ECDC

European Convergence Development Company

EUROPEAN CONVERGENCE DEVELOPMENT COMPANY PLC

Consolidated Interim Report

Six months ended 30 June 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 15-19 Athol Street Douglas Isle of Man IM1 1LB British Isles *As to English Law* Stephenson Harwood One, St Paul's Churchyard London EC4M 8SH United Kingdom
Subsidiaries	European Convergence Development Company (Cayman) Limited PO Box 309, Ugland House Grand Cayman Cayman Islands British West Indies European Convergence Development (Malta) Limited 4 V. Dimech Street Floriana Malta Convergence Development (Cyprus) Limited 12 Esperidon Street, 4th Floor PC1087 Nicosia Cyprus European Real Estate Development Invest SRL Calea Serban Voda, No. 133 Building A, Ground Floor, Room No. 9 Sector 4 Bucharest Romania European Property Acquisitions EOOD Office 11, Floor 5 103 Gotze Delchev Blvd Strelbishte 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

Turgovski Park Kraimorie AD
1 Assenovgradsko Shosse Street
Plovdiv
Bulgaria

Mega Mall Rousse AD
123 Lipnik Boulevarde
Rousse
Bulgaria

Management and Administration continued

Joint Ventures continued

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

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

Chairman's Statement

Market conditions have remained difficult in the region and continue to affect the Company's property developments. The Group remains reliant on the banking relationships within each project, however as a number of the projects have a substantial exposure, on a non-recourse basis, to Greek banks there remains a possibility that a banking crisis in Greece could have a significant impact on the region and on the Company's projects specifically.

In the 2010 annual report and accounts the Company, in conjunction with its auditors, carried out a full review of its assets which led to additional impairments being raised against those assets. In line with the accounting policy of the Group, all developments have been valued at the lower of cost and recoverable amount. In arriving at its view regarding the value of each investment on the balance sheet, the Board has made a number of estimates and assumptions concerning future events which may or may not prove correct, and should the economic climate worsen or these assumptions prove incorrect, there is a risk that the Group's investments could suffer further impairment. Due to the continued uncertainty surrounding property markets and economic conditions in this region the Company will have further independent valuations of its assets undertaken for the 2011 annual report and accounts which may lead to additional impairments.

Mega Mall Rousse continues to attract retailer interest and its occupancy levels have increased to 41% however further leasings are unlikely in the short term until the current bank loan, which is in default, has been restructured with the bank.

Cascade is now 92% let and there is considerable interest in the remaining office space although office rental prices remain under pressure. The arbitration award to the steel sub-contractor has introduced an additional liability which has resulted in the Bank taking the precipitous action of putting the loan into technical default. Discussions are ongoing between the Bank and the sub-contractor to find an acceptable solution.

Although Galleria Plovdiv has recently leased out additional space, the shopping centre lost some retailers earlier in the year and the occupancy level remains at 61%.

Towards the end of 2010 the Company made medium term investments in established developments in Oradea and Iasi. The group holding these developments has announced a merger with a sister company which will make the group one of the largest retail property groups in Romania, creating synergies with their existing assets and also providing ECDC with a stronger counterparty guarantee

The Asmita development was fully provided for at the previous year end, however the Manager remains in negotiations with the bank and joint venture partner to try to take the project forward.

A more detailed account of the status of the property development projects above and the remaining property developments is given in the Report of the Manager.

During the period under review, the Group made a loss before tax of €0.65 million. The resulting unaudited NAV per share at 30 June 2011 was €0.3607 per share representing a decrease of €0.0072 per share from the year end 31 December 2010 of €0.3679.

The Board will not declare a dividend for the year.

Anderson Whamond
Chairman

27 September 2011

Report of the Manager

Region Overview

In both the Romanian and Bulgarian markets, the banks have been supportive to developers but at the same time are reflecting market conditions in the pricing of their debt. The Group is reliant on maintaining its existing constructive banking relationships but as the majority of these relationships are with Greek banks, the possibility that a potential banking crisis in Greece may have an impact on the sentiment of all banks towards the region and to the Company's projects specifically cannot be ignored. Although there has been no indication as yet that the banks might take precipitative action, their attitude to any short term trading difficulties may well harden which in turn may lead to increased pressure on the financial resources of the asset owners.

Bulgaria

Economic Update

The economy has seen some positive trends during the period, however these trends have slowed considerably towards the end of the period and the economy remains fragile with external factors in the region and Europe as a whole being of concern.

GDP grew in the first half as did exports, however the rate of growth slowed significantly in the second quarter, primarily led by a fall in exports.

Although Bulgaria is currently running with a budget deficit it is less than 1% of GDP and compares favourably to other European countries. Government borrowing stood at around 15% at the end of June 2011.

Unemployment which was falling in the first quarter started rising again, against expectations, towards the end of the period.

Foreign Direct Investment has fallen away almost completely with net outflows at the end of the period.

Consumer spending is also slowing down, possibly on the back of the reported rise in unemployment.

Bulgaria - Retail Property

The slow down in consumer spending has caused retailers to remain cautious on expansion. Tenants continue to be aggressive in lease negotiations, insisting on rent reductions and/or moving to turnover rent only. On a yearly basis, shopping centre headline rents have recorded a decrease of almost 23% against the levels of the first quarter of 2010 although in real terms the difference is even greater when allowing for rental concessions and rent free periods.

There are some positive signs in the market with development activity in Sofia starting on the construction of two schemes with a Gross Lettable Area ("GLA") of 33,000 sqm and 24,000 sqm and there is the expectation of a third project of 72,000 sqm located on the ring road about to commence construction works.

Bulgaria has risen above both Greece and Ukraine in Cushman & Wakefield's "Shopping Center GLA per capita" ranking with approximately 73.4 sqm of shopping centre floor space per 1,000 people but is still well below the EU-27 average of 235.4 sqm.

Bulgarian Assets

Galleria Plovdiv

Leasing in the current market is proving difficult, and whilst there has been some new space let, the overall occupancy levels remain at around 61% due to existing retailers vacating space. Attracting new tenants is difficult in the current environment and the scope for offering tenants financial incentives is limited.

The low occupancy levels and the temporary rental concessions to tenants in compensation for the delay in reaching higher occupancy have led to additional liquidity issues which add a further level of difficulty to running the Mall.

Report of the Manager continued

The company is in negotiations with its bankers to renegotiate its banking facilities to more reflect the difficult market situation being experienced at present. To date the bank has been supportive of the developers and there is currently no indication of a change in that approach.

Mega Mall Rousse

During the second quarter an additional 3,000 sqm was added to the GLA of the Mall as part of the underground car park was set aside for a go-karting ring. This has been successfully let and first trading impressions are very promising. The GLA has therefore been increased to 20,900 sqm. At the end of June 2011, total occupied space had increased to 8,670 sqm representing 41% of the increased GLA.

Due to delays in the negotiations of the Bank debt restructuring, the opening of the entertainment section has been postponed until the Autumn. At present the facility is in default though the Manager is hopeful that a satisfactory solution will be found in the near future.

Bourgas Retail Park & Trade Centre Sliven

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

Romania

Economic Update

Economic activity improved in the first half of 2011, so much so that at the end of the period the Fitch rating industry, taking in account a number of positive developments in the economy, upgraded Romania's long term foreign currency sovereign rating to "BBB-" (investment grade) from "BB+" (non-investment grade).

GDP grew in the first half, but the growth was slow at less than 1% quarter on quarter, and slowed significantly in the latter part of the half.

Although FDI has remained low, the net inflows appear to be one of the driving forces behind the slow pick up in consumption.

Technical missions from both the IMF and the European Commission were positive in their assessment of the policies introduced by Romania. The Government had succeeded in keeping the budget deficit below the agreed target and it had made progress in reducing public sector arrears.

Romanian Real Estate Market

Residential Property

The economic decline since 2008 combined with the recent austerity measures in the public sector and a VAT increase have all combined to further reduce the Romanian property market. At the end of April 2011 average prices in Bucharest showed a 12.7% year on year decline and are now approximately 50% below their 2008 peak.

There is still limited new residential construction activity taking place by developers in Bucharest, although the official figures suggest the trend in construction orders is still decreasing.

Report of the Manager continued

The residential market remains a buyer's market with purchasers requesting deeper discounts. In the first quarter of 2011 prices are estimated to have declined 4% against the last quarter of 2010. The Government's first time buyers' scheme appears to have been the main driver of a slight increase in mortgage demand at the end of 2010, however the Government has reined in the scheme considerably this year.

The latest version, the fourth iteration of the programme, has the effect of increasing the number of mortgage applicants however they remain focused on the smaller, lower end of the market and not the mid- to upper segment.

Office Market

Investor interest remains on a positive trend, but still no significant transactions have been registered in the market. Total investment volume was around €200 million however the largest part of this figure was the closing of the CA Imo acquisition started in 2010. The active buyers remain the Value Added and Opportunistic buyers who cannot find what they are looking for in other CEE countries. It is forecast that by the end of 2011 the more traditional core buyer may be attracted to Bucharest because of frustrations over pricing and product availability in Warsaw and Prague. Prime yields are estimated to have remained constant in quarter 1 with prime offices currently valued at around 8.00% to 8.25%.

For the first half of 2011, prime office headline rents remain in the range of €19 sqm per month and are expected to remain stable for the remainder of 2011. As there are few new developments coming on line so it is possible that there may even be a moderate increase in rental values for 2012.

New rentals for the first quarter of 2011 were 5.5% up on the same period last year and 66.5% up on the last quarter of 2010. Rental increases are likely to be witnessed only at the prime end of the spectrum but a weakening of the tenant position may only materialise in less generous packages of rent free periods and contributions to tenants fitting out works being offered.

The overall vacancy rate dropped to 16.1% but is already starting to edge further downwards and will continue to do so bearing in mind the increase in take up and the slow development pipeline.

Retail Property

Demand remains steady and continues to be focused primarily on the existing shopping centres and on the large projects under construction which have a relatively clear opening date. The retail market gained momentum by the opening of the first three H&M stores in Romania with a target to open a further five during the year. Luxury brands are also assessing the market, with Burberry announcing the opening in 2011 of their flagship store on Calea Victoriei.

Although no significant new projects were delivered onto the market in the early part of the year it is estimated is that nine new retail projects will open in 2011. The largest and most notable projects to be delivered in 2011 include: Maritimo Shopping Centre in Constanta, Palas in Iasi, Colosseum Retail Park and Baneasa Shopping City's extension in Bucharest.

Rental levels are now stabilising and consolidating. Prime shopping centre rents range between €65 and €75 sqm per month. Fit-out contributions, stepped rents or even initial turnover-only rent periods are still a key driver in the leasing process of less dominant shopping centres. The toughest deals are achieved by international retailers which act as anchor tenants for both existing and under construction retail schemes.

Romanian Assets

Asmita Gardens

Legal proceedings against the contractor are continuing both in local and international courts. At the current stage of these proceedings it is very difficult to assess the outcome.

Report of the Manager continued

Site operations remain suspended while negotiations continue between the joint venture partner and the senior lender to unlock short term funding and also resolving the position with the main contractor.

Negotiation with both the senior lender and the joint venture partner are continuing as to how best to restructure the facility which is technically in default, with a view to securing and implementing a medium term financing package which will facilitate a work out of the development.

In the 2010 Annual Report and Accounts the Directors of the Company decided to fully impair its investment in Asmita and any improvement in the position is only likely to take place if the restructuring package is successful.

Cascade

The building is currently 92% let with the latest tenants fitting out their occupied space with a view to starting operations in the building later this year.

All existing tenants are under final lease contracts and with the exception of the new tenants, are all currently operating in the building. The rent level and conditions are within the parameters of the estimated budget.

There is significant additional interest for the remaining office space although the pressure on rental level is maintained.

The company lost its arbitration case with the steel sub-contractor and this has introduced an additional liability to the development. Negotiations are currently ongoing on both the value and the timing of the payment, however the arbitration award has resulted in the Bank taking precipitous action and putting the loan into technical default. Discussions are ongoing between the Bank and the sub-contractor to find an acceptable solution.

Negotiations on nearly all of the remaining construction contracts have been closed, with favourable results compared with the budgeted settlement amounts.

Baneasa

There have been no significant developments in this project and the Manager and the Partner are continuing discussions with the Bank to identify potential ways of taking the project forward on a profitable basis.

ERA Shopping Centre - Oradea

Phase 1a, atrium space between the Carrefour Mall and the new extension, has been completed and the major tenant (1,800 sqm) has opened for trade. There have been three other smaller units let during the period, two of whom are fitting out.

Negotiations continue with prospective tenants for the Mall extension and early indications are that a major tenant will be in the lower level and will open in time for the Christmas trade, dependent upon the resolution of the restructuring of the banking facility. Construction is ongoing but minimal at present.

Negotiations with the lead bank are progressing and a resolution is expected in the second half of 2011.

Footfall has increased year on year when compared with the similar period in 2010. The increase can be seen in both number of visitors and the sales turnover of the retailers.

The retail leasing market however continues to be difficult, with retailers taking a defensive approach in undertaking significant fit-out costs, given the current slow pick-up in general consumption.

Report of the Manager continued

Shopping Centre - Oradea

The building permit for the new Mall was obtained during the period and negotiations continue with the various sub-contractors ready to progress the construction once the restructuring of the banking facility has been achieved.

The Manager understands that the renegotiation of the banking facility is progressing smoothly and it is hoped it will be concluded soon. Once concluded, the construction contracts can be signed and the development progressed quickly.

Initial indications are that overall footfall to the retail park has improved and Carrefour is stating that both sales turnover and footfall have increased over the previous quarter. It would appear that there has been some migration from the other store in the City as residents realise the convenience of shopping at ERA. This increased footfall has not fully impacted on the other tenants and the marketing efforts are now being directed towards encouraging shoppers to visit the other stores at the Park.

Charlemagne Capital (IOM) Limited

27 September 2011

Consolidated Income Statement

	Note	(Unaudited) Period from 1 January 2011 to 30 June 2011 €'000	(Unaudited) Period from 1 January 2010 to 30 June 2010 €'000
Net rent and related income		-	-
Annual management fees	6.3	(293)	(574)
Audit fees	7	(20)	(32)
Legal and professional fees		(42)	(30)
Directors' fees	12	(38)	(51)
Administration fees		(29)	(29)
Other operating expenses		(139)	(234)
Administrative expenses		(561)	(950)
Net operating loss before net financing income		(561)	(950)
Financial income		12	10
Financial expenses		-	-
Net financing income		12	10
Share of loss of equity accounted investees	8	(104)	(73)
Uplift in value of equity accounted investees	8	-	109
Impairment in value of third party loans	6.4	-	-
Loss before tax		(653)	(904)
Income tax expense		-	(1)
Retained loss for the year		**(653)**	**(905)**
Basic and diluted loss per share (€)	10	**(0.0072)**	**(0.0100)**

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	(Unaudited) Period 1 January 2011 to 30 June 2011 US$'000	(Unaudited) Period 1 January 2010 to 30 June 2010 US$'000
Loss for the period		(653)	(905)
Other comprehensive income			
Currency translation differences		-	8
Total comprehensive loss for the period		(653)	(897)

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

Consolidated Balance Sheet

	Note	(Unaudited) At 30 June 2011 €'000	(Audited) At 31 December 2010 €'000
Investment in equity accounted investees	8	26,534	26,370
Property, plant and equipment		2	2
Total non-current assets		**26,536**	**26,372**
Loans to third parties	6.4	324	324
Trade and other receivables		47	53
Cash and cash equivalents		6,215	7,025
Total current assets		**6,586**	**7,402**
Total assets		**33,122**	**33,774**
Issued share capital	9	72,412	72,412
Share premium		9,841	9,841
Foreign currency translation reserve		4	4
Retained losses		(49,606)	(48,953)
Total equity		**32,651**	**33,304**
Trade and other payables	11	471	470
Total current liabilities		**471**	**470**
Total liabilities		**471**	**470**
Total equity & liabilities		**33,122**	**33,774**

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 period	-	-	-	(905)	(905)
Other comprehensive loss					
Foreign exchange translation differences	-	-	8	-	8
Total comprehensive loss	-	-	8	(905)	(897)
Balance at 30 June 2010	**72,412**	**9,841**	**16**	**(24,828)**	**57,441**
Balance at 1 January 2010	72,412	9,841	8	(23,923)	58,338
Loss for the year	-	-	-	(25,030)	(25,030)
Other comprehensive loss					
Foreign exchange translation differences	-	-	(4)	-	(4)
Total comprehensive loss	-	-	(4)	(25,030)	(25,034)
Balance at 31 December 2010	**72,412**	**9,841**	**4**	**(48,953)**	**33,304**
Balance at 1 January 2011	72,412	9,841	4	(48,953)	33,304
Loss for the period	-	-	-	(653)	(653)
Other comprehensive loss					
Foreign exchange translation differences	-	-	-	-	-
Total comprehensive loss	-	-	-	(653)	(653)
Balance at 30 June 2011	**72,412**	**9,841**	**4**	**(49,606)**	**32,651**

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

Consolidated Cash Flow Statement

	Note	(Unaudited) For the period from 1 January 2011 to 30 June 2011 €'000	(Unaudited) For the period from 1 January 2010 to 30 June 2010 €'000
Operating activities			
Group loss for the year		(653)	(905)
Adjustments for:			
Financial income		(12)	(9)
Uplift in value of third party loans		-	(109)
Share of loss of equity accounted investees		104	73
Operating loss before changes in working capital		**(561)**	**(950)**
Decrease in trade and other receivables		6	25
Increase in trade and other payables		1	133
Cash used in operations		**(554)**	**(792)**
Financial income received		12	10
Cash flows used from operating activities		**(542)**	**(782)**
Investing activities			
Increase in loans to equity accounted investees		(117)	(2,397)
Acquisition of equity accounted investees		(151)	-
Decrease/(increase) in loans to third parties		-	12
Sale of property, plant & equipment		-	1
Cash flows (used in)/generated from investing activities		**(268)**	**(2,384)**
Financing activities			
Purchase of own shares	9	-	-
Cash flows used in financing activities		**-**	**-**
Net decrease in cash and cash equivalents		(810)	(3,166)
Cash and cash equivalents at beginning of period		7,025	13,511
Cash and cash equivalents at end of period		**6,215**	**10,345**

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.

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

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%

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	40%
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 accounting policies applied by the Group in these condensed consolidated financial statements are the same as those applied by the group in its consolidated financial statements for the year ended 31 December 2010.

The Interim report of the Company for the period ending 30 June 2011 comprises the Company and its subsidiaries (together referred to as the "Group"). The interim consolidated financial statements are unaudited.

4.1 Basis of presentation

European Convergence Development Company plc (the "Company") is a company domiciled in the Isle of Man. These condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and jointly controlled entities, and have been prepared in accordance with IAS34 *Interim Financial Reporting*.

Notes to the Consolidated Financial Statements continued

4.1 Basis of presentation continued

These consolidated interim financial statements do not include all the information required for full annual financial statements and so should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2010.

The consolidated financial statements of the Group as at and for the year ended 31 December 2010 are available upon request from the Company's registered office at Millennium House, 46 Athol Street, Douglas, Isle of Man IM1 1JB.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the Company's accounting policies. The Directors consider that the valuation of the Company's investments in equity accounted associates is an area where critical accounting estimates are required. Further detail on the valuation of the investments may be found in note 8.

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 assets under construction than that which exists in a more active and stronger market. These factors have adversely impacted the compliance of equity accounted investees with their borrowing covenants and a number of these facilities 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 repayment terms for these facilities have been re-negotiated.

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

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

4.2 Basis of consolidation

Subsidiaries

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

Transactions eliminated on consolidation

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

Associates and joint ventures (equity accounted investees)

Investments in associates and joint ventures are carried at the lower of cost and net realisable value. Associates are those entities in which the Group has a significant influence, but no control, over the financial and operating polices. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and joint ventures are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Group's share of the income and expenses of the equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that

Notes to the Consolidated Financial Statements continued

4.2 Basis of consolidation continued

Associates and joint ventures (equity accounted investees) continued

significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investment) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

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

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

Financial statements of foreign operations

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

4.3 Dividends

Dividends are recognised as a liability in the period in which they are declared and approved. There was no dividend declared as at 30 June 2011 (2010: Nil).

4.4 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.

4.5 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 note 8. No additional disclosure is required in relation to segment reporting, as the Company's activities are limited to one business and geographic segment.

4.6 Presentation of Financial Statements

The Group applies revised IAS1 Presentation of Financial Statement (2007) which became effective as of 1 January 2009. As a result, the Group presents in a consolidated statement of equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. This presentation has been applied in these condensed interim financial statements as of and for the six months period ended 30 June 2011.

5 Unaudited Net Asset Value per Share

The unaudited net asset value per share as at 30 June 2011 is €0.3607 (31 December 2010: €0.3679) based on 90,515,470 (31 December 2010: 90,515,470) ordinary shares in issue as at that date.

Notes to the Consolidated Financial Statements continued

6 Related Party Transactions

6.1 Directors of the Company

Anderson Whamond is a non-executive director of the Manager, and a shareholder of Charlemagne Capital Limited ("CCL"), the parent of the Manager and Placing Agent. Additionally, Mr Whamond has an indirect family interest in shares of CCL. There are no service agreements between Mr Whamond and CCL that are not determinable within one year.

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

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

Charlemagne, 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 30 June 2011.

6.2 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.

6.3 Manager fees

Annual management fees payable during the period ended 30 June 2011 amounted to €292,557 (2010: €574,046).

Performance fees payable during the period ended 30 June 2011 amounted to € nil (2010: € nil).

6.4 Transactions and balances with Joint Venture companies and partners

The Company has loans to Joint Venture Companies totalling €40,915,000 (31 December 2010: €40,915,000) and to Joint Venture Partners totalling €4,700,000 (31 December 2010: €4,700,000). Details of the terms and applicable interest rates for these loans are more fully shown in note 8.

6.5 Intragroup balances

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

7 Audit fees

Audit fees payable for the period ended 30 June 2011 amounted to €19,875 (2010: €31,542).

Notes to the Consolidated Financial Statements continued

8 Investment in Equity Accounted Investments

Group	30 June 2011 €'000	31 December 2010 €'000
At beginning of period/year	26,370	45,149
Acquisition of equity accounted investment	151	12,126
Movement in loans treated as equity accounted investment	117	(7,602)
Share of loss of equity accounted investment	(104)	(1,712)
Uplift/(Write down) of value of equity accounted investment	-	(21,591)
Balance at end of year	26,534	26,370

The loans to equity accounted investees are as follows:

Name	Term	Term	Interest Rate	30 June 2011 €'000
Asmita Gardens SRL	*	31 December 2012	6%	14,370
Galleria Plovdiv AD	*	*	0%**	10,000
Convergence Development				3,444
Cascade	*	*	***	4,000
Turgovski Park Kraimorie AD	*	*	0%**	9,101

* Loans are due to be repaid after the project sale.
** Interest is nil until the loan is due for payment. In case of default interest will be charged at a rate of 3M EURIBOR plus 10%.
*** Interest is nil, but in return for the provision of the loan, the Group is entitled to be paid a penalty at an Internal Rate of Return equating to 20% by the Group's partner in Cascade.

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

Name	Value at 30 June 2011 €'000	Value at 31 December 2010 €'000
Asmita Gardens SRL	-	-
Cascade Park Plaza SRL	8,345	8,356
Galleria Plovdiv AD	8,720	8,720
Mega Mall Rousse	2,975	2,974
Trade Centre Sliven EAD	2,323	2,300
Turgovski Park Kraimorie AD	2,100	2,100
NEF3 (IOM) 1 Limited*	787	720
NEF3 (IOM) 2 Limited*	317	300
NEF3 (IOM) 3 Limited*	967	900
	26,534	26,370

* held directly by the Company.

Notes to the Consolidated Financial Statements continued

8 Investment in Equity Accounted Investees continued

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

Name	Country of Incorporation	Assets	Liabilities	Revenues	Profit/ (Loss)	% interest
		€'000	€'000	€'000	€'000	
Cascade Park Plaza SRL	Romania	39,995	(41,007)	325	(26)	40
Galleria Plovdiv AD	Bulgaria	70,000	(67,622)	917	(1,884)	40
Mega Mall Rousse AD	Bulgaria	25,259	(21,323)	1,154	(247)	50
Trade Centre Sliven EAD	Bulgaria	5,793	(24)	61	170	42.5
Turgovski Park Kraimorie AD	Bulgaria	13,160	(13,164)	3	37	60
NEF3 (IOM) 1 Limited	Isle of Man	1,967	-	-	-	55
NEF3 (IOM) 2 Limited	Isle of Man	2,117	-	-	-	55
NEF3 (IOM) 3 Limited	Isle of Man	2,417	-	-	-	55

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

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

9 Capital and Reserves

Share Capital

	2011 Number	2011 €'000
Ordinary Shares of €0.80 each		
In issue at 01 January 2011	90,515,470	72,412
Shares cancelled during the year	-	-
In issue at 30 June 2011	90,515,470	72,412

	2010 Number	2010 €'000
Ordinary Shares of €0.80 each		
In issue at 1 January 2010	90,515,470	72,412
Issued/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.

Notes to the Consolidated Financial Statements continued

9 Capital and Reserves continued

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 periods ended 30 June 2010 and 2011.

10 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)	(653)	(905)
Weighted average number of ordinary shares in issue (thousands)	90,515	90,515
Basic and diluted (loss)/profit per share (Euro cent per share)	(0.72)	(1.00)

11 Trade and Other Payables

Group	30 June 2011 €'000	31 December 2010 €'000
Withholding tax	-	1
Trade creditors	18	18
Accruals	453	451
Total	471	470

12 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 period ended 30 June 2011 amounted to €38,415 (2010: €50,814).

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.

13 Fair Value Information

The equity accounted joint venture companies' property developments are carried at the lower of cost and net realisable value. 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.

14 Commitments as at the Balance Sheet date

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

Notes to the Consolidated Financial Statements continued

15 Post Balance Sheet Events

There are no post balance sheet events to note.

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