RECONSTRUCTION CAPITAL II LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For period ended 31 December 2006

Contents

Page:

Domicile and country of incorporation of parent company

Cayman Islands

Legal form

Limited Liability Company

Directors

Howard I. Golden
Ion Alexander Florescu
Franklin Pitcher Johnson Jr.
Markus Winkler
Dirk Van den Broeck

Secretary and registered office

Appleby Spurling Hunter
Clifton House
75 Fort Street
PO Box 190 GT
Grand Cayman
Cayman Islands

Company number

HL-156549

Auditors

BDO Stoy Hayward LLP, 8 Baker Street, London, W1U 3LL

INVESTMENT MANAGER AND INVESTMENT ADVISER REPORT

Reconstruction Capital II Limited ("RC2" or the "Company") was incorporated on 17th October 2005 and started operations on 19th December 2005 when a total of EUR 23.4 million was raised from investors, net of expenses. On 23rd December 2005, RC2's shares were admitted to trading on the London Stock Exchange's AIM market and on 17th May 2006 a further EUR 40.5 million was raised from investors, net of expenses. This is the first financial year for which accounts are being presented.

For 2006, the Company reports a net profit excluding minority interest of EUR 6.1 million, primarily generated by a gain on investments of EUR 6.9 million and interest income of EUR 1.4 million. At the end of the year, the Company's total net asset value excluding minority interest was EUR 70.0 million, equivalent to a net asset value per share of EUR 1.0768. This compares favourably to a net asset value per share of EUR 0.9565 when the Company's shares were admitted to trade on the AIM market at the end of 2005.

In 2006, the economies of Romania and Bulgaria, the two principal countries in which the Company invests, experienced strong growth and generally healthy macro-economic indicators. The year culminated in both countries joining the EU on the 1st January 2007. Internal growth in the two countries was driven primarily by an internal boom in consumption and construction, fuelled by increasing living standards and the increased availability of consumer and mortgage financing.

Romania in particular experienced an improving macroeconomic climate with a 7.7% increase in GDP over the year (compared to 4.1% in 2005), whilst yearly inflation stood at 4.9% in December 2006, compared to 8.6% in 2005. Growth in Romanian GDP was driven by 19.4% growth in the construction sector, a 7.8% increase in the manufacturing sector, and a 7.3% increase in the services sector. In Bulgaria, GDP increased by 6.1% year-on-year compared to 6.2% in 2005 and the growth in the Bulgarian CPI index was 6.5% in 2006, unchanged from 2005.

The one dark spot on the horizon for both countries remains the current account deficit, which stood at 10.3% of GDP for Romania and 15.8% of GDP for Bulgaria over 2006. Nevertheless to a certain extent this is a result of the strong confidence of international investors in the two economies, which resulted in FDI flows of EUR 9.1bn in Romania and of EUR 4.0bn Bulgaria. In Romania, where the local currency is not pegged to the euro, this led to a currency appreciation against the single currency of 8.0% in 2006.

The Company operates two investment programmes, a Private Equity Programme which is focused on acquiring and disposing of significant or controlling stakes in companies, and a Trading Programme which focuses on portfolio investments in listed equities and fixed income securities.

Under the Trading Programme, the Investment Manager invested approximately EUR 13.4 million in listed equities over the year, which had a total market value of EUR 17.6 million at the end of 2006. Of this, 79.7% was held in Romanian equities and the balance of 20.3% was invested in Bulgarian equities. As at 31st December 2006, the increase in value over cost of the equity holdings held under the Trading Programme (+ 31.0%) is significantly higher than the overall performance of the Romanian EUR denominated index since RC2 started investing at the end of January 2006 (+4.9%).

As of 31 December 2006, RC2's listed equities portfolio was divided amongst companies operating in the following industries: financial services (63.1%), building materials (6.9%), oil and gas (21.6%), utilities (7.5%) and industrials (0.9%). In addition, as at end-December 2006, RC2's local currency fixed income holdings amounted to EUR 5.8 million.

Under the Private Equity Programme, RC2's first private equity investment was finalized in November 2006, when the Company increased its shareholding in Albalact S.A. ("Albalact") to 16.4% and the Investment Adviser agreed to take a seat on Albalact's board of directors (previously the Fund had had a smaller shareholding in this company held under its Trading Programme). Albalact is Romania's leading independent fresh dairy products company. With strong brands on the local market, a powerful milk collection system which covers one of the best dairy regions of the country, and a new production facility under construction, Albalact has proven to be one of the most dynamic players in its sector. Annual sales growth has averaged 65.7% over the past 3 years and the 2006 net profit was 98% above the previous year. Although it is a quoted company, the shareholding in Albalact has been categorized as part of the Private Equity Programme by the Board due to the size of the investment, RC2's presence on the company's board, and the likely mid-term horizon for this investment. The value of RC2's Albalact holding, based on the market price of Albalact shares as at 31st December 2006, was EUR 5.82 million.

As of 31st December 2006, the value of RC2's equity holdings, including Albalact, was EUR 23.4m or 33.4% above cost. On 31st December 2006, RC2's assets were broken down as follows: a total of EUR 17.6 million was held in listed equities (24.9% of total net asset value); EUR 5.8 million was held in Albalact, a private equity position (8.2% of total net asset value); EUR 5.8 million was invested in Romanian fixed income instruments (8.2 % of total net asset value); EUR 20.8 million (29.4% of total net asset value) in EUR-denominated deposits and the equivalent of EUR 15.6 million (22.1% of total net asset value) in RON-denominated deposits. The balance of EUR 5.0 million was held in cash. Overall, the Company's net asset value per share increased by 12.6% during the period under review from EUR 0.9565 to EUR 1.0768.

OUTLOOK

The Investment Manager and Investment Adviser remain confident that growth rates will continue to be strong in the two economies of Romania and Bulgaria and that the investment climate will remain favourable for both RC2's Trading and its Private Equity Programme.

The Investment Manager and Adviser intend to make further investments under both RC2's Trading and Private Equity Programmes during 2007. In this respect, in the first half of 2007 the Company completed a EUR 3 million investment in a Romanian receivables collection company, as well as a EUR 3 million investment in one of Romania's leading private medical services providers.

New Europe Capital Ltd

New Europe Capital SRL

REPORT OF THE DIRECTORS FOR THE PERIOD ENDED 31 DECEMBER 2006

The directors present their report together with the audited financial statements for the period 17 October 2005 to 31 December 2006.

Activities and business review

The Company and Group's principal activity is the holding and managing of investments in Romania and other countries in South East Europe. A summary of the Group's business review for the period ended 31 December 2006 is contained within the Investment Manager and Investment Adviser report.

Accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards.

Share capital and reserves

Details of the Group's authorised and issued share capital as at 31 December 2006 are contained in Note 21 of the financial statements.

Results and dividends

The directors of Reconstruction Capital II Ltd are pleased to announce the Company's results for 2006. The year closed with revenues of EUR 8,607,241 and a net profit after taxation of EUR 6,528,591.

The Directors do not recommend the payment of a dividend.

The directors of New Europe Capital Ltd, which is a subsidiary of Reconstruction Capital II Ltd, approved an interim dividend payment relating to the year ended 31 December 2006 of EUR 22,278 on 14 January 2007. This dividend will be reflected in the financial statements for the year ended 31 December 2007.

Post-balance sheet events

Details of the group's post-balance sheet events are contained in Note 24 of the Financial Statements.

Directors and their interests

The directors of the Company during the year and their interests in the ordinary shares of the Company were as follows:

	31 December 2006 Number	% of issued share capital
Markus Winkler	250,000	0.38 %
Ion Florescu	200,100	0.31 %
Franklin P Johnson	800,000	1.23 %
Dirk Van den Broeck	745,100	1.15%
Howard I. Golden	-	-

Board

The Board of Directors comprises five Directors, all of whom are Non - Executive Directors, except for Ion Florescu who is on the Board of the Investment Manager and the Investment Adviser. The Directors have a range of business, financial and asset management skills and experience relevant to the direction and control of the Company and Group.

The Chairman is Howard I. Golden, a Non-Executive Director, who has no conflict relationships. Since all day to day management responsibilities are subcontracted to the Investment Manager and Administrator, the Company does not have a Chief Executive Officer as the roles are already effectively separated.

The Investment Manager, Investment Adviser and the Nominated Adviser ensure that the Directors have timely access to all relevant management, financial and regulatory information to enable informed decisions to be made. The board meets on a regular basis at least three times each year and additional meetings are arranged as necessary.

Due to the size of the Board, and the fact that four out of five Directors are independent of the Investment Manager and Adviser and all five Directors are independent of the Administrator, the Board has not set up separate audit and remuneration committees on the grounds that the Board as a whole considers these matters. As four of the Directors are Non-Executives, the Board has not appointed a senior independent Non-Executive Director as the Chairman performs this role.

Audit Responsibilities

All audit committee responsibilities are performed by the Board, with specified terms of reference.

The principal terms of reference are to appoint auditors, to set their fees, to review the scope and results or the audit, to consider the independence of the auditors, to review the internal financial and non-financial controls, to approve the contents of the draft interim and annual reports to shareholders and to review the accounting policies. In addition, the Board reviews the quality of the services of all the service providers to the Company and reviews the Company's compliance with financial reporting and regulatory requirements.

The Company's internal financial controls and risk management systems have been reviewed with the Investment Manager and Adviser. The Audit programme and timetable are drawn-up and agreed with the Company's Auditors in advance of the financial year end. At this stage, matters for audit focus are discussed and agreed. The audit report is considered by the Board and discussed with the Auditors prior to approving and signing the Financial Statements.

Remuneration Responsibilities

The Board has resolved that a remuneration committee is not appropriate for the Company as the Company contracts the investment managing, investment advising and administration activities with third parties and has no employees. The contracting parties itself are responsible for paying their employees.

The Board policy is that the Directors' remuneration should be fair and reasonable in relation to the time commitment and responsibilities of the Directors. The Directors are not eligible for bonuses, pension benefits, share options or other benefits. Details of the payments to Directors are given in Note 5 of the Financial Statements.

Each of the Directors has entered into a Service Agreement with the Company and either party can terminate the Agreement by giving to the other at least three months' notice.

Directors' liability insurance

The Group has in place a Directors' insurance policy to cover the relevant individuals against claims arising from their work on behalf of the Company. The Board intends to keep the level of cover provided under annual or more frequent review, as appropriate.

Relationship with shareholders

Shareholder relations are given high priority by the Board. The prime medium by which the Company communicates with shareholders is through the Interim and Annual Report and Accounts which aim to provide shareholders with a full understanding of the Company's activities and its results. This information is supplemented by a monthly calculation of the net asset value of the Company's ordinary shares, which is published via the Stock Exchange, and monthly and quarterly reports issued by the Investment Manager and the Investment Adviser which are distributed by e-mail and copies are also available from the Investment Manager's office upon request. In addition a Company website is currently under construction where the shareholders will be able to have access to all the news and published information about the Company.

Going concern

The Directors have reasonable expectations and are satisfied that the group has adequate resources to continue its operations and meet its commitments for the foreseeable future and they continue to adopt the going concern basis of preparation of the Financial Statements.

Directors' responsibilities

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets of the Group, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of the financial statements.

The Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs).

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of the financial statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards.

A fair presentation also requires the Directors to:

- Consistently select and apply appropriate accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- State that the group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

Auditors

BDO Stoy Hayward LLP were appointed as first auditors to the Company and a resolution for their re-appointment will be proposed at the Annual General Meeting.

On behalf of the Board

Ion Florescu
Director

28 June 2007

REPORT OF INDEPENDENT AUDITORS

To the shareholders of Reconstruction Capital II Limited

We have audited the group financial statements (the "financial statements") of Reconstruction Capital II Limited for the period ended 31 December 2006 (the “financial statements”) which comprise the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with International Financial Reporting Standards (IFRSs) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors’ Report and the Investment Manager and Investment Adviser’s Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of our engagement letter dated 8 May 2006 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our engagement letter or has been expressly authorized to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Report of the independent auditors *(Continued)*

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group’s affairs as at 31 December 2006 and of its profit for the period then ended.

Bdo Stoy Hayward LLP

BDO STOY HAYWARD LLP
Chartered Accountants
London

28 June 2007

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2006

	Notes	31-Dec-06 EUR
Investment income		
Gain on investments at fair value through the profit and loss account	4	6,852,945
Interest income		1,378,959
Dividend income		95,175
Other income		280,162
Total investment income		**8,607,241**
Expenses		
Operating expenses	5	1,960,436
Total operating expenses		**1,960,436**
Profit before taxation		**6,646,805**
Income Tax expense	7	118,214
Net Profit for the period	6	**6,528,591**
Attributable to:		
- Equity holders of the parent		6,106,568
- Minority interest		422,023
		6,528,591
Basic and diluted earnings per share	23	0.2092

The notes on pages 18 to 36 form an integral part of these financial statements

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2006

		31-Dec-06
Assets	**Notes**	**EUR**
Non-Current Assets		
Property, plant and equipment	8	3,210
Total non-current assets		**3,210**
Current Assets		
Financial assets at fair value through the profit and loss account	10	29,268,814
Trade and other receivables	11	547,498
Cash and cash equivalents	12	41,404,822
Total current assets		**71,221,134**
Total Assets		**71,224,344**
Liabilities		
Current Liabilities		
Trade and other payables	13	665,790
Total Current Liabilities		**665,790**
Total Net Assets		**70,558,554**
Capital and reserves attributable to equity holders		
Share capital	21	650,394
Share premium reserve	21	63,280,208
Retained earnings		6,106,568
Total equity and reserves		**70,037,170**
Minority Interest		521,384
Total Equity		**70,558,554**

The financial statements were approved by the Board of Directors and authorised for issue on 28 June 2007.

Ion Florescu
Director

The notes on pages 18 to 36 form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS OF 31 DECEMBER 2006

	Share Capital **EUR**	Share Premium **EUR**	Retained Earnings **EUR**	Minority Interest **EUR**	Total **EUR**
Balance at beginning of period	-	-	-	-	-
Net profit for the period and total recognised income for the period	-	-	6,528,591	(422,023)	6,106,568
Issue of Share Capital	650,394	63,280,208	-	-	63,930,602
Balance at 31 Dec 2006	**650,394**	**63,280,208**	**6,528,591**	**(422,023)**	**70,037,170**

The share premium is stated net of share issue costs of EUR 1,382,694.

CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2006

		31-Dec-06 EUR
Cash flows from operating activities		
Net Profit before tax		6,646,805
Adjustments for:		
Depreciation		5,307
Gain on financial assets at fair value through profit or loss		(6,036,097)
Gain on foreign exchange		(726,504)
Interest income		(1,378,959)
Dividend income		(95,175)
Net cash out outflow before changes in working capital		**(1,584,623)**
Increase in trade and other receivables		(487,695)
Increase in trade and other payables		494,340
Interest received		1,378,959
Dividend received		95,175
Purchase of financial assets		(24,761,107)
Proceeds from sale of financial assets		1,526,428
Net cash used in operating activities		**(23,338,523)**
Income tax paid		(60,762)
Cash flows from investing activities		
Purchase of property, plant and equipment		(2,345)
Acquisition of subsidiary (net of cash acquired)	25	149,346
		(23,252,284)
Cash flows from financing activities		
Proceeds from shares issued		63,930,602
Gain on foreign exchange		**726,504**
Increase in cash and cash equivalents	12	**41,404,822**

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2006

1. Establishment

Reconstruction Capital II Limited was incorporated on 17 October 2005 in the Cayman Islands as a closed ended company created to invest in private and listed equity and fixed income securities, including convertible and other mezzanine instruments, primarily in Romania and Bulgaria. The Company was listed on AIM on 23 December 2005 and started trading on 27 January 2006.These financial statements show the results of the Group from the date of incorporation to balance sheet date.

The Company intends to generate returns for its Shareholders through two primary routes: to achieve medium and long term capital appreciation through the investment in and subsequent disposal of significant or controlling stakes in companies, both listed and private, established and/or operating primarily in Romania and Bulgaria (the Private Equity Programme), and to make portfolio investments in listed equities and fixed income securities, including convertible and other mezzanine instruments, issued primarily by Romanian and Bulgarian entities (the Trading Programme).

The main focus of the Company is investments in Romania and Bulgaria. However, the Company reserves the right to make investments into neighbouring countries, notably Ukraine, Serbia, Montenegro, Moldova, Croatia, Albania and the Former Yugoslav Republic of Macedonia. It is currently anticipated that in the medium term the Company will invest approximately 70 per cent of its assets in Romania and approximately 30 per cent of its assets in Bulgaria and neighbouring countries.

2. Principal accounting policies

Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) . The consolidated financial statements have been prepared on the historical cost convention as modified by the revaluation of financial assets at fair value through the profit and loss account. The consolidated financial statements are presented in Euro, which is the functional currency of the Company.

2. Principal accounting policies *(Continued)*

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Future accounting developments

Certain new standards, amendments to new standards and interpretations have been published that are mandatory to the Group's future accounting period but have not been adopted early in these financial statements. These are set out below:

Title	*Implementation*	*Anticipated effect on the group*
IFRS 7: Financial Instruments: Disclosures	Periods commencing on or after 1 January 2007	Additional disclosures only
IFRS 8: Operating Segments	Periods commencing on or after 1 January 2009	Additional disclosures only
IAS 1 (Amendment): Capital Disclosures	Periods commencing on or after 1 January 2007	Additional disclosures only
IAS23 (Amendment): Borrowing Costs	Periods commencing on or after 1 January 2009	None
IFRIC 7: Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	Periods commencing on or after 1 March 2006	None
IFRIC 8: The Scope of IFRS 2	Periods commencing on or after 1 May 2006	None
IFRIC 9: Reassessment of Embedded Derivatives	Periods commencing on or after 1 June 2006	Unlikely to have a material effect
IFRIC 10: Interim Financial Reporting and Impairment	Periods commencing on or after 1 November 2006	None
IFRIC 11: IFRS 2 - Group and Treasury Share Transactions	Periods commencing on or after 1 March 2007	None
IFRIC 12: Service Concession Arrangements	Periods commencing on or after 1 January 2008	Unlikely to have a material effect

2. Principal accounting policies *(Continued)*

Revenue recognition

Revenue is wholly attributable to the principal activities of the company and its subsidiaries.

Interest income is recognised on a time-proportionate basis using the effective interest method and includes interest income from debt securities.

Dividend income from listed securities is recognised when the right to receive payment is established.

Other income mainly comprises realised profit on foreign currency exchange.

Basis of consolidation

Subsidiaries are all entities over which the Company has the power to control the financial and operating policies. As at 31 December the Company had controlling interests in two subsidiaries as outlined below:

- 100% controlling interest in Reconstruction Capital II (Cyprus) Ltd, a company incorporated in Cyprus, acquired on 7 November 2005
- 60% controlling interest in New Europe Capital Limited, a company incorporated in the United Kingdom, acquired on 20 January 2006.

The consolidated financial statements present the results of the Company and its subsidiaries (the "Group") as if they formed a single entity. Inter-company transactions and balances between Group companies are therefore eliminated in full.

Business combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated income statement from the date on which control is obtained.

Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any

2. Principal accounting policies *(Continued)*

direct costs of acquisition. Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the income statement. Where the fair value of identifiable assets, liabilities and contingent liabilities exceeds the fair value of consideration paid a negative goodwill is recognised and the excess is credited in full to the income statement.

Foreign currency translation

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the translation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement.

On consolidation, the results of overseas operations are translated into euros at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, arising on the acquisition of those operations, are translated at the rate ruling at the balance sheet date.

Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

Financial Assets

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

Investments at fair value through profit and loss

Investments consist principally of listed and unlisted securities and are initially recognised at cost and subsequently re-measured at fair value and translated into Euro at the exchange rate ruling at the balance sheet date.

Securities listed on a stock exchange or traded on any other regulated market are valued at the last available price on such exchange or market or, if no such price is available, at the bid price on such day. If there is no such price or such market price is not representative of the fair market value of any such security, then the security is valued in a manner determined by the Directors to reflect its fair value in accordance with the guidelines of the European Venture Capital Association from time to time in force.

2. Principal accounting policies *(Continued*

If a security is listed on several stock exchanges or markets, the last available price on the stock exchange or market which constitutes the main market for such security will be used.

Where securities are not listed on any stock exchange they are valued in such manner as the Directors in good faith deem appropriate to reflect their fair market value, in accordance with the guidelines of the European Venture Capital Association from time to time in force.

Realised and unrealised gains and losses arising from changes in the fair value of investments are recognised in the Income Statement as they arise.

All purchases and sales of investment securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised on the trade date, which is the date on which the company commits to purchase or sell the asset.

The cost of investments includes all fees and commissions directly related to their purchase. Transaction costs on settlement or payment of purchases and sales of investments are accounted for in the Income Statement and are part of the custody fees.

Loans and receivables
These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers but also incorporate other types of monetary assets. They are initially measured at fair value and subsequently at amortised cost.

Cash and cash equivalents
Cash and cash equivalents include cash in bank and short-term, highly liquid investments readily convertible to known amounts of cash and those which are in a currency different from the functional currency are included in the balance sheet at the functional currency using the exchange rate at the balance sheet date.

Financial liabilities
Financial liabilities are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form. The Group's accounting policy for each category is as follows:

2. Principal accounting policies *(Continued)*

Other financial liabilities

Trades and other payables are recognised at amortised cost.

Equity

Share capital is determined using the nominal value of shares that have been issued. Additional premiums received on the initial issuing of the shares are included in the share premium.

Any initial expenses of the Company as those necessary for issue of shares, and expenses entirely related to the Placing and Admission such as fees payable under the placing agreement, receiving agent's fees, registrar's fees, admission fees, and any other applicable expenses are offset against the share premium.

Taxation

Reconstruction Capital II Ltd is incorporated in the Cayman Islands and is not liable to corporation tax in accordance with Cayman Island tax laws.

Reconstruction Capital II (Cyprus) Ltd is incorporated in Cyprus and is not liable to corporation tax on investing activities in accordance with Cyprus tax laws.

The corporation tax charge relates to New Europe Capital Ltd and is based on the profit for the year and has taken into account taxation deferred. The tax charge is liable and payable in the United Kingdom in accordance with United Kingdom tax laws.

Current tax is measured at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs to its tax base, except for differences arising on:

- the initial recognition of goodwill;
- goodwill for which amortisation is not tax deductible;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit; and

2. Principal accounting policies *(Continued*

- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Dividends

Equity dividends are recognised when they become legally payable. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

Leased assets

New Europe Capital Ltd, a subsidiary, has entered into an operating lease in respect of its office premises. Operating lease rentals are charged to the income statement on a straight line basis over the term of the lease.

Property, plant and equipment

Items of property, plant and equipment are recognised at cost.

Provision for depreciation is made so as to write off the cost of fixed assets on a straight line basis over the expected lives of the assets concerned. The principal annual rates used for this purpose are:

Leasehold improvements	-	33% per annum on a straight line basis to the end of the lease term
Computer hardware and software	-	33% per annum straight line
Office equipment and furniture	-	33% per annum straight line

3. Critical accounting estimates and assumptions

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. No estimates and assumptions have been made concerning the carrying amounts of assets and liabilities as all of the investments held at fair value through the profit and loss account are listed on an active exchange.

Critical judgments

Functional currency

The Board of Directors considers the euro the currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The euro is the currency in which the Fund measures its performance and reports its results, as well as the currency in which it receives subscriptions for its investors. This determination also considers the competitive environment in which the Fund is compared to other European investment products.

4. Gain on investments at fair value through the profit and loss account

	31 Dec 2006 EUR
Unrealised gain on investments	6,036,097
Unrealised gain on foreign exchange	726,504
Other realised investment income	90,344
	6,852,945

5. Expenditures

All expenses are accounted for on an accruals basis.

Investment Manager and Investment Adviser's fees

New Europe Capital Limited, the Investment Manager, and New Europe Capital SRL, the Investment Adviser, each receive a management and advisory fee equivalent to 1.125% per annum of the average monthly net asset value of the company, which is accrued

and paid on a monthly basis. The Company reimburses the Investment Adviser and Investment Manager in respect of all of its costs and expenses (including reasonable travel expenses) incurred in connection with the performance of its duties.

The investment management and investment adviser fees included in the income statement are EUR 1,179,403 divided between the investment manager and adviser pro rata to the respective allocation between the Company's respective Trading and Private Equity investment programmes.

The investment manager and investment adviser is also entitled to a performance fee of 20% of any increase in the Net Asset Value in excess of the Base Net Asset Value (adjusted to reflect any dividends or share buy backs, but before the deduction of any accrued management fee and performance fee) which is payable annually in arrears (pro rata for partial periods).

The "Base Net Asset Value" is the greater of the Net Asset Value at the time of issue of the Shares and the highest Net Asset Value based on which a performance fee is paid in any prior calendar year ("Prior High Net Asset Value") plus an additional annually compounding hurdle rate of 8 per cent. The performance fee is divided between the investment manager and investment adviser pro rata to the respective allocation between the Company's respective Trading and Private Equity investment programmes.

The total performance fee included in the income statement is EUR 267,716.

Custodian's fees

The custodian, Société Généralé, receives a fee at the following percentage of the net asset value of the fund as at each valuation date:

- 0.22% per annum on the first US$50 million;
- 0.20% per annum on the next US$50 million; and
- 0.18% per annum on the remaining balance

The annual custodian fee is subject to a minimum fee of USD15,000 which is the equivalent of EUR 11,375 as at year end. The fee is accrued monthly and payable on a quarterly basis. The custodian fee included in the income statement is EUR 111,584.

Administrator's fees

The administrator, Euro-VL (Ireland) Limited, receives a fee at the following percentage of the net asset value of the fund as at each valuation date:

- 0.17% per annum on the first EUR25 million;

- 0.15% per annum on the next EUR25 million; and
- 0.09% per annum on the remaining balance

The annual administration fee is subject to a minimum fee of USD 50,000 which is the equivalent of EUR 37,917 as at year end. The fee is accrued monthly and payable on a quarterly basis. The administration fee included in the income statement is EUR 72,637.

Director's fees

Each Director is entitled to remuneration of EUR 25,000 by the Company in respect of any twelve month accounting period. In addition, the Directors are also entitled to be reimbursed for their reasonable out of pocket expenses incurred in discharging their duties as Directors.

6. Net profit for the period

This has been arrived at after charging:

	31 Dec 2006
	EUR
Depreciation	5,307
Rental of assets - operating leases	16,337
Auditors' remuneration - audit services	40,877
Directors' fees	123,150

7. Tax expense

	31 Dec 2006
	EUR
Corporation tax (UK)	67,844
Withholding tax	50,370
Tax on profit on ordinary activities	**118,214**

The reasons for the difference between the actual tax charge for the period and the standard rate of corporation tax in the Cayman Islands applied to the profit for the period are as follows:

Profit before taxation	6,646,805
Expected tax charge based on the standard rate of Corporation tax in the Cayman Islands of 0%	-
Effect of:	
Withholding tax	50,370
Foreign tax - UK Corporation tax	67,844
Tax on profit on ordinary activities	**118,214**

8. Property, plant and equipment

	Leasehold improvements **EUR**	Computer hardware and software **EUR**	Office equipment and furniture **EUR**	Total **EUR**
Cost				
Additions in the period	5,192	2,871	454	8,175
At 31 December 2006	**5,192**	**2,871**	**454**	**8,517**
Depreciation				
Provided for the year	4,039	814	454	5,307
At 31 December 2006	**4,039**	**814**	**454**	**5,307**
Net book value				
At 31 December 2006	**1,153**	**2,057**	**-**	**3,210**

9. Subsidiaries

The principal subsidiaries of Reconstruction Capital II Ltd, all of which have been included in these consolidated financial statements, are as follows:

Name	Country of incorporation	Proportion of ownership interest
Reconstruction Capital II (Cyprus) Ltd	Cyprus	100%
New Europe Capital Limited	Great Britain	60%

New Europe Capital Ltd has issued a particular class of equity capital that does not have voting rights. Consequently, the voting power held by Reconstruction Capital II Ltd is 60% but its economic interest is 7.5%.

The Company's proportion of voting rights in all other subsidiaries is the same as its ownership interest.

10. Financial assets

	31-Dec-06 EUR
Investments at fair value through profit and loss	
Listed equity securities	23,421,490
Listed debt securities	5,847,324
Total investments at fair value through profit or loss	**29,268,814**

Cost	23,232,717
Unrealised gain on investments	6,036,097
Fair value of the investments	**29,268,814**

The fair value of quoted equity securities have been determined by using the last available price on such exchange or market or, if no such price is available, at the bid price on such day.

11. Trade and other receivables

	Group 31 Dec 2006 EUR
Trade debtors	72,758
Other debtors	474,740
Due from subsidiary	-
	547,498

12. Cash and cash equivalents

	Group 31 Dec 2006 EUR
Cash on hand and demand deposits	41,404,822

13. Trade and other payables

	Group 31 Dec 2006 EUR
Trade payables	31,724
UK Corporation Tax	57,452
Other payables and accruals	576,614
	665,790

14. Exchange Rates

The financial statements are prepared in Euro. The following exchange rates at 31 December 2006 have been used to translate assets and liabilities denominated in other currencies into EUR:

Currency	**31 Dec 2006**
GBP	1.485
USD	0.758
RON	0.295

15. Net Asset Value

	31 Dec 2006 EUR
Net Assets (excluding minority interest)	70,037,170
Number of shares	65,039,425
Net Asset Value per share	1.0768

16. Commitments under operating leases

As at 31 December 2006, the Group had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 31 Dec 2006 EUR
Minimum lease payments due:	
Not later than one year	16,377
Later than one year and not later than five years	21,743
	38,120

17. Related-party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Mr Florescu is a Director of New Europe Capital Limited and New Europe Capital SRL, which are the Investment Manager and Investment Adviser of the Company. Total management and advisory fees for the year amounted to EUR 1,179,403.

The Investment Manager and Investment Adviser received a performance fee for 2006 of EUR 267,716 divided between both companies pro rata to the respective allocation between the Company's respective Trading and Private Equity investment programmes.

18. Risk management objectives and policies

The Company is exposed to a variety of financial risks which result from both its operating and investing activities. The Company's risk management is coordinated by its investment team who manages the assets to achieve the investment objectives. The most significant financial risks to which the Company is exposed are described below:

Business risk

The Company was incorporated on 17 October 2005 and has a short operating history. As such the Company is subject to all of the business risks and uncertainties associated with any new business enterprise.

Foreign currency risks

The Company holds assets denominated in Lei and Leva. Accordingly, a change in the value of the Lei and/or Leva relative to the Euro will result in corresponding change in the Euro value of the Company's assets denominated in Lei and/or Leva. There is a greater likelihood of currency devaluation, imposition of more severe foreign currency exchange controls, a lack of availability of or access to foreign currency and pronounced currency exchange rate fluctuations occurring in Romania and Bulgaria in relation to the Lei and Leva than in Western Europe in relation to major Western European currencies.

The Company is unlikely to hedge currency risks or the risk of fluctuations in the value of the assets of the Company due to the present lack of availability of suitable hedging instruments (such as warrants, futures and options). If suitable instruments become available over time, the Company reserves the right to employ a hedging strategy for such purposes.

Less liquid investments

The Bucharest Stock Exchange, RASDAQ and the Bulgarian Stock Exchange have considerably less trading volume than most Western European exchanges and the market capitalisations of listed companies are small compared to those listed on more developed exchanges in developed markets. The listed equity securities of many companies in Romania and Bulgaria are accordingly materially less liquid, subject to greater dealing spreads and costs and experience materially greater volatility than those of Western European countries. Government supervision and regulation of the Romanian and Bulgarian securities markets and of quoted companies is also less developed. Due to the relative illiquidity of the Bucharest Stock Exchange, RASDAQ and the Bulgarian Stock Exchange, anticipation of the investment of the Company's funds may adversely influence the price paid by the Company in purchasing securities for its portfolio and may affect the speed at which, the Company can initially invest those proceeds. This relative lack of liquidity may also make it difficult for the Company to effect an orderly disposal of an investment listed on the Bucharest Stock Exchange, RASDAQ or the Bulgarian Stock Exchange.

Credit risk

The group has no significant exposure to credit risk.

Interest rate risk

The majority of the Fund's financial assets and liabilities are non-interest bearing; as a result, the Fund is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents are invested at short-term market interest rates.

The Fund is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

19. Financial assets and liabilities – Numerical information

Interest rate risk

The table below summarises average effective interest rates for monetary financial instruments:

	Floating rate assets 2006 %	**Fixed rate assets 2006 %**
Cash and bank balances:		
Euro	3.64	
Romanian Lei		6.79
Other	3.64	

Floating rates approximate to LIBOR.

The table below summarises the Company's exposure to currency risks:

Concentration of assets and liabilities

	2006 EUR	**2006 RON**	**2006 Other**	**Total 2006 EUR**
Financial assets	-	25,701,367	3,567,447	29,268,814
Cash	26,031,301	15,232,071	141,450	41,404,822
Receivables	35,072	424,934	87,492	547,498
Payables	(484,078)	-	(181,712)	(665,790)
	25,582,295	**41,358,372**	**3,614,667**	**70,555,344**

20. Segment note

The group operates one business segment.

The group primarily invests in Romania and Bulgaria. These countries are considered to exhibit similar risks and returns and so are not analysed as separate geographical segments..

21. Share Capital

	Authorised	
	2006 Number	**2006 EUR**
Ordinary shares of EUR 0.01 each	100,000,000	1,000,000

	Issued and fully paid	
	2006 Number	**2006 EUR**
Ordinary shares of EUR 0.01 each		
At beginning of the period	-	-
Other issues for cash during the year	65,039,325	650,394
Share premium from issues		64,662,902
Less issuance cost	-	(1,382,694)
At end of the year	**65,039,325**	**63,930,602**

22. Reserves

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value.
Retained earnings	Cumulative net gains and losses recognised in the consolidated income statement.

23. Earnings per share

	31 Dec 2006 EUR
Numerator	
Profit for the period	6,106,568
Earnings used in EPS	6,106,568
Denominator	
Weighted average number of shares used in basic and diluted EPS	29,195,002
EPS	**0.2092**

24. Events after balance date

There have been no material events subsequent to the balance sheet date affecting the group.

25. Acquisition during the period

On 20 January 2006, Reconstruction Capital II Ltd acquired 60% of the voting shares in New Europe Capital Ltd, for a total cash consideration of EUR 6,679. As a result negative goodwill of EUR 1,422 has been credited to the income statement. The Company's principal activity is investment management.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

Fair value of assets acquired	**EUR**
Property, plant and equipment	6,172
Cash	156,025
Trade and other receivables	59,803
Trade and other payables	(113,981)
	108,019
Group share 7.5%	8,101
Consideration paid	
Cash	6,679
Negative Goodwill	**(1,422)**

As New Europe Capital Ltd is not a quoted company the fair value of the shares acquired were determined by reference to their net assets. The fair value of the assets, receivables and trade payables are the IFRS carrying amounts immediately prior to the acquisition.

Since the acquisition date, New Europe Capital Limited has contributed a loss of EUR 304,242 (after eliminating inter-company income) to the group. As the acquisition took place on 20 January 2006, there is no significant difference between the profit of the group and what the profit of the group would have been if the acquisition had occurred at the start of the accounting period..