**EUROPEAN CONVERGENCE PROPERTY COMPANY PLC**

**Consolidated Annual Report**

Period from 1 June 2005 (date of incorporation) to 30 June 2006

*ISIN No. GB00B0B7ZC68*

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# Management and Administration

| | |
|---|---|
| **Directors** | Erwin Brunner (Non-executive Chairman) *<br>James C. Rosapepe (Non-executive Director) *<br>Donald C. McCrickard (Non-executive Director) *<br>Anderson A. Whamond (Non-executive Director)<br>all of the registered office below<br>* independent |
| **Registered Office** | Jubilee Buildings<br>Victoria Street<br>Douglas<br>Isle of Man IM1 2SH<br>British Isles |
| **Manager** | Charlemagne Capital (IOM) Limited<br>Regent House, 16-18 Ridgeway Street<br>Douglas<br>Isle of Man IM1 1EN<br>British Isles |
| **Nominated Adviser and Broker** | Panmure Gordon & Co<br>Moorgate Hall<br>155 Moorgate<br>London EC2M 6XB<br>United Kingdom |
| **Cash Custodian** | Anglo Irish Bank Corporation (I.O.M.) P.L.C.<br>Jubilee Buildings<br>Victoria Street<br>Douglas<br>Isle of Man IM1 2SH<br>British Isles |
| **Administrator and Registrar** | Anglo Irish Fund Services Limited<br>Jubilee Buildings<br>Victoria Street<br>Douglas<br>Isle of Man IM1 2SH<br>British Isles |
| **Placing Agent** | Charlemagne Capital (UK) Limited<br>39 St James's Street<br>London SW1A 1JD<br>United Kingdom |
| **Auditors** | KPMG Audit LLC<br>Heritage Court<br>41 Athol Street<br>Douglas<br>Isle of Man IM99 1HN<br>British Isles |

# Management and Administration continued

**Subsidiaries**

European Convergence Property Company
Bulgaria EOOD
37 Fridtjof Nansen Street
Sredets Region
Sofia 1142
Bulgaria

European Convergence Property Company
(Cayman) Limited
PO Box 309GT, Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

ECPC (Cyprus) Limited
27 Pindarou Street, 2/F
Alpha Business Centre
PC 1060
Nicosia
Cyprus

European Convergence Property Company
(Malta) Limited
48 Sqaq Nr 2
Triq ix-Xatt
Pieta MSD08
Malta

European Convergence Property Com SRL
Calea Serban Voda No. 133
Building A, Ground Floor, Room No. 3
Sector 4
Bucharest
Romania

European Property Development Invest SRL
Calea Serban Voda No. 133
Building A, Ground Floor, Room No. 7
Sector 4
Bucharest
Romania

European Property Millenium SRL
18 Calea Dorobantilor, First Floor, Room 2
Section 1
Bucharest
Romania

# Management and Administration continued

**Subsidiaries continued**

Orange Convergence Finance BV
Atrium
7th Floor, Strawinskylaan 3105
1077 ZX
Amsterdam
The Netherlands

European Convergence Property Company
Real Estate Trading and Management Limited
Talatpasa Bulvari N:51
D.4 Alsancak
Izmir
Turkey

S.C. Paris Developments SRL
38 Stefan Iulian Street, 2nd basement
District 1
Bucharest
Romania

# Chairman's Statement

This annual report represents European Convergence Property Company plc's (the "Company" or the "Group") first thirteen months of investment activity since the incorporation and successful listing of the Company on the London Stock Exchange's Alternative Investment Market (AIM) in June 2005.

The launch raised €62m of inward investment into the Company and during the past year we have been very active in the commercial property markets of South East Europe.

The anticipated accession of Bulgaria and Romania into the European Union has attracted a lot of investment interest into the area and capital appreciation has been strong, with a corresponding compression of rental yields, so making the investment process more challenging.

As at the date of this report we are pleased to confirm that the Company has substantially achieved its original investment strategy with investments or contractual commitments being made on properties to the value of €112m. This reflects the Company's stated strategy of increasing returns on equity through long term borrowing to leverage its investment portfolio.

In addition to those investments already committed to, the Company has a number of high quality property targets which should see the successful completion of its investment programme over the coming financial year.

The Company made a loss in the reporting period of €0.326m, reflecting its initial investment phase and associated set up costs, and consequently the Board will not be declaring a dividend at this stage. The objective of the Company remains, however, to provide enhanced returns to its shareholders both through sustained growth of its net assets per share and through profit distribution.

**Erwin Brunner**
Chairman

28 September 2006

# Report of the Manager

Since launch the Manager has been actively pursuing grade A / B+ investment properties throughout South East Europe. As a result we have successfully extended our network of contacts in the region allowing us to target both established properties and also participate in the launch of larger commercial properties.

Although the market yields in the region have been somewhat compressed due to the capital appreciation caused by a steady flow of foreign investment in the property market, interest still remains strong and the property market remains buoyant.

**Property Portfolio**

*Completed Acquisitions*
PGV Tower, an office building in central Bucharest, was purchased in February 2006 at a price of €24.0 million. It is currently the head office of Bancpost SA, a Romanian subsidiary of the EFG banking group. It has a net lettable area of 9,989 sqm, 93% of which is let to members of the EFG Group.

*Committed Acquisitions*
Mall Veliko Turnovo (MVT), is a new shopping centre located in Veliko Turnovo, one of the largest cities in Bulgaria, situated in the central northern region of the country. Full completion is expected during October 2006. The completion price will be c. €29m. The site comprises a gross area of 33,000 sqm, which includes 16,000 sqm of retail floor area. It is the first major modern shopping centre in the city and has pre-let 90% of its lettable area to a mixture of local business and large well known brands. The mall was officially opened on the 15 September 2006.

Construdava, a newly constructed office building in Bucharest with a gross lettable area of 9,200 sqm has been developed by one of Romania's leading property developers, Impact SA. It is situated in Pipera, a predominantly upmarket residential area of northern Bucharest. Completion is expected during October at a price of c. €19.0 million.

Millennium Business Centre, an office building in its final stages of construction. The building is in central Bucharest and its 19 floors make it a new landmark for the city. It has a gross lettable area of 14,310 sqm and the final consideration will be dependent on full leasing, however the estimated purchase price is c. €40 million. Completion is expected in November 2006.

**Investment Market Overview**

*Office Market:*
The yield compression experienced in the South Eastern European property investment market during 2005 has continued into 2006 although at a slower rate. Through 2005 this was most notable in Bucharest where yields were estimated to have compressed by 200 bhp through the year from just over 10% to just over 8%. By mid 2006 prime Grade A office yields are being benchmarked at c.7.5% and are expected to approach 7% by the end of 2006 beginning 2007.

The picture is similar for Sofia and the rest of Bulgaria as the weight of money initially attracted to the Romanian market has sought out alternative opportunities amongst its neighbours. Benchmarking the Sofia market is less transparent due to the comparative scarcity of institutional grade investment properties however, grade A developments are now being valued at around 8%.

*Retail Market:*
The retail shopping centre market has mostly been characterised by transactions which have completed in the Romanian provinces, the opening of Bulgaria's first two modern shopping facilities and the number of retail projects which seem to be entering the development pipeline in Bulgaria's secondary cities with expected yields in the 7.5-8% range.

The overall property market will be increasingly developer led. The shortage of available sites in both Sofia and Bucharest's central city districts is driving new development further to the north in Bucharest and further to the east in Sofia. Not surprisingly, given the acceleration of yield compression for the provinces in both markets, developer's attention is orientating more towards the principle secondary cities of both markets. There is currently a notable increase in the number of new mall development projects being discussed for Bulgaria which will have a considerable impact on the availability of investment properties of the next two to three years.

# Report of the Manager continued

*Turkey:*

The office market is dominated by high vendor price expectations against a background of often fragmented property ownership and lower than desired building specifications in addition to dollar based cashflows and correspondingly higher than Euro based borrowing rates. The retail market has seen a scarcity of available transactions of a size which would fit with the Company's target portfolio. As a consequence the Manager has been unable to source any suitable investment opportunities.

**Debt Market Overview**

In both the Romanian and Bulgarian property investment markets certain key banks provide competitive rates for investment product debt funding for the Class A to B+ segments. The differential in rates is greater in Sofia, perhaps pointing to the higher sophistication that characterises the Bucharest property market

Despite the above, concerns remain over the general prognosis for Euro rates over the coming year and the impact they may have on the Company’s running yield forecasts, although it is expected that any increases in Euro based rates will be partly offset by compression of lending spreads.

**Outlook**

The economic outlook for the region remains buoyant, with growth rates in excess of European Union averages, and while this is encouraging more investment and further compressing yields we are activity seeking to complete our investment programme in the coming financial year.

The current pipeline, although not extensive, is robust in the quality of the assets and would satisfy the requirements for full roll out of the investment programme.

**Charlemagne Capital (IOM) Limited**

Manager

28 September 2006

# Report of the Directors

The Directors hereby submit their annual report together with the audited consolidated financial statements of European Convergence Property Company plc (the "Company") for the financial period ended 30 June 2006.

**The Company**
The Company is incorporated in the Isle of Man and has been 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 period end is set out on pages 10 to 12 of the financial statements.

The Directors anticipate that in respect of any 12 month accounting period (in this instance a 13 month accounting period) they will recommend the payment as a dividend of substantially all of the Company's net profits (excluding profits arising from unrealised gains). The Directors do not intend to declare a dividend at this time.

**Directors**
The Directors during the period and up to the date of this Report were:

| | Appointed | Resigned |
|---|---|---|
| Erwin Brunner | 03/06/2005 | |
| James C. Rosapepe | 03/06/2005 | |
| Donald C. McCrickard | 01/06/2005 | |
| Anderson A. Whamond | 01/06/2005 | |
| Richard J. Bolton | 01/06/2005 | 03/06/2005 |

**Directors' and Other Interests**
Anderson Whamond is managing director of the Manager and a director and shareholder of Charlemagne Capital Limited, the parent of the Manager and Placing Agent. Charlemagne Capital (Barbados) Limited (a subsidiary of Charlemagne Capital Limited), holds 745,478 shares in the Company. None of the other directors have a direct or indirect interest of the shares in the Company.

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

**Independent Auditors**
KPMG Audit LLC Isle of Man have expressed a willingness to continue in office in accordance with Section 12 (2) of the Companies Act,1982.

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

*Board of Directors*

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

The Board meets regularly and is provided with relevant information on financial, business and corporate matters prior to meetings.

# Report of the Directors continued

*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.

**Statement of Directors' Responsibilities in respect of the Directors' Report and the Financial Statements**

The Directors are responsible for preparing the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year, which meet the requirements of Isle of Man company law. 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 by law 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 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, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and to enable them to ensure that the financial statements comply with the Isle of Man Companies Acts 1931 to 2004. 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.

By Order of the Board
**Erwin Brunner**
Chairman

28 September 2006

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

We have audited the group and parent company financial statements (the "financial statements”) of European Convergence Property Company plc for the period ended 30 June 2006 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the Consolidated Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company’s members, as a body, in accordance with section 15 of the Companies Act 1982. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of Directors and Auditors**

As described in the Statement of Directors’ Responsibilities on page 8 the Company’s Directors are responsible for the preparation of the financial statements in accordance with applicable Isle of Man company law and International Financial Reporting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with Isle of Man Companies Acts 1931 to 2004. We also report to you whether in our opinion the information given in the Directors’ Report is consistent with the financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors’ transactions with the Company is not disclosed. We read the Directors’ Report and any other information accompanying the financial statements and consider the implications for our report if we become aware of any apparent misstatements or inconsistencies within it.

**Basis of opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the UK Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group’s and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with applicable Isle of Man company law and International Financial Reporting Standards, of the state of the Group’s and Parent Company’s affairs as at 30 June 2006 and of the Group’s loss for the period then ended;
- the financial statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004; and
- the information given in the Directors’ Report is consistent with the financial statements.

KPMG Audit LLC

**KPMG Audit LLC, Isle of Man**
Chartered Accountants 28 September 2006

# Consolidated Income Statement

| | Note | For the period from 1 June 2005 (date of incorporation) to 30 June 2006 €'000 |
|---|---|---|
| **Net rent and related income** | 5 | **913** |
| Manager's fees | 8.3 | (865) |
| Audit and professional fees | 9.6 | (345) |
| Other expenses | 9 | (899) |
| **Administrative expenses** | | **(2,109)** |
| **Net operating loss before net financing income** | | **(1,196)** |
| Financial income | 6 | 1,286 |
| Financial expenses | 6 | (388) |
| **Net financing income** | | **898** |
| **Loss before tax** | | (298) |
| Income tax expense | 19 | (28) |
| **Retained loss for the period** | | **(326)** |
| **Basic and diluted loss per share (€)** | 14 | **(0.0052)** |

The accompanying notes on pages 15 to 25 form an integral part of these consolidated financial statements

# Consolidated Balance Sheet

| | Note | At 30 June 2006 €'000 |
|---|---|---|
| Investment property | 10 | 24,522 |
| **Total non-current assets** | | **24,522** |
| Trade and other receivables | 11 | 6,181 |
| Cash and cash equivalents | 12 | 43,572 |
| **Total current assets** | | **49,753** |
| **Total assets** | | **74,275** |
| Issued share capital | 13 | 62,696 |
| Retained losses | | (3,213) |
| Foreign currency translation reserve | | (122) |
| **Total equity** | | **59,361** |
| Interest-bearing loans and borrowings | 15 | 13,750 |
| **Total non-current liabilities** | | **13,750** |
| Trade and other payables | 16 | 1,164 |
| **Total current liabilities** | | **1,164** |
| **Total liabilities** | | **14,914** |
| **Total equity & liabilities** | | **74,275** |

Approved by the Board of Directors on 28 September 2006.

**Director**

**Director**

The accompanying notes on pages 15 to 25 form an integral part of these consolidated financial statements

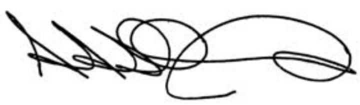
# Company Balance Sheet

| | Note | At 30 June 2006 €'000 |
|---|---|---|
| Investment in subsidiaries | 2 | - |
| Total non-current assets | | - |
| Intragroup balances | | 21,190 |
| Trade and other receivables | | 41 |
| Cash and cash equivalents | 12 | 39,577 |
| **Total current assets** | | **60,808** |
| **Total assets** | | **60,808** |
| Issued share capital | 13 | 62,696 |
| Retained losses | | (1,969) |
| **Total equity** | | **60,727** |
| Interest-bearing loans and borrowings | | - |
| Total non-current liabilities | | - |
| Trade and other payables | 16 | 81 |
| **Total current liabilities** | | **81** |
| **Total liabilities** | | **81** |
| **Total equity & liabilities** | | **60,808** |

The profit earned by the Company for the period ended 30 June 2006 was €917,698.

Approved by the Board of Directors on 28 September 2006.

**Director**



**Director**

# Consolidated Statement of Changes in Equity

| | Share capital | Retained earnings | Foreign currency translation reserve | Total |
|---|---|---|---|---|
| | €'000 | €'000 | €'000 | €'000 |
| Balance at beginning of period | - | - | - | - |
| Shares issued in the period | 62,696 | - | - | 62,696 |
| Foreign exchange translation differences | - | | (122) | (122) |
| Share issue expenses | - | (2,887) | - | (2,887) |
| Retained loss for the period | - | (326) | - | (326) |
| **Balance at end of period** | **62,696** | **(3,213)** | **(122)** | **59,361** |

The accompanying notes on pages 15 to 25 form an integral part of these consolidated financial statements

# Consolidated Cash Flow Statement

| | Note | For the period from 1June 2005 (date of incorporation) to 30 June 2006<br>€'000 |
|---|---|---|
| **Operating activities** | | |
| Group loss for the period | | (326) |
| Adjustments for: | | |
| Investment income | | (1,286) |
| Investment expense | | 388 |
| Income tax expense | | 28 |
| **Operating loss before changes in working capital** | | **(1,196)** |
| (Increase)/Decrease in trade and other receivables | | (140) |
| Increase/(Decrease) in trade and other payables | | 302 |
| **Cash used in operations** | | **(1,034)** |
| Interest paid | | (388) |
| Income and corporation tax paid | | (104) |
| Interest received | | 1,286 |
| **Cash flows used in operating activities** | | **(240)** |
| **Investing activities** | | |
| Acquisition of subsidiaries net of cash acquired | 21 | (7,874) |
| Repayment of loan acquired on acquisition | | (2,173) |
| Staged payments relating to property acquisitions | | (5,900) |
| **Cash flows used in investing activities** | | **(15,947)** |
| **Financing activities** | | |
| Proceeds from the issue of ordinary share capital | | 62,696 |
| Repayment of long term loans | | (50) |
| Share issue expenses | | (2,887) |
| **Cash flows generated from financing activities** | | **59,759** |
| Net increase in cash and cash equivalents | | 43,572 |
| Cash and cash equivalents at 1 June 2005 | | **-** |
| **Cash and cash equivalents at 30 June 2006** | 12 | **43,572** |

The accompanying notes on pages 15 to 25 form an integral part of these consolidated financial statements

# Notes to the Consolidated Financial Statements

**1 The Company**

European Convergence Property Company plc (the "Company") was incorporated and registered in the Isle of Man under the Isle of Man Companies Acts 1931 to 2004 on 1 June 2005 as a public company with registered number 113616C.

Pursuant to a prospectus dated 15 June 2005 there was an original placing of up to 100,000,000 Ordinary Shares. Following the close of the placing on 24 June 2005 62,696,333 Shares were issued.

The Shares of the Company were admitted to trading on the Alternative Investment Market of the London Stock Exchange ("AIM") on 28 June 2005 when dealings also commenced.

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 7 years.

At the annual general meeting of the Company to be held in 2012, the Directors are obligated to propose an ordinary resolution that the Company ceases to continue in existence. If the resolution is not passed then it shall be proposed at every fifth annual general meeting thereafter. If the resolution is passed then the Directors shall, within 3 months after the date of the resolution, put forward proposals to shareholders to the effect that the Company be wound up, liquidated, reorganised or unitised.

*Dividend Policy*

The Directors anticipate that in respect of any 12 month accounting period they will recommend the payment as a dividend of substantially all of the Company's net profits (excluding profits arising from unrealised gains). 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 be required to re-invest some of the Company's profits into the maintenance of the Company's property portfolio. Debt amortisation payments may cause actual dividends to be less than net profits.

*Property Valuation Policy*

The Directors are in the process of appointing an internationally recognised firm of surveyors as property valuers for properties in Romania. It is the Directors' intention that approximately half of the Company's property portfolio will receive a valuation from the Company's appointed property valuer in each annual financial period.

*Financial Year End*

The financial year end of the Company is 30 June in each year. For the financial period ending 30 June 2006 the Company will present financial statements covering a 13 month period since incorporation.

# Notes to the Consolidated Financial Statements continued

## 2 The Subsidiaries

During the period and for efficient portfolio management purposes, the Company established the following subsidiary companies:-

| | Country of incorporation | Percentage of shares held |
|---|---|---|
| European Convergence Property Company Bulgaria EOOD | Bulgaria | 100% |
| European Convergence Property Company (Cayman) Limited | Cayman Islands | 100% |
| ECPC Cyprus Limited | Cyprus | 100% |
| European Convergence Property Company (Malta) Limited | Malta | 100% |
| European Convergence Property Com. SRL | Romania | 100% |
| European Property Development Invest S.R.L. | Romania | 100% |
| Orange Convergence Finance BV | The Netherlands | 100% |
| European Property Millenium SRL | Romania | 100% |
| European Convergence Property Real Estate Trading and Management Limited | Turkey | 100% |
| S.C. Paris Developments SRL | Romania | 100% |

## 3 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 period ended 30 June 2006 comprises the Company and its subsidiaries (together referred to as the "Group").

The annual report was compiled by the Administrator and Registrar and authorised for issue by the Directors on 28 September 2006.

### 3.1 Basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board ("IFRS"). Management has concluded that the report fairly represents the entity's financial position, financial performance and cash flows.

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

### 3.2 Foreign currency translation

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.

### 3.3 Investment property

Investment properties are those which are held either to earn rental income or for capital appreciation or both. Investment properties are stated at fair value. Any gain or loss arising from a change in fair value is recognised in the income statement.

### 3.4 Deposit interest

Deposit interest is accounted for on an accruals basis.

### 3.5 Cash and cash equivalents

Cash and cash equivalents comprise cash deposited with banks and bank overdrafts repayable on demand.

# Notes to the Consolidated Financial Statements continued

**3.6 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.

**3.7 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.

*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.

**3.8 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 2006.

**3.9 Other receivables**

Trade and other receivables are stated at their cost.

**3.10 Trade and other payables**

Trade and other payables are stated at their cost.

**3.11 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.

# Notes to the Consolidated Financial Statements continued

### 4 Segment Reporting

Segment information is presented in respect of the Group's business and geographical segments. The segments are managed on a worldwide basis, but operate in two principal geographical areas, Bulgaria and Romania. The location of the customers is the same as the location of the assets.

| | Bulgaria €'000 | Romania €'000 | Unallocated €'000 | Total €'000 |
|---|---|---|---|---|
| Net rent and associated income | - | 913 | - | 913 |
| Segment results | (80) | 232 | (478) | (326) |
| Segment assets | 3,155 | 28,424 | 42,696 | 74,275 |
| Segment liabilities | (5) | (14,517) | (392) | (14,914) |

There has been one property acquisition completed during the period for an office building in Romania.

### 5 Net Rent and Related Income

| | 2006 €'000 |
|---|---|
| Gross lease payments collected/accrued | 913 |

The group leases out its investment property under operating leases. The future minimum lease payments under non-cancellable leases are as follows:

| | €'000 |
|---|---|
| Less than one year | - |
| Between one and five years | 2,138 |
| More than five years | 133 |
| | 2,271 |

The Group has raised specific provisions for doubtful debts of €70,884 against rental income due from two tenants.

### 6 Net Financing Income

| | 2006 €'000 |
|---|---|
| Interest income | 1,286 |
| Financial income | 1,286 |
| Gross interest expense | (287) |
| Bank facility fee | (90) |
| Bank charges | (11) |
| Financial expenses | (388) |
| Net financing income | 898 |

### 7 Net Asset Value per Share

The net asset value per share as at 30 June 2006 is €0.9468 based on 62,696,333 ordinary shares in issue as at that date.

# Notes to the Consolidated Financial Statements continued

## 8 Related Party Transactions

### 8.1 Directors of the Company

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

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

### 8.2 Directors of the Subsidiaries

James Houghton is a director of the Manager. Adrian Jones is an employee of the Placing Agent. Malcolm Sargeant is an employee 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.

### 8.3 Manager fees

*Annual fees*

The Manager is entitled to an annual management fee of 1.25% of the net asset value of the Company from time to time plus borrowings of the group, 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 period ended 30 June 2006 amounted to €865,120.

*Performance fees*

The Manager is entitled to a performance fee equal to 15% of the total profits generated by the Company. In order for the performance fee to be payable, the Company must firstly have returned to its Shareholders an amount equal to the amount subscribed pursuant to the Placing (ignoring any initial charge paid by Shareholders). Thereafter the Manager shall be entitled to 15% of any further distributions of profit or capital. In determining amounts paid to Shareholders and the amount payable to the Manager pursuant to the performance fee full account will be taken of any dividends paid, other distributions made and distributions made on a winding up of the Company.

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

Performance fees payable during the period ended 30 June 2006 amounted to € Nil.

### 8.4 Placing agent

In accordance with the terms of the Placing, the Placing Agent was entitled to charge investors an initial charge of up to 3% of the value of their investment. The Placing Agent was also entitled to receive from the Company an amount equal to 4% of the amount raised by the Placing Agent on behalf of the Company.

Placing fees payable by the Company during the period ending 30 June 2006 amounted to €2,507,853. This amount has been charged to equity as a share issue expense.

# Notes to the Consolidated Financial Statements continued

## 9 Charges and Fees

### 9.1 Nominated Adviser and Broker fees

Pursuant to the Placing and in its capacity as AIM Sponsor, the Nominated Adviser and Broker was entitled to receive a fee of £75,000. The payment of this fee was conditional upon admission of the Company's Shares to AIM taking place on or before 28 June 2005 or such later date as may have been agreed.

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 £30,000.

Advisory fees payable to the Nominated Advisor and Broker for the period ending 30 June 2006 amounted to €180,575.

### 9.2 Custodian fees

The Custodian is entitled to receive fees calculated as 1 basis point per annum of the value of the debt securities held on behalf of the Company, subject to a minimum monthly fee of €500, payable quarterly in arrears.

The Custodian expects to review and, subject to written agreement between the Company and the Custodian, may amend the foregoing fees six months after Admission and annually thereafter.

Custodian fees payable for the period ending 30 June 2006 amounted to €7,638.

### 9.3 Administrator and Registrar fees

The Administrator is entitled to receive a fee of 4 basis points of the net assets of the Company plus borrowings, subject to a minimum monthly fee of €5,000, 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 €2,500 per set.

The Administrator shall provide general secretarial services to the Company for which it shall receive a minimum annual fee of €7,500. 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 €500 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 £6,000 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 Admission and annually thereafter.

Administration fees payable for the period ending 30 June 2006 amounted to €76,375.

### 9.4 Other operating expenses

It is anticipated that the costs of managing any properties in the Company's investment portfolio will be satisfied out of the service charges generated by tenants. However, to the extent that this is not the case, all such costs, to include the costs of all other third party service providers, shall be chargeable to and payable by the Company.

The costs associated with maintaining the Company's subsidiaries, to include the costs of incorporation and third party service providers shall be chargeable to each subsidiary and payable by the Company.

# Notes to the Consolidated Financial Statements continued

### 9.5 Preliminary (formation) expenses

The estimated total costs and expenses payable by the Company in connection with the Placing and Admission (including professional fees, the costs of printing and the other fees payable including commission payable to the Placing Agent) was approximated to equal 4.5% of the gross amount raised. The actual total amount of preliminary expenses paid was €2,886,625 representing 4.60% of the gross amount raised.

### 9.6 Audit fees

Audit fees payable for the period ending 30 June 2006 amounted to €82,838.

### 10 Investment Property

| | Group<br>€'000 |
|---|---|
| At beginning of period | - |
| Additions through: | |
| direct acquisitions of property | - |
| acquisition of subsidiary companies (see note 21) | 24,522 |
| **Balance at 30 June 2006** | **24,522** |

*Security*

At 30 June 2006, there was a first rank mortgage on the above property securing the bank loan of €13.75 million (see note 15).

### 11 Trade and Other Receivables

Trade and other receivables includes two contractual staged payments of €2.9 million for Mall Veliko Turnovo and €3.0 million for the Construdava Office Centre (see note 22).

### 12 Cash and Cash Equivalents

| | Group<br>30 June 2006<br>€'000 | Company<br>30 June 2006<br>€'000 |
|---|---|---|
| Bank balances | 43,572 | 39,577 |
| Bank overdrafts | - | - |
| **Cash and cash equivalents** | **43,572** | **39,577** |

### 13 Capital and Reserves

*Share capital*

| Ordinary Shares of €1.00 each | Number | €'000 |
|---|---|---|
| In issue at the start of the period | - | - |
| Issued during the period | 62,696,333 | 62,696 |
| **In issue at 30 June 2006** | **62,696,333** | **62,696** |

At incorporation the authorised share capital of the Company was €300 million divided into 300 million Ordinary Shares of €1.00 each.

# Notes to the Consolidated Financial Statements continued

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

### 14 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 number of ordinary shares in issue during the period.

| | 2006 |
|---|---|
| Loss attributable to equity holders of the Company (€'000) | 326 |
| Number of ordinary shares in issue (thousands) | 62,696 |
| **Basic and diluted loss per share (€ per share)** | **0.0052** |

### 15 Interest-Bearing Loans and Borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and currency risk see note 20.

*Non-current liabilities*

| | Group 30 June 2006 €'000 |
|---|---|
| **Secured bank loans** | **13,750** |

*Terms and debt repayment schedule*
The Group has obtained a loan of €13.75 million from Bancpost SA in Romania (see note 10). As at 30 June 2006 the effective interest rate was 5.156%. The final maturity date is September 2009.

### 16 Trade and Other Payables

| | Group 30 June 2006 €'000 | Company 30 June 2006 €'000 |
|---|---|---|
| Taxation | 7 | - |
| Trade payables | 26 | - |
| Rental deposits | 459 | - |
| Accruals | 645 | 81 |
| Other | 27 | - |
| **Total** | **1,164** | **81** |

### 17 Exchange Rates

The following exchange rates were used to translate assets and liabilities into the reporting currency at 30 June 2006:

| | |
|---|---|
| Bulgarian Lev | 1.9710 |
| Romanian Lei | 3.6027 |
| Turkish Lira | 2.0259 |

# Notes to the Consolidated Financial Statements continued

## 18 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 2006 amounted to €97,500.

*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.

## 19 Taxation

The income tax expense of €28,131 in the consolidated income statement relates to a profit before tax of €327,828 in S.C. Paris Developments SRL in Romania. The outstanding tax liability as at 30 June 2006 for this company was €6,657. There are no other group companies with taxable profits during the period.

*Isle of Man*
The Company has received confirmation of tax exempt status from the Assessor of Income Tax in the Isle of Man for the year of assessment ending 5 April 2006. The effect of tax exempt status is that the Company will have no liability to Manx income tax on its income or gains and that there will be no requirement to deduct withholding tax from payments of dividends to shareholders. The current annual fee for tax exempt status is £475. With effect from 6 April 2006 the general tax rate for companies in the Isle of Man is zero per cent. As such the Company does not intend to renew its tax exempt status for the 2006/07 year of assessment.

There are no corporation, 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.

*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 were incorporated.

## 20 Financial Instruments

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

# Notes to the Consolidated Financial Statements continued

*Market risk*

Property and property related assets are inherently difficult to value due to the individual nature of each property. As a result, valuations may be subject to substantial uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where such sales occur shortly after the valuation date. The performance of the Company would be adversely affected by a downturn in the property market in terms of higher capitalisation rates/yields or a weakening of rent levels. Any future property market recession could materially adversely affect the value of properties.

*Foreign exchange risk*

The Company's operations are conducted in jurisdictions which generate revenue, expenses, assets and liabilities in currencies other than Euros. As a result, the Company is subject to the effects of exchange rate fluctuations with respect to these currencies. The currencies giving rise to this risk are primarily Romanian Lei, Bulgarian Lev and Turkish Lira.

| | Net Assets<br>€ 000s |
|---|---:|
| Romanian Lei | 27,539 |
| Bulgarian Lev | 2,895 |
| Euro | 28,927 |
| **Total** | **59,361** |

*Price risk*

The Group is exposed to property price and market rental risks. The value of the property held at 30 June 2006 is disclosed in note 10.

*Credit risk*

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. Management does not expect any counterparty to fail to meet its obligations.

*Liquidity risk*

The Company maintains sufficient cash balances for working capital, and obtains secured bank loans to fund purchases of investment property.

*Interest rate risk*

The Company is exposed to risks associated with the effects of fluctuations in prevailing market interest rates on its cash balances and borrowings. Cash is invested at short-term market interest rates. The terms of the borrowings are disclosed in note 15.

*Fair values*

All assets and liabilities at 30 June 2006 are considered to be stated at fair value.

**21 Business Combinations**

During the period the Group acquired 100% of S.C. Paris Developments S.R.L. in relation to its investment in PGV Tower, Bucharest. The subsidiary acquired contributed a profit of €299,697 to the consolidated results for the period.

# Notes to the Consolidated Financial Statements continued

The assets and liabilities arising from this acquisition are as follows:

| | Fair value €'000 |
|---|---:|
| Investment property | 24,522 |
| Cash and cash equivalents | 426 |
| Interest bearing loans | (13,800) |
| Net current liabilities | (2,406) |
| Long term liabilities – rental deposits | (442) |
| **Net assets acquired** | **8,300** |
| Purchase consideration, settled in cash | 8,300 |
| Cash and cash equivalents in subsidiary acquired | (426) |
| **Cash outflow on acquisition** | **7,874** |

**22 Commitments as at the Balance Sheet Date**

Prior to the balance sheet date, and in addition to the completed property acquisition, the Group had entered into sales purchase agreements for two further properties; Mall Veliko Turnovo in Bulgaria and Construdava in Romania. The Group has made staged payments of €2.9 million and €3.0 million respectively (see note 11), with remaining contractual commitments as at the balance sheet date of c. €26.1 million relating to Mall Veliko Turnovo and c. €16.0 million for Contrudava. These acquisitions are both expected to be completed during October 2006.

**23 Post Balance Sheet Events**

*Millennium Business Centre*

On 27 July 2006 the Company announced its commitment to acquire the Millennium Business Centre, in Bucharest ("Millennium"). A city centre grade A office development, the Millennium purchase is subject to construction completion which is expected to be in November 2006. The gross floor area of the property is 21,386 sqm accommodating 13,189 sqm of rentable area with a purchase price of €40 million. The transaction is also subject to the developer achieving a minimum 38% leasing which was very soon secured after execution – total leasing currently stands at over 90% with the World Bank being the property's principle anchor.

# EUROPEAN CONVERGENCE PROPERTY COMPANY PLC

(*Incorporated in the Isle of Man)*

## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE** is hereby given that the Annual General Meeting of the above named Company will be held at the offices of Anglo Irish Fund Services Limited, Jubilee Buildings, Victoria Street, Douglas, Isle of Man IM1 2SH, British Isles on Monday 6 November 2006 at 10:00 a.m. to transact the following business:

1. To receive and consider the Report of the Investment Manager, Report of the Directors, Auditors' Report and the Audited Consolidated Financial Statements of the Company for the period to 30 June 2006.

2. To re-appoint KPMG Audit LLC Isle of Man as Auditors of the Company for the year to 30 June 2007.

By Order of the Board
Anglo Irish Fund Services Limited
Secretary

Date: 6 October 2006

*Registered Office*
Jubilee Buildings
Victoria Street
Douglas
Isle of Man IM1 2SH
British Isles

**NOTES:**

1 A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, to vote instead of him; a proxy need not be a member of the Company. In the case of joint holders, if more than one of such joint holder is present, only the person whose name stands first in the Register of Members in respect of the relevant joint holding will be entitled to vote, whether in person or by proxy.

2 A form of proxy accompanies this Notice. Completion and return of the form of proxy will not preclude a member from attending and voting at the Meeting if he so wishes. In the event that a member who has lodged a form of proxy attends the Meeting, his form of proxy will be deemed to have been revoked.

3 In order to be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, should be deposited at Anglo Irish Fund Services Limited, Jubilee Buildings, Victoria Street, Douglas, Isle of Man IM1 2SH, British Isles (Attn: Ian Dungate) Fax: 44 1624 698001 no later than two days before the date appointed for holding the meeting.

# EUROPEAN CONVERGENCE PROPERTY COMPANY PLC

(*Incorporated in the Isle of Man)*

## FORM OF PROXY

To be used for the Annual General Meeting of the above named company to be held at the offices of Anglo Irish Fund Services Limited, Jubilee Buildings, Victoria Street, Douglas, Isle of Man IM1 2SH, British Isles on Monday 6 November 2006 at 10:00 a.m. to transact the following business:

I/We [1]________________________________________________

of [1]________________________________________________

________________________________________ being member(s) of the

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

of ________________________________________or Ian Dungate or failing

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

6 November 2006 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 Report of the Investment Manager, Report of the Directors, Auditors' Report and the Audited Consolidated Financial Statements of the Company for the period to 30 June 2006 be approved. | | | |
| 2 THAT KPMG Audit LLC, Isle of Man be re-appointed the Auditors of the Company for the year ending 30 June 2007 at a fee to be approved by the Directors. | | | |

Dated: 2006

Signature______________________________

**NOTES:**

1 Full name(s) and address(es) to be inserted in BLOCK CAPITALS. The name of all joint holders should be stated.

2 If you wish to appoint a person other than the Chairman of the Meeting as your proxy please delete the words "the Chairman of the Meeting" and print the name and address of the person you wish to appoint in the space provided.

3 Please indicate with a "X" in the appropriate space beside the resolution how you wish your proxy to vote on your behalf on a poll. Except as otherwise instructed, your proxy will exercise his discretion as to how he votes or whether he abstains from voting.

4 This form of proxy must be signed by the member or his attorney duly authorised in writing, or if the appointer is a corporation the form of proxy must be executed under the hand of an officer of the corporation duly authorised on their behalf.

5 A member entitled to attend and vote is entitled to appoint one or more parties to attend and, on a poll, to vote instead of him. A proxy need not also be a member. In the case of joint holders, if more than one such joint holder is present, only the person whose name stands first in the Register of Members in respect of the relevant joint holding will be entitled to vote, whether in person or by proxy

6 This form of proxy should be completed and lodged at the Company's registered office C/o Anglo Irish Fund Services Limited, Jubilee Buildings, Victoria Street, Douglas, Isle of Man IM1 2SH, British Isles (Attn: Ian Dungate) Fax: 44 1624 698001 no later than two days before the date appointed for holding the meeting together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority.