

12 June 2020

Reconstruction Capital II Limited (the “Company”)
Annual Report and Audited Financial Statements
for the year ended 31 December 2019

Reconstruction Capital II Limited (“RC2”, the “Company” or the “Group”), a closed-end investment company incorporated in the Cayman Islands admitted to trading on the AIM market of the London Stock Exchange, today announces its results for the year ended 31 December 2019.

Copies of the Company’s annual report will today be posted to shareholders. The annual report is also available to view on the Company’s website <http://www.reconstructioncapital2.com>.

Financial highlights

- The audited net asset value as at 31 December 2019 was €0.1450 per share (€0.2238 per share as at 31 December 2018), a 35.2% decrease over the year;
- The Directors do not recommend the payment of a dividend.

Operational highlights

Private Equity Programme

At the end of December 2019, the investments held under the Private Equity Programme had a total fair value of €17.72m, which was 36.2% less than the 2018 valuation of €27.8m. The valuations of Policolor and Mamaia were performed by independent valuers, whilst the valuation of Telecredit IFN SA was based on its audited net asset value. The valuations of Reconstruction Capital Plc and the Romanian Investment Fund Ltd were also based on their audited net asset values, but these were in turn based on the same valuation of their main underlying asset, Policolor SA, as adopted by the Company. The valuations are based on assumptions that applied as of 31 December 2019. The Coronavirus (COVID-19) outbreak and its consequences have invalidated many of those assumptions. However, the Adviser believes that while there has been a short-term impact on the business, it cannot quantify the long-term impact of this event.

Policolor’s 2019 performance was disappointing, with sales falling by 6.3% to €60.0m and recurring EBITDA (net of revenues and expenses related to the real estate division) falling by 53.1% to €0.9m. This was primarily because of supply issues, due to delays in the effective starting up of its new water-based and performance coatings plants, which only received the requisite permits to operate fully in the first quarter of 2020, resulting in a number of products being out-of-stock, whilst the Group scrambled to find alternative suppliers for some of its products. All authorisations have now been obtained and the new plants are fully functional. On a more positive note, in September 2019 Policolor sold the last plot of its main Theodor Pallady site for €5.2m resulting in a cash inflow of €3.5m, as advances of €1m related to the plot had already been cashed in 2017 and 2018, and €0.7m was retained by the purchasers as a holdback in respect of certain warranties and indemnities being satisfactorily settled by September 2020.

Mamaia Resort Hotels had a very good year in terms of turnover, with operating revenues increasing by 15.4% to €3.0m, but EBITDA fell from €0.3m to €0.2m as a result of increased salary costs and higher than expected expenses incurred in re-decoration and up-grading of the Hotel’s beach-facing premium

wing rooms, the restaurant terrace and kitchens. This first phase of the planned improvements was completed before the start of the 2019 summer season. A second phase is currently underway up-grading the hotel's reception, indoor dining and bar areas, as well as the heating system and facades. This is on schedule for completion by the end of May.

Telecredit transitioned to its new business model in 2019 with a focus on financing small and medium size enterprises ("SMEs"). The net value of the SME financing book was €2.2m at year-end 2019, with the net value of payday loans amounting to a mere €0.07m. The company fully drew down a shareholder loan of €1.5m from RC2 to support the growth of its SME financing activities. During the year the CEO of the company acquired 15% of the shares, and RC2 increased its holding by 5% to 85%.

For further information, please contact:

Reconstruction Capital II Limited
Cornelia Oancea / Anca Moraru
Tel: +40 21 3167680

Grant Thornton UK LLP (Nominated Adviser)
Philip Secrett
Tel: +44 (0) 20 7383 5100

finnCap Limited (Broker)
William Marle / Giles Rolls
Tel: +44 20 7220 0500

ADVISER'S REPORT
For the year ended 31 December 2019

On 31 December 2019, Reconstruction Capital II Limited ("RC2" or the "Company") had a total audited net asset value ("NAV") of €19.7m, or €0.1450 per share. During the course of 2019, RC2 bought back for cancellation 4,475,463 of its own ordinary shares, bringing the total number of shares in issue at year end to 135,856,913. The NAV per share fell by 35.2% over the course of the year.

Private Equity Programme

At the end of December 2019, the investments held under the Private Equity Programme had a total fair value of €17.72m, which was 36.2% less than the 2018 valuation of €27.8m. The valuations of Policolor and Mamaia were performed by independent valuers, whilst the valuation of Telecredit IFN SA was based on its audited net asset value. The valuations of Reconstruction Capital Plc ("RC") and the Romanian Investment Fund ("RIF") were also based on their audited net asset values, but these were in turn based on the same valuation of their main underlying asset, Policolor SA, as adopted by the Company.

	2019	2018
	EUR	EUR
Policolor S.A	12,000,000	18,320,000
Mamaia Hotel Resorts SRL ("Mamaia")	3,371,233	4,228,219
Telecredit IFN S.A. ("Telecredit")	804,859	849,514
The Romanian Investment Fund Limited	992,643	2,147,229
Reconstruction Capital Plc	555,738	2,242,600
	17,724,473	27,787,562

The above valuations are based on assumptions that applied as of 31 December 2019. The Coronavirus (COVID-19) outbreak and its consequences which are addressed in note 22 to the financial statements have invalidated many of those assumptions. However, the Adviser believes that while there has been a short-term impact on the business, it cannot quantify the long-term impact of this event.

The private equity investments are held through two Cyprus-based, wholly-owned subsidiaries, RC2 (Cyprus) Limited and Glasro Holdings Limited, which are not consolidated in the present financial statements, in accordance with IFRS. Consequently, the financial assets at fair value through profit or loss shown in the present financial statements, which amount to €19.6m, reflect the valuations of the underlying private equity holdings outlined in the above table, as well as the cash balances of €0.3m and sundry net financial assets and liabilities amounting to €1.6m in these intermediary holding companies.

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already been cashed in 2017 and 2018, and €0.7m was retained by the purchasers as a holdback in respect of certain warranties and indemnities being satisfactorily settled by September 2020.

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Apart from the shareholdings in RC and RIF, the other private equity investments are held through two Cyprus- based wholly-owned subsidiaries, RC2 (Cyprus) Limited and Glasro Holdings Limited, which are not consolidated in the present financial statements, in accordance with IFRS. The Assets at Fair Value shown in the present financial statements, which amounts to €19.7m, reflects the valuations of the underlying private equity holdings outlined in the above table, plus cash and cash equivalents of €1.8m, and €0.2m of sundry financial assets and liabilities, held by these intermediary holding companies.

Economic Overview

Both the Romanian and Bulgarian economies continued to report increases in GDP during 2019 of 4.1% (2018: +4.4%) and 3.4% (2018: +3.1%), respectively. However, according to the European Commission, both economies are expected to contract by 6% and 7%, respectively, in 2020 as a result of the Covid-19 pandemic which has impacted most sectors of the economy. In spite of the Covid-19-related economic difficulties, inflationary pressures are currently under control in both countries.

INVESTMENT POLICY

Investment Objective and Policy of the Company

At a general shareholder meeting on 21 February 2018, the investment objective of the Company was changed so that it now aims to achieve capital appreciation and/or to generate investment income returns through the acquisition of real estate assets in Romania, including the development of such assets, and/or the acquisition of significant or controlling stakes in companies established in, or operating predominantly in Romania, primarily in the real estate sector. Any new private equity investment in companies operating in sectors other than real estate is limited to 25% of the Company's total assets at the time of effecting the investment. However, the Company may continue to make follow-on investments in existing portfolio companies (which include Policolor SA, Mamaia Resort Hotels SRL and Telecredit SA IFN) without any such limitation.

Gearing

The Company may borrow up to a maximum level of 30% 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's distribution policy, please refer to the Admission Document on the Company's website.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019	2018
	EUR	EUR
Investment income		
Fair value loss on financial assets at fair value through profit or loss	(14,482,512)	(7,436,971)
Recovery of previously written off receivable	-	9,000
Interest income	4,319,475	4,341,794
Other income	-	10
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Net investment loss	(10,163,037)	(3,086,167)
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Expenses		
Operating expenses	(845,572)	(1,031,186)
Financial income/(expenses)	255	(886)
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Total expenses	(845,317)	(1,032,072)
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Loss for the year	(11,008,354)	(4,118,239)
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Other comprehensive income	-	-
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Total comprehensive income for the year attributable to owners	(11,008,354)	(4,118,239)
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Loss Per Share		
Basic and diluted loss per share	(0.0806)	(0.0285)
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STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	2019 EUR	2018 EUR
ASSETS		
Non-current assets		
Financial assets at fair value through profit or loss	19,651,596	30,614,632
Total non-current assets	19,651,596	30,614,632
Current assets		
Trade and other receivables	16,673	21,011
Cash and cash equivalents	65,887	1,480,305
Total current assets	82,560	1,501,316
TOTAL ASSETS	19,734,156	32,115,948
LIABILITIES		
Current liabilities		
Trade and other payables	37,362	710,726
Total current liabilities	37,362	710,726
TOTAL LIABILITIES	37,362	710,726
NET ASSETS	19,696,794	31,405,222
EQUITY AND RESERVES		
Share capital	1,358,569	1,403,324
Share premium	109,206,779	109,862,098
Accumulated deficit	(90,868,554)	(79,860,200)
TOTAL EQUITY	19,696,794	31,405,222
Net Asset Value per share		
Basic and diluted net asset value per share	0.1450	0.2238

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital EUR	Share premium EUR	Accumulated deficit EUR	Total EUR
Balance at 1 January 2018	1,449,460	110,581,355	(75,741,961)	36,288,854
Loss for the year	-	-	(4,118,239)	(4,118,239)
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	(4,118,239)	(4,118,239)
Repurchase and cancellation of own shares	(46,136)	(719,257)	-	(765,393)
Transactions with owners	(46,136)	(719,257)	-	(765,393)
Balance at 31 December 2018	1,403,324	109,862,098	(79,860,200)	31,405,222
Loss for the year	-	-	(11,008,354)	(11,008,354)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	-	(11,008,354)	(11,008,354)
Repurchase and cancellation of own shares	(44,755)	(655,319)	-	(700,074)
Transactions with owners	(44,755)	(655,319)	-	(700,074)
Balance at 31 December 2019	1,358,569	109,206,779	(90,868,554)	19,696,794

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019	2018
	EUR	EUR
Cash flows from operating activities		
Loss for the year	(11,008,354)	(4,118,239)
<i>Adjustments for:</i>		
Fair value loss on financial assets at fair value through profit or loss	14,482,512	7,436,971
Reversal of loan impairment	-	(9,000)
Interest income	(4,319,475)	(4,341,794)
Net (gain)/loss on foreign exchange	(255)	886
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Net cash outflow before changes in working capital	(845,572)	(1,031,176)
Decrease in trade and other receivables	4,338	115,427
Decrease in trade and other payables	(58,233)	(180,513)
Purchase of financial assets	(133,603)	(3,433,045)
Repayments of financial assets	800,000	9,000
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Net cash used in operating activities	(233,070)	(4,520,307)
Cash flows from financing activities		
Payments to purchase own shares	(1,048,662)	(416,810)
Redemptions of B shares	(132,941)	(21,455)
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Net cash flow used in financing activities	(1,181,603)	(438,265)
Net decrease in cash and cash equivalents before currency adjustment	(1,414,673)	(4,958,572)
Effects of exchange rate differences on cash and cash equivalents	255	(886)
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Net decrease in cash and cash equivalents after currency adjustment	(1,414,418)	(4,959,458)
Cash and cash equivalents at the beginning of the year	1,480,305	6,439,763
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Cash and cash equivalents at the end of the year	65,887	1,480,305
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