



**EUROPEAN CONVERGENCE DEVELOPMENT  
COMPANY PLC**

**Consolidated Annual Report**

Year ended 31 December 2010

ISIN No. GB00B1BJRB27

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## Management and Administration

### Directors

\* independent

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

Millennium House  
46 Athol Street  
Douglas  
Isle of Man IM1 1JB  
British Isles

### Secretary

Ian Dungate  
C/o Galileo Fund Services Limited  
Millennium House  
46 Athol Street  
Douglas  
Isle of Man IM1 1JB  
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

### Administrator and Registrar

Galileo Fund Services Limited  
Millennium House  
46 Athol Street  
Douglas  
Isle of Man IM1 1JB  
British Isles

### Placing Agent

Charlemagne Capital (UK) Limited  
39 St James's Street  
London SW1A 1JD  
United Kingdom

## Management and Administration continued

### Auditors

KPMG Audit LLC  
Heritage Court, 41 Athol Street  
Douglas  
Isle of Man IM99 1HN  
British Isles

### Legal Advisers

*As to Isle of Man Law*  
Cains Advocates Limited  
15-19 Athol Street  
Douglas  
Isle of Man IM1 1LB  
British Isles

*As to English Law*  
Stephenson Harwood  
One, St Paul's Churchyard  
London EC4M 8SH  
United Kingdom

### Subsidiaries

European Convergence Development Company  
(Cayman) Limited  
PO Box 309, Ugland House  
Grand Cayman  
Cayman Islands  
British West Indies

European Convergence Development (Malta) Limited  
4 V. Dimech Street  
Floriana  
Malta

Convergence Development (Cyprus) Limited  
12 Esperidon Street, 4th Floor  
PC1087 Nicosia  
Cyprus

European Real Estate Development Invest SRL  
Calea Serban Voda, No. 133  
Building A, Ground Floor, Room No. 9  
Sector 4  
Bucharest  
Romania

European Property Acquisitions EOOD  
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

ECD Management (Cayman) Limited  
PO Box 309, Uglan House  
Grand Cayman  
Cayman Islands  
British West Indies

### 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

## Management and Administration continued

### Joint Ventures continued

NEF3 (IOM) 1 Limited  
St Mary's Court  
20 Hill Street  
Douglas  
Isle of Man IM1 1EU  
British Isles

NEF3 (IOM) 2 Limited  
St Mary's Court  
20 Hill Street  
Douglas  
Isle of Man IM1 1EU  
British Isles

NEF3 (IOM) 3 Limited  
St Mary's Court  
20 Hill Street  
Douglas  
Isle of Man IM1 1EU  
British Isles

## Chairman's Statement

The year under review has proved to be a challenging one for the Group and for the market as a whole. Whilst the market is now beginning to show some signs of recovery, the Global economic crisis experienced in 2008/9 continues to resonate and, although property markets are starting to show improving tenant interest, rental levels and investment yields, the greatest remaining threat to us turning the corner is the continued availability of financial support. ECDC is reliant on maintaining its existing constructive banking relationships but as the majority of these relationships are with Greek banks, the possibility that a potential banking crisis in Greece may have an impact on the sentiment of all banks towards the region and to our projects specifically cannot be ignored. Although there has been no indication as yet that the banks might take precipitate action, their attitude to any short term trading difficulties may well harden which in turn may lead to increased pressure on the financial resources of the asset owners.

As indicated in the interim report and accounts the Company has, in conjunction with its auditors, reviewed the carrying value of its assets and has decided to make further impairments against four of them.

The Asmita development has been subject to various delays and legal issues and although some of these have been resolved now and the Manager is in negotiations with the bank and JV partner to take the project forward, it was felt prudent to impair the investment down to nil, leading to an impairment charge of €8.0m for the year.

Galleria Plovdiv and Mega Mall Rouse have each been impaired as a result of the Company's assessment of the discounted future values of their potential rental and occupancy levels. After allowing for the Company's share of equity accounted losses, Galleria Plovdiv was impaired by €10.1m for the year and Mega Mall Rouse by €1.0m.

The land at Turgovski Park Kraimorie was reviewed by an independent valuer and the assessment has led to an impairment of €2.5m.

Cascade was also subject to an independent valuation however it indicates that the fair value of the property exceeds the carrying value so this was not impaired.

Towards the end of 2010 the Company made medium term investments in established developments in Oradea and Iasi, as well as a co-investment in Cascade.

A more detailed account of the status of each property development project is given in the Manager's Report and the previous Shareholder Updates.

After the impairments noted above, the Group made a loss of €25.0m before tax, bringing its NAV as at 31 December 2010 to €0.37 per share, representing a decrease of €0.27 per share from the previous year end (31 December 2009, €0.64).

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 2011, the Group expects to turn its attention to operating and seeking an exit from its completed assets, 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.

Anderson Whamond  
Chairman  
27 June 2011

## Report of the Manager

The Manager's report should be read in conjunction with previous financial statements, and previous shareholder's updates issued by the Company.

### Economic Overview

#### Romania

Economic activity stabilised during the first quarter of 2011 and there were some small signs of recovery. GDP growth for the first quarter is estimated to be between 0.0% and 0.5% against 0.2% for the last quarter of 2010. The full year out turn GDP for 2010 was -1.3% and for 2011 is being at 1.5%.

Although the economy appears to have absorbed the majority of the austerity measures introduced during 2010, there has not been a significant pick up in consumption. The various measures taken by the Government in 2010 appear to have had the desired effect on the Budget Deficit with a -1.0% deficit registered in Quarter 1 2011 compared to an outturn deficit for 2010 of -7.3%. The full year forecast for 2011 is for a deficit of -5.4%.

Similar to many countries in the world, inflation remained high, at approximately 8% in March 2011 mainly due to increased food and fuel prices. Inflation is expected to rise by a further 0.5% during the year before starting to decrease to a year end figure closer to 5.5%.

The International Monetary Fund approved a new EUR3.5 billion Stand-By Arrangement for Romania as part of the EUR20 billion financing package initiated in early 2009. Romanian authorities intend to retain this additional facility along with previous undrawn amounts of EUR2.4 billion in reserve with the intention of holding these funds for the next two years to meet any unforeseen problems.

At the last monetary policy meeting in May the benchmark interest rate remained unchanged at 6.25%. As part of the Central Bank's actions to curb inflation it allowed the RON to appreciate against the EUR which has improved over 3% since February. To improve liquidity in the market the Government reduced the minimum reserve requirements for foreign exchange denominated financing from 25% to 20%. It is estimated that this action improved market liquidity by approximately EUR1.0 billion.

#### Bulgaria

First quarter statistics indicate a continuation of the improvements in previous quarters. The key indicators such as GDP growth and export volumes improved while unemployment decreased. Overall the economy improved, though it is probably too early to talk about a sustained recovery.

In December exports were EUR15.6 billion, an increase of EUR3.8 billion year-on-year. There has been a continual improvement in GDP performance since Quarter 1 2010 and a full year outturn for 2010 of +0.2%, the comparative figure for 2009 was -5.0%. The performance for 2010 included growth of 3.2% in the last quarter. The major concern for the economy is the continued decline in FDI which was 4.5% of GDP for 2010, a decline of 5% over the previous year.

Unemployment peaked in February 2010 at 10.3% but declined month on month to end the year at 9.2%. Some seasonal factors resulted in unemployment increasing to 9.8% in January and remaining at this level in February.

The Government's finances continue to compare favourably to most European countries. At the end of 2010 Bulgaria generated a budget deficit of 3.9% of GDP, Government debt stood at approximately 15.5% of GDP and foreign currency reserves were over 44% of GDP.

## Report of the Manager continued

### Real Estate Market

#### Romania

##### Residential Property

The residential market showed no sign of improvement throughout the whole of 2010. The existing stock is difficult to sell due to both high price expectations per sqm and larger apartments. The combination of these factors render the apartments too expensive for the local buyer.

Prices are estimated to have declined by a further 10% during 2010. This decline was accelerated by the increase in VAT rates from 19% to 24% introduced as part of the Government's austerity measures, Most of the VAT increase has had to be absorbed by developers.

Developers are still reluctant to start new projects due to the low numbers of transactions being achieved and a continued reluctance of commercial banks to start financing residential schemes. As a result, virtually no new development projects have been started.

The old communist apartments remained the most active sector with most apartments falling under the Government backed lending programme "First Home". This programme has entered its third year with a changed structure intended to increase the number of individuals who would qualify for the product.

Prices are still under pressure from the limited mortgage funding available, other than for the product guaranteed by the State. Customers also remain reluctant to apply for mortgages until there is a change in the economic environment which will lead to a change in sentiment.

##### Office Market

For Quarter 4 2010 prime office headline rents remained in the range of EUR19 sqm per month, although significant tenant incentives such as free rent periods or fit out contributions continued to be offered by landlords. In 2010 prime rents decreased by an average of 10.5% compared to the same period in 2009. The overall vacancy rate in Bucharest stands at 17.5% but it should be noted that there are considerable differences in availability within different submarkets for example, central prime property vacancy was closer to 10%.

Modern office supply in Bucharest reached 1.8 million sqm, with over 280,000 sqm delivered in 2010; out of which 85,000 sqm represent owner occupied developments. In 2010 the new office take-up reached 203,000 sqm.

Investor interest remains on a positive trend but failed to convert into a significant increases in transactions. During Quarter 1 2011 deal volumes amounted to approximately EUR200 million the largest part of which was represented by the takeover of the regional Romanian portfolio of Europolis by CA Immo. The main interest is still shown by opportunity funds and value added investors, both have a high return target which prevents very aggressive purchase bids. It is expected that continuing economic recovery, decreasing product availability and improving pricing in more mature CEE markets, will move core investors towards Romania and Bulgaria in the later part of 2011 and the beginning of 2012. Prime yields are estimated to have contracted by 25 bps over the period with prime offices currently valued between 8% to 8.25% and retail at 8.25% to 8.50%.

##### Retail Property

Demand for retail space continues to be fuelled by international operators. Some of the largest European retailers such as H&M, Inditex and Decathlon are aggressively trying to secure new locations for new stores mainly in cities with over 150,000 inhabitants. Fashion discounters such as Takko and Deichman are also expanding their networks, but mostly

## Report of the Manager continued

### Retail Property continued

in smaller cities where there is limited competition. One notable change in Quarter 4 2010 was the renewed interest from certain electronics retailers which were severely hit by the crisis.

No additional retail stock was delivered in Bucharest during the second part of 2010. Country wide the modern retail supply reached 1.4 million sqm, with the only notable delivery of Gold Plaza in Baia Mare. In total, 2010 completions reached 150,000 sqm with the most important opening being Sun Plaza with more than 80,000 sqm in Quarter 1 2010.

Rental levels in prime centres stabilised or slightly increased due to growing retail sales. The level of prime rents in Bucharest is in the region of EUR65-80 sqm per month. Rent free periods and fit-out contributions are still a key driver in the leasing process of less dominant shopping centres. Pipeline for 2011 consists of around 250,000 sqm GLA spread over a number of shopping centres across the country.

### Bulgaria

#### Retail Property

The general drop in consumer spending which continued into 2011 has led to reduced retail sales and retailers continue to be extremely cautious on expanding. The larger international brands are still delaying expansion plans whilst the local and smaller operators are more focused on optimising costs. Tenants continue to be more aggressive in lease negotiations, insisting on rent reductions and/or moving to turnover rent only.

However some brokers are starting to see some positive signs and report expectations of an upswing in almost all real estate segments during the second half of the year. There is also greater expectation of increased investment activity in 2011.

Investment in the retail sector remains subdued though there has been some limited interest in prime assets, mainly in Sofia with one transaction about to be completed at a reported yield below 9%. Retail Park Plovdiv was also purchased in February 2011 by Europa Capital at a price which reflected a yield of just over 10%.

### Development Projects

#### Romanian Assets

##### Asmita Gardens

At the end of March 2011, 314 apartment sales were completed and 42 units were pre-sold out of a total of 758 apartments. Phase 1 is complete and 92% occupied.

Although Asmita was successful in its appeal against Strabag's executory title over outstanding invoices and all existing blocks on the company's accounts and assets have been removed, Strabag is still refusing to undertake its contractual obligations to provide the necessary testing and commissioning of utilities for Phase 2. The legal dispute with the general contractor is ongoing and until that is resolved it is unlikely the outstanding works will be completed. As of 31st March 2011 site operations were suspended pending agreement with the lending bank on how best to restructure the facility, which is in default. Until such agreement is reached, it will not be possible to continue the development. As a result, while negotiations with the Bank are ongoing, the Board has decided that it is prudent to impair in full the carrying value of the asset.

##### Cascade

Following the agreement reached with BROM and the signing of their amended lease agreement the building is currently 81% let.

## Report of the Manager continued

### Development Projects

#### Romanian Assets

##### Cascade continued

The renegotiation of the loan facility with the banking syndicate was agreed and signed at the beginning of March with the injection of EUR2.0 million of mezzanine finance. The existing signed rent roll ensures that the company can meet the current obligations under the financing agreements.

All existing tenants are either operating or fitting out their leased areas. The rental level and conditions are within the parameters of the estimated budget.

On the 16 May 2011 the Court of Arbitration in the case between Cascade and Martifer made an €3.0m award in favour of Martifer. This amount represented €0.8m of disputed invoices, the repayment of the performance bond of €1.1m which had been called by the company and €1.1m of penalties, interest and other minor claims. The company and its lawyers were very surprised by this decision and the company is currently in discussion with its lawyers and bankers to identify the best way forward. Prior to this decision the building had been independently valued by Colliers which would have enabled the Company to reflect an increase in the value of its investment in Cascade. Following this award the Company feel that a more conservative approach should be adopted until the full position has been resolved. Therefore the carrying value remains at €8.4m.

##### Baneasa

There have been no significant developments in this project since the last shareholders report.

##### Iasi and Oradea Shopping Centres

In both centres trade was in line with the Company's estimates, after the December holiday season. Footfall has increased compared with the similar period in 2010 which is reflected in increased turnover of the retailers. Both loan facilities are currently under re-negotiation, with the Iasi facility approved by the lenders and awaiting formalisation.

#### Bulgarian Assets

##### Galleria Plovdiv

As stated in the last report, the leasing process continues to take longer than previously thought. At the end of Quarter1 2011 approximately 61% of the GLA was let and open. Some retailers, having signed leases are still delaying opening of their units. As a result the forecast for unit openings has been slowed down. It remains extremely difficult to attract and secure new tenants for the un-let space because of the general economic and market sentiment. Lease renegotiations with Carrefour were completed satisfactorily.

The company is seeking to appoint a professional property management company to take over the day to day operations of the Mall. The company has commenced a tender process and has invited a number of highly reputable, international firms to participate.

In January the shareholders jointly injected EUR300,000 of additional equity to meet the ongoing operational expenses of the business unable to be met by the rent and service charges. This additional equity also gave time to enable negotiations on restructuring of the main banking facility to continue.

##### Mega Mall Rousse

Following the soft opening in December 2010, high public interest, positive local PR and high footfall have boosted retailer interest in the development and resulted in an increase in enquiries and negotiations with potential retailers. At the end of March the ground and first floors were 46% let (31% of the GLA) and include brands such as supermarket operator Piccadilly, drugstore chain DM, fashion stores Miss Sixty, Seven hill, Silvan Heach and a number of other popular national brands.

The Manager has entered into negotiations with the lending bank, which continues to be supportive of the project, to restructure the loan facility. To facilitate those negotiations the Board of ECDC agreed, as part of its contractual obligations to the Partner to invest a further EUR300,000 to meet short term operational costs of the Mall.

## Report of the Manager continued

### **Bulgarian Assets continued**

#### **Bourgas Retail Park & Trade Centre Sliven**

There has been no further progress made on these developments since there has been no marked improvement in either the Banking or Retail market.

### **Charlemagne Capital (IOM) Limited**

**27 June 2011**

## 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 2010.

### 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 15 to 40 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 (resigned with effect from 30 September 2010)  
James Rosapepe  
Donald McCrickard  
Anderson Whamond

### Directors' and Other Interests

Anderson Whamond is a non-executive director of the Manager, and a shareholder of Charlemagne Capital Limited ("CCL"), the parent of the Manager and Placing Agent. Additionally, Mr Whamond 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. The following companies managed by the Manager hold shares of the Company.

<u>Company</u>	<u>Number of Shares</u>
Charlemagne CIS Fund Limited,	7,626,320
Templeton World Charity Foundation	1,981,359
Magna UAF Fund	165,000

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

### Independent Auditors

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

### Corporate Governance

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

## Report of the Directors continued

### *Board of Directors*

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

Anderson Whamond  
Chairman

27 June 2011

## 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

Anderson Whamond  
Chairman

27 June 2011

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

We have audited the financial statements of European Convergence Development Company plc for the year ended 31 December 2010 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated Statement of Cash Flows and the Consolidated Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs).

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 Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the Directors are responsible for the preparation of financial statements that give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

### Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and Parent Company's affairs as at 31 December 2010 and of the Group's loss for the year then ended; and
- have been properly prepared in accordance with IFRSs.

### 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. The Board have made a number of estimates and assumptions in respect of future events, the outcome of which remains uncertain in light of the challenging economic climate and further impairments may be necessary. In particular, assumptions regarding occupancy levels, rental yields, discount factors and exit yields for the property assets held, together with the ability of the equity accounted investees to secure continued funding, are significant factors influencing the estimates derived.

### KPMG Audit LLC

Chartered Accountants, Heritage Court, 41 Athol Street, Douglas, Isle of Man IM99 1HN  
27 June 2011

## Consolidated Income Statement

	Note	Year ended 31 December 2010 €000	Year ended 31 December 2009 €000
<b>Net rent and related income</b>		-	172
<b>Net changes in fair value on financial assets at fair value through profit or loss</b>	10	-	85
Annual management fees	7.3	(962)	(1,346)
Audit fees	8.5	(76)	(73)
Legal and professional fees		(125)	(126)
Directors' fees	16	(104)	(90)
Administration fees	8.3	(57)	(65)
Other operating expenses	8.4	(430)	(638)
<b>Administrative expenses</b>		<b>(1,754)</b>	<b>(2,338)</b>
<b>Net operating loss before net financing income</b>		<b>(1,754)</b>	<b>(2,081)</b>
Financial income		28	748
Financial expenses		-	(2)
<b>Net financing income</b>	5	<b>28</b>	<b>746</b>
Share of loss of equity accounted investees	9	(1,712)	(1,555)
Impairment in value of equity accounted investees	9	(21,591)	(9,921)
Impairment in value of third party loans		-	(47)
<b>Loss before tax</b>		<b>(25,029)</b>	<b>(12,858)</b>
Income tax expense	17	(1)	(146)
<b>Retained loss for the year</b>		<b>(25,030)</b>	<b>(13,004)</b>
<b>Basic and diluted loss per share (€)</b>	13	<b>(0.2765)</b>	<b>(0.1433)</b>

The Directors consider that all results derive from continuing activities.

	Note	Year ended 31 December 2010 €000	Year ended 31 December 2009 €000
<b>Loss for the year</b>		(25,030)	(13,004)
<b>Other comprehensive income</b>			
Currency translation differences		(4)	(4)
<b>Total comprehensive loss for the year</b>		(25,034)	(13,008)

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

## Consolidated Balance Sheet

	Note	At 31 December 2010 €000	At 31 December 2009 €000
Investment in equity accounted investees	9	26,370	45,149
Property, plant and equipment		2	2
<b>Total non-current assets</b>		<b>26,372</b>	<b>45,151</b>
Loans to third parties	11	324	359
Financial assets at fair value through profit or loss	10	-	-
Trade and other receivables		53	123
Cash and cash equivalents	4.4	7,025	13,511
<b>Total current assets</b>		<b>7,402</b>	<b>13,993</b>
<b>Total assets</b>		<b>33,774</b>	<b>59,144</b>
Issued share capital	12	72,412	72,412
Share premium		9,841	9,841
Foreign currency translation reserve		4	8
Retained losses		(48,953)	(23,923)
<b>Total equity</b>		<b>33,304</b>	<b>58,338</b>
Trade and other payables	14	470	806
<b>Total current liabilities</b>		<b>470</b>	<b>806</b>
<b>Total liabilities</b>		<b>470</b>	<b>806</b>
<b>Total equity &amp; liabilities</b>		<b>33,774</b>	<b>59,144</b>

Approved by the Board of Directors on 27 June 2011

Director

Director

## Company Balance Sheet

	Note	At 31 December 2010 €000	At 31 December 2009 €000
Investment in equity accounted investees	9	1,920	-
<b>Total non-current assets</b>		<b>1,920</b>	<b>-</b>
Intragroup balances	7.5	31,287	45,751
Financial assets at fair value through profit or loss	10	-	-
Trade and other receivables		13	13
Cash and cash equivalents	4.4	153	12,668
<b>Total current assets</b>		<b>31,453</b>	<b>58,432</b>
<b>Total assets</b>		<b>33,373</b>	<b>58,432</b>
Issued share capital	12	72,412	72,412
Share premium		9,841	9,841
Retained earnings		(48,949)	(23,915)
<b>Total equity</b>		<b>33,304</b>	<b>58,338</b>
Trade and other payables	14	69	94
<b>Total current liabilities</b>		<b>69</b>	<b>94</b>
<b>Total liabilities</b>		<b>69</b>	<b>94</b>
<b>Total equity &amp; liabilities</b>		<b>33,373</b>	<b>58,432</b>

The loss made by the Company for the year ended 31 December 2010 was €25.0 million after an impairment charge against intragroup balances amounting to €27.9million (primarily a result of the provisions made against the investments held by the Company's subsidiaries) (2009: €13.0million loss with an impairment charge of €15.5million).

Approved by the Board of Directors on 27 June 2010

Director

Director

## Consolidated Cash Flow Statement

	Share capital	Share premium	Foreign currency translation reserve	Retained earnings	Total
	€000	€000	€000	€000	€000
Balance at 1 January 2009	73,308	9,146	12	(10,919)	71,547
Loss for the year	-	-	-	(13,004)	(13,004)
<b>Other comprehensive income</b>					
Foreign exchange translation differences	-	-	(4)	-	(4)
<b>Total comprehensive loss</b>	-	-	(4)	(13,004)	(13,008)
Shares cancelled following market purchases	(896)	695	-	-	(201)
<b>Total transactions with owners in the year</b>	<b>(896)</b>	<b>695</b>	-	-	<b>(201)</b>
<b>Balance at 31 December 2009</b>	<b>72,412</b>	<b>9,841</b>	<b>8</b>	<b>(23,923)</b>	<b>58,338</b>
Balance at 1 January 2010	72,412	9,841	8	(23,923)	58,338
Loss for the year	-	-	-	(25,030)	(25,030)
<b>Other comprehensive income</b>					
Foreign exchange translation differences	-	-	(4)	-	(4)
<b>Total comprehensive loss</b>	-	-	(4)	(25,030)	(25,034)
Shares cancelled following market purchases	-	-	-	-	-
<b>Total transactions with owners in the year</b>	-	-	-	-	-
<b>Balance at 31 December 2010</b>	<b>72,412</b>	<b>9,841</b>	<b>4</b>	<b>(48,953)</b>	<b>33,304</b>

## Consolidated Cash Flow Statement

	Note	Year ended 31 December 2010 €000	Year ended 31 December 2009 €000
<b>Operating activities</b>			
Group loss for the year		(25,030)	(13,004)
Adjustments for:			
Net changes in fair value on financial assets at fair value through profit or loss		-	(85)
Net financial income		(28)	(746)

Net rent and related income		-	(172)
Income tax		1	146
Share of loss of equity accounted investees	9	1,712	1,555
Impairment in value of equity accounted investees	9	21,591	9,921
Impairment in value of third party loans		-	47
<b>Operating loss before changes in working capital</b>		<b>(1,754)</b>	<b>(2,338)</b>
Decrease/(increase) in trade and other receivables		69	(57)
(Decrease)/increase in trade and other payables		(341)	71
<b>Cash used in operations</b>		<b>(2,026)</b>	<b>(2,324)</b>
Financial income received		28	918
Tax paid		-	(69)
<b>Cash flows used in operating activities</b>		<b>(1,998)</b>	<b>(1,475)</b>
<b>Investing activities</b>			
Purchase of treasury bills		-	(24,956)
Maturity of treasury bills		-	35,000
Acquisition of equity accounted investees		(12,126)	-
Increase in loans to equity accounted investees		7,602	(15,085)
Decrease in loans to third parties		36	96
(Disposal)/purchase of property, plant & equipment		-	1
<b>Cash flows used in investing activities</b>		<b>(4,488)</b>	<b>(4,944)</b>
<b>Financing activities</b>			
Proceeds from the issue of ordinary share capital		-	-
Purchase of own shares	12	-	(201)
Share issue expenses		-	-
<b>Cash flows used in financing activities</b>		<b>-</b>	<b>(201)</b>
Net decrease in cash and cash equivalents		(6,486)	(6,620)
Cash and cash equivalents at beginning of year		13,511	20,131
<b>Cash and cash equivalents at end of year</b>		<b>7,025</b>	<b>13,511</b>

## 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%
ECD Management (Cayman) Limited	Cayman	100%
RD Management (Cayman) Limited	Cayman	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%
NEF3 (IOM) 1 Limited	Isle of Man	55%
NEF3 (IOM) 2 Limited	Isle of Man	55%
NEF3 (IOM) 3 Limited	Isle of Man	55%

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 2010 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 27 June 2011.

#### 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.

## Notes to the Consolidated Financial Statements continued

### 4 Significant Accounting Policies continued

#### 4.1 Basis of presentation continued

The valuations of property held by the equity accounted investees are based on a number of assumptions, including those in respect of projected occupancy levels and rental yields achievable, along with the ability of the Group to renegotiate funding to allow the equity accounted investees to continue in operation. In light of the challenging economic climate, the ultimate outcomes of these estimates remains uncertain and therefore further impairments against the Group's holding in equity accounted investees may be necessary.

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.

## Notes to the Consolidated Financial Statements continued

### 4 Significant Accounting Policies continued

#### 4.6 Basis of consolidation

##### *Subsidiaries*

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

##### *Transactions eliminated on consolidation*

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

##### *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 2010 (2009: Nil).

## Notes to the Consolidated Financial Statements continued

### 4 Significant Accounting Policies continued

#### 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 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.

## Notes to the Consolidated Financial Statements continued

### 4 Significant Accounting Policies continued

#### 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 new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income.

There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. IAS 27 (revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

b) *Standards, amendments and interpretations to existing standards relevant to the Group, that are not yet effective and have not been early adopted by the Group.*

IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. However, the standard has not yet been endorsed by the EU. The Group is yet to assess IFRS 9's full impact.

Revised IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. However, the standard has not yet been endorsed by the EU. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the revised standard from 1 January 2011. When the revised standard is applied, the group and the parent will need to disclose any transactions between its subsidiaries and its associates. The Group is currently putting systems in place to capture the necessary information. It is, therefore, not possible at this stage to disclose the impact, if any, of the revised standard on the related party disclosures.

'Classification of rights issues' (amendment to IAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The Group will apply the amended standard from 1 January 2011.

## Notes to the Consolidated Financial Statements continued

### 4 Significant Accounting Policies continued

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

IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Group will apply the interpretation from 1 January 2011, subject to endorsement by the EU. It is not expected to have any impact on the Group or the parent entity's financial statements.

IFRS 7, 'Financial instruments', effective 1 January 2011. Emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.

IAS 1, 'Presentation of financial statements', effective 1 January 2011. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

IAS 27, 'Consolidated and separate financial statements', applicable to annual periods beginning on or after 1 July 2010. Clarifies that the consequential amendments from IAS 27 made to IAS 21, 'The effect of changes in foreign exchange rates',

IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', apply prospectively for annual periods beginning on or after 1 July 2010, or earlier when IAS 27 is applied earlier.

### 5 Net Financing Income

Net financing income consists of bank interest earned of €28,412 (2008: €748,288) and loan arrangement fees of €nil (2008: €1,500).

### 6 Net Asset Value per Share

The net asset value per share as at 31 December 2010 is €0.3679 (2009: €0.6445) based on 90,515,470 (2009: 90,515,470) ordinary shares in issue as at that date.

### 7 Related Party Transactions

#### 7.1 Directors of the Company

Anderson Whamond is a non-executive director of the Manager, and a shareholder of Charlemagne Capital Limited ("CCL"), the parent of the Manager and Placing Agent. Additionally, Mr Whamond 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.

Erwin Brunner resigned as a director with effect from 30 September 2010.

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, the Templeton World Charity Foundation and Magna UAF Fund, investment companies also managed by the Manager, hold 7,626,320, 1,981,359 and 165,000 shares respectively in the Company at 31 December 2010.

## Notes to the Consolidated Financial Statements continued

### 7 Related Party Transactions continued

#### 7.1 Directors of the Company continued

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

James Houghton and Jane Bates are 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 2010 amounted to €961,545 (2009: €1,345,833).

##### *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 2010 amounted to € nil (2009: € nil).

#### 7.4 Transactions and balances with Joint Venture companies and partners

The Company has made loans to Joint Venture Companies totalling €40,915,000 (2009: €48,518,000) and to Joint Venture Partners totalling €4,700,000 (2009: €4,525,000). 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.

## Notes to the Consolidated Financial Statements continued

### **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 2010 amounted to €34,873 (31 December 2009: €32,104).

#### **8.2 Custodian fees**

The Custodian was 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 Company terminated the custodian agreement between the Company and the custodian with effect from 31 December 2010.

Custodian fees payable for the year ended 31 December 2010 amounted to €7,050 (2009: €8,173).

#### **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 2010 amounted to €56,813 (2009: €64,912).

#### **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 2010 amounted to €76,411 (2009: €73,487).

## Notes to the Consolidated Financial Statements continued

## 9 Investment in Equity Accounted Investments

Group	31 December 2010 €000	31 December 2009 €000
At beginning of year	45,149	41,540
Acquisition of equity accounted investment	12,126	-
Movement in loans treated as equity accounted investments	(7,602)	15,085
Share of loss of equity accounted investment	(1,712)	(1,555)
Write down of value of equity accounted investments	(21,591)	(9,921)
Balance at end of year	26,370	45,149

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

Name	Term	Term	Interest Rate	31 December 2010 €000
Asmita Gardens SRL	*	31 December 2012	6%	14,370
Galleria Plovdiv AD	*	*	0%**	10,000
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 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.

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

Name	Value at 31 December 2010 €000	Value at 31 December 2009 €000
Asmita Gardens SRL	-	8,000
Cascade Park Plaza SRL	8,356	8,612
Galleria Plovdiv AD	8,720	17,711
Mega Mall Rousse	2,974	4,018
Trade Centre Sliven EAD	2,300	2,234
Turgovski Park Kraimorie AD	2,100	4,574
NEF3 (IOM) 1 Limited*	720	-
NEF3 (IOM) 2 Limited*	300	-
NEF3 (IOM) 3 Limited*	900	-
	26,370	45,149

\* held directly by the Company.

## Notes to the Consolidated Financial Statements continued

### 9 Investment in Equity Accounted Investments continued

#### **Asmita Gardens Srl**

During the 2010, a provision of €8.0m was made against the Group's investment in Asmita Gardens Srl bringing the value down to nil. In prior years provisions of €4.9m had been raised. The company is in discussion with the prime lender and the JV to find a way to take the project forward again. Early in 2011 site operations were suspended whilst negotiations with the lending bank and the JV partner took place on how best to restructure the facility, which is in default, and enable a timely and efficient continuation of the development. Until these negotiations are resolved, the project cannot be taken forward and the Directors have decided to fully provide against the asset at this time.

#### **Galleria Plovdiv**

The Company carried out an internal valuation exercise on the development as at the end of 2010 using the Direct Capitalisation Method. The key assumptions used in the valuation exercise are in respect of occupancy levels, rental yields, and the exit yield. A discount factor was then applied to calculate the present value. Following this revaluation and after adjusting for the share of equity accounted losses during 2010, a provision of €10.1m was raised during 2010 against the Group's investment in Galleria Plovdiv. No previous provisions had been raised.

#### **Mega Mall Rousse**

The Company also carried out a similar internal revaluation exercise using the Direct Capitalisation Model on its Mega Mall Rousse property, using key assumptions on occupancy levels, rental yields and exit yields specific to this property and again a discount factor was applied to calculate the present value. This led to a provision of €1.0m being raised during 2010 against the Group's investment in Mega Mall Rousse. No previous provisions had been raised.

#### **Trade Center Sliven EAD**

In prior years a total provision of €1,749k had been raised against the Group's investment in Trade Center Sliven,. During the current period, no additional provision was made. The Trade Center Sliven development project is currently on hold. .

#### **Turgovski Park Kraimorie Srl**

Following an independent valuation of the land at Turgovski Park Kraimorie AD a further provision of €2.5m was made against the Group's investment in this project. In prior years provisions of €4.6m have been raised. The Turgovski Park Kraimorie AD development project is currently on hold.

#### **Cascade Park Plaza Srl**

An independent valuation was carried out on Cascade Park Plaza by international property surveyors Colliers. Their report indicated an increase in the value of the Company's investment in Cascade. However following the arbitration award to Martifer (see 22 Post balance sheet events) the Company feel that a more conservative approach should be adopted until the full position has been resolved.

#### **NEF 3 (IOM)**

Towards the end of 2010 the Company co-invested with another fund managed by the Manager into three new investment vehicles. Two of the vehicles invested in two projects, in Iasi & Oradea, with the JV partner Argo Capital Partners Fund Limited. The projects are up and running and are expected to return a significant IRR to the Company. The other investment vehicle (NEF3 (IOM) 2 Limited) raised funds for further investment into Cascade Park Plaza Srl.

## Notes to the Consolidated Financial Statements continued

**9 Investment in Equity Accounted Investments continued**

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
Cascade Park Plaza SRL	Romania	30,062	(40,074)	352	(641)	40
Galleria Plovdiv AD	Bulgaria	72,655	(63,974)	743	(6,039)	40
Mega Mall Rousse AD	Bulgaria	25,819	(21,057)	5,192	(284)	50
Trade Centre Sliven EAD	Bulgaria	5,793	(24)	188	160	42.5
Turgovski Park Kraimorie AD	Bulgaria	13,111	(13,112)	-	(12)	60
NEF3 (IOM) 1 Limited	Isle of Man	1,900	-	-	-	55
NEF3 (IOM) 2 Limited	Isle of Man	2,100	-	-	-	55
NEF3 (IOM) 3 Limited	Isle of Man	2,350	-	-	-	55

The Shareholders Cascade Park Plaza and Galleria Plovdiv have pledged their shareholding as security against the external loans to these companies.

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

**10 Financial assets at fair value through profit or loss**

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

	31 December 2010 €000	31 December 2009 €000
Realised	-	78
Unrealised	-	7
Total gains	-	85

**11 Loans to third parties**

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

2010 Name	Term	Maturity Date	Interest Rate	Amount €000
Sienit Holding AD*	Overdue	Overdue	EURIBOR plus 5%, plus 10% penalty interest	1,851
Property Capital Group**	Overdue	Overdue	EURIBOR plus 5%	324
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.

## Notes to the Consolidated Financial Statements continued

### 11 Loans to third parties continued

\*\*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.

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

### 12 Capital and Reserves

#### Share Capital

	2010 Number	2010 €000
Ordinary Shares of €0.80 each		
In issue at 1 January 2010	90,515,470	72,412
Shares cancelled during the year	-	-
In issue at 31 December 2010	90,515,470	72,412
	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

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 no shares for a total consideration of €nil (2009: 1,120,000 shares for a total consideration of €201,600).

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.

## Notes to the Consolidated Financial Statements continued

### 12 Capital and Reserves continued

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 2009 and 2010.

### 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.

	2010	2009
Loss attributable to equity holders of the Company (€000)	(25,030)	(13,004)
Weighted average number of ordinary shares in issue (thousands)	90,515	90,724
Basic and diluted loss per share (Euro cent per share)	(27.65)	(14.33)

### 14 Trade and Other Payables

Group	31 December 2010 €000	31 December 2009 €000
Withholding tax	1	146
Trade creditors	18	22
Accruals	451	638
Total	470	806

Company	31 December 2010 €000	31 December 2009 €000
Accruals	69	94
Total	69	94

### 15 Exchange Rates

The following exchange rates were used to translate assets and liabilities into the reporting currency at 31 December 2010:

ROL	4.2156
BGN	1.9558

### 16 Directors' Remuneration

#### *The Company*

The maximum amount of remuneration payable to the Directors permitted under the Articles of Association is €300,000 p.a. Each Director currently is paid a fee of €22,500 p.a. The Directors are each entitled to receive reimbursement of any expenses incurred in relation to their appointment. Total fees and expenses paid to the Directors for the year ended 31 December 2010 amounted to €103,860 (2009: €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.

## Notes to the Consolidated Financial Statements continued

### 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.

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

## Notes to the Consolidated Financial Statements continued

### 18 Financial Instruments continued

#### *Foreign exchange risk continued*

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 2010	Assets €000	Liabilities €000	Net assets €000
Romanian Lei	43	(2)	41
Bulgarian Lev	11	(3)	8
Euro	33,720	(465)	33,255
	33,774	(470)	33,304
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

At 31 December 2010, 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 (2009: 5% €2,000).

#### *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 2010	Average interest rates		Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
	Fixed	Variable							
	%	%							
			€000	€000	€000	€000	€000	€000	€000
<b>Financial assets</b>									
Loans to third parties	-	Euribor + 5%	324	-	-	-	-	-	324
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-	-
Trade and other receivables	n/a	n/a	-	-	-	-	-	53	53
Cash and cash equivalents	-	0.1%	7,025	-	-	-	-	-	7,025
<b>Total financial assets</b>			<b>7,349</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>53</b>	<b>7,402</b>
<b>Financial liabilities</b>									
Trade and other payables			-	-	-	-	-	(895)	(895)
<b>Total financial liabilities</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(895)</b>	<b>(895)</b>
<b>Total interest rate sensitivity gap</b>			<b>7,349</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>31 December 2009</b>									
31 December 2009	Average interest rates		Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
	Fixed	Variable							
	%	%							
			€000	€000	€000	€000	€000	€000	€000
<b>Financial assets</b>									
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
<b>Total financial assets</b>			<b>13,870</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>123</b>	<b>13,993</b>
<b>Financial liabilities</b>									
Trade and other payables			-	-	-	-	-	(806)	(806)
<b>Total financial liabilities</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(806)</b>	<b>(806)</b>
<b>Total interest rate sensitivity gap</b>			<b>13,870</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

At 31 December 2010, should the interest rates have increased/decreased by 25 basis points with all other variables remaining constant, the decrease/increase in net assets attributable to shareholders for the period would amount to approximately €18,373 (2009: 100 basis points €138,700).

*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.

## Notes to the Consolidated Financial Statements continued

### 18 Financial Instruments continued

#### *Credit risk continued*

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 2010	31 December 2009
	€000	€000
Loans to third parties (note 11)	324	359
Financial assets at fair value through profit or loss	-	-
Trade and other receivables	53	123
Cash at bank	7,025	13,511
	<u>7,402</u>	<u>13,993</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 2010 and 31 December 2009 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 no outstanding commitments.

### 22 Post Balance Sheet Events

The Company terminated the custodian agreement between the Company and the Custodian with effect from 31 December 2010. The Directors decided that, as the Company is fully invested, the services of a custodian are no longer necessary and no replacement custodian was therefore appointed.

## Notes to the Consolidated Financial Statements continued

### **22 Post Balance Sheet Events continued**

On the 16 May 2011 the Court of Arbitration in the case between Cascade and Martifer made an €3.0m award in favour of Martifer. This amount represented €0.8m of disputed invoices, the repayment of the performance bond of €1.1m which had been called by the company and €1.1m of penalties, interest and other minor claims. The company and its lawyers were very surprised by this decision and the company is currently in discussion with its lawyers and bankers to identify the best way forward.

# EUROPEAN CONVERGENCE DEVELOPMENT COMPANY PLC

(Incorporated in the Isle of Man on 1 June 2005 under number 002391V)

(the "Company")

## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE** is hereby given that the Annual General Meeting of the Company will be held at the offices of Galileo Fund Services Limited, Millennium House, 46 Athol Street, Douglas, Isle of Man, IM1 1JB, British Isles on Friday 29 July 2011 at 10.00am to transact the following business:

### As ordinary resolutions:

1. To receive and consider the Chairman's Statement, 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 2010.
2. To note that no dividend will be declared for the year ended 31 December 2010.
3. To re-appoint KPMG Audit LLC Isle of Man as Auditors of the Company for the year to 31 December 2011 at a fee to be approved by the Directors.

### As a special resolution:

4. That the typographical error in regulation 158 of the Articles of Association of the Company be amended by deleting "2012" in the first line thereof and replacing it with "2016".

By Order of the Board  
Galileo Fund Services Limited as  
Registered Agent  
Date: 27 June 2011

*Registered Office*  
Millennium House  
46 Athol Street  
Douglas  
Isle of Man IM1 1JB  
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 of the 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 above 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, Millennium House, 46 Athol Street, Douglas, Isle of Man IM1 1JB, British Isles (Attn: Ian Dungate) Fax: 44 1624 692601 no later than 48 hours before the date appointed for holding the above Meeting.

# EUROPEAN CONVERGENCE DEVELOPMENT COMPANY PLC

(Incorporated in the Isle of Man on 1 June 2005 under number 002391V)

(the "Company")

## FORM OF PROXY

To be used for the Annual General Meeting of the Company to be held at the offices of Galileo Fund Services Limited, Millennium House, 46 Athol Street, Douglas, Isle of Man, IM1 1JB, British Isles on Friday 29 July 2011 at 10.00am:

I/We \_\_\_\_\_<sup>1</sup>

of \_\_\_\_\_<sup>1</sup> being member(s) of the above-named Company, hereby appoint the Chairman of the Meeting or <sup>2</sup> \_\_\_\_\_

of \_\_\_\_\_ or Ian Dungate or failing

him, John Maher as my/our proxy to vote on my/our behalf at the Annual General Meeting of the Company to be held on Friday 29 July 2011 at 10.00am 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<sup>3</sup>:-

### ORDINARY RESOLUTIONS

- 1 THAT the Chairman's Statement, 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 2010 be approved.
- 2 THAT no dividend will be declared for the year ended 31 December 2010
- 3 THAT KPMG Audit LLC, Isle of Man be re-appointed as Auditors of the Company for the year ending 31 December 2011 at a fee to be approved by the Directors.

	FOR	AGAINST	ABSTAIN

### SPECIAL RESOLUTION

- 4 THAT the typographical error in regulation 158 of the Articles of Association of the Company be amended by deleting "2012" in the first line thereof and replacing it with "2016".

Dated: 2011

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 above 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 of the Company 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, Millennium House, 46 Athol Street, Douglas, Isle of Man IM1 1JB, British Isles (Attn: Ian Dungate) Fax: 44 1624 692601 no later than 48 hours before the date appointed for holding the above 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.