ECDC

European Convergence Development Company

EUROPEAN CONVERGENCE DEVELOPMENT COMPANY PLC

Consolidated Interim Report

Six months ended 30 June 2012

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 Detchev 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

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

NEF3 (IOM) 1 Limited
St Mary's Court
Douglas
Isle of Man Im1 1EU
British Isles

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

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

Chairman's Statement

It has been another very difficult six months for both Romania and Bulgaria from an economic and a property point of view. The early shoots of economic recovery seen at the end of the last financial year have not developed further and in fact in some areas have actually declined. Property transactions are at extremely low levels, banks are not granting credit facilities and there is the continued risk that the banks will foreclose on non-performing loans. At the same time the Board have tried to maintain the cash position of the business to ensure that should good opportunities materialise in the future there is the ability to participate in order to enhance shareholder value.

Romania continued to meet most of the targets set by the EU/IMF with both giving a positive assessment of the country and it is therefore expected that further funds will be released. The country saw its inflation rate fall slightly over the first half of the year though increases in food and fuel prices pushed the rate up at the end of the period. Unemployment remained static but it is GDP growth and Foreign Direct Investment that are the major concerns. With over 70% of exports going to the European Union the likelihood is that GDP growth will remain sluggish at best and a full year out turn of 0.5% growth is currently being forecast. Foreign Direct Investment has collapsed to €0.6 billion in the first six months. At the beginning of the year the Central Bank reduced interest rates by 0.25% three times from 6% to 5.25% to assist economic recovery.

The Bulgarian economy grew 0.5% year on year at the end of June 2012. At the end of the half year both exports and imports declined and industrial growth declined. Inflation declined steadily until June but subsequently the Government increased the cost of petrol and household fuel which resulted in the inflation rate surging to 3.1% from 1.6% in June. The issue in Bulgaria appears to be the continued high level of savings which are impacting on consumption.

The property markets in both countries have continued to be extremely difficult though there is little evidence that capital values have declined further. Overall there has been stabilisation of rental levels in both the office and retail markets but retail occupancy levels continue to be below satisfactory levels, especially in Bulgaria where over 30% vacancy rates are being recorded in secondary cities as good quality tenants are hard to find on reasonable terms. It continues to be a tenant's market in retail.

The capital markets remain illiquid with no transactions taking place in Bulgaria during the first six months of 2012 and only a handful in Romania with the majority of those transactions undertaken by one fund.

In respect of the Company's developments we continue to work with our partners and banks to ensure that the projects remain intact, the banks do not foreclose and we improve the income generation to enhance shareholder value.

In Bucharest our development at Cascade required additional funding from the Company as its contribution to the restructuring package negotiated with the Bank which enabled settlement of all sub contractor claims. This has enabled ECDC to continue to participate in the value enhancement that should happen with this Grade A office building. The Board are pleased to announce that the building is now 97% let and consequently fully expects it to meet its banking obligations.

The two developments in Oradea and Iasi appear to be proceeding well though each are at a different stage of their respective developments. The Board were very pleased to be told that the Proton Loan agreement for Argo Real Estate Opportunities Fund was concluded successfully.

In Plovdiv the Board are working hard with the manager to achieve some key letting targets and to assist in this process the development company has appointed an experienced asset manager to assist in the process. The Manager is hopeful that at the end of this year, if certain leasing targets are met, the asset should be able to meet all its operational costs without further assistance from the shareholders. The Manager is continuing to negotiate with the lending bank to ensure that it is fully informed of developments and the Board is hopeful that a restructuring package can be negotiated.

In Rousse the Manager and local partner are working hard to secure additional lettings and it is encouraging that there has been some success in what is an extremely difficult local market. To date the development is 59% let. The partner has worked very hard to minimise costs of operations so that the rent and service charge income should cover the operational costs from the beginning of next year. The Manager is also talking with the lending bank on how best to restructure the debt.

Chairman's Statement continued

The Board continue to watch closely the insolvency proceedings for Asmita and also the development markets for Sliven and Bourgas. The Board is awaiting an improvement in both the debt funding and leasing markets before it can consider investing further funds to develop these two assets.

Valuation and NAV

The individual assets are not independently valued at the half year but the Board review each asset to assess whether there should be any further impairment or enhancement in the carrying value of the investments. The movement in NAV from €30.59 cents at 31 December 2011 to €30.17 cents at 30 June 2012 reflects ongoing operating expenses of the Company incurred during the period offset by a small gain on investments held.

It is the intention of the Board to undertake full independent valuations of the assets as at 31st December 2012.

It is not the intention of the Board to announce any distributions.

Anderson Whamond
Chairman
20 September 2012

Report of the Manager

Economic and Political Overview

Romania

Romania reported GDP growth of 2.5% during 2011 but has struggled to maintain growth during 2012. In the first half of the year GDP grew by 0.8% when compared to the same period in 2011. The full year forecast is for further expansion but at levels closer to 1.0%. The Government has reduced its official 2012 target, which had previously been agreed with the IMF from 1.5% to 1.2% whilst the IMF has agreed to an economic growth figure above 1% even with poor agricultural production and the economic slowdown in the euro zone.

At the end of June, inflation stood at 2.04% reversing the trend of the last eight months where rates fell consistently to a record low of 1.79% in May. Inflation has rebounded and in August stood at 3.88% and getting very close to the Central Bank's target for 2012 of 3% plus or minus 1.0%. Part of the reasons behind the increase in inflation is the political turmoil which has prevented policy makers from cutting borrowing costs below the 5.25% it was in April to assist the recession hit economy. Citigroup predict year-end inflation reaching 3.5% versus the Central Bank's most recent forecast of 3.2%.

The unemployment rate declined 0.1% in the first quarter of the year to 7.7% when compared to the previous quarter but is still at recent historical highs.

Romania maintained its Investment Grade rating but at the end of June Moody's changed the outlook from "stable" to "negative", based on the current vulnerability to adverse developments in other European countries.

The Government continues to meet the targets set by the IMF and the European Commission. Technical missions from both the IMF and the EU visited Bucharest at the beginning of the year and gave a favourable assessment at the end of their visit.

Local elections on 10 June resulted in a clear victory for the current ruling alliance (Social Liberal Union - USL) between the Social Democratic Party (PSD) and the National Liberal Party (PNL), which received around 50% of the votes. The outcome suggests an important advantage for the USL alliance in the parliamentary elections due at the end of the year.

Following the election victory a conflict arose between the new ruling coalition and President Basescu which resulted in Parliament voting for the impeachment of the President on the 6th July 2012. These, together with other measures taken by the ruling coalition have given rise to major concerns over the continuation of functioning democracy in Romania. As a direct result the EU is sending a delegation to Romania and statements have been made by Angela Merkel and other EU politicians expressing concerns over the rule of law and ongoing democracy in the country.

The political tensions had a direct impact on the exchange rate with the EUR/RON rate climbing to 4.54 RON for the EURO, from 4.45 a week earlier. Also bond yields, especially given the context of high uncertainty on the external markets, are expected to significantly rise over the short term.

Bulgaria

The Bulgarian economy expanded 0.3% quarter on quarter and 0.5% year on year during quarter 2 which represented an increase over the zero percent quarter on quarter growth recorded in quarter 1. Quarter 2 represented the tenth consecutive quarter when negative quarter on quarter growth has not been recorded.

Final consumption went up by 2.2% on a year earlier and had a positive contribution to GDP growth. Exports in June, posted their first year on year contraction since the start of the recovery, down by 1.9% but they were still higher than the four year monthly average. Exports recovered in July growing 0.8% against June and for the seven month to the end of July were up 1.7% on the similar period in 2011. Exports to the EU in the seven months to July represented 71.6% of total exports, down slightly on the first six monthly performance.

The total value of all goods imported in the period January - July 2012 were 12.5% more than the corresponding period of the previous year and in July 2012, total imports increased by 5.7% compared to July 2011.

Report of the Manager continued

Monthly inflation fell steadily during the first six months of the year from 2.8% at the end of December 2011 to a recent low of 1.6% in June. Subsequent to big price hikes in electricity and fuel prices in July, the monthly rate has increased to 3.9% in August.

Unemployment at the end of quarter 2 2012 declined 0.3% from quarter 1, to 12.6%. Unemployment peaked in quarter 1 at 12.9% - the highest rate over the last eight years.

Foreign Direct Investments (FDI) for the first six months of the year represented 6% of GDP and a substantial increase over the same period in 2011 of 0.2% of GDP. FDI improved further in July with total investment of €625 million which was double the July 2011 figure.

Bulgaria issued €950 million 4.25% 5 year bonds in July which were oversubscribed by investors with the final order book standing at over €6bn. The strong investor response and robust participation in this deal demonstrated Bulgaria's credit strengths, relatively solid macroeconomic performance, fiscal and financial stability.

Property Market Overview

Romania

Office Market

Modern office supply in Bucharest at the end of 2011 was 1.87m sqm and the 90,000 sqm delivered during the year represented the lowest level of completions in any year since 2004. In the first half of 2012 only c24,600 sqm was delivered and 68,000 sqm are expected to be completed by the year end. Take up has increased in Quarter 2 with new take up at 58,700 sqm with the remainder being renewals. For the first half of 2012 the new take up was approximately 108,000 sqm with pre leases covering approximately 44%.

Vacancy rates have increased to around 15% with the 25,000 sqm TCI tower in the CBD accounting for the majority of the increase. The lowest level of vacancy was recorded in the Floreasca Barbu Vacarescu (FBV) area, closely followed by the CBD. There is a significant risk that should all announced projects in the FBV corridor materialise then there will be an oversupply which may lead to a subsequent reduction in rental levels.

Rental levels have remained static during the period though, because of the shortage of modern office supply in the CBD, mild rental growth may be seen in the second half of the year.

For 2012 the delivery pipeline is estimated below 100,000 sqm in already announced projects of which 37% is pre-let or owner occupied. Looking forward to 2013, supply is estimated at 130,000 sqm of which 34% is pre let.

Retail

The total shopping centre stock in Romania stands at 2.3 million sqm, with only 2 completions recorded in the first half of the year. During 2012 it is estimated that between 5 and 7 projects will be completed adding around 180,000 sqm to the current supply. Approximately 330,000 sqm of retail space is under completion and is expected to be delivered by the end of 2013.

Demand is slowly picking up as official statistics show that retail sales have started to increase. Food retailers continue to be very active on all fronts with Auchan and Cora (among hypermarkets), Mega Image and Carrefour Express (among supermarkets) and Lidl (among discounters) aggressively expanding their networks in Bucharest and in top regional cities. Fashion retailers are the next in line assessing expansion opportunities but because of the limited pipeline, they are currently focusing on existing schemes that have succeeded over the past couple of years to improve their tenants' mix and to increase footfall.

Report of the Manager continued

Prime shopping centre and high street rents have remained stable during the first half of the year but because of the high level of availability of high street units, a decline in rental levels in this sector of the market over the next 6-12 months would not be a surprise.

Capital market transactions continue to struggle with only a handful of transactions taking place during the first half of the year. Total volume was around €100 million and represented the lowest level since 2005. The major contributory factor appears to be the severely constrained debt markets and the fact that a significant portion of outstanding loans are set to re-gear by the end of the year. Prime yields have remained stable though with a general lack of transactions it is difficult to verify rates against open market transactions.

Bulgaria

Retail market

The most notable event in the first half of the year was the opening of 90% let, Galleria Burgas, a 35,000 GLA shopping mall which increased the modern shopping space in Bulgaria to 594,400 sqm. The GLA per 1,000 residents is 81 sqm, one of the lowest retail provisions in the EU.

Total shopping centre malls under construction represented 239,500 sqm, and four malls are expected to open during 2013, three of which are in Sofia. Occupancy in Sofia shopping centres is approximately 85%, down slightly from the end of 2011; occupancy in secondary cities is around 70%.

Rental levels have remained stable though there is some concern in the market that the additional supply will lead to further pressure on rental levels.

No commercial property transactions took place in Bulgaria in the first half of 2012.

Project Reviews

Cascade, Bucharest, Romania

The asset is currently 97% let and generating sufficient income to meet all of the requirements of its restructured bank debt. In restructuring the main loan to meet the final outstanding claim for a major sub-contractor the Company invested a further amount of loan funding along with the partner.

ERA Investments, Romania

Iasi

The existing shopping gallery is 97% let and the continuation of marketing activities have increased visitor numbers resulting in improved turnover by the tenants.

Construction of the new 28,000 sqm extension will be undertaken in two phases with phase one, 15,000 sqm is planned to be completed in the summer of 2013 with the second phase, 13,000 sqm in Spring 2014.

There is significant interest in the new, to be constructed, shopping centre with around 5,000 sqm under negotiation. The opening of the town centre Palas Shopping Centre has increased competition although the impact on Iasi, which is an out of town retail park, is limited.

Oradea

The construction of the new mall has been completed with the second phase fitting out of 16,000 sqm also completed. The remaining 4,000 sqm of fitting out in the third phase will be dependent upon tenants' requirements.

Report of the Manager continued

The letting to Mobexpert was delayed from the end of 2011 but has now been completed and the tenant is trading. The partner believes that this delay materially impacted upon the letting of the third phase. With the opening of the Mobexpert unit the strategically import furniture anchor to the Mall has been completed.

Mega Mall, Rousse, Bulgaria

Occupancy at the end of June 2012 was 59% of the GLA and subsequently a further 1,500 sqm has been let with an opening expected in October. This will take the total let space to almost 60% and should enable the operating expenses of the Mall to be met. The partner has undertaken a detailed review of operating costs which have resulted in a near 20% reduction in costs over a full trading year.

The supermarket operator has been replaced with the new tenant expected to open in mid October. The new tenant will operate on similar terms as the previous occupier.

Discussions are ongoing with the bank to restructure the loan to reflect the difficult trading conditions .

Galleria Plovdiv, Bulgaria

Total occupancy at the end of June remained stable at 62% of GLA but the poor trading conditions evident during the summer months resulted in a number of tenants seeking financial assistance by way of temporary rental concessions.

The operating company has appointed an independent retail leasing advisor to assist with leasing the mall and set a strategy for the forthcoming years. A short list of prospective tenants to take the occupied space closer to 75% by the year end has been identified.

The company is in detailed negotiations with the bank over restructuring the loan facility to enable all parties to realise the full capital value potential of the asset.

Bourgas Retail Park, Bulgaria

The project is currently on hold waiting for an improvement in both the retail and banking markets.

Sliven Mall, Bulgaria

The project is currently on hold waiting for an improvement in the retail and banking markets. The cash deposits have been diversified into three different banks to give greater protection

Asmita Gardens, Romania

An administrator has been appointed by the courts and the Manager is following the insolvency process carefully but it is not anticipated that there will be any repayment of shareholder loans.

DN1, Romania

The Manager and the bank are discussing the best way in which the land can be sold. It is unlikely that the shareholders will receive any repayment of its shareholder loans.

Charlemagne Capital (IOM) Limited

20 September 2012

Consolidated Income Statement

	Note	(Unaudited) Period from 1 January 2012 to 30 June 2012 €'000	(Unaudited) Period from 1 January 2011 to 30 June 2011 €'000
Net rent and related income		-	-
Annual management fees	6.3	(221)	(293)
Audit fees	7	(50)	(20)
Legal and professional fees		(36)	(42)
Directors' fees	12	(36)	(38)
Administration fees		(28)	(29)
Other operating expenses		(175)	(139)
Administrative expenses		(546)	(561)
Net operating loss before net financing income		(546)	(561)
Financial income		11	12
Financial expenses		-	-
Net financing income		11	12
Share of gain/(loss) of equity accounted investees	8	161	(104)
Loss before tax		(374)	(653)
Income tax expense		(3)	-
Retained loss for the year		**(377)**	**(653)**
Basic and diluted loss per share (€)	10	**(0.0041)**	**(0.0072)**

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 2012 to 30 June 2012 US$'000	(Unaudited) Period 1 January 2011 to 30 June 2011 US$'000
Loss for the period		(377)	(653)
Other comprehensive income			
Currency translation differences		10	-
Total comprehensive loss for the period		(367)	(653)

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

Consolidated Statement of Financial Position

	Note	(Unaudited) At 30 June 2012 €'000	(Audited) At 31 December 2011 €'000
Investment in equity accounted investees	8	22,782	22,083
Property, plant and equipment		1	1
Total non-current assets		**22,783**	**22,084**
Loans to third parties	6.4	322	313
Trade and other receivables		49	67
Cash and cash equivalents		4,376	5,461
Total current assets		**4,747**	**5,841**
Total assets		**27,530**	**27,925**
Issued share capital	9	72,412	72,412
Share premium		9,841	9,841
Foreign currency translation reserve		14	4
Retained losses		(54,948)	(54,571)
Total equity		**27,319**	**27,686**
Trade and other payables	11	211	239
Total current liabilities		**211**	**239**
Total liabilities		**211**	**239**
Total equity & liabilities		**27,530**	**27,925**

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 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**
Balance at 1 January 2011	72,412	9,841	4	(48,953)	33,304
Loss for the year	-	-	-	(5,618)	(5,618)
Other comprehensive loss					
Foreign exchange translation differences	-	-	-	-	-
Total comprehensive loss	-	-	-	(5,618)	(5,618)
Balance at 31 December 2011	**72,412**	**9,841**	**4**	**(54,571)**	**27,686**
Balance at 1 January 2012	72,412	9,841	4	(54,571)	27,686
Loss for the period	-	-	-	(377)	(377)
Other comprehensive loss					
Foreign exchange translation differences	-	-	10	-	10
Total comprehensive gain/(loss)	-	-	10	(377)	(367)
Balance at 30 June 2012	**72,412**	**9,841**	**14**	**(54,948)**	**27,319**

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

Consolidated Cash Flow Statement

	Note	(Unaudited) For the period from 1 January 2012 to 30 June 2012	(Unaudited) For the period from 1 January 2011 to 30 June 2011
		€'000	€'000
Operating activities			
Group loss for the year		(377)	(653)
Adjustments for:			
Financial income		(11)	(12)
Income tax expense		3	-
Uplift in value of third party loans			-
Share of (profit)/loss of equity accounted investees		(161)	104
Operating loss before changes in working capital		**(546)**	**(561)**
Decrease in trade and other receivables		18	6
(Decrease)/Increase in trade and other payables		(28)	1
Cash used in operations		**(556)**	**(554)**
Financial income received		11	12
Tax paid		(3)	-
Cash flows used from operating activities		**(548)**	**(542)**
Investing activities			
Increase in loans to equity accounted investees		(538)	(117)
Acquisition of equity accounted investees		-	(151)
Increase in loans to third parties		(9)	-
Currency Translation Difference		10	-
Cash flows used in investing activities		**(537)**	**(268)**
Financing activities			
Purchase of own shares	9	-	-
Cash flows used in financing activities		**-**	**-**
Net decrease in cash and cash equivalents		(1,085)	(810)
Cash and cash equivalents at beginning of period		5,461	7,025
Cash and cash equivalents at end of period		**4,376**	**6,215**

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%

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 2011.

The Interim report of the Company for the period ending 30 June 2012 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 2012 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 2011.

The consolidated financial statements of the Group as at and for the year ended 31 December 2011 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.

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

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 2012 (2011: 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 2012.

5 Unaudited Net Asset Value per Share

The unaudited net asset value per share as at 30 June 2012 is €0.3017 (31 December 2011: €0.3059) based on 90,515,470 (31 December 2011: 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.

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 2012.

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.

6.2 Directors of the Subsidiaries

Certain directors of the Manager have been appointed as directors of some of the subsidiaries. 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 2012 amounted to €220,993 (2011: €292,557).

Performance fees payable during the period ended 30 June 2012 amounted to € nil (2011: € nil).

6.4 Transactions and balances with Joint Venture companies and partners

The Company has loans to Joint Venture Companies totalling €44,184,101 (31 December 2011: €43,174,000) and to Joint Venture Partners totalling €5,773,120 (31 December 2011: €5,553,000). 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 2012 amounted to €50,481 (2011: €19,875).

Notes to the Consolidated Financial Statements continued

8 Investment in Equity Accounted Investments

Group	30 June 2012 €'000	31 December 2011 €'000
At beginning of period/year	22,083	26,370
Acquisition of equity accounted investment	-	278
loans to investments	538	34
Share of (loss)/gain of equity accounted investment	214	289
Increase in/(Write down of) value of equity accounted investment	(53)	(4,888)
Balance at end of year	22,782	22,083

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

Name	Term	Term	Interest Rate	30 June 2012 €'000
Asmita Gardens SRL	*	31 December 2012	6%	16,293
Galleria Plovdiv AD	*	*	0%**	10,000
Convergence Development				4,245
Cascade	*	*	***	4,510
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.

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

Name	Value at 30 June 2012 €'000	Value at 31 December 2011 €'000
Cascade Park Plaza SRL	14,499	14,015
Galleria Plovdiv AD	1,500	1,500
Trade Centre Sliven EAD	1,876	1,876
Turgovski Park Kraimorie AD	2,135	2,135
NEF3 (IOM) 1 Limited*	1,070	983
NEF3 (IOM) 2 Limited*	382	357
NEF3 (IOM) 3 Limited*	1,320	1,217
	22,782	22,083

* 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	37,725	(41,320)	2,413	(494)	40
Galleria Plovdiv AD	Bulgaria	67,019	(69,843)	791	(2,667)	40
Mega Mall Rousse AD	Bulgaria	27,147	(24,547)	325	(597)	50
Trade Centre Sliven EAD	Bulgaria	5,910	(6)	37	28	42.5
Turgovski Park Kraimorie AD	Bulgaria	4,100	(13,168)	-	-	60
NEF3 (IOM) 1 Limited *	Isle of Man	2,947	281	285	215	55
NEF3 (IOM) 2 Limited	Isle of Man	2,695	189	251	165	55
NEF3 (IOM) 3 Limited	Isle of Man	3,456	190	356	257	55

***The results and balances for NEF(IOM) 1 Ltd shown above only include amounts in respect of those investments which ECDC has an interest in.**

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

	2012 Number	2012 €'000
Ordinary Shares of €0.80 each		
In issue at 01 January 2012	90,515,470	72,412
Shares cancelled during the year	-	-
In issue at 30 June 2012	90,515,470	72,412

	2011 Number	2011 €'000
Ordinary Shares of €0.80 each		
In issue at 1 January 2011	90,515,470	72,412
Issued/cancelled during the year	-	-
In issue at 31 December 2011	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 2011 and 2012.

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.

	2012	2011
Loss attributable to equity holders of the Company (€'000)	(390)	(653)
Weighted average number of ordinary shares in issue (thousands)	90,515	90,515
Basic and diluted loss per share (Euro cent per share)	(0.43)	(0.72)

11 Trade and Other Payables

Group	30 June 2012 €'000	31 December 2011 €'000
Withholding tax	4	4
Trade creditors	78	52
Accruals	129	183
Total	211	239

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 2012 amounted to €36,000 (2011: €38,415).

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.