EUROPEAN CONVERGENCE PROPERTY COMPANY PLC

(Incorporated in the Isle of Man)

Consolidated Annual Report

18 Month Period ended 31 December 2010

ISIN No. GB00B0B7ZC68

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
Manager	Charlemagne Capital (IOM) Limited St Mary's Court, 20 Hill Street Douglas Isle of Man IM1 1EU British Isles
Administrator and Registrar	Galileo Fund Services Limited Millennium House 46 Athol Street Douglas Isle of Man IM1 1JB British Isles
Auditors	KPMG Audit LLC Heritage Court 41 Athol Street Douglas Isle of Man IM99 1HN British Isles

Management and Administration continued

Subsidiaries	Indirect subsidiary	European Convergence Property Company Bulgaria EOOD 9A Pozitano Street, Floor 5, Office 16 Triaditsa Region Sofia Bulgaria
	Direct subsidiary	European Convergence Property Company (Cayman) Limited PO Box 309, Ugland House Grand Cayman Cayman Islands British West Indies
	Indirect subsidiary	ECPC (Cyprus) Limited 12 Esperidon Street, 4/F PC 1087 Nicosia Cyprus
	Indirect subsidiary	European Convergence Property Company (Malta) Limited 48 V. Dimech Street Floriana FRN 1504 Malta

Chairman's Statement

The year end of the Company has changed to 31 December to bring it into line with the accounting and tax year of the Company's only remaining asset in Bulgaria. As a result this annual report and accounts covers an 18 month period and there have been two interim reports published since the last annual report.

The economic trends in Bulgaria during this period have remained mixed with some positive data being offset by more downbeat trends. Exports have seen some growth and unemployment figures have been trending downwards. Gross Domestic Product ("GDP") which was showing a small decline appears to have levelled off towards the end of 2010. Counterbalancing this, Foreign Direct Investment has seen significant declines over the period and there has been a Budget Deficit in each month during 2010. It is too early to suggest that the economy has started its recovery but there are indications that it may have levelled out.

The real issue for the Company is the consumption figures for Bulgaria which have been declining over 2010. Whilst retail sales figures for basics such as food were relatively static, sales of consumer electronics, furniture and cars have slowed considerably putting great pressure on retailers who in turn look to landlords for assistance. The low demand has combined with an increasing supply of retail space as new shopping malls completed their development.

These conditions have caused large international brands to delay their expansion plans in Bulgaria, while local retailers focus on minimising costs, which has led to significant pressure on rentals over the period with landlords chasing new and existing retailers offering bigger incentive packages to obtain the tenant.

Although a full independent valuation was carried out as at June 2009, due to the economic conditions mentioned above, the Company also carried out an internal valuation of Mall Veliko Turnovo ("MVT") as at the end of 2009. Following this review the asset was impaired by €3.3 million as at December 2009. A further valuation was carried out as at the end of the reporting period by the independent firm of chartered surveyors, SHM Smith Hodgkinson. This led to a further impairment of €4.1 million.

The asset is now valued at less than the loan against it and the Manager has been in negotiations with the lending bank to discuss a way forward. As a result of this the consolidated net liabilities of the Group as at 31 December 2010 were €0.36 million, however the Company takes the view that the lenders do not have recourse to other entities within the Group and therefore, although the Group is now in a net liability position, the Company has a net asset position of €0.93 million. The Board are mindful that any further improvement in the value of the one remaining asset would involve significant work to refurbish the asset, improve the customer experience and encourage tenants to both remain in the development and incentivise prospective tenants to take new space. This work could not be carried out without an additional cash injection by the bank, and, absent a commitment from the Bank to its continued involvement and financial support for the project, the Board questions whether it would be in the medium term interests of the shareholders to attempt to undertake this task.

In June 2010 the Company made a capital return amounting to 3 Euro cents per share. This capital repayment took the total amount repaid to shareholders to 97 Euro cents per share.

After the period end on 19 April 2011 the adjourned Extraordinary General Meeting took place and it was resolved to cancel the Company's admission to trading on AIM. This, combined with the removal of the Company's cash custodian will help reduce the ongoing running costs of the Company.

At the end of April there was a hearing of the Administrative Court in Sofia regarding the Bulgarian Revenue's claim for €365k against the Bulgarian subsidiary for With Holding Tax and interest and penalties. The Group is still awaiting the outcome of this hearing. This amount has not been provided for in these accounts.

Anderson Whamond
Chairman
28 June 2011

Report of the Manager

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

Economic Overview

Bulgarian economic information for the first quarter of 2011 indicated a continuation of the improvements from previous quarters. Key indicators like GDP and exports improved while unemployment has declined from its previous levels.

Exports gradually increased recording €15.6 billion in December 2010, an increase of €3.8 billion over the same period last year. Following the negative GDP growth in Quarter 1 2010, GDP has risen by 1% quarter on quarter (seasonally adjusted data) during Quarter 2 and further increased in Quarter 3 and Quarter 4 by 0.3% and 3.1% respectively. However, FDI continued to decline and for the whole of 2010 represented only 4.5% of GDP compared with 9.5% in 2009. Unemployment, which had seen steady increases every month in 2009 and in the first two months of 2010, resulting in an unemployment rate of 10.30% in February 2010, saw this trend reverse and unemployment declined for eight consecutive months to 8.9% in October. Unemployment rose from November 2010 mainly due to seasonal factors.

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

Bulgarian Retail Property

The increased supply of retail space during 2010 has had a negative impact on occupancy and rental levels in most malls in Bulgaria.

The general drop in consumer spending continued into 2011 which has ensured that retailers continue to be extremely cautious on expansion. The large international brands are still delaying their expansion plans in Bulgaria, whilst local and smaller operators are focusing on optimising costs. Retailers continue to be aggressive in their negotiations with landlords seeking rent reductions and even requesting turnover rent only.

However, real estate brokers are positive about 2011 and are reporting expectations for upswing in almost all segments during the second half of the year. Expectations are also that there will be a pick up in investment transactions during 2011.

Investment interest in the Bulgarian retail sector is limited to prime assets with the primary attraction being Sofia shopping malls. There are rumours that one major asset is likely to transact at a yield below 9%. As reported by King Sturge, the Retail Park Plovdiv was purchased in February 2011 by Europa Capital reflecting a yield of just over 10%.

Mall Veliko Turnovo

Asset Overview

The Company's one remaining property asset is the wholly owned Mall Veliko Turnovo ('MVT') in central Bulgaria. MVT continued to face an extremely difficult trading environment and continued to provide tenants support through further rental concessions which has further impacted on rental income during the year. The landlord has also agreed to allow some anchor tenants to return some space thereby reducing their cost base but retaining them as a tenant. As a result, at the end of the first Quarter 2011 total occupancy was 14,002 sq. m. or 87.4% of the retail Gross Lettable Area.

The Manager is looking to increase footfall by attracting new, quality tenants and is in negotiation with Peacock and Collezione to take space in the Mall.

Report of the Manager continued

Cost Reductions

The Manager has successfully implemented a number of cost reductions during the period, which should impact in future periods, such as closing unused subsidiary companies, reducing advisors fees, and altering the accounting period to reduce audit costs, and continues to focus on identifying areas for possible cost reductions.

Banking

Following the recent revaluation of MVT the loan is technically in default and the Manager is in discussion with Alpha Bank over the continuation of the loan. The Manager understands that Alpha Bank have appointed an external Asset Manager to advise the Bank on the various possibilities available to the Bank. The Manager has given all assistance to the advisor.

Revenue Authority

The Group is contesting a With Holding Tax assessment by the local tax authorities in Bulgaria. The Administrative court has ordered the National Revenue Agency to present additional evidence as to why the application for Dual Tax Treaty should be declined. As a result there was an open court hearing on 19 April 2011 and the result of this hearing is being awaited.

Following the Revenue Authority's initial assessment, they carried out a tax audit and issued a demand for penalties and interest of €365k and requested the cash be deposited with the authorities. Alpha Bank, MVT's banker and prime lender issued a guarantee to the authorities whilst the company appeals the decision.

Charlemagne Capital (IOM) Limited

28 June 2011

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 18 month financial period ended 31 December 2010.

Results and Dividends
The results and position of the Group and the position of the Company at the financial period end are set out on pages 10 to 15 of the financial statements.

The Directors do not intend to declare a dividend (Year ended 30 June 2009: £nil).

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

Erwin Brunner (resigned with effect from 30 September 2010)
James C. Rosapepe
Donald C. McCrickard
Anderson A. Whamond

Directors' and Other Interests
Save as disclosed in Note 8.1, 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. None of the other directors have a direct or indirect interest of the shares in the Company.

At 31 December 2010 Charlemagne Capital (Investments) Limited (a subsidiary of Charlemagne Capital Limited, the parent of the Investment Manager) held 97,478 shares in the Company.

Independent Auditors
KPMG Audit LLC Isle of Man have expressed a willingness to continue in office in accordance with Isle of Man company law.

Corporate Governance
On 27 April 2011 trading in the Company's ordinary shares was cancelled on London Stock Exchange's Alternative Investments Market (AIM). 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 two 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 Director's 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. In addition, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards.

The financial statements are required to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Company 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 they have been prepared in accordance with International Financial Reporting Standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time its financial position. 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.

On behalf of the Board
Anderson Whamond
Chairman

28 June 2011

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

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

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

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the Directors are responsible for the preparation of financial statements that give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion the financial statements:

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

Opinion

In our opinion the financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Group and Parent Company's affairs as at 31 December 2010 and of the Group's loss for the period then ended.

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

Emphasis of matter

Without qualifying our audit opinion we draw to your attention the following matters:

As disclosed in note 3.1 to these financial statements, the global financial crisis and the challenging economic environment in the jurisdiction within which the Group operates have increased the intensity of the risk factors to which the Group is exposed. In particular, there is now increased uncertainty as to the valuation of the investment property held. Following the further impairment of the valuation of investment of the valuation of investment property during the period, a subsidiary of the Company has net liabilities.

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

28 June 2011

Consolidated Income Statement

	Note	1 July 2009 to 31 December 2010 €'000	Year ended 30 June 2009 €'000
Impairment of property plant and equipment	11	**(98)**	**-**
Net loss from fair value adjustment on investment property	10	**(7,400)**	**(7,960)**
Net rent and related income	5	**2,700**	**2,733**
Manager's fees	8.3	513	899
Audit and professional fees	9.5	(134)	(174)
Other expenses	9	(1,857)	(1,253)
Administrative expenses		**(1,478)**	**(528)**
Net operating loss before net financing expense		**(6,276)**	**(5,755)**
Financial income	6	288	73
Financial expenses	6	(1,759)	(1,057)
Net financing expense		**(1,471)**	**(984)**
Loss before tax		**(7,747)**	**(6,739)**
Income tax credit	20	-	177
Retained loss for the period/year		**(7,747)**	**(6,562)**
Basic and diluted loss per share (€)	14	**(0.1251)**	**(0.1047)**

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

Consolidated Statement of Comprehensive Income

	Note	1 July 2009 to 31 December 2010 €'000	1 July 2008 to 30 June 2009 €'000
Loss for the period/year		(7,747)	(6,562)
Other comprehensive income			
Currency translation differences		(7)	9
Total comprehensive loss for the period/year		**(7,754)**	**(6,553)**

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

Consolidated Balance Sheet

	Note	At 31 December 2010	At 30 June 2009
		€'000	€'000
Investment property	10	16,200	23,600
Property, plant and equipment	11	-	98
Total non-current assets		**16,200**	**23,698**
Trade and other receivables	16	261	2,810
Cash and cash equivalents	12	2,880	4,200
Total current assets		**3,141**	**7,010**
Total assets		**19,341**	**30,708**
Issued share capital	13	1,803	3,682
Retained earnings		(2,166)	5,581
Foreign currency translation reserve		2	9
Total equity		**(361)**	**9,272**
Interest-bearing loans and borrowings	15	-	19,178
Deferred tax liability	20	-	-
Total non-current liabilities		**-**	**19,178**
Interest-bearing loans and borrowings	15	19,236	-
Trade and other payables	17	466	2,258
Total current liabilities		**19,702**	**2,258**
Total liabilities		**19,702**	**21,436**
Total equity & liabilities		**19,341**	**30,708**

Approved by the Board of Directors on 28 June 2011

Director **Director**

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

Company Balance Sheet

	Note	At 31 December 2010 €'000	At 30 June 2009 €'000
Investment in subsidiaries	2	-	-
Total non-current assets		**-**	**-**
Intragroup receivables	16	895	7,213
Trade and other receivables	16	8	6
Cash and cash equivalents	12	109	2,154
Total current assets		**1,012**	**9,373**
Total assets		**1,012**	**9,373**
Issued share capital	13	1,803	3,682
Retained profits		(878)	5,590
Total equity		**925**	**9,272**
Trade and other payables	17	87	101
Total current liabilities		**87**	**101**
Total liabilities		**87**	**101**
Total equity & liabilities		**1,012**	**9,373**

The loss recorded by the Company for the period ended 31 December 2010 was €6,465,700 (30 June 2009: loss €8,144,747) after the impairment of intercompany balances.

Approved by the Board of Directors on 28 June 2011.

Director **Director**

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

Consolidated Statement of Changes in Equity

	Share capital	Distributable reserves	Retained earnings	Foreign currency translation reserve	Total
	€'000	€'000	€'000	€'000	€'000
Balance at 1 July 2008	**3,762**	**-**	**12,070**	**-**	**15,832**
Loss for the year	-	-	(6,562)	-	(6,562)
Other comprehensive income					
Foreign exchange translation differences	-	-	-	9	9
Total comprehensive loss	**-**	**-**	**(6,562)**	**9**	**(6,553)**
Shares cancelled following market purchases	(80)	-	73	-	(7)
Total transactions with owners in the year	(80)	-	73	-	(7)
Balance at 30 June 2009	**3,682**	**-**	**5,581**	**9**	**9,272**

	Share capital	Distributable reserves	Retained earnings	Foreign currency translation reserve	Total
	€'000	€'000	€'000	€'000	€'000
Balance at 1 July 2009	**3,682**	**-**	**5,581**	**9**	**9,272**
Loss for the period	-	-	(7,747)	-	(7,747)
Other comprehensive income					
Foreign exchange translation differences	-	-	-	(7)	(7)
Total comprehensive loss	**-**	**-**	**(7,747)**	**(7)**	**(7,754)**
Capital distribution	(1,879)	-	-	-	(1,879)
Balance at 31 December 2010	**1,803**	**-**	**(2,166)**	**2**	**(361)**

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

Consolidated Cash Flow Statement

	Note	Period ended 31 December 2010 €'000	Year ended 30 June 2009 €'000
Operating activities			
Group loss for the period/year		(7,747)	(6,562)
Adjustments for:			
Impairment of property plant and equipment		98	-
Net loss from fair value adjustment on investment property		7,400	7,960
Financial income		(288)	(73)
Foreign currency translation differences		(7)	9
Financial expense		1,759	1,057
Income tax credit		-	(177)
Operating profit before changes in working capital		**1,215**	**2,214**
Decrease in trade and other receivables		2,550	1,700
Decrease in trade and other payables		(1,793)	(1,113)
Cash generated from operations		**1,972**	**2,801**
Interest paid		(1,759)	(1,057)
Income and corporation tax paid		-	(10)
Interest received		288	73
Cash flows generated from operating activities		**501**	**1,807**
Investing activities			
Sale of subsidiary companies		-	-
Cash sold with subsidiary companies		-	-
Repayment of loans by former subsidiaries		-	-
Purchase of property, plant and equipment		-	(98)
Cash flows used in from investing activities		**-**	**(98)**
Financing activities			
Purchase of own shares		-	(7)
Repayment of long term loans		58	(54)
Capital distribution	13	(1,879)	-
Cash flows used in financing activities		**(1,821)**	**(61)**
Net (decrease)/increase in cash and cash equivalents		(1,320)	1,648
Cash and cash equivalents at beginning of period/year		4,200	2,552
Cash and cash equivalents at end of period/year	12	**2,880**	**4,200**

The accompanying Notes 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 originally 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. On 21 December 2007 with the approval of Shareholders in a general meeting, the Company was re-registered as a company under the Isle of Man Companies Act 2006 with registered number 002085v.

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

The Shares of the Company were admitted to trading on the London Stock Exchange's AIM market ("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.

Capital Distribution
Following approval of the Company's Shareholders in general meeting and as a consequence of the Directors having determined not to invest surplus cash or reinvest monies received from the sale of certain property assets an amount of approximately €58.9m or €0.94 per share was returned to shareholders pro rata by way of a capital distribution on 31 January 2008. A second return of capital was made on 18 June 2010 returning a further €1.9m or €0.03 per share.

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.

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.

In the current period, no dividend was declared (30 June 2009: £nil).

Property Valuation Policy
The Directors have appointed an internationally recognised firm of surveyors as property valuers for the property in Bulgaria. It is the Directors' intention that the Company's property portfolio will receive a valuation from the Company's appointed property valuer on a regular basis.

Financial Year End
The financial year end of the Company is 31 December in each year.

Notes to the Consolidated Financial Statements continued

2 The Subsidiaries

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%

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 18 month period ended 31 December 2010 comprises the Company and its subsidiaries (together referred to as the "Group").

The annual report was authorised for issue by the Directors on 28 June 2011.

3.1 Basis of presentation

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

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the Company's accounting policies. The most significant area requiring estimation and judgement by the Directors is the valuation of investment property (see note 10).

The activities of the Group are subject to a number of risk factors. The global financial crisis and the challenging economic environment in the jurisdiction within which the Group operates have increased the intensity of these risk factors. The economic outlook presents specific challenges for the Group in terms of the significant reduction in the availability of loan finance for property transactions in the jurisdiction and the consequent impact on the valuations of investment property held (see note 10).

As at 31 December 2010, the Group had net liabilities of €360,399. This net liability position is principally as a result of the net liability position of the Company's subsidiary, European Convergence Property Company Bulgaria EOOD ("ECPC Bulgaria"). ECPC Bulgaria holds the investment property disclosed in note 10 of €16.2m and cash of €1.8m, against which external borrowings of €19.2m are secured (see note 15). The recent independent valuation of the asset has led to it being impaired to a value lower than the value of the loan secured against it. As stated in note 15, the loan is due to mature in October 2011. The third party lenders do not have recourse to other entities within the Group and therefore, notwithstanding the net liability position of the Group's consolidated balance sheet, the Board believes that the Company remains a going concern.

In the current market conditions which prevail, there is a greater degree of uncertainty as to the valuation of property assets than that which exists in a more active and stronger market.

These accounts are prepared on a going concern basis.

Notes to the Consolidated Financial Statements continued

3 Significant Accounting Policies continued

3.1 Basis of presentation continued

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

The Company's year end has changed from 30 June to 31 December and consequently all comparative figures are for the last audited financial statements being the year ended 30 June 2009.

3.2 Foreign currency translation

Euro is the currency of the primary economic environment in which the entity operates ("The functional currency"). The functional currency of the Romanian subsidiaries was the Romanian Lei, and the functional currency of the Bulgarian subsidiary is the Bulgarian Lev. Otherwise the Euro is the functional currency of the subsidiaries.

Euro is also the currency in which the annual financial statements are presented ("The presentation currency").

Monetary assets and liabilities denominated in foreign currencies as at the date of these financial statements are translated to € at exchange rates prevailing on that date. Realised and unrealised gains and losses on foreign currency transactions are charged or credited to the income statement as foreign currency gains and losses. Expenses are translated into € based on exchange rates on the date of the transaction.

The accounts are presented in Euros by translating the assets and liabilities at the exchange rate prevailing at the balance sheet date. Items of revenue and expense are translated at exchange rates on the date of the relevant transactions. Components of equity are translated at the date of the relevant transaction and not retranslated. All resulting exchange differences are recognised in equity.

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.

An external, independent valuation company will value the remaining investment property on a regular basis. The fair values are based on market values, being the estimated amount for which property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after property marketing wherein parties had each acted knowledgeably, prudently and without compulsion.

3.4 Property, plant and equipment

All property, plant and equipment (other than investment properties) is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation, based on a component approach, is calculated using the straight-line method to allocate the cost over the asset's estimated useful lives. For the majority of the assets this is estimated at 5 years.

3.5 Deposit interest

Deposit interest is accounted for on an accruals basis.

Notes to the Consolidated Financial Statements continued

3 Significant Accounting Policies continued

3.6 Cash and cash equivalents

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

3.7 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 accruals 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.

3.8 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.

3.9 Dividends

Dividends are recognised as a liability in the year in which they are declared and approved. There was no dividend declared as at 31 December 2010 (30 June 2009: Nil).

3.10 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. At 31 December 2010 and 30 June 2009 the Group did not have any financial assets at fair value through profit or loss or available for sale. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet.

3.11 Other receivables

Trade and other receivables are stated at their cost which approximates their market value less provision for any bad and doubtful debts.

3.12 Trade and other payables

Trade and other payables are stated at their cost which approximates their market value.

Notes to the Consolidated Financial Statements continued

3 Significant Accounting Policies continued

3.13 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 year of the borrowings on an effective interest basis.

3.14 Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effect.

3.15 Future changes in accounting policies

The following new standards and amendments to standards are mandatory for the first time for the financial period beginning 1 July 2009.

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

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

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

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

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

'Classification of rights issues' (amendment to IAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met,

Notes to the Consolidated Financial Statements continued

3 Significant Accounting Policies continued

3.15 Future changes in accounting policies continued

such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The Group will apply the amended standard from 1 January 2011.

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

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

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

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

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

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 now operate in one principal geographical area Bulgaria. The location of the customers is the same as the location of the assets.

Period ended 31 December 2010	Bulgaria €'000	Romania €'000	Unallocated €'000	Total €'000
Net rent and associated income	2,700	-	-	2,700
Segment results	(7,921)	-	174	(7,747)
Segment assets	18,262	-	1,079	19,341
Segment liabilities	(19,460)	-	(242)	(19,702)

Year ended 30 June 2009	Bulgaria €'000	Romania €'000	Unallocated €'000	Total €'000
Net rent and associated income	2,733	-	-	2,733
Segment results	(8,027)	132	1,333	(6,562)
Segment assets	26,007	-	4,701	30,708
Segment liabilities	(19,580)	-	(1,856)	(21,436)

Notes to the Consolidated Financial Statements continued

5 Net Rent and Related Income

	18 month period ended 31 December 2010 €'000	Year ended 30 June 2009 €'000
Gross lease payments collected/accrued	2,700	2,733

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

	18 month period ended 31 December 2010 €'000	Year ended 30 June 2009 €'000
Less than one year	2,700	343
Between one and five years	-	-
More than five years	-	-
	2,700	343

6 Net Financing Expense

	18 month period ended 31 December 2010 €'000	Year ended 30 June 2009 €'000
Interest income	288	73
Financial income	**288**	**73**
Gross interest expense	(1,759)	(1,057)
Financial expenses	**(1,759)**	**(1,057)**
Net financing expense	**(1,471)**	**(984)**

7 Net Asset Value per Share

The consolidated net asset value per share as at 31 December 2010 is €0.0000 based on net liabilities of €360,399 and 62,616,333 ordinary shares in issue (30 June 2009: €0.1481).

8 Related Party Transactions

8.1 Directors of the Company

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

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

Charlemagne Capital (Investments) Limited, an entity associated with the Manager, by way of being a subsidiary of Charlemagne Capital Limited, holds 97,478 ordinary 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.

Notes to the Consolidated Financial Statements continued

8 Related Party Transactions continued

8.2 Directors of the Subsidiaries

James Houghton and Jane Bates are directors of the Manager and have been appointed director(s) to a number of the Group 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.

8.3 Manager's 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 for the period ended 31 December 2010 amounted to €460,178 (30 June 2009: €405,956).

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.

As a result of losses made by the Group for the period ended 31 December 2010, performance fees of accruals of €973,566 were reversed (30 June 2009:€1,304,856).

9 Charges and Fees

9.1 Nominated Adviser and Broker fees

As Nominated Adviser and Broker to the Company for the purposes of the AIM Rules, the nominated advisor and broker is entitled to receive an annual fee of €34,093 (£30,000).

Advisory fees payable to the Nominated Adviser and Broker for the period ended 31 December 2010 amounted to €61,302 (30 June 2009: €42,512).

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 ended 31 December 2010 amounted to €10,500 (30 June 2009: €6,938).

Notes to the Consolidated Financial Statements continued

9 Charges and Fees continued

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 €2,125, 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 €3,750. Additional fees based on time and charges, will apply where the number of Board meetings exceeds four per annum. 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 on an annual basis.

Administration fees payable for the period ended 31 December 2010 amounted to €44,625 (30 June 2009: €52,125).

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.

9.5 Audit fees

Audit fees payable for the period ended 31 December 2010 amounted to €56,125 (30 June 2009: €100,588).

10 Investment Property

	31 December 2010 Group €000	30 June 2009 Group €'000
At beginning of period/year	23,600	31,560
Disposals through sale of subsidiaries	-	-
Net loss from fair value adjustments on investment property	(7,400)	(7,960)
Balance at end of period/year	**16,200**	**23,600**

The investment property was last valued as at 31 December 2010 by an independent third party, SHM Smith Hodgkinson (Romania) Srl based on discounted cash flow valuation technique. As at 31 December 2010, there was a first rank mortgage on the above property securing the bank loans of €19.2 million (at 30 June 2009: €19.2 million).

Notes to the Consolidated Financial Statements continued

11 Property, Plant & Equipment

	Group Fixtures & Fittings €'000
Net book amount at 1 July 2009	98
Impairment	(98)
Depreciation charge	-
Net book amount at 31 December 2010	**-**
Net book amount at 30 June 2009	**98**

There were no impairment charges in 2009.

12 Cash and Cash Equivalents

	Group 31 December 2010 €'000	Group 30 June 2009 €'000	Company 31 December 2010 €'000	Company 30 June 2009 €'000
Bank balances	2,880	4,200	109	2,154
Cash and cash equivalents	**2,880**	**4,200**	**109**	**2,154**

At 31 December 2010, €1.8m was held in a bank account with Alpha Bank subject to the terms of the loan agreement between Alpha Bank and the Company's Bulgarian subsidiary, under which all obligations to the Bank under the loan agreement must be fulfilled before the Bulgarian subsidiary is free to pay a dividend.

13 Capital and Reserves

Share capital

Ordinary Shares of €1.00 each	31 December 2010 Number	31 December 2010 €'000
In issue at the start of the period	62,616,333	3,682
Return of Capital	-	(1,879)
In issue at 31 December 2010	62,616,333	1,803

Ordinary Shares of €1.00 each	30 June 2009 Number	30 June 2009 €'000
In issue at the start of the year	62,696,333	3,762
Shares cancelled	(80,000)	(80)
In issue at 30 June 2009	62,616,333	3,682

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

A return of capital of €1.879m million (€0.03 per share) was made to Shareholders on 18 June 2010.

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

The Group does not have any externally imposed capital requirements.

Notes to the Consolidated Financial Statements continued

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 weighted average number of ordinary shares in issue during the period:

	31 December 2010	30 June 2009
Loss attributable to equity holders of the Company (€'000)	(7,747)	(6,562)
Weighted average number of ordinary shares in issue (thousands)	62,616	62,652
Basic and diluted loss per share (€ per share)	(0.1237)	(0.1047)

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 21.

Current liabilities

	Group 31 December 2010 €'000	Group 30 June 2009 €'000
Secured bank loans	19,236	-

Non-current liabilities

	Group 31 December 2010 €'000	Group 30 June 2009 €'000
Secured bank loans	-	19,178

Terms and debt repayment schedule:

Loan Amount	Bank	Effective interest rate 31 December 2010	Final Maturity date
€19,235,462	Alpha Bank Sofia SA	6.085	October 2011

The loan is secured on the assets of the Company's Bulgaria subsidiary. Following the recent revaluation of MVT the loan is technically in default and the Manager is in discussion with Alpha Bank over the continuation of the loan

16 Trade and other receivables

	Group 31 December 2010 €'000	Group 30 June 2009 €'000	Company 31 December 2010 €'000	Company 30 June 2009 €'000
Trade receivables	148	229	-	-
Deferred sale proceeds	-	2,548	-	-
Other	113	33	8	6
Total trade and other receivables	**261**	**2,810**	**8**	**6**

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.

Notes to the Consolidated Financial Statements continued

17 Trade and Other Payables

	Group 31 December 2010 €'000	Group 30 June 2009 €'000	Company 31 December 2010 €'000	Company 30 June 2009 €'000
Taxation	291	26	-	-
Trade payables	95	129	-	-
Accruals	80	2,103	87	101
Total	**466**	**2,258**	**87**	**101**

Accruals include a performance fee of €nil and other accruals of €169k (2009 - €973,566 and €1,130k respectively).

18 Exchange Rates

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

Bulgarian Lev 1.9558

19 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 31 December 2010 amounted to €149,015 (30 June 2009: €90,000).

The Subsidiaries

No fees are paid to the directors of the subsidiaries except in circumstances where a director is appointed in compliance with local regulations and in such cases the fees payable are nominal.

20 Taxation

Group income tax expense

	Period to 31 December 2010 €'000	Year to 30 June 2009 €'000
Current tax expense	-	10
Movement in deferred tax liability	-	(187)
Income tax credit for the period/year	-	(177)

Reconciliation of effective tax	Period to 31 December 2010 €'000	Year to 30 June 2009 €'000
Accounting loss	(7,836)	(6,739)
Isle of Man taxation at 0%	-	-
Foreign capital gains tax credit	-	(177)
Income tax	-	(177)

Notes to the Consolidated Financial Statements continued

20 Taxation continued

Isle of Man

The Isle of Man has introduced a general zero per cent tax rate for companies with effect from 6 April 2006, with the exception of certain banking income and income from Isle of Man land and property which is taxed at 10 per cent.

There are no 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.

Shareholders resident in the Isle of Man will, depending upon their particular circumstances, be liable to Manx income tax on dividends received from the Company.

United Kingdom

The affairs of the Company are conducted so that the central management and control of the Company is not exercised in the UK and so that the Company does not carry out any trade in the UK (whether or not through a permanent establishment situated there). On this basis, the Company should not be liable for UK taxation on its income and gains, other than certain income deriving from a UK source.

Other

The subsidiaries of the Company are taxed in accordance with the applicable tax laws in the countries in which they were incorporated.

21 Financial Instruments

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

Market risk

Property and property related assets are inherently difficult to value due to the individual nature of the 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 property held. The Company's market risk is monitored by the Manager on a day to day basis and by the Directors at Board Meetings.

Price risk

The Group's strategy on the management of market price risk is driven by the Group's investment objective. The Group was established to invest primarily in income producing property assets in South East Europe. The main objective of the Group is to take advantage of the potential for capital appreciation of these investments. The Group market risk is monitored by the Manager on a day to day basis and by the Directors at Board Meetings.

The Group is exposed to property price and property rental risk. The value of the property held at 31 December 2010 is disclosed in note 10. The Group's strategy is to invest in property assets and then sell them for gain. However as a result of current global economic conditions (see note 3.1), the property market in Bulgaria has declined. The Group therefore expects that it will hold the asset for a substantial period post completion. This further exposes the Group to property rental risk.

Notes to the Consolidated Financial Statements continued

21 Financial Instruments continued

Foreign exchange risk

The Group's operations are conducted in jurisdictions which generate revenue, expenses, assets and liabilities in currencies other than the Euro (the functional currency). As a result, the Group is subject to the effects of exchange rate fluctuations with respect to these currencies. The currency giving rise to this risk is primarily Bulgarian Lev. The Group may invest in financial instruments and enter into transactions denominated in currencies other than the functional currency. Consequently, the Group is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse affect on the value of that portion of the Group's assets or liabilities denominated in currencies other than the functional currency. The Group's policy is not to enter into any currency hedging transactions.

The following table sets out the Group's total exposure to foreign currency risk and the net exposure to foreign currencies of the assets and liabilities:

31 December 2010	Assets	Liabilities	Net Assets
	€000	€000	€000
Bulgarian Lev	2,062	(330)	1,732
Euro	17,279	(19,372)	(2,093)
Total	**19,341**	**(19,702)**	**(361)**

30 June 2009	Assets	Liabilities	Net Assets
	€000	€000	€000
Bulgarian Lev	2,309	(121)	2,188
Euro	28,399	(21,315)	7,084
Total	**30,708**	**(21,436)**	**9,272**

At 31 December 2010 there are no remaining Romanian Lei assets and the Bulgarian Lev is pegged to the Euro, therefore there is no significant foreign exchange risk as at 31 December 2010.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash held by the Group is invested at short-term market interest rates. The Group has interest-bearing loans (see note 15). As a result, the Company is exposed to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates. It is also exposed to interest rate cash flow risk.

The table below summarises the Group's exposure to interest rate risk. It includes the Group's financial assets and liabilities at the earlier of contractual re-pricing or maturity date, measured by the carrying values of assets and liabilities:

31 December 2010	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Financial assets							
Trade and other receivables	-	-	-	-	-	261	261
Cash and cash equivalents	2,880	-	-	-	-	-	2,880
Total financial assets	2,880	-	-	-	-	261	3,141
Financial liabilities							
Interest bearing loans	-	-	(19,236)	-	-	-	(19,236)
Trade and other payables	-	-	-	-	-	(466)	(466)
Total financial liabilities	-	-	(19,236)	-	-	(466)	(19,702)
Total interest rate sensitivity gap	2,880	-	(19,236)	-	-		

Notes to the Consolidated Financial Statements continued

21 Financial Instruments continued

Interest rate risk continued

30 June 2009	Less than 1 month €'000	1-3 months €'000	3 months to 1 year €'000	1-5 years €'000	Over 5 years €'000	Non-interest bearing €'000	Total €'000
Financial assets							
Trade and other receivables	-	-	-	-	-	2,810	2,810
Cash and cash equivalents	4,200	-	-	-	-	-	4,200
Total financial assets	4,200	-	-	-	-	2,810	7,010
Financial liabilities							
Interest bearing loans	-	-	-	(19,178)	-	-	(19,178)
Trade and other payables	-	-	-	-	-	(2,258)	(2,258)
Total financial liabilities	-	-	-	(19,178)	-	(2,258)	(21,436)
Total interest rate sensitivity gap	4,200	-	-	(19,178)	-		

If the interest rates to which the Group was exposed had been lower than those actually experienced by 25 basis points for the full period then this would have resulted in an increase in profit for the period and net assets at the period end of €41,000 (30 June 2009: €87,500). If interest rates had been higher by the same amount there would have been a similar decrease in profit for the period and net assets at the period end.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Group.

The carrying amounts of financial assets best represent the maximum credit risk exposure at the balance sheet date. This relates also to financial assets carried at amortised cost.

At the reporting date, the Group's financial assets exposed to credit risk amounted to the following:

	31 December 2010 €'000	30 June 2009 €'000
Trade and other receivables	261	2,810
Cash at bank	2,880	4,200
	3,141	7,010

The Group manages its credit risk by monitoring the creditworthiness of counterparties regularly and does not expect any counterparty to fail to meet its obligations.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its obligations as they fall due. The Group manages its liquidity risk by maintaining sufficient cash balances for working capital, and obtains secured bank loans to fund purchases of investment property. The Group's liquidity position is monitored by the Manager and the Board of Directors.

Notes to the Consolidated Financial Statements continued

21 Financial Instruments continued

Liquidity risk continued

At the reporting date, the residual undiscounted contractual maturities of financial liabilities are the following:

31 December 2010	Less than 1 month €'000	1-3 months €'000	3 months to 1 year €'000	1-5 years €'000	Over 5 years €'000	No stated maturity €'000	Total €'000
Other creditors and accrued expenses	-	27	439	-	-	-	466
Interest bearing loans and borrowings (note 15)	-	-	19,236	-	-	-	19,236

30 June 2009	Less than 1 month €'000	1-3 months €'000	3 months to 1 year €'000	1-5 years €'000	Over 5 years €'000	No stated maturity €'000	Total €'000
Other creditors and accrued expenses	-	509	800	949	-	-	2,258
Interest bearing loans and borrowings (note 15)	-	-	-	19,178	-	-	19,178

Fair values

The carrying amounts of all the Company's financial assets and financial liabilities at the balance sheet date approximated to their fair values.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement (e.g., interest rates, volatility, estimated cash flows, etc.) and therefore cannot be determined with precision.

22 Investment Policy

The Company was established to invest in income producing property assets and late stage property developments in South East Europe. The Company originally invested in three such assets in Romania, which were subsequently sold, and one in Bulgaria which remains in ownership.

The Company was conceived as a one-cycle investment vehicle, and intends to hold and manage its one remaining asset until divestment can be achieved at an acceptable level. The Company's intention is to achieve divestment of the remaining asset, and return cash to shareholders. No further property investment is anticipated.

23 Post Balance Sheet Events

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

At an EGM held on 19 April 2011 the shareholders voted for a resolution to de-list the Company.

A further session was held on the 19 April 2011 in the Administrative Courts in Sofia, Bulgaria with regard to the Bulgarian Revenue Authority's claims for With Holding Taxes, interest and penalties amounting to €365k. This outcome of this hearing was not available at the time the accounts were prepared and the amount has not been provided for in these accounts.

EUROPEAN CONVERGENCE PROPERTY COMPANY PLC

(*Incorporated in the Isle of Man on 1 June 2005 under number 002085V)*

(the “Company”)

NOTICE OF GENERAL MEETING

NOTICE is hereby given that the General Meeting of the Company will be held at the offices of Galileo Fund Services Limited, Millennium House, 46 Athol Street, Douglas, Isle of Man, IM1 1JB, British Isles on Friday 29 July 2011 at 9.30am to transact the following business:

1. To receive and consider the Chairman’s Statement, Report of the Investment Manager, Report of the Directors, Auditors' Report and the Audited Consolidated Financial Statements of the Company for the eighteen months ending 31 December 2010.

2. To re-appoint KPMG Audit LLC Isle of Man as Auditors of the Company for the year ending 31 December 2011 at a fee to be approved by the Directors.

By Order of the Board
Galileo Fund Services Limited as Registered Agent

Date: 28 June 2011

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

NOTES:

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

2 A form of proxy accompanies this Notice. Completion and return of the form of proxy will not preclude a member from attending and voting at the above 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 Galileo Fund Services Limited, Millennium House, 46 Athol Street, Douglas, Isle of Man, IM1 1JB, British Isles (Attn: Suzanne Jones) Fax: 44 1624 692601 no later than 48 hours before the date appointed for holding the above Meeting.

EUROPEAN CONVERGENCE PROPERTY COMPANY PLC

(*Incorporated in the Isle of Man on 1 June 2005 under number 002085V)*

(the "Company")

FORM OF PROXY

To be used for the General Meeting of the above named company to be held at the offices of Galileo Fund Services Limited, Millennium House, 46 Athol Street, Douglas, Isle of Man, IM1 1JB, British Isles on Friday, 29 July 2011 at 9.30am:

I/We ____[1]

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

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

of ____ or Suzanne Jones or

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

Friday 29 July 2011 at 9.30am 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**
THAT the Chairman's Statement, Report of the Investment Manager, Report of the Directors, Auditors' Report and the Audited Consolidated Financial Statements of the Company for the eighteen months ending 31 December 2010 be approved.			
THAT KPMG Audit LLC, Isle of Man be re-appointed the Auditors of the Company for the year ending 31 December 2011 at a fee to be approved by the Directors.			

Dated: 2011

Signature________________________________

NOTES:

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

2 If you wish to appoint a person other than the Chairman of the 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 an "X" in the appropriate space beside the resolution how you wish your proxy to vote on your behalf on a poll. Except as otherwise instructed, your proxy will exercise his discretion as to how he votes or whether he abstains from voting.

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

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

6 This form of proxy should be completed and lodged at the Company's registered office C/o Galileo Fund Services Limited, Millennium House, 46 Athol Street, Douglas, Isle of Man, IM1 1JB, British Isles (Attn: Suzanne Jones) Fax: 44 1624 692601 no later than 48 hours 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.