



AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2010 to 31 March 2010

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Independent report on review of condensed consolidated interim financial information to the members of AFI DEVELOPMENT PLC

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of AFI Development PLC as at 31 March 2010 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended and a summary of significant accounting policies and other explanatory notes (interim financial information). The Company's Board of Directors is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting".

KPMG Limited
Chartered Accountants

Nicosia, 27 May 2010

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AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the period from 1 January 2010 to 31 March 2010

	Note	1/1/10- 31/3/10 US\$ '000	1/1/09- 31/3/09 US\$ '000
Revenue			
Rental income		9,929	8,664
Construction consulting/management services		<u>157</u>	<u>181</u>
		10,086	8,845
Other income		10	4,311
Operating expenses		(3,445)	(1,933)
Administrative expenses		(2,836)	(3,522)
Other expenses	6	<u>(884)</u>	<u>-</u>
		<u>2,931</u>	<u>7,701</u>
Profit on disposal of investments in subsidiaries		<u>-</u>	<u>23</u>
Valuation (loss)/gain on investment property	7	(2,994)	515,198
Impairment loss on trading properties		-	(16,048)
Impairment of prepayment for investment	14	<u>(7,532)</u>	<u>-</u>
Net valuation (loss)/gain		<u>(10,526)</u>	<u>499,150</u>
Net proceeds from sale of trading properties		8,437	8,173
Carrying value of trading properties sold		<u>(4,330)</u>	<u>(5,344)</u>
Profit on disposal of trading properties		<u>4,107</u>	<u>2,829</u>
Results from operating activities		<u>(3,488)</u>	<u>509,703</u>
Finance income		4,135	13,509
Finance costs		<u>(4,929)</u>	<u>(520)</u>
Net finance (costs)/income	8	<u>(794)</u>	<u>12,989</u>
(Loss)/profit before income tax		(4,282)	522,692
Income tax expense	9	<u>(4,352)</u>	<u>(105,847)</u>
(Loss)/profit for the period		<u>(8,634)</u>	<u>416,845</u>
Attributable to:			
Owners of the parent		(8,470)	416,631
Non-controlling interest		<u>(164)</u>	<u>214</u>
(Loss)/profit for the period		<u>(8,634)</u>	<u>416,845</u>
Earnings per share			
Basic earnings per share (cent)		<u>(1.62)</u>	<u>79.53</u>
Diluted earnings per share (cent)		<u>(1.62)</u>	<u>79.30</u>

The notes on pages 7 to 16 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period from 1 January 2010 to 31 March 2010

	1/1/10- 31/3/10 US\$ '000	1/1/09- 31/3/09 US\$ '000
(Loss)/profit for the period	(8,634)	416,845
Other comprehensive income:		
Exchange difference on translating foreign operations	<u>25,795</u>	<u>(103,926)</u>
Total comprehensive income for the period	<u>17,161</u>	<u>312,919</u>
Total comprehensive income attributable to:		
Owners of the parent	17,309	312,893
Non-controlling interest	<u>(148)</u>	<u>26</u>
	<u>17,161</u>	<u>312,919</u>

The notes on pages 7 to 16 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the period from 1 January 2010 to 31 March 2010

	<u>Attributable to the owners of the Company</u>				<u>Total</u> US\$ '000	<u>Non-</u> <u>controlling</u> <u>interest</u> US\$ '000	<u>Tot</u> US\$ '000
	<u>Share</u> <u>Capital</u> US\$ '000	<u>Share</u> <u>Premium</u> US\$ '000	<u>Translation</u> <u>Reserve</u> US\$ '000	<u>Retained</u> <u>Earnings</u> US\$ '000			
Balance at 1 January 2009	<u>524</u>	<u>1,763,933</u>	<u>(122,157)</u>	<u>85,215</u>	<u>1,727,515</u>	<u>1,866</u>	<u>1</u>
Total comprehensive income for the period							
Profit or loss	-	-	-	416,631	416,631	214	416
Other comprehensive income							
Foreign currency translation differences	-	-	(103,738)	-	(103,738)	(188)	(103)
Total comprehensive income for the period	-	-	(103,738)	416,631	312,893	26	312
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Share option expense	-	-	-	343	343	-	343
Balance at 31 March 2009	<u>524</u>	<u>1,763,933</u>	<u>(225,895)</u>	<u>502,189</u>	<u>2,040,751</u>	<u>1,892</u>	<u>2</u>
Balance at 1 January 2010	<u>524</u>	<u>1,763,933</u>	<u>(142,745)</u>	<u>80,949</u>	<u>1,702,661</u>	<u>2,867</u>	<u>1</u>
Total comprehensive income for the period							
Profit or loss	-	-	-	(8,470)	(8,470)	(164)	(8)
Other comprehensive income							
Foreign currency translation differences	-	-	25,779	-	25,779	16	25
Total comprehensive income for the period	-	-	25,779	(8,470)	17,309	(148)	17
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Share option expense	-	-	-	115	115	-	115

AFI DEVELOPMENT PLC							
Balance at 31	<u>524</u>	<u>1,763,933</u>	<u>(116,966)</u>	<u>72,594</u>	<u>1,720,085</u>	<u>2,719</u>	<u>1</u>
March 2010							

The notes on pages 7 to 16 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITIONAS AT 31 MARCH 2010

	Note	31/3/10 US\$ '000	31/12/09 US\$ '000
Assets			
Investment property	10	144,975	140,476
Investment property under development	11	1,340,146	1,290,191
Property, plant and equipment		107,128	102,749
Other investments		43,316	42,959
Long-term loans receivable		39	38
VAT recoverable		32,676	29,780
Goodwill		<u>150</u>	<u>150</u>
Total non-current assets		<u>1,668,430</u>	<u>1,606,343</u>
Trading properties	12	37,634	42,050
Trading properties under construction	13	174,203	171,229
Inventory		370	324
Short-term loans receivable		77	73
Trade and other receivables	14	134,112	126,748
Cash and cash equivalents		135,406	210,830
Assets classified as held for sale		<u>187,664</u>	<u>190,044</u>
Total current assets		<u>669,466</u>	<u>741,298</u>
Total assets		<u>2,337,896</u>	<u>2,347,641</u>
Equity			
Share capital		524	524
Share premium		1,763,933	1,763,933
Translation reserve		(116,966)	(142,745)
Retained earnings		<u>72,594</u>	<u>80,949</u>
Total equity attributable to owners of the Company	15	1,720,085	1,702,661
Non-controlling interest		<u>2,719</u>	<u>2,867</u>
Total equity		<u>1,722,804</u>	<u>1,705,528</u>
Liabilities			
Long-term loans and borrowings	16	350,202	322,096
Deferred tax liability		<u>47,272</u>	<u>44,592</u>
Total non-current liabilities		<u>397,474</u>	<u>366,688</u>
Short-term loans and borrowings	16	44,715	94,005
Trade and other payables	17	143,810	151,702
Income tax payable		2,972	1,892
Deferred income		<u>26,121</u>	<u>27,826</u>
Total current liabilities		<u>217,618</u>	<u>275,425</u>
Total liabilities		<u>615,092</u>	<u>642,113</u>
Total equity and liabilities		<u>2,337,896</u>	<u>2,347,641</u>

The condensed consolidated interim financial statements were approved by the Board of Directors on 27 May 2010.

The notes on pages 7 to 16 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the period from 1 January 2010 to 31 March 2010

	1/1/10- 31/3/10 US\$'000	1/1/09- 31/3/09 US\$'000
Cash flows from operating activities		
(Loss)/profit for the period	(8,634)	416,845
<i>Adjustments for:</i>		
Depreciation	329	405
Interest income	(2,546)	(2,372)
Interest expense	2,831	321
Share option expense	115	343
Net valuation losses/(gains)	10,526	(499,150)
Profit on disposal of investments	-	(23)
Loss on disposal of property, plant and equipment	88	154
Change in fair value of other investments	(357)	-
Unrealised gain on foreign exchange	(1,589)	(11,137)
Income tax expense	<u>4,352</u>	<u>105,847</u>
	5,115	11,233
Change in trade and other receivables	(6,975)	12,115
Change in inventories	(46)	(6)
Change in trading properties under construction	4,070	956
Change in trade and other payables	(3,841)	(34,018)
Change in deferred income	<u>(1,705)</u>	<u>(3,940)</u>
	(3,382)	(13,660)
Income taxes paid	<u>(848)</u>	<u>(828)</u>
Net cash used in operating activities	<u>(4,230)</u>	<u>(14,488)</u>
Cash flows from investing activities		
Interest received	1,267	2,372
Net cash outflow from the acquisition of investments	-	(31,894)
Receipts in advance for the sale of investment	2,506	-
Payment of deferred expenses associated to the disposal of an investment	(1,950)	-
Change in advances and payables to builders	(17,679)	57,649
Payments for investment properties under development	(21,755)	(53,635)
Change in VAT recoverable	3,477	(1,270)
Payments for acquisition of property, plant and equipment	<u>(1,771)</u>	<u>(400)</u>
Net cash used in investing activities	<u>(35,905)</u>	<u>(27,178)</u>
Cash flows from financing activities		
Proceeds from loans and borrowings	32,160	780
Repayment of loans and borrowings	(59,985)	(17,136)
Interest paid	<u>(13,324)</u>	<u>(8,201)</u>
Net cash used in financing activities	<u>(41,149)</u>	<u>(24,557)</u>
Effect of exchange rate fluctuations	<u>5,860</u>	<u>(18,127)</u>
Net decrease in cash and cash equivalents	(75,424)	(84,350)
Cash and cash equivalents at 1 January	<u>210,830</u>	<u>272,498</u>
Cash and cash equivalents at 31 March	<u>135,406</u>	<u>188,148</u>
The cash and cash equivalents consist of:		
Cash at banks	135,398	188,148
Cash in hand	<u>8</u>	<u>-</u>
	<u>135,406</u>	<u>188,148</u>

The notes on pages 7 to 16 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the period from 1 January 2010 to 31 March 2010

1. INCORPORATION AND PRINCIPAL ACTIVITY

AFI Development PLC (the “Company”) was incorporated in Cyprus on 13 February 2001 as a limited liability company under the name Donkamill Holdings Limited. In April 2007 the Company was transformed into public company and changed its name to AFI Development PLC. The address of the Company’s registered office is 25 Olympion Street, 3035 Limassol, Cyprus. The Company is a 71.70% indirect subsidiary of Africa Israel Investments Group which is listed in the Tel Aviv Stock Exchange (TASE). The 9.7% of its share capital is held by Nirro Group S.A. and the remaining shareholding is held by a custodian bank in exchange for the GDR’s issued and listed in the London Stock Exchange.

The condensed consolidated interim financial statements of the Company for the period from 1 January 2010 to 31 March 2010 comprise of the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in jointly controlled entities. The principal activity of the Group is real estate investment and development.

The principal activity of the Company is the holding of investments in subsidiaries and joint ventures.

2. STATEMENT OF COMPLIANCE

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting. They do not include all of the information required for the full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2009.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2009.

4. ESTIMATES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. In preparing the condensed consolidated interim financial statements, the significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2009.

5. OPERATING SEGMENT

The Group has 4 reportable segments, as described below, which are the Group’s strategic business units. The strategic business units offer different types of real estate products and services and are managed separately because they require different marketing strategies as they address different types of clients. For each strategic business unit the Group’s management reviews internal management reports on at least a monthly basis. The following summary describes the operation in each of the Group’s reportable segments.

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2010 to 31 March 2010

5. OPERATING SEGMENT (continued)

- Development Projects – Commercial projects: Include construction of property for future lease.
- Development Projects – Residential projects: Include construction and selling of residential properties.
- Asset Management: Includes the operation of investment property for lease.
- Other – Land bank: Includes the investment and holding of property for future development.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group's management team. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

	Development projects				Asset management		Other - land bank		Total	
	Commercial projects		Residential projects							
	31/3/2010 US\$'000	31/3/2009 US\$'000	31/3/2010 US\$'000	31/3/2009 US\$'000	31/3/2010 US\$'000	31/3/2009 US\$'000	31/3/2010 US\$'000	31/3/2009 US\$'000	31/3/2010 US\$'000	31/3/2009 US\$'000
External revenues	477	-	8,437	8,173	9,452	8,664	-	-	18,311	16,837
Inter-segment revenue	2	5	2	-	71	250	60	-	135	255
Reportable segment profit before income tax	2,708	(3,14)	4,225	2,027	5,667	6,295	(5,520)	14,258	7,0	19,441
Reportable segment assets	31/3/2010 US\$'000	31/12/2009 US\$'000	31/3/2010 US\$'000	31/12/2009 US\$'000	31/3/2010 US\$'000	31/12/2009 US\$'000	31/3/2010 US\$'000	31/12/2009 US\$'000	31/3/2010 US\$'000	31/12/2009 US\$'000
	1,078,341	1,150,0	273,978	301,763	527,744	423,565	216,650	221,742	2,096,7	2,097,139

Note:

Development projects – all investment projects under construction, including construction of residential properties

Asset management – yielding property management (all commercial properties)

Reconciliation of reportable segment revenues and profit or loss

	1/1/10- 31/3/10 US\$ '000	1/1/09- 31/3/09 US\$ '000
Revenues		
Total revenue for reportable segments	18,501	17,09
Construction consulting/management services	157	181
Elimination of inter-segment revenue	(135)	(255)
Consolidated revenue	<u>18,523</u>	<u>17,01</u>

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTSFor the period from 1 January 2010 to 31 March 20105. OPERATING SEGMENT (continued)

Reconciliation of reportable profit or loss

	1/1/10- 31/3/10 US\$ '000	1/1/09- 31/3/09 US\$ '000
Profit or loss		
Total profit or loss for reportable segments	7,080	19,44
Other profit or loss	(836)	4,10
Net valuation (loss)/gain	<u>(10,526)</u>	<u>499,15</u>
Consolidated (loss)/profit before income tax	<u><u>(4,282)</u></u>	<u><u>522,69</u></u>

6. OTHER EXPENSES

	1/1/10- 31/3/10 US\$ '000	1/1/09- 31/3/09 US\$ '000
Rent expense	806	-
Prior year's VAT non recoverable	<u>78</u>	<u>-</u>
	<u><u>884</u></u>	<u><u>-</u></u>

7. VALUATION (LOSS)/GAIN ON INVESTMENT PROPERTY

31/3/2010: Represents impairment of "Kosinskaya" project to adjust its book value at its estimated fair value based on management estimate. For more details see note 17.

31/3/2009: Represents a fair value adjustment on investment property under development based on improvements to IAS 40 "Investment Property".

8. FINANCE COST AND FINANCE INCOME

	1/1/10- 31/3/10 US\$ '000	1/1/09- 31/3/09 US\$ '000
Interest income	2,546	2,37
Net foreign exchange gain	<u>1,589</u>	<u>11,13</u>
Finance income	<u><u>4,135</u></u>	<u><u>13,50</u></u>
Interest expense on loans and borrowings	(370)	(796)
Interest expense on bank loans	(14,379)	(6,07)
Interest capitalised	11,918	6,59
Net change in fair value of financial assets	(2,010)	(195)
Other finance costs	<u>(88)</u>	<u>(55)</u>
Finance costs	<u><u>(4,929)</u></u>	<u><u>(520)</u></u>
Net finance (costs)/income	<u><u>(794)</u></u>	<u><u>12,98</u></u>

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTSFor the period from 1 January 2010 to 31 March 20109. INCOME TAX EXPENSE

	1/1/10- 31/3/10 US\$ '000	1/1/09- 31/3/09 US\$ '000
Current tax	1,928	701
Deferred tax	<u>2,424</u>	<u>105,146</u>
Total income tax expense	<u>4,352</u>	<u>105,847</u>

10. INVESTMENT PROPERTY

	31/3/10 US\$ '000	31/12/09 US\$ '000
Balance 1 January	140,476	186,275
Renovations/additional cost	13	6,434
Fair value adjustment	-	(50,531)
Effect of movement in foreign exchange rates	<u>4,486</u>	<u>(1,702)</u>
Balance 31 March / 31 December	<u>144,975</u>	<u>140,476</u>

The carrying amount of investment property is the fair value of the property as determined by a registered independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values were determined having regard to recent market transactions for similar properties in the same location as the Group's investment property. The same applies for investment properties under development in note 11 below. The last valuation took place on 31 December 2009.

Investment property comprises of the H2O building which forms part of the Paveletskaya development, Four Winds office building situated at 21 1st Tverskaya-Yamskaya street, the Ozerkovsky Lane 3 building located at Ozerkovskaya Embankment 22-28 and Berezhkovskaya buildings located within the Dorogomilovsky district of Moscow.

11. INVESTMENT PROPERTY UNDER DEVELOPMENT

	31/3/10 US\$ '000	31/12/09 US\$ '000
Balance 1 January	1,290,191	1,112,003
Additions due to acquisitions of subsidiaries	-	45,156
Construction costs	21,742	185,342
Capitalised interest	11,758	25,997
Transfer from trading properties under construction	-	25,773
Transfer to assets classified as held for sale	-	(190,044)
Fair value adjustment	-	89,454
Disposal	-	(75)
Effect of movements in foreign exchange rates	<u>16,455</u>	<u>(3,415)</u>
Balance 31 March / 31 December	<u>1,340,146</u>	<u>1,290,191</u>

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTSFor the period from 1 January 2010 to 31 March 201012. TRADING PROPERTIES

	31/3/10 US\$ '000	31/12/09 US\$ '000
Balance 1 January	42,050	-
Transfer from trading properties under construction	-	58,236
Fair value adjustment	-	(3,407)
Disposals	(4,330)	(13,622)
Effect of movements in foreign exchange rates	<u>(86)</u>	<u>843</u>
Balance 31 March / 31 December	<u>37,634</u>	<u>42,050</u>

Trading properties comprise of:

Four Winds II complex and Ozerkovskaya emb. 26 residential building complex. The Group has sold during the period a number of these residential flats.

13. TRADING PROPERTIES UNDER CONSTRUCTION

	31/3/10 US\$ '000	31/12/09 US\$ '000
Balance 1 January	171,229	271,035
Construction costs	260	8,382
Fair value adjustment	-	(12,641)
Transfer to trading properties	-	(58,236)
Transfer to investment properties under development	-	(25,773)
Capitalised interest	160	2,162
Disposals	-	(5,463)
Effect of movements in exchange rates	<u>2,554</u>	<u>(8,237)</u>
Balance 31 March / 31 December	<u>174,203</u>	<u>171,229</u>

Trading properties under construction comprise of Botanic Garden and Otradnoye projects. Both projects involve primarily the construction of residential properties.

14. TRADE AND OTHER RECEIVABLES

	31/3/10 US\$ '000	31/12/09 US\$ '000
Advances to builders	53,055	38,763
Amounts receivable from related companies	4,847	5,258
Prepayments for acquisition of investments	10,000	10,000
Trade receivables	14,913	8,915
Other receivables	33,765	39,909
VAT recoverable	16,477	22,850
Tax receivables	<u>1,055</u>	<u>1,053</u>
	<u>134,112</u>	<u>126,748</u>

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2010 to 31 March 2010

14. TRADE AND OTHER RECEIVABLES (continued)**Advances to builders**

Include an amount of US\$15,868 thousand (31/12/2009: US\$NIL) prepaid to Danya Cebus Rus LLC, related party of the Group, for the construction of the Moscow City mall.

Other receivables

Includes an amount of US\$18,353 thousand (31/12/2009: US\$21,473) prepaid to Straitline B.V. for the acquisition of 100% shareholding in Pinkerton Limited owning 100% of the share capital of JSC WTIC Mercury, registered in the Russian Federation with regard to the Moscow City Hotel project. On 5th May 2010 the Company received an amount of EUR14,010 thousand in full settlement of the above. The remaining balance of \$3,120 thousand together with additional prepayments for expenses and construction costs in relation to the same project of \$4,412 thousand, were recognised as impairment of prepayment for investment on 31 March 2010.

15. SHARE CAPITAL AND RESERVES

<u>Share Capital</u>	31/3/10 US\$ '000	31/12/09 US\$ '000
Authorised 1,000,000,000 shares of US\$0.001 each	<u>1,000</u>	<u>1,000</u>
Issued and fully paid 523,847,027 shares of US\$0.001 each	<u>524</u>	<u>524</u>

Share premium

It represents the share premium on the issued shares on 31 December 2006 for the conversion of the shareholders' loans to capital US\$421,325 thousand. It also includes the share premium on the issued shares which were represented by GDRs listed in the LSE in 2007. It was the result of the difference between the offering price, US\$14, and the nominal value of the shares, US\$0.001, after deduction of all listing expenses. An amount of US\$1,399,900 thousand less US\$57,292 thousand transaction costs was recognised during the year 2007.

Employee Share option plan

The Company has established an employee share option plan which is operated by the Board of Directors. Eligible are employees and directors, excluding independent directors, of the Company and employees and directors of the ultimate holding company, Africa Israel investments Ltd and its subsidiaries. The employees share option plan is discretionary and options will be granted only when the Board so determines at an exercise price derived from the closing middle market price preceding the date of grant.

Options over 1,063,864 GDRs were granted up to 31 March 2010 to Russian and Israeli employees and directors with an exercise price of US\$14 vesting one-third on the second anniversary of the date of grant, a further one-third on the third anniversary and the remaining one-third, on the fourth anniversary of the date of grant provided that the participants remain in employment until the vesting date. The contractual life is ten years.

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2010 to 31 March 2010

15. SHARE CAPITAL AND RESERVES (continued)**Translation reserve**

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations to the Group presentation currency.

Retained earnings

The amount at each reporting date is available for distribution. No interim dividends were proposed, declared or paid during the three-month period ended 31 March 2010.

16. LOANS AND BORROWINGS

	31/3/10 US\$ '000	31/12/09 US\$ '000
<u>Non-current liabilities</u>		
Secured bank loans	350,202	312,096
Secured loan from non-related company	<u>-</u>	<u>10,000</u>
	<u>350,202</u>	<u>322,096</u>
<u>Current liabilities</u>		
Secured bank loans	10,080	10,087
Unsecured bank loans	-	49,566
Secured loan from non-related company	20,057	20,345
Unsecured loans from other non related companies	<u>14,578</u>	<u>14,007</u>
	<u>44,715</u>	<u>94,005</u>

There were no significant movements of loans and borrowings during the period apart for the following:

- (i) A non-revolving credit line was obtained from VTB Bank for RUR 8,448 million on 28 August 2008. Up to 31 March 2010 RUR 5,808 (31/12/2009: RUR 4,888) million were drawn. The credit line initially carried interest of 14.25% (ruble terms) which increased to 16% (ruble terms) since April 2009. The funds drawn under the credit line are being used to finance the construction of the Moscow-City Mall project. The credit line is secured by a pledge over 100% of the shares of Bellgate Constructions Limited, a lien over 75% of the development rights regarding the project, and a mortgage of commercial spaces when completed. AFI Development's guarantee is one of the elements of collateral for this credit line.
- (ii) A non-revolving credit line which was obtained from VTB Bank for RUR 1,488 million on 1 August 2008 and carried interest of 16% (rouble terms) was redeemed on 1 March 2010.

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTSFor the period from 1 January 2010 to 31 March 201017. TRADE AND OTHER PAYABLES

	31/3/10 US\$ '000	31/12/09 US\$ '000
Trade payables	188	234
Payables to related parties	2,267	2,000
Amount payable to builders	9,596	12,983
VAT and other taxes payable	2,622	1,416
Down payments received for construction projects	-	1,484
Provisions for construction costs	-	625
Receipts in advance from sale of investment	70,867	70,311
Other payables	<u>58,270</u>	<u>62,649</u>
	<u>143,810</u>	<u>151,702</u>

Receipts in advance from sale of investment

On 6th of August 2009, the Company has entered into a sale and purchase agreement for the Kosinskaya project, through the sale of subsidiary Rognerstar Finance Limited. Under the original terms, sale proceeds of US\$195 million were expected to be received within one year, by August 2010. The Company negotiated with the buyer an amended payment schedule, which has extended the receipt of the total proceeds to the end of 2010. Up to 31 March 2010 the Company received US\$73 million (31/12/2009: US\$70 million) net of expenses incurred in relation to the sale.

Other payables

Include an amount of US\$ 53,575 thousand (31/12/2009: US\$ 57,508 thousand) payable to the 50% partner of the joint venture Krown Investments LLC.

18. FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 31 December 2009.

19. RELATED PARTIES**Outstanding balances with related parties**

	31/3/10 US\$ '000	31/12/09 US\$ '000
<u>Assets</u>		
Amounts receivable from ultimate holding company	-	503
Amounts receivable from joint ventures	4,32	4,384
Advances issued to other related companies	17,33	302
Amounts receivable from other related companies	<u>524</u>	<u>372</u>
<u>Liabilities</u>		
Amounts payable to ultimate holding company	-	266
Amounts payable to other related companies	<u>2,26</u>	<u>1,735</u>

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTSFor the period from 1 January 2010 to 31 March 201019. RELATED PARTIES (continued)

Transactions with the key management personnel	31/3/10 US\$ '000	31/3/09 US\$ '000
Key management personnel compensation comprised:		
Short-term employee benefits	<u>507</u>	<u>454</u>

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. The person is a member of the key management personnel of the entity or its parent (includes the immediate, intermediate or ultimate parent). Key management is not limited to directors; other members of the management team also may be key management.

Other related party transactions	31/3/10 US\$ '000	31/3/09 US\$ '000
Revenue		
Joint venture – consulting services	153	168
Joint venture – interest income	1,22	1,441
Key management personnel – interest income	<u>-</u>	<u>17</u>

20. GROUP ENTITIES

During the three month period ended 31 March 2010 the Group did not acquire any subsidiaries.

During the year ended 31 December 2009 the Group acquired or incorporated the following subsidiaries:

100% of Ropler Engineering Inc, a British Virgin Islands company, which owns 100% shareholding of OOO Centr Dosuga Molodegi, registered in Russia. OOO Centr Dosuga Molodegi LLC holds the land rights in Kunstevo project.

100% of Amakri Management Limited and 100% of Jaquetta Investments Limited, Cypriot companies, owning cumulatively 100% shareholding of ABG Sozidatel, which holds land rights in Zaporozhie project in Ukraine.

60% of OOO Stroycapital, registered in the Russian Federation. OOO Stroycapital holds the land rights in Volgograd project.

AFI DEVELOPMENT PLC**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the period from 1 January 2010 to 31 March 2010

21. SUBSEQUENT EVENTS

Subsequent to 31 March 2010 there were no events that took place which have a bearing on the understanding of these financial statements except of the following:

- On 26 April 2010 the Company announced that it has decided to seek premium listing on the official List of the UK Listing Authority and to trading on the main market of London Stock Exchange for its ordinary shares.
- On 18 May 2010 the Company announced that within the proposed debt restructuring of Africa-Israel's debt to the holders of its previously issued bonds (the "Settlement"), Africa-Israel converted part of its debt into AFI Development's equity amounting to 92,720,923 shares, representing circa 17.7% of the Company's equity capital. In order to facilitate this part of the Settlement, Africa-Israel converted a corresponding amount of its shares in the Company into GDRs. Following the completion of the Settlement, Africa-Israel remained AFI Development's majority shareholder with circa 54% of the Company's shares. In addition, a substantial portion of Africa-Israel's shares in the Company has been pledged to the bond holders.
- On 20 May 2010, Mr. Michael Sarris and Mr. Panayiotis Demetriou were appointed as members of the Company's Board of Directors effective as of 22 May 2010. Mr. Sarris and Mr. Demetriou deemed independent on appointment.
- At the Annual General Meeting of shareholders of the "Company" held on 21 May 2010, resolutions relating to the following matters, among others, were duly approved and passed by shareholders:
 - (i) Conditional on admission of the B ordinary shares to trading on the London Stock Exchange plc ("Admission"), the Company's authorised share capital was increased to US\$2,000,000 divided into 2,000,000,000 shares of US\$0.001 each through the creation of 1,000,000,000 new shares of nominal value of US\$0.001 each;
 - (ii) Conditional on Admission, the articles of association presented to the meeting were adopted by the Company in substitution for the previous articles;
 - (iii) Conditional on Admission, the 523,847,027 shares already issued, were designated as A Ordinary Shares, that 100,000,000 unissued shares be designated as A Ordinary Shares and the remaining 1,376,152,973 unissued shares were designated as B Ordinary Shares;
 - (iv) Conditional on Admission, 523,847,027 unissued B Ordinary Shares shall be allocated and distributed as bonus shares to the shareholders of the Company and the Board of Directors was authorised to allot, inter alia, these equity securities and
 - (v) The Company was authorised to acquire up to 104,769 shares of any class of the Company's shares as market purchases within certain set parameters.