

# Reconstruction Capital II Limited (the “Company”)

29 September 2008

## Interim Unaudited Consolidated Financial Statements for the six months ended 30 June 2008

Reconstruction Capital II Ltd (the “Company”), a closed-end investment company admitted to trading on the AIM market of the London Stock Exchange, today announces its interim results for the six months ended 30 June 2008.

### Financial highlights

- Net asset value, after minority interest, as at 30 June 2008 was EUR 138.9m, representing EUR 1.2326 per share (EUR 93.6m or EUR 1.4398 per share as at 30 June 2007);
- As at 30 June 2008 the Company’s market capitalisation was approximately EUR 143.7m, 112.7m shares were in issue with a closing share price of EUR 1.2750 per share on 30 June 2008;
- Retained earnings as at 30 June 2008 were EUR 3.9m (EUR 29.7m as at 30 June 2007);
- The Directors do not recommend the payment of a dividend

### Operational highlights

Under its Private Equity Programme, the Company effected one disposal and four investments in the period under review:

- In March, RC2 acquired a 63% shareholding in Antares Hotels SRL (now renamed Mamaia Resort Hotels SRL), the owner of a 305-room beachside hotel at Mamaia, Romania’s prime seaside resort, for a consideration of EUR 8m. RC2 appointed a new management team and renamed the hotel *Golden Tulip Mamaia* as part of a franchise agreement with Golden Tulip Hotels.
- 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 made a successful exit from its Bucharest real estate investment realizing a gain of EUR 2m (or 1.6x cost) less than six months after its acquisition. The asset had been revalued in 2007, therefore the impact on the NAV in 2008 was not substantial.
- Over the first two quarters of 2008, RC2 took advantage of Albalact’s lower share price by acquiring a further 7.5%, thus lifting its shareholding to 17.3%.
- 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 during the second quarter, RC2 owned 37.6% of Policolor as at the 30 June. RC2’s strategy for Policolor is to work closely with the Romanian Investment Fund Ltd, another fund which owns 56%, in order to buy out the remaining shareholders, delist the company, reorganize the Policolor group by separating excess real estate, chemicals and coatings, and prepare it for exit.

Under the Trading Programme a total of EUR 3.9m was invested in the first half of 2008.

The portfolio was divided amongst companies operating in the following sectors: financial services (50.0%), building materials (18.5%), other (12.7%), industrials (9.2%), oil & gas (3.9%), engineering (3.3%) and utilities (2.4%).

Commenting on the results, Ion Florescu, a Director of the Company said: “RC2’s NAV performance over the first semester, although disappointing, was substantially better than that of the main stock exchange indices where the Company invests. Whilst equity indices in the region have fallen substantially more than the S&P 500 and the FTSE 100, the underlying economies remain strong, with Romanian GDP in particular growing at an annualized rate of 8.8% over the first half of the year. We remain confident that the logic of convergence with the rest of Europe is not affected by the worldwide credit crunch, and aim to continue making investments into the region over the coming months.”

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 above does not constitute the Company’s statutory accounts for the period ended 30 June 2008.

The interim report of the Group for the six months ended 30 June 2008 has been posted to shareholders. Extracts of the financial statements appear below and the full version is available on the Company’s website - [www.reconstructioncapital2.com](http://www.reconstructioncapital2.com)

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## INVESTMENT MANAGER AND ADVISER REPORT

On 30 June 2008, Reconstruction Capital II Limited (“RC2” or the “Group”) had a total unaudited net asset value (“NAV”) of EUR 138.9m after deducting minority interest, or EUR 1.2326 per share, which represents a 14.7% decrease since the beginning of the year. The published net asset value per share was EUR 1.2361, the difference between the published and the interim mainly resulting from the effects of the consolidation of Antares Hotels SRL (now renamed Mamaia Resort Hotels SRL).

The fall in the NAV was primarily due to the sharp fall in equities across the world, which adversely affected the equity markets in which RC2 operates, with the Romanian BET-EUR index and the Bulgarian SOFIX indices falling 36.8% and 34.6%, respectively. 70.4% of RC2’s investments in the Private Equity Programme are in quoted companies and are booked to market (Policolor, Albalact and Orgachim) while RC2’s total exposure to quoted equities amounted to 48.7% of total NAV as at 30 June 2008.

During the period and in light of the uncertain international environment and falling equity valuations, RC2 kept high levels of cash which, excluding cash owed for the settlement of trades performed at month end and cash of subsidiaries amounted to EUR 51.4m (or 34.3% of NAV) as at 30 June. The rest of RC2’s net assets consisted of investments in the Private Equity Programme (44.2%), as well as listed equities (17.7%) and fixed-income securities (3.8%) held under the Trading Programme.

During the period under review, most new investments were made under the Private Equity Programme, with limited additions to the Trading Programme. The Group exploited the lower valuations of the public equity markets to increase its shareholdings in Policolor and Albalact, both quoted companies where RC2 has significant positions under its Private Equity Programme.

Under its Private Equity Programme, the Company effected one disposal and four investments in the period under review:

- In March, RC2 acquired a 63% shareholding in Antares Hotels SRL (now renamed Mamaia Resort Hotels SRL), the owner of a 305-room beachside hotel at Mamaia, Romania’s prime seaside resort, for a consideration of EUR 8m. RC2 appointed a new management team and renamed the hotel *Golden Tulip Mamaia* as part of a franchise agreement with Golden Tulip Hotels.
- 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 made a successful exit from its Bucharest real estate investment realizing a gain EUR 2m (or 1.6x cost) less than six months after its acquisition. The asset had been revalued in 2007, therefore the impact on the NAV in 2008 was not substantial.
- Over the first two quarters of 2008, RC2 took advantage of Albalact’s lower share price by acquiring a further 7.5%, thus lifting its shareholding to 17.3%.
- 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 during the second quarter, RC2 owned 37.6% of Policolor as at the 30 June. RC2’s strategy for Policolor is to work closely with the Romanian Investment Fund Ltd, another fund which owns 56%, in order to buy out the remaining shareholders, delist the company, reorganize the Policolor group by separating excess real estate, chemicals and coatings, and prepare it for exit.

The Investment Manager invested a total of EUR 3.9m under the Trading Programme in the first half of 2008. The portfolio was divided amongst companies operating in the following sectors: financial services (50.0%), building materials (18.5%), other (12.7%), industrials (9.2%), oil & gas (3.9%), engineering (3.3%) and utilities (2.4%).

The Investment Manager and Advisers believe that there is little connection between the underlying economic and political fundamentals of the region and the performance of the local stock markets. The sub-prime crisis, which originated in the US, has had a devastating effect on US (and many Western European) financial institutions and brought the US and a

number of leading European economies close to recession. Meanwhile, Romanian GDP grew at an annual rate of 8.8% over the first half of 2008, and FDI inflows were up 63.4% year-on-year, reaching EUR 4.8bn, which covered 61% of the current account deficit, compared to 38% one year ago. In spite of this, it is the Romanian market which fell by 36.8 % in euro terms, whilst the S&P500 and FTSE100 fell by a much more modest 19%, also in euro terms.

In March, the investment advisory team opened an office in Belgrade in order to source investment opportunities in Serbia. After years of economic and political isolation, this country with its diversified economy, skilled labour force and improved macroeconomic situation to a certain extent resembles its eastern neighbours, Romania and Bulgaria but has even more catching up to do. The pro-European government coalition which was elected in May has already made substantial progress in bringing Serbia closer to the EU with the handover of Radovan Karadzic to the International Criminal Tribunal for the former Yugoslavia in July and the ratification of the EU Stabilization and Association Agreement on September 4th.

**New Europe Capital Limited**

**CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008**

		<b>Six months ended 30-Jun-08 EUR Unaudited</b>	<b>Six months ended 30-Jun-07 EUR Unaudited</b>	<b>Year ended 31-Dec-07 EUR Audited</b>
	<b>Notes</b>			
<b>Investment income</b>				
(Loss) / Gain on investments at fair value				
through profit or loss	4	(26,402,661)	27,376,303	23,983,989
Interest income		1,621,871	1,045,858	1,842,780
Dividend income		492,147	260,212	331,187
Other income		4,116,399	127,138	869,957
<b>Total investment income</b>		<b>(20,172,244)</b>	<b>28,809,511</b>	<b>27,027,913</b>
<b>Revaluation Surplus</b>		-	-	3,639,779
<b>Expenses</b>				
Operating expenses	5	3,102,808	4,779,448	6,174,519
<b>Total operating expenses</b>		<b>3,102,808</b>	<b>4,779,448</b>	<b>6,174,519</b>
<b>(Loss) / Profit before taxation</b>		<b>(23,275,052)</b>	<b>24,030,063</b>	<b>24,493,173</b>
Income tax expense		138,789	177,969	1,116,617
<b>Net (loss) / profit for the period</b>		<b>(23,413,841)</b>	<b>23,852,094</b>	<b>23,376,556</b>
<b>Attributable to:</b>				
- Equity holders of the parent		(23,707,730)	23,609,302	21,458,657
- Minority interest		293,889	242,792	1,917,899
		<b>(23,413,841)</b>	<b>23,852,094</b>	<b>23,376,556</b>
Basic and diluted earnings per share	10	(0.2104)	0.3630	0.3363

**CONSOLIDATED BALANCE SHEET AS OF 30 JUNE 2008**

		<b>30-Jun-08</b>	<b>30-Jun-07</b>	<b>31-Dec-07</b>
		<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
<b>Assets</b>	<b>Notes</b>	<b>Unaudited</b>	<b>Unaudited</b>	<b>Audited</b>
<b>Non-current assets</b>				
Property, plant and equipment		18,454,484	53,024	59,269
Investment property			-	7,279,779
Financial assets at fair value through profit or loss	6	35,410,192	3,000,000	3,100,000
Goodwill	7	1,257,153	1,257,153	1,257,153
<b>Total non-current assets</b>		<b>55,121,829</b>	<b>4,310,177</b>	<b>11,696,201</b>
<b>Current assets</b>				
Financial assets at fair value through the profit or loss account	6	42,121,496	55,428,643	67,634,822
Other financial assets		1,082,314	-	1,425,395
Trade and other receivables		1,441,047	1,119,073	1,261,298
Inventories		124,000	-	-
Cash and cash equivalents		<u>75,219,473</u>	<u>38,121,456</u>	<u>89,328,540</u>
<b>Total current assets</b>		<b>119,988,330</b>	<b>94,669,172</b>	<b>159,650,055</b>
<b>Total assets</b>		<b>175,110,159</b>	<b>98,979,349</b>	<b>171,346,256</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	8	<u>28,582,468</u>	<u>4,593,814</u>	<u>6,455,209</u>
<b>Total liabilities</b>		<b>28,582,468</b>	<b>4,593,814</b>	<b>6,455,209</b>
<b>Total net assets</b>		<b>146,527,691</b>	<b>94,385,535</b>	<b>164,891,047</b>
<b>Capital and reserves attributable to equity holders of the parent</b>				
Share capital		1,126,811	650,394	1,126,811
Share premium reserve		134,263,071	63,280,208	134,263,071
Retained earnings		3,857,495	29,715,870	27,565,225
Translation reserve		<u>(360,431)</u>	<u>-</u>	<u>(145,955)</u>
<b>Total capital and reserves attributable to equity holders of the parent</b>		<b>138,886,946</b>	<b>93,646,472</b>	<b>162,809,152</b>
Minority Interest		7,640,745	739,063	2,081,895
<b>Total equity</b>		<b>146,527,691</b>	<b>94,385,535</b>	<b>164,891,047</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS OF 30 JUNE 2008

	Share Capital EUR	Share Premium EUR	Retained Earnings EUR	Translation Reserve EUR	Attributable to equity holders of the parent EUR	Minority Interest EUR	Total EUR
<b>Balance at 31 December 2006</b>	650,394	63,280,208	6,106,568	-	70,037,170	521,384	70,558,554
Profit for the period	-	-	23,609,302	-	23,609,302	242,792	23,852,094
Issue of Share Capital	-	-	-	-	-	-	-
Minority interest arising on acquisition	-	-	-	-	-	145,213	145,213
Reserves	-	-	-	-	-	-	-
Dividends payable to minorities	-	-	-	-	-	(170,326)	(170,326)
<b>Balance at 30 June 2007</b>	650,394	63,280,208	29,715,870	-	93,646,472	739,063	94,385,535
Loss for the period	-	-	(2,150,645)	-	(2,150,645)	1,675,107	(475,538)
Issue of Share Capital	476,417	70,982,863	-	-	71,459,280	-	71,459,280
Minority interest arising on acquisition	-	-	-	-	-	-	-
Reserves	-	-	-	(145,955)	(145,955)	(164,824)	(310,779)
Dividends payable to minorities	-	-	-	-	-	(167,451)	(167,451)
<b>Balance at 31 Dec 2007</b>	1,126,811	134,263,071	27,565,225	(145,955)	162,809,152	2,081,895	164,891,047
Loss for the period	-	-	(23,707,730)	-	(23,707,730)	293,889	(23,413,841)
Issue of Share Capital	-	-	-	-	-	-	-
Minority interest arising on acquisition	-	-	-	-	-	6,581,261	6,581,261
Reserves	-	-	-	(214,476)	(214,476)	164,827	(49,649)
Dividends payable to minorities	-	-	-	-	-	(1,481,127)	(1,481,127)
<b>Balance at 30 June 08</b>	1,126,811	134,263,071	3,857,495	(360,431)	138,886,946	7,640,745	146,527,691

The share premium is stated net of share issue costs.

**CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008**

	<b>Six months ende d 30-Jun-08 Unaudite d EUR</b>	<b>Six months ende d 30-Jun-07 Unaudite d EUR</b>	<b>Year ende d 31-Dec-07 Audite d EUR</b>
<b>Cash flows from operating activities</b>			
Net Profit / (loss) before tax	(23,275,052)	24,030,063	24,493,174
Adjustments for:			
Depreciation	877,085	1,542	8,141
Loss / (Gain) on financial assets at fair value through profit or loss	29,278,620	(21,441,033)	(23,983,989)
Revaluation surplus	-	-	(3,639,779)
Negative Goodwill	(3,210,739)	-	-
Profit on sale of fixed asset	(1,289,720)	-	-
Gain on foreign exchange	(1,009,065)	(1,111,256)	(707,073)
Interest income	(1,621,871)	(1,323,755)	(1,865,763)
Dividend income	(492,147)	(263,002)	(331,187)
<b>Net cash outflow before changes in working capital</b>	<b>(742,889)</b>	<b>(107,441)</b>	<b>(6,026,476)</b>
Increase/ (decrease) in trade and other receivables	(38,019)	1,329,975	788,515
Increase (decrease) in trade and other payables	15,643,439	3,670,459	4,642,995
Increase (decrease) in inventories	(124,000)	-	-
Interest received	1,651,720	1,323,755	2,067,107
Dividend received	486,568	263,002	373,681
Payments for purchase of financial assets	(34,514,380)	(18,456,640)	(42,343,817)
Proceeds from sale of financial assets	2,185,240	13,737,844	23,503,476
<b>Net cash used in operating activities</b>	<b>(15,452,321)</b>	<b>1,760,954</b>	<b>(16,994,519)</b>
Income tax paid	-	-	(205,176)
<b>Cash flows from investing activities</b>			
Proceeds from sale of investment assets	6,785,435	-	-
Purchase of property, plant and equipment	(357,309)	(24,791)	(37,632)
Purchase of financial assets	(1,000,000)	(3,000,000)	(3,000,000)
Acquisition of subsidiary (net of cash acquired)	(2,276,000)	(2,960,458)	(2,960,458)
	<b>3,152,126</b>	<b>(5,985,249)</b>	<b>(5,998,090)</b>
<b>Cash flows from financing activities</b>			
Proceeds from shares issued	-	-	71,459,280
Proceeds from loan	10,032	-	-
Dividends paid to minority interest	(1,818,904)	(170,327)	(337,777)
	<b>(1,808,872)</b>	<b>(170,327)</b>	<b>71,121,503</b>
<b>Gain on foreign exchange</b>	<b>-</b>	<b>1,111,256</b>	<b>-</b>
<b>Increase in cash and cash equivalents</b>	<b>(14,109,067)</b>	<b>(3,283,366)</b>	<b>47,923,718</b>
<b>Cash at start of period</b>	<b>89,328,540</b>	<b>41,404,822</b>	<b>41,404,822</b>
<b>Cash at end of period</b>	<b>75,219,473</b>	<b>38,121,456</b>	<b>89,328,540</b>