AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2011 to 30 June 2011

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C O N T E N T S

AFI DEVELOPMENT PLC

DIRECTORS' RESPONSIBILITY STATEMENT

Each of the directors, whose names are listed below confirm that, to the best of their knowledge:

- the condensed consolidated interim financial statements, which has been prepared in accordance with IAS34 Interim Financial Reporting as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole; and

- the interim management report gives a fair view of the information required by DTR 4.2.7R and DTR 4.2.8R of the Disclosure Transparency Rules of the UK Financial Services Authority, to the extent those being applicable to the Company.

The Directors of the Company as at the date of this announcement are as set out below:

The Board of Directors

Executive directors

Lev Leviev – Chairman ....

Izzy Cohen ....

Non-executive directors

Alexander Khaldey ....

Moshe Amit ....

Christakis Klerides ....

John Robert Camber Porter ....

Panayiotis Demetriou ....

Michalakis Sarris ....

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Independent auditors' 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 30 June 2011 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-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".

Marios Gregoriades
Certified Public Accountant and Register Auditor
For and on behalf of

KPMG Limited
Certified Public Accountants and Register Auditors

Nicosia, 23 August 2011

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AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED INCOME STATEMENT

For the period from 1 January 2011 to 30 June 2011

	Note	For the three months ended 1/4/11-30/6/11 US$ '000	For the three months ended 1/4/10-30/6/10 US$ '000	For the six months ended 1/1/11-30/6/11 US$ '000	For the six months ended 1/1/10-30/6/10 US$ '000
Revenue					
Rental income		33,221	11,113	48,535	21,042
Construction consulting/management services		299	269	581	426
		33,520	11,382	49,116	21,468
Other income		143	20	202	30
Operating expenses		(16,165)	(4,333)	(26,473)	(7,778)
Administrative expenses		(4,257)	(2,847)	(7,415)	(5,683)
Other expenses	5	(346)	(1,306)	(2,271)	(2,190)
		12,895	2,916	13,159	5,847
Impairment of prepayment for investments		(1,178)	21	(1,178)	(7,511)
Valuation gain/(loss) on investment property		23,103	(37,368)	23,103	(40,362)
Impairment loss on trading properties		-	(1,251)	-	(1,251)
Impairment loss on property, plant and equipment		(2,759)	(12,882)	(2,759)	(12,882)
Net valuation gain/(loss)		20,344	(51,501)	20,344	(54,495)
Net proceeds from sale of trading properties		1,926	9,576	9,042	18,013
Carrying value of trading properties sold		(1,253)	(7,750)	(4,254)	(12,080)
Profit on disposal of trading properties		673	1,826	4,788	5,933
Results from operating activities		32,734	(46,738)	37,113	(50,226)
Finance income		1,632	1,420	14,429	3,966
Finance costs		(15,928)	(8,489)	(15,968)	(11,829)
Net finance costs	6	(14,296)	(7,069)	(1,539)	(7,863)
Profit/(loss) before income tax		18,438	(53,807)	35,574	(58,089)
Tax expense	7	(6,355)	(587)	(6,831)	(4,939)
Profit/(loss) for the period		12,083	(54,394)	28,743	(63,028)
Attributable to:					
Owners of the Company		11,882	(54,540)	28,340	(63,010)
Non-controlling interest		201	146	403	(18)
Profit/(loss) for the period		12,083	(54,394)	28,743	(63,028)
Earnings per share					
Basic and diluted earnings per share (cent)		1.13	(5.20)	2.70	(6.01)

The notes on pages 7 to 18 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 2011 to 30 June 2011

	For the three months ended		For the six months ended	
	1/4/11-30/6/11 US$ '000	1/4/10-30/6/10 US$ '000	1/1/11-30/6/11 US$ '000	1/1/10-30/6/10 US$ '000
Profit/(loss) for the period	12,083	(54,394)	28,743	(63,028)
Other comprehensive income				
Foreign currency translation differences-foreign operations	9,171	(47,576)	64,683	(21,781)
Total comprehensive income for the period	21,254	(101,970)	93,426	(84,809)
Attributable to:				
Owners of the Company	21,102	(102,061)	92,988	(84,752)
Non-controlling interest	152	91	438	(57)
Total comprehensive income for the period	21,254	(101,970)	93,426	(84,809)

The notes on pages 7 to 18 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 1 January 2011 to 30 June 2011

	Attributable to the owners of the Company					Non-controlling interest	Total
	Share Capital US$ '000	Share Premium US$ '000	Translation Reserve US$ '000	Retained Earnings US$ '000	Total US$ '000	US$ '000	US$ '000
Balance at 1 January 2010	524	1,763,933	(142,745)	80,949	1,702,661	2,867	1,705,528
Total comprehensive income for the period							
Loss for the period	-	-	-	(63,010)	(63,010)	(18)	(63,028)
Total other comprehensive income	-	-	(21,742)	-	(21,742)	(39)	(21,781)
Total comprehensive income for the period	-	-	(21,742)	(63,010)	(84,752)	(57)	(84,809)
Transactions with owners of the Company, recognised directly in equity							
Share option expense	-	-	-	14	14	-	14
Balance at 30 June 2010	524	1,763,933	(164,487)	17,953	1,617,923	2,810	1,620,733
Balance at 1 January 2011	1,048	1,763,409	(142,632)	106,571	1,728,396	3,225	1,731,621
Total comprehensive income for the period							
Profit for the period	-	-	-	28,340	28,340	403	28,743
Total other comprehensive income	-	-	64,648	-	64,648	35	64,683
Total comprehensive income for the period	-	-	64,648	28,340	92,988	438	93,426
Transactions with owners of the Company, recognised directly in equity							
Share option expense	-	-	-	62	62	-	62
Balance at 30 June 2011	1,048	1,763,409	(77,984)	134,973	1,821,446	3,663	1,825,109

The notes on pages 7 to 18 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

	Note	30/6/11 US$ '000	31/12/10 US$ '000
Assets			
Investment property	8	1,065,456	192,973
Investment property under development	9	965,062	1,674,585
Property, plant and equipment	10	97,971	88,402
Long-term loans receivable		42	38
VAT recoverable		24,208	8,893
Intangible assets		153	153
Non-current assets		2,152,892	1,965,044
Trading properties	11	18,973	21,386
Trading properties under construction	12	183,543	174,804
Inventory		583	576
Short-term loans receivable		90	79
Trade and other receivables	13	114,288	136,706
Income tax receivable		-	689
Cash and cash equivalents		96,069	129,839
Current assets		413,546	464,079
Total assets		2,566,438	2,429,123
Equity			
Share capital	14	1,048	1,048
Share premium	14	1,763,409	1,763,409
Translation reserve	14	(77,984)	(142,632)
Retained earnings		134,973	106,571
Total equity attributable to owners of the Company	14	1,821,446	1,728,396
Non-controlling interest		3,663	3,225
Total equity		1,825,109	1,731,621
Liabilities			
Long-term loans and borrowings	15	461,574	434,352
Deferred tax liability		78,129	81,194
Deferred income		28,193	28,239
Non-current liabilities		567,896	543,785
Short-term loans and borrowings	15	27,750	33,883
Trade and other payables	16	138,693	119,834
Income tax payable		6,990	-
Current liabilities		173,433	153,717
Total liabilities		741,329	697,502
Total equity and liabilities		2,566,438	2,429,123

The condensed consolidated interim financial statements were approved by the Board of Directors on 23 August 2011.

The notes on pages 7 to 18 form an integral part of the condensed consolidated interim financial statements.

AFI DEVELOPMENT PLC

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period from 1 January 2011 to 30 June 2011

	Note	1/1/11-30/6/11 US$ '000	1/1/10-30/6/10 US$'000
Cash flows from operating activities			
Profit/(loss) for the period		28,743	(63,028)
Adjustments for:			
Depreciation	10	742	648
Interest income	6	(3,111)	(3,966)
Interest expense		15,457	3,768
Share option expense		62	14
Fair value adjustments		(19,166)	62,006
Loss on disposal of property, plant and equipment		38	72
Change in fair value of other investments		-	8
Unrealised (gain)/loss on foreign exchange	6	(11,318)	6,784
Income tax expense	7	6,831	4,939
		18,278	11,245
Change in trade and other receivables		(874)	10,599
Change in inventories		(7)	5
Change in trading properties under construction		3,768	10,864
Change in trade and other payables		27,584	(956)
Change in deferred income		(46)	(4,639)
Cash generated from operating activities		48,703	27,118
Income taxes paid		(2,776)	(701)
Net cash from operating activities		45,927	26,417
Cash flows from investing activities			
Interest received		681	1,547
Proceeds from sale of property, plant and equipment		3	-
Cash received from investment portfolio		-	2,654
Receipts in advance from the sale of an investment		-	2,506
Payment of expenses associated to the disposal of an investment		-	(1,950)
Change in advances and amounts payable to builders	13,16	(1,634)	(1,898)
Payments for construction of investment property under development	8, 9	(52,254)	(70,058)
Change in VAT recoverable		2,269	8,903
Acquisition of property, plant and equipment	10	(4,163)	(2,133)
Payment for acquisition of intangible assets		-	(3)
Net cash used in investing activities		(55,098)	(60,432)
Cash flows from financing activities			
Proceeds from loans and borrowings		9,274	55,706
Repayment of loans and borrowings		(14,223)	(60,285)
Interest paid		(28,556)	(25,235)
Net cash used in financing activities		(33,505)	(29,814)
Effect of exchange rate fluctuations		8,906	(13,215)
Net decrease in cash and cash equivalents		(33,770)	(77,044)
Cash and cash equivalents at 1 January		129,839	210,830
Cash and cash equivalents at 30 June		96,069	133,786
The cash and cash equivalents consist of:			
Cash at banks		96,059	133,786
Cash in hand		10	-
		96,069	133,786

The notes on pages 7 to 18 form an integral part of the condensed consolidated interim financial statements.

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, Omiros & Araouzos Tower, 3035 Limassol, Cyprus. The Company is a 63.7% (31/12/10: 54%) subsidiary of Africa Israel Investments Ltd (“Africa-Israel”), which is listed in the Tel Aviv Stock Exchange (“TASE”). The increase in shareholding during the period was achieved through the acquisition of the shares representing 9.7%, held by Nirro Group S.A.. The remaining shareholding of “A” shares is held by a custodian bank in exchange for the GDRs issued and listed in the London Stock Exchange (“LSE”). On 5 July 2010 the Company issued by way of a bonus issue, 523,847,027 “B” shares, which were admitted to a premium listing on the Official List of the UK Listing Authority and to trading on the main market of LSE. On the same date, the ordinary shares of the Company were designated as “A” shares.

These condensed consolidated interim financial statements of the Company for the period from 1 January 2011 to 30 June 2011 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. BASIS OF PREPARATION

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 “Interim Financial Reporting”. They do not include all of the information required for the full annual financial statements.

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 these 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 2010, with an additional uncertainty estimation for the rental revenue of AFIMALL City. Due to the initial operation period of AFIMALL City and the uncertainty of receiving all contracted rental fees, the Company’s management estimated that an amount of US$1.1 million will not be received and therefore was not recognised as rental revenue.

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 2010.

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2011 to 30 June 2011

4. OPERATING SEGMENTS

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:

- 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**			
	Commercial projects		Residential projects						Total	
	30/6/11 US$'000	30/6/10 US$'000	30/6/11 US$'000	30/6/10 US$'000	30/6/11 US$'000	30/6/10 US$'000	30/6/11 US$'000	30/6/10 US$'000	30/6/11 US$'000	30/6/10 US$'000
External revenues	-	878	9,042	18,013	48,535	20,164	581	426	58,158	39,481
Inter-segment revenue	1	3	1	3	221	150	291	127	514	283
Reportable segment profit before tax	(4,512)	(389)	3,922	6,039	18,888	11,104	(148)	(11,868)	18,150	4,886
	30/6/11 US$'000	31/12/10 US$'000	30/6/11 US$'000	31/12/10 US$'000	30/6/11 US$'000	31/12/10 US$'000	30/6/11 US$'000	31/12/10 US$'000	30/6/11 US$'000	31/12/10 US$'000
Reportable segment assets	766,978	1,476,158	224,658	226,086	1,358,180	472,995	50,109	47,632	2,399,925	2,222,871

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

	1/1/11-30/6/11 US$ '000	1/1/10-30/6/10 US$ '000
Revenues		
Total revenue for reportable segments	58,672	39,764
Elimination of inter-segment revenue	(514)	(283)
Consolidated revenue	58,158	39,481

AFI DEVELOPMENT PLC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period from 1 January 2011 to 30 June 2011

4. OPERATING SEGMENTS (continued)

Reconciliation of reportable segment revenues and profit or loss (continued)

	1/1/11- 30/6/11 US$ '000	1/1/10- 30/6/10 US$ '000
Profit or loss		
Total profit or loss for reportable segments	18,150	4,886
Other profit or loss	(1,742)	(969)
Impairment loss of prepayment for investment	(1,178)	(7,511)
Valuation gain/(loss) on investment property	23,103	(40,362)
Impairment loss on trading properties	-	(1,251)
Impairment loss on property, plant and equipment	(2,759)	(12,882)
Consolidated profit/(loss) before tax	35,574	(58,089)

5. OTHER EXPENSES

	For the three months ended		For the six months ended	
	1/4/11- 30/6/11 US$ '000	1/4/10- 30/6/10 US$ '000	1/1/11- 30/6/11 US$ '000	1/1/10- 30/6/10 US$ '000
Land lease expense	-	776	-	1,582
Prior year's VAT non recoverable	-	530	1,346	608
Write off of trade receivables	227	-	562	-
Other	119	-	363	-
	346	1,306	2,271	2,190

6. FINANCE COST AND FINANCE INCOME

	For the three months ended		For the six months ended	
	1/4/11- 30/6/11 US$ '000	1/4/10- 30/6/10 US$ '000	1/1/11- 30/6/11 US$ '000	1/1/10- 30/6/10 US$ '000
Interest income	1,632	1,420	3,111	3,966
Net foreign exchange gain	-	-	11,318	-
Finance income	1,632	1,420	14,429	3,966
Interest expense on loans and borrowings	(57)	(304)	(360)	(674)
Interest expense on bank loans	(14,245)	(11,138)	(28,016)	(25,517)
Interest capitalised	2,563	10,505	12,919	22,423
Net change in fair value of financial assets	(260)	891	(318)	(1,119)
Other finance costs	(92)	(70)	(193)	(158)
Net foreign exchange loss	(3,837)	(8,373)	-	(6,784)
Finance costs	(15,928)	(8,489)	(15,968)	(11,829)
Net finance costs	(14,296)	(7,069)	(1,539)	(7,863)

7. TAX EXPENSE

	For the three months ended		For the six months ended	
	1/4/11-30/6/11 US$ '000	1/4/10-30/6/10 US$ '000	1/1/11-30/6/11 US$ '000	1/1/10-30/6/10 US$ '000
Current tax	8,174	3,115	10,455	5,043
Deferred tax benefit	(1,819)	(2,528)	(3,624)	(104)
Total income tax expense	6,355	587	6,831	4,939

8. INVESTMENT PROPERTY

	30/6/11 US$ '000	31/12/10 US$ '000
Balance 1 January	192,973	140,476
Transfer from investment property under development	822,376	23,592
Renovations/additional cost	3,352	1,371
Fair value adjustment	26,970	29,506
Effect of movement in foreign exchange rates	19,785	(1,972)
Balance 30 June / 31 December	1,065,456	192,973

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 property under development in note 9 below. The last valuation took place on 30 June 2011.

The increase due to the effect of the foreign exchange rates is a result of the strengthening of the Rouble compared to the US Dollar by 7.9% in the current period.

On 10 March 2011 AFIMALL City opened to the public. On that date it was reclassified from investment property under development to investment property. On the same date the fair value did not materially differ from its carrying amount, US$797,026 thousand, and therefore no fair value gain or loss was recognised. So as to ensure sufficient parking space is available for customers of the Mall while the main parking area is being completed, the Company rented the required amount of parking space from the owners of adjacent buildings. During the period, the Company reached a non binding understanding with the Moscow City administration regarding the purchase from the City of Moscow of its 25% share in AFI MALL City and 2,700 parking lots adjacent to AFI MALL City, for a total consideration of approximately US$ 310 million. See more details in note 21 "Subsequent events".

During the period the Company also completed Paveletskaya phase I project and reclassified it to investment property. At the date of reclassification its fair value did not materially differ from its carrying amount, US$25,350 thousand, and therefore no fair value adjustment was recognised.

During 2010 the commercial area and fitness centre of the second building of Four Winds project was completed and was reclassified as Investment property.

9. INVESTMENT PROPERTY UNDER DEVELOPMENT

	30/6/11 US$ '000	31/12/10 US$ '000
Balance 1 January	1,674,585	1,290,191
Construction costs	48,902	152,951
Capitalised interest	12,912	42,809
Transfer to investment property	(822,376)	(23,592)
Transfer to trading properties	-	(301)
Transfer from assets classified as held for sale	-	144,035
Transfer to VAT recoverable	-	(13,724)
Fair value adjustment	(3,867)	85,100
Effect of movements in foreign exchange rates	54,906	(2,884)
Balance 30 June / 31 December	965,062	1,674,585

The transfer to investment property, which took place during the first quarter of 2011, comprises projects AFIMALL City and Paveletskaya phase I, which were completed during the period, see note 8 above.

During the period, the Company reached a non-binding understanding with the Moscow City administration to transfer its development rights in the Tverskaya Zastava shopping centre to the City of Moscow in exchange for being fully compensated for its development costs incurred in the project to date. Such compensation may take the form of the City of Moscow granting additional building rights for the Company's other projects. As part of the non-binding understanding reached with the City of Moscow it is intended that AFI Development will remain the owner of the projects surrounding Tverskaya, equating to nearly 350,000 sq.m. of commercial and residential space. It is also intended that such projects will retain their key development criteria and it is the Company's understanding that the current planning documentation will remain in place. The Management believes that the compensation will be not less than the book value.

During the second quarter, a wholly owned subsidiary of the Company recorded a revaluation gain at the amount of US$13,137 thousand for the Paveletskaya Phase II project. The cost of the project was written off in previous years due to the Moscow real estate market situation and the uncertainty of the project's development. With the improvement of the Moscow real estate market during the years 2010 and 2011, the Company reassessed the development of the project and it is now in the pre-development stage. Therefore a revaluation based on an independent appraiser's opinion was recorded.

For the year ended 31 December 2010 the fair value adjustment is presented net of a write-off of the cost of Kuntsevo project. The Company made a progress in promoting its Kuntsevo project vis-à-vis the Moscow city authorities, including certain progress in obtaining necessary permits for the planning of this project. However, in light of the recent change in the Moscow city government, AFI Development Plc estimates that there might be additional delays in promoting the project and obtaining the aforementioned permits. There is no certainty whether and when the necessary permits will be obtained, and therefore, the Company decided, for accounting purposes, to write-off this project until more certainty is reached in relation to the development of the project.

10. PROPERTY, PLANT AND EQUIPMENT

	30/6/11 US$ '000	31/12/10 US$ '000
Balance 1 January	88,402	102,749
Additions	4,163	4,734
Depreciation for the period/year	(742)	(1,274)
Disposals	(41)	(62)
Impairment during the period	(2,759)	(16,893)
Effect of movements in foreign exchange rates	8,948	(852)
Balance 30 June / 31 December	97,971	88,402

The impairment charge, for both the period ended 30 June 2011 and the year ended 31 December 2010, represents the decrease in fair value of the Kislovodsk's area hotels "Kalinina" and "Versailles".

11. TRADING PROPERTIES

	30/6/11 US$ '000	31/12/10 US$ '000
Balance 1 January	21,386	42,050
Transfer from investment property under development	-	301
Impairment during the period/year	-	(1,251)
Disposals	(4,254)	(19,785)
Effect of movements in foreign exchange rates	1,841	71
Balance 30 June / 31 December	18,973	21,386

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 the remaining residential flats.

12. TRADING PROPERTIES UNDER CONSTRUCTION

	30/6/11 US$ '000	31/12/10 US$ '000
Balance 1 January	174,804	171,229
Construction costs	486	3,758
Capitalised interest	7	653
Effect of movements in exchange rates	8,246	(836)
Balance 30 June / 31 December	183,543	174,804

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

13. TRADE AND OTHER RECEIVABLES

	30/6/11 US$ '000	31/12/10 US$ '000
Advances to builders	31,542	36,206
Amounts receivable from related companies	5,912	9,007
Trade receivables	23,412	19,411
Other receivables	13,966	15,176
VAT recoverable	38,212	55,796
Tax receivables	1,244	1,110
	114,288	136,706

Advances to builders

On 31 December 2010 Advances to builders included an amount of US$5,803 prepaid to Danya Cebus Rus LLC, related party of the Group, for the construction of the AFIMALL City. This amount is now zero after the completion of the of the Mall during the current period.

14. SHARE CAPITAL AND RESERVES

Share Capital	30/6/11 US$ '000	31/12/10 US$ '000
Authorised		
2,000,000,000 shares of US$0.001 each	2,000	2,000
Issued and fully paid		
523,847,027 A ordinary shares of US$0.001 each	524	524
523,847,027 B ordinary shares of US$0.001 each	524	524
	1,048	1,048

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. On 5 July 2010 an amount of US$524 thousand was capitalised as a result of bonus issued.

Employee Share option plan

The Company has established an employee share option plan operated by the Board of Directors, which is responsible for granting options and administrating the employee share option plan. 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. No payment will be required for the grant of the options. In any 10 year period not more that 10 per cent of the issued ordinary share capital may be issued or be issuable under the employee share option plan.

AFI DEVELOPMENT PLC

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14. SHARE CAPITAL AND RESERVES (continued)

Employee Share option plan (continued)

Options over 974,855 GDRs and 974,855 class B shares were granted up to 30 June 2011 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 vesting is not subject to any performance conditions. The contractual life is ten years.

If a participant ceases to be employed his options will normally lapse subject to certain exceptions. In the event of a takeover, reorganisation or winding up vested options may be exercised or exchanged for new equivalent options where appropriate. Shares/GDRs issued under the plan will rank equally with all other shares at the time of issue. The Board of Directors may satisfy (with the consent of the participant) an option by paying the participant in cash or other assets the gain as an alternative of issuing and transferring the shares/GDRs. The Board of Directors may amend the rules of the plan at any time.

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 and the foreign exchange differences on loans designated as loans to an investee company which are accounted for as part of the investor's investment (IAS21.15) as their repayment is not planned or likely to occur in the foreseeable future. These foreign exchange differences are recognised directly to Translation Reserve.

Retained earnings

The amount at each reporting date is available for distribution. No dividends were proposed, declared or paid during the six-month period ended 30 June 2011.

15. LOANS AND BORROWINGS

	30/6/11 US$ '000	31/12/10 US$ '000
Non-current liabilities		
Secured bank loans	461,574	434,352
Current liabilities		
Secured bank loans	11,652	9,112
Secured loan from non-related company	-	10,161
Unsecured loans from other non-related companies	16,098	14,610
	27,750	33,883

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

(i) A secured loan which was obtained from the non-related company, Quasar Capital Limited, for US$60 million on 13 February 2006 and carried interest of 2.4% above 6 months US$ LIBOR was repaid in full during the period.

(ii) The increase in secured bank loans is mostly due to increase of the US Dollar equivalent of the loans denominated in Roubles due to the change in the exchange rate between Rouble and US Dollar by approximately 7.9% in favour of the Rouble.

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16. TRADE AND OTHER PAYABLES

	30/6/11 US$ '000	31/12/10 US$ '000
Trade payables	7,966	1,845
Payables to related parties	13,682	1,751
Amount payable to builders	4,352	10,650
VAT and other taxes payable	5,564	2,299
Receipts in advance from sale of investment	45,867	45,867
Other payables	61,262	57,422
	138,693	119,834

Payables to related parties

Include an amount of US$12,356 thousand (31/12/10: US$NIL) payable to Danya Cebus Rus LLC, related party of the Group, for new contracts signed in relation to the completion of AFIMALL City.

Receipts in advance from sale of investment

Represents the amount refundable to the buyer of Kosinskaya project, for more details see note 17 below.

Other payables

Include an amount of US$50,268 thousand (31/12/10: US$51,869 thousand) payable to the 50% partner of the joint venture Krown Investments LLC.

17. CONTINGENCIES

On 6th of August 2009, the Group has entered into a sale and purchase agreement for the sale of Kosinskaya project, through the sale of OOO Titon, the subsidiary of Rognerstar Finance Limited, which is the subsidiary of AFI Development Plc. Under the original terms, sale proceeds of US$195 million were expected to be received within one year, by August 2010. By the expected date of receipt the Group had received US$72.5 million and was negotiating with the buyer an amended payment schedule, in order to extend the receipt of the total proceeds to the end of 2010. As of the expected dated of receipt the buyer has not paid the full amount and the title of the assets was still under the ownership of the Company. In addition, the Company also decided to derecognise US$25 million from “receipts in advance from sale of investment” as this amount represents the minimum amount that is not refundable according to the contract.

The buyer has served AFI Development Plc a warrant for indictment, submitted in the District Court of Nicosia, Cyprus, whereby the buyer demands, inter alia, repayment of the amount of approximately US$47 million and approximately US$25 million out of the purchase price, reimbursement in the amount of approximately US$17 million for damages and additional reimbursement of US$2.5 million per each month of delay in the aforementioned payments. As of the date of these financial statements, the buyer has submitted a statement of claim but has not yet submitted any supporting documentation in relation to these claims. AFI Development Plc intends to serve its response within the time frames set forth under the applicable law however, is currently negotiating with the buyer regarding possible settlement options. Management believes that the current provision in the financial statements will cover any future payments for the resolution of this matter.

AFI DEVELOPMENT PLC

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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 2010.

19. RELATED PARTIES

Outstanding balances with related parties	30/6/11 US$ '000	31/12/10 US$ '000
Assets		
Amounts receivable from joint ventures	4,570	4,388
Advances issued to other related companies	-	5,803
Amounts receivable from other related companies	1,342	4,619
Liabilities		
Amounts payable to ultimate holding company	374	157
Amounts payable to other related companies	13,308	1,594

Transactions with the key management personnel	30/6/11 US$ '000	30/6/10 US$ '000
Key management personnel compensation comprised:		
Short-term employee benefits	1,483	945

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	30/6/11 US$ '000	30/6/10 US$ '000
Revenue		
Joint venture – consulting services	581	379
Joint venture – interest income	2,427	2,359
Expenses		
Ultimate holding company – administrative expenses	269	-

20. GROUP ENTITIES

During the six-month period ended 30 June 2011 the Group did not acquire or dispose any material subsidiaries.

AFI DEVELOPMENT PLC

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21. SUBSEQUENT EVENTS

Subsequent to 30 June 2011 there were no events that took place which have a bearing on the understanding of these financial statements except of the following:

- On 25 March 2011 the Company announced that it had reached a non-binding understanding with the Moscow City Government regarding the purchase from the City of Moscow of its 25% share in AFIMALL City and 2,700 parking lots adjacent to AFIMALL City, for a total consideration of approximately US$310 million.
  On 15th of July the Company provided an update that, pursuant to the said non-binding understanding, it has entered into a supplement to the Investment Contract (the "Supplement") with the Moscow City Government. Pursuant to the Supplement, the Moscow City Government will assign its right to receive 25% of the area of AFIMALL City for a total consideration of 5 billion Roubles, including VAT (approximately US$180 million, including VAT), to be paid by the end of September 2011. The Supplement was subject to internal approvals of various departments of the Government of the City of Moscow and on 3rd of August the Company provided an update that it has received the Supplement, duly approved by the Government of the City of Moscow and signed by its authorise representative.
  As of the day of the financial statements, the Company is having advanced discussions with various banks regarding the provision of financing for the abovementioned buy-out from the City of Moscow of its rights in AFIMALL City. The Company aims to have the financing in place by the end of September 2011.
  The Company's management estimates, based also on its professional advisers opinion on this matter, that the price of the above mentioned deal does not reflect the fair value estimation for the asset, due mainly to the following reasons:
  - Moscow City Government (25%) has minority shares in the asset. According to the valuation practice in the real estate sector, it is common to assume a certain discount for rights which do not provide a control over the management of the asset.
  - In most of the cases, rights in an asset which do not provide a control over the asset and its management are characterized with non-liquidity which according to the valuation practice in the real estate sector, reflects a discount on the fair value of the asset.

  Due to the above mentioned, upon completion of the transaction, and based on the fair value of the assets as of 30 June 11 which was evaluated at US$820 million (75%) by an independent appraiser, the Company is expected to record a profit of approximately US$100 million, before tax (US$80 million after tax). It has to be noted that the Supplement does not deal with the parking lot adjacent to AFIMALL City. However, this is covered by the aforementioned non-binding understanding, and the Company is continuing its negotiations with respect to this matter with the Moscow City Government.

- The Company has signed an additional agreement with VTB bank to reduce the interest rate on the current AFIMALL City loan from 13.25% to 11.5% with a further reduction to 9.5% upon receipt of the ownership certificate for the property.

- The Company, together with its partner in the project, ZAO "Snegiri Development", has completed the refinancing transaction for its Four Winds office project through Nordea Bank. Under the refinancing terms, the credit line was increased from US$143 million to US$170 million at a lower interest rate, compared to the current interest rate of 10.5% under the agreement with MDM Bank.