EUROPEAN CONVERGENCE DEVELOPMENT COMPANY PLC

Consolidated Annual Report

Year ended 31 December 2013

ISIN No. GB00B1BJRB27

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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
Registered Agent	Galileo Fund Services Limited Millennium House 46 Athol Street Douglas Isle of Man IM1 1JB British Isles

Management and Administration continued

Auditors

Greystone LLC
Talbot Chambers, 18 Athol Street
Douglas
Isle of Man IM1 1JA
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
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British Isles

NEF3 (IOM) 2 Limited
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Chairman's Statement

Financial Performance

The Report and Accounts of European Convergence Development Company PLC (ECDC) set out the financial performance for the year ended 31st December, 2013, along with the ongoing development and management of its commercial assets.

The audited NAV per share at the 31st December, 2013 was €0.2883 (2012:€0.3010) a reduction of € 0.0127 per share. With the post balance sheet event of AREOF delisting its shares and the Iasi asset being placed into administration the Board believe that it is prudent to reduce the carrying value of the investments in Iasi and Oradea to Nil. It should be stressed that this does not mean that the Manager will reduce efforts to recover the investment and return but the Board are of the opinion that the carrying value of the put option against the parent company needs to reflect the higher perceived risk of non-recovery.

The Consolidated Income Statement for the year to 31st December 2013 indicates a loss attributable to equity shareholders of € 0.0131 per share (2012: €0.0078).

The liquidity in the Company's shares has been disappointing. Excluding two large cross trades, the average daily volume over the last 6 months has been c.106,000 shares or c. € 6,000 per day.

Dividend

The Board of Directors resolved not to pay a dividend but retain the funds within the company to protect its current investments.

Operating Activities

As you are aware, the Company was set up in 2006 to invest in commercial, retail, residential and industrial property in South East Europe, with a view to taking advantage of the potential for capital appreciation. The target countries were Bulgaria, Romania and Turkey. The opportunities to invest in projects came from Romania and Bulgaria, which was consistent with the Company's research and in line with the general level of investor appetite for projects in this region. Both of these regions suffered, and continue to suffer badly following the global economic crisis in 2008, a downturn that neither the Company, the Manager nor indeed investors could have predicted. Although there have recently been signs of stability returning to the market, any semblance of recovery has been thwarted by the Greek banking crisis in 2012 which has impacted the lending carried out by the banks which the Company would normally rely upon and thus limiting the credit available to the Company. Further our communications with a number of Shareholders suggest there is little or no enthusiasm for a reinvestment cycle in these regions. Therefore the Directors believe that it is not in the best interests of the Shareholders to invest in any new projects.

The Directors and the Manager believe that consideration of the future of the Company needs to begin well in advance of the requirement of Shareholders to vote at the Annual General Meeting in 2016 as to whether to continue or cease the Company, in accordance with the Memorandum and Articles of Association of the Company.

For the year ending December 2013 the Board discussed with the Manager whether it was in the best interests of shareholders to incur significant costs to undertake independent valuations of the property assets held at the year end. The Manager having reviewed various broker reports is of the opinion that there had been little movement in investment yields and asset values during 2013 in Romania and in land in Bulgaria. The Board undertook a valuation of a parcel of land in Plovdiv which supported the view.. The Board, supported by the Auditors decided to maintain the 2012 valuations in the 2013 financial statements.

Outlook

The Directors together with the Manager, wish to confirm to Shareholders the Company's commitment not to invest in any new projects unless there is a need to protect existing investment. The Directors also commit to the distribution of free cash to shareholders and to reduce the operating cost of the Company wherever possible. In summary, the Board is recommending to shareholders the following initial steps:

1. The cancellation of the admission of the Company's shares to trading on AIM in order to reduce costs;

Chairman's Statement continued

2. A change to investment policy to make it clear that no further investments into new businesses will be made and distributing free cash to shareholders in the most tax and cost efficient way for individual shareholders ;

Please note that for the successful implementation of the above, it will be necessary to ask Shareholders to vote in favour of the delisting at the AGM in 2014.

1. Costs & Delisting

Listing Status
The Directors have analysed the costs of the Company's quoted status and consider that maintaining the Company's admission to trading on AIM, including the costs of retaining a nominated adviser, is a considerable administrative burden, is a cost that is not proportionate to the advantage of continuing its listed status and therefore not in the interests of the Shareholders.

The cost implications aside, there are other advantages to delisting, such as allowing a more open line of communication with Shareholders and less concentration on the issue of disclosure requirements and apprehensions in respect of market sensitivity. The Directors are also of the opinion that at this stage of the investment cycle it is no longer necessarily appropriate for the Company to be listed.

2. Investment Policy

The Company will commit to not making further new investments and be restricted to making investments in projects or assets already existing within the Company. Such further investments (into existing projects) will only be made where to do so is in the best interests of the Company and its Shareholders. Any such investment will be notified to Shareholders by way of the quarterly update reports.

3. Distribution

As and when assets are realised subject to being above de minimus value, cash will be returned to Shareholders either as capital distribution, or by dividend or as a combination of the two.

Anderson Whamond
Chairman
17 June 2014

Report of the Manager

ROMANIA

In Q4, Gross Domestic Product (GDP) in Romania expanded 1.6% over the previous quarter and 5.6% year - on - year exceeding market consensus forecasts significantly. The Q4 performance took the full year growth rate to 3.5%, one of the fastest growth rates in the EU and the highest growth achieved in Romania since 2008. The main drivers of this growth came from an 8% increase in industrial output and a 23.4% increase in agricultural output. With farming output unlikely to match 2013's performance, Romania's economic growth is expected to slow to around 2.2% for 2014.

In December the annual inflation rate fell by 0.2% to 1.6% mainly as a result of a favourable statistical base effect. Inflation is projected to decline further in the first quarter of 2014 although some forecasters are anticipating a pick up over the remainder of the year ending 2014 within the range of 3.0% to 3.5%. These forecasts would be at the top end of the Central Bank's tolerance margin of plus/minus 1.0% around its target of 2.5%. The Central Bank forecast is for inflation to end 2014 at 3.0% as a result of already factored increase in excise tax on fuels due in April and by the erosion of the favourable statistical base effects.

At the end of December interest rate stood at 4.0% representing a decline of 1.25% since the beginning of July and is at historically low rates. Interest rates are forecast to decline further during 2014 with the Central Bank currently forecasting further declines in inflation and expressing concerns over the "negative growth of lending to the private sector". The reference rate is estimated to reach 3.50% by the end of 2014.

The consolidated budget deficit for 2013 amounted to 2.5% of GDP which was in line with the full year target for 2013 agreed with the IMF. The IMF Executive Board approved the first and the second review of the precautionary Stand By Agreement ("SBA") concluded in September 2013. The government had agreed with both the IMF and the EU as part of an aid plan, a 2.2% budget deficit for 2014 but confirmed that it does not intend draw down the €4.0 billion available. The plan for 2014 will include the introduction of new taxes and a raising of the minimum wage in two stages to RON 900 (€200) whilst most government employees will receive minor salary increases and pensions will be indexed at 3.75%.

Employment in Romania does not appear to have followed the increase in industrial production in 2013. Industrial production increased 7.8% in 2013 when compared to 2012 which ensured that Romania had the second highest growth rate in the EU. However, the unemployment rate in 2013 increased from 7% to 7.3% by the year end. Subsequently the rate has declined 0.1% in 2014 and is forecast to decline further during 2014 to a year- end figure of 7.1%. Consumer spending in quarter 4 increased to RON 28.5 billion, the highest since the beginning of 2009 and in first two months of 2014 seasonally adjusted sales were 5% and 7.5% up year on year in January and February respectively. Confidence levels have increased and there is a sense of optimism in the retail market that a sustainable upward trend may be forming but Romania obtained a score of 67 points in a recent Nielson survey placing it in the bottom quartile and well below the global average of 96 points.

Recent events in Ukraine are a potential risk to foreign capital inflows into Romania and the country's exports to Russia given the depreciation of the Rouble. In addition, Romania's reliance on trade to the EU (a recipient of 70% of its exports) implies that current deflationary pressures across the union are also a risk to its export sector. The upcoming presidential election meanwhile may undermine the country's political stability. If these risks can be avoided, Romania's solid economic fundamentals should ensure robust growth in the medium term

BULGARIA

The government continued to work under the daily pressure of protests which started in June 2013. With more than six months of continuous daily protests in front of the Parliament building, students barricaded in Sofia's main university since October and a rising tide of ultra-nationalism and intolerance, many feared that Bulgaria would collapse. The protests did not continue into Q1, 2014 and political life focused on the European Elections in May 2014. The underperforming economy has continued to suffer with the spectre of deflation hanging over the country.

In 2013 Bulgarian statistics reported stabilization in some macroeconomic indicators and according to the European Bank for Reconstruction and Development (EBRD) the Bulgarian economy indicated tentative signs of recovery. The Manager believes it is too early to talk about sustainable recovery, especially given the deflationary pressures and high unemployment in the country and the slow global economic growth and increasing regional geopolitical uncertainty.

The Bulgarian economy expanded by 0.9% in 2013, with Q4 seeing an acceleration to 1.2%, the highest quarterly performance since 2012. Net foreign trade was the main driver of growth in 2013 as exports expanded 8.9%, ahead of imports of 5.7%. The momentum continues to build as confirmed by double-digit growth of exports in Q4 and is spreading to the domestic economy,

Report of the Manager continued

with firms increasing capacity in response to higher orders from abroad. Confidence is also an important reason behind accelerating activity, with March economic sentiment at the highest level since December 2010. Consumption decreased by 1.6% as households were cautious and cut their discretionary spending in favour of precautionary savings, which increased by 9.5% in 2013. This trend, however, was offset by increased government expenditure. Investment in fixed capital also expanded in Q4 up 2.5% year on year, with the largest increase in manufacturing.

Industrial production remained flat in December 2013 as compared to December 2012. Manufacturing output in December saw a slight increase of 0.5% year on year driven mainly by export industries. The surprise was a 28.4% year on year increase in mining and quarrying output which was driven by a 25.4% annual rise in coal production and a 43% jump in iron ore output. Total exports decreased slightly in January compared to December 2013. Industrial production increased 2.3% year on year in January 2014 whilst manufacturing production increased 1.7% year on year in the same month.

The unemployment rate in Q4 2013 increased to 11.4% from 10.9% in Q3, mainly caused by an end of seasonal factors such as agriculture and tourism and subsidized employment programs. The increase in unemployment in Q4 ended three quarters of continuous decline from a recent high of 13.8% at the beginning of Q1.

The annual inflation in December was negative 1.6% representing the fourth consecutive month of a deflationary cycle which continued into 2014 with all four months to April indicating negative inflation on the back of lower energy and food prices. Households' purchasing power is being additionally boosted by an increase in the minimum wage at the start of 2014 as well as the fiscal stimulus included in the 2014 budget. Consumer spending is therefore expected to rebound strongly in 2014 after a weak 2013. Month on month inflation was 0.3% between November and December. General government debt stood at 18.4% of GDP at the end of February 2014. The government debt increased during the last couple of years from 16.3% in 2011 but remains relatively low compared to most of the other EU countries.

PROPERTY MARKETS

ROMANIA

Office

Only one new Grade A building was delivered in Q 4 2013 - Floreasca Park, in Barbu Vacarescu in the north of Bucharest, developed by Portland Trust, with a total net leasable area of 37,500sqm. Oracle pre let 25,000 sqm as its new HQ premises. Total supply for the year was approximately 120,000 sqm, almost 2.5 times more than 2012 with approximately 80% concentrated in Barbu Vacarescu. Modern stock in Bucharest is estimated at approximately 2.1 million sqm.

Recent activity has been concentrated in the Floreasca – Barbu Vacarescu corridor but new areas in the central western and southern regions of Bucharest are emerging as new business areas located within densely populated residential areas. Some of the buildings coming up for completion in 2014 in these areas are: Green Gate (30,000sqm), Afi Business Park phases 2 and 3 (24,000sqm) and City Offices (25,000sqm). Total delivery in 2014 is forecast at a similar figure to 2013.

The overall vacancy rate in Bucharest is estimated to between 14.5% and 15.0% representing a 70 bsp reduction quarter on quarter. It is important to highlight the considerable differences in vacancy rates between one district and another which can be as low as 4% in the west to 35% in Pipera North and Baneasa. It is hoped that the increase in activity will lead to further reductions in the vacancy rates.

Prime headline rent remained unchanged over the last 12 months at €18.00 to €18.50 per sqm per month. The market is still tenant-led with landlords required to offer incentives in order to attract and retain tenants although there is some evidence of the packages tightening. As always it depends on the letting market in a particular district which will have a direct impact upon the incentive packages offered. These are applicable to lease requirements exceeding 2,000-3,000 sqm for existing buildings where previously it would have been applicable to larger pre-leases.

In quarter 4 the total gross take-up was between 80,000 and 85,000 sqm, while gross take up for 2013 was approximately 300,000 sqm, the highest level since 2008 and 22% higher than 2012. Pre-lets fell, but volumes were supported by rising new leases and renewals. Encouragingly, expansion driven occupier activity increased by 54%. New demand generated 48,500 sqm of new leases. The largest transactions in Q 4 were the leasing of c. 6,000sqm by P&G in Iride Business Park, the prelease of

Report of the Manager continued

12,000 sqm by Electronic Arts in the AFI business park and the largest single deal, the 10 year, 26,000 sqm renewal of HP's headquarters in Novo Park. ITC companies were the most active generating 60% of the total leasing activity.

The 2014 pipeline remains stable with an estimated 120,000sqm-140,000sqm to be delivered. Take-up is expected to increase compared to previous years driven mainly by new leases. On short term the impact on rents is not expected to be material but a declining pipeline together with the estimated pick up of the economy would lead to an estimated firming up of the rent levels currently experienced by the market.

Q 4 typified the majority of 2013 with no significant deals closing. There is limited interest from investors with opportunistic buyers the only ones really looking for potential opportunities that may come out of banks restructuring their non performing loans and off-loading some real estate. Liquidity levels will remain low and improve once a more sustained performance in the occupier market is noted. Prime yields remain at around 8.50% although against limited transactions, but once the market gains momentum compression should follow shortly.

Retail

Q4 was a relatively busy period in Romania with three developments opened, the biggest being the Promenada scheme in Bucharest developed by Raiffeisen Evolution the other two were AFI Palace (29,000 sqm of GLA) in Ploiesti and Galati Shopping City (27,000 sqm) in Galati. New shopping centre stock opened in 2013 totalled approximately 140,000 sqm of Gross Lettable Area (GLA), representing the lowest figure in eight years. There are a total of 144,000 sqm of shopping centre GLA under construction. Total modern retail space in Bucharest is estimated at 900,000 sqm and 1.7 million sqm in the rest of the country.

A few retailers without a presence in the country are actively looking at the market, with Tchibo, Kazar, Jumbo and H&M Home opening their first units in Q4. D&G also opened their first local shop in the Grand Avenue, Marriott's retail gallery. H&M also pioneered the opening of the first major fashion retailer shop in the old centre of Bucharest.

Rental levels in Bucharest for both prime shopping centres and prime high street units remained at €55-65/sqm/month. In Bucharest the highest rents are being achieved in Baneasa Shopping City and AFI Palace Cotroceni which are considered the two most prominent retail schemes in Bucharest and Romania.
In 2014 only two projects have been announced for delivery, both developed by NEPI: Vulcan Value Center (35,000sqm) in Bucharest, and Shopping City Targu Jiu (27,000sqm) in Targu Jiu.

Residential

A significant shift was recorded during the summer months when the Government announced the cancellation of the Prima Casa, the Government backed mortgage lending scheme. The Government, in close cooperation with the Central Bank stopped supporting the EUR denominated lending scheme and replaced it with support for a RON denominated programme. This measure together with the decision of the largest commercial bank, BCR, (20% of the market by assets) to only finance RON denominated mortgages put significant pressure on market prices.

Following the reduction in the monetary policy rate in July 2013, BCR announced an effective mortgage interest rate of 5.5% on both its EUR and RON denominated mortgages. At 5.5% it is the cheapest mortgage rate seen in the Romanian market and it was thought that the reduction would act as a strong stimulus for the market. However, transaction volumes stabilised at fairly low levels suggesting that there was reluctance on the part of sellers who were not under pressure to dispose of their assets, to adjust to further price decreases. In the first quarter of 2014 volumes improved slightly but mainly on the back of a better overall economic performance rather than an improving market.

BULGARIA

Retail

No modern shopping centres were opened in Bulgaria in Q4 2013. The GLA of all the operational shopping malls is approximately 735,000 sqm, with a GLA per 1,000 residents standing at slightly over 100 sqm. Three projects in Sofia currently

Report of the Manager continued

under construction and forecast to open during 2014 will provide an additional 120,000 sqm. The only shopping centre outside Sofia planned for delivery in 2014 is Panorama Pleven with a GLA of 17,000 sqm. With the opening of these malls, the modern retail space per 1,000 inhabitants for Bulgaria will increase to approximately 120 sqm compared to 250 sqm for Europe as a whole and 200 sqm for CEE.

Occupancy in shopping centres in Bulgaria was well below satisfactory levels and the year ended with vacancy rates in Sofia of approximately 12% and approximately 20% in secondary cities. Such continued low occupancy is the result of a long and continuous downward spiral not helped by declining consumer spending.

Average rental levels for modern retail space in Bulgaria did not improve during Q4 2013 and because occupancy levels were low landlords were forced to extend rent free periods and provide fit-out contributions to retain and support tenants and it remains a tenant's market. Average rental levels in Sofia for Q4 declined further to approximately €21 per sqm per month from €25 per sqm per month at the end of the first half of 2013. It is unlikely that the market will see any notable increase in rents until there is a period of higher consumer spending and occupancy levels return to satisfactory levels. Though there is no statistical evidence it is thought that without the continued support of banks in renegotiating loans and interest rates many of the Malls would have no option but to close.

The investment market remained stagnant with no investment deals in the retail sector in the second half of the year. It is highly unlikely that the investment market will return for some time to come as banks and funding institutions are not prepared to finance new acquisitions.

<u>Individual projects</u>

Cascade

Currently the building is fully leased generating positive cash flow after meeting all its financial obligations from an operational and banking point of view. All financial obligations are up to date with no collection delays on the revenue side. A small extension on the ground floor of the building was completed inQ4 allowing for further improvement in the income profile of the building.

Oradea and Iasi Shopping Centres

Following the notice for repayment issued by the Company with respect to the investments in both Oradea and Iasi, the Manager entered into negotiations over a possible restructuring of the repayment. Since the year end Argo Real Estate Opportunities Fund (AREOF) announced that it was delisting its shares from AIM with effect from 3rd March, 2014. The main reason given was that the complexity of the loan restructuring and bank negotiations was not conducive to and made it very difficult for the company to meet the public reporting requirements. Further, AREOF believed that this was not to the benefit of the shareholders and may hinder the bank renegotiations being undertaken.

Oradea Shopping Centre

Following the loss of a court case brought by the general contractor that built the asset, ConstructiiBihor, and following aggressive action by ContructiiBihor in order to secure its claims against the local SPV, AREOF decided that the best course of action would be to seek protection from the creditors and filled for insolvency at the end of November. The case was admitted and a judicial administrator was appointed for the company in agreement with the senior lenders of the project.

The Lenders and AREOF agreed that a judicial administrator should be appointed from Omilos Oradea, its main secured creditor and its stakeholders, the Banks, would appoint their own administrator. The Consortium of judicial administrators was formed from V.F. Insolventa and TZA to observe the activity of the company. The loan was accelerated prior to the company going into administration and therefore the company does not have to pay interest on its loans and any other finance costs. There were no significant tenant movements following this action.

The Era Home Centre area of the Mall offering the largest selection of home decoration and furnishings in the region continued to perform in line with tenants' expectations. A new lease was signed with LEMS for a new 2,000 sqm furniture store which opened for trading in September. The Manager also finalized a lease with RDS to install photovoltaic panels on the roof of the mall which were forecast to reduce the electricity costs for the Mall by around €70,000 per annum however Lenders' approval was never received and the supplier left.

Report of the Manager continued

Despite increasing numbers of visitors sales for non-Carrefour tenants remained low throughout the second half of 2013 when compared to AREOF's other centres. New local retailers Studio Blu, Berge and Schneider opened small stores and there were pending negotiations with local fashion retailers, a children's store and pet shop. Stock House, the large shoes discount retailer opened at the end of 2013. Vacancy rates at the end of the year were around 9%.

Iasi Shopping Centre

Competition from 3 other centres within the city continued to impact footfall and sales for the gallery tenants during the second six months of 2013. Significant road works being undertaken within the city also deterred customers from travelling to the shopping centre. Retailers in other schemes reported declining sales indicating a general decline in consumption within the city. Moldova Mall, a 9,500 sqm GLA scheme located in downtown Iasi, was sold to a private Romanian investor for an estimated €15.5 million in Q1 2014 and the new owner has stated that he intends to redevelop the upper floors of the shopping centre, which is located in the new dominant shopping destination of Palas, into office space which, if delivered should represent a boost to the retail market.

The drop in customers visiting ERA was especially noticeable between Monday and Wednesday however, Carrefour registered a small increase in turnover. Marketing activities were largely focused on sales promotions to drive traffic to the gallery tenants, which was a reasonable defensive strategy whilst the road works remain underway. It is believed that on completion of the road works in late 2014 the situation will improve.

Construction of the 28,000 sqm Mall extension and negotiations to sell land plots continue to be delayed until the situation with Bank of Cyprus has been resolved. A €77m development facility to be provided by EFG, Banca Romanesca, Bancpost and Bank of Cyprus is in place however, the restructuring of the existing facility continues to be delayed until the reorganisation of Bank of Cyprus has been completed. Upon finalisation of the restructuring the current construction program is expected to deliver Phase 1 of 15,000 sqm within 15 months and Phase 2 within 18 months of starting.

The Romanian Praktiker business, which represents a major space user on the site was acquired by a Turkish retailer who is looking to renegotiate lease agreements enabling him to partially recapitalise the business Those negotiations are ongoing for a restructuring as are the collection of the outstanding rental and service charge debts.

The low visitor numbers and relatively high vacancy rates, especially in the new section and the competition from three town centre schemes had a detrimental impact on discussions with potential tenants. Unit availability within the competing projects continues to represent a significant competitive threat to Iasi and is unlikely to change in the immediate future. The situation may improve if ongoing negotiations with some additional anchor tenants could be finalized but generally leasing continued to be slow during the later part of 2013 reflecting the local retail climate.

All terms negotiated with the banks were put on hold reflecting the issues affecting Bank of Cyprus in Romania and the ongoing performance of the Oradea scheme. As the Bank of Cyprus was due to provide the majority of the debt facility for Iasi, there is a risk that construction debt finance will not be forthcoming.

Plovdiv

At the end of 2013 occupancy levels had declined to 62% of GLA. Replacing these tenants continued to be a challenge as the business did not have a reputable property manager, a credible leasing strategy, and above all – no funds with which to pay fitting out contributions to prospective tenants.

During Q4 the contract with the international property consultant was terminated because of lack of support by one of the project partners. As a result there was no coordinated leasing strategy for the Mall which directly impacted on prospective tenant motivation. No agreement has been reached with Carrefour and the initial negotiations with several prospective international tenants have, in effect been frozen as there is no credible operator able to take forward the discussions.

The discussions with the bank to restructure the banking facility continued up to the end of the year with the local partner appointed by the shareholders to lead the negotiations. However, no progress could be made on reaching mutually acceptable restructuring terms and at the beginning of 2014 the bank nominated a property investment company to undertake full due

Report of the Manager continued

diligence of the scheme. The Manager is extremely disappointed by this development as it had previously negotiated the key terms to underpin an agreement where the Shareholders and the Bank would support the development with additional funding. Unfortunately circumstances were such that not all of the shareholders could provide enough evidence to fulfil their financial obligations which rendered the strategy unachievable and resulted in the leasing consultant contract being terminated

As previously reported, there is no property manager and the technical manager was appointed to carry out the day to day management of the Mall. The Mall had a monthly operational cash deficit and was unable to meet all of its obligations from the collected rental and service charge revenue. This has led to increasing overdue payments to service providers and to the fiscal authorities. Unless the business restructuring is resolved quickly and fresh cash made available to cover operational needs, the company faces serious liquidity problems which obviously threatens its operations. The Manager is also of the opinion that the market value of the asset is considerably less than the current bank debt and without the ongoing support of the bank the Mall would be unable to continue its business.

Mega Mall Rousse

In addition to the previously reported series of aggressive actions and the defaulting of the entire loan in April 2013, the Bank has filed an application for insolvency against Mega Mall Rousse in January 2014. The Rousse District Court appointed a temporary receiver to control certain functions of the business. The first court hearing of the insolvency case is scheduled for the end of May 2014.

During Q1, occupancy dropped from 48% to 43% after the closing of several tenants, including an international pharmaceutical company, which anchored the ground floor. Less than 10 tenants remain trading, including the supermarket, Chinese retailer, the bowling, the go-kart, and some other smaller shops. The occupancy over the three trading floors, excluding the go-karting, is c. 33%, which is well below any critical mass necessary to keep the Mall open. In view of the pending insolvency case, leasing is proving impossible. The expectations are that other tenants will follow those that have already closed and will leave the retail centre soon.

The Project continues to face liquidity problems, payments to key service providers are in delay. The power supply to the building was cut off for one day in March and finally turned off in April. The company experiences constant challenges in paying for key consumables and at present there is still a risk that some of the key service providers will stop the provision of services, which poses a further threat to the operation. The Management is working hard to keep the building open for trading however, the low and decreasing occupancy and the liquidity problems in paying to key service providers make it probable that the building will be closed for an indefinite period.

As previously reported, the Manager has been in negotiations with some interested parties to invest in the Project in case of a suitable bank debt restructuring and reduction; however, after the filing of the application for insolvency, the discussions were discontinued.

In April the Mall was shut as the electricity supply was switched off. Request to the Bank to pay the outstanding electricity costs was submitted and unless the Bank injects further funds there was no other course of action but to close the mall altogether.

Trade Centre Sliven

There has been no change in the position regarding the development itself since the last report and the Manager is discussing with the partner how best to take the development of the site forward. All options are being considered including an exit from the development and splitting the assets of the company between the shareholders.

Bourgas Retail Park

There has been no further progress made with this site as it is very much linked to the developments in Plovdiv

Charlemagne Capital (IOM) Limited

17 June 2014.

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 2013.

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 18 to 43 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.

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 had holdings in the Company during the year.

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, Greystone LLC, being eligible, have expressed a willingness to continue in office.

Going Concern

The directors have a reasonable expectation that the company and the Group have adequate resources to continue in existence for the next 12 months and indeed the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and accounts.

Report of the Directors

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:
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.

Principal Risks and Uncertainties

The directors consider that all principal risks and uncertainties have been addressed within note 4.1 of these financial statements.

Future Developments

A review of the current operating activities and future outlook of the Group is included within the Chairman's statement.

On behalf of the Board

Anderson Whamond
Chairman
17 June 2014

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

17 June 2014

Report of the Independent Auditors, Greystone LLC, to the members of European Convergence Development Company plc

We have audited the consolidated financial statements of European Convergence Development Company plc for the year ended 31 December 2013 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 15, 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. We read all the financial and non-financial information to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for the audit report.

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 2013 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 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 increased uncertainty as to the valuation of property assets held by equity accounted investees, due to a significant reduction in the availability of loan finance and because of the lack of activity in the local property market.

Report of the Independent Auditors, Greystone 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.

Other Matter

The financial statements of the prior period were audited by a predecessor auditor. The predecessor auditor expressed an unqualified opinion in their report dated 24th June 2013

Greystone LLC
Chartered Accountants, Talbot Chambers, 18 Athol Street, Douglas, Isle of Man IM1 1JA
17 June 2014

Consolidated Income Statement

	Note	Year ended 31 December 2013 €'000	Year ended 31 December 2012 €'000
Annual management fees	7.3	(490)	(472)
Audit fees	8.4	(61)	(163)
Legal and professional fees		(41)	(67)
Directors' fees	15	(72)	(72)
Administration fees	8.2	(57)	(57)
Other operating expenses	8.3	(283)	(371)
Administrative expenses		(1,004)	(1,202)
Net operating loss before net financing income		(1,004)	(1,202)
Financial income		12	33
Financial expenses		-	-
Net financing income	5	12	33
Share of profit of equity accounted investees	9	102	448
Impairment in value of equity accounted investees	9	(1,782)	(1,234)
Uplift in value of equity accounted investees	9	1,501	1,258
Loss before tax		(1,171)	(697)
Income tax expense	16	(1)	(4)
Retained loss for the year		**(1,172)**	**(701)**
Basic and diluted loss per share (€)	12	**(0.0131)**	**(0.0078)**

The Directors consider that all results derive from continuing activities.

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2013 €'000	Year ended 31 December 2012 €'000
Loss for the year		(1,172)	(701)
Other comprehensive income			
Items that may subsequently be Reclassified to profit and loss:			
Currency translation differences		13	-
Total comprehensive loss for the year		(1,159)	(701)

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

Consolidated Statement of Financial Position

	Note	At 31 December 2013 €'000	At 31 December 2012 €'000
Investment in equity accounted investees	9	22,836	23,185
Property, plant and equipment		-	1
Total non-current assets		**22,836**	**23,186**
Loans to third parties	10	90	330
Trade and other receivables		50	58
Cash and cash equivalents	4.4	3,065	3,677
Total current assets		**3,205**	**4,065**
Total assets		**26,041**	**27,251**
Issued share capital	11	71,564	71,644
Share premium		10,654	10,577
Foreign currency translation reserve		17	4
Retained losses		(56,444)	(55,272)
Total equity		**25,791**	**26,953**
Trade and other payables	13	250	298
Total current liabilities		**250**	**298**
Total liabilities		**250**	**298**
Total equity & liabilities		**26,041**	**27,251**

Approved by the Board of Directors on 17 June 2014

Director **Director**

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

Company Statement of Financial Position

	Note	At 31 December 2013	At 31 December 2012
		€'000	€'000
Investment in equity accounted investees	9	511	2,163
Total non-current assets		**511**	**2,163**
Intragroup balances	7.5	25,285	24,826
Trade and other receivables		15	13
Cash and cash equivalents	4.4	39	43
Total current assets		**25,339**	**24,882**
Total assets		**25,850**	**27,045**
Issued share capital	11	71,564	71,644
Share premium		10,654	10,577
Retained losses		(56,427)	(55,268)
Total equity		**25,791**	**26,953**
Trade and other payables	13	59	92
Total current liabilities		**59**	**92**
Total liabilities		**59**	**92**
Total equity & liabilities		**25,850**	**27,045**

The loss made by the Company for the year ended 31 December 2013 was €1,159,000after an impairment charge against intragroup balances amounting to €1.5 million (primarily a result of the provisions made against the investments held by the Company's subsidiaries) (2012: €701,000 loss with an impairment charge of €1.7 million).

Approved by the Board of Directors on 17 June 2014

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 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**

Balance at 1 January 2013	71,644	10,577	4	(55,272)	26,953
Loss for the year				(1,172)	(1,172)
Other comprehensive income	-	-	-	-	-
Foreign exchange translation differences	-	-	13	-	13
Total comprehensive loss	-	-	13	(1,172)	(1,159)
Shares cancelled following market purchases	(80)	77	-	-	(3)
Total transactions with owners in the year	**(80)**	**77**	**-**	**-**	**(3)**
Balance at 31 December 2013	**71,564**	**10,654**	**17**	**(56,444)**	**25,791**

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

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2013 €'000	Year ended 31 December 2012 €'000
Operating activities			
Group loss for the year		(1,172)	(701)
Adjustments for:			
Net financial income		(12)	(33)
Net rent and related income		-	-
Income tax expense		1	4
Share of gain of equity accounted investees	9	(102)	(448)
Net impairment/(uplift) in value of equity accounted investees	9	281	(24)
Operating loss before changes in working capital		**(1,004)**	**(1,202)**
Decrease in trade and other receivables		8	9
(Decrease)/increase in trade and other payables		(48)	59
Cash used in operations		**(1,044)**	**(1,134)**
Financial income received		12	33
Dividend received		199	-
Tax paid		(1)	(4)
Cash flows used in operating activities		**(834)**	**(1,105)**
Investing activities			
Disposal/(acquisition) of equity accounted investees	9	-	-
Increase in loans to equity accounted investees	9	(29)	(630)
Decrease/(increase) in loans to third parties	10	240	(17)
Disposal of property, plant & equipment		1	-
Cash flows generated from/(used in) investing activities		**212**	**(647)**
Financing activities			
Proceeds from the issue of ordinary share capital		-	-
Purchase of own shares	11	(3)	(32)
Share issue expenses		-	-
Cash flows used in financing activities		**(3)**	**(32)**
Net decrease in cash and cash equivalents		(625)	(1,784)
Cash and cash equivalents at beginning of year		3,677	5,461
Foreign exchange gains on cash and cash equivalents		13	-
Cash and cash equivalents at end of year		**3,065**	**3,677**

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. During the year to 31 December 2013 the Company purchased 100,000 of its own shares at a price of €0.0325 at the end of the year the Company had 89,455,470 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 continued life of the Company at the Company's annual general meeting to be held in 2016.

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.

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	39%
Convergence Development Invest SRL	Romania	50%
Galleria Plovdiv AD	Bulgaria	50%
Mega Mall Rousse AD	Bulgaria	50%
Trade Centre Sliven EAD	Bulgaria	42.5%
Turgovski Park Kraimorie AD	Bulgaria	70%
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 2013 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 17 June 2014.

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. Romania and Bulgaria in which the company holds projects suffered badly during the global economic crisis of 2008. Since that time, despite periods of stability and growth, chances of recovery have been thwarted by the Greek banking crisis in 2012 limiting the availability of credit. This environment has increased the intensity of these risk factors and 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. 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, due to the level of cash and cash equivalents held by the Group being considered adequate to meet operating expenses and the level of capital commitments to joint venture entities for the next 12 months and the foreseeable future.

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 2013 (2012: € 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 2013:

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 €12,252 (2012: €32,983) and loan arrangement fees of €nil (2012: €nil).

6 Net Asset Value per Share

The net asset value per share as at 31 December 2013 is €0.2883 (2012: €0.3010) based on 89,455,470 (2012: 89,555,470) 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 2013.

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 2013 amounted to €489,908 (2012: €472,396).

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 2013 amounted to €nil (2012: €nil).

7.4 Transactions and balances with Joint Venture companies and partners

The Group has made loans to Joint Venture Companies totalling €45,732,000 (2012: €44,731,000) and to Joint Venture Partners totalling €6,116,000 (2012: €5,990,000). Details of the terms and applicable interest rates for these loans are more fully shown in note 9 and note 10. With the exception of the loan to Cascade Park Plaza all loans have been fully provided against.

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 2013 amounted to €35,780 (31 December 2012: €38,466).

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 2013 amounted to €57,600 (2012: €56,769).

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 2013 amounted to €60,882 (2012: €162,891).

Notes to the Consolidated Financial Statements continued

9 Investment in Equity Accounted Investments

Group	31 December 2013 €'000	31 December 2012 €'000
At beginning of year	23,185	22,083
Dividend received	(199)	-
Recovery in loans to investments	29	630
Share of profit of equity accounted investment	102	448
Net (impairment)/uplift on value of equity accounted investments	(281)	24
Balance at end of year	22,836	23,185

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

Name	Term	Maturity date	Interest Rate	31 December 2013 €'000
Asmita Gardens SRL	*	*	6%	17,451
Galleria Plovdiv AD	*	*	0%**	10,000
Convergence Development Invest SRL				4,592
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 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. With the exception of the loan to Cascade Park Plaza all the above loans have been fully provided against.

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

Name	Value at 31 December 2013 €'000	Value at 31 December 2012 €'000
Cascade Park Plaza SRL	17,285	15,783
Galleria Plovdiv AD	1,500	1,500
Mega Mall Rousse	-	-
Trade Centre Sliven EAD	1,677	1,876
Turgovski Park Kraimorie AD	1,863	1,863
NEF3 (IOM) 1 Limited*	-	1,158
NEF3 (IOM) 2 Limited*	511	409
NEF3 (IOM) 3 Limited*	-	1,438
Impairment provision	-	(842)
	22,836	23,185

* 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 2013

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 the financial years since then 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 were carried out as at 31 December 2012 and in the view of this only one valuation was carried out as at 31 December 2013 this being the land in municipality of Maritsa Plovdiv Region. The Board and the Manager believed that there had been little movement in investment yields and therefore asset values during 2013 in Romania and little movement in land values in Bulgaria but to ensure that this view was correct, the Board requested an independent valuation of the land in the municipality of Maritsa, Plovdiv Region. The value of this asset had not depreciated materially during 2013 and the Board therefore decided to maintain the 2012 valuations in the 2013 financial statements.

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 in 2012 was 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. As at the beginning of 2014 occupancy was dropping as several smaller tenants closed for trading and left their premises. Replacing tenants continues to be challenging 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 unless the business restructure is resolved quickly and fresh cash made available the company is going to struggle to meet its financial obligations. 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 €1.51m by a local valuer as at February 2014. 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 occupancy of the Mall dropped to 43% at end of quarter 1 2014 and in April the Mall was shut as the electricity supply was switched off due to non-payment. Due to the defaulting of the entire loan in April 2013, the bank has filed an application for insolvency against Mega Mall Rousse in January 2014.

Notes to the Consolidated Financial Statements continued

9 Investment in Equity Accounted Investments continued

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.

The Manager had the property valued by an independent surveyor as at 31 December 2012 who has valued the land at €3.9m. Other than the land and shareholder loans there are no other major assets or liabilities. In recent months there has been no further progress made with this site and it is very much linked to the developments in Plovdiv.

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 €2.4m inclusive of interest), which is €4.7m 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 2013 (2012: €1.9m).

The loan to Sienit, of €2.4m 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 €2.9m 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 €4.04m, valuing the Group's investment (of 42.5%) at €1.7m (2012 €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 which has brought down the balance as at December 2013 to €90k.

ROMANIA

Cascade

Colliers International S.R.L valued Cascade at €50.1m as at 31 December 2012. Due to knowledge of property market movements it was considered that the valuation was still valid and there was no need for a more up to date one.

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 €17.2m, a gain of €1.5 m over the 2012 carrying value of €15.84m 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 priority return. The investments are reported at their net asset value which includes the net return accruing to date on the investment. The latest valuation of the Cascade property provides the Board with comfort as to the carrying value of the investment in Cascade. The return for the Iasi and Oradea are supported with a put and call option 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 relating to the investments in Iasi and Oradea and make payment of a preferred return at the expiration of the notice period. The Put option period expired 6 months from the date of the notice with no payments being made by AREOF. Discussions between the manager and AREOF regarding alternative arrangements are ongoing.

AREOF has been in negotiations since the middle of last year to restructure its bank borrowings having breached loan covenants with its lending banks. With effect from 3RD March 2014 AREOF announced that it was delisting its shares from AIM. The main reason given by Argo was the complexity of the loan restructuring and bank negotiations which were not conducive to, and made it very difficult to meet the public reporting requirements of AIM. Argo also stated that the disclosure requirements were not to the benefit of the shareholders and may hinder the current bank renegotiations that AREOF are undertaking.

The above matters indicate the existence of material uncertainties which may cast significant doubt about the AREOF Group's ability to meet the obligations of the put option. . The Board has taken the view that it would be prudent to provide in full against the total cost of the investment plus all interest due as at 31 December 2013, in the year ended 31 December 2012 a general provision was made to include interest accrued to date.

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

Name	Country of Incorporation	Assets	Liabilities	Revenues	Profit/ (Loss)	% interest
		€'000	€'000	€'000	€'000	
Cascade Park Plaza SRL	Romania	52,298	39,810	4,960	(265)	40
Trade Centre Sliven EAD	Bulgaria	3,992	4	48	38	42.5
Turgovski Park Kraimorie AD	Bulgaria	3,866	13,241	2	(32)	60
NEF3 (IOM) 1 Limited*	Isle of Man	10	35	-	(2,913)	55
NEF3 (IOM) 2 Limited	Isle of Man	3,910	472	835	676	55
NEF3 (IOM) 3 Limited	Isle of Man	1	51	-	(3,635)	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:

2013 Name	Term	Maturity Date	Interest Rate	Amount €'000
Sienit Holding AD*	Overdue	Overdue	EURIBOR plus 5%, plus 10% penalty interest	2,430
Property Capital Group**	Overdue	Overdue	EURIBOR plus 5%	90
Dickau Investments Limited***	Overdue	Overdue	10%	3,596

* 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. 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.

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

11 Capital and Reserves

Share Capital

	2013 Number	2013 €'000
Ordinary Shares of €0.80 each		
In issue at 1 January and 31 December 2013	89,555,470	71,644
Shares cancelled during the year	(100,000)	(80)
In issue at 31 December 2013	89,455,470	71,564

	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

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 100,000 shares for a total consideration of €3,250 (2012: 960,000 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 original policy was to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. However in line with the Chairman's statement there will be no further investments into new 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.

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 2013 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.

	2013	2012
Loss attributable to equity holders of the Company (€'000)	(1,172)	(701)
Weighted average number of ordinary shares in issue (thousands)	89,456	90,426
Basic and diluted loss per share (Euro cent per share)	(1.31)	(0.78)

13 Trade and Other Payables

Group	31 December 2013 €'000	31 December 2012 €'000
Withholding tax	6	5
Trade creditors	44	70
Accruals	200	223
Total	250	298

Company	31 December 2013 €'000	31 December 2012 €'000
Accruals	59	92
Total	59	92

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 2013:

RON	4.4847
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 2013 amounted to €72,000 (2012: €72,000).

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

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 2013	Assets	Liabilities	Net assets
	€'000	€'000	€'000
Romanian Lei	34	(5)	29
Bulgarian Lev	1	(3)	(2)
Euro	26,006	(242)	25,764
	26,041	(250)	25,791

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

At 31 December 2013, 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 €1,450 (2012: 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 2013	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%	90	-	-	-	-	-	90
Trade and other receivables	n/a	n/a	-	-	-	-	-	50	50
Cash and cash equivalents	-	0.1%	3,065	-	-	-	-	-	3,065
Total financial assets			3,155	-	-	-	-	50	3,205
Financial liabilities									
Trade and other payables			-	-	-	-	-	(250)	(250)
Total financial liabilities			-	-	-	-	-	(250)	(250)
Total interest rate sensitivity gap			3,155	-	-	-	-	-	-

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	-	-	-	-	-	-

At 31 December 2013, 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 €4,733 (2012: 15 basis points €6,010).

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 2013	31 December 2012
	€'000	€'000
Loans to third parties (note 10)	90	330
Trade and other receivables	50	58
Cash at bank	3,065	3,677
	3,205	4,065

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 limited capital injections may be required to maintain shareholder value but has expressed that no new financing arrangements will be made available. 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 2013 and 31 December 2012 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 originally established to take advantage of opportunities that exist in the property markets of South-East Europe. The principal target countries were Bulgaria, Romania and Turkey, with the ability to invest in Croatia and Slovakia.

The Company has made investments in commercial, retail, residential and industrial property, with a view to taking advantage of the potential for capital appreciation. The Company 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.

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's intention was to invest in early stage projects with a construction period of 2 to 4 years. Whilst the Company intended 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. In line with the Chairman's statement there will be no new investments in further businesses.

The Company will return any 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.

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

As at 10 January 2014 Charlemagne Global Opportunities Limited sold its entire holding of 7,626,320 of the Ordinary Shares in the Company at a price of EUR 0.0535 per share.

As at 10 January 2014 Magna UAF Fund sold its entire holding of 165,000 of the Ordinary Shares in the Company at a price of EUR 0.0535 per share.

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 Wednesday 6th August 2014 at 11 a.m. to transact the following business:

Ordinary Business

1. To receive and consider the Chairman's Statement, Report of the Investment Manager, Report of the Directors, Auditors' Report and the Audited Consolidated Financial Statements of the Company for the year ended 31 December 2013.

2. To note that no dividend will be declared for the year ended 31 December 2013.

As Ordinary Resolution:

1. To re-appoint Greystone LLC Isle of Man as Auditors of the Company for the year ending 31 December 2014 at a fee to be approved by the Directors.

As Special Resolution:

2. That the admission of the Company's shares to trading on AIM be cancelled in accordance with Rule 41 of the AIM Rules for Companies published by the London Stock Exchange plc.

By Order of the Board
Galileo Fund Services Limited as
Registered Agent
Date: 17th June 2014

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 Wednesday 6th August 2014 at 11 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

Wednesday 6th August 2014 at 11 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 Greystone LLC Isle of Man be re-appointed the Auditors of the Company for the year ending 31 March 2014 at a fee to be approved by the Directors;			

SPECIAL RESOLUTIONS	**FOR**	**AGAINST**	**ABSTAIN**
2. That the admission of the Company's shares to trading on AIM be cancelled in accordance with Rule 41 of the AIM Rules for Companies published by the London Stock Exchange plc.			

Dated: 2014

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.

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