Reconstruction Capital II Ltd

Quarterly Report

June 30th, 2008

neweuropecapital

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Message from the Investment Manager and Advisers

Dear Shareholders

During the second quarter of 2008, the Romanian and Bulgarian stock markets continued to fall, with the BET-EUR and SOFIX indices now down approximately 35% since the beginning of the year. The Serbian BELEX-15 was up 8.8% in EUR terms over the second quarter, mainly on the back of the election of EU leaning parties, but is still down 22.8% since the beginning of the year.

Paradoxically, all this has happened within a pretty benign overall macroeconomic context across SE Europe, with Romania (+8.2%), Serbia (+8.2%) and Bulgaria (+7%) all reporting strong annualized GDP growth over the first quarter, and Romanian FDI doubling to EUR 4.1bn over the first five months. In Serbia, there was further good news on the political front, with the formation of a pro-European government coalition, and more recently the arrest of Radovan Karadzic, surely the most potent symbol of the new government's determination to put Serbia's recent past behind it and drive towards EU integration.

The disconnect between the underlying economic and political reality and the performance of the local stock markets is in our opinion mainly due to the lack of a local institutional base, making the local markets over-dependent on an unholy alliance of international momentum investors and local retail speculators. In good times there is feast, in bad times famine. We believe that at present this phenomenon represents a massive buying opportunity for those who know the reality of the local situation.

Although 43.0% of RC2's portfolio is categorized as private equity, 70.4% of that is quoted and therefore booked to market. Consequently, RC2's short term NAV performance is sensitive to market fluctuations, whilst in the long term its underlying performance is driven by exits from its core holdings.

In April, RC2 made its first exit this year by completing the sale of its 36.5% share of a 7,671 sqm plot of land in central Bucharest. The land was originally acquired over October – December 2007 for EUR 3.6m and sold for EUR 7m. Net proceeds to RC2, after taking into account a profit-sharing scheme with its development partner, amounted to EUR 5.6m, or 1.6x cost.

In June, RC2 acquired a 27% shareholding in Romanian-Bulgarian paints producer Policolor for EUR 22.5m. This represents RC2's largest single investment to date and the biggest transaction to take place on the Bucharest Stock Exchange this year. Combined with its 8.6% stake in the company prior to the transaction, and further market purchases during the quarter, RC2 owned 37.6% of Policolor as at 30 June. RC2'strategy is to work closely with the Romanian Investment Fund, another fund which owns around 56%, in order to buy out all the remaining investors, delist the company, reorganize the group by separating excess real estate, chemicals and coatings, and prepare it for exit.

Also during the quarter, RC2 took advantage of Albalact's lower share price, by acquiring a further 5.1% of the company, thus bringing its shareholding to 17.3%. RC2's strategy is to work closely with the controlling shareholder to take this company to exit within the next couple of years.

Very Truly Yours,

New Europe Capital

Statistics

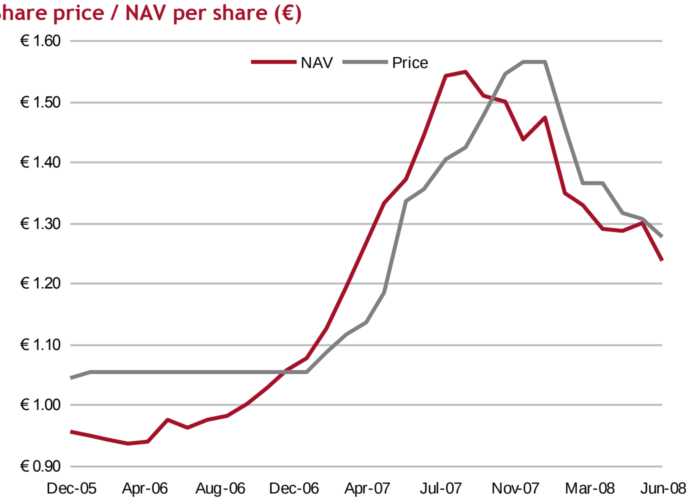
NAV per share (€)	1.2361
Share price (€)	1.2750
Total NAV (€ m)	139.3
Mk Cap (€ m)	143.7
# of shares (m)	112.7
Return since inception	29.23%
12-month CAGR	-14.32%
Annualized Return*	10.80%
Annualized Volatility*	12.12%
Best month	6.93%
Worst month	-8.27%
# of months up	18
# of months down	12

** since inception*

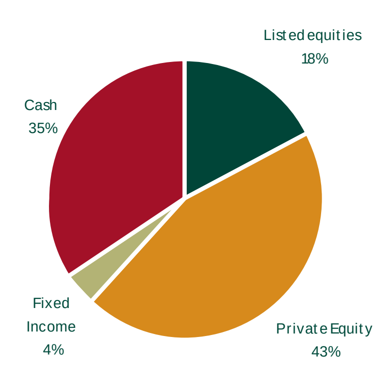
RC2 NAV returns

	2006	2007	2008
Jan	-0.61%	4.70%	-8.27%
Feb	-0.73%	6.17%	-1.48%
Mar	-0.87%	5.90%	-3.03%
Apr	0.44%	5.05%	-0.26%
May	3.73%	3.08%	0.93%
Jun	-1.25%	5.19%	-4.75%
Jul	1.23%	6.93%	-
Aug	0.61%	0.22%	-
Sep	2.18%	-2.50%	-
Oct	2.74%	-0.69%	-
Nov	2.80%	-4.09%	-
Dec	1.70%	2.46%	-
YTD	12.47%	36.74%	-15.97%

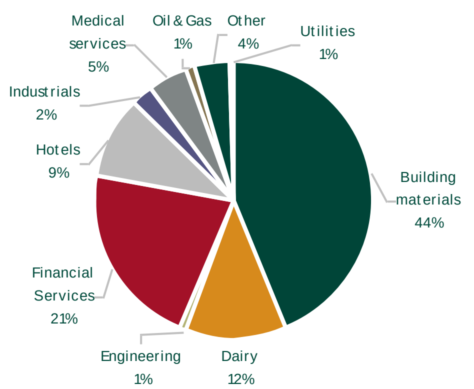
Share price / NAV per share (€)



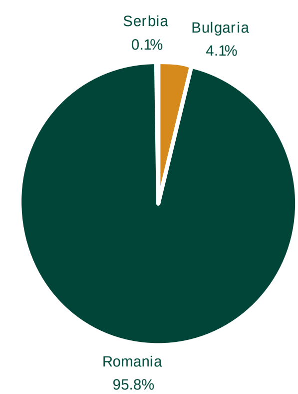
Portfolio Structure by Asset Class



Equity Portfolio Structure by Sector



Portfolio Structure by Geography



Policolor Group

The Policolor Group is the leading producer of coatings in Romania and Bulgaria. The group comprises Policolor S.A., a Romanian company quoted on the Bucharest Stock Exchange, and Orgachim AS, its 64%-owned Bulgarian subsidiary which is listed on the Bulgarian Stock Exchange. RC2 has shareholdings in both companies, and over the quarter increased its shareholding in Policolor from 8.6% to 37.6%, whilst its shareholding in Orgachim remained unchanged at 2.4%. RC2's strategy for its investment in the Policolor group is to collaborate closely with the Romanian Investment Fund, which owns a 56.4% shareholding in Policolor, to reorganize the group and prepare it for exit. Both funds own almost 95% of Policolor, which is the threshold at which they are allowed to delist the company from the Bucharest Stock Exchange. A demerger of Orgachim's chemicals business and the sale of excess real estate is also planned, which would allow the group to focus exclusively on its core coatings business. RC2's positions in Policolor and Orgachim had a market value of EUR 33.0m as at 30th June, which compares to a cost of EUR 31.7m.

Financial results

Because Policolor's reported statutory results do not consolidate its investment in Orgachim, we present below the results of both companies separately.

(EUR '000)	2006A		2007A		1Q08	1H08
Income Statement	**PCL**	**ORGH**	**PCL**	**ORGH**	**PCL**	**ORGH**
Sales Revenues	**42,408**	**48,368**	**48,134**	**62,633**	**9,589**	**33,908**
Other operating revenues	0	1,592	(961)	1,888	(406)	546
Total Operating Revenues	**42,408**	**49,959**	**47,173**	**64,521**	**9,183**	**34,454**
Total Operating Expenses	39,726	46,993	47,514	59,444	9,234	32,450
Operating Profit	**2,681**	**2,967**	**(341)**	**5,077**	**(51)**	**2,004**
Operating margin	*6.3%*	*6.1%*	*neg.*	*8.1%*	*neg.*	*5.9%*
EBITDA	**3,664**	**3,905**	**1,254**	**7,268**	**568**	**3,459**
EBITDA margin	*8.6%*	*8.1%*	*2.6%*	*11.6%*	*5.9%*	*10.2%*
Financial Profit/(Loss)	**216**	**1,714**	**(2,648)**	**340**	**(385)**	**(498)**
Profit before Tax	**2,897**	**4,680**	**(2,989)**	**5,417**	**(436)**	**1,506**
Income Tax	477	541	0	1,958	0	(37)
Profit after Tax	**2,420**	**4,139**	**(2,989)**	**3,458**	**(436)**	**1,544**
Net margin	*5.7%*	*8.6%*	*neg.*	*5.5%*	*neg.*	*4.6%*
Avg exchange rate	*3.525*	*1.956*	*3.337*	*1.956*	*3.689*	*1.956*

Source: Company data

Note: PCL according to RAS, ORGH according to IFRS

Orgachim has already reported its interim results to the market, whilst Policolor has still only reported its first quarter results. Because of the seasonality of sales of architectural coatings in Romania and Bulgaria, the results for the first quarter are not particularly illuminating. Policolor's results both last year and in the first quarter of 2008 suffered from new environmental regulations introduced as part of Romania's accession to the EU, which particularly affected its automotive refinish business.

In the first half of 2008, Orgachim reported sales of EUR 33.9m, up 20.7% year-on-year, mainly as a result of the decision to transfer the production of some products from Policolor to Orgachim. EBITDA fell slightly from EUR 3.6m in 1H07 to EUR 3.5m in 1H08. The bottom line (-51.1% year-on-year) suffered from increased depreciation expenses as a result of a statutory asset revaluation conducted in the last quarter of 2007.

Operations

Orgachim has announced that it intends to reorganize its activities by a demerger of its chemicals unit. Orgachim is the sole manufacturer of phthalic anhydride in Bulgaria with less than 10% being used for the company's in-house production of resins. This business segment already operates from a separate facility. Pursuant to the demerger, shareholders in Orgachim would receive the same percentage shareholding in two quoted companies, a coatings business and a chemicals business.

At the end of the second quarter both Policolor and Orgachim agreed to terminate the contract of their joint CEO, and have initiated an international recruitment process aimed at identifying a new CEO who can take charge of the reorganization of the group, improve the EBITDA level, and prepare the two companies for exit. It is expected that the new CEO will start in October 2008.

Albalact

Albalact is a quoted Romanian dairy producer in which RC2 has acquired a significant stake under its Private Equity Programme. In the period February - August 2007, RC2 made a partial exit by reducing its shareholding from 17.1% to 9.5%, based on an average market capitalization of EUR 133.8m, or 5x cost. In February 2008, RC2 re-started buying shares in Albalact, raising its stake to 17.3% at the end of June 2008, as the company's average market capitalization has fallen significantly in 2008. Based on 30th June prices, RC2's shareholding in Albalact had a market value of EUR 10.2m compared to a cost of EUR 9.8m.

(EUR '000)	2006A	2007A	1Q07	1Q08
Income Statement (according to RAS)				
Sales Revenues	**28,965**	**46,389**	**11,354**	**12,517**
Other operating revenues	1,467	4,183	868	246
Total Operating Revenues	**30,431**	**50,572**	**12,223**	**12,764**
Total Operating Expenses	28,634	47,795	10,278	12,397
Operating Profit	**1,798**	**2,777**	**1,944**	**367**
Operating margin	*6.2%*	*6.0%*	*17.1%*	*2.9%*
EBITDA	**3,146**	**5,257**	**2,404**	**1,037**
EBITDA margin	*10.9%*	*11.3%*	*21.2%*	*8.3%*
Financial Profit/(Loss)	279	(1,632)	(175)	(91)
Profit before Tax	**2,077**	**1,145**	**1,769**	**276**
Income Tax	368	174	285	49
Profit after Tax	**1,709**	**971**	**1,485**	**227**
Net margin	*5.9%*	*2.1%*	*13.1%*	*1.8%*
Avg exchange rate (RON/EUR)	*3.525*	*3.334*	*3.382*	*3.689*

Source: Albalact

Operations

Albalact's operations and profitability in 2007 and the first quarter of 2008 were badly affected by the relocation of production to a new state-of-the-art factory, which involved both factories working in parallel for a period of time.

Albalact has launched cheese production as a brand extension, and has started negotiations to acquire a plot of land adjacent to its new factory in order to develop a separate cheese and powder milk plant. Until the new cheese factory is operational, the old factory is being used for cheese production.

Albalact's new logistics centre in Bucharest (a EUR 5m investment) should become fully operational by November 2008. This should help Albalact strengthen its position in Bucharest and southern Romania, the country's most important market for dairy products. Currently, the Bucharest area is served by a rented warehouse.

Antares Hotels

Antares Hotels SRL is the owner and operator of the 305-room Fantasy Beach Hotel (the "Hotel") located in Mamaia, Romania's premium holiday resort on the Black Sea coast and in close vicinity to the city of Constanta. In March 2008, RC2 acquired a 63% shareholding in Antares Hotels SRL from a distressed seller for a total consideration of EUR 8m.

Financial results

(EUR '000)	2006A	2007A	1H07	1H08
Income Statement (according to RAS)				
Sales Revenues	**1,287**	**1,140**	**204**	**356**
Other operating revenues	42	0	0	87
Total Operating Revenues	**1,329**	**1,140**	**204**	**444**
Total Operating Expenses	1,259	991	320	606
Operating Profit	**70**	**149**	**(116)**	**(162)**
Operating margin	*5.5%*	*13.1%*	*neg.*	*neg.*
EBITDA	**196**	**302**	**(55)**	**(54)**
EBITDA margin	*15.3%*	*26.5%*	*neg.*	*neg.*
Financial Profit/(Loss)	(264)	(729)	(8)	(158)
Profit before Tax	**(194)**	**(580)**	**(124)**	**(320)**
Income Tax	0	0	0	0
Profit after Tax	**(194)**	**(580)**	**(124)**	**(320)**
Net margin	*neg.*	*neg.*	*neg.*	*neg.*
Avg exchange rate (RON/EUR)	*3.525*	*3.334*	*3.333*	*3.671*

Source: Antares Hotels

Operations

The Hotel, which had been shut since September 2007, was re-opened at the end of April under a new management team appointed by RC2, in time for the Orthodox Easter and 1st May holidays. The results for the first half of the year are not particularly meaningful as most of the revenues are earned over the Summer and the Hotel was closed during the first 4 months.

Operations (cont'd)

However, the re-launch of the Hotel has started well, with the occupancy rate close to 100% during the Easter holidays, the hosting of a major corporate event in May, and the Hotel being almost fully booked for the June–August high season. Revenues up to the end of August are expected to reach approximately EUR 1.5m, which compares to EUR 1.1m for the entire 2007 season.

A franchise agreement with the Golden Tulip Hotels, Inns & Resorts chain was signed at the end of May with the franchise implementation process already underway. By the end of September, the Hotel will be renamed the "Golden Tulip Mamaia".

Because RC2 intends to keep the Hotel open all year round, and to offer it for corporate events, it is currently in the process of planning a new conference centre, with construction works due to start in September.

In addition, RC2 intends to develop a new "aparthotel" on a 2,257 sqm plot of land on Mamaia beach adjacent to the Hotel which is owned by Antares Hotels.

Romar

Following an initial investment of EUR 3m last year in which the Fund acquired a 33.3% shareholding in Romar, one of the leading private healthcare groups in Romania, RC2 committed an additional EUR 1m in March 2008, lifting its equity stake to 40.0%.

Financial results

In 2006, Romar started a demerger process which was completed in September of that year. Consequently, the company's 2007 results are not comparable with those of the previous year.

(EUR '000)	2006A	2007A	1Q07	1Q08
Combined Income Statement				
Total Operating Revenues	**8,848**	**7,901**	**1,480**	**1,625**
Total Operating Expenses	8,134	7,425	1,718	1,802
Operating Profit	**714**	**477**	**(238)**	**(177)**
Operating margin	*8.1%*	*6.0%*	*neg*	*neg.*
EBITDA	**1,087**	**853**	**(154)**	**(80)**
EBITDA margin	*12.3%*	*10.8%*	*neg*	*neg*
Financial Profit/(Loss)	18	(72)	(10)	(14)
Earnings before Tax	**732**	**405**	**(248)**	**(191)**
Income Tax	186	86	0	0
Earnings after Tax	**546**	**319**	**(249)**	**(191)**
Net margin	*6.2%*	*4.0%*	*neg*	*neg*
Avg exchange rate (RON/EUR)	*3.525*	*3.334*	*3.382*	*3.689*

Source: Romar, according to RAS, except for 2006 financials which are under IFRS
Note: Excludes Evolution Med

Financials results (cont'd)

Summary "combined" accounts for Romar are presented to the left and exclude Evolution Med, a smaller Romanian private medical services company that Romar acquired in 2007.

Despite the increase in revenues in 1Q 2008 (up 9.8% compared to the same period last year), the group posted a EUR 0.2m combined net loss. The main cause relates to the network expansion, with five new policlinics having opened which take a while before generating a profit. Finally, the first quarter is usually poor, mainly due to contracts with public institutions only starting to generate revenues in May.

Operations

Romar is in the process of implementing a new ERP system which should provide a clearer view of the group's activities and result in improved cost controls.

Top Factoring

In May 2007, RC2 invested EUR 3m in new and existing Top Factoring shares, thereby acquiring a 92.3% shareholding in this receivables collection company. The remaining shares are owned by the CEO.

Financial results

(EUR '000)	2006A	2007A	1H08
Income Statement (according to IFRS)			
Total Operating Revenues	**23**	**694**	**408**
Total Operating Expenses	52	916	774
Operating Profit	(29)	(222)	(367)
EBITDA	(29)	(216)	(359)
Financial Profit/(Loss)	(0)	110	(4)
Profit before Tax	(29)	(112)	(371)
Income Tax	-	-	6
Profit after Tax	(29)	(112)	(376)
Avg exchange rate (RON/EUR)	*3.525*	*3.334*	*3.671*

Source: Top Factoring

The 2007 results are audited and reflect the early development stage of the company. The financial results are highly sensitive to the timing of cashflows from the packages of receivables acquired by the company, and also to the "fair value" estimate of the outstanding receivables at the end of each period.

Operations

At the end of March 2008 Top Factoring began collecting receivables from a second package of bad debts acquired from Vodafone at the end of 2007 for EUR 1.4m. By the end of June, collections from this package amounted to EUR 0.2m.

For its agency business, Top Factoring has signed a contract with UniCredit Tiriac Bank, one of the main banking groups operating in Romania. Also, Top Factoring has managed to secure a contract with Asirom, one of Romania's leading insurance companies and an affiliate of the Vienna Insurance Group.

Top Factoring is in the process of implementing a new call-center software which is expected to improve its collectors' efficiency.

Bulgarian Stock Exchange

RC2 owns 1.8% of the company which operates the Bulgarian Stock Exchange (BSE). The shares are valued at cost in the Fund's accounts (EUR 0.5m), given the fact that shares in the BSE are not traded on an organized market. The BSE is 44% owned by the Bulgarian state, 35% owned by Bulgarian brokerage firms, and the balance is owned by a combination of institutions and private individuals.

Financial results

(EUR '000)	2006A	2007A
Income Statement (according to IFRS)		
Revenues	**2,474**	**4,886**
Total Operating Expenses	1,522	2,057
Operating Profit	**952**	**2,828**
Operating margin	*38.5%*	*57.9%*
EBITDA	**1,090**	**2,993**
EBITDA margin	*44.1%*	*61.3%*
Financial Profit/(Loss)	53	156
Profit before Tax	**1,005**	**2,984**
Income Tax	152	300
Profit after Tax	**852**	**2,685**
Net margin	*34.4%*	*54.9%*
Avg exchange rate (BGN/EUR)	*1.956*	*1.956*

Source: BSE

Operations

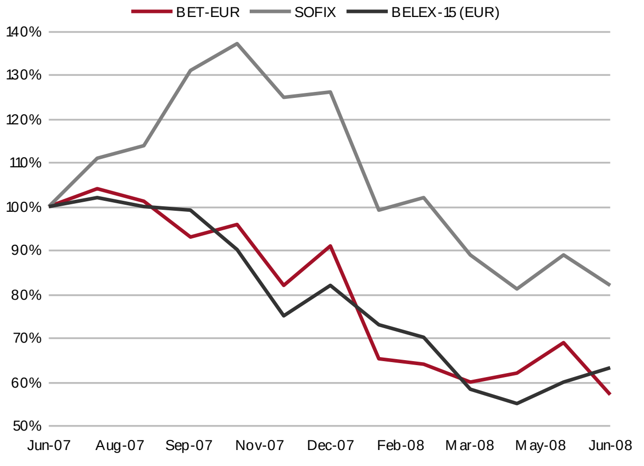
The BSE had an extremely good 2007, but has not yet released any results for 2008. Results for 1H08 are due to be released by the end of August.

In June 2008, the BSE introduced Xetra®, the trading platform used by the Deutsche Börse. This is one of the most up-to-date trading system in Europe and meets investors' expectations for a larger variety of market order types.

Deutsche Börse is also responsible for calculating and licensing the Bulgarian indices SOFIX, BG 40 Index, BG TR30 Index and BG REIT Index as well as delivering real-time Bulgarian Stock Exchange market data.

Capital Market Developments

BET-EUR, SOFIX and BELEX-15: 1-year performance



Commentary

Since the beginning of the year, the Romanian and Bulgarian stock markets have declined dramatically. In EUR-terms, the BET and SOFIX lost approximately twice as much as the FTSE-100 (-18.9%) and the S&P500 (-19.2%). Serbia's main index, the BELEX-15 fared only marginally better by losing 22.8%.

The BET-EUR continued to slide in the second quarter and is down 4.7%, whilst the SOFIX is 8.1% lower. By contrast the BELEX-15 was up 8.8% in EUR terms, mainly on the back of the expected formation of a new pro-EU government.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:	SRB	as of:
GDP Growth*	8.2%	3M08	7.0%	3M08	8.2%	3M08
Inflation*	8.6%	6M08	15.3%	6M08	14.9%	6M08
Ind. prod. growth	2.7%	May-08	7.2%	May-08	3.8%	May-08
Trade deficit (EUR bn)	8.8	5M08	3.4	5M08	3.4	5M08
y-o-y change	*10.8%*		*26.3%*		*26.2%*	
FDI (EUR bn)	4.1	5M08	1.7	5M08	0.8	6M08
y-o-y change	*92.4%*		*-15.0%*		*n.a.*	

**y-o-y changes*

Commentary

Romania's consumer price index (CPI) was up 8.6% year-on-year in June 2008. The average monthly CPI growth over January – June 2008 was 0.6%, up from 0.3% over the same period last year.

The Romanian currency has appreciated by 2.1% over the quarter, following the decision of the National Bank to raise its key interest rate by 25bps to 10.0%. The key rate has reached the highest level since April 2005.

For the first five months of this year, Romania's industrial production increased by 6.3% year-on-year. Romania ranked second in the European Union with a 20.2% year-on-year increase in industrial new order intakes during the same period, compared to a 2.8% drop in the EU average. The weighting of industrial production in GDP for 2007 was only 23.5% and is expected to be a driver of further economic growth.

For the period January – May 2008, Romania's trade balance recorded a deficit of EUR 8.8bn, 10.8% up from EUR 7.9bn over the same period last year. The EU remained Romania's largest trading partner with imports and exports accounting for roughly 70%. Romania's current account deficit widened to EUR 6.5bn, a 11.1% increase year-on-year in the same period.

Commentary (cont'd)

FDI flows covered 63.0% of the current account deficit at the end of May 2008, maintaining the same level compared to the previous year. Of the EUR 4.1bn FDI, around EUR 0.8bn relates to the privatization of Electrica Muntenia Sud, which was acquired by Italy's Enel.

Fueled by strong demand pressures, Bulgarian CPI was up 15.3% year-on-year in June, the second-highest rate in the European Union. Given the country's currency peg to the euro, the levers to fight inflation are limited with fiscal policy having an essential role.

Bulgaria posted a budget surplus at the end of May equal to 5.2% of GDP, whilst the 2008 governmental budget surplus forecast stands at 3.0% of GDP. This tight policy has been pursued in an effort to fight inflationary pressures.

Although foreign investors became cautious about the future political prospects in Serbia after the dissolution of the government in March, GDP growth in Q1 recorded an impressive 8.2% increase. During the first five months of 2008, both Serbia's imports and exports grew by over 40% year-on-year. However, the import growth was slightly higher, which raised the country's trade deficit for the period to EUR 3.4bn, an increase of 26.2% compared to the same period last year.

As at the end of June, Serbian CPI was up by 14.9% year-on-year. The rise in the inflation rate will increase the probability of the National Bank of Serbia raising interest rates from their current 15.75% level despite the recent strengthening of the local currency (+5.0% in June versus May).

FDI in 1H reached EUR 808m. It is expected that under the new Serbian government the speed of privatization will accelerate, with the national airline JAT, Telekom Srbija and copper mine RTB Bor (just to name a few) on the list.

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