European Convergence Development Company

EUROPEAN CONVERGENCE DEVELOPMENT COMPANY PLC

Consolidated Annual Report

Year ended 31 December 2008

ISIN No. GB00B1BJRB27

CONTENTS

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	Third Floor, Britannia House St George's Street Douglas Isle of Man IM1 1JE British Isles
Secretary	Ian Dungate C/o Galileo Fund Services Limited Third Floor, Britannia House St George's Street Douglas Isle of Man IM1 1JE British Isles
Manager	Charlemagne Capital (IOM) Limited St Mary's Court, 20 Hill Street Douglas Isle of Man IM1 1EU British Isles
Nominated Advisor and Broker	Panmure Gordon (UK) Limited Moorgate Hall 155 Moorgate London EC2M 6XB United Kingdom
Cash Custodian	Anglo Irish Bank Corporation (International) PLC (formerly known as 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	Galileo Fund Services Limited Third Floor, Britannia House St George's Street Douglas Isle of Man IM1 1JE British Isles
Placing Agent	Charlemagne Capital (UK) Limited 39 St James's Street London SW1A 1JD United Kingdom

Management and Administration continued

Auditors	KPMG Audit LLC Heritage Court, 41 Athol Street Douglas Isle of Man IM99 1HN British Isles
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 309, Ugland House Grand Cayman Cayman Islands British West Indies European Convergence Development (Malta) Limited 4 V. Dimech Street Floriana Malta Convergence Development (Cyprus) Limited 12 Esperidon Street, 4th Floor PC1087 Nicosia Cyprus European Real Estate Development Invest SRL Calea Serban Voda, No. 133 Building A, Ground Floor, Room No. 9 Sector 4 Bucharest Romania European Property Acquisitions EOOD [1] 58 Bulgaria Boulevard Block B, Level 1 Office 32 Sofia 1680 Bulgaria

[1] European Property Acquisitions EOOD was acquired as a dormant company on 15 October 2008

Management and Administration continued

Joint Ventures

Asmita Gardens SRL
28 G-ral C-tin Budisteanu Street
Third Floor, Room No. 13
Sector 1
Bucharest
Romania

Cascade Park Plaza SRL
33 Emanoil Porumbaru Street
Bl A, App 3, Room No. 2
Sector 1
Bucharest
Romania

Galleria Plovdiv AD
1 Assenovgradsko Shosse Street
Plovdiv
Bulgaria

Turgovski Park Kraimorie AD
1 Assenovgradsko Shosse Street
Plovdiv
Bulgaria

Mega Mall Rousse AD
123 Lipnik Boulevarde
Rousse
Bulgaria

Convergence Development Invest SRL
69-71 Soseaua Bucuresti-Ploiesti
2nd Floor, Room No. 23
Sector 1
Bucharest
Romania

Trade Center Sliven EAD [2]
Nova Industrialna Zona Housing Complex
Bansko Shosse Street
Sliven
Bulgaria

[2] 42.5% of Trade Center Sliven EAD was acquired on 6 June 2008

Chairman's Statement

During the first half of 2008, the Group continued to identify and progress potential development opportunities in Bulgaria and Romania. On 6 June 2008 the Group entered into a shareholders' agreement, along with other interested parties, to purchase an interest in Trade Centre Sliven, a company planning a retail and leisure development in Bulgaria.

This investment brought the Group's existing development projects to seven, representing investment utilising approximately two-thirds of its capital.

In January 2009 the Company published the results of the third independent valuation it had commissioned on those of its investments where construction had commenced. Based on the shares in issue at that time, the Board estimated that the discounted impact of the valuations on the Net Asset Value ("NAV") would result in a pro-forma NAV of EUR 0.85 per share.

Due to the uncertainty over the global banking system, the Board carefully monitored the Group's cash position and at certain times during the year the Group invested a significant portion of its cash in Euro denominated government Treasury Bills.

Before exceptional items and tax, the Group made a small loss in the reporting period of €0.7m, this result being as expected, and reflecting the continuation of its investment and development phase and the associated running costs. However, the Board also made exceptional provisions against three of the Group's investments. Whilst these assets are still held by the Group, the Board deemed it prudent to write down their value in the Group's financial statements.

At 31 December 2008 the NAV per share of the Company was €0.78, representing a decrease of €0.06 per share compared to the previous year end.

The Group expects that the construction phase of three of its investments will be completed during the 2009 financial year, with a fourth completed in 2010. Whilst continuing to look for further investment opportunities, particularly given the potential for entering investment projects at a discount, the Group now expects that a proportion of its remaining cash will be used to further support and extract value from its existing investments. After the year end, the Group invested a further €4.7m into the joint venture associate, Asmita Gardens Srl, a contribution matched by the Group's joint venture partner.

The Board has been and continues to be mindful of the fact that the Group's success is dependent to varying degrees on the financial strength of its partners in each joint venture. The Board is reassured by the additional financial commitment already made by the Group's partner in the Asmita project, by the additional contributions pledged by the Group's partners in the Cascade and Galleria Plovdiv projects, and the sound cost management undertaken by the Group's partner in the Rousse project. Further reassurance over the security of the Group's investments is provided by the proximity of completion of the projects under construction, and resulting clarity of further financial requirements to completion and operating cashflows for holding post-completion, which the Group expects to be able to support. However, in arriving at its decision regarding the value of each investment the Board has made a number of estimates and assumptions concerning future events which may or may not prove correct, and should the economic climate worsen, there is a risk that the Group's investments could suffer further impairment.

The Board will not declare a dividend. The objective of the Company remains to provide enhanced returns to its shareholders both through sustained growth of its net assets per share, and through profit distribution.

After the Company passed a special resolution to re-register the Company under the Isle of Man Companies Act 2006 the Company duly bought back 9,593,424 of its own ordinary shares for cancellation, at an average price of EUR 0.52 per share. On 6 March 2009 the Company bought back a further 1,120,000 of its own ordinary shares for cancellation, at a price of EUR 0.18.

Erwin Brunner
Chairman

25 June 2009

Report of the Manager

During the period under review the Group completed the transaction for the acquisition of a 42.5% stake for the development of a shopping mall in Sliven, Bulgaria. Although the Group has since partially written down this investment, it remains a realistic development opportunity.

Development Market Conditions

No material progress has been desired or possible since September last year regarding new projects. Most market participants and stakeholders are effectively awaiting the return of some general market stability before new transactions and commitments can be contemplated. Meanwhile, the Manager's main focus is on the successful completion of the projects already in progress.

The Manager has been introduced to distressed development opportunities in both Romania and Bulgaria, but continues to apply its high requirements to any project, and as a result has rejected a number of these. The Manager has begun tentative discussions in relation to a few such projects and will continue to monitor the distressed opportunities market.

Debt Market Overview

As a result of the global economic conditions, banks in Romania and Bulgaria have taken a more conservative approach to project assessment and gearing ratios. The Manager believes that the debt funding terms which were assumed for the Sliven and Bourgas projects on entry will no longer be available. On existing projects the Manager has seen an increase in financing costs and some changes in financing terms, although in general the Manager's and Group's relationships with the Group's financing banks remain good.

Property Portfolio

Romania:

Asmita Gardens
The Manager expects that Phase I, consisting of 3 of the 7 towers, will be completed by July 2009, with Phase II, a further 4 towers to be completed during Quarter 4 2009. Over 50% of the total apartments have been sold. Sales ground to a halt in the last half of 2008, which necessitated a refinancing of the JV company's bank loans during early 2009. This refinancing has now been completed, and supported with an additional capital injection of €4.7m by the Group, matched by the Group's JV partners.

Cascade Euro Tower
Construction is progressing well, although the Manager expects the Group to provide additional financing of approximately €4m to the project on suitable terms. Completion of the building is expected in Quarter 3 2009 and the asset is expected to be the Group's first fully operational asset, opening during Quarter 4.

Baneasea Project
The Baneasea Project consists of a plot of land close to the DN1 major road in Bucharest slated for the development of an office block, which was acquired by the Group's joint venture associate, Convergence Development Invest Srl ("CDI"), in 2007 and financed with the support of a bank loan. Negotiations with the bank regarding the provision of development finance have not been concluded, but the Group has decided that it would be prudent to fully write down the value of its investment in CDI, along with the associated financing loan provided by the Group to the JV partner.

Bulgaria:

Galleria Plovdiv
The opening date of the Mall has been delayed and it is currently expected to open during Q4 2009. The Manager expects that the Group will need to make an additional capital contribution to the project as a result of the delayed construction program and as a result of the current leasing level being below that required to access all of the available bank financing.

Report of the Manager continued

Mega Mall Rousse

Construction is progressing well and according to budget, with the opening scheduled for March 2010. The pre-leasing programme for the mall is under way.

Bourgas Retail Park

During the year the Manager and the JV partner have been working on revising the design of the project and securing pre-leasing contracts with potential anchor tenants. Some preliminary construction works have been performed but the Manager has deferred the expected completion date from September 2009 to September 2010.

Sliven Mall

This project consists of a plot of land in the town of Sliven, Bulgaria slated for the development of a mall. The Manager and the JV partners are considering project concept options and working on securing pre-leasing contracts with potential anchor tenants. Although the Manager still has good expectations of the project, the Manager believes that the value of the land has fallen since the date of acquisition, and therefore considers it prudent and in accordance with the Group's accounting policies to make a provision of 34% against the value of the Group's investment in the JV company. It should be noted that due to the lack of comparable transactions in the recent past since the deterioration in global economic conditions, land valuations are highly subjective. The valuation of the Group's investment represents the Director's best estimate only.

Charlemagne Capital (IOM) Limited

25 June 2009

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" or the “Group”) for the year ended 31 December 2008.

The Company
The Company is incorporated in the Isle of Man and was 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 year end are set out on pages 12 to 33 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 year and up to the date of this Report were:

Erwin Brunner *(Chairman)*
James Rosapepe
Donald McCrickard
Anderson Whamond

Directors' and Other Interests
During the year Anderson Whamond was managing director of the Manager and a shareholder of Charlemagne Capital Limited, the parent of the Manager and Placing Agent. Mr Whamond’s role with the Investment Manager has changed with effect from 1 April 2009 from executive to non-executive. He continues to act as a Director of the Company. Mr Whamond was also, until 31 March 2009, a director of Charlemagne Capital Limited (“CCL”), the parent of the Investment Manager and Placing Agent. Mr Whamond remains a shareholder of CCL and additionally has an indirect family interest in shares of CCL. There are no service agreements between Mr Whamond and CCL that are not determinable within one year.

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. Charlemagne CIS Fund Limited, a company managed by the Manager, holds 7,626,320 shares of the Company.

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

Independent Auditors
Our auditors, KPMG Audit LLC being eligible have expressed a willingness to continue in office.

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:

Report of the Directors continued

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.

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.

Corporate Action

At the extraordinary general meeting of the Company held on 3 March 2008, the special resolution proposed to re-register the Company under the Isle of Man Companies Act 2006 and adopt new memorandum and articles of association, was duly passed.

Accordingly, the Company with effect from 3 March 2008, re-registered as a company governed by the Isle of Man Companies Act 2006 and adopted new memorandum and articles of association.

The Directors proposed this re-registration because under the Isle of Man Companies Acts 1931-2004 the Company was restricted from returning capital to shareholders or from using its non-distributable reserves to buy back its shares except pursuant to a court sanctioned reduction of capital. The re-registration of the Company under the Companies Act 2006 effectively removes these restrictions and thereby allows the Company to return capital to shareholders and buy back its shares in appropriate circumstances, in a more efficient manner.

On behalf of the Board

Erwin Brunner
Chairman

25 June 2009

Statement of Directors' Responsibilities

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

25 June 2009

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 year ended 31 December 2008 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. 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 law and International Financial Reporting Standards are set out in the Statement of Directors’ responsibilities on page 9.

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. We also report to you whether in our opinion the Company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

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. Our responsibilities do not extend to any other information.

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 International Financial Reporting Standards, of the state of the Group’s and Parent Company’s affairs as at 31 December 2008 and of the Group’s loss and cash flows for the year then ended.

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

Emphasis of matter

Without qualifying our audit opinion we draw to your attention the following matters;

As disclosed in note 4.1 to these financial statements, the global financial crisis and the deteriorating economic environment in the jurisdictions within which the Group operates have increased the intensity of the risk factors to which the Group is exposed. In particular, there is now increased uncertainty as to the valuation of assets under construction held by equity accounted investees, along with the recoverability of loans made by the Group to third parties. Further, a significant reduction in the availability of loan finance has resulted in equity accounted investees needing to re-negotiate terms with banks and to seek additional capital contributions from the Group in order that ongoing projects can be completed.

KPMG Audit LLC, Isle of Man

Chartered Accountants, Heritage Court, 41 Athol Street, Douglas, Isle of Man IM99 1HN

25 June 2009

Consolidated Income Statement

	Note	Year ended 31 December 2008 €'000	Year ended 31 December 2007 €'000
Net rent and related income		-	-
Net changes in fair value on financial assets at fair value through profit or loss	10	67	-
Annual management fees	7.3	(1,678)	(1,194)
Audit fees	8.5	(63)	(54)
Legal and professional fees		(713)	(210)
Directors' fees	16	(90)	(72)
Administration fees	8.3	(70)	(66)
Other operating expenses	8.4	(366)	(333)
Administrative expenses		(2,980)	(1,929)
Net operating loss before net financing income		(2,913)	(1,929)
Financial income		2,810	1,626
Financial expenses		-	-
Net financing income	5	2,810	1,626
Share of loss of equity accounted investees	9	(581)	(1,227)
Impairment in value of equity accounted investees	9	(4,526)	-
Impairment in value of third party loans	11	(3,901)	-
Loss before tax		(9,111)	(1,530)
Income tax expense	17	(69)	-
Retained loss for the year		**(9,180)**	**(1,530)**
Basic and diluted loss per share (€)	13	**(0.0934)**	**(0.0214)**

The Directors consider that all results derive from continuing activities.

Consolidated Balance Sheet

	Note	At 31 December 2008	At 31 December 2007
		€'000	€'000
Investment in equity accounted investees	9	41,540	39,074
Loans to third parties	11	-	2,139
Property, plant and equipment		3	1
Total non-current assets		**41,543**	**41,214**
Loans to third parties	11	500	3,825
Financial assets at fair value through profit or loss	10	9,959	-
Trade and other receivables		66	118
Cash and cash equivalents	4.4	20,131	41,058
Total current assets		**30,656**	**45,001**
Total assets		**72,199**	**86,215**
Issued share capital	12	73,308	80,983
Share premium		9,146	6,431
Foreign currency translation reserve		12	-
Retained losses		(10,919)	(1,739)
Total equity		**71,547**	**85,675**
Trade and other payables	14	652	540
Total current liabilities		**652**	**540**
Total liabilities		**652**	**540**
Total equity & liabilities		**72,199**	**86,215**

Approved by the Board of Directors on 25 June 2009.

Director **Director**

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

Company Balance Sheet

	Note	At 31 December 2008	At 31 December 2007
		€'000	€'000
Intragroup balances	7.5	41,922	50,474
Financial assets at fair value through profit or loss	10	9,959	-
Trade and other receivables		14	82
Cash and cash equivalents	4.4	19,737	39,285
Total current assets		**71,632**	**89,841**
Total assets		**71,632**	**88,636**
Issued share capital	12	73,308	80,983
Share premium		9,146	6,431
Retained earnings		(10,907)	2,376
Total equity		**71,547**	**89,790**
Trade and other payables	14	85	51
Total current liabilities		**85**	**51**
Total liabilities		**85**	**51**
Total equity & liabilities		**71,632**	**89,841**

The loss made by the Company for the year ended 31 December 2008 was €13.3 million after impairment of intragroup balances amounting to €16.4 million (primarily a result of the provisions made against the investments held by the Company's subsidiaries).

Approved by the Board of Directors on 25 June 2009.

Director **Director**

Consolidated Statement of Changes in Equity

	Share capital	Share premium	Foreign currency translation reserve	Retained earnings	Total
	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2007	30,457	-	-	(209)	30,248
Shares issued in the year	50,526	9,474	-	-	60,000
Share issue expenses	-	(3,043)	-	-	(3,043)
Retained loss for the year	-	-	-	(1,530)	(1,530)
Balance at 31 December 2007	**80,983**	**6,431**	**-**	**(1,739)**	**85,675**
Balance at 1 January 2008	80,983	6,431	-	(1,739)	85,675
Shares cancelled following market purchases	(7,675)	2,715	-	-	(4,960)
Foreign exchange translation differences			12	-	12
Retained loss for the year	-	-	-	(9,180)	(9,180)
Balance at 31 December 2008	**73,308**	**9,146**	**12**	**(10,919)**	**71,547**

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

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2008 €'000	Year ended 31 December 2007 €'000
Operating activities			
Group loss for the year		(9,180)	(1,530)
Adjustments for:			
Net changes in fair value on financial assets at fair value through profit or loss		(67)	-
Financial income		(2,810)	(1,626)
Income tax		69	-
Share of loss of equity accounted investees		581	1,227
Impairment in value of equity accounted investees	9	4,526	-
Impairment in value of third party loans	11	3,901	
Operating loss before changes in working capital		**(2,980)**	**(1,929)**
Decrease/(Increase) in trade and other receivables		52	(37)
Increase in trade and other payables		55	313
Cash used in operations		**(2,873)**	**(1,653)**
Financial income received		2,810	1,626
Cash flows generated from/(used in) operating activities		**(63)**	**(27)**
Investing activities			
Purchase of treasury bills		(34,895)	-
Maturity of treasury bills		25,003	-
Acquisition of equity accounted investees		(4,165)	(10,090)
Increase in loans to equity accounted investees		(3,408)	(21,848)
Decrease/(increase) in loans to third parties		1,563	(5,964)
Purchase of property, plant & equipment		(2)	-
Cash flows used in investing activities		**(15,904)**	**(37,902)**
Financing activities			
Proceeds from the issue of ordinary share capital		-	60,000
Purchase of own shares	12	(4,960)	-
Share issue expenses		-	(3,043)
Cash flows generated from financing activities		**(4,960)**	**56,957**
Net (decrease)/increase in cash and cash equivalents		(20,927)	19,028
Cash and cash equivalents at beginning of year		41,058	22,030
Cash and cash equivalents at end of year		**20,131**	**41,058**

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. On 3 March 2008 the Company was de-registered as an Isle of Man 1931-2004 company and re-registered as a company governed by the Isle of Man Companies Act 2006 with registered number 002391v.

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.

During the year to 31 December 2008 the Company purchased 9,593,424 of its own shares for cancellation at an average price of 0.52. At the year end the Company had 91,635,470 shares in issue. On 6 March 2009 the Company purchased a further 1,120,000 of its own shares for cancellation at an average price of €0.18.

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.

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.

2 The Subsidiaries

For efficient portfolio management purposes, the Company established the following subsidiary companies:

	Country of Incorporation	Percentage of shares held
European Convergence Development (Cayman) Limited	Cayman	100%
Convergence Development (Cyprus) Limited	Cyprus	100%
European Convergence Development (Malta) Limited	Malta	100%
European Real Estate Development Invest SRL	Romania	100%
European Property Acquisitions EOOD	Bulgaria	100%

Notes to the Consolidated Financial Statements continued

3 Joint Ventures ("JV")

The Group as at the date of this document has acquired an interest in the following companies:

	Country of Incorporation	Percentage of shares held
Asmita Gardens SRL	Romania	50%
Cascade Park Plaza SRL	Romania	40%
Convergence Development Invest SRL	Romania	50%
Galleria Plovdiv AD	Bulgaria	50%
Mega Mall Rousse AD	Bulgaria	50%
Trade Centre Sliven EAD	Bulgaria	42.5%
Turgovski Park Kraimorie AD	Bulgaria	70%

On 9 June 2008, the Group announced the signing of a joint venture agreement to develop Trade Centre Sliven in Bulgaria. Notwithstanding the Group's percentage holdings, the above companies have not been consolidated as the Group's control is restricted by Joint Venture Agreements.

4 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 year ended 31 December 2008 comprises the Company and its subsidiaries (together referred to as the "Group").

The annual report was authorised for issue by the Directors on 25 June 2009.

4.1 Basis of presentation

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

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the Company's accounting policies. The Directors consider that the valuation of the Company's investments in equity accounted associates is an area where critical accounting estimates are required. Further detail on the valuation of the investments may be found in notes 9 and 18.

The activities of the Group are subject to a number of risk factors. The global financial crisis and the deteriorating economic environment in the jurisdictions within which the Group operates have increased the intensity of these risk factors. The future economic outlook presents specific challenges in terms of the significant reduction in the volume of property transactions in the jurisdictions within which the Group operates, the significant reduction in the availability of loan finance for property transactions in those jurisdictions and the consequent impact on the valuations of property held by equity accounted investees.

In the current market conditions which prevail, there is a greater degree of uncertainty as to the valuation of assets under construction than that which exists in a more active and stronger market. These factors have adversely impacted the compliance of equity accounted investees with their borrowing covenants and a number of these facilities are currently under re-negotiation, whilst the Group has also agreed to make additional capital available to certain entities in order that ongoing projects can be completed. Collectively, these factors contribute to a greater degree of uncertainty as to the valuation of holdings in equity accounted investees.

These factors have also impacted on the ability of joint venture partners to repay loans made by the Group and it has been necessary for repayment terms for these facilities to be re-negotiated.

Notes to the Consolidated Financial Statements continued

4.1 Basis of presentation continued

The financial statements have been prepared on a going concern basis, taking into account the level of cash and cash equivalents held by the Group and the level of capital commitments to JV entities.

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

4.2 Foreign currency translation

Euro is the currency of the primary economic environment in which the entity operates (the "functional currency”). This is also the functional currency of the subsidiaries.

Euro is also the currency in which the annual financial statements are presented (the "presentation currency”).

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.

The accounts are presented in Euros by translating the assets and liabilities at the exchange rate prevailing at the balance sheet date. Items of revenue and expense are translated at exchange rates on the date of the relevant transactions. Components of equity are translated at the date of the relevant transaction and not retranslated. All resulting exchange differences are recognised in equity.

4.3 Deposit interest

Deposit interest is accounted for on an accruals basis.

4.4 Cash and cash equivalents

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

4.5 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.

4.6 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.

Notes to the Consolidated Financial Statements continued

4.6 Basis of consolidation continued

Associates and joint ventures (equity accounted investees)

Investments in associates and joint ventures are carried at the lower of cost and net realisable value. 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. In particular, borrowing costs related directly to the acquisition or construction of qualifying assets are capitalised.

Investments in joint ventures and associates are kept under review for impairment. Where, in the opinion of the directors, the net realisable value of an investment falls below cost, a provision is made against the investment and charged to the profit and loss account.

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.

4.7 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 2008 (2007: Nil).

4.8 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, cash and cash equivalents and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

At 31 December 2008 the Group held treasury bills which are classified as financial assets at fair value through profit or loss. These financial assets are classified as held for trading as they are acquired principally for the purpose of selling in the short-term. Financial assets at fair value through profit or loss are recognised on trade date – the date on which the Company commits to purchase or sell the investment. Investments are initially recognised at fair value and transaction costs for all financial assets at fair value through profit or loss are expensed as incurred in the income statement. Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value based on quoted prices. All related realised and unrealised gains and losses arising from changes in fair value of the financial asset are included in the income statement in the period in which they arise, net of transaction costs. The computation of realised gains and losses on sale of investments is made on the average cost basis.

Notes to the Consolidated Financial Statements continued

4.8 Financial assets continued

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'loans to third parties' and 'trade and other receivables' in the balance sheet.

4.9 Other receivables

Trade and other receivables and loans to third parties are stated at their cost, less any impairment losses

4.10 Trade and other payables

Trade and other payables are stated at their cost.

4.11 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.

Borrowing costs directly attributable to assets in the course of construction are capitalised.

4.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effect.

In the current year, the Company repurchased some of its own shares. These shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by their nominal value. The premium on the repurchased shares was debited to the share premium account.

4.13 Segmental reporting

The Company has one segment focusing on maximising total returns through investing in the property markets of South East Europe. Further analysis of the Group's exposure in this region is provided in notes 9 and 11. No additional disclosure is required in relation to segment reporting, as the Company's activities are limited to one business and geographic segment.

4.14 Future changes in accounting policies

IFRS and IFRIC Interpretations not applied.

IASB (International Accounting Standards Board) and IFRIC (International Financial Reporting Interpretations Committee) have issued the following standards and interpretations with an effective date after the date of these financial statements:

International Financial Reporting Standards

Endorsed by the European Union:

		Effective date
IAS 1	Presentation of Financial Statements (Revised)	1 January 2009
IAS 23	Borrowing costs (Revised)	1 January 2009
IAS 1 and 32	Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (Amended)	1 January 2009
IFRS 2	Share-based payment – Vesting Conditions and Cancellations (Amended)	1 January 2009
IFRS 8	Operating Segments	1 January 2009

Notes to the Consolidated Financial Statements continued

4.14 Future changes in accounting policies continued

Not yet endorsed by the European Union:

		Effective date
IAS 27	Consolidated and Separate Financial Statements (Amended)	Subject to endorsement
IAS 39	Eligible Hedge Items – Amendment to IAS 39 Financial Instruments: Recognition and Measurement (Amended)	Subject to endorsement
IFRS 3	Business Combinations	Subject to endorsement

IFRS 8 introduces the "management approach" to segment reporting, with information based on internal reports. Management are currently assessing the impact of this on the disclosures to be presented regarding segmental reporting.

The Directors do not expect the adoption of the other standards and interpretations to have a material impact on the Group's financial statements in the period of initial application.

4.15 Comparative figures

Where necessary, comparative figures have been adjusted to conform to changes in presentation for the current year.

5 Net Financing Income

Net financing income consists of bank interest earned of €2,809,310 (2007: €1,626,096) and bank charges of € nil (2007: € nil).

6 Net Asset Value per Share

The net asset value per share as at 31 December 2008 is €0.7808 (2007: €0.8463) based on 91,635,470 (2007: 101,228,894) 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 year in any material contract for the provision of services which was significant to the business of the Company.

A subsidiary company of the Manager holds 125,000 shares of the Company and holds 436,028 shares in Trade Center Sliven (coinvested with the Group and a JV partner). Charlemagne BRIC Plus Property Company plc, an investment company also managed by the Manager, holds 218,014 shares in Trade Center Sliven.

Charlemagne CIS Fund Limited, another investment company also managed by the Manager holds 7,626,320 shares in the Company at 31 December 2008.

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. In compliance with local regulations, certain subsidiaries have appointed directors who are employees of or are associated with, the relevant registered office service provider.

Notes to the Consolidated Financial Statements continued

7 Related Party Transactions continued

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 year ended 31 December 2008 amounted to €1,678,188 (2007: €1,194,145).

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 year ended 31 December 2008 amounted to € nil (2007: € nil).

7.4 Transactions and balances with Joint Venture companies and partners

The Company has made loans to Joint Venture Companies totalling €33,434,000 (2007: €29,736,000) and to Joint Venture Partners totalling €4,400,000 (2007: €5,964,000). Details of the terms and applicable interest rates for these loans are more fully shown in note 9 and note 11.

7.5 Intragroup balances

Intragroup balances are repayable on demand and bear interest at commercial rates. Loans to subsidiaries outstanding at the year end have been impaired to fair value.

8 Charges and Fees

8.1 Nominated Adviser and Broker fees

As Nominated Adviser and Broker to the Company for the purposes of the AIM Rules, the nominated advisor and broker is entitled to receive an annual fee of £25,000, payable twice yearly in advance, such annual fee to commence on 1 January 2008.

Advisory fees payable to the Nominated Adviser and Broker for the year ended 31 December 2008 amounted to €38,645.

Notes to the Consolidated Financial Statements continued

8 Charges and Fees continued

8.2 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 year ended 31 December 2008 amounted to €8,380 (2007: €7,365).

8.3 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, 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 year ended 31 December 2008 amounted to €70,125 (2007: €66,323).

8.4 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.

8.5 Audit fees

Audit fees payable for the year ended 31 December 2008 amounted to €63,488 (2007: €53,847).

9 Investment in Equity Accounted Investments

Group	31 December 2008 €'000	31 December 2007 €'000
At beginning of year	39,074	476
Acquisition of equity accounted investment	4,165	9,800
Movement in loans treated as equity accounted investment	3,408	30,025
Share of loss of equity accounted investment	(581)	(1,227)
Write down of value of equity accounted investment	(4,526)	-
Balance at end of year	41,540	39,074

Notes to the Consolidated Financial Statements continued

9 Investment in Equity Accounted Investments continued

The loans to equity accounted investees are as follows:

Name	Term	Term	Interest Rate	31 December 2008 €'000
Asmita Gardens SRL	36 Months	17 October 2010	6%	8,957
Convergence Development Invest SRL *	60 Months	14 July 2012	7%	3,376
Galleria Plovdiv AD	**	**	0%	12,000
Turgovski Park Kraimorie AD	**	**	0%	9,101

* The loan to Convergence Development Invest Srl is disclosed above, although this has been fully provided for in the Group's accounts. See note 11.

** Loans are due to be repaid after the project sale. Interest is nil until the loan is due for payment. In case of default interest will be charged at a rate of 3M EURIBOR plus 10%.

The carrying values of the Group's equity accounted investments are as follows:-

Name	Value at 31 December 2008 €'000	Value at 31 December 2007 €'000
Asmita Gardens SRL	8,710	7,904
Cascade Park Plaza SRL	4,982	5,272
Convergence Development Invest SRL	-	2,915
Galleria Plovdiv AD	11,995	10,028
Mega Mall Rousse	4,141	4,011
Trade Centre Sliven EAD	2,587	-
Turgovski Park Kraimorie AD	9,125	8,944
	41,540	39,074

The Group's investment in Convergence Development Invest Srl of €3,202k was fully provided. The main reason for this is an inability to the date of this report to obtain development finance for the mortgaged land held by the company. The market value of the land is estimated to be below the value of the mortgage.

As stated in note 4.1, the deterioration of global economic conditions has increased uncertainty surrounding the value of the Group's equity accounted investees.

A partial provision of €1,324k was made against the Group's investment in Trade Center Sliven, as the Group estimates that under current market conditions the net realisable value of the investment in the company is lower than cost. It should be noted that due to the lack of comparable transactions in the recent past since the deterioration in global economic conditions, land valuations are highly subjective. The valuation of the Group's investment represents the Director's best estimate only.

The results, assets and liabilities of the equity accounted companies are as follows:

Name	Country of Incorporation	Assets €'000	Liabilities €'000	Revenues €'000	Profit/ (Loss) €'000	% interest
Asmita Gardens SRL	Romania	102,804	103,903	241	(394)	50
Cascade Park Plaza SRL	Romania	22,090	24,063	2	(726)	40
Convergence Development Invest SRL	Romania	26,660	26,867	-	(226)	50
Galleria Plovdiv AD	Bulgaria	62,958	65,128	3	(1,907)	50
Mega Mall Rousse AD	Bulgaria	11,534	6,234	1,537	(41)	50
Trade Centre Sliven EAD	Bulgaria	5,520	74	43	14	42.5
Turgovski Park Kraimorie AD	Bulgaria	12,982	13,004	2	(46)	70

Notes to the Consolidated Financial Statements continued

9 Investment in Equity Accounted Investments continued

The Shareholders of Asmita Gardens*,* Cascade Park Plaza, Convergence Development Invest and Galleria Plovdiv have pledged their shareholding as security against the external loans to these companies.

The figures in the tables above do not include adjustments made for the purposes of these consolidated financial statements in order to align the accounting policies of the equity accounted investees with those of the Group.

10 Financial assets at fair value through profit or loss

Held for trading

31 December 2008		
Security name	Nominal	€'000
French Discount T-Bill 0% 19/3/2009	10,000,000	9,959

Net changes in fair value on financial assets at fair value through profit or loss:

31 December 2008	€'000
Realised	74
Unrealised	(7)
Total gains	67

11 Loans to third parties

Loans to third parties for the Group includes loans to Joint Venture Partners as follows

Name	Term	Maturity Date	Interest Rate	Amount €'000
Sienit Holding AD*	Repayable on demand	n/a	EURIBOR plus 5%	1,423
Property Capital Group**	270 days	7 April 2009	EURIBOR plus 5% if term exceeded	500
Dickau Investments Limited***	60 Months	14 July 2021	10%	2,478

* Sienit Holding AD is the Group's joint venture partner in Galleria Plovdiv AD (the Galleria Plovdiv project) and Turgovski Park Kraimorie AD (the Bourgas Retail Park project). The loan is overdue for repayment and the Group has deemed it prudent to provide for the loan in full.

**Property Capital Group is the Group's joint venture partner in the Trade Center Sliven EAD (the Sliven Project). Although the loan from Property Capital Group is overdue for repayment, the Group is currently in negotiation with the partner to amend the terms of the agreement. The Group considers this loan fully recoverable.

***Dickau Investments Limited ("Dickau") is the Group's joint venture partner in Convergence Development Invest Srl. The above loan was provided to Dickau as part of the Group's package of investment in CDI, and, as a result of the Group's decision to fully provide against the Group's investment in CDI, the Group also considers it prudent to make full provision for the loan to Dickau.

Notes to the Consolidated Financial Statements continued

12 Capital and Reserves

Share Capital

	2008 Number	2008 €'000
Ordinary Shares of €0.80 each		
In issue at 1 January 2008	101,228,894	80,983
Shares cancelled during the year	(9,593,424)	(7,675)
In issue at 31 December 2008	91,635,470	73,308

	2007 Number	2007 €'000
Ordinary Shares of €0.80 each		
In issue at 1 January 2007	38,071,000	30,457
Issued during the year	63,157,894	50,526
In issue at 31 December 2007	101,228,894	80,983

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

The Company has bought back 9,593,424 shares for a total consideration of €4,959,379.

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.

Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board manages the Group's affairs to achieve shareholder returns through capital growth rather than income, and monitors the achievement of this through growth in net asset value per share.

Gearing may be employed by the Group with the aim of enhancing shareholder returns. This would be in the form of bank borrowings, secured on the investment portfolio.

Group capital comprises share capital, share premium and reserves.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

No changes were made in respect of the objectives, policies or processes in respect of capital management during the years ended 31 December 2007 and 2008.

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 weighted average number of ordinary shares in issue during the year.

	2008	2007
Loss attributable to equity holders of the Company (€'000)	(9,180)	(1,530)
Weighted average number of ordinary shares in issue (thousands)	98,273	71,467
Basic and diluted loss per share (Euro cent per share)	(9.34)	(2.14)

Notes to the Consolidated Financial Statements continued

14 Trade and Other Payables

Group	31 December 2008 €'000	31 December 2007 €'000
Withholding tax	69	-
Trade creditors	22	-
Accruals	561	540
Total	652	540

Company	31 December 2008 €'000	31 December 2007 €'000
Accruals	85	51
Total	85	51

15 Exchange Rates

The following exchange rates were used to translate assets and liabilities into the reporting currency at 31 December 2008:

ROL	3.9852
BGN	1.9558

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 €22,500 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 year ended 31 December 2008 amounted to €90,000 (2007: €72,486).

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.

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.

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.

Notes to the Consolidated Financial Statements continued

17 Taxation continued

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 are incorporated.

18 Financial Instruments

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

Market price risk
The Company's strategy on the management of market price risk is driven by the Company's investment objective. The Company has been established to invest primarily in early stage property developments in South East Europe. The main objective of the Company is to take advantage of the potential for capital appreciation of these investments. The Company's market risk is monitored by the Manager on a day to day basis and by the Directors at Board Meetings.

The Group is exposed to property price and property rental risk. The Group's strategy is to develop property assets and then sell them for gain: however as a result of current global economic conditions (see note 4.1), the property market in Romania and Bulgaria has declined. The Group therefore expects that it will hold the assets for a substantial period post completion. This further exposes the Group to property rental risk. The Group is also exposed to price risk on the fair value of discounted zero-coupon Treasury bills (see note 10).

Foreign exchange risk
The Group's operations are conducted in jurisdictions which generate revenue, expenses, assets and liabilities in currencies other than the Euro (the functional currency). As a result, the Group 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.

The Group may invest in financial instruments and enter into transactions denominated in currencies other than the functional currency. Consequently, the Group is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse affect on the value of that portion of the Group's assets or liabilities denominated in currencies other than the functional currency.

The Group's policy is not to enter into any currency hedging transactions.

The following table sets out the Group's total exposure to foreign currency risk and the net exposure to foreign currencies of the assets and liabilities:

31 December 2008	Assets	Liabilities	Net assets
	€'000	€'000	€'000
Romanian Lei	314	(21)	293
Bulgarian Lev	9	(5)	4
Euro	71,876	(626)	71,250
	72,199	(652)	71,547

Notes to the Consolidated Financial Statements continued

18 Financial Instruments continued

Foreign exchange risk continued

31 December 2007	Assets	Liabilities	Net assets
	€'000	€'000	€'000
Romanian Lei	235	(8)	227
Bulgarian Lev	9,330	(18)	9,312
Euro	76,650	(514)	76,136
	86,215	(540)	85,675

At 31 December 2008, had the Euro strengthened/weakened by 5% in relation to the Romanian Lei, with all other variables held constant, net assets attributable to equity holders of the Group and the profit for the year would have decreased/increased by €14,000 (2007: 5% €1,500).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash held by the Group is invested at short-term market interest rates. The Group has interest-bearing loans, with interest at fixed rates (note 11). As a result, the Company is exposed to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates. It is also exposed to interest rate cash flow risk.

The table below summarises the Group's exposure to interest rate risks. It includes the Group's financial assets and liabilities at the earlier of contractual re-pricing or maturity date, measured by the carrying values of assets and liabilities:

31 December 2008	Average interest rates		Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
	Fixed	Variable							
	%	%	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Financial assets									
Loans to third parties	10%	Euribor + 5%	-	-	-	-	-	500	500
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	9,959	9,959
Trade and other receivables	-	-	-	-	-	-	-	66	66
Cash and cash equivalents	-	0.35	20,131	-	-	-	-	-	20,131
Total financial assets			20,131	-	-	-	-	10,525	30,656
Financial liabilities									
Trade and other payables			-	-	-	-	-	(652)	(652)
Total financial liabilities			-	-	-	-	-	(652)	(652)
Total interest rate sensitivity gap			20,131	-	-	-	-	-	-

Notes to the Consolidated Financial Statements continued

18 Financial Instruments continued

Interest rate risk

31 December 2007	Average interest rates		Average interest rates	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
	Fixed	Variable							
	%	%	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Financial assets									
Loans to third parties	10	-	-	-	-	* 2,139	-	3,825	5,964
Trade and other receivables	6 / 7	-	-	-	-	*10,811	-	19,043	29,854
Cash and cash equivalents	4.35	4	41,058	-	-	-	-	-	41,058
Total financial assets			41,058	-	-	12,950	-	22,868	76,876
Financial liabilities									
Trade and other payables	-	-	-	-	-	-	-	(540)	(540)
Total financial liabilities			-	-	-	-	-	(540)	(540)
Total interest rate sensitivity gap			41,058	-	-	12,950	-	-	-

** subject to fixed rate*

At 31 December 2008, should the interest rates have increased/decreased by 100 basis points with all other variables remaining constant, the decrease/increase in net asset attributable to shareholders for the period would amount to approximately €330,300 (2007: 100 basis points €410,000).

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Group.

The carrying amounts of financial assets best represent the maximum credit risk exposure at the balance sheet date. This relates also to financial assets carried at amortised cost.

At the reporting date, the Group's financial assets exposed to credit risk amounted to the following:

	31 December 2008	31 December 2007
	€'000	€'000
Loans to third parties	500	5,964
Financial assets at fair value through profit or loss	9,959	-
Trade and other receivables	66	118
Cash at bank	20,131	41,058
	30,656	47,140

The Group manages its credit risk by monitoring the creditworthiness of counterparties regularly. It does not expect any counterparty other than those debtors against which specific provisions have been made to fail to meet its obligations (see notes 9 and 11).

Notes to the Consolidated Financial Statements continued

18 Financial Instruments continued

Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its obligations as they fall due. The Group manages its liquidity risk by maintaining sufficient cash balances for working capital and its joint venture associates obtain secured bank loans to fund purchases of investment property. During the year and since the year end, a number of the Group's JV's have been in technical breach of their bank loan financing agreements. The Group has completed renegotiation of some of these financing arrangements. To date this has required one additional capital injection, and the Group expects that further capital injections will be required to support financing arrangements for other JV associates. The Group has not guaranteed loan financing for any of its subsidiaries. The Group's liquidity position is monitored by the Manager and the Board of Directors.

Residual undiscounted contractual maturities of financial liabilities:

Trade and other payables at 31 December 2008 and 31 December 2007 represent trade creditors due within one month.

Fair values

The carrying amounts of all the Company's financial assets and financial liabilities at the balance sheet date approximated to their fair values.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement (e.g., interest rates, volatility, estimated cash flows, etc.) and therefore cannot be determined with precision.

19 Investment Policy

European Convergence Development Company plc is an Isle of Man company established to take advantage of opportunities that exist in the property markets of South-East Europe. The principal target countries are Bulgaria, Romania and Turkey, with the ability to invest in Croatia and Slovakia.

The Company may invest in commercial, retail, residential and industrial property, with a view to taking advantage of the potential for capital appreciation. The Company primarily seeks to invest in early stage developments; however it may also invest in partially completed assets and may also continue to hold and operate completed developments for a substantial period post-completion at the sole discretion of the Board. The Board must believe that it is in the long term benefit of the investors to hold completed developments.

A proportion of the Group's portfolio may be held in cash or cash-equivalent investments from time to time.

The Company will establish a subsidiary structure which will primarily invest equity and debt financing of development projects with the use of local special purpose vehicles ("SPVs").The Company intends that its SPV investments will be in the form of partnerships with local or international property developers.

Pending investment, cash held will be invested in bank deposits or fixed income securities issued by governments or banks but not corporate bonds.

It may be advantageous for the Company to borrow at the level of its SPV subsidiaries. The Company may negotiate suitable borrowing facilities with one or more lenders. The Directors do not intend the Company or its SPVs to borrow in respect of any property more than 75 per cent of its value on completion.

The Company expects to invest in early stage projects with a construction period of 2 to 4 years. Whilst the Company intends to exit from such assets post-completion, depending on prevailing market conditions, it may be in the best interests of the Company to hold the operating asset post completion until market conditions are such that the Company can obtain a suitable price for the asset.

Notes to the Consolidated Financial Statements continued

19 Investment Policy continued

The Company may reinvest the proceeds of sale of any properties or return the capital or profits to Shareholders depending on market conditions prevailing at the relevant time. Shareholders will be given the opportunity to vote on the continued life of the Company at the Company's annual general meeting to be held in 2016. If the resolution to curtail the life of the Company is not passed, a similar resolution will be proposed at every fifth annual general meeting thereafter.

It is anticipated that the Group's investment portfolio will be between 6 to 12 investments. Upon completion of the investment programme, it is anticipated that, at that time, no single investment will represent more than 50 per cent of the Company's total capital. In exceptional circumstances the Company may make an investment which represents in excess of 50 per cent of the Company's total capital. In such circumstances the anticipated investment portfolio may be correspondingly reduced below the number of investments described above.

20 Post Balance Sheet Events

On 6 March 2009 the Company purchased for cancellation 1,120,000 Ordinary Shares of EUR 0.80 each in the Company through Panmure Gordon at a price, before expenses, of EUR 0.18.

On 9 June 2009 the Group made a further investment of €4.7m into its joint venture associated company, Asmita Gardens Srl. This was matched by the Group’s joint venture partners.

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 Galileo Fund Services Limited, Third Floor, Britannia House, St George's Street, Douglas, Isle of Man IM1 1JE, British Isles on Tuesday 28 July 2009 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 year end to 31 December 2008.

2. To note that no dividend will be declared for the year ended 31 December 2008.

3. To re-appoint KPMG Audit LLC Isle of Man as Auditors of the Company for the year to 31 December 2009.

By Order of the Board
Ian Dungate
Secretary

Date: 26 June 2009

Registered Office
Third Floor
Britannia House
St George's Street
Douglas
Isle of Man IM1 1JE
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 Galileo Fund Services Limited, Third Floor, Britannia House, St George's Street, Douglas, Isle of Man IM1 1JE, British Isles (Attn: Ian Dungate) Fax: 44 1624 692601 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 Galileo Fund Services Limited, Third Floor, Britannia House, St George's Street, Douglas, Isle of Man IM1 1JE, British Isles on Tuesday 28 July 2009 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 [2] ______________________________________

of ____or Ian Dungate or failing

him, Margaret Corkill as my/our proxy to vote on my/our behalf at the Annual General Meeting of the Company to be held on 28 July 2009 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 year ended 31 December 2008 be approved.			
2	THAT no dividend will be declared for the year ended 31 December 2009			
3	THAT KPMG Audit LLC, Isle of Man be re-appointed as Auditors of the Company for the year ending 31 December 2009 at a fee to be approved by the Directors.			

Dated: 2009

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 Galileo Services Limited, Third Floor, Britannia House, St George's Street, Douglas, Isle of Man IM1 1JE, British Isles (Attn: Ian Dungate) Fax: 44 1624 692601 no later than forty-eight hours 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.