Kardan N.V.

(a limited liability company incorporated under the laws of the Netherlands, with its corporate seat at Amsterdam, the Netherlands)

Listing of ordinary shares in the capital of Kardan N.V. (the **"Company"**) on the Official Segment of the stock market of Euronext Amsterdam N.V. (**"Euronext Amsterdam"**) through introduction by trading (*introductie door verhandeling*).

This prospectus (the **"Prospectus"**) has been prepared in connection with the listing (the **"Listing"**) of 60,868,804 to 71,447,679 ordinary shares, with a nominal value of EUR 0.20 each, in the share capital of the Company (the **"Shares"**) on Euronext Amsterdam.

It is expected that the Shares will be admitted to listing on Euronext Amsterdam on or around 10 July 2003. The Shares will be traded on Euronext Amsterdam under the symbol KARD.

Concurrently with the Listing, the Shares are expected to be admitted to listing on the Tel-Aviv Stock Exchange. The Shares will be traded on the Tel-Aviv Stock Exchange under the symbol KRNV.

The Listing is conditional upon the Company's acquiring in excess of 95% of the Ltd. Shares (as defined hereinafter) pursuant to the Tender Offer (as defined hereinafter). See "The Transaction".

This Prospectus does not constitute an offer by, or an invitation by or on behalf of, the Company or any affiliate or representative thereof to purchase any securities or an offer to sell, or the solicitation to buy, securities by any person.

Investing in the Shares involves risk. See "Risk Factors'', beginning on page 15, for a discussion of certain risks that should be carefully considered by prospective investors prior to an investment in the Shares.

Application has been made for the Shares to be accepted for clearance through the book entry facilities of Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V. (**"Necigef"**).

This Prospectus will be published in the English language only.

Listing Agent
van der Hoop Effektenbank N.V.

van der Hoop Effektenbank N.V.

Prospectus dated 18 June 2003.

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DEFINITIONS

Amended Articles	The articles of association of the Company which will be in force after completion of the Transaction
Articles of Association	The articles of association of the Company as in force on the date of this Prospectus
BGN	The currency of Bulgaria, the Bulgarian Lev
CEE	Central and Eastern Europe, or, as the case may be, Central and Eastern European
Company	Kardan N.V., a limited liability company incorporated under the laws of the Netherlands, with corporate seat at Amsterdam, the Netherlands
Controlling Shareholders	Directly and indirectly, Messrs. Yosef Grunfeld, Avner Shnur and Eytan Rechter, and Talladium Ltd.
EUR	The currency of the European Monetary Union introduced on 1 January 1999, the euro
EBRD	European Bank for Reconstruction and Development
Euroclear	Euroclear Bank S.A./N.V., as operator of the Euroclear System
Euronext Amsterdam	The Official Segment of the stock market of Euronext Amsterdam N.V.
FIC	FIC Globe B.V., a private limited liability company incorporated under the laws of the Netherlands, affiliated with Deutsche Bank
GAAP	Generally Accepted Accounting Principles
General Meeting of Shareholders	The general meeting of shareholders of the Company
GTC	GTC International B.V., a private limited liability company incorporated under the laws of the Netherlands
GTC Hungary	GTC Hungary Real Estate Development Rt., a company incorporated under the laws of Hungary
GTC Poland	Globe Trade Centre S.A. (Poland), a company incorporated under the laws of Poland
GTC Romania	GTC Real Estate Investment Romania B.V., a private limited liability company incorporated under the laws of the Netherlands

Holdanco	Holdanco International Investments B.V., a private limited liability company incorporated under the laws of the Netherlands
Herfstzon	Herfstzon Beheer B.V., a private limited liability company incorporated under the laws of the Netherlands
IFRS	International Financial Reporting Standards, formerly known as International Accounting Standards (IAS)
Kardan Communications	Kardan Communications Ltd., a private company incorporated under the laws of Israel
Kardan Group	Kardan Ltd. and its subsidiaries and investee companies and, following successful consummation of the Tender Offer, the Company and its subsidiaries and investee companies (for the avoidance of doubt: including the Company and Kardan Ltd.)
Kardan Ltd.	Kardan Ltd., a public company incorporated under the laws of Israel, the shares of which are listed on the Tel-Aviv Stock Exchange
Kardan Securities	Kardan Securities Ltd., a private company incorporated under the laws of Israel
Kardan Technologies	Kardan Technologies Ltd., a public company incorporated under the laws of Israel, the shares of which are listed on the Tel-Aviv Stock Exchange
KFH	Kardan Financial Holdings Ltd., a private company incorporated under the laws of Israel
KRE	Kardan Real Estate Enterprise and Development Ltd., a public company incorporated under the laws of Israel, the shares of which are listed on the Tel-Aviv Stock Exchange
Listing	The listing of the Shares on Euronext Amsterdam through introduction by trading *(introductie door verhandeling)*
Listing Agent	van der Hoop Effektenbank N.V.
Ltd. Shareholders	The holders of Ltd. Shares
Ltd. Shares	The shares in the share capital of Kardan Ltd.
Managing Board	The managing board *(raad van bestuur)* of the Company
Necigef	The central securities depositary *(Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V.)* under the Dutch Securities Giro Act *(Wet giraal effectenverkeer)*

Necigef Participant	An admitted institution *(aangesloten instelling)* in the sense of the Dutch Securities Giro Act *(Wet giraal effectenverkeer)*
NIS	The currency of Israel, the New Israeli Shekel
Prospectus	This prospectus
Shareholders	The holders of Shares
Shares	The ordinary shares, with a nominal value of EUR 0.20 each, in the share capital of the Company
Supervisory Board	The supervisory board *(raad van commissarissen)* of the Company
Tahal	Water Planning for Israel Ltd., a private company incorporated under the laws of Israel
Tahal Group	Tahal, TCE and other affiliated companies
Talladium Holdings	Talladium Holdings (1987) Ltd., a private company incorporated under the laws of Israel
Talladium Ltd.	Talladium Ltd., a private company incorporated under the laws of Israel
TBIH	TBIH Financial Services Group N.V., a limited liability company incorporated under the laws of the Netherlands
TCE	Tahal Consulting Engineers Ltd., a private company incorporated under the laws of Israel
Tel-Aviv Stock Exchange	The Tel-Aviv Stock Exchange Ltd.
Tender Offer	The exchange purchase offer the Company made on the date hereof to all Ltd. Shareholders pursuant to Section 336 of the Israeli Companies Law of 1999, by means of a prospectus and tender offer document published in Israel in accordance with the provisions of the Israeli Securities Law of 1968, the Securities Regulations (Particulars of Prospectus, Its Structure and Form) of 1969 and the Securities Regulations (Purchase Offer) of 2000
Transaction	The transaction comprising the Tender Offer and the Listing
UMI	Universal Motors Israel Ltd., a private company incorporated under the laws of Israel
USD	The currency of the United States of America, the US dollar

IMPORTANT INFORMATION

Investors should rely only on the information contained in this Prospectus in reaching an investment decision. The Company has not authorized anyone to provide investors with information that is different from the information contained in this Prospectus. The information in this Prospectus may only be accurate on the date of this Prospectus.

The Company is exclusively responsible for the accuracy and completeness of the information contained in this Prospectus. To the best of the knowledge and belief of the Company (which has taken all reasonable care to ensure that such is the case) the information for which it is responsible is in accordance with the facts, is not misleading and does not omit anything the inclusion of which would affect the import of such information.

The pro forma consolidated financial statements of Kardan Ltd. as per 31 December 2001 and 2002 as included in this Prospectus, as well as the balance sheet, and related statements of operations, cash flows and changes in shareholders' equity as per 31 December 2000, that are included in this Prospectus, are the responsibility of the Company and have been audited by Luboshitz Kasierer Ernst & Young, experts in accounting.

Pursuant to the Euronext Amsterdam Listing Procedure Rules the Listing Agent, in its capacity as sponsor of the listing, has conducted a due diligence examination with regard to this Prospectus. The results of this examination have been used more particularly for examination, to the extent possible, of the accuracy and completeness of the essential information contained herein, with the exception of the statements by experts (included in this Prospectus in chapters "The Transaction", "Description of Shares and Corporate Structure", "Taxation" and "Summary of significant differences between Israeli GAAP and IFRS") or approved by experts. Statements contained in the chapters "The Transaction", "Description of Shares and Corporate Structure", "Taxation" and "Summary of significant differences between Israeli GAAP and IFRS" and the statements in sections F through J have not been subjected to such examination. This due diligence examination has not disclosed any information leading the Listing Agent to assume that the particulars in this Prospectus do not present a true and fair view of the actual situation or that any particulars have been omitted which, if disclosed, would affect the information in this Prospectus in any material respect.

Because the information on pages 12, 13, 27 - 30, 32, 33, 35, 88 - 108, F1 - F83, G1 - G18, H1 - H6, I1 - I6, J1 - J6 and in Annexes A1 - A6 was provided by sources other than the Listing Agent, the Listing Agent does not guarantee its accuracy and completeness and does not accept any responsibility therefore.

This Prospectus does not constitute an offer by, or an invitation by or on behalf of, the Company or any affiliate or representative thereof to purchase any securities or an offer to sell, or the solicitation to buy, securities by any person. The distribution of this Prospectus and an offering or a sale of Shares is restricted by law in certain jurisdictions. The Company and the Listing Agent require persons into whose possession this Prospectus comes to inform themselves of and observe all such restrictions. Neither the Company nor the Listing Agent accepts any legal responsibility for any violation by any person of any such restrictions.

This Prospectus may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances. No action has been or will be taken in any jurisdiction by the Company or the Listing Agent that would permit a public offering of Shares or possession or distribution of this Prospectus or any other publicity materials relating to an offering of Shares in any country or jurisdiction.

The Shares have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States of America or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Shares or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States of America.

Some of the statements contained in this Prospectus discuss future expectations, contain projections of results of operations or financial condition, describe expected changes to the system of regulation applicable to the Company or state other "forward-looking" information. When used in this Prospectus, the words "believes", "anticipates", "expects", "intends", "plans", "seeks", "estimates", "may", "will" and "continue" and similar expressions generally identify forward-looking statements that are based on management's beliefs and on assumptions made by information currently available. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond the Company's control, which may cause the actual results, financial condition, performance, achievements or prospects of the Company, or industry results, or the system of regulation applicable to the Company, to be materially different from any future results, performance, achievements, prospects or system of regulation expressed or implied by such forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in "Risk Factors".

Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. In addition, under no circumstances should the inclusion of such forward-looking statements in this Prospectus be regarded as a representation or warranty by the Company, the Listing Agent or any other person with respect to the achievement of the results set out in such statements or that the underlying assumptions used will in fact be the case. These forward-looking statements speak only as of the date of this Prospectus. Without prejudice to its obligations under applicable laws and stock exchange regulations, the Company expressly disclaims any obligation to update any such forward-looking statements in this Prospectus to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

The measurement currency used to prepare Kardan Ltd.'s financial statements is NIS. Certain companies within Kardan Group have published financial statements in USD. The financial information regarding these investees was presented in this prospectus in USD.

Unless indicated otherwise, certain amounts in this Prospectus have been translated into EUR as follows:

- Assets, liabilities and equity items are translated at the closing rate existing at the respective year end dates;
- Income and expense items are translated at the average exchange rates existing during the years the transactions occurred;
- Cash receipt and payment items are translated at the average exchange rates existing during the years the transactions occurred; and
- All exchange differences resulting from the above-mentioned translation are recognized directly in equity.

The rates used to perform the above-mentioned translation are:

	NIS per EUR	USD per EUR
31 December 2000	3.7628	0.9312
31 December 2001	3.9075	0.8849
31 December 2002	4.9696	1.0491
Average 2000	3.7679	0.9241
Average 2001	3.7644	0.8951
Average 2002	4.8867	1.0314
31 March 2002	4.0782	0.8737
31 March 2003	5.1086	1.0900
Average Q1 2002	4.0463	0.8756
Average Q1 2003	5.1801	1.0730

These translations are solely for the convenience of the reader and should not be construed as representations that the non-EUR amounts actually represent such EUR amounts or that the Company could convert these amounts into EUR at the rate indicated. As a result of the convenience translation, the EUR amounts in this Prospectus might distort the description of the Company's financial condition and results of operations (e.g. the text might discuss an increase while the convenience translation into EUR amounts shows a decrease). See "Exchange Rates" for historical information regarding the official rates of exchange. See also "Presentation of Financial and Other Information – Convenience Translation of Currencies".

This Prospectus mainly describes the Company, the Shares and the risks related to investing in the Shares. However, since the Company is a new company that contemplates to acquire Kardan Ltd.'s businesses through acquisition of the Ltd. Shares by way of the Tender Offer, Kardan Ltd.'s businesses are described in this Prospectus as if they were the Company's businesses already. This will in fact be the case following successful consummation of the Tender Offer. Hence, when used in this Prospectus, the term "the Company" may, if the context so requires, also refer to "Kardan Ltd." and/or "Kardan Group".

SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information regarding Kardan Group, the Company and the Shares, and the financial information and related notes appearing elsewhere in this Prospectus. As this is only a summary, the rest of this Prospectus should be read carefully before investing in the Shares, especially the section under ''Risk Factors''.

1. The Transaction

The Company will launch the Tender Offer on the date of this Prospectus. Under the terms of the Tender Offer, the Company will offer to all Ltd. Shareholders to acquire all of their Ltd. Shares in exchange for Shares at an exchange ratio of one Share for each one Ltd. Share. The Tender Offer shall be outstanding for a period of 14 days ending on 3 July 2003 at 16:00 Tel-Aviv time, unless deferred or withdrawn.

The Tender Offer is conditional upon the achievement of a minimal rate of acceptance, being such that in consequence of the Tender Offer the Company's holdings of Ltd. shares shall be in excess of 95% of the issued and outstanding Ltd. Shares. On the date of this Prospectus, the quantity of Ltd. Shares in consequence of which the Company will hold more than 95% of Kardan Ltd.'s share capital is 57,611,614 Ltd. Shares (This quantity might increase if and insofar as options are exercised or debentures are converted into Ltd. Shares). If this minimum threshold shall not be met, the Tender Offer shall not enter into force, the Company shall not acquire any Ltd. Shares, and the Shares will not be listed on Euronext Amsterdam and the Tel-Aviv Stock Exchange. If this minimum threshold shall be met, the Company shall acquire all tendered Ltd. Shares and, if such tendered Ltd. Shares represent less than 100% of the issued and outstanding Ltd. Shares, the Company shall acquire the difference between 100% and the percentage of the Ltd. Shares tendered by means of a forced sale pursuant to the provisions of Section 337 of the Israeli Companies Law of 1999. As a result, Kardan Ltd. shall become a wholly owned subsidiary of the Company. The Company has been informed, in notices that are not in writing, that offerees holding approximately. 48,163,620 Ltd. Shares, including Kardan Group's Controlling Shareholders, intend to accept the Tender Offer.

Within the scope of the completion of the Tender Offer the Company will issue 60,643,804 to 71,222,679 Shares to the Ltd. Shareholders. These Shares to be issued will be paid up in kind by way of a transfer of the Ltd. Shares to the Company. Each Share shall carry one vote. The Shares are expected to be accepted for clearance through the book entry facilities of Necigef and Euroclear.

In consequence of the successful completion of the Tender Offer, the Ltd. Shares shall be delisted from the Tel-Aviv Stock Exchange, the Company shall take measures to list the Shares on Euronext Amsterdam and the Tel-Aviv Stock Exchange, and the Shareholders shall, immediately upon completion of the Tender Offer, be identical in their identities and respective shareholdings to the Ltd. Shareholders immediately prior to the completion of the Tender Offer, except that 225,000 of the Shares shall remain held by Kardan Ltd.

As no new Shares are issued or offered other than within the scope of the Tender Offer, the Company will not receive any cash proceeds from the Transaction.

Listing Agent	van der Hoop Effektenbank N.V.
Paying Agent	Kas Bank N.V.
Tel-Aviv Stock Exchange symbol	KRNV (*in Hebrew:* קרנו)
Euronext Amsterdam symbol	KARD
ISIN code	NL000011365.2

2. Business Overview

The Company is a limited liability company incorporated under the laws of the Netherlands. It was incorporated by Kardan Ltd. on 2 May 2003. The Company's offices are at Prins Hendriklaan 18, 1075 BC Amsterdam, the Netherlands, and its telephone number is +31-20-664-8884.

Kardan Group operates in five sectors, as follows:

- Real Estate – Active promotion and development of real estate in CEE and Israel, including office parks, individual office buildings, residential and combined residential/commercial developments, as well as shopping centers, and real estate management, primarily of office and commercial projects it has developed to completion.
- Financial Services – Insurance in Bulgaria, Romania, Croatia, Georgia and Bosnia-Herzegovina, and in pension fund management in Bulgaria, Slovakia, Croatia, Serbia and Georgia. In addition, in 2002 Kardan Group entered the fields of leasing, consumer finance and asset management in Bulgaria, Romania and Slovakia.
- Infrastructure – Design and implementation of internationally and locally financed private and local engineering projects as well as ownership, management and participation in turnkey and B.O.T. (Build-Operate-Transfer) projects, in the following fields: water resources and water supply; agricultural planning and marketing; irrigation, desalination, sanitation and wastewater treatment; environmental engineering; civil engineering and infrastructure; industrial engineering and energy; water supply and sewerage systems; and geographic information systems.
- Communications and Technologies – Holding a portfolio of investments in companies active in the communications and computer systems markets and holding participating interests in Israeli venture capital funds and in high-technology companies.
- Consumer Goods – Primarily import and marketing in Israel of motor vehicles manufactured by the General Motors Group and its affiliated companies, including motor vehicles manufactured at factories of the General Motors Group (Chevrolet, Buick, Cadillac, G.M.C. and Opel), Saab and Isuzu.

In recent years the Kardan Group has extended its operations in CEE.

3. Strategy

The Kardan Group is a holding company with entrepreneurial skills, and aims to invest in high-growth businesses, in order to create value for its shareholders.

Kardan Group complements its resources by teaming up with institutional investors. Among the equity partners in Kardan Group companies are Deutsche Bank and EBRD in the real estate business segment, EBRD in the financial services business segment, and General Motors in the consumer goods business segment.

Kardan Group's strategy includes considering proposals to acquire businesses in a scope that is material to Kardan Group, both within and outside the fields of Kardan Group's current operations.

4. Risk Factors

The following does not constitute a thorough list of the risks to which the Company may be subject. For a more elaborate description of the risks applicable to the Company, see "Risk Factors" below.

Kardan Group depends on external financing, in addition to its income from operations.
Kardan Ltd. operates and the Company will operate as holding companies to Kardan Group, and they depend on debt financing, in addition to shareholders equity, in order to develop their businesses. In order to finance their continuing expansion, the Company and Kardan Ltd. may need to raise additional financing. In addition, the Company and Kardan Ltd. have substantial loans, which in some cases will likely need to be renewed. The terms of such additional financing will be determined by prevailing market conditions at the time.

Kardan Group's business strategy involves deliberate growth, which may strain its resources.
Kardan Group's business strategy involves deliberate growth, particularly in the fields of

financial services, real estate and infrastructure. This expansion may strain Kardan Group's management, operational, business development and financial resources.

Kardan Group may depend on the consent of third party shareholders in its investee companies in order to implement its business strategy.
Some of Kardan Group's businesses are carried out through investee companies, in which third parties, typically institutional investors, hold participating interests. In general, the other shareholders in Kardan Group's investee companies have the contractual right to approve a broad range of significant management decisions of such investee companies. Kardan Group may therefore depend on the consent of these shareholders in order to implement its business strategy.

The Israeli economy has been suffering a slowdown.
A significant portion of Kardan Group's operations are conducted in Israel, particularly in the fields of consumer goods, communications and technologies and real estate. The Israeli economy has been suffering a slowdown, caused in part by the worldwide slowdown in technology industries, as well as by the economic strain resulting, among others, from hostilities with the Palestinian population. Should this slowdown continue or intensify, the market for Kardan Group's products in Israel, particularly in the fields of consumer goods and real estate, could weaken.

Kardan Group's business strategy is based on its assessments of economic and market trends in the CEE countries, which have been subject to volatility and are difficult to predict.
Economic conditions in emerging markets, such as the CEE countries in which Kardan Group operates, are difficult to predict and have been subject to volatility. In addition, in some cases Kardan Group's products are of a type not previously widespread in the local markets, in particular with respect to the markets for residential real estate, for life insurance and pension products. Kardan Group's business strategy is based in part on its assessments of future economic and market trends in the CEE countries, which may be inaccurate.

The success and growth of Kardan Group's businesses in CEE depends on continued economic growth in the countries and markets in which it operates.
The success and growth of Kardan Group's businesses in CEE depends on continued economic growth, and the development of the real estate and financial services markets, in the countries in which it operates, in particular the commercial real estate market in Poland, and the markets for insurance and pension products in Bulgaria, Romania and Slovakia. Despite the proposed EU membership of some of these countries, an economic slowdown in these countries could adversely effect the results of Kardan Group's business, as well as its prospects for expansion.

The Controlling Shareholders will be able to determine all matters requiring shareholder approval, including the election of the Supervisory and Managing Boards.
Assuming that the Tender Offer will be successfully consummated, a majority of the Shares will be held by the Controlling Shareholders who have agreed to act together with respect to their shareholdings. Accordingly, the Controlling Shareholders will be able to determine all matters requiring shareholder approval, including the election of the Supervisory and Managing Board members. In addition, the existence of a control group makes the Company impervious to takeovers, whether by tender offer or otherwise.

5. Recent Developments
During the past three years Kardan Group has focused its activities in its current sectors of operations, and divested several businesses that did not match this focus. In addition, Kardan Group made significant investments to expand its businesses in the fields of real estate and financial services in CEE, as well as infrastructure.

In 2000 Kardan Group began to expand its real estate operations from Poland into other CEE countries. Kardan Group is currently active in Poland, Hungary, Romania, the Czech Republic and Serbia.

In the field of financial services Kardan Group continues to expand its insurance and pension operations into new CEE markets. Further, Kardan Group made significant investments in its existing businesses in the pension fund market. In 2002,TBIH began to expand its financial services activities into other fields, including leasing and asset management.

Kardan Group's infrastructure business is in the process of expanding its activities in the direction of B.O.T. (Build-Operate-Transfer) and turnkey projects.

As of the end of 2002, most of Kardan Group's operations were located in CEE.

6. Summary Pro Forma Historical Consolidated Financial Information

The Company is a newly incorporated company and has, hence, a very limited operating history. If the Tender Offer is consummated successfully, the Company will eventually acquire all of the Ltd. Shares and will thus continue the business activities currently conducted by Kardan Ltd. See also "The Transaction". Between the time of the Company's incorporation and its acquiring the Ltd. Shares, the Company will not conduct any activities other than proceeding with the Tender Offer. Hence, for the purposes of this Prospectus, the summary pro forma historical consolidated financial information presented below for, and as of the end of, each of the years ended 31 December 2000, 2001 and 2002 is derived from Kardan Ltd.'s audited consolidated financial statements for 2000, 2001 and 2002 which were prepared in accordance with Israeli GAAP. The annual financial statements for 2001 and 2000, based on Israeli GAAP were audited by Luboshitz Kasierer, a former member firm of Arthur Andersen. Since June 2002 Luboshitz Kasierer is an affiliate member of Ernst & Young International. For the purpose of this Prospectus these annual financial statements were pro forma converted from Israeli GAAP into IFRS, by Kardan Ltd. and audited by Luboshitz Kasierer, an affiliate member of Ernst & Young International.

The tables included hereunder contain Summary Financial Information for Kardan Ltd. for 2000, 2001 and 2002.

SUMMARY FINANCIAL INFORMATION

CONSOLIDATED BALANCE SHEETS DECEMBER 2000-2002

	In thousands of NIS			In thousands of EUR*		
	2002	2001	2000	2002	2001	2000
ASSETS						
Total current assets	623,129	572,768	565,015	125,388	146,582	150,158
Non-current assets:						
Investments in associates	641,556	536,560	539,774	129,096	137,315	143,450
Property, plant and equipment	135,580	133,978	148,036	27,282	34,287	39,342
Other non-current assets	356,452	272,254	287,958	71,726	69,675	76,528
Total non-current assets	1,133,588	942,792	975,768	228,104	241,278	259,320
Total assets	1,756,717	1,515,560	1,540,783	353,493	387,859	409,478
LIABILITIES AND SHAREHOLDER'S EQUITY						
Total current liabilities	559,479	524,565	507,503	112,580	134,246	134,874
Total non-current liabilities	679,944	534,524	503,185	136,821	136,794	133,726
Minority interest	73,070	71,632	152,289	14,703	18,332	40,472
Shareholder's equity	444,224	384,839	377,806	89,388	98,487	100,406
Total liabilities	1,756,717	1,515,560	1,540,783	353,493	387,859	409,478

* See also "Important Information" for an explanation of the convenience translation of currencies.

CONSOLIDATED STATEMENTS OF OPERATION

	NIS In thousands of NIS			EUR* In thousands of EUR		
	2002	2001	2000	2002	2001	2000
NET REVENUES						
Sales, services and contract revenues	387,072	486,733	373,631	79,209	129,299	99,162
Insurance activities	197,637	140,026	214,965	40,444	37,197	57,052
Equity in net earnings of associated companies	38,614	9,410	44,088	7,902	2,500	11,701
gain on issuance of shares in associated companies and subsidiaries	1,064	15,906	17,415	218	4,225	4,622
Financing income, net	26,953	–	–	5,516	–	–
Other	22,256	77,806	34,258	4,554	20,669	9,092
	673,596	729,881	684,357	137,843	193,890	181,628
EXPENSES						
Cost of sales, services and contracts costs	304,980	367,434	248,690	62,410	97,608	66,002
Operating expenses of insurance activities	182,523	135,375	208,254	37,351	35,962	55,271
General, Administrative, selling and marketing expenses	146,370	195,789	172,672	29,953	52,011	45,827
Financing expenses, net	–	29,389	33,930	–	7,807	9,005
Other	30,191	44,704	17,293	6,178	11,875	4,590
	664,064	772,691	680,839	135,892	205,263	180,695
Income (loss) before taxes on income	9,532	(42,810)	3,518	1,951	(11,372)	934
TAXES ON INCOME	12,773	5,325	6,121	2,614	1,415	1,625
Income (loss) after taxes on income	(3,241)	(48,135)	(2,603)	(663)	(12,787)	(691)
MINORITY INTEREST	15,845	16,432	14,793	3,242	4,365	3,926
Net income (loss)	12,604	(31,703)	12,190	2,579	(8,422)	3,235

* See also “Important Information“ for an explanation of the convenience translation of currencies.

7. Period 1 January 2003 to 31 March 2003

In the first three months of 2003 Kardan Ltd. recorded a loss of NIS 6.7 million (EUR 1.3 million). In the first three months of 2002 the profit was NIS 56.9 million (EUR 14.1 million) mainly deriving from realization of forward exchange transactions. The shareholders' equity decreased by NIS 13.6 million to NIS 430.6 million (EUR 84.3 million) compared to NIS 444.2 million (EUR 89.4 million) as at 31 December 2002.

RISK FACTORS

Readers should carefully consider the risk factors below, together with the other information contained in this Prospectus, before making an investment in the Shares. The occurrence of any of the following events could adversely affect the business, financial condition and operating results of the Company, as well as harm the value of an investment in the Shares. Additional risks not currently known to the Company or that it currently deems immaterial may also harm the Company. This Prospectus mainly describes the Company, the Shares and the risks related to investing in the Shares. However, since the Company is a new company that contemplates to, and, if the Tender Offer is consummated, will acquire Kardan Ltd.'s businesses through acquisition of the Ltd. Shares by way of the Tender Offer, Kardan Ltd.'s businesses are described in this Prospectus as if they were the Company's businesses already. This will, if at all, in fact be the case following successful consummation of the Tender Offer. Hence, when used in this Prospectus, the term "the Company" may if the context so requires, also refer to "Kardan Ltd." and/or "Kardan Group", whereas a reference to "Kardan Ltd." and/or "Kardan Group" may, if the context so requires, also refer to "the Company".

RISKS RELATING TO THE KARDAN GROUP

Kardan Group depends on external financing, in addition to its income from operations.
The Company and Kardan Ltd. operate as holding companies to Kardan Group, and they depend on debt financing, in addition to shareholders equity, in order to develop their businesses. In order to finance their continuing expansion, the Company and Kardan Ltd. may need to raise additional financing, by raising equity or debt financing, and/or by disposition of assets. In addition, the Company and Kardan Ltd. have substantial amounts of loans, which in some cases will likely need to be renewed since some entities within Kardan Group are not currently generating sufficient ongoing cash flow to Kardan Ltd. to service repayment of the debt. The Company's and Kardan Ltd.'s future financing capacity depends in part on their capability to recycle loans. Furthermore, the Company and Kardan Ltd. have, under loan agreements to which they are parties, undertaken to maintain various financial covenants. The timing of additional financing, either for expansion or renewal, may be driven by the Company and Kardan Ltd.'s loan agreements, and the terms of such additional financing will be determined by prevailing market conditions at the time.

Calculation of Kardan Group's tax liabilities involves the interpretation and implementation of tax laws and treaties of various jurisdictions.
Kardan Group transacts business in various countries, typically through local investee companies. Accordingly, the Kardan Group's operations are subject to taxation in various countries, and the calculation of Kardan Group's tax liabilities involves the interpretation and implementation of tax laws and treaties of various jurisdictions, as well as their interplay in cross-border transactions. Kardan Group has calculated its tax liabilities based on its understanding of the applicable laws and treaties. However, different interpretations or applications of the relevant laws and treaties by tax authorities could result in significant additional tax liabilities.

The Company has final assessments of the Israeli tax authorities up to the year 1999, and does not yet have final tax assessments of the Israeli tax authorities for the years afterwards, which were not dealt with by the Israeli tax authorities. Consequently, it is difficult for the Company to predict which contentions, if any, might be raised by the Israeli tax authorities in this regard and whether this may lead to significant tax claims.

Variations in the exchange rate of the euro and the various currencies in which Kardan Group's businesses operate could affect Kardan Group's financial conditions.
Kardan Group's businesses earn their income, and pay expenses, in a variety of currencies, including USD, EUR, NIS and various CEE currencies. In some cases, Kardan Group enters into hedging transactions to mitigate the effects of exchange rate fluctuations on its operations. Nonetheless, variations in the exchange rate of the EUR,

USD and NIS against the various currencies in which Kardan Group's businesses operate could affect Kardan Group's financial condition and results of operations, as well as the market price of the Shares.

Fluctuation in the price of shares of publicly traded participations may affect the price of the shares.
Fluctuations in the price of the shares of Kardan Group's participations that are publicly traded are likely to affect the price of the Shares. Currently, Kardan Group has two significant stock exchange-listed participations: Kardan Technologies and KRE, both of which are listed on the Tel-Aviv Stock Exchange.

Fluctuations in interest rates as well as the inflation rate may affect Kardan Group's net results.
Since Kardan Group has substantial loans with floating interest rates and/or which are linked to the inflation rate in Israel, future changes in these rates may adversely affect Kardan Group's net result.

Internal audit and control.
Some of the companies in the Kardan Group do not have a fully developed system of internal audit, which prevents them from executing full control procedures in respect to their internal control framework. Kardan Group is in the process of implementing such procedures.

Kardan Group depends on the services of a small number of key executives; Kardan Group could find it difficult to recruit suitable managers, both in order to expand its activities and to replace management members who may resign; Messrs. Grunfeld's and/or Rechter's activities within the Group may be hampered.
Kardan Group's activities are managed by lean management staffs, that are highly skilled and experienced in the markets in which Kardan Group operates. Accordingly, Kardan Group depends on the services of a small number of key executives. Although Kardan Group has adopted incentive-based compensation policies designed to reduce the loss of management staff, resignation of management personnel could adversely affect Kardan Group and the results of its activities. Furthermore, in CEE, in general and in the field of financial services in particular, there is a shortage of experienced managers. Therefore, Kardan Group could find it difficult to recruit suitable managers, both in order to expand its activities and to replace management members who may resign.

In addition, two of the Controlling Shareholders, Mr. Yosef Grunfeld, a Managing Director of the Company and the chairman of the board of Kardan Ltd., and Mr. Eytan Rechter, Joint Managing Director of Kardan Ltd., have been the subject of an investigation by the Israeli Securities Authority relating to the trading in Ltd. Shares during 1998. To date no legal action has been taken in connection with the investigation. Nonetheless, should this investigation result in legal action, Mr. Grunfeld's and/or Mr. Rechter's activities within Kardan Group may be hampered. See also "Managing and Supervisory Board" and "Managing and Supervisory Board – Internal Code for the Prevention of Insider Trading".

Kardan Group's business strategy involves deliberate growth, which may strain its resources.
Kardan Group's business strategy involves deliberate growth, particularly in the fields of financial services, real estate and infrastructure. This expansion may strain Kardan Group's management, operational, business development and financial resources. Failure by Kardan Group to manage growth successfully in a manner that minimizes these strains on its resources, could disrupt Kardan Group's operations, and interfere with the implementation of its business strategy.

Kardan Group is involved in litigation, which if resolved adversely could affect the Kardan Group's business.
Kardan Group is involved in legal disputes in amounts that may be material to its business. Although Kardan Group does not expect that these legal proceedings will result in any material liabilities, an adverse outcome could have a material adverse

effect on Kardan Group's profits and financial condition. See also "Business Description", "Legal Proceedings - Kardan Group".

Kardan Group may depend on the consent of third party shareholders in its investee companies in order to implement its business strategy.
Some of Kardan Group's businesses are carried out through investee companies in which third parties, typically institutional investors, hold participating interests. The boards of directors and supervisory boards of these investee companies are not identical to the Managing Board and the Supervisory Board. Furthermore, the other shareholders in Kardan Group's investee companies have the contractual right to approve a broad range of significant management decisions of such investee companies. Kardan Group may therefore depend on the consent of these shareholders in order to implement its business strategy.

A change in control over Kardan Ltd. may have contractual consequences that adversely affect its business.
Under agreements with lenders to, and minority shareholders in, certain of its investee companies, a change in control over Kardan Ltd. may result in contractual consequences (including the acceleration of loans, cancellation of material agreements, and the grant of rights to minority shareholders to sell their shares to Kardan Group or to purchase the shares of Kardan Group in the relevant investee company) that could have an adverse effect on Kardan Group's businesses and operations.

Kardan Ltd. does not have control over the activities of the Controlling Shareholders. In addition, a change in control over Kardan Ltd. may occur for reasons beyond the control of the Controlling Shareholders. Some of the Shares to be held by the Controlling Shareholders will be pledged to secure bank financing, and the failure or inability to repay such financing in accordance with its terms could result in a change in control over Kardan Ltd.

Kardan Group has granted put options to some minority shareholders in certain of its investee companies to sell their shares to the Company or its subsidiaries.
Under agreements with minority shareholders in certain of its investee companies, Kardan Group has granted minority shareholders the right, under certain conditions, to sell their respective shares in such investee companies to members of the Kardan Group. Should these options be exercised, the funds used to pay the purchase price would not be available for other uses and may make it more difficult for the Company to raise funds for other uses. Further, under some of these agreements the Kardan Group may be required to purchase shares in its investee companies at prices that are less favorable than the current market prices. In some cases the Kardan Group has the right to pay the purchase price for the minority interests not in cash but in shares of the Company; in such event the Shareholders would suffer dilution.

RISKS RELATING TO THE OPERATIONS IN ISRAEL

The Israeli economy has been suffering a slowdown.
A significant portion of Kardan Group's operations are conducted in Israel, particularly in the fields of consumer goods and communications and technologies and real estate. The Israeli economy has been suffering a slowdown, caused in part by the worldwide slowdown in technology industries, as well as by the economic strain resulting, among others, from hostilities with the Palestinian population. Should this slowdown continue or intensify, the market for Kardan Group's products in Israel, particularly in the fields of consumer goods, communications and technologies and real estate, could weaken.

Israeli banks have adopted stricter requirements regarding the extension of credit.
The Israeli banking industry has been experiencing reduced profitability, and Israeli banks have therefore adopted stricter requirements regarding the extension of credit. Adverse changes in the Israeli banking industry could adversely affect the ability of Kardan Group's Israeli subsidiaries to obtain bank financing on favorable terms.

Political and security instability could affect Kardan Group's operations in Israel.

Since the establishment of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbours. A state of hostility, varying in degree and intensity, has caused security and economic problems in Israel. Further, since September 2000, there has been a significant deterioration in the relationship between Israel and the Palestinian Authority and serious violence has ensued, the peace process between the parties has stagnated, and Israel's relationship with several Arab countries has been adversely affected. Moreover, since early 2002 hostilities have escalated significantly, with increased attacks in Israel and an armed conflict between Israel and the Palestinians in the West Bank and Gaza. Further deterioration of the situation into a full scale armed conflict might require more widespread military reserve service by some of Kardan Group 's Israeli employees and might result in a significant downturn in the economic or financial condition of Israel, either of which could have a material adverse effect on Kardan Group's operations in Israel and its business. In addition, Kardan Group's consumer goods operations are dependent upon products imported into Israel. Accordingly, Kardan Group's operations and financial results could be adversely affected if political or military events curtailed or interrupted trade between Israel and its present trading partners.

RISKS RELATING TO THE ACTIVITIES IN CEE

Kardan Group's business strategy is based on its assessments of economic and market trends in the CEE countries, which have been subject to volatility and are difficult to predict.

Economic conditions in emerging markets, such as the CEE countries in which Kardan Group operates, are difficult to predict and have been subject to volatility. In addition, in some cases Kardan Group's products are of a type not previously widespread in the local markets, in particular with respect to the markets for residential real estate, and for life insurance and pension products. Kardan Group's business strategy is based in part on its assessments of future economic and market trends in the CEE countries, which may be inaccurate.

The success and growth of Kardan Group's businesses in CEE depends on continued economic growth in the countries and markets in which it operates.

The success and growth of Kardan Group's businesses in CEE depends on continued economic growth, and the development of the real estate and financial services markets, in the countries in which it operates, in particular the commercial real estate market in Poland, and the markets for insurance and pension products in Bulgaria, Romania and Slovakia. Despite the proposed EU membership of some of these countries an economic slowdown in these countries could adversely affect the results of Kardan Group's business, as well as its prospects for expansion.

RISKS RELATING TO THE REAL ESTATE BUSINESS SEGMENT

Kardan Group's projects require large initial investments before profits are realized.

Kardan Group's real estate activities are focused mainly on the development and construction of office buildings and commercial space. Most of Kardan Group's projects require large investments in the initial stages of the project – purchase of the land and construction works – that can typically last 8 to 20 months before yielding income. The promotion, development and construction of new projects involve various risks, each of which could delay the project, increase the project costs compared to forecasts, cause the loss of expected income, and in some cases even cause the project to stop altogether. These risks include, among others: (i) delays or cost overruns resulting from adverse weather conditions, work disputes, insolvency of construction contractors, shortages of equipment or construction materials, accidents or unforeseen technical difficulties, (ii) actual income from rent and/or sale of residential units, and the occupancy rates of office and commercial areas, could be lower than forecast, (iii) additional costs or a decrease in expected revenues in the event Kardan Group decides not to develop a tract of land before it finds a secure tenant, (iv) at the end of construction of a project, Kardan Group could have difficulty acquiring occupancy permits or other approvals required by law in order to complete the project, and (v) planning authorities in the various countries could refuse to approve development plans and could modify existing plans.

KRE may need to refinance its current outstanding debts.
In addition to repayments made from cash generated by its properties, and from dividends arising out of its investments in projects in CEE, KRE may need to refinance some of its long term loans. The terms of such additional financing will be determined by prevailing market conditions at the time. In addition, KRE is exposed to risks upon renewal of its short term loans, as a result of a possible demand from banks to provide additional security in respect thereof.

Kardan Group's reliance on leveraged financing increases its exposure to the risks of project delays, overruns and market decline.
In order to maximize its return on capital, Kardan Group relies, and expects to rely in the future, on external financing for the promotion and construction of projects. This leverage increases Kardan Group's exposure to the risks of project delays and cost overruns, deterioration in the economic situation of the countries in which it operates, as well as to deterioration in rental markets, because under its loan agreements, Kardan Group is required to continue to make interest and principal payments on its loans in the case of delays in the completion of a project, or if rental and occupancy rates of its properties decline. In addition, banks may suspend financing even after initiation of a project if specified contractual pre-leasing parameters are not met.

Compliance to banking covenants depends on, among others, a decline in the value of the properties and/or rental fees per m² and/or occupancy rates.
The projects of income producing properties abroad are for a large part financed by banking sources. In the framework of a series of agreements with the banks, GTC committed (through its subsidiaries) to meet several financial conditions. Should GTC not comply with the said financial conditions in the future (as a result of a decline in the value of the property and/or rental fees per m^2 and/or occupancy rates and/or any other reasons), the banks will be entitled to demand an immediate repayment of the loans, which would result in an immediate financing need.

A decrease in the demand for office and commercial space in CEE markets could have a material adverse effect on Kardan Group's business.
The demand for office and commercial space in CEE could decline due to an increase in the supply of available space, and due to increased competition for "quality tenants" – financially stable international companies and retail chains, which enter into long-term lease agreements. The increased supply of office and commercial space and the level of the current rental rates in the markets in which Kardan Group has developed, and continues to develop, projects, has caused potential tenants to expect a decline in rental rates. Therefore, potential tenants as well as current tenants whose contracts are up for renewal tend to delay entering into lease agreements for as long as possible, and to demand shorter lease periods. The future rental rates of current tenants could be lower than current rental rates.

The surplus supply of real estate in Israel may impair the prices of real estate for sale, the rates of occupancy and the levels of rental payments of Kardan Group's income yielding properties.
The recession in Israel has caused a contraction in consumption and in the execution of commercial transactions. The real estate sector, which is fed directly by commercial companies and private households, was hit directly by the level of demand, both for income yielding real estate and real estate for purchase. The surplus supply of residential appartments, office spaces and commercial spaces may impair the prices of apartments for sale, the rates of occupancy and the levels of rental payments of Kardan Group's income yielding properties, and consequently may also affect the results of its operations.

Kardan Group may have environmental liabilities not revealed by its environmental reviews.

Kardan Group's real estate holdings are subject to various governmental environmental regulations. Although Kardan Group conducts environmental reviews of its properties, there can be no assurance that such reviews have revealed all potential liabilities, or that environmental regulations will not change (especially in light of the possible entry of certain CEE countries into the European Union), resulting in increased costs to Kardan Group, or interruption or termination of the development of some properties.

The real estate business in Israel is exposed to increasing costs and a shortage of labor.

The real estate sector in Israel employs foreign workers that are both unskilled and inexpensive for the sector and for the economy as a whole. The number of foreign workers in Israel is constantly decreasing, as a result of the government policy in Israel, aimed at encouraging the employment of Israeli workers instead. This exposes the real estate sector in Israel to increasing costs and a shortage of labor.

RISKS RELATING TO THE FINANCIAL SERVICES BUSINESS SEGMENT

The regulatory environment for insurance and financial services in CEE is unstable and not well developed; the pension fund and life insurance markets are affected by the tax treatment of premiums, which could change.

The insurance, pension fund management and financial services industries are heavily regulated. Regarding compliance by TBIH's insurance subsidiaries with the applicable regulations see also "Business Description – Insurance – Regulatory Environment". In CEE markets, the regulatory agencies and courts have relatively little experience in implementing the regulations, resulting in significant uncertainty as to their interpretation. There is significant uncertainty regarding the penalties and sanctions the regulatory authorities might apply in these circumstances. In some of the countries in which Kardan Group operates, significant regulatory reforms have been proposed, but not yet adopted, particularly in the life insurance and pension fields. The form of such laws, if and when adopted, could affect Kardan Group's business and prospects. Non-compliance may result in requirements to obtain additional financing. In addition, the pension fund and life insurance markets are affected by the tax treatment of premiums and contributions made by employers and employees. Adverse changes in the applicable tax laws could adversely affect Kardan Group's current pension and life insurance businesses, and the failure of expected changes to be enacted could adversely affect Kardan Group's growth prospects in these fields.

Kardan Group's strategy depends upon continued growth in CEE economies.

Kardan Group's strategy is to enter developing insurance and pension markets in CEE with growth potential. This growth strategy increases the risk profile of the Company, especially in underdeveloped markets. The success of this strategy will be determined by Kardan Group's ability to achieve significant penetration of new markets, as well as by the level of future economic growth in these markets.

TBIH will require additional funding to finance its planned growth.

TBIH's subsidiary companies today are not in a position to contribute to TBIH's cash flow in the amounts necessary to finance its planned growth, and are not expected to be in such a position for some time to come. Therefore, TBIH will need to finance its growth and strategic plans by taking additional financing or strategic other investors.

Insurance losses could exceed Kardan Group's insurance reserves.

There is inherent uncertainty in the process of establishing insurance reserves and outstanding claims, particularly reserves for certain branches of general insurance with "long-tail" business, i.e. policies written on an occurrence basis, where claims can arise long after the policy has expired. This uncertainty arises from a number of factors, including ongoing interpretation of insurance policy provisions by courts, inconsistent decisions in lawsuits regarding coverage and expanded theories of liability. In addition, on-going changes in claims settlement practices can lead to changes in loss payment patterns that are used to estimate reserve levels. Consequently, ultimate losses could materially exceed established loss reserves and have a material adverse effect on the results of operations, liquidity or financial position of Kardan Group's insurance businesses.

The frequency and severity of insurance claims are affected by external factors.

Changes in the severity of claims have an impact on the profitability of Kardan Group's insurance business. Weather conditions including the frequency and severity of tornadoes, hailstorms, hurricanes, high winds, and winter storms affect the frequency and severity of claims in the property lines of insurance. Changing driving patterns affect the frequency and severity of claims in the private passenger auto insurance business. Changes in bodily injury claim severity are driven primarily by inflation in the medical sector of the economy. Changes in auto physical damage claim severity are driven primarily by inflation in auto repair costs, auto parts prices and used car prices. Changes in loss costs for homeowners insurance policies are driven by inflation in the construction industry, in building materials and in home furnishings and by other economic and environmental factors. The techniques and data used to predict these events may be inaccurate. In addition, changes in the level of the severity of claims paid by Kardan Group's insurance businesses do not necessarily match or track changes in the rate of inflation in these various sectors of the markets in which Kardan Group's insurance businesses operate.

Reinsurance recoverables may be lower than estimated.

There is uncertainty involved in estimating the availability of reinsurance and the collectibility of reinsurance recoverables. This uncertainty arises from a number of factors, including whether losses meet the qualifying conditions of the reinsurance contracts and whether the reinsurers have the financial capacity and willingness to pay.

Many of Kardan Group's competitors, particularly in the field of insurance, are substantially larger than Kardan Group's subsidiaries.

In the field of insurance, Kardan Group's competitors typically are subsidiaries of multinational financial services conglomerates, which have significantly greater financial and technical resources than Kardan Group's subsidiaries. As a result, Kardan Group's competitors may be able to devote greater resources to developing, promoting and selling their products than Kardan Group can.

Success in the life insurance market is, among others, dependent on a rise in the disposable income of the residents in the markets in which Kardan Group is active.

The market for life assurance products in CEE can achieve growth only if the disposable income of the residents in the markets entered rises substantially. This might take a significant period of time and therefore the Company might have to wait a significantly longer period of time for its investments in life insurance to mature than originally contemplated.

Success in the pension market is, among others, dependent on reaching a critical number of subscribers.

The keys to financial success in the pension market include reaching and surpassing a critical number of subscribers, the passing of appropriate voluntary and mandatory pensions legislation and tax concessions and a good distribution strategy. Where a fund cannot reach the required number of subscribers and/or cannot maintain management and investment fee levels, TBIH would have to consider exiting the market.

The net results of TBIH are partly dependent on its investment results.

The net results of TBIH from its insurance businesses will depend in part on investment results. Due to regulatory and practical limitations that pertain in the countries in which they operate, TBIH's insurance businesses invest heavily in fixed income bonds and bank deposits. In addition, some entities have invested in illiquid assets as a result of the regulatory and investment environment in their country of operation. Lower than expected results from investments of funds, may have an adverse effect on the net results of TBIH.

RISKS RELATING TO THE INFRASTRUCTURE BUSINESS SEGMENT

Tahal Group is exposed to certain political risks.
Tahal Group conducts infrastructure operations mostly in second and third world countries, many of which have unstable governments and economies.

Tahal Group is performing projects outside Israel, with contracts in different currencies, mainly USD, while its local activity in Israel as well as the majority of its cost basis is in NIS.
Tahal Group is exposed to exchange rate fluctuations from working with several different functional currencies. Tahal Group does not hedge these risks on a systematic basis.

In turn-key projects, TCE is subject to some financing exposure in the case of non-payment by its clients.
In turn-key projects where Tahal Group arranges the financing package, Tahal Group is subject to some exposure, as Tahal Group generally performs work in amounts greater than the guaranteed financing. Tahal Group's maximum exposure is between 5% -20% of the project value.

Fluctuations in revenues could have a major impact on profitability.
Tahal Group's income is highly fluid and dependent on projects, whereas the expense basis, including the cost of manpower, is far less flexible, and remains relatively unchanged regardless of the projects. In addition, the costs of strategic marketing for the development of new markets and new projects are relatively high. These factors, combined together, could result in substantial profitability fluctuations between the years.

Tahal Group is dependent on the quality of work of local partners or sub-contractors in markets outside Israel.
Tahal Group is dependent on local sub-contractors in the projects performed in markets outside Israel, who are not engaged directly with the Company's clients. Tahal Group attempts to mitigate these risks, inter alia, by choosing reputable subcontractors, and by requiring performance guarantees.

No insurance policies are in place for some environmental risks.
Due to the fact that Tahal Group is engaged in projects that may have impact on the environment, there are some risks of environmental damage. Although Tahal Group carries insurance for environmental damage caused by accidents or professional malpractice, Tahal has concluded that some environmental risks cannot be ensured under terms that are economically feasible.

RISKS RELATING TO THE CONSUMER GOODS BUSINESS SEGMENT

The business of UMI depends on distribution agreements expiring periodically.
UMI's business depends on agreements with vehicle manufacturers authorizing it to import and distribute vehicles in Israel. The distribution agreements with these manufacturers have been renewed for the past 10 years and therefore the Company has no reason to expect that the agreements will not continue to be extended in the future. Furthermore General Motors holds a 10% stake in UMI. Nevertheless it is possible that unforeseen circumstances would result in distribution agreements not being extended.

Fluctuations in exchange rates may lead to an increase in costs to consumers and consequently to a decrease in consumer demand.
Fluctuations in the exchange rate of the currency in which UMI purchases the motor vehicles marketed by it, may affect the prices of the motor vehicles to Israeli consumers in NIS, as well as the prices of UMI's vehicles relative to those of its competitors, and accordingly, the demand therefore.

UMI's sales may be influenced by various governmental taxation policies.

Changes in the regulatory arrangements applicable to UMI may cause changes in the structure of the market in which UMI operates. In particular, changes in the government's taxation policy, or a change in policy regarding the classification of a motor vehicle as private or commercial for tax purposes, may result in changes in the demand for motor vehicles, in general, and for motor vehicles of certain sizes and types or for motor vehicles which are manufactured in specific countries.

The future balance sheet value of vehicles might be lower than expected.

The net balance sheet value of vehicles for leasing in the Traffic Lis company, a 50% held subsidiary of UMI, might be (partly) impaired in case of a sharp decline in the market for vehicle leasing. In addition, in case of a lower than expected value by the end of the leasing arrangement and a preliminary reimbursement due to a customer defaulting on lease payments, could lead to an impairment of the asset value.

UMI keeps stocks in substantial amounts. Any deceleration of UMI's sales will affect UMI's business results.

The Company's activity of importing and selling vehicles involves maintaining large inventories. These inventories may depreciate in value, as a result of the model becoming obsolescent (as a result of, inter alia, newly year models being marked), technological improvements, regulation, changes in the rates of exchange of foreign currencies, etc.

Fluctuations in the standard of living in Israel may have an adverse effect on sales of private motor vehicles.

Fluctuations in the standard of living in Israel may have an adverse effect on the quantity of private vehicles sold by UMI. In the last few years, such fluctuations have indeed resulted in a decrease in the volume of sales of private motor vehicles in Israel.

The Business of UMI depends on Governmental Permits.

UMI operates under a permit to act as a motor vehicle importer in Israel and certain other permits. Although UMI's permits have been extended in the past on an ongoing basis and UMI has no reason to expect that the permits shall not be extended in the future, it is possible that unforeseen circumstances would result in the permits not being extended. In addition, currently unforeseeable changes in the regulatory arrangements applicable to UMI may introduce changes to, and effect the competitiveness in, the motor vehicle market in Israel.

RISKS RELATING TO THE COMMUNICATIONS AND TECHNOLOGIES BUSINESS SEGMENT

Kardan Group has invested in early stage ventures, which may be difficult to evaluate.

Some of Kardan Group's communications and technologies investees are early stage ventures, and as such it is difficult to judge their future prospects. The risks to which Kardan Group's communications and technologies investees are subject may include some or all of the following:

- Limited operating history upon which to evaluate performance;
- Unproven business models and products;
- Dynamic industry characterized by rapid change and uncertainty relating to new and emerging technologies and markets;
- Products may become obsolete more quickly than expected;
- Research and development may not result in successful products, or products may not achieve market acceptance and may not compete effectively with products of competitors;
- Product development cycles may be longer than expected;
- History of losses, with additional losses anticipated for the foreseeable future;
- Additional financing may not be available on a timely basis if at all, or on acceptable terms;

- Additional financing may cause material and immediate dilution to existing shareholders; and
- Inability to complete a public offering or otherwise provide liquidity to its shareholders.

Kardan Communications is, for the continuation of its operations, highly dependent on financing provided by Kardan Ltd.
Kardan Communications is highly dependent on financing by Kardan Ltd. All the investments and current expenses of Kardan Communications are financed through substantial loans received from Kardan Ltd. Hence, Kardan Communications may not be able to continue its operations without the continued financial backing of the Company.

Kardan Technologies currently does not have independent financial resources for financing.
Kardan Technologies does not currently have independent resources for financing its continued operation in the longer term. Therefore, additional funds should be attracted. Kardan Ltd. intends to assist Kardan Technologies to raise funds.

Kardan Communications and Kardan Technologies do not have substantial influence in the companies in which they have invested.
Kardan Communication as well as Kardan Technologies have invested in numerous companies. However, in most of these investee companies Kardan Communications and Kardan Technologies do not hold a large enough stake to materially influence the business of these companies. Consequently, Kardan Communications as well as Kardan Technologies are dependent on third parties to implement certain strategies or make certain decisions.

The technologies and communication market have significantly deteriorated in recent years.
The technology and communications market in Israel and worldwide has significantly deteriorated in recent years. As long as these markets have not recovered, this may impact the condition of the companies held by Kardan Communications and Kardan Technologies.

RISKS RELATING TO THE TRANSACTION

Prior to the Transaction, there has been no public market for the Shares.
Prior to the Transaction, there has been no public market for the Shares. Although the Ltd. Shares have been listed and traded on the Tel-Aviv Stock Exchange, the trading volume in the Ltd. Shares has been relatively limited. No assurances can be given that a consistently active trading market for the Shares will develop or be maintained following the Listing, or that the market price of the Shares will not decline.

The Controlling Shareholders will be able to determine all matters requiring shareholder approval, including the election of the Supervisory and Managing Boards.
A majority of the Ltd. Shares are, and therefore, assuming that the Tender Offer will be successfully consummated, a majority of the Shares will be, held by the Controlling Shareholders who have agreed to act together with respect to their shareholdings. See “Shareholders”. Accordingly, the Controlling Shareholders will be able to determine all matters requiring shareholder approval, including the election of the Supervisory and Managing Boards. In addition, the existence of a control group makes the Company impervious to takeovers, whether by tender offer or otherwise. See also “Shareholders”.

Conversion of Kardan Ltd.’s convertible debentures may result in substantial dilution.
Kardan Ltd. has issued convertible debentures, which oblige the Company to issue Shares, as described in “Business Description – Financing”. If all of the convertible debentures are converted, the interests of the existing Shareholders would be diluted by approximately 14.4%.

The Tender Offer is conditional upon the achievement of a minimal rate of acceptance.
The Tender Offer is conditional upon the achievement of a minimal rate of acceptance, being such that in consequence of the Tender Offer the Company's holdings shall be in excess of 95% of the issued and outstanding Ltd. Shares. If this minimum threshold shall not be met, the Tender Offer shall not enter into force, the Company shall not purchase any Ltd. Shares, and the Shares will not be listed on Euronext Amsterdam and the Tel-Aviv Stock Exchange.

In the event of purchase of Ltd. Shares through a "forced sale", the consideration payable for such Ltd. Shares may be contested in court pursuant to Section 338 of the Israeli Companies Law of 1999.
In the event of purchase of Ltd. Shares through a "forced sale", Section 338 of the Israeli Companies Law of 1999 provides that an Israeli court may determine, pursuant to an application made by a Ltd. Shareholder no later than three months from the date of acceptance of the Tender Offer, that the consideration payable for Ltd. Shares purchased by means of such forced sale was less than their fair value, in which case such former Ltd. Shareholder shall be entitled to receive the fair market value thereof as determined by the court.

RISKS RELATING TO THE SHARES

The pre-emptive rights of the Shareholders may be restricted or excluded by the Managing Board.
The Shareholders will generally have pre-emptive rights to subscribe for a pro-rata amount of any new Shares issued by the Company. These rights, however, are subject to certain provisions of the Articles of Association and may be restricted or even excluded by a resolution of the Managing Board, subject to the approval of the Supervisory Board. See "Description of Share Capital and Corporate Structure".

The market price of, and trading volumes in, the Shares may be volatile.
The market price of the Shares may be significantly affected by, among others, the following factors:
- the Company's actual or anticipated results of operations;
- the level of the Company's debt;
- future sales and issues of Shares;
- new services or products offered, or new relationships entered into or existing relationships lost, by the Company or its competitors;
- changes in, or the Company's failure to meet, securities analysts' expectations;
- legislative and regulatory developments affecting the Company's business;
- developments and technological innovations in the Company's business; and
- general market conditions and other factors beyond the Company's control.

The Shareholders face potential dilution of their shareholdings in the future.
The Company may issue Shares in connection with future acquisitions of other businesses, financings or the funding of its business objectives. See "Description of Shares and Corporate Structure". Any such issuances of Shares will dilute the shareholdings of the then existing Shareholders. The Company may also grant options to purchase Shares to members of the Company's management and employees. Any such grant, or exercise of any stock option, may dilute the shareholdings of the then existing Shareholders.

The stock exchanges on which the Shares are traded are located in different time zones and have trading days that do not or not fully overlap.
As the trading days and trading times of Euronext Amsterdam and the Tel-Aviv Stock Exchange differ to some extent, a Shareholder might not always be able to trade at the same time on the two stock exchanges.

It is unclear if the Israeli clearing & settlement regulations and procedures afford an equal level of protection to holders of Shares traded on the Tel-Aviv Stock Exchange as the Dutch Securities Giro Act affords to holders of Shares traded on Euronext Amsterdam.

The Shares will be listed on Euronext Amsterdam and the Tel-Aviv Stock Exchange. For a description of the link between the respective platforms of Euronext Amsterdam and the Tel-Aviv Stock Exchange, see the chapter "Description of the Shares and the Corporate Structure". Trading of the Shares on the stock market of Euronext Amsterdam will take place by means of a transfer of book-entry rights in respect of Deposit Shares, in accordance with the provisions of the Dutch Securities Giro Act (*Wet giraal Effectenverkeer*). The Shares that are traded on the Tel-Aviv Stock Exchange are subject to Israeli clearing & settlement regulations and procedures and therefore fall outside of the scope of the Dutch Securities Giro Act. The Dutch Securities Giro Act aims to protect investors in the event of a possible bankruptcy of a Necigef Participant where an investor holds a securities account in the sense of the Dutch Securities Giro Act. It is unclear if the Israeli clearing & settlement regulations and procedures afford an equal level of protection as the Dutch Securities Giro Act.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

General

For the purposes of this Prospectus, the pro forma historical consolidated financial information and as of the end of, each of the years ended 31 December 2000, 2001 and 2002 is derived from Kardan Ltd.'s audited consolidated financial statements which were prepared in accordance with Israeli GAAP. The annual financial statements for 2001 and 2000, based on Israeli GAAP, were audited by Luboshitz Kasierer, a former member firm of Arthur Andersen. Since June 2002, Luboshitz Kasierer is an affiliate member of Ernst & Young International. For the purpose of this Prospectus, the annual financial statements of Kardan Ltd. as of 31 December 2002 and 2001 and the balance sheet, statements of operations, cash flows and changes in equity as of 31 December 2000 were pro forma converted from Israeli GAAP into IFRS by Kardan Ltd. and audited by Luboshitz Kasierer, an affiliate member of Ernst & Young International. The financial statements for the period ending 31 March 2003 were pro forma converted from Israeli GAAP into IFRS by Kardan Ltd.

Certain financial and statistical information in this Prospectus has been subject to rounding adjustments. Accordingly, the sum of certain data may not conform to the stated total.

Convenience Translation of Currencies

The measurement currency used to prepare Kardan Ltd.'s financial statements is the NIS. Certain companies within Kardan Group have published financial statements in USD. The financial information regarding these investees was presented in this prospectus in USD.

Unless indicated otherwise, certain amounts in this Prospectus have been translated into EUR as follows:

- Assets, liabilities and equity items are translated at the closing rate existing at the respective year end dates;
- Income and expense items are translated at the average exchange rates existing during the years the transactions occurred;
- Cash receipt and payment items are translated at the average exchange rates exsisting during the years the transactions occurred; and
- All exchange differences resulting from the above-mentioned translation are recognized directly in equity.

The rates used to perform the above-mentioned translation are:

	NIS per EUR	USD per EUR
31 December 2000	3.7628	0.9312
31 December 2001	3.9075	0.8849
31 December 2002	4.9696	1.0491
Average 2000	3.7679	0.9241
Average 2001	3.7644	0.8951
Average 2002	4.8867	1.0314
31 March 2002	4.0782	0.8737
31 March 2003	5.1086	1.0900
Average Q1 2002	4.0463	0.8756
Average Q1 2003	5.1801	1.0730

These translations are solely for the convenience of the reader and should not be construed as representations that the non-euro amounts actually represent such euro amounts or that the Company could convert these amounts into euros at the rate indicated. As a result of the convenience translation, the euro amounts in this Prospectus might distort the description of the Company's financial condition and results of operations (e.g. the text might discuss an increase while the convenience translation into euro amounts show a decrease). See "Exchange Rates" for historical information regarding the official rates of exchange.

THE TRANSACTION

Description of the Transaction

Kardan Ltd. incorporated the Company on 2 May 2003. Upon the incorporation of the Company, Kardan Ltd. has paid-in EUR 45,000 against issuance by the Company to Kardan Ltd. of 225,000 Shares.

The Company will launch the Tender Offer on the date of this Prospectus. Under the terms of the Tender Offer, the Company will offer to all Ltd. Shareholders to acquire all of their Ltd. Shares, in exchange for Shares at an exchange ratio of one Share for each one Ltd. Share. The Tender Offer will be irrevocable and unconditional except as detailed hereafter.

The Tender Offer shall be outstanding for a period of 14 days ending on 3 July 2003 at 16:00 Tel-Aviv time, unless deferred or withdrawn as detailed below. The Company shall be entitled to defer the last acceptance date of the Tender Offer, provided that the deferred last acceptance date is a trading day on the Tel-Aviv Stock Exchange no later than 60 days from the date on which the Tender Offer was made. The Company may further amend the Tender Offer while it is outstanding in a manner that improves its terms, in accordance with the procedures prescribed under applicable Israeli regulations.

The Tender Offer is conditional upon the achievement of a minimal rate of acceptance, being such that in consequence of the Tender Offer the Company's holdings of Ltd. Shares shall be in excess of 95% of the issued and outstanding Ltd. Shares. On the date of this Prospectus, the quantity of Ltd. Shares in consequence of which the Company will hold more than 95% of Kardan Ltd.'s share capital is 57,611,614 Ltd. Shares (This quantity might increase if and insofar as options are exercised or debentures are converted into Ltd. Shares). If this minimum threshold shall not be met, the Tender Offer shall not enter into force, the Company shall not acquire any Ltd. Shares, and the Shares will not be listed on Euronext Amsterdam and the Tel-Aviv Stock Exchange. If this minimum threshold shall be met, the Company shall acquire all tendered Ltd. Shares and, if such tendered Ltd. Shares represent less than 100% of the issued and outstanding Ltd. Shares, the Company shall acquire the difference between 100% and the percentage of the Ltd. Shares tendered by means of a forced sale pursuant to the provisions of Section 337 of the Israeli Companies Law of 1999. As a result, Kardan Ltd. shall become a wholly owned subsidiary of the Company. The Company has been informed, in notices that are not in writing, that offerees holding approximately. 48,163,620 Ltd. Shares, including the Controlling Shareholders, intend to accept the Tender Offer.

Under Section 338 of the Israeli Companies Law of 1999, an Israeli court may determine, pursuant to an application made by a Ltd. Shareholder no later than three months from the date of acceptance of the Tender Offer, that the consideration payable for Ltd. Shares purchased by means of such forced sale was less than their fair value, in which case such former Ltd. Shareholder shall be entitled to receive the fair value thereof as determined by the court. Such application may be brought as a class action.

The Company shall be entitled to withdraw the Tender Offer in the event of the occurrence of circumstances that the Company did not foresee and could not have foreseen and which render the terms of the Tender Offer substantially different than those that a reasonable offeror would have offered, had he been aware of such circumstances on the date of the Tender Offer.

Within the scope of the completion of the Tender Offer the Company will issue 60,643,804 to 71,222,679 Shares to the Ltd. Shareholders. These Shares to be issued will be paid up in kind by way of a transfer of the Ltd. Shares to the Company. On 17 June 2003 the Managing Board resolved to issue as many Shares, as Ltd. Shares will be tendered within the scope of the Tender Offer such issuance becoming effective when (i) a deed of issuance to that effect has been executed and (ii) the Articles of Association have been amended. On 17 June 2003 the Supervisory Board approved this resolution of the Managing Board. The amendment of the Articles of Association is required in order to increase the Company's authorized share capital to EUR 45 million; such increase is necessary for the issue of 60,643,804 to 71,222,679 Shares. The Company has taken all necessary corporate action for the amendment of the Articles of Association. Furthermore the declaration of no-objection required for the amendment of the Articles of Association has been obtained from the Dutch Ministry of Justice.

At the completion of the Tender Offer, a deed of issuance will be executed with respect to as many Shares, as Ltd. Shares have been tendered such issuance becoming effective upon the amendment of the Articles of Association. Immediately thereafter the Articles of Association will be amended.

In the event of a successful completion of the Tender Offer it is likely that 60,643,804 Shares will be issued. It could be that any of Kardan Ltd.'s convertible debentures and exercisable options will be converted or exercised respectively prior to the completion of the Tender Offer. However, this is unlikely to happen, because the current share price for the Ltd. Shares at the Tel-Aviv Stock Exchange is well below the applicable conversion rate and exercise prices. Should all of Kardan Ltd.'s convertible debentures and currently exercisable options be converted and exercised respectively prior to the completion of the Tender Offer, an additional 10,578,875 Shares will be issued in the event of a successful completion of the Tender Offer. In that case a total of 71,222,679 Shares would be issued.

The holders of Kardan Ltd.'s convertible debentures have agreed that following the completion of the Transaction, the debentures will be convertible into Shares in place of Ltd. Shares. In addition, the Company notified the debenture holders that the conversion ratio will be amended. See "Business Description-Financing".

In consequence of the successful completion of the Tender Offer, the Ltd. Shares shall be delisted from the Tel-Aviv Stock Exchange, the Company shall take measures to list the Shares on Euronext Amsterdam and the Tel-Aviv Stock Exchange, and the Shareholders shall, immediately upon completion of the Tender Offer, be identical in their identities and respective shareholdings to the Ltd. Shareholders immediately prior to the completion of the Tender Offer, except that 225,000 of the Shares shall remain held by Kardan Ltd.

The Company, and members of the Managing Board and the Supervisory Board undertook, by signing the Israeli prospectus, (a) to refrain from arrangements not included in the Israeli prospectus in connection with the Shares, the circulation thereof and their dispersal to the public, and not to grant purchasers of the Shares pursuant to the Israeli prospectus a right to sell the Shares purchased by them, save as provided therein. (b) The Company, members of the Managing Board and the Supervisory Board undertook, by signing the Israeli prospectus, to notify the Securities Authority of any arrangement of which they are aware with a third party that contravenes the undertakings mentioned in sub-section (a) above. (c) The Company, members of the Managing Board and the Supervisory Board undertook, by signing the Israeli prospectus, not to contract with any third party who to the best of their knowledge has made arrangements contravening the provisions of sub-section (a) above. The Company gave the Israeli Securities Authority, on the date of the publication of the Israeli prospectus, an undertaking signed by Kardan Ltd. by virtue of its holdings of the Company's shares, pursuant to which Kardan Ltd. undertook to act as provided in sub-sections (a) to (c) above.

Motives for the Transaction

Kardan Ltd. incorporated the Company and initiated the Tender Offer in order to highlight the international orientation of Kardan Group's activities and to advance its business goals.

Kardan Group has substantial activities outside of Israel, primarily in certain CEE countries, including activities in the real estate, insurance and pension and infrastructure sectors. Kardan Ltd.'s management believes that the holding of Kardan Group's companies and activities via a Dutch company embodies significant advantages for the Kardan Group.

The transaction is intended to assist the Kardan Group, *inter alia*, in: (i) expanding and developing its existing European-based activities; (ii) expanding the accessibility to foreign financing sources; (iii) expanding the possibilities of contending in international tenders; (iv) expanding the possibility of creating strategic partnerships and introducing European-based and other investors; (v) expanding the possibility of growth through mergers and acquisitions and (vi) improving the competitive ability of Kardan Group.

The Listing conforms to the international orientation of the activities of Kardan Group and is expected to provide Kardan Group with a greater accessibility to the international business communities and markets.

CAPITALIZATION

The following table sets out the Company's capitalization as per 2 May 2003 and as adjusted to give effect to the issue of 60,643,804 Shares in connection with the Tender Offer and the anticipated change in the authorized share capital in connection therewith, whereby it is assumed that none of Kardan Ltd.'s convertible bonds and exercisable options be converted or exercised respectively prior to the completion of the Tender Offer. See also "The Transaction" Investors should read this table in conjunction with "Management's Discussion and Analysis of Financial Condition and Result of Operations" and the financial statements, including the notes thereto, which have been included elsewhere in this Prospectus. The table has been prepared on the assumption that all Ltd. Shares will be acquired by the Company under the Tender Offer.

	Actual *In thousands of NIS*	As adjusted(*) *In thousands of NIS*	Actual *In thousands of EUR*	As adjusted(*) *In thousands of EUR*
Total current liabilities	–	559,479	–	112,580
Total non-current liabilities	–	679,944	–	136,821
Minority interest	–	73,070	–	14,703
Shareholder's equity				
Shares EUR 0.20 par value; 1,125,000 Shares authorized; 225,000 Shares issued and outstanding (60,868,804 Shares as adjusted)	224	60,499	45	12,174
Additional paid in capital	–	383,725	–	77,215
	224	444,224	45	89,388
Total liabilities and Shareholder's equity	224	1,756,717	45	353,493

(*) The adjusted balances are based on the pro forma Financial Statements of Kardan Ltd. as of 31 December 2002

(**) See also "Important Information" for an explanation of the convenience translation of currencies

MARKET PRICE INFORMATION

The Ltd. Shares have been listed on the Tel-Aviv Stock Exchange since 1982. Although the Shares differ from the Ltd. Shares in some respects and therefore the market price of the Shares may differ from the market price of the Ltd. Shares, the following table sets out the high, low and closing prices and the average daily trading volume of the Ltd. Shares on the Tel-Aviv Stock Exchange for the periods indicated:

	Price						Average daily trading volume
	Low EURO	NIS	High EURO	NIS	Closing EURO	NIS	(number of Ltd. Shares)
Q1 2000	1.86	9.25	5.41	26.90	3.30	16.42	60,557
Q2 2000	2.71	13.48	3.76	18.67	3.43	17.03	32,649
Q3 2000	2.87	14.24	3.41	16.93	3.05	15.15	9,923
Q4 2000	2.29	11.40	2.99	14.88	2.62	13.00	10,742
Q1 2001	1.83	9.09	2.60	12.94	2.03	10.11	13,176
Q2 2001	1.87	9.31	2.48	12.30	1.97	9.78	4,150
Q3 2001	2.18	10.82	3.09	15.35	2.39	11.88	17,305
Q4 2001	2.26	11.22	3.34	16.59	3.30	16.42	26,889
Q1 2002	1.99	9.87	3.51	17.46	1.99	9.87	13,941
Q2 2002	1.76	8.75	2.16	10.73	2.06	10.23	8,530
Q3 2002	1.68	8.34	2.05	10.19	1.76	8.73	6,402
Q4 2002	1.64	8.13	1.85	9.19	1.64	8.14	10,056
Q1 2003	1.53	7.58	1.71	8.50	1.66	8.26	13,134
April 2003	1.64	8.14	1.82	9.03	1.70	8.47	11,495
May 2003	1.60	7.95	1.95	9.70	1.82	9.06	24,586
15 June 2003	1.90	9.45	2.05	10.18	2.05	10.18	224.856*

* For the period of 1 June through 15 June 2003. Includes the sales by Kardan Ltd. of 1,053,880 treasury shares on the Tel-Aviv Stock Exchange.

All the market price information was taken from the database of the Mizrachi Union Bank Ltd.

The exchange rates used for translation was the official EUR/NIS exchange rate on 31 December 2002 which was 1.0 EUR to 4.9696 NIS.

The measurement currency used to reflect the above market price information is the NIS. Please note that the amounts denominated in NIS have, solely for the convenience of the reader, been translated into amounts denominated in EUR. As a result of this convenience translation, the EUR amounts reflected above might not accurately reflect the actual share prices which are denominated in NIS.

The above translations should not be construed as representations that the non-EUR amounts actually represent such EUR amounts or that the Company could convert these amounts into EUR at the rate indicated. See also “Important Information” and “Presentation of Financial and Other Information - Convenience Translation of Currencies”. Further, see “Exchange Rates” for historical information regarding the official rates of exchange.

Below is a chart illustrating the market price of the Ltd. Shares for the period 1 January 2000 through 31 May 2003.

DIVIDEND POLICY

The Company

Any payment by the Company of future dividends and the amounts thereof will depend upon earnings, statutory and financial requirements and other factors deemed relevant by the Managing Board, and will be subject to withholding tax in the Netherlands. The Company may, pursuant to the Articles of Association, declare and pay dividends either in cash or in kind, in the form of Shares or certain other securities. See “Description of Shares and Corporate Structure” and “Taxation”.

Dividend Policies and Limitations in Distribution of Dividends

Within Kardan Group, certain companies have adopted dividend policies, and certain limitations on the distribution of dividends apply, including the following:

Kardan Ltd.

Kardan Ltd. has undertaken, in connection with certain loans received from commercial banks in Israel, to refrain from distributing to its shareholders as dividends, management or consulting fees in any given year, more than 33% of its profits in such year (according to the Kardan Ltd. financial statements prepared in accordance with Israeli GAAP).

See also “Management’s Discussion and Analysis of Financial Condition and Result of Operation - Liquidity, Sources of Financing and Capital Resources” and “Business Description - Description of Kardan Ltd. - Financing”.

At the end of 1999 Kardan Ltd. has declared and paid a dividend in kind in the form of shares of a subsidiary. Kardan Ltd. has not declared any dividend since.

Certain other Kardan Group Companies

The controlling shareholders of KRE have agreed that KRE will distribute at least 50% of the profits available for distribution, provided the distribution of dividends will not unreasonably impinge upon the investment plan, the status of the liabilities and the cash flow of KRE.

In the “Holyland Park” project in which KRE holds an interest of 30%, the distribution of dividends and other payments require a resolution of the shareholders with unanimous votes.

Regarding the dividend policies of GTC, GTC Romania and GTC Hungary, see “Business Description - Real Estate - Shareholders’ Agreements”. Certain Financing agreements of GTC and its subsidiaries restrict the ability of these companies to distribute dividends in the event that financial covenants are not met.

Distribution of dividends by TBIH requires approval of all shareholders, as well as of EBRD in its capacity as lender.

UMI’s managing board will pursuant to UMI’s articles of association and a shareholders agreement recommend to UMI’s shareholders payment of dividends out of profit earned by UMI, which dividends shall be in an amount determined by UMI’s managing board (by unanimous agreement) to be prudent. Absent such board agreement or the level of dividends to be paid in any year, dividends shall be made in an amount of 30% of UMI’s annual profit available for dividends.

As a security for the debentures issued by Kardan in February 2002, Kardan provided a first-ranking fixed charge over de shares in the capital of Taldan Motors Ltd. in addition thereto Kardan undertook to exercise its control in Taldan Motors Ltd. in such a way that, until the due date of the debentures, and unless approval is obtained from the trustee in connection with the debentures, no dividends shall be distributed by Taldan Motors Ltd. in an amount exceeding 50% of the annual profit recorded in Taldan Motors Ltd’s consolidated financial statements in each of the years 2002-2004.

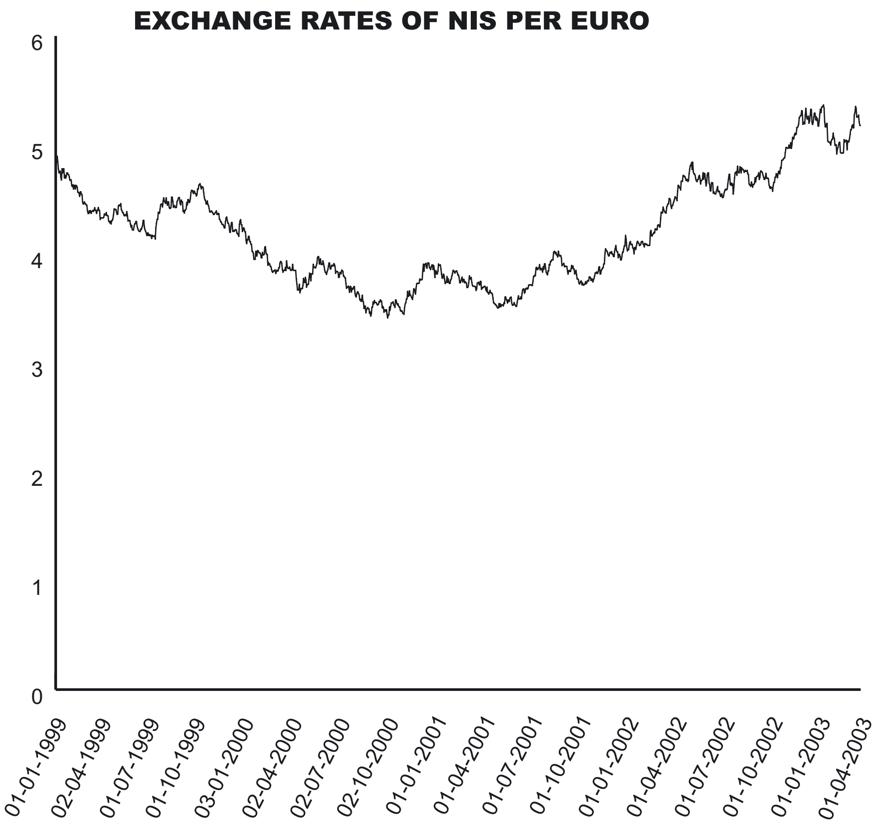
EXCHANGE RATES

The following tables present, for the periods and dates indicated, information concerning the official exchange rates of NIS per EUR. Amounts are expressed in NIS per EUR 1.00 and average figures reflect the average of the official rates on each trading day during the relevant period. Before 1 January 1999 there was no exchange rate between EUR and NIS.

Period	Rate at Period End	Low	High	Average
Q1 1999	4.3295	4.3144	4.8960	4.5654
Q2 1999	4.2077	4.2046	4.4614	4.3182
Q3 1999	4.5640	4.1347	4.5640	4.3860
Q4 1999	4.1750	4.1750	4.6446	4.3935
Q1 2000	3.8491	3.8195	4.3143	4.0055
Q2 2000	3.9151	3.6421	3.9742	3.8257
Q3 2000	3.5534	3.4281	3.9151	3.6786
Q4 2000	3.7628	3.4114	3.7691	3.5660
Q1 2001	3.6902	3.6902	3.9149	3.8163
Q2 2001	3.5282	3.5033	3.7980	3.6328
Q3 2001	3.9890	3.5181	4.0211	3.7723
Q4 2001	3.9075	3.7120	4.0246	3.8269
Q1 2002	4.0782	3.9075	4.1690	4.0463
Q2 2002	4.7339	4.0782	4.8422	4.4863
Q3 2002	4.7996	4.5162	4.8052	4.6467
Q4 2002	4.9696	4.5741	4.9757	4.7307
Q1 2003	5.1086	4.9681	5.3666	5.1801
April 2003	4.9550	4.9161	5.0660	4.9883
May 2003	5.1765	5.0275	5.3530	5.1846

All the information regarding exchange rates was taken from the data base of the Mizrachi Union Bank Ltd.

Below is a chart illustrating the exchange rates of NIS per EUR for the period from 1 January 1999 through 31 May 2003.



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULT OF OPERATIONS

The following discussion of the Company's financial condition and results of operations should be read in conjunction with Kardan Ltd.'s pro forma audited financial information and related notes and the other financial information contained elsewhere in this Prospectus. Please note that, as this section partly discusses developments that took place in the past, it will typically discuss Kardan Ltd.'s businesses. However, references to Kardan Ltd. and Kardan Group should, in as far as the future developments are described, also be taken to include the Company.

See "Presentation of Financial and Other Information - Convenience Translation of Currencies" for an explanation of the convenience translation of currencies.

The statements contained in this section typically discuss future expectations, contain projections of results of operations or financial condition, describe expected changes to the system of regulation applicable to the Company or state other "forward-looking" information. When used in this section, the words "believes", "anticipates", "expects", "intends", "plans", "seeks", "estimates", "may", "will" and "continue" and similar expressions generally identify forward looking statements that are based on management's beliefs and on assumptions made by information currently available. Such forward looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond the Company's control, which may cause the actual results, financial condition, performance, achievements or prospects of the Company, or industry results, or the system of regulation applicable to the Company, to be materially different from any future results, performance, achievements, prospects or system of regulation expressed or implied by such forward looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in "Risk Factors". Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. In addition, under no circumstances should the inclusion of such forward-looking statements in this Prospectus be regarded as a representation or warranty by the Company, the Listing Agent or any other person with respect to the achievement of the results set out in such statements or that the underlying assumptions used will in fact be the case. These forward-looking statements speak only as of the date of this Prospectus. Without prejudice to its obligations under applicable laws and stock exchange regulations, the Company expressly disclaims any obligation to update any such forward-looking statements in this Prospectus to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Overview and Strategy

Kardan Group operates in the following five business segments:

- Real Estate
- Financial Services
- Infrastructure
- Consumer Goods
- Communications and Technologies

Kardan Group has an entrepreneurial outlook, and aims to invest in high-growth businesses, in order to create value for the Shareholders.

Kardan Group complements its resources by teaming up with institutional investors. Among the equity partners in Kardan Group companies are Deutsche Bank and EBRD in the real estate business segment, EBRD in the financial services business segment, and General Motors in the consumer goods business segment.

Kardan Group's strategy includes considering proposals to acquire businesses in a scope that is material to Kardan Group, both within and outside the fields of Kardan Group's current operations.

The following discussion is based on Kardan Ltd.'s pro forma consolidated financial statements, reflecting the results of the businesses that will be held by the Company following the succesful consummation of the Tender Offer.

Kardan Ltd. had net income in 2002 of NIS 12,604 thousand (EUR 2,579 thousand), a net loss in 2001 of NIS 31,703 thousand (EUR 8,422 thousand), and net income in 2000 of NIS 12,190 thousand (EUR 3,235 thousand).

Development of Kardan Group

During the past three years Kardan Group has focused its activities in its current sectors of operations, and divested several businesses that did not match this focus. In addition, Kardan Group made significant investments to expand its businesses in the fields of real estate and financial services in CEE.

In 2000 Kardan Group began to expand its real estate operations from Poland into other CEE countries. Kardan Group in this business segment is currently active in Poland, Hungary, Romania, the Czech Republic and Serbia. Kardan Group is exploring opportunities (but has not finalized projects) in additional CEE markets.

In the field of financial services Kardan Group continues to expand its insurance and pension operations into new markets. Further, Kardan Group made significant investments in the pension fund market in light of the pension reforms implemented in Bulgaria in recent years. In 2002, TBIH began to expand its financial services activities into other fields, including leasing and asset management.

In 2001 Kardan Group acquired the interests of its partners in Tahal, as part of a strategic decision to expand its activities in the infrastructure sector. Tahal is in the process of expanding its operations in the direction of B.O.T (Build, Operate, Transfer) and turnkey projects.

As of the end of 2002, most of Kardan Group's operations were located in CEE.
For a chart providing a summary overview of the Kardan Group company structure, see also “Business Description - Introduction”.

Recent Developments and Outlook

The Company

The Company and Kardan Ltd. intend to continue to direct the strategy and policies of their investee companies, in order to create value for their shareholders. The Company will continue to develop its activities in its current fields of operations, and may consider attractive opportunities for value creation in other fields. In previous years, Kardan Ltd. has invested significant sums in the acquisition and development of its investee companies. These investee companies have matured somewhat, and the Company expects that they may require less financing from the Company in the future.

Real Estate

GTC intends to continue its development activities in the markets in which it currently operates, and may consider opportunities to expand into additional CEE markets or mergers and acquisitions that would reinforce its ability to grow in those markets. GTC's investments in real estate development, including both current and new projects, mainly in the field of shopping centers and offices, are expected to increase. Poland will continue to be GTC's primary market, but GTC's activities will have a broader focus, with a larger percentage of its activities taking place in other CEE markets. Despite the expected sale of 50% of Galeria Mokotow, GTC anticipates its revenues will increase in 2003, due to the completion of additional projects. In May 2003 GTC signed an agreement for the sale of a completed office building in Romania, and GTC may consider opportunities to divest additional completed rental properties, in whole or in part. In Israel, KRE intends to continue to develop its current projects.

Financial Services
TBIH anticipates an increase in the scope of its insurance activities in the coming year, based on expected economic growth in the markets in which it operates, as well as expected increases in insurance penetration. In the pension field, TBIH anticipates increased revenues from its general mandatory fund in Bulgaria, which began receiving contributions in 2002. In Slovakia TBIH will continue to invest in its pension infrastructure, in anticipation of the possible introduction of mandatory funds in 2004. TBIH intends to continue to invest in the development of its leasing, consumer finance, and asset management businesses, as well as to consider opportunities in new insurance and pension markets where it may be able to obtain a significant market share. In June 2003 Kardan Group reached an agreement in principle with EBRD whereby Kardan Group will increase its holdings in TBIH, and EBRD will concentrate its holdings in TBIH in Bulgaria. See "Business Description - Financial Services - TBIH's Shareholders".

Infrastructure
The Company's infrastructure operations are project-based, and it is therefore difficult to predict trends in future operations. Nonetheless, Tahal Group's existing projects are expected to provide revenues similar to current levels. In addition, Tahal Group is competing for new projects that may result in a significant increase in its operations. Tahal Group anticipates that its operations will be concentrated increasingly in non-Israeli markets, and in B.O.T (build, operate, transfer), B.O.O. (build, operate, own) and/or turnkey projects.

Consumer Goods
The Israeli economy is currently suffering a slowdown, which the Company expects will continue for at least the coming year. This slowdown has affected the Israeli markets for automobiles and household appliances in general, and in particular the market for UMI's vehicles, which tend to be at the high end of the market. UMI expects its planned introduction in 2003 of vehicles manufactured in Korean factories to round out its product line with mid-level products, making UMI's products more attractive to budget conscious consumers and commercial fleets.

Communications and Technologies
The Company intends to follow closely developments in the technology and communications markets, and to develop its current investee companies, in particular in the field of communications. The Company also intends to consider cautiously additional investment opportunities in these fields.

Details of Contribution to Net Income by Sector

	2002		2001	
in thousands	**NIS**	**EUR**	**NIS**	**EUR**
Real estate	28,758	5,885	4,268	1,133
Financial services	(21,185)	(4,335)	29,732	7,898
Infrastructure	3,914	801	9,271	2,463
Consumer Goods	17,331	3,547	(6,695)	(1,779)
Communications and Technology	(56,381)	(11,538)	(40,212)	(10,682)
Other	40,167	8,219	(28,067)	(7,455)
Net profit (loss)	12,604	2,579	(31,703)	(8,422)

The above analysis provides information relating to the contribution of each sector to Kardan Ltd.'s net income, while the pro-forma financial statements provide information regarding operating income per segment.

Real Estate
The real estate activities of the Kardan Group are carried out mainly through KRE, an affiliated (non-consolidated) company in which Kardan Ltd. holds a 45.3% interest.The

real estate segment contributed to Kardan Ltd. net income of approximately NIS 28.8 million (EUR 5.9 million) in 2002 compared to NIS 4.3 million (EUR 1.1 million) in 2001.

Real Estate Operations in Europe
Activities in the real estate segment in Europe (mainly CEE) resulted in profit of NIS 39.8 million (EUR 8.1 million) in 2002 as compared to NIS 2.0 million (EUR 0.5 million) in the prior year.

GTC, KRE's subsidiary in the field of real estate in Europe, in which Kardan Ltd. holds an indirect interest of approximately 44.5%, had revenues in 2002 from rental properties of USD 61.5 million (EUR 59.6 million). GTC's gross profit from rental of properties amounted to USD 45.4 million (EUR 44.0 million).

In 2002, GTC's consolidated revenues from residential development amounted to approximately USD 18.1 million (EUR 17.6 million). GTC's consolidated gross profit from residential development amounted to approximately USD 0.8 million (EUR 0.8 million).

As of 31 December, 2002, GTC and its subsidiaries had investment properties valued at USD 448.4 million (EUR 427.4 million), and shareholders equity of USD 160.9 million (EUR 153.4 million), compared to USD 389.9 million (EUR 440.7 million) and USD 138.5 million (EUR 156.6 million) respectively, as of 31 December, 2001. The increase results mainly from the increase in values of rental properties in Poland and Romania.

Real Estate Operations in Israel
Activity in the real estate segment in Israel in 2002 produced a loss of NIS 11,0 million (EUR 2.3 million) compared with net income of NIS 2.2 million (EUR 0.6 million) in 2001, resulting mainly from a downward revaluation of properties resulting from a decline in the Israeli market, from general and administrative expenses and financing expenses of KRE.

Financial Services
The financial services segment contributed a loss in 2002 of approximately NIS 21.2 million (EUR 4.3 million) compared to net income of approximately NIS 29.7 million (EUR 7.9 million) in 2001. The loss in 2002 resulted from operating losses in the development-stage pension and life insurance operations, as well as amortization of goodwill from acquisitions, financing expenses and a write-down of a bad debt in Bulgaria. In 2001, Kardan Ltd. recorded a profit of USD 3.2 million (EUR 3.8 million) in respect of the revaluation of its shares in TBIH following a share issue by TBIH to EBRD. See also "Business Description - Financial Services". In addition Kardan Ltd. recorded in 2001 a profit of NIS 25.1 million (EUR 6.7 million) in respect of the realization of Kardan Capital Investments Ltd.

Infrastructure
Revenues from infrastructure in 2002 remained steady at NIS 246.6 million (EUR 50.5 million), compared to NIS 238.5 million (EUR 63.3 million) in 2001. The infrastructure segment contributed net income of NIS 3.9 million (EUR 0.8 million) in 2002, compared to NIS 9.3 million (EUR 2.5 million) in 2001. The reduction results mainly from expenses incurred in 2002 in relation to a major project which has not yet been granted to Tahal.

Consumer Goods
In 2002, the consumer goods segment (including automotive marketing) contributed net income of approximately NIS 17.3 million (EUR 3.5 million), compared to a loss of NIS 6.7 million (EUR 1.8 million) in 2001. The losses in 2001 resulted mainly from Bug Multisystems Ltd., which was sold in the fourth quarter of 2001, and from Olivia Gourmet Ltd., which was sold during 2002. In 2002, Kardan Ltd. recorded a gain of NIS 10.3 million (EUR 2.1 million) from the sale of Olivia Gourmet.

Currently, the activities of Kardan Group in the field of consumer goods are carried out primarily through UMI, an affiliated (non-consolidated) company in which Kardan Ltd. holds an indirect interest of 40.5%. In automotive marketing, Kardan Ltd.'s share in UMI's net income, net of financing expenses and amortization of goodwill, was approximately NIS 17.4 million (EUR 3.6 million) in 2002 compared to NIS 20.5 million

(EUR 5.5 million) in 2001. The reduction reflects a downturn in the Israeli automotive market, as part of a general downturn in the Israeli economy.

Marketing of household appliances and electronics produced a loss in 2002 of NIS 2.7 million (EUR 0.5 million) compared to net income in 2001 of NIS 4.6 million (EUR 1.2 million).

Communications and Technologies

Communications

The communications segment contributed a loss of approximately NIS 37.2 million (EUR 7.6 million) in 2002 compared to a loss of NIS 21.6 million (EUR 5.7 million) in 2001. Part of the loss in 2002 is derived from a write-down of a venture capital investment of NIS 7.1 million (EUR 1.5 million) and from a decrease in value of NIS 5.7 million (EUR 1.2 million) in marketable shares.

Technologies

The technologies segment contributed a loss of approximately NIS 19.2 million (EUR 3.9 million) in 2002 compared to a loss of approximately NIS 18.7 million (EUR 5.0 million) in 2001. The loss in 2002 is derived mainly from the write-down by Kardan Technologies (which affects Kardan Ltd. at the rate of approximately 53%) of venture capital and other investments in the amount of NIS 24.1 million (EUR 4.9 million), and a loss of NIS 10.8 million (EUR 2.2 million) in connection with discontinuation of activity in E-Trade Israel Ltd.

Results from Kardan Ltd.'s Operations

Kardan Ltd.'s consolidated revenues include the revenues of Tahal and other minor subsidiaries in the field of consumer goods and services. In addition, Kardan Ltd.'s revenues include proportional consolidation (46.7%) of the revenues of TBIH. Revenues of the real estate sector, as well as revenues of UMI in the consumer goods sector, are not recorded in Kardan Ltd.'s consolidated statements. Equity earnings of associated companies (unconsolidated companies held by Kardan Ltd. and its subsidiaries) amounted to NIS 38.6 million (EUR 7.9 million) in 2002, compared to NIS 9.4 million (EUR 2.5 million) in 2001.

Consolidated revenues of Kardan Ltd. from insurance activities in 2002 amounted to NIS 197.6 million (EUR 40.4 million), compared to NIS 140.0 million (EUR 37.2 million) in 2001. The increase is mainly derived from the increase in the volume of activity of TBIH's insurance subsidiaries during the year.

Consolidated revenues of Kardan Ltd. from sales, services and contracts decreased from NIS 486.7 million (EUR 129.3 million) in 2001 to NIS 387.1 million (EUR 79.2 million) in 2002. The decrease mainly results from Kardan Ltd.'s divestment of Bug Multisystems Ltd. (an Israeli computer products retailer) and Kardan Capital Investments Ltd. (an Israeli financial services company) in the fourth quarter of 2001. Consolidated general and administrative expenses in 2002 were NIS 103.8 (EUR 21.3 million) as compared to NIS 137.3 million (EUR 36.5 million) in 2001. Most of the decrease in general and administrative expenses results from the fact that Kardan Ltd. ceased to consolidate Bug Multisystems Ltd. and Kardan Capital Investments Ltd., as stated above.

Consolidated financing income in 2002 amounted to approximately NIS 27.0 million (EUR 5.5 million) as compared to expenses of approximately NIS 29.4 million (EUR 7.8 million) in 2001. Most of the difference is derived from gains recorded in Kardan Ltd. from NIS/USD currency hedging transactions.

Liquidity, Sources of Financing and Capital Resources

In 2002 Kardan Ltd. had consolidated cash flows from operations of NIS 140.8 million (EUR 28.8 million), including the results of hedging transactions. Cash flows from investments were NIS 5.2 million (EUR 1.1 million) including net inflows of NIS 156.9 million (EUR 32.1 million) from bank deposits of Kardan Ltd.

Consolidated net cash flows from financing in 2002 were outflows of NIS 15.8 million (EUR 3.2 million) including inflows of NIS 98.6 million (EUR 20.2 million) from the issuance of convertible notes by Kardan Ltd. and net inflows of NIS 145.8 million (EUR 29.8 million) from repayment of short term loans.

Kardan Ltd.'s consolidated current liabilities as per 31 December 2002 amounted to NIS 559.5 millon (EUR 112.6 million), compared to consolidated current assets of NIS 623.1 million (EUR 125.4).

Kardan Group continues to actively raise additional funding for its ongoing operations and expansion of its investments.

In connection with bank loans received by it, Kardan Ltd. undertook not to record any charge or lien, of any kind, on its assets and property without prior consent from the banks. Also, in respect of some of its loans, Kardan Ltd. undertook not to distribute dividends in an amount exceeding 33% of the net profits in the year with respect to which the dividend is distributed, and that the ratio of its shareholders' equity to its total unconsolidated balance sheet will not be less than certain ratios (in the range of 30%-35%). As per 31 December 2002, the ratio of Kardan Ltd.'s shareholders equity was less than 35% of its unconsolidated balance sheet total, and accordingly, for the sake of caution, Kardan Ltd. classified a loan in the amount of NIS 19.3 million (EUR 3.9 million) as a short term loan. The above limitations and ratios are measured based on Kardan Ltd.'s financial statements prepared in accordance with Israeli GAAP.

Kardan Ltd. has received the approval of the relevant banks for the reduction of the said ratios with respect to its financial statements as of 31 March 2003 to the range of 25%-28%, and Kardan Ltd. complied with those ratios as at that date. The management of Kardan Ltd. believes, inter alia based on discussions with its banks, that it will comply with the ratios required by its banks.

The Company's management believes, based, inter alia, on Kardan Ltd.'s unutilized existing credit framework and on its liquid resources (mainly bank deposits in the amount of NIS 77.1 million as at 31 December 2002 (EUR 15.5 million)) that Kardan Ltd. will be able to continue to obtain credit from banks and others in amounts required for its activities.
See also "Summary - Summary Pro Forma Historical Consolidated Financial Information" for Kardan Ltd.'s summary Financial Information.

Recent developments

Interim financial information 1st quarter 2003

In June, 2003 Kardan Ltd. reported a loss of NIS 6.7 million (EUR 1.3 million) for the first three months of 2003 compared to a profit of NIS 56.9 million (EUR 14.1 million) in the first three months of 2002. The shareholders' equity at 31 March 2003 was NIS 430.6 million (EUR 84.3 million) compared to NIS 444.2 million (EUR 89.4 million) as at 31 December 2002. For a covenience translation of the interim financial information for the first three months of 2003, see also pages J1 to J6.

Q1, 2003

Kardan Ltd. has reached a special tax arrangement on 9 April 2003, with the Israeli Income Tax and Land Taxation Commissioner, through the International Taxation Department, according to which Kardan Ltd. shall pay a tax rate of 5% of the accumulated profits that have been realized and profits that have not yet been realized (step-up in value) from the activity of the companies held by Kardan Ltd. overseas as of 31 December 2002. See "Taxation".

Period 1 April to 18 June 2003

In May 2003 GTC Romania signed an agreement for the sale of its subsidiary which holds Europe House. See "Business Description - Real Estate - Projects in Romania, Czech Republic and Serbia"

In June 2003 Herftzon reached an agreement in principle to purchase EBRD's shareholdings in TBIH. See "Business Description - Financial Services - TBIH's Shareholders".

In June 2003 Kardan Ltd. sold 1,335,880 shares of Kardan Ltd. which were held as treasury shares in consideration for NIS 12.7 million (EUR 2.5 million).

BUSINESS DESCRIPTION

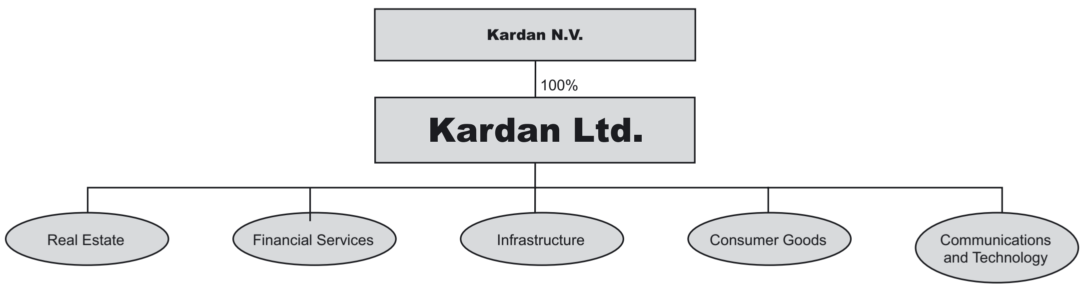
Introduction

Following is a description of the business of Kardan Group, reflecting the businesses that will be held by the Company following completion of the Tender Offer. Hence, references to Kardan Ltd. should, in as far as future developments are described and if the context so requires, also be read as to include references to the Company.
Kardan Group operates in five segments, as follows:

- Real Estate
- Financial Services
- Infrastructure
- Consumer Goods
- Communications and Technologies

In recent years Kardan Group has expanded its businesses in CEE, and currently Kardan Group's businesses in CEE in the fields of real estate and financial services form the majority of its activities.

Below is a general organization chart in broad lines showing Kardan Group's business segments. Please note that a full chart showing all operating subsidiaries, is attached as Annex A1.



Description of Kardan Ltd.

Overview and Strategy
Kardan Ltd. was incorporated under the laws of Israel in 1982 as a public company. Ltd. Shares were issued to the public and were admitted to listing on the Tel-Aviv Stock Exchange in 1982 and 1989.

Kardan Ltd. has been under the control and management of the Controlling Shareholders since 1990. See also "Shareholders". In that time Kardan Ltd. has been transformed from a small and nondescript Israeli company to a diversified holding company with most of its activities abroad. The market value of Kardan Ltd. increased over that period more than 30-fold.

Capitalization
Upon the successful consummation of the Tender Offer and the consummation of the subsequent forced sale procedure under the Israeli law (see "The Transaction"), Kardan Ltd. shall be wholly owned by the Company.

Management and Supervisory Boards
The board of directors of Kardan Ltd. consists of the following 9 persons, the last 2 of which serve as external directors as requred by the Israeli Companies law: Yosef Grunfeld (Chairman), Avner Shnur, Eytan Rechter, Yitzak Grossman, Moshe Steingart, Avihu Ben-Nun, Amnon Lipkin-Shahak, Chaviva Rubinstein and Eytan Aharonovitch.

Organizational Structure and Employees
During 2002, Kardan Ltd. engaged approximately 18 employees. As per 31 December

2002, the number of employees engaged by Kardan Ltd. and its consolidated companies amounted to approximately 2,500.

Within the Kardan Group various bonus and incentive schemes are in place, including options granted to key employees. Reference is made to the various companies described in this chapter.

During 2002, Kardan Ltd. granted to two employees of the Kardan Group options to purchase Kardan Ltd. Shares, under terms and conditions as detailed below:

(i) The chairman of Tahal's board, who also serves as a director of Kardan Ltd., was granted, for no consideration, options to purchase 300 thousand Ltd. Shares, for a purchase price equal to NIS 12 per Ltd. Share (EUR 2.4) linked to the consumers price index in Israel. In accordance with their terms, 200 thousand of such options became exercisable in April 2003 and the remaining 100 thousand options shall become exercisable in April 2004. Once exercisable, all such options shall remain exercisable until October 2004. Upon termination of the employment of the Chairman of the Board of Tahal with the Kardan Group, all options which have not yet become exercisable shall become null and void.

(ii) The CEO of Kardan Communications was granted, for no consideration, options to purchase 300 thousand Ltd. Shares, for a purchase price equal to (i) NIS 11 (EUR 2.2) per Ltd. Share, linked to the consumer price index in Israel, for 50% of the options, and (ii) 75% of the stock exchange price of the Ltd. Shares at the time of exercise for the remaining 50%. In accordance with their terms, 200 thousand of such options became exercisable in May 2003 and the remaining 100 thousand options shall become exercisable in May 2004. Once exercisable, all such options shall remain exercisable until May 2006. Upon termination of the employment of the CEO of Kardan Communications with the Kardan Group, all options which have not yet become exercisable shall become null and void.

In June 2003, the Company, Kardan Ltd. and the two option holders agreed that upon completion of the Transaction, the options will be exercisable for Shares instead of Ltd. Shares.

Legal Proceedings

Except as disclosed in this Prospectus, Kardan Ltd. is not involved in any litigation or arbitration proceedings which may have or have had a significant effect on the financial position of the Company and its subsidiaries, taken as a whole, and, so far as Kardan Ltd. is aware, no such litigation or arbitration proceedings are pending or threatened.

In December 1996, a legal claim was filed in Israel against Kardan Ltd. in the sum of NIS 3 million (in nominal values), claiming breach of contract in respect of a property that Kardan Ltd. rented to the plaintiffs. In the assessment of Kardan Ltd.'s management, based on an opinion of its legal advisers, there are good prospects that the claim will be dismissed and accordingly a provision in respect thereof has not been included in Kardan Ltd.'s financial statements.

On 16 December, 2002 Kardan Electric Ltd. filed suit before Israeli courts against Liebherr-export AG claiming NIS 4 million (EUR 0.8 million) in damages due to termination of a distribution contract without due notice. On April 10, 2003 Liebherr-export AG filed a counter-claim against, inter alia, Kardan Ltd. and other Kardan Group companies claiming NIS 5 million (EUR 1.0 million) in damages, alleging that such companies acted in concert in the selling of products competing with Liebherr-export AG's products, in breach of fiduciary duty to Liebherr-export AG. The proceedings are in initial stages and Kardan Ltd.'s management cannot assess the prospects of either claim.

Tax Issues

Kardan Ltd. has final closed tax assessments in Israel for the tax years 1997-1999. During discussions of these assessments, the Israeli tax authorities raised several contentions relating to Kardan Ltd.'s assessments, including in relation to the classification of income as "business income" or "passive income", in light of which the Israeli tax authorities requested an additional tax payment of NIS 17 million (EUR 3.4 million). Following such discussions, however, it was agreed that Kardan Ltd. shall pay only an additional tax payment of NIS 1.5 million (EUR 0.3 million), with each party entitled to maintain its approach regarding the unresolved professional issues between them.

Financing
Kardan Ltd.'s sources of income include dividends, management fees, realization of holdings and commission for services that Kardan Ltd. provides to its subsidiary and affiliate companies.

Kardan Ltd. operates, and the Company will operate, as holding companies to Kardan Group, and they depend on debt financing, in addition to shareholders equity, in order to develop their businesses. In order to finance their continuing expansion, and to refinance long-term loans, the Company and Kardan Ltd. may need to raise additional financing, either by raising equity financing, and/or by raising debt financing and/or by disposition of assets. In addition, Kardan Ltd. has, under loan agreements to which it is a party, undertaken to maintain various financial covenants. The timing of additional financing may be driven by Kardan Ltd.'s loan agreements, and the terms of such additional financing will be determined by prevailing market conditions at the time.

Kardan Ltd. further receives from time to time short-term and long-term loans from various commercial banks in Israel, under commercial terms mutually agreed on a case by case basis. Kardan Ltd. utilizes such loans as an additional means to finance its ongoing business activities and investments in accordance with its needs. Kardan Ltd. has not provided any liens, charges or other security interests over its assets in connections with bank loans. In respect of some of these loans, Kardan Ltd. has contractually agreed (i) to refrain from distributing to its shareholders as dividends, management or consulting fees in any given year more than 33% of its profits in such year; (ii) to refrain from creating any charges or liens on its assets without the prior consent of the lending bank; and (iii) that the ratio of its shareholders' equity to its total unconsolidated balance sheet according to Israeli GAAP, will not be less than certain ratios (in the range of 30% to 35%). Kardan Ltd. has received the approval of the relevant banks for the reduction of the said ratios with respect to its financial statements as of 31 March 2003 to the range of 25%-28%, and Kardan Ltd. complied with those ratios as at that date. The management of Kardan Ltd. believes, inter alia based on discussions with its banks, that it will comply with the ratios required by its banks, and to the extent necessary will receive the consent of the banks.

Kardan Ltd. gave its subsidiaries loans in a total amount of approximately NIS 272 million (as of 31 December 2002). Most of the loans are linked to the Israeli consumer price index, and some also bear interest. The loans were granted without security and some loans without date of payment.

2001 Convertible Debentures
During 2001, in order to raise funds for business development and to refinance existing debt, Kardan Ltd. issued to institutional investors in Israel debentures convertible into Ltd. Shares in three series: Series A Convertible Debentures, Series B Convertible Debentures and Series C Convertible Debentures (all such convertible debentures, hereinafter collectively to be referred to as the **"2001 Convertible Debentures"**).

The Series A Convertible Debentures, with a total stated value of NIS 22.3 million (EUR 4.5 million), are repayable in three equal annual installments on 31 December of each of 2003, 2004 and 2005. They are not linked to any index and carry a fixed annual interest of 6.85%, payable in five annual installments on 31 December of each year between 2001 and 2005. The Series A Convertible Debentures were issued at a discount price of 88.5% of their stated value.

The Series B Convertible Debentures, with a total stated value of NIS 81.5 million (EUR 16.4 million), are repayable in three equal annual installments on 31 December of each of 2004, 2005 and 2006. They are linked (principal and interest) to the Israeli consumer price index and carry a fixed annual interest of 5.85%, payable in six annual installments on 31 December of each year between 2001 and 2006. The Series B Convertible Debentures were issued at a discount price of 88.5% of their stated value. As per the date of this Prospectus, KFH holds Series B Convertible Debentures with a total stated value of NIS 7 million (EUR 1.4 million).

The Series C Convertible Debentures, with a total stated value of NIS 23.6 million (EUR 4.8 million), are repayable in three equal annual installments on 31 December of each of 2003, 2004 and 2005. They are not linked to any index and carry an annual interest equal to the annual average of the Bank of Israel's interest minus 1% (as of 31 December 2002: approximately 5.9%), payable in five annual installments on 31 December of each year between 2001 and 2005. The Series A Convertible Debentures were issued at a discount price of 88.5% of their stated value.

All 2001 Convertible Debentures are convertible, in whole or in part, into Ltd. Shares in the following manner (subject to certain adjustments): each portion equal to NIS 19 (EUR 3.2) nominal value of the 2001 Convertible Debentures is convertible into one Ltd. Share.

In June 2003, the holders of the 2001 Convertible Debentures agreed that following the completion of the Transaction, the 2001 Convertible Debentures will be convertible into Shares instead of Ltd. Shares. In addition, the Company notified the holders of the 2001 Convertible Debentures that the conversion will be amended to NIS 16 (EUR 3.2) face value per Share.

2002 Convertible Debentures

On 13 February 2002, in connection with a certain contemplated investment, Kardan Ltd. issued to institutional investors in Israel debentures with a total nominal value of NIS 100 million (EUR 20.1 million) repayable on 13 February 2005 (all such convertible debenditures hereinafter referred to the **"2002 Convertible Debentures")**.

The holders of the 2002 Convertible Debentures were granted an early repayment option, whereby in the event that the contemplated investment shall not be consummated by 31 January 2003, each holder shall have the option to receive on 13 February 2003 the principal and then-accrued interest on the 2002 Convertible Debentures held by such holder. An additional early repayment date under similar terms was fixed by Kardan Ltd. for 9 May 2002. The holders of a total stated value of NIS 16.9 million (EUR 3.4 million) of 2002 Convertible Debentures exercised either one of such early repayment opportunities, and accordingly, on the date of this prospectus, a total stated value of NIS 83.1 million (EUR 16.7 million) of 2002 Convertible Debentures are outstanding.

The principal of the 2002 Convertible Debentures shall be repaid on 13 February 2005. The interest on the 2002 Convertible Debentures is repayable in three equal annual installments on 13 February of each of 2003, 2004 and 2005. The 2002 Convertible Debentures are linked (principal and interest) to the Israeli consumer price index and carry an annual interest, calculated as of 13 February 2002, of: (i) 6% during the first year; (ii) 8.8% during the second year; and (iii) during the third year, the higher of (a) 7.5% or (b) the average annual return of certain series of "Galil" bonds issued by Israel, during a 14 day period preceding 13 February 2004, plus 2.75%.

In a letter sent by Kardan Ltd. to the holders of 2002 Convertible Debentures on 30 January 2003, Kardan Ltd. offered such holders to waive their rights to convert their 2002 Convertible Debentures into Ltd. Shares, in consideration for preferable interest rates (not less than 8.75% in the second year and not less than 8% in the third year). Holders of a total stated value of NIS 47.7 million (EUR 9.6 million) of 2002 Convertible Debentures accepted this offer and shall accordingly be entitled to such preferable interest rates.

The remaining 2002 Convertible Debentures, with a total stated value of NIS 35.4 million (EUR 7.1 million) are convertible, in whole or in part, into Ltd. Shares in the following manner (subject to certain adjustments): each portion equal to NIS 19 (Euro 3.8) stated value of the 2002 Convertible Debentures is convertible into one Ltd. Share.

In June 2003, the holders of the 2002 Convertible Debentures agreed that following the completion of the Transaction, the 2002 Convertible Debentures will be convertible into Shares instead of Ltd. Shares. In addition, the Company notified the holders of the 2001 Convertible Debentures that the conversion will be amended to NIS 16 (EUR 3.2) face value per Share.

Additional Terms

Investec Trust Company (Israel) Ltd. (the **"Trustee"**) acts as trustee for the holders of both the 2001 Convertible Debentures and the 2002 Convertible Debentures. Kardan Ltd. has undertaken to refrain from granting any pledge or lien over any of its assets, in any form and for any purpose whatsoever, without the prior written consent of the Trustee (other than a specific lien on an asset granted to guarantee credit used to purchase such asset).

In connection with the issue of the 2001 Convertible Debentures, Kardan Ltd. further issued 1,598,400 Series C Options. The Series C Options were exercisable into 1,598,400 Ltd. Shares under certain terms and conditions, including payment of an exercise price. 166,665 of such options were issued to a wholly owned subsidiary of Kardan Ltd., KFH. During December 2001 and January 2002, a total of 1,568,400 Series C Options were exercised by the holders thereof, including the 166,665 options held by KFH. The remaining 30,000 Series C Options were not exercised and are no longer outstanding. The total consideration received by Kardan Ltd. for the issue and exercise of the Series C Options amounts to NIS 18.8 million (EUR 3.9 million).

As a security for the 2002 Convertible Debentures, Kardan Motors Ltd., a private subsidiary of Kardan Ltd., incorporated under the laws of Israel, provided the Trustee with a first lien over 45% of the shares of Taldan Motors Ltd., a private company incorporated under the laws of Israel, held by it. Kardan Ltd. has further undertaken that, until the repayment of the 2002 Convertible Debentures, Kardan Ltd., Kardan Motors Ltd. and Taldan Motors Ltd. shall refrain from taking certain actions without the prior consent of the Trustee (such as distributions of dividends by Taldan Motors Ltd. in an amount exceeding 50% of its annual profit recorded in its consolidated financial statements in each of the years 2002-2004, sale or pledging of the pledged Kardan Motors Ltd. shares, entering into by Taldan Motors Ltd. in any contractual engagement whatsoever being such as to increase, or liable to become such as to increase the volume of its aggregate balance sheet and off-balance-sheet liabilities above certain agreed levels a reduction under certain terms of Taldan Motors Ltd.'s shareholders equity).

Holders of Debentures

The 2001 Convertible Debentures and 2002 Convertible Debentures are held by approximately 60 institutional investors.

Guarantees

As of the date of this Prospectus, Kardan Ltd. has not provided guarantees to any third parties other than on behalf of companies that are part of the Kardan Group.

In July 2002, Kardan Ltd. granted its directors and certain of its office holders, including Messrs Shnur, Rechter and Grunfeld, a release from liability and indemnification obligation in connection with activities performed in their capacity as directors or office holders of Kardan Ltd., all under certain terms and conditions (including co-operation of the indemnified individuals in the defence of any related claims). Kardan Ltd.'s total indemnification obligation to its directors and office holders shall not exceed 25% of Kardan's capital in addition to any amounts received under Kardan Ltd.'s D&O Insurance policy. Furthermore, Kardan Ltd. has signed insurances agreements for the insurance of the directors and officers of Kardan Ltd.

Insurance Policies

Kardan Ltd., Kardan Technologies, KRE and Mikdan Management & Maintenance Ltd., a private associated company of Kardan Ltd. incorporated under the laws of Israel, maintain a policy to insure the liability of their directors and officers and the directors and officers of their subsidiaries, as well as directors appointed by Kardan Group in their investee companies, valid from 1 May 2003 to 30 April 2004. The liability limits are $ 10 million for the period and in addition legal costs over and above the liability limits of 20%. The policy has several exceptions, including future issuance of shares of any kind. On 21 May 2003, Kardan Ltd.'s Audit Committee and Board of Directors resolution approved the extension of this policy (subject to certain limits on premium levels), such that it will also grant cover to the directors' actions in all matters relating to the Transaction, including publishing a prospectus in the Netherlands and Israel, under terms to be determined by Kardan Ltd.'s management. The extension of the policy has been approved by Kardan Ltd.'s general meeting.

Kardan Ltd. further maintains extended fire insurance, including earthquake and natural damages, third party liability insurance, employers' liability insurance and electronic equipment insurance policies that are extended on an annual basis and that are in amounts sufficient to cover Kardan Ltd.'s activities and property.

The Company intends to purchase liability and property insurance in amounts sufficient to cover its activities and property as well as for its directors and Supervisory Board member.

Business Interruptions

In October 2001, Kardan Ltd. and KFH sold their entire interests in Kardan Capital Investment (1995) Ltd., a company incorporated under the laws of Israel which operates as a non banking brokerage house in Israel. The capital gain for Kardan Ltd. in consequence of the completion of the transaction amounted to approximately NIS 25.1 million (EUR 6.7 million).

As of 2000, Kardan Group has adopted and implemented a strategic policy to reduce its investments in the trade and food sectors, not including its holdings in the automotive industry. In accordance with this policy, Kardan Group realized its holdings, inter alia, in the following private companies incorporated under the laws of Israel: Ruson sports agencies Ltd., Marvidex Ltd., Olivia Gourmet (1996) Ltd., Takdan Ltd. and Bug Multisystems Ltd., Kardan Ltd.'s capital gain in consequence of the said sales amounted to approximately NIS 10.3 million (EUR 2.1 million) in 2002, approximately NIS 2.7 million (EUR 0.7 million) in 2001, and approximately NIS 18.1 million (EUR 4.8 millon) in 2000.

Real Estate

Overview and Strategy

Kardan Group is engaged in the active promotion and development of real estate in Poland, Hungary, Romania, the Czech Republic, Serbia and Israel. In addition, Kardan Group manages office and commercial projects it has developed to completion, as well as rental properties in the Netherlands.

Kardan Group's projects include office parks, individual office buildings, residential and combined residential/commercial developments, as well as shopping centers. The projects in which Kardan Group is involved total approximately 1 million m^2 of built area in various stages of planning and development.

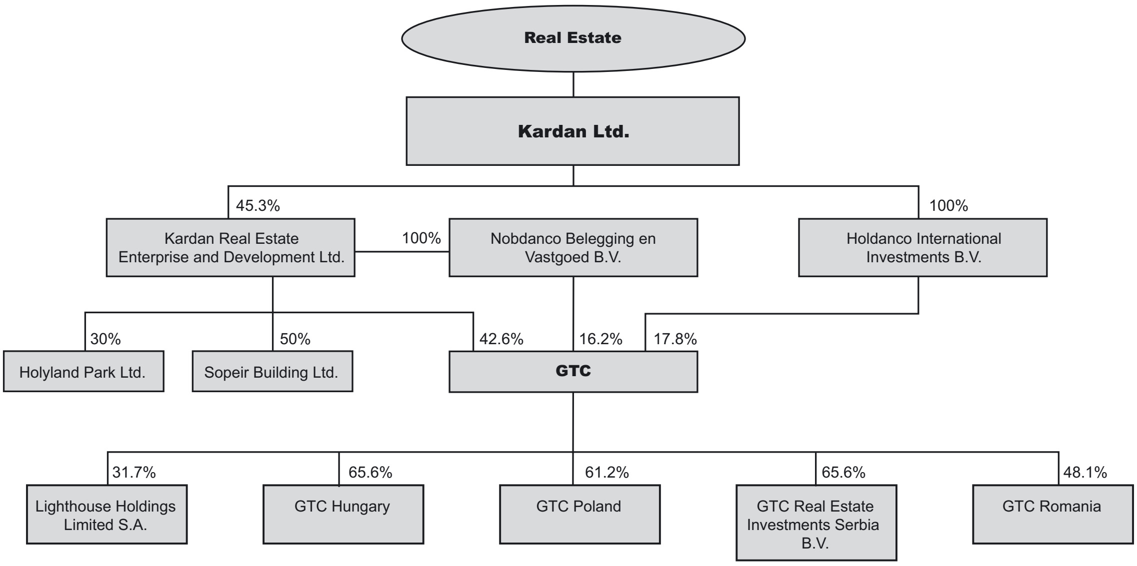
Kardan Group usually manages all stages of the development process, including the identification of opportunities, land acquisition, design, construction, marketing, management and sale. Kardan Group complements its capabilities by the use of outside professionals.

In CEE, Kardan Group's real estate business is carried out through GTC, in which Kardan Ltd. holds an indirect interest of approximately 44.5%. Kardan Group's real estate business in Israel is carried out primarily through KRE, in which Kardan Ltd. holds a direct and indirect participating interest of approximately 45.3%.

In CEE, GTC concentrates on those markets it believes present the strongest potential for growth and stability in the near term.

In 2002, GTC Poland signed a preliminary agreement for the sale of 50% of a shopping center project in Warsaw to an affiliate of Rodamco Europe N.V., a limited liability company incorporated under the laws of the Netherlands (**"Rodamco"**), as well as a joint venture agreement whereby it undertook to give Rodamco the opportunity to participate in future shopping center projects in Poland. For further details see "Projects – Poland".

Below is a chart detailing Kardan Group's real estate business segment. Please note that this is a summary chart. A full chart is attached as Annex A2.



Management and Supervisory Boards

The board of directors of KRE consists of the following 10 persons, the last 2 of which serve as external directors as required by the Israeli Companies Law: Yosef Grunfeld (Chairman), Eli Alroy (Vice Chairman), Moshe Steingart, Itzhak Grossman, Alexander Rechter, Rafi Bisker, Ayelet Weller, Zvi Shor, Avraham Asheri and Rami Daniel.

Shimon Gal-on serves as General Manager of KRE.

The management board of GTC comprises Hagai Harel and Alain Ickovics.

The supervisory board of GTC consists of the following 9 persons, of which the first 5 were appointed by Kardan Group: B. Bremer, E. Keltsh, S. Pines, F. Houterman, P. Kohnstamm, M. Sluijs, E. Alroy, D. Brush and J. Schellingerhout.

Organization and Employees

As per April 2003, Kardan Group's real estate businesses employed 86 employees, 41 of which were located in Poland and 25 of which were located in Israel.

GTC's headquarters are located in Amsterdam. GTC's headquarters perform strategic functions, including the identification of opportunities and decisions regarding new investments.

GTC's operations in CEE, including planning, contracting with suppliers and contractors, accounting and human resources, are managed from the local offices of GTC's subsidiaries in each country. GTC and its subsidiaries employ 61 employees.

Construction and Subcontractors

Kardan Group's real estate businesses in the various countries act as the primary developer of each of the projects in which they are involved, and they generally engage independent subcontractors and other service providers to carry out the projects, including their planning, development, construction and marketing.

For construction, and in some cases for the renovation of existing buildings, Kardan Group generally approaches several leading local contractors to solicit bids for the construction or renovation works, including materials. Typically, construction or renovation works are carried out through one general contractor.

The price of work and materials is set in advance, by a contract between the relevant Kardan Group company and the contractor submitting the winning bid. Typically, the cost is denominated in USD or EUR, or in local currency linked to the USD or EUR rate of exchange. The price of work and materials is paid by the relevant Kardan Group company in monthly installments, based on work actually performed and materials actually consumed during the relevant month. The relevant Kardan Group company generally withholds approximately 5% of each payment due to the contractor as a performance bond, and this amount is paid to the contractor one year after completion of the work.

Financing

Kardan Group's real estate businesses finance their activities mainly from long term and short term bank credit, publicly traded debt (in the case of KRE), their own resources and shareholder loans.

In general, Kardan Group attempts to finance each project, to the extent possible, through separate "special purpose" companies, without recourse to the remaining assets of other Kardan Group entities. However, GTC has in some cases provided corporate guarantees on behalf of its subsidiaries. Bank credit for the construction of its projects is typically secured by pledges, in favor of the bank providing the financing, over the real estate, the income expected from the project, and insurance rights. In some cases, the shares in the special purpose company carrying out the project will be pledged to the bank providing the financing.

In 1999 KRE issued debentures convertible into shares of KRE, with a total face value of NIS 73.2 million (EUR 16.6), in consideration of 95% of their face value. The said debentures are listed for trading on the Tel-Aviv Stock Exchange, are linked (principal and interest) to the Israeli consumer price index and bear interest at the rate of 6% per annum. The principal is due in three equal installments on 30 November of 2003, 2004 and 2005.

The debentues are convertible into shares of KRE at the rate of NIS 14.77 face value (subject to certain adjustments) per share of KRE, through 10 November 2005. As of 31 May 2003, the closing price of a share of KRE on the Tel-Aviv Stock Exchange was NIS 4.3 (EUR 0.8).

As of 31 May 2003, the total market value of the debentures on the Tel-Aviv Stock Exchange was NIS 78.2 (EUR 15.1) million.

Kardan Securities provides from time to time loans to KRE, based on KRE's financing needs. As per 31 December 2002 the aggregate amount due by KRE under this facility was NIS 12.2 million (EUR 2.5 million).

KRE provides guarantees in favor of purchasers of residential units, in accordance with Israeli law. As per 31 December 2002, the aggregate amount of such guarantees was NIS 137.0 million (EUR 27.6 million).

Marketing

Kardan Group's real estate businesses attempt to pre-sell residential units and pre-lease commercial and office space from the early stages of construction. Furthermore, by dividing projects into phases, they attempt to minimize the assets held in inventory. Kardan Group's real estate businesses market their projects through their own marketing personnel, as well as through international real estate marketing companies or their local affiliates. Kardan Group is not dependent on any of these marketing companies. The marketing companies generally receive fees of one to two month's rent. For selling residential units, the marketing company generally receives approximately 2% of the sale price.

Lease Terms

For its rental properties, Kardan Group attempts to attract "anchor tenants" (financially stable international companies and retail chains, or their local affiliates) which enter into long-term lease agreements.

Typically, rents and management fees are linked to the USD or EUR, or are adjusted for inflation. Rent payments are generally secured by a bank guarantee or deposit in the amount of three months rent and maintenance fees. In some cases, where the lessee is a subsidiary of an international corporation, the rent payments may be secured only by a parent company guarantee.

Regulatory Environment
In its planning and construction activities, GTC depends on the receipt of building and occupancy permits, and in some cases the receipt of changes to the planning schemes applicable to its properties. In addition, existing planning schemes for GTC's properties could be amended in a manner that would impair their development as planned.

Projects
Kardan Group's real estate activity projects include office, commercial, residential and combined residential/commercial projects in Poland, Hungary, Israel and other CEE markets as well as rental properties in the Netherlands. Kardan Group's most significant projects include the following:

Projects – Poland
Kardan Group's projects in Poland are carried out through GTC Poland, in which Kardan Ltd. holds an indirect interest of 27.2%. In April 2000, the Securities and Exchange Commission in Poland approved the publication of a prospectus, whereby GTC Poland planned to offer its shares to the public in Poland. After the publication of the prospectus, GTC Poland decided not to complete the offering to the public, and not to register its shares for trading on the Warsaw Stock Exchange. Nonetheless, under Polish law, GTC Poland is considered a public company, and is therefore subject to various laws applying to public companies in Poland, such as the duty to publish immediate reports, and to publish financial statements.

In March 2003 GTC Poland approved a dividend of USD 10 million to be paid in July 2003, and approved in principle, subject to legal and contractual constraints and available cash flow, the payment of an additional dividend in 2004 of up to USD 10 million.

Galeria Mokotow
Galeria Mokotow is one of Poland's largest modern shopping and entertainment malls, consisting of approximately 58,500 m^2, located in the Mokotow district in southern Warsaw. Currently, Galeria Mokotow is fully occupied by approximately 230 tenants, of which 20 are considered "anchor tenants". Rental income to GTC Poland from Galeria Mokotow totalled USD 15.8 millon (EUR 15.3 million) in 2002.

In October 2002, GTC Poland entered into a Preliminary Sale Agreement with Rodamco, whereby Rodamco will purchase 50% of the shares in the subsidiary of GTC Poland that will hold Galeria Mokotow, in exchange for a cash payment estimated at USD 25 million (reflecting an asset valuation Galeria Mokotow of USD 165 million (EUR 160 million) less the project's outstanding debt). In the agreement, GTC Poland made representations regarding the legal and business condition of Galeria Mokotow. Completion of the purchase is expected in June 2003 but is subject to conditions specified in the agreement, including the receipt of certain governmental approvals for the transaction, and there being no decline in rental levels in Galeria Mokotow beyond the levels defined in the agreement. Following completion of the transaction, an affiliate of Rodamco will manage Galeria Mokotow.

In addition, GTC Poland and Rodamco entered into a joint venture agreement whereby GTC Poland undertook to afford Rodamco the opportunity to participate in shopping center projects in Poland that may be initiated by GTC Poland in Poland prior to the third anniversary of the Galeria Mokotow transaction. With respect to any such project, Rodamco will have the right, upon issuance of a building permit, to commit to purchase a 50% stake in the project. If Rodamco exercises this right, then upon completion of the project, Rodamco will purchase a 50% stake, at a price based on estimated project costs plus 15%. Any projects in which Rodamco participates will be managed by an affiliate of Rodamco at market rates.

A subsidiary of GTC Poland entered into an agreement for the receipt of bank loans in the total principal amount of USD 124.5 million, which loans are secured by Galeria Mokotow. The proceeds of the loan were used approximately USD 102 million for the

development of Galeria Mokotow (including repayment of loans previously taken for such development), and USD 22.5 million for other investments in Poland.
In April 2001 GTC Poland drew down USD 100 million. Of that amount USD 90 million bears interest at the rate of 8.12%, and 10 million at the rate of LIBOR + 2%. In November 2002, GTC Poland drew down the remaining credit in the amount of USD 24.5 million. Of these amounts, USD 23 million bears interest at the rate of 6.4%, and 1.5 million at the rate of LIBOR + 2%.

As of 31 December 2002, the outstanding balance of this loan was USD 118.5 million (EUR 113.0 million).

Mokotow Business Park ("MBP")
MBP is a business park consisting of nine office buildings, with total lettable area of approximately 107,000 m2, as well as parking areas, located in southern Warsaw, near Galeria Mokotow. Rental income to GTC Poland from MBP amounted to USD 26.6 (EUR 25.8 million) in 2002.

Currently, MBP is leased to a capacity of approximately 90%. Many of the tenants are subsidiaries or representatives of international corporations.

Leases are typically for a term of 5-7 years. Some of the original tenants have renewed their leases, and due to market conditions, these leases were general renewed at lower rents than the original leases. GTC Poland expects that leases which come up for renewal in the coming year will, if renewed, be renewed at rental rates lower than the current rates.

A subsidiary of GTC Poland has received a bank loan in the principal amount of USD 165 million, which is secured by eight buildings in MBP. The proceeds of the loan were used approximately USD 120 million to repay loans taken to finance the development of MBP, and USD 45 million for other investments in Poland.

A tranche of USD 10 million bears interest at the rate of LIBOR + 2.5%; another tranche of USD 25 million bears interest at the rate of 9.4%, and a third tranche of USD 130 million bears interest at a fixed annual rate of 9.7%. However the borrower entered into swap agreements, as a result of which the last-mentioned tranche effectively bears interest at the following rates through June 2006. For the period of 1 January 2002 through 31 December 2003, for so long as the six month LIBOR rate is below 3.5%, the tranche effectively bears interest at 6%, and if the six month LIBOR rate goes above 3.5%, the tranche effectively bears interest at LIBOR + 7.1%. From 1 January 2004 through 30 June 2006, the tranche will bear interest at LIBOR + 7.1%, but not more than 10.5%.

As of 31 December 2002, the outstanding balance of this loan was USD 135.6 million (EUR 129.3 million).

GTC Poland has received a building permit for an additional building in the business park, with lettable space of approximately 18,800 m2. GTC Poland has not yet determined when the construction of this additional building will commence.

Konstancin Housing Project
Konstancin Housing Project is a residential project adjacent to the municipality of Warsaw from the south. The project includes approximately 420 detached residential units, totaling approximately 72,000 m^2, as well as approximately 42,000 m^2 of commercial space.

The project is scheduled to be built in four phases. The first phase, consisting of 105 residential units, has been completed, and as per 30 April 2003, 74 of these units have been sold.

Other Projects
Galeria Kazimierz. A planned shopping center of approximately 37,500 m^2 net lettable area in Krakow. Pursuant to GTC Poland's agreements with Rodamco, GTC Poland will

be required to offer Rodamco the opportunity to purchase 50% of the project, and to have Rodamco act as its manager.

Aeropark Business Park. Six planned office buildings totaling approximately 51,000 m^2 net lettable area near the Warsaw airport. The project is currently undergoing approval processes with the planning authorities in Poland, and it is currently not possible to estimate when work on the project will commence.

The Topaz Buildings. Approximately 45,000 m^2 net lettable area of planned office space located in three buildings near Galeria Mokotow.

Korona Office Park. Approximately 32,000 m^2 net lettable area in three buildings located in Krakow between the airport and downtown. The first building, consisting of 10,000 m2, was completed in 2003. The building currently has an occupancy rate of 55%.

Globis Poznan. Approximately 13,000 m^2 net lettable area of office space in midtown Poznan. This project is held 75% by GTC Poland and 25% by Orbis S.A., a Polish company listed on the Warsaw stock exchange which is engaged in hotel operation and tourism services (**"Orbis"**). The building was completed in 2003. GTC Poland is currently conducting negotiations with potential tenants.

Globis Wroclaw. A planned office building of approximately 12,300 m^2 in midtown Wroclaw, to be held 75% by GTC Poland and 25% by Orbis.

Projects – Hungary
The real estate projects in Hungary are carried out through GTC Hungary, in which Kardan Ltd. holds an indirect participating interest of 29.2%.

Riverside Apartments
Riverside is a residential project in Budapest, comprising 443 apartments in three buildings, with total built area of approximately 54,000 m^2. The project will also include commercial areas and a swimming pool.

The project is scheduled for construction in three phases. Construction of the first two phases, consisting of a total of 325 units, was completed by 30 April 2003. The third phase comprising 118 units, is under construction and is expected to be completed in the second half of 2003. As per 30 April 2003, 300 units were sold.

Center Point
Center Point is an office development in Budapest which will consist of up to four buildings. The project is scheduled to be built in two phases.

The first phase, consisting of an office building with total lettable area of approximately 18,850 m^2 is expected to be completed by the end of 2003.

The second phase, consisting of two or three buildings, can be built after the demolition of four structures currently on the property. No date has been set for its commencement. Since the financing for the project is linked over time to the success of pre-leasing (area leased and price per meter), additional financing originally to be provided by the Company's bank has been suspended. In addition to shareholder loans and a GTC guarantee given to a lender, shareholders have injected additional equity capital (USD 2.3 million), and under a renegotiated general contractor agreement 40% of the costs chargeable to GTC Hungary are guaranteed by GTC and while 50% of the costs are paid by the contractor on interest-bearing credit due to be repaid in late 2003.

Projects – Romania, Czech Republic and Serbia
Kardan Group is involved in projects in Romania, the Czech Republic and Serbia, including:

Europe House
An office building of approximately 13,700 m^2 net lettable area in Bucharest, which was completed in 2002 and is approximately 95% leased. In May 2003 GTC Romania signed

an agreement for the sale of its subsidiary which holds Europe House. Closing of the sale is subject to certain conditions.

Lighthouse Waterfront
Kardan Group holds a 28% interest in a project for the development of approximately 200,000 m^2 of office, commercial and residential space along the banks of the Vltava river in Prague. The first phase of the project, consisting of approximately 27,000 m^2 net lettable area of office and commercial space, is under construction.

Serbia
An office building of approximately 13,000 m^2 net lettable area in Belgrade. This project is in the planning stages.

Projects – Israel
KRE is involved in residential, office, and commercial developments in Israel, including the following: (i) a 50% interest in a joint venture that holds a 30% interest in, and acts as the primary construction contractor and is responsible for the marketing in consideration for approximately 5% of the revenues in the "Ahuzot Hanasi" project in Rehovot, Israel, for the construction of approximately 800 residential units and 3,000 m^2 of commercial space, (ii) a 30% interest in the "Holyland" project in Jerusalem for the construction of approximately 850 residential units and a hotel with approximately 550 rooms; and (iii) the enhancement of properties owned by the "Histadrut" – Israel's largest labor union, by way of changing the land designation and preparing urban development schemes.

In addition, KRE owns and manages an office building in Tel-Aviv (Kardan House), including a parking garage. Kardan House was planned to be built in two stages, one of which, Stage "A", has been completed. Currently, approximately 85% of Kardan House's Stage "A" office spaces have been sold or are occupied under lease agreements. The majority of the lease agreements is expected to expire in 2005. Stage "B" will include the construction of 15 additional floors (approximately 16,000 m^2). Upon completion of Stage "B", Kardan House will comprise approximately 23,000 m^2. The terms granting of the building permit for Stage 'B' are currently disputed with the Israel Lands Administration.

Further, KRE was involved in the construction and marketing of an apartment building in Tel-Aviv (the Hoshea Project) comprising 26 residential units. All residential units are sold. KRE has paid consent fees to the Israel Land Administration in the amount of approximately NIS 7 million with respect to the Hoshea Project. KRE disputes that it was required to pay such consent fees and has filed charges against the Israel Land Administration to repay such consent fees.

Arrangements Regarding Shareholdings
KRE has issued stock options to some of its employees. As of 31 December 2002 vested options represented approximately 1% of its share capital.

GTC – Arrangements with member of supervisory board
The deputy chairperson of the board of directors of KRE who also serves as a member of GTC's supervisory board, is entitled to receive a bonus in the amount of 2% of GTC's cumulative pre-tax profits (subject to certain adjustment) for the years 2003 through 2007 (which period may be shortened in some cases of termination of his engagement with GTC).

In addition, said member has the right to sell shares in GTC (3%) held by a company affiliated to him at their fair market value to KRE and Holdanco, wholly owned by Kardan Ltd.

GTC undertook to provide to said member as loans all amounts he and his affiliated may be required to invest in GTC's subsidiaries for the duration of his relationship with GTC. The loans will be secured by a pledge in favor of GTC over shares in GTC and its subsidiaries held by said member and his affiliates, and GTC will have no recourse to any other of their assets. As of 31 December 2002, the total outstanding loans from GTC to an affiliate of said member were USD 0.6 million (EUR 0.6 million).

GTC undertook to allot to said member approximately 2.1% of the combined holdings of GTC and the member (received via this undertaking) in any new subsidiary of GTC in the management or project management of which he is active. In addition, GTC undertook to use its best efforts to convince other founding shareholders of its subsidiaries to allot to the member 5% of the combined holdings of such shareholder and of the member (received on account of such shareholder). The member has the right, under certain conditions, to sell to GTC shares in subsidiaries of GTC held by him and his affiliates at such shares' fair market value.

Options to member of managing board of GTC
As an incentive for the continued participation of a member of its managing board GTC granted said member a warrant to purchase by issuance 3% of the shares in GTC, which percentage will be diluted by issuances made after April 2000 on arms' length terms. The warrant is exercisable through 31 December 2003. The exercise price is based on a valuation of GTC of USD 133 million (EUR 126 million), adjusted for dividends since April 2000. From April 2000 through 30 April 2003 GTC distributed dividends in the aggregate amount of USD 8 million (EUR 8.3 million).

GTC granted the member of the managing board a put option pursuant to which such member of the managing board may sell the shares purchased under the warrant, as from 2005, to GTC or a subsidiary of GTC, at their fair market value. Said put option expires upon the listing of shares of GTC for trading on a stock exchange. GTC has not formed a provision for the financial implications of the stock option in combination with the put option.

Options to Management of KRE
KRE granted to three of its senior officers non-marketable options to purchase 920,805 ordinary shares of NIS 1 par value each of KRE at an exercise price of NIS 9,23 per share. The vesting period of the options is four years ending in 2004 in accordance with the terms thereof.

EBRD Put Option
In 2001, the EBRD purchased 5.6% of the shares in GTC Poland for USD 15 million (EUR 16.8 million). The EBRD will be entitled to sell its shares in GTC Poland to GTC Poland under certain conditions, including if GTC Poland has not effected an IPO meeting certain standards as to price and distribution of shares prior to 15 December 2005. The sale price will be equal to the price, denominated in USD, at which EBRD purchased its shares in GTC Poland, increased by interest (set at a defined rate) accrued on such price.

In February 2003, EBRD notified GTC Poland in writing that EBRD regards its investment in GTC Poland as a capital investment, and that its main objective in the option agreement is to induce GTC Poland to list the shares in its capital on the Warsaw Stock Exchange before 15 December 2005. EBRD also stated that, based on information relating to GTC Poland's intention to list its shares, the probability that EBRD will exercise the re-sale option is low. Nonetheless, EBRD indicated that the said assessment is for the benefit of GTC Poland only, and third parties may not rely on it. EBRD also stated that the said letter shall not be deemed a waiver of any of the rights granted to EBRD according to the various agreements.

Shares to Employees
GTC Poland issued 0.9% of its share capital to a trustee, which will transfer the same to employees of GTC Poland in accordance with decisions of its supervisory board. As of 31 December 2002, 0.4% of the shares in GTC Poland has been designated by its supervisory board for specific employees; of which 0.2% was vested and not subject to repurchase rights. An additional 0.1% will be released from the repurchase rights in 2003, and 0.1% in 2004. In addition, 0.2% were repurchased by GTC Poland for the purpose of redemption.

GTC Hungary has granted an officer of GTC Hungary the right to purchase up to 3% of the shares in GTC Hungary.

Shareholders' Agreements
GTC and its shareholders are parties to a shareholders' agreement, which governs various matters relating to the operations of GTC, including: the appointment of supervisory directors in GTC and GTC Poland, the approval of investments and other transactions, shareholdings in newly established subsidiaries, and the transfer of share in GTC.

Concurrently with the investment in GTC in May 2000 by FIC, FIC extended a loan to GTC in the amount of USD 9 million. In May 2003, FIC exercised its option to convert part of this loan in an amount of USD 1.2 million into shares of GTC Hungary, GTC Romania and GTC Serbia. The remaining balance of the loan bears interest at the higher of 8.5% and LIBOR + 2.25% and is due in May 2005. The loan is secured by a pledge over certain shares held by GTC in GTC Poland.

GTC undertook to its shareholders to distribute each year as dividend the lesser of (1) 50% of its distributable profits accrued during the previous year, or (2) all its available cash flow (including available but unutilized financing), unless ADRI Investments B.V., ("ADRI") a Dutch company affiliated with Azorim Investment, Development and Construction Company Ltd., an Israeli company) and FIC agree to the distribution of a smaller amount. Furthermore, GTC undertook to distribute as dividends all profits not so distributed, which have not been invested in real estate projects within 12 months from the end of the year in which the profits accrued, up to the full amount of GTC's available cash flows, unless ADRI and FIC agree to the distribution of a smaller amount. Notwithstanding the foregoing, no distributions shall be made unless the Board of Directors has delivered a written statement to the shareholders that such distribution is not expected to result in a working capital shortfall during the coming year and no distributions shall be made to the extent that such distributions might result in a breach of covenant, or a default under the liquidity requirements, under any loan agreement to which GTC is a party. Similar arrangements exist with respect to GTC's subsidiaries in Hungary, Romania and Serbia.

GTC and shareholders of GTC entered on 11 May 2000 into a buy/sell agreement under which during specified periods prior to the fourth and fifth anniversaries of such agreement, FIC is entitled to offer all of its shares in GTC to GTC and the other parties.

In the event that GTC and other shareholders do not accept such offer, a mechanism will be implemented whereby all shareholders in GTC will attempt to sell their shares to a third party, at a price which will not be less than 95% of the price determined by independent appraisers. Similar arrangements are in place with respect to GTC's subsidiaries in Hungary, Romania and Serbia.

FIC and ADRI hold veto rights in respect of GTC and its affiliates concerning several specified actions so long as FIC and ADRI, as the case may be, maintain certain shareholdings.

Legal Proceedings
GTC Hungary acquired a property in consideration for approximately USD 1.5 million. After the acquisition a court ruling determined that the seller did not have a right to the property. GTC Hungary is considering (though not yet having reached any decision) filing an arbitral claim via an investor protection procedure available under a Dutch-Hungarian treaty claiming that it was unfairly treated.

GTC Poland is the defendant in various legal proceedings, the largest of which involves a claim by a former tenant in the amount of several hundred thousand USD.

GTC Hungary is the defendant in a claim by residents of property near the Riverside project, claiming damages in the amount of approximately USD 300,000.

Financial Services

Overview and Strategy
Through TBIH, in which Kardan Ltd. holds an indirect interest of 37.7%, Kardan Group is involved in insurance in Bulgaria, Romania, Croatia, Georgia and Bosnia-Herzegovina

and in pension fund management in Bulgaria, Slovakia, Croatia, Serbia and Georgia. In addition, in 2002 TBIH entered the fields of leasing, consumer finance and asset management in Bulgaria, Romania and Slovakia.

TBIH and its shareholders have been involved in pension management in Bulgaria since 1994, and in general insurance in Bulgaria and Romania since 1999. In recent years TBIH has also been actively developing life insurance activities.TBIH has expanded its activities both through the acquisition and development of existing businesses, as well as the establishment of new companies. TBIH's investment policy has been to purchase majority stakes in its investee companies, and to take an active role in their management, through its appointees to the board and through management service agreements. Typically, TBIH subsidiaries attempt to obtain a dominant position in the local markets in which it operates.

TBIH is the majority shareholder of the largest insurer in Bulgaria, the third largest insurer in Romania, and the largest pension management companies in Bulgaria, Slovakia, Serbia and Georgia.

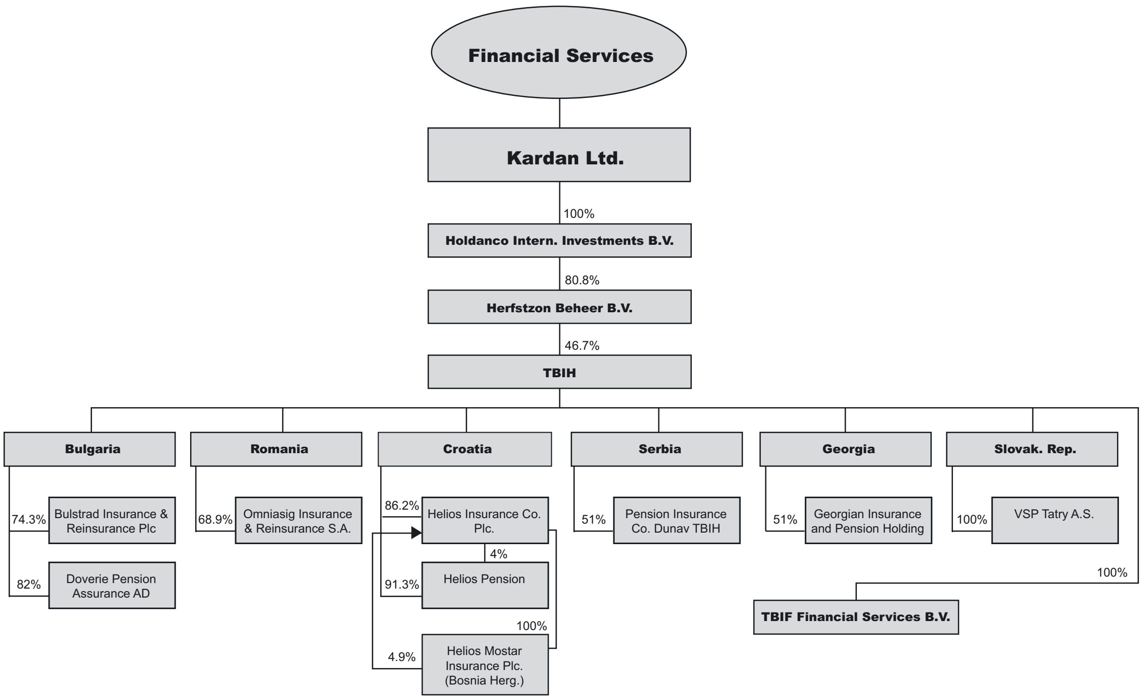
In the field of general (non-life) insurance, TBIH's subsidiaries provide a broad variety of non-life insurance products, including: motor insurance (casco), motor third party liability (TPL), green-card, property, liabilities, cargo, aviation, marine and financial insurance.

In the field of life insurance, TBIH's subsidiaries offer a variety of products, including endowments, coverage for death, mortgage insurance, group life insurance and survivor benefits.

In the field of pension fund management, TBIH's subsidiaries manage "defined contribution" pension funds, including the largest mandatory pension fund and second-largest voluntary pension fund in Bulgaria and the largest voluntary pension fund in Slovakia.

TBIH intends to continue to pursue investment opportunities in the field of financial services in the countries in which it operates, as well as in other CEE markets.

Below is a chart detailing Kardan Group's financial services business segment. Please note that this is a summary chart. A full chart is attached as Annex A3.



TBIH's Shareholders

TBIH's issued share capital is as follows:

Shareholder	Number of Shares	% of Voting Rights	% of Capital Current	% of Capital Fully Diluted(*)	% of Rights to Nominate Members to Supervisory Board
Herfstzon(**)	68,508	46.7	46.7	46.2	60
MidOcean(***)	43,662	29.8	29.8	29.5	20
EBRD	34,445	23.5	23.5	23.3	20
Employees	–	–	–	1	–

(*) Assuming the exercise of vested employee stock options. Does not take into account certain swap options given to service providers. (See the paragraph below entitled "Stock Options" and "Herfstzon").

(**) Herfstzon is held indirectly 80.8% by Kardan Ltd. The remaining shares in Herfstzon are held indirectly by managers and consultants of TBIH.

(***) MidOcean Europe GP (Jersey) Limited, a company registered in Jersey. In May 2003 MidOcean purchased its shares from affiliates of Deutsche Bank, in connection with the purchase of Deutsche Bank's late-stage private equity portfolio by a group led by former managers in Deutsche Bank. Deutsche Bank holds a 20% interest in MidOcean Europe GP (Jersey) Limited.

In June 2003 Herfstzon reached an agreement in principle with the EBRD whereby Herfstzon will purchase the EBRD's stake in TBIH, in exchange for USD 10 million (to be paid in installments through December 2004), and shares in Bulgarian companies that will hold TBIH's business in Bulgaria. After the transaction, Herfstzon will hold 70.2% of TBIH, and TBIH's holdings in its Bulgarian subsidiaries will be reduced. In addition, Herfstzon will have an option, through 31 March 2008 to "call" EBRD's shares in the Bulgarian subsidiaries at agreed prices, and from 31 March 2008 through 31 March 2009, Herfstzon will have an option to "call" EBRD's shares in the Bulgarian subsidiaries, and EBRD will have an option to "put" those shares to Herfstzon, at a price to be determined by an independent valuer. The closing of the transaction is subject to various conditions, including the finalization of legal documentation.

Managing and Supervisory Board

TBIH's managing board consists of one person, Mr. Nissim Zarfati. TBIH's supervisory board consists of five persons, being: Alain Ickovics, Jay Pomrenze, Jonathan Woollet, Hendrik van Herwijnen and Boudewijn Bremer. Mr. van Herwijnen resigned his position effective as of 30 June 2003.

Organisation and employees

The headquarters of TBIH are located in Amsterdam. TBIH's headquarters performs strategic functions, including the identification of opportunities and arranging financing. The day to day operations of TBIH's subsidiares are carried out by local management in each of its countries of operations.

In the course of 2002, TBIH and its subsidiaries employed on average approximately 2,000 employees.

Insurance Activities

Revenues – General Insurance

The following table contains summary data regarding TBIH's general insurance activities:

(Premiums in thousands of EUR)

	Bulgaria		Romania		Croatia and Bosnia-Herzegovina		Georgia	
Company	Bulstrad		Omniasig		Helios		GIPH	
Holdings by TBIH (**)	74.3%		68.9%		90.6%		51%	
Market Position (*)	1		3		9		3	
Market Share (*)	21.5%		13.5%		1.8%		9%	
	2002	2001	2002	2001	2002	2001	2002	2001
Gross premium	47,165	43,213	53,464	46,581	11,756	9,635	937	41
Retained premium	20,805	19,868	36,773	38,025	5,525	6,340	80	13

(*) As of 2002 (and with respect to Helios, 2001), based on volume of premiums, according to data published by official sources and the trade press.

(**) In the event that EBRD's holdings are focused in Bulgaria, TBIH's holdings in Bulstrad will be reduced. See "TBIH's Shareholders" above.

The following table contains summary information regarding TBIH's income from premiums from general insurance, on a consolidated basis, and broken down by types of insurance:

(Premiums in thousands of EUR)

	Gross premium		Retained premium	
	2002	2001	2002	2001
Motor	74,031	66,011	45,195	48,570
Property	17,818	14,141	6,162	5,822
Other	21,472	19,319	11,826	9,855
Total	113,321	99,471	63,183	64,247

Revenues – Life Insurance

The following table contains summary data regarding TBIH's life insurance activities

(in thousands of EUR):	Bulgaria		Romania		Croatia	
Company	Bulstrad Life(**) (***)		Omniasig Life		Helios	
Holdings by TBIH (direct and indirect)	40.1%		68.8%		90.6%	
Market Position(*)	6		5		5	
Market Share(*)	7.3%		3.4%		5.3%	
Premiums:						
	2002	2001	2002	2001	2002	2001
Gross premium	4,863	–	4,736	992	7,514	6,767
Retained premium	4,569	–	4,493	965	7,266	6,558

(*) As of 2002 (and with respect to Helios, 2001), based on data published by official sources and the trade press.

(**) First consolidated in 2003.

(***) In the event that EBRD's holdings are focused in Bulgaria, TBIH's holdings in Bulstrad will be reduced. See "TBIH's Shareholders" above.

In 2003 a subsidiary of TBIH, GIPH, began life insurance activities in Georgia.

Insurance – Markets

General Insurance Market in CEE

The general insurance market in the countries in which subsidiaries of TBIH operate is characterized by low levels of insurance density (premium income per capita) and insurance penetration (percentage of GDP spent on insurance).

Life Insurance Market in CEE

The life insurance market in the countries in which subsidiaries of TBIH operate is in its infancy. Companies began issuing life insurance policies in these countries in modern form only in the past 5-7 years, and life insurance premiums as a percentage of total insurance premiums range from approximately 10% to 30% as compared to 50% or more in most Western economies. The market for life assurance products in CEE can achieve growth only if the disposable income of the residents in the markets entered rises substantially. This might take a significant period of time and therefore the Company might have to wait a significantly longer period of time for its investments to mature than originally contemplated.

Insurance Marketing

TBIH's subsidiaries operate both through branches deployed throughout the various countries of operation, as well as through agents, mainly for policies sold to individuals. The average commissions paid by TBIH's subsidiaries in 2002, as a percentage of total premiums in their main insurance fields (including premiums resulting from direct sales with no agents) were: motor TPL 19.1%, motor casco 8.9%, green-card 8.4%, and property 8.9%. The average rate of commissions in 2002 was approximately 10%.

Insurance – Regulatory Environment

The insurance industry is highly regulated in the countries in which TBIH operates, although the scope of regulation and the strength of the regulatory authorities have not yet reached Western levels. Local laws require insurance companies to be licensed, and to meet requirements relating to minimum capitalization and liquidity, which vary based on the types of insurance offered.

In most of the countries in which TBIH operates car owners are required by law to purchase insurance for third party bodily and property damage, with minimum amounts of coverage set by governmental authorities. Prices for these insurance products are regulated by law, and in some cases the commissions that can be charged by agents are regulated as well. In some of these countries, certain professionals are required to purchase professional liability insurance.

TBIH's subsidiaries currently maintain all required licenses. Helios Insurance Plc. (**"Helios"**), although it meets statutory capitalization requirements, currently does not meet certain commitments regarding capitalization made to the regulatory authorities. Helios is conducting discussions with the regulatory authorities in Croatia in order to amend the said capitalization commitments. If such discussions are not successful, Helios will be required to increase its capital by up to 33 million Croatian Kuna (EUR 4.6 million).

In addition, local laws set out in detail the types of investments that insurance companies must hold to secure their insurance reserves, including the maximum permissible amount of each type of investment as a percentage of reserves. In most cases, these laws limit investments outside the home country, and in effect require large investments in local government and municipal bonds and deposits in local banks. In Croatia these regulations have been amended in recent years and as a result most of the insurance companies operating in Croatia, including Helios, are not in full compliance. Helios is in contact with the regulatory authorities in order to improve its compliance, and does not expect its non-compliance to have a material effect on its business.

In Bulgaria, Bulstrad has not been in complete compliance with certain required ratios regarding fixed assets to equity and investments to reserves. Bulstrad has taken measures to correct these items prior to the end of 2003 in part by selling certain assets. TBIH does not expect this non-compliance to have a material effect on its business.

Reinsurance

TBIH's subsidiaries carry reinsurance in most insurance branches in which they operate as direct insurers. The reinsurance coverage is determined separately for each insurance branch based on the companies' exposure and claims experience. In insurance branches with large exposure, such as aviation and marine, the companies generally use reinsurance coverage which limits the exposure to a single claim or event. In other branches, such as motor, reinsurance coverage is more limited. As a result of the various reinsurance arrangements carried out by TBIH's subsidiaries, the maximum exposure with respect to a single claim in any of its main branches of general insurance in 2002, is limited as set forth below.

	Currency	Bulstrad	Omniasig	Helios
Motor TPL	EUR	110,000	47,500	200,000
Green card	EUR	165,000	212,000	200,000
Motor casco	EUR	93,500	42,500	162,500
Cargo	USD	300,000	63,500	65,000
Marine	USD	300,000	85,000	65,000
Property	EUR	25,532	212,000	162,500

Through Bulstrad and Omniasig, TBIH acts as a reinsurer in a scope that is not material to its business, focused mainly on Bulgarian and Romanian business.

Bulstrad had significant as a reinsurer in the past for foreign insurers. Bulstrad ceased this activity in 1992.

With regard to the reinsurance business of the past, TBIH has made provisions to cover reported assumed business claims, and believes that these reserves are sufficient to settle the remainder of the business.

The cost of reinsurance has continued to increase after the events that took place on 11 September 2001.

Insurance – Major Subsidiaries

TBIH, through its subsidiaries, is active in the fields of general insurance and life insurance in Bulgaria, Romania, Croatia, Bosnia-Herzegovina and Georgia. TBIH's major insurance subsidiaries are: Bulstrad Insurance & Reinsurance AD (**"Bulstrad"**) in Bulgaria, Omniasig Insurance & Reinsurance SA (**"Omniasig"**) in Romania, and Helios in Croatia.

Bulstrad (Bulgaria)

Bulstrad operates in a wide variety of general insurance fields in Bulgaria. According to information published by the Financial Supervision Commission, the supervisory authority over the insurance industry in Bulgaria, Bulstrad has been the largest insurance carrier in Bulgaria, based on premium income, since 2000.

Bulstrad's market share in the general insurance market was approximately 21.5% for the year 2002, and it is the leader in its main lines of business: green-card, motor TPL, property, marine and aviation insurance.

Until March 2002, Bulstrad had a monopoly by law on green-card insurance in Bulgaria. Since April 2002, the green-card market has been opened to competition. Bulstrad still maintains a dominant position in this market. Due to rate increases (which are regulated), growth in the Bulgarian green-card market resulting from an increase in the number of people traveling abroad, and the introduction of underwriting methods, Bulstrad does not expect the changes in legal environment of the green-card market to have a material effect on its profits.

Insurance companies in Bulgaria pay income taxes on the basis of premium turnover, and as a result Bulstrad has a relatively high effective tax rate.

Bulstrad's main competitors are Allianz Bulgaria, with a market share in general insurance premiums in Bulgaria in 2002 of approximately 18.0% and DZI, with a market share in general insurance premiums in Bulgaria in 2002 of approximately 14.2%.

Omniasig (Romania)
Omniasig operates primarily in the field of general insurance, in which, according to trade press reports it had a market share of approximately 13.5% in 2002, and 13.3% in 2001. Omniasig also operates through subsidiaries in the fields of life and health insurance. Since 2002, Omniasig has been the third largest insurance carrier in Romania, based on premium income.

Omniasig's main lines of business are motor casco, motor TPL, green-card, marine and aviation, and property insurance.

In Romania, the unavailability of adequate long-term investment instruments linked to foreign currency or to the index has induced Omniasig to invest most of its assets in land and buildings.

A senior executive of Omniasig, who holds 4% of Omniasig, will become entitled to receive an additional 1% of Omniasig from TBIH. He is also entitled to receive 2.5% of the profits of Omniasig in 2003.

Omniasig's main competitors in general insurance are local insurance companies – Asirom S.A. (formerly owned by the Government of Romania), which, according to trade press reports, had a market share of 22.9% in 2002, Allianz Tiriac S.A. 22.5%, Astra S.A. 6.5% and Ardaf S.A. 5.1%.

Helios (Croatia)
Helios operates in a wide variety of general insurance fields in Croatia, and through a subsidiary, in Bosnia-Herzegovina. According to information published by the supervisory authority over the insurance industry in Croatia, Helios was the eighth largest insurance carrier in Croatia in 2001, based on premium income, with a market share of approximately 2.4%.

Helios future profitability may be affected by the discontinuation in 2003 of its workers compensation line of business due to new legislation, as well as regulations that will require it to dispose of part of its profitable loan portfolio.

The loss ratios in motor third party liability in 2002 were rather high. The loss ratio is in line with the market and reflects the low level of government-controlled premiums. The majority of Helios' competitors have also been hurt by low mandatory insurance rates in MTPL set by the regulatory authorities.

Helios currently does not meet certain commitments regarding capitalization made to the regulatory authorities In addition, Helios is non-compliance with certain investment regulations. See also above, "Insurance – Regulatory Environment".

Senior managers in Helios may be entitled to receive up to 5% of the shares of Helios from TBIH, and TBIH may be entitled to receive up to 5% of the shares of Helios from the managers, in each case in accordance with a formula based on the repayment of problematic loans made by Helios prior to its purchase by TBIH. The adjustment will be performed during 2003. In addition, senior managers of Helios are entitled to 5% of the profits of Helios.

Helios' main competitor is Croatia Osigurange, which is owned by the Government of Croatia, with a market share during 2001 of 52% based on premium income.

Pension Fund Management

Overview

TBIH holds an 82% interest in Pension Assurance Company Doverie AD (**"Doverie"**), which manages voluntary and mandatory pension funds in Bulgaria, and a 100% interest in VSP Tatry a.s., which administers and manages a voluntary pension fund in Slovakia, Prva DopInkova Dochodkova Poistovna Tatry – Sympatia (**"Tatry"**)

Doverie (Bulgaria)

Doverie was established in 1994 by Kardan Ltd. and its affiliates. In 2002, TBIH purchased a controlling interest in Bulgarian Pension Assurance Company AD, (**"BPAC"**), another Bulgarian manager of voluntary and mandatory pension funds, and in June 2003, Doverie merged with BPAC. In April 2003 TBIH transferred to Bulstrad shares in BPAC which were converted into 11.5% of Doverie (post-merger) in exchange for approximately BGN 9.9 million (EUR 5.0 million). Following the merger, TBIH holds approximately 73.5% of Doverie directly, and approximately 82% directly and indirectly. In the event that EBRD's holdings in TBIH are focused in Bulgaria, TBIH's holdings in Doverie will be reduced. See "TBIH's Shareholders" above.

A 10% interest in Doverie (post merger) is held by the Confederation of the Independent Trade Unions in Bulgaria (**"CITUB"**), a federation of trade unions which represents the largest number of organized workers in Bulgaria.

In 2002, Doverie and BPAC had a combined market share of 26% in the voluntary pension market, and 47% in the mandatory pension market, calculated based on the number of registered members, according to information published by the state supervisory agency.

Doverie operates through approximately 49 offices and branches. As per 31 December 2002 Doverie employed 144 employees, approximately 82 of which are marketing personnel, and had over 5,000 agents.

Tatry (Slovakia)

Tatry began operations in 1997, and was the first pension fund in Slovakia. Since its establishment, Tatry has been the largest pension fund in Slovakia by number of members and assets under management, with a market share in 2002 of approximately 50%, based on data published by Slovakian Ministry of Labor. Competition in the Slovakian pension market is expected to increase following the recent entry of a subsidiary of the Austrian Raiffeisen Bank and a subsidiary of Credit Suisse into the local market.

Tatry distributes its products through five regional branches in addition to the main offices in Bratislava. It mainly operates through sales agents who work on the basis of commissions. Some of these agents are employees of employers who have pension insurance contracts with Tatry.

Tatry has been in violation of certain insurance regulations relating to investments and investment management. Tatry has taken steps to rectify the problems, and TBIH believes that the non-compliance will not have a material effect on its business.

A senior manager of VSP Tatry a.s. will be entitled to purchase up to 2.5% of Tatry.

Helios Pension (Croatia)

TBIH holds directly and indirectly approximately 94.9% of Helios Pension Public Limited Company for Managing Obligatory Pension Fund d.d., (**"Helios Pension"**) which is engaged in negotiations to merge with other mandatory pension funds in Croatia, in order to meet the minimum number of members required according to law. If the merger is not completed, Helios Pension's license may be revoked by the authorities.

TBIH also operates voluntary pension funds in Serbia and Georgia.

Pension Funds – Revenues

TBIH's pension management companies receive management fees from the pension funds calculated as a percentage of contributions and assets under management, or as a percentage of the investment yield on the assets of the funds for which the management company also acts as asset manager. Doverie collects management fees from its mandatory funds at the maximum rates set by law.

The following table contains data on the consolidated revenues of TBIH from pension fund management for the past 3 financial years:

(in thousands of EUR)	2002	2001	2000
Revenues from Bulgaria	1,438	861	334
Revenues from Slovakia	2,773	1,717	791
Revenues from other markets	210	1	–
Total	4,421	2,579	1,125

Pension Funds – Products
Doverie manages a voluntary pension fund, and general and professional mandatory pension funds in Bulgaria. Mandatory pension funds manage funds collected by the Bulgarian National Social Security Institute on behalf of its members. The general fund provides pensions for workers at the ordinary retirement age, and the professional fund provides supplementary pension coverage to workers from industries with a retirement age younger than the general retirement age, until the members reach the general retirement age.

The voluntary pension fund combines three basic voluntary pension products: retirement pension, disability pension and survival pension. Upon reaching retirement age, the member may choose to withdraw the balance of his account in one or more installments, or to receive a life-long pension allowance.

Doverie's pension funds are "defined contribution" funds, and in principle, members' rights to payments from the funds are conditioned upon the existence of assets in the fund. In case of investment losses by the fund, the payments made to a member might be lower than his deposits. The members' rights are not secured by any guarantee.

The following table contains details regarding the development of TBIH's pension funds:

Number of members at year end	2002	2001	2000
Voluntary Funds	360,264	241,130	189,438
Mandatory Funds	824,062	596,685	–
Total	1,184,326	837,815	189,438

Pension Funds – Marketing
Doverie distributes its products through the CITUB trade unions, Doverie's branches, Bulstrad's marketing network and through agents. In maintaining its leading market position, Doverie relies on its business relations with CITUB. Tatry markets its products through its branches and its agents.

Leasing, Consumer Finance and Asset Management
In 2002 a subsidiary of TBIH entered the fields of leasing, consumer finance and asset management in Bulgaria, Romania and Slovakia. These activities have not been material to TBIH's activities.

Tax Issues
The tax laws and regulations in Eastern Europe in general and in Bulgaria in particular have not been in force for a significant period of time. Significant uncertainty exists with respect to the tax liability in these countries. This is especially true with regard to

insurance companies in Bulgaria, where insurance companies pay taxes based on premium turnover, and the law relating to calculation of the tax basis is not settled.

Financing

TBIH finances its activities and those of its subsidiaries from its equity, and from loans from its shareholders. Under a Loan Agreement dated December 2000, Herfstzon and the EBRD advanced loans to TBIH, during the course of 2001 and 2002, in the principal amount of approximately EUR 9.4 million and EUR 2.9 million respectively. These loans are denominated in USD and bear interest at LIBOR+3%, and the principal is due in one payment in January 2007. TBIH may prepay the loans without penalty. As per 31 December 2002, the outstanding balance of the said loans was approximately EUR 12.8 million.

In December 2000, TBIH and EBRD signed a Senior Convertible Loan Agreement whereby EBRD undertook to provide a loan to TBIH in the amount of up to USD 8.9 million (approximately EUR 8.5 million). The loan may be drawn down by TBIH in order to make new investments. The loan would be secured by the shares of MidOcean and Herfstzon in TBIH, and would be convertible, at the option of EBRD and under certain conditions, into shares of TBIH. To date, TBIH has not drawn any advances under this agreement. In the event that EBRD's holdings are focussed in Bulgaria this agreement will be cancelled. See "TBIH Shareholders".

Herfstzon, Kardan Ltd. and Talladium Holdings undertook not to invest other than through TBIH in the fields of insurance, pension funds and asset management in any country in which the EBRD is active so long as the holdings of the EBRD in TBIH represent 3% or more of its share capital EBRD cannot invest in such country or unless consented to by EBRD. Such consent by EBRD shall not be withheld except for compelling reasons in cases when due to legal restrictions existing in the Bank's countries of operations do not allow the Bank to support an investment by TBIH in an entity involved in mandatory pension fund management. In the event that EBRD's holdings are focussed in Bulgaria, these undertakings will be limited to Bulgaria. See "TBIH Shareholders".

Stock Options

TBIH has authorized the issuance of up to 5% of its share capital to employees and consultants of TBIH and their affiliates, upon the exercise of options granted under TBIH's stock option plan. As of 31 December 2002, TBIH approved the grant of options representing 3% of its share capital, of which 1% were vested. The options have an exercise price of USD 618.11 (approximately EUR 589) per share, increased by notional interest at the rate of LIBOR+2% from 1 January 2003.

TBIH has granted to certain third parties that render services to TBIH and its subsidiaries, options to purchase up to 2.5% of the shares in certain subsidiaries of TBIH. In addition, under certain conditions, if the shares in such subsidiaries will not be, and the shares in TBIH will be listed on a stock exchange, such third parties may be entitled to swap their shares in the subsidiaries for shares in TBIH. At this time, it is not possible to determine the precise number of shares of TBIH that may be issued upon the exercise of such rights.

Further, executives in some of the subsidiaries of TBIH have been granted rights to participate in the profits of the subsidiaries and/or to receive shares in the subsidiaries.

Regulatory Issues

In a letter dated 19 March 2003, the Dutch Financial Markets Authority (**"AFM"**) has requested information from TBIH regarding its activities. The letter states that AFM has disposal of information from which it concludes that TBIH could possibly be engaged in the business of securities institution (*"effecteninstelling"*), for which a licensing requirement applies. TBIH does not hold any license to carry out the aforementioned activities.

New Products and Services

In 2002 and 2003 TBIH significantly expanded its product lines, by initiating activities in the fields of leasing, consumer finance and asset management through its subsidiary

TBIF Financial Services B.V. (**"TBIF"**), as well as life insurance in Georgia and health insurance in Romania and Bulgaria. Although none of these activities are currently material to TBIH, TBIH views them as opportunities for growth.

Shareholdings and Investments

The following table contains data on the book value of TBIH's investments in its subsidiaries (equity and shareholder loans):

At the end of	2002		2001		2000	
	%	USD (000)	%	USD (000)	%	USD (000)
Insurance						
Bulstrad	74%	7,789	69%	6,594	66%	7,414
Omniasig	69%	9,806	52%	4,799	52%	4,428
Helios	91%	7,380	90%	6,048	83%	5,768
GIPH	51%	176	51%	185		–
Alpha Insurance and Reinsurance Broker Ltd.	85%	47		–		–
Pension						
VSP Tatry	90%	3,688	90%	4,536	90%	4,885
Doverie	88%	1,522	85%	773	85%	700
BPAC	69%	4,560		–		–
Helios Pension*	89%	2,692	93%	3,111		–
Joint Stock Pension Assurance Company-Dunav-TBIH	51%	467		–		–
Leasing and Asset Management						
TBI Leasing SA	98%	1,621		–		–
TBI Leasing AD	90%	677		–		–
TBI Credit EAD	100%	1,621		–		–
TBI Asset Management EAD	100%	244		–		–
TBI Invest EAD	100%	195		–		–
Sympatia Financie O.C.P.	100%	954		–		–

* direct holdings only

Herfstzon

Herfstzon, which holds 46.7% in TBIH, is held indirectly by Kardan Ltd. (80.8%) and by managers and consultants in the TBIH Group (19.2%).

On 13 September 2001, Herfstzon received from Deutsche Bank AG London a loan in the amount of approximately USD 7.9 million (EUR 8.8 millon) and issued to Deutsche Bank AG London a negotiable promissory note in the amount of USD 9 million (EUR 8.6 million) with a maturity date of 11 September 2003. The promissory note is guaranteed by Kardan Ltd.

On 22 October 2001, Herfstzon entered into a loan agreement with Kardan Ltd. whereby Herfstzon provided Kardan Ltd. with a loan in the amount of USD 7.1 million (EUR 7.9 million). The loan accrues interest at the rate of 6.8%, and the interest and principal are repayable upon two weeks notice from Herfstzon. As of 31 December 2002 the balance of this loan was USD 3.8 million (EUR 3.6 millon).

On 14 February 2002, Herfstzon received from Deutsche Bank AG London an additional loan in the amount of USD 10 million (EUR 9.7 million) and issued to Deutsche Bank AG London two negotiable promissory notes in the respective amounts of USD 10 million (EUR 9.5 million) and approximately USD 1.1 million (EUR 1.0 million), with maturity dates of 12 February 2004. The promissory notes are guaranteed by Kardan Ltd.

Pursuant to agreements among the shareholders of Herfstzon, the minority shareholders will be entitled, beginning in February 2005, subject to certain conditions, to swap their shares in Herfstzon for shares in TBIH, if the shares in Herfstzon will not be, and the shares in TBIH will be listed on a stock exchange. In addition, if the shares in neither Herfstzon nor TBIH will be listed on a stock exchange, the minority shareholders will have the right to sell their shares to Holdanco at an agreed upon or appraised value, which will be determined by agreement, and failing agreement, by an independent assessor. Subject to certain conditions, Holdanco may pay the exercise price of this put option in the form of shares of listed affiliates. In June 2003 Herfstzon reached an agreement in principle to purchase EBRD's shareholdings in TBIH. See "TBIH's Shareholders" above.

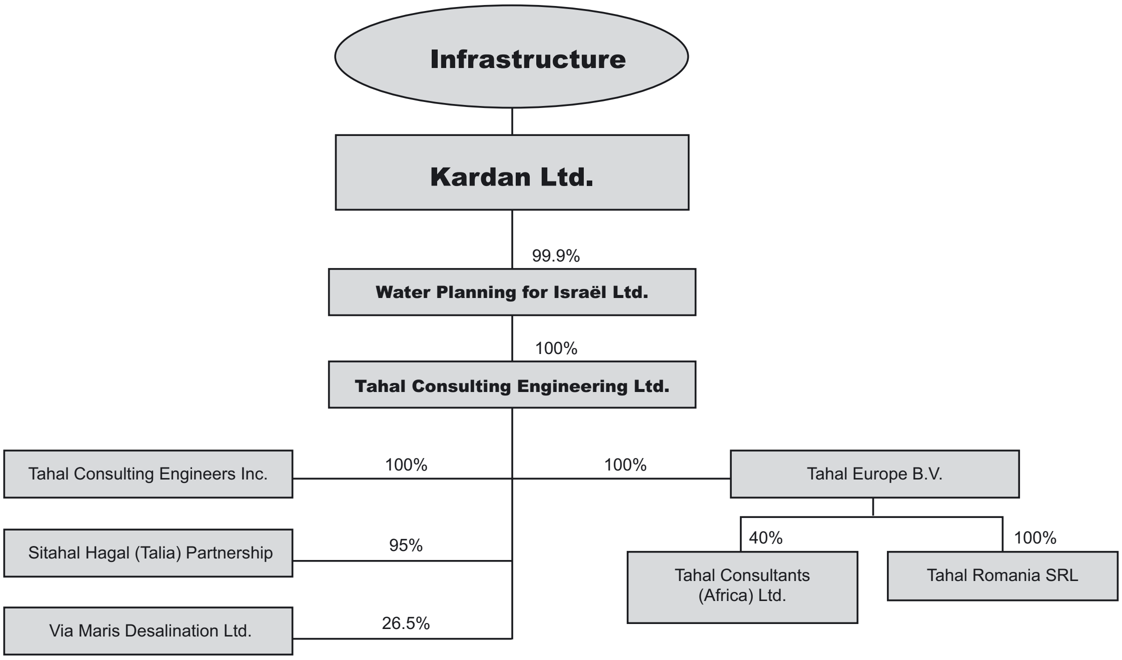
Infrastructure

Overview and Strategy

Tahal, through its wholly-owned subsidiary TCE, engages in engineering projects in the field of water resources and water supply; agricultural planning and marketing; irrigation, desalination, sanitation and wastewater treatment; environmental engineering; civil engineering and infrastructure; industrial engineering and energy; water supply and sewerage systems; and geographic information systems. Tahal was privatized in 1996 and is currently a 99,9% owned subsidiary of Kardan Ltd.

The Tahal Group is primarily involved in the fields of design, supply, engineering, supervision and implementation of internationally and locally financed private and local engineering projects as well as ownership, management and participation in Turnkey and B.O.T. (Build-Operate-Transfer) projects. Through these activities Tahal Group provides its customers with engineering solutions and fund raising to those projects. Major parts of Tahal Group's projects, initiated by non-Israeli Government bodies, are financed by the World Bank, regional developments banks and commercial banks.

Below is a chart detailing Tahal's participating interests in subsidiary and related companies through which Tahal conducts its operations. Please note that this is a summary chart. A full chart is attached as Annex A4.



Board of Directors

The following individuals currently serve as members of the board of directors of Tahal: Mr. Amnon Lipkin Shahak (Chairman), Mr. Yosef Grunfeld, Mr. Eytan Rechter, Mr. Eli Alroy and Mr. Yitzhak Grossman.

Organization and Employees

As per the date of this Prospectus, Tahal and TCE employ approximately 280 employees, (approximately 250 in Israel) and in addition Tahal provides TCE with management services. A special collective bargaining agreement applies to some of Tahal Group's Israeli employees.

On 2 September 2001 Tahal entered into an option agreement with the chairman of its board of directors, for the grant of 327,793 options (collectively: the **"Options"**). The Options were granted without consideration. The Options are exercisable into 327,793 ordinary shares of NIS 1 par value each, representing approximately 3.7% of Tahal's issued and paid up share capital. Tahal also granted options to its CEO. However, it is expected that the CEO's position with Tahal will terminate within the next three months, any options granted to him will terminate.

The Activities

The Tahal Group is involved in numerous projects worldwide, mainly in South America, Latin America, Asia, Africa, CEE, and Israel. Most of the projects involve planning, supervision, construction management and consultancy services.

The activities of the Tahal Group outside of Israel include participating in projects initiated by non-Israeli governments or governmental bodies.

Projects outside of Israel

The Tahal Group's main projects outside of Israel as of the date of this Prospectus are:

(i) Turkey – the Yaylak Project – TCE holds a 33.3% portion of a USD 165 million (EUR 157 million) turnkey water supply for irrigation project initiated by the Turkish Ministry of Energy and Natural Resources. The remaining portions of the project are held by two non-related entities, which have contracted with TCE in a joint venture agreement, under which TCE's anticipated portion of the revenues resulting from the Yaylak Project amounts to approximately USD 45.8 million (EUR 43.7 million). In accordance with the financing arrangements for this project, TCE's total exposure in the project amounts to approximately USD 1.1 million (EUR 1.0 million).

(ii) Romania – Water Supply Project – TCE holds a 10% portion of a USD 220 million (EUR 209.7 million) fixed-price turnkey project for supply of drinking water initiated by the Romanian Ministry of Public Works and Territorial Planning. The remaining portion of the project is held by a third party, which has contracted with TCE in a joint venture agreement, under which TCE's anticipated portion of the revenues and profits resulting from this project amounts to 20%. In accordance with the financing arrangements for this project, TCE's total exposure in the project amounts to approximately USD 1.0 million (EUR 1.0 million).

Projects in Israel

The Tahal Group's main or significant projects in Israel as per the date of this Prospectus are:

(i) a framework agreement with the Mekorot Water Company Ltd., an Israeli governmental company, for the provision to Mekorot of consultancy, design and engineering services in respect of waterworks and sewage facilities;
(ii) TCE's involvement in the Israeli gas project, in which it is in charge of various planning aspects of this project;
(iii) a 95% interest in Sitahal-Hagal (Talia) (**"Sitahal"**), an Israeli partnership executing a project for the design, set-up, operation and closing of the Hagal (Talia) landfill in the north of Israel (the remaining 5% are held by Barazani Brothers (1974) Ltd., a private company incorporated under the laws of Israel); and
(iv) Water desalination – a 26.5% interest in a sea-water desalination facility B.O.O. (build-own-operate) project at Palmachim. Tahal is one of the leading participants in Via Maris Desalination Ltd., a private company incorporated under the laws of Israel, involved in water desalination projects.

Financing

Tahal and TCE finance their operations by utilization of their own capital and through bank credits. To secure their commitments, Tahal and TCE have recorded fixed and floating charges over assets, including contractual rights and moneys due to them. Tahal and TCE mutually guarantee each other's liabilities vis-à-vis the banks that have granted them loans, including through irrevocable guarantees.

In accordance with the financing arrangements for projects performed on a purchaser's credit basis, Tahal Group's total exposure in such outstanding projects amounts to approximately USD 6.6 million (EUR 6.3 million).

TCE issued to Tahal a perpetual capital note payable upon liquidation of TCE, in a principal amount of NIS 13.1 million (EUR 2.6 million). Tahal's rights pursuant to such note are not transferable, except with the prior, written consent of TCE.

TCE obtained an approval from the Israeli government entitling it to a reduced tax rate in Israel in accordance with applicable law which rate is currently 25% in connection with transactions in Romania and Turkey, valid until August 2004. TCE intends to seek an extension of these approvals.

The Tahal Group provided its customers with bank guarantees in respect of advance payments, in a total amount of approximately USD 12.5 million (EUR 11.9 million) as of 31 December 2002. In some of the non-Israeli projects the Tahal Group has given performance guarantees in the total amount of USD 12.0 million (EUR 11.4 million).

TCE advanced to Via Maris Desalination Ltd. a loan of approximately NIS 1.0 million (EUR 2.0 million), the repayment date has not yet been determined. In 1999 and 2001 Tahal granted two loans to Kardan Ltd. for a period of 5 years. The loans, which are linked to the Israeli consumer price index and carry an annual interest of 4%, amounted to NIS 4.3 million (EUR 0.9 million) as of 31 December 2002.

TCE has undertaken to repay grants received from Israeli government related entities by means of royalties. The balance as per 31 December 2002 of TCE's contingent liabilities in respect of these grants amounts to approximately USD 1.8 million (EUR 1.7 million).

Legal Proceedings

Ecological indictment – on 31 July 2000, Israel laid an indictment against Sitahal-Hagal (Talia) and its officers, alleging that they failed to take precautions to prevent the hazards of air pollution, odour and water pollution at the Hagal (Talia) site. As of the date of this Prospectus, the case is being heard at the Tiberias Magistrates Court at the trial stage.

Barazani Brothers (1974) Ltd. arbitration proceedings in Israel – The dispute between the parties hinged on whether or not Sitahal had the right to oust Barazani Brothers from the project, and on the damages and losses to both parties (Sitahal claims NIS 10.4 million (EUR 3.3 million) and Barazani Brothers claims NIS 11.1 million (EUR 2.2 million). On 17 March 2003 an arbitration award was issued, awarding damages to Sitahal, the scope of which is yet to be determined.

There is an interlocutory injunction against the parties involved in the Ashdod turnkey desalination project, sought by another bidder which did not tender the successful bid. The injunction was issued by the Supreme Court of Israel until ruling in an appeal filed by the third party, whose claims were rejected by the Magistrates court.

The legal proceeding with regard to Ashalin Dam, deals with the breaking of a dam planned by TCE on 1993. As a result of the breaking, water flooded the factory of the plaintiff, causing damages to equipment facilities and buildings. In 1996 the insurers of the plainoff filed a subrogation suit against TCE and its insurer. In addition, the plaintiff is claiming the deductible it paid. The original sum claimed was NIS 34 million which when revalued to date equals approximately NIS 60 million (EUR 11.7 million). At this point the litigants await the ruling of the district court in Jerusalem on the question of liability, following which the court will examine the damage.

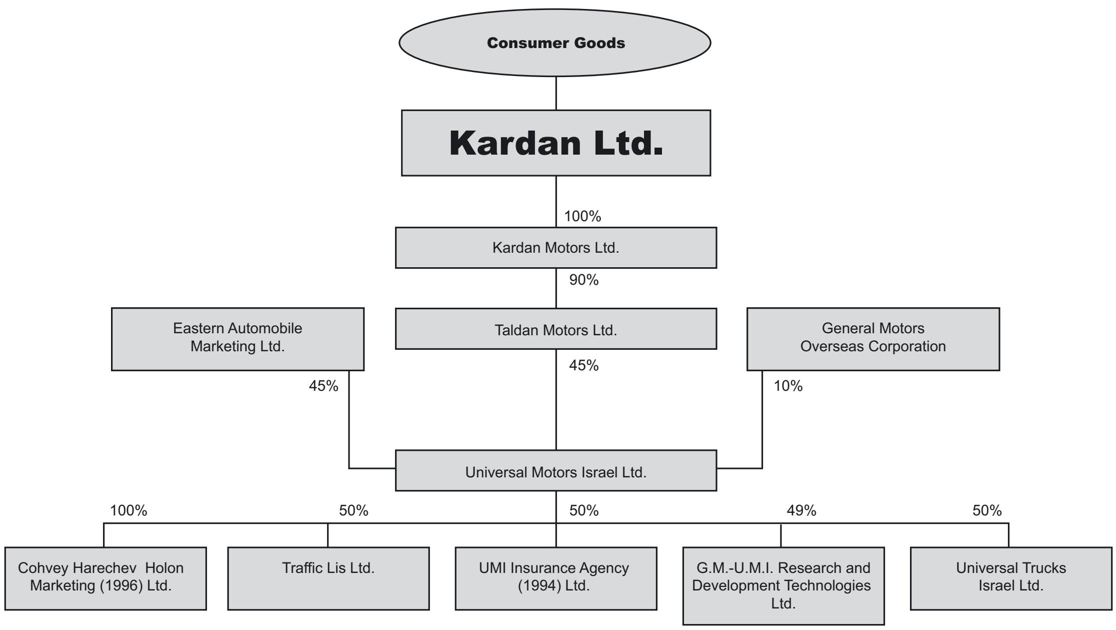
TCE has professional liability insurance for damages up to a certain maximum amount, with a certain deductible. As of 31 December 2002, there were 14 lawsuits in proceedings, in relation with which TCE has made an allowance in its financial accounts for the unpaid deductibles. One lawsuit exceeds the insured amount by USD 1.0 million (EUR 1.0 millon). No provision was made for this lawsuit as TCE considers it unlikely that this lawsuit shall be granted for an amount exceeding the insured amount.

Consumer Goods

Overview and Strategy

In the field of Consumer Goods, Kardan Ltd. is involved in the import and marketing of vehicles and household appliances and electronics. The activity in the field of household appliances and electronics is not substantial in relation to the rest of Kardan Ltd.'s activity. Therefore only the activity in the field of the automotive, performed by UMI, is described.

Below is a chart detailing Kardan Group's holdings in Consumer Goods as of the date of the Prospectus.



UMI is mainly engaged in the import and marketing of motor vehicles manufactured by the General Motors Group and affiliated companies thereof (the **"GM Group"**), including motor vehicles manufactured at factories of the GM Group (Chevrolet, Buick, Cadillac G.M.C. and Opel) and manufactured by Saab and Isuzu. This is in accordance with import and distribution agreements between UMI and the manufacturers of these vehicles. These distribution agreements grant UMI the right to distribute within the borders of Israel those vehicles approved by the manufacturers, in accordance with lists mutually determined from time to time between UMI and the manufacturers. The distribution agreements were exclusive until recently when certain barriers for importing were removed through changes in subsidiary legislation in Israel. UMI has undertaken not to exhibit and market any motor vehicles other than the motor vehicles manufactured by such manufacturers, unless it receives their prior written consent. The distribution agreements were signed for fixed periods of generally 5 years. Some of the distribution agreements will terminate during the second half of 2003, while others will terminate in 2006. Since the distribution agreements have been first entered into, the same have been renewed from time to time on an ongoing basis, and UMI's management is not aware of the existence of any circumstances that would preclude their renewal in the future. See also "Risk Factors". UMI also engages in the import and marketing of spare parts and accessories, as well as in the rendering of maintenance and repair services to the motor vehicles imported by it. Further, UMI engages in the operation of a central garage in Israel for servicing the aforesaid motor vehicles and in activities which are complementary to the above-mentioned activities.

UMI sells the motor vehicles at two showrooms and through seventeen distributors, with which it has entered into distribution agreements.

During 2002, the GM Group acquired certain rights and intellectual property from Daewoo motor and started to produce and market Korean products under GM branded name(s). UMI is expected to market in Israel these vehicles under the brand name Chevrolet.

In order to minimize the effect of changes in the exchange rates on the financial results in respect of the vehicle importing activity, UMI engages in hedging transactions.

UMI also engages, via a subsidiary company, in hiring vehicles to the public and providing services in the vehicle operating and leasing sphere.

Board of Directors

The following individuals currently serve as members of the board of directors of UMI: Yosef Grunfeld, David Iny, Avihu Ben-Nun, Moshe Steingart, Morris Iny and Richard Choi.

Organization and Employees

As per the date of this Prospectus, UMI and its subsidiaries employ a total of approximately 400, and in addition UMI receives management services from Kardan Ltd. as well as from its other shareholders.

Shareholders

As per the date of this Prospectus, the control over UMI is divided between: (i) Eastern Holdings Company (1984) Ltd., a non-related private company incorporated under the laws of Israel, holding 45% of UMI's shares; (ii) Taldan Motors Ltd., a private company incorporated under the laws of Israel, which is a 90% held indirect subsidiary of the Company, holding 45% of UMI's shares; and (iii) General Motors Overseas Distribution Corporation, a company incorporated under the laws of Delaware, holding 10% of UMI's shares. There is a shareholders' agreement between the shareholders, which, inter alia, entitles the parties, to a right of first refusal in the case of a sale of UMI shares and which also grants GM Group a put option to compel the remaining shareholders to purchase its shares in UMI, on terms detailed in the agreement.

UMI holds a 50% interest in Universal Trucks Israel Ltd. (**"UTI"**), which acts as a distributor in Israel of light trucks manufactured by Isuzu. UMI currently imports trucks manufactured by Isuzu and Grumann and UTI serves as the marketer thereof and provides services for such trucks.

Revenues

Following below is a table showing UMI's revenues on sales of motor vehicles, as well as the quantities of motor vehicles sold by UMI in the years 2000, 2001 and 2002 in thousands of NIS:

	2002		2001		2000	
	No. of motor vehicles sold	Revenues	No. of motor vehicles sold	Revenues	No. of motor vehicles sold	Revenues
Total	8,502	1,017,162	9,950	1,075,558	11,907	1,324,646

Following below is a breakdown of revenues and operating profit/loss, in thousands of NIS:

	2002		2001		2000	
	Revenues	Operating profit/loss	Revenues	Operating profit/loss	Revenues	Operating profit/loss
Import and marketing of motor vehicles and accessories	1,017,162	92,517	1,075,558	128,345	1,324,646	162,615
Import and marketing of spare parts	306,983	90,879	274,620	74,247	272,852	67,769
Total	1,324,145	183,396	1,350,178	202,592	1,597,498	230,384

Purchase tax is imposed on each motor vehicle imported into Israel, at rates ranging between 95% for private vehicles and 75% for commercial and pickup trucks and 5% for trucks. By virtue of agreements with the European Union and with the governments of the United States of America, Canada and Mexico, customs is not paid in respect of motor vehicles manufactured in the United States of America, Canada and countries in the European Union. In respect of motor vehicles manufactured in other countries in the world, customs is paid at the rate of 7% of the value of the vehicle for customs purposes. In addition, value added tax is paid on motor vehicles sold in Israel.

Sales Strategy and Inventory

UMI purchases motor vehicles, generally for stock, in accordance with the demand it anticipates. UMI has a stock of vehicles designated for current supply, for a period of three to four months. In addition, pursuant to relevant mandatory law, UMI keeps a stock of spare parts. UMI's stock also includes second-hand motor vehicles, resultings from trade in transactions executed by UMI, under the terms of which UMI customers purchasing a new vehicle concurrently sell to UMI a used vehicle (only of the types sold by UMI) for a price close to its market price, and the consideration payable by UMI for the used vehicle is deducted from the purchase price of the new vehicle.

The quantities of private vehicles sold by UMI may be adversely affected by fluctuations in the standard of living in Israel. In the last two years, such fluctuations have indeed resulted in a decrease in the volume of sales of private motor vehicles in Israel.

UMI sells motor vehicles both directly and by means of distributors with which it has distribution agreements.

Traffic Lis Ltd., a private company incorporated under the laws of Israel, is a 50% held subsidiary corporation of UMI. Traffic Lis Ltd. engages in hiring vehicles to the public and providing services in the vehicle operating and leasing sphere. The balance sheet value of vehicles for leasing, net, in Traffic Lis Ltd. as at 31 December 2002 was approximately NIS 73 million (EUR 14.7 million). This asset bears a certain risk in that its realization value can be problematic in the future, depending on the extent of vehicles that may have to be sold from time to time. A sharp decline in the market could lead to a need to realize a large portion of the vehicles at a significant discount. See “Risk Factors”.

Warranties

UMI provides a warranty on all motor vehicles sold for the repair of various breakdowns occurring to the motor vehicles during the warranty period. Generally, such warranty period corresponds to the warranty period under the warranty given to UMI by the manufacturers of the motor vehicles, for the purpose of indemnifying UMI for expenses incurred during the warranty period. The amounts UMI has borne directly or the provision made for such liability in 2002 and in 2001, to the extent not covered by the manufacturer, were not substantial. Warranty for third year Opel/Saab is not covered by the manufacturers and UMI made a proper provision for it. Since the beginning of 2003, such extended warranty is purchased by the customer on a voluntary basis.

Real Property

UMI conducts its activities from various sites located throughout Israel, some of which are owned by UMI and some of which are leased.

Regulatory Matters

Various Israeli statutory and regulatory provisions apply to UMI’s activities, including provisions by virtue of subsidiary legislation and by virtue of an order issued by the Israeli Anti-Trust Court in Jerusalem. UMI’s management believes that it is in compliance with such statutory and regulatory provisions and is taking the measures necessary to comply with the order of the Anti-Trust Court. As per the date of this Prospectus, UMI has a permit under Israeli subsidiary legislation to act as a motor vehicle importer, which is valid until 31 December 2003. As per the date of this Prospectus, UMI’s permit has been renewed from time to time on an ongoing basis, and UMI’s management is not aware of the existence of any circumstances that would preclude its renewal in the future. See also “Risk Factors”. Furthermore there also has been a regulatory change regarding the free import of original manufacturers’ spare parts.

Competition

The motor vehicle market in Israel is characterized by a high level of competitiveness in all motor vehicle sectors. According to the Israeli Association of Motor Vehicle Importers, during 2002 and 2001, a total of 153,160 and 126,901 motor vehicles, respectively, were sold. In the area of the marketing of spare parts, UMI competes with suppliers of used spare parts and of imitations of spare parts which UMI markets. UMI also competes in this area with a small number of importers who import original spare parts, which they acquire from suppliers abroad. The competition in this field has increased over the past few years due to certain regulatory changes.

Financing

UMI finances its activity mainly by means of its working capital, short and long-term loans from banks, by supplier credit and by advances from customers. Following below is a breakdown of the main sources of financing of UMI in thousands of NIS:

Financing Source	31 December 2002	31 December 2001	31 December 2000
Supplier Credit	152,329	107,171	111,720
Loans from Banks	250,072	119,927	115,203

UMI does not customarily extend credit to private customers purchasing motor vehicles from it. UMI extends credit to business customers purchasing large numbers of motor vehicles, for various periods, in accordance with terms agreed with each customer and at accepted commercial interest rates. The credit is given against a pledge of the motor vehicles sold. UMI provides its authorized garages with credit for an average period of 75 days, for spare parts which it markets through them. UMI does not receive collateral security for the credit provided by it to the authorized garages except for a personal guarantee of the owner. On 31 December 2002 and 31 December 2001, the scope of credit provided by UMI to the garages and to the customers, as aforesaid, amounted to a sum of approximately NIS 37.3 million (EUR 7.5 million) and NIS 33.8 (EUR 8.7 million), respectively.

UMI records a provision for doubtful debts. On 31 December 2002 and 31 December 2001, the amount of the provision for doubtful debts recorded by UMI was in a sum of NIS 4.6 million (EUR 0.9 million) and EUR 4.4 million (EUR 0.9 million), respectively.

In view of UMI's importing activity, UMI has exposure to fluctuations in exchange rates of the USD and of European currencies, including EUR.

Legal Proceedings

In January 2002, a lawsuit was filed against UMI with the District Court in Tel-Aviv, as well as a motion to approve the above-mentioned lawsuit as a class action. The main part of the lawsuit refers to the refunding of excess payments on account of the condition appearing in the certificate of warranty given by UMI to purchasers of the motor vehicles, which makes the warranty given to the motor vehicles contingent on the execution of current servicing, during the period of warranty, at authorized garages. Similarly, it was alleged that the authorized garages were obliged to purchase original parts from UMI. The plaintiff contends that the above-mentioned conditions constitute a restrictive trade practice, which results in an increase in the cost of the service. The amount claimed in the event of the lawsuit being approved as a class action, totals approximately NIS 36.7 million. In the opinion of UMI's management, in reliance on the evaluation of its legal advisors, it has good defense arguments against the motion to approve the lawsuit as a class action. Nevertheless, at this stage, it is not possible to estimate the lawsuit's prospects and consequently a provision was not included in the financial statements in respect thereof. A similar lawsuit was filed against six other importers of motor vehicles. The amount claimed against all the importers totals approximately NIS 350 million.

Talkar Ltd., which was the distributor and importer of Daewoo motor vehicles in Israel in the past, has initiated legal proceedings in Israel, inter alia against UMI, requesting to prevent the distribution of Daewoo vehicles in Israel by another distributor. The proceedings are in a preliminary stage and UMI's management cannot currently predict their outcome.

Intellectual Property Rights

UMI is licensed to use GM's trademarks for the purposes of UMI's activities in Israel.

Miscellaneous Activities

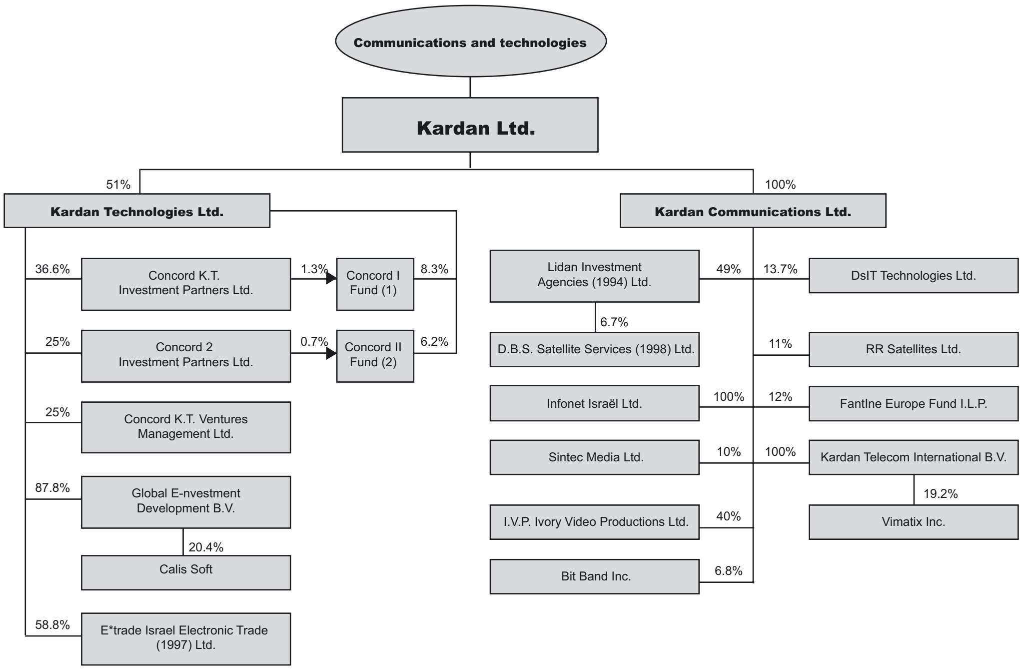
Kardan Group has participating interests in certain additional companies and activities in the services sector in Israel, including a radio station, maintenance services for office buildings, and collection services and other services to municipal governments, none of which is material to Kardan Group's business activities, taken as a whole.

Communications and Technologies

Overview and Strategy

Kardan Group is active in the Israeli and Israeli related communications and technologies markets mainly via two subsidiaries – Kardan Communications and Kardan Technologies. The communications and technologies markets have suffered in recent years from both Israeli and global shocks as well as from a continuing weakness of the capital markets. Kardan Group's current policy is accordingly aimed at reorganizing and focusing its communications and technologies investment portfolio and liquidating non-profitable activities.

Below is a chart detailing Kardan Group's communications and technologies business segment. Please note that this is a summary chart. A full chart is attached as Annex A5.



Holding percentages are rounded, actual holding may differ slightly.
(1) A group of two partnerships, one Israeli and one foreign.
(2) A group of four partnerships, two Israelis and two foreign.

Kardan Communications

The activities

Kardan Communications holds, directly or through subsidiaries, a portfolio of investments in companies active in the communications and computer systems markets. Kardan Communications' investments in portfolio companies include, inter alia, an approximately 11% interest in R.R. Satellite Communication Ltd., a private company incorporated under the laws of Israel that is active in the satellite communication sector; an approximately 40% interest in Ivory Video Productions Ltd., a private company incorporated under the laws of Israel that provides Israeli-content television in North America; an approximately 13.7% interest in DsIT Technologies Ltd., a private company incorporated under the laws of Israel; and several additional minority participating interests in companies active in the communications, software and IT sectors.

Kardan Communications holds a 100% interest in Infonet Israel Ltd., a private company incorporated under the laws of Israel (**"Infonet"**), subject to dilution due to certain obligations to former and current Infonet employees. Infonet provides international data communication services to the business sectors in Israel and abroad, based on a license agreement with Infonet Services Corporation, a corporation incorporated in Delaware, United States of America.

Kardan Communications holds an approximately 12% limited partnership interest, as well as certain other related rights, in FantIne Fund, a venture capital fund established in 2001 and comprised of Israeli and non-Israeli limited partnerships, against an obligation to invest a total amount of USD 3 (EUR 2.7) million in such fund. Kardan Communications has currently invested a total amount of NIS 3.4 (EUR 0.7) million in FantIne Fund, and its outstanding investment obligations amount to USD 2.3 million (EUR 2.2) million. FantIne Fund was established for a period of 7 years, which may be extended for 3 additional 1 year periods. The valuation of Kardan Communications' interests in FantIne Fund amounted to NIS 0.6 (EUR 0.2) million in 2001 and to NIS 3.4 (EUR 0.7) million in 2002.

Kardan Communications indirectly holds an approximately 3% interest in D.B.S. Satellite Services (1998) Ltd., a private company incorporated under the laws of Israel (**"DBS"**), active in the provision of commercial multi-channel television broadcasting services via satellite in Israel, acquired against an investment of NIS 58.4 (EUR 11.8) million. Kardan Communications is not involved in the management of DBS. Due to DBS' losses and current financial situation, provisions as to the value of Kardan Communications' participating interests in DBS were made during 2001 and 2002. Accordingly, valuation of Kardan Communications' interests in DBS amounted to NIS 32.8 (EUR 8.4) million in 2001 and to NIS 40.8 (EUR 8.2) million in 2002. Kardan Communications pledged its DBS shares to certain banks in Israel as collateral for loans received by DBS. During 2002 DBS has made a capital call to its shareholders. Kardan Communications' contribution to such capital call amounted to USD 0.5 (EUR 0.5) million. Kardan Communications' current policy is to refrain from additional investments in DBS, and accordingly its indirect interests may be diluted due to the current and any additional future capital calls by DBS.

Board of Directors

The following individuals currently serve as members of the board of directors of Kardan Communications: Mr. Yosef Grunfeld, Mr. Yitzhak Grossman, Mr. Shaul Maoz, Mr. Eytan Rechter (Chairman) and Mr. Israel Frieder.

Employees

As of 31 May 2003, Kardan Communications employs 4 full time and 2 part time employees. According to understandings between Kardan Communications and 4 of its employees, such employees shall be entitled to receive options to purchase Kardan Communications' shares.

Shareholder

Kardan Ltd. holds 100% of Kardan Communication's issued and outstanding share capital.

Financing

Kardan Communications' activities are financed through non-secured shareholder loans provided by Kardan Securities Ltd., which amounted on 31 December 2002 to NIS 129.7 (EUR 26.1) million.

Kardan Technologies

The activities

Kardan Technologies holds interests in Israeli venture capital funds and in high-technology companies. Shares in the capital of Kardan Technologies are listed on the Tel-Aviv Stock Exchange.

Kardan Technologies holds interests in two Israeli venture capital funds – Concord Funds I and II, which are comprised of Israeli and non-Israeli limited partnerships and specialize in high-risk investments in Israeli or Israeli-related start-up companies. As of the second quarter of 2001, Kardan Technologies is not involved in the management of the Concord Funds.

Concord Fund I was established in 1997. Kardan Technologies invested a total of NIS 28.9 (EUR 5.8) million in Concord Fund I and holds approximately 9.6% of the rights therein, as well as additional rights in (i) its general partner (which is entitled, under certain conditions, to a carried interest from Concord Fund I) and (ii) its management company. Concord Fund I was established for a period of 9 years, which may be extended for two additional one-year periods. The valuation of Kardan Technologies' interest in Concord Fund I amounted to NIS 20.8 (EUR 5.3) million in 2001 and to NIS 17.5 (EUR 3.5) million in 2002.

Concord Fund II was established in 1999. Kardan Technologies invested a total of USD 9.4 (EUR 7.9) million in Concord Fund II, out of a total investment obligation of USD 12.5 (EUR 11.9) million, and holds approximately 6.9% of the rights therein, as well as additional rights in (i) its general partner (which is entitled, under certain condition, to a carried interest from Condord Fund II) and (ii) its management company. Kardan Technologies is accordingly obliged to invest an additional NIS 15.2 (EUR 3) million in Concord Fund II. Under the agreement relating to Concord Fund II, a party that does not comply with its commitments to invest in the fund, might lose all rights therein. Concord Fund II was established for a period of 10 years, which may be extended for two additional one-year periods. The valuation of Kardan Technologies' interest in Concord Fund II amounted to NIS 31.8 (EUR 8.1) million in 2001 and to approximately NIS 23.8 (EUR 4.8) million in 2002.

Kardan Technologies holds indirectly, through its 87.8% interest in Global E Investments Development B.V., a private limited liability company incorporated under the laws of the Netherlands, approximately 17.9% of the issued share capital of Callis Soft, a company registered in France, which is active in the provision of licenses and related services to software products for, inter alia, agricultural produce. During the years 2001 and 2002, Kardan Technologies has made provisions in its financial statements for its investment in Callis Soft in the amount of NIS 9.4 million (EUR 2.4 million) and NIS 2.8 million (EUR 0.6 million) respectively. Callis Soft currently is involved in insolvency proceedings. The current bookvalue of Kardan Technologies' investment in Callis Soft is NIS 6.5 million (EUR 1.3 million).

Kardan Technologies holds approximately 58.9% of the issued share capital of E*Trade Israel Electronic Commerce (1997) Ltd. (**"E*Trade Israel"**), a private company incorporated under the laws of Israel which discontinued all operations during the fourth quarter of 2002. During 2001 and 2002, Kardan Technologies has recorded losses of NIS 10.8 million (EUR 2.9 million) and NIS 14.3 million (EUR 2.9 million) respectively in respect of its investment in E*Trade Israel. Kardan Technologies' management decided on 19 February 2003 not to provide any further financing to E*Trade Israel.

Board of Directors

The following individuals currently serve as members of the board of directors of Kardan Technologies: Mr. Yosef Grunfeld, Mr. Eytan Rechter, Mr. Moshe Steingart (chairman), Mr. Avner Shnur, Mr. Ze'ev Dreznik and Ms. Dorit Novak.

Organisation and employees

Kardan Technologies employs 2 part time employees and in addition receives consultation services from Kardan Ltd. and of one of its directors.

Shareholders

Kardan Ltd. holds, directly and indirectly, approximately 50.7% of the issued and outstanding share capital of Kardan Technologies and 66.7% of the rights to appoint members of Kardan Technologies' board of directors. An additional approximately 22% of the issued and outstanding share capital of Kardan Technologies is held by Scorpio (B.S.G.) Ltd., a private company incorporated under the laws of Israel, which is, together with, inter alia, Kardan Ltd., a party to a certain agreement regarding appointment of Kardan Technologies' directors. Approximately 13% of the issued and outstanding share capital of Kardan Technologies is held by the public. Said percentage are calculated with respect to the share capital exclusive of approximately 1.3% held by Kardan Technologies, which shares are considered under the Israeli Companies Law to be "Treasury Shares" and in general do not entitle the owners thereof to any voting or participation rights.

Stock Options

Immediately prior to the listing of its shares on the Tel-Aviv Stock Exchange in July 2000, Kardan Technologies issued a total of 6.7% of its share capital, under certain terms and conditions, to certain of its employees and other parties related to the Kardan Group against payment of their minimum offering price. The purchase of such shares by the offerees was financed through loans provided by Kardan Securities, which loans are guaranteed by the acquired Kardan Technologies shares and are "non-recourse" other than to such shares. Kardan Technologies concurrently deposited equivalent loans with Kardan Securities, which will be repaid solely against repayment of the employees and other related parties' loans to Kardan Securities. As of 31 December 2002, the remaining employee and related-party loans (and equivalent Kardan Technologies deposits) amount to NIS 16.1 (EUR 3.2) million.

In January 2000 Kardan Technologies adopted a share option plan which was amended in July 2000, pursuant to which it has issued options to purchase a total of 0.9% of its share capital (as of the Kardan Technologies' prospectus date) to four of its employees. Immediately prior to the publishing of this Prospecus, the outstanding options amount to 0.6% of the share capital of Kardan Technologies.

Legal Proceedings
Kardan Communications holds a 100% interest in Kardan Telecom International B.V., a private limited liability company incorporated under the laws of the Netherlands (**"Kardan Telecom"**). Kardan Telecom has been sued for damages in the amount of NIS 238.5 (EUR 42) million in arbitration proceedings held in the Court of International Arbitration in London, United Kingdom, in relation to a broadcasting via satellite venture in Taiwan. Kardan Telecom has filed a counterclaim for NIS 71 (EUR 14.3) million. Based on an opinion of Kardan Telecom's representing counsel and on the estimates of Kardan Telecom's management, Kardan Ltd.'s management believes that the suit against Kardan Telecom is without merit.

On 5 March 2003 Kardan Technologies has filed a suit before a District Court in Israel against E*Trade Group, Inc. claiming damages totalling approximately NIS 35.3 (EUR 7.1) million in connection with Kardan Technologies' investment in E*Trade Israel. Amounts awarded in these proceedings, if any, will be utilized, inter alia, to repay certain of E*Trade Israel's outstanding obligations.

Legal proceedings – Kardan Group

Except as included hereunder (all as also repeated elsewhere in this Prospectus), Kardan Group and/or the Company are not involved in any litigation or arbitration proceedings which may have or have had a significant effect on the financial position of the Company and its subsidiaries, taken as a whole, and, so far as the Company is aware, no such litigation or arbitration proceedings are pending or threatened.

Kardan Ltd.
In December 1996, a legal claim was filed in Israel against Kardan Ltd. in the sum of NIS 3 million (USD 0.7 million), claiming breach of contract in respect of a property that Kardan Ltd. rented to the plaintiffs. In the assessment of Kardan Ltd.'s management, based on an opinion of its legal advisers, there are good prospects that the claim will be dismissed and accordingly a provision in respect thereof has not been included in Kardan Ltd.'s financial statements.

On 16 December 2002 Kardan Electric Ltd. filed suit before Israeli courts against Liebherr-export AG claiming NIS 4 million in damages due to termination of a distribution contract without due notice. On 10 April, 2003 Liebherr-export AG filed a counter-claim against, inter alia, Kardan Ltd. and other Kardan Group companies claiming NIS 5 million in damages, alleging that such companies acted in concert in the selling of products competing with Liebherr-export AG's products, in breach of fiduciary duty to Liebherr-export AG. The proceedings are in initial stages and Kardan Ltd.'s management cannot assess he prospects of either claim.

Real Estate
GTC Poland is the defendant in various legal proceedings, the largest of which involves a claim by a former tenant in the amount of several hundred thousand USD.

GTC Hungary is the defendant in a claim by residents of property near the Riverside project, claiming damages in the amount of approximately USD 300,000.

GTC Hungary acquired a property in consideration for approximately USD 1.5 million. After the acquisition a court ruling determined that the seller did not have a right to the property. GTC Hungary is considering (though not yet having reached any decision) filing an arbitral claim via an investor protection procedure available under a Dutch-Hungarian treaty claiming that it was unfairly treated.

Infrastructure
On 31 July 2000, Israel laid an indictment against Sitahal and its directors, alleging that they failed to take precautions to prevent the hazards of air pollution, odour and water

pollution at the Hagal site. As of the date of this Prospectus, the case is being heard at the Tiberias Magistrates Court.

Barazani Brothers (1974) Ltd. arbitration proceedings in Israel – The dispute between the parties hinged on whether or not Sitahal had the right to oust Barazani Brothers from the project, and on the damages and losses to both parties (Sitahal claims NIS 10.4 million (EUR 3.3 million) and Barazani Brothers claims NIS 11.1 million (EUR 2.2 million). On 17 March 2003 an arbitration award was issued, awarding damages to Sitahal, the scope of which is yet to be determined.

There is an interlocutory injunction against the parties involved in the Ashdod turnkey desalination project, sought by another bidder which did not tender the successful bid. The injunction was issued by the Supreme Court of Israel until ruling in an appeal filed by the third party, whose claims were rejected by the Magistrates court.

The legal proceeding with regard to Ashalin Dam, deals with the breaking of a dam planned by TCE in 1993. As a result of the breaking, water flooded the factory of the plaintiff, causing damages to equipment facilities and buildings. In 1996 the insurers of the plainoff filed a subrogation suit against TCE and its insurer. In addition, the plaintiff is suing the deductible it paid. The original sum claimed was NIS 34 million which when revalued to date equals approximately NIS 60 million (EUR 11.7 million). At this point the litigants await the ruling of the district court in Jerusalem on the question of liability, following which the court will examine the damage.

Consumer Goods

In January 2002, a lawsuit was filed against UMI wit the District Court in Tel-Aviv, as well as a motion to approve the above-mentioned lawsuit as a class action. The main part of the lawsuit refers to the refunding of excess payments on account of the condition appearing in the certificate of warranty given by UMI to purchasers of the motor vehicles, which makes the warranty given to the motor vehicles contingent on the execution of current servicing, during the period of warranty, at authorized garages. Similarly, it was alleged that the authorized garages were obliged to purchase original parts from UMI. The plaintiff contends that the above-mentioned conditions constitute a restrictive trade practice, which results in an increase in the cost of the service. The amount claimed in the event of the lawsuit being approved as a class action, totals approximately NIS 36.7 million. In the opinion of UMI's management, in reliance on the evaluation of its legal advisors, it has good defense arguments against the motion to approve the lawsuit as a class action. Nevertheless, at this stage, it is not possible to estimate the lawsuit's prospects and consequently a provision was not included in the financial statements in respect thereof.

Talkar Ltd., the distributor and importer of Daewoo motor vehicles in Israel, has initiated legal proceedings in Israel, inter alia against UMI, requesting to prevent the distribution of Daewoo vehicles in Israel by another distributor. The proceedings are in a preliminary stage and UMI's management cannot currently predict their outcome.

Communications and Technologies

Kardan Communications holds a 100% participating interest in Kardan Telecom. Kardan Telecom has been sued for damages in the amount of NIS 238.5 (EUR 42) million in arbitration proceedings held in the Court of International Arbitration London, United Kingdom, in relation to a broadcasting via satellite venture in Taiwan. A counterclaim for NIS 71 (EUR 14.3) million was filed by Kardan Telecom in July 2002. Based on an opinion of Kardan Telecom's representing counsel and on the estimates of Kardan Telecom's management, Kardan Ltd.'s management believes that the suit against Kardan Telecom is without merit.

On 5 March 2003 Kardan Technologies has filed a suit before a District Court in Israel against E*Trade Group, Inc. claiming damages totalling approximately NIS 35.3 (EUR 7.1) million in connection with Kardan Technologies' investment in E*Trade Israel. Amounts awarded in these proceedings, if any, will be utilized, inter alia, to repay certain of E*Trade Israel's outstanding obligations.

MANAGING AND SUPERVISORY BOARD

General

The Company has a Managing Board and a Supervisory Board. The Managing Board is responsible for the management of the Company's business and, as such, is responsible for policy-making and the central management of the Company and its subsidiaries, all under the supervision of the Supervisory Board. The Managing Board, and each two members of the Managing Board, acting jointly, are authorized to represent the Company. See "Description of Shares and Corporate Structure – Corporate Structure – Managing Board".

The Supervisory Board supervises the policy of the Managing Board as well as the general course of the Company's affairs and business. It further assists the Managing Board by providing advice. The Managing Board is required to keep the Supervisory Board informed, to consult with the Supervisory Board on important matters and to submit certain important decisions to the Supervisory Board for its prior approval. In performing its duties, the Supervisory Board is required to act in the interests of the Company's business as a whole and each of its stakeholders, as opposed to the sole interests of the Shareholders. The members of the Supervisory Board are not authorized to represent the Company. See "Description of Shares and Corporate Structure – Corporate Structure – Supervisory Board".

Managing Board

Under the Amended Articles the procedures for appointment, suspension or removal from office of Managing Board members shall be as follows:

Members of the Managing Board shall be appointed by the General Meeting of Shareholders from a list of candidates to be drawn up by the Supervisory Board.
If the list of candidates contains the names of at least two persons it shall be binding. However, the General Meeting of Shareholders may at any time by resolution passed with a majority of at least two-thirds of the votes cast representing more than half of the Company's issued capital, resolve that such list shall not be binding. If the Supervisory Board should fail to draw up a list of nominees within three months after the vacancy has occurred, the General Meeting of Shareholders may appoint a member of the Managing Board at its own discretion.
If the Supervisory Board has drawn up a non-binding nomination, the appointment of a person to the Managing Board in contravention of the nomination shall require a resolution of the General Meeting of Shareholders adopted with a majority of two-thirds of the votes cast representing more than half of the Company's issued capital. The members of the Managing Board shall be appointed or a period of three years and may be immediately re-appointed.
Each member of the Managing Board may be suspended or removed by the General Meeting at any time. A resolution to suspend or remove a member of the Managing Board other than at the proposal of the Supervisory Board may only be passed by the General Meeting of Shareholders with a majority of two-thirds of the votes cast representing more than half of the Company's issued capital. Each member of the Managing Board can be supended by the Supervisory Board at any time. A suspension by the Supervisory Board may be discontinued by the General Meeting at any time. Any suspension may be extended one or more times, but may not last longer than three months in the aggregate. If at the end of that period no resolution has been taken on termination of the suspension, or on removal, the suspension shall cease. A board membership shall end, other than by expiry of the term for which the appointment was made, if the board member:

a. is removed by the General Meeting of Shareholders;
b. dies or – in the event that a legal entity is a board member – has been dissolved;
c. resigns voluntarily, of which resignation the member shall notify the Managing Board in writing.

At the date of this Prospectus, the Companies' Managing Board consists of three members: Mr. Hagai Harel, residing at Graaf Florislaan 64, 1181 EB, Amstelveen, the

Netherlands, Mr. Boudewijn Bremer, residing at Wilhelminastraat 45, 2011 VK Haarlem, the Netherlands, and Mr. Yosef Grunfeld, residing at 62 Pinkas St., Tel-Aviv, Israel.

Hagai Harel (1962) (CEO)
Mr. Harel holds a BA in Economics and Accounting (1988) and Master of Business Administration (1991) degrees from the Tel-Aviv University, Israel. Mr. Harel is also a C.P.A. (Isr.). Mr. Harel has been serving as the Managing Director of GTC since 1999. During the years 1994-1999 he served as the Chief Financial Officer of Kardan Real Estate Enterprise & Development Ltd. From 1992-1994 Mr. Harel served as the Financial Controller of Ackerstein Industries Ltd. and of Ackerstein Zvi Ltd. Currently he also serves as a director in various companies within the Kardan Group, including GTC, GTC Real Estate Investments Romania B.V., GTC Real Estate Investments Serbia B.V., Nobdanco Belegging en Vastgoed B.V., Holdanco, Kardan Telecom, Global E-nvestments Development B.V., Herfstzon, GTC Hungary, GTC Poland, Victoria International Property srl., Lighthouse Holdings Ltd. S.A., GTC International Developments Belgrade d.o.o.

Boudewijn Bremer (1944)
Mr. Bremer holds a degree (drs.) in Business Economics (1970) and completed Audit and Accounting studies (1972) at the University of Amsterdam. Mr. Bremer has served for thirteen years as a managing partner of predecessor firms of PricewaterhouseCoopers. Mr. Bremer has served as a director in the following international operating companies since 1992: Rerem B.V., Fulwood B.V., Scantimber B.V., Residence Alliance B.V. and Jaffa B.V. Currently he also serves as a director in various companies within the Kardan Group, including Holdanco, Global E-nvestments Development B.V., Kardan Telecom, GTC and Nobdanco Belegging en Vastgoed B.V.

Yosef Grunfeld (1942)
Mr. Grunfeld has been serving as the chairman of Kardan Ltd.'s board of directors since March 1997 (and as a director of Kardan Ltd. since October 1990). Currently serves as the Chairman of Talladium Ltd., Talladium Investments Ltd., KRE and Radio Kol Chai Ltd. Between 1978 and 1985 Mr. Grunfeld has served as the CEO and partner in an Israeli manufacturer and exporter of diamonds and was a member of the Board of Directors of the Israel Diamond Industry Association. Mr. Grunfeld became a sightholder of rough allocation from De-Beers, London and was named an outstanding diamond exporter for the year 1980 by the Israeli Ministry of Trade and Industry. Currently, Mr. Grunfeld is a manager and shareholder in Astra Diamond Manufacturers Ltd., a manufacturer and marketer of diamonds, which is a sightholder of rough allocation from De-Beers, London. He also serves as a director in various companies, including the following: (1) Israeli real estate development companies in the Ocif-Aviv Group: Ossif Project Entrepreneurship Company (1998) Ltd., Aviv Entrepreneurs Entrepreneurship and Investment Company 1990 Ltd., Aviv and Co. Ramat Gan Tower (1986) Ltd., Aviv and Co. Afeka Towers Ltd., Aviv and Co. Holiday Apartments (1993) Ltd.; (2) Kardan Group companies: UMI, Kardan Motors Ltd., Lio Goldberg Motors Ltd., Kardan Communications, Kardan Commerce and Retail Ltd., Kardan Technologies, KFH, Tuxido Holdings 1992 Ltd., Kardan Services (1993) Ltd., Tahal and related companies and the following Dutch companies related to the Kardan Group: TBI AD, Noblego International Developers B.V., as well as (3) the following Israeli companies: Talromit Ltd., Talromit Financial Holdings (1999) Ltd., Pilsis Ltd., Diamondfloor Ltd., Forexmanage Ltd., and several additional non-active companies.

Supervisory Board

The Company's Supervisory Board currently consists of three members: Ms. Karnina Rechter, Mr. Israel Fink and Mr. Henry Marcel Philippe Alster. The current members of the Supervisory Board were appointed with the incorporation of the Company on 2 May 2003. Two additional members of the Company's Supervisory Board, Mr. Avner Shnur and Mr. Hendrik Broeksma, were appointed on 9 June 2003 with effect as per 9 July 2003.On 16 June 2003, Mr. Joseph Krant was appointed as a member of the Supervisory Board with effect as per 9 July 2003.

Karnina Rechter (1953)
Ms. Rechter studied law at the Hebrew University in Jerusalem (LL.B.) and at London University - Queen Mary College (LL.M.) and social work at Bar Ilan University (B.A.). She has taken the Israel Bar exam on 29 June 1981, and currently is a partner in the Israeli firm Bash-Rechter, Advocates, working as an advocate and a mediator. She regularly lectures university students on mediation topics and for the past three years has authored a weekly column on legal and mediation matters in Maariv, Israel's second largest daily newspaper. Ms. Rechter also serves as a shareholder and director of the Israeli holding company Shamait Ltd.

Israel Fink (1946)
Mr. Fink studied Civil Engineering at l'Université Libre de Bruxelles and attended the MBA program of Hogere Handelsschool in Antwerp, Belgium. As of 1970, Mr. Fink occupied various positions in the construction management and diamond industries, and he currently serves as Sales and Marketing Manager and co-director of Fancy Diamonds International BVBA, a company incorporated in Belgium.

Henri Marcel Philippe Alster (1950)
Mr. Alster studied at Columbia Business School (MBA 1974) and is an undergraduate of The Technion (Israel) (Industrial Engineering, 1972). Between 1988 and 1994, Mr. Alster served as Head of Real Estate Investment Banking with Citicorp Investment Bank. Since 1994, Mr. Alster serves as president of American European Investment Banking, Inc., a US corporation. Mr. Alster also serves as Chairman of the GRI-Global Real Estate Institute.

Joseph Krant (1945)
Mr. Krant studied at ISW Economics and since 1968 has occupied various positions including managing director and chief executive officer of Kempen & Co, CEO of Dexia Bank Nederland and managing director of Catalyst Advisors B.V. He serves as member of the Supervisory Board of Wereldhave N.V., a listed real estate investment company, and as chairman of the Board of the Jewish Historical Museum, Amsterdam.

Hendrik Casper Broeksma (1945)
Mr. Broeksma studied Economic Sciences and Accountancy at the University of Amsterdam. He was a Partner with KPMG in the Netherlands (Klynveld Kraayenhof & Co.) until 1987, and an International Executive of KPMG and Member of the KPMG Executive Committee between 1987 and 1990. Between 1990 and 1999 Mr. Broeksma served as a Member (CFO) of the Executive Board of Royal Wessanen N.V. Mr. Broeksma is a Member of the Supervisory Boards of Delta Lloyd Insurance N.V., Ballast Nedam N.V., Blauwhoed/Eurowoningen B.V., Royal Auping B.V., Moving People B.V. and WOSM B.V. He also acts as Chairman of the Stichting Rijksmuseum Fonds, Treasurer of the Stichting Democratie en Media and Member of the Curatorium Controller University of Amsterdam.

Avner Shnur (1948)
Mr. Shnur is involved in business activities in the diamond sector as well as in commerce and investments. As of 1986 Mr. Shnur serves as President of Astra Diamonds Manufacturers Ltd. a manufacturer and marketer of diamonds, sightholder of rough allocation from De-Beers, London, Mr. Shnur is a shareholder in the Ocif-Aviv Group, a leading real estate developer in Israel. He also serves as a director in Kardan Ltd. since August 1994 and as a director of Guadalup Trading & Investments Ltd., Raitalon Ltd. and P.D.D. Diamonds Ltd., all Israeli companies as well as in various Israeli companies within and related to the Kardan Group, including Talladium Holdings Talladium Ltd., Kardan Technologies and Taldan Motors Ltd.

Remuneration of Managing and Supervisory Board
The total compensation paid (including benefits in kind) to the members of the Managing Board by the Kardan Group (in whatever positions they held within the Kardan Group) in the year ended 31 December 2002, was NIS 2,433,000 (EUR 498,000). For the current financial year, the total remuneration to be paid to the Managing Board (including consultation fees) is expected to be NIS 2,761,000 (EUR 555,000).

There was no remuneration paid for the Supervisory Board by the Kardan Group (in whatever position they held within the Kardan Group) in the year ended 31 December 2002. For the current financial year, the total remuneration to be paid to the Supervisory Board is expected to be EUR 24,000).

Payments to Managing Board During 2002 and 2003

In thousands of EUR	2002	Expected in 2003*
Yosef Grunfeld	211	220
Hagai Harel	265	313
Boudewijn Bremer	22	22

* The remuneration of the members of the Managing Board in that capacity has not been finalized.

Payments to Supervisory Board During 2002 and 2003

In thousands of EUR	2002	Expected in 2003
Joseph Krant	–	9
Hendrick Casper Broeksma	–	5
Henri Marcel Philippe Alster	–	5
Israel Fink	–	5

Currently, there are no guarantees or loans outstanding with any of the members of the Managing Board and the members of the Supervisory Board, other than a loan by KRE to Hagai Harel in the amount of NIS 331,563 (EUR 64,903) as of 31 March 2003.

Share capital held by management and members of the Supervisory Board

For ownership of Shares by members of the Managing Board and Supervisory Board or entities in which such members hold 50% or more, see "Shareholders".

At the date of this Prospectus, none of the members of the Managing Board and Supervisory Board own stock options of the Company.

Negative Statement

The members of the Managing Board and the Supervisory Board declare that:

- No company has gone into liquidation or been granted judicial leave to suspend payments or been put into involuntary liquidation within the five year period preceding the date of this Prospectus, during a period when they were a managing or supervisory director or comparable officer of such company, or within the six months preceding that period, other than as described herein: Mr. Grunsfeld acted as director of two companies that have gone into voluntary liquidation. The only creditors of these companies were Kardan Group Companies;
- There are no unsatisfied judgements outstanding against them;
- No composition or similar arrangement was made with any of their creditors;
- None of them have at any time been declared bankrupt whether in the Netherlands or elsewhere;
- None of them have at any time been convicted in the Netherlands or elsewhere of any offence against property (including embezzlement, deception, prejudicing of creditors or rightful claimants, theft, fraud or dishonesty) or any offence under the Economic Offences Act *(Wet Economische Delicten)* (including offences under the Securities Trading Act or the Securities Markets Supervision Act 1995 *(Wet Toezicht Effectenverkeer 1995)*, or any fiscal law;
- None of them in connection with the formation or management of any legal entity, partnership or un-incorporated entity been adjudged by any court in the Netherlands or elsewhere held personally liable for any fraud, mismanagement or other misconduct by them towards such a body or company or towards any of its shareholders, partners or other members;
- None of them have, in the Netherlands or elsewhere, at any time been refused admission to or membership of any professional body or been reprimanded or

disciplined by any such body to which they belong or belonged, and that the practicing of their profession (as the case may be) has never been prohibited (whether or not conditionally) or made subject to restrictive conditions.

Additional Information

- Mr. Fink and Mr. Avner Shnur are related through marriage.
- Mr. Eytan Rechter is the spouse of Ms. Karnina Rechter, who is a Supervisory Board member.
- Pursuant to the terms of an agreement dated 31 December 1998 for the sale of Herfstzon shares, Holdanco owes Talladium Holdings held, inter alia, indirectly by Avner Shnur, Eytan Rechter and Yosef Grunfeld, an amount equivalent to USD 2 million (EUR 2.4 million) as of 31 December 2002.
- In July 2002, Kardan Ltd. granted its directors and certain of its office holders, including Messrs Shnur, Rechter and Grunfeld, a release from liability and indemnification obligation in connection with activities performed in their capacity as directors or office holders of Kardan Ltd., all under certain terms and conditions (including co-operation of the indemnified individuals in the defence of any related claims). Kardan Ltd.'s total indemnification obligation to its directors and office holders shall not exceed 25% of Kardan Ltd.'s capital in addition to any amounts received under Kardan Ltd.'s D&O Insurance policy. Furthermore, Kardan Ltd. has signed insurances agreements for the insurance of the directors and officers of Kardan Ltd.
- Mr. Eytan Rechter, through a company wholly owned by him and Karnina Rechter – Shamait Ltd. has purchased 30,430 ordinary shares of Kardan Ltd. on the Tel-Aviv Stock Exchange during the period between April 2002 and February 2003, in variable amounts and dates.
- KRE has issued shares to Mr. Hagai Harel in accordance with agreements between Mr. Harel GTC and Holdanco. KRE gave Mr. Harel a loan to finance the purchase of such shares in a total amount of NIS 331,563 (EUR 64,903) as of 31 March 2003. The loan is linked to the consumer index and carries a interest rate of 4%.
- Messrs. Yosef Grunfeld and Avner Shnur indirectly hold companies active in the real estate sector in Israel.

SHAREHOLDERS

The following table sets forth certain information concerning the beneficial ownership of the Ltd. Shares as per 16 June 2003.

Name of interested party [1]	Number of securities held (regular shares of 1 NIS each)	Number of convertible securities held (regular shares of 1 NIS each)	Holding rate		Holding rate in full dilution	
			(%) in capital	(%) in voting	(%) in capital	(%) in voting
Talladium Ltd.[2]	42,010.00	0	0.07%	0.07%	0.06%	0.06%
Avner Shnur	300,996.70	0	0.50%	0.50%	0.42%	0.42%
Raitalon Ltd.[3]	17,175,587.64	0	28.32%	28.32%	24.05%	24.20%
Talromit Financial Holdings (1999) Ltd.[4]	20,884,094.36	0	34.44%	34.44%	29.24%	29.42%
Eytan Rechter[5]	229,675.08	0	0.38%	0.38%	0.32%	0.32%
Shamait Ltd.[6]	3,818,085.00	0	6.30%	6.30%	5.35%	5.38%
Alexander Rechter[7]	162,874.00	0	0.27%	0.27%	0.23%	0.23%
Alexander Rechter Holdings Ltd.(8)	3,156,957.00	0	5.21%	5.21%	4.42%	4.45%
Itzhak Grossman[9]	2,393,341,00	0	3.95%	3.95%	3.35%	3.37%
Kardan Financial Holdings Ltd.[10]	0	439,784.38	0.00%	0.00%	0.62%	0.00%
Amnon Lipkin Shahak[11]	0	300,000.00	0.00%	0.00%	0.42%	0.42%

(1) Definition of Interested Party - any shareholder that holds 5% or more of any of the control means of the Company, director, CEO, manager or any other executive which is subject directly to the CEO.

(2) Talladium Ltd. is a wholly-owned subsidiary of Talladium Holdings (1987) Ltd. ("Talladium Holdings"). Talladium Holdings is held by Talromit Ltd. (36.31%), Raitalon Ltd. (36.31%), Rechter Bros. (1995) Ltd. (15.89%), Itzhak Grossman (9.99%) and the Inheritance of Avishai Berkman of blessed memory (1.5%). Talromit Ltd. is wholly-owned by Mr. Yosef Grunfeld. Raitalon Ltd. is wholly-owned by Mr. Avner Shnur. Rechter Bros. (1995) Ltd. is a 50/50 company by Mr. Eytan Rechter and Mr. Alexander Rechter.

(3) Raitalon Ltd. is wholly-owned by Mr. Avner Shnur.

(4) Talromit Financial Holdings (1999) Ltd. is a company controlled (86.9%) by Mr. Yossef Grunfeld - chairman of the board of directors of Kardan Ltd.

(5) Eytan Rechter is a director and joint managing director in Kardan Ltd.

(6) Shamait Ltd. is a company wholly-owned by Mr. Eytan Rechter and Karnina Rechter.

(7) Alexander Rechter is an interested party in Kardan Ltd.

(8) Alexander Rechter Holdings Ltd. is a company wholly-owned by Mr. Alexander Rechter.

(9) Itzhak Grossman is a director and joint managing director in Kardan Ltd.

(10) Kardan Financial Holdings Ltd. is 100% owned by Kardan Ltd. The Ltd. Shares that will be purchased by Kardan Financial Holdings Ltd. will have capital rights but no voting rights.

(11) Amnon Lipkin Shahak is a director in Kardan Ltd.

To the best of the Company's knowledge, there is an agreement between Talromit Financial Holdings (1999) Ltd. **("Talromit Holdings")**, Yosef Grunfeld, Raitalon Ltd, Avner Shnur, Eytan Rechter, Shamait Ltd. and Talladium Ltd., that constitute the "control group" as defined in the agreement, and which also includes permitted transferees (that were defined in the agreement), regarding their relations as Kardan Ltd. shareholders, in respect of certain of their holdings that were defined in the agreement as the "control core" in Kardan Ltd. The "control core" was defined in the agreement as 33,396,102 shares of Kardan Ltd. constituting approximately 55.07% of Kardan Ltd.'s share capital (without full dilution) and that do not constitute all the members of the control group's holdings of Ltd. Shares. The quantities of the shares included in the control core are as follows: Talromit Holding - 15,160,951. Ltd. Shares; Raitalon Ltd. - 15,160,951. Ltd. Shares; Shamait Ltd. - 3,032,190 Ltd. Shares and Talladium Ltd. - 42,010 Ltd. Shares. The agreement provides that each member of the control group shall be entitled to add additional Ltd. Shares to the control core, upon the terms and conditions provided in the agreement. If shares are added as aforesaid, the member that added them shall be entitled to remove them, upon the terms and conditions provided in the agreement. The agreement provides *inter alia* as follows: (a) with regard to the appointment of Kardan Ltd.'s directors, the parties will exercise all their voting power by virtue of all the Ltd. Shares held by them from time to time, in order to appoint the members of the boards of Directors of Kardan Ltd. and of members of Kardan Group, pro rata to their holdings of Ltd. Shares constituting the "control core"; (b) with regard to the manner of voting at Kardan Ltd.'s general meetings, prior to any general meeting of Kardan Ltd., the members of the control group will be required to meet and unanimously resolve on how the control group will vote on matters expected to be placed on the said general meeting's agenda. Where the members of the control group are unable to unanimously agree on how to vote on the matters expected to be placed on the general meeting's agenda, the position of the holders of the majority of the Ltd. Shares consituting the control core and present at the preliminary meeting shall be determinative, and all the members of the control group shall be required to vote at the general meeting of Kardan Ltd in accordance with the said majority position; (c) with regard to restrictions on the transfer of Ltd. Shares, it was provided that during the lock-up period (that was defined as a period of five years, ending on 31 December 2005) each of the members of the control core shall not be entitled to transfer and/or sell the control core shares to anyone that is not one of the control core members, and it shall be entitled to transfer the control core shares to another member of the core group, subject to a right of first refusal of the other members of the control core in accordance with a mechanism defined in the agreement. After the lockup period it shall be possible to transfer the control core shares, subject, inter alia, to the following restrictions, terms and conditions; the transfer or the sale shall not be an event that constitutes a material breach of an agreement that was and/or shall be signed between Kardan Ltd. and/or any member of the Kardan Group and third parties or an event that confers upon any third party the right to implement an option or other right to terminate its cooperation with Kardan Group. The transfer of shares from the control core is subject to a right of first refusal to the other members of the control core also on a sale to a party that is not a member of the control core.

The agreement prescribed terms and conditions with regard to a right of first refusal as regarding a transfer of shares in bodies corporate that hold shares of Kardan Ltd. and on a transfer of shares in the bodies corporate that hold them. It was furthermore provided that a party to the agreement shall not charge and shall not pledge Ltd. Shares held by it in a quantity equal to the quantity of Ltd. Shares in a control core held and/or that shall be held by it, save in favour of a reputable bank in Israel or abroad. In addition, it was provided that the quantity of the securities equal to the quantity of the securities in a control core that shall be held and/or are held by such party can be pledged or charged, provided that a copy of the agreement is annexed to the charge documents in order to also render a party that shall be granted a right in such shares subject to the restrictions specified in the agreement.

To the best of the Company's knowledge, the parties intend to adopt all these understandings described above among the "control group" in relation to their future holdings in the Shares, subject to the provisions of Dutch law.

The respective direct and indirect holdings of Shares of Messrs. Grunfeld, Rechter and Shnur are detailed in the below table.

	% held	shares	% of Kardan Ltd.
Yosef Grunfeld			
Talromit Financial Holdings Ltd.	86.9%	20,884,094	29.93%
Talladium Ltd.	36.31%	42,010	0.03%
			29.96%
Avner Shnur	100%	300,996	0.50%
Raitalon	100%	17,175,587	28.32%
Talladium Ltd.	36.31%	42,010	0.03%
			28.85%
Eytan Rechter	100%	229,675	0.38%
Shamait	100%	3,818,085	6.30%
Talladium Ltd.	7.85%	42,010	0%
			6.68%

RELATED PARTY TRANSACTIONS / POTENTIAL CONFLICTS OF INTERESTS

Other than compensation for services to Kardan Group, described above in "Remuneration of Management and Supervisory Board", and except as described below, there are no transactions or agreements between the Company and the members of its management and supervisory boards, with entities in which they, directly or indirectly, hold an interest of 5% or more, or with their close family members.

As a result of a transaction concluded in 1998, Kardan Ltd. has an outstanding debt to Talladium Holdings in the amount of USD 2.6 million (EUR 2.4 million), which bears interest at the rate of LIBOR + 1.25%.

Mr. Grunfeld and Mr. Shnur are shareholders in various companies in the Ossif/Aviv group, which develops real estate in Israel. Mr. Grunfeld also serves as a director in such companies. The Ossif/Aviv group could compete for opportunities with KRE.

Messrs. Grunfeld and Shnur, and family members of Ms. Rechter, hold interests in KRE. Their interests as shareholders of KRE may not be identical to the interests of the Company.

DESCRIPTION OF SHARES AND CORPORATE STRUCTURE

Set forth below is a summary of certain provisions of the Articles of Association and the Amended Articles and of applicable Dutch law, as currently in force. The summary does not purport to be complete and is qualified in its entirety by reference to the Articles of Association, the Amended Articles, and applicable Dutch law.

The full text, in English and in Dutch, of the Articles of Association and the Amended Articles is available for inspection during regular business hours at the Company's head office. The Company will upon request and without charge furnish a copy of these documents to any shareholder.

General

The Company is a limited liability company under Dutch law *(naamloze vennootschap)*. The Company was incorporated by notarial deed dated 2 May 2003. The Company has its corporate seat and head office in Amsterdam, the Netherlands, and is registered with the commercial register of the Chamber of Commerce and Industry for Amsterdam under no. 34189974. The objects of the Company include:

- to carry on business as a holding company;
- to incorporate, participate in, manage, control and finance enterprises;
- to finance other persons;
- to take up loans, lend and invest moneys and acquire, transfer and dispose of claims and assets in general;
- to provide security for debts of group companies and third parties;
- to acquire, exploit and dispose of (registered) property;
- to exploit patents, trade mark rights, licences and industrial property rights;
- to carry out other financial or industrial activities; and
- to engage in any activity related to or in furtherance of, in the broadest sense, these activities.

Share Capital

The Company's authorized share capital amounts to EUR 225,000, consisting of 1,125,000 Shares with a nominal value of EUR 0.20 each. On the date of this Prospectus, 225,000 Shares are outstanding. Shares can be issued in registered form only.

Assuming that none of Kardan Ltd.'s convertible bonds and exercisable options will be converted or exercised respectively prior to completion of the Tender Offer, the Company will issue at such completion 60,643,804 Shares to the Ltd. Shareholders subject the condition precedent that the Articles of Association have been amended. Immediately thereafter the Articles of Association will be amended. Amongst others, the amendment of the Articles of Association relates to an increase of the Company's authorized share capital to EUR 45,000,000. See "Description of the Transaction" for more details with respect to the issue of Shares.

The Company enters the shareholders in the register of shareholders. The Company does not issue share certificates. However, the shareholder may request an extract from the shareholder's register regarding the Shares registered in his name. The Company is required to provide such extract free of charge. Dutch Law requires that transfers of the Shares be recorded in a written instrument to which the Company is a party or which is served on the Company or that the transaction be acknowledged by the Company.

A Share shall be designated a "Deposit Share" *(giraal aandeel)*, by way of transfer or issuance to Necigef or a Necigef Participant, together with a written statement indicating that the share is a Deposit Share. The Deposit Share shall be registered in the Company's shareholder's register in the name of Necigef or the Necigef Participant concerned, together with a written statement indicating that the Share is a Deposit Share.

Application has been made for the Shares to be accepted for clearance through the book-entry facilities of Necigef and Euroclear.

Trading of the Shares on the stock market of Euronext Amsterdam will take place by means of a transfer of book-entry rights in respect of Deposit Shares, in accordance with the provisions of the Dutch Securities Giro Act *(Wet Giraal Effectenverkeer)*.

It is intended that the platforms of Euronext Amsterdam and the Tel-Aviv Stock Exchange will be linked through Euroclear, acting as a Necigef Participant, Bank Leumi Le-Israel Ltd. will be the account holder of a securities account in the sense of the Securities Giro Act with Euroclear, so that Bank Leumi Le-Israel Ltd. is a Necigef Beneficiary in the sense of the Securities Giro Act. The Clearing House of the Tel-Aviv Stock Exchange holds a securities account with Bank Leumi Le-Israel Ltd. and Bank Leumi Le-Israel is a member of the Tel-Aviv Stock Exchange Clearing House. In the proposed link all Shares traded on TASE will form part of the balance of Bank Leumi Le-Israel Ltd.'s securities account at Euroclear, which Shares form part of the book entry securities trading system hosted by Necigef.

The relationships in the proposed link between the trading platforms of Euronext Amsterdam and the Tel-Aviv Stock Exchange system have not been formalised and Euroclear has not expressed its consent regarding the cooperation in the intended structure. In case the intended link cannot be established, the Company will investigate having the Shares taken out of one trading platform (Euronext Amsterdam or Tel-Aviv Stock Exchange) and transferred (possibly through the intermediation of a Transfer Agent) to the other trading platform so that a link is established.

Other key provisions of the Articles of Association and the Amended Articles

Issue of shares and pre-emptive rights

The General Meeting of Shareholders, or the Managing Board if the General Meeting of Shareholders has delegated the power to it, has the authority to decide on any further issuance of Shares or rights to subscribe for Shares and on the terms and conditions thereof. Any such resolution is subject to the approval of the Supervisory Board. The Managing Board is the authorized corporate body (*orgaan*) for this purpose until 2 May 2008, and this authorization may at any time be extended, each time for a period of up to five years by the General Meeting of Shareholders which is subject to the approval of the Supervisory Board. The Managing Board's authority to issue Shares relates to all non-issued Shares of the Company's authorized share capital, as applicable now or at any time in the future.

Each Shareholder has a pre-emptive right to subscribe for any newly issued Shares or rights to subscribe for Shares. Pre-emptive rights are in proportion to the percentage of outstanding Shares that the holder owns. No pre-emptive rights exist if Shares (or rights to subscribe for Shares) are: (i) issued for a non-cash consideration, (ii) issued to employees of the Company or its affiliates and (iii) issued to a person who exercises a previously acquired right to subscribe for Shares.

The General Meeting of Shareholders, or the Managing Board if so designated by the General Meeting of Shareholders in accordance with the Articles of Association, is authorized to restrict or exclude pre-emptive rights of holders of Shares. Any such resolution is subject to the approval of the Supervisory Board. At present, the Managing Board is authorized until 2 May 2008 to exclude or limit pre-emptive rights.

Shares may not be issued at less than their nominal value. The nominal value and share premium (if any) of Shares must be fully paid up upon issue.

Acquisition by the Company of its own Shares

The Company may acquire fully paid-up Shares for no consideration or if the following conditions are met:

- the General Meeting of Shareholders has authorized the Managing Board to make the acquisition (which authorization can be valid for no more than eighteen months), specifying the maximum number of Shares that may be acquired, the manner in

which such securities may be acquired and the limits within which the price must be set;
- the Company's equity, after deduction of the acquisition price, is not less than the amount of the paid-up and called portion of share capital plus the reserves that the Company has to maintain under Dutch law or the Articles of Association; and
- the Company and its subsidiaries would as a result of such acquisition not hold, or hold as pledgee, Shares with an aggregate nominal value exceeding one-tenth of its issued share capital.

The Company may not acquire Shares if these have not been fully paid-up. Shares held by the Company or its subsidiaries cannot be voted or counted for quorum purposes at Shareholders' meetings.
The Articles of Association provide that the Company may acquire Shares in order to transfer these Shares under employee stock option or stock purchase plans, without an authorization of the General Meeting of Shareholders being required.

On 9 June 2003, the General Meeting of Shareholders resolved to authorize the Managing Board to acquire up to 10% of the Shares against a price between 85% of the market value and 115% of the market value, during a period expiring on 8 December 2004.

A resolution of the Managing Board that the Company acquire own Shares is subject to the approval of the Supervisory Board.

Capital Reduction
The General Meeting of Shareholders may, upon a proposal of the Managing Board and subject to approval of the Supervisory Board and certain statutory provisions, resolve to reduce the issued share capital by cancellation of Shares held by the Company or reduction of the nominal value of Shares by amendment of the Articles of Association.

Voting rights and shareholders' meetings
Each Shareholder has the right to attend General Meetings of Shareholders, either in person or represented by proxy, to address Shareholder meetings and to exercise voting rights, subject to the provisions of the Articles of Association/Amended Articles.
General Meetings of Shareholders are held at least annually, within six months after the close of each financial year, in the Netherlands in Amsterdam, Haarlemmermeer (including but not limited to Schiphol Airport and Schiphol-Rijk), Rotterdam or The Hague. Shareholders can participate in General Meetings of Shareholders held at one of the locations above either by being physically present at such location or by means of a conference call or video conference, and for so long as Shares are listed at the Tel-Aviv Stock Exchange, the Company will enable participation by such means from Israel.
Notice of General Meetings of Shareholders will be given by (among other things) publication of a notice in a Dutch nationally distributed daily paper, in two Israeli papers of broad distribution and in Euronext's Daily Official Price List and by an announcement in the Tel-Aviv Stock Exchange at least fifteen days prior to the day of the meeting. The notice and the announcement must state the place, date and hour of the meeting and either the agenda of the meeting or that the agenda is open to inspection by the Shareholders at the Company's offices, and for as long as shares are listed in the Tel-Aviv Stock Exchange, at the offices of the Company or its subsidiary in Israel.

Extraordinary General Meetings of Shareholders may be held as often as the Managing Board or the Supervisory Board deems necessary, and must be held upon the written request of holders of at least 10% of the total outstanding share capital to the Managing Board or the Supervisory Board specifying in detail the business to be dealt with. If the Managing Board or the Supervisory Board fails to call and hold a meeting within six weeks of its receipt of this request, the requesting Shareholder(s) may call a meeting.
At the Annual General Meeting of Shareholders:
- the Managing Board reports on the group's business and management during the previous year;
- the General Meeting of Shareholders is requested to adopt the annual financial statements;
- the General Meeting of Shareholders is requested to approve the management

conducted by the Managing Board and the supervision exercised by the Supervisory Board;
- vacancies on the Managing Board and the Supervisory Board are discussed; and
- proposals brought forward by the Managing Board and the Supervisory Board are discussed.

Each Share carries one vote. Unless otherwise required by the Articles of Association or Dutch law, resolutions of the General Meeting of Shareholders require the approval of an absolute majority of the votes validly cast. Unless provided otherwise by Dutch law or the Articles of Association, there are no quorum requirements. The Company cannot exercise voting rights at a General Meeting of Shareholders for Shares held by, pledged to, or held in usufruct by it or any of its subsidiaries.

Holders of at least 10% of the total outstanding share capital may make a written request to the Managing Board or the Supervisory Board to add items to the agenda, provided such request is made at least fourteen days before the notice of the meeting is given. The Managing Board or the Supervisory Board shall add the item to the agenda if, in the opinion of the Managing Board or the Supervisory Board, the item is suitable to be discussed in the General Meeting of Shareholders.

Adoption of annual financial statements and discharge of members of the Managing Board or the Supervisory Board

The Company's financial year concurs with the calendar year. Dutch law requires that within five months after the end of the Company's financial year, unless the General Meeting of Shareholders has extended this period by a maximum of six months on account of special circumstances, the Managing Board must prepare annual financial statements and a report with respect to that financial year and submit these to the General Meeting of Shareholders for inspection. The Managing Board must also within this term provide the annual financial statements and report to the Supervisory Board. The Supervisory Board will advise the General Meeting of Shareholders in respect of the annual financial statements. The annual financial statements and report must include the financial statements and a report of an independent accountant. The annual financial statements and report, as well as certain other information (including the statement from the independent accountant), will be available to Shareholders from the date of the notice convening the annual General Meeting of Shareholders. The annual financial statements must be adopted by the General Meeting of Shareholders.

Discharge granted to the members of the Managing Board for their management or to the members of the Supervisory Board for their supervision discharges such members from liability to the Company for all acts evidenced by the annual financial statements, unless an explicit reservation is made by the Shareholders and subject to certain exceptions under Dutch law, including exceptions relating to the liability of members of the Managing Board and Supervisory Board upon bankruptcy or insolvency of the Company and to general principles of tort and reasonableness and fairness. Under Dutch law, this discharge does not extend to matters not disclosed in or apparent from the annual financial statements or not otherwise disclosed to the Shareholders as a group.

Dividends

Subject to certain exceptions, dividends may only be paid out of the profits as shown in the adopted annual financial statements and after establishment of any reserves determined by the Managing Board, with the approval of the Supervisory Board. Under Dutch law, the Company is not allowed to make distributions if the distribution would reduce its shareholders' equity below certain reserves required by Dutch law and the Articles of Association/Amended Articles. Further, pursuant to Dutch law, the profits must first be used to set up and maintain reserves required by Dutch law. The Managing Board will, subject to approval by the Supervisory Board, first decide whether and how much of the remaining profit they will add to the Company's reserves. Any profits remaining are at the disposal of the General Meeting of Shareholders for payment as a dividend on the Shares. The Managing Board may, at the proposal of the Supervisory Board, resolve to make interim distributions subject to the provisions set out above.

The General Meeting of Shareholders may at the proposal of the Managing Board, which has been approved by the Supervisory Board, resolve that a payment of dividend on Shares wholly or partially will not take place in cash, but in Shares or in any other securities in the Company or any other person.

Claims from shareholders can only be made within a period of 5 years from the day on which the payment first becomes due.

Amendment of the Articles of Association, Statutory Merger or Demerger and Dissolution

A resolution of the General Meeting of Shareholders to amend the Articles of Association, to effect a statutory merger or demerger within the meaning of Book 2, Title 7 of the Dutch Civil Code or to dissolve the Company requires adoption by an absolute majority of the votes validly cast, but can be made only upon a proposal by the Supervisory Board. The complete proposal for the amendment must be made available for inspection by the Shareholders and the other persons entitled to attend General Meetings of Shareholders at the Company's offices, and for so long as the Shares are listed on the Tel-Aviv Stock Exchange, at the offices of the Company or its subsidiary in Israel, as from the day of the notice convening such meeting until the end of the meeting.

In the event of the Company's dissolution and liquidation, after payment of all debts and liquidation expenses, the holders of Shares shall receive any remaining assets in proportion to the nominal value of their shareholdings.

Corporate Structure

Managing board

The Managing Board is responsible for the management of the Company's business and, as such, is responsible for the policy making and the central management of the Company and its subsidiaries, all under the supervision of the Supervisory Board.

The Managing Board consists of such number of members as may be determined by the Supervisory Board.

The members of the Managing Board are appointed for three-year terms by the General Meeting of Shareholders from a list of candidates to be drawn up by the Supervisory Board. If the list contains at least two persons for each vacancy, it shall be binding. However the General Meeting of Shareholders may at any time resolve by a resolution passed with a two-thirds majority of the votes cast representing more than one-half of the issued nominal share capital that such list shall not be binding. An appointment in deviation of a non-binding nomination may only be passed by the General Meeting of Shareholders with a majority of at least two-thirds of the votes cast representing more than one-half of the issued nominal share capital. Each member of the Managing Board must resign no later than three years after he has been appointed, but may offer himself for re-election following the expiry of his term of office. The remuneration and other conditions of employment of the members of the Managing Board are determined by the General Meeting of Shareholders according to the Amended Articles.

The Supervisory board shall appoint one of the members of the Managing Board to be chairman of the Managing Board and the Supervisory Board may appoint one of the members of the Managing Board to be vice-chairman of the Managing Board, who shall take the place of the chairman in the latter's absence.

The Managing Board is authorized to represent the Company and two members of the Managing Board acting jointly are also authorized to represent the Company. Adoption of resolutions of the Managing Board requires an absolute majority of the votes cast. Under the Articles of Association/Amended Articles, the Managing Board is required to obtain prior approval from the Supervisory Board for:

- direct or indirect participation in the capital of another company as well as changing the percentage of such participation;
- acquiring or alienating assets the value of which exceeds an amount determined by the Supervisory Board;

- providing guarantees for an amount exceeding an amount determined by the Supervisory Board;
- performing legal acts implying an amount exceeding an amount determined by the Supervisory Board, on the understanding that more than one act with respect to the same transaction will be deemed to be one act; and
- other acts of the Managing Board as determined by the Supervisory Board and communicated to the Board of Management in writing.

The Supervisory Board may determine that a resolution as referred to above shall not require its approval if the amount involved does not exceed a value fixed by the Supervisory Board and notified to the Managing Board in writing.

Each member of the Managing Board may be suspended or removed by the General Meeting of Shareholders at any time. A resolution to suspend or remove a member of the Managing Board other than at the proposal of the Supervisory Board may only be passed by the General Meeting of Shareholders with a majority of at least two-thirds of the votes cast representing more than one-half of the issued nominal share capital. The Supervisory Board may suspend members of the Managing Board at any time, but the General Meeting of Shareholders may discontinue a suspension by the Supervisory Board at any time.

Supervisory Board

The Supervisory Board advises the Managing Board and is responsible for supervising the policies pursued by the Managing Board and the general course of affairs and business of the Company and its affiliates. In addition, certain resolutions by the Managing Board require the prior approval of the Supervisory Board, and the Supervisory Board may by resolution specify additional resolutions that require such approval (as above-mentioned). In fulfilling their duties, members of the Supervisory Board must serve the Company’s interests.

The Supervisory Board determines the number of the members of the Supervisory Board, provided that there shall always be at least three members.

The members of the Supervisory Board are appointed for six-year terms by the General Meeting of Shareholders from a list of candidates to be drawn up by the Supervisory Board. If the list contains at least two persons for each vacancy, it shall be binding. However the General Meeting of Shareholders may at any time resolve by a resolution passed with a two-thirds majority of the votes cast representing more than one-half of the issued nominal share capital that such list shall not be binding. An appointment in deviation of a non-binding nomination may only be passed by the General Meeting of Shareholders with a majority of at least two-thirds of the votes cast representing more than one-half of the issued nominal share capital. Each member of the Supervisory Board must resign no later than six years after he has been appointed, but may offer himself for re-election following the expiry of his term of office. The remuneration and other conditions of employment of the members of the Supervisory Board are determined by the General Meeting of Shareholders.

The Supervisory Board may appoint one of its members to be chairman of the Supervisory Board and one of its members to be vice-chairman of the Supervisory Board, who shall take the place of the chairman in the latter’s absence. In the event that no chairman and vice-chairman have been elected by the Supervisory Board, the meeting will itself designate a chairman for each separate meeting.
Adoption of resolutions of the Supervisory Board requires an absolute majority of the votes cast.

Each member of the Supervisory Board may be suspended or removed by the General Meeting of Shareholders at any time. A resolution to suspend or remove a member of the Supervisory Board other than at the proposal of the Supervisory Board may only be passed by the General Meeting of Shareholders with a majority of at least two-thirds of the votes cast representing more than one-half of the issued nominal share capital.

TAXATION

As customary in investment decisions, the tax implications associated with the acceptance of the Tender Offer should be considered. The statements set out below (which refer to the date of the publishing of this prospectus) are intended only as a general guide to certain aspects of current Netherlands and/or Israeli tax law and practice and does not propose to be an authorized interpretation of the provisions of the law and apply only to certain categories of shareholders. The summary does not purport to be a complete analysis or listing of all the potential tax consequences of holding the Shares. It only deals with certain Netherlands and/or Israeli tax consequences for corporate and individual residents and non-residents of both countries but does not address the tax consequences for holders of shares, receiving income or realizing capital gains in their capacity as (former) employee, (former) director or supervisory director or pursuant to an employee stock option plan. The shareholders acquiring the Shares are advised to consult their own tax advisors concerning the consequences under Netherlands and/or Israeli laws of the acquisition, ownership and disposition of the Shares and in relation to possible changes in law or the interpretation and implementation of the law. This summary is based upon Netherlands and/or Israeli law as currently in effect and subject to change at any time, possibly with retroactive effect. Persons who are in any doubt about their tax position should consult their own professional advisers.

Tax issues relating to the Tender Offer

Commencing from 1 January 2003, the principal part of the provisions included within the framework of the Income Tax Ordinance Amendment Law (No. 132), 5762-2002, entered into force, as well as the amendments to the said amendment and regulations which supplement the provisions of the said amendment (hereinafter: the "**Tax Reform**"). At this early stage, it cannot be predicted how the provisions of the Tax Reform will be implemented in practice and what further amendments will be legislated in the framework of the Tax Reform and its limitations.

The definition of "Sale" in section 88 of the Income Tax Ordinance [New Version], 5721-1961 (hereinafter: the "**Ordinance**"), includes an act of exchange. Capital gains or capital losses, if and to the extent produced on a sale in an exchange transaction, will be liable for tax or may be set-off, as the case may be, in accordance with the provisions of the Ordinance Pursuant to section 101 of the Ordinance, the listing of shares of a company on the stock exchange in Israel, will be considered a sale of the company's shares on the date of listing, unless the shareholder has requested otherwise.

In the case of offerees in respect of whom the provisions of chapter 'B' of the Income Tax Law (Inflationary Adjustments), 5745-1985 apply (hereinafter: the "**Adjustments Law**"), the real profit from the sale of securities will be added to the offeree's income, and the tax rates as provided in sections 121 or 126 of the Ordinance, respectively, will apply (so as-Israeli income tax will be the applicable marginal rate and Israeli company tax at a rate of 36%, all as provided in the Ordinance). A loss will be handled in accordance with the provisions of section 6(g) of the Adjustments Law.

The real capital gains accrued after 31 December 2002, by an offeree to whom article 'B' of the Adjustments Law does not apply, on a sale of securities traded on the stock exchange, will be liable for tax in Israel at the rate of 25%, in accordance with the provisions of sections 91(a) or (b) of the Ordinance. Where the offeree has not claimed a deduction of expenses, interest and linkage differentials in respect of the security and the sale is not to a relative, then the tax rate applicable to the real capital gains will be 15%.

In the event of a real capital loss which has accrued subsequent to 31 December 2002, by an offeree to whom chapter 'B' of the Adjustments Law does not apply, on a sale of securities, the loss will be set-off in accordance with the provisions of sections 105o(a) and 105o(c) of the Ordinance.

The “original price” of the shares as of 31 December 2002 and the provisions applying to losses accrued until 31 December 2002 are specified in section 105m to the Ordinance.

To the extent that a corporate or individual offeree, resident, deemed to be resident or that has elected to be treated as resident in The Netherlands, receives the Shares in respect of the exchange, and is deemed to realize chargeable gain as a consequence of this purchase offer, this gain may generally be “rolled-over” into the shares he receives and therefore the tax due will be paid only in the event of a sale of the Shares.

The contribution of the Kardan Ltd. shares to shares issued by the Company will be subject to 0.55% Dutch capital tax, by the Company, on the value of the Kardan Ltd. Shares.

As to deduction at source in the Netherlands on dividends from a Dutch company see discussion below.

Where a Dutch company’s shares are paid up in shares of another company part of the first company’s paid-up share capital may not be recognized as capital for Dutch dividend withholding tax purposes (and accordingly may be subject to Dutch dividend withholding tax if and when distributed to such Dutch company’s shareholders). This follows from article 3a paragraph 1 of the Dutch Dividend Withholdlng Tax Act. (DWT) According to this article 3a paragraph 1-a, in the event that the consideration for the shares of a Dutch company are paid in shares of a non Dutch company, the Dutch company’s recognized paid-up capital is not set at the fair market value of the transferred shares at the moment of the transaction, but is limited to the amount of paid-up capital of the shares of the company acquired. In case the acquired company is a foreign company that is not resident in the Netherlands article 3a paragraph 1 DWT thus creates a dividend withholding tax claim on foreign profits obtained during a period before the shares in the foreign company (i.e., that is not a resident of the Netherlands) were transferred to the Netherlands company. As this has never been the intention of the Legislator, the Ministry of Finance of the Netherlands has issued a circular letter aimed to redress these consequences. According to the letter in case of contributions of shares of foreign companies (i.e., that are not a resident of the Netherlands) a Netherlands company’s recognized paid-up capital will be stepped up to the fair market value of the foreign shares contributed. The step up must be applied through the application of a private letter ruling and will be granted if certain conditions are met.

The Income Tax Regulations (Deduction from Consideration, from Payment or from Capital Gains on the Sale of a Security or in a Future Transaction), 5763 - 2002 (hereinafter: the “**Deduction from Consideration Regulations**”),provide that in the case of consideration in cash-equivalent, the tax will be deducted at source from the amount determined by the assessing officer, in accordance with a request in writing preceding the date of payment, in which the details of the transaction shall be specified. The company has approached the assessing officer as required by the Deduction from Consideration Regulations, and on 17 June 2003 the assessing officer granted an exemption from deduction at source in Israel to the public and to the controlling shareholders in Kardan Ltd. Furthermore, it was agreed that Kardan Ltd. will deposit NIS 450,000 with the assessing officer. Such amount will be returned to Kardan Ltd., including interest and linkage differencials when the Kardan Ltd. shareholders, report their gain from the exchange of shares (if such gain exists).

An offeree who accrues capital gains which are liable for tax in Israel as a result of the purchase offer proposed in the prospectus, is obligated to report the capital gains to the income tax authorities in Israel and to bear the tax liability.

TAXATION IN THE NETHERLANDS

Dutch Resident Entities

Entities (including an association that is taxable as a corporate entity) that are, or are deemed to be, resident in The Netherlands for Dutch tax purposes (hereinafter: a "**Dutch Entity**") that hold Shares will generally be subject to Dutch corporate income tax in respect of dividends or capital gains derived from the Shares, unless the Dutch Entity is (i) a qualifying pension fund, (ii) a qualifying investment institution (fiscale beleggingsinstelling) or (iii) eligible for the participation exemption with respect to the the Shares. In these last three events, the Dutch entity, will generally not be liable for Dutch tax in respect of dividends or capital gains derived from the Shares.

Corporate income tax is levied at the rate of 29% over the first £ 22,689 of taxable profits and at the rate of 34,5% over the taxable profits in excess of EUR 22,689. A loss may be offset against the taxable income of the three preceding years (carry back) and against taxable income of all years to come (carry forward).

The participation exemption is generally available if the Dutch Entity owns at least 5% of the Company's nominally paid-up share capital. If the subsidiary company is a non-resident, then generally two more conditions apply in order for the participation exemption to apply: the shareholding of the Dutch Entity in the subsidiary that is not a resident in the Netherlands may not be held as a portfolio investment of the Dutch Entity and the subsidiary itself has to be subject to tax on its profits in its country of residence. It is expected that the participation exemption will also be applicable to the Kardan Ltd. shares.

Individuals Dutch Residents

An Individual who is, or is deemed to be, or has elected to be treated as, a resident of The Netherlands for Dutch tax purposes (hereinafter: a "**Dutch Individual**") that holds Shares is subject to Dutch income tax at a flat rate of 25% in respect of income or capital gains derived from the Shares if the Dutch Individual has a substantial interest or deemed substantial interest in the Company and such interest does not form part of the assets of his business.

A Dutch Individual holds a substantial interest in the Company if either he -alone or together with his spouse or partner- or certain relatives (including foster children) of the holder of the Shares or of his spouse or partner, has, directly or indirectly, the ownership of, or certain rights over, shares representing 5% or more of the total issued and outstanding capital (or the issued or outstanding capital of any class of shares) of the Company, or rights to acquire, directly or indirectly, shares, whether or not already issued, that represent 5% or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of shares) of the Company or if he has the ownership of, or certain rights over, profit participating certificates (winstbewijzen) that relate to 5% or more of the Company's annual profit or 5% or more of the liquidation proceeds of the Company. A deemed substantial interest is present if (part of) a substantial interest has been disposed of, or is deemed to have been disposed of, on a non-recognition basis.

A Dutch Individual that holds Shares is subject to Dutch income tax at progressive rates up to a rate of 52% in respect of income or capital gains derived from the Shares if:

(i) the Dutch Individual has a business or an interest in a business to which the Shares are attributable; or

(ii) the income or gain qualifies as wage or income from miscellaneous activities (belastbaar resultaat uit overige werkzaamheden) as defined in the Dutch Income Tax Act 2001 (Wet op de inkomstenbelasting 2001).

In other cases, a Dutch Individual that holds Shares will be subject to Dutch income tax at a flat rate of 30% on a deemed return regardless of the income and capital gain or capital loss actually derived from the Shares.

The deemed return amounts to 4% of the average value of the Dutch Individual's net assets in the relevant fiscal year (including the Ordinary Shares). The average value of the Dutch Individual's net assets in a fiscal year is equal to the sum of the value of the net assets, generally, at the beginning of the fiscal year and at the end of the fiscal year divided by two. Taxation only occurs to the extent the average value of the Dutch Individual's net assets exceeds the "exempt net asset amount" (heffingsvrij vermogen) which, for the year 2003, in principle is EUR 18,800.

Dutch corporate and individual income tax of non-resident shareholders

Non Resident Entities of the Netherlands

Subject to the provisions of the convention between the Kingdom of the Netherlands and the State of Israel for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and on Capital (hereinafter: the "**Treaty**"), an entity that is not and is not deemed to be, resident of The Netherlands for Dutch tax purposes (hereinafter: a "**Non Dutch Entity**") will not be subject to Dutch corporate income tax in respect of income or capital gains from the Shares unless:

(i) such income or gains are attributable to a business or part thereof which is carried on through a permanent establishment or a permanent representative in The Netherlands; or

(ii) the Non Dutch Entity has, directly or indirectly, a substantial interest or a deemed substantial interest in the Company and such interest does not form part of the assets of a business.

In the cases where such tax liability shall accrue, the Dutch tax rate applicable shall be as mentioned above with regard to Dutch resident entities.

A Non Dutch Entity has a substantial interest in the Company if it has, directly or indirectly, the ownership of, or certain rights over, shares representing 5% or more of the total issued and outstanding capital (or the issued or outstanding capital of any class of shares) of the Company, or rights to acquire, directly or indirectly, shares, whether or not already issued, that represent 5% or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of shares) of the Company or if it has the ownership of, or certain rights over, profit participating certificates (winstbewijzen) that relate to 5% or more of the Company's annual profit or 5% or more of the liquidation proceeds of the Company.

Non Resident Individuals of the Netherlands

Subject to the provisions of the Treaty (see discussion below), an individual who is not, is not deemed to be, and has not elected to be treated as resident of The Netherlands for Dutch tax purposes (hereinafter: a "**Non Dutch Individual**") that holds Shares will not be subject to Dutch income tax in respect of income or capital gains from the Shares unless:

(i) such income or gain is attributable to a business or part thereof which is carried on through a permanent establishment or a permanent representative in The Netherlands; or

(ii) the income or gain qualifies as income from miscellaneous activities (belastbaar resultaat uit overige werkzaamheden) in The Netherlands as defined in the Dutch Income Tax Act 2001 (Wet inkomstenbelasting 2001); or

(iii) the Non Dutch Individual has, directly or indirectly, a substantial interest or a deemed substantial interest in the Company and such interest does not form part of the assets of a business.

In the case where such tax liability shall accrue, the Dutch tax rate applicable shall be as mentioned in the discussion above in regard of Dutch Individuals.

Withholding tax on dividends

In general, and subject to the provisions of the Treaty (see section discussion below), dividends distributed by the Company in respect of the Shares will be subject to Dutch withholding tax levied at the rate of 25%. For Dutch withholding tax purposes the term dividends includes, but is not limited to the following:

(a) dividends in cash or in kind, deemed and constructive dividends, repayment of paid-in capital not recognized as capital for dividend withholding tax purposes (i.e., any distribution of capital not recognized as capital for dividend withholding tax purposes will be regarded as a distribution of a dividend and will be subject to Dutch withholding tax);

(b) repayment of paid-in capital recognized as capital for Dutch dividend withholding tax purposes, if and to the extent that there are net profits (zuivere winst), unless (a) the general meeting of shareholders of the Company has resolved in advance to make such repayment and (b) the par value of the Shares concerned has been reduced by an equal amount by way of an amendment of the Articles of Association;

(c) liquidation proceeds in excess of the average paid-in capital recognized as capital for Dutch dividend withholding tax purposes.

Stock dividends paid out of the Company's paid-in-share premium account, recognized as capital for dividend withholding tax purposes, will not be subject to this withholding tax.

Transfer of Shares

Payments on the transfer of the Shares will not be subject to Dutch withholding tax, unless the transfer is, or is deemed to be, made to the Company or a direct or indirect subsidiary of the transferring Company. The proceeds of such transfer will be treated as dividends and will generally be subject to Dutch withholding tax to the extent that they exceed the average paid-in capital on the relevant Ordinary Shares that is recognized as capital for Dutch dividend withholding tax purposes.

Tax Credit

A resident or a deemed resident of the Netherlands for Dutch tax purposes that holds Shares is generally, subject to the anti-dividend stripping rules below, entitled to credit the Dutch dividend withholding tax against his liability to Dutch tax on income and capital gains, or to a refund of the Dutch dividend withholding tax insofar as such tax, together with any other creditable domestic and/or foreign taxes (i.e., non Dutch taxes), exceeds the aggregate Dutch (corporate) income tax liability.

The anti-dividend stripping rules are as follows: a Dutch resident or deemed resident recipient of a dividend on the Shares will not be entitled to an exemption, credit or refund of Dutch dividend withholding tax if such recipient is not the beneficial owner of such dividend. A recipient of a dividend on the Shares will not be considered the beneficial owner for the above mentioned purposes if, as a result of one or more related transactions, a party other than such recipient partly or wholly benefits from the dividend and such other party has retained, directly or indirectly, an interest in the Shares. The anti-dividend stripping rules may also apply to recipients not resident in The Netherlands.

Tax treaties

If a double taxation treaty is in effect between The Netherlands and the country of residence of a Non-Resident Shareholder, such Non-Resident Shareholder may, depending on the terms of that double taxation treaty, be eligible for a full or partial exemption from, or refund of, Dutch dividend withholding tax.

For the provisions of the Treaty between Israel and the Netherlands see section discussion below.

Dutch gift and inheritance tax

Dutch gift or inheritance taxes will not be levied on the occasion of the transfer of the Shares by way of gift by, or on the death of, a holder, unless:

(i) the holder is a resident in The Netherlands or is deemed to be such a resident, for the purpose of the relevant provisions; or

(ii) the Shares are attributable to a business or part thereof which is carried on through a permanent establishment or a permanent representative in The Netherlands, or

(iii) in the case of a gift by an individual who at the date of the gift was neither resident in The Netherlands nor deemed to be such a resident, such individual dies as a resident (or deemed resident in The Netherlands) within 180 days after the date of the gift.

If the holder is a Dutch national he will be deemed to be a resident in The Netherlands if he has been a resident in The Netherlands at any time during the ten years preceding the date of gift or his death. If the holder is not a Dutch national he will be deemed to be a resident in the Netherlands if he has been resident in The Netherlands at any times during the twelve months preceding the date of gift.

Dutch value added tax

There will be no Dutch value added tax due in respect of payments in consideration for the acquisition or disposition or the Company's shares or in respect of payments under the Shares.

Other Dutch taxes and Dutch duties

Corporate and individual residents and non-residents of The Netherlands will not be subject to Dutch registration tax, Dutch stamp duty or any other similar documentary tax or duty in respect of the acquisition, ownership or disposition of the Shares or the enforcement or admissability in evidence of the same in the courts of The Netherlands (except for any court fees in connection with litigation).

ISRAELI TAXATION

Capital gains accrued from the sale of securities that are traded on the stock exchange are generally liable for Israeli tax at a rate of 25% (or alternatively 15% where the offeree has not claimed a deduction of expenses, interest and linkage differentials in respect of the security and the sale is not to a relative) (see discussion above), and in the event that the security sold is a “Foreign Security” (as defined below) then any such capital gain from the sale of the security prior to the 2007 tax year will be subject to a 35% tax rate in Israel (but in the event that the securities are sold after the tax year 2006, the tax rate on the real capital gains accrued until 1 January 2007 will be 35% in Israel, and the tax rate on the remaining real capital gains will be 15% in Israel). The term “Foreign Security” is defined, among others, in the Income Tax Regulations (Deterrnination of Foreign Securities, Temporary Order), as including, among others, a security that is traded on the stock exchange or on an organized market, outside of Israel (both as defined in the Ordinance)*, or is intended to be traded as so according to its prospectus, excluding (a) a securty of a company resident in Israel; (b) a security of a foreign-resident company which is traded on the stock exchange in Israel, as well as on a stock exchange or an organized market outside of Israel (both as defined in the Ordinance).

Capital losses from the sale of a “Foreign Security” will be set-off in accordance with the provisions set out in sections 1050(b) and 1050(c) of the Ordinance.

A foreign resident (non Israeli resident) is exempt from tax on capital gains on a sale of securities which are traded on the stock exchange in Israel, if the capital gains are not in its permanent establishment in Israel.

Subject to the provisions of the Treaty (see discussion below), a dividend received by an Israeli resident from sources outside of Israel is generally liable for Israeli tax at a rate of 25%, both by an individual and by a “body of persons” to which the exemption prescribed in section 9(2) of the Ordinance does not apply.
A “company resident in Israel” is defined in the Ordinance as a “body of persons” in which one of the following applies: (1) it was incorporated in Israel; (2) the control over its business is executed from Israel; and an “individual resident in Israel” is defined as an individual whose center of life is in Israel. A “‘Foreign resident” is defined in the Ordinance as whomever is not an Israeli resident.

A “controlling shareholder”, as defined in section 75B of the Ordinance, should examine if the provisions regarding the “controlled foreign company” (hereinafter: “CFC”) is relevant to him. In accordance with these provisions, a controlling shareholder (namely, an Israeli resident who holds, directly or indirectly, alone or together with another, at least 10% of the controlling means of the body of persons) of a company complying with the definition of CFC~ which has passive profits that were not distributed in a certain tax year, will be deemed to have received as a dividend his pro rata share of such non-distributed profits, and he will be taxed thereon in Israel, less the deduction at source which would have been imposed on such profits outside of Israel, had they in fact been distributed by the foreign company to the controlling shareholder.

* At the date of this prospectus, the definition of “Stock Exchange” in Article 1 of the Ordinance is “a securities exchange, to which a license was granted under section 45 of the Securities Law, or any other exchange recognized by the Minister of Finance for purposes of this Ordinance”. “Organized Market” is defined in Article 88 of the Ordinance (Section E - Capital Income) as a “system through which a trade in securities or future transactions is preformed all in accordance with guidelines that were setout by the qualified person in the country in which the trade is performed, and all in the countries that were recognized by the Minister”. As of this date, no decision has been made by the Minister in accordance with the above mentioned provisions.

A CFC is defined in the Ordinance as a foreign-resident “body of persons”, in which four accumulative conditions are fulfilled, as follows:

1. It is under Israeli control. The section stipulates a number of alternative criteria in this regard; (a) more than 50% of one or more of the means of control in the body of persons are held, directly or indirectly, by Israeli residents; (b) more than 40% of one or more of the means of control in the body of persons are held by Israeli residents who, together with a relative of one of the holders, who is a foreign resident, hold more than 50% of the means of control in the, “body of persons”; or (c) an Israeli resident has the right to prevent the taking of material managerial decisions by the “body of persons”.

2. Most of its income in the tax year is passive income or most of its profits derive from passive income. For this purpose, passive income - including any income sourced from passive income or passive consideration, even if the income is from a business or an occupation.

3. Its shares or the rights therein are not listed for trading on a stock exchange, however, if they were listed in part, less than 30% of the shares or of the rights of that body of persons were offered to the public.

4. The tax rate applicable to its passive income in foreign countries does not exceed 20%.

The recipient of the dividend must report his income to the tax authorities in Israel and supplement the requisite tax in accordance with the provisions of the Ordinance.

The Tax Treaty between Israel and the Netherlands

The provisions of the Treaty below generally subside any other provision in the internal Dutch and Israeli tax law.
Under the Treaty the Dutch dividend withholding tax on dividends distributed by a Dutch Company to a resident of Israel will generally be reduced to 15%. As an exception to the rule above mentioned, with respect to dividends distributed to corporate shareholders resident of Israel holding at least 25% of the shares in the Company the Dutch dividend withholding tax will be reduced to 5% provided that the shareholder is subject to profit tax at the ordinary rate.

All the above provisions in relation to deduction at source on dividends will also apply to dividends that are distributed by an Israeli company to a Dutch resident, and accordingly will apply to all stages of distribution of from a Dutch company to an Israeli resident and vice versa.

The provisions of the Treaty in regard of the deduction at source on dividends as mentioned above will apply to all stages of distribution of dividends by a company resident in the Netherlands to a company resident in Israel and by the latter to a company resident in the Netherlands.

The provisions of the Treaty provide that as a rule, tax may be imposed on profits on the transfer of an asset, such as a security, only in the transferor’s country. Hence the rule, that capital gains on the sale of a security by an Israeli resident will be liable for tax only in Israel, while capital gains on the sale of a security by a Dutch resident will be liable for tax only in the Netherlands This general rule is subject to various exceptions.

In accordance with the announcement of the Israeli commissioner of tax of 5 November. 2002, in connection with the organization procedures of the Israeli tax authorities with regard to the tax reform, Kardan Ltd. (hereinafter: “**Kardan**”) has reached a special tax arrangement on 9 April 2003, with the Income Tax and Land Taxation Commissioner, through the International Taxation Department (hereinafter: the “Commissioner”) according to which Kardan shall pay a tax rate of 5% of the accumulated profits that have been realized and profits that have not yet been realized (step-up in value) from the activity of the companies held by the Company overseas as of 31 December 2002 (hereinafter: the “**Arrangement**”). The main Principles of the Arrangement are as follows:

1. Kardan shall pay taxes amounting to NIS 12.2 million (EUR 2.4 million), which represents 5% of the Company's share in the capital profits, accumulated profits available for distribution as of 31 December 2002 (hereinafter: the "**Arranged Dividends**") and the Profits from the step-up in basis, all sourced from foreign companies that are held by the Kardan directly or indirectly, and that hold assets overseas (hereinafter: the "**Foreign Assets**"). The profits from the step-up in basis are profits that derive from the difference between the cost of the Foreign Assets and their value as of 31 December 2002 (hereinafter: the "**Profits from the Step-Up**"). In the event that the Company shall sell Holdanco International Investments B.V., one of the Foreign Companies held by the Company, than in addition to the tax mentioned above the Company shall pay tax amounting to 0.55% of the amounts liable for tax as mentioned above. The tax due in this case shall be Paid within 60 days of the sale.

2. Apart from the tax that Kardan shall pay as stated in the Arrangement. no further tax shall be levied on Kardan with regard to dividends received up to a total amount equal to the Arranged Dividends and in regard of profits from the sale of the Foreign Assets up to an amount equal to the Profits from the Step-up.

3. The tax that Kardan is obliged to Pay under the Arrangement, shall be paid in 24 equal installments, as of 30 days from the date of signing the Arrangement, plus interest and linkage differentials, in accordance with the Ordinance.

In accordance with the abovementioned announcement Kardan Real Estate Enterprise and Development Ltd. (hereinafter: "**KRE**"), which approximately 45.7% for its share capital is held by Kardan Ltd.. has reached a special tax arrangement on 9 Aprl 2003, with the Commissioner, according to which the KRE shall pay a tax rate of 5% of the accumulated profits that have been realized and profits that have not yet been realized (step-up in value) from the activity of the companies held by KRE overseas as of 31 December 2002 (hereinafter: the "KRE Arranqement"). The main principles of the **KRE Arrangement** are as follows:

1. KRE shall pay taxes amounting to NIS 2.9 million (EUR 0.6 million), which represent 5% of KRE's share in the capital profits, accumulated profits available for distribution as of 31 December 2002 (hereinafter: the "**Arranged Dividends of KRE**") and of the dividends distributed in practice that the source of which were the foreign companies held by KRE, directly or indirectly. and that hold assets overseas (hereinafter: the "**Foreign Assets of KRE**"). In the event that KRE shall sell Nobdanco Belegging En Vastgoed B.V., one of the Foreign Companies held by KRE, than in addition to the tax mentioned above KRE shall pay tax amounting to 0.55% of the amounts liable for tax as mentioned above. The tax due in this case shall be paid within 60 days of the sale.

2. In addition, KRE shall pay taxes amounting to NIS 15.5 million (EUR 3.1 million), which represent 5% of KRE's share in the Profits from the step-up in basis. The profits from the step-up in basis are profits that derive from the difference between the cost of the Foreign Assets of KRE and their value as of 31 December 2002 (hereinafter: the "**Profits from the Step-Up of KRE**").

3. Apart from the tax that KRE shall pay, as stated in the KRE Arrangement, no further tax shall be levied on KRE with regard to dividends received up to a total amount equal to the Arranged Dividends of KRE and in regard of profits from the sale of the Foreign Assets of KRE up to an amount equal to the Profits from the Set-Up of KRE.

4. The tax that KRE is obliged to pay under the Arrangement, shall be paid in 24 equal installments, as of 30 days from the date of signing the Arrangement, plus interest and linkage differentials, in accordance with the Ordinance.

The tax results of the Tender Offer and/or the holding of shares in a Dutch company must be examined while having due regard to the unique tax features of each offeree and/or holder. The details included above do not propose to reflect the authorized interpretation of the provisions of any law and they do not constitute a substitute for individual consultation by experts, having regard to the unique circumstances of each offeree. It is recommended that each of the offerees pursuant to this Prospectus, seek professional advice in order to clarify the tax results which may be applicable to him, having regard to his unique circumstances.

ADDITIONAL INFORMATION

1. Application for listing of the Shares on Euronext Amsterdam was authorized by the Managing Board and approved by the Supervisory Board on 17 June, 2003.
2. Application has been made for the Shares to be accepted for clearance through the book-entry facilities of Necigef. The ISIN code will be NL000011365.2. The Euronext Amsterdam symbol will be KARD. The Company expects that listing of its Shares on Euronext Amsterdam will take place on 10 July 2003.
3. To the best of the Company's knowledge, other than as disclosed herein, there has been no significant change in the Company's financial or trading position and no material change in its financial position or prospects or that of its subsidiaries, taken as a whole, since 31 March 2003.
4. Copies of the following documents (together with English translations thereof where appropriate) will be available free of charge at the Company's registered office and at van der Hoop Effektenbank N.V. (Herengracht 469, 1017 BS Amsterdam): (i) this Prospectus; (ii) Kardan Ltd.'s annual accounts for the last three years; and (iii) the Articles of Association and the Amended Articles and (iv) English translation of the Tender Offer document. The Prospectus will also be available on the website of Euronext Amsterdam.
5. Except as disclosed in this Prospectus (See "Risk factors" and "Litigation"), the Company is not involved in any litigation or arbitration proceedings which may have or have had a significant effect on the financial position of the Company and its subsidiaries, taken as a whole, and, so far as the Company is aware, no such litigation or arbitration proceedings are pending or threatened.
6. The Company has taken appropriate measures to comply with the regulations on insider trading pursuant to the Dutch 1995 Securities Markets Supervision Act *(Wet toezicht effectenverkeer 1995).*
7. Under the Dutch 1996 Act on the Disclosure of Holdings in Listed Companies *(Wet Melding Zeggenschap in ter beurze genoteerde vennootschappen 1996)*, any person who acquires or disposes of an interest in the capital and/or the voting rights of the Company, must give prompt written notice to both the Company and to the Dutch Financial Markets Authority *(Autoriteit Financiële Markten)* of that acquisition or disposal if, as a result of that acquisition or disposal, that shareholder's total capital interest or voting rights in the Company reaches, rises or falls to a different percentage ''bandwidth''. The percentage bandwidths are 0% to 5%, 5% to 10%, 10% to 25%, 25% to 50%, 50% to 66 2/3%, and over 66 2/3%. Under the Dutch 1995 Securities Markets Supervision Act 1995, any shareholder with a capital interest of more than 25% in any company such as the Company that has listed securities on Euronext Amsterdam must also notify the Dutch Financial Markets Autority of its transactions involving those securities, including securities the value of which depends at least partially on the value of those securities.
8. Further, members of the Managing Board and Supervisory Board must pursuant to the Dutch 1996 Act on the Disclosure of Holdings in Listed Companies notify both the Company and the Dutch Financial Markets Authority of their capital and voting interest in the Company and any changes therein as a result of transactions of themselves. Such notification must be made immediately (i.e. within two days) after the date of the transaction that resulted in the change in their interest. Persons who are appointed member of the Managing Board must notify their capital and voting interest in the Company to the Dutch Financial Markets Authority within two weeks after their appointment. In addition, the Company must immediately notify the Dutch Financial Markets Authority of any Managing Board member ceasing to be such member.
9. The costs and expenses of, and incidental to, the Listing, which include the cost of the application for the Listing, accountancy fees, legal fees, the costs of printing and certain other third party advisory fees, are estimated to amount to EUR 2 million.
10. Van der Hoop Effektenbank N.V. will act as sponsor to the Company within the meaning of Euronext Amsterdam's Listing Procedure Rules *(Reglement Procedure Beursnotering).*

11. The Company is a party to the following contractual arrangements with other Kardan Group entities:

- A loan agreement between the Company and Kardan Ltd.

- Certain arrangements with Kardan Ltd. and option holders and debenture holders of Kardan Ltd.

- At the request of the Tel-Aviv Stock Exchange, the Company has assumed responsibility for Kardan Ltd.'s reports to the stock exchange and securities authority.

- At Kardan Ltd.'s request, immediately upon the Company becoming the owner of the Ltd. Shares the Company shall give Israel Continental Bank Ltd. an unlimited guarantee to secure all of Kardan Ltd.'s. obligations to Israel Continental Bank Ltd.

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ISRAELI GAAP AND IFRS

For the purpose of this prospectus Kardan Ltd. had prepared pro-forma financial statements in accordance with IFRS. Kardan Ltd. Is traded on the Tel-Aviv Stock Exchange and accordingly prepares its financial statements that are published in Israel in accordance with Israeli GAAP. Set forth below are the significant differences between Israeli GAAP and IFRS that have an effect on the financial position and results of operations of the Group.

Financial Statements in Adjusted NIS
In accordance with Israeli GAAP, the financial statements are restated for the changes in the Consumer Price Index in Israel, in accordance with a comprehensive basis of accounting for inflation. IFRS does not provide for the restatement of financial statements for the impact of inflation for entities which do not operate in a hyperinflationary economy.

Deferred income taxes
Under Israeli GAAP, deferred income taxes are not provided for differences between the financial reporting and income tax base of land. Under IFRS, deferred income taxes are provided on all differences between the financial reporting and the income tax bases of assets and liabilities (including land).

Transactions with controlling shareholders
Under Israeli GAAP, as applicable to publicly traded companies, transactions with controlling shareholders involving acquisition and disposal of assets are recorded based on the book value of the asset acquired and disposed of. The excess of consideration received or paid over the book value of the asset is included in share premium. Under IFRS, such transactions are recorded based on the consideration received or paid.

Impairment of long-lived assets
Through 31 December, 2002, accepted practice in Israel allowed a company to test for recoverability of long-lived assets to be held and used by comparing the carrying amount of an asset to the future undiscounted net cash flows expected to be generated by the asset. Only if an asset was not considered recoverable according to the abovementioned test, an impairment loss was recognized. The impairment loss was measured by the amount by which the carrying amount of the asset exceeded its fair value.

According to IFRS, if the carrying amount of an asset exceeds its recoverable amount, an impairment loss should be recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. Recoverable amount is defined as the higher of an asset's selling price and its value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

As a result, certain circumstances which required an impairment loss to be recognized under IFRS, did not require an impairment loss to be recognized under Israeli GAAP.
In 2003, the Company adopted Israeli Accounting Standard No. 15 regarding impairment of assets, which is based on IFRS. As such impairments will be tested using the same criteria under Israeli GAAP and IFRS.

Investment property
Investment property may not be revalued under Israeli GAAP and is measured at cost less accumulated depreciation and any provisions for impairment losses.

Under IFRS, investment property is measured upon initial recognition at cost. Subsequent to initial recognition, investment property may be measured at fair value.

Gains and losses arising from a change in the fair value of investment property are included in the statement of operations for the periods in which they arise.

Accounting for hedging transactions

The accounting treatment in Israel for hedging transactions is based on accepted practice which is derived from U.S. Statement of Financial Standards 52. When considering forward transactions, the results of the transaction must be separated into two parts – premium (discount) and current profit (loss). The amount of the premium (discount) is recorded in the statement of operations over the period of the contract (usually by the straightline method). The current profit (loss) is the change occurring in the spot rate as between the spot rate on the contracting date (or the previous measurement date) and the spot rate on balance sheet date, multiplied by the notional amount of the forward transaction. This gain (loss) is credited or charged to the statement of operations simultaneously with the recording of the gain (loss) on the hedged asset or liability.

With respect to options used as a hedge, the time value and the intrinsic value are recorded separately. The time value is amortized and charged to the statement of operations over the option period. The change in the intrinsic value is recorded in the statement of operations simultaneously with the changes in the value of the hedged item.

Under IFRS in order for a transaction to be regarded as a hedging transaction, certain conditions (described in IAS 39.142) must be met. These conditions are more stringent than those set out in SFAS 52.

The standard distinguishes between three types of transaction, as follows:

a) Fair value hedge – the derivative should be measured at its fair value, with changes in the fair value being recorded in the statement of operations. Concurrently, the change in the fair value of the hedged item should also be recorded in the statement of operations, with a corresponding adjustment to the carrying value of the hedged item.
b) Cash flows hedge – the portion of the gain or loss determined to be an effective hedge is recorded directly in shareholders' equity, whereas the remaining portion (the non-effective part) is recorded in the statement of operations. Amounts recorded in shareholders' equity are recorded in the statement of operations in the period in which the hedged commitment affects profit or loss. Should the transaction involve the acquisition of an asset, these amounts should be capitalized and included in the cost of the asset upon recognition of that asset.
c) Hedging of net investment in a foreign entity – the effective portion is recorded in shareholders' equity (translation adjustments) and the non-effective portion is recorded in the statement of operations.

Investments in securities

In Israel, marketable securities are classified by reference to two categories – current investments and non-current investment. Current marketable investments are presented at market value, with changes in market value being recorded in the statement of operations. Non-current marketable investments, i.e., securities such as shares, options and debentures, which management intends and has the ability to hold as long term investments, and short term investments in non-marketable securities, are presented at cost.

Under IFRS financial assets are classified into three categories: held for trading, held to maturity, and available for sale. Securities held to maturity are measured at amortized cost, using the effective interest method. Securities held for trading are measured at their fair value, with changes in their fair value being recorded in the statement of operations. Available for sale securities are also measured at their fair value, with changes in their fair value being recorded in the statement of operations. Available for sale securities include any security that does not meet the definition of a trading security or a held to maturity security.

Deferred pension acquisition costs

Under Israel GAAP, expenses incurred in respect of the acquisition of pension fund management companies are amortized by the straight line method.

Under IFRS, the expenses are recorded in the statement of operations in the periods in which they are incurred.

Convertible debt

Under IFRS, the component parts, liability and equity elements of convertible debt must be separately recognized in the balance sheet as liabilities and shareholders' equity respectively.

Under Israeli GAAP, convertible debt is recorded at its monetary value as a liability if its conversion is not probable. If conversion is probable it is presented as a separate caption between liabilities and shareholders' equity at the higher of its monetary or nonmonetary value.

Venture Capital Investments

Israeli Accounting Standards require that investments made by venture capital funds be recorded at the lesser of their coast or fair value. Under IFRS no distinction is made for investments held by venture capital funds. Accordingly, investments are recorded in accordance with the applicable standards, which may require the venture capital fund to account for certain of its investments under the equity method (when it has the ability to exercise significant influence over the investee) or even consolidate certain of those investments (when it controls the investee).

KARDAN LTD.

PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS 2001 AND 2002

C O N T E N T S

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ERNST & YOUNG

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

O F

KARDAN LTD.

The pro forma financial statements prepared in accordance with International Financial Reporting Standards of Kardan Ltd. (a company incorporated in Israel) for the years 2002 and 2001, as included in this prospectus on pages F4 to F83, represent the pro forma conversion from accounting principles generally accepted in Israel to International Financial Reporting Standards. The pro forma financial statements are the responsibility of the management of Kardan Ltd. Our responsibility is to express an opinion on these pro forma financial statements based on our audits.

In our auditors' reports on the consolidated financial statements for the years 2002 and 2001 of Kardan Ltd, prepared in accordance with accounting principles generally accepted in Israel, from which the financial data included in the pro forma financial statements have been derived, we issued unqualified opinions on March 31, 2003 and March 26, 2002 based on auditing standards generally accepted in Israel. We did not audit the financial statements of certain subsidiaries and associated companies. Those statements were audited by other auditors and our opinions on the consolidated financial statements of Kardan Ltd., insofar as they related to the amounts included for those subsidiaries and associated companies, were based solely on the reports of the other auditors.

The pro forma balance sheet of Kardan Ltd at December 31,2000 and the related statements of operations, changes in shareholders' equity and cash flows for the year then ended as included in this propectus on pages F4 to F10 represent the pro forma conversion from accounting principles generally accepted in Israel to International Financial Reporting Standards. These financial data are the responsibility of the Company's management and were prepared for the purpose of presenting three years of financial data in the prospectus as required by Euronext. Our responsibility is to express an opinion on these financial data based on our audit.

This balance sheet, and related statements of operations, changes in shareholders' equity and cash flows, converted to International Financial Reporting Standards, have been derived from the consolidated financial statements of Kardan Ltd. at December 31, 2000 prepared in accordance with accounting principles generally accepted in Israel. We issued an unqualified opinion on those consolidated financial statements on March 29, 2001 based on auditing standards generally accepted in Israel.

International Financial Reporting Standards require the inclusion of certain disclosures in the notes to the financial statements as an integral part of the financial statements. The disclosures in the notes to the financial statements, which are required by International Financial Reporting Standards, are not presented for the year 2000.

In our opinion, the pro forma financial statements for the years 2002 and 2001 have been correctly converted from accounting principles generally accepted in Israel to International Financial Reporting Standards and therefore comply in all material respects with International Financial Reporting Standards. Further, in our opinion, the pro forma balance sheet of Kardan Ltd at December 31,2000 and the related statements of operations, changes in shareholders equity and cash flows for the year then ended have been correctly converted from accounting principles generally accepted in Israel to International Financial Reporting Standards.

Luboshitz Kasierer
An affiliate member of Ernst & Young International

Tel-Aviv, March 31, 2003

KARDAN LTD.

PRO FORMA CONSOLIDATED BALANCE SHEETS

	Note	December 31		
		2002	2001	2000
		NIS	NIS	NIS (*)
		In thousands		
CURRENT ASSETS				
Cash and cash equivalents	(4)	225,674	92,040	137,940
Short-term investments	(5)	38,787	160,069	90,610
Trade receivables	(6)	106,143	124,949	118,489
Reinsurance receivables and insurance companies	(7)	116,735	57,321	72,383
Insurance premiums receivable	(8)	19,351	17,451	20,515
Other receivables and prepayments	(10)	44,458	64,322	53,812
Current maturities of long-term loans and receivables	(11)	46,332	27,834	35,215
Merchandise inventories		9,994	9,373	36,051
Contract work in progress	(9)	15,655	19,409	-
		623,129	572,768	565,015
NON-CURRENT ASSETS				
Long-term loans and receivables	(11)	83,764	29,349	52,979
Deferred income tax asset	(37)	12,932	14,585	3,723
Deposits with insurers		2,843	695	10,969
Investments in associates	(12)	641,556	536,560	539,774
Available-for-sale financial assets	(14)	139,138	123,629	73,916
Investment properties	(15)	26,454	22,842	37,776
Property, plant and equipment	(16)	135,580	133,978	148,036
Deferred acquisition costs (Insurance companies)	(17)	11,176	8,494	15,699
Intangible assets	(18)	80,145	72,660	92,896
		1,133,588	942,792	975,768
		1,756,717	1,515,560	1,540,783

(*) See Note 2A

The accompanying notes form an integral part of the pro forma financial statements.

	Note	December 31 2002 NIS	2001 NIS	2000 NIS (*)
		In thousands		
CURRENT LIABILITIES				
Loans and borrowings	(19)	271,873	338,703	310,068
Trade payables	(20)	22,370	32,281	61,233
Due to customers for contract work	(9)	43,328	25,020	-
Advances from customers in respect of contracts		66,572	37,510	-
Other payables and accrued expenses	(21)	155,336	91,051	136,202
		559,479	524,565	507,503
NON-CURRENT LIABILITIES				
Insurance provisions	(22)	282,793	196,521	329,060
Convertible debentures	(23)	186,654	106,764	-
Loans and borrowings	(24)	196,372	215,803	162,757
Deferred income tax liability	(37)	10,331	11,009	7,785
Accrued severance pay, net	(25)	3,794	4,427	3,583
		679,944	534,524	503,185
MINORITY INTEREST		73,070	71,632	152,289
SHAREHOLDERS' EQUITY	(27)			
Share capital		81,535	78,545	78,478
Share premium		211,192	186,493	185,693
Net unrealized gains on forward currency contracts		-	7,828	-
Foreign currency translation		71,927	33,516	(478)
Convertible debentures - equity component		3,447	2,258	-
Warrants		-	1,365	-
Accumulated profits		89,921	77,317	114,113
Treasury shares		(13,798)	(2,483)	-
		444,224	384,839	377,806
		1,756,717	1,515,560	1,540,783

(*) See Note 2A

……………………	……………………	……………………
JOSEPH GRUNFELD	**ITZHAK GROSSMAN**	**EYTAN RECHTER**
Chairman of the Board of Directors	Joint Managing Director	Joint Managing Director

Date of approval of the pro forma financial statements:
March 31, 2003

The accompanying notes form an integral part of the pro forma financial statements.

KARDAN LTD.

PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS

	Note	2002 NIS	2001 NIS	2000 NIS (*)
		For the year ended December 31		
		In thousands (except per share data)		
NET REVENUES				
Sales and services	(28)	140,500	248,280	373,631
Contract revenues		246,572	238,453	-
Insurance activities	(29)	197,637	140,026	214,965
Equity in net earnings of associated companies		38,614	9,410	44,088
Gain on issuance of shares in associated companies and subsidiaries to third parties		1,064	15,906	17,415
Management fees		5,320	12,130	9,217
Financing income, net	(36)	26,953	-	-
Gain on disposal of assets and other income, net	(30)	16,936	65,676	25,041
		673,596	729,881	684,357
EXPENSES				
Cost of sales and services	(32)	119,029	186,416	248,690
Contract costs		185,951	181,018	-
Operating expenses of insurance activities	(33)	182,523	135,375	208,254
Selling and marketing expenses	(34)	42,530	58,442	60,184
General and administrative expenses	(35)	103,840	137,347	112,488
Financing expenses, net	(36)	-	29,389	33,930
Other expenses, net	(31)	30,191	44,704	17,293
		664,064	772,691	680,839
Income (loss) before taxes on income		9,532	(42,810)	3,518
TAXES ON INCOME	(37)	12,773	5,325	6,121
Income (loss) after taxes on income		(3,241)	(48,135)	(2,603)
MINORITY INTEREST		15,845	16,432	14,793
Net income (loss)		12,604	(31,703)	12,190
EARNINGS (LOSS) PER SHARE	(39)			
Basic and diluted		0.21	(0.53)	0.21

(*) See Note 2A

The accompanying notes form an integral part of the pro forma financial statements.

KARDAN LTD.

PRO FORMA CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

In thousands of Shekels

	Share capital	Share premium	Net unrealized gains	Foreign currency translation	Convertible debentures-equity component	Warrants	Accumulated profits	Treasury shares	Total
Balance as of January 1, 2000 (*)	78,478	185,693	-	12,543	-	-	101,923	-	378,637
Currency translation differences				(13,021)					(13,021)
Net income	-	-	-	-	-	-	12,190	-	12,190
Balance as of December 31, 2000 (*)	78,478	185,693	-	(478)	-	-	114,113	-	377,806
Adjustment to fair value of available for sale investments held by associated company upon initial application of IAS 39	-	-	-	-	-	-	(5,093)	-	(5,093)
Treasury shares purchased								(2,483)	(2,483)
Proceeds from issuance of warrants	-	-	-	-	-	1,432	-	-	1,432
Exercise of warrants	67	800	-	-	-	(67)	-	-	800
Currency translation differences	-	-	-	33,994	-	-	-	-	33,994
Net unrealized gain on forward currency contracts	-	-	7,828	-	-	-	-	-	7,828
Issuance of convertible debentures - equity component	-	-	-	-	2,258	-	-	-	2,258
Net loss	-	-	-	-	-	-	(31,703)	-	(31,703)
Balance as of December 31, 2001	78,545	186,493	7,828	33,516	2,258	1,365	77,317	(2,483)	384,839
Treasury shares purchased								(9,148)	(9,148)
Expiration of warrants	-	30	-	-	-	(30)	-	-	-
Exercise of warrants	2,990	24,669	-	-	-	(1,335)	-	(2,167)	24,157
Gain on forward currency contract removed from equity and reported in net income	-	-	(7,828)	-	-	-	-	-	(7,828)
Issuance of convertible debentures – equity component	-	-	-	-	1,189	-	-	-	1,189
Currency translation differences	-	-	-	38,411	-	-	-	-	38,411
Net income	-	-	-	-	-	-	12,604	-	12,604
Balance as of December 31, 2002	81,535	211,192	-	71,927	3,447	-	89,921	(13,798)	444,224

(*) See Note 2A

The accompanying notes form an integral part of the pro forma financial statements.

KARDAN LTD.

PRO FORMA CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31		
	2002 NIS	2001 NIS	2000 NIS (*)
	In thousands		
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before taxes on income	9,532	(42,810)	3,518
Adjustments for:			
Equity in undistributed earnings of associated companies, net (1)	(38,713)	(2,070)	(30,147)
Gain on issuance of shares in associated companies and subsidiaries to third parties, net	(1,064)	(15,906)	(17,415)
Gain on the disposal of investments and property, plant and equipment, net	(12,750)	(61,216)	(7,738)
Impairment of investments	29,715	35,638	-
Depreciation and amortization	26,271	47,346	21,738
Fair value adjustments of investment properties	(2,200)	-	-
Exchange differences, net	6,186	10,658	(4,489)
Decrease (increase) in fair value of securities held for trading, net	5,719	(2,819)	1,892
Increase (decrease) in accrued severance pay, net	(586)	(196)	1,306
Change in insurance provisions, outstanding claims and deferred acquisition expenses, net	72,469	30,757	27,805
Increase in outstanding insurance premiums, reinsurance receivables and insurance companies	(57,976)	(22,412)	(1,771)
Decrease (increase) in trade and other receivables	35,152	(13,280)	(25,285)
Decrease in inventories and in cost of contracts in progress, net of advances from customers	39,530	71,743	5,919
Increase (decrease) in trade and other payables	40,830	(37,626)	39,876
Cash generated from operations	152,115	(2,193)	15,209
Income taxes paid	(11,302)	(9,499)	(10,721)
Net cash provided by (used in) operating activities	140,813	(11,692)	4,488
(1) Dividends received from associated companies	99	7,340	13,941

(*) See Note 2A

The accompanying notes form an integral part of the pro forma financial statements.

KARDAN LTD.

PRO FORMA CONSOLIDATED STATEMENTS OF CASH FLOWS (Cont.)

	For the year ended December 31		
	2002 NIS	2001 NIS	2000 NIS(*)
	In thousands		
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and investment properties	(20,456)	(30,834)	(46,086)
Investments in companies and partnerships	(29,912)	(51,588)	(40,045)
Granting of loans to associated companies, net	(30,627)	(25,726)	(54,821)
Proceeds from disposal of investments and property, plant and equipment	8,454	15,397	104,541
Granting of long-term loans	(40,640)	(9,556)	(2,038)
Collection of long-term receivables	18,350	14,745	4,586
Dividend from associated company	1,766	-	-
Short-term investments, net	110,401	(204,282)	(26,498)
Acquisition of newly-consolidated subsidiaries, net of cash acquired (see A below)	(10,745)	(21,463)	(291)
Increase (decrease) in cash from sale of investments in formerly-consolidated subsidiaries (see B below)	3,918	(50,325)	(24,130)
Other investments	(5,346)	(4,738)	(5,201)
Net cash provided by (used in) investing activities	5,163	(368,370)	(89,983)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of warrants	-	1,432	-
Proceeds from exercise of warrants and issuance of Company shares, net	24,157	800	-
Proceeds from issuance of shares to minority interest in subsidiaries, net	824	1,768	24,268
Treasury shares purchased	(9,148)	(2,483)	-
Dividend to minority shareholders of subsidiary	-	(1,871)	(1,013)
Proceeds from issuance of convertible debentures, net of issuance expenses	98,579	106,384	-
Repayment of debentures	(10,415)	(2,592)	(20,906)
Receipt of long-term loans	125,848	119,615	26,207
Repayment of long-term loans	(99,933)	(48,698)	(26,815)
Increase (decrease) in short-term loans and borrowings, net	(145,751)	154,455	60,310
Net cash provided by (used in) financing activities	(15,839)	328,810	62,051
FOREIGN EXCHANGE DIFFERENCES RELATING TO CASH AND CASH EQUIVALENTS	3,497	5,352	(3,080)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	133,634	(45,900)	(26,524)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	92,040	137,940	164,464
CASH AND CASH EQUIVALENTS AT END OF YEAR	225,674	92,040	137,940

(*) See Note 2A

The accompanying notes form an integral part of the pro forma financial statements.

KARDAN LTD.

PRO FORMA CONSOLIDATED STATEMENTS OF CASH FLOWS (Cont.)

	For the year ended December 31		
	2002 NIS	2001 NIS	2000 NIS(*)
	In thousands		
A. ACQUISITION OF NEWLY-CONSOLIDATED SUBSIDIARIES, NET OF CASH ACQUIRED:			
Assets and liabilities of subsidiaries as of date of consolidation:			
Cash	(1,902)	(26,537)	(47,056)
Deficit in working capital (working capital) (excluding cash)	(3,803)	19,333	(20,829)
Non-current assets	(248)	(58,015)	(232,567)
Goodwill on acquisition	(10,332)	(16,918)	(41,420)
Non-current liabilities	3,164	18,130	137,222
Payables with respect to acquisition	-	-	10,529
Minority interest	474	(3,752)	69,026
Balance of investment at date of acquisition (formerly an associated company)	-	19,759	77,748
Total purchase price	(12,647)	(48,000)	(47,347)
Cash of subsidiaries acquired	1,902	26,537	47,056
Cash flow on acquisition net of cash acquired	(10,745)	(21,463)	(291)
B. INCREASE (DECREASE) IN CASH FROM SALE OF INVESTMENTS IN FORMERLY-CONSOLIDATED SUBSIDIARIES:			
Assets and liabilities at cessation of consolidation:			
Cash	302	95,772	24,130
Deficit in working capital (excluding cash)	(4,370)	(16,211)	(143,788)
Non-current assets	17,188	171,694	502,311
Non-current liabilities	(6,192)	(190,867)	(133,278)
Minority interest	(4,065)	(63,821)	(58,262)
Gain on issuance of shares in subsidiary	-	-	15,687
Gain on disposal of investment	1,357	60,377	18,129
Investment in formerly-consolidated subsidiaries	-	(11,497)	(224,929)
Total consideration	4,220	45,447	-
Cash of subsidiaries which ceased to be consolidated	302	95,772	24,130
Cash flows from disposal, net of cash disposed	3,918	(50,325)	(24,130)
C. NON-CASH TRANSACTIONS			
Dividend receivable from associated company	-	1,660	-
Issuance of shares in subsidiary to third party in consideration for the receipt of consulting services	-	975	-
Sale of fixed assets on credit	-	-	1,071
Acquisition of fixed assets on credit	768	628	-

(*) See Note 2A

The accompanying notes form an integral part of the pro forma financial statements.

KARDAN LTD.

NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - GENERAL

A. Kardan Ltd. ("the Company") is incorporated in Israel. The Company is an investment company, primarily engaged, both directly and through investee companies (in Israel and overseas), in investment and development in the real estate, infrastructure, insurance and pension, technology and communication sectors and in various commercial sectors. The average number of employees in the Company and its subsidiaries ("the Group") was 2,508 in 2002 and 2,404 in 2001. The registered office of the Company is located at 154 Menachem Begin Rd, Tel-Aviv, Israel.

B. The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PREPARATION

The pro forma consolidated financial statements of the Company for the years 2002 and 2001 represent the pro forma conversion of the Company's financial statements from accounting principles generally accepted in Israel to International Financial Reporting Standards ("IFRS") which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards ("IAS") and interpretations approved by the International Accounting Standards Committee ("IASC") that remain in effect. In these financial statements IFRS are being applied in full for the first time.

The pro forma consolidated balance sheet of Kardan Ltd. at December 31, 2000 and the related statements of operations, changes in shareholders' equity and cash flows for the years then ended were derived from the consolidated financial statements of Kardan Ltd. that were prepared in accordance with accounting principles generally accepted in Israel. These financial data were converted to IFRS for the purpose of presenting three years of financial data. IFRS require the inclusion of certain disclosures in the notes to the financial statements as an integral part of the financial statements. The disclosures in the notes that are required by IFRS are not presented for the year 2000.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

A. BASIS OF PREPARATION (Cont.)

The pro forma financial statements and financial data are prepared in New Israeli Shekels (NIS) which is the currency of the country in which Kardan Ltd. is domiciled.

The pro forma consolidated financial statements and financial data have been prepared on an historical cost basis (restated for the effects of hyperinflation, when applicable, see B below), except for the measurement at fair value of investment properties, derivative financial instruments and available-for-sale financial assets.

B. HYPERINFLATIONARY ECONOMY

IAS 29, “Financial Reporting in Hyperinflationary Economies”, requires that financial statements of enterprises that report in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. IAS 29 indicates that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

Through 1992 Israel was considered to be a hyperinflationary economy as defined by IAS 29. Accordingly, the financial statements through December 31, 1992 were restated for changes in the Consumer Price Index in Israel (CPI). All transactions since January 1, 1993, have been recorded at their historical values.

The measurement currency of one of the Company’s subsidiaries is the Romanian ROL. The inflation rate in Romania has been significantly high in recent years, and Romania is considered to be a hyperinflationary economy pursuant to IAS 29.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

B. HYPERINFLATIONARY ECONOMY (Cont.)

The following principles relate to the restatement of the subsidiary's financial statements:

- Non-monetary items (mainly fixed assets and shareholders equity items) have been restated in accordance with the changes in the general price index in Romania from the date of acquisition (transaction) to balance sheet date. The profit and loss statement components relating to non-monetary items (mainly relating to depreciation and amortization) have been restated on the same basis used for the restatement of the related balance sheet items.

- Monetary items (money held and items to be received or paid in money) are not restated.

- The items in the income statement, other than financing expenses and those deriving from non-monetary items, are restated for the change in the general price index from the transaction date to balance sheet date.

- Any purchasing power gain or loss not attributed to revenues and expenses as referred to above, is included in net financing income or expenses.

All accounts have been translated, restated as described above, into NIS at the exchange rates ruling at the balance sheet date.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

C. CHANGE IN ACCOUNTING POLICIES

On January 1, 2001, the Group adopted IAS 39, "Financial Instruments: Recognition and Measurement". Adoption of IAS 39 involved the following change in accounting policies as applied under the transitional rules detailed in that Standard:

Certain investment securities held by the Group at January 1, 2001, were designated as available-for-sale under IAS 39 and accordingly are now recorded at fair value. Changes in the fair value of available-for-sale financial assets are recorded in the statements of operations. Previously, investment securities held by the Group were carried at cost less any impairments in value. Under the transitional rules of IAS 39, this change in accounting policy resulted in a charge of NIS 5,093 to accumulated profits on January 1, 2001, relating to investment securities held by an associated company.

D. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries drawn up to December 31 each year. Intercompany transactions and balances are eliminated upon consolidation.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Minority interests represent primarily the interests in Kardan Technologies Ltd., Herfstzon Beheer B.V. and Taldan Motors Ltd. not held by the Group.

E. INTEREST IN JOINT VENTURES

The Group's interest in its joint ventures is accounted for by proportionate consolidation, which involves recognizing a proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

F. FOREIGN CURRENCY TRANSLATION

Transactions in foreign currencies are translated and recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Exchange differences arising on the translation are recorded in the statement of operations.

The assets and liabilities of overseas subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The statements of operations of overseas subsidiaries are translated at weighted average exchange rates for the year. The exchange differences arising on the retranslation are taken directly to equity. On disposal of a foreign entity, accumulated exchange differences are recognized in the statement of operations as a component of the gain or loss on disposal.

Goodwill arising on the acquisition of a foreign entity is treated as an asset of the acquiring company and is translated and recorded at the rate of exchange ruling at the date of the transaction.

Following are the representative exchange rates of the NIS in relation to the Euro and U.S. Dollar:

	Euro	U.S. Dollar
December 31, 2002	4.97	4.74
December 31, 2001	3.91	4.42
December 31, 2000	3.76	4.04

G. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H. INVESTMENTS

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments which are classified as held for trading and available-for-sale are measured at fair value (except as mentioned below). Realized and unrealized gains or losses on investments held for trading and on available-for-sale investments are recognized in income in the periods in which they arise.

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date. When fair value cannot be reliably measured, the investments are measured at cost less a provision for any impairment.

Short-term bank deposits are subsequently measured at amortized cost.

All regular way purchases of financial assets are recognized on the trade date i.e. the date that the Group commits to purchase the asset. All regular way sales of financial assets are recognized on the settlement date i.e. the date the asset is delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

I. TRADE AND OTHER RECEIVABLES

Trade receivables are recognized and carried at original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified. Provisions are also included in respect of outstanding premiums in the general insurance business according to estimates based, among others, on the period of default, at rates determined by the Group's estimates of the risks involved.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

J. MERCHANDISE INVENTORIES

Merchandise inventories are stated at the lower of purchase cost or net realizable value, cost being determined by the "first-in, first-out" method.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

K. CONTRACT WORK IN PROGRESS

Contract work in progress includes costs and recognized profits in excess of progress billings. Cost includes direct costs of materials and labor and indirect costs.

L. RECEIVABLES RELATED TO FINANCE LEASE CONTRACTS

In accordance with IAS 17 "Leases", the Company presents the receivables related to finance lease contracts, at an amount equal to the net investment in the lease. This amount is calculated as the present value of minimum lease payments receivable at the balance sheet date. Any difference between the gross investment in the lease and the present value of minimum lease payments is recognized as income in the statement of operations over the term of the lease.

M. LONG-TERM LOANS AND RECEIVABLES - ORIGINATED BY THE ENTERPRISE

Loans and receivables (including accrued income), net of a provision for any impairment, are measured at amortized cost using the effective interest method if they have a fixed maturity, or at cost if they do not have a fixed maturity.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

N. INVESTMENTS IN ASSOCIATES

The Company's investment in its associates is accounted for under the equity method of accounting. This is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture of the Company. The investment in associates is carried in the balance sheet at cost plus post-acquisition changes in the Company's share of net assets of the associate, less any impairment in value and goodwill amortization. The statement of operations reflects the Company's share of the results of operations of the associate.

Profits and losses resulting from transactions between the Company and its associates are eliminated to the extent of the Company's interest in the relevant associate.

O. INVESTMENT PROPERTIES

Investment properties are stated at fair value according to the fair value model in IAS 40, "Investment Property". IAS 40 is effective from January 1, 2001 but has been early adopted and is being applied for all periods presented. Gains or losses arising from changes in the fair values of investment properties are included in the statement of operations in the period in which they arise.

P. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings	-	25 to 100 years
Plant and equipment	-	3 to 17 years (primarily 5 years)
Motor vehicles	-	7 years
Office furniture and equipment	-	3 to 17 years (primarily 5 years)
Leasehold improvements	-	3 to 10 years (primarily 10 years)

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

P. PROPERTY, PLANT AND EQUIPMENT (Cont.)

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the higher of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of operations.

Q. GOODWILL

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary, joint venture or associate at the date of acquisition. Goodwill is amortized on a straight-line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is stated at cost less accumulated amortization and any impairment in value. Amortization of goodwill in connection with subsidiaries and joint ventures is included in general and administrative expenses in the statement of operations.

R. OTHER INTANGIBLE ASSETS

Costs relating to the acquisition of pension fund licenses are capitalized and amortized on a straight-line basis over their economic useful life. The carrying value of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

S. LOANS AND BORROWINGS

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, loans and borrowings are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on settlement.

Gains and losses are recognized in the statement of operations when the liabilities are derecognized, as well as through the amortization process.

T. CONVERTIBLE DEBENTURES

Convertible debentures which contain both a liability and an equity element are separated into two components on initial issuance and each is accounted for separately. The portion of the proceeds allocated to the liability component is determined based on the present value of the debentures' cash flows using a market rate for an equivalent non-convertible bond. The remainder of the proceeds is allocated to the equity component. Issue costs are apportioned between the liability and equity components of the convertible debentures based on the respective carrying amounts of the liability and equity components on the issuance date.

After initial recognition, the liability component is subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount on settlement.

U. PROVISIONS

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

V. INSURANCE BUSINESS

In accordance with IAS 1 “Presentation of Financial Statements”, paragraph 22, management follows the generally accepted accounting principles in the United States in the absence of a specific IFRS.

Life Insurance Business

a. For non-group business, premiums, including savings, are accounted for when collected. Premiums in group business are accounted for on an accrual basis. Accrued premiums include premiums for this line of business which are outstanding for up to one year.

b. Surrenders are accounted for when paid.

c. Death claims include estimates of claims which occurred up until balance sheet date.

d. Life insurance reserve and the reinsurers’ share therein, are determined on the basis of annual actuarial valuations computed by the subsidiaries actuary, consistent with the previous year. In the calculation of the reserve, the actuary uses the same interest rates and mortality tables used by the subsidiaries in determining the insurance tariffs of the various insurance reserves.

e. Acquisition costs are deferred by the “Zillmer” method, calculated at different rates for different life insurance plans.

f. Profit from life insurance business is determined out of the surplus resulting from the annual actuarial valuation of the reserve.

General Insurance Business

a. The underwriting results for general insurance business are determined on an annual basis.

b. Premiums are accounted for upon collection, except for Helios (Croatia) and for some lines of business in other countries.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

V. INSURANCE BUSINESS (Cont.)

General Insurance Business (Cont.)

c. The premium reserve and the reinsurers' share in reinsurance receivables are calculated on a daily basis.

d. Part of the commissions and other acquisition costs, relating to the unearned premium, is carried forward as deferred acquisition costs. These expenses are calculated according to the actual rates, although in many cases rates that are lower than the actual rates were used due to low premiums that based on past experience were insufficient to cover the claims and the actual costs.

e. Claims comprise the settlement and handling cost of paid and outstanding claims arising from events occurring in the reporting year and adjustments to outstanding claims reserves established in prior years. Any such adjustments are currently reflected in earnings.

f. Outstanding claims are included on the basis of actuarial valuations or case by case estimate if higher.

g. Business from other insurance companies and underwriting agencies are included to the extent such results are reported in statements received by the balance sheet date.

h. Investment income, including the inflationary restatement of non-monetary items (mainly fixed assets and shareholders' equity) is recorded in general insurance transactions and the statement of operations based on the ratio of the investments relating to insurance liabilities and equity and other liabilities.

   Income from investments relating exclusively to insurance liabilities is recorded in general insurance transactions.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

V. INSURANCE BUSINESS (Cont.)

Reinsurance

a. The reinsurers' shares in insurance reserves and outstanding claims are presented separately in the balance sheet, net of an allowance for doubtful or bad debts, based on management's estimate.

b. The reinsurers' liabilities to the subsidiaries do not release the subsidiaries from their obligation to their policyholders insured under the insurance policies. A reinsurer who will not fulfill his future obligations under the reinsurance treaties may cause the Group losses in the future.

W. TREASURY SHARES

Treasury shares are presented in the balance sheet as a deduction from equity. No gain or loss is recognized in the statement of operations on the sales, issuance, or cancellation of treasury shares. Consideration received is presented in the financial statements as a change in equity.

Shares purchased by subsidiaries are accounted for as treasury shares.

X. REVENUE RECOGNITION

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

X. REVENUE RECOGNITION (Cont.)

Contract revenues

Revenue from work performed under a contract is recognized by reference to the stage of completion when this can be measured reliably. The stage of completion is measured based on engineering estimates. When the contract outcome cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable. In the period in which it is determined that a loss will result from the performance of the contract, the entire amount of the estimated ultimate loss is charged against income.

Rendering of services (including management fees)

Revenues from services are recognized as the services are provided.

Management of investment portfolios

Revenues in a formerly consolidated subsidiary from the management of investment portfolios and mutual funds are recorded on the basis of asset balances in the reported period.

Management of pension funds

Revenues from the management of pension funds are recognized over the service period and to the extent that services are provided.

Interest

Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).

Income from insurance - see V above.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Y. INCOME TAX

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences:

- except where the deferred income tax liability arises from goodwill amortization or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Y. INCOME TAX (Cont.)

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Z. DERIVATIVE FINANCIAL INSTRUMENTS

The group uses derivative financial instruments such as foreign currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are stated at fair value.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purposes of hedge accounting, hedges are classified as either fair value hedges where they hedge the exposure to changes in the fair value of a recognized asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction.

In relation to fair value hedges which meet the conditions for special hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognized immediately in the statement of operations. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognized in the statement of operations.

In relation to cash flow hedges (forward foreign currency contracts) to hedge firm commitments which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in equity and the ineffective portion is recognized in the statement of operations.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Z. DERIVATIVE FINANCIAL INSTRUMENTS (Cont.)

When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognized, the associated gains or losses that had previously been recognized in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

For derivatives that do not qualify for special hedge accounting, any gains or losses arising from changes in fair value are taken directly to the statement of operations for the period.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to the statement of operations for the period.

AA. SHARE OPTION PLAN

The Company accounts for options on its Ordinary shares issued to employees and related parties based on the cash consideration received in respect of the options.

Note 3 - SEGMENT INFORMATION

A. GENERAL

The Group’s operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

<u>The financial services segment</u> - The Company has a number of investments outside of Israel held through TBIH Financial Services Group N.V.

TBIH is active at present in Bulgaria, Romania, Slovakia, Croatia, Serbia and Georgia. The activity is focused in several sectors which mainly includes management of pension funds, leasing, insurance and reinsurance.

Note 3 - SEGMENT INFORMATION (Cont.)

A. GENERAL (Cont.)

The communications and technology segment - The activities in this segment focused in recent years on start-up companies, directly and through venture capital funds, as well as investments in companies which supply network data services, satellite and cable T.V., software products and information technology solutions.

The real estate segment - The Company, through associated companies, owns investment properties and is involved in projects in and outside of Israel including office buildings, shopping centers and residential buildings.

The infrastructure segment - The Company, through a subsidiary, provides engineering, consulting and design services and also undertakes projects in Israel and in other countries, mainly relating to the environment, water, sewage, drainage, irrigation, energy and agriculture.

The commerce segment - Includes activities related to the import and marketing of consumer products and the Company's equity in earnings of an associated company which imports and markets automobiles.

KARDAN LTD.

NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

In thousands of shekels

Note 3 - SEGMENT INFORMATION (Cont.)

B. PRIMARY BUSINESS SEGMENT INFORMATION

(1) Revenues

	For the year ended December 31	
	2002	**2001**
Financial services (mainly insurance and pension)	209,716	217,007
Communications and technology	16,594	53,030
Real estate	30,014	7,173
Infrastructure	247,486	239,355
Commerce	126,971	191,846
Other	15,862	21,470
Total (*)	646,643	729,881

(*) Not including financing income, net.

(2) Segment Results and Reconciliation to Net Income (Loss)

	For the year ended December 31	
	2002	**2001**
Financial services (mainly insurance and pension)	(4,698)	30,789
Communications and technology	(53,018)	(69,309)
Real estate	29,010	5,900
Infrastructure	2,619	11,394
Commerce	35,834	22,427
Other	(7,685)	(2,433)
	2,062	(1,232)
Unallocated expenses	(19,483)	(12,189)
Operating loss	(17,421)	(13,421)
Financing income (expenses), net	26,953	(29,389)
Taxes on income	(12,773)	(5,325)
Minority interest	15,845	16,432
Net income (loss)	12,604	(31,703)

In thousands of shekels

Note 3 - SEGMENT INFORMATION (Cont.)

B. PRIMARY BUSINESS SEGMENT INFORMATION (Cont.)

(3) Segments Assets

	December 31	
	2002	2001
Financial services (mainly insurance and pension)	301,210	206,103
Communications and technology	132,504	160,395
Real estate	462,357	387,179
Infrastructure	158,210	175,316
Commerce	182,273	163,907
Other	42,244	59,085
	1,278,798	1,151,985
Unallocated assets	477,919	363,575
Total assets	1,756,717	1,515,560

(4) Segment Liabilities

	December 31	
	2002	2001
Financial services (mainly insurance and pension)	385,404	224,476
Communications and technology	8,289	11,115
Real estate	102	228
Infrastructure	137,468	119,843
Commerce	12,024	16,880
Other	7,023	6,213
	550,310	378,755
Unallocated liabilities	762,183	751,966
Total liabilities	1,312,493	1,130,721

(5) Capital expenditures

	For the year ended December 31	
	2002	2001
Financial services (mainly insurance and pension)	10,467	12,180
Communications and technology	1,079	4,600
Real estate	-	-
Infrastructure	5,959	41,529
Commerce	63	1,634
Other	140	404
	17,708	60,347

In thousands of shekels

Note 3 - SEGMENT INFORMATION (Cont.)

B. PRIMARY BUSINESS SEGMENT INFORMATION (Cont.)

(6) Depreciation and Amortization

	For the year ended December 31	
	2002	**2001**
Financial services (mainly insurance and pension)	11,975	11,361
Communications and technology	3,957	8,998
Real estate	162	94
Infrastructure	7,772	7,081
Commerce	1,225	7,365
Other	1,180	1,893
	26,271	36,792

(7) Impairment losses

The majority of the impairment losses (see Note 31) relate to the communications and technology segment.

C. SECONDARY SEGMENT INFORMATION - GEOGRAPHICAL SEGMENTS

(1) Revenues by Geographical Markets (According to Location of Customers)

	For the year ended December 31	
	2002	**2001**
Israel	240,621	408,756
Latin America	97,212	109,646
Central Eastern Europe	308,810	211,479
Total (*)	646,643	729,881

(*) Not including financing income, net

KARDAN LTD.

NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

In thousands of shekels

Note 3 - SEGMENT INFORMATION (Cont.)

C. SECONDARY SEGMENT INFORMATION - GEOGRAPHICAL SEGMENTS (Cont.)

(2) Carrying Value of Assets and Cost of Acquisition of Long-Term Assets by Geographical Areas (According to Location of Assets)

	Segment Assets		Capital expenditures	
	December 31		For the year ended December 31	
	2002	2001	2002	2001
Israel	958,741	934,643	7,241	52,159
Europe (mainly Eastern Europe)	756,242	519,021	10,467	8,188
Other	41,734	61,896	-	-
	1,756,717	1,515,560	17,708	60,347

Note 4 - CASH AND CASH EQUIVALENTS

	December 31	
	2002	2001
Cash at bank and in hand	56,842	39,226
Short-term deposits	168,832	52,814
	225,674	92,040

Cash and cash equivalents include NIS 170,835 in foreign currencies (December 31, 2001 – NIS 78,757).

Short-term deposits bear interest at variable rates (as of December 31, 2002 - 8.7%).

In thousands of shekels

Note 5 - SHORT-TERM INVESTMENTS

	December 31	
	2002	2001
Bank deposits in U.S. dollars (1)	21,607	158,455
Bank deposit-pledged (2)	13,292	-
Securities held for trading	2,243	1,614
Other	1,645	-
	38,787	160,069

(1) As of December 31, 2001 includes a deposit in trust in the amount of NIS 141,400 in connection with IDB transaction (see Note 26D(1)).

(2) The bank deposit is pledged to a bank as collateral for a subsidiary's current liabilities to that bank. The deposit is not linked and bears interest at a variable rate (8.7% as of December 31, 2002).

Note 6 - TRADE RECEIVABLES

	December 31	
	2002	2001
Trade receivables	99,590	119,452
Checks and credit card receivables	16,786	11,598
	116,376	131,050
Less - allowance for doubtful accounts	10,233	6,101
	106,143	124,949

Note 7 - REINSURANCE RECEIVABLES AND INSURANCE COMPANIES

	December 31	
	2002	2001
Reinsurers' share of outstanding claims	62,947	39,968
Reinsurers' share of insurance provisions	18,921	9,266
Other receivables	34,867	8,087
	116,735	57,321

In thousands of shekels

Note 8 - INSURANCE PREMIUMS RECEIVABLES

	December 31	
	2002	**2001**
Premiums receivable (*)	32,450	24,852
Less - allowance for doubtful accounts	13,099	7,401
	19,351	17,451

(*) The above amounts include the debt of a Bulgarian airline in the approximate amount of NIS 15,700 to a subsidiary ("Bulstrad") relating to life insurance policies in the years 1994 – 1997. During 2002 the court in Bulgaria declared the airline to be bankrupt and the airline ceased its activities and commenced liquidation proceedings.

As a result of the above, management of Bulstrad decided to increase the allowance for doubtful accounts in respect of the above debt to NIS 12,470 (from an allowance of NIS 6,664 at the end of 2001) based, among others, on the value of the assets of the airline as estimated by the trustee, and preferences in distribution among the various creditors.

Note 9 - CONTRACT WORK IN PROGRESS

The following data relate to contracts performed by the subsidiary, Israel Water Planning Ltd. ("IWP"). IWP is engaged in providing engineering and design services in the water, sewage and agricultural sectors. The contracts are performed mainly outside of Israel.

	December 31	
	2002	**2001**
Contract costs incurred	617,016	463,828
Recognized profits	234,927	176,055
	851,943	639,883
Progress billings	(879,616)	(645,494)
	(27,673)	(5,611)
Presented in balance sheet as follows:		
Current assets – Contract work in progress	15,655	19,409
Current liabilities – Due to customers for contract work	(43,328)	(25,020)
	(27,673)	(5,611)

In thousands of shekels

Note 10 - OTHER RECEIVABLES AND PREPAYMENTS

	December 31	
	2002	**2001**
Government agencies	10,820	6,703
Advances to suppliers	2,225	1,153
Prepaid expenses and income receivable	13,925	19,885
Receivables in respect of forward currency contracts	6,773	19,068
Dividend receivable from associated company	-	1,660
Associated companies	1,114	1,812
Other receivables in insurance companies	4,809	2,608
Other	4,792	11,433
	44,458	64,322

Note 11 - LONG-TERM LOANS AND RECEIVABLES - ORIGINATED BY THE ENTERPRISE

A. COMPOSITION

	December 31	
	2002	**2001**
Long-term receivables -		
Linked to foreign currency (1)	95,598	44,824
Linked to the CPI (2)	10,935	10,154
Not linked	1,685	9
Loan to proportionately consolidated company (4)	19,430	-
	127,648	54,987
Less - current maturities	46,332	27,834
	81,316	27,153
Capital note issued by related party (3)	2,448	2,196
	83,764	29,349

In thousands of shekels

Note 11 - LONG-TERM LOANS AND RECEIVABLES - ORIGINATED BY THE ENTERPRISE (Cont.)

A. COMPOSITION (Cont.)

(1) As of December 31, 2002 includes -

- Loans in the amount of NIS 24,969 granted to minority shareholders in a subsidiary against a lien on their shares in that company. The loans are in U.S. dollars and bear annual interest at Libor + 2%. Repayment date has not yet been determined.

- Loans in the amount of NIS 37,531 granted by insurance companies outside of Israel, mainly in or linked to U.S. dollars, and bearing a weighted average annual interest rate of approximately 13% as of December 31, 2002. Most of the loans are secured by various collateral.

- Receivables in respect of leasing activities of foreign subsidiaries in the consumer products sector in the amount of NIS 21,335 which are included at the present value of the future minimum lease payments. Following is additional information regarding these receivables:

	Current portion	**Noncurrent portion (due between one and five years)**	**Total**
Total gross investment	17,311	8,519	25,830
Less – unearned finance income	3,480	1,015	4,495
Present value of minimum lease payments	13,831	7,504	21,335

(2) Includes a loan granted to a former director, linked to the CPI and bearing interest at the rate of 4% per annum, in the amount of NIS 3,665 (2001 – NIS 3,311), and an amount of NIS 4,176 in respect of a loan granted to a formerly consolidated subsidiary that was sold. The balance relates mainly to loans granted to employees.

(3) Capital note in the amount of NIS 6,520 par value, issued by a related party, not linked, without interest and with repayment date of December 2011. The capital note is included at its present value computed at an annual discount rate of 11.5%.

(4) The loan is denominated in U.S. dollars and bears interest of Libor +3% (as of December 31, 2002 - 4.4%). The loan is repayable in 2007.

In thousands of shekels

Note 11 - LONG-TERM LOANS AND RECEIVABLES - ORIGINATED BY THE ENTERPRISE (Cont.)

B. MATURITIES

	December 31 2002
First year - current maturities	46,332
Second year	16,326
Third year	8,763
Fourth year	3,409
Fifth year	19,914
Sixth year and thereafter	2,448
Not yet determined	30,456
	127,648

Note 12 - INVESTMENTS IN ASSOCIATES

A. PRINCIPAL ASSOCIATES

Holding Company	Name of Associated Company	Country of Incorporation	% Equity Interest of Holding Company as of December 31 2002	2001
Kardan Ltd.	Kardan Real Estate, Enterprise and Development Ltd.	Israel	45.7	43.9
Taldan Motors Ltd.	Universal Motors Israel Ltd.	Israel	45	45
Kardan Real Estate, Enterprise and Development Ltd.	GTC International B.V.	Netherlands	58.8	58.8
Holdanco International B.V.	GTC International B.V.	Netherlands	17.8	17.8
Kardan Communications Ltd.	Lidan Investment Agencies (1994) Ltd.	Israel	49	49

B. COMPOSITION:

Name of Associated Company	Carrying Value as of December 31 2002	2001
Kardan Real Estate, Enterprise and Development Ltd.	222,486	188,687
GTC International B.V.	216,110	170,903
Universal Motors Israel Ltd.	143,154	125,098
Lidan Investment Agencies (1994) Ltd.	40,839	32,810
Others	18,967	19,062
	641,556	536,560

In thousands of shekels

Note 12 - INVESTMENTS IN ASSOCIATES (Cont.)

C. LOANS

The investment in associated companies includes loans as follows:

	December 31	
	2002	2001
Linked to the CPI (1)	70,666	49,971
In U.S. dollars (2)	67,158	67,550
Not linked	-	13,001
	137,824	130,522

(1) As of December 31, 2002, an amount of NIS 13,824 bears interest at the rate of 9.46% and the balance bears no interest.

(2) As of December 31, 2002, an amount of NIS 60,624 bears interest at a variable rate with a weighted average annual interest rate as of December 31, 2002 of 3.02% and the balance bears no interest.

(3) Repayment dates - The repayment date of the loans has not yet been determined.

D. GOODWILL ARISING ON ACQUISITION OF ASSOCIATED COMPANIES

	December 31	
	2002	2001
Cost	51,619	48,450
Less - accumulated amortization	18,971	13,045
Unamortized balance	32,648	35,405

Goodwill is amortized over its economic useful lives over periods of 5 and 10 years.

Note 12 - INVESTMENTS IN ASSOCIATES (Cont.)

E. ADDITIONAL INFORMATION

(1) The Company, through a subsidiary (Kardan Communication Ltd.), holds 49% of the shares of an associated company, Lidan Investment Agencies (1994) Ltd. ("Lidan"). The primary activity of Lidan is an investment of 6.1% (4.5% assuming full dilution) in the shares of D.B.S. Satellite Services (1998) Ltd. ("DBS"), a company engaged in television broadcasting by satellite (the Company and other shareholders of Lidan hold directly an additional 0.6% of the shares of DBS).

Until December 31, 2002, Lidan invested in DBS (mainly through shareholders' loans) an amount of NIS 95,375. The subsidiary's share in the investments of Lidan in DBS together with the subsidiary's direct investments amounts to NIS 58,421.

The auditors of Lidan and of DBS draw attention in their auditors' report on the financial statements of these companies as of December 31, 2002, to the financial position of DBS and to the fact that since inception of operations, DBS has accumulated significant losses and has had negative cash flows. The loss for 2002 amounted to NIS 723,000 and the negative cash flows from operating activities amounted to NIS 70,000. As of December 31, 2002, DBS has a shareholders' deficiency of NIS 2,294,000 and a working capital deficiency of NIS 1,627,000.

It should be noted that DBS, its shareholders and banks signed an agreement to increase the credit framework from the banks that will be implemented concurrently with additional investments of the shareholders and subject to fulfillment of financial and operating conditions.

As of the date of approval of the financial statements of DBS (March 2003), DBS did not fulfill some of these conditions. The agreement for the increase of the credit framework provides that in the event that until March 31, 2003, the banks will not be provided with evidence that DBS's financing requirements do not exceed certain amounts, and that if no addendum to the financing agreement is signed, the banks will be entitled to implement the measures required, in their opinion, to collect the amounts due to them.

Note 12 - INVESTMENTS IN ASSOCIATES (Cont.)

E. ADDITIONAL INFORMATION (Cont.)

(1) (Cont.)

The continued operations of DBS are conditional upon the continuation of the financing agreement and its appendices and to receipt of additional loans from the shareholders. According to management of DBS, there is a likelihood that the continued negotiations between DBS, the shareholders and the banks will result in formulation of an addendum to the financing agreement and arrangement of the financial resources required in the coming year.

Because of DBS's financial position, as stated above, and the uncertainty regarding the formulation of financing agreements, Lidan recorded in its financial statements a provision for an impairment of its investment in DBS in the amount of NIS 30,000 (share of the subsidiary is NIS 15,000) which was recorded mainly in the financial statements for 2001. According to management of Lidan, the recoverable amount of the aforementioned investment is not less than the carrying amount of the investment in the financial statements.

As of December 31, 2002, the carrying amount of the investment of the subsidiary (mainly through Lidan) in DBS is NIS 40,839. Also, as collateral for DBS's liabilities to banks, its shareholders provided guarantees, the subsidiary's share of which is NIS 2,000, and pledged their shares in DBS (in proportion to their holdings) in favor of the banks.

Also, the aforementioned shareholders are required, from time to time, to implement additional investments in DBS according to their proportionate share, in accordance with a certain mechanism (including a mechanism for dilution of shareholders that do not transfer funds in proportion to their share). Until the date of approval of the financial statements, Lidan received requests for investments (that have not yet been transferred) in the amount of U.S.$ 2.3 million (NIS 10,900).

Note 12 - INVESTMENTS IN ASSOCIATES (Cont.)

E. ADDITIONAL INFORMATION (Cont.)

(2) In June 2002, a subsidiary sold all of its shares in Olivia Gourmet (1996) Ltd. (“Olivia”) to Tnuva Israel Agricultural Marketing Cooperative Ltd. (“Tnuva”), and assigned to Tnuva all shareholder loans granted by the Company and the subsidiary to Olivia. In consideration for the shares and assignment of the loans, Tnuva paid to the Company and to the subsidiary NIS 8,000. The gain recorded by the Company as a result of the transaction amounted to NIS 10,243.

(3) In August 2002, an agreement was signed between a subsidiary and a company (“the seller”) owned and controlled by the deputy chairman of the board of directors of the associated company, Kardan Real Estate, Enterprise and Development Ltd. (“Kardan Real Estate”), who served in the past as a director of the Company. In accordance with the agreement, the subsidiary undertook to acquire from the seller 1.94% of the shares of GTC International B.V. (“GTC”) in consideration for U.S.$ 3.6 million (subject to adjustments). The agreement states that the acquisition will be implemented in three stages until December 2003. Through December 31, 2002 the subsidiary acquired 1.64% of the shares of GTC in accordance with the above agreement in consideration for U.S.$ 3 million. The third stage of the acquisition will be implemented in December 2003. The agreement also states that in the event that until December 31, 2003, a transaction in GTC shares is implemented at a price exceeding the value of GTC’s shares derived from the said agreement, the seller will be entitled to an increase in the proceeds in accordance with that price.

Upon completion of the transaction, the subsidiary will hold 18.12% of the shares of GTC. Kardan Real Estate, which is 46%-owned, holds 59% of the shares of GTC.

In thousands of shekels, except per share data

Note 12 - INVESTMENTS IN ASSOCIATES (Cont.)

E. ADDITIONAL INFORMATION (Cont.)

(4) On October 11, 2002, GTC Poland, a subsidiary of GTC, entered into an agreement according to which Rodamco Europe N.V., a company registered in the Netherlands, acquired 50% of the rights in a subsidiary of GTC Poland. The said subsidiary is the owner of a commercial and entertainment center, Galeria Moktow, in the Moktow quarter of Warsaw, Poland. The center is valued, for purposes of the transaction, at U.S.$ 165 million. The transaction is subject to the fulfillment of a number of conditions and is expected to be finalized during 2003.

(5) Kardan Real Estate granted to three of its senior officers non-marketable options to purchase 920,805 ordinary shares of NIS 1 par value each of Kardan Real Estate, at an exercise price of NIS 9.23 per share. The vesting period of the options is four years ending in 2004 in accordance with the terms thereof.

F. INVESTMENTS IN SHARES OF ASSOCIATES WHOSE SHARES ARE PUBLICLY-TRADED

Kardan Real Estate, Enterprise and Development Ltd.

	December 31	
	2002	**2001**
Carrying value	193,260	163,062
Market value	62,878	133,066

In thousands of shekels

Note 13 – INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES

A. The consolidated financial statements include the financial statements of the Company, its subsidiaries and its joint ventures. Following is the list of the Company's principal subsidiaries and joint ventures.

Holding Company	Name of Subsidiary or Joint Venture	Country of Incorporation	% Equity Interest of Holding Company as of December 31		
			2002	2001	
Kardan Ltd.	Kardan Motors Ltd.	Israel	100	100	Subsidiary
	Kardan Securities Ltd.	Israel	100	100	Subsidiary
	Kardan Financial Holdings Ltd.	Israel	100	100	Subsidiary
	Kardan Trading and Retail Ltd.	Israel	100	90	Subsidiary
	Kardan Technologies Ltd.	Israel	50.7	50.1	Subsidiary
	Kardan Communications Ltd.	Israel	100	100	Subsidiary
	Holdanco International Investments B.V.	Netherlands	100	100	Subsidiary
	Tuxedo Holdings 1992 Ltd.	Israel	90	90	Subsidiary
	Kardan Services (1993) Ltd.	Israel	100	100	Subsidiary
	Israel Water Planning Ltd.	Israel	100	100	Subsidiary
					Subsidiary
Kardan Motors Ltd.	Taldan Motors Ltd.	Israel	90	90	Subsidiary
					Subsidiary
Kardan Trading and Retail					Subsidiary
Ltd.	S.F.D.I. Ltd.	Israel	100	100	Subsidiary
					Subsidiary
Kardan Communications Ltd.	Infonet Israel Ltd.	Israel	100	100	Subsidiary
	Kardan Telecom International B.V.	Netherlands	100	100	Subsidiary
Kardan Services (1993) Ltd.	Kol Hai Radio Ltd.	Israel	68.2	68.2	Subsidiary
	Milon Ltd.	Israel	66.7	66.7	Subsidiary
Israel Water Planning Ltd.	IWP Engineers and Consultants Ltd.	Israel	100	100	Subsidiary
Kardan Technologies Ltd.	Global E-investment developments B.V.	Israel	92.5	92.5	Subsidiary
Holdanco International B.V.	Herfstzon Beheer B.V.	Netherlands	80.1	80.1	Subsidiary
Herfstzon Beheer B.V.	T.B.I. Holding Financial Services Group N.V.	Joint venture Netherlands	46.7	46.7	Joint Venture
T.B.I. Holding Financial Services Group N.V.	T.B.I. A.D.	Bulgaria	100	100	Joint Venture
	Dunav – TBIH AD Belgrad	Serbia	51	-	Joint Venture
	T.B.I.F. Financial Services B.V.	Netherlands	100	-	Joint Venture
	General Social Insurance Tatry Inc.	Slovakia	100	100	Joint Venture
	Omniasig Insurance & Reinsurance SA	Romania	68.9	52	Joint Venture
	Helios Insurance Co. plc	Croatia	86.2	90.3	Joint Venture
T.B.I. A.D.	Doverie A.D.	Bulgaria	88.2	85.3	Joint Venture
	Bulstrad Insurance & Reinsurance Plc.	Bulgaria	74.3	51	Joint Venture

Note 13 - INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES (Cont.)

B. ADDITIONAL INFORMATION

(1) In March 2002 a company wholly owned and controlled by T.B.I Holding Financial Services Group N.V., which is a proportionately consolidated company registered in the Netherlands ("TBIH"), acquired 67% of a pension fund management company in Bulgaria in consideration for U.S.$ 4 million. In the second quarter of 2002, TBIH purchased an additional interest in the above pension fund management company. The Group's share of the goodwill arising on the above acquisitions is NIS 9,100. The financial statements of the acquired company are consolidated with the financial statements of TBIH commencing from March 2002.

One of the other shareholders in the acquired company filed a claim that could result in dilution of the interest of TBIH to 52%. In this case, TBIH is entitled to repayment of its proportionate investment.

In January 2002, TBIH acquired an additional 15% of the shares of Omniasig Insurance and Reinsurance SA ("Omniasig"), a company operating in Romania, in consideration for U.S.$ 1.4 million. After the acquisition, TBIH holds 68.9% of the shares of Omniasig.

During 2002 TBIH and its subsidiaries acquired interests in various companies operating in the financial services sector.

The Group's share of the goodwill arising on the above acquisitions amounted to NIS 2,600.

At the end of 2001, TBIH established T.B.I.F. Financial Services B.V. ("TBIF") as a holding company for certain financial activities, including activities in the leasing and assets management sector in the Balkans. During 2002, TBIF established a number of companies in these sectors in Bulgaria, Romania and Slovakia. In October 2002, TBIF acquired the entire interest in Televis Bulgaria A.D., a company operating in Bulgaria engaged in the leasing of consumer products, in consideration for U.S.$ 1.6 million. The goodwill arising on the above acquisition amounted to approximately NIS 2,000.

Note 13 - INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES (Cont.)

B. ADDITONAL INFORMATION

(2) Kardan Technologies holds 59% of the share capital of E-Trade Israel e-Commerce (1997) Ltd. ("E-Trade"). E-Trade was engaged in the provision of brokerage and electronic trading services in respect of securities for retail customers, through utilization of know-how and a franchise acquired from E-Trade Group Inc. ("E-Trade Global").

During the fourth quarter of 2002, after E-Trade became insolvent, E-Trade dismissed most of its employees and ceased its operations. Also, the board of directors of Kardan Technologies decided not to provide E-Trade with any financing in the future. As a result, Kardan Technologies ceased to consolidate the financial statements of E-Trade commencing in the fourth quarter of 2002. Also, a provision in the amount of NIS 900 was recorded for guarantees provided by Kardan Technologies in respect of liabilities of E-Trade.

Subsequent to balance sheet date, Kardan Technologies filed a monetary claim in the Jerusalem District Court against E-Trade Global and against one of its senior employees in the amount of U.S.$ 7.5 million. The subject of the claim is that E-Trade Global, as a shareholder in E-Trade, breached its obligations and acted in a negative manner in preferring its interests over the interests of E-Trade. The court approved the relocation of the claim to outside of Israel.

E-Trade Global submitted a request for arbitration, in the framework of which it claimed U.S.$ 100,000 from E-Trade in respect of funds allegedly payable to it by E-Trade and a request for a declaratory judgment according to which the franchise granted to E-Trade was cancelled in accordance with the law and in accordance with the conditions of the franchise agreement.

Note 13 - INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES (Cont.)

C. OPTIONS AND SHARES TO EMPLOYEES OF SUBSIDIARIES

(1) In July 2000, Kardan Technologies issued to a number of its employees, to employees of an associated company of Kardan Technologies and to employees of the Company, 1,611,700 shares in consideration for NIS 12.5 per share. An agreement was reached between Kardan Technologies and another subsidiary that the subsidiary will grant loans to the employees of Kardan Technologies and to the employees of the associated company in an amount equal to the amount paid by these employees in respect of the acquisition of the shares, and Kardan Technologies will grant to the subsidiary loans in the same amounts and at the same conditions as those granted by the subsidiary to the employees. The loans are linked to the CPI and bear interest at the minimum annual rate necessary so that there is no taxable benefit to the employee, and will be repayable (with interest and linkage) by the end of 4.5 years from the date of grant.

As the sole and exclusive collateral to secure repayment of the loans granted by the subsidiary, the shares issued to employees of Kardan Technologies and of the associated company were deposited with a trustee, and the subsidiary will be entitled to repayment of the employee loans solely from the consideration from the sale of the shares (or from cash dividends paid in respect of the shares held by the trustee). Kardan Technologies will be entitled to repayment of the loans granted to the subsidiary only in respect of the amounts of the loans repaid by the employees to the subsidiary. An agreement was reached between Kardan Technologies and the employees that in the event that the employees are subject to tax in respect of the loans not repaid, the said tax will be borne by Kardan Technologies. As of December 31, 2002 the balance of the loans not yet repaid or cancelled is approximately NIS 16,752.

Also, as of December 31, 2002, employees of Kardan Technologies hold options to purchase 141,230 shares of Kardan Technologies at an exercise price of U.S.$ 1.25 per share.

Note 13 - INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES (Cont.)

C. OPTIONS AND SHARES TO EMPLOYEES OF SUBSIDIARIES (Cont.)

(2) In September 2002, a subsidiary granted options, for no consideration, to the chairman of its board of directors (a director of the Company) and to the general manager of the subsidiary ("the employees of the subsidiary"). The options may be exercised to purchase 874,115 ordinary shares of NIS 1 par value constituting 8% of the issued and paid-up share capital of the subsidiary.

The vesting periods of the options are based on agreements signed with the employees of the subsidiary. The options may be exercised for a period of five years (adjusted, as required, for each employee) from the date of vesting, at an exercise price of U.S.$ 1.89 per share translated to NIS according to the representative exchange rate of the dollar on the date of signing of the agreements with the employees and linked to the CPI. As of the date of approval of the financial statements, none of the abovementioned options had been exercised.

(3) TBIH and its investee companies granted to senior employees and suppliers various options for the acquisition of shares of the investee companies and, in certain cases, for the acquisition of shares of TBIH itself.

In thousands of shekels

Note 13 - INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES (Cont.)

D. The Group's share of the financial statement line items of companies and joint ventures consolidated by the proportionate consolidation method is as follows:

	December 31	
	2002	**2001**
Current assets	356,073	207,019
Non-current assets, net	138,860	142,212
	494,933	349,231
Current liabilities	58,672	171,561
Non-current liabilities	382,842	2,237
	441,514	173,798

	For the year ended December 31	
	2002	**2001**
Revenues	58,068	30,433
Expenses	57,037	2,284

E. INVESTMENTS IN SUBSIDIARIES WHOSE SHARES ARE PUBLICLY-TRADED

Kardan Technologies Ltd.

	December 31	
	2002	**2001**
Carrying value	30,858	49,992
Market value	14,957	20,432

In thousands of shekels

Note 14 - AVAILABLE-FOR-SALE FINANCIAL ASSETS

A. COMPOSITION

	December 31	
	2002	**2001**
Financial investments of insurance companies (*)	70,430	39,699
Investment in unlisted companies and venture capital funds (see B below)	68,708	83,930
	139,138	123,629

(*) These investments constitute mainly investments in marketable debentures of Eastern European countries and are secured by them.

B. ADDITIONAL INFORMATION

(1) Investments in unlisted companies and venture capital funds are carried at cost less a provision for any impairment.

(2) Kardan Technologies Ltd. (“KT”) has an interest of 9.6% in “Concord 1” (Venture Capital fund) and 6.9% in “Concord 2” (Venture Capital fund). The Concord Venture Capital funds invest mainly in Israeli hi-tech companies. During 2002 KT recorded impairment losses of NIS 15,580 on its investments in the Concord Venture Capital funds. As of December 31, 2002 the investment in the Concord Venture Capital funds amounted to NIS 41,321 (December 31, 2001 - NIS 52,989).

During 2002 KT and other subsidiaries recorded additional impairment losses of NIS 14,135 in respect of investments in the communications and technology segment.

(3) As of December 31, 2002, KT has an obligation in the amount of U.S.$ 3.2 million (approximately NIS 15,000) to make an additional investment in a certain venture capital fund, and another subsidiary has an obligation to make an investment in another venture capital fund in the amount of U.S.$ 2.3 million (approximately NIS 11,000).

In thousands of shekels

Note 15 - INVESTMENT PROPERTIES

Carrying value as of January 1, 2002	22,842
Exchange adjustment	1,402
Additions (subsequent expenditure)	2,918
Disposals (1)	(2,908)
Net gain from fair value adjustment	2,200
Carrying value as of December 31, 2002	26,454

(1) Disposals relate mainly to buildings owned by a formerly consolidated subsidiary that was sold in the current year.

(2) Investment property as of December 31, 2002, includes:

Freehold land	24,608
Leasehold land (*)	1,846
	26,454

(*) Lease periods terminate in 2023.

(3) Part of the property rights have not yet been registered in the companies' names.

(4) Investment properties are stated at fair value which has been determined based on valuations prepared by independent experts and recent sale transactions of similar properties.

(5) Liens - see Note 26A.

In thousands of shekels

Note 16 - PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings	Plant and equipment	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
COST						
As of January 1, 2002	93,366	49,209	16,310	17,047	4,460	180,392
Additions	5,183	6,157	2,631	3,465	102	17,538
Disposals (1)	(7,420)	(5,604)	(4,092)	(1,771)	(1,563)	(20,450)
Exchange adjustment	9,472	1,955	1,619	1,316	8	14,370
As of December 31, 2002	100,601	51,717	16,468	20,057	3,007	191,850
ACCUMULATED DEPRECIATION						
As of January 1, 2002	3,239	24,550	7,524	8,551	2,550	46,414
Provision	2,157	6,103	2,742	3,652	871	15,525
Eliminated on disposals (1)	(161)	(3,809)	(2,107)	(967)	(1,258)	(8,302)
Exchange adjustment	519	965	648	499	2	2,633
As of December 31, 2002	5,754	27,809	8,807	11,735	2,165	56,270
NET BOOK VALUE						
As of December 31, 2002	(2)94,847	23,908	7,661	8,322	842	135,580
As of December 31, 2001	90,127	24,659	8,786	8,496	1,910	133,978

(1) Includes companies that are no longer consolidated: cost - NIS 6,983; accumulated depreciation - NIS 1,486.

(2) Includes property with a net book value of NIS 39,000 under a lease for a period of 49 years ending in 2044 with an option for an additional 49 years. The balance constitutes mainly property of foreign insurance companies.

(3) Liens - see Note 26A.

In thousands of shekels

Note 17 - DEFERRED ACQUISITION COSTS (INSURANCE COMPANIES)

	December 31	
	2002	2001
Deferred acquisition costs for general insurance	4,810	3,920
Deferred acquisition costs for life insurance	6,366	4,574
	11,176	8,494

Note 18 - INTANGIBLE ASSETS

	Goodwill	Other (as of December 31, 2002 mainly pension fund licenses)	Total
Cost at January 1, 2002, net of accumulated amortization	70,035	2,625	72,660
Exchange adjustment	5,089	189	5,278
Acquisition of subsidiary	13,968	2,379	16,347
Disposal of subsidiary	(2,545)	(849)	(3,394)
Amortization charge for the year	(9,703)	(1,043)	(10,746)
Cost at December 31, 2002, net of accumulated amortization	76,844	3,301	80,145
At January 1, 2002			
Cost	91,731	5,260	96,991
Accumulated amortization	21,696	2,635	24,331
	70,035	2,625	72,660
At December 31, 2002			
Cost	92,684	3,301	95,985
Accumulated amortization	15,840	-	15,840
	76,844	3,301	80,145

Goodwill on the acquisition of foreign companies in the insurance and pension sectors is amortized by the straight-line method over periods of ten to fifteen years. Goodwill on the acquisition of other subsidiaries is amortized by the straight-line method over periods of five and ten years.

Costs relating to the acquisition of pension fund licenses are amortized by the straight-line method over their useful economic life of 10 years.

In thousands of shekels

Note 19 - LOANS AND BORROWINGS

	Annual interest rate % (1)	December 31 2002	December 31 2001
Short-term credit from banks			
Not linked	10.6	103,932	174,034
Linked to the U.S. dollar	3.2	36,389	105,333
Linked to the Euro	8.0	2,826	-
Short-term credit from related party in U.S. dollars	2.7	12,134	10,598
		155,281	289,965
Current maturities of long-term liabilities:			
Loans		94,748	48,738
Debentures		21,844	-
		271,873	338,703

(1) Part of the loans bear interest at variable rates. The above rates represent the weighted average rates as of December 31, 2002.

(2) Collateral - see Note 26A.

Note 20 - TRADE PAYABLES

	December 31 2002	December 31 2001
Trade payables	20,201	27,801
Checks payable	2,169	4,480
	22,370	32,281
Includes balances in foreign currency	10,582	13,674

In thousands of shekels, except par value data

Note 21 - OTHER PAYABLES AND ACCRUED EXPENSES

	December 31	
	2002	**2001**
Amounts owed on account of reinsurance	52,846	22,492
Amounts owed on account of direct insurance	26,721	16,971
Payroll and related expenses	18,066	19,565
Government agencies	8,570	4,727
Related parties	-	1,336
Associated companies	684	166
Accrued expenses	19,525	11,003
Other	28,924	14,791
	155,336	91,051

Note 22 - INSURANCE PROVISIONS

	December 31	
	2002	**2001**
Life insurance		
Provisions	79,298	52,081
Outstanding claims	3,282	2,201
Total life insurance	82,580	54,282
General insurance		
Provisions	45,371	31,791
Outstanding claims	154,842	110,448
Total general insurance	200,213	142,239
Total provisions and outstanding claims	282,793	196,521

In thousands of shekels, except par value data

Note 23 - CONVERTIBLE DEBENTURES

A. COMPOSITION

	December 31	
	2002	2001
Debentures (Series A) (see (1)(a) below)	20,766	20,012
Debentures (Series B) (see (1)(b) below)	73,839	67,262
Debentures (Series C) (see (1)(c) below)	22,061	21,268
Debentures issued in 2002 (see (2) below)	95,032	-
	211,698	108,542
Less - current maturities (*)	21,844	-
debenture issuance expenses	3,200	1,778
	186,654	106,764

(*) Including NIS 7,133 repaid early in February 2003 - see (2) below.

(1) In 2001 the Company issued to institutional investors debentures (Series A, B and C) convertible to shares of the Company as follows (regarding issuance of warrants - see Note 27C):

(a) Debentures (Series A) in the amount of NIS 22,310,000 par value will be repaid in three equal annual installments on December 31 of each of the years 2003 to 2005. The debentures are not linked and bear interest at a fixed rate of 6.85% per annum. The interest is payable annually on December 31 of each of the years 2001 to 2005. The debentures were issued at a discounted price of 88.5% of their par value.

(b) Debentures (Series B) in the amount of NIS 81,489,000 par value will be repaid in three equal annual installments on December 31 of each of the years 2004 to 2006. The debentures are linked (principal and interest) to the CPI and bear interest at a fixed rate of 5.85% per annum. The interest is payable annually on December 31 of each of the years 2001 to 2006. The debentures were issued at a discounted price of 88.5% of their par value. As of December 31, 2002, a subsidiary holds debentures with a par value of approximately NIS 7,036,000 which were deducted from the liability in the consolidated balance sheet.

Note 23 - CONVERTIBLE DEBENTURES (Cont.)

A. COMPOSITION (Cont.)

(c) Debentures (Series C) in the amount of NIS 23,649,000 par value will be repaid in three equal annual installments on December 31 of each of the years 2003 to 2005. The debentures are not linked and bear interest at an annual rate equal to the Bank of Israel annual average interest rate less 1% (as of December 31, 2002 approximately 5.88%). The interest is payable annually on December 31 of each of the years 2001 to 2005. The debentures were issued at a discounted price of 88.5% of their par value.

All of the debentures in the above series are convertible (in whole or in part) to shares of the Company such that each NIS 19 par value of debentures is convertible to one Ordinary share of NIS 1 par value (subject to adjustments).

(2) (a) On February 13, 2002, the Company issued NIS 100 million par value debentures in consideration for their par value. The principle of the debentures is repayable on February 13, 2005. Notwithstanding the above, it was provided that in the event that the IDB transaction (see Note 26D) is not implemented by January 31, 2003, all holders of the debentures will be entitled to elect on February 1, 2003, to redeem on February 13, 2003, the debentures in their possession at their principal amount plus interest and linkage accrued in respect thereof until that date.

Also, a letter sent by the Company on February 18, 2002 to the holders of the debentures states that in the event that the IDB transaction is not implemented by May 9, 2002, all holders of debentures will be entitled to redeem on May 14, 2002 the debentures in their possession at their principal amount plus interest and linkage accrued in respect thereof until that date.

In May 2002, in the framework of the abovementioned right to early repayment, the Company made early repayment of debentures with a par value of NIS 10,175,000 (plus accrued interest and linkage differences). The remaining holders of the debentures (holding a total par value of NIS 89,825,000) elected not to utilize the right to early repayment, and accordingly, the balance of the proceeds from the issuance of the debentures, deposited as security with a trustee, was transferred to the Company.

Note 23 - CONVERTIBLE DEBENTURES (Cont.)

(2) (a) (Cont.)

In February 2003 holders of debentures with a par value of NIS 6,679,000, elected to utilize the right to early repayment granted to them at the time of issuance of the debentures. Accordingly, on February 13, 2003, the Company repaid these debentures (plus accrued interest and linkage differences) in consideration for NIS 7,539. The remaining holders of the debentures (holding a total par value of NIS 83,146,000) elected not to utilize the right to early repayment.

(b) Terms of the debentures

The debenture principal and interest are linked to the CPI. The interest is computed commencing from February 13, 2002, and is payable in three annual installments on February 13 of each of the years 2003 - 2005.

The interest rate in the first year of the debentures was fixed at 6% per annum. In accordance with the terms set at the time of issuance of the debentures, and in accordance with updates included in the letter sent by the Company on January 30, 2003, to the holders of the debentures, the annual interest rate on the outstanding principal in the second and third years of the debentures will be as follows:

In the second year – the higher of 8.75% and the average gross annual yield on Galil State of Israel debentures (Series 5611 and 5612), during the 14 days preceding February 13, 2003, plus a premium of 2.75% (in accordance with this mechanism, the interest rate in the second year will be 8.75%).

In the third year – the higher of 7.5% and the average gross annual yield on Galil State of Israel debentures (Series 5613 and 5614), during the 14 days preceding February 13, 2004 plus the aforementioned premium.

In the abovementioned letter, the Company provided the holders of the debentures with the possibility to waive their right of conversion to shares in consideration for more favorable interest terms.

In thousands of shekels, except par value data

Note 23 - CONVERTIBLE DEBENTURES (Cont.)

(2) (b) Terms of the debentures (Cont.)

Holders of debentures with a par value of NIS 47,734,000 that elected to waive their right to convert their debentures to shares of the Company are entitled to a minimum interest rate of 8% in the third year of the debentures.

Debentures with a par value of NIS 35,412,000 (that were not repaid early and whose holders did not waive their right to conversion) are convertible (in whole or in part) to shares of the Company such that each NIS 19 par value of debentures is convertible to one Ordinary share of NIS 1 par value (subject to adjustments).

C. MATURITIES

	December 31, 2002
First year – current maturities	22,453
Second year	42,178
Third year	130,970
Fourth year	26,858
Total	222,459
Less - unamortized discount	10,761
	211,698

D. COLLATERAL - see Note 26A.

In thousands of shekels

Note 24 - LONG-TERM LOANS AND BORROWINGS

A. COMPOSITION

	Annual interest rates (1)		December 31	
	%	**Maturities**	**2002**	**2001**
Banks -				
Linked to the CPI	5.3	2003 - 2007	4,287	11,593
In or linked to the U.S. dollar	4.2	2003 - 2008	261,899	238,407
Linked to the Swiss franc	1.6	2003 - 2004	3,585	4,706
Not linked	11.3	2003 - 2004	956	5,852
From related party linked to the CPI	4.0	Not yet determined	491	443
Others -				
Not linked	-	Not yet determined	1,502	-
Linked to the CPI	-	Not yet determined	3,503	1,879
Linked to the U.S. dollar	6.8		17,680	7,037
			293,903	269,917
Less - current maturities			94,768	48,738
- minority interest in shareholders' deficiency of subsidiaries (2)			2,763	5,376
			196,372	215,803

(1) Average rate as of December 31, 2002.

(2) This portion is financed by loans granted by minority interest to a subsidiary.

In thousands of shekels

Note 24 - LONG-TERM LOANS AND BORROWINGS (Cont.)

B. MATURITIES:

	December 31, 2002
First year - current maturities	94,768
Second year	85,592
Third year	33,193
Fourth year	32,697
Fifth year	29,519
Sixth year and thereafter	12,638
Not yet determined	5,496
	293,903

C. COLLATERAL - see Note 26A.

Note 25 - ACCRUED SEVERANCE PAY, NET

	December 31	
	2002	2001
Accrued severance pay	4,444	6,170
Less - deposits	650	1,743
	3,794	4,427

The obligation of Group companies in Israel to make severance payments to their employees is covered primarily by deposits with pension funds and insurance companies. The amounts accumulated in the funds and with the insurance companies are not under the control or management of Group companies, and accordingly, neither those amounts nor the corresponding liabilities for severance pay are reflected in the balance sheet. The obligation of Group companies for severance pay for employees not covered by the aforementioned deposits is presented in the balance sheet. The amounts accumulated with the severance pay fund include profits accumulated to balance sheet date. The amounts deposited may be withdrawn only after fulfillment of the obligations under the Severance Pay Law.

Note 26 - LIENS, CONTINGENT LIABILITIES AND COMMITMENTS

A. LIENS AND COLLATERAL

(1) In respect of debentures convertible to shares of the Company issued in 2001 and 2002 (see Note 23), the Company has undertaken not to record a lien or mortgage in any form and for any purpose on any asset of the Company in favor of any third party, without receipt of approval in advance and in writing from the trustee of the convertible debentures. However, the Company is permitted, without limitation, to record a specific lien on an individual asset or on a number of assets in favor of a third party as collateral for the credit which was used to acquire the asset or assets.

(2) As collateral for the debentures issued in 2002 (see Note 23A(2)), in addition to (1) above, Kardan Motors Ltd. ("Kardan Motors"), a wholly owned subsidiary of the Company, recorded a fixed first priority lien in favor of the trustee on 45% of the shares of Taldan Motors Ltd. ("Taldan" and "the pledged shares") which are held by Kardan Motors. Also, arrangements were made for partial release of the shares from the pledge in respect of a decrease in the debenture principal and for exchange of the pledged shares for a lien on liquid assets such as cash, government bonds, etc.

Also, the Company has undertaken not to distribute to its shareholders a dividend in an amount exceeding 50% of the annual profit in each of the years 2002 - 2004 and that it will exercise its control of Kardan Motors and of Taldan in such a way that until repayment of the debentures, and unless the trustee's approval is received, none of the following actions will be taken:

(a) Kardan Motors will not sell, and/or transfer, and/or pledge with a first priority lien the pledged shares, or any part thereof, to any third party.

(b) Taldan will not enter into any agreement which includes, or could include, any increase in liabilities in or off the balance sheet in an aggregate amount of more than U.S.$ 10 million over the existing liabilities as of December 31, 2000 (approximately NIS 15,000).

Note 26 - LIENS, CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

A. LIENS AND COLLATERAL (Cont.)

(2) (Cont.)

(c) Taldan will not take any action as a result of which its shareholders' equity will decrease to less than NIS 90,000 ("the minimum equity"). Notwithstanding the above, in the event that Taldan sells its shares in Universal Motors Israel Ltd. and Taldan has a gain as a result of such sale, the gain will be added to the minimum equity.

(3) In respect of short-term and long-term loans which the Company received from banks in the amount of NIS 182,000, the Company has undertaken not to create any lien of any kind on its assets and property without receipt of approval in advance from the banks. Also, in respect of part of the loans received, the Company has undertaken not to distribute dividends (including management and consultancy fees) to its shareholders in an amount exceeding 33% of the profits in the year in which the dividend is distributed and undertaken to maintain certain minimum ratios of equity to total assets (in the range of 30% - 35%). The aforementioned quantitative loan covenants are to be determined in accordance with accounting principles generally accepted in Israel. As of December 31, 2002, in respect of long-term loans in the amount of NIS 19,000, the Company did not maintain the required equity ratio and accordingly, for reasons of prudence, these loans were classified as short-term loans. Management of the Company believes, based among others, on unutilized existing credit lines and on the Company's liquid resources (mainly bank deposits), that it will be able to continue to obtain credit from banks and from others as required for its operations.

(4) Certain subsidiaries recorded liens on their assets and their rights, in part or in full, as collateral for credit received from banks and from others, which credit amounted to approximately NIS 130,000 as of December 31, 2002.

In thousands of shekels

Note 26 - LIENS, CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

B. GUARANTEES

Following are the guarantees provided by the Company in respect of associated companies as of December 31, 2002:

Guarantees limited in amount	7,017
Guarantees in an unlimited amount (1)(2)	40,892

(1) Amount of liabilities guaranteed as of December 31, 2002.

(2) In respect of Kardan Real Estate, Enterprise and Development Ltd., a company whose shares are publicly-traded.

(3) Guarantees to another company - see Note 12E(1).

Also, subsidiaries provided bank guarantees in a total amount of approximately NIS 117,000 in favor of customers in respect of advances received for contracts and projects.

C. LEGAL CLAIMS AND CONTINGENCIES

(1) Two foreign residents (“the petitioners”) filed a petition with the International Center for Settlement of Disputes in London to commence arbitration proceedings against a subsidiary, Kardan Telecom International B.V. (“Kardan Telecom”) in connection with a Memorandum of Understanding (“MOU”) signed on January 28, 2000, by the petitioners and Kardan Telecom regarding a planned venture for DBS services in Taiwan. In the petition for arbitration, the petitioners claim that the venture was not implemented due to breach of the MOU by Kardan Telecom, and therefore the claim is for compensation of U.S.$ 50 million.

Note 26 - LIENS, CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

C. LEGAL CLAIMS AND CONTINGENCIES (Cont.)

(1) (Cont.)

Kardan Telecom informed the Company that its management believes there is no basis for the claim, that based, among others, on an opinion of legal counsel which it obtained, Kardan Telecom has a solid defense against the claim, and that Kardan Telecom has a basis for filing a counter claim against the petitioners. In July 2002, a counter claim was filed.

In light of the above, the Company believes that the petition for arbitration against Kardan Telecom, if and when arbitrated, will not have a material effect on the Company and its results of operations, and accordingly, no provision in respect thereof was recorded in the financial statements.

(2) In January 2002, a claim and a request for approval of the said claim as a class action was filed in the Tel Aviv District Court against Universal Motors Israel Ltd., (a 45%-owned associated company). The principal claim relates to a refund of overpayments in respect of the terms included in the warranty given to purchasers of vehicles from the associated company which make the warranty for the vehicles conditional upon implementation of periodic maintenance during the warranty period, in authorized garages. Also, the claim argues that the authorized garages were required to purchase original spare parts from the associated company. According to the plaintiff, the said terms constitute a restrictive trade arrangement which results in an increase in the cost of the maintenance. The amount claimed from the associated company in the event that the claim is approved as a class action is approximately NIS 36,700. Management of the associated company believes, based on the opinion of its legal counsel, that the associated company has meritorious defenses against the request to recognize the claim as a class action. However, it is not presently possible to predict the outcome of the claim, and therefore, no provision was included in respect thereof in the financial statements.

Note 26 - LIENS, CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

C. LEGAL CLAIMS AND CONTINGENCIES (Cont.)

(3) In December 1996, a legal claim in the amount of NIS 3,000 (in nominal values) was filed against the Company arguing breach of a contract in respect of an asset leased by the Company to the plaintiffs. Management of the Company believes, based on the opinion of its legal counsel, that it is likely that the claim will be dismissed, and therefore, no provision was included in respect thereof in the financial statements.

(4) Claims were filed against a number of subsidiaries by former suppliers and employees in the amount of approximately NIS 3,600. Management of the subsidiaries believes, based on the opinion of its legal counsel, that the provisions included in the financial statements are sufficient to cover any damage which may be caused in respect of these claims.

(5) A claim was filed against a subsidiary in the amount of NIS 2,000 in respect of damages caused to the plaintiff as a result of misleading representations that the plaintiff alleges were made to him at the time of the sale of another subsidiary to the plaintiff in the past.

Management of the subsidiary rejects the claim and submitted a request to the court for dismissal of the entire claim. Based, among others, on the opinion of its legal counsel, management of the subsidiary believes that no provision is required to be recorded in the financial statements in respect of this claim.

(6) As a result of a dispute between a subsidiary and a partner in a partnership regarding cessation of the partner’s activity as operator of a waste disposal site, the partner has filed a claim in the amount of approximately NIS 11,000 in respect of damages and losses caused to the partner as a result of cessation of the activity and the right of the subsidiary to decide on such cessation. In response, the subsidiary has demanded the amount of approximately NIS 16,500 from the partner in respect of losses and damages caused to the subsidiary by the partner. The parties have submitted the dispute to arbitration. Management of the subsidiary believes, based on the opinion of its legal counsel, that no provision is required to be recorded in respect of this dispute.

Note 26 - LIENS, CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

C. LEGAL CLAIMS AND CONTINGENCIES (Cont.)

(7) A subsidiary in Israel received grants from various government entities in connection with encouragement of export and foreign marketing. The subsidiary has undertaken to repay the grants received through royalties at the rate of 3% of the increase in annual exports. The balance of the grants not yet repaid as of December 31, 2002, is approximately NIS 9,300.

(8) Subsidiaries have liabilities in respect of warranty for the quality of the services and the work which they perform. In order to cover these obligations, the subsidiaries are insured with liability insurance up to the amount of U.S.$ 15 million for each claim. Management of the subsidiaries believes based, among others, on estimates of the insurance companies and on prior experience, that the provisions included in the financial statements in respect of the claims filed against them in excess of the existing insurance coverage and in respect of the deductible portion of the insurance are sufficient.

(9) Group companies operating in the insurance sector in certain countries are required to comply with regulatory requirements in connection with the amount of the minimum shareholders' equity and in connection with permitted investments of policyholders' funds.

As of December 31, 2002, a number of Group companies did not meet part of those said requirements. Management of those companies and their shareholders intend to take steps to ensure that the companies meet those requirements, including investment of additional funds.

D. COMMITMENTS

(1) IDB Transaction

On July 31, 2001 the Company entered into a series of agreements together with others for the acquisition of the controlling interest in IDB Holdings Ltd. ("IDB"). The effectiveness of the said agreements was conditional upon the fulfillment of a number of conditions, including receipt of various approvals, among which were approvals required by law.

Note 26 - LIENS, CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

D. COMMITMENTS (Cont.)

(1) IDB Transaction (Cont.)

On February 17, 2002, the Company announced that on February 15, 2002 the period set for meeting the conditions in accordance with the agreements for acquisition of the controlling interest in IDB expired, without fulfillment of all of the conditions and therefore the series of agreements were cancelled. As a result of the cancellation announcement, the seller informed the Company that, among others, the seller is evaluating the legal implications of the Company's actions, and that the seller regards the Company as bearing sole responsibility for any damage caused and/or that will be caused as a result of the Company's actions. Management of the Company responded to the seller that it rejects the position of the seller and, in its opinion, the Company made extensive efforts to fulfill the conditions and that their non-fulfillment was not caused by breach of the Company's commitment and that the Company is not responsible for any damage caused, if caused, to the seller.

(2) A subsidiary and two additional partners entered into an agreement with the Turkish water company for implementation of a project for the establishment of a water supply system for an agricultural area in southeast Turkey. The amount of the project is approximately U.S.$ 165 million (the subsidiary's share is 33.33%). Through December 31, 2002, the subsidiary recorded revenues in the amount of NIS 63,000 in respect of its share in the project (of which NIS 20,000 was recorded in 2001).

(3) A subsidiary was awarded a tender, together with others, for the establishment using the BOO (Build Own and Operate) method, of a water desalinization plant with annual production of approximately 30 million cubic meters. The subsidiary's share in the project is 26%.

(4) Regarding commitments to invest in associated companies and venture capital funds - see Note 12E and 14B, respectively.

In thousands of shekels, except share and per share data

Note 27 - SHAREHOLDERS' EQUITY

A. COMPOSITION

	December 31, 2001		December 31, 2002	
	Authorized	Issued and paid-up	Authorized	Issued and paid-up
	Number of shares		Number of shares	
Ordinary shares of NIS 1 par value	150,000,000	57,653,039	150,000,000	(1)60,643,804

(1) Includes 1,257,028 shares held by the Company (see D below). These shares are "retired" shares and do not entitle their holders to any voting or ownership rights.

(2) The Company's shares are listed for trading on the Tel-Aviv Stock Exchange.

B. ISSUANCE OF OPTIONS TO RELATED PARTIES AND TO EMPLOYEES

(1) In February 2000, the board of directors of the Company approved a plan to grant options – for no consideration, to a former general manager of the Company, who is a director, for the purchase of up to 1,000,000 Ordinary shares of the Company (subject to adjustments). The exercise price is NIS 7.5 per share linked to the CPI. The options were granted on March 16, 2000, and may be exercised for a period of two years from the date of grant. In January - March 2002, the related party exercised all of the options, and the Company issued to the related party 1,000,000 Ordinary shares in consideration for NIS 7,647.

Note 27 - SHAREHOLDERS' EQUITY (Cont.)

B. ISSUANCE OF OPTIONS TO RELATED PARTIES AND TO EMPLOYEES (Cont.)

(2) In February 2000, the board of directors of the Company approved a plan to grant, for no consideration, options to employees to purchase up to 750,000 Ordinary shares of the Company (subject to adjustments). The exercise price is NIS 7.5 per share linked to the CPI. The options were granted to the employees on March 23, 2000 and may be exercised for a period of seven days commencing from the end of two years from the date of grant. At the time of exercise of the options, the total number of shares for which the employees may be entitled to purchase will not be issued. Instead, only the number of shares reflecting the benefit component inherent in the options exercised as calculated at the end of two years from the date of the grant of the options ("the restriction period") will be issued. The benefit component will be determined according to the difference between the exercise price of the options, as stated above, and the average price of the Company's shares on the stock exchange in the 90 trading days preceding the end of the restriction period. In April 2002, all of the options were exercised and the Company issued to employees 489,025 Ordinary shares in consideration for their par value.

(3) The economic value of each option granted to the related party as stated in (1) above and to the employees as stated in (2) above, at the date of approval of the plans was NIS 8.7 per share option. This economic value was calculated using the Black and Scholes option pricing model taking into account the price of the Company's shares on the stock exchange on the eve of the approval of the plan (NIS 14.94 per share) and a weekly standard deviation of 6.28%.

Note 27 - SHAREHOLDERS' EQUITY (Cont.)

B. ISSUANCE OF OPTIONS TO RELATED PARTIES AND TO EMPLOYEES

(4) In March 2002, the Board of Directors of the Company approved a plan according to which options were granted, for no consideration, to two employees in the Group, one of whom serves as a director of the Company and as chairman of the board of directors of a subsidiary, and the second serves as an officer of the Company and as the general manager of another subsidiary. The options granted entitle each of the employees to purchase 300,000 Ordinary shares of the Company (subject to adjustments) of which options to purchase 200,000 shares may be exercised commencing from the end of two years from the determining date (April and May 2001 for the director and general manager of the subsidiary, respectively) and the balance of the options (100,000) may be exercised commencing from the end of three years from the determining date. The options expire in the event that the director does not exercise the options by the end of three and a half years from the determining date (regarding the general manager of the subsidiary - five years). In the event that the employees cease to be employed by the Group, unvested options will be forfeited. The exercise price of the options granted to the director is NIS 12 per share, linked to the CPI. Regarding the general manager of the subsidiary, it was agreed that the exercise price for half of the number of options exercised at any time will be equal to 75% of the price of the Company's shares on the stock exchange as of the date of the exercise and for the other half of the number of options, the exercise price will be NIS 11 per share, linked to the CPI.

The economic value of the options granted to the director and to the general manager of the subsidiary amounts to NIS 781 and NIS 991, respectively. This economic value was computed according to the Black and Scholes option pricing model, taking into account the market price of the Company's shares on the stock exchange as of March 31, 2002 (NIS 9.87 per share) and an annual standard deviation of 50%.

Note 27 - SHAREHOLDERS' EQUITY (Cont.)

C. ISSUANCE AND EXERCISE OF WARRANTS

In January and February 2001, in connection with the issuance of debentures convertible to shares of the Company (see Note 23A(1)) the Company issued 1,598,400 warrants (Series C) in consideration for approximately NIS 1,598.

The warrants are convertible to 1,598,400 Ordinary shares at an exercise price of NIS 12 per share. Of those warrants, 166,665 warrants were issued to a wholly owned and controlled subsidiary in consideration for approximately NIS 167. In December 2001, warrants to purchase 66,660 shares of the Company were exercised in consideration for approximately NIS 800. In January 2002, warrants to purchase 1,335,075 shares of the Company were exercised in consideration for approximately NIS 16,021. Also, the subsidiary exercised all of the warrants that had been issued to it in consideration for NIS 2,000. The outstanding balance of 30,000 warrants were not exercised and expired.

D. TREASURY SHARES

During 2001, a subsidiary acquired 194,055 Ordinary shares of the Company in consideration for approximately NIS 2,483.

During 2002, the subsidiary acquired from a related party 400,000 shares of the Company (see B(1) above) in consideration for approximately NIS 4,120. Also, the subsidiary acquired on the stock exchange 180,977 shares of the Company in consideration for approximately NIS 2,416 and 166,665 shares of the Company were issued to the subsidiary in connection with the exercise of warrants (see C above).

In thousands of shekels, except share and per share data

Note 27 - SHAREHOLDERS' EQUITY (Cont.)

D. TREASURY SHARES (Cont.)

During the third quarter of 2002, the subsidiary sold to the Company all the shares of the Company that it held. Also, the Company acquired on the stock exchange 15,331 of its shares in consideration for NIS 2,779. As of December 31, 2002 the Company holds 1,257,028 of its shares for a total cost of NIS 13,798. Subsequent to balance sheet date, the Company acquired an additional 78,852 of its shares in consideration for NIS 637.

Note 28 - SALES AND SERVICES

	For the year ended December 31	
	2002	2001
From sale of merchandise	91,738	152,570
From services provided	38,665	90,635
From management of pension funds	10,097	5,075
	140,500	248,280

Note 29 – REVENUES FROM INSURANCE ACTIVITIES

	For the year ended December 31, 2001			For the year ended December 31, 2002		
	Life insurance activities	General insurance activities	Total	Life insurance activities	General insurance activities	Total
Income from premiums	14,334	183,774	198,108	39,080	258,781	297,861
Less - reinsurance	433	65,077	65,510	1,795	114,497	116,292
Income from premiums, net	13,901	118,697	132,598	37,285	144,284	181,569
Change in provisions, net of share of reinsurers	-	(125)	(125)	-	394	394
Income from investments	4,320	3,233	7,553	7,124	8,550	15,674
	18,221	121,805	140,026	44,409	153,228	197,637

In thousands of shekels

Note 30 - GAIN ON DISPOSAL OF ASSETS AND OTHER INCOME, NET

	For the year ended December 31	
	2002	2001
Gain on disposal of subsidiaries	1,357	47,417
Gain on disposal of associates	10,243	-
Gain on available-for-sale investments	828	9,615
Gain on disposal of property, plant and equipment	322	636
Fair value adjustments of investment properties	2,200	-
Income from insurance brokerage, net of expenses	1,367	980
Other	619	7,028
	16,936	65,676

Note 31 - OTHER EXPENSES, NET

	For the year ended December 31	
	2002	2001
Impairment of associated companies and available-for-sale investments	29,715	35,638
Other expenses, net	476	9,066
	30,191	44,704

Note 32 - COST OF SALES AND SERVICES

	For the year ended December 31	
	2002	2001
Purchased merchandise	80,308	114,409
Contract work	1,102	5,985
Payroll and related expenses	7,799	25,897
Pension fund management expenses	18,505	19,544
Other expenses	11,936	13,869
	119,650	179,704
Decrease (increase) in inventories of merchandise	(621)	6,712
	119,029	186,416

In thousands of shekels

Note 33 - OPERATING EXPENSES OF INSURANCE ACTIVITIES

	For the year ended December 31, 2001			For the year ended December 31, 2002		
	Life insurance activities	General insurance activities	Total	Life insurance activities	General insurance activities	Total
Claims paid and outstanding	2,412	104,751	107,163	10,567	120,389	130,956
Less - reinsurers	263	35,921	36,184	485	42,802	43,287
	2,149	68,830	70,979	10,082	77,587	87,669
Policies terminated	1,587	-	1,587	8,003	-	8,003
Increase in reserves, less portion attributable to reinsurers	7,411	-	7,411	13,516	-	13,516
Commissions paid	1,865	18,128	19,993	4,431	25,759	30,190
Reinsurers' share of commissions	(6)	(9,682)	(9,688)	(246)	(13,320)	(13,566)
General, administrative and other expenses	4,323	41,153	45,476	7,481	50,091	57,572
Increase in deferred acquisition costs	(179)	(204)	(383)	(571)	(290)	(861)
	6,003	49,395	55,398	11,095	62,240	73,335
	17,150	118,225	135,375	42,696	139,827	182,523

Note 34 - SELLING AND MARKETING EXPENSES

	For the year ended December 31	
	2002	2001
Payroll and related expenses	15,304	23,619
Commissions	7,085	1,394
Marketing and advertising	2,291	5,775
Depreciation and amortization	183	1,423
Other	17,667	26,231
	42,530	58,442

In thousands of shekels

Note 35 - GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended December 31	
	2002	**2001**
Payroll and related expenses	31,098	55,683
Management fees	1,785	1,981
Office maintenance	15,975	24,126
Professional fees	15,875	13,061
Bad and doubtful debts	8,173	2,116
Depreciation and amortization	12,385	17,103
Other	18,549	23,277
	103,840	137,347

Note 36 - FINANCING INCOME (EXPENSES), NET

	For the year ended December 31	
	2002	**2001**
Income		
Income from bank deposits	12,078	3,168
Income (loss) from securities held for trading	(5,597)	2,819
Income in respect of long-term loans and receivables	5,325	2,600
Gain on forward exchange contracts	86,560	9,029
Exchange differences (*)	25,334	23,397
Total financing income	123,700	41,013
Expenses		
Long-term loans and borrowings	22,403	17,071
Convertible debentures	28,308	11,796
Exchange differences (*)	27,281	21,912
Other (mainly short-term loans and borrowings)	18,755	19,623
Total financing expenses	96,747	70,402
	26,953	(29,389)

(*) Includes adjustment to CPI.

In thousands of shekels

Note 37 - TAXES ON INCOME

A. TAX LAWS APPLICABLE TO THE GROUP

The Company and most of its subsidiaries in Israel are subject to the Income Tax Law (Inflationary Adjustments), 1985. In accordance with the Inflationary Adjustments Law, the results for tax purposes are measured in accordance with the changes in the CPI.

The subsidiaries operating in foreign countries are subject to the tax laws of their respective countries (see F below).

B. INCOME TAX EXPENSE (TAX BENEFIT)

	For the year ended December 31	
	2002	**2001**
In respect of the year of account		
Current	7,247	9,662
Deferred	1,471	(4,174)
	8,718	5,488
In respect of prior years	4,055	(163)
	12,773	5,325

C. EFFECTIVE TAX

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the group's effective income tax rate for each of the years 2002 and 2001 is as follows:

	For the year ended December 31	
	2002	**2001**
Tax expense (tax benefit) computed at regular tax rate (36%)	3,432	(15,412)
Increase (decrease) in tax expense (tax benefit) due to:		
Unrecognized tax losses	6,319	21,574
Equity in net earnings of associated companies and gain on issuances to third parties for which deferred taxes were not recorded	(14,285)	(9,113)
Write-down of deferred tax asset	3,007	-
Gains subject to reduced tax rates	(360)	(382)
Taxes in respect of prior years	4,055	(163)
Nondeductible expenses and other differences, net	10,605	8,821
	12,773	5,325

In thousands of shekels

Note 37 - TAXES ON INCOME (Cont.)

D. COMPOSITION OF DEFERRED TAXES

	December 31		Movement for the year ended December 31	
	2002	**2001**	**2002**	**2001**
Deferred income tax assets (deferred tax liabilities) in respect of:				
Reserves and allowances	11,548	7,837	(3,711)	(4,237)
Property, plant and equipment	(3,300)	(2,871)	925	(1,310)
Contract work in progress	(3,463)	(3,722)	(259)	2,612
Temporary differences relating to investment in subsidiary	(3,568)	(4,416)	(848)	279
Carryforward loss available for offset against future taxable income	1,384	6,748	5,364	(1,518)
	2,601	3,576	1,471	(4,174)

Presented in balance sheet as follows:		
Net deferred income tax liability	10,331	11,009
Net deferred income tax asset	12,932	14,585
	2,601	3,576

Deferred taxes for companies in Israel were computed principally at the rate of 36%.

Deferred taxes with respect to foreign companies were computed based on the weighted average of various tax rates, as these companies operate in various countries in Europe and are consequently subject to various tax laws.

Note 37 - TAXES ON INCOME (Cont.)

E. LOSS CARRYFORWARDS AND FINAL TAX ASSESSMENTS

The Company has a tax loss carryforward of approximately NIS 37,000, and certain subsidiaries have tax loss carryforwards amounting to approximately NIS 175,000 (subject to receipt of final tax assessments - see below). These losses are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognized in respect of losses amounting to approximately NIS 189,000 as they may not be used to offset taxable profits elsewhere in the Group and the losses are of subsidiaries that have generated losses for extended periods.

The Company has received final tax assessments, or assessments deemed to be final, for tax years through 1999. Some of the principal subsidiaries have received final assessments or assessments deemed to be final, for tax years between 1997 and 1999. For some of the subsidiaries, no final tax assessments have been issued since inception.

F. TAX REGULATIONS IN EASTERN EUROPE

Restrictive tax regulations exist in Eastern European countries regarding value added tax, company tax and national insurance (social security) payments. Since these regulations were enacted in recent years, they often include internal contradictions that cause problems in their interpretation. Differences in interpretation of the tax regulations between various tax related entities and tax authorities, and the taxpayers cause numerous disputes. Arrangements regarding taxation and other areas of activity (such as foreign currency transactions) may be subject to supervision by the tax authorities and by other authorities that are empowered to levy material penalties including interest on the penalties. In these circumstances, business activity in Eastern European countries includes more serious tax risks than in countries with a more stable tax base. Eastern European countries do not have a formal procedure for determining the amount of the final tax. Tax arrangements may be audited at any time during a number of years. A risk exists that the tax authorities’ interpretation of the tax legislation will be different from the interpretation of the subsidiaries in Eastern Europe, a fact that may affect the tax liability of those companies.

Note 37 - TAXES ON INCOME (Cont.)

G. On August 4, 2002, the Law for the Amendment of the Income Tax Ordinance (Amendment No. 132), 2002, was enacted. The Law states that commencing in 2003 income of companies from dividends and interest received from investee companies will be subject to tax in Israel even if the income was not received in Israel. Also, the Law states that, under certain circumstances, an Israeli resident that is a controlling shareholder in a foreign company, most of whose income is passive income (as defined in Section 2A of the Income Tax Ordinance) will be subject to tax (at the rate of 25%) on that income, as though it was distributed as a dividend to Israel, and eligible for a credit in respect of the foreign tax liability.

Note 38 - FINANCIAL INSTRUMENTS

A. Credit risks - The Group companies regularly monitor the credit status of their customers and debtors and record appropriate provisions for the possibility of losses that may be incurred from provision of credit, in respect of specific debts whose collection is doubtful.

B. Fair value of financial instruments - The carrying value of financial instruments (cash and cash equivalents, short-term investments, trade receivables, other monetary assets and monetary liabilities) approximates their fair value.

C. Derivative financial instruments

The Company and its subsidiaries entered into forward exchange transactions, for the acquisition of U.S.$ 25 million in consideration for approximately NIS 120,000 designated to hedge U.S. dollar denominated liabilities against the exposure of foreign currency risk. The exchange transactions are for periods of up to two years. The fair value of the said transactions as of December 31, 2002, is approximately NIS 4,000. Also, as of December 31, 2002, the Company has entered into forward transactions for periods of less than a year in the amount of NIS 30,000 intended to hedge liabilities against changes in the CPI. As of balance sheet date, the fair value of these transactions is a liability of approximately NIS 200.

In thousands of shekels except share data

Note 38 - FINANCIAL INSTRUMENTS (Cont.)

C. Derivative financial instruments (Cont.)

In connection with future commitments to invest in U.S. dollars, the Company entered during 2001 into a number of forward transactions for the acquisition of approximately US$ 218 million in consideration for approximately NIS 956,000 in order to reduce the currency exposure derived from the said commitments. As of December 31, 2001 an unrealized gain of NIS 7,828 was included in shareholders' equity in respect of these contracts. During 2002, as a result of the cancellation of the said commitments and upon realization of the said transactions, the Company recorded in the statement of operations a gain of approximately NIS 63,000 (including the amount transferred from shareholders' equity).

Note 39 - EARNINGS (LOSS) PER SHARE

Basic earnings per share is calculated by dividing the net income for the year attributable to ordinary shareholders by the weighted average number of Ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net income attributable to ordinary shareholders by the weighted average number of Ordinary shares outstanding during the year adjusted for the effects of dilutive options and dilutive convertible debentures.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2002	2001
	NIS	NIS
Net income (loss) attributable to ordinary shareholders for basic and diluted earnings per share	12,604	(31,703)
	2002	**2001**
Weighted average number of ordinary shares for basic earnings per share	59,772,956	60,305,118
Effect of dilution:		
Share options	61,266	-
Adjusted weighted average number of ordinary shares for diluted earnings per share	59,831,221	60,305,118

2002 - Share options in subsidiaries and convertible debentures (2001 – including share options of the Company) have not been included in the computation of diluted earnings per share as their effect is anti-dilutive.

In thousands of shekels

Note 40 - RELATED PARTIES

(1) BALANCES

	December 31	
	2002	2001
ASSETS		
Other receivables -		
Associated companies	1,114	1,812
Long term loans and receivables -		
Associated companies (*)	137,824	130,522
Other related parties	6,113	5,648

(*) Included in Investments in Associates

	December 31	
	2002	2001
LIABILITIES		
Short-term credit from related party (*)	12,134	10,598
Other payables -		
Associated companies	684	166
Other related parties	-	1,336
Loans from banks and others		
Other related parties (*)	491	443

(*) Regarding terms - see Notes 19 and 24.

(2) TRANSACTIONS

	For the year ended December 31	
	2002	2001
Management fees from associated companies	5,330	6,330
Financing income from associated companies, net (*)	898	434
Financing income from related parties, net	139	169

(*) Regarding terms of loans granted to investee companies, see Note 12C.

In thousands of shekels

Note 40 - RELATED PARTIES (Cont.)

(3) REMUNERATION TO DIRECTORS

	For the year ended December 31	
	2002	**2001**
Fees to directors not employed by the Company	76	86
Number of directors not employed by the Company	2	3
Remuneration to directors employed by the Company	6,588	8,775
Number of directors employed by the Company	7	7

(1) Regarding loans to directors, see Note 11A(2)

(2) In March 2000 an employment agreement was signed between Kardan Technologies and the chairman of its board of directors (who is a director of the Company) which agreement established the relationships between Kardan Technologies and the chairman of the board of directors as shareholders in Global E-investment Developments B.V. ("Global Investment"), a company registered in the Netherlands. Among others, it was agreed that in the event that the chairman of the board of directors does not provide his share of the financing of the operations of Global Investment in the time periods required, Kardan Technologies will be entitled to provide the chairman's share of the financing in exchange for a dilution of his holdings in Global Investment in accordance with an agreed dilution mechanism, provided that the holdings of the chairman in Global Investment does not decrease to less than 5%. It was also agreed that in the event that the shareholders of Global Investment are required to provide financing through provision of guarantees and/or collateral to a third party, Kardan Technologies will provide guarantees and/or collateral also in respect of the part of the chairman of the board of directors. The parties agreed that at the request of the chairman of the board of directors, Kardan Technologies will grant him loans required for purposes of his participation in providing financing to Global Investment in the future and/or in respect of the chairman's participation in the issuance of shares by Global Investment in the future in accordance with mechanisms fixed in the agreement (except for the first U.S.$100,000 that will be required of the chairman).

Note 40 - RELATED PARTIES (CONSOLIDATED) (Cont.)

(3) REMUNERATION TO DIRECTORS (Cont.)

(2) Cont.

The above loans will be linked to the CPI and will bear interest at the minimum annual rate necessary so that there is no taxable benefit to the employee, and will be repayable at the end of three years from the date of grant. During 2001 Kardan Technologies granted loans to Global Investment also in respect of the share of the chairman and the chairman's holdings in Global Investment were diluted to 5%.

(3) In connection with an agreement signed in 1995, Kardan Real Estate, Enterprise and Development Ltd., an associated company (previously a subsidiary), issued in June 1999 shares representing 9.99% of its equity to its deputy chairman of the board of directors (who ceased to serve as a director of the Company during 2002) in consideration for NIS 3,052. A subsidiary granted to the director a loan linked to the CPI and bearing interest at the annual rate of 4% in order to finance the acquisition of the shares. The balance of the loan as of December 31, 2002 is NIS 3,665.

(4) Regarding issuance to directors of options for the purchase of shares of the Company and a subsidiary - see Note 27B(1), (4), Note 13C(2), 12E(3).

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KARDAN LTD.

PRO FORMA CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 2003

C O N T E N T S

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KARDAN LTD.

PRO FORMA CONSOLIDATED BALANCE SHEETS

In thousands of shekels

	March 31 2003 (Unaudited)	December 31 2002 (Audited)
CURRENT ASSETS		
Cash and cash equivalents	192,576	225,674
Short-term investments	53,187	38,787
Trade receivables	126,613	106,143
Reinsurance receivables and insurance companies	131,754	116,735
Insurance premiums receivable	51,499	19,351
Other receivables and prepayments	32,742	44,458
Current maturities of long-term loans and receivables	44,913	46,332
Merchandise inventories	7,892	9,994
Contract work in progress	14,579	15,655
	655,755	623,129
NON-CURRENT ASSETS		
Long-term loans and receivables	96,900	83,764
Deferred income tax asset	13,784	12,932
Deposits with insurers	2,736	2,843
Investments in associates	659,052	641,556
Available-for-sale financial assets	131,361	139,138
Investment properties	24,981	26,454
Property, plant and equipment	136,462	135,580
Deferred acquisition costs (Insurance companies)	21,813	11,176
Intangible assets	81,645	80,145
	1,168,734	1,133,588
	1,824,489	1,756,717

	March 31 2003 (Unaudited)	December 31 2002 (Audited)
CURRENT LIABILITIES		
Loans and borrowings	354,352	271,873
Trade payables	27,705	22,370
Due to customers for contract work	56,414	43,328
Advances from customers in respect of contracts	66,850	66,572
Other payables and accrued expenses	139,446	155,336
	644,767	559,479
NON-CURRENT LIABILITIES		
Insurance provisions	369,839	282,793
Debentures	51,398	-
Convertible debentures	137,446	186,654
Loans and borrowings	108,463	196,372
Deferred income tax liability	11,845	10,331
Accrued severance pay, net	3,689	3,794
	682,680	679,944
MINORITY INTEREST	66,380	73,070
SHAREHOLDERS' EQUITY		
Share capital	81,535	81,535
Share premium	211,192	211,192
Foreign currency translation	66,411	71,927
Convertible debentures – equity component	2,764	3,447
Accumulated profits	83,195	89,921
Treasury shares	(14,435)	(13,798)
	430,662	444,224
	1,824,489	1,756,717

....	....	....
JOSEPH GRUNFELD	**ITZHAK GROSSMAN**	**SHAUL MAOZ**
Chairman of the Board of Directors	Joint Managing Director	Chief Financial Officer

Date of approval of the pro forma interim financial statements:
May 29, 2003

The accompanying notes form an integral part of the pro forma financial statements.

KARDAN LTD.

PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS

In thousands of shekels, except per share data

	For the three months ended March 31	
	2003	2002
	(Unaudited)	
NET REVENUES		
Sales and services	28,936	40,110
Contract revenues	61,872	55,932
Insurance activities	46,788	38,817
Equity in net earnings of associated companies	16,189	7,276
Gain on issuance of shares in associated companies and subsidiaries to third parties	35	-
Management fees	465	418
Financing income, net	-	78,135
Gain on disposal of assets and other income, net	2,145	900
	156,430	221,588
EXPENSES		
Cost of sales and services	25,571	32,214
Contract costs	46,923	42,280
Operating expenses of insurance activities	44,308	37,360
Selling and marketing expenses	11,372	10,950
General and administrative expenses	19,802	32,250
Financing expenses, net	5,988	-
Other expenses, net	13,757	606
	167,721	155,660
Income (loss) before taxes on income	(11,291)	65,928
TAXES ON INCOME	2,261	9,167
Income (loss) after taxes on income	(13,552)	56,761
MINORITY INTEREST	6,826	123
Net income (loss)	(6,726)	56,884
EARNINGS (LOSS) PER SHARE		
Basic	(0.11)	0.95
Diluted	(0.12)	0.91

The accompanying notes form an integral part of the pro forma financial statements.

KARDAN LTD.

PRO FORMA CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

In thousands of shekels

	Share capital	Share premium	Net unrealized gains	Foreign currency translation	Convertible debentures-equity component	Warrants	Accumulated profits	Treasury shares	Total
UNAUDITED									
Balance as of January 1, 2003	81,535	211,192	-	71,927	3,447	-	89,921	(13,798)	444,224
Treasury shares purchased	-	-	-	-	-	-	-	(637)	(637)
Waiver of conversion right (Note 8)	-	-	-	-	(683)	-	-	-	(683)
Currency translation differences	-	-	-	(5,516)	-	-	-	-	(5,516)
Net loss	-	-	-	-	-	-	(6,726)	-	(6,726)
Balance as of March 31, 2003	81,535	211,192	-	66,411	2,764	-	83,195	(14,435)	430,662
Balance as of January 1, 2002	78,545	186,493	7,828	33,516	2,258	1,365	77,317	(2,483)	384,839
Treasury shares purchased	-	-	-	-	-	-	-	(5,664)	(5,664)
Expiration of warrants	-	30	-	-	-	(30)	-	-	-
Exercise of warrants	2,501	24,669	-	-	-	(1,335)	-	(2,167)	23,668
Gain on forward currency contract removed from equity and reported in net income	-	-	(7,828)	-	-	-	-	-	(7,828)
Issuance of convertible debentures - equity component	-	-	-	-	1,189	-	-	-	1,189
Currency translation differences	-	-	-	23,181	-	-	-	-	23,181
Net income	-	-	-	-	-	-	56,884	-	56,884
Balance as of March 31, 2002	81,046	211,192	-	56,697	3,447	-	134,201	(10,314)	476,269

The accompanying notes form an integral part of the pro forma financial statements.

KARDAN LTD.

PRO FORMA CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands of shekels

	For the three months ended March 31 2003	For the three months ended March 31 2002
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before taxes on income	(11,291)	65,928
Adjustments for:		
Equity in undistributed earnings of associated companies, net (1)	(16,189)	(7,375)
Gain on issuance of shares in associated companies and subsidiaries to third parties, net	(35)	-
Loss (gain) on the disposal of property, plant and equipment, and investment properties, net	(656)	30
Impairment of investments	12,391	-
Depreciation and amortization	7,220	6,657
Exchange differences, net	3,415	(695)
Increase in fair value of securities held for trading, net	(1,990)	-
Decrease in accrued severance pay, net	(105)	(96)
Change in insurance provisions and deferred acquisition costs, net	79,277	30,086
Increase in outstanding insurance premiums, reinsurance receivables and insurance companies	(48,526)	(12,864)
Increase in trade and other receivables	(8,983)	(15,499)
Decrease (increase) in inventories and in contract work in progress, net of advances from customers	24,876	(996)
Increase in trade and other payables	(20,263)	5,307
Cash generated from operations	19,141	70,483
Income taxes paid	(1,475)	(4,924)
Net cash provided by operating activities	17,666	65,559
(1) Dividends received from associated companies	-	99

The accompanying notes form an integral part of the pro forma financial statements.

KARDAN LTD.

PRO FORMA CONSOLIDATED STATEMENTS OF CASH FLOWS (Cont.)

In thousands of shekels

	For the three months ended March 31	
	2003	2002
	(Unaudited)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and investment properties	(3,449)	(2,988)
Investments in companies and partnerships	(12,855)	(2,474)
Collection (granting) of loans to associated companies, net	3,813	(14,932)
Proceeds from disposal of property, plant and equipment and investment properties	4,178	104
Granting of long-term loans	(15,043)	(1,492)
Collection of long-term loans and receivables	429	2,970
Dividend from associated company	-	1,766
Short-term investments, net	(12,679)	(8,236)
Acquisition of newly-consolidated subsidiaries, net of cash acquired (see A below)	-	(10,745)
Other investments	(863)	(2,993)
Net cash used in investing activities	(36,469)	(39,020)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of warrants and issuance of Company shares, net	-	23,668
Treasury shares purchased	(637)	(5,664)
Repayment of convertible debentures	(7,113)	-
Receipt of long-term loans	5,588	46,926
Repayment of long-term loans	(5,666)	(3,347)
Decrease in short-term loans and borrowings, net	(5,749)	(52,810)
Net cash provided by (used in) financing activities	(13,577)	8,773
FOREIGN EXCHANGE DIFFERENCES RELATING TO CASH AND CASH EQUIVALENTS	(718)	2,752
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(33,098)	38,064
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	225,674	92,040
CASH AND CASH EQUIVALENTS AT END OF PERIOD	192,576	130,104

The accompanying notes form an integral part of the pro forma financial statements.

KARDAN LTD.

PRO FORMA CONSOLIDATED STATEMENTS OF CASH FLOWS (Cont.)

In thousands of shekels

	For the three months ended March 31	
	2003	2002
	(Unaudited)	
A. ACQUISITION OF NEWLY-CONSOLIDATED SUBSIDIARIES, NET OF CASH ACQUIRED:		
Assets and liabilities of subsidiaries as of date of consolidation:		
Cash	-	(1,902)
Working capital (excluding cash)	-	(3,803)
Non-current assets	-	(248)
Goodwill on acquisition	-	(10,332)
Non-current liabilities	-	3,164
Minority interest	-	474
Total purchase price	-	(12,647)
Cash of subsidiaries acquired	-	1,902
Cash used in acquisition, net of cash acquired	-	(10,745)
B. NON-CASH TRANSACTIONS		
Issuance of convertible debentures in consideration for funds deposited with trustee	-	100,000
Waiver of conversion right	683	-

The accompanying notes form an integral part of the pro forma financial statements.

In thousands of shekels

Note 1 - GENERAL

The pro forma interim consolidated financial statements of the Company at March 31, 2003, and for the three months ended March 31, 2003 and 2002 represent the pro forma conversion of the Company's interim consolidated financial statements from accounting principles generally accepted in Israel to International Financial Reporting Standards ("IFRS") relating to interim financial statements.

These pro forma financial statements have been prepared in condensed form in accordance with the provisions of International Accounting Standard No. 34 "Interim Financial Reporting". The pro forma financial statements should be read in conjunction with the Company's pro forma annual consolidated financial statements and accompanying notes as of December 31, 2002, and for the year then ended ("the pro forma annual financial statements").

The pro forma consolidated balance sheet of Kardan Ltd. at December 31, 2002 presented in these financial statements was derived from the pro forma annual financial statements.

Data regarding exchange rates at period ends and changes in the exchange rates of the Euro and the U.S. dollar are as follows:

	Rate at period end	Rate at period end	Change in rate in the three month period Euro	Change in rate in the three month period U.S. dollar
	EURO/NIS	U.S. dollar/NIS	%	%
March 31, 2003	5.109	4.687	2.8	(1.1)
March 31, 2002	4.078	4.668	4.3	5.7

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and methods of computation followed in the preparation of these financial statements are identical to those followed in the preparation of the pro forma annual financial statements.

Note 3 - PROPOSED EXCHANGE PURCHASE OFFER

In May 2003, the Board of Directors of the Company approved a plan according to which, after its completion, the Company's shareholders will own shares of a company in the Netherlands whose shares will be listed for trading on the Pan-European Euronext Amsterdam N.V. Stock Exchange ("Euronext") and on the Tel Aviv Stock Exchange ("the TA Stock Exchange").

For purposes of implementation of the plan, the Company established a subsidiary in the Netherlands, Kardan N.V. that intends to present an exchange purchase offer, accompanied by a prospectus, to all of the Company's shareholders. Under the terms of the exchange purchase offer, Kardan N.V. will offer to purchase all of the Company's shares from the holders thereof, in exchange for Kardan N.V.'s shares, such that each holder of one share of NIS 1 par value each of the Company will receive in consideration one share of Euro 0.2 par value of Kardan N.V.

Implementation of the plan is subject to the fulfillment of various conditions and receipt of approvals and authorizations from various entities. Among others, the plan is conditional upon acceptance by the shareholders of the exchange offer to be presented by Kardan N.V., publication of the prospectus of Kardan N.V. in the Netherlands and receipt of approval for listing of its shares for trading on the Euronext, publication of the prospectus of Kardan N.V. in Israel, receipt of approval from the Securities Authority in Israel and the TA Stock Exchange for listing of the shares for trading on the TA Stock Exchange and additional conditions and approvals.

In May 2003, Kardan N.V. submitted a draft prospectus to the Securities Authority in Israel and to the Euronext.

Note 4 - INVESTMENTS IN ASSOCIATES

A. As described in Note 12E(1) to the pro forma annual financial statements, a wholly owned subsidiary of the Company, mainly through the 49%-owned associated company, Lidan Investment Agencies (1994) Ltd. ("Lidan"), holds approximately 3.3% (2.5% assuming full dilution) of the shares of DBS Satellite Services (1998) Ltd. ("DBS").

As of March 31, 2003, the carrying amount of the investment in DBS is approximately NIS 41,000 (net of impairment losses recorded in prior reporting periods). Also, as collateral for DBS's liabilities to banks, its shareholders provided guarantees, the subsidiary's share of which is NIS 2,000, and pledged their shares in DBS (in proportion to their holdings) in favor of the banks.

Also, the aforementioned shareholders are required, from time to time, to implement additional investments in DBS according to their proportionate share, in accordance with a certain mechanism (including a mechanism for dilution of shareholders that do not transfer funds in proportion to their share). Until the date of approval of these financial statements, Lidan received requests for investments (that have not yet been transferred) in the amount of U.S.$3 million. As of the dates of receipt of the requests for investments, management of Lidan decided not to transfer the requested amounts.

The auditors of DBS draw attention in their report on the review of the financial statements of DBS as of March 31, 2003, to the financial position of DBS and to the fact that the continued operations of DBS is subject to the implementation of the financing agreement signed with the banks, and the appendices thereto, and to receipt of additional loans from its shareholders. As of the date of approval of the financial statements, an addendum to the financing agreement was not yet signed and certain of the conditions set forth in the financing agreement and in the interim credit framework granted to DBS were not fulfilled. According to management of DBS, there is a likelihood that the continued discussions between DBS and its shareholders and the banks will result in the formulation of an addendum to the financing agreement and to an arrangement of the financial resources required by DBS in the coming year.

Note 4 - INVESTMENTS IN ASSOCIATES (Cont.)

A. (Cont.)

According to management of the Company and management of Lidan, the recoverable amount of the investment in DBS is not less than the carrying amount of the investment as included in the financial statements.

B. During the first quarter of 2003, Kardan Technologies Ltd. (a subsidiary), recorded a provision for impairment of investments in the amount of approximately NIS 12,391 mainly in respect of its investments in venture capital funds. This provision is included in other expenses, net.

KARDAN LTD.

NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

(Unaudited)
In thousands of shekels

Note 5 - SEGMENT INFORMATION

	Financial services (mainly insurance and pension)	Communications and technology	Real estate	Infrastructure	Commerce	Other	Adjustments (2)	Total
For the three months ended March 31, 2003								
Segment Revenues (1)	50,437	5,786	14,409	62,777	17,810	5,211	-	156,430
Segment Results (1)	(3,116)	(14,421)	14,209	547	2,152	(1,565)	(3,109)	(5,303)
For the three months ended March 31, 2002								
Segment Revenues (1)	39,767	6,374	(493)	56,060	37,597	4,148	-	143,453
Segment Results (1)	(3,124)	(5,476)	(751)	(150)	9,354	(1,704)	(10,356)	(12,207)

(1) Excludes financing income and expenses
(2) Unallocated expenses

Note 6 - FINANCIAL CONTINGENCIES

A. As described in Note 26A(3) to the pro forma annual financial statements, in respect of short-term and long-term loans which the Company received from banks, the Company has undertaken to maintain certain minimum ratios of equity to total assets (in the range of 30% - 35%) based on the Company's financial statements prepared in accordance with accounting principles generally accepted in Israel. The Company received approvals from the relevant banks for a decrease in the required ratios to between 25% and 28% in respect of the financial statements as of March 31, 2003, and thereby complied with the required decreased ratios as of that date.

Management of the Company believes based, among others, on discussions with the banks, that it will comply with the banks' required ratios and, insofar as necessary, will be able to continue to receive the banks' approval for the decreased ratios.

In light of the above, and for reasons of prudence, long-term loans in the amount of approximately NIS 56,000 as of March 31, 2003 were classified as short-term loans.

B. As described in Note 26C(9) to the pro forma annual financial statements, Group companies operating in the insurance sector in certain countries are required to comply with regulatory requirements in connection with the amount of the minimum shareholders' equity and in connection with permitted investments of policyholders' funds.

As of March 31, 2003, one insurance company operating in Bulgaria and another insurance company operating in Croatia did not fulfill the provisions relating to permitted investments of policyholders' funds.

According to existing law in Bulgaria, there are no sanctions for the non-fulfillment of the abovementioned provisions and the investee insurance company has an extension to remedy the situation.

According to existing law in Croatia, the sanctions in respect of non-fulfillment of the abovementioned provisions could be a maximum monetary penalty of US$ 70,000 and, in extreme cases, revocation of the license to operate in the insurance sector.

Note 6 - FINANCIAL CONTINGENCIES (Cont.)

B. (Cont.)

The company operating in Croatia and the supervisory authorities in the insurance sector have held discussions regarding non-fulfillment of the abovementioned provisions, during which the Croatian company submitted its plans to cover the deviation from the regulatory requirement over a number of years. In May 2003, the Croatian company was summoned to a court hearing in this regard. Management of the insurance company believes that it will not incur material monetary damages in light of its non-fulfillment of the provisions and will be able to continue to operate in the abovementioned insurance sector in Croatia.

Management of the companies and their shareholders intend to take steps to ensure that the companies fulfill the requirements, including investment of additional funds.

Note 7 - SPECIAL TAX ARRANGEMENT WITH THE INCOME TAX COMMISSIONER IN ISRAEL

As a result of a notification from the Income Tax Commissioner on November 5, 2002 regarding preparations relating to the tax reform in Israel, in April 2003 the Company reached a special tax arrangement with the Income Tax and Property Tax Commissioner (“the Commissioner”). According to the agreement, the Company will pay tax at the rate of 5% on accumulated profits realized and not yet realized (increase in value) through December 31, 2002, of investee companies of the Company that are located outside of Israel. According to the arrangement, the Company will pay tax in the amount of approximately NIS 12,170, constituting 5% of the Company’s share in the accumulated profits available for distribution (“arranged dividends”) and from profits from increases in value originating in foreign resident companies in which the Company has direct or indirect holdings and that hold assets in foreign countries (“the foreign assets”). Profits from increases in value are differences between the carrying value of the foreign assets as recorded in the Company’s financial statements prepared in accordance with accounting principles generally accepted in Israel, and their fair value as of December 31, 2002. The arrangement provides that the Company will not be subject to additional tax in respect of dividends received from the foreign resident investee companies up to the amount of the arranged dividends and in respect of gains from sale of the foreign assets up to the amount of the profits from increases in value.

Note 7 - SPECIAL TAX ARRANGEMENT WITH THE INCOME TAX COMMISSIONER IN ISRAEL (Cont.)

The tax payable by the Company in accordance with the arrangement will be paid commencing from May 2003 in 24 equal monthly installments linked to the Israel Consumer Price Index plus interest in accordance with the Israel Income Tax Ordinance.

The Company is not presently required to record any additional tax expense as a result of this arrangement.

As of the date of signing of the arrangement with the Commissioner, an associated company, Kardan Real Estate, Enterprise and Development Ltd. ("Kardan Real Estate") also signed an arrangement based on the same principles as the arrangement signed by the Company, according to which Kardan Real Estate will pay taxes in the amount of NIS 18,428.

Note 8 - DEBENTURES

As stated in Note 23A(2) to the pro forma annual financial statements, in February 2003 holders of debentures with a par value of NIS 6,679 which were issued by the Company in 2002, elected to exercise the right to early repayment granted to them at the time of issuance of the debentures. Accordingly, on February 13, 2003, the Company repaid these debentures (plus accrued interest and linkage differences) in consideration for NIS 7,539. The remaining holders of the debentures (holding a total par value of NIS 83,146) elected not to exercise the right to early repayment.

In accordance with the terms set at the time of issuance of the debentures, and in accordance with updates included in the letter sent by the Company on January 30, 2003, to the holders of the debentures, the annual interest rates on the outstanding principal in the second and third years of the debentures will be as follows:

In the second year – the higher of 8.75% and the average gross annual yield on Galil State of Israel debentures (Series 5611 and 5612), during the 14 days preceding February 13, 2003, plus a premium of 2.75% (in accordance with this mechanism, the interest rate in the second year will be 8.75%).

Note 8 - DEBENTURES (Cont.)

In the third year – the higher of 7.5% and the average gross annual yield on Galil State of Israel debentures (Series 5613 and 5614), during the 14 days preceding February 13, 2004, plus the aforementioned premium.

In the abovementioned letter, the Company provided the holders of the debentures with the possibility to waive their right of conversion to shares in consideration for more favorable interest terms. Holders of debentures with a par value of NIS 47,734,000 that elected to waive their right to convert their debentures to shares of the Company are entitled to a minimum interest rate of 8% in the third year of the debentures. As a result of the waiver, the Company reclassified NIS 683 from shareholders' equity (equity component of convertible debentures) to long-term liabilities (debentures).

Debentures with a par value of NIS 35,412,000 (that were not repaid early and whose holders did not waive their right to conversion) are convertible (in whole or in part) to shares of the Company such that each NIS 19 par value of debentures is convertible to one Ordinary share of NIS 1 par value (subject to adjustments).

In light of the above, long-term liabilities as of March 31, 2003 include NIS 51,398 classified as debentures and NIS 37,623 classified as convertible debentures.

Note 9 - SHARE CAPITAL

During the first quarter of 2003, the Company acquired on the Tel-Aviv Stock Exchange 78,852 of its shares in consideration for NIS 637. As of March 31, 2003, the Company holds 1,335,880 of its shares at a total cost of NIS 14,435, which is presented as a deduction from shareholders' equity.

Note 10 - EMPLOYMENT AGREEMENTS WITH CONTROLLING SHAREHOLDERS OF THE COMPANY

In May 2003, the shareholders of the Company approved an addendum to the employment agreement between the Company and the Chairman of the Board of Directors, according to which he will be employed as Chairman of the Board of Directors for three-quarters of a full-time position. The addendum to the agreement also provides that the employment agreement will not terminate at the end of five years from January 1, 2000, as agreed previously, but that it will be possible to terminate the agreement with advance notice of 180 days (by the Company) and of 30 days (by the Chairman). In remuneration for the above described employment, the Chairman will be entitled to a monthly salary (gross) of NIS 33 plus employee benefits, as set forth in the agreement.

The shareholders also approved an addendum to the employment agreement of the Joint General Manager (who is also as a director) according to which commencing from January 1, 2003, he will be employed for half of a full-time position, and that it will be possible to terminate the employment agreement by advance notice as described above regarding the Chairman. In remuneration for his employment, the Joint General Manager will be entitled to a monthly salary (gross) of NIS 27 plus employee benefits, as set forth in the agreement. Additionally, the shareholders approved management and consulting agreements with a company owned by the Joint General Manager, according to which management and consulting services will be provided to subsidiaries to the extent set forth in the agreement in consideration for quarterly payments of NIS 110.

Note 11 - CONTINGENCIES

As described in Note 26C(6) to the pro forma annual financial statements, a dispute between a subsidiary and a partner in a partnership regarding cessation of the partner's activity as operator of a waste disposal site was submitted to arbitration. According to the decision of the arbitrator, in March 2003, the partner is required to pay the subsidiary amounts which management of the subsidiary estimates will total approximately NIS 2,000.

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KARDAN N.V.
AMSTERDAM, THE NETHERLANDS

Balance sheet as at May 2, 2003

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BALANCE SHEET
As at May 2, 2003

	Notes	May 2, 2003
		EUR
A s s e t s		
Current assets		
Cash and cash equivalents		45,200
Total current assets		45,200
Total assets		45,200
S h a r e h o l d e r s' e q u i t y a n d l i a b i l i t i e s		
Share capital		
Issued capital	4	45,000
Total share capital		45,000
Current liabilities		
Other liabilities		200
Total current liabilities		200
Total shareholders' equity and liabilities		45,200

NOTES TO THE BALANCE SHEET
May 2, 2003

1 General

General

Kardan N.V. (‘the Company’) having its legal seat in Amsterdam, The Netherlands, was incorporated on May 2, 2003. The Company is a fully owned subsidiary of Kardan Ltd., located in Tel Aviv, Israel, and acts as an investment and finance company.
The registered office address of the Company is located at Prins Hendriklaan 18, Amsterdam, The Netherlands.

The balance sheet was authorized for issuance by the Managing Board on June 18, 2003

2 Summary of significant accounting policies

The balance sheet has been prepared in accordance with International Financial Reporting Standards as defined by the International Accounting Standards Board.

The accompanying balance sheet has been prepared under the historical cost convention, unless indicated otherwise.

3 Summary of accounting policies

Valuation

Assets and liabilities are stated at cost unless indicated otherwise.

Cash and cash equivalents

Cash includes cash with banks.

4 Share capital

A. The Company's authorized share capital as at May 2, 2003 amounts to EUR 225,000 comprised of 1,125,000 shares with a nominal value of EUR 0.20 each. As at May 2, 2003 225,000 shares with a nominal value of EUR 0.20 were issued and fully paid-in.

In June 2003, the shareholders of the Company resolved to increase the authorized share capital of the Company to EUR 45 million comprised of 225 million shares with a nominal value of EUR 0.20 each. As of the date of approval of the balance sheet, the declaration of no objection to the increase in the share capital had been received from the Justice Department in the Netherlands. The increase in share capital will become effective upon the issuance of the shares subsequent to the completion of the exchange purchase offer (see Note 5A below).

B. Regarding convertible debentures and warrants to purchase shares of the Company – see Notes 5C and 5D below.

5 Subsequent events

A. On May 7, 2003, the Supervisory Board and Managing Board of the Company approved a resolution to make an exchange purchase offer to all holders of shares of Kardan Ltd. ("Kardan shares"), pursuant to Section 336 of the Israeli Companies Law, 1999, by means of a prospectus and tender offer published in accordance with the provisions of the Israeli Securities Law, 1968, the Securities Regulations (Particulars of Prospectus, Its Structure and Form), 1969, and the Securities Regulations (Purchase Offer), 2000. Under the terms of the exchange purchase offer, the Company will offer to purchase all Kardan shares from the holders thereof, in exchange for Company shares which the Company intends to list for trading on the Tel-Aviv Stock Exchange and the Euronext Amsterdam N.V. (AEX). The Company has also undertaken to accept all responsibilities of Kardan Ltd. in respect of all past reports of Kardan Ltd. that were publicly filed in accordance with the provisions of the Israeli Securities Law, 1968 and regulations thereunder, until the date the Company's securities will be listed for trading on the Tel-Aviv Stock Exchange. The exchange purchase offer is subject to receipt of various approvals including approvals from the Securities Authorities in the Netherlands and in Israel, and the acceptance of the exchange purchase offer by the shareholders of Kardan Ltd.

B. On June 11, 2003, the Company entered into an agreement with Kardan Ltd., according to which Kardan Ltd. will provide the Company with loans amounting to EUR 3 million, which are to be used for the current operations of the Company and to cover the costs relating to the exchange purchase offer and to the listing of the Company's shares for trading as described in A. above.

The agreement provides that EUR 1 million is repayable on December 31, 2005 and EUR 2 million is repayable on December 31, 2006. The Company has the right to prepay or defer the repayments with advance notice. The loans bear annual interest at a rate of LIBOR + 1.5%.

5 Subsequent events (Cont.)

C. The holders of convertible debentures that were issued by Kardan Ltd. in 2001 and 2002, held general meetings on June 10, 2003. At these meetings, it was resolved to approve a change in the terms of the debentures such that the right of the holders of the aforementioned debentures to convert the principal amount of the debentures into shares of Kardan Ltd. will expire and in exchange for this right, the holders will have the right to convert the principal amount of the debentures into shares of the Company such that each NIS 16 nominal value of debentures will be convertible into one share of the Company with a nominal value of EUR 0.20 each (instead of NIS 19 nominal value of debentures for one share of Kardan Ltd.). The aforementioned change is subject to the completion of the exchange purchase offer and the listing of the Company's shares for trading as described in A. above.

The nominal value of the abovementioned convertible debentures is NIS 162,870,000 as of March 31, 2003. The balance of the liability in respect of the aforementioned debentures in the accounts of Kardan Ltd. as of March 31, 2003 amounts to NIS 152 million (EUR 29.7 million). These debentures are, in part, linked to the Israeli Consumer Price Index and in part, not linked, and bear interest at rates as set forth in the agreement in respect of each series of debentures. The debentures may be converted, in whole or in part, between 2003 and 2006, in accordance with the terms established for each series of debentures.

D. In June 2003, the holders of 600,000 warrants for the purchase of shares that were issued by Kardan Ltd. signed an agreement with Kardan Ltd. and the Company according to which the holders of the warrants agreed to forfeit their warrants to purchase shares of Kardan Ltd. in exchange for the receipt of an identical number of warrants to purchase 600,000 shares of the Company with a nominal value of EUR 0.20 each. This agreement will take effect upon the completion of the exchange purchase offer and the listing of the Company's shares for trading as described in A. above and upon receipt of the approval of the Israeli income tax authorities that the provisions of Section 102 of the Israeli Income Tax Ordinance will continue to be applicable to these warrants.

The warrants may be exercised in periods and dates as set forth in the agreements (partly until 2004 and partly until 2006). The exercise price for 300,000 warrants is NIS 12 per share, linked to the Israeli Consumer Price Index. The exercise price for 150,000 warrants will be equivalent to 75% of the market price of the shares on the stock exchange on the date of exercise. The exercise price for the remaining 150,000 warrants is NIS 11 per share linked to the Israeli Consumer Price Index.

E. Kardan Ltd. has requested that after the Company becomes the shareholder of Kardan Ltd., the Company provide a bank with an unlimited guarantee , to secure all of Kardan Ltd.'s liabilities to that bank. The Company has not yet formally decided to provide the guarantee.

ERNST & YOUNG

To the shareholders of Kardan N.V.

AUDITORS' REPORT

We have audited the accompanying balance sheet and the notes thereto of KARDAN N.V. ("the Company") as at May 2, 2003. This balance sheet and the notes thereto is the responsibility of the Company's Managing Board and management. Our responsibility is to express an opinion on this balance sheet and the notes thereto based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet and the notes thereto are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet and the notes thereto. An audit also includes assessing the accounting principles used and significant estimates made by the Managing Board and management, as well as evaluating the overall presentation of the balance sheet and the notes thereto. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the balance sheet and the notes thereto present fairly, in all material respects, the financial position of the Company as of May 2, 2003 in conformity with International Financial Reporting Standards.

Amsterdam, June 18, 2003

Ernst & Young Accountants

KARDAN LTD.

PRO FORMA CONSOLIDATED FINANCIAL DATA TRANSLATED TO EURO FOR THE CONVENIENCE OF THE READER (UNAUDITED)

C O N T E N T S

*SEE "IMPORTANT INFORMATION" IN THE PROSPECTUS FOR AN EXPLANATION OF THE CONVENIANCE TRANSLATION OF CURRENCIES

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CONVENIENCE TRANSLATION

CONSOLIDATED BALANCE SHEETS
as of 31 December

	In thousands of NIS			In thousands of EURO		
	2002	2001	2000	2002	2001	2000
CURRENT ASSETS						
Cash and cash equivalents	225.674	92.040	137.940	45.411	23.555	36.659
Short-term investments	38.787	160.069	90.610	7.805	40.965	24.080
Trade receivables	106.143	124.949	118.489	21.358	31.977	31.490
Reinsurance receivables and insurance companies	116.735	57.321	72.383	23.490	14.669	19.236
Insurance premiums receivable	19.351	17.451	20.515	3.894	4.466	5.452
Other receivables and prepayments	44.458	64.322	53.812	8.946	16.461	14.301
Current maturities of long-term loans and receivables	46.332	27.834	35.215	9.323	7.123	9.359
Merchandise inventories	9.994	9.373	36.051	2.011	2.399	9.581
Contract work in progress	15.655	19.409	-	3.150	4.967	-
	623.129	**572.768**	**565.015**	**125.388**	**146.582**	**150.158**
NON-CURRENT ASSETS						
Long-term loans and receivables	83.764	29.349	52.979	16.855	7.511	14.080
Deferred income tax asset	12.932	14.585	3.723	2.602	3.733	989
Deposits with insurers	2.843	695	10.969	572	178	2.915
Investments in associates	641.556	536.560	539.774	129.096	137.315	143.450
Available-for-sale financial assets	139.138	123.629	73.916	27.998	31.639	19.644
Investment properties	26.454	22.842	37.776	5.323	5.846	10.039
Property, plant and equipment	135.580	133.978	148.036	27.282	34.287	39.342
Deferred acquisition costs (Insurance companies)	11.176	8.494	15.699	2.249	2.174	4.172
Intangible assets	80.145	72.660	92.896	16.127	18.595	24.688
	1.133.588	**942.792**	**975.768**	**228.104**	**241.278**	**259.320**
	1.756.717	**1.515.560**	**1.540.783**	**353.493**	**387.859**	**409.478**

	In thousands of NIS			In thousands of EURO		
	2002	**2001**	**2000**	**2002**	**2001**	**2000**
CURRENT LIABILITIES						
Loans and borrowings	271.873	338.703	310.068	54.707	86.680	82.404
Trade payables	22.370	32.281	61.233	4.501	8.261	16.273
Due to customers for contract work	43.328	25.020	-	8.719	6.403	-
Advances from customers in respect of contracts	66.572	37.510	-	13.396	9.599	-
Other payables and accrued expenses	155.336	91.051	136.202	31.257	23.302	36.197
	559.479	**524.565**	**507.503**	**112.580**	**134.246**	**134.874**
NON-CURRENT LIABILITIES						
Insurance provisions	282.793	196.521	329.060	56.905	50.293	87.451
Convertible debentures	186.654	106.764	-	37.559	27.323	-
Loans and borrowings	196.372	215.803	162.757	39.515	55.228	43.254
Deferred income tax liability	10.331	11.009	7.785	2.079	2.817	2.069
Accrued severance pay, net	3.794	4.427	3.583	763	1.133	952
	679.944	**534.524**	**503.185**	**136.821**	**136.794**	**133.726**
MINORITY INTEREST	**73.070**	**71.632**	**152.289**	**14.703**	**18.332**	**40.472**
SHAREHOLDERS' EQUITY						
Share capital	81.535	78.545	78.478	16.407	20.101	20.856
Share premium	211.192	186.493	185.693	42.497	47.727	49.350
Net unrealized gains on forward currency contracts	-	7.828	-	-	2.003	-
Foreign currency translation	71.927	33.516	(478)	14.473	8.577	(127)
Convertible debentures - equity component	3447	2.258	-	694	578	-
Warrants	-	1.365	-	-	349	-
Accumulated profits	89.921	77.317	114.113	18.094	19.787	30.327
Treasury shares	(13.798)	(2.483)	-	(2.776)	(635)	-
	444.224	**384.839**	**377.806**	**89.388**	**98.487**	**100.406**
	1.756.717	**1.515.560**	**1.540.783**	**353.493**	**387.859**	**409.478**

CONSOLIDATED STATEMENTS OF OPERATIONS

For the year ended 31 December

	In thousands of NIS			In thousands of EURO		
	2002	2001	2000	2002	2001	2000
NET REVENUES						
Sales and services	140.500	248.280	373.631	28.752	65.955	99.162
Contract revenues	246.572	238.453	-	50.458	63.344	
Insurance activities	197.637	140.026	214.965	40.444	37.197	57.052
Equity in net earnings of associated companies	38.614	9.410	44.088	7.902	2.500	11.701
Gain on issuance of shares in associated ompanies and subsidiaries to third parties	1.064	15.906	17.415	218	4.225	4.622
Management fees	5.320	12.130	9.217	1.089	3.222	2.446
Financing income, net	26.953	-	-	5.516	-	-
Gain on disposal of assets and other income, net	16.936	65.676	25.041	3.466	17.447	6.646
	673.596	**729.881**	**684.357**	**137.843**	**193.890**	**181.628**
EXPENSES						
Cost of sales and services	119.029	186.416	248.690	24.358	49.521	66.002
Contract costs	185.951	181.018	-	38.052	48.087	-
Cost of building space sold	182.523	135.375	208.254	37.351	35.962	55.271
Selling and marketing expenses	42.530	58.442	60.184	8.703	15.525	15.973
General and administrative expenses	103.840	137.347	112.488	21.250	36.486	29.854
Financing expenses, net	-	29.389	33.930	-	7.807	9.005
Other expenses, net	30.191	44.704	17.293	6.178	11.875	4.590
	664.064	**772.691**	**680.839**	**135.892**	**205.263**	**180.695**
Income (loss) before taxes on income	9.532	(42.810)	3.518	1.951	(11.372)	934
TAXES ON INCOME	12.773	5.325	6.121	2.614	1.415	1.625
Income (loss) after taxes on income	(3.241)	(48.135)	(2.603)	(663)	(12.787)	(691)
MINORITY INTEREST	15.845	16.432	14.793	3.242	4.365	3.926
Net income (loss)	12.604	(31.703)	12.190	2.579	(8.422)	3.235

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the year ended 31 December

	In thousands of NIS			In thousands of EURO		
CASH FLOWS FROM OPERATING ACTIVITIES	2002	2001	2000	2002	2001	2000
Income (loss) before taxes on income	9.532	(42.810)	3.518	1.951	(11.372)	934
Adjustments for:						
Equity in undistributed earnings of associated companies, net (1)	(38.713)	(2.070)	(30.147)	(7.922)	(550)	(8.001)
Gain on issuance of shares in investee companies to third parties, net	(1.064)	(15.906)	(17.415)	(218)	(4.225)	(4.622)
Gain on the disposal of property, plant and equipment and other assets, net	(12.750)	(61.216)	(7.738)	(2.609)	(16.262)	(2.054)
Impairment of investments	29.715	35.638	-	6.081	9.467	-
Depreciation and amortization	26.271	47.346	21.738	5.376	12.577	5.769
Fair value adjustments of investment properties	(2.200)	-	-	(450)	-	-
Exchange differences	6.186	10.658	(4.489)	1.266	2.831	(1.191)
Decrease (increase) in fair value of marketable securities, net	5.719	(2.819)	1.892	1.170	(749)	502
Increase (decrease) in accrued severance pay, net	(586)	(196)	1.306	(120)	(52)	347
Change in insurance provisions, outstanding claims and deferred acquisition expenses, net	72.469	30.757	27.805	14.830	8.170	7.379
Changes in operating assets and liabilities:						
Decrease in outstanding insurance premiums, insurance companies and reinsurers	(57.976)	(22.412)	(1.771)	(11.864)	(5.954)	(470)
Decrease (increase) in trade and other receivables	35.152	(13.280)	(25.285)	7.193	(3.528)	(6.711)
Decrease in inventories and in cost of contracts in progress, net of advances from customers	39.530	71.743	5.919	8.089	19.058	1.571
Increase in trade and other payables	40.830	(37.626)	39.876	8.355	(9.995)	10.583
Cash generated from operations	152.115	(2.193)	15.209	31.128	(583)	4.036
Income taxes paid	(11.302)	(9.499)	(10.721)	(2.313)	(2.523)	(2.845)
Net cash provided by (used in) operating activities	140.813	(11.692)	4.488	28.816	(3.106)	1.191
(1) Dividends received from associated companies	99	7.340	13.941	20	1.950	3.700
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisition of property, plant and equipment and investment in properties	(20.456)	(30.834)	(46.086)	(4.186)	(8.191)	(12.231)
Investments in companies and partnerships	(29.912)	(51.588)	(40.045)	(6.121)	(13.704)	(10.628)
Granting of credit to investee companies, net	(30.627)	(25.726)	(54.821)	(6.267)	(6.834)	(14.549)
Proceeds from disposal of investments and property, plant and equipment	8.454	15.397	104.541	1.730	4.090	27.745
Granting of long-term loans	(40.640)	(9.556)	(2.038)	(8.316)	(2.539)	(541)
Collection of long-term receivables	18.350	14.745	4.586	3.755	3.917	1.217
Dividend from associated company	1.766	-	-	361	-	-
Short-term investments, net	110.401	(204.282)	(26.498)	22.592	(54.267)	(7.033)
Decrease in cash from newly-consolidated subsidiaries (see A below)	(10.745)	(21.463)	(291)	(2.199)	(5.702)	(77)
Increase (decrease) in cash of formerly-consolidated subsidiaries (see B below)	3.918	(50.325)	(24.130)	802	(13.369)	(6.404)
Additions to other assets	(5.346)	(4.738)	(5.201)	(1.094)	(1.259)	(1.380)
Net cash provided by (used in) investing activities	5.163	(368.370)	(89.983)	1.057	(97.856)	(23.881)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issuance of warrants	-	1.432	-	-	380	-
Proceeds from exercise of warrants and issuance of Company shares, net	24.157	800	-	4.943	213	-
Proceeds from issuance of shares to minority interest in subsidiaries, net	824	1.768	24.268	169	470	6.441
Treasury shares purchased	(9.148)	(2.483)	-	(1.872)	(660)	-
Dividend to minority shareholders of subsidiary	-	(1.871)	(1.013)	-	(497)	(269)
Proceeds from issuance of convertible debentures, net of issuance expenses	98.579	106.384	-	20.173	28.261	-
Repayment of debentures	(10.415)	(2.592)	(20.906)	(2.131)	(689)	(5.548)
Receipt of long-term loans	125.848	119.615	26.207	25.753	31.775	6.955
Repayment of long-term loans	(99.933)	(48.698)	(26.815)	(20.450)	(12.936)	(7.117)
Increase (decrease) in short-term loans and borrowings, net	(145.751)	154.455	60.310	(29.826)	41.030	16.006
Net cash provided by (used in) financing activities	(15.839)	328.810	62.051	(3.241)	87.347	16.468
FOREIGN EXCHANGE DIFFERENCES RELATING TO CASH AND CASH EQUIVALENTS	3.497	5.352	(3.080)	(4.775)	511	3.488
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	133.634	(45.900)	(26.524)	21.856	(13.104)	(2.734)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	92.040	137.940	164.464	23.555	36.659	39.393
CASH AND CASH EQUIVALENTS AT END OF YEAR	225.674	92.040	137.940	45.411	23.555	36.659

	In thousands of NIS			In thousands of EURO		
A. DECREASE IN CASH FROM NEWLY-CONSOLIDATED SUBSIDIARIES:	2002	2001	2000	2002	2001	2000
Assets and liabilities of subsidiaries as of date of consolidation:						
Cash	(1.902)	(26.537)	(47.056)	(389)	(7.049)	(12.489)
Deficit in working capital (working capital) (excluding cash)	(3.803)	19.333	(20.829)	(778)	5.136	(5.528)
Assets and investments	(248)	(58.015)	(232.567)	(51)	(15.411)	(61.723)
Goodwill on acquisition	(10.332)	(16.918)	(41.420)	(2.114)	(4.494)	(10.993)
Non-current liabilities	3.164	18.130	137.222	647	4.816	36.419
Payables with respect to acquisition	-	-	10.529	-	-	2.794
Minority interest	474	(3.752)	69.026	97	(997)	18.319
Balance of investment at date of acquisition (formerly an associated company)	-	19.759	77.748	-	5.249	20.634
Total purchase price	(12.647)	(48.000)	(47.347)	(2.588)	(12.751)	(12.566)
Cash of subsidiaries acquired	1.902	26.537	47.056	389	7.049	12.489
Cash flow on acquisition net of cash acquired	(10.745)	(21.463)	(291)	(2.199)	(5.702)	(77)

B. INCREASE (DECREASE) IN CASH OF FORMERLY-CONSOLIDATED SUBSIDIARIES:						
Assets and liabilities at cessation of consolidation:						
Cash	302	95.772	24.130	62	25.442	6.404
Deficit in working capital (excluding cash)	(4.370)	(16.211)	(143.788)	(894)	(4.306)	(38.161)
Assets and investments	17.188	171.694	502.311	3.517	45.610	133.313
Long-term liabilities	(6.192)	(190.867)	(133.278)	(1.267)	(50.703)	(35.372)
Minority interest	(4.065)	(63.821)	(58.262)	(832)	(16.954)	(15.463)
Gain on issuance	-	-	15.687	-	-	4.163
Loss on disposal of investment	1.357	60.377	18.129	278	16.039	4.811
Investment in formerly-consolidated subsidiaries	-	(11.497)	(224.929)	-	(3.054)	(59.696)
Total purchase price	4.220	45.447	0	864	12.073	0
Cash of subsidiaries acquired	302	95.772	24.130	62	25.442	6.404
Cash flow on acquisition net of cash acquired	3.918	(50.325)	(24.130)	802	(13.369)	(6.404)
C. NON-CASH TRANSACTIONS						
Dividend receivable from associated company	-	1.660	-	-	441	-
Issuance of shares in investee company to third party in consideration for the receipt of consulting services	-	975	-	-	259	-
Sale of fixed assets on credit	-	-	1.071	-	-	284
Acquisition of fixed assets on credit	768	628	-	157	167	-

KARDAN LTD.

PRO FORMA CONSOLIDATED FINANCIAL DATA AS OF MARCH 31, 2003 AND 2002 TRANSLATED TO EURO FOR THE CONVENIENCE OF THE READER (UNAUDITED)

C O N T E N T S

*SEE “IMPORTANT INFORMATION” IN THE PROSPECTUS FOR AN EXPLANATION OF THE CONVENIANCE TRANSLATION OF CURRENCIES

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CONVENIENCE TRANSLATION

CONSOLIDATED BALANCE SHEETS

	In thousands of NIS	In thousands of EURO
	31 March 2003	31 March 2003
CURRENT ASSETS		
Cash and cash equivalents	192.576	37.696
Short-term investments	53.187	10.411
Trade receivables	126.613	24.784
Reinsurance receivables and insurance companies	131.754	25.791
Insurance premiums receivable	51.499	10.081
Other receivables and prepayments	32.742	6.409
Current maturities of long-term loans and receivables	44.913	8.792
Merchandise inventories	7.892	1.545
Contract work in progress	14.579	2.854
	655.755	**128.363**
NON-CURRENT ASSETS		
Long-term loans and receivables	96.900	18.968
Deferred income tax asset	13.784	2.698
Deposits with insurers	2.736	536
Investments in associates	659.052	129.008
Available-for-sale financial assets	131.361	25.714
Investment properties	24.981	4.890
Property, plant and equipment	136.462	26.712
Deferred acquisition costs (Insurance companies)	21.813	4.270
Intangible assets	81.645	15.982
	1.168.734	**228.778**
	1.824.489	**357.141**

	In thousands of NIS	In thousands of EURO
	31 March 2003	31 March 2003
CURRENT LIABILITIES		
Loans and borrowings	354.352	69.364
Trade payables	27.705	5.423
Due to customers for contract work	56.414	11.043
Advances from customers in respect of contracts	66.850	13.086
Other payables and accrued expenses	139.446	27.296
	644.767	**126.212**
NON-CURRENT LIABILITIES		
Insurance provisions	369.839	72.395
Debentures	51.398	10.061
Convertible debentures	137.446	26.905
Loans and borrowings	108.463	21.231
Deferred income tax liability	11.845	2.319
Accrued severance pay, net	3.689	722
	682.680	**133.633**
MINORITY INTEREST	**66.380**	**12.994**
SHAREHOLDERS' EQUITY		
Share capital	81.535	15.960
Share premium	211.192	41.340
Foreign currency translation	66.411	13.000
Convertible debentures - equity component	2764	541
Accumulated profits	83.195	16.285
Treasury shares	(14.435)	(2.826)
	430.662	**84.301**
	1.824.489	**357.141**

CONSOLIDATED STATEMENTS OF OPERATIONS

	In thousands of NIS		In thousands of EURO	
	March 31 2003	March 31 2002	March 31 2003	March 31 2002
NET REVENUES				
Sales and services	28.936	40.110	5.586	9.913
Contract revenues	61.872	55.932	11.944	13.823
Insurance activities	46.788	38.817	9.032	9.593
Equity in net earnings of associated companies	16.189	7.276	3.125	1.798
Gain on issuance of shares in associated ompanies and subsidiaries to third parties	35	-	7	-
Management fees	465	418	90	103
Financing income, net	-	78135	-	19.310
Gain on disposal of assets and other income, net	2.145	900	414	222
	156.430	**221.588**	**30.198**	**54.763**
EXPENSES				
Cost of sales and services	25.571	32.214	4.936	7.961
Contract costs	46.923	42.280	9.058	10.449
Operating expenses of insurance activities	44.308	37.360	8.554	9.233
Selling and marketing expenses	11.372	10.950	2.195	2.706
General and administrative expenses	19.802	32.250	3.823	7.970
Financing expenses, net	5.988	-	1.156	-
Other expenses, net	13.757	606	2.656	150
	167.721	**155.660**	**32.378**	**38.470**
Income (loss) before taxes on income	(11.291)	65.928	(2.180)	16.293
TAXES ON INCOME	2.261	9.167	436	2.266
Income (loss) after taxes on income	(13.552)	56.761	(2.616)	14.028
MINORITY INTEREST	6.826	123	1.318	30
Net income (loss)	(6.726)	56.884	(1.298)	14.058

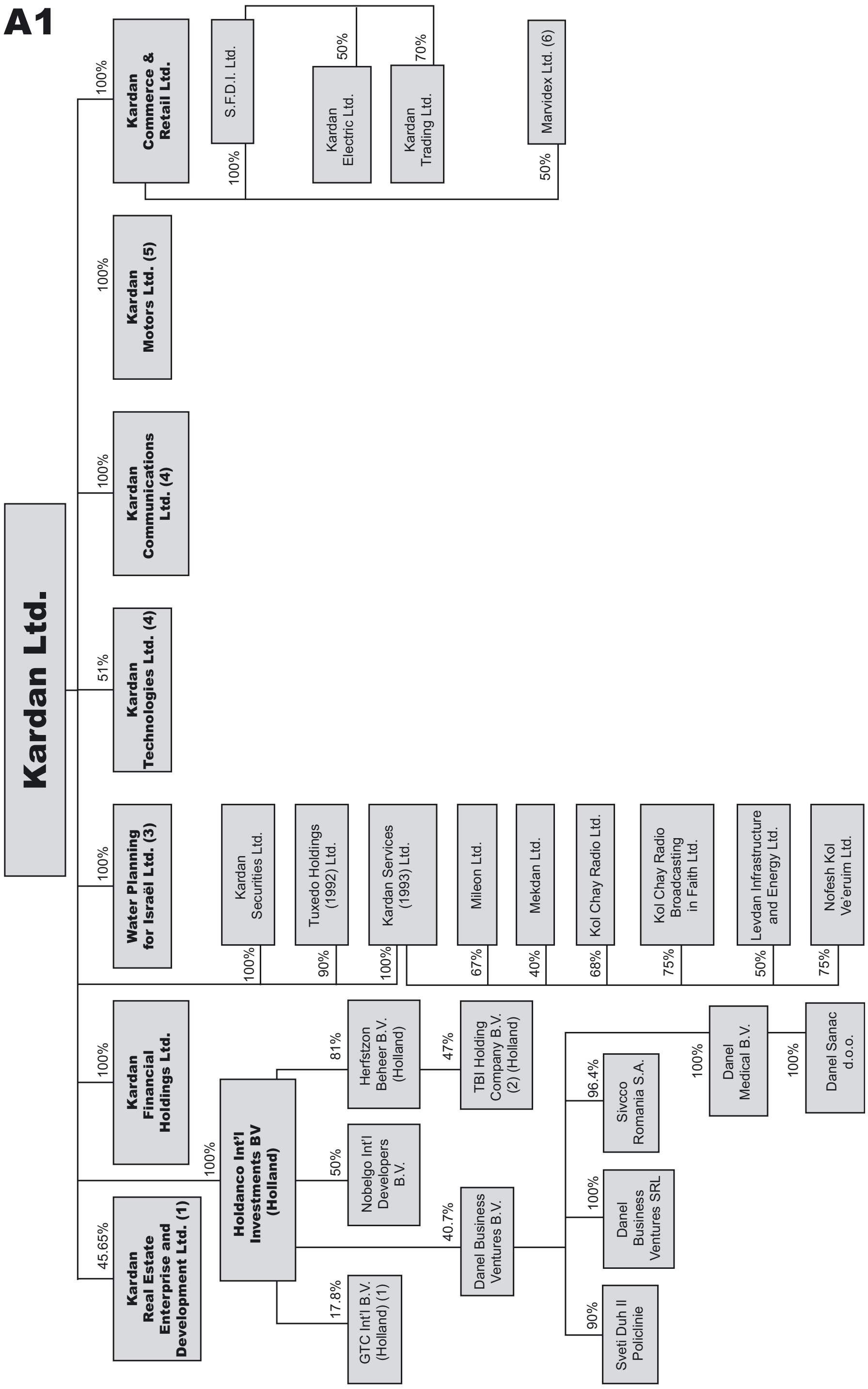
CONSOLIDATED STATEMENTS OF CASH FLOWS

	In thousands of NIS		In thousands of EURO	
CASH FLOWS FROM OPERATING ACTIVITIES	March 31 2003	March 31 2002	March 31 2003	March 31 2002
Income (loss) before taxes on income	(11.291)	65.928	(2.180)	16.293
Adjustments for:				
Equity in undistributed earnings of associated companies, net (1)	(16.189)	(7.375)	(3.125)	(1.823)
Gain on issuance of shares in investee companies to third parties, net	(35)	-	(7)	-
Loss (gain) on the disposal of property, plant and equipment and other assets, net	(656)	30	(127)	7
Impairment of investments	12.391	-	2.392	-
Depreciation and amortization	7.220	6.657	1.394	1.645
Exchange differences	3.415	(695)	659	(172)
Increase in fair value of securitiesheld for trading, net	(1.990)	-	(384)	-
Decrease in accrued severance pay, net	(105)	(96)	(20)	(24)
Change in insurance provisions, outstanding claims and deferred acquisition expenses, net	79.277	30.086	15.304	7.435
Changes in operating assets and liabilities:				
Increase in outstanding insurance premiums, reinsurers recevibles and insurance companies	(48.526)	(12.864)	(9.368)	(3.179)
Increase in trade and other receivables	(8.983)	(15.499)	(1.734)	(3.830)
Decrease in inventories and in cost of contracts in progress, net of advances from customers	24.876	(996)	4.802	(246)
Increase in trade and other payables	(20.263)	5.307	(3.912)	1.312
Cash generated from operations	19.141	70.483	3.695	17.419
Income taxes paid	(1.475)	(4.924)	(285)	(1.217)
Net cash provided by (used in) operating activities	17.666	65.559	3.410	16.202
(1) Dividends received from associated companies	-	99	-	24
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of property, plant and equipment and investment in properties	(3.449)	(2.988)	(666)	(738)
Investments in companies and partnerships	(12.855)	(2.474)	(2.482)	(611)
Collection (granting) of loans to associated companies, net	3.813	(14.932)	736	(3.690)
Proceeds from disposal of property, plant and equipment and other assets	4.178	104	807	26
Granting of long-term loans	(15.043)	(1.492)	(2.904)	(369)
Collection of long-term receivables	429	2.970	83	734
Dividend from associated company	-	1.766	-	436
Short term investments	(12.679)	(8.236)	(2.448)	(2.035)
Acquisition of newly-consolidated subsidiaries, net of cash acquired (see A below)	-	(10.745)	-	(2.656)
Other investments	(863)	(2.993)	(167)	(740)
Net cash provided by (used in) investing activities	(36.469)	(39.020)	(7.040)	(9.643)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from exercise of warrants and issuance of Company shares, net	-	23.668	-	5.849
Treasury shares purchased	(637)	(5.664)	(123)	(1.400)
Repayment of convertible debentures	(7.113)	-	(1.373)	-
Receipt of long-term loans	5.588	46.926	1.079	11.597
Repayment of long-term loans	(5.666)	(3.347)	(1.094)	(827)
Decrease in short-term loans and borrowings, net	(5.749)	(52.810)	(1.110)	(13.051)
Net cash provided by (used in) financing activities	(13.577)	8.773	(2.621)	2.168
FOREIGN EXCHANGE DIFFERENCES RELATING TO CASH AND CASH EQUIVALENTS	(718)	2.752	(1.464)	(379)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(33.098)	38.064	(7.714)	8.348
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	225.674	92.040	45.411	23.555
CASH AND CASH EQUIVALENTS AT END OF PERIOD	192.576	130.104	37.696	31.902

A. DECREASE IN CASH FROM NEWLY-CONSOLIDATED SUBSIDIARIES:	In thousands of NIS		In thousands of EURO	
	March 31 2003	**March 31 2002**	**March 31 2003**	**March 31 2002**
Assets and liabilities of subsidiaries as of date of consolidation:				
Cash	-	(1.902)	-	(470)
working capital (excluding cash)	-	(3.803)	-	(940)
Non-current assets	-	(248)	-	(61)
Goodwill on acquisition	-	(10.332)	-	(2.553)
Non-current liabilities	-	3.164	-	782
Minority interest	-	474	-	117
Total purchase price	-	(12.647)	-	(3.126)
Cash of subsidiaries acquired	-	1.902	-	470
Cash flow on acquisition net of cash acquired	-	(10.745)	-	(2.656)

B. NON-CASH TRANSACTIONS				
Issuance of convertible debentures in consideration for a deposit	-	100.000	-	24.714
Waiver of conversion right	683	-	132	-

ANNEX A1



A The data in this chart is updated to 11.6.03.

B The percentages shown are rounded to the nearest number

C In different companies the employees were given options to purchase shares that were not yet exercised. The percentage of ownership stated is the present percentage and not fully diluted.

D The chart shows only active companies.

(1) Enclosed is a holdings' chart for the companies held by Kardon Real Estate Enterprise & Development Ltd. & GTC International B.V., as Annex A2 (i) and A2 (ii).

(2) Enclosed is a holdings' chart for the companies held by TBIH, as Annex A3.

(3) Enclosed is a holdings' chart for the companies held by Water Planning for Israel Ltd, as Annex A4.

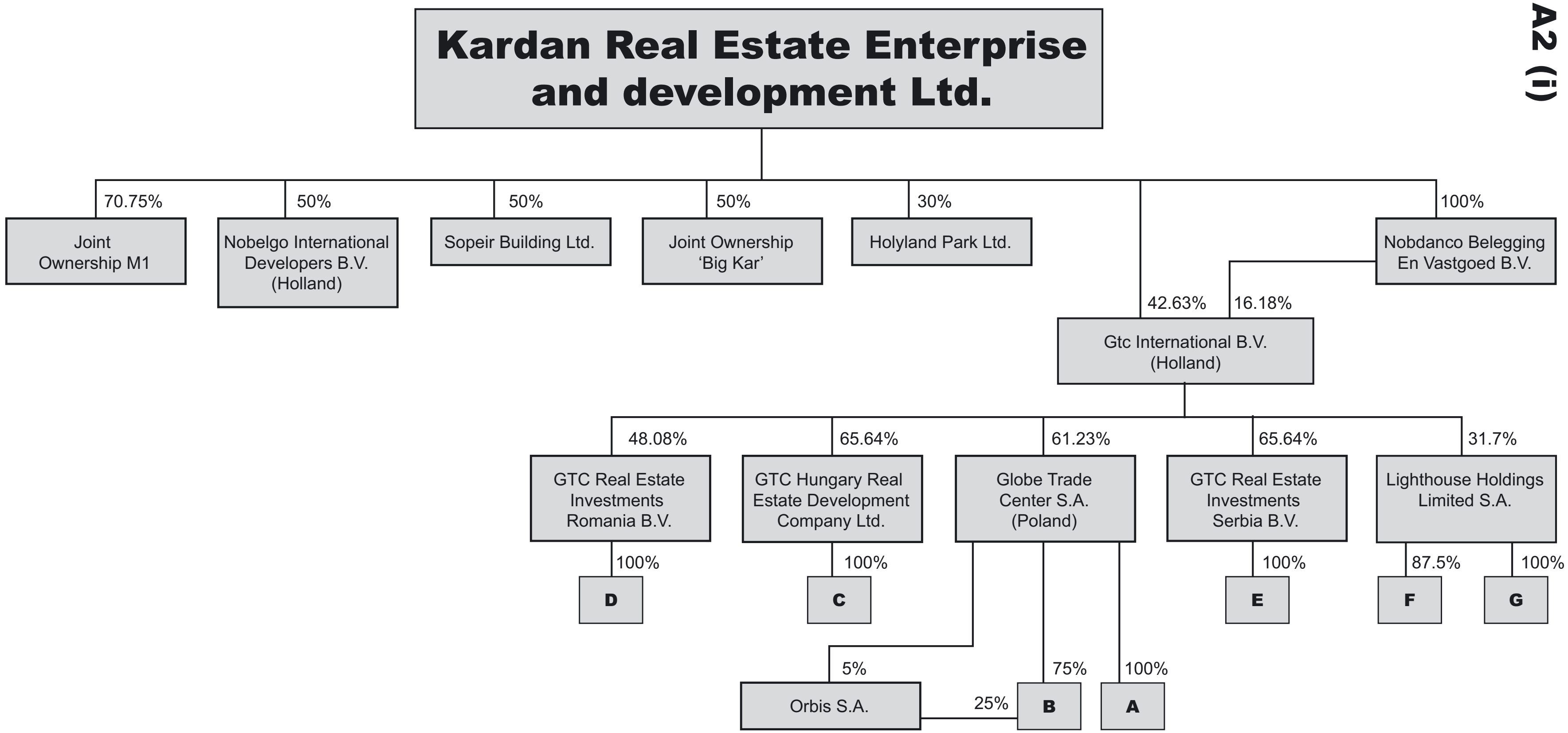
(4) Enclosed is a holdings' chart for the companies held by Kardan Technologies Ltd. & Kardan Communications Ltd., as Annex A5.

(5) For a detailed chart of the companies held by Kardan Motors Ltd., see page 69 of the prospectus.

(6) The other shareholder has the option to have the Kardan shares transferred to his possession at any time without any return. The other shareholder will also be solely responsible for all company losses and will have the right to the company's profits. Kardan's shareholding has only a formal meaning.

(7) Mekdon Ltd. has 17 fully owned subsidiaries, one for every project.

ANNEX A2 (i)



A The data in this chart is updated to 11.6.03.
B The percentages shown are rounded to the nearest number
C In different companies the employees were given options to purchase shares that were not yet exercised. The percentage of ownership stated is the present percentage and not fully diluted.
D The chart shows only active companies.

ANNEX A2 (ii)

A. Globe Trade Center S.A.
- Darat Sp. z.O.o.
- GTC Galeria Sp. z.O.o.
- GTC Formerly Mercury Sp. z.O.o.
- GTC Konstancja Sp. z.O.o.
- GTC Mars Sp. z.O.o.
- GTC Taurus Sp. z.O.o.
- GTC Vega Sp. z.O.o.
- GTC Aeropark Sp. z.O.o.
- GTC Neptune Sp. z.O.o.
- GTC Korona S.A.
- GTC Topaz Sp. z.O.o.
- GTC CH Galeria Sp. z.O.o.
- GTC Galeria Kazimierz Sp. z.O.o.

B. Globe Trade Center S.A.
- Globis Poznan Sp. z.O.o.
- Globis Wroclaw Sp. z.O.o.

C. GTC Hungary Real Estate Development Company Ltd.
- Vaci ul. (81-85) KFT
- Riverside Apartment KFT
- Vektor - H KFT
- Center Point I KFT

D. GTC Real Estate Investment Romania B.V.
- Victoria International Property SRL
- Towers International Property SRL

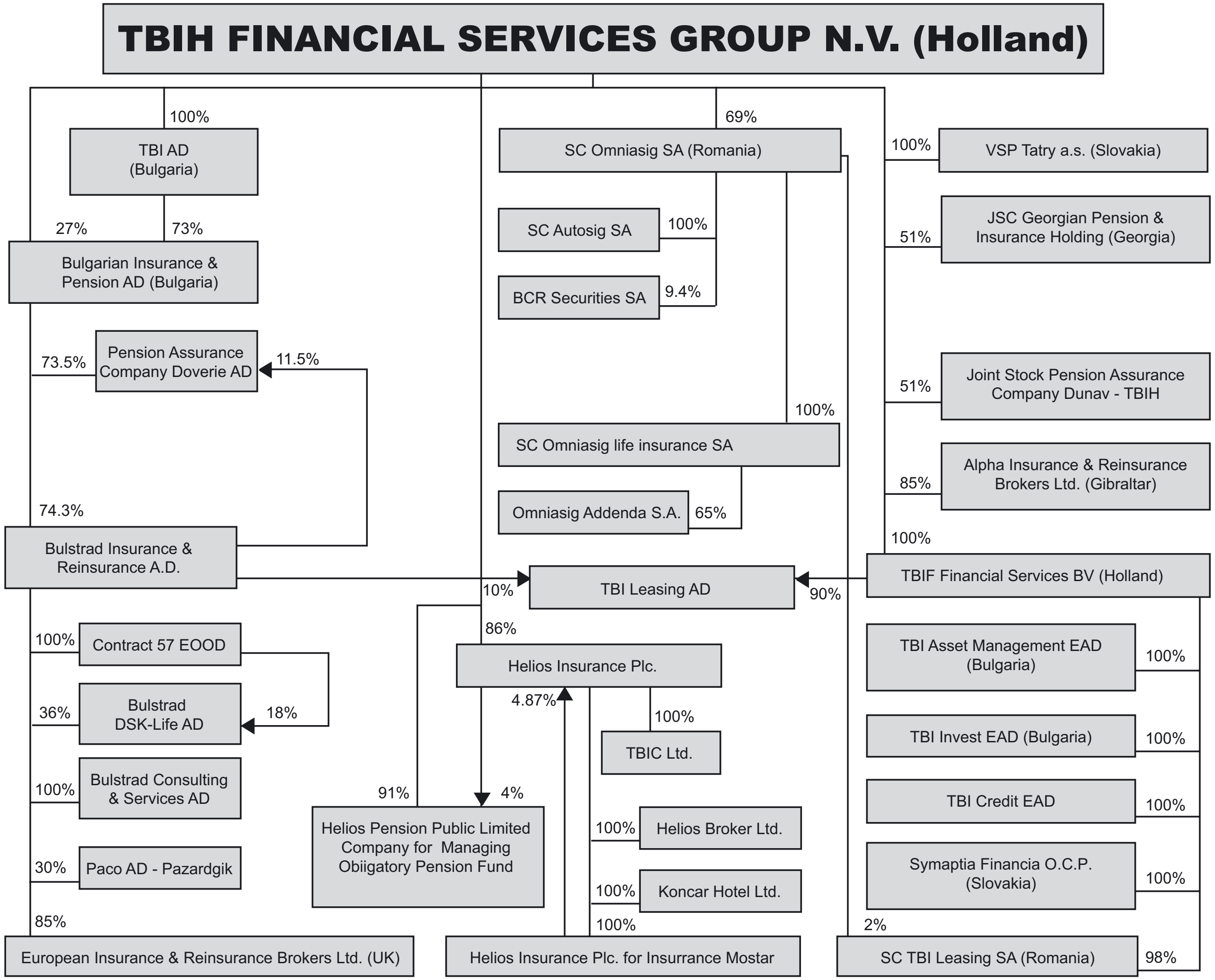
E. GTC Real Estate Investment Serbia B.V.
- GTC International Development Belgrade

F. Lighthouse Holdings Limited S.A.
- Lighthouse Vitava Waterfront Towers S.R.O.

G. Lighthouse Holdings Limited S.A.
- Lighthouse Services S.R.O.

A The data in this chart is updated to 11.6.03.
B The percentages shown are rounded to the nearest number
C In different companies the employees were given options to purchase shares that were not yet exercised. The percentage of ownership stated is the present percentage and not fully diluted.
D The chart shows only active companies.

ANNEX A3



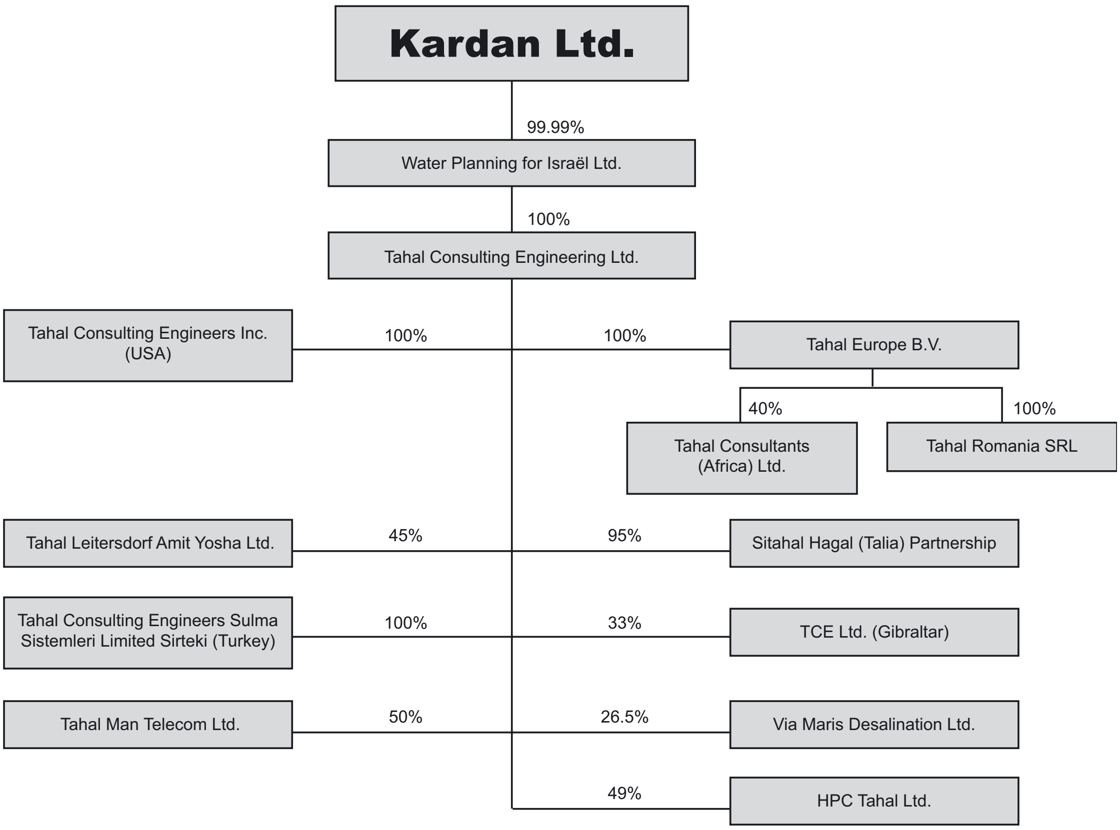
A The data in this chart is updated to 11.6.03.

B The percentages shown are rounded to the nearest number

C In different companies the employees were given options to purchase shares that were not yet exercised. The percentage of ownership stated is the present percentage and not fully diluted.

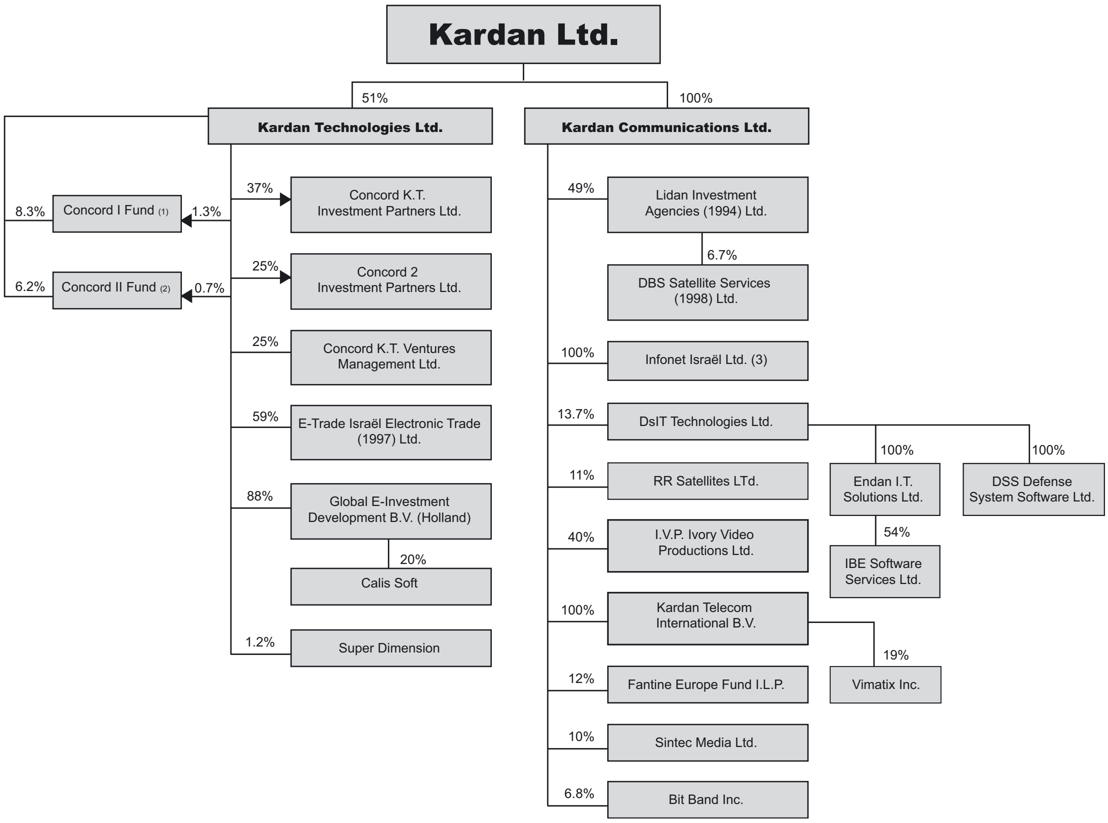
D The chart shows only active companies.

ANNEX A4



A The data in this chart is updated to 11.6.03.
B The percentages shown are rounded to the nearest number
C In different companies the employees were given options to purchase shares that were not yet exercised. The percentage of ownership stated is the present percentage and not fully diluted.
D The chart shows only active companies.

ANNEX A5



A The data in this chart is updated to 11.6.03.
B The percentages shown are rounded to the nearest number
C In different companies the employees were given options to purchase shares that were not yet exercised. The percentage of ownership stated is the present percentage and not fully diluted.
D The chart shows only active companies.

(1) A group of two partnerships - one Israeli and one foreign.
(2) A group of four partnerships - two Israeli's and two foreigns.
(3) There is a commitment to allocate 10% of the Company's shares to the former CEO of the Company

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