ECDC

European Convergence Development Company

EUROPEAN CONVERGENCE DEVELOPMENT COMPANY PLC

Consolidated Annual Report

Year ended 31 December 2012

ISIN No. GB00B1BJRB27

CONTENTS

Management and Administration

Directors * independent	James C. Rosapepe (Non-executive Director) * Donald C. McCrickard (Non-executive Director) * Anderson A. Whamond (Non-executive Director) all of the registered office below:
Registered Office	Millennium House 46 Athol Street Douglas Isle of Man IM1 1JB British Isles
Secretary	Ian Dungate C/o Galileo Fund Services Limited Millennium House 46 Athol Street Douglas Isle of Man IM1 1JB British Isles
Manager	Charlemagne Capital (IOM) Limited St Mary's Court, 20 Hill Street Douglas Isle of Man IM1 1EU British Isles
Nominated Advisor and Broker	Panmure Gordon (UK) Limited One New Change London EC4M 9AF United Kingdom
Administrator and Registrar	Galileo Fund Services Limited Millennium House 46 Athol Street Douglas Isle of Man IM1 1JB British Isles
Placing Agent	Charlemagne Capital (UK) Limited 39 St James's Street London SW1A 1JD United Kingdom

Management and Administration continued

Auditors	KPMG Audit LLC Heritage Court, 41 Athol Street Douglas Isle of Man IM99 1HN British Isles
Legal Advisers	*As to Isle of Man Law* Cains Advocates Limited Fort Anne Douglas Isle of Man IM1 5PD British Isles *As to English Law* Stephenson Harwood 1 Finsbury Circus London EC2M 7SH United Kingdom
Subsidiaries	European Convergence Development Company (Cayman) Limited PO Box 309, Ugland House Grand Cayman Cayman Islands British West Indies European Convergence Development (Malta) Limited 4 V. Dimech Street Floriana Malta Convergence Development (Cyprus) Limited 12 Esperidon Street, 4th Floor PC1087 Nicosia Cyprus European Real Estate Development Invest SRL Calea Serban Voda, No. 133 Building A, Ground Floor, Room No. 9 Sector 4 Bucharest Romania European Property Acquisitions EOOD Office 11, Floor 5 103 Gotze Delchev Blvd Strlbishte Neighbourhood Triaditza Region Sofia 1404 Bulgaria

Management and Administration continued

Subsidiaries continued

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

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

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

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

Joint Ventures

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

Cascade Park Plaza SRL
33 Emanoil Porumbaru Street
Bl A, App 3, Room No. 2
Sector 1
Bucharest
Romania

Galleria Plovdiv AD
1 Assenovgradsko Shosse Street
Plovdiv
Bulgaria

Management and Administration continued

Joint Ventures continued

Turgovski Park Kraimorie AD
1 Assenovgradsko Shosse Street
Plovdiv
Bulgaria

Mega Mall Rousse AD
123 Lipnik Boulevarde
Rousse
Bulgaria

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

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

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

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

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

Chairman's Statement

Financial Performance

The Report and Accounts of European Convergence Development Company PLC (ECDC) set out the financial performance for the year ending 31st December, 2012, along with the ongoing development and ongoing active management of its commercial assets.

The audited NAV per share at the 31 December, 2012 was €0.3010 (2011: €0.3059) reflecting a reduction of €0.0049 per share.

The Financial Statements for the year to 31 December 2012 indicate a loss attributable to equity shareholders of €0.0078 (2011: €0.0621).

In line with a number of listed property companies focused on Eastern Europe, uncertainty surrounding liquidity of the underlying assets and continuing difficult market conditions has led to the share price trading at a very significant discount to stated Net Asset Value.

Dividend

The Board of Directors resolved not to award a dividend but retain the funds within the company to protect its current investments and possibly make further investments where beneficial to equity shareholders.

Operating Activities

The second half of the year has been as difficult as the first six months of 2012. Although general macroeconomic conditions may have improved, it is taking a long time to feed through to the areas where our investments trade.

The political dispute in Romania between the President and the ruling coalition gave rise to some concern over the continuation of a functioning democracy in Romania. The elections and subsequent impeachment of the President was referred to the Constitutional Court which invalidated the public vote. In December further elections were held and the centre left USL coalition gained a comfortable majority in both the Chamber of Deputies and the Senate. The President nominated and Parliament ratified Victor Ponta as the new Prime Minister of Romania.

The lack of liquidity and bank lending in both countries in which ECDC operates make the acquisition and development of new projects extremely difficult and the lack of a robust investment market is hampering the possibility of disposing of current assets at reasonable prices.

In Romania two transactions dominated the investment market which otherwise saw a small number of transactions below the €15 million mark. Bulgaria saw no transactions of note in the commercial market for three quarters. Both the commercial and investment markets are struggling against uncompetitive lending terms, low levels of liquidity and limited institutional interest. It is therefore particularly difficult to get a realistic view on capital values. The Board has used independent consultants to arrive at the market value of ECDC's assets which have suggested a small increase in the carrying value of Cascade and a small impairment of the assets in Bulgaria.

Rental levels for commercial property in central Bucharest have remained stable during the second half of the year trading within a range of €17.50 to €18.50 per sqm per month and contributions towards tenant fitting out have started to decline. In the retail market rental levels are under pressure as landlords struggle to hold onto tenants using rent free periods and rental concessions to retain tenants.

The Bulgarian retail market has been dominated by some significant openings at the end of 2012 and the beginning of 2013. With average rental levels declining between 6% and 8% during 2012 vacancy levels in the rest of the country, ex Sofia ended the year at 21.6%. Average rental levels outside of Sofia are trading around €10.00 to €11.00 per sqm per month.

Within the individual projects Cascade occupancy increased to 98.6% at the end of the year with a further 355 sqm let in quarter 4 at market rental levels. The asset continues to meet all its financial obligations with the banks and produces excess cash which may enable the additional debt to be repaid early. Your Board continues to discuss with the Manager how to progress with this asset in the best interests of the shareholders.

Chairman’s Statement continued

The 65,700 sqm Era Shopping Park in Oradea completed the development of its 16,000 sqm shopping mall in spring 2012. This was followed by the opening of the 8,000 sqm Mobexpert store in May which, along with other stores means that Era Shopping Park is the leader for home decorations and furnishing in the region. Leasing conditions are difficult with competition from two other centres in the city and a lack of fit out contributions whilst negotiations are ongoing with the lending banks.

The 49,500 sqm Era Shopping Centre in Iasi faces increasing competition with the opening of a new centre in the city. Nevertheless the centre is trading at 98% occupancy though competitive pressures will probably ensure the tenant concession granted to date will not dissipate in the near future. A further 28,000 sqm mall development is dependent upon finalising the necessary funding facility with the lending banks.

For the 48,000 sqm Mall in Plovdiv, occupancy levels increased to 64% by the end of the year with a further 4,200 sqm of new lease agreement signed which should open in the new year, taking occupancy levels to around 75%. The importance of this threshold is that it will trigger rental payments for the three major tenants in the scheme. The company continues to negotiate with the bank to restructure the banking facility, which is presently in default and there appears to be a consensus to find a solution.

The 20,500 sqm Mega Mall, Rouse increased occupancy levels to 60% by the year end with the reletting of the old Piccadilly supermarket and new leases for additional retail on the first floor. Both units had a favorable impact on the footfall at the centre. The Company continues to negotiate with the Bank on restructuring the facility which is currently in default.

There has been no further development at Sliven or Bourgas as any expenditure at either of these two sites will be dependent upon and improvement in both the tenant and financing markets. An agreement has been reached with the Partner at Sliven to distribute profits generated from interest receipts as a means of part repaying his outstanding loan. In May 2013 the Company received a part repayment.

Outlook

Although the outlook for 2013 is slightly better than the year just gone, there is likely to be a divergence between the performances of Romania and Bulgaria. The Bulgarian government resigned in February 2013, four months before the end of its term, following mass protests against high power prices and falling living standards following the introduction of austerity measures including the freezing of wages and pensions. Half of the population is perceived to be at risk of being in poverty. The President has appointed an interim government and early elections were held on 12th May. The rightist GERB party held the lead in Bulgaria's election on 12th May 2013 but its prospects of forming another government, after the last one was ousted by protests, looked uncertain after its potential partner ruled out a deal.

Unemployment in Bulgaria is at 12.4%, almost an eight year high and consumption has fallen back in the final quarter of 2012. Inflation appears to be under control but GDP is stagnant at best and there is declining foreign investment in the country compared to 2012. However, the Government’s decision to restrict the budget deficit and government debt places the economy in a more favourable position than most European countries.

The recent financial crisis that has befallen Cyprus has the potential to negatively impact the investments that ECDC has made in the Iasi and Oradea Shopping Centres. The second largest bank in the country, Cyprus Bank Popular (Laiki Bank), has been closed and effectively taken over by Bank of Cyprus, which in turn has seen large deposits of over €100,000 frozen and may be subject to an impairment at a later date if it is deemed necessary to meet capital adequacy requirements. One of the main members of the banking syndicate financing both Iasi and Oradea is now the Bank of Cyprus. Although these banking facilities are fully drawn, the planned restructuring of both the facilities may have an impact on the future relationship with Argo Real Estate Opportunities Fund (AREOF). On 12th April 2013, the Company through its investment vehicle issued Put notices to AREOF requiring AREOF to purchase all of the respective shares and make payment of a preferred return at the expiration of the notice period. The Put option period expires 6 months from the date of the notice.

Chairman’s Statement continued

In the year ahead the Company will focus its attention on maximising the benefit derived for shareholders from Cascade, Bourgas, Sliven and oversee the investments in Iasi and Oradea and work to find solutions for Plovdiv and Rousse.

Anderson Whamond
Chairman
24 June 2013

Report of the Manager

Economic and Political Overview

Romania

Political tensions in the middle of 2012 have been resolved following the parliamentary elections which were held in December. The USL coalition gained a comfortable majority with more than 60% of the seats in both the Chamber of Deputies and the Senate. Victor Ponta was nominated by the president and ratified by Parliament as the new Prime Minister of Romania. The election results meant that the President and the Prime Minister resolved their differences and the USL coalition now have a clear mandate to run the country.

Annualised Gross Domestic Product (GDP) remained flat over 2012 with only 0.3% year-on-year growth, mainly due to poor agricultural output caused by the severe drought earlier in the year. The IMF predicts real GDP growth of 1.6% in 2013 and 2.0% in 2014, which is in line with the Government forecast.

In July 2012 inflation in Romania was 2.04% and has continued on an upward trajectory ending 2012 at 4.95%. In January 2013 inflation peaked at 6.0% before falling back to 5.3% in March and remained at that level in April. The annual inflation rate is expected to stabilize towards the end of the year to an estimated 4.0% which is still above the Central Bank's tolerance margin of 2.5% plus or minus 1.0%.

The Budget deficit at the end of 2012 was equivalent to 2.5% of GDP which was within the Government's targets. Exports have climbed steadily from a low point in December, 2012 of €3,135 million to €4,005 million in March but this is still below the €4,200 high in November. Imports climbed dramatically between February and March ending at €4,573 million. As a result of the increased level of imports, the trade balance was in deficit of €5,568 million in March. Over 70% of Romania's trade is with the European Union with France, Germany and Italy being the biggest contributors and with the German economy slowing the forecasts are not expected to improve significantly.

Retail sales in March decreased by 0.8% compared to the same month in 2012 and represented the second month in eighteen when a year on year decline was recorded.

Since March 2012 interest rates have remained unchanged at 5.25% and at the most recent Central Bank meeting in April the Governor announced that from 1st July 2012 the Bank will start lowering rates on the assumption that there were no fundamental changes to economic conditions.

The nationalisation and dismantling of Bank of Cyprus and the closing of Cyprus Bank Popular (Laiki Bank), as part of the bail out of Cyprus by the European Union and the IMF had limited direct effect on Romania as together both banks control approximately 1.3% to 1.5% of assets. Nevertheless, statements made by both European and local high ranking Central Bank officials sent out unsettling messages to larger depositors above the EUR 100,000 guaranteed threshold. The actions taken do have an impact on our two investments in Iasi and Oradea which are discussed later.

The events in Cyprus brought added pressure to a banking system that last year is estimated to have accumulated a total loss of EUR 476 million. This is the largest loss recorded since the beginning of the crisis in 2008. Non-performing loans (NPLs) remained on a clear upward trajectory during 2012 (18.2% at the end of the year, up from 14.3 % at the end of 2011). The pace in the growth in NPLs accelerated during 2012 which was consistent with other statistics that showed an increasing number of companies entering the insolvency procedure in 2012 when compared with 2011.

Bulgaria

Bulgaria's gross domestic product has stagnated for the last three years with growth peaking in 2011 at 1.7%. In 2012, GDP growth was just 0.5% in the wake of the slump in the Euro Zone. Some experts believe that growth rates below 3% will not sustain the employment numbers and the rate for 2013 is forecast to remain well below this threshold and may return to 2% to 3% in 2014. This forecast comes on the heels of local analysts warning that Bulgaria's economy will be struggling to survive another difficult year after three years of stagnation. Standard & Poor's Ratings Services stated in mid December 2012 that it expects real GDP growth of about 1.7% in 2013 and an average of 2.0% from 2013-2015, supported by a recovery in both

Report of the Manager continued

Economic and Political Overview continued

Bulgaria continued

domestic and external demand. The agency expects the current account deficit to remain close to balance in 2012, before slipping back into a deficit as domestic demand gradually recovers and the trade deficit widens over the next three years.

The decline in GDP over the last twelve months is starting to feed into the unemployment rate which at the end of quarter 4 stood at 12.4%, an increase of 0.9% from quarter 3. The stronger pace of job contraction was broadly visible in the majority of economic industries and reflected in a further increase in the rate to 13.8% in quarter 1, 2013. The Ministry of Finance is forecasting further increases in unemployment during 2013.

To compound matters, the Bulgarian government resigned in February 2013, four months before the end of its term, after mass protests over living standards, corruption and organized crime. Half of the population is perceived to be at risk of being in poverty. The President appointed an interim government to run the country and elections were held on 12th May 2013. Against the backdrop of one of the lowest turnouts, no party gained a majority and as a result the country currently has no elected Government. Bulgaria urgently needs a new government to negotiate EU funds for the next seven years, draft the 2014 budget and address popular anger.

Inflation, measured by the Consumer Price Index (CPI) in Bulgaria, increased 0.3% to 4.2% in December 2012 following a two month decline of 1% to 3.9% in November 2012. Annual average inflation during 2012 was 3.0%.

Consumer Confidence in Bulgaria fell 4.3 points in the final quarter of 2012 to -42.3 from -38.0 in the third quarter.

Following limited global appetite for investment risk and the problems within the EU, Foreign Direct Investments (FDI) for 2012 remained low at EUR 1,398 million or 3.5% of GDP compared to EUR 1,746 million or 4.5% of GDP in 2011. This decline has continued into 2013 with January and February recording a 90% plus decline against a similar period in 2012.

Property Market Overview

Romania

Office Market

In quarter 4 only two small office buildings totalling c. 4,800 sqm were delivered to the market which took the total annual office supply to 49,000sqm. According to Jones Lang LaSalle Inc this represents 54% of the 2011 supply and only 17% of the supply in 2010. A number of deliveries and completions were postponed during 2012 which affected the annual supply.

In quarter 4 the total take up of office space reached 77,000sqm within which, renewals represented 60%. New leases contributed approximately 20,000 sqm with the average leased area not exceeding 800 sqm. Only 20% of leases signed exceeded 1,000 sqm. Full year take up reached 240,000sqm, slightly below 2011 however, there was a significant shift in the constituent parts with 26% represented by new leases in 2012 against 50% in 2011, while lease renewals increased from 22% in 2011 to 30% in 2012.

Prime headline rent remained unchanged at the end of the final quarter of 2012 at EUR 18.5 per sqm per month. These levels are expected to soften slightly during the first half of 2013. Incentive packages offered by landlords continue to be common practice although the value will vary significantly depending upon the type of space being let. The overall vacancy rate in the City of Bucharest is estimated at 16% but there are significant variations depending on submarket and even by property.

Currently the 2013 office pipeline is estimated at 130,000 - 150,000 sqm with approximately 50,000sqm already preleased. For 2014, the supply is estimated to increase by a further 70,000 - 90,000sqm. The specification of new buildings is improving

Report of the Manager continued

Property Market Overview continued

Romania continued

Office Market continued

and most developers are looking for energy efficient and green certificated buildings, following both occupier and investor interest for such improvements.

Retail

In the fourth quarter of 2012 the main activity was provided by hypermarket operators with three new openings in Bucharest: Kaufland on Soseaua Mihai Bravu; Cora on Soseaua Alexandriei and Auchan City in Giulesti. Outside of Bucharest two new openings occurred, Ploiesti Shopping City and Cora Bacau. Including these openings, shopping centre stock increased to 0.83 million sqm in Bucharest and to 1.53 million sqm for the rest of the country.

International retailers continued their aggressive expansion plans and are taking advantage of the availability of prime retail space and the current suppressed market conditions. Fashion retailers such as H&M, Inditex, Takko, Deichman, C&A and food retailers such as Mega Image, Profi and Carrefour were among the most active during this period.

The takeover by Auchan of the Real operations in Eastern Europe will create the 3rd largest retailer in the market after Metro and Kaufland, with 31 units across the country. The merger is currently awaiting the Competition Council's green light for completion.

Prime shopping centre rents were quoted at EUR 60-70 per sqm per month and high street units around EUR 60-65 per sqm per month. Rents are expected to soften during 2013 especially for high street units.

The supply pipeline is estimated at 132,000 sqm in 2013 and 166,000 sqm in 2014. The low estimated supply compared with previous years is materially affected by the lack of adequate financing facilities.

Bulgaria

Retail

The Bulgarian retail market is starting to develop leisure led shopping malls with the successful opening of Bulgaria Mall (Gross Lettable Area (GLA) 33,000 sqm) in December 2012. There are another four shopping centres scheduled for completion by the end of 2013 three in Sofia - Paradise Center (GLA 80,000 sqm) which opened in March, South Ring Mall (GLA 72,000 sqm) and Mega Mall (GLA 24,000 sqm) and one in Bourgas - the Strand (GLA 30,500). The Strand is Bulgaria's first open air shopping centre. Also opened in quarter 4 was the 12,700sqm GLA Carrefour Centrel in Stara Zagora. With the opening of these malls the average leasable area per 1,000 inhabitants by the end of 2013 will have increased to approximately 115 sqm which compares to 247 sqm for the rest of Europe as a whole or 200 sqm in CEE. The forthcoming year is likely to be extremely challenging for the retail sector with 215,000 sqm under construction throughout the country.

The continued decreasing consumer spending power and discretionary spending is reflected in declining demand for retail space in shopping malls. The lower demand is also attributable to lower levels of liquidity reflected in the provision of finance for local businesses and franchisees. Expansion tends to be in areas with a proven return on investment or malls with strong anchor tenant(s) which will increase footfall. Global financial difficulties ensured that there were fewer new entrants to the market in 2012 which in turn led to lower levels of leasing activity. The oversupply, exacerbated by the quarter 4 openings has given retailers the opportunity to negotiate favourable lease terms.

The lack of demand for space has resulted in steadily decreasing rental levels throughout 2012. Average rental levels throughout Bulgaria have fallen 8% on a year on year basis to approximately EUR 12.00 per sqm whilst in Sofia the decline has

Report of the Manager continued

Property Market Overview continued

Bulgaria continued

Retail continued

been slightly less at 6% year on year. The largest decline during 2012 was recorded in Stara Zagora where rental levels declined 18% to EUR 11.00 per sqm.

The delivery of Bulgaria Mall in Sofia has increased the vacancy rate in the capital to 11% or 28,700 sqm. The amount of space being marketed in the capital is significantly higher than this because the other Malls which are coming on stream during the current year are also vying for tenants and the total is estimated at 141,000 sqm or 32.6% of total space. The vacancy rate in the rest of the country, ex Sofia, fell 2.9% in quarter 4 from quarter 3 ending the year at 21.6%. This decline was achieved through cities such as Rousse and Plovdiv where aggressive lease terms were given to secure tenants. (Source: MBL CBRE).

The major factor in the overall decline in vacancy rates has been the constant decrease in rental levels. In quarter 3 rental levels remained virtually unchanged but it is not clear if rents have reached sustainable levels. Average rental levels in Bulgaria are around €12.20 per sqm per month, a decline of 10% year on year. Outside of Sofia the average monthly rental has declined by almost 20% to €10.30 per sqm per month.

The level of activity in the Bulgarian commercial property market, similar to other CEE markets remained idle throughout 2012. High borrowing costs and increasing uncertainty over the future of economic growth within the EU were the main reasons for low market liquidity. Across Europe the main asset allocation during 2012 was towards offices as opposed to retail and it is anticipated that risk-averse strategies in strong markets for core product will be the maintained throughout 2013.

Project Reviews

Galleria Plovdiv

In December 2012, 3,800 sqm, representing approximately 7% of the retail area, opened for trading, while around 4% of the GLA closed during quarter 4. This had a net positive effect on overall occupancy increasing it to 64% of the leasable area. During quarter 4 2012, Galleria Plovdiv managed to sign new lease agreements totalling 4,200 sqm of retail area which opened to the public during January 2013, driving occupancy close to 75% of the leasable area. The importance of this threshold is that it will trigger letting threshold conditions for the three major tenants in the scheme in respect of rental payment.

The Company continues to negotiate with the bank to restructure the banking facility, which is presently in default and there appears to be a consensus to find a solution. The Directors, on behalf of the Company have committed to inject further loans, alongside our partners once a solution has been found to the restructuring. Any further equity injection by the Company will be subject to strict conditions and will require advance approval of the Directors of the Company.

The shareholders have provided limited temporary funding to support the project in terms of necessary capital investment for the fit-out works related to the new retail space as well as to cover the operational shortfall until the end of 2012.

Mega Mall Rousse

During quarter 4 2012, occupancy increased to approximately 60% with the reopening of the supermarket, the opening of 1,650 sqm of retail space and the first unit in the food court area.

Despite the achieved increase in occupancy additional leasing is still proving to be difficult. At the moment an additional 1,200 sqm or 6% of the GLA is under detailed negotiation but, as previously announced is highly dependent upon fit-out contributions.

The Company continues to negotiate with the bank to restructure the banking facility, which is presently in default.

Report of the Manager continued

Project Reviews continued

Trade Centre Sliven

The company's cash is still deposited in three banks to maintain security but at the expense of higher interest revenue. The operating company made a distribution of retained profits in quarter 1 2013 which enabled our partner to partially repay the outstanding loan to ECDC.

As previously announced, there has been no change in the position regarding the development itself and the Manager is considering various alternatives for the site.

Bourgas Retail Park

There has been no further progress made with this development.

Romanian Assets

Cascade

During quarter 4 2012, another 355 sqm was let, which took the occupancy levels to 98.6%. Rental levels achieved were in line with market rates for properties located in this region. The remaining available space has been let earlier this year.
The company is able to meet all of its current banking obligations and all operational expenses are fully serviced from the cash flow of the company. The new loan should be fully repaid by April 2014.

The Manager and the partner are actively looking to improve the profile of the asset through various asset management initiatives.

Oradea Shopping Centre

The Oradea construction bank loan facility is fully drawn and Argo has requested a rescheduling of payments and an interest rate reduction. In addition, the availability period for the standby facility of €1.3m required for tenant fit out works needs to be extended as five leases which have been signed cannot be completed through a lack of fit out contributions. Although the majority of terms are accepted by the lenders, the interest rate reduction seems to be the main issue in resolving the restructuring.

Mobexpert, Naturlich and other furniture stores opened this year and are trading above expectations. This part of the scheme has been branded as ERA Home Centre and now offers the largest selection of home decoration and furnishings in the region.

Iasi Shopping Centre

Competition in the City increased with the opening of the 45,000 sqm Palas scheme in the city centre. This attracted a number of new retailers to the city and reduced traffic and sales in the other shopping centres in the city. Although traffic at ERA has now returned to pre Palas opening, it is clear that sales for the fashion retailers have declined. This fact is also true for the other two main shopping centre schemes in the City. Occupancy remains at 97.8% after the manager had secured a further 21 lettings in 2012.

Construction of the 28,000 sqm Mall extension has been delayed pending finalisation of the debt facility. The restructuring of the existing facility has received credit committee approvals, although the lenders have delayed finalisation until completion of the Oradea re-structuring. The Mall currently has all permits necessary to commence construction and negotiations are progressing with a number of contractors. Assuming finalisation of the facility, the current construction program envisages delivery of Phase 1, 15,000 sqm in twelve months and Phase 2 of 13,000 sqm in the next eight months.

Report of the Manager continued

Project Reviews continued

Argo Real Estate Opportunities Fund

In June 2012 the Fund announced a new facility of €29.3m with Proton Bank with an improved interest rate. The first interest period was to 31st December 2012. The Fund has subsequently announced that because of difficulties it has experienced in up-streaming excess cash from its development in Odessa Ukraine, it has requested a two month deferral to 28th February 2013 of the interest payment which was due on 31st December 2012. On 12th April 2013, the Company, through its investment vehicle issued Put notices to AREOF requiring AREOF to purchase all of the respective shares and make payment of a preferred return at the expiration of the notice period. The Put option period expires 6 months from the date of the notice.

Asmita Gardens

The Company is not expected to recover any of its investment following the insolvency process.

Baneasa

There have been no significant developments in this project since the last Shareholders Report.

Charlemagne Capital (IOM) Limited

24 June 2013.

Report of the Directors

The Directors hereby submit their annual report together with the audited consolidated financial statements of European Convergence Development Company plc (the "Company") and its subsidiaries and joint venture associates (together, the "Group") for the year ended 31 December 2012.

The Company
The Company is incorporated in the Isle of Man and was established to enable investors to take advantage of opportunities that exist in the property markets of South-East Europe.

Results and Dividends
The results and position of the Group and the Company at the year end are set out on pages 19 to 44 of the financial statements.

The Directors will decide in respect of any 12 month accounting period as to what percentage of the Company's realised net profits available for distribution (if any) they will recommend as the sum for payment as a dividend. This decision will take into account the opportunities available to the Company for further investment. The Directors may pay half-yearly interim dividends if they believe that the financial position of the Company justifies it. If the Company's funds are fully invested, the Directors may re-invest some of the Company's profits into the maintenance of the Company's property portfolio or on further investments.

The Directors do not intend to declare a dividend at this time.

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

James Rosapepe
Donald McCrickard
Anderson Whamond

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

None of the Directors have a direct or indirect interest of the shares in the Company.

Charlemagne Capital (Investments) Limited (a subsidiary of Charlemagne Capital Limited), holds 125,000 shares of the Company. A number of companies managed by the Manager also have holdings in the Company.

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

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

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

Report of the Directors continued

Board of Directors

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

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

Audit Committee

The Audit Committee consists of the Board members. To be quorate, at least two offshore Directors must be present, with the majority of the committee also being independent of the management of the Company. The Committee overviews the adequacy of the Company's internal controls, accounting policies and financial reporting and provides a forum through which the Company's external auditors report to the Company.

Internal Control

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

On behalf of the Board

Anderson Whamond
Chairman
24 June 2013

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and the Consolidated Financial Statements in accordance with applicable law and regulations. In addition, the Directors have elected to prepare the Group and Parent Company financial statements in accordance with International Financial Reporting Standards as adopted by the EU.

The Group and Parent Company's financial statements are required to give a true and fair view of the state of affairs of the Group and the Parent Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with International Financial Reporting Standards as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Parent Company'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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation governing the preparation and dissemination of financial statements may differ from one jurisdiction to another.

On behalf of the Board

Anderson Whamond
Chairman

24 June 2013

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

We have audited the consolidated financial statements of European Convergence Development Company plc for the year ended 31 December 2012 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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 Statement of Directors' Responsibilities set out on page 16, the Directors are responsible for the preparation of consolidated financial statements that give a true and fair view. Our responsibility is to audit, and express an opinion on, the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the consolidated financial statements

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

Opinion on the consolidated financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's and Parent Company's affairs as at 31 December 2012 and of the Group's loss for the year then ended; and
- have been properly prepared in accordance with IFRSs as adopted by the EU.

Emphasis of matter

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

As disclosed in note 4.1 to these consolidated financial statements, the global financial crisis and the deteriorating economic environment in the jurisdictions within which the Group operates have increased the intensity of the risk factors to which the Group is exposed. In particular, there is now increased uncertainty as to the valuation of property assets held by equity accounted investees, along with the recoverability of loans made by the Group to third parties. Further, a significant reduction in the availability of loan finance has resulted in equity accounted investees needing to re-negotiate terms with banks and to seek additional capital contributions from the Group in order that ongoing projects can be completed. The Board have made a number of estimates and assumptions in respect of future events, the outcome of which remains uncertain in light of the challenging economic climate and further impairments may be necessary.

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

Emphasis of matter continued

The ability of the equity accounted investees to secure continued funding is a significant factor influencing the estimates derived.

KPMG Audit LLC
Chartered Accountants, Heritage Court, 41 Athol Street, Douglas, Isle of Man IM99 1HN
25 June 2013

Consolidated Income Statement

	Note	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
Net changes in fair value on financial assets at fair value through profit or loss		-	-
Annual management fees	7.3	(472)	(606)
Audit fees	8.4	(163)	(75)
Legal and professional fees		(67)	(115)
Directors' fees	15	(72)	(75)
Administration fees	8.2	(57)	(58)
Other operating expenses	8.3	(371)	(295)
Administrative expenses		(1,202)	(1,224)
Net operating loss before net financing income		(1,202)	(1,224)
Financial income		33	38
Financial expenses		-	-
Net financing income	5	33	38
Share of profit of equity accounted investees	9	448	289
Impairment in value of equity accounted investees	9	(1,234)	(10,557)
Uplift in value of equity accounted investees	9	1,258	5,669
Loss before tax		(697)	(5,785)
Income tax (expense)/credit	16	(4)	167
Retained loss for the year		**(701)**	**(5,618)**
Basic and diluted loss per share (€)	12	**(0.0078)**	**(0.0621)**

The Directors consider that all results derive from continuing activities.

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
Loss for the year		(701)	(5,618)
Other comprehensive income			
Currency translation differences		-	-
Total comprehensive loss for the year		(701)	(5,618)

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

Consolidated Statement of Financial Position

	Note	At 31 December 2012	At 31 December 2011
		€'000	€'000
Investment in equity accounted investees	9	23,185	22,083
Property, plant and equipment		1	1
Total non-current assets		**23,186**	**22,084**
Loans to third parties	10	330	313
Trade and other receivables		58	67
Cash and cash equivalents	4.4	3,677	5,461
Total current assets		**4,065**	**5,841**
Total assets		**27,251**	**27,925**
Issued share capital	11	71,644	72,412
Share premium		10,577	9,841
Foreign currency translation reserve		4	4
Retained losses		(55,272)	(54,571)
Total equity		**26,953**	**27,686**
Trade and other payables	13	298	239
Total current liabilities		**298**	**239**
Total liabilities		**298**	**239**
Total equity & liabilities		**27,251**	**27,925**

Approved by the Board of Directors on 24 June 2013

Director **Director**

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

Company Statement of Financial Position

	Note	At 31 December 2012	At 31 December 2011
		€'000	€'000
Investment in equity accounted investees	9	2,163	2,557
Total non-current assets		**2,163**	**2,557**
Intragroup balances	7.5	24,826	25,156
Trade and other receivables		13	16
Cash and cash equivalents	4.4	43	30
Total current assets		**24,882**	**25,202**
Total assets		**27,045**	**27,759**
Issued share capital	11	71,644	72,412
Share premium		10,577	9,841
Retained losses		(55,268)	(54,567)
Total equity		**26,953**	**27,686**
Trade and other payables	13	92	73
Total current liabilities		**92**	**73**
Total liabilities		**92**	**73**
Total equity & liabilities		**27,045**	**27,759**

The loss made by the Company for the year ended 31 December 2012 was €701 thousand after an impairment charge against intragroup balances amounting to €1.7 million (primarily a result of the provisions made against the investments held by the Company's subsidiaries) (2011: €5.6 million loss with an impairment charge of €7.1 million).

Approved by the Board of Directors on 24 June 2013

Director **Director**

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

Consolidated Statement of Changes in Equity

	Share capital	Share premium	Foreign currency translation reserve	Retained earnings	Total
	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2011	72,412	9,841	4	(48,953)	33,304
Loss for the year	-	-	-	(5,618)	(5,618)
Other comprehensive income					
Foreign exchange translation differences	-	-	-	-	-
Total comprehensive loss	-	-	-	(5,618)	(5,618)
Shares cancelled following market purchases	-	-	-	-	-
Total transactions with owners in the year	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2011	**72,412**	**9,841**	**4**	**(54,571)**	**27,686**

Balance at 1 January 2012	72,412	9,841	4	(54,571)	27,686
Loss for the year	-	-	-	(701)	(701)
Other comprehensive income					
Foreign exchange translation differences	-	-	-	-	-
Total comprehensive loss	-	-	-	(701)	(701)
Shares cancelled following market purchases	(768)	736	-	-	(32)
Total transactions with owners in the year	**(768)**	**736**	**-**	**-**	**(32)**
Balance at 31 December 2012	**71,644**	**10,577**	**4**	**(55,272)**	**26,953**

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

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2012 €'000	Year ended 31 December 2011 €'000
Operating activities			
Group loss for the year		(701)	(5,618)
Adjustments for:			
Net financial income		(33)	(38)
Net rent and related income		-	-
Income tax expense/(credit)		4	(167)
Share of gain of equity accounted investees	9	(448)	(289)
Net (uplift)/impairment in value of equity accounted investees	9	(24)	4,888
Operating loss before changes in working capital		**(1,202)**	**(1,224)**
Decrease/(increase) in trade and other receivables		9	(14)
Increase/(decrease) in trade and other payables		59	(231)
Cash used in operations		**(1,134)**	**(1,469)**
Financial income received		33	38
Tax (paid)/reclaimed		(4)	167
Cash flows used in operating activities		**(1,105)**	**(1,264)**
Investing activities			
Disposal/(acquisition) of equity accounted investees	9	-	(278)
Increase in loans to equity accounted investees	9	(630)	(34)
(Increase)/decrease in loans to third parties	10	(17)	11
Disposal of property, plant & equipment		-	1
Cash flows used in investing activities		**(647)**	**(300)**
Financing activities			
Proceeds from the issue of ordinary share capital		-	-
Purchase of own shares	11	(32)	-
Share issue expenses		-	-
Cash flows used in financing activities		**(32)**	**-**
Net decrease in cash and cash equivalents		(1,784)	(1,564)
Cash and cash equivalents at beginning of year		5,461	7,025
Cash and cash equivalents at end of year		**3,677**	**5,461**

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

Notes to the Consolidated Financial Statements

1 The Company

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

Following the close of the Company's first placing of Ordinary Shares on 12 September 2006 38,071,000 shares were issued. On 21 September 2007, a further 63,157,894 Ordinary Shares were issued and placed, bringing the Company's total issued share capital to 101,228,894 Ordinary Shares.

During the year to 31 December 2008 the Company purchased 9,593,424 of its own shares for cancellation at an average price of €0.52. On 6 March 2009 the Company purchased a further 1,120,000 of its own shares for cancellation at an average price of €0.18. During the year to 31 December 2012 the Company purchased 960,000 of its own shares for cancellation at an average price of €0.033. At the year end the Company had 89,555,470 shares in issue.

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

Duration

In accordance with the Company's Articles of Association, Shareholders will be given the opportunity to vote on the life of the Company after approximately 10 years.

Dividend Policy

The Directors will decide in respect of any 12 month accounting period as to what percentage of the Company's realised net profits available for distribution (if any) they will recommend as the sum for payment as a dividend. This decision will take into account the opportunities available to the Company for further investment. The Directors may pay half-yearly interim dividends if they believe that the financial position of the Company justifies it. If the Company's funds are fully invested, the Directors may re-invest some of the Company's profits into the maintenance of the Group property portfolio or on further investments.

Financial Year End

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

2 The Subsidiaries

For efficient portfolio management purposes, the Company established the following subsidiary companies:

	Country of Incorporation	Percentage of shares held
European Property Development Corporation SRL	Romania	100%
European Convergence Development (Cayman) Limited	Cayman	100%
Convergence Development (Cyprus) Limited	Cyprus	100%
European Convergence Development (Malta) Limited	Malta	100%
European Real Estate Development Invest SRL	Romania	100%
European Property Acquisitions EOOD	Bulgaria	100%
Asmita Holdings Limited	Cyprus	100%
ECD Management (Cayman) Limited	Cayman	100%
RD Management (Cayman) Limited	Cayman	100%

Notes to the Consolidated Financial Statements continued

3 Joint Ventures ("JV")

The Group as at the date of this document had acquired an interest in the following companies:

	Country of Incorporation	Percentage of shares held
Asmita Gardens SRL	Romania	50%
Cascade Park Plaza SRL	Romania	40%
Convergence Development Invest SRL	Romania	50%
Galleria Plovdiv AD	Bulgaria	40%
Mega Mall Rousse AD	Bulgaria	50%
Trade Centre Sliven EAD	Bulgaria	42.5%
Turgovski Park Kraimorie AD	Bulgaria	60%
NEF3 (IOM) 1 Limited	Isle of Man	55%
NEF3 (IOM) 2 Limited	Isle of Man	55%
NEF3 (IOM) 3 Limited	Isle of Man	55%

Notwithstanding the Group's percentage holdings, the above companies have not been consolidated as the Group's control is restricted by Joint Venture Agreements.

4 Significant Accounting Policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below.

The annual report of the Company for the year ended 31 December 2012 comprises the Company, its subsidiaries and joint ventures (together referred to as the "Group").

The annual report was authorised for issue by the Directors on 24 June 2013.

4.1 Basis of presentation

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

The preparation of the financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. Actual results may differ from these estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the Company's accounting policies. The Directors consider that the valuation of the Group investments in equity accounted associates is an area where critical accounting estimates are required. Further detail on the valuation of the investments can be found in notes 9 and 17.

The activities of the Group, including its equity accounted investees, are subject to a number of risk factors. The global financial crisis and the deteriorating economic environment in the jurisdictions within which the Group operates have increased the intensity of these risk factors. The future economic outlook presents specific challenges in terms of the significant reduction in the volume of property transactions in the jurisdictions within which the Group operates, the significant reduction in the availability of loan finance for property transactions in those jurisdictions and the consequent impact on the valuations of property held by equity accounted investees.

In the prevailing market conditions, there is a greater degree of uncertainty as to the valuation of property assets than that which exists in a more active and stronger market. These factors have adversely impacted the compliance of equity accounted investees with their borrowing covenants and a number of these facilities have been renegotiated, whilst the Group has made additional capital available to certain entities in order that ongoing projects can be completed. Collectively, these factors contribute to a greater degree of uncertainty as to the valuation of holdings in equity accounted investees.

Notes to the Consolidated Financial Statements continued

4 Significant Accounting Policies continued

4.1 Basis of presentation continued

These factors have also impacted on the ability of joint venture partners to repay loans made by the Group and as a result have caused repayment terms for these facilities to be re-negotiated.

The valuations of property held by the equity accounted investees are based on a number of assumptions, including those in respect of projected occupancy levels and rental yields achievable, along with the ability of the Group to renegotiate funding to allow the equity accounted investees to continue in operation. In light of the challenging economic climate, the ultimate outcomes of these estimates remains uncertain and therefore further impairments against the Group's holding in equity accounted investees may be necessary.

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

4.2 Functional and presentation currency and foreign currency translation

Euro (€) is the currency of the primary economic environment in which the entity operates (the "functional currency"). This is also the functional currency of the subsidiaries.

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

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

Components of equity are translated at the date of the relevant transaction and not retranslated. All resulting exchange differences are recognised in equity.

4.3 Deposit interest

Deposit interest is accounted for on an accruals basis.

4.4 Cash and cash equivalents

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

4.5 Revenue and expense recognition

Interest income is recognised in the financial statements on an accruals basis. Dividend income is recorded when the right to receive payment is established.

Rental income from investment property leased out under an operating lease is recognised in the income statement on a straight-line basis over the term of the lease.

Expenses are accounted for on an accrual basis. Expenses are charged to the income statement except for expenses incurred on the acquisition of an investment property which are included within the cost of that investment. Expenses arising on the disposal of an investment property are deducted from the disposal proceeds.

Notes to the Consolidated Financial Statements continued

4 Significant Accounting Policies continued

4.6 Basis of consolidation

Subsidiaries

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

Transactions eliminated on consolidation

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

Joint ventures (equity accounted investees)

Investments in joint ventures are initially recognised at cost. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and joint ventures are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Group's share of the income and expenses of the equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investment) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

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

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

Financial statements of foreign operations

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

4.7 Dividends

Dividends are recognised as a liability in the year in which they are declared and approved. Any interim dividends declared do not need to be approved by the members. There was no dividend declared as at 31 December 2012 (2011: € Nil).

Notes to the Consolidated Financial Statements continued

4 Significant Accounting Policies continued

4.8 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, cash and cash equivalents, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss are recognised on the trade date – the date on which the Group becomes a party to the contractual provision of the investment. Investments are initially recognised at fair value and transaction costs for all financial assets at fair value through profit or loss are expensed as incurred in the income statement. Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value based on quoted prices. All related realised and unrealised gains and losses arising from changes in fair value of the financial asset are included in the income statement in the period in which they arise, net of transaction costs. The computation of realised gains and losses on sale of investments is made on the average cost basis.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except where their maturities are greater than 12 months after the statement of financial position date. These are classified as non-current assets. The Group's loans and receivables comprise 'loans to third parties' and 'trade and other receivables' in the balance sheet.

A financial asset not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security.

4.9 Trade and other receivables

Trade and other receivables and loans to third parties are stated at their cost, less any impairment losses.

4.10 Trade and other payables

Trade and other payables are stated at their cost.

4.11 Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Borrowing costs directly attributable to assets in the course of construction are capitalised.

4.12 Share capital

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

Notes to the Consolidated Financial Statements continued

4 Significant Accounting Policies continued

4.12 Share capital continued

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes any directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Any resulting surplus or deficit on the transaction is presented in share premium.

4.13 Segmental reporting

The Company has one segment focusing on maximising total returns through investing in the property markets of South East Europe. Further analysis of the Group’s exposure in this region is provided in notes 9 and 10. No additional disclosure is required in relation to segment reporting, as the Company’s activities are limited to one business and geographic segment.

4.14 Adoption of new and revised International Financial Reporting Standards (IFRSs)

a) The Group has adopted the following amendments to IFRSs that were effective for the first time and were required to be applied for annual reporting periods beginning on 1 January 2012:

Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) - Makes amendments to IFRS 7 Financial Instruments: Disclosures resulting from the IASB's comprehensive review of off balance sheet activities.

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - The amendments require that an entity present separately the items of OCI that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss.

b) The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective in these financial statements:

IFRS 10 Consolidated Financial Statements: Insights into IFRS - Part of a new suite of standards on consolidation and related standards, replacing the existing accounting for subsidiaries and joint ventures (now joint arrangements), and making limited amendments in relation to associates.

IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities. It provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12.

IFRS 11 Joint Arrangements: Insights into IFRS - Part of a new suite of standards on consolidation and related standards, replacing the existing accounting for subsidiaries and joint ventures (now joint arrangements), and making limited amendments in relation to associates.

IFRS 12 Disclosure of Interests in Other Entities: Insights into IFRS - Part of a new suite of standards on consolidation and related standards, replacing the existing accounting for subsidiaries and joint ventures (now joint arrangements), and making limited amendments in relation to associates.

Contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities.

IFRS 13 Fair Value Measurements - New standard to replace existing guidance on fair value measurement in different IFRSs with a single definition of fair value, a framework for measuring fair values and disclosures about fair value measurements.

Standard applies to assets, liabilities and an entity’s own equity instruments that, under other IFRSs, are required or permitted to be measured at fair value or when disclosure of fair value is provided.

Notes to the Consolidated Financial Statements continued

4 Significant Accounting Policies continued

4.14 Adoption of new and revised International Financial Reporting Standards (IFRSs) continued

Fair value defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price.

IAS 28 Investments in Associates and Joint Ventures (2011) - IAS 28 is amended to clarify the disclosures required by an investor in an associate that accounts for its investment in an associate at fair value through profit or loss in accordance with IAS 39.

IAS 28 is amended to clarify how to account for impairment losses and reversals on an investment in an associate.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) - The amendments exempt an investment entity from the requirement to consolidate the investments that it controls. Instead, it accounts for these investments at fair value through profit or loss.

IFRS 9 Financial Instruments: Insights into IFRS - First chapters of new standard on accounting for financial instruments which will replace IAS 39 Financial Instruments: Recognition and Measurement.
The standard contains two primary measurement categories for financial assets:
- amortised cost; and
- fair value.

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

5 Net Financing Income

Net financing income consists of bank interest earned of €32,983 (2011: €38,480) and loan arrangement fees of €nil (2011: €nil).

6 Net Asset Value per Share

The net asset value per share as at 31 December 2012 is €0.3010 (2011: €0.3059) based on 89,555,470 (2011: 90,515,470) ordinary shares in issue as at that date.

7 Related Party Transactions

7.1 Directors of the Company

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

A subsidiary company of the Manager, Charlemagne Capital (Investments) Limited, holds 125,000 shares of the Company and holds 356,751 shares in Trade Center Sliven (coinvested with the Group and a JV partner). Charlemagne BRIC Plus Property Company plc, an investment company also managed by the Manager, holds 218,014 shares in Trade Center Sliven.

Charlemagne Global Opportunities Limited, the Templeton World Charity Foundation and Magna UAF Fund, investment companies also managed by the Manager, hold 7,626,320, 1,981,359 and 165,000 shares respectively in the Company at 31 December 2012.

Notes to the Consolidated Financial Statements continued

7 Related Party Transactions continued

7.1 Directors of the Company continued

CCL, a company incorporated in the Cayman Islands, is listed on the Alternative Investment Market ('AIM') of the London Stock Exchange.

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

7.2 Directors of the Subsidiaries

Certain directors of the Manager have been appointed as directors of some of the subsidiaries. In compliance with local regulations, certain subsidiaries have appointed directors who are employees of or are associated with, the relevant registered office service provider.

7.3 Manager fees

Annual fees
The Manager is entitled to an annual management fee of 2% of the net asset value of the Company, payable quarterly in arrears.

The Manager shall also be entitled to recharge to the Company all and any costs and disbursements reasonably incurred by it in the performance of its duties including costs of travel save to the extent that such costs are staff costs or other internal costs of the Manager. Accordingly, the Company shall be responsible for paying all the fees and expenses of all valuers, surveyors, legal advisers and other external advisers to the Company in connection with any investments made on its behalf. All amounts payable to the Manager by the Company shall be paid together with any value added tax, if applicable.

Annual management fees payable during the year ended 31 December 2012 amounted to €472,396 (2011: €605,800).

Performance fees
The Manager is entitled to a performance fee payable at the end of each financial year following the first listing of the Ordinary Shares on AIM or any other stock exchange of an amount equal to 15% of any excess of the net asset value per Ordinary Share (with any dividends added back) over the Benchmark Net Asset Value per Ordinary Share multiplied by the time weighted average number of shares in issue during that financial year. For these purposes the Benchmark Net Asset Value shall be equal to the higher of (i) the subscription price per Ordinary Share on the first listing of the Ordinary Shares; (ii) 0.80 Euros increased by 20% per annum compound from the closing of the Placing until a Listing; and (iii) the highest net asset value per Ordinary Share following a Listing and giving rise to the payment of a performance fee.

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

Performance fees payable during the year ended 31 December 2012 amounted to €nil (2011: €nil).

7.4 Transactions and balances with Joint Venture companies and partners

The Group has made loans to Joint Venture Companies totalling €44,731,000 (2011: €43,174,000) and to Joint Venture Partners totalling €5,990,000 (2011: €5,553,000). Details of the terms and applicable interest rates for these loans are more fully shown in note 9 and note 11.

Notes to the Consolidated Financial Statements continued

7 Related Party Transactions continued

7.5 Intragroup balances

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

8 Charges and Fees

8.1 Nominated Adviser and Broker fees

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

Advisory fees payable to the Nominated Adviser and Broker for the year ended 31 December 2012 amounted to €38,466 (31 December 2011: €35,786).

8.2 Administrator and Registrar fees

The Administrator is entitled to receive a fee of 8 basis points of the net assets of the Company, subject to a minimum monthly fee of €4,000, payable quarterly in arrears.

The Administrator shall assist in the preparation of the financial statements of the Company for which it shall receive a fee of €2,500 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 p.a. For attendance at meetings not held in the Isle of Man, an attendance fee of €750 per day or part thereof will be charged.

The Administrator may utilise the services of a CREST accredited registrar for the purposes of settling share transactions through CREST. The cost of this service will be borne by the Company. It is anticipated that the cost will be in the region of £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 closure of the initial offering period and annually thereafter.

Administration fees payable for the year ended 31 December 2012 amounted to €56,769 (2011: €57,600).

8.3 Other operating expenses

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

8.4 Audit fees

Audit fees payable for the year ended 31 December 2012 amounted to €162,891 (2011: €75,559).

Notes to the Consolidated Financial Statements continued

9 Investment in Equity Accounted Investments

Group	31 December 2012 €'000	31 December 2011 €'000
At beginning of year	22,083	26,370
Acquisition of equity accounted investment	-	278
Recovery in loans to investments	630	34
Share of profit of equity accounted investment	448	289
Net uplift/(impairment) on value of equity accounted investments	24	(4,888)
Balance at end of year	23,185	22,083

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

Name	Term	Maturity date	Interest Rate	31 December 2012 €'000
Asmita Gardens SRL	*	31 December 2012	6%	16,681
Galleria Plovdiv AD	*	*	0%**	10,000
Convergence Development Invest SRL				4,361
Cascade Park Plaza SRL	*	*	***	4,510
Turgovski Park Kraimorie AD	*	*	0%**	9,179

* Loans are due to be repaid after the project sale.

** Interest is nil until the loan is due for payment. In case of default interest will be charged at a rate of 3M EURIBOR plus 10%.

******* Interest is nil, but in return for the provision of the loan, the Group is entitled to be paid a penalty at an Internal Rate of Return equating to 20% by the Group's partner in Cascade.

At the previous year end, the loans to equity accounted investees were as follows:

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

* Loans are due to be repaid after the project sale.

** Interest is nil until the loan is due for payment. In case of default interest will be charged at a rate of 3M EURIBOR plus 10%.

******* Interest is nil, but in return for the provision of the loan, the Group is entitled to be paid a penalty at an Internal Rate of Return equating to 20% by the Group's partner in Cascade.

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

Name	Value at 31 December 2012 €'000	Value at 31 December 2011 €'000
Cascade Park Plaza SRL	15,783	14,015
Galleria Plovdiv AD	1,500	1,500
Mega Mall Rousse	-	-
Trade Centre Sliven EAD	1,876	1,876
Turgovski Park Kraimorie AD	1,863	2,135
NEF3 (IOM) 1 Limited*	1,158	983
NEF3 (IOM) 2 Limited*	409	357
NEF3 (IOM) 3 Limited*	1,438	1,217
Impairment provision	(842)	-
	23,185	22,083

* held directly by the Company.

Notes to the Consolidated Financial Statements continued

9 Investment in Equity Accounted Investments continued

Valuation of Assets as at 31 December 2012

All the properties were subject to external and independent valuations for the year ended 31 December 2011. This resulted in the impairment of some properties since valuations were below outstanding bank loans. The situation in respect of these properties has been closely monitored during this financial year and given the continuing difficult economic conditions it is felt appropriate that the bases for these impairments still exist. In the cases where carrying values are still relevant external and independent valuations have been carried out as at 31 December 2012.

All the valuations were carried out by independent firms of international valuers with a local presence in the region. They were each asked to provide the current market value for each property under latest International Valuation Standards published in 2012. These state that three main approaches can be used in real estate valuation: the cost approach, the income approach, and the sales comparison approach. All three are based on the economic principles of price equilibrium, anticipated benefits, and substitution. The final choice related to the methodology to be applied was determined by the valuer after the property inspection was conducted.

Impairment provision is in respect of accrued interest due from equity accounted investees.

BULGARIA

Galleria Plovdiv

The value of Galleria Plovdiv was impaired as at 31 December 2011 following the valuation carried out by Colliers International S.R.L. which included an estimated current market value of €49.7m. This valuation fell below the outstanding bank loan and therefore indicated a nil value realisable from this investment itself. Although there has been a recent improvement in occupancy levels additional leasing is still proving difficult and is highly dependent upon the successful implementation of the leasing strategy developed by the international consultant. The shareholders have provided very limited funding to support the project in 2013, mainly for the temporary extension of the interim asset manager until the end of April. However the project company has yet to successfully restructure its bank debt which is in default and there is an ongoing requirement for fresh cash injections to cover operational needs. The impairment in value therefore still applies.

€1.5m of the shareholder loans to Galleria are guaranteed by land collateral from the Joint Venture partner. This land, of circa 35,000 sqm is also in Plovdiv; however it is not as central as Galleria and is more fragmented. The land was valued at €1.53m in December 2012. Therefore Management have kept the value of the group's investment in Galleria Plovdiv at €1.5m.

Mega Mall Rousse

The Board decided to impair this asset down to nil as at 31 December 2011 following a valuation by SHM Smith Hodgkinson at €17.9m which is below the bank loan.

The Mall is approximately 60% let; however the leasing process continues to be difficult and is highly dependent on additional investment in fit-out contributions.

Following the year end, the Bank has taken actions which have added to the liquidity challenges already faced by the project company. The shareholders are seeking to agree terms with the Bank, and until such time as this situation can be resolved the full impairment of this investment remains appropriate.

Bourgas (Trade Park Kramoire)

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

Notes to the Consolidated Financial Statements continued

9 Investment in Equity Accounted Investments continued

Bourgas (Trade Park Kramoire) continued

The Manager has had the property valued by an independent surveyor who has valued the land at €3.9m. Other than the land and shareholder loans there are no other major assets or liabilities.

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

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

- If the loan is repaid: 60% of Bourgas, being €2.3m, plus the loan repayment (currently standing at €2.3m inclusive of interest), which is €4.6m or,
- If the loan is not repaid, then the Group will secure 100% of the shareholding by exercising its security, and therefore adopt 100% of the land value being €3.9 m.

The Group therefore values its holding in Bourgas at the lower figure of €3.9 m.

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

Whilst it may be possible to re-negotiate the actual amount paid, the Board has taken the conservative approach and assumed the full amount of €2.0m will need to be paid and has therefore provided for this amount against the €3.9m value of the land. This therefore reduces the current carrying value of the investment to €1.9m for 2012 (2011: €2.1m).

The loan to Sienit, of €2.3m including accrued interest, has been 100% provided for.

Trade Centre Sliven

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

Sliven has two main assets; being cash of €3.3m and land which was valued as at 31 December 2012 at €1.1m. There are no major liabilities in the company, so the NAV for the JV is €4.4m, valuing the Group's investment (of 42.5%) at €1.9m (2011 €1.9m)

As part of the purchase the Group also made a loan to the JV partner of €500k. During 2009 €160k of this loan was repaid, with a further €23k being repaid during 2010. The loan is secured against the wider assets of the partner. At the annual shareholders meeting on 16th April 2013 it was agreed that the project company will make a distribution of retained profits which enabled our partner to pay an amount of €247k after the year end making the balance outstanding as at May 2013 €83k.

ROMANIA

Cascade

Colliers International S.R.L valued Cascade at €50.1m, which is slightly up from the 2011 valuation of €49.8m. The valuer has used an exit yield of 7.0%.

Notes to the Consolidated Financial Statements continued

9 Investment in Equity Accounted Investments continued

Cascade continued

The property is now almost fully let. Following the repayment of the external loan, and an additional contribution of €0.5m the sale distribution waterfall would ensure that the Group would receive proceeds of €15.8m, a gain of €1.3 m over the 2011 carrying value of €14m in the event of a sale of the property at valuation.

NEF3

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

The return for Iasi and Oradea are supported with a put and call option over the assets of Argo Real Estate Opportunities Fund ("AREOF"), and the latest valuation of the Cascade property provides the Board with comfort as to the carrying value of the investment in Cascade. On 12th April 2013, the Company through its investment vehicle issued Put notices to AREOF requiring AREOF to purchase all of the respective shares and make payment of a preferred return at the expiration of the notice period. The Put option period expires 6 months from the date of the notice.

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

AREOF's recent audited financial statements have disclosed that they are in breach of loan covenants with two of its lending banks and that they are having discussions with the banks with a view to reaching agreement in respect of extending repayment terms. The financial statements also disclose that AREOF will require additional working capital for the foreseeable future and that this continues to be provided by the Investment Manager, or by funds advanced by a fellow subsidiary of the Investment Manager's parent company. Options available to AREOF include asset sales, restructuring bank borrowings and a further issue of capital. The above matters indicate the existence of material uncertainties which may cast significant doubt about the AREOF Group's ability to continue as a going concern. The Board has taken the view that it would be prudent to make a general provision of €842,000 against the carrying value of the investments held.

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

Name	Country of Incorporation	Assets €'000	Liabilities €'000	Revenues €'000	Profit/ (Loss) €'000	% interest
Cascade Park Plaza SRL	Romania	52,523	(41,117)	4,847	1,771	40
Trade Centre Sliven EAD	Bulgaria	4,459	12	68	31	42.5
Turgovski Park Kraimorie AD	Bulgaria	3,909	13,250	1	(271)	60
NEF3 (IOM) 1 Limited*	Isle of Man	3,079	190	583	438	55
NEF3 (IOM) 2 Limited	Isle of Man	2,982	292	539	349	55
NEF3 (IOM) 3 Limited	Isle of Man	3,831	247	723	550	55

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

The Shareholders of Cascade Park Plaza SRL have pledged their shareholding as security against the external loans to these companies.

Notes to the Consolidated Financial Statements continued

9 Investment in Equity Accounted Investments continued

NEF3 continued

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

10 Loans to third parties

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

2012 Name	Term	Maturity Date	Interest Rate	Amount €'000
Sienit Holding AD*	Overdue	Overdue	EURIBOR plus 5%, plus 10% penalty interest	2,277
Property Capital Group**	Overdue	Overdue	EURIBOR plus 5%	330
Dickau Investments Limited***	Overdue	Overdue	10%	3,384

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

**Property Capital Group is the Group's joint venture partner in Trade Center Sliven EAD. Although the loan to Property Capital Group is overdue for repayment, the partner has made a repayment of €247k after year end. The Group considers this loan fully recoverable.

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

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

11 Capital and Reserves

Share Capital

	2012 Number	2012 €'000
Ordinary Shares of €0.80 each		
In issue at 1 January and 31 December 2012	90,515,470	72,412
Shares cancelled during the year	(960,000)	(768)
In issue at 31 December 2012	89,555,470	71,644

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

Notes to the Consolidated Financial Statements continued

11 Capital and Reserves continued

At incorporation the authorised share capital of the Company was €240 million divided into 300 million Ordinary Shares of €0.80 each.

During the year, the Company bought 960,000 shares for a total consideration of €31,330 (2011: nil shares).

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 residual assets.

Capital Management

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

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

Group capital comprises share capital, share premium and reserves.

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

No changes were made in respect of the objectives, policies or processes in respect of capital management during the years ended 31 December 2011 and 2012.

12 Basic and Diluted Earnings per Share

Basic and diluted earnings per share are calculated by dividing the gain/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2012	2011
Loss attributable to equity holders of the Company (€'000)	(701)	(5,618)
Weighted average number of ordinary shares in issue (thousands)	90,426	90,515
Basic and diluted loss per share (Euro cent per share)	(0.78)	(6.21)

13 Trade and Other Payables

Group	31 December 2012 €'000	31 December 2011 €'000
Withholding tax	5	4
Trade creditors	70	52
Accruals	223	183
Total	298	239

Company	31 December 2012 €'000	31 December 2011 €'000
Accruals	92	73
Total	92	73

Notes to the Consolidated Financial Statements continued

14 Exchange Rates

The following exchange rates were used to translate assets and liabilities into the reporting currency at 31 December 2012:

ROL	4.3197
BGN	1.9558

15 Directors' Remuneration

The Company

The maximum amount of remuneration payable to the Directors permitted under the Articles of Association is €300,000 p.a. Each Director currently is paid a fee of €22,500 p.a. The Directors are each entitled to receive reimbursement of any expenses incurred in relation to their appointment. Total fees and expenses paid to the Directors for the year ended 31 December 2012 amounted to €72,000 (2011: €74,415).

The Subsidiaries

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

16 Taxation

Isle of Man

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

There are no capital gains or inheritance taxes payable in the Isle of Man.

No Isle of Man stamp duty or stamp duty reserve tax will be payable on the issue, transfer, conversion or redemption of Ordinary Shares.

Shareholders resident outside the Isle of Man will not suffer any income tax in the Isle of Man on any income distributions to them.

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

United Kingdom

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

Other

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

Notes to the Consolidated Financial Statements continued

17 Financial Instruments

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

Market price risk
The Company's strategy for the management of market price risk is driven by the Company's investment objective. The Company has been established to invest primarily in early stage property developments in South East Europe. The main objective of the Company is to take advantage of the potential for capital appreciation of these investments. The Company's market risk is monitored by the Manager on a day to day basis and by the Directors at Board Meetings.

The Group is exposed to market price risk through movements in property prices and property rental rates. The Group's strategy is to develop property assets and then sell them for gain: however as a result of current global economic conditions (see note 4.1), the property market in Romania and Bulgaria has declined. The Group therefore expects that it may hold some assets for a substantial period post completion. This further exposes the Group to movements in property rental rates and property prices.

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). The currency the Group is primarily exposed to is the Romanian Lei, as the Bulgarian Lev is pegged to the Euro. As a result, the Group is subject to the effects of exchange rate fluctuations with respect to these currencies.

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 as foreign currency exposure is not significant.

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 2012	Assets €'000	Liabilities €'000	Net assets €'000
Romanian Lei	49	(2)	47
Bulgarian Lev	2	(9)	(7)
Euro	27,200	(287)	26,913
	27,251	(298)	26,953

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

At 31 December 2012, had the Euro strengthened/weakened by 5% in relation to the Romanian Lei, with all other variables held constant, net assets attributable to equity holders of the Group and the profit for the year would have decreased/increased by €2,400 (2011: 5% €2,400).

Notes to the Consolidated Financial Statements continued

17 Financial Instruments continued

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash held by the Group is invested at short-term market interest rates. The Group has interest-bearing loans, with interest at fixed rates (note 10). 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 risks. It includes the Group's financial assets and liabilities at the earlier of contractual re-pricing or maturity date, measured by the carrying values of assets and liabilities:

31 December 2012	Average interest rates		Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
	Fixed	Variable							
	%	%	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Financial assets									
Loans to third parties	-	Euribor + 5%	330	-	-	-	-	-	330
Trade and other receivables	n/a	n/a	-	-	-	-	-	58	58
Cash and cash equivalents	-	0.1%	3,677	-	-	-	-	-	3,677
Total financial assets			4,007	-	-	-	-	58	4,065
Financial liabilities									
Trade and other payables			-	-	-	-	-	(298)	(298)
Total financial liabilities			-	-	-	-	-	(298)	(298)
Total interest rate sensitivity gap			4,007	-	-	-	-	-	-

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

At 31 December 2012, should the interest rates have increased/decreased by 15 basis points with all other variables remaining constant, the decrease/increase in net assets attributable to shareholders for the year would amount to approximately €6,010 (2011: 25 basis points €14,435).

Credit risk

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

Notes to the Consolidated Financial Statements continued

17 Financial Instruments continued

Credit risk continued

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

At the reporting date, the Group's financial assets exposed to credit risk, net of provisions and excluding loans which are included within the balance of equity accounted investments, amounted to the following:

	31 December 2012	31 December 2011
	€'000	€'000
Loans to third parties (note 10)	330	313
Trade and other receivables	58	67
Cash at bank	3,677	5,461
	4,065	5,841

The Group manages its credit risk by monitoring the creditworthiness of counterparties regularly. It does not expect any counterparty other than those debtors against which specific provisions have been made to fail to meet its obligations (see notes 9 and 10).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its obligations as they fall due. The Group manages its liquidity risk by maintaining sufficient cash balances for working capital and its joint venture associates obtain secured bank loans to fund purchases of investment property. During the year and since the year end, a number of the Group's JV's have been in technical breach of their bank loan financing agreements. The Group completed renegotiation of some of these financing arrangements during the year and since the year end. The Group expects that further capital injections may be required to support financing arrangements for the joint venture companies. The Group has not guaranteed loan financing for any of its subsidiaries. The Group's liquidity position is monitored by the Manager and the Board of Directors.

Residual undiscounted contractual maturities of financial liabilities:
Trade and other payables at 31 December 2012 and 31 December 2011 represent trade creditors due within one month.

Fair values

The carrying amounts of all the Group's financial assets and financial liabilities at the statement of financial position date approximated to their fair values.

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

18 Investment Policy

European Convergence Development Company plc is an Isle of Man company established to take advantage of opportunities that exist in the property markets of South-East Europe. The principal target countries are Bulgaria, Romania and Turkey, with the ability to invest in Croatia and Slovakia.

The Company may invest in commercial, retail, residential and industrial property, with a view to taking advantage of the potential for capital appreciation. The Company primarily seeks to invest in early stage developments; however it may also invest in partially completed assets and may also continue to hold and operate completed developments for a substantial period post-completion at the sole discretion of the Board. The Board must believe that it is in the long term benefit of the investors to hold completed developments.

Notes to the Consolidated Financial Statements continued

18 Investment Policy continued

A proportion of the Group's portfolio may be held in cash or cash-equivalent investments from time to time.

The Company established a subsidiary structure which primarily invested equity and debt financing of development projects with the use of local special purpose vehicles ("SPVs"). The Company intends that its SPV investments will be in the form of partnerships with local or international property developers.

Pending investment, cash held will be invested in bank deposits or fixed income securities issued by governments or banks but not corporate bonds.

It may be advantageous for the Company to borrow at the level of its SPV subsidiaries. The Company may negotiate suitable borrowing facilities with one or more lenders. The Directors do not intend the Company or its SPVs to borrow in respect of any property more than 75 per cent of its value on completion.

The Company expects to invest in early stage projects with a construction period of 2 to 4 years. Whilst the Company intends to exit from such assets post-completion, depending on prevailing market conditions, it may be in the best interests of the Company to hold the operating asset post completion until market conditions are such that the Company can obtain a suitable price for the asset.

The Company may reinvest the proceeds of sale of any properties or return the capital or profits to Shareholders depending on market conditions prevailing at the relevant time. Shareholders will be given the opportunity to vote on the continued life of the Company at the Company's annual general meeting to be held in 2016. If the resolution to curtail the life of the Company is not passed, a similar resolution will be proposed at every fifth annual general meeting thereafter.

It is anticipated that the Group's investment portfolio will be between 6 to 12 investments. Upon completion of the investment programme, it is anticipated that, at that time, no single investment will represent more than 50 per cent of the Company's total capital. In exceptional circumstances the Company may make an investment which represents in excess of 50 per cent of the Company's total capital. In such circumstances the anticipated investment portfolio may be correspondingly reduced below the number of investments described above.

19 Commitments at the Balance Sheet Date

At the statement of financial position date the Group had no outstanding commitments.

20 Post Balance Sheet Events

On 3 January 2013 the Company bought back a further 100,000 of its own shares for a price of €0.0325.

EUROPEAN CONVERGENCE DEVELOPMENT COMPANY PLC

(*Incorporated in the Isle of Man on 26 July 2006. Registered under number 002391V)*

(the "Company")

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the Annual General Meeting of the Company will be held at the offices of Galileo Fund Services Limited, Millennium House, 46 Athol Street, Douglas, Isle of Man, IM1 1JB, British Isles on Monday 22 July 2013 at 10.00 a.m. to transact the following business:

As ordinary resolutions:

1. To receive and consider the Chairman's Statement, Report of the Investment Manager, Report of the Directors, Auditors' Report and the Audited Consolidated Financial Statements of the Company for the year ended 31 December 2012.

2. To note that no dividend will be declared for the year ended 31 December 2012.

3. To re-appoint KPMG Audit LLC Isle of Man as Auditors of the Company for the year ending 31 December 2013 at a fee to be approved by the Directors.

4. To grant standing authority such that the Company be authorised generally and without conditions to make market purchases of its ordinary shares (within the meaning of Section 13(2) of the Isle of Man Companies Act 1992) on such terms as the Directors may from time to time determine provided that (a) it may not purchase more than 8,945,547 of the ordinary shares of €0.80 each; (b) it may not pay more than 5% (exclusive of expenses) over the average of the middle market price of the ordinary shares for the five business days immediately before the day on which the Company agrees to buy the shares; (c) this authority will expire on 22 July 2014 or, if earlier, the conclusion of the next Annual General Meeting of the Company.
   One of the options which the Directors feel is appropriate to have available to them would be to use retained income to purchase shares in the open market when conditions are deemed appropriate. This resolution will allow up to 10% of the current issued capital of the Company, at the time of setting this agenda, to be repurchased in this way.

By Order of the Board
Galileo Fund Services Limited as
Registered Agent
Date 24 June 2013

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

NOTES:

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

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

3 *In order to be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, should be deposited at Galileo Fund Services Limited, Millennium House, 46 Athol Street, Douglas, Isle of Man IM1 1JB, British Isles (Attn: Ian Dungate) Fax: 44 1624 692601 no later than 48 hours before the time appointed for holding the above Meeting.*

EUROPEAN CONVERGENCE DEVELOPMENT COMPANY PLC

(*Incorporated in the Isle of Man on 26 July 2006. Registered under number 002391V)*

(the "Company")

FORM OF PROXY

To be used for the Annual General Meeting of the Company to be held at the offices of Galileo Fund Services Limited, Millennium House, 46 Athol Street, Douglas, Isle of Man, IM1 1JB, British Isles on Monday 22 July 2013 at 10.00 a.m.:

I/We ____[1]

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

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

of ____or Ian Dungate or failing

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

Monday 22 July 2013 at 10.00 a.m. and at any adjournment thereof.

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

ORDINARY RESOLUTIONS	**FOR**	**AGAINST**	**ABSTAIN**
1. THAT the Chairman's Statement, Report of the Manager, Report of the Directors, Auditors' Report and the Audited Consolidated Financial Statements of the Company for the year ended 31 March 2012 be approved;			
2. THAT no dividend will be declared for the year ended 31 December 2012.;			
3. THAT KPMG Audit LLC Isle of Man be re-appointed the Auditors of the Company for the year ending 31 March 2013 at a fee to be approved by the Directors;			
4. THAT the Company be granted standing authority such that the Company be authorised generally and without conditions to make market purchases of its ordinary shares (within the meaning of Section 13(2) of the Isle of Man Companies Act 1992) on such terms as the Directors may from time to time determine provided that (a) it may not purchase more than 8,945,547 of the ordinary shares of €0.80 each; (b) it may not pay more than 5% (exclusive of expenses) over the average of the middle market price of the ordinary shares for the five business days immediately before the day on which the Company agrees to buy the shares; (c) this authority will expire on 22 July 2014 or, if earlier, the conclusion of the next Annual General Meeting of the Company.			

Dated: 2013

Signature________________________________

NOTES:

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

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

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

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

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

6 *This form of proxy should be completed and lodged at the Company's registered office C/o Galileo Services Limited, Millennium House, 46 Athol Street, Douglas, Isle of Man IM1 1JB, British Isles (Attn: Ian Dungate) Fax: 44 1624 692601 no later than 48 hours before the time appointed for holding the above Meeting together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority.*