expenses from other operational income less revenues from other operational income in 2005 was NIS 2.4 million (\$ 0.5 million) compared to Revenues from other operational income less costs and expenses related to such revenues in 2004 of NIS 9.6 million. which include the followings: (i) a Revenues of Mango less costs and expenses of Mango of NIS 4.4 million (\$1.0 million); (ii) project initiation expenses of NIS 7.8 million (\$1.7 million) mainly relating EMI's tender offer to participate in Israel's Channel 2 broadcasting; and (iii) Revenues from lease of assets less costs and expenses of related to such revenues was NIS 9.8 million (\$2.1 million). Revenues from other operational income in 2004 less costs and expenses related to such revenues resulted from lease of assets and amount of NIS 10.0 million.

Research and development expenses, net in 2005 totaled NIS 58.9 million (\$12.8 million), after deducting NIS 3.9 million (\$0.8 million) granted by the Israeli Office of the Chief Scientist ("OCS"), compared to NIS 38.2 million in 2004, after deducting NIS 7.7 million granted by the OCS. All research and development expenses derived from InSightec's operations. InSightec expanded its scope of research and development in 2005 to new applications of the ExAblate 2000 systems as well as costs related to the developing of new systems.

General and administrative expenses decreased in 2005 to NIS 36.9 million (\$8 million) from NIS 43.6 million in the previous year. This decrease is attributed mainly to a decrease in legal and other professional including, *inter alia*, a one-time write off a provision previously recorded for such expenses as well as a decrease in headquarter salary expenses. General and administrative expenses include corporate executive, administrative, legal and accounting activities, rental expenses and professional fees. General and administrative expenses related directly to EMI's operations are included in the cost and expenses of same operations, in accordance with the Single - Step Form, as described above.

Share in losses of associated companies, net, totaled NIS 12.0 million (\$2.6 million) in 2005, compared to NIS 16.0 million in 2004. Such losses are attributable mainly to EMI's share in losses resulted from the operations of our venture capital investments: Gamida, Olive and Easyrun, partially offset by net income deriving from Ercorner (the company holding the Dream Island project).

Finance expenses, net increased to NIS 122.3 million (\$26.6 million) in 2005 from NIS 53.6 million in 2004. Such increase resulted from a combination of the following factors:

- In 2005, EMI had an exchange rate differences loss of NIS 20.2 million (\$4.4 million) as compared to an exchange rate differences gain of NIS 87.8 million in 2004 which was attributed to:
 - (i) In 2004, our shopping and entertainment centers segment recorded exchange rate differences gain of NIS 76.8 million, generated mainly by the significant re-valuation (5%) of the Hungarian Forint in Hungary (which until April 1, 2004 was the functional currency of the operations in that country), in relation to the Euro, which is the currency used in financing these activities. This compares to PC's exchange rate differences losses in 2005 which

amounted to NIS 2.1 million, since the EURO is both the functional currency of PC's subsidiaries and the currency of its monetary net assets. In addition, in 2005, we had exchange rate differences loss of NIS 12.6 million which resulted mainly from the Arena shopping and entertainment center in Israel as a result of an evaluation of the US\$ against the NIS which constitute Arena's functional currency;

- (ii) Our hotel segment (mainly its Romanian subsidiary) accrued exchange rate differences loss amounting to NIS 6.0 million (\$1.3 million) in 2005 compared to exchange rate differences gain of NIS 17.4 million in 2004, attributed to the fluctuations of the US dollar against the Romanian Lei, being the subsidiary's functional currency;
 - (iii) In 2005, we recorded exchange rate differences loss of NIS 10.3 million (\$ 2.2 million), which is attributable to corporate loans provide to us in foreign currencies (mainly the US dollar) (against the NIS). This compares to exchange rate differences gain of NIS 13.0 million in 2004; and
 - (iv) Increase in our exchange rate differences gain from cash and bank deposits to NIS 10.8 million in 2005 (\$2.3 million), compared to exchange rate differences loss of NIS 19.4 million in 2004.
- In fiscal 2005, we incurred interest expenses and gain/loss from forward transactions of NIS 102.1 million (\$22.2 million) as compared to NIS 141.4 million in 2004, which was attributable to the following:
 - (i) In 2005, we recorded a gain from forward transaction of NIS 14.7 million (\$3.2 million) compared to a loss from such transaction of NIS 14.9 million in 2004; Such forward transactions were designated in order to hedge payments or proceeds that should have been paid or received in other currencies and which for accounting purposes do not constitute hedge transactions and therefore, their results were recorded in the statement of operations;
 - (ii) In 2005, our shopping and entertainment centers segment recorded interest expenses of NIS 27.3 million (\$5.9 million), compared to NIS 66.4 million in 2004 mainly due to a decrease in the scope of loans following the sale of the shopping and entertainment centers;
 - (iii) Our hotels segment recorded interest expenses of NIS 52.7 million (\$ 11.5 million) compared to NIS 35.7 million in 2004, mainly due to the commencement of operations of the Riverbank Park Plaza hotel; and
 - (iv) Interest expenses in respect of our corporate loans less interest income on our deposits increased to NIS 35.5 million (\$ 7.7 million) compared to NIS 24.4 million in 2004. This increase is mainly attributed to increase in our scope of loans and increase in the basic LIBOR rates for all currencies.

Other expenses, net, in 2005 totaled NIS 57.1 million (\$12.4 million) compared to NIS 51.4 million in 2004. This was the result of:

- (i) In 2004 we recorded a gain of NIS 12.4 million deriving from realization of investment-type monetary balances (*i.e.* foreign currency exchange rates results with respect to shareholder loans provided to our investee company previously recorded directly as accumulative foreign currency translation adjustments within the shareholder equity and which, as a result of a repayment of such shareholder loans, were realized into the statement of operations) . In 2005 EMI did not record such gain; and
- (ii) A provision for loss resulting from expected decline in EMI's holdings in Elscint due to the probability of realization of Elscint' shares held by employees under Elscint Incentive Plan, which was recorded prior to the consummation of the merger between EMI and Elscint, partially offset by a decrease in loss from disposition and impairment of assets and investments which in 2004 totaled NIS 64.8 million in relation to NIS 46.4 million recorded in 2005 (\$10 million). The assets and investments impairment in 2005 included mainly impairment of our hotels and shopping and entertainment centers and impairment of our investment in Vcon, which is one of our venture capital investment companies.

As a result of the foregoing factors, profit before income tax totaled in 2005 NIS 16.2 million (\$3.5 million), compared to NIS 24.9 million in 2004.

Certain additional factors affecting our net profit for 2005 and 2004 included the following:

- (a) income taxes in 2005 totaled NIS 7.8 million (\$1.7 million) compared to NIS 15.8 million in 2004;
- (b) minority interest in results of subsidiaries, net, totaled NIS 73.3 million (\$15.9 million) compared to NIS 27.4 million in 2004, mainly resulting from increase in EMI's share in Elscint's and InSightec's losses;

The above resulted in profit from continuing operation totaling NIS 81.6 million (\$17.7 million) in 2005, compared to NIS 36.5 million in 2004.

- (c) profit from discontinuing operations, net, totaled NIS 5.9 million (\$1.3 million) in 2005, compared to NIS 6.8 million in 2004; this profit resulted mainly from the collection of receivables previously written off and to exchange rate differences income attributed to monetary assets pertaining to discontinuing operations;
- (d) cumulative effect from the application of a new accounting standard, resulted in loss of NIS 0.6 million (\$0.1 million) in 2005;

The above resulted in net profit of NIS 86.9 million (\$18.9 million) in 2005, compared to NIS 43.3 million for fiscal 2004.

Fiscal 2004 compared to Fiscal 2003

Revenues

Total consolidated revenues for fiscal 2004 were NIS 735.9 million compared to NIS 594.9 million for 2003, an increase of NIS 141 million, or 23.7%.

Revenues from sale of real estate assets and investments, net, for fiscal 2004 were NIS 131.9 million. There were no such transactions in 2003.

Revenues from sale of real estate assets and investments in 2004 derived from the sale of twelve Hungarian shopping and entertainment centers to Klépierre in July 2004.

Revenues from shopping and entertainment centers operations for fiscal 2004 were NIS 311.9 million compared to NIS 347.1 million in 2003, a decrease of NIS 35.2 million or 10%. This decrease resulted from the exclusion of the activities of 12 shopping centers in Hungary, which were sold to Klépierre at the beginning of the third quarter of 2004, which contributed revenues of NIS 115.5 in the second half of 2004 compared to NIS 219.0 million in 2003. This decrease was offset by: (i) an increase in revenues from Arena in the amount of NIS 35 million; Arena commenced partial operations in mid June 2003 while during fiscal 2004 attaining almost full scale operations; (ii) an increase revenues in the amount of NIS 7 million deriving from the opening of an additional shopping center in Hungary during 2004; (iii) an increase revenues in the amount of NIS 15 million received by the center's management company (in which EMI then held 50%) during the second half of 2004, from the 12 centers sold to Klépierre; and (iv) an increase revenues in the amount of NIS 13 million resulting from currency fluctuations in Hungary and Poland during the fiscal year 2003.

Revenues from hotel operations and management for 2004 were NIS 218.4 million as compared to NIS 189.2 million for fiscal 2003, an increase of NIS 29.2 million or 15%. The increase in revenues resulted from: (i) commencement of operations of the Aquotopia attraction within the Astrid Park Plaza facilities in 2004; (ii) higher occupancy rates in Victoria London and the Sherlock Holmes hotels; and (iii) renovations and operations of additional apartments in our Centerville apartment hotel in Bucharest during fiscal 2004 and higher occupancy and rental rates from this hotel.

Revenues from InSightec's sale of medical systems in 2004 were NIS 44 Million. InSightec commenced sales during the first quarter of 2004. The sales represent sales of 10 "ExAblate 2000" Systems.

Revenues from realization of investments in 2004 were NIS 16.4 million, compared to NIS 45.1 million in 2003. This decrease was attributable to a decrease in our shareholding in InSightec amounting to NIS 13.0 million in 2004 and NIS 20.4 in 2003, as well as additional proceeds received from the sale of our interest in Algotech totaling NIS 3.4 million in 2004 compared to gain derived from the consummation of this sale of NIS 24.7 million in 2003.

Other operational income consists of revenues deriving from hotel leasing in 2004 of NIS 13.2 million as compared to NIS 13.5 million for 2003.

Profits before Income Taxes

Set forth is an analysis of the profits before income tax:

Profit from the sale of real estate assets and investments is presented in net, after cost of assets or investments sold; therefore, the profits from such sales are equal to the revenues derived therefrom.

Revenues from shopping and entertainment centers operations less costs and expenses related to such revenues in 2004 was NIS 40.5million compared to NIS 89.1million in 2003. This decrease was mainly due to the sale of the activities of 12 shopping centers in Hungary, which were sold to Klépierre at the beginning of the third quarter of 2004.

Revenues from hotels operations less costs and expenses related to such revenues in 2004 was NIS 11.2 million compared to NIS 0.5million in 2003. This increase resulted from increase in revenues of the hotel segment and improved efficiency in our costs of revenues of this segment.

Revenues from sale of medical systems less costs and expenses related to such revenues in 2004 was NIS 18.0 million compared to costs and expenses of medical systems less revenues from sale of medical systems of NIS 8.7 million in 2003. This increase was attributed to an increase in revenues from the sales of such systems. The costs and expenses related to medical systems operations in fiscal 2003, consists mainly of general and administrative expenses recorded in accordance with the Single - Step Form described above.

Profit from realization of investments is presented in net, after cost of the investments sold and therefore, the profit from such item is equal to the revenues derived therefrom.

Revenues from sale of other operational income less costs and expenses related to such revenues in 2004 resulted from the lease of assets.

Research and development expenses, net in 2004 totaled NIS 38.2 million after deducting NIS 7.7 million for grant 5 by the OCS, compared to NIS 43.7 million in fiscal 2003, after deducting NIS 7.5 million grant 5 by OCS. All research and development expenses derived from InSightec's operations.

General and administrative expenses, increased in 2004 to NIS 43.8 million from NIS 42.1 million in the corresponding period of the previous year.

Share in losses of associated companies, net, totaled NIS 16.0 million in 2004, compared to NIS 21.0 million in 2003 mainly resulting from the operations of our venture capital investments: Gamida, Olive and Easyrun, partially offset by net income deriving from Ercorner (the company that owns the Dream Island project). Due to the fact that from the fourth quarter of 2003, the investment in Vcon is stated on a cost basis the Company has not recorded any equity income or loss regarding Vcon since that date.

Financing expenses, net in 2004, totaled NIS 53.6 million as compared to NIS 211.8 million in 2003, a decrease of NIS 158 million. Such decrease resulted from a combination of the following factors:

In 2004, EMI had exchange rate differences gain of NIS 87.8 million compared to exchange rate differences loss of 67.1 million in 2003, which was attributed mainly to exchange rate differences gain of NIS 76.7 million recorded by our shopping and entertainment segment in 2004, which were generated mainly by the significant re-valuation of the Hungarian Forint (which until April 1, 2004 was the functional currency of the operations in that country), in relation to the Euro, which is the currency used in financing these activities. This compared to exchange rate differences expense loss of NIS 100.9 million in 2003 which were incurred due to substantial currency devaluation (net of inflation) in Hungary and Poland, partially offset by

- (i) EMI's hotel segment (mainly its Romanian subsidiary) accrued exchange rate differences gain of NIS 17.5 million in 2004 compared to accrued exchange rate differences gain of NIS 27.1 million in 2003, attributed to the fluctuations of the US Dollar (being the Romanian's subsidiary net monetary assets currency) against the Romanian Lei; and
 - (ii) Exchange rate differences loss in 2004 attributed to our corporate loans and deposits totaled NIS 6.4 million, which resulted mainly from fluctuations in the exchange rates of currencies financing the operations of the Company (mainly exchange rate of the US dollar against the NIS). This compares with an exchange rate gain of NIS 8.6 million in 2003.
- In 2004, we incurred interest expenses of NIS 141.4 million as compared to NIS 144.7 million in fiscal 2003, which was attributed mainly to the decrease in interest expenses in fiscal 2004 accrued on Plaza Center's bank loans, totaling NIS 55.0 million compared to NIS 81.5 million in fiscal 2003, which was primarily a result of a reduction in the amount of outstanding loans due to the exclusion of the activities of 12 shopping centers in Hungary that were sold to Klépierre Group during the third quarter of 2004. This was partially offset by:

- (i) Increase in interest expenses of our hotels segment amounting to NIS 35.7 million in 2004 compared to NIS 27.7 million in 2003, mainly due to an increase in the scope of loans of this segment as a result of new refinance loans; and
- (ii) Increase of Arena's accrued interest expenses of NIS 11.4 million in 2004 compared to NIS 6.4 million in 2003, mainly due to the fact that Arena commenced operation in mid June 2003 and did not accrue interest expenses in its statement of operations in the first half of 2003; and
- (iii) Decrease in our interest income from bank deposits to NIS 4.6 million in 2004 compared to NIS 11.2 million in 2003 mainly due to a decrease in the amount of deposits held by EMI.

Other expenses, net, in 2004 totaled NIS 51.4 million compared to NIS 10.5 million in 2003. This was as a result of: (i) gain of NIS 12.4 million recorded in 2004 from realization of investment type monetary balance in investees (*i.e.* foreign currency exchange rates results with respect to shareholder loans provided to our investee company previously recorded directly as accumulative foreign currency translation adjustments within the shareholder equity and which, as a result of a repayment of such shareholder loans, were realized into the statement of operations), compared to a gain of NIS 32.3 million in 2003 resulting from such realization; and (ii) an increase from disposition and impairment of assets and investments in 2004 totaling NIS 64.8 million, compared to NIS 38.0 million recorded in 2003.

As a result of the foregoing factors, profit before income tax totaled in 2004 NIS 24.9 million compared to loss before income tax NIS 193.0 million in 2003.

Additional factors affecting EMI's net profit for 2004 and 2003 are as follows:

- (a) income taxes in 2004 totaled NIS 15.8 million compared to tax benefit of NIS 20.2 million in 2003;
- (b) minority interest in results of subsidiaries, net, totaled NIS 27.4 million compared to NIS 48.7 million in 2003, mainly resulting from increase in EMI's share in Elscint's and InSightec's losses;

The above results in profit from continuing operations totaling NIS 36.5 million in 2004, compared to loss therefrom of NIS 124.2 million for 2003.

- (c) profit from discontinuing operation, net, totaled NIS 6.8 million in 2004, compared to NIS 12.1 million in 2003; this profit resulted mainly from the collection of receivables previously written off and to exchange rate differences for income attributed to monetary assets pertaining to discounting operations;

The above results in net profit of NIS 43.3 million in 2004, compared to loss NIS 112.1 million for 2003.

B. Liquidity and Capital Resources

General

Our capital resources include the following: (a) lines of credit obtained from Israeli banks; (b) proceeds from sales of assets; (c) financing margins resulting from the refinancing of loans extended to the subsidiaries building the centers; (d) private issuance of non-convertible debentures and shares; and (e) available cash and cash equivalents. Such resources are used for one or more of the following purposes:

- (i) equity investments in our centers and hotels constructed by our wholly owned and jointly controlled subsidiaries (special purpose entities that are formed for the construction of the various centers and hotels ("Projects Companies")). We generally finance approximately 25%-30% of such projects through equity investments in the Project Companies, while the remaining 70%-75% is financed through a credit facility secured by a mortgage of the project constructed by the respective Project Company, registered in favor of the financial institution that provide such financing. The equity investments in the Project Companies are typically provided by us through shareholder loans that are subordinated to the credit facilities as therein provided;
- (ii) additional investments in InSightec if necessary;
- (iii) additional investment in our investees (mainly venture capital investments); and
- (iv) other investments such as project initiation.

InSightec's capital resources are obtained primarily from additional investments in equity or in convertible notes by its shareholders and from its revenues from sale of medical systems. Such amounts are used for research and development activities aimed at obtaining FDA approvals for further treatments and other general corporate expenses such as cost of revenues, marketing and selling and general and administrative expenses.

Liquidity

The followings items elaborate on the major transactions and events carried out by EMI in 2005 and onwards, which resulted in material changes in EMI's liquidity:

Sources of Cash from Major Transactions and Events - 2005 and 2006 to Date:

- On July 29, 2005, PC sold four operational shopping centers in Poland, to Klépierre for a net cash consideration of €73.8 million (\$88.7 million). The net cash consideration reflected the sold centers' asset value as at the closing, after deduction of bank loans and other working capital items of the sold centers (the "first stage"). In accordance with the terms of the agreement, an adjustment of the purchase price was set to be conducted on the basis of the gross rentals as of December 31, 2005 (in respect of one shopping center - as of a date up to May 31, 2006), and a net asset value adjustments based on the audited financial statements of the Sold Centers. As of the date of this annual report such adjustments have not yet been made and we believe that following such adjustments EMI will generate an additional net cash consideration of €15 million.
- In April 2005, PC sold four shopping and entertainment centers in certain peripheral cities in Hungary to Dawny Day Europe for a net consideration of €17.2 million (\$20.3 million). The net cash consideration reflects the asset value of the sold centers after deduction of bank loans and other working capital items of the sold centers. We undertook within the framework of the agreement to guarantee achieving of certain operational targets of one of the sold centers, for a period of 3 years until December 31, 2007, which is estimated at totals €1.3 million.
- On December 19, 2005, Elscint has sold its entire 30% interest in the company owning the Shaw Hotel for net consideration of €5.5 million (\$6.5 million)
- Within the framework of an agreement signed between PC and Klépierre in July 2004 for the sale of twelve shopping and entertainment centers in Hungary, PC has provided Klépierre with a bank guaranty in order to secure certain revenues achievements of the sold centers. In the framework of the agreement signed between PC and Klépierre in July 2005, as described above, Klépierre released the guaranty unexercised, and PC received an additional cash consideration from Klépierre which amounting to €7.6 million (\$9.0 million). In addition, in accordance with the agreement signed with Klépierre in July 2004, PC deposited €6.8 million (\$8.2 million) in an escrow account in order to secure certain tax conditions set forth in the sale agreement dated July 2004, which have been released to us in March 2005.
- In 2005, we continued our investments in those shopping and entertainment centers and hotels, which are under construction, through grants to our project companies totaling of approximately €24 million (\$28 million).
- On March 2, 2006, through our jointly controlled subsidiaries, which hold three hotels in the United Kingdom ("Holding Companies"), we executed a refinance loan agreement together with Park Plaza. The Holding Companies and Park Plaza are jointly and severally borrowers under the agreement, while our share in the loan amounted to £97.5 million (\$168 million) ("Refinancing Loan"). The Refinancing Loan bears annual interest of Libor + 3% and is repayable over a five-year period with an option to extend such term to seven years, subject to fulfillment of certain condition as stipulated in the Refinancing Loan.

In the event of cash distributions deriving from the sale, disposal or refinancing of the hotels which were financed by the refinancing loan funds ("Transactions"), the Borrowers are required to pay to the financing bank an amount equivalent to 15% of the difference between the market value of the hotels as determined in such Transactions and the value of the hotels as set and agreed upon for the purposes of the Refinancing Loan.

The Refinancing Loan proceeds were first used for the repayment of outstanding loans previously granted to the Holding Companies, in which our share amounted to £60 million (\$104 million).

The Holding Companies have transferred to us the surplus of the credit-received totaling £30.6 million (\$52.7 million) out of which, £16.7 million (\$28.7 million) was used to repay bank loans that financed our equity investments in the Holding Companies.

- In February, March and June 2006, we issued unsecured non-convertible debentures totaling NIS 527 million (\$114 million) to Israeli investors. The debentures consist of two series: Series A Debentures, in a principal amount of NIS 468.0 million (\$101.7 million), bear annual interest of 6% and are linked (principal and interest) to the increases in the Israeli CPI. Series B Debentures, in a principal amount of NIS 59.0 million (\$12.6 million), bear annual interest of LIBOR plus 2.65% and are linked (principal and interest) to the US

dollar. The principal amount of Series A and Series B Debentures are repayable in equal 10 semi-annual installments, commencing August 2009. The Series A and Series B debentures also provide that the debentures will be prepaid by us at the option of the trustee or the holders of the debentures if our securities are de-listed from trade on both the Tel Aviv Stock Exchange and on Nasdaq Global Market. We have undertaken to use our best efforts to register the two series of debentures for trade on the Tel Aviv Stock Exchange not later than August 30, 2006. So long as the debentures are not registered for trade on the Tel Aviv Stock Exchange, we have undertaken: (i) to pay an additional interest at a rate of 0.3% per annum; (ii) not to make any distribution as defined in the Israeli Companies Law to our shareholders which does not comply with the profit and solvency tests provided in section 302(a) of the Companies Law, unless such distribution is approved at the general meeting of holders of each series of debentures by an unanimous vote of all holders participating in the vote; (iii) to pre-pay the debentures at the option of the trustee or the holders of the debentures upon the occurrence of any of the following events: (a) the rating of the debentures in Israel decrease in Baa2 (the equivalent rating of BBB); (ii) the holding of Europe-Israel in us drops below 25% of our issued share capital. Such undertaking will be terminated upon the registration for trade of the debentures on the Tel Aviv Stock Exchange.

- On May 17, 2006, Elscint sold through a private transaction, 524,187 dormant shares of EMI in consideration for NIS 115 per share, generating net cash consideration of NIS 60.2 million (\$13.1 million).
 - On June 11, 2006, EMI issued to Israeli investors additional series A unsecured non-convertible debentures, in an approximate aggregate amount of NIS 68 million (\$14.7 million). The newly issued series A debentures have same terms as those governing the previously issued series A debentures, as described above.
- Use of Cash from Major Transactions and Events – 2005 and 2006 to Date:
- On March 17, 2005, we distributed to our shareholders a dividend in the amount of NIS 153.9 million (\$34.5 million).
 - On January 17, 2006, the Company distributed to its shareholders a dividend in the amount of NIS 130.0 million (\$28.2 million).

The following table sets forth the components of our cash flows statements for the periods indicated:

	Year ended December 31,			
	2005	2005	2004	2003
	Convenience Translation US \$	NIS Thousands	NIS Thousands	NIS Thousands
Net cash used in operating activities ..	(21,531)	(99,108)	(21,562)	(8,333)
Net cash provided by investing activities	1,194	5,496	128,481	131,443
Net cash provided by (used in) financing activities	52,950	243,727	75,872	(174,995)
Net effect on cash due to changes in currency exchange rates	(1,416)	(6,516)	(522)	3,959
Increase (decrease) in cash and cash equivalents.....	31,197	143,599	182,269	(47,926)

Cash flow from operating activities

Net cash used in operating activities for fiscal 2005 was NIS 99.1 million (\$21.6 million), as compared to NIS 21.5 million for fiscal 2004. This increase in net cash used in operating activities, in the amount of NIS 77.5 was mainly due to the following:

a decrease of NIS 116.0 million (\$25.0 million) in PC's net cash provided by its operating activities, which resulted mainly from (i) the sale of the activities of 12 shopping centers in Hungary, which were sold to Klépierre at the beginning of the third quarter of 2004; (ii) the sale of the activities of four operational centers in Hungary which were sold to Dawny Day at the beginning of the second quarter of 2005; and (iii) the sale of the activities of four operational centers in Poland which were sold to Klépierre at the beginning of the third quarter of 2005.

This was offset by:

- (i) Cash flow in respect of gain from derivative financial transactions of NIS 14.7 million (\$3.1 million) in 2005 compared to loss from such transactions of NIS 13.5 million in 2004. Consequently, the total change in cash flow from our operating activities deriving from these transactions amounted to NIS 28.2 million.
- (ii) A decrease in the amount of NIS 15 million in InSightec's net cash used for its operating activities as a result of an increase in revenues generated from the sales of medical systems.

Cash flow from investing activities

Cash flow from investment activities decreased to NIS 5.5 million (\$1.1 million) in 2005 from NIS 128.5 million in 2004. This decrease was mainly attributable to the following:

- an increase in the purchase of fixed assets to NIS 435.8 million in 2005 from NIS 373.5 million in 2004 mainly in respect of the construction of our shopping and entertainment centers in Poland and the Czech Republic and the construction of the Riverbank hotel in London.
- an increase in our investments in subsidiaries is first acquired and consolidated in 2005 to NIS 117.7 million (\$25.6 million) from NIS 35.5 million. Such investments in 2005 are attributed mainly to (a) the purchase of the remaining 50% not owned by EMI in Sadyba; (b) the purchase of the entire equity and voting right in Kerepesi; and (c) the purchase of the entire equity and voting rights of Mango. This was partially offset by an increase in the proceeds from sale of real estate assets and investments to NIS 524.5 million (\$113.9 million) in fiscal 2005 compared to NIS 412.0 million in 2004.
- A decrease in the proceeds from the sale of fixed assets and investments to NIS 7.8 million (\$ 1.7 million) in 2005 from NIS 59.3 million in 2004; and (iv) a decrease in realization of short and long term deposits to NIS 37.5 (\$ 8.1 million) million in 2005 from NIS 60.0 million in 2004.

Cash flow from finance activities

Cash flow from financing activities increased to NIS 243.7 million (\$53.0 million) in fiscal 2005 from NIS 75.9 million in 2004. Such increase was attributable to (i) receipt of long term bank loans - net of repayment of such loan - of NIS 365.7 million (\$79.5 million) compared to NIS 218.4 million in 2004. The proceeds from these new bank loans used mainly for the construction and/or purchase of our shopping and entertainment centers and hotels; (ii) a dividend payment in fiscal 2005 of NIS 153.9 million (\$33.4 million) with no such distribution in 2004 although in fiscal 2004 EMI had acquired its shares in a total amount NIS 138.9 million with no similar purchase in 2005; and (iii) the issuance of convertible debentures by InSightec of NIS 60.2 million in 2004 with no such issuance in 2005.

Major balance sheet changes

Major balance sheet items as a percentage of total assets as at December 31, 2005 and 2004 were as follows:

	DECEMBER 31,	
	2005	2004
Current assets	23%	16%
Current liabilities	18%	18%
Long-term Investments and fixed assets	76%	82%
Long-term liabilities.....	50%	54%
Minority Interest	0.3%	10%
Shareholders' equity	28%	18%

Hotels, shopping and entertainment centers and other fixed assets decreased by NIS 0.8 billion, to NIS 2.7 billion (\$0.6 billion) at December 31, 2005 from NIS 3.5 billion at December 31, 2004. This decrease derived primarily from: (i) the sale of the centers to Klepierre; (ii) the sale of the centers to Dawny Day; and (iii) the sale of the Shaw hotel. This decrease was partially offset by the continuing investments in the shopping and entertainment centers and hotels under construction in Europe.

Short-term credits and long term debt decreased to NIS 2,363 million (\$513.3 million) at December 31, 2005 from NIS 2,956 million at December 31, 2004. The decrease in borrowings resulted primarily from repayment of long term loans which used to finance the centers and the hotels that were sold during 2005, and the decrease was offset somewhat by loans obtained for the financing of new centers and hotels.

Based on management's internal forecasts and assumptions relating to our operations, that our existing cash and funds generated from operations, together with the proceeds from the sale of assets and together with our existing financing agreements, will be sufficient to meet our working capital and capital expenditure requirements for the completion of those projects whose construction has already commenced. In the event that our plans change, our assumptions change or prove to be inaccurate, business conditions change, or if other capital resources and projected cash flow otherwise prove to be insufficient to fund our operations (due to unanticipated expenses or other unforeseen events), we may be required to reduce our operating expenses or use more of our cash reserves to fund operating expenses. In addition, we may need to seek additional financing sooner than currently anticipated. We have no current arrangements with respect to sources of additional financing and there can be no assurance that we will be able to obtain additional financing on terms acceptable to us, if at all.

Concentration of Credit Risk

Cash and amounts on deposit in Israel and abroad are deposited in banks. For information on composition of the short and long-term investment portfolio, see Notes 4 and 8 to our consolidated financial statements included in Item 18. Such investments are exposed to market-price fluctuation, with the group affected by fluctuation of the Israeli capital market, over which the group has no control. Such changes may have an impact on the value of these investments upon realization.

EMI and most of its investee companies (the "Group Companies") are not materially exposed to credit risks stemming from dependence on a given customer. The Group Companies examine, on an ongoing basis, the amount of credit extended to their customers and, accordingly, record a provision for doubtful accounts based on those factors affecting credit risks of certain customers in the opinion of these companies' management.

As for sale transactions with Klepierre, see "Item 10. Additional Information – C. Material Contracts – Shopping and Entertainment Centers" below.

In 2003, the Israeli Bank Controller instituted new regulations governing lending by Israeli banks to groups of affiliated borrowers. Under these regulations, the banks are limited in their maximum exposure to groups of affiliated companies under a combined lending ceiling based on objective and subjective guidelines. As a result, our borrowing capacity may be limited under certain circumstances even if we have unused lines of credit, due to borrowing by companies affiliated with shareholders that are defined by the Controller of the Banks as controlling shareholders of EMI. In anticipation of such developments, we are developing credit facilities that will not be affected by the new regulations.

Derivative Instruments

For information on financial instruments used, profile of debt, currencies and interest rate structure, see "Item 11. Quantitative and Qualitative Disclosure About Market Risks" below.

Other Loans

A. We have entered into or assumed liability for various financing agreements, either directly or indirectly through our subsidiaries, to provide capital for the purchase, construction, and renovation and operation of shopping and entertainment centers and hotels as well as for various investments in our other segments of operations. In our opinion, our working capital is sufficient for our current requirements; however, our subsidiaries will continue to borrow funds from time to time to finance their various projects. Set forth below is certain material information with respect to loans extended to EMI, its subsidiaries and its jointly controlled companies as of December 31, 2005. The loans granted to our jointly controlled companies are presented in the table at their full value:

Borrower and lender	Amount of Loan and Amount Outstanding as of December 31, 2005	Interest on Loan	Payment Terms	Principal Securities and Covenants	Other Information
Borrower: EMI Lender: Bank Hapoalim B.M.	Loan: \$58 million Amount outstanding: \$50.7 million. (\$21 million + EURO 29 million) Available amount: 0	Libor + 3.35%	Loan for 10 years to be repaid by 2013, in 18 equal semi-annual installments, commencing on June 30, 2004. Interest payment will occur twice a year commencing on December 31, 2003	<u>Principal Securities:</u> First ranking pledge on the entire shares of PC and on 615,500 shares of Elscint (approximately 3.5% of Elscint's share capital). PC's guarantee. <u>Principal Financial Covenants:</u> Adjusted Shareholder's Equity shall represent at least 20% of the Adjusted Balance Sheet Value. Net Operating Profit (before deductions for depreciation and amortization relating to net operating profit) shall be at each June 30 of every year no less than NIS 120 million. In the event of (i) the net loan amount is \$30 million; (ii) the total amount outstanding under the Europe Israel loan agreement is less than \$30 million; and (iii) there has been no event of default under the loan agreement, the above financial covenants shall not apply. For a waiver provided by lender with regard to the financial covenants and other issues, see "other information".	In a letter dated March 27, 2006, lender waived certain covenants provided by borrower to lender and the parties agreed, <i>inter alia</i> , on the following: (i) non-repayment of loans to lender due to the sale of the 12 centers to Klepierre and the issuance of the unsecured non convertible debentures; provided that EURO 15.2 million will be repaid by January 1, 2007; (ii) non-repayment of short term credit facility due on December 31, 2005; (iii) payment of interest accrued from January 1, 2006; (iv) waiver of all financial covenants except for the covenant regarding adjusted shareholders equity to balance sheet value. These agreements are in effect until January 1, 2007.
Borrower: Elbit Ultrasound (Netherlands) B.V. (our subsidiary) Lender: Bank Hapoalim B.M.	Loan: \$25 million Amount outstanding: EURO 15.2 million (\$18 million) Available amount: 0	Libor + 3.35%	Loan for 10 years to be repaid by 2013, in 18 equal semi-annual installments, commencing on June 30, 2004 Interest will be paid twice a year commencing on December 31, 2003	See above.	See above.
Borrower: EMI Lender:	Short term credit facility \$10 million Amount outstanding: \$10	Libor + 3.35%	Renewal every three months upon lenders consent.		

Borrower and lender	Amount of Loan and Amount Outstanding as of December 31, 2005	Interest on Loan	Payment Terms	Principal Securities and Covenants	Other Information
Bank Hapoalim B.M.	million Available amount: 0				
Borrower: InSightec Ltd Lender: Bank Hapoalim B.M.	Amount outstanding NIS equivalent of \$5.1 million	Libor + 2.5% / or Prime + 1.1%	Renewal every 6 months subject to EMI's guarantee upon lenders consent.	<u>Principal Securities:</u> EMI's guarantee for up to \$5 million. Liens on InSightec's MRI system and ExAblate 2000 system installed at Sheba Medical Center.	
Borrower: EMI Bank Leumi Le-Israel Ltd.	Credit line of \$19.1 million Amount outstanding: \$19.1 million Available amount: 0	Libor +3.35%	Renewal every 3 months upon lenders consent.	<u>Principal Securities:</u> First ranking pledge of cash deposit and securities in an aggregate amount of \$3 million. Negative pledge over Elscint's shares.	
Borrower: InSightec Ltd Lender: Bank Leumi Le-Israel Ltd.	Loan: \$10 million Amount outstanding: 0 Available Amount: \$10 million	will be agreed by the parties and will be paid on a monthly basis.	Credit will expire on June 30, 2006	<u>Principal Securities:</u> First ranking pledge over the entire assets of InSightec. First ranking pledge and assignment on all rights in the ExAblate 2000 installed in the Shiba hospital.	As of December 31, 2005 there were no drawdowns.
Borrower: Movement Poland S.A. Lender: Kredytbank S.A. Project: Lublin Plaza	Loan: EURO 39.3 million Amount outstanding: 0 Available amount: EURO 39.3 million	Euribor + margin ranging from 1.5% to 1.9% per annum.	60% of the principal to be repaid in 40 quarterly payments. 40% of the principal to be repaid in one installment at final repayment date (no later than March 31, 2017). The first repayment date shall occur after a nine-month period commencing on the completion date. During the availability period the interest will be paid on a monthly basis and thereafter in quarterly installments.	<u>Principal Securities:</u> First ranking mortgage on the shopping and entertainment center. First ranking pledge on shares of Borrower, on all of its accounts and on all present and future assets Assignment of securities (insurance, lease, hedging agreement, management agreements, project documents, accounts etc.) to lender. Cost Overruns Guarantee by PC and Sol-or Holding Management Ltd. (shareholders of Borrower). Corporate guarantees by PC and Sol-or which maybe revoked upon certain terms. <u>Principal Financial Covenants:</u>	

Borrower and lender	Amount of Loan and Amount Outstanding as of December 31, 2005	Interest on Loan	Payment Terms	Principal Securities and Covenants	Other Information
				<p>Debt Service Cover Ratio is not less than 1.15.</p> <p>The Loan to the Property's Value Ratio shall not be less than 80%. Such percentage decreases over the years up to 50%.</p> <p>Loan to Equity Contributions ratio shall not be higher than 80:20.</p>	
<p>Borrower: Movement Poland S.A</p> <p>Lender: Kredytbank S.A</p> <p>Project: Lublin Plaza.</p>	<p>Loan: PLN equivalent of EURO 8.5 million</p> <p>Amount outstanding: 0</p> <p>Available amount: PLN equivalent of EURO 8.5 million</p>	Euribor + 1.4% per annum.	<p>Either:</p> <p>on each interest payment date by any VAT refund amount standing on that day or</p> <p>one day after the date when relevant VAT refund is received from the tax office</p>	<p><u>Principal Securities:</u></p> <p>Second ranking mortgage on the center.</p> <p>Assignment of VAT refunds.</p> <p>Pledge on bank accounts.</p>	VAT financing facility.
<p>Borrower: Rybnik Plaza sp.z.o.o.</p> <p>Lender: Kredytbank S.A.</p> <p>Project: Rybnik Plaza</p>	<p>Loan: EURO 24.7 million</p> <p>Amount Outstanding: 0</p> <p>Available amount: EURO 24.7 million</p>	EURIBOR + margin ranging from 1.45% to 1.95% per annum.	60% of the principal to be repaid in 40 quarterly payments. 40% in one installment at final repayment date (no later than Jun 30, 2017)	<p><u>Principal Securities:</u></p> <p>First ranking mortgage on the property.</p> <p>Assignment of current and future leases of relating insurance agreements, of all rights under the development contracts and the receivables under the performance bonds.</p> <p>Pledge on shares of borrower and over the receivables under the project's accounts.</p> <p>PC's cost overruns guarantees.</p> <p>PC's corporate guarantee (until income level of 2.5 million EURO is reached).</p> <p><u>Principal Financial Covenants:</u></p> <p>The Debt Service Cover Ratio shall be no less than 1.15 during each quarter.</p> <p>Loan to Asset's Value Ratio shall not be less than 80%. Such percentage decreases over the years up to 50%.</p>	

Borrower and lender	Amount of Loan and Amount Outstanding as of December 31, 2005	Interest on Loan	Payment Terms	Principal Securities and Covenants	Other Information
				<p>Loan to Equity Contributions ration shall not be higher than 80:20.</p> <p>Loan shall not exceed 80% of the project budget.</p>	
<p>Borrower: Rybnik Plaza sp.z.o.o.</p> <p>Lender: Kredytbank S.A.</p> <p>Project: Rybnik Plaza</p>	<p>Loan: The PLN equivalent of EURO 6.2 million</p> <p>Amount Outstanding: 0</p> <p>Available amount: The PLN equivalent of EURO 6.2 million</p>	Euribor + 1.4% per annum.	VAT amounts refunded by the tax office on the last day of a given interest period. Remaining outstanding facility will be repaid not later than nine months after the end of construction period, however, no later than September 30, 2007.	<p><u>Principal Securities:</u> Second ranking mortgage on the mall. Registered pledge on the borrower's assets Assignment of VAT refunds</p>	VAT financing facility.
<p>Borrower: Bestes s.r.o</p> <p>Lender: MKB Bank Rt. And Investkredit</p> <p>Project: Novo Plaza</p>	<p>Loan: EURO 27.4 million</p> <p>Amount outstanding: EURO 16.8 million</p> <p>Available amount: EURO 10.6 million</p>	Euribor + margin ranging from 1.4% to 2%.	55.5% of the principal to be repaid in 40 quarterly installments. 45.5% in one installment on final repayment date (latest on 31.12.2015)	<p><u>Principal Securities:</u> First ranking mortgage on the mall.</p> <p>Assignment of leases in mall, of the construction agreements and the construction warranties.</p> <p>Pledge over bank accounts, over insurance, over all present and future assets and on the Borrower's shares and on Entertainment Plaza's shares.</p> <p>PC cost overrun guarantee</p> <p><u>Principal Financial Covenants:</u> Debt Service Cover Ratio shall not be lower than 115%.</p> <p>The Loan to Cost Ratio (<i>i.e.</i> actual loan divided by budget of construction) shall not be higher than 75% during the term of the construction.</p> <p>The Loan to the Property's Value Ratio shall no be higher than 75%.</p>	
<p>Borrower: Praha Plaza s.r.o</p> <p>Lender:</p>	<p>Loan: EURO 7.5 million</p> <p>Amount outstanding: EURO 6.9 million</p>	Euribor + 1.75% per annum.	Principal will be paid in 48 quarterly payments of EURO 117,200, beginning on December 31 st , 2004. The	<p><u>Principal Securities:</u> First ranking mortgage on the property.</p> <p>First ranking pre-emption right</p>	

Borrower and lender	Amount of Loan and Amount Outstanding as of December 31, 2005	Interest on Loan	Payment Terms	Principal Securities and Covenants	Other Information
Erste Bank AG Project: Praha Plaza Commercial Complex	Available amount: 0		remaining amount will be paid in one installment on December 31 st , 2016. Interest will be paid on the last day of each interest period (3 months) commencing utilisation date or on the last day of its preceding interest period.	regarding the property in favor of the lender. Pledge on shares of Borrower, on accounts, on receivables from the lease agreements. Assignment of insurance. <u>Principal Financial Covenants:</u> Maintenance of Debt Service Cover Ratio of 1.15 or higher. Undertaking to refill the debt service reserve account in the event it is reduced below a certain minimum. Loan to the Property's Value Ratio shall not exceed 80%.	
Borrower: Tatabánya Plaza Kft. Lender: MKB Bank Rt.	Loan: EURO 3.5 million Amount outstanding: EURO 1.4 million Available amount: 0	Euribor + 1.85% per annum	Repayment in ten increasing installments. Last repayment done on September 30, 2006.	<u>Principal Securities:</u> Pledge on quotas of Tatabanya Plaza. Suretyship of PC. Pledge over shares of Helios Plaza (our subsidiary).	
Borrower: Tatabánya Plaza Kft Lender: MKB Bank Rt.	Loan: EURO 10.5 million Amount outstanding: EURO 5.9 million Available amount: EURO 4.5 million	Euribor + margin ranging from 1.5% to 1.8% (depending on the registration of the first rank mortgage and on debt service cover ratio level). + associated costs	Repayment in 40 increasing installments. Final repayment date is on July 31 2015 where a bullet payment of 43.5% of the principal is due.	<u>Principal Securities:</u> PC guarantee (until mortgage is registered). Mortgage on the project site following the de-merger Charge over borrower's shares, on bank accounts Assignment of insurance, of all rental revenues of the project Following the establishment of the security provider, PC shall enter into a security deposit agreement establishing a security deposit on the shares of the security provider.	The loan is attributed to the Duna Plaza offices following the De-merger. a separate entity will hold the offices and the securities will apply mutatis mutandis.

Borrower and lender	Amount of Loan and Amount Outstanding as of December 31, 2005	Interest on Loan	Payment Terms	Principal Securities and Covenants	Other Information
				Principal Financial Covenants: Debt Service Cover Ratio shall not be less than 1.15.	
Borrower: Szombathely 2002, Kft. Lender: MKB Bank Rt.	Loan: EURO equivalent of HUF 1 billion (EURO 3.9 million) Amount outstanding: EURO 3.4 million Available amount: 0	Euribor + 2% per annum.	Repayment done in 8 equal installments (principal + interest). Final repayment date is 15.07.2007.	Principal Securities: First ranking mortgage on land in Lodz, Poland. Pledge on quotas of the Borrower and on bank accounts. Principal Financial Covenants: Decrease in the business volume of more than 15% may result in the decrease of the loan.	The credit facility may be drawn down in the form of a revolving loan. Means that the borrower may repeatedly draw down amounts prepaid under this credit facility agreement.
Borrower: Plaza House Kft. (our subsidiary) Lender: HVB Bank Hungary Rt. Project: Plaza House	Loan: EURO 2.8 million Amount outstanding: EURO 1.7 million Available amount: 0	Euribor + 1.35% per annum.	Loan expires on 30.05.2011. Repayment done through quarterly payments of EURO 64,920	Principal Securities: First ranking mortgage on all assets of the borrower including the building. Assignment of claims, lease agreements, insurance; pledge on shares. PC guarantee for 0.5 million EURO. Principal Financial Covenants: Debt Service Cover Ratio shall be at least 1.10.	
Borrower: Kerepesi 2 and Kerepesi 3' Kft. (our subsidiaries) Lender: MKB Bank Rt. And OTP Bank Rt Project: Arena Plaza (Kerepesi)	Loan: EURO 19 million Amount outstanding: EURO 19 million Available amount: 0	Euribor + 1.65% per annum.	Each Borrower shall repay the loan made to it in one lump sum on the 15 th November 2006.	Principal Securities: First ranking mortgage on land. Negative pledge over the borrowers' assets. On demand guarantee of kerepesi 4 and kerepesi 5 (our companies that own adjacent plots).	
Borrower: Helios Plaza Real Estate and Development Company S.A. (our subsidiary)	Loan: EURO 7.5 million Amount outstanding: EURO 7.5 million Available amount: 0	Euribor + 2.0% p.a.	Interest will be paid on a quarterly basis. Renewal every quarter.	Principal Securities: First ranking mortgage on land.	

Borrower and lender	Amount of Loan and Amount Outstanding as of December 31, 2005	Interest on Loan	Payment Terms	Principal Securities and Covenants	Other Information
Lender: Pireos Bank (Athens)					
Borrower: S.L.S Sails Ltd. Lender: Bank Discount Le'Israel Ltd. Project: Arena (Herzliya, Israel)	Loan: \$46 million Amount outstanding - \$46 million Available amount: 0	LIBOR + 2.5%	The financing bank have informed us in writing as to their consent to extend the term of this credit facility until January 1, 2007.	<u>Principal Securities:</u> First ranking pledge on the land and the shopping center. First ranking fixed lien on shares of the subsidiary that owns the rights to the land. Floating lien on the assets of the subsidiary that owns the rights to the land. Fixed and floating lien on the assets of the owning subsidiary, on the land, the Arena project and on rights with respect to current and future tenants and debtors in connection with the Arena project. Lien on the bank account of the Arena project. A corporate guarantee by Elscint. Negative pledge with regard to the assets relating to the project.	On June 2006 the loan was converted into NIS 202.5 million, which principal to be paid in one payment on July 1, 2007 or in 3 continuous payments every 3 months commencing on June 30, 2006. The interest on the loan is Prime + 0.7%.
Borrower: Plaza Centers (Europe) B.V. Lender: Bank Winter & Co. AG	Loan: EURO 5.6 million Amount outstanding: EURO 5.6 million Available amount: 0	3.35%	Renewal every quarter upon lenders consent.	<u>Principal Securities:</u> Cash deposit	
Borrower: Plaza Centers (Europe) B.V. Lender: GEFA GmbH	Loan: \$3.75 million Amount outstanding: \$ 3.6 million Available amount: 0	Libor + 1.9% per annum.	Repayment done in 40 quarterly installments of USD 53.750 principal plus a bullet payment of USD 1.600.000 at the final repayment date on June 23, 2014.	<u>Principal Securities:</u> Mortgage on the aircraft. Assignment of insurance.	

Borrower and lender	Amount of Loan and Amount Outstanding as of December 31, 2005	Interest on Loan	Payment Terms	Principal Securities and Covenants	Other Information
<p>Borrower: Ercorner Kft.</p> <p>Lender: Magyar Kulkereskedelmi Bank Rt.</p> <p>Project: Dream Island Project</p>	<p>Loan: EURO equivalent of HUF 3,680,000,000 (EURO 14.76 million)</p> <p>Amount outstanding: EURO 12.7 million</p> <p>Available amount: 0</p>	Euribor + 2%	Repayment is due in 1 amount on March 31, 2007.	<p><u>Principal Securities:</u> First ranking Mortgage right on the real estate.</p> <p>Pledge on quotas of the borrower and Dream Island.</p> <p>Pledge on bank accounts.</p> <p>Assignment of insurance.</p> <p>Option right on the real estates granted by Dream Island in favor of the bank.</p> <p>Suretyship of Dream Island and of EMI.</p> <p>PC's guarantee.</p> <p>Security assignment of all revenues of Dream Island.</p> <p><u>Principal Financial Covenants:</u> The Loan-Minus-The-Equity to Value ratio shall not exceed 53%.</p>	The bank has a first refusal right to purchase 50% of the quotas in Dream Island See "Item 4. Information on the Company – B. Business Overview – Shopping and Entertainment Centers – Other Real Estate Properties" above.
<p>Borrower: Elscent Ltd.</p> <p>Lender: Bank Hapoalim B.M.</p>	<p>Loan:</p> <p>Tranche A: EURO 20 million</p> <p>Tranche B: EURO 9.6 million + £16.7 million</p> <p>Tranche C: EURO 2.4 million</p> <p>Tranche D: EURO 1.4 million (stand-by letter of credit) + NIS 10.2 million</p>	<p>Libor of relevant currency + 2.85%</p> <p>For the loan taken in NIS currency – Bank of Israel's wholesale rate + 2.25%</p>	<p>Tranche A: 50% will be paid in 2 semi-annual installments starting June 30 2006 until December 31, 2015 and one bullet repayment of the additional 50% to be paid in the last payment date.</p> <p>Tranche B: 50% to be paid on December 31, 2010 and 50% on December 31, 2015.</p> <p>Tranche C: 10 semi-annual installments starting December 31 2007. Last payment on June 30, 2012.</p> <p>Tranche D: Bullet payment on December 31, 2010.</p>	<p><u>Principal Securities:</u> First ranking pledge over the entire share capital of BEA, PEP Trust Ltd., Elscent Holdings and Investments N.V. Astrid Park Plaza Hotel; Astridplaza N.V.; Astrid Hotel Holdings B.V.; Andrassy, 25 kft. (all of which are direct and indirect holders of the hotels) and Mango.</p> <p>Second ranking pledge over our holdings in Victory Enterprises II B.V., Grandis Hotel Holding B.V., Victoria Hotel Holding B.V., Riverbank Hotel Holding B.V., Africana Holding B.V., Victoria Hotel and Restaurant Investments B.V. (all of which own directly or indirectly our hotels other than our hotels in Romania and Hungary)</p>	<p>An event of default can occur if and when Elscent fails to maintain 100% control of Mango and/or Mango Israel fails to maintain all of the franchise rights it has in Israel.</p> <p>Upon exit (such as: refinance, sale, long term lease etc.), we are obligated to repay the portion of the loan attributed to the specific asset.</p>

Borrower and lender	Amount of Loan and Amount Outstanding as of December 31, 2005	Interest on Loan	Payment Terms	Principal Securities and Covenants	Other Information
			Interest will paid on a semi-annual basis until the final maturity date.	<p>An undertaken to register a pledge on the Astrid Plaza Hotel. The pledge has not yet been registered.</p> <p><u>Principal Financial Covenants:</u> The ratio of Shareholder's Equity to Balance Sheet Value is greater than 1:4.</p> <p>The ratio of Operating Profit of Astrid Plaza to the Debt Service of Tranche A for a period should be greater then 1.2.</p> <p>Revenue per Available Room of Astrid Plaza should be no less then:</p> <ol style="list-style-type: none"> 1. EURO 52 for 2006 2. EURO 56 for 2007 3. €EURO for 2008 and thereafter 	
<p>Borrower: Riverbank Hotel Holding B.V.</p> <p>Lender: Bank Hapoalim B.M.</p> <p>Hotel: Riverbank Hotel</p>	<p>Loan: GBP 67 million + credit facility</p> <p>Amount outstanding: GBP 70.9 million</p>	LIBOR + 2.2%	Bullet payment on August 27, 2007 or the Economic Completion Date as determined in the agreement.	<p><u>Principal Securities:</u> First ranking pledge on all assets, including leasehold rights to the land and goodwill of hotel owning subsidiary</p> <p>First ranking pledge over the shares of the operating company of the hotel.</p> <p>First ranking pledge on all borrower's shares.</p> <p>Elscent's and Red Sea's guarantees for 7.1% of the outstanding loan.</p> <p><u>Principal Financial Covenants:</u> The Average Revenue per Available Room shall be at least GBP 74.5.</p> <p>Operating Profit to Debt Service shall be at least 1.2:1.</p>	This agreement was replaced with a refinance loan agreement in March 2006, see below.
Borrower: Victoria Hotel Holding B.V.	<p>Loan: GBP 39.5 million</p> <p>Amount outstanding: GBP 3</p>	LIBOR + 1.65%	GBP 14.7 million of the loan repayable in quarterly installments commencing	<p><u>Principal Securities:</u> First priority mortgage on the land and the building.</p>	This agreement was replaced with a refinance loan agreement in March 2006, see below.

Borrower and lender	Amount of Loan and Amount Outstanding as of December 31, 2005	Interest on Loan	Payment Terms	Principal Securities and Covenants	Other Information
Lender: Bank Hapoalim B.M. Hotel: Victoria Hotel (London)	35.8 million		March 2003; balance repayable in one payment in December 2012	First ranking pledge on borrower's shares. Guarantees by each of Elscint and Red Sea in the amount equal to 2.5% of total costs of the project. <u>Principal Financial Covenants:</u> The Average Revenue per Available Room shall be at least GBP 60.86. Operating Profit After Tax to Debt Service shall be at least 1.2:1.	
Borrower: Grandis Netherlands Holding B.V. Lender: Bank Hapoalim B.M. Hotel: Sherlock Holmes Park Plaza Hotel	Loan: GBP 14.2 million Amount outstanding: GBP 12.1 million	LIBOR + 1.4%	50% of the loan repayable in quarterly installments over 10 years commencing December 2002. Balance to be repaid after 10 years (December 2012)	<u>Principal Securities:</u> Fixed and floating charge on rights to borrower's assets, including goodwill First ranking charge on shares of subsidiary that owns the rights to the land GBP 5.4 million of the loan is guaranteed by Elscint and Red Sea in equal share. <u>Principal Financial Covenants:</u> The Average Revenue per Room shall be at least GBP 65. Occupancy rate is not less than 70%. Operating Profit After Tax to Debt Service shall be at least 1.2:1.	This agreement was replaced with a refinance loan agreement in March 2006, see below.
Borrowers: Victoria Hotel C.V. and Utrecht Victoria Hotel B.V. Lender: Merrill Lynch International Hotels:	Loan: EURO 71.8 million (divided between Vicotria and Utrecht hotels: Utrecht Victoria Hotel B.V.- Euro 14 million and Victoria Hotel C.V. - Euro 57.8 million) Amount outstanding: Utrecht Victoria Hotel B.V. - EURO	The Interest on the loan is hedged by a swap transaction, accordingly the fixed interest rate is 5.11% per annum	EURO 112,000 to be paid at the end of each quarter commencing December 30, 2004 and ending on March 30, 2007; EURO 337,000 to be paid at the end of each quarter commencing June 30, 2007 and ending on June 30, 2009;	<u>Principal Securities:</u> Mortgage on both hotels. First ranking pledge on moveable assets, bank accounts (operating income and debt service reserve), rights of the borrowers under their management agreements and insurance proceeds.	The loan consists of another loan granted to a borrower of the Red Sea Group. Since all borrowers have joint and several liability, each borrower is responsible for its share of the loan and in the event of an excessive payment, there is an agreement for reimbursement and indemnification.

Borrower and lender	Amount of Loan and Amount Outstanding as of December 31, 2005	Interest on Loan	Payment Terms	Principal Securities and Covenants	Other Information
Victoria Hotel (Amsterdam) and Utrecht Hotel	13.9 million and Victoria Hotel C.V. - EURO 57.3 million Available amount: 0		EURO 67,664,000 to be paid at the end of the term (September 30, 2009)	First ranking pledge on shares of borrowers. Borrowers shall not create or permit to subsist any pledges and mortgages over the whole or any part of their assets. Negative pledge on borrowers' assets. <u>Principal Financial Covenants:</u> The amount of loans shall not exceed 75% of the total value of the hotels. On each interest payment date net operating income for each of the previous four financial quarters shall not be less than 135% of the interest service costs for the same period.	
Borrower: Park Plaza Hotel (Sandton) (Proprietary) Ltd. Lender: Nedcor Investment Bank Ltd. Hotel: Sandton Hotel	Loan: Rand 20 million Amount outstanding - Rand 18.7 million Available amount: 0	Prime –1%	Payments commenced on October 1, 2003 with monthly installments of Rand 33,000. In each succeeding year the monthly installments will increase by Rand 17,000 until making full payment on October 1, 2013	<u>Principal Securities:</u> Unconditional and irrevocable guarantee to Lender for \$500,000 in effect until the loan is fully paid. Mortgage on hotel. Rand 5 million bond over the hotel's movables and debtors.	
Borrower: BEA Hotels Eastern Europe B.V. Lender: Bank Leumi Le Israel Ltd.	Two loans, each for \$13 million Amount outstanding - \$26 million Available amount: 0	First loan – LIBOR+ 1.3% Second loan – LIBOR + 2.8%	Short term credit facility	<u>Principal Securities:</u> Pledge on a security deposit of \$14 million. Pledge on Domino and Bucuresti Turism SA shares. Lien on BEA Hotel Eastern Europe shares and a floating lien on its assets. Pledge on Domino's present and future movable assets	The Bank has restricted its right to realize the Elscint guarantee, by linking it to the realization of the pledge over the Bucuresti Turism SA shares owned by Domino (except for certain instances stipulated in the loan agreement) The Borrower holds through a wholly owned and controlled subsidiary (Domino) approximately 70% of Bucuresti Turism SA.

Borrower and lender	Amount of Loan and Amount Outstanding as of December 31, 2005	Interest on Loan	Payment Terms	Principal Securities and Covenants	Other Information
				Unlimited guarantee by Elscint.	

Other than a refinancing loan agreement in a substantial amount, as described below, we have entered into various loan agreements and credit facilities agreements in the ordinary course of business.

On March 2, 2006, we through our jointly controlled subsidiaries, holding three hotels in the United Kingdom (the “Holding Companies”) (Riverbank Hotel, Vicotria Hotel and Sherlock Holmes Park Plaza Hotel) and Park Plaza executed a refinance loan agreement together with Goldman Sachs in an aggregate amount of £195 million (\$335 million) out of which our share in the loan amounted to £97.5 million (\$168 million). The proceeds of the refinance agreement were used for the repayment of outstanding loans granted by Bank Hapoalim B.M. to the Holding Companies in an aggregate amount of £120 million (\$206 million) out of which our share is £60 million (\$103 million).

The loan bears interest at a rate of Libor + 3% per annum. The interest was fixed under a swap transaction at a rate of 7.72% per annum. 0.375% of the principal is payable in quarterly installments commencing one year as of the draw-down for a period of 5 years and the remaining principal is due after five years. The borrowers have an option to extend the term by two years, subject to certain terms.

The securities provided include pledges of the entire share capital of the Holding Companies and the entire share capital of Park Plaza, charges over each of the hotels and assignment of rent, insurance proceeds and the hedging agreements, as well as a fixed charge over specified bank accounts. We undertook towards Park Plaza to indemnify Park Plaza with respect to 50% of any damages caused to Park Plaza under the agreement.

Under the agreement, the borrowers undertook, among other things, that the net operating income to debt service be over 1.05. We are also not allowed to distribute dividends.

In the even of cash distribution deriving from the sale, disposal or refinancing of the hotels, which were financed by the refinancing loan funds (transactions), the borrowers shall pay to the financing bank an amount equivalent to 15% of the difference between the market value of the hotels as determined in such transaction and the current agreed value of the hotels for the purpose of the refinancing loan.

B. EMI’s subsidiaries and jointly indirect controlled companies which are engaged in construction and/or the operation of our commercial centers and hotels entered into loan agreements with banks and financial institutions, which include an undertaking of those companies to comply with certain financial and operational covenants throughout the duration of the respective loans. The covenants include: achieving certain operational milestones on certain specified dates (e.g. scope of lease, etc.); complying with debt cover ratio; "loan outstanding amount" to secured asset values ratio; complying with certain restrictions on interest rates; maintaining certain cash balances for current operations; maintaining equity to project cost ratio and net profit to current bank's debt; occupancy percentage; average room or rental fee rates; and others. In the event the borrowers fail to comply with these covenants, the lenders will have the right to call the loan for immediate repayment.

Material Commitments for Capital Expenditure

See “- F. Tabular Disclosure of Contractual Obligations” below.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

The Israeli government encourages industrial companies by funding their research and development activities through grants by the OCS.

InSightec’s research and development efforts have been financed, in part, through OCS grants. InSightec has applied and received grants totaling \$11.3 million from the OCS since its inception in 1999. It is required to repay these grants to the OCS through royalties amounting to 3% of its revenues until the entire amount is repaid. These costs are recorded by EMI in its cost and expenses of medical systems operations.

The following table shows EMI's consolidated total research and development expenditures and royalty-bearing participation by the Israeli government for the years 2003 through 2005, together with the percentages of net revenues for each year (in NIS thousands, except for percentages):

	Convenience translation to US \$	Year Ended December 31,					
	2005	2005		2004		2003	
	Thousands of \$	Thousand s of NIS	% of net revenues	Thousand s of NIS	% of net revenues	Thousand s of NIS	% of net revenues
Total expenditures for research and development	13,649	62,825	7.7	45,842	6.2	51,187	8.6
Royalty-bearing participation from the Government of Israel	853	3,926	0.5	7,684	1.0	7,468	1.3
Net research and development expenses funded by EMI	12,796	58,849	7.2	38,158	5.2	43,719	7.3

All research and development expenses are attributed to InSightec.

D. TREND INFORMATION

Shopping and Entertainment Centers Business

The economies of most Central European countries are experiencing a moderate upward trend, as evidenced by gross domestic products ranging between 3% to 7%. The shopping and entertainment centers business benefits from these trends, which are generally manifested in increased consumer spending, but at the same time are subject to local pressures of supply and demand. With the growth in the number of shopping and entertainment centers, especially in the capital and large regional cities, supply is beginning to outpace demand, resulting in increasingly aggressive competition for patronage. However, the negative impact of these market forces on our shopping and entertainment centers is offset by the strong emphasis which PC places on the entertainment facilities which it offers to its customers, which has been shown to be a dominant factor in attracting visitors to the centers.

In the smaller regional cities, where both local and foreign investors are reluctant to develop projects, the shopping and entertainment centers generally operate in an environment devoid of similar concept shopping centers and thus benefit, notwithstanding that the catchment populations are smaller and the relative buying power of patrons is less than in the larger metropolitan locations. However the emergence of "power centers" (*i.e.* "big boxes" with cheap merchandise outside the cities) in many regional cities is impacting upon patronage and constitute competition. The entry of Hungary, Poland, Romania, the Czech Republic and Latvia into the European Union is anticipated to generate a significant increase in business oriented traffic and tourism, principally into the capital cities, which will in turn bolster the number of visitors to the shopping centers. However this trend is offset by very aggressive competition in the capital cities.

The shopping and entertainment centers may experience seasonal shifts in retail activity. Generally speaking, peak holiday seasons (such as Christmas, Easter, Passover, the Jewish New Year (with respect to the Arena shopping and entertainment center in Herzliya, Israel) and other national holidays), will show an increase in patron traffic, both for the purchase of holiday gifts and for utilizing the entertainment facilities offered by the center. The periods immediately following such periods tend to show a decrease in the number of patrons visiting the centers and a corresponding slow down in retail activity. However, this may be offset by the fact that the indoor facilities offer a heated or an air-conditioned environment for shoppers and patrons which is of particular significance in areas with severe weather conditions.

Hotel Business

Our hotel business is affected by the trends in each of the geographic areas in which it operates.

Contrary to the weak results of the hotel industry in years 2001 to 2003, most of the western European markets experienced in 2005 an increase in revenue per available room (RevPAR), which was derived mainly from an increase in occupancy rates. Management believes this has resulted from the trends discussed below.

In 2001 and 2002, the Western European hotel industry generally experienced a decline in industry results, following the outbreak of “foot and mouth” disease and the subsequent September 11, 2001 terrorist attacks in New York. This trend continued in 2003 when the European hotel industry was challenged with operating and economic conditions that were affected by the war in Iraq and the outbreak of SARS. These events caused a continuance in the slow down of corporate spending. In addition, weak domestic demand coupled with an appreciating Euro has resulted in a weak growth across the Euro-zone.

In 2005, the European hotel industry continued its strong recovery, which had begun the previous year. Events such as the war in Iraq and the London bombing failed to have a negative impact on either the volume or value of hotels. In addition, low cost flight is changing the travel patterns across the region and is resulting in an increase of travel and revenues in our hotels business.

During the last 12 months, several new travel trends have been experienced: (i) consumers are becoming more independent and show a clear preference for making their own travel arrangements, mainly due to the increased use and availability of Internet booking, the increasing number of online booking engines and the expansion of low-cost airlines; (ii) there has been an increased in price transparency available on the internet, which combined with economic and social uncertainty, also means that booking lead times remain short while price sensitivity stays high; and (iii) the preference for more frequent and short stay trips has continued to be evident in travel patterns

Although slow in comparison to other regions of the world, hotel performance in Europe continues to move in the right direction - ending the year with revenue per available room up 4.1%.

The strength of the Euro against the GBP is making the United Kingdom more prices competitive for Europeans than ever before. London, in particular, has enjoyed a remarkable comeback given the global events of the last three years. Exchange rates have played their part, with the euro zone becoming more attractive to visitors looking for value for money, especially those from North America and the UK. The growth in the European market was aided by the strength of the euro against the sterling. However, the weakness of the US dollar has been a concern throughout 2005 as it has had an impact on the number of visitors from the USA. Nevertheless, the USA is still the leading overseas market, although its share declined by 6% in 2005.

Northern Europe, which comprises the United Kingdom and the Nordic countries, achieved the highest occupancy and average room rates of all the sub regions in Europe. This is mainly due to the strong performance of the UK market, which achieved occupancy levels of 71.8%. In addition, the Nordic countries have seen significant average room rate growth - up to 5.9% to 98 Euro.

After celebrating victory in the race to host the 2012 Olympic Games, the city was subjected to terrorist attacks on the 7th of July. Following the terrorist bombing, the United Kingdom suffered a short-term drop in visitor numbers. However, the country bounced back, reinforcing the view that tourists are no longer deterred by terrorist attack in the longer term. According to the UK national tourism agency, the United Kingdom welcomed almost 30m international visitors last year, which is an increase of 8% compared to the year before. As a result of the above, average room rates in London grew 3.9% in local currency this year.

Amsterdam, one of Europe's strongest hotel markets, has seen hotel values gradually decline since 2001, albeit that this decline was marginal in 2004. In 2005, hotel values in Amsterdam rose by 5.7% as the city experienced a 6.5% improvement in Revenues per Available Room (“RevPar”), compared to 2004.

However, the positive outlook and the continuation of a recovery from the 3 years of decline will depend on

the global geopolitical situation and security stability. Appreciation of the Euro will also encumber growth of the European economy relative to the rest of the world.

Some of the Central Europe countries joining the European Union are expected to have improved hotel operations and performance due to lower prices and cost of living and extra travel routes with cheaper flight prices.

E. OFF-BALANCE SHEET ARRANGEMENTS

1. As of December 31, 2005, the Company guaranteed a credit facility extended to InSightec by an Israeli bank in the amount of approximately \$5 million.

2. With respect to the acquisition by a subsidiary of PC of the control of the Hungarian company owning land on the Obuda Island, the minority shareholder in such company was granted a put option to sell to PC's subsidiary its share in the Hungarian company. Such put option is exercisable until April 2007, and the purchase price payable by PC's subsidiary in the event that the put option is exercised will reflect the cost of the shares plus annual interest at a rate of Euribor + 2% less all dividends that shall have been paid to the minority shareholder by the Hungarian company through the date of exercise of the put option.

3. With respect to the purchase by PC's subsidiary of the shares in the Hungarian company Ercorner Kft., the Company executed, in favor of a bank that financed such share acquisition, a guarantee for the obligation assumed by PC's subsidiary to cause the land zone of the island to be changed for office, commerce, tourism, entertainment, recreation and hotel purposes.

4. The Company engages in the trading of derivative and other financial trading instruments for hedging and speculative purposes. The results of such activities, and the value of assets and liabilities arising therefrom, are affected by the volatility in foreign exchange rates and interest rates.

5. In the course of the transaction for the sale of four operational shopping and entertainment centers in Hungary by PC to the Dawnay Day Group, PC agreed to guarantee certain portions of the rental revenues of one of the acquired shopping centers for a period of three years from the time of closing, as security for certain minimum rental revenues. EMI estimates the value of this guarantee (as of the date of this report) to be in the aggregate amount of approximately €1.3 million

6. Within a course of a preliminary share purchase agreement between Klepierre and PC for the future acquisitions of four commercial centers in Poland and in the Czech Republic, Klepierre has furnished EMI with a bank guarantee in the amount of €115.0 million for the payment of the respective estimated purchase price of the said commercial centers. EMI has furnished Klepierre with its corporate guarantee for the fulfillment by PC of all its undertaking and obligations under the definitive agreement.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

Our contractual obligations mainly consist of long-term loans from banks and financial institutions and long-term operational leases as well as long term non convertible and convertible debentures. These obligations are linked to foreign currencies (mainly U.S dollar, GBP and the Euro). We summarize below our significant contractual obligations as of December 31, 2005 in NIS, based upon the representative exchange rate as of December 31, 2005 between the NIS and the currency in which the obligation is originally denominated. Actual payments of these amounts (as will be presented in the financial statements of the Company when executed) are significantly dependent upon the exchange rate of the NIS against the relevant foreign currencies prevailing as at the date of execution of such obligation, and therefore may significantly differ from the amounts presented hereinbelow:

Contractual Obligations as of December 31, 2005	Payments due by Period (NIS in million)				
	Total	Less than 1 Year	2-3 Years	4-5 Years	After 5 Years
Long-Term Debt (1)	2,586.5	140.6	807.8	610.9	1,027.2
Capital (Finance) Leases	-	-	-	-	-
Operating Leases (2)	726.3	12.7	25.7	21.0	666.9
Purchase Obligations and Commitments (3) (4)	235.2	175.8	59.4	-	-
Other Long Term Liabilities Reflected on Balance Sheet	-	-	-	-	-
Total	3,548.0	329.1	892.9	631.9	1,694.1

(1) Long term debt includes interest that we will pay from January 1, 2006 until the loan maturity dates. Majority of our loans is bearing variable interest rates and the interest presented in this table is based on the Libor rates known as of December 31, 2005. Actual payments of such interest (as will be presented in the financial statements of the Company) are significantly depending upon the Libor rate prevailing as of the date of payment of such interest. For additional information in respect of the long term loans, see Note 14 to our consolidated financial statements included in Item 18 of this report and in Item 5 "Operating and Financial Review and Prospects - Loans" above.

(2) Our operating lease obligations are subject to periodic adjustment of the lease payments as stipulated in the agreements. In this table we included the lease obligation based on the most recent available information. For additional information in respect of our operating lease obligations see Note 10B to our consolidated financial statements included in Item 18 of this report.

(3) Excludes royalty payments that InSightec may have to pay to the OCS. InSightec partially finances its research and development expenditures under programs sponsored by the OCS for the support of research and development activities conducted in Israel. In exchange for OCS participation in the programs, InSightec agreed to pay only 3% above of total sales of products developed within the framework of these programs. At the time the OCS participations were received, successful development of the related projects was not assured. The obligation to pay these royalties is contingent on actual sales of the products and therefore cannot be estimated.

(4) This refers to contracts with supplier and subcontractors in respect of the construction of our projects.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

The table below sets forth the directors and senior officers of EMI as of the date of this report:

NAME	AGE	POSITION
Mordechay Zisser (1)	50	Executive Chairman of the Board of Directors
Shimon Yitzhaki (1)	50	President and Director and Chief Financial Officer
Rachel Lavine	40	Director
Yehoshua (Shuki) Forer (2)	62	Director
David Rubner (2)	66	Director
Yosef Apter (2)	51	External Director
Zvi Tropp (1) (2)	66	External Director
Abraham (Rami) Goren	46	Director
Moshe Lion	45	Director
Shmuel Peretz	66	Director
Marc Lavine	52	Corporate Secretary and General Counsel

- (1) Member of the Donation Committee
- (2) Member of the Audit Committee

MORDECHAY ZISSER. Mr. Zisser was appointed executive chairman of our board of directors in May 1999. He has been President of Europe-Israel since March 1998 and its Chairman of the board of directors from March 1998, and President and Chairman of the board of directors of Control Centers, a privately held company, which is the parent company of Europe-Israel, since 1983. Europe-Israel and Control Centers are engaged, through their direct and indirect wholly and partially owned subsidiaries and affiliates, in the following core businesses: real estate investment, hotel ownership and management, development and operation of shopping and entertainment centers in Eastern European countries, in the venture capital investments and in the hi-tech, medical and bio-technology industries. Control Centers also holds direct interests in property development projects in Israel. Since May 1999 Mr. Zisser has been the executive chairman of Insightec Ltd, a subsidiary of the Company. Mr. Zisser is active in charitable organizations. He is a member of the management of the “Oranit” hostel.

SHIMON YITZHAKI. Mr. Yitzhaki was appointed as the President and a member of our board of directors in May 1999. In March 2005 Mr. Yitzhaki was appointed as the chief financial officer of the Company. In May 1999 he was also appointed as a member of the board of directors of Elscint. Since March 1998, Mr. Yitzhaki has served as the Vice President of Europe-Israel, and, since the mid-1980's, as Vice President of Control Centers. Since May 1999 Mr. Yitzhaki has been serving as a member of the board of directors of InSightec Ltd. Mr. Yitzhaki holds a Bachelor of Arts degree in accounting from Bar Ilan University and is a certified public accountant.

RACHEL LAVINE. Ms. Lavine was appointed as a member of our board of directors in May 1999. In May 1999, Ms. Lavine was also appointed as President and a member of the board of directors of Elscint. Since March 1998, she has served as Vice President of Europe-Israel, and, from 1994 to 1998, Ms. Lavine served as Chief Financial Officer of Control Centers, the parent company of EMI. Ms. Lavine has been President and CEO of Plaza Centers since January 2005. Ms. Lavine holds a Bachelor of Arts degree in accounting and is a certified public accountant.

YEHOShUA (SHUKI) FORER. Mr. Forer was appointed as a member of our board of directors in May 1999. He is the Mayor of the City of Rehovot in Israel. Mr. Forer is an attorney, and was the managing partner of Forer Azrieli and Partners, a law firm with offices in Tel-Aviv and Rehovot from 1994 to 1998. Mr. Forer was the Acting Chairman of Herzliya Marina Ltd., Ashkelon Marina Ltd. and Control Centers from 1989 to 1994 and of Williger Ltd. from 1989 to 1991. Mr. Forer was also Managing Director of the Israel Ministry of Industry and Commerce from 1983 to 1986 and of the Investment Center From 1981 to 1983. Mr. Forer was an Assistant to the Minister of Industry and

Commerce in charge of development areas from 1980 to 1981. Mr. Forer held positions as a member of the boards of directors of Bank Leumi Le-Israel Ltd., Israel Chemicals Ltd., Negev Phosphates Company Ltd., Industrial Buildings Corporation Ltd., Red Sea Hotels Ltd. ("Red Sea") and Ackerstein Zvi Ltd. and was a member of the Presidium and Vice President of the Association of the Tel-Aviv Chamber of Commerce from 1987 to 1996. Mr. Forer is currently a member of the board of directors of Castro Model Ltd. Mr. Forer received his LL.B. with Honors from the Hebrew University in Jerusalem.

DAVID RUBNER. Mr. Rubner was appointed as a member of our board of directors in July 2003. Mr. Rubner serves as Chairman and Chief Executive Officer of Rubner Technology Ventures Ltd. as well as General Partner in Hyperion Israel Advisors Ltd., a venture capital firm. From 1991 until 2000, Mr. Rubner served as President and Chief Executive Officer of ECI Telecom Ltd. Prior thereto, Mr. Rubner held the positions of Chief Engineer, Vice President of operations and Executive Vice President and General Manager of the Telecommunications Division of ECI. Mr. Rubner serves on the boards of certain public companies including Check Point Software Ltd., Koor Industries Ltd., Lipman Electronic Engineering Ltd as well as some privately held companies. Mr. Rubner serves on the board of trustees of Bar-Ilan University, and Shaare Zedek Hospital. Mr. Rubner holds a B.S. degree in engineering from Queen Mary College, University of London and an M.S. degree from Carnegie Mellon University. Mr. Rubner was recipient of the Industry Prize in 1995.

YOSEF APTER. Mr. Apter was appointed as an external director in December 2002 for a period of three years. On December 2005 Mr. Apter was re-elected as an external director of the Company for a three-year term commencing on December 25, 2005. Since July 2005, Mr. Apter has served as a consultant at JDA (Jerusalem Development Authority). Since 2003 Mr. Apter has been a board member in SecureOL Ltd. Between 1980 and 2002, Mr. Apter served as a member of the executive boards of the Center for Investigation of Driving and Casualties, Shiloh Hesder Yeshiva, Nature Life, Zamir Systems Ltd., Binyamin Regional Council, Binyamin Development Company and Elad Non-Profit Organization. Mr. Apter also served as a director and vice chairman of Security Funds. Mr. Apter is a graduate of the Jerusalem College of Technology (B.Sc.) and holds an MBA from the Hebrew University in Jerusalem.

ZVI TROPP. Mr. Tropp was appointed as an external director in September 2004. Mr. Tropp, shall continue to serve as external director for the remainder of his 3-year term, which terminates on September 1, 2007. Mr. Tropp has been a senior consultant with Zenovar Consultant Ltd. since 2003. From 2000 until 2003, Mr. Tropp served as a chief finance officer of Enavis Networks, a member of the ECI group, a company engaged in the field of development of transport equipment for communications networks. Mr. Tropp served as a board member of various organizations, including Rafael (Armament Development Authority), Beit Shemesh Engines, Rada - Electronic Industries and as the chairman of the Investment Committee of Bank Leumi Le'Israel Trust company Ltd. Since February 2006 Mr. Tropp serves as the chairman of Rafael. Mr. Tropp holds a B.Sc. degree in Agriculture and an M.Sc. degree in Agricultural Economics and business administration from the Hebrew University in Jerusalem.

ABRAHAM (RAMI) GOREN. Mr. Goren became a member of our board of directors as of April 11, 2005. Mr. Goren has also been the executive chairman of the board of directors of Elscint from July 1999. Mr. Goren is engaged in the explorations of new investments and heads the high-tech investment division of the Company. In addition, until 2004, Mr. Goren served as the executive chairman of the board of directors of Nessuah Zannex Ltd., a leading Israeli investment house. Formerly, Mr. Goren had been a partner in the law firm of Prof. Joseph Gross, Hodak, Greenberg & Co. (now known as Gross, Kleinhendler, Hodak, Halevy & Co.), a leading Israeli securities and corporate law firm. From September 1989 until August 1992, Mr. Goren was an associate in the law firm of Weil, Gotshal & Manges in New York City. Mr. Goren also serves as a director of various private companies in Israel and abroad. Mr. Goren received his LL.B. degree from Bar Ilan University in 1986 and an LL.M. degree from New York University in 1989. Mr. Goren was admitted to the Israeli Bar in 1987 and to the New York State Bar in 1990.

MOSHE LION. Mr. Lion became a member of our board of directors as of April 11, 2006. Mr. Lion is a senior partner of an accounting firm in Israel. . From April 2003 to April 2006 Mr. Lion was the chairman of Israel Railways. From October 2000 to December 2005, Mr. Lion served as a director of Elscint. From December 1997 to July 1999, Mr. Lion was Director General of the Israeli Prime Minister's Office and an economic advisor to the Israeli Prime Minister. From January 1997 to November 1997, he served as the Head of the Bureau of the Israeli Prime Minister's Office and as an economic advisor to the Israeli Prime Minister. Mr. Lion serves as a director of Massad Bank and the Israel Council for Higher Education and the Wingate Institute for Physical Education. Mr. Lion holds a Bachelor of Arts degree in accounting and economics and a Master's Degree in Law (LL.M.) from Bar Ilan University.

SHMUEL PERETS. Mr. Perets became a member of our board of directors as of April 11, 2006. Since 1997, Mr. Perets has served as the president of the Israel Aircraft Industries European division. From March 2003 to December 2005, Mr. Perets served as a director of Elscint. Between 1991 and 1996, Mr. Perets served as vice president (finance) of the Israel Aircraft Industries. Between the years 1980-2002, Mr. Perets served as a director of Elta Ltd., Magal Ltd., Medisel Technologies Inc., SpaceCom Ltd., and Belgium Advanced Technologies (a Belgium company). Mr. Perets holds a Bachelor of Arts degree in economics and political science from the Hebrew University in Jerusalem, as well as an MBA from the New York Institute of Technology.

MARC LAVINE. Mr. Lavine was appointed as our General Counsel and Corporate Secretary in May 1999. Mr. Lavine also serves as General Counsel and Corporate Secretary for Elscint and Europe-Israel. Prior thereto, Mr. Lavine was in private practice as an associate and as a partner in the law firms Miron, Bension & Priwes (Tel-Aviv) (1977 to 1997) and Raved, Magriso, Benkel & Caspi (Tel-Aviv) (1997 to 1998). Mr. Lavine is a graduate of the University of Zimbabwe (B.L., 1974). Mr. Lavine is married to Rachel Lavine, a director of EMI and a President of Elscint and acting chief executive officer of PC.

B. COMPENSATION OF DIRECTORS AND OFFICERS

The aggregate compensation paid to or accrued on behalf of all of our officers and directors for the year ended December 31, 2005, as a group, was approximately NIS 10.1 million (approximately \$2.2 million) of which approximately NIS 447,700 (approximately \$97,300) has been accrued by EMI to provide pension and retirement benefits, and NIS 351,700 (approximately \$76,400) was paid to directors in their capacities as directors.

In addition to the above compensation, on May 31, 2006, our shareholders approved additional compensation to certain directors and officers, as set forth below:

(i) Payment to each of (1) Shimon Yitzhaki, our President, Chief Financial Officer and a director, and (2) Ms. Rachel Lavine, our director who also serves as the President of Elscint and Acting Chief Executive Officer of PC, a bonus of \$100,000 for the 2004 fiscal year and a bonus of \$175,000 for the 2005 fiscal year. For each fiscal year after 2005, the Company will pay to each of Mr. Yitzhaki and Ms. Lavine an annual bonus within 30 days following the approval by the board of directors of our each year's audited consolidated financial statements which will be calculated, as follows: (i) 0.75% of the first NIS 125 million of the Company's pre-tax annual profits as disclosed on our annual audited consolidated financial statements ("Profits"); (ii) 0.875% of Profits between NIS 125 million and NIS 150 million; and (iii) 1% of Profits exceeding NIS 150 million.

(ii) Payment to Mordechai Zisser, our Executive Chairman of the Board, of an annual bonus for each fiscal year after 2005, to be paid within 30 days following the approval by the board of directors of our each year's audited consolidated financial statements, to be calculated as follows: (i) 0% of the first NIS 100 million of Profits; (ii) 3% of Profits between NIS 100 million and NIS 125 million; (iii) 3.5% of Profits between NIS 125 million and NIS 150 million; and (iv) 4% of Profits exceeding NIS 150 million.

(iii) An agreement for the receipt of executive chairman services between EMI and a management company (the "Management Company") controlled by Mr. Mordechai Zisser, our Executive Chairman. Under the agreement, the Management Company will provide us with Executive Chairman services. The Management Company may provide the Services to private subsidiaries and/or affiliates of the Company. The Services will be provided by Mr. Zisser only, as an employee of the Management Company. Mr. Zisser will devote at least 80% of his time, skills and efforts to his position as Executive Chairman. The control of the Management Company will not be changed during the term of the agreement.

We will pay the Management Company a monthly amount of \$50,000 plus applicable value added tax as well as reimbursement of expenses. In addition, the Management Company is entitled to other benefits, such as: an appropriate vehicle, telephone, facsimile, mobile phone, computer, printer and modem and we shall bear all their installation costs and all reasonable expenses related thereto.

The agreement is for a five-year term commencing retroactively on August 1, 2005. Termination of Mr. Zisser's service as Executive Chairman of the Board for any reason whatsoever will result in an immediate termination of the agreement. Notwithstanding the above, at our request, Mr. Zisser will serve (through the Management Company)

in addition to his service as Executive Chairman or in its stead as a director or officer of the Company, and in such event, the agreement will remain in effect with regard to the additional or other service of Mr. Zisser in EMI.

Mr. Zisser has guaranteed all of the Management Company's obligations as far as they relate to Mr. Zisser and has further guaranteed the Management Company's indemnification undertakings and responsibility for damages in the event of determination of the existence of employer-employee relations between Mr. Zisser and EMI during the period of this agreement.

(iii) Grant of 350,000 options exercisable into 350,000 of our ordinary shares to our Executive Chairman of the Board. The options are exercisable upon their grant and will remain exercisable for a period of three years thereafter. The exercise price per each option is NIS 137.44. The options were issued to our Executive Chairman on June 8, 2006.

(iv) Grant of 353,500 options to the members of our board of directors (except for the Executive Chairman), as follows: 90,000 options to Mr. Shimon Yitzhaki, 75,000 options to Ms. Rachel Lavine, 50,000 options to Mr. Abraham (Rami) Goren, 15,000 options to Mr. Yehoshua (Shuki) Forer, 16,750 options to each of Mr. Moshe Lion and Mr. Shmuel Perets and 30,000 Options to each of Messrs. David Rubner, Yosef Apter and Zvi Tropp. The options will be granted in accordance with our 2006 Employees, Directors and Officers Incentive Plan. See "- E. Share Ownership – 2006 Employees, Directors and Officers Incentive Plan" below. As of the date of this annual report the conditions precedent to the grant have not yet been satisfied. We expect the issuance of the options to take place during July 2006.

For information on the ownership of shares and/or options by our directors and executive officers, see "- E. Share Ownership" below.

Insurance, Indemnification and Exemption

We purchased an insurance policy covering the liability of our directors and officers, including as directors or officers of our subsidiaries. The policy covers a total liability of \$40 million per occurrence and during the duration of the policy, which represents the overall directors and officers liability policy covering the directors and officers of Europe Israel, our parent, and companies under its control (the liability of directors and officers of Europe-Israel and companies controlled by it, other than us and companies under our control, is limited to \$10 million out of the aggregate coverage amount of \$40 million). We pay substantially all the premium for such insurance policy. The policy is for a one-year period beginning on October 31, 2005 and ending on October 31, 2006. The coverage of such policy also includes acts and/or omissions performed by previous directors and officers of the Company for a one-year period beginning on October 31, 2005 and ending on October 31, 2006 without any retroactive limitation and subject to the terms of the policy.

We provide our directors and officers (as shall be from time to time) with a prospective undertaking to indemnify such directors and officers by virtue of their service as our directors or officers or by virtue of their service as directors or officers on behalf of us in companies under our control or in which we hold interests. The aggregate indemnification amount pursuant to all our prospective indemnification undertakings shall not exceed the lower of: (i) 25% of our shareholders' equity, as set forth in our most recent consolidated financial statements prior to such payment; (ii) \$40 million, in excess of any amounts paid (if paid) by insurance companies pursuant to insurance policies maintained by us from time to time with respect to matters covered by the prospective indemnification undertaking.

We have also granted our directors and officers (as shall be from time to time), except to our Executive Chairman, an exemption from liability for damages due to a breach by either of them of their duty of care towards us, in accordance with the Israeli Companies Law.

C. BOARD PRACTICES

Election of Directors

Our directors are elected by our shareholders at the annual meeting of the shareholders by an ordinary majority. Generally, the nominees for a director's office are recommended by the board of directors. The directors hold office until the next annual meeting of our shareholders. Our board of directors may appoint additional directors to our board of directors in the event the number of directors is less than the maximum number authorized by our articles of association. Any director so appointed will hold office until the next annual meeting of the shareholders. Our board of directors currently consists of 10 members. Our current directors (other than the external directors) were appointed by our shareholders at their annual meeting on December 29, 2005 and will hold office until the next annual meeting of our shareholders. .

Under an amendment to the Israeli Companies Law, each Israeli public company, including us, is required to determine, no later than April 19, 2006, the minimum number of directors with "accounting and financial expertise" that such company believes is appropriate in light of the particulars of such company and its activities. A director with "accounting and financial expertise" is a person that, due to education, experience and qualifications, is highly skilled and has an understanding of business-accounting issues and financial statements in a manner that enables him/her to understand in depth the company's financial statements and stimulate discussion regarding the manner of presentation of the financial data. Our board of directors resolved on October 24, 2004 that the minimum number of directors with accounting and financial expertise appropriate for us in light of the size of the board of directors and nature and volume of our operations is 1 director.

Substitute Directors

Our articles of association provide that any director may appoint another person to serve as a substitute director and may cancel such appointment. Under the Israeli Companies Law, the following persons may not serve as substitute directors: (i) any person who is not himself qualified to be appointed as a director; (ii) a person who is already serving as a director; or (iii) a person who is already serving as a substitute director for another director. Nevertheless, a director may be appointed as a substitute director for a committee of the board of directors if he or she is not already serving as a member of the committee. Under the Israeli Companies Law, there shall not be appointed a substitute director for an external director.

External Directors; Independent Directors

The Israeli Companies Law requires Israeli public companies to appoint at least two external directors. The Israeli Companies Law provides for certain qualifications that a candidate for external directorship must comply with. Among such requirements, a person may not be appointed as an external director if such person or person's relative, partner or employer, or any entity controlled by such person, has, at the date of appointment, or had at any time during the two years preceding such date, any affiliation with the company, any entity controlling the company at the date of his appointment or any entity controlled by the company or by the entity controlling the company. The term "affiliation" is broadly defined in the Companies Law, including an employment relationship, a business or professional relationship maintained on a regular basis or control, service as a director or officer, other than service as a director who was appointed in order to serve as an external director of a company when such company was about to make an initial public offering.

In addition, no person may serve as an external director if such person's position or other business creates, or may create, conflict of interest with the person's position as an external director, or if such position or other business may impair such person's ability to serve as a director. Until the lapse of two years from termination of office, a company may not engage an external director to serve as a director or officer and cannot employ or receive services from that person, either directly or indirectly, including through a corporation controlled by that person. The Companies Law provides for additional qualification requirements that are imposed on such candidates.

External directors are to be elected by a majority vote at the general meeting of shareholders, provided that (i) such majority vote at the general meeting shall include at least one third (1/3) of the total votes of non-controlling shareholders present and voting at such general meeting, excluding abstaining votes, or (ii) the total number of votes of the shareholders mentioned in clause (i) above that voted against such proposal does not exceed one percent (1%) of the total voting rights in the company.

The initial term of an external director is three years and such term may be extended for an additional three-year period. External directors may be removed only in a general meeting, by the same percentage of shareholders as is required for their election, or by a court, and in both cases only if the external directors cease to meet the statutory qualifications for their appointment or if they violate their fiduciary duty to us. Each committee of a company's board of directors that is authorized to exercise powers of the board of directors is required to include at least one external director, and all external directors must be members of the company's audit committee.

An external director is entitled to reimbursement of expenses and to monetary and other compensation as provided in regulations promulgated under the Companies Law, but is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with services provided by such person as an external director.

Mr. Yosef Apter and Mr. Zvi Tropp were elected in December 2002 and September 2004, respectively, as our external directors. Mr. Apter was re-elected as an external director in December 2005 for a second three-year term which commenced on December 25, 2005. Mr. Tropp shall continue to serve as external director for the remainder of his 3-year term, which terminates on September 1, 2007.

Pursuant to a recent amendment to the Israeli Companies Law at least one external director is required to have "accounting and financial expertise" and the other director(s) are required to have "professional expertise" or "accounting and financial expertise". A director has "professional expertise" if he or she satisfies one of the following:

- (i) the director holds an academic degree in one of these areas: economics, business administration, accounting, law or public administration;
- (ii) the director holds an academic degree or has other higher education, all in the main business sector of the company or in a relevant area for the board position; or
- (iii) the director has at least five years' experience in one or more of the following (or a combined five years' experience in at least two or more of these: (a) senior management position in a corporation of significant business scope; (b) senior public office or senior position in the public sector; or (c) senior position in the main business sector of the company).

A director with "accounting and financial expertise" is a person that due to his or her education, experience and skills has high skills and understanding of business-accounting issues and financial reports which allow him to deeply understand the financial reports of the company and hold a discussion relating to the presentation of financial information. The company's board of directors will take into consideration in determining whether a director has "accounting and financial expertise", *among other things*, his or her education, experience and knowledge in any of the following:

- (i) accounting issues and accounting control issues characteristic to the segment in which the company operates and to companies of the size and complexity of the company;
- (ii) the functions of the external auditor and the obligations imposed on such auditor;
- (iii) preparation of financial reports and their approval in accordance with the companies law and the securities law.

The above qualifications do not apply to external directors appointed prior to January 19, 2006, such as our external directors. However, an external director may not be appointed to an additional term unless: (i) such director has "accounting and financial expertise"; or (ii) he or she has "professional expertise", and on the date of appointment for another term there is another external director who has "accounting and financial expertise" and the number of "accounting and financial experts" on the board of directors is at least equal to the minimum number determined appropriate by the board of directors.

Under Nasdaq Marketplace Rules, a foreign private issuer may follow its home country practice in lieu of the requirements of Rule 4350, provided, however, that such an issuer complies with selected rules as defined therein. We currently comply with all mandatory requirements as are applicable thereto by virtue of our foreign status. We also

comply with certain other voluntary instructions that correspond to certain Israeli mandatory rules, although there is no assurance that we will continue to do so in the future should such Israeli rules cease to apply.

Our current composition of the board of directors consists of a majority of independent directors. Two of our independent directors serve as external directors as defined by the Companies Law. For further elaboration as to election, qualification and roles of external directors see above.

Prior to such additional nomination, all our external directors served as audit committee members and as such carried out regularly executive sessions at which only independent directors were present. Under Israeli Law, no requirement exists to oblige independent directors to conduct executive session. Although we will endeavor to proceed with such practice, the frequency of same may be reduced.

The compensation of our President is approved, under the Companies Law, by the audit committee and board of directors. Since our President also serves as director in us, his compensation is also approved by our shareholders.

As to procedures governing the election of our directors, see above.

Our audit committee is comprised of four members, all of whom meet the independence and other professional requirements as stipulated by both Nasdaq marketplace rules and Rule 10A-3(b)(1) under the Securities Exchange Act of 1934. The Nasdaq rules also require that at least one member of the audit committee be a financial expert. Our board of directors has determined that Mr. Tropp qualifies as a financial expert in terms of the Nasdaq requirements.

Board Committees

Our board of directors has established an audit committee and a donation committee, as described below.

Audit committee. The Companies Law requires public companies to appoint an audit committee. An audit committee must consist of at least three members, and include all of the company's external directors. However, the chairman of the board of directors, any director employed by the company or providing services to the company on a regular basis, any controlling shareholder and any relative of a controlling shareholder may not be a member of the audit committee. The responsibilities of the audit committee include identifying and examining flaws in the business management of a company's, in consultation with the internal auditor and the company's independent accountants and suggesting appropriate course of actions. In addition, an audit committee recommends approval of transactions that are deemed interested party transactions, including directors' compensation and transactions between a company and its controlling shareholder or transactions between a company and another person in which its controlling shareholder has a personal interest. An "interested party" is defined in the Israeli Companies Law as a 5% or greater shareholder, any person or entity who has the right to designate one director or more or the general manager of ours or any person who serves as a director or as a general manager.

In accordance with the Sarbanes-Oxley Act of 2002 and Nasdaq requirements, our audit committee is comprised of four members, all of whom meet the independence and other professional requirements as stipulated by said rules.

The Nasdaq rules also require that at least one member of the audit committee be a financial expert. Our board of directors has determined that Mr. Tropp qualifies as a financial expert in terms of the Nasdaq requirements.

Our audit committee operates in accordance with a charter adopted prior to the enactment of the Sarbanes-Oxley Act of 2002.

Our audit committee operates in accordance with a Charter adopted in July 2005 and written procedures governing approval of any proposed transactions with our external auditors. Within the framework of such governing documents, the audit committee oversees the appointment, compensation, and oversight of the public accounting firm engaged to prepare or issue an audit report on our financial statements. The audit committee's specific responsibilities in carrying out its oversight role include the approval of all audit and non-audit services to be provided by the external auditor and quarterly review the firm's non-audit services and related fees. These services may include audit services ,

audit-related services, tax services and others. The audit committee approves in advance the particular services or categories of services to be provided to us during the following yearly period and also sets forth a specific budget for such audit and non-audit services. Additional services may be pre-approved by the audit committee on an individual basis during the year. None of Audit-related Fees, Tax Fees or Other Fees provided to us by Brightman Almagor & Co., were approved by the audit committee pursuant to the *de minimis* exception to the pre-approval requirement provided by Section 10A of the Securities Act of 1934.

Our audit committee has the authority to retain independent legal, accounting or other consultants as advisors, for which we will provide funding, and handle complaints relating to accounting, internal accounting controls or auditing matters.

Donation committee. Our articles of association authorize us to make, from time to time, contributions of reasonable sums for worthy causes, even if such contributions do not fall within our business considerations as referred to in section 11 of the Companies Law, 1999. Our donation committee is authorized to determine, in its discretion, with respect to any contribution, the amount thereof, its purpose, the entity to receive the contribution and any other term or condition relating thereto.

Our balance-sheet committee which was established to thoroughly peruse the financial statements and discuss certain key issues arising there from, and to recommend the board of directors whether or not to approve our financial statements was canceled by our board in December 2005. The authorities of our balance-sheet committee were transferred to our audit committee replaced the Balance sheet committee functions. In addition, the committee of independent directors established by our board of directors to consider and discuss a possible business combination between us and Elscint in a share-for-share transaction ceased to function upon completion of the merger by way of exchange of shares with Elscint during December 2005.

D. EMPLOYEES

As of May 31, 2006, EMI employed 19 persons in investment, administration and managerial services, all of whom were employed in Israel. As of May 31, 2006, PC had approximately 68 employees in Eastern Europe and 27 freelancers. The decrease in the numbers of employees can be explained by the sale of 50% of our Hungarian management company to Klepierre, sale of four of our Polish shopping and entertainment centers and our Polish management company and the expected sale of the Novo Plaza project in the Czech Republic to Klepierre. See “Item 10. Additional Information – Material Contracts – Shopping and Entertainment Centers” below.

E. SHARE OWNERSHIP

2001 Employees, Directors and Officers Incentive Plan

Our 2001 Employees, Directors and Officers Incentive Plan (the “2001 Plan”) provides for the issuance of up to 550,000 of our ordinary shares to our employees, directors and officers and to employees, directors and officers of companies controlled by us, of Europe-Israel and of companies controlled by Europe-Israel. The shares are issued to a trustee for the benefit of each recipient. Our board of directors approved on July 22, 2004 and on December 4, 2005 an increase in the number of shares available for grant under the 2001 Plan by 34,500 and 42,400 respectively. As of May 31, 2006, we have issued all 626,900 available shares under the 2001 Plan of which 490,051 shares were sold.

All the shares issued under the 2001 Plan are purchased at a purchase price of NIS 24.1 per share. Each recipient is granted a loan in an amount equal to the full purchase price of the shares to be issued to such recipient. The loan is for a five-year period bearing interest at an annual rate of 6%. The shares issued for the benefit of each recipient serve as sole collateral for the repayment of the loan granted to such recipient (non-recourse) except that the loan will become a recourse loan in the event of payment of the loan prior to the lapse of the five-year period as a result of transfer or sale of shares issued to such recipient with respect to the interest rate for the portion of shares so sold or transferred. On February 16, 2006, our board of directors extended the term of the loan for an additional two years until February 24, 2008 for offerees, who do not serve as our directors or executive officers. As of May 31, 2006, all of the shares issued under the 2001 Plan have vested and may be exercisable.

Under the Nasdaq Marketplace rules, foreign private issuers may follow home country practice in lieu of certain Nasdaq corporate governance requirements provided that such foreign private issuer shall submit to the Nasdaq a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws. Nasdaq has in the past required that foreign private issuers shall be granted exemptions from its Marketplace rules before following home country practice. In April 2004, we received an exemption from the Nasdaq Marketplace Rule requiring shareholders approval for an increase in the number of shares available for issuance under the Plan, and increased such number by additional 34,500 shares. In January 2006, in accordance with applicable Israeli law, we increased the number of shares available for issuance under the 2001 Plan by additional 42,400 shares without shareholder approval.

Elscint's 2001 Employees, Directors and Officers Incentive Plan

Elscint's 2001 Employees, Directors and Officers Incentive Plan (the "Elscint 2001 Plan") provided for the issuance of up to 850,000 ordinary shares of Elscint to employees, directors and officers of Elscint and its subsidiaries and to employees of Europe-Israel or other companies controlled by Europe-Israel. Under the Elscint 2001 Plan, 802,500 shares have been issued at a price per share of NIS 15.65. The remaining 81,000 shares were subsequently transferred as available shares for a subsequent option plan adopted by Elscint in 2003, see below. The rights of the recipients to retain the shares vest over periods of two or three years following the issuance (*i.e.*, 50% or 33% of the shares will become available for purchase at the end of each year). All other terms and conditions of the Elscint 2001 Plan are substantially similar to those of our 2001 Plan. Elscint 2001 Plan was terminated by Elscint's board of directors on November 27, 2003.

Upon the completion of the merger by way of exchange of shares between EMI and Elscint during November 2005, the 522,500 shares that remained outstanding as of such date were exchanged for 276,925 shares of EMI. As of May 31, 2006, the number of shares outstanding under the Elscint 2001 Plan was 188,485 shares of EMI.

Elscint's 2003 Employees, Directors and Officers Incentive Plan

Elscint's 2003 Employees, Directors and Officers Incentive Plan (the "Elscint 2003 Plan") provided for the grant of up to 116,000 options exercisable into up to 116,000 ordinary shares of Elscint. Elscint granted 50,000 options exercisable into 50,000 shares of Elscint to two of its then serving directors at an exercise price of \$4.68 per option. Elscint 2003 Plan was terminated by Elscint board of directors on November 27, 2003. Upon the completion of the merger by way of exchange of shares between EMI and Elscint during November 2005, the 50,000 options were exchanged for 26,500 options exercisable into 26,500 shares of EMI at an exercise price of NIS 38.67 per option. As of May 31, 2006, all of the above options were exercised into 27,964 shares of EMI (taking into consideration adjustments for distribution of dividends) pursuant to their terms.

2006 Employees, Directors and Officers Incentive Plan

Our 2006 Employees, Directors and Officers Incentive Plan (the "2006 Plan") provides for the grant of up to 1,000,000 non-marketable options to our employees, directors and officers and to employees, directors and officers of companies controlled directly or indirectly by us. The options will be granted to the recipients for no consideration. The exercise price per option will be the lower of: (i) NIS 100; or (ii) the average closing price of our ordinary shares on the TASE during the 30-trading day period preceding the date of grant of such options.

The options may be exercised into shares in such manner that on the exercise date we will issue to each recipient shares equivalent to the gain from the exercise of the options (*i.e.*: each option may be exercised to such number of shares equaling to the opening price of EMI shares on the TASE on the exercise date minus the exercise price while the difference is then divided by the above opening price; provided however, that such opening price will not exceed 166% of the exercise price. Accordingly, the maximum number of shares issuable upon exercise of all of the options that may be granted under the 2006 Plan is 397,590. The rights of the recipients to exercise the options vest over periods of three years following the grant (*i.e.*, 33.33% of the options may be exercised at the end of each year). The options will expire after the lapse of five years from their date of grant. As of May 31, 2006, the conditions precedent to the grant have not yet been satisfied. We expect the conditions to the grant to be satisfied by July, 2006.

In accordance with Nasdaq rules applicable to foreign private issuers, we have elected to follow home country practice, and accordingly, the 2006 Plan was not approved by our shareholders. See “- 2001 Employees, Directors and Officers Incentive Plan” above.

Issuance of Options to our Executive Chairman of the Board

We have granted 350,000 options to our Executive Chairman of the board of directors. For additional information, see “- B. Compensation of Directors and Officers” above.

InSightec Equity Plans

InSightec maintains four equity incentive plans:

InSightec’s 1999 Employee Stock Ownership Plan (the “1999 Plan”) provides for the grant of up to 2,650,000 options, at an exercise price of NIS 0.01. The rights of the recipients to exercise the options vest over a four-year period from the grant date, 50% after two years and 25% after each of the third and fourth years. The options generally expire following seven years as of their date of grant. On January 30, 2006, InSightec’s board of directors extended the exercise period by additional 2-year period to nine years as of their date of grant.

InSightec’s 2003 Employee Stock Ownership Plan (the “2003 Employee Plan”) provides for the grant of up to 1,094,000 options (700,000 plus 394,000 that were transferred from the 1999 Plan), at an exercise price that varies from \$5.85 to \$16. Options granted under the 2003 Employee Plan generally vest after a two-year period from the end of calendar year in which the options were granted. On January 30, 2005 InSightec’s board resolved to amend the 2003 Employee Plan so that the options granted under the 2003 Employee Plan after January 30, 2005, would generally vest over a four-year period from the grant date, 50% after two years and 25% after each of the third and fourth years. The options generally expire following seven years as of their date of grant.

InSightec’s 2003 Service Providers Plan (the “2003 Service Providers Plan”) provides for the grant of up to 300,000 options, at an exercise price of \$5.50. The board of directors will determine vesting term. The options generally expire following seven years as of their date of grant.

InSightec’s 2006 Stock Option Plan (the “2006 Plan”) provides for the grant of up to 400,000 options, at an exercise price equal to fair value at the date of grant. On the board of directors from January 30, 2006, a resolution was made to transfer the balance of unallocated options from the 2003 Employee Plan and the 2003 Service Providers Plan to the 2006 Plan, in addition to the 400,000 options. The rights of the recipients to exercise the options vest over a four-year period from the grant date, 50% after two years and 25% after each of the third and the fourth years. The options generally expire following seven years as of their date of grant or following 5 years if some criteria are met as stipulated in the 2006 Plan.

As of May 31, 2006 the total amount of options in pool sums up to 4,050,000. 472,550 are available from which 250,000 options are reserved to Mr. Mordechai Zisser, at an exercise price of \$5.50.

Among the recipients of these plans InSightec issued 100,000 options to Shimon Yitzhaki, a director of InSightec who also serves as a director of EMI. Such options are exercisable into ordinary shares of InSightec, at an exercise price of \$3.33 per share until May 2010. Our shareholders approved the allotment. InSightec also granted one of our executive officers Marc Lavine options to purchase, at par value, 7,500 ordinary shares according to 2003 Employee Plan, exercisable until May 2010.

All of these four plans automatically vest and become exercisable without any discretion on the part of InSightec’s board of directors or compensation committee upon certain events that constitute a material change to InSightec, such as: a change of control; a resolution of InSightec’s shareholders or their board of directors for their dissolution or a distribution in kind of most of their assets; types of mergers etc. Each of the above four plans contains a first refusal right among the recipients.

The following table indicates share ownership and percentage ownership as of May 31, 2006 in EMI and its subsidiaries, of all current directors and officers:

NAME	Number of Shares	%	Entity
Mordechay Zisser	12,403,634*	48.73*	EMI
Shimon Yitzhaki	83,765	**	EMI
	100,000	**	InSightec
Rachel Lavine	53,000	**	EMI
Yehoshua (Shuki) Forer	7,000	**	EMI
Abraham (Rami) Goren	47,700	**	EMI
Moshe Lion	13,250	**	EMI
Marc Lavine	7,500	**	InSightec

- * Includes 12,053,634 shares of EMI held by Europe-Israel, which may be deemed indirectly beneficially owned by Mr. Mordechay Zisser by virtue of his control of Europe-Israel through his control of Control Centers, see “Item 7. Major Shareholders and Related Party Transactions – Major Shareholders” below. On June 8, 2006, EMI granted to Mr. Zisser 350,000 options exercisable into 350,000 ordinary shares of EMI in consideration for NIS 137.44 per option. The options were exercisable immediately upon their grant for a three-year term.

** Less than 1% of the outstanding ordinary shares of the respective entity.

EMI has one class of shares. All of EMI’s ordinary shares have the same voting and equity rights.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

EMI had, as of May 31, 2006, 25,454,262 shares outstanding, excluding 2,800,000 ordinary shares held by EMI which do not have any voting and equity rights. The following table sets forth certain information as of May 31, 2006, concerning: (i) persons or entities who, to our knowledge, beneficially own more than 5% of the outstanding ordinary shares of EMI, (ii) the number of ordinary shares of EMI beneficially owned by all officers and directors of EMI as a group:

NAME AND ADDRESS	NUMBER OF SHARES BENEFICIALLY HELD (1)	PERCENTAGE
Europe-Israel (M.M.S.) Ltd. 13 Mozes Street Tel-Aviv, Israel (2)	12,053,634	47.35
Mordechay Zisser (3)	12,403,634	48.73
All officers and directors as a group (11 persons) (4)	12,608,349	49.53

- (1) The number of shares and percentage ownership is based on 25,454,262 ordinary shares outstanding as of May 31, 2006. Such number excludes 2,800,000 ordinary shares held by EMI, which do not have any voting or equity rights. Beneficial ownership is determined in accordance with rules of the SEC and includes voting and investment power with respect to such shares. All information with respect to the beneficial ownership of any principal shareholder has been furnished by such shareholder and, unless otherwise indicated below, we believe that persons named in the table have sole voting and sole investment power with respect to all the shares shown as beneficially owned, subject to community property laws, where applicable. The shares beneficially owned by the directors include the ordinary shares owned by their family members to which such directors disclaim beneficial ownership.
- (2) Europe-Israel is a private Israeli subsidiary wholly owned by Control Centers. Control Centers is controlled by Mr. Mordechay Zisser, the executive chairman of the board of directors of EMI.
- (3) Mordechay Zisser serves as Executive Chairman of our board of directors. In addition, on June 8, 2006, EMI grant to Mr. Zisser of 350,000 options exercisable into 350,000 ordinary shares of EMI in consideration for

- NIS 137.44 per option. The options are exercisable immediately upon their grant for a three-year term.
- (4) Includes 12,053,634 shares of EMI held by Europe-Israel, which may be deemed indirectly beneficially owned by Mr. Mordechai Zisser by virtue of his control of Europe-Israel through his control of Control Centers, as described in footnote (2) above. In addition, on June 8, 2006, EMI grant to Mr. Zisser of 350,000 options exercisable into 350,000 ordinary shares of EMI in consideration for NIS 137.44 per option. The options are exercisable immediately upon their grant for a three-year term. On May 31, 2006, our shareholders approved a grant of options to our directors, see also “Item 6. Directors, Senior Management and Key Employees – E. Share Ownership – 2006 Employees, Directors and Officers Incentive Plan” above. As of the date of this annual report, the conditions to the grant have not yet been satisfied, and we expect the grant to occur during July 2006.

Changes in Major Shareholders’ Holdings During the Last Three Years

The following is a list of changes in major shareholders’ holdings during the last three years:

On May 17, 2006, Elscint sold 524,187 shares of EMI in consideration for NIS 115 for each share, through a private transaction. The aggregate consideration with respect to such sale was approximately NIS 60.2 million (approximately \$13.1 million). Prior to the reported transaction, part of these shares did not have voting rights inasmuch as they were held by a subsidiary of EMI. Following the transaction the shares sold will enjoy full equity and voting rights.

On March 2, 2005 Bank Leumi Le’Israel Ltd. informed us that its mutual funds and provident funds ceased to be a major shareholder of EMI.

As a result of the completion of a merger by way of exchange of shares between EMI and Elscint, Elscint became a wholly-owned subsidiary of EMI and each outstanding share of Elscint (other than Elscint ordinary shares held by EMI and by or for the benefit of Elscint) was exchanged for 0.53 ordinary shares of EMI. On December 2, 2005, EMI issued 3,479,216 ordinary shares to Elscint shareholders (other than Elscint ordinary shares held by EMI and by or for the benefit of Elscint). Such number excluded approximately 26,500 ordinary shares of EMI that were issued upon exercise of options to purchase Elscint shares, which EMI assumed in connection with the above merger.

As of May 31, 2006, there were approximately 887 holders of record of our ordinary shares with addresses in the United States, holding approximately 22.73% of our issued and outstanding ordinary shares (excluding 2,800,000 ordinary shares held by EMI which do not have any voting and equity rights).

B. RELATED PARTY TRANSACTIONS

Lease

EMI and its direct and indirect subsidiaries lease office space from Control Centers and Europe-Israel, the parent of EMI. See “Item 4. Information on the Company - D. Property, Plants and Equipment” above. The lease agreements were approved by our audit committee and board of directors as a non-extraordinary transaction within the meaning of the Israeli Companies Law.

Amendment to Terms of Options Granted to our Executive Chairman of the Board

In September 2001, we granted to Mr. Mordechai Zisser, the Executive Chairman of our board of directors, options to purchase up to 350,000 of our ordinary shares. The exercise price of the options, originally set at NIS 35.7 per share, was later amended to reflect changes in the exchange rate between the NIS and the U.S. dollar and in December 2002, our shareholders approved a further amendment of the exercise price to unlinked NIS 44 per option. In September 2004, our shareholders approved a one-year extension of the exercise period until September 8, 2005 and amended the exercise price to NIS 45.7 per share. These options were exercised by Mr. Zisser on February 27, 2005, in consideration for approximately NIS 16.0 million (approximately \$3.6 million).

Allocation of Costs Agreement

At the annual general meeting of shareholders held on February 21, 2001, our shareholders approved an agreement with Europe-Israel and Elscint, beginning retroactively from January 1, 2000 and continuing until December 31, 2002, for the allocation of costs and expenses incurred in connection with services rendered to those companies by their in-house legal, economic and taxation and accounting departments. The allocation would be carried out so that Europe-Israel bears 35%, while Elscint and EMI each bear 32.5% of such costs. These percentage shares reflect a general estimate of the companies' management of the actual utilization rate of these departments' services by each of the companies based on the actual services provided thereby during the first half of 2000. Should these percentage rates deviate from the actual service rates by more than 10%, the parties will be charged on the basis of the actual cost allocation. In November 2002, our audit committee and board of directors approved the extension of the agreement for a three-year term until December 31, 2005 on which date the agreement was terminated.

Management services

Pursuant to an agreement dated February 28, 2001 in effect as of August 1, 2000 among us, our subsidiaries, PC and Elbit Ultrasound (Netherlands) B.V. and Triple-S Holdings N.V. ("Triple-S"), an unrelated third party, Triple-S undertook either itself or through Mr. Shmuel S. Smucha, its controlling shareholder who acted at that time as the President and Chief Executive Officer of PC, to render management services to PC. As consideration for such services, Triple-S received a monthly fee of \$40,000. In addition, Mr. Smucha was eligible to receive from PC reimbursement of reasonable living expenses, as well as other customary benefits. Triple-S was entitled to receive from PC a monthly loan of \$5,000, bearing market interest rates and repayable no later than December 31, 2004. This agreement was terminated on December 31, 2003. Mr. Smucha continued to render services to PC for one additional month, until January 31, 2004. Upon termination of the agreement and Mr. Smucha's services, the parties finalized and settled all open accounts and issues.

Private issuance of shares to Triple-S

In March 2004, we issued 623,362 ordinary shares to Triple-S pursuant to an agreement, dated February 28, 2001, between us, our subsidiaries PC and Elbit Ultrasound (Netherlands) B.V. and Triple-S. Under the agreement, we issued 250,000 ordinary shares to Triple-S in exchange for services provided by Triple-S to PC and Triple-S's waiver of certain rights to purchase shares of companies held by PC. In addition, under the terms of the agreement, we undertook, following the lapse of approximately three years from the date of such agreement (January 15, 2004), to review the market value of the 250,000 shares issued to Triple-S. In the event that the market value of such shares would have been lower than \$6 million, we undertook to pay Triple-S the difference between the calculated market value and \$6 million, either by cash or by way of issuance of additional shares of EMI. According to our calculation, the market value of the 250,000 shares was lower than \$6 million, and therefore, our board of directors approved the payment to Triple-S of the aforementioned difference by way of issuance of additional 623,362 of our shares.

Agreement for aviation services

Pursuant to an agreement between us and Jet Link Ltd. ("Jet Link"), an aviation company wholly-owned indirectly by Control Centers, which was approved by our shareholders on September 10, 2000, we, or our subsidiaries, may purchase aviation services from Jet Link for our operations in the shopping and entertainment centers business for up to 150 hours per annum in consideration for payments in accordance with Jet Link's price list to unaffiliated companies less a 5% discount. Due to our increasing business needs, we and our subsidiaries purchased during 2003, 2004 and 2005 additional approximately 20, 70 and 200 flight hours from Jet Link, respectively under the same terms. The purchase of the additional flight hours was approved by our audit committee and board of directors as a non-extraordinary transaction within the meaning of the Israeli Companies Law.

Agreement for the purchase of coordination, planning and supervision services over construction projects

Companies controlled by the executive chairman of our board of directors, are parties to various agreement with subsidiaries of PC, pursuant to which such entities have agreed to provide services of coordination, planning, execution and supervision over construction projects, to PC's subsidiaries, in consideration for 5% of the actual

construction costs of each such project (excluding land acquisition cost, financing costs and general and administrative costs), plus VAT. In addition, PC's subsidiaries will reimburse the said companies, for all reasonable costs incurred in connection with the services rendered thereby, not to exceed a total of \$50,000 per project. Such agreements were entered into pursuant to a framework agreement signed by us and Control Centers (the parent company of these two companies), which was approved by our shareholders meeting during 2000. The framework agreement was terminated on December 31, 2002.

Following the termination of the above framework agreement pursuant to its terms, a similar agreement for the receipt of such services for real estate projects, subject to certain amendments, and the receipt of aviation service was approved by our shareholders on May 31, 2006. Under the agreement entered into between us and Control Centers we will receive from Control Centers (either directly or through its subsidiaries or affiliates, other than the Company) coordination, planning, execution and supervision services over our real estate projects and/or real estate projects of our subsidiaries and/or affiliates in consideration for a fee equal to 5% of the actual execution costs (excluding land acquisition costs, financing cost and the consideration for Control Centers under the agreement) of each such project. The agreement will apply to real estate projects initiated following the approval of the agreement by the Company's shareholders and to the following projects: (i) a shopping and entertainment center in Liberec, Czech Republic; (ii) a shopping and entertainment center in Kerepesi, Hungary; and (iii) a complex of shopping and entertainment center, hotels, congressional centers and other facilities in Obuda, Hungary, which are currently under early stage of development.

Such fee will be paid in installments upon the meeting of milestones as stipulated in the agreement. In addition, the Company will reimburse Control Centers for all reasonable costs incurred in connection with the services rendered thereby, not to exceed a total of €75,000 (\$88,000) per real estate project.

If the purpose of a real estate project is changed for any reason prior to the completion of the project or if the development of the real estate project is terminated for any reason (including the sale of the real estate project), the payment to Control Centers will be calculated as a percentage of the budget for the project, provided that such percentage shall not exceed the percentage determined for the next milestone of the project had it had continued as planned. The calculation of such payments to Control Centers will be subject to the approval of an external accountant and the approval of the audit committee and board of directors.

In addition, the Company and/or its subsidiaries and/or affiliates may also purchase from Control Centers through Jet Link up to 125 flight hours per calendar year in consideration for payments to Jet Link in accordance with its price list to unaffiliated companies less a 5% discount. This Agreement does not derogate from a previous agreement entered into between us and Jet Link for the purchase of aviation services which was approved by our shareholders on September 10, 2000, see "- agreement for aviation service" above.

The agreement with Control Centers has a five-year term commencing on May 31, 2006.

Agreement for the purchase of coordination, planning and supervision services over the Bucuresti hotel complex

In October 2001, an engagement between Bucuresti and Control Centers (thought its wholly owned subsidiary) was approved at an Elscint shareholders' meeting. In accordance with such engagement, Control Centers provides coordination, planning and supervision services with respect to the renovation works of the Bucuresti Hotel complex, for a fee equal to the lower of (i) 5% of total actual costs of the renovation works (excluding general and administrative as well as financing costs); and (ii) 5% of \$30 million. The parties are yet to execute a definitive agreement.

A Turn key contractor agreement regarding the Arena center

In May 2002, Elscint's shareholders approved a turn-key agreement by and between S.L.S. Sails Ltd. ("SLS"), our indirect wholly owned subsidiary (which holds the rights in the Arena Center in Herzliya, Israel), and C.D.P.M. Kft., ("CDPM"), a subsidiary of Control Centers, for the completion of the construction of the Arena in consideration of \$ 57.7 million. The consideration was determined on the basis of a calculation of the amount of work remaining to be preformed as at February 28, 2002. The consideration was subject to adjustments and reductions in respect of

payments made by SLS to third parties sub-contractors, suppliers and consultants from March 1, 2002, up to the commencement of works by CDPM. In June 2003, CDPM assigned its rights and obligations under the agreement to another company controlled by Control Centers, Castara Construction Servicing Limited Liability Company ("CCS"). The total consideration paid to CCS by SLS (including adjustments which were approved by Elscint's audit committee and Elscint's board of directors subsequent to the assignment date) amounted to NIS 161.8 million. Such consideration includes approximately \$2.3 million paid by SLS to CCS pursuant to an arbitration held between the parties in March 2004 in connection with CCS' allegations regarding the construction works in the Arena. Elscint received from Control Centers a construction performance quality guarantee, in the amount, as of December 31, 2005, of \$1.6 million..

We furnished the local municipality with a bank guarantee to secure payment of certain land betterment tax, in an amount of approximately \$1.0 million. Arbitration is currently being held as to this tax liability between Marina Herzliya Limited Partnership Ltd. (a company controlled by Control Centers) and the local municipality. We estimate, based on professional opinion, that no significant costs will be borne thereby, in respect of this guarantee.

Tax Arrangement

During 2004, we, Europe Israel and Elscint have finalized an arrangement with the Israeli Tax Authority, with effect from December 31, 2002, whereby a new tax basis has been determined for our investments (on consolidated basis) in foreign subsidiaries ("regulated revaluation" and "regulated assets"). The arrangement provides for no additional tax to be imposed in Israel on gains generated from the realization of regulated assets, and on dividends distributed therefrom, and all up to the amount of the regulated revaluation. Provision for those tax payments under the arrangement has been recorded in our statement of operations for the years 2002 through 2004, under the tax expenses for previous years' item. Taxes which relate to capital reserves from foreign currency translation adjustments deriving from the regulated profits were charged to said capital reserves.

Loan Agreement with Bank Hapoalim B.M.

Within the framework of our loan agreements with Bank Hapoalim B.M. the bank has agreed to waive all our financial covenants in the event certain conditions are met, including conditions relating to Europe-Israel. See "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources – Other Loans" above.

Compensation

For details regarding compensation granted to our directors and officers, including securities issued to our directors and officers under different incentive plans, see "Item 6. Directors, Senior Management and Key Employees – B. Compensation and E. – Share Ownership" above.

Indemnification, Insurance and Exemption

For details regarding the grant of insurance, exemption and indemnification to our directors and officers, see "Item 6. Directors, Senior Management and Key Employees – B. Compensation" above.

Related party guarantees

We provide from time to time, guarantees to financial institutions or other unrelated parties in connection with undertakings, monetary and others, that are assumed by our subsidiaries. Details as to material guarantees are provided in "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources - Loans" above.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See our consolidated financial statements included in Item 18 below.

B. SIGNIFICANT CHANGES

Legal Proceedings

1. In November 1999, a number of institutional and other investors, holding shares in Elscint, filed a lawsuit in the Haifa District Court against EMI, Elscint, Europe Israel, Control Centers and others. The plaintiffs also requested the certification of their claim as a class action suit on behalf of all those who had held Elscint shares on September 6, 1999, and continued to do so as at the filing date of the suit (excluding the Company and certain other shareholders). The claim alleges discrimination against Elscint's minority shareholders arising from various transactions or activities carried out by its controlling shareholders and directors, which allegedly caused them financial loss, manifested by the 45% (\$100 million) decline in the value of Elscint's shares in the period from February 24, 1999 to the claim's filing date.

The principal remedy requested in the claim is a court order instructing EMI to carry out a tender offer of Elscint's shares at \$14 per share as the former allegedly undertook, in its letter to Elscint of February 1999, or alternatively, to purchase the shares in their possession, at a price to be determined by the Court. As another alternative, the plaintiffs requested the court to issue an injunction prohibiting execution of the September 9, 1999 transactions (acquisition of the hotel operations and the Arena commercial center in the Herzliya Marina, by Elscint, from Europe Israel and Control Centers, respectively) and the refund of all and any amounts paid thereunder. Part of the remedies were requested as a derivative claim on behalf of Elscint.

Although the Haifa District Court has rejected the class-action request, it was ruled that the plaintiffs may, notwithstanding so rejecting the request for class-action proceedings, pursue their matter. In November 2001, the plaintiffs were granted leave to appeal to the Supreme Court regarding the Court's decision. EMI and the plaintiffs presented their respective pleadings. As of May 31, 2006, the Court has not yet rendered its decision in the motion for leave to appeal.

Management of EMI believes, based, *inter alia*, on legal opinions, that the final outcome of this case cannot be estimated at this stage.

In January 2003, EMI received a letter from one of the insurers of Europe Israel, EMI and Elscint, that provides insurance to the Insured companies including insurance pertaining to the representative claim described above.

In this letter, the Insurer made certain allegations against the Insured Companies, including, *inter alia*, that the Insured Companies breached their disclosure duties under Section 6(a) to the Insurance Contract Law, 1981, by failing to disclose to the Insurer material information prior to the issuance of additional cover to the policy purchased by Europe Israel, effective as of July 1999, and prior to the replacement of the Policy and the Additional Cover by the issuance of a new policy effective as of August 1999. The letter states that the Policy, Additional Cover and Replacement Cover issued by the Insurer will be cancelled unless the Insured Companies indicate that circumstances were different than those described in the letter. EMI's legal counsel sent a reply on behalf of the Insured Companies on March 20, 2003, in which the allegations of the Insurer were rejected. As of May 31, 2006 EMI has not received an answer from the Insurer to this letter. However, the parties are currently negotiating to reach a settlement.

In January 2006, EMI and Elscint entered into an agreement with one of the insurers, different from the Insurer described above, which insured EMI and Elscint, *inter alia*, with respect to the lawsuit described above. In accordance with the terms of the agreement EMI, Elscint and their former and current directors and officers released the insurer from all liabilities that will arise from the abovementioned claim in consideration for a one-time payment in the amount of \$0.2 million (NIS 0.9 million).

2. EMI, Elscint and others were served with a claim as well as a motion to recognize same as a class-action, in respect of damage amounting to \$158 million, allegedly caused to the represented class. Underlying the claim is the contention that EMI, through Elscint's board of directors, caused damage to and discriminated against minority shareholders of Elscint. Both parties agreed to postpone the hearing in this case until the Supreme Court hands down a

decision on the leave to appeal, as detailed in section (1) above. Management, based on legal advice, is of the opinion that it is not possible at this stage to estimate the outcome of the claim and the motion for class-action recognition.

3. As of December 31, 2005, we are a party to several additional court claims as well as certain other written demands and/or claims, filed against us by third parties (including governmental institutions) in connection with terminated activity, some without any specified amount, while others, in the aggregate amount of \$41.6 million, as royalties or compensation for damages allegedly caused as a result of the companies' actions and/or products, which mainly relate to the medical imaging business sold by EMI and Elscint in 1998 and 1999. In respect of certain claims, totaling approximately \$5.8 million, our managements estimate, based on legal opinion and/or on past experience, that no significant costs will accrue thereto as a result of said claims exceeding the provisions included in respect thereof in the financial statements, and that such provisions are adequate for covering the costs and resources required to settle the liabilities arising therefrom. Elscint's legal advisers cannot presently determine the outcome of other written demands, totaling \$35.8 million in addition to claims without any specified amount. Elscint's management believes that the prospects for realization of most such demands are remote, based on the time that has elapsed since serving said demand and on the nature thereof. We have included in our financial statements provisions that are, as per our discretion based *inter alia* on specific counsels and past experience, adequate to cover the costs and resources required to settle the liabilities under these claims.

4. Elscint was served in 2003 with a motion filed by a third party seeking an injunction to prohibit Elscint from using the trade name "Arena" for the entertainment and commercial center in the Herzliya Marina in Israel, on the grounds of unlawful usage of same, exploitation of goodwill and unfair competition. In the event the plaintiff's contention is upheld, Elscint may suffer certain indirect losses and costs. An application for an interim injunction, prohibiting the use of the trade name "Arena," was dismissed by the court. On March 20, 2006 the judge dismissed the lawsuit against the Company. The Plaintiff has the right appeal the courts decision up to April 27, 2006. Since the period to serve the appeal has expired we expect, *inter alia*, on legal opinion that such appeal will not be served.

5. Elscint is a formal party to a claim filed by a number of employees, holding shares of Algotech (sold to a third party on November 2003), against the majority shareholder in Algotech, in the framework of which the Court issued an injunction precluding the transfer of funds from Algotech to that shareholder. No remedies were requested against Elscint and the injunction does not affect the transfer of title to funds, which are received as proceeds of the sale. The Company's management estimates that the said claim will not affect its assets.

6.

a. A criminal investigation carried out against a number of suspects (including former officers in the State Ownership Fund of the Romanian government who were involved in the privatization procedures and the sale of control in Bucuresti Tourism S.A. ("Bucuresti") to a wholly owned Romanian subsidiary of BEA known as "Domino") for certain events relating to the period prior to the acquisition of control in Bucuresti by B.H., culminated in the filing of an indictment against 17 defendants. Such criminal proceedings may have an indirect effect on the validity of the privatization and thereby an indirect effect on Domino's rights in Bucuresti, notwithstanding that Domino was not an accused party under the indictment. The Court has decided to return the indictment to the Prosecution Office for its resubmission. After the appeal against this decision has been rejected by the court, this case is no longer pending in front Romanian Courts of justice.

b. In the framework of an agreement to establish a joint company owned by Bucuresti and a third party, which was signed prior to the acquisition of Bucuresti by BEA, such third party undertook to invest \$27.0 million (NIS 124.3 million) in the joint company and in consideration Bucuresti undertook to transfer its rights in the Bucuresti Complex to the ownership of the joint company. As a result of the third party's failure to meet its obligations thereunder, Bucuresti has terminated the partnership agreement and filed an application to the Court to liquidate the joint company. This application was approved by the Court. The third party has submitted an appeal to the Supreme Court. On June 3, 2005, the Supreme Court irrevocably rejected this appeal. Accordingly, there is no risk that Bucuresti will be forced to transfer its rights in the Bucuresti Complex to the joint company.

c. A former unrelated party shareholder in Domino filed a monetary claim to the Romanian courts against Domino and other defendants, claiming; (i) an amount of \$ 2.5 million, for commissions allegedly due to the

Plaintiff under the terms of the partnership agreement, (to which Domino was a party), pertaining to the tender which allowed the acquisition of control in Bucuresti; and (ii) the termination of an agreement with an Israeli bank within the framework of which the shares of Domino in Bucuresti were pledged in favor of such bank as security for the repayment of a loan granted to Domino for the acquisition of such shares. Due to the fact that the plaintiff did not fulfill his undertakings regarding the translation of the subpoena for the foreign parties in the trial, the case was adjourned for 6 months, starting with March 3 2005. On December 8, 2005, this case was struck off the Court's register.

d. Bucuresti was served with two claims, which challenged its ownership in the Bucuresti Hotel Complex . Both of the claims are pending on the Bucharest Court of Appeals. Management believes based, *inter alia*, on legal opinion that Bucuresti is expected to win those claims.

e. In June 2005, certain individuals submitted their final appeal to the Supreme Court requesting the nullification of the public tender for the sale of the Bucuresti shares, the privatization contract and the transfer of the Bucuresti shares to Domino. This case was ruled in favour of Domino in the previous procedural stages (first instance and appeal) on technicalities, since the application for the cancellation of the privatization contract was served after the 3 months term during which any interested person could file an application for the cancellation of the privatization. EMI expects - based, *inter alia*, on legal opinion- that Domino will win this case. In addition our legal counsel stated that in the event that the Supreme Court will rule in favor of the plaintiffs, the privatization contract will be cancelled with the effect of restitution in integrum.

f. In addition to the above, certain legal proceedings are being conducted from time to time in Romania within the framework of which it is claimed that resolutions passed at the general meetings of shareholders of Bucuresti were not validly adopted - for procedural reasons only - and are therefore not binding. Some were approved by the Courts, in respect of some Domino has filed appeals, and others were rejected.

BEA's management is of the opinion that the claims will not significantly affect BEA's rights in the shares of Bucuresti and in the Bucuresti Complex.

8. On April 5, 2006, Cukierman Real Estate Ltd. filed a summary procedure claim before the District Court of Tel-Aviv against EMI and PC. Within the framework of this claim, the District Court has been requested to order the Defendants to pay the Plaintiff the amount of NIS 10,751,920 (approximately €1,899,632) as an intermediary brokerage fee arising out of the sale by EMI to Klepierre S.A. of its shopping centers in Poland and Czech Republic. An application for leave to defend has not yet been filed. On May 8, 2006, EMI filed a motion to strike out the claim in limine or alternatively to strike out the title "summary procedure". EMI believes, based, *inter alia*, on legal opinions, that the chances that a substantial part of the claim or the claim as a whole to be dismissed are good.

9. In December 2005, Elscint was served with a statement of a claim filed with the Regional Court by Elscint's former employee requesting that Elscint compensate him for damages resulting from his Cancer disease, allegedly caused to him by exposure to radiation, in the amount of NIS 315,000 and other undefined compensation. The insurance company rejected its liability and claimed that such radiation is excluded from the policy. Elscint has approached a radiation expert to receive an expert opinion. A statement of defense and third party notice against the insurance company has not yet been submitted. Management of the Company, based, *inter alia*, on legal opinion received, believes that the potential financial consequences of this claim can not be estimated at this early stage of legal proceedings.

10. On April 11, 2006, Eliahu Razin, Bellway LLC and Monilen Enterprises Limited filed a claim before the District Court of Tel-Aviv against Elscint, the chairman of the board of directors of Elscint, Elscint's directors and officers and against companies controlled by Elscint.

Pursuant to this claim, the District Court has been asked to declare that Bellway LLC is the legal owner of 20% of the shares of Domino, to enforce an agreement signed by the parties and to order the defendants to pay the plaintiffs their damages in the amount of NIS 25 million (approximately \$5.43 million), a Statement of Defense has not yet been filed.

EMI's management believes based, *inter alia*, on legal opinions that the chances of a substantial part of the claim or the claim as a whole to be dismissed are good.

10. In March 2005, an action was instituted at the Regional Labor Court in Tel-Aviv-Jaffa by an employee of Europe Israel against Mr. Mordechai Zisser (executive chairman of EMI's Board of Directors), Control Centers and Vectory Investment Company Ltd. (controlling shareholders of EMI), in terms of which, the Court was requested to issue a declaratory order establishing the Plaintiff's entitlement to 14% of the shares of the companies specified in the statement of claim - including shares of EMI, Elscint, InSightec, Gamida, Olive, Easy Run and VCON - which are directly or indirectly, owned and/or controlled by the defendants and/or by companies under control thereof. The Court was further requested to order the transfer of such 14% to escrow.

The Plaintiff also filed, simultaneously, a motion to grant an interim injunction prohibiting the defendants and/or any party on their behalf, from making any change to and/or transfer and/or assignment and/or pledge of and/or disposition in 14% of the shares of those companies detailed in the motion. Underlying the claim is the contention that the Plaintiff's rights under the statement of claim derive from agreements executed by and between the Plaintiff and the defendant companies.

On March 27, 2005, the Labor Court dismissed substantially all of the Plaintiff's motion, in determining that the Plaintiff failed to provide evidence establishing: (i) his prima facie right to 14%, as he claimed; (ii) his entitlement to rights in and to companies aside from those directly invested by Europe Israel; (iii) his right to shares in EMI, Elscint, InSightec and Gamida. The above action was erased at the request of the plaintiff.

The Plaintiff filed in October 2005, a lawsuit in the Regional Labor Court in Tel-Aviv-Jaffa against Vectory. The Plaintiff requested the court to issue a mandatory injunction against Vectory ordering it to transfer the Plaintiff shares of the companies specified in the statement of claim - including 2,500 shares of EMI, 1,000 shares of Elscint, 1,250 shares of InSightec, 1,500 of Gamida, 2,000 of EasyRun, 2,000 of Olive and shares of other companies within the Europe Israel group of companies. The Plaintiff evaluated his claim to an aggregate amount of NIS 285,000 (approximately \$61,900). In January 2006, Vectory filed a statement of defense]

Underlying the claim is the contention that the Plaintiff's rights under the statement of claim derive from an agreement executed in 1998 by and between the Plaintiff and Vectory. This Agreement was terminated by Vectory due to different breaches of the Agreement by the Plaintiff. It should be noted that the conclusions made by the court in the framework of the provisional proceedings of the above previous claim sided with Vectory's interpretation of the Agreement. Although we are not parties to the claim, the outcome thereof might indirectly affect the nature and scope of their rights in their investee companies.

Vectory is of the opinion that this claim, insofar as it relates to us as included in the claim, is provocative, fundamentally unfounded and groundless (both with respect to the number of the companies in which rights are sought and with respect to the scope of rights claimed) and that it will not materially affect its rights in us. However, the defendants' legal counsel cannot, at this early stage, estimate the outcome of the claim.

In May 25, 2006, the Plaintiff filed an additional lawsuit in the District Court in Tel-Aviv-Jaffa against EMI, Mr. Zisser and/or Control Centers and/or EMI's board members and/or the management companies related to Mr. Zisser and Control Centers, requesting the court to state the annulment of any decision made by EMI for granting of any benefits to Mr. Zisser and/or Control Centers using shares the subject of Plaintiff's claimed.

Alternatively, the Plaintiff requested the court to determine that the Plaintiff's claimed rights to EMI's shares will be taken into account as an opposing side to any decision made in any general meetings of EMI, while reserving the Plaintiff's rights to take legal proceedings to prevent infringement of his rights as a minority shareholder in EMI. Alternatively, the Plaintiff requested the court to determine that in every general meeting that convenes for determining the above stated decisions, the Plaintiff's claimed rights to EMI's shares will not be considered as taking any side in the decisions, while reserving his above legal rights. Management, based on legal advice received is of the opinion that it is not possible at this early stage to estimate the outcome of the claim.

Ordinary course of business

We are involved from time to time in litigation arising in the ordinary course of our business. Although the final outcome of each of these cases cannot be estimated at this time, our management believes, based on legal advice, that the resolution of such litigation will not have a material adverse effect on our financial position.

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

The ordinary shares of EMI are quoted on Nasdaq under the symbol “EMITF” and are listed on the TASE.

The annual high and low sale prices for our ordinary shares for the five most recent full financial years are:

<u>Year Ended December 31,</u>	<u>Nasdaq</u>		<u>TASE</u>	
	<u>High (\$)</u>	<u>Low (\$)</u>	<u>High (\$)</u>	<u>Low (\$)</u>
2005	19.54	8.9	19.18	9.01
2004	10	6.92	9.97	7.21
2003	7.14	3.70	6.91	3.80
2002	7.71	4.50	7.40	4.50
2001	6.30	4.23	6.60	4.45

The quarterly high and low sale prices for our ordinary shares for the two most recent full financial years and the first subsequent quarter are:

	<u>Nasdaq</u>		<u>TASE</u>	
	<u>High (\$)</u>	<u>Low (\$)</u>	<u>High (\$)</u>	<u>Low (\$)</u>
2006				
First Quarter	20.04	15.28	20.05	15.37
2005				
First Quarter	16.21	8.9	16.00	9.01
Second Quarter	19.54	14.38	19.37	14.40
Third Quarter	19.32	15.74	19.18	15.70
Fourth Quarter	16.99	14.75	16.78	14.84
2004				
First Quarter	9.35	6.92	9.76	7.21
Second Quarter	8.61	7.24	8.28	7.35
Third Quarter	9.43	7.28	9.35	7.36
Fourth Quarter	10	7.71	9.97	7.82

The monthly high and low sale prices for our ordinary shares during the six months of December 2005 through May 2006 were:

<u>Month</u>	<u>Nasdaq</u>		<u>TASE</u>	
	<u>High (\$)</u>	<u>Low (\$)</u>	<u>High (\$)</u>	<u>Low (\$)</u>
May 2006	26.2	23.04	26.13	23.40
April 2006	22.76	19.03	23.67	18.40
March 2006	20.04	16.16	20.05	16.43
February 2006	16.9	15.52	17.04	15.55
January 2006	17.5	15.28	17.67	15.37
December 2005	16.54	14.78	16.64	15.48

The closing price of our ordinary shares on Nasdaq on May 31, 2006 was \$24.49, and on the TASE was \$24.88.

The closing prices of our ordinary shares listed on the TASE for each of the periods referred to in the tables above have been translated into dollars using the representative rate of exchange of the NIS to the U.S. dollar as published by the Bank of Israel on the same dates.

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

Since our initial public offering in November 1996, our ordinary shares have been traded both on the Tel-Aviv Stock Exchange and on NASDAQ Stock Market under ticker symbol “EMITF”. Prior to such date, EMI was a privately held corporation.

D. SELLING SHAREHOLDERS

Not applicable.

E. DILUTION

Not applicable.

F. EXPENSES OF THE ISSUE

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable

B. MEMORANDUM AND ARTICLES OF ASSOCIATION AND GENERAL PROVISIONS OF ISRAELI LAW

Transfer Agent

Our transfer agent in the United States is American Stock Transfer and Trust Company whose address is 59 Maiden Lane New York, New York 10038.

Purposes and Objects of the Company

We are a public company registered under the Israeli Companies Law of 1999 as Elbit Medical Imaging Ltd., registration number 52-004303-5.

Pursuant to Section 2 of our memorandum of association, we were formed for the purpose of operating in the development, manufacture, compilation, sale and service of technological and electronic systems in the field of medical imaging and ancillary products. In addition, we are also empowered to operate in any business or matter for profit purposes as shall be determined by the board of directors of the Company from time to time. In addition, our articles of association authorizes us to make, from time to time, contributions of reasonable sums for worthy causes even if such contributions do not fall within our business considerations as referred to in Section 11 of the Companies Law.

Approval of Certain Transactions

Generally, under the Companies Law, engagement terms of directors, including the grant of an exemption from liability, purchase of directors’ and officers’ insurance, or grant of indemnification (whether prospective or retroactive) and engagement terms of such director in other positions require the approval of the audit committee, the board of directors and the shareholders of the company. In addition, transactions between a public company and its officers (other than directors) or a transaction between such company and other person in which such officer (other

than directors) has a personal interest must be approved by such company's board of directors, and if such transaction is considered an extraordinary transaction (as defined below) it must receive the approval of such company's audit committee as well.

The Companies Law also requires that any extraordinary transaction between a public company and its controlling shareholder or an extraordinary transaction between such company and other person in which such company's controlling shareholder has a personal interest must be approved by the audit committee, the board of directors and the shareholders of the company by a an ordinary majority, provided that (i) such majority vote at the shareholders meeting shall include at least one third (1/3) of the total votes of shareholders having no personal interest in the transaction, present and voting at the meeting (excluding abstaining votes); or (ii) the total number of votes of shareholders mentioned in clause (i) above who voted against such transaction does not exceed one percent (1%) of the total voting rights in the company.

The Companies Law prohibits any director who has a personal interest in a matter to participate in the discussion and voting pertaining to such matter in the company's board of directors or audit committee except for in circumstances when the majority of the board of directors have a personal interest in the matter and then such matter must be approved by the company's shareholders.

Our articles of association further provide that, subject to the Companies Law, all actions executed by the board of directors or by a committee thereof or by any person acting as a director or a member of a committee of the board of directors or by the general manager will be deemed to be valid even if, after their execution, it is discovered that there was a certain flaw in the appointment of such persons or that any one of such persons was disqualified from serving at his or her office.

For the purpose of this section:

An "extraordinary transaction" is defined in the Companies Law as any of the following: (i) a transaction not in the ordinary course of business; (ii) a transaction that is not on market terms; or (iii) a transaction that is likely to have a material impact on the company's profitability, assets or liability.

A "personal interest" is defined in the Companies Law as a personal interest of a person in an act or transaction of a company, including: (i) a personal interest of that person's relative (*i.e.* spouse, brother or sister, parent, grandparent, child, child of such person's spouse or the spouse of any of the above); or (ii) a personal interest of another entity in which that person or his or her relative (as defined above) holds 5% or more of such entity's issued shares or voting rights, has the right to appoint a director or the chief executive officer of such entity, or serves as director or chief executive officer of such entity. A personal interest resulting merely from holding the company's shares will not be deemed a personal interest.

Fiduciary Duty and Duty of Care of Directors and Officers

The Companies Law codifies the duties Officers owe to a company. An "Officer" is defined in the Companies Law as a director, general manager, general business manager, executive vice president, vice president, any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title and other managers directly subordinate to the general manager. The Officer's principal duties to the company are a duty of care and a fiduciary duty to act in good faith for the company's benefit as detailed in the Companies Law.

Duty of a Shareholder

Under the Companies Law, a shareholder, in exercising his rights and fulfilling his obligations to the company and the other shareholders, must act in good faith and in a customary manner and refrain from improperly exploiting his power in the company, including when voting at general or class meetings of shareholders on: (a) any amendment to the articles of association; (b) an increase of the company's authorized share capital; (c) a merger; or (d) the approval of related party transactions. In addition, a shareholder shall refrain from prejudicing the rights of other shareholders. The laws governing breach of contracts apply, with necessary modifications, to a breach of the above obligations. Furthermore, any controlling shareholder, any shareholder who knows that he possesses power to determine the

outcome of the shareholders' vote at a general or a class meeting, and any shareholder that, pursuant to the provisions of the articles of association, has the power to appoint or prevent the appointment of an officer in the company or possesses any other power towards the company, is subject to a duty to act in fairness towards the company. A breach by any such shareholder of this duty is treated similarly to a breach of a fiduciary duty of an officer, with the applicable changes. The Companies Law does not detail the substance of this duty.

Board of Directors

In accordance with our articles of association, the directors may, from time to time, at their discretion, raise or borrow or secure the payment of any sum or sums of money for the purposes of EMI. The directors may secure the repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit, and in particular by the issue of debentures or debenture stock of EMI charged upon all or any part of the property of EMI (both present and future) including its uncalled capital for the time being.

Neither our memorandum or our articles of association, nor the laws of the State of Israel require retirement or non-retirement of directors at a certain age, or share ownership for director's qualification, nor do they contain any restriction on directors' borrowing powers.

Our articles of association provide that the board of directors may delegate all of its powers to such committees of the board of directors as it deems appropriate, subject to the provisions of the Companies Law. See "Item 6. Directors, Senior Management and Employees - C. Board Practices" above.

Indemnification, exemption and insurance of Directors and Officers

The Israeli Companies Law permits a company to insure its directors and officers, provide them with indemnification, either in advance or retroactively, and exempt its directors and officers from liability resulting from their breach of their duty of care towards the company, all in accordance with the terms and conditions specified under Israeli law. Our articles of association include clauses allowing us to provide our directors and officers with insurance, indemnification and to exempt them from liability subject to the terms and conditions set forth by the Companies Law, as described below.

Subject to statutory limitations, our articles of association provide that we may insure the liability of our directors and officers to the fullest extent permitted by the Companies Law. Without derogating from the aforesaid we may enter into a contract to insure the liability of our directors and officers for an obligation imposed on them in consequence of an act done in their capacity as directors or officers of EMI, in any of the following cases:

- ❖ a breach of the duty of care vis-a-vis us or vis-a-vis another person;
- ❖ a breach of the fiduciary duty vis-a-vis us, provided that the director or officer acted in good faith and had a reasonable basis to believe that the act would not harm us;
- ❖ a monetary obligation imposed on him in favor of another person.
- ❖ any other matter in respect of which it is permitted or will be permitted under applicable law to insure the liability of our director or officer.

Our articles of association further provide that we may indemnify our directors and officers, to the fullest extent permitted by the Companies Law. Without derogating from the aforesaid, we may indemnify our directors and officers for liability or expense imposed on him in consequence of an action made by him in the capacity of his position as a director or officer of EMI, as follows:

- ❖ Any financial liability he incurs or imposed on him or her in favor of another person in accordance with a judgment, including a judgment given in a settlement or a judgment of an arbitrator, approved by a court.

- ❖ Reasonable litigation expenses, including legal fees, incurred by the director or officer or which he was ordered to pay by a court, within the framework of proceedings filed against him by or on behalf of EMI, or by a third party, or in a criminal proceeding in which he was acquitted, or in a criminal proceeding in which he was convicted of a felony which does not require a finding of criminal intent.
- ❖ Reasonable litigation expenses, including legal fees he incurs due to an investigation or proceeding conducted against him by an authority authorized to conduct such an investigation or proceeding, and which was ended without filing an indictment against him and without being subject to a financial obligation as a substitute for a criminal proceeding, or that was ended without filing an indictment against him, but with the imposition of a financial obligation, as a substitute for a criminal proceeding relating to an offence which does not require criminal intent, within the meaning of the relevant terms in the Companies Law.
- ❖ Any other obligation or expense in respect of which it is permitted or will be permitted under law to indemnify a director or officer of ENI.

In addition, our articles of association provide that we may give an advance undertaking to indemnify a director and/or an officer in respect of all of the matters above, provided that with respect to the first matter above, the undertaking is restricted to events, which in the opinion of our board of directors, are anticipated in light of our actual activity at the time of granting the obligation to indemnify and is limited to a sum or measurement determined by our board of directors as reasonable under the circumstances. We may further indemnify an officer therein, save for the events subject to any applicable law. Our articles of association further provide that we may exempt a director or officer in advance and retroactively for all or any of his liability for damage in consequence of a breach of the duty of care vis-a-vis EMI, to the fullest extent permitted by the Companies Law. Notwithstanding the foregoing, the Companies Law prohibits a company to exempt any of its directors and officers in advance from their liability towards such company for the breach of its duty of care in distribution, as defined in the Companies Law, for such company's shareholders (including distribution of dividend and purchase of such company's shares by the company or an entity held by it).

The above provisions with regard to insurance, exemption and indemnity are not and shall not limit the Company in any way with regard to its entering into an insurance contract and/or with regard to the grant of indemnity and/or exemption in connection with a person who is not an officer of the Company, including employees, contractors or consultants of the Company, all subject to any applicable law.

All of the above shall apply mutatis mutandis in respect of the grant of insurance, exemption and/or indemnification for persons serving on behalf of the Company as officers in companies controlled by the Company, or in which the Company has an interest.

The Companies Law provide that companies may not give insurance, indemnification (including advance indemnification), or exempt their directors and/or officers from their liability in the following events:

- ❖ a breach of the fiduciary duty, except for a breach of the fiduciary duty vis-à-vis the company with respect to indemnification and insurance if the director or officer acted in good faith and had a reasonable basis to believe that the act would not harm the company;
- ❖ an intentional or reckless breach of the duty of care, except for if such breach was made in negligence;
- ❖ an act done with the intention of unduly deriving a personal profit; or
- ❖ a fine imposed on the directors or officer.

Rights Attached to Shares

Our registered share capital consists of a single class of 50,000,000 ordinary shares, par value NIS 1 per share, of which 28,254,262 ordinary shares were issued and outstanding as of June 20, 2006. Such number includes 2,800,000 shares held by us or for our benefit which do not have any voting or equity right so long as they are held by us.

The rights attached to all of the ordinary shares are as follows:

Dividend Rights

Subject to the rights of persons, if any, entitled to shares with special rights as to dividend, or whose rights to dividend are limited in any way, all dividends shall be declared and paid according to the amounts paid or credited as paid on the shares in respect whereof the dividend is paid, but no amount paid or credited as paid on a share in advance of calls shall be treated as paid on the share. All dividends shall be apportioned and paid proportionately to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid; but if any share is issued on terms providing that it shall rank for dividend as from a particular date, such share shall rank for dividend accordingly.

The board of directors may propose a dividend only out of profits, in accordance with the provisions of the Companies Law. Declaration of a dividend requires approval by an ordinary shareholders' resolution, which may decrease, but not increase, the amount proposed by the board of directors.

If a year passes after a dividend has been declared and such dividend remains unclaimed, the board of directors is entitled to invest or utilize the unclaimed amount of dividend in any manner to the benefit of the Company until it is claimed. We are not obligated to pay interest on an unclaimed dividend.

Voting Rights

Holders of ordinary shares have one vote for each ordinary share held by them on all matters submitted to a vote of the shareholders. Such voting rights may be affected by the creation of any special rights to the holders of a class of shares with preferential rights that may be authorized in the future in the manner provided for under the Companies Law and our Articles of Association. The quorum required for an ordinary meeting of shareholders consists of at least two shareholders present in person or by proxy who hold or represent, in the aggregate, at least 33 1/3 % of the issued voting share capital. In the event that a quorum is not present within half an hour of the scheduled time, the meeting shall be adjourned to the same day of the following week, at the same time and place, or to such other day, time and place as the board of directors shall determine by notice to the shareholders. If at such adjourned meeting a quorum is not present within half an hour of the scheduled time, the two members present in person or by proxy will constitute a quorum.

As the Nasdaq Marketplace Rules provide for a quorum to be not less than 33.33% of the outstanding shares of the Company's common voting stock, our independent counsel have informed Nasdaq our practice is not prohibited under our home country's law.

Rights to the Company's Profits

Our shareholders have the rights to share in our profits distributed as a dividend and any other permitted distribution.

Rights in the Event of Liquidation and Winding Up

If the Company shall be wound up voluntarily, the liquidators may, with the sanction of the majority of shareholders at the general meeting, divide among the members in specie any part of the assets of the Company, and may, with the like sanction, vest any part of the assets of the Company in trustees upon such trusts for the benefit of the members as the liquidators with the like sanction shall think fit.

Changing Rights Attached to Shares

If at any time the share capital of the Company is divided into different classes of shares, then, unless otherwise provided for by the terms of issuance of that class of shares, in order to change the rights attached to any class of shares, the consent in writing of the holders of the majority of the issued shares of the affected class must be obtained, or at a separate meeting of the shareholders of that class of shares convened for such purpose must adopt a resolution to change such rights. The provisions of our articles of association relating to general meetings shall apply, *mutatis mutandis*, except that the necessary quorum required shall be two persons holding or representing by proxy at least two-thirds of the issued shares of that class. In an adjourned meeting, those shareholders present in person or by proxy shall be deemed to constitute a quorum. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless expressly provided for by the terms of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari-passu* with that class.

Annual and Special Meetings

In accordance with the Companies Law, the board of directors must convene an annual meeting of shareholders at least once every calendar year, and no later than within fifteen months from the last annual meeting. Notice of at least 21 days prior to the date of the meeting is required. An extraordinary meeting may be convened by the board of directors, either at its discretion or upon a demand of (i) any two directors or 25% of the serving directors; or (ii) one shareholder or more holding in the aggregate at least 5% of our issued capital and at least 1% of the voting rights in the Company or one shareholder or more holding at least 5% of the voting rights in the Company. An extraordinary meeting must be held not more than 35 days from the publication date of the announcement of the meeting.

Limitations on the Rights to own Securities

Our memorandum and articles of association do not restrict in any way the ownership of our shares by non-residents of Israel and neither the memorandum or articles of association nor Israeli law restricts the voting rights of non-residents of Israel, except that under Israeli law, any transfer or issue of shares of the Company to a resident of an enemy state of Israel is prohibited and shall have no effect, unless authorized by the Israeli Minister of Finance.

Changes to our Capital

Changes to our capital are subject to the approval of our shareholders at a general meeting by an ordinary majority.

Anti Takeover Provisions

The Companies Law prohibits the purchase of our shares in the event the purchaser's holding following such purchase increase above certain percentages without conducting a tender offer, see "Item 3. Key Information - D. Risk Factors – Risks Relating to Israel - Anti-takeover provisions could negatively impact our shareholders" above.

Amendment of Articles of Association

Any amendment to our Articles requires the approval of our shareholders by an ordinary majority.

C. MATERIAL CONTRACTS

The following is a list of material agreements entered into by us or any of our subsidiaries during the last two years prior to the filing of this annual report:

Shopping and Entertainment Centers

Sale of four Operational Shopping and Entertainment Centers in Poland and four Shopping and Entertainment Centers Under Development in Poland and the Czech Republic to Klepierre

On July 29, 2005, Plaza Centers (Europe) B.V., our indirect wholly owned subsidiary, signed an agreements with Klépierre for the sale of four operational shopping and entertainment centers in Poland and four shopping centers under development in Poland and in the Czech Republic upon their construction. In addition, PC has awarded Klépierre with an option to acquire an additional center under development in Poland, subject to certain conditions. The transaction is comprised of two stages.

Within the framework of the first stage of the transaction, Klépierre (through its subsidiaries) acquired the entire equity and voting rights (100%) of the companies owning four operational shopping centers in Poland (Sadyba Best Center, Krakow Plaza, Ruda Slaska Plaza and Poznan Plaza) as well as the entire outstanding share capital of PC's Polish subsidiary which operates the operational centers. The consideration was based on asset value of the centers sold which amounted to approximately €204 million (approximately \$241 million). The asset value was calculated on the basis of the gross rentals of such centers as at the closing, capitalized at certain agreed yields, together with monetary and other balances, after deduction of bank and other monetary liabilities pertaining thereto. The net consideration received by us as of the date of closing was approximately €73.8 million (approximately \$88.7 million) which is subject to post closing adjustments in accordance with the rental fees received as at December 31, 2005 (with respect to three centers) and as at May 31, 2006 (with respect to the remaining center) as well as deductions in the event a certain license is not received. As of the date of this annual report, final settlement has not yet been finalized, but we expect to receive an additional net consideration in the amount of approximately €15 million (approximately \$17.7 million).

Under the second stage of the transaction, Klépierre entered into a preliminary share purchase agreement for the future acquisition by Kelpierre of the entire equity and voting rights in the companies presently developing two shopping centers in Poland (Rybnik Plaza and Sosnowiec Plaza) and two companies developing shopping centers in the Czech Republic (Novo Plaza and Pilsen Plaza) for an estimated asset values which amounts to approximately €158.4 million (approximately \$187.4 million). As of the date of this annual report, the completion of the Novo Plaza shopping and entertainment center was completed in March 2006 and delivery to Klepierre is expected to take place on June 30, 2006. Klepierre was also awarded an option to acquire an additional shopping center presently under development in Poland for an estimated assets value which amounts to approximately €62 million (approximately \$73.4 million), upon the fulfillment of certain conditions. Upon the exercise of such option, the construction and delivery of the shopping center will be subject to the same terms and conditions applicable to the remaining centers. If Klepierre does not exercise the option to acquire the shares of such third Polish company, PC will be obligated to pay a penalty of up to €1.6 million (approximately \$1.9 million). The option granted to Klepierre was extended to November 29, 2006.

Upon the completion and delivery of the shopping centers, Klépierre will pay a purchase price calculated on the basis of the gross rentals on the date of delivery, capitalized at agreed yields. A final price adjustment of the purchase price for each of these development centers will be conducted not later than 10 months following delivery, on the basis of actual gross rentals prevailing on their respective adjustment dates, capitalized at the agreed yields. As security for payment of the purchase price on completion of the shopping centers, Klépierre furnished PC at the closing held on July 29, 2005 with irrevocable bank guarantee in the amount of approximately €115 million (approximately \$136.0 million) for the payment of the respective purchase prices of those development centers in respect of which building permits have been issued. Klepierre has undertaken to furnish PC with a similar bank guarantee in respect of the remaining development centers immediately upon the issuance of the building permit. The completion of the purchase of each center under the second stage of the transaction is subject, among other things, to completion of the construction works, opening of the center and minimum occupancy rates.

PC has further undertaken not to own, operate or manage shopping centers within an agreed distance of each center sold to Klepierre. EMI has undertaken towards Klepierre to guarantee all of PC's undertakings under the agreement.

Sale of four Operational Shopping and Entertainment Centers In Hungary

On April 21, 2005, PC consummated the transaction for the sale of the entire equity and voting rights in four (4) companies owning shopping centers in Hungary to a subsidiary of the Dawnay Day Group ("Dawnay Day"). The aggregate net cash consideration paid to PC and its subsidiaries totaled approximately €17.2 million (approximately

\$20.7 million). Such consideration was determined according to the asset value of the acquired companies on the basis of audited financial statements as of the closing date, which was approximately €54.4 million (approximately \$64.3 million) less the deduction of financial liabilities (mainly, long term bank loans in the aggregate amount of approximately €40 million (approximately \$47.2 million).

PC also agreed to guarantee certain portions of the rental revenues of one of the acquired shopping centers for a period of three years until December 2007 and of an additional shopping center for a 6-month period, as security for certain minimum rental revenues. EMI estimates the value of these guarantees (as of the date of this report) to be in the aggregate amount of approximately €1.3 million (approximately \$1.5 million). In addition, EMI granted Dawnay Day a guarantee for the fulfillment by PC of certain financial obligations and indemnities within the framework of this transaction.

Sale by PC to Klepierre of Twelve Operational Shopping and Entertainment Centers in Hungary

On July 30, 2004, PC entered into an agreement with Klépierre (through its subsidiaries), as amended, for the sale of all of PC's equity and voting rights in 12 companies owning shopping and entertainment centers in Hungary and 50% of PC's equity and voting rights in a Hungarian company which operates and manages the above centers to Klépierre. The net cash consideration paid to PC and its subsidiaries totaled approximately €94.1 million (approximately \$116.5 million). Such consideration was determined according to the asset value of the centers, which was estimated at approximately €287 million (approximately \$340 million) in addition to monetary and other balances and following deduction of banking and other monetary liabilities relating to these centers. The sale of these centers resulted in an aggregate profit of NIS 185 million (approximately \$40 million).

Such profits do not include additional profit from a potential acquisition of 129,000 square feet to be constructed by PC as an extension of the Duna Plaza shopping center in Budapest, if executed. Construction of the extension and the completion of the transaction are subject, *among other things*, to the execution of a turn-key construction agreement between the parties, to obtaining regulatory approvals and permits from various competent governmental authorities, during a specific period stipulated in the agreement, as well as to utilization of premises while fulfilling certain operational targets. The amount of consideration and schedule of payments, follows an agreed upon methodology, as well as assets value based on revenues and agreed upon capitalization rate.

A bank guarantee in the amount of €7.5 million provided by PC to Klepierre as a security for the fulfillment of certain future revenues was returned to PC by Klepierre unexercised and Klepierre waived any and all claims, arguments or contentions of whatsoever nature or kind against PC relating to and/or in connection with and/or arising out of the future sale of utilities in all or any of the centers sold to Klepierre under this agreement in respect of which the guarantee has been furnished. In addition, a €6.8 million deposit deposited by PC as a security for the fulfillment of certain tax conditions was released by Klepierre to PC against the provision by EMI of a 5-year guarantee for 125% of the above amount in order to secure certain payments for foreign tax authorities if imposed on the centers sold under this agreement and which relate to the periods prior to the consummation of the sale of such centers.

Since the Duna Plaza Offices are built as part of the Duna Plaza Center, the parties agreed to perform a de-merger between the Duna Plaza Offices and the Duna Plaza center, and to sell the new company which will consist of the Duna Plaza Offices to PC. The parties will conduct a settlement upon finalization of such procedures. As part of such settlement, an amount of approximately €490,000 will be set off from PC's receivables from the Duna Plaza Offices. As of the date hereof, the condominium was registered in June 2006 and the de-merger is expected to be completed by the end of 2006. de-merger has not yet been performed and the settlement was postponed by the parties to a date not yet determined.

PC has further undertaken not to own, operate or manage shopping centers within an agreed distance of each center sold to Klepierre. EMI has undertaken towards Klepierre to guarantee all of PC's undertakings under the agreement.

Under an amendment of the above agreement and concurrently with the consummation of Stage A of the agreement with Klepierre (see above), PC sold the remaining 50% of PC's equity and voting rights in the Hungarian company which operates and manages the above centers to Klepierre in a net consideration for approximately €900,000 (\$1.1 million).

Hotels Business

Management agreement with Park Plaza

See “Item 4. Information on the Company – B. Business Overview - Hotels – Management of Hotels – Management Agreement with Park Plaza” above, attached as Exhibit 4.22 is a form of management agreement which we have entered into with Park Plaza.

Leased Real Estate Property

Long Term Lease of One of our Hotels in London

See “Item 4. Information on the Company – B. Business Overview – Long Term Lease of Real Estate Property” above.

Sale of One of Our Hotels in the United Kingdom

See “Item 4. Information on the Company – B. Business Overview – Long Term Lease of Real Estate Property” above.

General

Agreement and Plan of Merger and consummation of the merger with Elscint

On August 21, 2005, EMI and Elscint signed an Agreement and Plan of Merger pursuant to which each ordinary share of Elscint (other than Elscint ordinary shares held by EMI and by or for the benefit of Elscint) would be converted into 0.53 ordinary share of EMI. Immediately prior to the merger EMI held, directly and indirectly approximately 61% of Elscint’s issued and outstanding share capital. As a result of the merger, EMI issued 3,479,216 shares of EMI to the public shareholders of Elscint, which constituted approximately 13.71% of EMI’s issued share capital at that time. The merger was completed on November 23, 2005 and as of such date, Elscint ordinary shares have ceased to trade on the New York Stock Exchange and Elscint became a wholly-owned subsidiary of EMI.

Issuance of Non Convertible Debentures

See “Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources – Liquidity” above.

Loan Agreements

Two loan agreements entered into by and between EMI, Elbit Ultrasound (Netherlands) B.V. and Bank Hapoalim B.M. and an additional loan agreement entered into by and between Elscint and Bank Hapoalim B.M. See “Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources – Other Loans” above.

D. EXCHANGE CONTROLS

In 1998, the government of Israel promulgated a general permit under the Israeli Currency Control Law. Pursuant to such permit, substantially all transactions in foreign currency are permitted.

Our Memorandum and Articles of Association do not restrict in any way the ownership of our shares by non-residents and neither the Memorandum of Association nor Israeli law restricts the voting rights of non-residents.

E. TAXATION

Following is a discussion of certain tax laws that may be material to our shareholders, all as in effect as of the date of this report and all of which are subject to changes, possibly on a retroactive basis, to the extent that such laws are still subject to judicial or administrative interpretation in the future. This discussion is not intended, and should not be construed, as legal or professional tax advice and does not cover all possible tax considerations. For further information as to taxes that apply to us and our subsidiaries, see Note 16 to our consolidated financial statements included in Item 18 below.

WE ENCOURAGE EACH INVESTOR TO CONSULT WITH HIS OR HER OWN TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH INVESTOR OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OUR ORDINARY SHARES, INCLUDING THE EFFECTS OF APPLICABLE ISRAELI, U.S. FEDERAL, STATE, AND LOCAL, AND FOREIGN TAX LAWS AND POSSIBLE CHANGES IN SUCH TAX LAWS.

Taxation In Israel

In general, the corporate tax rate applicable to companies in Israel in 2005 is 34% which will gradually decrease in the coming years from 31% in 2006 through 25% tax rate in 2010.

Taxation Under Inflationary Conditions

The Income Tax Law (Inflationary Adjustments) (1985), or the Inflationary Adjustments Law, affects the taxation of earnings of Israeli companies. This statute attempts to overcome some of the problems presented to a traditional tax system by an economy undergoing rapid inflation, which was the case in Israel at the time the law was enacted. Israel's inflation rate has been materially reduced in recent years.

The Inflationary Adjustments Law is characterized by a high degree of complexity. Its main features can be described generally as follows:

(a) A special tax adjustment for the preservation of equity whereby certain corporate assets are classified broadly into Fixed (inflation resistant) Assets and Non-Fixed (soft) Assets. Where a company's equity, as defined in the law, exceeds the depreciated cost of Fixed Assets, a deduction from taxable income that takes into account the effect of the applicable annual rate of inflation on the excess is allowed, up to a ceiling of 70% of taxable income in any single tax year, with the unused portion permitted to be carried forward on a linked basis. If the depreciated cost of Fixed Assets exceeds a company's equity, then the excess multiplied by the applicable annual rate of inflation is added to taxable income.

(b) Subject to certain limitations, depreciation deductions on Fixed Assets and losses carried forward are adjusted for inflation based on the increase in the consumer price index.

(c) Gains on the sale of certain traded securities are taxable in certain circumstances, subject to detailed rules which were modified as of January 1, 1999.

Today, all Israeli companies, except certain companies which are wholly owned by individuals, are subject to reporting and taxation requirements under this law. Dealers in securities are subject to the regular tax rules applicable to business income in Israel.

Tax Reform in Israel

As of January 1, 2003, statutory provisions came into force, concerning, among other things, tax reform in Israel, in connection with:

- (1)
 - (i) Taxation of profits of foreign resident companies regarded as Controlled Foreign Companies ("CFC"), if: (i) its shares or its rights on it are not listed in a stock exchange, however if they are partly listed, then less than 30% of the shares or of the rights of the company were offered to the public(ii) most of their revenues are passive, as defined by law, or most of their profits derive from passive revenues, (iii) the tax rate applying to their passive profits in their country of residence does not exceed 20%, and (iv) over 50% of the means of control in them are held, directly or indirectly, by Israeli residents or more than 40% of one of its means of control are held by Israeli residents, who together with a relative of one of them hold more than 50% of one or more of its means of control, or an Israeli resident has the right to prevent adoption of substantive management decisions in it. In accordance with the statutory provisions, a controlling shareholder, which is an Israeli resident holds more than 10% in the company's means of control, in such companies that have unpaid profits, as defined by law, will be deemed to have received his relative proportion in these profits as a dividend (hereinafter: "deemed dividend").
 - (ii) Taxation of a dividend received in Israel, originating in profits generated or accrued outside Israel, as well as a dividend originating outside Israel.

A deemed dividend and/or the distribution of dividends, as stated, will be subject to a tax rate of 25%, or, upon election by the company and provided certain conditions are met, the income from which the dividend was distributed may be subject to tax at the corporate tax rate (for instance, 34% in 2005) less taxes paid abroad in respect of these profits (including under certain circumstances taxes paid by a company held by the distributing company), as the case may be.
- (2) Taxation of an Israeli resident's profits accrued or generated outside Israel (until the end of 2002, Israeli residents were taxed on such profits only if received in Israel).
- (3) Taxation of capital gains from the realization of assets at a reduced rate of 25%. The reduced rate will apply to realization of assets commencing January 1, 2003 and onwards, and will be calculated for the part of the profits relating to the period subsequent to this date up to the realization date.
- (4) Guidance on the ability to offset losses - regarding business losses, capital losses, passive losses and CFC losses.
- (5) Imposition of capital gains tax on capital gains realized by individuals as of January 1, 2003, from the sale of shares of publicly traded companies (such gain was previously exempt from capital gains tax in Israel). For information with respect to the applicability of Israeli capital gains taxes on the sale of ordinary shares, see " - Capital Gains Tax on Sales of Our Ordinary Shares" below;
- (6) Introduction of a new regime for the taxation of shares and options issued to employees and officers (including directors);

Capital Gains Tax on Sales of Our Ordinary Shares

Israeli law generally imposes a capital gains tax on the sale of capital assets located in Israel, including shares in Israeli companies, by both residents and non-residents of Israel, unless a specific exemption is available or unless a double tax convention concluded between Israel and the shareholder's country of residence provides otherwise. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is equal to the increase in the

purchase price of the relevant asset attributable solely to the increase in the Israeli consumer price index between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus.

Prior to the tax reform, sales of our ordinary shares by individuals were generally exempt from Israeli capital gains tax so long as (i) our ordinary shares were quoted on Nasdaq or listed on a stock exchange in a country appearing on a list approved by the Controller of Foreign Currency and (ii) we qualified as an Industrial Company.

Pursuant to the tax reform, generally, capital gains tax is imposed at a rate of 15% on real gains derived on or after January 1, 2003, from the sale of shares in companies (i) publicly traded on the Tel Aviv Stock Exchange ("TASE") or; (ii) (subject to a necessary determination by the Israeli Minister of Finance) Israeli companies publicly traded on a recognized stock exchange or regulated market outside of Israel. This tax rate is contingent upon the shareholder not claiming a deduction for financing expenses and does not apply to: (i) dealers in securities; (ii) shareholders that report in accordance with the Inflationary Adjustment Law; or (iii) shareholders who acquired their shares prior to an initial public offering (that are subject to a different tax arrangement). The tax basis of shares acquired prior to January 1, 2003 will be determined in accordance with the average closing share price in the three trading days preceding January 1, 2003. However, a request may be made to the tax authorities to consider the actual adjusted cost of the shares as the tax basis if it is higher than such average price (however, if a calculation based on the latter request, in converse to the first calculation, constitutes a loss, this loss cannot be offset against future profit).

Non-Israeli residents are exempt from Israeli capital gains tax on any gains derived from the sale of shares publicly traded on the TASE, and are exempt from Israeli capital gains tax on any gains derived from the sale of shares of Israeli companies publicly traded on a recognized stock exchange outside of Israel, provided such shareholders did not acquire their shares prior to an initial public offering. However, non-Israeli corporations will not be entitled to such exemption if an Israeli resident (i) has a controlling interest of 25% or more in such non-Israeli corporation, or (ii) is the beneficiary or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

In any event, the provisions of the tax reform shall not affect the exemption from capital gains tax for gains accrued before January 1, 2003, as described above.

In some instances where our shareholders may be liable to Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at the source.

U.S.-Israel Tax Treaty

Pursuant to the Convention between the Government of the United States of America and the Government of Israel with Respect to Taxes on Income, as amended (the "U.S.- Israel Tax Treaty"), the sale, exchange or disposition of ordinary shares by a person who (i) holds the ordinary shares as a capital asset, (ii) qualifies as a resident of the United States within the meaning of the U.S.-Israel Tax Treaty and (iii) is entitled to claim the benefits afforded to such resident by the U.S.-Israel Tax Treaty generally will not be subject to Israeli capital gains tax unless either such resident holds, directly or indirectly, shares representing 10% or more of the voting power of a company during any part of the 12-month period preceding such sale, exchange or disposition, subject to certain conditions, or the capital gains from such sale, exchange or disposition can be allocated to a permanent establishment in Israel. In the event that the exemption shall not be available, the sale, exchange or disposition of ordinary shares would be subject to such Israeli capital gains tax to the extent applicable; however, under the U.S.-Israel Tax Treaty, such residents would be permitted to claim a credit for such taxes against U.S. federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S.-Israel Tax Treaty does not relate to state or local taxes.

Taxation of Non-Residents

Non-residents of Israel are subject to income tax on income accrued or derived from sources in Israel. Such sources of income include passive income such as dividends, royalties and interest, as well as non-passive income from services rendered in Israel. On distributions of dividends other than bonus shares or stock dividends, income tax at the rate of 25% is withheld at source, unless a reduced rate is provided in double tax convention concluded between Israel

and the shareholder's country of residence. Under the U.S.-Israel Tax Treaty, the maximum tax on dividends paid to a holder of ordinary shares who is a U.S. resident will be 25%; provided, however, that under the Investment Law, dividends generated by an Approved Enterprise are taxed at the rate of 15%. Furthermore, dividends not generated by an Approved Enterprise paid to a U.S. company holding 10% or more of our ordinary shares in the 12 month period preceding the distribution of such dividends, are taxed at a rate of 12.5%.

Under an amendment to the Inflationary Adjustments Law, non-Israeli corporations may be subject to Israeli taxes on the sale of securities of an Israeli company, subject to the provisions of any applicable taxation treaty or unless a specific exemption is available.

Foreign Exchange Regulations

Dividends (if any) paid to the holders of our ordinary shares, any amounts payable upon our dissolution, liquidation or winding up, and as the proceeds of any sale of our ordinary shares in Israel may be paid in non-Israeli currency or, if paid in Israeli currency, may be converted into freely repatriable dollars at the rate of exchange prevailing at the time of conversion.

Taxation of dividends Distributions

On distributions of dividends to Israeli individuals, income tax at the rate of 25% is withheld while a distributions to an Israeli companies is tax-exempt. Dividend distributions from Approved Enterprises earnings is subject to 15% tax withheld at source to both Israeli individuals and Israeli companies, if the dividend is distributed during the tax exemption period or within a specified period. In addition a company that distributed dividends out of income that was tax exempt according to the Investment Law would be subject to company tax in the year the dividend is distributed in respect of the amount distributed at the rate that would have been applicable had the company not elected the tax-exempt course (generally 25%).

Law For The Encouragement of Capital Investments, 1959

Two investment programs of InSightec were granted the status of an "Approved Enterprise" ("AE"). Pursuant to the Law for the Encouragement of Capital Investments, 1959 (under this heading: the "Law"), under which income stemming from an AE will be exempt from tax during the initial two years, starting from the first year in which the AE has taxable income, and subsequently subject to a reduced tax rate of 25% during the remaining five-year period. In January 2004, InSightec's expansion program of the existing factory has been approved.

Should the holding rate of foreign residents in InSightec exceeds 25%, the period of benefits would then increase from seven to ten years. If this rate exceeds 49%, the tax rate would decrease from 25% to 10%-20%, based on the level of ownership by non-Israeli investor in each relevant taxable year. The benefits period to these AEs, is limited to the earlier of either 12 years from commencement of production or 14 years following receipt of the approval documents. The benefits are determined by the ratio of the additional revenues during the benefits period over the revenues in the entire last year of production prior to the activation of each program (adjusted for the change in the wholesale price index of the industrial output) to total annual revenues during the benefit period.

Those benefits are subject to the conditions stipulated in the Law, the regulation thereunder and the approval documents based on which the investments were made. Failure to meet those conditions may lead to the cancellation of the benefits and to demand for reimbursement of the amounts received on account of these benefits (in whole or in part), including interest and linkage. Change in ownership structure of a company owned by an AE, including a public offering of over 49%, or any private placement during the period of the approved investment program through the end of the benefits period, is subject to the advanced approval by the Investment Center.

In the event of a distribution of tax-exempt earnings such as dividend, as aforementioned, the distributing company would be subject to tax of up to 25%. In the event of a distribution of earning of an AE as dividends, recipient will be subject to tax of up to 15% (for a period of 12 years from the end of the benefit period).

U.S. Federal Income Tax Considerations

Subject to the limitations described herein, this discussion summarizes the material U.S. federal income tax consequences of the purchase, ownership and disposition of our ordinary shares to a U.S. holder. A U.S. holder is a holder of our ordinary shares who is:

- an individual citizen or resident of the U.S. for U.S. federal income tax purposes;
- a corporation or partnership (or another entity taxable as a corporation or partnership for U.S. federal income tax purposes) created or organized under the laws of the United States or any political subdivision thereof;
- an estate, the income of which may be included in the gross income for U.S. federal income tax purposes regardless of its source; or
- a trust (i) if, in general, a U.S. court is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions or (ii) that has in effect a valid election under applicable U.S. Treasury regulations to be treated as a U.S. person.

Unless otherwise specifically indicated, this discussion does not consider the U.S. tax consequences to a person that is not a U.S. holder and considers only U.S. holders that will own the ordinary shares as capital assets.

This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended (the “Code”), current and proposed Treasury regulations promulgated under the Code and administrative and judicial interpretations of the Code, all as currently in effect and all of which are subject to change, possibly with a retroactive effect. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to any particular U.S. holder based on the U.S. holder’s particular circumstances. In particular, this discussion does not address the U.S. federal income tax consequences to U.S. holders who are broker-dealers or who own, directly, indirectly or constructively, 10% or more of our outstanding voting shares, U.S. holders holding the ordinary shares as part of a hedging, straddle or conversion transaction, U.S. holders whose functional currency is not the U.S. dollar, real estate investments trusts, regulated investment companies, insurance companies, tax-exempt organizations, financial service entities, financial institutions, certain former citizens or long term residents of the United States and persons subject to the alternative minimum tax, who may be subject to special rules not discussed below. Additionally, the tax treatment of persons who are, or hold the ordinary shares through, a partnership or other pass-through entity is not considered, nor is the possible application of U.S. federal estate or gift taxes or any aspect of state, local or non-U.S. tax laws.

Each holder of our ordinary shares is advised to consult his or her tax advisor with respect to the specific U.S. federal, state, local and foreign income tax consequences to him or her of purchasing, holding or disposing of our ordinary shares.

Distributions

Subject to the discussion below under “Tax Consequences if We are a Passive Foreign Investment Company,” a distribution paid by us with respect to the ordinary shares to a U.S. holder will be treated as dividend income to the extent that the distribution does not exceed our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. The amount of a distribution with respect to the ordinary shares will equal the amount of cash and the fair market value of any property distributed and will also include the amount of any Israeli taxes withheld as described above under “Taxation of Non-Residents.” Dividends that are received by U.S. holders that are individuals, estates or trusts will be taxed at the rate applicable to long-term capital gains (a maximum rate of 15%), provided that such dividends meet the requirements of “qualified dividend income.” Dividends that fail to meet such requirements, and dividends received by corporate U.S. holders are taxed at ordinary income rates. No dividend received by a U.S. holder will be a qualified dividend (1) if the U.S. holder held the ordinary share with respect to which the dividend was paid for less than 61 days during the 121-day period beginning on the date that is 60 days before the ex-dividend date with respect to such dividend, excluding for this purpose, under the rules of Code section 246(c), any period during which the U.S. holder has an option to sell, is under a contractual obligation to sell, has made and not closed a short sale of, is the grantor of a deep-in-the-money or otherwise nonqualified option to buy, or has otherwise diminished its risk of loss by holding other positions with respect to, such ordinary share (or substantially identical securities); or (2) to the extent that the U.S. holder is under an obligation (pursuant to a short sale or otherwise) to make related payments with respect to positions in property substantially similar or related to the ordinary share with respect to which the dividend is paid. If we were to be a “passive foreign investment company” (as such

term is defined in the Code) for any year, dividends paid on our ordinary shares in such year or in the following year would not be qualified dividends. In addition, a non-corporate U.S. holder will be able to take a qualified dividend into account in determining its deductible investment interest (which is generally limited to its net investment income) only if it elects to do so; in such case the dividend will be taxed at ordinary income rates.

The amount of any distribution which exceeds the amount treated as a dividend will be treated first as a non-taxable return of capital, reducing the U.S. holder's tax basis in its ordinary shares to the extent thereof, and then as capital gain from the deemed disposition of the ordinary shares. Corporate holders will not be allowed a deduction for dividends received in respect of the ordinary shares.

Dividends paid by us in NIS will be included in the income of U.S. holders at the dollar amount of the dividend (including any Israeli taxes withheld therefrom), based upon the spot rate of exchange in effect on the date the distribution is included in income. U.S. holders will have a tax basis in the NIS for U.S. federal income tax purposes equal to that dollar value. Any subsequent gain or loss in respect of the NIS arising from exchange rate fluctuations will generally be taxable as U.S. source ordinary income or loss.

Subject to certain conditions and limitations set forth in the Code and the Treasury regulations thereunder, including certain holding period requirements U.S. holders may elect to claim as a foreign tax credit against their U.S. federal income tax liability the Israeli income tax withheld from dividends received in respect of the ordinary shares. The limitations on claiming a foreign tax credit include, among others, computation rules under which foreign tax credits allowable with respect to specific classes of income cannot exceed the U.S. federal income taxes otherwise payable with respect to each such class of income. In this regard, dividends paid by us will be foreign source "passive income" for U.S. foreign tax credit purposes or, in the case of a financial services entity, "financial services income" (and, for the years beginning after 2006, as "general category income"). U.S. holders that do not elect to claim a foreign tax credit may instead claim a deduction for the Israeli income tax withheld if they itemize deductions. The rules relating to foreign tax credits are complex, and U.S. holders should consult their tax advisors to determine whether and to what extent they would be entitled to this credit.

Disposition of Ordinary Shares

Subject to the discussion below under "Tax Consequences if We are a Passive Foreign Investment Company," upon the sale, exchange or other disposition of our ordinary shares, a U.S. holder will recognize capital gain or loss in an amount equal to the difference between the amount realized on the disposition and the U.S. holder's tax basis in the ordinary shares. The gain or loss recognized on the disposition of the ordinary shares will be long-term capital gain or loss if the U.S. holder held the ordinary shares for more than one year at the time of the disposition and is eligible for a maximum 15% rate of taxation for individuals. Capital gain from the sale, exchange or other disposition of ordinary shares held for one year or less is short-term capital gain and taxed at a maximum rate of 35%. Gain or loss recognized by a U.S. holder on a sale, exchange or other disposition of ordinary shares will be treated as U.S. source income or loss for U.S. foreign tax credit purposes. A U.S. holder that receives foreign currency upon disposition of ordinary shares and converts the foreign currency into dollars after the settlement date (in the case of a cash method tax paper) or trade date (in the case of an accrual method tax paper) will have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the dollar, which will generally be U.S. source ordinary income or loss.

Tax Consequences If We are a Passive Foreign Investment Company

We will be a passive foreign investment company, or PFIC, if either (1) 75% or more of our gross income in a taxable year is passive income; or (2) 50% or more of the value, determined on the basis of a quarterly average, of our assets in a taxable year are held for the production of passive income. If we own (directly or indirectly) at least 25% by value of the stock of another corporation, we will be treated for purposes of the foregoing tests as owning our proportionate share of the other corporation's assets and as directly earning our proportionate share of the other corporation's income. If we are a PFIC, a U.S. holder must determine under which of three alternative taxing regimes it wishes to be taxed.

The "QEF" regime applies if the U.S. holder elects to treat us as a "qualified electing fund" ("QEF") for the first taxable year in which the U.S. holder owns our ordinary shares or in which we are a PFIC, whichever is later, and if we comply with certain reporting requirements. If the QEF regime applies, then each year that we are a PFIC such U.S. holder will include in its gross income a proportionate share of our ordinary earnings (which is taxed as ordinary

income) and net capital gain (which is taxed as long-term capital gain), subject to a separate election to defer payment of taxes, which deferral is subject to an interest charge. These amounts would be included in income by an electing U.S. holder for its taxable year in which our taxable year ends, whether or not such amounts are actually distributed to the U.S. holder. A U.S. holder's basis in our ordinary shares for which a QEF election has been made would be increased to reflect the amount of any taxed but undistributed income. Generally, a QEF election allows an electing U.S. holder to treat any gain realized on the disposition of its ordinary shares as capital gain.

Once made, the QEF election applies to all subsequent taxable years of the U.S. holder in which it holds our ordinary shares and for which we are a PFIC and can be revoked only with the consent of the Internal Revenue Service. A shareholder makes a QEF election by attaching a completed Internal Revenue Service Form 8621, including the PFIC annual information statement, to a timely filed United States federal income tax return. Even if a QEF election is not made, a U.S. person who is a shareholder in a PFIC must file a completed Internal Revenue Service Form 8621 every year.

If a QEF election is made after the first taxable year in which a U.S. holder holds our ordinary shares and we are a PFIC, then special rules would apply.

A second regime, the "mark-to-market" regime, may be elected so long as our ordinary shares are "marketable" (i.e., regularly, traded on certain securities exchanges). Pursuant to this regime, an electing U.S. holder's ordinary shares are marked-to-market each year and the U.S. holder recognizes as ordinary income or loss an amount equal to the difference as of the close of the taxable year between the fair market value of our ordinary shares and the U.S. holder's adjusted tax basis in our ordinary shares. Losses are allowed only to the extent of net mark-to-market gain previously included by the U.S. holder under the election for prior taxable years. An electing U.S. holder's adjusted basis in our ordinary shares is increased by income recognized under the mark-to-market election and decreased by the deductions allowed under the election.

Under the mark-to-market election, gain on the sale of our ordinary shares is treated as ordinary income, and loss on the sale of our ordinary shares, to the extent the amount of loss does not exceed the net mark-to-market gain previously included, is treated as ordinary loss. The mark-to-market election applies to the tax year for which the election is made and all later tax years, unless the ordinary shares cease to be marketable or the Internal Revenue Service consents to the revocation of the election.

If the mark-to-market election is made after the first taxable year in which a U.S. holder holds our ordinary shares and we are a PFIC, then special rules would apply.

A U.S. holder making neither the QEF election nor the mark-to-market election is subject to the "excess distribution" regime. Under this regime, "excess distributions" are subject to special tax rules. An excess distribution is either (1) a distribution with respect to shares that is greater than 125% of the average distributions received by the U.S. holder from us over the shorter of either the preceding three taxable years or such U.S. holder's holding period for our shares, or (2) 100% of the gain from the disposition of our shares (including gain deemed recognized if the ordinary shares are used as security for a loan).

Excess distributions must be allocated ratably to each day that a U.S. holder has held our ordinary shares. A U.S. holder must include amounts allocated to the current taxable year, as well as amounts allocated to taxable years prior to the first year in which we were a PFIC, in its gross income as ordinary income for that year. All amounts allocated to prior years of the U.S. holder during which we were a PFIC would be taxed at the highest tax rate for each such prior year applicable to ordinary income. The U.S. holder also would be liable for interest on the deferred tax liability for each such prior year calculated as if such liability had been due with respect to each such prior year. The portions of gains and distributions that are not characterized as "excess distributions" are subject to tax in the current year under the normal tax rules of the Code.

A U.S. person who inherits shares in a foreign corporation that was a PFIC in the hands of the decedent (who did not make a QEF election either of the elections described above), is denied the otherwise available step-up in the tax basis of such shares to fair market value at the date of death.

We believe that we were not a PFIC in 2005 or in prior years. However, since the determination of whether we are a PFIC is based upon such factual matters as the valuation of our assets and, in certain cases, the assets of companies held by us, there can be no assurance with respect to the position of the Internal Revenue Service on our status as a PFIC. In addition, there can be no assurance that we will not become a PFIC for the current fiscal year

ending December 31, 2006 or in a future year. We will notify U.S. holders in the event we conclude that we will be treated as a PFIC for any taxable year to enable U.S. holders to consider whether or not to elect to treat us as a QEF for U.S. federal income tax purposes, or to “mark - to - market” the ordinary shares or to become subject to the “excess distribution” regime.

U.S. holders are urged to consult their tax advisors regarding the application of the PFIC rules, including eligibility for and the manner and advisability of making, the QEF election or the mark-to-market election.

U.S. holders (other than exempt recipients such as corporations) generally are subject to information reporting requirements with respect to dividends paid on Ordinary Shares in the United States or by a U.S. payor or U.S. middleman or the gross proceeds from disposing of Ordinary Shares. U.S. holders generally are also subject to backup withholding (currently 28% for taxable years through 2010) on dividends paid in the United States or by a U.S. payor or U.S. middleman on Ordinary Shares and on the gross proceeds from disposing of Ordinary Shares, unless the U.S. holder provides an IRS Form W-9 or is otherwise exempt from backup withholding.

Non-U.S. holders generally are not subject to information reporting or backup withholding with respect to dividends paid on Ordinary Shares in the United States or by a U.S. payor or U.S. middleman or the gross proceeds from the disposition of Ordinary Shares, provided that such Non-U.S. holder certifies to its foreign status, or is otherwise exempt from backup withholding or information reporting.

The amount of any backup withholding may be allowed as a credit against a holder’s U.S. federal income tax liability and may entitle such holder to a refund provided that certain required information is timely furnished to the IRS.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

EMI is subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, EMI files annual reports with and furnishes other information to the SEC. These materials, including this annual report and the exhibits hereto, may be inspected and copied at the SEC’s Public Reference Room at 100 F Street, N.W., Washington, D.C. 20549. Copies of the materials may be obtained from the Public Reference Room of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. The public may obtain information on the operation of the SEC’s Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330. Additionally, copies of the materials may be obtained from the SEC’s website at <http://www.sec.gov>.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

Exchange Rate Exposure

Operations

The main transactions and balances (including long-term bank loans) of companies in our hotels segment, in our shopping and entertainment centers segment and in our image guided treatment segment, which are measured as autonomous entities, are denominated or linked to the functional currency of each company. As of December 31,

2005 and for the year then ended, our hotels and/or centers segments did not have any significant exchange rate exposure, except for the hotel division's operations in Romania.

Significant changes in the exchange rate between certain currencies in a given territory (mainly, Euro, GBP, Lei and dollar) is likely to affect the respective prices of hotel services in our hotel division, for overseas customers. Such changes may result in a gap between price levels of services paid in different countries. As a result, the revenue might decrease and the revenues mix between geographic segments may also vary as a result of these currency fluctuations.

Monetary assets (liabilities), net

The functional currency of our holding companies in Israel is the NIS, while the same of our holding subsidiaries which operate in the Netherlands, is the Euro. We have monetary assets and monetary liabilities in substantial amounts, denominated in or linked to the U.S. dollar, and are therefore exposed to a substantial fluctuations thereof. We do not actively hedge against fluctuations of the NIS and/or the Euro in relation to the U.S. dollar.

Net investment value of foreign investees

As for the translation method of our foreign autonomous entities to their holding company's functional currency and the changes therein during 2005, see Note 2A.(3)(i) to our consolidated financial statements.

Our exposure to fluctuations in exchange rates of foreign currencies, in respect of inter-company balances (see table I below) is reflected only by the value of the net investment in the autonomous entities (capital and shareholders' loans with a nature of investments). A decrease/increase in the value of foreign currencies of the autonomous investees in relation to their holding companies' functional currency may, therefore, have a negative/positive impact on our shareholders' equity. In order to mitigate our exposure to the effect of frequent fluctuations in the exchange rate of these currencies, as mentioned above, some of our bank loans that have been obtained, mainly to finance investments in foreign subsidiaries in our hotels division, in the same currency of the investee's functional currency.

At the end of May 2005, Arena converted the linkage currency of certain bank loans (NIS 213.0 million obtained, from U.S. dollar into NIS, which is the functional currency of the Arena). See also “- Table I - Foreign Currency Risks” below.

In addition, our exposure to the foregoing fluctuations has an impact on the extent of the assets, liabilities and operations of the autonomous companies, as reflected in our financial statements, and on the date-to-date and period-to-period comparison of our financial statements.

Further details about our foreign currency exposure, as of December 31, 2005 are set forth in Table I below.

Rate of Inflation

As for the accounting principle regarding the adjustment of financial statements to the inflation and for the changes therein commencing January 1, 2004, see Note 2A.1 to our consolidated financial statements.

Fluctuations in the rate of inflation may impact labor costs in circumstances where labor contracts are linked to domestic CPI, whether by mandatory rules or by union agreements. An increase in inflation could also result in an increase in the cost of our variable rate borrowings. Failure to adjust revenues of companies (especially in the hotel segment) with the rate of inflation may result in a decrease in operating profits. This potential loss will be more clearly reflected as we had changed, commencing January 2004, our reporting method to the nominal basis (instead of adjusted basis). However, most of our leases, in the commercial centers' businesses, contain provisions designed to partially mitigate the adverse impact of inflation. Most of our leases contain effective annual rent escalations (that are, indexed based on the Consumer Price Index or other related indices). A portion of the lease

agreements include conditions enabling us to receive percentage rents based on a tenant's gross sales above predetermined levels, which sales generally increase as prices rise. Accordingly, we do not believe that our earnings or cash flows from real estate operations (in the commercial centers' businesses) are subject to a significant economic risk of inflation.

Interest Rate Risks

Part of the credit and the deposits are obtained at or invested at fixed interest rates while most of the credit and deposits are obtained at or invested at variable rates (see Table III below). Changes in short-term interest rates in the countries in which we operate will affect our results of operations and our future cash flows. In general, we do not actively hedge against the impact of the interest rate risks on our net monetary assets/liabilities. We limit, in certain cases, a part of these risks by using derivative financial instruments to manage or hedge interest rate risk, especially, on long term bank loans (see Note 23D. to our consolidated financial statements).

We are also subject to the risk of increases in long-term variable interest rates that may occur over a period of several years. This may affect our discount rate applicable to our assets and consequently may decrease the overall value of our real estate.

Short-term interest rates influence directly and indirectly on the economic and business atmosphere, which, in turn, has an effect on the commercial and leisure industry. An increase in the short-term interest rates generally results in the decrease in the spending of monies for leisure purposes and may result in a decrease in our operational results.

Credit Risks

Cash, cash equivalents and bank deposits are maintained with reputable banks. In the commercial centers business and in the hotels segment, services and sales are rendered to a large numbers of customers and we are not significantly exposed to credit risks arising from dependence on any single customer. In relation to anchor tenants, see "Item 3 - Key Information - Risk Factors - Risk Relating to the Shopping and entertainment centers Business".

The balance of long term receivables as of December 31, 2005 included:

1. Two loans in the aggregate amount of NIS 23.0 million (\$5.0 million) which were granted by us to the Management Company in the framework of an option agreement to acquire 33% of the Park Plaza chain in Europe (See Notes 8A.(2)(i) and 17A.(2) to our financial statements).
2. PC has invested an amount of NIS 19.1 million in Joint Venture Project Company which is in excess of the amount invested by the JV partner. Part of this loan amount to NIS 10.9 million arising from the shareholders agreement with the JV partner and the remaining amount is due to excess investments of Shareholders loan by PC over the JV partner as a result of a dispute with the JV partner regarding the increase in the budget of the Project. See Note 8A. (ii) and 10 B.6 to our consolidated financial statements.

Realization of these debts substantially depends on the financial stability of the debtors in the long run.

See also "Item 3 - Key Information - Risk Factors" above.

Marketable and Equity Securities

For information on the or composition of the short and long-term investment portfolio- see Note 4 and Note 9 to our consolidated financial statements included in Item 18 below. Such investments are exposed to market-price fluctuation.

Venture Capital Investments

For information on exposures relating to venture capital investments, see “Item 3. Key Information – D. Risk Factors - Risks relating to our Other Activities” above.

Rent Income From Shopping And Entertainment Centers

For information on risks relating to the market price of lease of spaces in commercial centers, see “Item 3. Key Information - Risk Factors - Risk Relating to the Shopping and entertainment centers Business” above.

Our financial results are affected by general economic conditions in the markets in which our properties are located. An economic recession, or other adverse changes in general or local economic conditions could result in the inability of some of our existing tenants to meet their lease obligations and could otherwise adversely affect our ability to attract or retain tenants.

Land and Real Estate Rates

Some of our real estate properties are subject to leases of land or buildings. Annual payments for those leasehold properties are linked to various real estate indexes. Strength in the real estate market may influence the level of those indexes and result in increasing annual payments. However, we are generally able to offset higher rental fees paid by us with greater revenues from our tenants.

Financial Instruments

From time to time, throughout the reported year, we engage in the trading of derivative and other financial instruments for hedging and speculative purposes. The results of such activities and the value of the trading instruments are affected by the changes and volatility in foreign exchange rates and interest rates and equity indices. Changes in Israeli and global foreign exchange rates, interest rates and equity indices may significantly affect our financial results and our assets, liabilities, equity capital and cash flow, as a result of the aforementioned trading activity.

The highest balance of open positions of derivatives for currency sale and purchase during 2005 was NIS 717 million (\$155.7 million). Subsequent to December 31, 2005 the maximum balance of open positions totaled NIS 60 million (\$ 13.0 million). It should be noted that due to the high volatility of global financial markets, foreign exchange, interest rate and equity trading involve significant risks, mainly in the short term.

For currency transactions outstanding as at December 31, 2005, see Table II - Derivative contracts on foreign exchange rates below.

Fair Value of Financial Instruments

The Company's and its subsidiaries' financial instruments include monetary assets (cash and cash equivalents, short and long-term deposits, trade accounts receivable, marketable securities as well as other receivables and current account) and monetary liabilities (short-term credits, long-term liabilities, trade accounts payable as well as payables and other credit balances). Due to the nature of the financial instruments included in working capital, their fair values approximate those presented in the balance sheet.

The fair value of long term trade accounts receivable, deposits and other long-term liabilities is ordinarily based on the present value of future receipts and payments, discounted by the interest rate applicable to our lending or borrowing activities under similar terms as of the balance sheet date, and it is not materially different from what is presented in the financial statements.

For information on the presentation of long-term balances not under market conditions - see Note 2K to our consolidated financial statements included in Item 18 below.

Derivative financial instruments that have an active market were valued based on market value.

The assets included among long term investments or that are stated as treasury stock, for which market value differ from their carrying amount, are as follows:

	Carrying amount	Market value
	December 31, 2005 NIS (in millions)	
Elbit – treasury stock (see Note 18A. to our consolidated financial statements)	162.3	243 ⁽¹⁾
Bucuresti (See Note 9.B(4), to our consolidated financial statements.)	235.7	44.0 ⁽²⁾

(1) Includes 2,842,400 shares held by EMI and 524,187 shares held by Elscint. Shares are traded on the Tel Aviv Stock Exchange and in the NASDAQ.

(2) Shares are traded on the Bucharest stock exchange, in Romania (“RASDAQ”).

TABLE I - FOREIGN CURRENCY RISKS

The table below provides information as at December 31, 2005 regarding our financial assets and liabilities (including - inter company balances) denominated or linked to foreign currencies:

NIS (IN MILLIONS)

Functional Currency	Israeli Shekels (NIS)			British Pound Sterling (£)	Euro (€)		Romanian Lei (ROL)		Others (1)	Reconciliation for consolidation	Total
Linkage Currency (2)	\$	€	£	€	\$	£	€	\$			
Current Assets:											
Cash and cash equivalents	17	-	26	-	1	1	-	-	444	-	489
Short term deposits and investments	145	-	-	-	1	-	1	2	91	-	240
Trade accounts receivable and other debit balances	3	-	-	-	-	-	-	-	106	3	112
	165	-	26	-	2	1	1	2	641	3	841
Long term investments and receivables:											
Deposits, debentures, loans and receivables	-	(4)	-	-	23	-	-	-	43	-	62
Investments in investees and other companies:											
Shares	21	400	-	-	(25)	(85)	-	-	(699)	445	57
Loans	552	276	137	-	118	133	-	-	433	(1,649)	-
Assets related to discontinuing operations		3	-	-	-	-	-	-	10		13
	573	675	137	-	116	48	-	-	(213)	(1,204)	132
Total assets	738	675	163	-	118	49	1	2	428	(1,201)	973
Current liabilities:											
Short term credits	140 ⁽⁴⁾	-	-	-	1	-	39	127	94	59	460
Trade accounts payable and other credit balances	6	6	1	-	8	-	-	2	223	(14)	232
	146	6	1	-	9	-	39	129	317	45	692
Long term liabilities:											
Long term liabilities:											
Group companies	69	-	-	200	552	136	98	-	565	(1,620)	-
Others	307 ⁽⁴⁾	334 ⁽³⁾	133 ⁽³⁾	-	20	-	1	-	1,206	(36)	1,965

Functional Currency	Israeli Shekels (NIS)			British Pound Sterling (£)	Euro (€)		Romanian Lei (ROL)		Others (1)	Reconciliation for consolidation	Total
Linkage Currency (2)	\$	€	£	€	\$	£	€	\$			
Liabilities related to discontinuing operations	57	5	-	-	-	-	-	-	-	-	62
	433	339	133	200	572	136	99	-	1,771	(1,656)	2,027
Total liabilities	579	345	134	200	581	136	138	129	2,088	(1,611)	2,719
Total assets less total liabilities⁽⁵⁾	159	330	29	(200)	(463)	(87)	(137)	(127)	(1,660)	410	(1,746)

FOOTNOTES:

- (1) Includes mainly, unlinked balances of financial assets (liabilities) and linkage currencies which total financial assets or financial liabilities that are denominated therein or linked thereto, do not exceed 5% of total financial assets or financial liabilities, respectively (on a consolidated basis).
- (2) As for investments in investees' shares - "linkage currency" means the functional currency of each investee. As for loans to investees with nature of investment - "linkage currency" means the currency that the loan is denominated in or linked to.
- (3) Primarily loans for financing an investment in an autonomous investee taken in the functional currency of the investee (for hedging, qualified hedges for accounting purposes). The effect of the exchange rates on these loans are charged directly to shareholders equity and not to the statements of operations.
- (4) NIS 46 million short term bank loan and NIS 92 long term bank loans used for financing an investment in an autonomous investee taken in the functional currency of the investee (for hedging, qualified hedges for accounting purposes). The effect of the exchange rates on these loans are charged directly to shareholders equity and not to the statements of operations.
- (5) Comprised as follows:

Functional Currency	Israeli Shekels (NIS)			British Pound Sterling (£)	Euro (€)		Romanian Lei (ROL)		Others (1)	Reconciliation for consolidation	Total
Linkage Currency (2)	\$	€	£	€	\$	£	€	\$			
Net monetary items ⁽⁶⁾	(345)	(346)	(108)	-	(4)	1	(39)	(127)	(829)	(6)	(1,803)
Intercompany balances (loans with nature of investment) ⁽⁷⁾	483	276	137	(200)	(434)	(3)	(98)	-	(132)	(29)	-
Investment in investees' shares ⁽⁷⁾	21	400	-	-	(25)	(85)	-	-	(699)	445	57
	159	330	29	(200)	(463)	(87)	(137)	(127)	(1,660)	410	(1,746)

- (6) The impact of exchange rates exposure, on net monetary items, is charged directly to the statements of operations.
- (7) The impact of exchange rates exposure on these items is charged directly to the shareholders equity and not to the statements of operations.
- (8) Exchange rates:

Functional Currency	Israeli Shekels (NIS)			British Pound Sterling (£)	Euro (€)	1,000 Romanian Lei (ROL)	
Linkage Currency	\$	€	£	€	\$	\$	€
May 31, 2006	4.518	5.810	8.478	0.685	0.778	27.56	35.43
December 31, 2005	4.603	5.447	7.941	0.6857	0.845	31.08	31.77
December 31, 2004	4.308	5.877	8.308	0.704	0.732	29.07	39.66

- (9) Changes in the exchange rates (%)

Functional Currency	Israeli Shekels (NIS)			British Pound Sterling (£)	Euro (€)	1,000 Romanian Lei (ROL)	
Linkage Currency	\$	€	£	€	\$	\$	€
May 31, 2006	(1.85)	6.67	6.77	(0.10)	(7.97)	(11.32)	(3.35)
December 31, 2005	6.85	(7.32)	(4.42)	(2.64)	15.44	6.92	(7.29)
December 31, 2004	(1.62)	6.21	5.85	(0.07)	(7.87)	(10.82)	(3.54)

TABLE II - DERIVATIVE CONTRACTS ON FOREIGN EXCHANGE RATES

The following presents a summary of the currency transactions outstanding at December 31, 2005:

(1) As for loans denominated in foreign currency obtained for the purpose of accounting hedging - see comment (3) to Table 1 above.

(2) Swap transaction - in order to hedge the risk on variable interest rate on long-term loans – see Note 23A. to our consolidated financial statements.

TABLE III - INTEREST RISKS

The following table presents a summary of balances classified according to interest rate, at December 31, 2005:

1. Long Term Loans And Deposits - (In Millions NIS)

Functional Currency	Linkage Currency	Interest Rate %	Repayment years						Total
			1	2	3	4	5 and thereafter	Not yet determined	
EURO	US Dollar	(1)		8				16	24
EURO	EURO	1.95-4.9					9	27	36
NIS	US Dollar	Libor + 1.5- 2.0	1					1	2
NIS	NIS	-	20						20
			21	8	-	-	9	44	82

(1) See Note 8A.(2)(i) to our consolidated financial statements.

2. Long term loans - (in millions NIS)

Functional Currency	Linkage Currency	Interest Rate %	Average interest rate %	Repayment years						Total
				1	2	3	4	5	6 and thereafter	
EURO	EURO	5.1 ⁽¹⁾	5.1	2	3	4	186	-	-	195
EURO	USD	Libor +1.9%	5.9	1	1	1	1	1	12	17
EURO	EURO	Euribor + 1.5-3.35	3.8-5.7	44	85	17	17	17	204	384
UK Pound Sterling	UK Pound Sterling	Libor + 1.4-1.65	6.4	8	12	23	24	24	382	473

Functional Currency	Linkage Currency	Interest Rate %	Average interest rate %	Repayment years						
				1	2	3	4	5	6 and thereafter	Total
NIS	US Dollar	Libor + 2.5-3.35	6.5-7.3	-	305 ⁽ⁱⁱ⁾	-	-	-	-	305
NIS	EURO	Euribor + 2.85-3.35	5.5	4	165 ⁽ⁱⁱ⁾	8	8	34	115	334
NIS	UK Pound Sterling	Libor + 2.85	7.6	-	-	-	-	66	66	132
SA Rand	SA Rand	Prime-1	9.5	-	-	-	-	-	4	4
NIS	NIS	Prime+2.25	7.6	-	2	-	-	11	-	13
				59	573	53	236	153	783	1,857

(i) The interest rates on this loan have been fixed by swap transactions.

(ii) See Note 14D&F to our consolidated financial statements.

3. Short term cash and deposits - see notes 3 and 4 to our financial statements.

4. Short term loans - see note 12 to our consolidated financial statements.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures.

Our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended) as of December 31, 2005, have concluded that, as of such date, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

(b) Internal Control Over Financial Reporting.

Not Applicable.

(c) Attestation Report of the registered public accounting firm.

Not Applicable.

(d) Changes in Internal Control Over Financial Reporting.

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) identified with the evaluation thereof that occurred during 2005, that has materially affected, or is reasonably likely to materially affect our internal controls over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mr. Zvi Tropp is an “audit committee financial expert” as defined in Item 16A of the instructions to Form 20-F and is independent in accordance with the Nasdaq listing standards for audit committees applicable to us.

ITEM 16B. CODE OF ETHICS

Our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions, as well as all other directors, officers and employees are bound by a Code of Ethics and Business Conduct. Our Code of Ethics was filed as an exhibit to our annual report on Form 20-F for the year ended December 31, 2003. On December 11, 2005, following the merger by way of exchange of shares between us and Elscint, we amended our Code of Ethics and Business Conduct so that it would apply to Elscint, as a wholly owned subsidiary of us. We will provide any person, without charge, upon request, a copy of such code. Any person so requesting a copy is required to submit such request to the Corporate Secretary at 13 Mozes St., Tel-Aviv, Israel, 67442 and provide a mailing address for such person.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Brightman Almagor & Co., a firm of certified public accountants in Israel and a member firm of Deloitte Touche Tohmatsu have served as our independent registered public accounting firm for the fiscal year ended December 31, 2005, for which audited financial statements appear in this annual report on Form 20-F.

(a) Audit Fees

The aggregate fees billed for professional services constituting Audit Fees, rendered to us by Brightman Almagor & Co., in 2004 and 2005 were \$482,000 and \$447,000, respectively.

(b) Audit Related Fees

The aggregate fees billed for professional services constituting Audit Related Fees, rendered to us by Brightman Almagor & Co., in 2005 were \$108,000. Such fees were incurred in connection with our merger by way of exchange of shares with Elscint and a preparation of a prospectus for the initial public offering of one of our subsidiaries. During 2004 we were not provided with any Audit Related Fees.

(c) Tax Fees

The aggregate fees billed for professional services constituting Tax Fees, rendered to us by Brightman Almagor & Co., in 2004 and 2005 were \$66,000 and \$99,000, respectively. Such services related to tax consulting services provided to us.

(d) All Other Fees

The aggregate fees billed for professional services constituting All Other Fees rendered to us by Brightman Almagor & Co., in 2005 were \$28,000. During 2004, we did not receive any other service from our auditors which do not fall within the Audit Services, Audit Related Fees and Tax Fees.

(e) Pre-Approval Policies And Procedures

Our Audit Committee oversees the appointment, compensation, and oversight of the public accounting firm engaged to prepare or issue an audit report on the financial statements of the Company. The audit committee's specific responsibilities in carrying out its oversight role include the approval of all audit and non-audit services to be provided by the external auditor and quarterly review the firm's non-audit services and related fees. These services may include audit services, audit-related services, tax services and other services, as described above. The audit committee approves in advance the particular services or categories of services to be provided to the Company during the following yearly period and also sets forth a specific budget for such audit and non-audit services. Additional services may be pre-approved by the audit committee on an individual basis during the year.

None of Audit-related Fees, Tax Fees or Other Fees provided to us by Brightman Almagor & Co., were approved by the Audit Committee pursuant to the de minimis exception to the pre-approval requirement provided by Section 10A of the Securities Act of 1934.

(f) Percentage

Not applicable.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not Applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE COMPANY AND AFFILIATED PURCHASERS

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum number (or approximately dollar value) of shares that may yet be purchased under the plans or programs
February 2005	350,000 (1)	NIS 45.7 (\$10.47)	-	-
February 2006	287,259 (2)	\$16.35	-	-
March 2006	22,757(2)	\$19.05	-	-
May 2006	14,517 (2)	\$24.96	-	-

- (1) On February 27 2005, Mr. Mordechay Zisser, our Executive Chairman of the Board of Directors, who owns a controlling interest in us, exercised the 350,000 options held by him into 350,000 ordinary shares of par value NIS 1 each of the Company at a total price of approximately \$3.7 million.
- (2) Between February 2006 and May 2006 Europe-Israel purchased a total of 324,533 shares of EMI in consideration for \$5,492,382.

ITEM 17. FINANCIAL STATEMENTS.

In lieu of responding to this item, we have responded to Item 18 of this annual report.

ITEM 18. FINANCIAL STATEMENTS.

The information required by this item is set beginning on page F-1 of this annual report.

PART III

ITEM 19. EXHIBITS

Exhibits.

- 1.1⁽¹⁾ Memorandum of Association of the Company.
- 1.2⁽¹⁾ Articles of Association of the Company.
- 1.3^{(2)^} Notice dated March 4, 2001, sent by the Registrant to the Israeli Companies Registrar with respect to an amendment to the Articles of Association.
- 4.2⁽³⁾ Loan facility agreement dated January 22, 2002 between OVAG, MKB and OPT banks, Amanati Ltd., Duna Plaza Kft. Sopron Plaza Kft. and Plaza Centers Europe BV with respect to a credit facility in the amount of Euro 82.9 million.
- 4.3^{(2)^} Loan facility agreement dated September 27, 2000, between the Registrant and Bank Hapoalim BM with respect to a \$150 million line of credit.
- 4.4⁽²⁾ Loan Agreement dated March 1, 2001, between Krakow Plaza Sp.z.o.o. and OVAG with respect to a credit facility in the amount of \$35 million.
- 4.5⁽⁴⁾ Loan agreement among, inter alia, Depfa Bank AG, Victoria Hotel C.V. and Utrecht Victoria Hotel B.V. dated March 24, 1999.
- 4.6⁽⁴⁾ Hotel management agreement between Euston Road Hotel Operators Ltd. and Park Plaza Europe Ltd. dated December 1997.
- 4.7⁽⁴⁾ Management agreement between Victoria Hotel C.V. and Park Plaza Hotel Europe, Ltd. (previously Prestige Hotels International Ltd.) dated October 4, 1993.
- 4.8⁽⁴⁾ Management support and sub-license agreement between Astrid Park Plaza N.V. and Park Plaza Hotels Europe Ltd. dated April 15, 1997.
- 4.9⁽⁵⁾ Loan agreement dated December 21, 2000 with Bank Hapoalim B.M. with respect to the financing of the Victoria Park Plaza Hotel.
- 4.10^{(5)^} Loan facility agreement dated October 23, 2000 between Elscint and Bank Hapoalim BM with respect to a \$110 million line of credit.
- 4.11^{(5)^} Development agreement dated December 17, 2000 between Elscint and the Israeli Land Administration with respect to the Monfort Project.
- 4.12^{(6)^} Agreement dated April 14, 2002 between SLS Sails Ltd. and C.D.P.M. Kft. for the completion of the construction works of Elscint's commercial and entertainment center in Herzliya.
- 4.13⁽⁸⁾ Framework Transaction Agreement, dated as of July 30, 2004, by and among Klepierre S.A., Klepierre Hongrie S.A.S., LP7 S.A.S. and Segece, as Buyers, and Plaza Centers (Europe) B.V., Elbit Ultrasound Netherlands B.V., Szeged 2002 Kft., and Plaza Centers Management B.V., as Vendors.
- 4.14⁽⁸⁾ Transaction Agreement, dated January 31, 2005, Plantridge Limited, as Purchaser, Plaza Centers (Europe) B.V., Elbit Ultrasound Netherlands B.V., and Amanati Limited, as Vendors.
- 4.15* Framework Transaction Agreement, dated as of July 29, 2005, by and among Klepierre S.A., Klépierre Sadyba Sp.z.o.o. Klépierre Krakow Sp.z.o.o., Klépierre Poznan Sp.z.o.o., LP7 S.A.S. and Segece S.C.S, as Buyers, and Plaza Centers (Europe) B.V. as Vendor.
- 4.16* Share Sale And Purchase Agreement relating to the shares in Shaw Hotel Holding B.V. dated 19 December 2005 by and between Euro Sea Hotel N.V., B.E.A. Hotels N.V. and Shawpark Investments B.V. as Sellers and WG Mitchell (Scotland) Ltd as Purchaser
- 4.17* Deed of Trust entered into between the Company and Orora Fidelity Trust Company Ltd. dated 21.2.2006 for the issuance of series A debentures.
- 4.18* Deed of Trust entered into between the Company and Orora Fidelity Trust Company Ltd. dated 21.2.2006 for the issuance of series A debentures.
- 4.19⁽⁹⁾ Agreement and Plan of Merger dated August 21, 2005 between the Company and Elscint.
- 4.20* Amended and Restated Loan Agreement, Multicurrency Term Credit Facility, dated December 5, 2005, between Elscint and Bank Hapoalim B.M.

- 4.21* Lease Agreement dated January 6, 2003 between Euston Road Hotel Limited and Accor SA for a long term lease of the hotel property located on Euston Road in London, England (previously Bernard Shaw Park Plaza) for a period of 25 years.
- 4.22* A form of Hotel Management Agreement entered into with Park Plaza.
- 4.23* Amended and Restated Loan Agreement dated July 9, 2003 between Elbit and Bank of Hapoalim B.M.
- 4.24* Amended and Restated Loan Agreement dated July 9, 2003 between Elbit Ultrasound (Netherlands) B.V. and Bank of Hapoalim B.M.
- 8.1 List of subsidiaries.
- 10.1* Consent of Brightman Almagor & Co.
- 10.2* Consent of KPMG Hungaria Kft.
- 10.3* Consent of Mazars Paardekooper Hoffman N.V.
- 10.4* Consent of Kost, Forer Gabbay & Kasierer
- 11.1* Code of Ethics and Business Conduct for Directors, Officers and Other Employees
- 12.1* Certificate of the Principal Executive Officer and Principal Accounting Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
- 13.1* Certificate of the Principal Executive Officer and Principal Accounting Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002

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- (1) Previously filed as an Exhibit to EMI's Annual Report on Form 20-F, File No. 0-28996, filed with the Securities and Exchange Commission on November 22, 1996 and incorporated by reference herein.
 - (2) Previously filed as an exhibit to EMI's Annual Report on Form 20-F for the year ended December 31, 2000, File No. 0-28996, filed with the Securities and Exchange Commission on July 16, 2001 and incorporated by reference herein.
 - (3) Previously filed as an exhibit to EMI's Annual Report on Form 20-F for the year ended December 31, 2001, File No. 0-28996, filed with the Securities and Exchange Commission on July 1, 2002 and incorporated by reference herein.
 - (4) Previously filed as an Exhibit to Elscint's Annual Report on Form 20-F for the year ended December 31, 1999, File No. 2-44872, filed with the Securities and Exchange Commission on June 2, 2000, and incorporated by reference herein.
 - (5) Previously filed as an Exhibit to Elscint's Annual Report on Form 20-F for the year ended December 31, 2000, File No. 2-44872, filed with the Securities and Exchange Commission on July 10, 2001 and incorporated by reference herein.
 - (6) Previously filed as an exhibit to Elscint's Annual Report on Form 20-F for the year ended December 31, 2001, File No. 2-44872, filed with the Securities and Exchange Commission on June 28, 2002 and incorporated by reference herein.
 - (7) Previously filed as an exhibit to EMI's Annual Report on Form 20-F for the year ended December 31, 2003, File No. 0-28996, filed with the Securities and Exchange Commission on June 30, 2004 and incorporated by reference herein.
 - (8) Previously filed as an exhibit to EMI's Annual Report on Form 20-F for the year ended December 31, 2004, File No. 0-28996, filed with the Securities and Exchange Commission on June 30, 2005 and incorporated by reference herein.
 - (9) Previously filed as an exhibit to Joint Proxy Statement/Prospectus filed with the Securities and Exchange Commission on September 21, 2005 and incorporated by reference herein.

* Filed herewith.

^ Translation from Hebrew.

SIGNATURES

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to hereby sign this annual report on its behalf.

Elbit Medical Imaging Ltd.

By: /s/ Shimon Yitzhaki

Name: Shimon Yitzhaki

Title: President & Chief Financial Officer

Date: June 30, 2006

EXHIBIT 12.1

Section 302 Certification by Principal Executive Officer and Principal Financial Officer

I, Shimon Yitzhaki, certify that:

1. I have reviewed this annual report on Form 20-F of Elbit Medical Imaging Ltd. (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d-15(e)) for the Company and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) (Reserved)
 - (c) evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of Company’s board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: June 30, 2006

/s/ Shimon Yitzhaki
Shimon Yitzhaki
President & Chief Financial Officer

EXHIBIT 13.1

Section 906 Certification by Principal Executive Officer and Principal Financial Officer

In connection with the Annual Report of Elbit Medical Imaging Ltd. (the “Company”) on Form 20-F for the year ended December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Shimon Yitzhaki, President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that, to the best of my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 30, 2006

/s/ Shimon Yitzhaki
Shimon Yitzhaki
President & Chief Financial Officer