

Reconstruction Capital II Limited (the “Company”)

30 June 2009

Annual Report and Audited Consolidated Financial Statements for the year ended 31 December 2008

Reconstruction Capital II Ltd (the “Company”), a closed-end investment company incorporated in the Cayman Islands admitted to trading on the AIM market of the London Stock Exchange, today announces results for the year ended 31 December 2008.

Financial highlights

- Net asset value as at 31 December 2008 was EUR 83.7m, representing EUR 0.8373 per share (EUR 162.8m or EUR 1.4449 per share as at 31 December 2007);
- As at 31 December 2008 the Company’s market capitalisation was approximately EUR 78m, with a closing price of EUR 0.78 per share;
- Retained deficit as at 31 December 2008 was EUR 37m (Retained profits of EUR 27.6m as at 31 December 2007);
- The Company returned EUR 12.5m back to its shareholders by means of a tender offer to repurchase 12,681,054 of its own shares;
- The Directors do not recommend the payment of a dividend.

Operational highlights

The Private Equity Programme

- In March, RC2 acquired a 63% shareholding in Antares Hotels SRL (now renamed Mamaia Resort Hotels SRL) for EUR 8m;
- In March, RC2 committed a further EUR 1m to its investment in healthcare provider Romar Holding Limited, increasing its stake from 33% to 40%;
- In April, RC2 realised a successful exit from an investment in a plot of land in central Bucharest, realising a gain of EUR 2m (1.6 times cost);
- In June, RC2 acquired an additional 27% shareholding in Romanian paints producer Policolor for EUR 22.5m. Combined with its 8.6% stake prior to the transaction and further market purchases made later on during the year, RC2 owned 38.4% of Policolor at year end. During the second half of 2008, RC2 initiated a squeeze-out and delisting process at Policolor together with the Romanian Investment Fund Limited. This process was completed in March 2009, resulting in RC2 owning 40% of the company, which is now private;
- In October, RC2 invested EUR 30m in East Point Holdings Limited (“EPH”), a diversified Cyprus-based holding company with significant business interests across

South-East Europe, primarily in the fields of cereals storage and trading, milling, bakeries, copper processing, river shipping and real estate;

- During 2008, RC2 took advantage of Albalact's lower share price by acquiring a further 14.7% of this investee company which is quoted on RASDAQ, Romania's OTC market, thus lifting its shareholding to 24.5%.

The Trading Programme

Under the Trading Programme, RC2 invested a net amount of EUR 3m during the year. At year-end, it had approximately EUR 33.6 million invested in listed equities with a total market value of EUR 9.3 million. 96.8% of this was held in Romanian equities, 3.0% was invested in Bulgarian equities, while the balance of 0.2% was held in Serbian equities.

The financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted in the European Union.

The financial information set out in the announcement does not constitute the Company's audited financial statements for the years ended 31 December 2008 or 2007. The financial information for the year ended 31 December 2007 is derived from the audited financial statements for that year.

The audit of the financial statements for the year ended 31 December 2008 is complete. The auditors reported on those accounts; their report was unqualified and did not include references to any matters to which the auditors drew attention to by way of emphasis without qualifying their report.

The annual report and financial statements will be posted to shareholders today and published on its web site (www.reconstructioncapital2.com).

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INVESTMENT MANAGER AND INVESTMENT ADVISORS REPORT

During the year, Reconstruction Capital II Limited (“RC2” or the “Company”) made three follow-on investments in existing investee companies and two new investments, and effected one disposal, all under its Private Equity Programme. In line with its declared strategy of focussing increasingly on private equity situations, the Company was not particularly active under its Trading Programme, with a net amount of only EUR 3m deployed during the year.

Towards the end of the year, RC2 returned EUR 12.5m back to its shareholders by means of a tender offer to repurchase 12,681,054 of its own shares (representing 11.25% of the Company's then issued share capital) at EUR 0.9849 per share. The tender offer closed on 12 December 2008 and was funded by the realised profit made in 2007.

At 31 December 2008, RC2 had an audited net asset value (“NAV”) per share of EUR 0.8373, representing a fall of 42% since the beginning of the year. The fall in RC2's NAV per share reflects the dramatic decline in worldwide equity valuations during the second half of 2008, which affected the markets of South-East Europe particularly badly. Whilst the FTSE100 and S&P500 were down by 47.2% and 35.7% respectively over the year, the Romanian BET-EUR fell 74%, the Bulgarian SOFIX was down 79.8%, and the Serbian BELEX15 declined by 78.6%, all in Euro terms. It is important to note that the fall in RC2's NAV per share over the year was mainly the result of unrealised losses on investments amounting to EUR 68.7m, the Company actually made a realised gain of EUR 3.3m over the year.

Private Equity Programme

During the year under review, RC2 effected one disposal and five investments under its Private Equity Programme:

- In March, RC2 acquired a 63% shareholding in Antares Hotels SRL (now renamed Mamaia Resort Hotels SRL) for EUR 8m;
- In March, RC2 committed a further EUR 1m to its investment in healthcare provider Romar Holding Limited, increasing its stake from 33% to 40%;
- In April, RC2 realised a successful exit from an investment in a plot of land in central Bucharest, realising a gain of EUR 2m (1.6 times cost);
- In June, RC2 acquired an additional 27% shareholding in Romanian paints producer Policolor for EUR 22.5m. Combined with its 8.6% stake prior to the transaction and further market purchases made later on during the year, RC2 owned 38.4% of Policolor at year end. During the second half of 2008, RC2 initiated a squeeze-out and delisting process at Policolor together with the Romanian Investment Fund Limited. This process was completed in March 2009, resulting in RC2 owning 40% of the company, which is now private;
- In October, RC2 invested EUR 30m in East Point Holdings Limited (“EPH”), a diversified Cyprus-based holding company with significant business interests across South-East Europe, primarily in the fields of cereals storage and trading, milling, bakeries, copper processing, river shipping and real estate;

- During 2008, RC2 took advantage of Albalact's lower share price by acquiring a further 14.7% of this investee company which is quoted on RASDAQ, Romania's OTC market, thus lifting its shareholding to 24.5%.

Trading Programme

Under the Trading Programme, RC2 invested a net amount of EUR 3m during the year. At year-end, it had approximately EUR 33.6 million invested in listed equities with a total market value of EUR 9.3 million. 96.8% of this was held in Romanian equities, 3.0% was invested in Bulgarian equities, while the balance of 0.2% was held in Serbian equities.

Outlook

As a result of the developments outlined above, RC2 has become primarily a private equity fund, with 79.7% of its total assets invested in seven companies. The focus of the Company, which is almost fully invested at present (cash holdings represented only 6.9% of total assets at year-end) has now shifted towards preparing the Private Equity Programme's investee companies for exit over the coming years. For Policolor and EPH, the two largest investments, any exit will involve a structured process, as each has a number of business lines which will need to be reorganised into separate companies and then exited separately. However, we expect to be able to start the exit process at some of the other investments held by the Company over 2009-2011.

INVESTMENT POLICY

Private Equity Programme

Under the Private Equity Programme, the Company takes significant or controlling stakes in companies operating primarily in Romania, Serbia, Bulgaria and neighbouring countries (the “Target Region”). The Company intends to invest in investee companies where it believes its Investment Advisers can add value by implementing operational and/or financial restructuring over a 3 to 5 year horizon. The Company will only make an investment under the Private Equity Programme if its Investment Advisers believe there is a clear exit strategy available, such as trade sale, break up and subsequent disposal of different divisions or assets, or a flotation on a stock exchange.

Trading Programme

Under the Trading Programme, the Company aims to generate short and medium term returns by investing such portion of its assets as determined by the Directors from time to time in listed equities and fixed income securities, including convertible and other mezzanine instruments, issued by entities in the Target Region. The Investment Manager is responsible for identifying and executing investments and divestments under the Trading Programme. The Trading Programme differs from the Private Equity Programme in the key respect that the Company will typically not take significant or controlling stakes in investee companies and will typically hold investments for shorter periods of time than investments made under the Private Equity Programme.

Value Creation

Under its Private Equity Programme, the Investment Advisers intend to be involved at board level of the investee company to seek to implement operational and financial changes to enhance returns. As part of the Company’s pre-acquisition due diligence, the Investment Advisers will seek to identify specific actions that they believe will create value in the target investee company post acquisition and, where appropriate, will seek to work with third party professionals to develop, in combination with the proposed management team of the target, a value creation plan with clear and identifiable short and medium term targets. These plans are likely to address different parts of the business and will be tailored to reflect the specific challenges of the relevant target company. Both the Investment Advisers and the Investment Manager believe that the investment strategies under the Private Equity and Trading Programme might achieve returns which are different than the returns of the relevant market indices.

Investing Restrictions and Cross-Holdings

The Directors, the Investment Advisers and the Investment Manager will take steps to ensure that the portfolio of investments is sufficiently diversified to spread the risks of those investments. The Investment Strategy does not restrict the Company from investing in other closed-ended funds operating in the Target Region. In line with the Company’s investment policy, the Board will not normally authorise any investment in a single investee company that is greater than 20 per cent of the Company’s net asset value at the time of effecting the investment and in no circumstances will it approve an investment in a single investee company that is greater than 25 per cent of the Company’s net asset value at the time of effecting the investment.

Gearing

The Company may borrow up to a maximum level of 30 per cent of its gross assets (as defined in its articles).

Distribution Policy

The Company's investment objective is focused principally on the provision of capital growth. For further details of the Company distribution policy, please refer to the Admission Document on the company's website.

**CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED
31 DECEMBER 2008**

	31-Dec-08	31-Dec-07
	EUR	EUR
Revenue	2,712,877	162,458
Total revenue	<u>2,712,877</u>	<u>162,458</u>
Investment income		
(Loss)/ gain on investments at fair value through the profit and loss account	(65,229,295)	23,983,989
Interest income	2,409,026	1,842,780
Dividend income	569,268	331,187
Other income	482,321	707,499
Total investment (loss)/income	<u>(61,768,680)</u>	<u>26,865,455</u>
Revaluation surplus	-	3,639,779
Expenses		
Bargain purchase	(3,210,739)	-
Operating expenses	7,704,325	6,174,519
Total operating expenses	<u>4,493,586</u>	<u>6,174,519</u>
(Loss)/ profit before taxation	(63,549,389)	24,493,173
Income tax expense	630,012	1,116,617
Net (loss)/ profit for the year	<u>(64,179,401)</u>	<u>23,376,556</u>
Attributable to:		
- Equity holders of the parent	(64,576,849)	21,458,657
- Minority interest	397,448	1,917,899
	<u>(64,179,401)</u>	<u>23,376,556</u>
Basic and diluted (loss)/earnings per share	(0.5766)	0.3363

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2008

	31-Dec-08	31-Dec-07
	EUR	EUR
Assets		
Non-current assets		
Property, plant and equipment	16,872,497	59,269
Investment property	-	7,279,779
Financial assets at fair value through the profit and loss account	57,749,033	3,100,000
Goodwill	1,257,153	1,257,153
Total non-current assets	75,878,683	11,696,201
Current assets		
Financial assets at fair value through the profit and loss account	10,317,104	69,060,217
Inventories	80,000	16,875
Trade and other receivables	855,759	1,244,423
Cash and cash equivalents	6,426,366	89,328,540
Total current assets	17,679,229	159,650,055
Total assets	93,557,912	171,346,256
Liabilities		
Current liabilities		
Trade and other payables	1,312,722	5,486,316
Loans and borrowings	530,000	-
Corporation tax payable	199,400	968,893
Total current liabilities	2,042,122	6,455,209
Non-current liabilities		
Loans and borrowings	89,429	-
Total non-current liabilities	89,429	-
Total net assets	91,426,361	164,891,047
Capital and reserves attributable to equity holders		
Share capital	1,000,000	1,126,811
Share premium reserve	121,900,310	134,263,071
Retained (deficit)/earnings	(37,011,624)	27,565,225
Foreign exchange reserve	(2,158,146)	(145,955)
Total equity and reserves	83,730,540	162,809,152
Minority Interest	7,695,821	2,081,895
Total equity	91,426,361	164,891,047

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS OF
31 DECEMBER 2008**

	Share Capital EUR	Share Premium EUR	Translation of overseas subsidiaries EUR	Retained (Deficit)/ Earnings EUR	Sub-total EUR	Minority Interest EUR	Total EUR
Balance at 1 January 2007	650,394	63,280,208	-	6,106,568	70,037,170	521,384	70,558,554
Exchange differences arising on translation of foreign operations	-	-	(145,955)	-	(145,955)	(164,824)	(310,779)
Net income directly recognised in equity	-	-	(145,955)	-	(145,955)	(164,824)	(310,779)
Profit for year	-	-	-	21,458,657	21,458,657	1,917,899	23,376,556
Issue of Share Capital	476,417	70,982,863	-	-	71,459,280	-	71,459,280
Minority interest arising on acquisition	-	-	-	-	-	145,213	145,213
Dividends payable to minorities	-	-	-	-	-	(337,777)	(337,777)
Balance at 31 December 2007	1,126,811	134,263,071	(145,955)	27,565,225	162,809,152	2,081,895	164,891,047
Exchange differences arising on translation of foreign operations	-	-	(2,012,191)	-	(2,012,191)	164,828	(1,847,363)
Net income directly recognised in equity	-	-	(2,012,191)	-	(2,012,191)	164,828	(1,847,363)
(Loss)/profit for the year	-	-	-	(64,576,849)	(64,576,849)	397,448	(64,179,401)
Redemption of Share Capital	(126,811)	(12,362,761)	-	-	(12,489,572)	-	(12,489,572)
Minority interest arising on acquisition	-	-	-	-	-	6,581,261	6,581,261
Dividends payable to minorities	-	-	-	-	-	(1,529,612)	(1,529,612)
Balance at 31 December 2008	1,000,000	121,900,310	(2,158,146)	(37,011,624)	83,730,540	7,695,821	91,426,361

Share premium is stated net of share issue costs

**CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED
31 DECEMBER 2008**

	31-Dec-08	31-Dec-07
	EUR	EUR
Cash flows from operating activities		
Net (loss)/profit before tax	(63,549,389)	24,493,174
<i>Adjustments for:</i>		
Depreciation and amortisation	130,002	8,141
Loss/(gain) on financial assets at fair value through profit or loss	65,229,295	(23,983,989)
Revaluation surplus	-	(3,639,779)
Bargain purchase	(3,210,739)	-
Gain on foreign exchange	-	(707,073)
Interest income	(2,409,026)	(1,865,763)
Dividend income	(569,268)	(331,187)
Net cash outflow before changes in working capital	(4,379,125)	(6,026,476)
Decrease in trade and other receivables	388,664	788,515
(Decrease)/increase in trade and other payables	(4,943,089)	4,642,995
Increase in inventories	(63,125)	-
Interest received	2,528,221	2,067,107
Dividend received	544,793	373,681
Payments for purchase of financial assets	(8,571,980)	(42,343,817)
Net proceeds from sale of financial assets	12,594,761	23,503,476
Net cash used in operating activities	(1,900,880)	(16,994,519)
Income tax paid	1,399,505	(205,176)
Cash flows from investing activities		
Net proceeds from sale of investment assets	5,780,449	-
Purchase of property, plant and equipment	(254,005)	(37,632)
Purchase of financial assets	(66,974,488)	(3,000,000)
Acquisition of subsidiary (net of cash acquired)	(2,276,000)	(2,960,458)
	(64,225,419)	(23,197,785)
Cash flows from financing activities		
Dividends paid to minorities	(1,529,612)	(337,777)
Payments of loan	(4,657,571)	-
Payments on shares redeemed	(12,489,572)	-
Proceeds from shares issued	-	71,459,280
(Decrease)/Increase in cash and cash equivalents	(82,902,174)	47,923,718
Cash at 1 January	89,328,540	41,404,822
Cash at 31 December	6,426,366	89,328,540

