ECDC

European Convergence Development Company

EUROPEAN CONVERGENCE DEVELOPMENT COMPANY PLC

Consolidated Annual Report

Period from 26 July 2006 (date of incorporation) to 31 December 2006

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Management and Administration

Directors * independent	Erwin Brunner (Non-executive Chairman) * James C. Rosapepe (Non-executive Director) * Donald C. McCrickard (Non-executive Director) * Anderson A. Whamond (Non-executive Director) all of the registered office below
Registered Office	Jubilee Buildings Victoria Street Douglas Isle of Man IM1 2SH British Isles
Secretary	Ian Dungate C/o Anglo Irish Fund Services Limited Jubilee Buildings, Victoria Street Douglas Isle of Man IM1 2SH British Isles
Manager	Charlemagne Capital (IOM) Limited Regent House, 16-18 Ridgeway Street Douglas Isle of Man IM1 1EN British Isles
Cash Custodian	Anglo Irish Bank Corporation (I.O.M.) P.L.C. Jubilee Buildings, Victoria Street Douglas Isle of Man IM1 2SH British Isles
Administrator and Registrar	Anglo Irish Fund Services Limited Jubilee Buildings, Victoria Street Douglas Isle of Man IM1 2SH British Isles
Placing Agent	Charlemagne Capital (UK) Limited 39 St James's Street London SW1A 1JD United Kingdom
Auditors	KPMG Audit LLC Heritage Court, 41 Athol Street Douglas Isle of Man IM99 1HN British Isles

Management and Administration continued

Legal Advisers	*As to Isle of Man Law* Cains Advocates Limited 15-19 Athol Street Douglas Isle of Man IM1 1LB British Isles *As to English Law* Stephenson Harwood One, St Paul's Churchyard London EC4M 8SH United Kingdom
Subsidiaries	European Convergence Development Company (Cayman) Limited PO Box 309GT, Ugland House South Church Street George Town Grand Cayman Cayman Islands British West Indies European Convergence Development (Malta) Limited 4 V. Dimech Street Floriana Malta Convergence Development (Cyprus) Limited 27 Pindarou, Alpha Business Centre, 2nd Floor PC1060 Nicosia Cyprus European Real Estate Development Invest SRL Calea Serban Voda, No. 133 Building A, Ground Floor, Room No. 9 Sector 4 Bucharest Romania Convergence Property Invest SRL 69-71 Soseaua Bucuresti-Ploiesti 1st Floor, Room No. 35, Sector 1 Sector 1 Bucharest Romania
Joint Venture	Asmita Gardens SRL 28 G-ral C-tin Budisteanu Street Third Floor, Room No. 13 Sector 1 Bucharest Romania

Chairman's Statement

This annual report represents European Convergence Development Company plc's (the "Company" or the "Group") first five months of investment activity since incorporation in July 2006.

The launch raised €30m of inward investment into the Company and since launch the Company has been very active in seeking opportunities in the property development markets of South East Europe.

The recent accession of Bulgaria and Romania into the European Union has attracted a lot of investment interest into the area and capital appreciation has been strong, with a corresponding compression of rental yields, so making the investment process more challenging.

As at the date of this report we are pleased to confirm that the Company has already made its first two significant investments; Asmita Gardens, a key residential development in Bucharest, which was completed during 2006, and March 2007 saw the completion of Galleria Plovdiv, a shopping mall in Bulgaria's second largest city. In addition the Company is committed to investing in an office development, Cascade Business Centre, also in Bucharest.

The Company made a loss in the reporting period of €89k, reflecting its initial investment phase and associated set up costs, and consequently the Board will not be declaring a dividend at this stage. The objective of the Company remains, however, to provide enhanced returns to its shareholders both through sustained growth of its net assets per share and through profit distribution.

Erwin Brunner
Chairman

14 May 2007

Report of the Manager

Over the reporting period the Manager has focused on the Romanian and Bulgarian markets. A number of investment opportunities have been identified and a credible pipeline is in progress.

The development market is gathering pace now that the investment case has been made through a number of high profile and high value institutional grade investment transactions during 2005 and 2006 which have helped to compress investment yields from c.10% at the beginning of 2005 to sub 7% by the end of 2006.

The increase in property values has resulted in many projects now becoming feasible and many land owners taking the decision to release their assets to the development market. These factors, coupled with increasing availability of debt funding, is now driving the development market. The risk curve for both markets is now on a downward trend which will see more conservative developers from western and more mature CEE markets beginning to appear.

Against the above are the inflationary pressures in the market which have to be assessed. Land prices in some locations are becoming unrealistically high due to over zealous land owner expectations and in some cases land owners assuming that they can secure development value in their lot sale price. Construction costs will start to rise which will be primarily driven by material costs as opposed to labour costs; the latter is expected to remain relatively low for some time due to high availability of construction labour from poorer provincial towns and cities or even migration from poorer non-EU accession countries further east. Despite EU membership, any tightening in costly health and safety legislation to protect construction works is not expected for some time.

Debt Market Overview

For debt funding the most aggressive players in the local markets continue to be primarily the Greek banks with debt pricing in the range 175-225 bps above EURIBOR. Banks favour credible developer or partner enterprises with a strong professional management and design team supported by solid local market experience.

Property Portfolio

Completed Acquisitions:

Asmita Gardens - in Q4 2006 the Manager entered into a joint venture enterprise for the construction of a residential development of over 700 apartments in central south-east Bucharest. The Company contributed €8 million for a 50% position in the development company. Total project cost is forecast at €94 million and the investment is expected to generate returns of c.35% IRR.

Galleria Plovdiv - in Q1 2007 the Manager secured a shopping mall development in Bulgaria's second city, Plovdiv, located in the central south region of the country. Galleria will be a c.100,000 sqm development with a project cost of c.€58 million. The development is expected to be largest mall outside of Sofia for some years, a destination retail and leisure attraction with c.45,000 sqm of rentable space and over 1,000 car parking spaces. The joint venture partner is a highly reputable and experienced Bulgarian construction company and is expected to generate a return of c.35% IRR on its equity investment of €10 million.

Committed Acquisitions

Cascade Business Centre - in Q1 2007 the Manager entered into a joint venture agreement for a high quality grade A office development in central Bucharest which will offer over 15,500 sqm of rentable area over 18 floors plus 5 underground levels providing parking for 180 cars. The transaction is expected to close in early Q2 2007 contingent on final building permissions being secured. The company's partner is a highly experienced and credible Dutch property developer whom the Manager has known for over two years. Total project costs are forecast at €36 million partly funded by the company's equity participation of €5 million which is expected to achieve a return of c.35% IRR.

Report of the Manager continued

Development Market Conditions

Romania

The office market is set to see its total grade A stock of c.430,000 sqm double by 2008. The Manager therefore expects to witness increasing pressure on landlords holding secondary and tertiary properties and therefore anticipates targeting only high quality office developments for the company. Rents are currently stable for grade A space in the €16-18/ sqm range but we expect landlords will eventually have to work harder in all office segments to attract the best quality covenants through incentives such as rent free periods and tenant fit-out packages.

The retail landscape is set to change markedly over the next few years with a number of high profile shopping malls rumoured for delivery. However, it is not envisaged that the Company will be pursuing retail developments in Bucharest and therefore the Company is unlikely to be exposed to the emerging risks in this sector.

Possibly the most active sector for the Company in Bucharest will be the residential sector. The residential market has not developed as quickly in Romania as it has in Bulgaria and therefore the Manager believes there is a considerable latent demand for residential product for a city which is experiencing considerable economic growth and increasing prosperity coupled with an expanding metropolitan population. Most of the residential supply constructed, both for apartments and some of the new housing estates to the north east of the city have to date, typically been of poorer quality and already suffer from local authorities allowing a density of construction which is clearly too high. Therefore, the Manager will be targeting quality residential product in either good locations and/or locations which offer a credible market differentiator.

Bulgaria

Supply of quality office space slowed through 2006 with only very few notable new buildings being delivered. True institutional grade A assets have not yet appeared on the Bulgarian market although a number of sizeable projects are rumoured for the emerging CBD locations along Tsarigradsko Shosse and the principle new airport access roads. Most of the demand for grade A and B+ office space over the past few years has been absorbed by Linder's giant Business Park Sofia development, however now that this is full new developments are anticipated to meet the ongoing new demand. The Manager will maintain a cautious approach to the Sofia office market targeting only quality developments with long term high covenant occupier appeal.

Similar to Bucharest, the retail landscape in Sofia is set to change dramatically over the next few years with a number of major mall developments understood to be in process of procurement. The market is therefore likely to favour the tenant over the short term until the retail spend capacity of Sofia increases to absorb this new supply. The Manager anticipates targeting the more attractive provincial retail development market over the short term where prime city centre locations and good returns are still available.

Unlike Bucharest, the Bulgarian residential market has seen considerable development over recent years particularly in the highly publicised hot spots of the black sea coast and Bansko ski resort. The Sofia market has witnessed many examples of over-development and the Bulgarian residential market is too often characterised by poor quality and poor design. However, opportunity and attractive returns are considered to still exist in the high-end apartment market and the emerging more traditional western style housing market.

Charlemagne Capital (IOM) Limited
Manager

14 May 2007

Report of the Directors

The Directors hereby submit their annual report together with the audited consolidated financial statements of European Convergence Development Company plc (the "Company") for the financial period 26 July 2006 (date of incorporation) to 31 December 2006.

The Company
The Company is incorporated in the Isle of Man and has been established to enable investors to take advantage of opportunities that exist in the property markets of South-East Europe.

Results and Dividends
The results and position of the Group and the Company at the period end is set out on pages 9 to 11 of the financial statements.

The Directors will decide in respect of any 12 month accounting period as to what percentage of the Company's realised net profits available for distribution (if any) they will recommend as the sum for payment as a dividend. This decision will take into account the opportunities available to the Company for further investment. The Directors may pay half-yearly interim dividends if they believe that the financial position of the Company justifies it. If the Company's funds are fully invested, the Directors may re-invest some of the Company's profits into the maintenance of the Company's property portfolio or on further investments.

The Directors do not intend to declare a dividend at this time.

Directors
The Directors during the period and up to the date of this Report were as follows. There has been no change to the constitution of the Board during the period:-

	Appointed
Erwin Brunner *(Chairman)*	26/07/2006
James Rosapepe	27/07/2006
Donald McCrickard	26/07/2006
Anderson Whamond	26/07/2006

Directors' and Other Interests
Anderson Whamond is managing director of the Manager and a director and shareholder of Charlemagne Capital Limited, the parent of the Manager and Placing Agent. None of the directors have a direct or indirect interest of the shares in the Company.

Charlemagne Capital (Investments) Limited (a subsidiary of Charlemagne Capital Limited), holds 745,478 shares of the Company.

Save as disclosed above, none of the directors had any interest during the period in any material contract for the provision of services which was significant to the business of the Company.

Independent Auditors
KPMG Audit LLC Isle of Man have expressed a willingness to continue in office in accordance with Section 12 (2) of the Companies Act, 1982.

Corporate Governance
The Company is not required to follow the provisions of the Combined Code as set out in the UK Financial Services Authority Listing Rules, however, the Board is committed to high standards of corporate governance and a summary of the main elements of corporate governance are described below:

Board of Directors

The composition of the Board is set out above. The Board currently comprises a non-executive chairman and three other non-executive directors.

Report of the Directors continued

The Board meets regularly and is provided with relevant information on financial, business and corporate matters prior to meetings.

Audit Committee

The Audit Committee consists of the Board members. To be quorate at least two offshore directors must be present, with the majority of the committee also being independent of the management of the Company. The committee overviews the adequacy of the Company's internal controls, accounting policies and financial reporting and provides a forum through which the Company's external auditors report to the Company.

Internal Control

The Directors are responsible for establishing and maintaining the Company's system of internal control. This system of internal control is designed to safeguard the Company's assets and to ensure that proper accounting records are maintained and that financial information produced by the Company is reliable. There are inherent limitations in any system of internal control and such a system can provide only reasonable, but not absolute, assurances against material misstatement or loss. The Directors, through the audit committee, have reviewed the effectiveness of the Company's system of internal controls.

Statement of Directors' Responsibilities in respect of the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year, which meet the requirements of Isle of Man company law. In addition, the Directors have elected to prepare the Group and Parent Company financial statements in accordance with International Financial Reporting Standards.

The Group and Parent Company's financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Parent Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and to enable them to ensure that the financial statements comply with the Isle of Man Companies Acts 1931 to 2004. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

On behalf of the Board

Erwin Brunner
Chairman

14 May 2007

Report of the Independent Auditors, KPMG Audit LLC, to the members of European Convergence Development Company plc

We have audited the Group and Parent Company financial statements (the "financial statements") of European Convergence Development Company plc for the period from 26 July 2006 (date of incorporation) to 31 December 2006 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the Consolidated Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 15 of the Companies Act 1982. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable Isle of Man company law and International Financial Reporting Standards are set out in the Statement of Directors' responsibilities on page 7.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with Isle of Man Companies Acts 1931 to 2004. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' transactions with the Company is not disclosed.

We read the Directors' Report and any other information accompanying the financial statements and consider the implications for our report if we become aware of any apparent misstatements or inconsistencies within it.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the UK Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with applicable Isle of Man company law and International Financial Reporting Standards, of the state of the Group's and Parent Company's affairs as at 31 December 2006 and of the Group's loss for the period then ended;
- the financial statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit LLC, Isle of Man, Chartered Accountants 14 May 2007

Consolidated Income Statement

	Note	For the period from 26 July 2006 (date of incorporation) to 31 December 2006
		€'000
Net rent and related income		**-**
Manager's fees	7.3	(184)
Audit and professional fees	8.5	(26)
Other operating expenses	8.3	(91)
Administrative expenses		(301)
Net operating loss before net financing income		(301)
Financial income	5	263
Financial expenses	5	(2)
Net financing income		261
Share of loss of equity accounted investees	9	(49)
Loss before tax		(89)
Income tax expense	17	-
Retained loss for the period		**(89)**
Basic and diluted loss per share (€)	13	**(0.0023)**

The Directors consider that all results derive from continuing activities.

The accompanying Notes form an integral part of these consolidated financial statements

Consolidated Balance Sheet

	Note	At 31 December 2006 €'000
Investment in equity accounted investees	9	476
Total non-current assets		**476**
Trade and other receivables	10	7,969
Cash and cash equivalents	11	22,030
Total current assets		**29,999**
Total assets		**30,475**
Issued share capital	12	30,457
Retained losses		(209)
Total equity		**30,248**
Interest-bearing loans and borrowings		-
Total non-current liabilities		**-**
Trade and other payables	14	227
Total current liabilities		**227**
Total liabilities		**227**
Total equity & liabilities		**30,475**

Approved by the Board of Directors on 14 May 2007.

Anderson Whamond
Director

Donald McCrickard
Director

The accompanying Notes form an integral part of these consolidated financial statements

Company Balance Sheet

	Note	At 31 December 2006 €'000
Investment in subsidiaries	2	-
Total non-current assets		**-**
Intragroup balances		9,564
Trade and other receivables		73
Cash and cash equivalents	11	20,948
Total current assets		**30,585**
Total assets		**30,585**
Issued share capital	12	30,457
Retained earnings		94
Total equity		**30,551**
Interest-bearing loans and borrowings		-
Total non-current liabilities		**-**
Trade and other payables	14	34
Total current liabilities		**34**
Total liabilities		**34**
Total equity & liabilities		**30,585**

The profit earned by the Company for the period from 26 July 2006 (date of incorporation) to 31 December 2006 was €213,890.

Approved by the Board of Directors on 14 May 2007.

Anderson Whamond
Director

Donald McCrickard
Director

Consolidated Statement of Changes in Equity
for the period from 16 July 2006 (date of incorporation) to 31 December 2006

	Share capital	Retained earnings	Total
	€'000	€'000	€'000
Balance at beginning of period	-	-	-
Shares issued in the period	30,457	-	30,457
Share issue expenses	-	(120)	(120)
Retained loss for the period	-	(89)	(89)
Balance at end of period	**30,457**	**(209)**	**30,248**

The accompanying Notes form an integral part of these consolidated financial statements

Consolidated Cash Flow Statement

	Note	For the period from 26 July 2006 (date of incorporation) to 31 December 2006 €'000
Operating activities		
Loss before tax		(89)
Adjustments for:		
Financial income		(263)
Financial expense		2
Share of loss of equity accounted investees		49
Operating loss before changes in working capital		**(301)**
Increase in trade and other receivables		(81)
Increase in trade and other payables		227
Cash used in operations		**(155)**
Financial expenses paid		(2)
Financial income received		263
Cash flows from operating activities		**106**
Investing activities		
Acquisition of equity accounted investees	9	(525)
Loans to equity accounted investees	10	(7,888)
Cash flows used in investing activities		(8,413)
Financing activities		
Proceeds from the issue of ordinary share capital	12	30,457
Share issue expenses	8.4	(120)
Cash flows generated from financing activities		**30,337**
Net increase in cash and cash equivalents		**22,030**
Cash and cash equivalents at 26 July 2006		**-**
Cash and cash equivalents at 31 December 2006	11	**22,030**

The accompanying Notes form an integral part of these consolidated financial statements

Notes to the Consolidated Financial Statements

1 The Company

European Convergence Development Company plc (the "Company") was incorporated and registered in the Isle of Man under the Isle of Man Companies Acts 1931 to 2004 on 26 July 2006 as a public company with registered number 117309C.

Pursuant to a prospectus dated 2 August 2006 there was an original placing of up to 37,500,000 Ordinary Shares. An addendum to the prospectus, dated 11 September 2006, increased the maximum Ordinary Shares of the original placing from 37,500,000 to 50,000,000. Following the close of the placing on 12 September 2006 38,071,000 shares were issued.

The Company's agents and the Manager perform all significant functions. Accordingly, the Company itself has no employees.

Duration

In accordance with the Company's Articles of Association, Shareholders will be given the opportunity to vote on the life of the Company after approximately 10 years.

At the annual general meeting of the Company to be held in 2016, the Directors are obligated to propose an ordinary resolution that the Company ceases to continue in existence. If the resolution is not passed then it shall be proposed at every fifth annual general meeting thereafter. If the resolution is passed then the Directors shall, within 3 months after the date of the resolution, put forward proposals to shareholders to the effect that the Company be wound up, liquidated, reorganised or unitised.

Dividend Policy

The Directors will decide in respect of any 12 month accounting period as to what percentage of the Company's realised net profits available for distribution (if any) they will recommend as the sum for payment as a dividend. This decision will take into account the opportunities available to the Company for further investment. The Directors may pay half-yearly interim dividends if they believe that the financial position of the Company justifies it. If the Company's funds are fully invested, the Directors may re-invest some of the Company's profits into the maintenance of the Company's property portfolio or on further investments.

Financial Year End

The financial year end of the Company is 31 December in each year. For the financial period ending 31 December 2006 the Company will present financial statements covering a 5 month period since incorporation.

2 The Subsidiaries

During the period and for efficient portfolio management purposes, the Company established the following subsidiary companies:-

European Convergence Development (Cayman) Limited ("ECDC Cayman")
ECDC Cayman was incorporated in the Cayman Islands on 26 July 2006 under the provisions of The Companies Law (2004 Revision), Cap 22 as a limited liability company (registration number MC- 171615). ECDC Cayman has an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each. 1 share was issued to European Convergence Development Company plc on 26 July 2006. The Directors of ECDC Cayman are James Houghton and Malcolm Sargeant each appointed 26 July 2006.

Convergence Development (Cyprus) Limited ("CD Cyprus")
CD Cyprus was incorporated in Cyprus on 17 July 2006 under the provisions of the Companies Law, Cap. 113 as a limited liability company (registration number HE 180554). The company was incorporated with an authorised share capital of €1,000 divided into 1,000 shares of €1 each. 1000 shares were issued to European Convergence Development Company (Cayman) Limited (the company's parent) on 23 August 2006. The Directors of CD Cyprus are James Houghton, Malcolm Sargeant, Koulla Antoniadou, Arlene Nahikian and Costas Christoforou (all appointed 27 July 2006).

Notes to the Consolidated Financial Statements continued

European Convergence Development (Malta) Limited ("ECD Malta")
ECD Malta was incorporated in Malta on 31 August 2006 under the provisions of Section 77 of the Companies Act 1995 as a limited liability company (registration number C39453). The company has an authorised share capital of €10,000 divided into 10,000 shares of €1 each. 1,199 shares were issued to European Convergence Development (Cayman) Limited (the direct parent) and 1 share was issued to Osiris Trust Limited on 31 August 2006. The Directors of ECD Malta are James Houghton, Malcolm Sargeant, Stuart Blackburn and Joseph Fenech (each appointed 31 August 2006.

European Real Estate Development Invest SRL ("EREDI Romania")
EREDI Romania was incorporated in Romania on 17 October 2006 under the provisions of the Companies Law No. 31/1990 as a limited liability company (registration number J/40/16342, Sole Code of Registration number 19104185). The company has an authorised share capital of RON 200 divided into 20 shares of RON 10 each. 20 shares were issued; 1 share to James Houghton and 19 shares to Convergence Development (Cyprus) Limited (the direct parent) on 17 October 2006. The Directors of EREDI Romania are James Houghton and Malcolm Sargeant (each appointed 4 October 2006).

Convergence Property Invest SRL ("CPI" Romania")
CPI Romania was incorporated in Romania on 8 May 2007 under the provisions of the Companies Law No. 31/1990 as a limited liability company (registration number J40/8903/8.05.2007, Sole Code of Registration number 21696909). The company has an authorised share capital of RON 200 divided into 20 shares of RON 10 each. 20 shares were issued; 1 share to James Houghton and 19 shares to Convergence Development (Cyprus) Limited (the direct parent) on 8 May 2007. The Directors of CPI Romania are James Houghton and Malcolm Sargeant (each appointed 14 April 2007).

3 Significant Accounting Policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below.

The annual report of the Company for the period ended 31 December 2006 comprises the Company and its subsidiaries (together referred to as the "Group").

The annual report was compiled by the Administrator and Registrar and authorised for issue by the Directors on 14 May 2007.

3.1 Basis of presentation
These financial statements have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board ("IFRS"). Management has concluded that the report fairly represents the entity's financial position, financial performance and cash flows.

The Company is denominated in Euros ("€") and therefore the amounts shown in these financial statements are presented in €.

3.2 Foreign currency translation
Monetary assets and liabilities denominated in foreign currencies as at the date of these financial statements are translated to € at exchange rates prevailing on that date. Realised and unrealised gains and losses on foreign currency transactions are charged or credited to the income statement as foreign currency gains and losses. Expenses are translated into € based on exchange rates on the date of the transaction.

3.3 Deposit interest
Deposit interest is accounted for on an accruals basis.

3.4 Cash and cash equivalents
Cash and cash equivalents comprise cash deposited with banks and bank overdrafts repayable on demand.

Notes to the Consolidated Financial Statements continued

3.5 Revenue and expense recognition

Interest income is recognised in the financial statements on an accruals basis. Dividend income is recorded when declared.

Rental income from investment property leased out under operating lease is recognised in the income statement on a straight-line basis over the term of the lease.

Expenses are accounted for on an accrual basis. Expenses are charged to the income statement except for expenses incurred on the acquisition of an investment property which are included within the cost of that investment. Expenses arising on the disposal of an investment property are deducted from the disposal proceeds.

3.6 Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists where the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Associates and joint ventures (equity accounted investees)

Associates are those entities in which the Group has a significant influence, but no control, over the financial and operating polices. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and joint ventures are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Group's share of the income and expenses of the equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investment) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee,

Unrealised gains on transactions between the Company and its equity accounted investees are eliminated to the extent of the Company's interest in the equity accounted investees. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Company.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to € at the foreign currency exchange rates ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised directly in equity.

3.7 Dividends

Dividends are recognised as a liability in the period in which they are declared and approved. There was no dividend declared as at 31 December 2006.

3.8 Other receivables

Trade and other receivables are stated at their cost.

Notes to the Consolidated Financial Statements continued

3.9 Trade and other payables
Trade and other payables are stated at their cost.

3.10 Interest-bearing borrowings
Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

4 Segment Reporting

No disclosure is included in relation to segment reporting, as the Company's activities are limited to one business and geographic segment.

5 Net Financing Income

Net financing income consists of bank interest earned of €262,727 and bank charges of €1,545.

6 Net Asset Value per Share

The net asset value per share as at 31 December 2006 is €0.7945 based on 38,071,000 ordinary shares in issue as at that date.

7 Related Party Transactions

7.1 Directors of the Company
Anderson Whamond is a director of the Manager. Mr Whamond is a shareholder of Charlemagne Capital Limited ("CCL") the parent of the Manager and the Placing Agent.

Save as disclosed above, none of the Directors had any interest during the period in any material contract for the provision of services which was significant to the business of the Company.

CCL, a company incorporated in the Cayman Islands is listed on the Alternative Investment Market of the London Stock Exchange.

7.2 Directors of the Subsidiaries
James Houghton is a director of the Manager. Malcolm Sargeant is an employee of the Manager. In compliance with local regulations, certain subsidiaries have appointed directors who are employees of or are associated with, the relevant registered office service provider.

7.3 Manager fees

Annual fees
The Manager is entitled to an annual management fee of 2% of the net asset value of the Company, payable quarterly in arrears.

The Manager shall also be entitled to recharge to the Company all and any costs and disbursements reasonably incurred by it in the performance of its duties including costs of travel save to the extent that such costs are staff costs or other internal costs of the Manager. Accordingly, the Company shall be responsible for paying all the fees and expenses of all valuers, surveyors, legal advisers and other external advisers to the Company in connection with any investments made on its behalf. All amounts payable to the Manager by the Company shall be paid together with any value added tax, if applicable.

Annual management fees payable during the period ended 31 December 2006 amounted to €184,445.

Notes to the Consolidated Financial Statements continued

Performance fees
The Manager is entitled to a performance fee payable at the end of each financial year following the first listing of the Ordinary Shares on AIM or any other stock exchange of an amount equal to 15% of any excess of the net asset value per Ordinary Share (with any dividends added back) over the Benchmark Net Asset Value per Ordinary Share multiplied by the time weighted average number of shares in issue during that that financial year. For these purposes the Benchmark Net Asset Value shall be equal to the higher of (i) the subscription price per Ordinary Share on the first listing of the Ordinary Shares; (ii) 0.80 Euros increased by 20% per annum compound from the closing of the Placing until a Listing; and (iii) the highest net asset value per Ordinary Share following a Listing and giving rise to the payment of a performance fee.

Payment of the Manager's annual fees and any performance fees shall be paid by a subsidiary of the Company.

Performance fees payable during the period ended 31 December 2006 amounted to € Nil.

8 Charges and Fees

8.1 Custodian fees
The Custodian is entitled to receive fees calculated as 2 basis point per annum of the gross value of the non-real estate assets held on behalf of the Company, subject to a minimum monthly fee of €500, payable quarterly in arrears.

The Custodian expects to review and, subject to written agreement between the Company and the Custodian, may amend the foregoing fees six months after the closure of the initial offering period and annually thereafter.

Custodian fees payable for the period ending 31 December 2006 amounted to €1,800.

8.2 Administrator and Registrar fees
The Administrator is entitled to receive a fee of 8 basis points of the net assets of the Company, subject to a minimum monthly fee of €5,000 (such minimum fee to be discounted to €4,000 until such time as the Company is admitted to AIM or another stock exchange), payable quarterly in arrears.

The Administrator shall assist in the preparation of the financial statements of the Company for which it shall receive a fee of €2,500 per set.

The Administrator shall provide general secretarial services to the Company for which it shall receive a minimum annual fee of €7,500. Additional fees based on time and charges, will apply where the number of Board meetings exceeds four p.a. For attendance at meetings not held in the Isle of Man, an attendance fee of €750 per day or part thereof will be charged.

The Administrator may utilise the services of a CREST accredited registrar for the purposes of settling share transactions through CREST. The cost of this service will be borne by the Company. It is anticipated that the cost will be in the region of £6,000 per annum subject to the number of CREST settled transactions undertaken.
The Administrator expects to review and, subject to written agreement between the Company and the Administrator, may amend the foregoing fees six months after closure of the initial offering period and annually thereafter.

Administration fees payable for the period ending 31 December 2006 amounted to €17,400.

8.3 Other operating expenses
The costs associated with maintaining the Company's subsidiaries, to include the costs of incorporation and third party service providers shall be chargeable to each subsidiary and payable by the Company.

8.4 Preliminary (formation) expenses
The estimated total costs and expenses payable by the Company in connection with the Placing (including professional fees, the costs of printing and the other fees payable) was approximated to equal €150,000. The actual total amount of preliminary expenses paid was €119,604 representing 0.39% of the gross amount raised. These preliminary expenses have been charged to equity as share issue costs.

Notes to the Consolidated Financial Statements continued

8.5 Audit fees

Audit fees payable for the period ending 31 December 2006 amounted to €7,500.

9 Investment in equity accounted investments

	Group €'000
At beginning of period	-
Acquisition of equity accounted investment	525
Share of loss of equity accounted investment	(49)
Balance at 31 December 2006	476

Investment at 31 December 2006 represents the investment in Asmita Gardens SRL. This comprises €2 of share capital and €524,214 costs of acquisition.

The Company's share of the results, assets and liabilities are as follows:

Name	Country of incorporation	Assets	Liabilities	Revenues	Loss	% interest held
Asmita Gardens SRL	Romania	14,108	(14,157)	361	(49)	50%

10 Trade and Other Receivables

Trade and other receivables includes loans to equity accounted investees of €7,887,967 (bearing interest at 6% per annum and due to be repaid after the investee has repaid its debts to Alpha Bank Romania S.A).

11 Cash and Cash Equivalents

	Group 31 December 2006 €'000	Company 31 December 2006 €'000
Bank balances	22,030	20,948
Bank overdrafts	-	-
Cash and cash equivalents	22,030	20,948

12 Capital and Reserves

Share Capital

Ordinary Shares of €0.80 each	Number	€'000
In issue at the start of the period	-	-
Issued during the period	38,071,000	30,457
In issue at 31 December 2006	38,071,000	30,457

At incorporation the authorised share capital of the Company was €240 million divided into 300 million Ordinary Shares of €0.80 each.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's assets.

Notes to the Consolidated Financial Statements continued

13 Basic and Diluted Loss per Share

Basic and diluted loss per share are calculated by dividing the loss attributable to equity holders of the Company by the number of ordinary shares in issue during the period.

	2006
Loss attributable to equity holders of the Company (€'000)	89
Number of ordinary shares in issue (thousands)	38,071
Basic and diluted loss per share (€ per share)	0.0023

14 Trade and Other Payables

	Group 31 December 2006 €'000	Company 31 December 2006 €'000
Accruals	227	34
Total	227	34

15 Exchange Rates

The following exchange rates were used to translate assets and liabilities into the reporting currency at 31 December 2006:

GBP	0.6733
RON	3.4114

16 Directors' Remuneration

The Company

The maximum amount of remuneration payable to the Directors permitted under the Articles of Association is €300,000 p.a. Each Director currently is paid a fee of €7,500 p.a. The Directors are each entitled to receive reimbursement of any expenses incurred in relation to their appointment. Total fees and expenses paid to the Directors for the period ended 31 December 2006 amounted to €15,000.

The Subsidiaries

No fees are paid to the directors of the subsidiaries except in circumstances where a director is appointed in compliance with local regulations and in such cases the fees payable are nominal.

17 Taxation

Isle of Man

The Isle of Man has introduced a general zero per cent. tax rate for companies with effect from 6 April 2006, with the exception of certain banking income and income from Isle of Man land and property which is taxed at 10 per cent. An annual corporate charge is payable. The exemption fee charge for 2006/2007 tax year is £250.

There are no corporation, capital gains or inheritance taxes payable in the Isle of Man.

No Isle of Man stamp duty or stamp duty reserve tax will be payable on the issue, transfer, conversion or redemption of Ordinary Shares.

Shareholders resident outside the Isle of Man will not suffer any income tax in the Isle of Man on any income distributions to them.

Notes to the Consolidated Financial Statements continued

Shareholders resident in the Isle of Man will, depending upon their particular circumstances, be liable to Manx income tax on dividends received from the Company.

United Kingdom

The affairs of the Company are conducted so that the central management and control of the Company is not exercised in the UK and so that the Company does not carry out any trade in the UK (whether or not through a permanent establishment situated there). On this basis, the Company should not be liable for UK taxation on its income and gains, other than certain income deriving from a UK source.

Other

The subsidiaries of the Company are taxed in accordance with the applicable tax laws in the countries in which they were incorporated.

18 Financial Instruments

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

Market risk

Property and property related assets are inherently difficult to value due to the individual nature of each property. As a result, valuations may be subject to substantial uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where such sales occur shortly after the valuation date. The performance of the Company would be adversely affected by a downturn in the property market in terms of higher capitalisation rates/yields or a weakening of rent levels. Any future property market recession could materially adversely affect the value of properties.

Foreign exchange risk

The Company's operations are conducted in jurisdictions which generate revenue, expenses, assets and liabilities in currencies other than Euros. As a result, the Company is subject to the effects of exchange rate fluctuations with respect to these currencies. The currency giving rise to this risk is primarily Romanian Lei.

	Net Assets € 000s
Romanian Lei	8,415
Euro	21,833
Total	30,248

Price risk

The Group is exposed to property price and market rental risks via its investment in equity and debt in Asmita Gardens SRL, which is a property development company.

Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. Management does not expect any counterparty to fail to meet its obligations.

Liquidity risk

The Company maintains sufficient cash balances for working capital.

Notes to the Consolidated Financial Statements continued

Interest rate risk

The Company is exposed to risks associated with the effects of fluctuations in prevailing market interest rates on its cash balances. Cash is invested at short-term market interest rates. The loan to equity accounted investee is at a fixed rate.

Fair values

All assets and liabilities at 31 December 2006 are considered to be stated at fair value except the fixed rate loan. It is not practical to determine the fair value.

19 Commitments as at the Balance Sheet Date

As at the balance sheet date the company had not entered into any additional joint venture agreements.

20 Post Balance Sheet Events

As of the date of this report, and in addition to the development investment as at the year end, the Group has also entered into joint venture investment agreements for two further developments; Galleria Plovdiv, a shopping mall in Bulgaria, which was completed during March 2007 for a net investment of c €10m, and Cascade Business Centre, an office development in Bucharest, which is expected to be completed during the first half of 2007 at a net investment of c. €5m.

EUROPEAN CONVERGENCE DEVELOPMENT COMPANY PLC

(*Incorporated in the Isle of Man)*

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the Annual General Meeting of the above named Company will be held at the offices of Anglo Irish Fund Services Limited, Jubilee Buildings, Victoria Street, Douglas, Isle of Man IM1 2SH, British Isles on Monday 11 June 2007 at 10:00 a.m. to transact the following business:

1. To receive and consider the Report of the Investment Manager, Report of the Directors, Auditors' Report and the Audited Consolidated Financial Statements of the Company for the period 26 July 2006 (date of incorporation) to 31 December 2006.

2. To re-appoint KPMG Audit LLC Isle of Man as Auditors of the Company for the year to 31 December 2007.

By Order of the Board
Ian Dungate
Secretary

Date: 21 May 2007

Registered Office
Jubilee Buildings
Victoria Street
Douglas
Isle of Man IM1 2SH
British Isles

NOTES:

1 A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, to vote instead of him; a proxy need not be a member of the Company. In the case of joint holders, if more than one of such joint holder is present, only the person whose name stands first in the Register of Members in respect of the relevant joint holding will be entitled to vote, whether in person or by proxy.

2 A form of proxy accompanies this Notice. Completion and return of the form of proxy will not preclude a member from attending and voting at the Meeting if he so wishes. In the event that a member who has lodged a form of proxy attends the Meeting, his form of proxy will be deemed to have been revoked.

3 In order to be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, should be deposited at Anglo Irish Fund Services Limited, Jubilee Buildings, Victoria Street, Douglas, Isle of Man IM1 2SH, British Isles (Attn: Ian Dungate) Fax: 44 1624 698001 no later than two days before the date appointed for holding the meeting.

EUROPEAN CONVERGENCE DEVELOPMENT COMPANY PLC

(*Incorporated in the Isle of Man)*

FORM OF PROXY

To be used for the Annual General Meeting of the above named company to be held at the offices of Anglo Irish Fund Services Limited, Jubilee Buildings, Victoria Street, Douglas, Isle of Man IM1 2SH, British Isles on Monday 11 June 2007 at 10:00 a.m. to transact the following business:

I/We ____[1]

of ____[1] being member(s) of the

above-named Company, hereby appoint the Chairman of the Meeting or ___________________________________

of ____or Ian Dungate or failing

him, Kirree Christian as my/our proxy to vote on my/our behalf at the Annual General Meeting of the Company to be held on 11 June 2007 and at any adjournment thereof.

I/We direct my/our proxy to vote in respect of the Resolutions to be proposed at such Annual General Meeting in the following manner [3]:-

ORDINARY RESOLUTIONS	**FOR**	**AGAINST**	**ABSTAIN**
1 THAT the Report of the Investment Manager, Report of the Directors, Auditors' Report and the Audited Consolidated Financial Statements of the Company for the period 26 July 2006 (date of incorporation) to 31 December 2006 be approved.			
2 THAT KPMG Audit LLC, Isle of Man be re-appointed the Auditors of the Company for the year ending 31 December 2007 at a fee to be approved by the Directors.			

Dated: 2007

Signature_______________________________

NOTES:

1 Full name(s) and address(es) to be inserted in BLOCK CAPITALS. The name of all joint holders should be stated.

2 If you wish to appoint a person other than the Chairman of the Meeting as your proxy please delete the words "the Chairman of the Meeting" and print the name and address of the person you wish to appoint in the space provided.

3 Please indicate with a "X" in the appropriate space beside the resolution how you wish your proxy to vote on your behalf on a poll. Except as otherwise instructed, your proxy will exercise his discretion as to how he votes or whether he abstains from voting.

4 This form of proxy must be signed by the member or his attorney duly authorised in writing, or if the appointer is a corporation the form of proxy must be executed under the hand of an officer of the corporation duly authorised on their behalf.

5 A member entitled to attend and vote is entitled to appoint one or more parties to attend and, on a poll, to vote instead of him. A proxy need not also be a member. In the case of joint holders, if more than one such joint holder is present, only the person whose name stands first in the Register of Members in respect of the relevant joint holding will be entitled to vote, whether in person or by proxy

6 This form of proxy should be completed and lodged at the Company's registered office C/o Anglo Irish Fund Services Limited, Jubilee Buildings, Victoria Street, Douglas, Isle of Man IM1 2SH, British Isles (Attn: Ian Dungate) Fax: 44 1624 698001 no later than two days before the date appointed for holding the meeting together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority.