

27 June 2012

Reconstruction Capital II Limited (the "Company")

Annual Report and Audited Consolidated Financial Statements for the year ended 31 December 2011

Reconstruction Capital II Ltd ("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 2011.

Copies of the Company's annual report will 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 2011 was EUR 0.8108 per share (EUR 0.9682 per share as at 31 December 2010);
- As at 31 December 2011 the Company's market capitalisation was approximately EUR 48m, with a closing price of EUR 0.48 per share;
- The Directors do not recommend the payment of a dividend.

Operational highlights

The Private Equity Programme

RC2 increased its shareholding in EPH from 42.0% to 63.0%, pursuant to an asset swap agreed with the founding shareholders of the business, whereby the latter agreed to exit the business completely in exchange for certain non-core assets.

The Trading Programme

During the year, RC2 exited a number of its equity positions held under the Trading Programme, thereby generating EUR 1.0m of cash proceeds. At year-end, its listed equities held under the Trading Programme had a total market value of EUR 2.0 million. 99.3% of this was held in Romanian equities, while the balance of 0.7% was held in Serbian equities.

For further information, please contact:

Reconstruction Capital II Limited
Ion Florescu / Anca Moraru
Tel: +44 (0) 207 244 0088/ +40 21 3167680

Grant Thornton Corporate Finance (Nominated Adviser)
Philip Secrett / David Hignell
Tel: +44 (0) 20 7383 5100

LCF Edmond de Rothschild Securities (Broker)
Hiroshi Funaki

Tel: +44 (0) 20 7845 5960

INVESTMENT MANAGER AND INVESTMENT ADVISORS' REPORT

During the year, Reconstruction Capital II Limited ("RC2" or the "Company") did not make any new investments under its Private Equity Programme, but increased its shareholding in East Point Holdings Limited ("EPH") from 42% to 63% following the asset split agreed with EPH's founding shareholders. In addition, RC2 exited a number of positions held under its Trading Programme, thereby generating EUR 1m in cash.

As at 31 December 2011, RC2 had an audited net asset value ("NAV") per share of EUR 0.8108, representing a decrease of 16.25% over the year, mainly as a result of lower valuations of RC2's private equity investments pursuant to the annual independent third parties valuations exercise.

RC2's audited NAV per share compares to an unaudited published NAV per share of EUR 1.0605 at the end of 2011. The difference of EUR 0.2497 per share is mainly a combined result of a lower fair value for the investments in East Point Holdings Ltd and Policolor SA pursuant to the yearly valuations exercise which took place after the computation of the unaudited published year-end NAV (EUR 0.0749 per share), and the effects of the consolidation of Mamaia Resort Hotels SRL and Top Factoring SRL in the audited accounts since both these investments are booked at fair value when computing RC2's unaudited published NAV (EUR 0.1233 per share).

Private Equity Programme

RC2 has increased its shareholding in EPH from 42.0% to 63.0%, pursuant to an asset swap agreed with the founding shareholders of the business, whereby the latter were to exit the business completely in exchange for certain non-core assets. The final part of the transaction was legally completed in 2012 but accounted for in 2011.

Trading Programme

During the year, RC2 exited a number of its equity positions held under the Trading Programme, thereby generating EUR 1m of cash proceeds. At year-end, its listed equities held under the Trading Programme had a total market value of EUR 2.0 million. 99.3% of this was held in Romanian equities, while the balance of 0.7% was held in Serbian equities.

Outlook

Romania, Serbia and Bulgaria, the three countries where RC2 has investments, returned to modest economic growth in 2011. This is expected to continue in 2012 in spite of the uncertainty surrounding the euro-zone area. Exports have been an important driver of the recovery throughout 2011, leading to stable trade and current account deficits in the three countries. The countries enjoy relatively low overall public debt compared to the eurozone average.

In 2012, the Investment Advisers and Manager aim to start the process of exiting some of RC2's private equity investments and are continuing the process of preparing others for an eventual sale, whilst continuing to work on the improvement of the underlying investee companies' operations.

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INVESTMENT POLICY

Private Equity Programme

Under the Private Equity Programme, the Company takes significant or controlling stakes in companies operating primarily in Romania, Serbia, Bulgaria and neighbouring countries (the “Target Region”). The Company invests in investee companies where it believes its Investment Advisers can add value by implementing operational and/or financial restructuring over a 3 to 5 year horizon. The Company only makes an investment under the Private Equity Programme if its Investment Advisers believe there is a clear exit strategy available, such as trade sale, break up and subsequent disposal of different divisions or assets, or a flotation on a stock exchange.

Trading Programme

Under the Trading Programme, the Company aims to generate short and medium term returns by investing such portion of its assets as determined by the Directors from time to time in listed equities and fixed income securities, including convertible and other mezzanine instruments, issued by entities in the Target Region. The Investment Manager is responsible for identifying and executing investments and divestments under the Trading Programme. The Trading Programme differs from the Private Equity Programme in the key respect that the Company will typically not take significant or controlling stakes in investee companies and will typically hold investments for shorter periods of time than investments made under the Private Equity Programme.

Value Creation

Under its Private Equity Programme, the Investment Advisers are involved at board level in the investee company to seek to implement operational and financial changes to enhance returns. As part of the Company’s pre-acquisition due diligence, the Investment Advisers seek to identify specific actions that they believe will create value in the target investee company post acquisition and, where appropriate, seek to work with third party professionals to develop, in combination with the proposed management team of the target, a value creation plan with clear and identifiable short and medium term targets. These plans are likely to address different parts of the business and are tailored to reflect the specific challenges of the relevant target company. Both the Investment Advisers and the Investment Manager believe that the investment strategies under the Private Equity and Trading Programme can achieve returns which are different than the returns of the relevant market indices.

INVESTMENT POLICY *(Continued)*

Investing Restrictions and Cross-Holdings

The Directors, the Investment Advisers and the Investment Manager will take steps to ensure that the portfolio of investments is sufficiently diversified to spread the risks of those investments. The Investment Strategy does not restrict the Company from investing in other closed-ended funds operating in the Target Region. In line with the Company's investment policy, the Board will not normally authorise any investment in a single investee company that is greater than 20 per cent of the Company's net asset value 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 the Company's net asset value at the time of effecting the investment.

Gearing

The Company may borrow up to a maximum level of 30 per cent 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.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011**

	31-Dec-11	31-Dec-10
	EUR	EUR
Continuing Operations		
Revenue	5,735,892	4,631,539
Total Revenue	5,735,892	4,631,539
Investment (loss)		
(Loss) on investments at fair value through profit or loss	(10,373,504)	(5,189,945)
Interest income	34,290	18,237
Dividend income	35,354	4,082
Other income	320,320	503,154
Total investment (loss)	(9,983,540)	(4,664,472)
Expenses		
Operating expense	9,617,491	10,955,345
Total operating expenses	9,617,491	10,955,345
Operating (loss)	(13,865,139)	(10,988,278)
Interest expense	(217,892)	-
(Loss) before taxation	(14,083,031)	(10,988,278)
Income tax release	326,079	491,582
(Loss) for the year from continuing operations	(13,756,952)	(10,496,696)
Discontinued operations		
(Loss) / gain for the year on operations acquired with a view to sell	(2,364,295)	17,144,366
Net (loss) / profit for the year	(16,121,247)	6,647,670
Other comprehensive income		
Exchange differences on translating foreign operations	53,420	87,787
Total comprehensive (loss) / income for the year	(16,067,827)	6,735,457
Net (loss) / profit for the year attributable to:		
- Equity holders of the parent	(15,734,573)	6,731,609
- Non-controlling interest	(386,674)	(83,939)
	(16,121,247)	6,647,670
Total comprehensive (loss) / income attributable to:		
- Equity holders of the parent	(15,737,942)	6,819,396
- Non-controlling interest	(329,885)	(83,939)
Total comprehensive (loss)/ income for the year	(16,067,827)	6,735,457

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011 *(Continued)*

	31-Dec-11	31-Dec-10
	EUR	EUR
Earnings Per Share attributable to the equity shareholders of the Company		
From continuing operations	(0.1337)	(0.1041)
Basic and diluted earnings per share		
From continuing and discontinued operations		
Basic and diluted earnings per share	(0.1573)	0.0673

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011**

	31-Dec-11	31-Dec-10	1-Jan-10
<u>Assets</u>	EUR	EUR	EUR
Non-current assets			
Property, plant and equipment	9,494,417	11,588,403	13,795,880
Financial assets at fair value through profit or loss	33,480,715	83,387,381	61,977,165
Goodwill	1,257,153	1,257,153	1,257,153
Total non-current assets	44,232,285	96,232,937	77,030,198
Current assets			
Financial assets at fair value through profit or loss	1,970,473	3,711,882	13,551,893
Inventories	27,000	181,000	27,000
Trade and other receivables	5,209,555	6,607,316	1,273,793
Cash and cash equivalents	497,325	812,543	5,017,459
Total current assets	7,704,353	11,312,741	19,870,145
Assets of disposal group classified as held for sale	123,801,246	-	-
Total assets	175,737,884	107,545,678	96,900,343
Liabilities			
Current liabilities			
Trade and other payables	2,695,704	2,380,538	1,273,241
Loans and borrowings	3,642,240	2,924,754	-
Corporation tax payable	104,625	9,925	49,943
Total current liabilities	6,442,569	5,315,217	1,323,184
Liabilities of disposal group classified as held for sale	83,503,970	-	-
Non-current liabilities			
Deferred tax	27,000	621,000	1,180,000
Leases	48,432	-	-
Loans and borrowings	1,647,400	1,290,000	638,146
Total non-current liabilities	1,722,832	1,911,000	1,818,146
Total liabilities	91,669,371	7,226,217	3,141,330
Total net assets	84,068,513	100,319,461	93,759,013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011 *(Continued)*

	31-Dec-11	31-Dec-10	1-Jan-10
	EUR	As restated EUR	As restated EUR
<u>Capital and reserves attributable to equity holders</u>			
Share capital	1,000,000	1,000,000	1,000,000
Share premium reserve	121,900,310	121,900,310	121,900,310
Retained deficit	(40,174,182)	(24,439,609)	(31,171,218)
Foreign exchange reserve	(1,642,979)	(1,639,610)	(1,727,397)
Total equity and reserves	81,083,149	96,821,091	90,001,695
Non-Controlling Interests	2,985,364	3,498,370	3,757,318
Total equity	84,068,513	100,319,461	93,759,013

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS OF
31 DECEMBER 2011**

	Share Capital EUR	Share Premium EUR	Foreign exchange reserve EUR	Retained (Deficit)/ Earnings EUR	Sub-total EUR	Non- controlling Interest EUR	Total EUR
Balance at 1 January 2010 – as previously reported	1,000,000	121,900,310	(2,964,356)	(33,280,080)	86,655,874	7,103,139	93,759,013
Prior year adjustment	-	-	1,236,959	2,108,862	3,345,821	(3,345,821)	-
Balance at 1 January 2010 – as restated	1,000,000	121,900,310	(1,727,397)	(31,171,218)	90,001,695	3,757,318	93,759,013
Profit for the year	-	-	-	6,731,609	6,731,609	(83,939)	6,647,670
Other comprehensive income	-	-	87,787	-	87,787	-	87,787
Total comprehensive income for the year	-	-	87,787	6,731,609	6,819,396	(83,939)	6,735,457
Dividends paid to non-controlling interests	-	-	-	-	-	(175,009)	(175,009)
Balance at 31 December 2010 – as restated	1,000,000	121,900,310	(1,639,610)	(24,439,609)	96,821,091	3,498,370	100,319,461
(Loss) / Profit for the year	-	-	-	(15,734,573)	(15,734,573)	(386,674)	(16,121,247)
Other comprehensive (loss) / income	-	-	(3,369)	-	(3,369)	56,789	53,420
Total comprehensive (loss) / income for the year	-	-	(3,369)	(15,734,573)	(15,737,942)	(329,885)	(16,067,827)
Dividends paid to non-controlling interests	-	-	-	-	-	(183,121)	(183,121)
Balance at 31 December 2011	1,000,000	121,900,310	(1,642,979)	(40,174,182)	81,083,149	2,985,364	84,068,513

Share premium is stated net of share issue costs and is not distributable by way of dividend.

**CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED
31 DECEMBER 2011**

	31-Dec-11	31-Dec-10
	EUR	EUR
Cash flows from operating activities		
Net profit before tax	(14,083,031)	(10,988,278)
<i>Adjustments for:</i>		
Depreciation and amortisation	295,636	210,990
Impairment	2,087,000	2,738,000
Loss / (Gain) on financial assets at FVTPL	10,373,504	5,189,945
Profit on sale of financial asset	-	50,670
Interest income	(34,290)	(18,237)
Dividend income	(35,354)	(4,082)
Net cash outflow before changes in working capital	(1,396,535)	(2,820,992)
(Increase) in trade and other receivables	1,397,761	(5,382,625)
Increase /(decrease) in trade and other payables	458,299	1,140,946
(Increase)/ decrease in inventories	154,000	(154,000)
Interest received	34,290	18,957
Dividend received	35,354	52,466
Payments for purchase of financial assets	-	(229,995)
Net proceeds from sale of financial assets	815,336	5,467,342
Cash generated by operating activities	1,498,505	(1,907,901)
Income tax paid	(267,921)	(107,439)
Net Cash generated by operating activities	1,230,584	(2,015,340)
Cash flows from investing activities		
Sale of property, plant and equipment	5,911	167,741
Purchase of property, plant and equipment	(226,776)	(1,086,963)
Purchase of financial assets	(589,500)	(8,671,500)
Sale of financial assets	211,933	3,764,880
Net Cash flow used in investing activities	(598,432)	(5,825,842)
Cash flows from financing activities		
Dividends paid to non-controlling interests	(183,121)	(175,009)
Proceeds from loan	3,613,609	4,527,329
Payments of loan	(4,338,783)	(984,369)
Net Cash used in financing activities	(908,295)	3,367,951
Decrease in cash and cash equivalents	(276,143)	(4,473,231)
Cash at beginning of year	812,543	5,017,459
Effect of foreign exchange rate changes	(39,075)	268,315
Cash at end of year	497,325	812,543