

## Regulatory Announcement

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**Company** [Reconstruction CapII](#)  
**TIDM** RC2  
**Headline** Final Results  
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Reconstruction Capital II Ltd  
25 June 2008

### **Reconstruction Capital II Limited (the "Company")**

**25 June 2008**

#### **Annual Report and Audited Consolidated Financial Statements for the year ended 31 December 2007**

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 results for the year ended 31 December 2007.

#### **Financial highlights**

- Net asset value as at 31 December 2007 was EUR 162.8m, representing EUR 1.4449 per share (EUR 70.0m or EUR 1.0768 per share as at 31 December 2006);
- As at 31 December 2007 the Company's market capitalisation was approximately EUR 176.3m, 112.7m shares were issued with a closing price of EUR 1.5650 per share;
- The Company's share price closed on 31 December 2007 (the last trading date of December 2007) at EUR 1.5650, a 48.3% increase since 31 December 2006 when the share price was EUR 1.055;
- Retained earnings as at 31 December 2007 were up 351% at EUR 27.6m (EUR 6.1m as at 31 December 2006);
- The Directors do not recommend the payment of a dividend.

## Operational highlights

- **The Private Equity Programme**

- In May 2007, the Company and subsidiaries ("the Group") acquired a 92.31% shareholding in Top Factoring SRL, a receivables collection company incorporated in Romania, for a total consideration of EUR 3.0m;
- In June 2007, the Group acquired 33.33% of Romar Holding Ltd, one of the largest providers of private health care services in Romania and a market leader in the provision of occupational health services, for a total consideration of EUR 3.0m;
- In October 2007, the Group acquired an investment property for a total consideration of EUR 3.6m in the more desirable northern side of Bucharest.

- **The Trading Programme**

- As at 31st of December 2007, the Group had approximately EUR 31.0 million invested in listed equities, held under the Trading Programme with a total market value of EUR 37.8 million;
- Overall 88.5% was held in Romanian equities, 11.3% was invested in Bulgarian equities, while the balance of 0.2% was held in Serbian equities across the following sectors: financial services (54.0%), building materials (20.0%), industrials (8.8%), engineering (5.0%), oil and gas (3.0%), utilities (2.5%) and others (6.7%).

## Significant events post period end

- In March 2008 the Group acquired a 63% shareholding in Antares Hotel SRL for a total consideration of EUR 8.0m. Antares Hotels SRL is the owner and operator of the 305-room Fantasy Beach Hotel located in Mamaia, Romania's premium holiday resort on the Black Sea.
- In June 2008, the Group signed a put and call option agreement which, if exercised, will increase its stake in Policolor S.A., a leading producer of coatings in Romania and Bulgaria, from 9.2% to 34.3%.

Commenting on the results, Ion Florescu, a Director of the Company said: "2007 was a particularly strong year for the Company. The share price recorded a 48.3% increase, whilst the net asset value per share increased by 34.2%. We are confident that opportunities for the

Company to invest its cash raised in December 2007 remain very attractive and that the Company will continue to deliver strong returns to shareholders over the coming years, in particular once realizations from the Private Equity Programme start having an impact on the net asset value."

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 31 December 2007.

The annual report of the Group for the year ended 31 December 2007 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 Investment Adviser Report**

During the year under review, Reconstruction Capital II Limited and subsidiaries ("RC2"):

1. substantially enlarged its Private Equity Programme portfolio through a series of investments;
2. made a partial exit from its shareholding in Albalact, thereby realizing EUR 9.0m, or 5.25 times cost;
3. completed its third capital increase by raising EUR 71.2m net of fees at the end of the fourth quarter despite a challenging market environment.

At the end of the year, the Company's total net asset value, excluding minority interest, was EUR 162.8 million, or EUR 1.4449 per share which is an increase of 34.18% year-on-year. RC2 recorded a net profit, excluding minority interest, of EUR 21.4 million over the year, primarily generated by a gain on investments of EUR 24.0 million, a revaluation surplus of EUR 3.6 million and interest income of EUR 1.8 million.

For both Romania and Bulgaria, the first year of EU membership resulted in strong economic growth and robust FDI inflows, in spite of adverse weather conditions which caused one of the worst draughts in the region fuelling food price inflation. Romania's 2007 GDP grew by 6.0%, partially due to the booming construction sector which grew by 33.6% year-on-year. Bulgarian 2007 GDP growth stood at 6.2% and despite a 29.7% year-on-year drop in the agricultural sector, GDP growth was fuelled by strong growth in the industry and construction sectors, which increased by 14.0% and 16.9% year-on-year, respectively.

In 2007, in Bulgaria FDI reached an impressive EUR 6.1 billion, covering 98.2% of the year's current account deficit. On the other hand, Romania's domestic currency appreciation in the first half of 2007 (+7.3%) put pressure on the trade balance with imports growing by 24.9% compared to 2006. Over the same period, exports increased by only 13.7%. Thus Romania's current account deficit of EUR 16.9 billion was only 41.9% covered by FDI in 2007.

### **The Private Equity Programme**

Over February - August, RC2 made a partial exit of 5.25 times cost of its shareholding in Albalact realizing EUR 9.0 million in cash, therefore reducing its stake from 16.4% to 9.8%. The value of this investment, based on the market price of Albalact shares as at 31st December 2007 was EUR 12.5 million compared to a cost of EUR 3.7 million.

In May, RC2 invested EUR 3.0 million in new and existing shares of Top Factoring, thereby acquiring a 92.3% shareholding with the balance being held by the CEO and founder. Although Top Factoring was only founded in 2006, it has become one of Romania's leading players in the receivables collection business.

In June, RC2 subscribed to a capital increase in Romar Holding Limited, one of Romania's leading occupational health service providers with operations in 13 cities, thereby acquiring a 33.3% stake in the company for a cash injection of EUR 3.0 million.

Between July and November, RC2 acquired 1.8% of the company operating the Bulgarian Stock Exchange.

In September 2007, RC2 transferred its 8.6% shareholding in Policolor, one of the leading coatings groups of South East Europe, and in Policolor's 64.2%-owned Bulgarian subsidiary, Orgachim (2.4% shareholding) to its Private Equity Programme. The total cost of these investments of EUR 7.6 million compares to a market value of EUR 11.5 million at year end.

In October, RC2 purchased a 36.5% share of a plot of land from a distressed seller at a price of EUR 1,300/sqm, or a total price of EUR 3.6 million. The land is in close proximity to one of the major parks of Bucharest and located on the more desirable northern side of town.

### **Trading Programme**

Under the Trading Programme, approximately EUR 31.0 million was invested in listed equities with a total market value of EUR 37.8 million. Overall 88.5% was held in Romanian

equities, 11.3% was invested in Bulgarian equities, while the balance of 0.2% was held in Serbian equities across the following sectors: financial services (54.0%), building materials (20.0%), industrials (8.8%), engineering (5.0%), oil and gas (3.0%), utilities (2.5%) and others (6.7%).

The increase in value over cost of the equity holdings held under the Trading Programme (+22.0%) outperformed the overall performance of the Romanian EUR denominated index over the same period (+19.8%). RC2's local currency fixed income holdings amounted to EUR 5.5 million at year end.

### **Outlook**

As a result of the capital raising in December 2007, at the end of the year 52.1% of RC2's assets was held in cash, 22.7% of RC2's assets consisted of listed equities, 17.8% was held in private equity positions, 3.2% was in fixed income securities, and 4.2% was held in real estate.

In the first quarter of 2008, RC2 has extended its operations to Serbia with the addition of Belgrade-based New Europe Capital DOO to its advisory team. Consequently, RC2 should enjoy a better access to, and insight into, investment opportunities on the Serbian market and the other former Yugoslav republics.

The Investment Manager and Adviser intend to make further investments under both RC2's Trading and Private Equity Programmes during 2008. In this respect, in the first half of 2008 the Company completed a EUR 8.0 million investment Antares Hotels, the owner and operator of the 305-room Fantasy Beach Hotel located in Mamaia, Romania's premium holiday resort on the Black Sea coast. Also, RC2 has committed an additional EUR 1.0 million in Romar Holding in March 2008, lifting its equity stake from 33.3% to 40.0%.

New Europe Capital Ltd

New Europe Capital SRL

**CONSOLIDATED INCOME STATEMENT FOR THE PERIOD ENDED**

**31 DECEMBER 2007**

	Notes	31-Dec-07 EUR	31-Dec-06 EUR
<b>Investment income</b>			
Gain on investments at fair value through the profit and loss account		23,983,989	6,852,945
Interest income		1,842,780	1,378,959
Dividend income		331,187	95,175
Other income		869,957	280,162
<b>Total investment income</b>		<b>27,027,913</b>	<b>8,607,241</b>
<b>Revaluation surplus</b>		3,639,779	-
<b>Expenses</b>			
Operating expenses		6,174,519	1,960,436
<b>Total operating expenses</b>		<b>6,174,519</b>	<b>1,960,436</b>
<b>Profit before taxation</b>		<b>24,493,173</b>	<b>6,646,805</b>
Income tax expense		1,116,617	118,214
<b>Net profit for the period</b>		<b>23,376,556</b>	<b>6,528,591</b>
<b>Attributable to:</b>			
- Equity holders of the parent		21,458,657	6,106,568
- Minority interest		1,917,899	422,023
		<b>23,376,556</b>	<b>6,528,591</b>
Basic and diluted earnings per share		0.3363	0.2092

**CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2007**

<b>Assets</b>	<b>Notes</b>	<b>31-Dec-07</b>	<b>31-Dec-06</b>
		<b>EUR</b>	<b>EUR</b>
<b>Non-current assets</b>			
Property, plant and equipment		59,269	3,210
Investment property		7,279,779	-
Financial assets at fair value through the profit and loss account		3,100,000	-
Goodwill		1,257,153	-
<b>Total non-current assets</b>		<b>11,696,201</b>	<b>3,210</b>
<b>Current assets</b>			
Financial assets at fair value through the profit and loss account		69,060,217	29,268,814
Trade and other receivables		1,261,298	547,498
Cash and cash equivalents		89,328,540	41,404,822
<b>Total current assets</b>		<b>159,650,055</b>	<b>71,221,134</b>
<b>Total assets</b>		<b>171,346,256</b>	<b>71,224,344</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		6,455,209	665,790
<b>Total current liabilities</b>		<b>6,455,209</b>	<b>665,790</b>
<b>Total Net Assets</b>		<b>164,891,047</b>	<b>70,558,554</b>
<b>Capital and reserves attributable to equity holders</b>			
Share capital		1,126,811	650,394
Share premium reserve		134,263,071	63,280,208
Retained earnings		27,565,225	6,106,568
Foreign exchange reserve		(145,955)	-
<b>Total equity and reserves</b>		<b>162,809,152</b>	<b>70,037,170</b>
Minority Interest		2,081,895	521,384
<b>Total equity</b>		<b>164,891,047</b>	<b>70,558,554</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS OF  
31 DECEMBER 2007**

	Share Capital EUR	Share Premium EUR	Retained Earnings EUR	Translation of Overseas Subsidiaries EUR	Sub-total EUR	Minority Interest EUR	Total EUR
<b>Balance at beginning of period</b>							
Net profit for the period and total recognised income for the period			6,106,568		<b>6,106,568</b>	422,023	<b>6,528,591</b>
Issue of Share Capital	650,394	63,280,208			<b>63,930,602</b>		<b>63,930,602</b>
Minority interest arising on acquisition						99,361	<b>99,361</b>
<b>Balance at 31 Dec 2006</b>	<b>650,394</b>	<b>63,280,208</b>	<b>6,106,568</b>	-	<b>70,037,170</b>	<b>521,384</b>	<b>70,558,554</b>
Net profit for the period and total recognised income for the period			21,458,657		<b>21,458,657</b>	1,917,899	<b>23,376,556</b>
Issue of Share Capital	476,417	70,982,863			<b>71,459,280</b>		<b>71,459,280</b>
Minority interest arising on acquisition						145,213	<b>145,213</b>
Reserves				(145,955)	<b>(145,955)</b>	(164,824)	<b>(310,779)</b>
Dividends payable to minorities					-	(337,777)	<b>(337,777)</b>
<b>Balance at 31 Dec 2007</b>	<b>1,126,811</b>	<b>134,263,071</b>	<b>27,565,225</b>	<b>(145,955)</b>	<b>162,809,152</b>	<b>2,081,895</b>	<b>164,891,047</b>

*The share premium is stated net of share issue costs*

**CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED**

**31 DECEMBER 2007**

	<b>31-Dec-07</b>	<b>31-Dec-06</b>
	<b>EUR</b>	<b>EUR</b>
<b>Cash flows from operating activities</b>		
Net Profit before tax	24,493,174	6,646,805
<i>Adjustments for:</i>		
Depreciation	8,141	5,307
Gain on financial assets at fair value through profit or loss	(23,983,989)	(6,036,097)
Revaluation surplus	(3,639,779)	
Gain on foreign exchange	(707,073)	(726,504)
Interest income	(1,865,763)	(1,378,959)
Dividend income	(331,187)	(95,175)
<b>Net cash outflow before changes in working capital</b>	<b>(6,026,476)</b>	<b>(1,584,623)</b>
Decrease / (increase) in trade and other receivables	788,515	(487,695)
Increase in trade and other payables	4,642,995	494,340
Interest received	2,067,107	1,378,959
Dividend received	373,681	95,175
Payments for purchase of financial assets	(42,343,817)	(23,234,679)
Proceeds from sale of financial assets	23,503,476	-
<b>Net cash used in operating activities</b>	<b>(16,994,519)</b>	<b>(23,338,523)</b>

Income tax paid	(205,176)	(60,762)
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(37,632)	(2,345)
Purchase of financial assets	(3,000,000)	-
Acquisition of subsidiary (net of cash acquired)		
	(2,960,458)	149,346
	<b>(23,197,785)</b>	<b>(23,252,284)</b>
<b>Cash flows from financing activities</b>		
Dividends paid to minorities	(337,777)	
Proceeds from shares issued	71,459,280	63,930,602
<b>Gain on foreign exchange</b>	-	<b>726,504</b>
<b>Increase in cash and cash equivalents</b>	<b>47,923,718</b>	<b>41,404,822</b>
<b>Cash at 1 January 2007</b>	<b>41,404,822</b>	-
<b>Cash at 31 December 2007</b>	<b>89,328,540</b>	<b>41,404,822</b>

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