

ELECTRA REAL ESTATE LTD.

2005

ELECTRA REAL ESTATE LTD.

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The Board of Directors
Electra Real Estate Ltd.
Rishon Le'Zion

Re: Special review report on the unaudited condensed interim consolidated financial statements of Electra Real Estate Ltd. At March 31, 2005 for the three-month period then ended

At your request, we have reviewed the condensed interim consolidated balance sheet of Electra Real Estate Ltd. ("the Company") and its subsidiaries at March 31, 2005, and the related condensed interim consolidated statements of operations, changes in shareholders' equity and cash flows for the three-month period then ended (in the Hebrew language in adjusted NIS, not included herein) and have issued our accountants review report thereon dated May 29, 2005.

The aforementioned financial statements (not presented separately herein) were prepared in the Hebrew language in reported NIS , in accordance with pronouncements issued by the Israeli Accounting Standards Board.

As noted in our aforementioned review report, we were furnished review reports of other accountants concerning the review of interim financial statements of consolidated subsidiaries whose assets constitute approximately 73.3% of the total consolidated balance at March 31, 2005 and revenues approximately 87.6% of the consolidated total for the three-month period then ended. We did not review the financial statements of investee companies, in which the Company's investment as of March 31, 2005 amounted to \$15,937 thousand and the Company's share in their results amounted to \$930 thousand for the three-month period then ended. The financial statements of those companies were reviewed by other accountants.

As described in Note 1 herein, the accompanying English-language condensed interim consolidated financial statements in US dollars ("dollars") represent a translation of the above-mentioned reported NIS financial statements into dollars in condensed form solely for the convenience of the reader ("convenience translation") using the representative dollar exchange rate in effect on March 31, 2005. Comparative amounts for the three month period ended March 31, 2004 and for the year ended December 31, 2004 represent a translation of the original reported NIS values of the respective period, using the representative dollar exchange rate in effect on March 31, 2005. These condensed interim financial statements do not include all the disclosures necessary for presentation of the financial statements in conformity with generally accepted accounting principles.

In our opinion, the convenience translation in condensed form referred to above has been made in accordance with the basis described in Note 1c.

Brightman Almagor & Co.
Certified Public Accountants

Tel-Aviv, May 29, 2005

ELECTRA REAL ESTATE LTD.

**CONSOLIDATED BALANCE SHEETS
ADJUSTED TO NEW ISRAELI SHEKELS OF MARCH 2004
CONVENIENCE TRANSLATION INTO U.S. DOLLARS**

	<u>March 31,</u>		<u>December 31,</u>
	<u>2005</u>	<u>2004</u>	<u>2004</u>
	<u>(unaudited)</u>		
ASSETS			
Current assets			
Cash and cash equivalents	10,160	6,870	5,951
Short-term deposits	2,465	1,996	2,806
Trade accounts receivable	1,294	191	320
Receivables and other current assets	8,814	* 6,363	7,650
	<u>22,733</u>	<u>15,420</u>	<u>16,727</u>
Long term receivables and investments			
Long-term receivables	12,983	881	2,058
Investments in affiliates	29,938	10,058	15,054
Deferred income taxes	-	323	84
	<u>42,921</u>	<u>11,262</u>	<u>17,196</u>
Yielding assets, net in -			
Israel	114,974	110,726	113,722
Britain	102,034	112,578	120,943
North America	,16225 3	* 84,398	161,557
Hungary	15,025	20,745	15,599
	<u>394,286</u>	<u>328,447</u>	<u>411,821</u>
Fixed assets, net	<u>296</u>	<u>296</u>	<u>289</u>
Other assets, net	<u>,525 8</u>	<u>1,968</u>	<u>5,105</u>
	<u>465,494</u>	<u>357,393</u>	<u>451,138</u>

*

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

ELECTRA REAL ESTATE LTD.

**CONSOLIDATED BALANCE SHEETS
ADJUSTED TO NIS OF MARCH 2004
CONVENIENCE TRANSLATION INTO U.S. DOLLARS**

	<u>March 31,</u>		<u>December 31,</u>
	<u>2005</u>	<u>2004</u>	<u>2004</u>
	<u>(unaudited)</u>		
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Loans to finance yielding properties (including current maturities of long-term loans)	61,331	32,818	46,105
Trade accounts payable	608	3,451	1,574
Payables and other current liabilities	15,550	9,748	11,893
	<u>77,489</u>	<u>46,017</u>	<u>59,572</u>
Loans for financing yielding assets in -			
Israel	-	987	-
Britain	79,831	81,093	96,670
North America	129,687	62,809	129,012
Hungary, France and Poland	9,959	16,890	10,431
	<u>219,477</u>	<u>161,779</u>	<u>236,113</u>
Long-term liabilities			
Capital notes	12	7,301	12
Loans from Electra Ltd. - the parent company	75,744	104,152	67,268
Loans from minority shareholders in subsidiaries	3,031	2,633	2,938
Deferred income taxes	2,523	2,643	2,187
	<u>81,310</u>	<u>116,729</u>	<u>72,405</u>
Minority interest	<u>1,422</u>	<u>3,814</u>	<u>1,419</u>
Shareholders' equity	<u>85,796</u>	<u>29,054</u>	<u>81,629</u>
	<u>465,494</u>	<u>357,393</u>	<u>451,138</u>

* Reclassified.

Approval date of the financial statements
Rishon Le'Zion, May 29, 2005

Zvi Duskin
CFO

Shlomo Sherf
CEO and Director

Gershon Salkind
Chairman of the
Board of Directors

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

**CONSOLIDATED STATEMENTS OF OPERATIONS
ADJUSTED TO NIS OF MARCH 2004
CONVENIENCE TRANSLATION INTO U.S. DOLLARS**

	Three-month period ended March 31,		Year ended December 31,
	2005	2004	2004
	(unaudited)		
Revenues			
Rental fees (including management fees), realization of investments and yielding assets	15,211	9,166	43,582
Expenses			
Depreciation and amortization	1,739	1,291	5,975
Leasing fees	216	* 208	* 969
Real Estate management and maintenance fees	3,727	*2,190	* 9,204
Salaries and fringe benefits	54	45	228
Others	483	331	2,275
	6,219	4,065	18,651
Operating income	8,992	5,101	24,931
Financing expenses, net	4,470	3,457	15,991
Other income	-	-	385
Pre-tax income	4,522	1,644	9,325
Income taxes	926	19	884
Income after taxes on income	3,596	1,625	8,441
Company's share in income of investees, net	930	154	1,132
Minority interest in income of subsidiaries, net	(16)	(151)	(951)
Net income for the period	4,510	1,628	8,622

* Reclassified.

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
CONVENIENCE TRANSLATION INTO U.S. DOLLARS**

For the three month period ended March 31, 20045

	<u>Share capital</u>	<u>Additional paid-in capital</u>	<u>Capital reserve from foreign currency translation adjustment (Unaudited) (in thousands)</u>	<u>Retained earnings</u>	<u>To t a l</u>
Balance - January 1, 2005	(*)	45,519	3,736	32,374	81,629
Foreign currency translation adjustment			(343)		(343)
Net income for the period				4,510	4,510
Balance - March 31, 2005	(*)	45,519	3,393	36,884	85,796

For the three month period ended March 31, 20044

	<u>Share capital</u>	<u>Capital reserve from foreign currency translation adjustment</u>	<u>Capital reserve arising from acquisition of fixed asses from a controlling party (Unaudited) (in thousands)</u>	<u>Retained earnings</u>	<u>To t a l</u>
Balance - January 1, 2004	(*)	2,361	96	23,895	26,352
Foreign currency translation adjustment		1,074			1,074
Net income for the period				1,628	1,628
Balance - March 31, 2004	(*)	3,435	96	25,523	29,054

For the three month period ended March 31, 20022004

	<u>Share capital</u>	<u>Additional paid-in capital</u>	<u>Capital reserve from foreign currency translation adjustment</u>	<u>Capital reserve Arising from acquisition of fixed asses from a controlling party (Audited) (in thousands)</u>	<u>Retained earnings</u>	<u>To t a l</u>
Balance - January 1, 2004	(*)		2,361	96	23,895	26,352
Issuance of shares (**)		45,519				45,519
Foreign currency translation adjustment			1,374			1,374
CPI - Link differences upon capital reserve loans from a controlling party				(96)	(142)	(238)
Net income for the year					8,622	8,622
2004	(*)	45,519	3,735	-	32,375	81,629

(*) Less than \$1 thousand.

(**) Net of \$460 thousand paid for stamp tax on stocks issue.

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
ADJUSTED TO NIS OF MARCH 2004
CONVENIENCE TRANSLATION INTO U.S. DOLLARS**

	Three-month period ended March 31,		Year ended December 31,
	2005	2004	2004
	(unaudited)		
Cash Flow - Operating Activities:			
Net income	4,510	1,628	8,622
Adjustments required to present cash flows from operating activities (Appendix A)	(1,634)	* 3,033	6,396
Net cash provided by operating activities	<u>2,876</u>	<u>4,661</u>	<u>15,018</u>
Cash Flows - Investing Activities:			
Proportionately consolidated subsidiary that was previously fully consolidated (Appendix D)	-	-	(325)
Long-term loans granted	(42)	(11)	(1,207)
Collection of long-term debts (also from related parties)	12	4,446	164
Proceeds from the sale of an investee that was proportionately consolidated (Appendix C)	6,033	-	2,879
Short-term deposits, net	350	(1,249)	(2,247)
Investment in investee כולל investee companies including deposit designated to investee	(24,878)	-	(4,154)
Acquisition and construction of yielding assets	(4,545)	* (27,070)	(144,016)
Additions to fixed assets and other assets	(383)	* (307)	(3,688)
Net cash used in investing activities	<u>(23,453)</u>	<u>(24,191)</u>	<u>(152,594)</u>
Cash Flows - Financing Activities:			
Dividend paid to minority shareholders in a subsidiary	-	(18)	(576)
Shares allocation to minority shareholders in a subsidiary	-	-	567
Shares allocation	-	-	45,519
Receipt of long-term loans.	1,506	27,061	152,610
Repayment of long-term loans	(628)	(6,198)	(29,020)
Receipt (repayment) of loans and capital notes from the parent company, net	7,635	938	(47,695)
Receipt of loans and capital notes from minority shareholders in a consolidated subsidiaries, net	81	85	533
Receipt (repayment) of short-term bank borrowings, net	16,289	(555)	16,412
Net cash provided by financing activities	<u>24,883</u>	<u>21,313</u>	<u>138,350</u>
Translation differences relating to cash balances in autonomous units	<u>(97)</u>	<u>185</u>	<u>275</u>
Increase in cash and cash equivalents	4,209	1,968	1,049
Cash and cash equivalents at beginning of year	5,951	4,902	4,902
Cash and cash equivalents at end of year	<u>10,160</u>	<u>6,870</u>	<u>5,951</u>

* Reclassified.

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
ADJUSTED TO NIS OF MARCH 2004
CONVENIENCE TRANSLATION INTO U.S. DOLLARS
APPENDIX TO**

	Three-month period ended March 31,		Year ended December 31,
	2005	2004	2004
	(unaudited)		
Appendix A - Adjustments to reconcile net income to net cash provided by operating activities:			
Expenses (income) not involving cash flows:			
Company's share in earnings of investees, net	(930)	(154)	(1,132)
Minority interest in earnings of subsidiaries, net	16	146	951
Depreciation and amortization	1,739	1,291	5,975
Change in value of long-term receivables and liabilities, net (including the allocation of interest to the parent company)	575	1,126	3,713
Deferred income taxes	431	(16)	(167)
Capital gain from realization of investments and sales of assets	(2,730)	-	(3,402)
Gain from stock allocation to minority in consolidated company	-	-	(385)
Changes in assets and liabilities:			
Trade accounts receivables	(972)	(12)	(141)
Receivables and other current assets	(1,305)	* (812)	(2,018)
Trade accounts payables	(972)	1,235	(106)
Payables and other current liabilities	2,514	229	3,108
	(1,634)	3,033	6,396
Appendix B - Supplemental schedule of non-cash transactions and investing activities			
Linkage differences on loans from a controlling party that were allocated to capital reserve			238

*Reclassified.

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

**APPENDICES TO CONSOLIDATED STATEMENTS OF CASH FLOWS
CONVENIENCE TRANSLATION INTO U.S. DOLLARS**

Appendix C - Proceeds from the sale of an investee that was proportionately consolidated

	<u>March 31,</u> <u>2 0 0 5</u>	<u>December 31,</u> <u>2 0 0 4</u>
	<u>In thousands</u>	<u>In thousands</u>
	<u>(unaudited)</u>	
Assets and liabilities at acquisition:		
Net working capital (excluding cash)	(14)	(548)
Other assets	-	93
Yielding assets	19,722	9,213
Long-term liabilities	(16,405)	(9,281)
Profit from investment realization	2,730	3,402
	<u>6,033</u>	<u>2,879</u>

Appendix D - Proportionately consolidated subsidiaries that were previously fully consolidated

Net working capital (excluding cash)	(479)
Yielding assets	23,538
Long-term liabilities	(20,567)
Minority interest	(2,817)
	<u>(325)</u>

The accompanying notes are an integral part of the financial statements

ELECTRA REAL ESTATE LTD.

NOTES TO THE FINANCIAL STATEMENT

Note 1 - REPORTING REQUIREMENTS AND ACCOUNTING POLICY

A. General

1. The interim financial statements are prepared in accordance with the accepted principles for the preparation of interim financial statements as established by Standard No.14 of the Israeli Accounting Standards Board ("IASB"). Standard No.14 requires disclosure of segment income and results, which constitute the entity's prime reporting format; nevertheless, as permitted by this standard, comparative segment data for the corresponding interim period last year has not been presented (see Note 4 below).

2. These interim financial statements should be read in conjunction with the Company's 2002 annual financial statements and their accompanying notes.

The interim financial statements have been prepared in accordance with accounting principles generally accepted for the preparation of interim financial statements and in an identical manner to that applied in the preparation of the annual financial statements.

3. On February 2004, the Israeli Accounting Standards Board issued Standard No.15 ("Impairment of Assets"). This Standard is the initial formal accounting pronouncement in Israel addressing the accounting treatment and presentation of impairment of assets, which establishes procedures to be implemented in order to ensure that assets are not presented in amounts exceeding their recoverable value. An asset's recoverable value is the higher of the asset's net selling price and the asset's value in use, the latter being equal to the asset's discounted expected cash flows. Initial application of the Standard will generally be on a prospective basis. Standard No.15 is effective for financial statements for reporting periods commencing January 1, 2004 or thereafter. There is no material impact at the new standard on the company's financial position and results of operations.

B. New accounting standards

In October 2001 the Israeli Accounting Standards Board issued Standard No. 12 (Cessation of Financial Statement Adjustment) and Standard No. 13 (Effect of Changes in Foreign Currency Exchange Rates). According to Standard No.12, the adjustment of financial statements for inflation will cease commencing January 1, 2004. Standard No. 13 addresses the translation of transactions denominated in foreign currency, as well as the translation of financial statements of a foreign operation, for inclusion in the financial statements of the reporting company.

On December 31, 2002 the Israeli Accounting Standards Board issued Standard No.17 concerning the postponement of the cessation date of adjusted financial statements as well as the postponement of the effective date of Standard No.13 ("Effects of Fluctuations in Foreign Exchange Rates"). Accordingly, the implementation of Standards No. 12 and No.13 has been postponed by one year – to reported periods commencing January 1, 2004. The Company is currently examining the new standards although, at this stage, it is unable to estimate their impact on its financial statements.

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NOTES TO THE FINANCIAL STATEMENT

NOTE 1 - FINANCIAL STATEMENTS IN REPORTED VALUES (Cont.)

These interim financial statements are presented in US dollars, derived from convenient translation of the financial statements prepared in reported NIS, in accordance with pronouncements issued by the Israeli Accounting Standard Board, into US dollars by using the conversion rate prevailing on March 31, 2005 (\$1.00= NIS 4.361).

The accompanying English-language condensed interim consolidated financial statements in US dollars ("dollars") represent a translation of the above-mentioned reported NIS financial statements into dollars in condensed form solely for the convenience of the reader ("convenience translation") using the representative dollar exchange rate in effect on March 31, 2005. Comparative amounts for the three month period ended March 31, 2004 and for the year ended December 31, 2004 represent a translation of the original reported NIS values of the respective period, using the representative dollar exchange rate in effect on March 31, 2005. These condensed interim financial statements do not include all the disclosures necessary for presentation of the financial statements in conformity with generally accepted accounting principles.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

- A. These interim financial statements were prepared as of March 31, 2005 and for the three-month period then ended. These financial statements should be read in conjunction with the Company's 2004 annual financial statements as of December 31, 2003 and for the year then ended.
- B. The interim financial statements are prepared in conformity with accounting principles generally accepted for interim financial statements as established in Standard 14 of the Israel Accounting Standards Board.
- C. On January 1, 2005 went into effect Israeli Accounting Standards Standard No. 19 ("Income Taxes"). The standard establishes rules for recognizing, measuring, presenting and disclosing income taxes in the financial statements. The effect of this standard on the financial statements is not expected to be material.
- D. Except to the mentioned above, most of the accounting policies in these interim financial statements were prepared consistently to the audited 2004 annual financial statements

Note 1 - REPORTING REQUIREMENTS AND ACCOUNTING POLICY

A. General

- 1. The interim financial statements are prepared in accordance with the accepted principles for the preparation of interim financial statements as established by Standard No.14 of the Israeli Accounting Standards Board ("IASB"). Standard No.14 requires disclosure of segment income and results, which constitute the entity's prime reporting format; nevertheless, as permitted by this standard, comparative segment data for the corresponding interim period last year has not been presented (see Note 4 below).
- 2. These interim financial statements should be read in conjunction with the Company's 2002 annual financial statements and their accompanying notes.

The interim financial statements have been prepared in accordance with accounting principles generally accepted for the preparation of interim financial statements and in an identical manner to that applied in the preparation of the annual financial statements.

- 3. On February 2004, the Israeli Accounting Standards Board issued Standard No.15 ("Impairment of Assets"). This Standard is the initial formal accounting pronouncement in Israel addressing the accounting treatment and presentation of impairment of assets, which establishes procedures to be implemented in order to ensure that assets are not presented in amounts exceeding their recoverable value. An asset's recoverable value is the higher of the asset's net selling price and the asset's value in use, the latter being equal to the asset's discounted expected cash flows. Initial application of the Standard will generally be on a prospective basis. Standard No.15 is effective for financial

ELECTRA REAL ESTATE LTD.

statements for reporting periods commencing January 1, 2004 or thereafter. There is no material impact at the new standard on the company's financial position and results of operations.

B. New accounting standards

In October 2001 the Israeli Accounting Standards Board issued Standard No. 12 (Cessation of Financial Statement Adjustment) and Standard No. 13 (Effect of Changes in Foreign Currency Exchange Rates). According to Standard No.12, the adjustment of financial statements for inflation will cease commencing January 1, 2004. Standard No. 13 addresses the translation of transactions denominated in foreign currency, as well as the translation of financial statements of a foreign operation, for inclusion in the financial statements of the reporting company.

On December 31, 2002 the Israeli Accounting Standards Board issued Standard No.17 concerning the postponement of the cessation date of adjusted financial statements as well as the postponement of the effective date of Standard No.13 ("Effects of Fluctuations in Foreign Exchange Rates"). Accordingly, the implementation of Standards No. 12 and No.13 has been postponed by one year – to reported periods commencing January 1, 2004.

The Company is currently examining the new standards although, at this stage, it is unable to estimate their impact on its financial statements.

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NOTES TO THE FINANCIAL STATEMENT

E. Increase (decrease) in the CPI and the exchange rate:

	March 31,		December 31,
	2 0 0 3 5	2 0 0 2 4	2 0 0 2 4
CPI (in points)	179.66	178.4	180.74
<u>In NIS:</u>			
US dollar	4.361	4.528	4.308
Pound sterling	8.2059	8.305	8.3075
Hungarian forint	0.0228	0.022	0.0239
Polish zlot	1.3837	1.5142	1.4406
Canadian dollar	3.5958	3.4647	3.5787
Euro	5.6488	5.5353	4.969687
			68
Swiss franc	3.6460	3.5494	3.8063
”ן יפני	0.0408	0.0435	0/0420
<u>Rate of change in the period then ended (in %):</u>			
CPI	(0.6)	(0.1)	1.21
US dollar	1.23	3.40	162
Pound sterling	(1.22)	5.81	5
Hungarian forint	(4.59)	6.32	14.53
Polish zlot	(3.95)	29.34	23.06
Canadian dollar	0.48	1.68	502
Euro	(3.88)	0.04	621
Swiss franc	(4.21)	(0.07)	716
”ן יפני	(2.92)	6.41	2.56

ELECTRA REAL ESTATE LTD.

NOTES TO THE FINANCIAL STATEMENT

NOTE 4 - ESSENTIAL EVENTS DURING THE BALANCE PERIOD

- A. In the end of March 2005, a foreign subsidiary, fully owned by the Company, concluded a transaction to sale its entire holding (75%) in a company owning property in Brighton, Britain. The Company's share from the proceeds amounted to £12.24 million (\$23.16m). The Company earned a gain of £1.43m (\$2.7m) from the transaction, net of all associated costs and reported it in revenues from carrying out projects, rendering services and sale/rental of assets.
- B. At the end of March 2005 the Company concluded a transaction for purchasing (a cumulative) 40% of holdings in foreign companies which own seven yielding properties in (former Western) Germany, at a (100%) cost of €273m (\$353.6m), plus related expenses (100%) totaling €9m (\$11.7 m).The yielding assets are leased (in full) to Deutsch Telecom (Germany's phone company) for a period expiring December 31, 2019 with no possibility to exit, and with a mechanism for annual increase in rental fees.
The gross (100%) annual rental fees for all the above properties amounts to €19.7m of which management and maintenance fees are to be deducted in an amount not exceeding 2% of rental fees. The annual rental fees (before management and maintenance fees) amounts to €21.7m.
A German financial institution provided a loan to the holding company of €255m at fixed interest of 4.9% for the period of 6.25 years. The loan is secured by a non-recourse first-tier lien on the assets.
By the balance-sheet date the Company paid a total €10.8m in respect of that investment.
- C. Foreign, indirectly owned, affiliate which prepares its financial statements in accordance with international accounting standards, including Standard No. 40 based on which yielding real estate is presented at fair value, reported in its statements of operations a gain derived from valuation of yielding property. The fair value determined based on an independent appraiser's valuation based on the fair value of the yielding property. The Company's share from the gain outlined above, of NIS 2.6m (\$0.6m), is reported in Company's share in earnings of investees, net.

NOTE 5 - SUBSEQUENT EVENTS

- A. In April 2005 a foreign, fully owned company held by the Company, concluded the purchase of 60% of rights in a property located in Manhattan, U.S.A. at the cost of \$63m. The 24-storey building, consists of 128 residential units of various sizes as well as commercial and parking space. Present occupancy rate stands at 96%, with gross annual rental fees amounting to \$4.7m (net of management and maintenance fees - \$3.2m).
There is an intention to convert the building into a condominium and sell the residential units as well as the commercial and parking space in a process that the management estimates will cost (100%) \$6.3m.
A US financial institution provided a loan (100%) of \$54m, designated to finance the entire transaction. The loan is secured by a non-recourse first mortgage on the property as well as its rental fees.
- B. In May 2005 the Company reached an understanding with a bank to extend a long-term credit line of \$14.7m (NIS64m), subject to the Company's fulfillment of agreed conditions. Accordingly these borrowed funds were presented in the Company's balance sheet at March 31, 2005 as long-term loans.