26 January 2018

Reconstruction Capital II Limited

Publication of Circular

Reconstruction Capital II Ltd ("RC2" or 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 that it has today published a circular (the "Circular") in connection with a proposed acquisition of an indirect shareholding in Policolor S.A., change to the Investment Objective and Policy, termination of Annual Buyback Programme and Continuation of the Life of the Company.

The Circular will shortly be available on the Company's website (https://www.reconstructioncapital2.com/) and an extract of the circular appears below.

The Annual General Meeting will be held at the offices of Sanne Fiduciary Services Limited at 13 Castle Street, St Helier, Jersey JE4 5UT at 10.00 a.m. (London time) on Wednesday 21 February 2018.

Terms used and not defined in this announcement shall have the meaning given to them in the Circular.

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The information contained within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

Extract of the circular

INTRODUCTION

At the Company's Annual General Meeting in 2012, Shareholders voted to change the investment policy so that no new investments were to be made, other than certain limited investments into existing portfolio companies pending their realisation and, following each realisation from the portfolio, the proceeds would be returned to Shareholders after retaining a sufficient amount for the Company's working capital purposes.

RC2 has recently signed two conditional agreements for the purchase of a shareholding in two Romanian-focussed investment funds whose main underlying asset is a 60 per cent. shareholding in

Policolor, a Romanian producer of paints and coatings, resins and chemicals with a substantial real estate portfolio. RC2 already owns 40 per cent. of Policolor. The total cost of the acquisitions is €3.35 million. The main objective of the acquisitions, which would give RC2 a further 15.36 per cent. indirect shareholding in Policolor in addition to the already held direct interest of 40 per cent., is to provide RC2 with greater control over the development strategy and exit process from this asset. RC2 is recommending to shareholders to approve this additional indirect investment in Policolor pending its realisation.

Furthermore, with the economic situation of Romania having changed dramatically since 2012, the Board is recommending to Shareholders a further change to the investment policy so that new investments will be permitted, but primarily in real estate and only in Romania; that the life of the Company should be further extended; and that the Annual Buyback Programme should cease.

The purpose of the Circular is to set out the Board's proposals for the acquisition of the indirect shareholding in Policolor, to amend the Company's investment objective and policy, to extend the life of the Company by at least two years (if the resolution extending the life of the Company by five years is not passed), to amend the Articles so that the next Continuation Vote is not required until 2023 and to terminate the Annual Buyback Programme.

BACKGROUND TO AND REASONS FOR THE PROPOSALS

RC2 was founded in 2005, and started deploying its capital in 2006. The majority of its investments were made over the period 2006 to 2008, prior to the onset of the global financial crisis. The global financial crisis affected the countries of South East Europe particularly badly, in the view of the Directors, largely because their economic models were highly unbalanced and dependent on imports of international capital.

The countries where RC2 had invested, particularly Romania, adopted relatively dramatic approaches to re-balancing their economies. As Romania's budget deficit had reached over 9 per cent. of GDP in 2009, the Romanian government took severe measures to re-balance the public accounts, including increasing the VAT rate from 19 per cent. to 24 per cent. and cutting state pensions by 15 per cent and public sector salaries by 25 per cent. in the summer of 2010. As a result of the combination of the global financial crisis and the steps taken by the Romanian government, a large number of Romanian banking assets became non-performing; the IMF, EU and EBRD intervened to prevent Romanian banks' international parents taking their capital out of the country; and Romanian banks severely curtailed their lending activities. Foreign Direct Investment into Romania fell dramatically, from €9.5 billion in 2008 to €1.7 billion in 2011.

Against this macro-economic backdrop, on the recommendation of the then Board, Shareholders voted at the Company's 2012 Annual General Meeting to change the Company's investment policy such that no new investments were to be made, other than certain further investments into existing portfolio companies pending their realisation. Otherwise, the proceeds from asset realisations were to be returned to Shareholders after retaining a sufficient amount for the Company's working capital purposes.

Since 2012, the Romanian economy has made a significant recovery, to become the fastest growing economy in the EU in the third quarter of 2017, with Romania's GDP growing by approximately 8.6 per cent. year-on-year in that quarter compared to EU average growth of 2.5 per cent. While Romania's current account deficit reached double digit figures as a percentage of GDP during 2006 to 2008, it has now shrunk to 2.3 per cent. of GDP (2016). Bank lending in Romania has fallen sharply since 2009, with the loans-to-deposits ratio falling from 112.8 per cent. in 2009 to 79.1 per cent. in 2016, while Romanian banks have taken action to deal with the NPL's which they hold, with the value of reported NPL's having halved over the last couple of years to 9.6 per cent. at the end of 2016.

The Board believes RC2 is ideally placed to take advantage of the much more balanced economy which has emerged in Romania since the global financial crisis. Whilst the Company overall made heavy losses, in particular due to its large failed investments in Serbia, NEC, which was solely responsible for RC2's Romanian investments, has proven an ability to generate positive investment returns from the Company's Romanian private equity investments, including in real estate, despite the majority of them having been made before the onset of the global financial crisis. For example, the Company's investment in Albalact, from which RC2 completed its exit in 2016, resulted in a cash-on-cash return of 1.9 times, and an annualised return of 17.4 per cent., whilst RC2's investment in Top Factoring Group, exited in 2017, resulted in a cash-on-cash return of 3.6 times and an annualised return of 22.6 per cent. An earlier private equity investment in a real estate transaction made in October 2007 and exited in April 2008 generated a cash-on-cash return of 1.5 times, and a return of 54 per cent. for RC2. Overall, RC2's Romanian private equity portfolio has generated a cash-on-cash return of 1.1 times and an overall annualised return of 3 per cent. since inception, based on the current valuation of its remaining private equity investments, whilst the IRR on the portion of the portfolio for which exits have already been achieved is approximately 22 per cent.

In the light of the above, the Board believes that RC2 should continue with its efforts to sell its shareholding in Policolor, and the acquisition of an additional 15.36 per cent. indirect shareholding in that company should give RC2 a better ability to control the exit process. Meanwhile, the Board believes that RC2 is well-placed to take advantage of the much improved macro-economic environment in Romania by focussing on investing in Romanian real estate assets.

NEC's Romanian investment advisory team has been closely involved in the sale of Policolor Bucharest's real estate assets, as described in the Review of the Company's Current Investment Portfolio section below. Furthemore, NEC's investment advisory team have had prior experience in real estate investing in Romania, including advising on the transformation of approximately ten hectares of industrial brown site into a retail centre, and the subsequent sale of that centre to its tenants. The current Board of RC2 has a combination of real estate and Romanian private equity experience. RC2's Chairman Dirk Van den Broeck manages a real estate company in Belgium and has been a member of the RC2 Board since 2006. Mihai Radoi is a British and Romanian citizen, with over thirty five years' experience in commercial banking in Romania, having been the Vice President and General Manager of the Banque Franco Roumaine between 1989 and 1990, and the Managing Director of the Anglo Romanian Bank Limited from 1991 to 2011.

Whilst NEC is unregulated at present, if RC2 returns to active investing, NEC will need to register with the Romanian Financial Supervisory Authority and it will thereafter be regulated by it. Details of the Advisory Agreement in place between the Company and NEC are annexed to the Circular.

REVIEW OF THE COMPANY'S CURRENT INVESTMENT PORTFOLIO

Policolor

RC2 has a 40 per cent. shareholding in Policolor, the parent company of a group of companies which operate on the following business lines: coatings (architectural, automotive and industrial), resins and specialty chemicals. The Policolor Group generated unaudited consolidated operating revenues of €51.4 million in the first nine months of 2017, 4 per cent. below its budget but 5.2 per cent. above the same period of 2016. The Policolor Group's consolidated results reflect a good performance by the paints and coatings business, and lower than expected sales of resins by volume, which Policolor's management attribute to price increases triggered by increased raw materials costs. The specialty chemicals division prioritized the Policolor Group's internal needs and only made opportunistic sales to third parties. Overall, sales of paints and coatings grew by 5.6 per cent. year-on-year, and sales of resins were up 13.3 per cent. year-on-year, but 7.4 per cent. below the budget. The Policolor Group generated unaudited EBITDA of €3.6 million during the nine month period to 30 September 2017, up 21.2 per cent. compared to the previous year, but 21.1 per cent. below budget, mainly due to the negative impact of raw material cost increases at the resins division.

In May 2017, Policolor signed a pre-contract for the sale of its main Bucharest site where its current Romanian production plant is located to a Romanian real estate development company for a total price of €22 million, of which €4.5 million was received at signing. A further €6.9 million was received in June 2017, when Policolor sold approximately half the site. Policolor is due to receive a further €0.7 million in the summer of 2018 and €9.9 million in June 2019, when it is due to deliver the remaining land. In order to comply with the land delivery schedule, Policolor has already acquired a piece of land in Bucharest where it plans to build a new factory to relocate its existing production activities, and a new warehousing facility, for a total cost of approximately €7.6 million, including the cost of land which was already purchased in 2015 for €1.6 million. Policolor has already obtained the building permit and aims to start construction on the new site in the first half of 2018.

The Policolor Group's total net debt amounted to €15.7 million at the end of September 2017, slightly up on €15.3 million at the end of June 2017.

Mamaia Resort Hotels

Mamaia Resort Hotels SRL is the owner and operator of the ZENITH – Conference & Spa Hotel (the "Hotel"), which is located in Mamaia, Romania's premium seaside resort next to the city of Constanta. In March 2008, RC2 acquired 63 per cent. of the Hotel, with the remaining 37 per cent. being owned by a Romanian private individual.

The Hotel generated unaudited operating revenues of €2.3 million over the first nine months of 2017, up 4.2 per cent. year-on-year, but 9.1 per cent. below budget, which the Hotel's management attribute mainly to lower than budgeted sales in May and August. Although the 35.4 per cent. occupancy rate achieved over the first nine months of 2017 was higher than the 33.2 per cent. achieved over the same period of 2016, and the occupancy rate over the summer months reached 77 per cent., compared to a budgeted 75 per cent., the Hotel suffered from downward pressure on room tariffs, with the average nightly tariff falling from €36 to €34. The Hotel's management believe that this is mainly the result of the Romanian seaside hotel industry facing stiff and increasing competition from Airbnb-type short term holiday lets, with many new flats having been developed which are cheaper to rent than the conventional accommodation packages offered by hotels. Over the past few years there has also been a construction boom in the area, with some 6,000 new accommodation units having been finalized over the past year alone.

Accommodation revenues amounted to €1.2 million in the nine month period to September 2017, and accounted for approximately 50 per cent. of total revenues, whilst the food and beverage department generated revenues of €1.0 million, approximately 43 per cent. of overall revenues over the period. The nine-month unaudited EBITDA of €0.64 million was well below the budgeted €0.91 million, and virtually unchanged compared to the same period last year. Apart from the pressure on tariffs, the Hotel is facing continued upward pressure on employee salaries due to a chronic shortage of labour of all types, compounded by the Romanian government's policy of increasing the minimum wage.

The Hotel's total net debt at the end of September 2017 amounted to €1.0 million, down from €1.3 million at the end of June.

Telecredit

RC2 owns an 80% shareholding in Telecredit IFN S.A. ("Telecredit") a Romanian non-banking financial institution that provides consumer loans to individuals. The balance of 20 per cent. is owned by a Romanian individual and his family.

Telecredit generated unaudited revenues of €1.2 million over the first nine months of 2017, up 63.4 per cent. year-on-year, but 8.5 per cent. below budget. The company's unaudited operating profit over the first nine months of 2017 amounted to €0.12 million, compared to €0.15 million over the same period of 2016, which its management attribute mainly to increased promotion and marketing expenses generated by a limited run TV campaign which was launched in February 2017 to improve the general awareness of Telecredit.

As at 30 September 2017, the net value of Telecredit's loan book amounted to €0.53 million, including accrued interest of €0.08 million. 74 per cent. of the loan stock was represented by standard loans (with days past due of between 0-15), whilst 1 per cent. of the loan stock was represented by NPLs. Telecredit sells its NPLs to a debt collection company on a monthly basis. Between January and September 2017, the Company granted 25,100 loans with a total value of €3.7 million. The Company had no bank debt at the end of September 2017.

The National Bank of Romania passed a new regulation which came into force on 1 October 2017, which requires non-banking financial institutions ("NFIs") such as Telecredit which make loans above a certain interest rate threshold to have minimum regulatory capital equal to 66 per cent. of loans granted over a specific month. Currently, Telecredit's equity amounts to €0.9 million (including a recent €0.15 million capital increase), and the value of its loans granted per month amounts to approximately €0.4 million at present, so it has sufficient capital (and capital headroom) to support its current lending activities. However, the new regulation could limit its future growth unless further funding is made available by Telecredit's shareholders: based on its current capital, the maximum amount of loans it can grant in a given month is capped at €1.3 million.

THE PROPOSALS

The Board is proposing:

1. To acquire 22 per cent. of the issued share capital of RC for €1.6 million and 10 per cent. of the issued share capital of RIF for €1.7 million.
2. To amend RC2's investment policy so that new investments are permitted in assets based in Romania, with a primary focus on real estate assets. This would allow RC2 to re-position itself as a yield-generating, Romanian fund primarily focused on real estate investments. In

addition, the Board is proposing that the Annual Buyback Programme should cease on adoption of the new investment policy.

3. To extend the life of the Company such that the next Continuation Vote should be held in 2020, unless Resolution 4 is passed.
4. To amend the Articles such that the next Continuation Vote should be held in 2023.

ACQUISITION OF AN INDIRECT SHAREHOLDING IN POLICOLOR

The Board is proposing to acquire 22 per cent. of the issued share capital of RC for EUR 1.6 million and 10 per cent. of the issued share capital of RIF for €1.7 million. RC and RIF are two Romanian-focussed investment funds whose main underlying asset is a 60 per cent. shareholding in Policolor, in which RC2 already owns the balance of 40 per cent.. The main objective of the share acquisitions, which would give RC2 a further 15.36 per cent. indirect shareholding in Policolor in addition to the already held direct interest of 40 per cent., is to provide RC2 with greater control over the development strategy and exit process from this asset.

The total cost of the share acquisition is €3.35 million, and the shares are being acquired at an overall discount of 35 per cent. to their net asset values. The net asset values of RC and RIF as at 30 November 2017 were US$15.1 million and US$27.4 million, respectively. RIF's 60 per cent. shareholding in Policolor represents over 97 per cent. of its total assets and RC's only substantial asset is a 69 per cent. shareholding in RIF. For the year ended 31 December 2016, RC reported a loss of US$701,348 and RIF reported a loss of US$970,622. Consistent with the current accounting policy, Policolor would continue not to be consolidated into the financial statements of the Company. The consideration for the share acquisitions would be funded from the Company's existing cash balances.

NEW INVESTMENT OBJECTIVE AND INVESTMENT POLICY

The Board is proposing that the Company's investment objective be restated as follows:

> "The investment objective of the Company is 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."

The Board is therefore also proposing that the Company's investment policy should be replaced with the following investment policy:

> "The Company will seek to generate 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 investments in companies operating in sectors other than real estate would be limited to 25 per cent. 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 without any such limitation."

The Board does not intend to change the Company's current gearing policy, which allows it to borrow up to 30 per cent. of its gross assets (as defined in the Articles and as further defined in the Company's Admission Document). The Board also intends to leave unchanged the Company's diversification policy, under which the Board will not normally authorise any investment in a single Investee Company that is greater than 20 per cent. of NAV 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 NAV at the time of effecting the investment. Nevertheless, the Board reserves the right to increase its investment in an existing portfolio company beyond the above limits if it considers that this will facilitate an exit from such existing portfolio company, as is the case with the current proposed acquisition of an indirect shareholding in Policolor S.A..

It is the intention of the Board that RC2 will continue to make any new investments in Romania through its wholly owned subsidiary, RC2 (Cyprus) Limited, a company incorporated, managed and controlled under the laws of Cyprus. It is possible that some investments may be acquired through new special-purpose subsidiaries formed for the sole purpose of making the acquisition of that investment and then holding it where the Board considers it in the Company's interest to do so.

Given the almost exclusively private equity nature of the current and intended RC2 portfolio of investments, these will continue to be independently valued on an annual basis, but the Board intends to reduce the frequency of NAV reports from monthly to quarterly.

Any material change to the investment policy of the Company requires Shareholder approval in accordance with the AIM Rules for Companies. Resolution 2 will therefore be proposed at the Annual General Meeting pursuant to which, if passed, the Company's existing investment policy will be replaced and the Company will adopt and adhere to the proposed new investment policy.
In accordance with the proposed change to the investment policy, the Board intends to distribute any net income received from such investments to Shareholders, whilst re-investing any realised capital, including capital gains, in further investments. If Shareholders approve the proposed change to the Company's investment policy, the Board will end the Company's Annual Buyback Programme pursuant to which any annual realised profits are to be returned to Shareholders by way of tender offers to repurchase Shares at NAV. The Board intends to continue to use opportunistically the authority contained in the Articles to buy back Shares at a price per Share below NAV.

EXTENSION OF THE LIFE OF THE COMPANY

In order to continue the work on realising the Company's investments, and pursuant to the change to the investment policy, the Board considers that the life of the Company should be extended for a further five years and that the current requirement to hold a Continuation Vote every two years would be inconsistent with the proposed new investment policy. Accordingly, the Board is proposing two resolutions to Shareholders. Resolution 4 which is being proposed as a special resolution, would extend the life of the Company such that the next Continuation Vote would be held in 2023 (and then every two years thereafter). In the event that Resolution 4 is not passed, the Board is also proposing Resolution 3 as an ordinary resolution which would extend the life of the Company such that the next Continuation Vote would be held in 2020, in accordance with the current requirements of the Articles.

BENEFITS OF THE PROPOSALS

The Board believes that the Proposals offer the following benefits to Shareholders:

- With its 40 per cent. shareholding in Policolor, RC2 is a minority shareholder. Accordingly, it is not able to control the exit process from this asset. The acquisition of a further 15.36 per cent. indirect shareholding should provide RC2 with greater control over the development strategy and exit process from this asset.
- Changing the investment policy will allow the Company to re-position itself as a fund primarily focused on Romanian real estate investments with the objective of acquiring and/or developing a portfolio of yield generating assets in the coming years.
- Continuing the life of the Company, rather than winding up the Company and seeking an early sale of the remaining assets in the portfolio, should enable the Company to maximise the value realised on the sale of its remaining investments and also give it enough time to put into effect its new investment policy.
- Since the Company's Shares will remain traded on AIM throughout the realisation process, Shareholders and prospective investors will, subject to market conditions, continue to be able to buy and sell the Company's Shares if they choose to do so.

ANNUAL GENERAL MEETING

The Proposals are subject to the passing of Resolutions 1 to 3 to be proposed at the Annual General Meeting. If Resolution 4 is not passed as a special resolution but the other resolutions are duly passed, the next Continuation Vote will be held in 2020.

Resolutions 1 and 2 are proposed as Ordinary Resolutions, which require the approval of over 50 per cent. of those Shareholders voting at the Annual General Meeting in person or by proxy.

In accordance with the Articles, the vote on Resolution 3 will be taken on a poll and will be deemed not to have been passed if the votes against the Resolution constitute a majority against the Resolution and represent at least 25 per cent. of the total number of votes capable of being cast on that Resolution.

Resolution 4 is proposed as a Special Resolution, which requires the approval of two thirds of the total number of votes capable of being cast on that Resolution.

ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders will find enclosed with the Circular a Form of Proxy to enable Shareholders to vote at the Annual General Meeting. Whether or not Shareholders intend to be present at the Annual General Meeting, Shareholders are requested to complete and return the Form of Proxy in accordance with the instructions printed on it to the Company's Registrars, Sanne Fiduciary Services Limited, so as to arrive no later than 10.00 a.m. (London time) on Monday 19 February 2018. Completion and return of the form of proxy will not affect Shareholders' rights to attend in person and vote at the Annual General Meeting should Shareholders so wish.

RECOMMENDATION

The Board considers that the Proposals are in the best interest of the Company and its Shareholders as a whole and unanimously recommends Shareholders to vote in favour of all the resolutions to be proposed at the Annual General Meeting, as the Directors intend to do in respect of their own beneficial holdings which, in aggregate, amount to 4,571,151 Shares representing approximately 3.16 per cent. of the issued share capital of the Company. In addition, Shareholders connected with Ion Florescu have advised the Board that they intend to vote their aggregate shareholding of 81,391,311 Shares, representing approximately 56.15 per cent. of the issued share capital of the Company, in favour of the resolutions.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Date of Posting of Circular	26 January 2018
Record date for voting at Annual General Meeting	6.00 p.m. on 19 February 2018
Latest time for receipt of Forms of Proxy	10.00 a.m. on 19 February 2018
Annual General Meeting	10.00 a.m. on 21 February 2018
Announcement of Results of Annual General Meeting	21 February 2018

If any of the above times and/or dates change, the revised times and/or dates will be notified to Shareholders by announcement through a Regulatory Information Service. References to times are to London time.