



**EUROPEAN CONVERGENCE DEVELOPMENT
COMPANY PLC**

Consolidated Annual Report

Year ended 31 December 2009

ISIN No. GB00B1BJRB27

CONTENTS

	Page
Management and Administration	1 – 3
Chairman's Statement	4
Report of the Manager	5-8
Report of the Directors	9–10
Statement of Directors' Responsibilities	11
Report of the Independent Auditors	12 – 13
Audited Consolidated Financial Statements:	
- Consolidated Income Statement	14
- Consolidated Statement of Comprehensive Income	15
- Consolidated Balance Sheet	16
- Company Balance Sheet	17
- Consolidated Statement of Changes in Equity	18
- Consolidated Cash Flow Statement	19
- Notes to the Consolidated Financial Statements	20 – 39

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
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

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
58 Bulgaria Boulevard
Block B, Level 1
Office 32
Sofia 1680
Bulgaria

Management and Administration continued

Subsidiaries (continued)

Asmita Holdings Limited
12 Esperidon Street, 4th Floor
PC1087 Nicosia
Cyprus

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
Nova Industrialna Zona Housing Complex
Bansko Shosse Street
Sliven
Bulgaria

Chairman's Statement

Whilst the Group is pleased to report that two of its key developments have reached successful completion, the year under review and the subsequent period to the date of this report have proved to be a challenging period for the Group and the market as a whole.

For a variety of reasons, not least being the impact of the global economic crisis on the Eastern European region, three of the Group's four construction-stage assets required refinancing and additional capital contributions from the Group and its investment partners. The Group committed €15.1m in additional capital contributions during 2009 to these projects. Post year end, the Board was delighted to announce the securing of Carrefour as a tenant in and the subsequent successful soft opening on 15 April 2010 of the Galleria Plovdiv shopping and entertainment complex in Plovdiv, Bulgaria. The Board was also pleased by the successful completion in March 2010 of the iconic Cascade Euro Tower building in Bucharest, Romania. Both these assets should soon be generating positive net cash inflows after providing for their loan financing, although it should be noted that in arriving at this view the Board has made a number of assumptions and estimates concerning future events which may or may not prove correct.

When taking a prudent view in assessing the recoverability of the Group's investment in Asmita Gardens Srl, and despite the successful completion of Phase 1 during 2009 and Phase 2 on 11 March 2010, the Group unfortunately considered it necessary to make a partial provision of €4.9m against the value of its investment. The Group's current forecast, incorporating a number of estimates and assumptions, is that the remaining €8.0m of its capital in the investment will be recovered through successful completion of the sales process and subsequent exit from the project.

The Group also took the view that it was necessary and prudent to make a partial provision of €4.6m for its investment in Turgovski Park Kraimorie Srl, the developer of the temporarily dormant Bourgas Retail Park project. The Group still expects to develop this project and expects that successful development will lead to the recovery of the remaining capital and more.

Similarly, under IFRS a further provision of €425k was made in respect of the Group's investment in the dormant Trade Center Sliven project. This was in addition to the provision made in the prior year and reflects further decreases in land values in Bulgaria.

A more detailed account of the status of each property development project is given in the Manager's Report and the Shareholder Updates announced on 11 February 2010 and 13 May 2010. The Group expects that in some cases, further capital contributions may be required.

After the impairments noted above, the Group made a loss of €13.0m before tax, bringing its NAV as at 31 December 2009 to €0.64 per share, representing a decrease of €0.14 per share from the previous year end (31 December 2008 - €0.78)

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. In line with the accounting policy of the Group, all developments have been valued at the lower of cost and recoverable amount. In arriving at its view regarding the value of each investment on the balance sheet, 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 or these assumptions prove incorrect, there is a risk that the Group's investments could suffer further impairment.

During the remainder of 2010, the Group expects to turn its attention to operating and seeking an exit from its completed assets, to completing and opening the remaining asset under construction, to identifying further investment opportunities and to progressing the remaining three assets.

The Board will not declare a dividend for the year. 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.

Erwin Brunner
Chairman
25 June 2010

Report of the Manager

Romania

Political and Economic Update

Following the elections at the end of 2009, the IMF and the European Commission released the previously blocked €3.4bn tranche from the €20bn agreement signed by Romania last year. The amount drawn to date is now €11.8bn. The next tranche of €950 million is under review, pending approval. The approval is contingent on budget cut measures being implemented by the government. The most notable of these measures are: the decrease by 25% of all state employees' salaries and the decrease by 15% of all pensions.

The 2009 year-on-year GDP decline reached 6.5% which indicates a better than expected second half after the first half decline of 8.7%. All major year-on-year economic indicators were negative; household consumption was down 10.8%; export volumes were down 13.9%; fixed investment was 25.3% down and unemployment increased to 7.8% for 2009. The consensus view is that there will be little or no pick-up in economic activity and growth until 2011, although marginal signs of positive growth are expected to be reported for Q2 and Q3 2010.

Real Estate Market

Residential Property

Conditions stabilised between Q4 2009 and Q1 2010 as developers halted development activity, resulting in a decline in the expected amount of available housing stock. However, the continued pressure being exerted by purchasers on prices has not resulted in a significant pick-up in transaction volumes.

The Government-launched stimulus packages have had the beneficial affect of injecting liquidity back into the market but, because the levels of support are set to encourage first time buyers, the majority of this liquidity has flowed towards older style apartments rather than the wider market. The stimulus takes the form of government guarantees to banks in exchange for cheaper financing for first time buyers.

The first part of the program in 2009 was a relative success with over €600m in guarantees, out of an initial €1bn, issued to the banks. The allocation for this year is currently at €700 million. These guarantees effectively underpin the market and generate liquidity which should start to be seen in the upper and newer segment of the market.

In comparison with other Central and Eastern European ("CEE") capital cities the overall level of housing construction remains very low though sales are being held up by weak demand and the lack of availability of competitive mortgages. Developers have reduced the price per square metre in an attempt to find the bottom of the market and it is currently estimated that prices have decreased to an average of €1,260 psqm. In the meantime potential buyers remain very cautious, many fearing a double dip recession.

Significant improvement in housing demand is not expected to be seen until the first half of 2011.

Office Market

The first quarter of 2010 continued to build on the trend started at the end of 2009. The take-up of offices in Q1 2010 was 70,000 sqm, 3 times greater than the same period in 2009 and 70% of the total 2009 take up.

At the end of Q1 2010 the total modern office supply in Bucharest had reached 1.255 million sqm, of which 18,000 sqm was delivered in Q1. This compares with over 125,000 sqm delivered in Q4 2009.

The other major change in the market was the amount of space pre-let. In Q1 2010, 25% of the total take up was pre-leased, whereas in 2009 there were no pre-leases signed.

Prime rents have stabilised at around €21 sqm/month for the Central Business District though tenants are requiring additional incentives in the form of rent-free periods and fit-out contributions which reduce the effective rent to €17-€18 sqm/month

Bucharest's vacancy stands at approximately 16.3%, with approximately 5% of grade A office space available in the CBD areas. Vacancy rates as high as 22% can be seen in the decentralized sub-markets of the city i.e. Pipera North and Floreasca.

Report of the Manager continued

There have been two major transactions in Q1 2010, the letting of 15,000 sqm to UniCredit Tirac Bank in Expozitiei and 11,753 sqm to Sanador at Castrum. However, apart from the above transactions, the average leased area has decreased by 50%.

Romanian Assets

Asmita Gardens

Asmita Gardens is a residential development of 758 apartments, being delivered in seven tower blocks in two phases. As at 30th April 2010 the following position was reported:-

- Phase 1: 324 apartments. Certified: 'TOC'-'Take-over Certificate' - right to occupy - issued on 7 October 2009, and;
- Phase 2: 434 apartments. Certified: TOC issued on 11 March 2010

During the period under review the focus of the development team has been to convert pre-sales into completed sales and encourage buyers to move into their apartments. At the end of April the following had been achieved:

- Of the 247 sales (76%) agreed in Phase 1, 201 have legally completed, and in Phase 2, 1 unit has completed of the 114 agreed sales (26%)

The Manager has worked with the sales team of the Asmita Gardens Srl ("the Developer") to introduce a number of initiatives which appear to have been well received by the market. By the end of May a total of 11 units had been sold in the year of which 10 were sold in the last 2 months. Prices have been at levels above the market average reported above.

The building contractor, Strabag Srl, has achieved substantial completion of both Phases although the Take Over Certificate for Phase II was issued without tests and commissioning having taken place.

There is currently a dispute ongoing between Strabag and the Developer concerning the resolution of Strabag's final account and the Developer's counterclaims. Such disputes are not unusual in this kind of development and the Developer is attempting to resolve the situation by all means possible, including through the Courts.

The Manager and the Developer are in negotiations with the lending bank over the provision of working capital facilities within the existing facility to enable the sales process to continue to the end of the calendar year even if Strabag decides not to return to site to complete the works.

The Directors consider it prudent to make a partial provision for impairment against the value of the Company's investment in Asmita Gardens Srl in the Company's audited financial statements for the year ended 31 December 2009.

Cascade

On 1st March 2010 the Fire Brigade certified the building fit for occupancy enabling tenants to commence fitting out of their respective leased space.

During the first four months of the year, Cascade has signed new leases for 1,735 square metres of office space, which amounts to approximately 11% of the building's lettable area, at rental levels of approximately €18 per square metre per month. The larger of the two leases, amounting to 1,100 square metres, is with a major international cosmetics company.

The previously agreed leases to Banca Romaneasca and its two subsidiaries are currently being renegotiated which, if concluded, should result in the Cascade building being 65% let.

Report of the Manager continued

Baneasea

There have been no significant developments in this project since the last shareholders report. The Manager and the Partner are continuing discussions with the Bank to identify potential ways of taking the project forward on a profitable basis. As stated in the last report the improvements to the local road infrastructure and plans for the subway system to run adjacent to the site are both positive developments.

Bulgaria

Political and Economic Update

There are some early signs that the steep decline in the economy may be coming to an end. It is too early to say that a recovery is underway, but some macroeconomic indicators have marginally improved in Q1 2010.

After unemployment steadily increased from 6.27% to 10.30% (December 2008 to February 2010), initial data indicates that there was a decrease in unemployment in March 2010, followed by a further marginal decrease in April, to 10.00%. Low levels of inflation returned to the market, being 1.9% for the first 5 months of 2010, whereas 2009 was close to 0%.

Bank lending rates declined slightly in Q1 and the government's finances, though experiencing budget deficits which were not typical in past years, are in reasonable shape especially when compared to many other European countries. Government debt stood at 16.1% of GDP both at the year end and at the end of April and foreign currency reserves were over 44% of GDP.

Real Estate Market

Retail Property

Market conditions in Bulgaria have remained very challenging throughout the first quarter of 2010, and in line with many CEE markets, have suffered from poor investor sentiment, and a very restricted availability of bank debt finance. Rents and capital values are not expected to recover in the near term with little real recovery expected until Q4 2011.

Bulgarian Assets

Galleria Plovdiv

The Mall opened to the public on 15 April 2010. Despite the fact that it was a soft opening with Carrefour and some 15 other tenants, the first days proved to be a considerable success with an average of over 35,000 people visiting the Mall during the first five trading days. The high public interest and footfall after the soft opening boosted retailer interest in the development. In the two months since opening, a further 30 tenants have opened, bringing the total tenants to 45, representing 41% of the lettable area. At present the total signed leases amount to approximately 60%, with most of the balance of signed tenants expected to be opening shops during the next three months which will lead to an intended Grand Opening of the Mall on 6 September 2010 to coincide with an important local holiday.

Advance negotiations continue with numerous tenants such that the Manager believes that by the Grand Opening in September over 75% of the Mall will be let.

Mega Mall Rousse

As stated in the last report the opening of the Mall has been deferred to September 2010 and as such the finalisation of the construction process has been deliberately slowed down in to coincide with this date. The design of the road building scheme in the area adjacent to the Mall has been approved, and the Manager's requirements for access to the Mall have been secured.

There is evidence of a general improvement in market sentiment towards the project though current levels of signed leases have not increased during the period. However, in addition to the signed leases of approximately 20%, the lease negotiations underway on area totalling approximately 5,075 sqm (29%) have intensified and the Manager believes that in the coming weeks approximately 5 lease agreements for a total area of approximately 1,500 sq m should be closed successfully. Interest from potential tenants has increased, and in the last month 10 potential tenants have visited the site. Offers are under discussion for a further 15% of the GLA. The Manager's expectation is that on opening the Mall will be over 75% leased.

Report of the Manager continued

Burgas Retail Park

There has been no further progress made on this development since there has been no marked improvement in either the banking or retail market conditions. As described in the Chairman's statement, a provision of €4.6m was made against the Group's investment in Burgas during the year.

Trade Centre Sliven

There has been no further progress made on this development since there has been no marked improvement in either the banking or retail market conditions. As described in the Chairman's statement, a further provision of €0.425m was made against the Group's investment in Trade Center Sliven during the year, in addition to the provision made in the previous year.

Charlemagne Capital (IOM) Limited June 2010

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") and its subsidiaries and joint venture associates (together, the "Group") for the year ended 31 December 2009.

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 14 to 39 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

In accordance with the Company's Articles of Association the Directors of the Company retire and offer themselves for re-appointment at the forthcoming Annual General Meeting.

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 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 125,000 shares of the Company. Charlemagne CIS Fund Limited, a company managed by the Manager and having a common director, Anderson Whamond, on its board until 2 February 2009, 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.

Report of the Directors continued

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.

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 oversees 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 2010

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; 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation governing the preparation and dissemination of financial statements may differ from one jurisdiction to another.

On behalf of the Board

Erwin Brunner

Chairman

25 June 2010

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 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, 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 8.

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 judgements 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 2009 and of the Group's loss 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 property assets 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 2010

Consolidated Income Statement

	Note	Year ended 31 December 2009 €000	Year ended 31 December 2008 €000
Net rent and related income		172	-
Net changes in fair value on financial assets at fair value through profit or loss	10	85	67
Annual management fees	7.3	(1,346)	(1,678)
Audit fees	8.5	(73)	(63)
Legal and professional fees		(126)	(713)
Directors' fees	16	(90)	(90)
Administration fees	8.3	(65)	(70)
Other operating expenses	8.4	(638)	(366)
Administrative expenses		(2,338)	(2,980)
Net operating loss before net financing income		(2,081)	(2,913)
Financial income		748	2,810
Financial expenses		(2)	-
Net financing income	5	746	2,810
Share of loss of equity accounted investees	9	(1,555)	(581)
Impairment in value of equity accounted investees	9	(9,921)	(4,526)
Impairment in value of third party loans		(47)	(3,901)
Loss before tax		(12,858)	(9,111)
Income tax expense	17	(146)	(69)
Retained loss for the year		(13,004)	(9,180)
Basic and diluted loss per share (€)	13	(0.1433)	(0.0934)

The Directors consider that all results derive from continuing activities.

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2009 €000	Year ended 31 December 2008 €000
Loss for the year		(13,004)	(9,180)
Other comprehensive income			
Currency translation differences		(4)	12
Total comprehensive loss for the year		(13,008)	(9,168)

Consolidated Balance Sheet

	Note	At 31 December 2009 €000	At 31 December 2008 €000
Investment in equity accounted investees	9	45,149	41,540
Property, plant and equipment		2	3
Total non-current assets		45,151	41,543
Loans to third parties	11	359	500
Financial assets at fair value through profit or loss	10	-	9,959
Trade and other receivables		123	66
Cash and cash equivalents	4.4	13,511	20,131
Total current assets		13,993	30,656
Total assets		59,144	72,199
Issued share capital	12	72,412	73,308
Share premium		9,841	9,146
Foreign currency translation reserve		8	12
Retained losses		(23,923)	(10,919)
Total equity		58,338	71,547
Trade and other payables	14	806	652
Total current liabilities		806	652
Total liabilities		806	652
Total equity & liabilities		59,144	72,199

Approved by the Board of Directors on 25 June 2010

Director

Director

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

Company Balance Sheet

	Note	At 31 December 2009 €000	At 31 December 2008 €000
Intragroup balances	7.5	45,751	41,922
Financial assets at fair value through profit or loss	10	-	9,959
Trade and other receivables		13	14
Cash and cash equivalents	4.4	12,668	19,737
Total current assets		58,432	71,632
Total assets		58,432	71,632
Issued share capital	12	72,412	73,308
Share premium		9,841	9,146
Retained earnings		(23,915)	(10,907)
Total equity		58,338	71,547
Trade and other payables	14	94	85
Total current liabilities		94	85
Total liabilities		94	85
Total equity & liabilities		58,432	71,632

The loss made by the Company for the year ended 31 December 2009 was €13.0 million after an impairment charge against intragroup balances amounting to €15.5million (primarily a result of the provisions made against the investments held by the Company's subsidiaries) (2008: €13.3million loss with an impairment charge of €16.4million).

Approved by the Board of Directors on 25 June 2010

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 2008	80,983	6,431	-	(1,739)	85,675
Loss for the year	-	-	-	(9,180)	(9,180)
Other comprehensive income					
Foreign exchange translation differences	-	-	12	-	12
Total comprehensive loss	-	-	12	(9,180)	(9,168)
Shares cancelled following market purchases	(7,675)	2,715	-	-	(4,960)
Total transactions with owners in the year	(7,675)	2,715	-	-	(4,960)
Balance at 31 December 2008	73,308	9,146	12	(10,919)	71,547
Balance at 1 January 2009	73,308	9,146	12	(10,919)	71,547
Loss for the year	-	-	-	(13,004)	(13,004)
Other comprehensive income					
Foreign exchange translation differences	-	-	(4)	-	(4)
Total comprehensive loss	-	-	(4)	(13,004)	(13,008)
Shares cancelled following market purchases	(896)	695	-	-	(201)
Total transactions with owners in the year	(896)	695	-	-	(201)
Balance at 31 December 2009	72,412	9,841	8	(23,923)	58,338

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

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2009 €000	Year ended 31 December 2008 €000
Operating activities			
Group loss for the year		(13,004)	(9,180)
Adjustments for:			
Net changes in fair value on financial assets at fair value through profit or loss		(85)	(67)
Net financial income		(746)	(2,810)
Net rent and related income		(172)	-
Income tax		146	69
Share of loss of equity accounted investees		1,555	581
Impairment in value of equity accounted investees	9	9,921	4,526
Impairment in value of third party loans		47	3,901
Operating loss before changes in working capital		(2,338)	(2,980)
(Increase)/decrease in trade and other receivables		(57)	52
Increase in trade and other payables		71	55
Cash used in operations		(2,324)	(2,873)
Financial income received		918	2,810
Tax paid		(69)	-
Cash flows used in operating activities		(1,475)	(63)
Investing activities			
Purchase of treasury bills		(24,956)	(34,895)
Maturity of treasury bills		35,000	25,003
Acquisition of equity accounted investees		-	(4,165)
Increase in loans to equity accounted investees		(15,085)	(3,408)
Decrease in loans to third parties		96	1,563
(Disposal)/purchase of property, plant & equipment		1	(2)
Cash flows used in investing activities		(4,944)	(15,904)
Financing activities			
Proceeds from the issue of ordinary share capital		-	-
Purchase of own shares	12	(201)	(4,960)
Share issue expenses		-	-
Cash flows used in financing activities		(201)	(4,960)
Net decrease in cash and cash equivalents		(6,620)	(20,927)
Cash and cash equivalents at beginning of year		20,131	41,058
Cash and cash equivalents at end of year		13,511	20,131

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.

Following the close of Company's first placing of Ordinary Shares on 12 September 2006 38,071,000 shares were issued. On 21 September 2007, a further 63,157,894 Ordinary Shares were issued and placed, bringing the Company's total issued share capital to 101,228,894 Ordinary Shares.

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. 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. At the year end the Company had 90,515,470 shares in issue.

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%
Asmita Holdings Limited	Cyprus	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%

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 2009 comprises the Company, its subsidiaries and joint ventures (together referred to as the "Group").

The annual report was authorised for issue by the Directors on 25 June 2010.

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 prevailing market conditions, there is a greater degree of uncertainty as to the valuation of property assets 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 have been renegotiated, whilst the Group has made 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 as a result have caused repayment terms for these facilities to be re-negotiated. Further, the joint venture entities may encounter legal disputes with construction contractors during the course of the projects entered into. Whilst the Board are of the opinion that joint venture entities have made appropriate provisions in respect of any such cases, the ultimate outcome cannot be determined with certainty at this time.

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 joint venture 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.

Notes to the Consolidated Financial Statements continued

4.6 Basis of consolidation continued

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.

Joint ventures (equity accounted investees)

Investments in joint ventures are carried at cost (adjusted for the Group's share of the income and expenses of the equity accounted investees according to the equity method of accounting for joint ventures). 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. 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 joint control commences until the date that 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 are kept under review for impairment. Where, in the opinion of the directors, the recoverable value of an investment falls below cost, a provision is made against the investment and charged to the income statement.

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 year in which they are declared and approved. Any interim dividends declared do not need to be approved by the members. There was no dividend declared as at 31 December 2009 (2008: 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.

During the year the Group held treasury bills which are classified as financial assets at fair value through profit or loss. These financial assets were classified as held for trading as they were 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

Notes to the Consolidated Financial Statements continued

4.8 Financial assets continued

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. 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 previous and 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 discount to nominal value on the repurchased shares was credited 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 Adoption of new and revised International Financial Reporting Standards (IFRSs)

Standards affecting amounts reported in the current year (and/or prior years)

The following revised Standards have been adopted in the current period and have affected only the presentation and disclosure of the amounts reported in these financial statements.

Notes to the Consolidated Financial Statements continued

4.14 Adoption of new and revised International Financial Reporting Standards (IFRSs) continued

Standard	Effective date (accounting periods commencing after)
IAS 1 (as revised in 2007) Presentation of financial statements	1 January 2009
IFRS 7 Financial instruments: disclosures (Amendment: Improving disclosures about financial instruments)	1 January 2009
IAS 23 Borrowing costs	1 January 2009
IAS 31 Interests in joint ventures (Revised May 2008)	1 January 2009

IAS 1 Presentation of financial statements

A revised version of IAS 1 was issued in September 2007. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Group presents all owner changes in equity in the consolidated statement of changes in equity; all non-owner changes in equity are presented in the consolidated statement of comprehensive income. The adoption of this revised standard impacts only presentation aspects; therefore, it has no impact on profit or earnings per share.

IFRS 7 Financial instruments

The IASB published amendments to IFRS 7 in March 2009. The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The adoption of the amendment does not have any impact on profit or earnings per share.

Standards adopted with no effect on financial statements

The following revised Standard has also been adopted in these financial statements. Its adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Standard	Effective date (accounting periods commencing after)
IFRS 8 Operating segments	1 January 2009

IFRS 8 Operating segments

IFRS 8 replaces IAS 14, 'Segment reporting', and is effective for annual periods beginning on or after 1 January 2009. The new standard requires a 'management approach', under which segment information is presented on a similar basis to that used for internal reporting purposes. Management considers the Group to comprise a single operating segment, and as such, is not affected by the amendment.

Notes to the Consolidated Financial Statements continued

4.14 Adoption of new and revised International Financial Reporting Standards (IFRSs) continued

Standards and interpretations becoming effective in 2009 but not relevant to the Group

Standard	Effective date (accounting periods commencing after)
IFRS 2 Share-based payment – vesting conditions and cancellations	1 January 2009
IAS 20 Accounting for government grants and disclosure of government assistance	1 January 2009
IAS 28 Investments in associates	1 January 2009
IAS 32 Financial instruments: Presentation - amendments relating to puttable instruments and obligations arising on liquidation	1 January 2009
IAS 38 Intangible assets	1 January 2009
IAS 39 Financial instruments: Recognition and measurement (revised May 2008)	1 January 2009
IAS 39 Financial instruments: Recognition and measurement – amendments for embedded derivatives when reclassifying financial instruments	1 July 2009
IAS 40 Investment property	1 January 2009

IFRIC Interpretation

IFRIC 13 Customer loyalty programmes	1 July 2008
IFRIC 15 Agreement for construction of real estate	1 January 2009
IFRIC 16 Hedges of a net investment in a foreign operation	1 October 2008

Standards and interpretations in issue not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these consolidated financial statements:

New/revised International Accounting Standards / International Financial Reporting Standards (IAS/IFRS)	Effective date (accounting periods commencing after)
IAS 1 Presentation of financial statements (Revised 2009)	1 January 2010
IAS 7 Statement of cash flows (Revised 2009)	1 January 2010
IAS 17 Leases (Revised 2009)	1 January 2010
IAS 24 Related party disclosures - revised definition of related parties	1 January 2011
IAS 27 Consolidated and separate financial statements – amendment relating to cost of an investment on first-time adoption (Revised 2008)	1 July 2009
IAS 28 Investments in associates - consequential amendments resulting from amendments to IFRS 3 (2008)	1 July 2009
IAS 31 Interests in joint ventures - consequential amendments resulting from amendments to IFRS 3 (2008)	1 July 2009
IAS 32 Financial instruments: Presentation - amendments relating to classification of rights issues	1 February 2010
IAS 36 Impairment of assets (Revised 2009)	1 January 2010
IAS 38 Intangible assets	1 July 2009
IAS 39 Financial instruments: Recognition and measurement – amendments for embedded derivatives when reclassifying financial instruments	30 June 2009

Notes to the Consolidated Financial Statements continued

4.14 Adoption of new and revised International Financial Reporting Standards (IFRSs) continued

IAS 39 Financial instruments: Recognition and measurement – amendments for eligible hedged items	1 July 2009
IAS 39 Financial instruments: Recognition and measurement (Revised 2009)	1 January 2010
IFRS 1 First-time adoption of International Financial Reporting Standards (Revised 2008)	1 July 2009
IFRS 1 First-time adoption of International Financial Reporting Standards – additional exemptions for first-time adopters	1 January 2010
IFRS 2 Share-based payment - amendments relating to group cash-settled share-based payment transactions	1 January 2010
IFRS 3 Business combinations – comprehensive revision on applying the acquisition method	1 July 2009
IFRS 5 Non-current assets held for sale and discontinued operations (revised 2008)	1 July 2009
IFRS 5 Non-current assets held for sale and discontinued operations (revised 2009)	1 January 2010
IFRS 7 Disclosures for first-time adopters (amendment to IFRS 1)	1 July 2010
IFRS 8 Operating segments (revised 2009)	1 January 2010
IFRS 9 Financial instruments	1 January 2013

IFRIC Interpretation

IFRIC 9 Reassessment of embedded derivatives	1 July 2009
IFRIC 17 Distributions of non-cash assets to owners	1 July 2009
IFRIC 18 Transfers of assets from customers	1 July 2009
IFRIC 19 Extinguishing financial liabilities with equity instruments	1 July 2010

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.

5 Net Financing Income

Net financing income consists of bank interest earned of €748,288 (2008: €2,809,310) and loan arrangement fees of €1,500 (2008: €nil).

6 Net Asset Value per Share

The net asset value per share as at 31 December 2009 is €0.6445 (2008: €0.7808) based on 90,515,470 (2008: 91,635,470) ordinary shares in issue as at that date.

7 Related Party Transactions

7.1 Directors of the Company

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 Manager 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 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 terminable within one year.

Notes to the Consolidated Financial Statements continued

7 Related Party Transactions continued

7.1 Directors of the Company continued

A subsidiary company of the Manager, Charlemagne Capital (Investments) Limited, 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 2009.

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

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.

7.2 Directors of the Subsidiaries

Directors of the subsidiaries, James Houghton and Jane Bates, are also Directors 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 year ended 31 December 2009 amounted to €1,345,833 (2008: €1,678,188).

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 2009 amounted to €nil (2008: €nil).

Notes to the Consolidated Financial Statements continued

7 Related Party Transactions continued

7.4 Transactions and balances with Joint Venture companies and partners

The Company has made loans to Joint Venture Companies totalling €48,518,000 (2008: €33,434,000) and to Joint Venture Partners totalling €4,525,000 (2008: €4,400,000). 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.

Advisory fees payable to the Nominated Adviser and Broker for the year ended 31 December 2009 amounted to €32,104 (31 December 2008: €38,645).

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 2009 amounted to €8,173 (2008: €8,380).

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 €4,000, 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 €2,875 per set.

The Administrator shall provide general secretarial services to the Company for which it shall receive a minimum annual fee of €3,750. 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 €5,500 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 2009 amounted to €64,912 (2008: €70,125).

Notes to the Consolidated Financial Statements continued

8 Charges and Fees continued**8.4 Other operating expenses**

The costs associated with maintaining the Company's subsidiaries, including 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 2009 amounted to €73,487 (2008: €63,488).

9 Investment in Equity Accounted Investments

Group	31 December 2009 €000	31 December 2008 €000
At beginning of year	41,540	39,074
Acquisition of equity accounted investment	-	4,165
Movement in loans treated as equity accounted investments	15,085	3,408
Share of loss of equity accounted investment	(1,555)	(581)
Write down of value of equity accounted investments	(9,921)	(4,526)
Balance at end of year	45,149	41,540

The loans to equity accounted investees, before deduction of provisions, are as follows:

Name	Term	Term	Interest Rate	31 December 2009 €000
Asmita Gardens SRL	*	31 December 2012	6%	14,370
Galleria Plovdiv AD	*	*	0%**	17,603
Convergence Development Invest SRL				3,444
Cascade	*	*	***	4,000
Turgovski Park Kraimorie AD	*	*	0%**	9,101

* 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%.

*** Interest is nil, but in return for the provision of the loan, the Group is entitled to be paid a penalty at an Internal Rate of Return equating to 20% by the Group's partner in Cascade.

At the previous year end, the loans to equity accounted investees were 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 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%.

Notes to the Consolidated Financial Statements continued

9 Investment in Equity Accounted Investments continued

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

Name	Value at 31 December 2009 €000	Value at 31 December 2008 €000
Asmita Gardens SRL	8,000	8,710
Cascade Park Plaza SRL	8,612	4,982
Convergence Development Invest SRL	-	-
Galleria Plovdiv AD	17,711	11,995
Mega Mall Rousse	4,018	4,141
Trade Centre Sliven EAD	2,234	2,587
Turgovski Park Kraimorie AD	4,574	9,125
	45,149	41,540

Convergence Development Invest Srl

The Group's investment in Convergence Development Invest Srl ("CDI") of €3,202k was fully provided at the previous year end. During the current year, additional loans to CDI of €68k were made and this amount has been fully provided in the current year. The main reason for full provision 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.

Trade Center Sliven EAD

In the previous period 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. During the current period, an additional provision of €425k was made, bringing the total provision to €1,749k. The Trade Center Sliven development project is currently on hold. It should be noted that due to the low level of recent comparable transactions land valuations are highly subjective. The valuation of the Group's investment represents the Director's best estimate only.

Turgovski Park Kraimorie Srl

During the current period, a provision of €4.6m was made against the Group's investment in Turgovski Park Kraimorie AD. The Turgovski Park Kraimorie AD development project is currently on hold. It should be noted that due to the low level of recent comparable transactions land valuations are highly subjective. The valuation of the Group's investment represents the Director's best estimate only.

Asmita Gardens Srl

During the current period, a provision of €4.9m was made against the Group's investment in Asmita Gardens Srl.

Asmita Gardens is a residential development of 758 apartments, being delivered in seven tower blocks in two phases. As at 30 April 2010 the 324 apartments in Phase 1 were had been certified with the Take Over Certificate ("TOC") (providing the right to occupy), and Phase 2, 434 apartments was TOC-certified on 11 March 2010.

At the end of April of the 247 sales (76%) agreed in Phase 1, 201 were legally completed, and in Phase 2, 1 unit has completed of the 114 agreed sales (26%). The Manager has worked with the sales team of the Asmita Gardens Srl ("the Developer") to introduce a number of initiatives which appear to have been well received by the market. By the end of May a total of 11 units had been sold in the year of which 10 were sold in the last 2 months. Prices have been at levels above the market average reported above.

The building contractor, Strabag Srl, has achieved substantial completion of both Phases although the Take Over Certificate for Phase II was issued without tests and commissioning having taken place. There is currently a dispute ongoing between Strabag and the Developer concerning the resolution of Strabag's final account and the Developer's counterclaims. Such disputes are not unusual in this kind of development and the Developer is attempting to resolve the situation by all means possible, including through the Courts.

Notes to the Consolidated Financial Statements continued

9 Investment in Equity Accounted Investments (continued)**Asmita Gardens Srl (continued)**

The Manager and the Developer are in negotiations with the lending bank over the provision of working capital facilities within the existing facility to enable the sales process to continue to the end of the calendar year even if Strabag decides not to return to site to complete the works.

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.

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	129,231	132,942	14,907	(9,010)	50
Cascade Park Plaza SRL	Romania	37,363	40,010	59	(3,213)	40
Convergence Development Invest SRL	Romania	6,071	-	-	-	50
Galleria Plovdiv AD	Bulgaria	72,082	76,614	53	(3,101)	50
Mega Mall Rousse AD	Bulgaria	21,617	16,573	588	(247)	50
Trade Centre Sliven EAD	Bulgaria	5,679	72	225	170	42.5
Turgovski Park Kraimorie AD	Bulgaria	13,031	13,021	-	(3)	70

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 Group's investment in Convergence Development Invest Srl was fully provided for in the Group's accounts for the year ended 31 December 2008 and a further €68k loan made in 2009 was also fully provided against for the year ending 31 December 2009.

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.

The total amount of bank interest capitalised by the joint ventures in the equity accounted share of joint ventures results was €4,090,613.

10 Financial assets at fair value through profit or loss

Held for trading

31 December 2009

Security name	Nominal	€000
French Discount T-Bill 0% 19/3/2009	-	-

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 2009 €000	31 December 2008 €000
Realised	78	74
Unrealised	7	(7)
Total gains	85	67

Notes to the Consolidated Financial Statements continued

11 Loans to third parties

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

2009 Name	Term	Maturity Date	Interest Rate	Amount €000
Sienit Holding AD*	Overdue	Overdue	EURIBOR plus 5%, plus 10% penalty interest	1,640
Property Capital Group**	Overdue	Overdue	EURIBOR plus 5%	359
Dickau Investments Limited***	60 months	14 Sept 2012	10%	2,525

* 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 in 2008 the Group 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 partner has been making regular instalment payments. 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 in 2008 the Group also considered it prudent to retain full provision for the loan to Dickau.

2008 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

12 Capital and Reserves*Share Capital*

	2009 Number	2009 €000
Ordinary Shares of €0.80 each		
In issue at 1 January 2009	91,635,470	73,308
Shares cancelled during the year	(1,120,000)	(896)
In issue at 31 December 2009	90,515,470	72,412
	2008 Number	2008 €000
Ordinary Shares of €0.80 each		
In issue at 1 January 2008	101,228,894	80,983
Issued during the year	(9,593,424)	(7,675)
In issue at 31 December 2008	91,635,470	73,308

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

During the year, the Company bought back 1,120,000 shares for a total consideration of €201,600 (2008: 9,593,424 shares for a total consideration of €4,959,379).

Notes to the Consolidated Financial Statements continued

12 Capital and Reserves (continued)

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 2008 and 2009.

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.

	2009	2008
Loss attributable to equity holders of the Company (€000)	(13,004)	(9,180)
Weighted average number of ordinary shares in issue (thousands)	90,724	98,273
Basic and diluted loss per share (Euro cent per share)	(14.33)	(9.34)

14 Trade and Other Payables

Group	31 December 2009 €000	31 December 2008 €000
Withholding tax	146	69
Trade creditors	22	22
Accruals	638	561
Total	806	652

Company	31 December 2009 €000	31 December 2008 €000
Accruals	94	85
Total	94	85

15 Exchange Rates

The following exchange rates were used to translate assets and liabilities into the reporting currency at 31 December 2009:

ROL	4.2282
BGN	1.95883

Notes to the Consolidated Financial Statements continued

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 2009 amounted to €90,000 (2008: €90,000).

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.

There are no 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.

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.

Notes to the Consolidated Financial Statements continued

18 Financial Instruments (continued)*Market price risk (continued)*

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 may hold some assets for a substantial period post completion. This further exposes the Group to property rental risk.

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, as the Bulgarian Lev is pegged to the Euro.

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 2009	Assets €000	Liabilities €000	Net assets €000
Romanian Lei	52	(5)	47
Bulgarian Lev	123	(5)	118
Euro	58,969	(796)	58,173
	59,144	(806)	58,338
31 December 2008	Assets €000	Liabilities €000	Net assets €000
Romanian Lei	314	(21)	293
Bulgarian Lev	9	(5)	4
Euro	71,876	(626)	71,250
	72,199	(652)	71,547

At 31 December 2009, 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 €2,000 (2008: 5% €14,000).

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.

Notes to the Consolidated Financial Statements continued

18 Financial Instruments (continued)*Interest rate risk (continued)*

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 2009	Average interest rates		Less than 1 month €000	1-3 months €000	3 months to 1 year €000	1-5 years €000	Over 5 years €000	Non-interest bearing €000	Total €000
	Fixed	Variable							
	%	%							
Financial assets									
Loans to third parties	-	Euribor +5%	359	-	-	-	-	-	359
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-	-
Trade and other receivables	n/a	n/a	-	-	-	-	-	123	123
Cash and cash equivalents	-	0.1%	13,511	-	-	-	-	-	13,511
Total financial assets			13,870					123	13,993
Financial liabilities									
Trade and other payables			-	-	-	-	-	(806)	(806)
Total financial liabilities			-	-	-	-	-	(806)	(806)
Total interest rate sensitivity gap			13,870	-	-	-	-	-	-

31 December 2008	Average interest rates		Less than 1 month €000	1-3 months €000	3 months to 1 year €000	1-5 years €000	Over 5 years €000	Non-interest bearing €000	Total €000
	Fixed	Variable							
	%	%							
Financial assets									
Loans to third parties	-	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	-	-	-	-	-	-

* subject to fixed rate

At 31 December 2009, should the interest rates have increased/decreased by 100 basis points with all other variables remaining constant, the decrease/increase in net assets attributable to shareholders for the period would amount to approximately €138,700 (2008: 100 basis points €330,300).

Notes to the Consolidated Financial Statements continued

18 Financial Instruments (continued)

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, net of provisions already made. This relates also to financial assets carried at amortised cost.

At the reporting date, the Group's financial assets exposed to credit risk, net of provisions and excluding loans which are included within the balance of equity accounted investments, amounted to the following:

	31 December 2009	31 December 2008
	€000	€000
Loans to third parties (note 11)	359	500
Financial assets at fair value through profit or loss	-	9,959
Trade and other receivables	123	66
Cash at bank	13,511	20,131
	<u>13,993</u>	<u>30,656</u>

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).

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 completed renegotiation of some of these financing arrangements during the year and since the year end. The Group expects that further capital injections may be required to support financing arrangements for the joint venture companies. 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 2009 and 31 December 2008 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.

Notes to the Consolidated Financial Statements continued

19 Investment Policy (continued)

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.

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 Fair Value Information

The equity accounted joint venture companies' property developments are carried at cost adjusted thereafter for the Company's share of changes in the joint venture's net assets. The remainder of the Company's financial assets and financial liabilities at the balance sheet date were stated at fair value.

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.

21 Commitments at the Balance Sheet Date

At the balance sheet date the Group had a commitment to invest a further €2.1m into its joint venture company Galleria Plovdiv AD. This commitment was fulfilled on 18 February 2010.

22 Post Balance Sheet Events

On 15 April 2010, the Galleria Plovdiv shopping and entertainment centre was successfully opened to the public.

On 1 March 2010, the Cascade Euro Tower building owned by the Group's joint venture company, Cascade Park Plaza Srl, received Romanian Fire Brigade certification that the building was fit for occupancy, allowing tenants to commence their fitting out.

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 Wednesday 25 August 2010 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 2009.
2. To note that no dividend will be declared for the year ended 31 December 2009.
3. To re-appoint KPMG Audit LLC Isle of Man as Auditors of the Company for the year to 31 December 2010.
4. To re-appoint as a director, Mr Anderson Whamond who retires in accordance with Article 87 of the Articles of Association and offers himself for re-election.
5. To re-appoint as a director, Mr James Rosapepe who retires in accordance with Article 87 of the Articles of Association and offers himself for re-election.
6. To re-appoint as a director, Mr Erwin Brunner who retires in accordance with Article 87 of the Articles of Association and offers himself for re-election.
7. To re-appoint as a director, Mr Donald McCrickard who retires in accordance with Article 87 of the Articles of Association and offers himself for re-election.

By Order of the Board
Ian Dugate
Secretary

Date: 25 June 2010

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 Dugate) 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 Wednesday 25 August 2010 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
Wednesday 25 August 2010
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

- 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 2009 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 2010 at a fee to be approved by the Directors.
- 4 To re-appoint as a director, Mr Anderson Whamond who retires in accordance with Article 87 of the Articles of Association and offers himself for re-election.
- 5 To re-appoint as a director, Mr James Rosapepe who retires in accordance with Article 87 of the Articles of Association and offers himself for re-election.
- 6 To re-appoint as a director, Mr Erwin Brunner who retires in accordance with Article 87 of the Articles of Association and offers himself for re-election.
- 7 To re-appoint as a director, Mr Donald McCrickard who retires in accordance with Article 87 of the Articles of Association and offers himself for re-election.

	FOR	AGAINST	ABSTAIN
1			
2			
3			
4			
5			
6			
7			

Dated:

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.

