EUROPEAN CONVERGENCE DEVELOPMENT COMPANY PLC

Consolidated Annual Report

Year ended 31 December 2011

ISIN No. GB00B1BJRB27

CONTENTS

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 Fort Anne Douglas Isle of Man IM1 5PD British Isles *As to English Law* Stephenson Harwood 1 Finsbury Circus London EC2M 7SH 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 Office 11, Floor 5 103 Gotze Delchev Blvd Strlbishte Neighbourhood Triaditza Region Sofia 1404 Bulgaria

Management and Administration continued

Subsidiaries continued

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

European Property Development Corporation SRL
69-71 Soseaua Bucuresti-Ploiesti
2nd Floor, Room No. 24
Sector 1
Bucharest
Romania

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

RD Management (Cayman) Limited
PO Box 309, Ugland House
Grand Cayman
Cayman Islands
British West Indies

Joint Ventures

Asmita Gardens SRL
App 2003. 20th Floor, Block T6
42 Gladitei Street
4th District
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

Management and Administration continued

Joint Ventures continued

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

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
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NEF3 (IOM) 3 Limited
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20 Hill Street
Douglas
Isle of Man IM1 1EU
British Isles

Chairman's Statement

Overview.

Romania and Bulgaria both appear to be showing some very early signs of recovery from the crisis years since 2008. However, both countries are very reliant on the European Union as their major trading partner which may signify a turbulent period ahead for both exports and banking.

During the year a number of financial institutions in Western Europe stated that they would be withdrawing from the property markets and would extend no further credit to Eastern Europe property markets as they continue to shore up their own balance sheets. At the same time the markets remain to a certain extent reliant upon the Greek banks for maintaining credit facilities in the Balkans.

Economic Review

In Bulgaria Gross Domestic Product grew 1.7% in 2011, inflation appears to be on the retreat having fallen from 4.4% at the end of 2010 to 2.0% at the end of 2011 and exports grew almost 30% leading to a reduction in the budget deficit. However Foreign Direct Investment was woefully low at €1.3 billion, down almost 18% against 2010. The decline continued into the first two months of 2012 with a 75% reduction compared to the same two months at the beginning of 2011. Liquidity in the country is extremely tight with very little or no bank debt available. The other main concern is that personal savings increased almost 13% by the end of the year and loans to households declined slightly suggesting a fall in consumption which will have an impact on retailers.

Romania followed a similar path to Bulgaria with improving GDP, up 2.5% for the year, falling unemployment and tumbling inflation down from 8.0% at the beginning of the year to 3.1% at the end of 2011. During the year the IMF successfully completed three reviews of Romania's economic performance under the two year Stand-By Arrangement (SBA) approved on 25 March 2011 for the amount of Special Drawing Rights (SDR) 3.1 billion (about EUR 3.6 billion). Though the country can draw under the facility officials have indicated that it is currently not their intention to do so. Fitch, the rating agency upgraded Romania's sovereign debt rating to investment grade, the first time in three years. However, FDI maintained the trend started in 2009 with a further 27% decline to €1.9 billion in 2011.

Property Market Review

The markets of Romania and Bulgaria have stabilised at best during 2011. The retail markets have been buoyed by the arrival of some very prominent international retailers such as H&M and Inditex. H&M are setting ambitious expansion plans in both countries whilst Inditex, Zara fashion brands are expanding into Bulgaria. This is a sign of confidence in the country and is leading to other European brands looking to obtain footholds in the region. The residential market has continued the decline started in 2010 in Romania with up to a 20% reduction in prices being seen in some parts of Bucharest and new buildings coming onto the market in the capital city declined 23% during the year. However, residential mortgages did increase 12% during 2011 but this was only with the ongoing support of the Government mortgage protection scheme, Prima Casa. The only real bright point in the markets was the office sector in Bucharest where prime, well located buildings started to see some improvement in the rental package, either by stabilised rental positions or less support needed to be given to tenants. Vacancy rates were less than 10% in the central areas and there is little prospect of increased levels of supply because the bank finance is not readily available.

The Investment markets appeared to improve but further analysis would indicate a limited number of transactions with most transactions being below €20 million reflecting the low activity of Western investment funds. The overall value of transactions in Romania amounted to €150 million of which only €45 million were from classic investment deals. In Bulgaria a similar value of transactions were undertaken but dominated by the two acquisitions by Europa Capital who acquired Mall of Sofia for €100 million and Retail Park Plovdiv for €20 million.

Chairman's Statement continued

ECDC Operations.

It has been a disappointing year for ECDC. On the one hand the residential asset at Asmita Gardens was put into insolvency by the lending Bank with debts exceeding the likely market value of the remaining unsold apartments and on the other hand there has been continued letting up of office space in Cascade Plaza. With yields remaining stable at circa 8% this asset has been revalued following an independent valuation. The two assets in Iasi and Oradea are performing to plan but the retail developments in Bulgaria give cause for concern. The Managers report which form part of these financial statements goes into considerably more detail on the performance of each asset.

Cash Position

The Board has made every effort to maintain the cash position of the Group to ensure that should any opportunities arise which it felt would be worthy of investment there would be an ability to participate. However, during 2011 the Group did not invest in any new developments and only invested limited additional funds where it was absolutely necessary to protect the existing investments. After the year end the Board agreed to a further investment in Cascade Plaza as part of a combined refinancing enabling the settlement of the Arbitration award to Martifer.

Valuation and NAV

As part of the year end process the Board appointed independent international firms of surveyors to undertake property valuations of the Company's developments. This process has resulted in some of the carrying values being fully impaired whilst Cascade Plaza has seen an uplift in value. As a result the audited NAV at the year end was €0.3059 per share representing a decrease of EUR 0.0620 per share from the year end 31 December 2010 value of EUR 0.3679 per share. During the period under review, the Group made a loss before tax of EUR 5.8 million.

The Board will not declare a dividend for the year.

Anderson Whamond
Chairman
1 June 2012

Report of the Manager

Region Overview

The region's economic conditions have not improved significantly over the year and this has been reflected in the valuations, particularly in Bulgaria. The Group has been unable to reduce its reliance upon the Greek banks for debt funding as a number of financial institutions are withdrawing lending facilities to both the region and real estate and as a result there remains the possibility that a potential banking crisis in Greece may have an impact on the Company's projects.

Economic Update

Romania

The unpopular austerity measures introduced as part of the IMF arrangements resulted in widespread social dissatisfaction against the Government and at the beginning of 2012 the Prime Minister resigned and a new coalition has recently been formed ahead of the parliamentary elections to be held in November 2012.

With the fall of the previous government the IMF and the European Commission suspended discussion with Romania and these are now expected to resume with the new government assuring IMF representatives that Romania is stable and can fulfil its obligations.

Inflation at the beginning of 2011 was at 8.0% and increased steadily to a peak of 8.4% in May. From that date it has fallen consistently to 3.1% at December 2011 and is currently 2.4% as of March 2012. The 2012 full year target is 2%.

The benchmark interest rate remained unchanged for most of 2011 at 6.25% however in an apparent response to the falling inflation rate and to stimulate the market, it was reduced to 6.00% in November. In the first four months of 2012 the rate has been cut three times down to 5.25%.

2011 saw a GDP increase of 2.5% which was slightly ahead of the consensus view and is a direct result of strong growth in exports and agriculture. However bad weather at the beginning of 2012 as well as concerns with its major trading partners led to forecasts for GDP growth of between 0.5% and 1.0% for 2012.

Bulgaria

The economy has seen mixed trends during the year, and the economy remains fragile with external factors in the region and Europe having a great influence on the country.

GDP grew by 1.7% in 2011 which made Bulgaria one of the fastest growing economies in Europe, however the majority of Bulgaria's exports are into Europe and with continued concerns over the Eurozone, the Government has reduced its full year GDP forecast for 2012 from 3.7% to 2.3%.

Bulgaria had a budget deficit of 2.1% for 2011, and Government borrowing stood at around 15.9% of GDP at the end of December 2011 which compares favourably to other European countries. For 2012 the Government is forecasting a budget deficit of between 1.0% and 1.3% of GDP.

Unemployment rose from 9.2% at the start of the year to 11.4% by the end of the year. This increase reflects ongoing economic restructuring during the year as job reductions helped to increase per capita productivity, although early signs in 2012 show that productivity has declined. These trends are reflected by an increase in business confidence combined with a decrease in consumer confidence towards the end of the year.

Inflation has remained low and ended the year 2% down on the previous December.

Foreign Direct Investment fell to EUR 1.1 billion in 2011, which is 40% down on 2010.

Report of the Manager continued

Property Market Overview

Romanian Real Estate Market

Office Market

In total, nine buildings were completed during 2011 and modern office supply in Bucharest increased by 90,000 sqm. The increase in Gross Lettable Area (GLA) was 65% down on 2010 and the lowest level of supply in the last six years. Conversely take up during 2011 amounted to approximately 200,000 sqm which is the first time since 2008 that take up has exceeded supply. As a result it is expected that there will be an increase in pre-leasing during 2012.

Headline rents which remained stable for most of the year, improving slightly towards the end of 2011 with slow rental growth being forecast for 2012 due mainly to the shortage of prime supply in established business districts. Vacancy levels decreased slightly with the largest areas of vacant space now located in decentralised submarkets such as Baneasa and Pipera North.

For 2012 the delivery pipeline is estimated at 130,000 sqm in already announced projects, such as Raiffeisen Evolution's Sky Tower, or the first phase of AFI Offices of which approximately 45,000 sqm is pre-let or owner occupied. For 2013 the supply remains limited to c. 70,000 sqm.

Retail Property

The retail market in Romania recorded one of its best years in 2011 with the opening of nine retail schemes and 7 extensions totalling over 300,000 sqm. Currently 170,000 sqm of space is under construction and due for delivery during 2012 and the forecast for 2013 is approximately 110,000 sqm.

Demand continues to be fuelled by international operators. H&M and Inditex continued their expansion in both modern retail schemes but also on high street location. Supermarket retailers and hard discounters such as Lidl, Mega Image, Profi, Carrefour Express, continue their aggressive expansion plans taking advantage of the current level of high street retail rents.

Rental levels for prime shopping centres in Bucharest stands at EUR 65-70 sqm / month, with noticeably higher levels for units less than 100 sqm. Rent free periods and fit-out contributions are still a key driver in the leasing process of less dominant shopping centres. The gap between prime and poor quality shopping schemes is likely to continue to widen.

Bulgaria Real Estate Market

Retail Property

While 2011 saw a reduction in high street retail rents in Sofia, the rental levels in shopping centres remained relatively stable during 2011. This was in part due to increasing retail concentrations in the new malls, but 2011 also saw large international brands, such as H&M and Indetex, taking advantage of the lower rentals in Bulgaria to launch their operations. H&M has already secured locations in Sofia, Varna and Burgas with further stores likely in other cities. Other international fashion, DIY and sports good operators are setting plans for expansion in Bulgaria.

Furniture giant Ikea was the largest new development completed and opened in 2011, although there were other positive signs with two large developments beginning construction during 2011 after being on hold for two years. There are other retail centres under construction and these are expected to come on line during 2012/ 2013.

In 2011, Bulgaria's real estate transactions reached EUR 186m, the highest level since 2008 when EUR 400m of transactions were concluded. Mainly due to the lack of sizeable and stable income producing assets, turnover in 2012 is not expected to exceed 2011 levels. Yields are expected to remain stable and as of January 2012 there were no signs of deteriorating loan terms though margins are still around the 300 to 350 bps.

Report of the Manager continued

Detailed Project Reports

Romanian Assets

Cascade

The property is now 92% let with another 1% coming under lease later in the year and significant interest being shown in the remaining space.

As previously mentioned the company lost the arbitration case in Switzerland which resulted in a significant additional liability for the company which was not covered by its bank facility. Negotiations to reduce the liability with the sub-contractor have been finalised and the company has also reached agreement with its financing banks on how to discharge this liability. This required additional funding from the company's shareholders with the amount required from ECDC being EUR 510,000.

The company has also reached agreement with the financing banks on how to discharge this liability. The bank has agreed to meet half the requirement with the shareholders financing the remainder. The final settlement is expected to complete during May 2012.

Oradea Shopping Centre

The Oradea construction bank loan facility is fully drawn, with the fit-out funds remaining to be drawn to assist lease up.

The construction of Phase 2 of the Shopping Mall is fully complete.

The centre is 82% leased which is broken down as follows:

- The shopping gallery is 94% let,
- Phase 1 of the Shopping Mall is 95% let,
- Phase 2 of the Shopping Mall is 62% let.

There is considerable interest in the vacant space with more than 8,000 sqm under negotiation.

Collection rates in Oradea at the end of Quarter 1 2012 were over 80%.

Iasi Shopping Centre

The financing documentation has been finalised and is expected to be completed by the end of June 2012.

The existing shopping gallery in Iasi is 96% leased and there is considerable interest for the remaining 1,900 sqm of vacant spaces.

Collection rates were also over 80% in Iasi at the end of March 2012.

Marketing activities to increase visitor numbers are on -going and have achieved good results.

Asmita Gardens

The insolvency of the company is being undertaken by the Legal Administrator according to the Romanian insolvency law. The Manager, representing the shareholders in ECDC will be part of the creditor committee and will play an active role in the re-organisation process. The Manager will keep Shareholders informed of progress.

Baneasa

There have been no significant developments in this project.

Report of the Manager continued

Bulgarian Assets

Galleria Plovdiv

2011 saw occupancy levels relatively stable finishing the year at 62%, 1% up on the start for the year. The leasing of new space has been and remains difficult with prospective tenants looking for incentives such as capital contributions towards fitting out costs. In 2012 negotiations are ongoing with some key international anchor fashion brands and initial feedback has been positive.

The company has recently employed an international retail consultant to assist in setting the strategic plan for the Mall. In March 2012 the consultant completed and presented his strategic plan with the overall goal of optimising the scheme, returning it to sustainable profitability and enhancing capital value. The shareholders approved the plan which has been presented to the funding bank as part of initial negotiations. The plan was in principle accepted by the Bank and on this basis the company has started negotiations with the bank to restructure the banking facility, which is presently in default.

Due to the continued economic uncertainty the Group employed an international and independent firm of valuers to value the property. They indicated a current market value of €49.7m, which falls below the outstanding bank loan of €51.1m.

However, €1.5m of the ECDC shareholder loans to Galleria Plovdiv is guaranteed by land collateral from the Joint Venture partner. This land, of circa 35,000 sqm is also in Plovdiv, however it is not as central as Galleria and is more fragmented. The land was valued at €1.75m in August 2009.

The Board has decided to impair the value of Galleria Plovdiv down to €1.5m from the previous year end carrying value of €8.7m.

Mega Mall Rousse

Occupancy levels for the Mall rose over the year to 53% at the end of the year, although this has since fallen back slightly to 51% during 2012. The leasing process continues to be difficult for similar reasons as Galleria Plovdiv and additional tenants are being secured but at a slower rate than previously forecast and at lower rents.

There is retailer interest in the development but in order to convert this interest into signed leases, an additional investment in fit-out contributions will be necessary.

At the end of 2011 Mega Mall Rousse was valued by an international and independent firm of valuers at €17.9m. This is below the bank loan of €19.6m and so it has been decided to fully provide against this asset.

Trade Centre Sliven

There has been no change in the position regarding this development opportunity. The Partner has paid all the interest due on his loan to the end of October and is in discussions on how best to start repaying back the remaining interest and loan.

Bourgas Retail Park

There has been no further progress made with this development as there has been no marked improvement in either the banking or retail market.

Charlemagne Capital (IOM) Limited

1 June 2012.

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 2011.

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 41 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:

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. A number of companies managed by the Manager also have holdings in the Company.

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

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

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

Report of the Directors continued

Board of Directors

The composition of the Board is set out above. The Board currently comprises a non-executive chairman and 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 overviews the adequacy of the Company's internal controls, accounting policies and financial reporting and provides a forum through which the Company's external auditors report to the Company.

Internal Control

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

On behalf of the Board

Anderson Whamond
Chairman
1 June 2012

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and the Consolidated 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 are sufficient to show and explain the Company's transactions and 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

1 June 2012

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

We have audited the consolidated financial statements of European Convergence Development Company plc for the year ended 31 December 2011 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, 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 13, the Directors are responsible for the preparation of consolidated financial statements that give a true and fair view. Our responsibility is to audit, and express an opinion on, the consolidated 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 consolidated financial statements

An audit involves obtaining evidence about the amounts and disclosures in the consolidated financial statements sufficient to give reasonable assurance that the consolidated 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 consolidated financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's and Parent Company's affairs as at 31 December 2011 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 consolidated 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. The ability of the equity accounted investees to secure continued funding is a significant factor influencing the estimates derived.

KPMG Audit LLC
Chartered Accountants, Heritage Court, 41 Athol Street, Douglas, Isle of Man IM99 1HN
1 June 2012

Consolidated Income Statement

	Note	Year ended 31 December 2011 €'000	Year ended 31 December 2010 €'000
Net changes in fair value on financial assets at fair value through profit or loss		-	-
Annual management fees	7.3	(606)	(962)
Audit fees	8.4	(75)	(76)
Legal and professional fees		(115)	(125)
Directors' fees	15	(75)	(104)
Administration fees	8.2	(58)	(57)
Other operating expenses	8.3	(295)	(430)
Administrative expenses		(1,224)	(1,754)
Net operating income/(loss) before net financing income		(1,224)	(1,754)
Financial income		38	28
Financial expenses		-	-
Net financing income	5	38	28
Share of profit/(loss) of equity accounted investees	9	289	(1,712)
Impairment in value of equity accounted investees	9	(10,557)	(21,591)
Uplift in value of equity accounted investees	9	5,669	
Loss before tax		(5,785)	(25,029)
Income tax credit/(expense)	16	167	(1)
Retained loss for the year		**(5,618)**	**(25,030)**
Basic and diluted loss per share (€)	12	**(0.0621)**	**(0.2765)**

The Directors consider that all results derive from continuing activities.

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

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2011 €'000	Year ended 31 December 2010 €'000
Loss for the year		(5,618)	(25,030)
Other comprehensive income			
Currency translation differences		-	(4)
Total comprehensive loss for the year		(5,618)	(25,034)

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

Consolidated Statement of Financial Position

	Note	At 31 December 2011 €'000	At 31 December 2010 €'000
Investment in equity accounted investees	9	22,083	26,370
Property, plant and equipment		1	2
Total non-current assets		**22,084**	**26,372**
Loans to third parties	10	313	324
Trade and other receivables		67	53
Cash and cash equivalents	4.4	5,461	7,025
Total current assets		**5,841**	**7,402**
Total assets		**27,925**	**33,774**
Issued share capital	11	72,412	72,412
Share premium		9,841	9,841
Foreign currency translation reserve		4	4
Retained losses		(54,571)	(48,953)
Total equity		**27,686**	**33,304**
Trade and other payables	13	239	470
Total current liabilities		**239**	**470**
Total liabilities		**239**	**470**
Total equity & liabilities		**27,925**	**33,774**

Approved by the Board of Directors on 1 June 2012

Director **Director**

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

Company Statement of Financial Position

	Note	At 31 December 2011	At 31 December 2010
		€'000	€'000
Investment in equity accounted investees	9	2,557	1,920
Total non-current assets		**2,557**	**1,920**
Intragroup balances	7.5	25,156	31,287
Trade and other receivables		16	13
Cash and cash equivalents	4.4	30	153
Total current assets		**25,202**	**31,453**
Total assets		**27,759**	**33,373**
Issued share capital	11	72,412	72,412
Share premium		9,841	9,841
Retained losses		(54,567)	(48,949)
Total equity		**27,686**	**33,304**
Trade and other payables	13	73	69
Total current liabilities		**73**	**69**
Total liabilities		**73**	**69**
Total equity & liabilities		**27,759**	**33,373**

The loss made by the Company for the year ended 31 December 2011 was €5.6 million after an impairment charge against intragroup balances amounting to €7.1 million (primarily a result of the provisions made against the investments held by the Company's subsidiaries) (2010: €25.0 million loss with an impairment charge of €27.9 million).

Approved by the Board of Directors on 1 June 2012

Director **Director**

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

Consolidated Statement of Changes in Equity

	Share capital	Share premium	Foreign currency translation reserve	Retained earnings	Total
	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2010	72,412	9,841	8	(23,923)	58,338
Loss for the year	-	-	-	(25,030)	(25,030)
Other comprehensive income					
Foreign exchange translation differences	-	-	(4)	-	(4)
Total comprehensive loss	-	-	(4)	(25,030)	(25,034)
Shares cancelled following market purchases	-	-	-	-	-
Total transactions with owners in the year	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2010	**72,412**	**9,841**	**4**	**(48,953)**	**33,304**

	Share capital	Share premium	Foreign currency translation reserve	Retained earnings	Total
Balance at 1 January 2011	72,412	9,841	4	(48,953)	33,304
Loss for the year	-	-	-	(5,618)	(5,618)
Other comprehensive income					
Foreign exchange translation differences	-	-	-	-	-
Total comprehensive loss	-	-	-	(5,618)	(5,618)
Shares cancelled following market purchases	-	-	-	-	-
Total transactions with owners in the year	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2011	**72,412**	**9,841**	**4**	**(54,571)**	**(27,686)**

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

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2011 €'000	Year ended 31 December 2010 €'000
Operating activities			
Group loss for the year		(5,618)	(25,030)
Adjustments for:			
Net financial income		(38)	(28)
Net rent and related income		-	-
Income tax (credit)/expense		(167)	1
Share of (gaint)/loss of equity accounted investees	9	(289)	1,712
Net impairment in value of equity accounted investees	9	4,888	21,591
Operating loss before changes in working capital		**(1,224)**	**(1,754)**
(Increase)/decrease in trade and other receivables		(14)	69
Decrease in trade and other payables		(231)	(341)
Cash used in operations		**(1,469)**	**(2,026)**
Financial income received		38	28
Tax reclaimed		167	-
Cash flows used in operating activities		**(1,264)**	**(1,998)**
Investing activities			
Acquisition of equity accounted investees	9	(278)	(12,126)
(Increase)/decrease in loans to equity accounted investees	9	(34)	7,602
Decrease in loans to third parties	11	11	36
Disposal of property, plant & equipment		1	-
Cash flows used in investing activities		**(300)**	**(4,488)**
Financing activities			
Proceeds from the issue of ordinary share capital		-	-
Purchase of own shares	12	-	-
Share issue expenses		-	-
Cash flows used in financing activities		**-**	**-**
Net decrease in cash and cash equivalents		(1,564)	(6,486)
Cash and cash equivalents at beginning of year		7,025	13,511
Cash and cash equivalents at end of year		**5,461**	**7,025**

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

Notes to the Consolidated Financial Statements

1 The Company

European Convergence Development Company plc (the "Company") was incorporated and registered in the Isle of Man under the Isle of Man Companies Acts 1931 to 2004 on 26 July 2006 as a public company with registered number 117309C. On 3 March 2008 the Company was de-registered as an Isle of Man 1931-2004 company and re-registered as a company governed by the Isle of Man Companies Act 2006 with registered number 002391v.

Following the close of the 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 Property Development Corporation SRL	Romania	100%
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	60%
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 2011 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 1 June 2012.

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 can 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. Associates and joint ventures are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Group's share of the income and expenses of the equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investment) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Unrealised gains on transactions between the Company and its equity accounted investees are eliminated to the extent of the Company's interest in the equity accounted investees. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Company. In particular, borrowing costs related directly to the acquisition or construction of qualifying assets are capitalised.

Investments in joint ventures and associates are kept under review for impairment. Where, in the opinion of the directors, the net realisable value of an investment falls below cost, a provision is made against the investment and charged to the 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 2011 (2010: € 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 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.

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.

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 and future years)

a) *The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011.*

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.

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.

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

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

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 retains but simplifies the mixed measurement model and establishes two primary categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. 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.

IFRS 10, 'Consolidated financial statements', issued in May 2011. This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. This standard is applicable for periods beginning on or after 1 January 2013. The Group is yet to assess the full impact of IFRS 10, but the adoption may change the entities that are consolidated as subsidiaries from 1 January 2013. This standard has not yet been endorsed by the EU.

IFRS 12, 'Disclosure of interests in other entities', issued in May 2011. This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. This standard will be applicable for periods beginning or after 1 January 2013. The Group, subject to EU endorsement, will adopt this standard from 1 January 2013. It is not expected to have a significant impact on the Group.

IFRS 13, 'Fair value measurement', issued in May 2011. This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. This standard is applicable for periods beginning on or after 1 January 2013. The Group is yet to assess IFRS 13's full impact. This standard has not yet been endorsed by the EU.

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

5 Net Financing Income

Net financing income consists of bank interest earned of €38,480 (2010: €28,412) and loan arrangement fees of €nil (2010: €nil).

6 Net Asset Value per Share

The net asset value per share as at 31 December 2011 is €0.3059 (2010: €0.3679) based on 90,515,470 (2010: 90,515,470) ordinary shares in issue as at that date.

Notes to the Consolidated Financial Statements continued

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.

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 Global Opportunities 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 2011.

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 2011 amounted to €605,800 (2010: €961,545).

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.

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

Performance fees payable during the year ended 31 December 2011 amounted to €nil (2010: €nil).

Notes to the Consolidated Financial Statements continued

7.4 Transactions and balances with Joint Venture companies and partners

The Company has made loans to Joint Venture Companies totalling €43,174,000 (2010: €40,915,000) and to Joint Venture Partners totalling €5,553,000 (2010: €4,700,000). Details of the terms and applicable interest rates for these loans are more fully shown in note 9 and note 11.

7.5 Intragroup balances

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

8 Charges and Fees

8.1 Nominated Adviser and Broker fees

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

Advisory fees payable to the Nominated Adviser and Broker for the year ended 31 December 2011 amounted to €35,786 (31 December 2010: €34,873).

8.2 Administrator and Registrar fees

The Administrator is entitled to receive a fee of 8 basis points of the net assets of the Company, subject to a minimum monthly fee of €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 2011 amounted to €57,600 (2010: €56,813).

8.3 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.

8.4 Audit fees

Audit fees payable for the year ended 31 December 2011 amounted to €75,559 (2010: €76,411).

Notes to the Consolidated Financial Statements continued

9 Investment in Equity Accounted Investments

Group	31 December 2011 €'000	31 December 2010 €'000
At beginning of year	26,370	45,149
Acquisition of equity accounted investment	278	12,126
Recovery/(write down) in loans to investments	34	(7,602)
Share of gain/(loss) of equity accounted investment	289	(1,712)
Write down of value of equity accounted investments	(4,888)	(21,591)
Balance at end of year	22,083	26,370

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

Name	Term	Term	Interest Rate	31 December 2011 €'000
Asmita Gardens SRL	*	31 December 2012	6%	15,909
Galleria Plovdiv AD	*	*	0%**	10,000
Convergence Development Invest SRL				4,129
Cascade Park Plaza SRL	*	*	***	4,000
Turgovski Park Kraimorie AD	*	*	0%**	9,136

* 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 2010 €'000
Asmita Gardens SRL	*	31 December 2012	6%	14,370
Galleria Plovdiv AD	*	*	0%**	10,000
Convergence Development Invest SRL				3,444
Cascade Park Plaza SRL	*	*	***	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 2011 €'000	Value at 31 December 2010 €'000
Cascade Park Plaza SRL	14,015	8,356
Galleria Plovdiv AD	1,500	8,720
Mega Mall Rousse	-	2,974
Trade Centre Sliven EAD	1,876	2,300
Turgovski Park Kraimorie AD	2,135	2,100
NEF3 (IOM) 1 Limited*	983	720
NEF3 (IOM) 2 Limited*	357	300
NEF3 (IOM) 3 Limited*	1,217	900
	22,083	26,370

* held directly by the Company.

Notes to the Consolidated Financial Statements continued

9 Investment in Equity Accounted Investments continued

Valuation of Assets as at 31 December 2011

As most of the developed properties have been open for over a year, albeit with below optimum occupancy levels and also due to the continued economic uncertainty in the region, it was felt that all the properties should be subject to external and independent valuations for the year ended 31 December 2011.

All the valuations were carried out by independent firms of international valuers with a local presence in the region. They were each asked to provide the current market value for each property under latest International Valuation Standards published in 2011. These state that three main approaches can be used in real estate valuation: the cost approach, the income approach and the sales comparison approach. All three are based on the economic principles of price equilibrium, anticipated benefits, and substitution. The final choice related to the methodology to be applied was determined by the valuer after property inspection was conducted.

BULGARIA

Galleria Plovdiv

The Board has decided to impair the value of Galleria Plovdiv down to €1.5m from previous year end carrying value of €8.7m, a net impairment of €7.2m.

This impairment follows the latest valuation carried out by Colliers which indicates a current market value of €49.7m. This valuation falls below the outstanding bank loan.

However, €1.5m of the ECDC shareholder loans to Plovdiv are guaranteed by land collateral from the Joint Venture partner. This land, of circa 35,000 sqm is also in Plovdiv, however it is not as central as Galleria and is more fragmented. The land was valued at €1.75m in August 2009.

Management feel that while there will have been some diminution in the land value over that time, the value should still materially cover the €1.5m guarantee. For comparative purposes the land on which Galleria is built is valued at €150 per sqm, and in order to cover the guarantee the land would have to sell for €42 per sqm. Therefore Management have reduced the value of ECDC's investment in Galleria Plovdiv down to €1.5m.

Although the Mall has been written down for 2011, the Manager believes there may potentially be some future value in the property. Galleria is a 46,500 sqm regional shopping centre and its only real competition is on the other side of the city which is the circa 20,000 sqm Mall of Plovdiv, a smaller mall in the centre of the city which is also experiencing difficulty in attracting tenants. As there are no other new malls under construction in the second city of Bulgaria, Galleria is well positioned to benefit from a pick up in the retail market over the next three years.

An external consultant has been employed to help develop the future strategy of the Mall. The strategy recommends a mid-level investment to quickly drive up initial tenant occupancy, introduce an entertainment / leisure centre and create a fashion hub to consolidate many of the smaller fashion retailers with a major fashion anchor. The bank appears supportive of this strategy and discussions are taking place regarding the restructuring of the loan facility.

Mega Mall Rousse

The Board have decided to impair this asset down to nil from the previous year end's carrying value of €3.0m.

Mega Mall Rousse was valued by SHM Smith Hodgkinson at €17.9m. This is below the bank loan and so it has been decided to fully provide against this asset.

The Mall is approximately 51% let, however the leasing process continues to be difficult for similar reasons as Galleria Plovdiv. Additional tenants are being secured but at a slower rate than previously forecast and at lower rents. There is retailer interest in

Notes to the Consolidated Financial Statements continued

9 Investment in Equity Accounted Investments continued

Mega Mall Rousse continued

the development space but in order to convert this interest into signed leases, an additional investment in fit-out contributions will be necessary.

The company is continuing its discussions with the bank and is hopeful that a satisfactory solution will be found in the near future which will provide the funds to increase the occupancy rates.

Bourgas (Trade Park Kramoire)

This development is on hold and the Manager is looking for a suitable way of realising the underlying asset value and returning the proceeds to the Group.

The Manager has had the property valued by an independent surveyor who has valued the land at €4.1m. Other than the shareholder loans there are no other major assets or liabilities.

ECDC nominally holds 60% of Bourgas, however, as part of the original financing of this deal, ECDC provided loan finance to the JV partner Sienit (who is also our partner on Plovdiv) which was secured against Sienit's 40% holding in Bourgas.

Therefore in terms of valuing our holding in Bourgas the Board feel that it should adopt the lower value of;

- If the loan is repaid: 60% of Bourgas, being €2.5m, plus the loan repayment (currently standing at €2.1m inclusive of interest), which is €4.6m or,
- If the loan is not repaid, then the Company will secure 100% of the shareholding by exercising its security, and therefore adopt 100% of the land value being €4.1m.

The Company therefore values its holding in Bourgas at the lower figure of €4.1m.

At the time the JV purchased the land there was a covenant which imposed a timescale on the beginning and end of the development phase of the project. This timescale for completion elapsed in 2010, and as a result the JV is contractually bound to pay a penalty of €2.0m.

Whilst it may be possible to re-negotiate the actual amount paid, the Board has taken the conservative approach and assumed the full amount of €2.0m will need to be paid and has therefore provided for this amount against the €4.1m value of the land. This therefore reduces the current carrying value of the land to €2.1m for 2011 (2010; €2.1m).

The loan to Sienit, of €2.1m including accrued interest, has been 100% provided for.

Trade Centre Sliven

Due to the change in the global economic conditions the development of the project in the city of Sliven, Trade Centre Sliven ("Sliven") has not progressed. The Company has a 42.5% equity holding in Sliven.

Sliven has two main assets; being cash of €3.3m and land which was recently valued at €1.1m. There are no major liabilities in the company, so the NAV for the JV is €4.4m, valuing ECDC's investment (of 42.5%) at €1.9m (2010; €2.3m).

As part of the purchase the Company also made a loan to the JV partner of €500k. During 2009 €160k of this loan was repaid, with a further €23k being repaid during 2010. The loan is secured against the wider assets of the partner. The Manager is in communication with the JV partner who has recently paid off the interest outstanding on the loan and has expressed his

Notes to the Consolidated Financial Statements continued

9 Investment in Equity Accounted Investments continued

Trade Centre Sliven continued

intention to repay the loan in full and the Board expects full recovery of the balance. If it was felt that the partner would not complete the loan repayment then the Manager would recommend that the Company exercise its security to recover the loan. At present the Manager's view is that this is not necessary.

ROMANIA

Cascade

Colliers have valued Cascade at €49.8m, which is slightly up from last year's valuation of €46.3m. The main reason for the uplift is the annual indexation on rentals which has effectively added €2m to the value based on last year's exit yield of 8.25%. In addition the valuer has used a slightly improved exit yield of 8.0% which accounts for the remaining uplift.

The property is now 92% let with another 1% coming under lease later in the year and significant interest being shown in the remaining space. Now that the property is close to being fully let there have also been some expressions of interest in the property.

Following the repayment of the external loan, and the revised Martifer settlement the distribution waterfall would ensure that the company would receive proceeds of €14.0m, a gain of €5.6m over last year's carrying value of €8.4m.

NEF3

The underlying NEF 3 investments are in Iasi (€0.9m), Oradea (€0.7m) and Cascade (€0.3m). These are all fixed term investments in the form of preference shares with a guaranteed return. The investments are reported at their net asset value which includes the net return accruing to date on the investment.

The return for Iasi and Oradea are supported with a put and call option over the assets of a Group holding company, and the latest valuation of the Cascade property provides the Board with comfort as to the carrying value of the investment in Cascade.

Argo, the fund manager, has merged the Iasi and Oradea assets into one its listed funds; Argo Real Estate Opportunities Fund ("AREOF"). It was felt that that the other assets held by the listed fund are of a higher quality and should provide a greater protection to ECDC's returns.

AREOF's recent accounts have disclosed that they are in breach of a loan covenant with one of its lending banks, the effect of this breach could allow the lending bank to accelerate the repayment of the debt which if effected would impact the going concern of the Group. However, the company is having discussions with the bank with a view to reaching a consensual restructuring of this debt. The Board takes the view that as the accounts are prepared on a going concern basis and given AREOF's ongoing relationship with the lending bank that no impairment is required at this stage.

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	39,248	(40,632)	3,637	(563)	40
Trade Centre Sliven EAD	Bulgaria	4,887	(19)	131	-	42.5
Turgovski Park Kraimorie AD	Bulgaria	4,223	(13,169)	990	(7)	60
NEF3 (IOM) 1 Limited	Isle of Man	2,547	(97)	623	491	55
NEF3 (IOM) 2 Limited	Isle of Man	2,448	(107)	407	265	55
NEF3 (IOM) 3 Limited	Isle of Man	3,154	(120)	778	625	55

The Shareholders Cascade Park Plaza SRL 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 Loans to third parties

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

2011 Name	Term	Maturity Date	Interest Rate	Amount €'000
Sienit Holding AD*	Overdue	Overdue	EURIBOR plus 5%, plus 10% penalty interest	2,069
Property Capital Group**	Overdue	Overdue	EURIBOR plus 5%	313
Dickau Investments Limited***	60 months	14 Sept 2012	10%	3,171

* Sienit Holding AD is the Group's joint venture partner in Galleria Plovdiv AD (the Galleria Plovdiv project) and Turgovski Park Kraimorie AD (the Bourgas Retail Park project). The loan is overdue for repayment and in 2008 the Group deemed it prudent to provide for the loan in full.

**Property Capital Group is the Group's joint venture partner in the Trade Center Sliven EAD (the Sliven Project). Although the loan from Property Capital Group is overdue for repayment, the partner has been making regular instalment payments. The Group considers this loan fully recoverable.

***Dickau Investments Limited ("Dickau") is the Group's joint venture partner in Convergence Development Invest Srl. The above loan was provided to Dickau as part of the Group's package of investment in CDI, and, as a result of the Group's decision to fully provide against the Group's investment in CDI in 2008, the Group also considered it prudent to retain full provision for the loan to Dickau.

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

Notes to the Consolidated Financial Statements continued

11 Capital and Reserves

Share Capital

	2011 Number	2011 €'000
Ordinary Shares of €0.80 each		
In issue at 1 January and 31 December 2011	90,515,470	72,412
Shares cancelled during the year	-	-
In issue at 31 December 2011	90,515,470	72,412

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

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

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

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

Group capital comprises share capital, share premium and reserves.

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

No changes were made in respect of the objectives, policies or processes in respect of capital management during the years ended 31 December 2010 and 2011.

12 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.

	2011	2010
Loss attributable to equity holders of the Company (€'000)	(5,618)	(25,030)
Weighted average number of ordinary shares in issue (thousands)	90,515	90,515
Basic and diluted loss per share (Euro cent per share)	(6.21)	(27.65)

Notes to the Consolidated Financial Statements continued

13 Trade and Other Payables

Group	31 December 2011 €'000	31 December 2010 €'000
Withholding tax	4	1
Trade creditors	52	18
Accruals	183	451
Total	239	470

Company	31 December 2011 €'000	31 December 2010 €'000
Accruals	73	69
Total	73	69

14 Exchange Rates

The following exchange rates were used to translate assets and liabilities into the reporting currency at 31 December 2011:

ROL	4.3197
BGN	1.9558

15 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 2011 amounted to €74,415 (2010: €103,860).

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

16 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.

17 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

17 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 2011	Assets	Liabilities	Net assets
	€'000	€'000	€'000
Romanian Lei	49	(1)	48
Bulgarian Lev	18	(1)	17
Euro	27,858	(237)	27,621
	27,925	(239)	27,686

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

At 31 December 2011, 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 €2,400 (2010: 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

17 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 2011	Average interest rates		Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
	Fixed	Variable							
	%	%	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Financial assets									
Loans to third parties	-	Euribor + 5%	313	-	-	-	-	-	313
Trade and other receivables	n/a	n/a	-	-	-	-	-	67	67
Cash and cash equivalents	-	0.1%	5,461	-	-	-	-	-	5,461
Total financial assets			5,774	-	-	-	-	67	5,841
Financial liabilities									
Trade and other payables			-	-	-	-	-	(239)	(239)
Total financial liabilities			-	-	-	-	-	(239)	(239)
Total interest rate sensitivity gap			5,774	-	-	-	-	-	-

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
Financial assets									
Loans to third parties	-	Euribor + 5%	324	-	-	-	-	-	324
Trade and other receivables	n/a	n/a	-	-	-	-	-	53	53
Cash and cash equivalents	-	0.1%	7,025	-	-	-	-	-	7,025
Total financial assets			7,349	-	-	-	-	53	7,402
Financial liabilities									
Trade and other payables			-	-	-	-	-	(470)	(470)
Total financial liabilities			-	-	-	-	-	(470)	(470)
Total interest rate sensitivity gap			7,349	-	-	-	-	-	-

At 31 December 2011, 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 year would amount to approximately €14,435 (2010: 25 basis points €18,373).

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

17 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 2011	31 December 2010
	€'000	€'000
Loans to third parties (note 11)	313	324
Trade and other receivables	67	53
Cash at bank	5,461	7,025
	5,841	7,402

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 2011 and 31 December 2010 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.

18 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

18 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.

19 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.

20 Commitments at the Balance Sheet Date

At the balance sheet date the Group had no outstanding commitments.

21 Post Balance Sheet Events

Negotiations to reduce the liability with the sub-contractor of Cascade Plaza have been finalised and the company has also reached agreement with its financing banks on how to discharge this liability. This required additional funding from the company's shareholders with the amount required from ECDC being EUR 510,000.

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 18 July 2012 at 12.30 p.m. 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 2011.

2. To note that no dividend will be declared for the year ended 31 December 2011.

3. To re-appoint KPMG Audit LLC Isle of Man as Auditors of the Company for the year ending 31 December 2012 at a fee to be approved by the Directors.

By Order of the Board
Galileo Fund Services Limited as
Registered Agent
Date: 1 June 2012

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 Company 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 time 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 18 July 2012 at 12.30 p.m.:

I/We ____[1]

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

above-named Company, hereby appoint the Chairman of the Meeting or [2] ____________________________________

of ____or Ian Dungate or failing

him, John Maher as my/our proxy to vote on my/our behalf at the Annual General Meeting of the Company to be held on

18 July 2012 at 12.30 p.m. and at any adjournment thereof.

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

ORDINARY RESOLUTIONS		**FOR**	**AGAINST**	**ABSTAIN**
1	THAT the 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 2011 be approved.			
2	THAT no dividend will be declared for the year ended 31 December 2011			
3	THAT KPMG Audit LLC, Isle of Man be re-appointed as Auditors of the Company for the year ending 31 December 2012 at a fee to be approved by the Directors.			

Dated: 2012

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: John Maher) Fax: 44 1624 692601 no later than 48 hours before the time 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.*

Perivan Financial Print 225397