RECONSTRUCTION CAPITAL II LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2007

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Domicile and country of incorporation of parent company
Cayman Islands

Company number
HL-156549

Legal form
Limited Liability Company

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Investment Manager and Investment Adviser Report

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

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

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

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

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

The Private Equity Programme

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

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

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

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

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

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

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

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

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

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

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

New Europe Capital Ltd New Europe Capital SRL

REPORT OF THE DIRECTORS FOR THE PERIOD ENDED 31 DECEMBER 2007

The directors present their report together with the audited financial statements for the year ended 31 December 2007.

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. During the year the Group acquired a controlling interest in Top Factoring SRL, a company incorporated in Romania whose principal activity is collection of receivables. In addition, a new subsidiary, RC2 Cyprus Imobiliara, was incorporated on 18 October 2007 in Romania. The principal activity of this company is real estate investment. A summary of the Group's business review for the period ended 31 December 2007 is contained within the Investment Manager and Investment Advisor report.

Accounting Policies
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed for use in the European Union.

Share Capital and Reserves
Details of the Group's authorised and issued share capital as at 31 December 2007 are contained in Note 22 of the financial statements.

Results and dividends
The directors of Reconstruction Capital II Ltd are pleased to announce their results for 2007. The year closed with revenues of EUR 30,667,692 (2006: EUR 8,607,241) and a net profit after taxation of EUR 23,376,556 (2006: 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 2007 of EUR 365,356 (2006 – EUR 22,278), of which EUR 337,777 was payable to the minority interest.

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-Dec-07 Number	**% of issued share capital**
Markus Winkler	400,000	0.35%
Ion Florescu	400,100	0.36%
Franklin P Johnson	800,000	0.71%
Dirk Van den Broeck	1,490,200	1.32%
Howard I. Golden	100,000	0.09%

Board
The Board of Directors comprises five Directors, all of whom are Independent Non – Executive Directors, except for Ion Florescu who is on the Board of the Investment Manager and the Investment Advisers. 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.

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 and the Investment Advisers 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 Advisers 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 all five of the Directors are Non-Executives and four are independent, 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 of 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 Advisers. 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 6 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 Advisers which are distributed by e-mail and copies are also available from the Investment Manager's office upon request. In addition the Company has a website where the shareholders are able to access 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 annual reports and financial statements.

The Directors have prepared the financial statements in accordance with IFRS, as endorsed in the European Union, and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

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 representation 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;
- State that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and

Directors' responsibilities *(Continued)*

Financial statements are published on the Group’s website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group’s website is the responsibility of the directors. The directors responsibilities also extends to the ongoing integrity of the financial statements

Auditors

A resolution to reappoint BDO Stoy Hayward LLP will be proposed at the Annual General Meeting.

On behalf of the Board

Ion Florescu
Director

Date: 25 June 2008

INDEPENDENT AUDITOR'S REPORT

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 2007 (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), as adopted by the European Union, 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 11 March 2008 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.

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.

Report of the independent auditors *(Continued)*

Opinion

In our opinion the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended.

BDO STOY HAYWARD LLP

Chartered Accountants and Registered Auditors

London

Date: 25 June 2008

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2007

	Notes	31-Dec-07 EUR	31-Dec-06 EUR
Investment income			
Gain on investments at fair value through the profit and loss account	4	23,983,989	6,852,945
Interest income		1,842,780	1,378,959
Dividend income		331,187	95,175
Other income		869,957	280,162
Total investment income		**27,027,913**	**8,607,241**
Revaluation surplus		3,639,779	-
Expenses			
Operating expenses	5	6,174,519	1,960,436
Total operating expenses		**6,174,519**	**1,960,436**
Profit before taxation		**24,493,173**	**6,646,805**
Income tax expense	7	1,116,617	118,214
Net profit for the period		**23,376,556**	**6,528,591**
Attributable to:			
- Equity holders of the parent		21,458,657	6,106,568
- Minority interest		1,917,899	422,023
		23,376,556	**6,528,591**
Basic and diluted earnings per share	23	0.3363	0.2092

The notes on pages 17 to 41 form an integral part of these financial statements

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2007

		31-Dec-07	31-Dec-06
Assets	**Notes**	**EUR**	**EUR**
Non-current assets			
Property, plant and equipment	9	59,269	3,210
Investment property	9	7,279,779	-
Financial assets at fair value through the profit and loss account	11	3,100,000	-
Goodwill	8 25	1,257,153	-
Total non-current assets		**11,696,201**	**3,210**
Current assets			
Financial assets at fair value through the profit and loss account	11	69,060,217	29,268,814
Trade and other receivables	12	1,261,298	547,498
Cash and cash equivalents	13	89,328,540	41,404,822
Total current assets		**159,650,055**	**71,221,134**
Total assets		**171,346,256**	**71,224,344**
Liabilities			
Current liabilities			
Trade and other payables	14	6,455,209	665,790
Total current liabilities		**6,455,209**	**665,790**
Total Net Assets		**164,891,047**	**70,558,554**
Capital and reserves attributable to equity holders			
Share capital	22	1,126,811	650,394
Share premium reserve	22	134,263,071	63,280,208
Retained earnings	21	27,565,225	6,106,568
Foreign exchange reserve		(145,955)	-
Total equity and reserves		**162,809,152**	**70,037,170**
Minority Interest		2,081,895	521,384
Total equity		**164,891,047**	**70,558,554**

The financial statements were approved by the Board of Directors and authorised for issue on 25 June 2008

Ion Florescu
Director

The notes on pages 17 to 41 form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS OF 31 DECEMBER 2007

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

The share premium is stated net of share issue costs

CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2007

	Note	31-Dec-07 EUR	31-Dec-06 EUR
Cash flows from operating activities			
Net Profit before tax		24,493,174	6,646,805
Adjustments for:			
Depreciation		8,141	5,307
Gain on financial assets at fair value through profit or loss		(23,983,989)	(6,036,097)
Revaluation surplus		(3,639,779)	
Gain on foreign exchange		(707,073)	(726,504)
Interest income		(1,865,763)	(1,378,959)
Dividend income		(331,187)	(95,175)
Net cash outflow before changes in working capital		**(6,026,476)**	**(1,584,623)**
Decrease / (increase) in trade and other receivables		788,515	(487,695)
Increase in trade and other payables		4,642,995	494,340
Interest received		2,067,107	1,378,959
Dividend received		373,681	95,175
Payments for purchase of financial assets		(42,343,817)	(23,234,679)
Proceeds from sale of financial assets		23,503,476	-
Net cash used in operating activities		**(16,994,519)**	**(23,338,523)**
Income tax paid		(205,176)	(60,762)
Cash flows from investing activities			
Purchase of property, plant and equipment		(37,632)	(2,345)
Purchase of financial assets		(3,000,000)	-
Acquisition of subsidiary (net of cash acquired)	25	(2,960,458)	149,346
		(23,197,785)	**(23,252,284)**
Cash flows from financing activities			
Dividends paid to minorities		(337,777)	
Proceeds from shares issued		71,459,280	63,930,602
Gain on foreign exchange		**-**	**726,504**
Increase in cash and cash equivalents		**47,923,718**	**41,404,822**
Cash at 1 January 2007		**41,404,822**	**-**
Cash at 31 December 2007	13	**89,328,540**	**41,404,822**

NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2007

1. Establishment

Reconstruction Capital II Limited was incorporated on 17 October 2005 in the Cayman Islands as an exempted 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 for the year from 1 January 2007 to 31 December 2007.

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, Bulgaria and Serbia. However, the Company reserves the right to make investments into neighbouring countries, notably Ukraine, 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, Serbia and neighbouring countries.

2. Principal accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union (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.

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.

New Standards adopted

The group has applied IFRS 7, Financial Instruments: disclosures and a complementary amendment to IAS 1, Presentation of Financial Statements – capital disclosures (effective for accounting periods beginning on or after 1 January 2007).

IFRS 7 introduces new requirements aimed at improving the disclosure of information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures

2. Principal accounting policies *(Continued)*

about credit risk, liquidity risk and market risk. Where those risks are deemed to be material to the group it requires disclosures based on the information used by key management. It replaces the disclosure requirements in IAS 32 ‘Financial Instruments: disclosure and presentation’. It is applicable to all entities that report under IFRS.

The amendment to IAS 1 introduces disclosures about the level and management of an entity's capital.

Future accounting developments

Certain new standards, amendments to 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 8: Operating Segments	Periods commencing on or after 1 January 2009	Additional disclosures only
IAS23 (Amendment): Borrowing Costs	Periods commencing on or after 1 January 2009	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
IFRS 3 (amended) * : Business Combinations	Periods commencing on or after 1 July 2009	Unlikely to have a material effect
IAS 1 (amendment) * Presentation of Financial Statements	Periods commencing on or after 1 January 2009	Additional disclosures only
IFRS 2 (amendment) * Share Based Payment	Periods commencing on or after 1 January 2009	Unlikely to have a material effect
IAS 32 and IAS 1 (amended) *	Periods commencing on or after 1 January 2009	None
IFRS 1 and IAS 27 (amended) Cost of Investment in a Subsidiary, Jointly controlled Entity or Associate	Periods commencing on or after 1 January 2009	Unlikely to have a material effect
IFRIC 13: Customer Loyalty Programmes *	Periods commencing on or after 1 July 2008	None
IFRIC 14: The Limit of a Defined Benefit Asset *	Periods commencing on or after 1 January 2008	None

(*) – not currently endorsed for use in the European Union.

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.

Top Factoring SRL, a company incorporated in Romania whose principal activity is the collection of receivables recognises commissions when earned or penalties when they become due.

The main trade of RC2 Cyprus Imobiliara relates to land and property investment, letting properties or land out or generate a return through capital appreciation.

Basis of consolidation

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

- 100% controlling interest in Reconstruction Capital II (Cyprus) Ltd, a company incorporated in Cyprus
- 60% controlling interest in New Europe Capital Limited, a company incorporated in the United Kingdom.
- 92.3077% controlling interest in Top Factoring S.R.L, a company incorporated in Romania
- 99.999% controlling interest in Reconstruction Capital II (Imobiliara) Ltd, a company incorporated in Romania

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.

Investments in associates

An associate is an entity over which the Group has significant influence and is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investments in associates that are held as part of the Group's investment portfolio are carried at fair value even though the Group may have significant influence over those companies. Realised and unrealised gains and losses arising from changes in the fair value of these investments are recognised in the income statement in the period in which they arise. This treatment is permitted by IAS 28 Investment in Associates which allows investments held by venture capital organisations and similar institutions to be excluded from the scope of IAS 28 Investment in Associates provided that those investments upon initial recognition are designated as fair value through profit or loss and accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement, with changes in fair value recognised in profit or loss in the period of change.

2. Principal accounting policies *(Continued)*

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 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 exceed 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. On disposal of a foreign operation the cumulative exchange differences recognised in the foreign exchange reserve relating to the operation up to the date of disposal are transferred to the consolidated income statement as part of the profit or loss on disposal.

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

The investments designated at fair value through profit or loss are designated as such as the portfolio is managed and performance evaluated on a fair value basis in accordance with the Group’s investment strategy.

2. Principal accounting policies *(Continued)*

Investments at fair value through profit or loss *(Continued)*

Securities listed on a stock exchange or traded on any other regulated market are valued at the bid price on such exchange or market or, if no such price is available, the last traded 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 will be 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.

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 the securities are not listed on any stock exchange they shall be 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 investments securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised on 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.

Furthermore, as noted above the Group has opted to take advantage of the provisions within IAS 28 "Investments in Associates" not to equity account for its investments but rather to designate such investments as fair value through the profit or loss account under IAS39 "Financial Instruments – Recognition and measurement". This provision is open to venture capital or similar companies.

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. Trade receivables are reported net of impairment provisions, such provisions are recorded in a separate allowance account with the loss being recognised within operating expenses in the income statement. On confirmation that the trade receivable will not be collectable the gross carrying value of the asset is written off against the associated provision.

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 which are in 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.

2. Principal accounting policies *(Continued)*

Financial liabilities and equity

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:

Other financial liabilities

Trades and other payables are initially recognised at fair value and subsequently 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 subject to taxes on income or gains under Section 6 of the Cayman Islands Tax Concessions Law (Revised).

Reconstruction Capital II (Cyprus) Ltd is incorporated in the Cyprus and is not liable to corporation tax 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 from 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
- 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 utilized.

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.

2. Principal accounting policies *(Continued)*

Taxation *(Continued)*

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 non-current assets on a straight line basis over the expected lives of the assets concerned. All companies in the Group have consistent accounting policies.

The depreciation rates used by the Group 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
Motor vehicles	-	20% per annum straight line
Office equipment and furniture	-	33% per annum straight line

Investment Property
Investment property is held as a non-current asset and is faired valued annually with any change in the fair value going through the income statement.

The investment property is not depreciated.

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.

Goodwill

The Group tests annually whether goodwill has suffered any impairment by assessing the recoverable amount of cash generating units using budgets to perform discounted cash flow analysis.

If the estimated pre-tax discount rate had been 1% higher than the management's estimate, the group would have recognized no impairment charge.

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

	31-Dec-07	**31-Dec-06**
	EUR	**EUR**
Unrealised gain on investments	10,690,520	6,036,097
Gain on foreign exchange	707,003	726,504
Other realised investment income	12,586,466	90,344
	23,983,989	**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, a subsidiary company which is the Investment Manager, and New Europe Capital SRL, the Investment Adviser, each received 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 out-of-pocket 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 2,191,223 (2006 – EUR 1,179,403) divided equally between the investment manager and adviser.

5. Expenditures *(continued)*

The investment manager and investment adviser was 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 was divided equally 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 4,383,783 (2006 – EUR 267,716)

Custodian's fees
The custodian, Société Généralé, received a fee at the following percentage of 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 10,190 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 167,575 (2006 – EUR 111,584)

Administrator's fees
The administrator, Euro-VL (Ireland) Limited, receives a fee at the following percentage of net asset value of the sub-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 equivalent to EUR 33,965 as at year end. The fee is accrued monthly and payable on a monthly basis.

The administration fee included in the income statement is EUR 111,364 (2006 – EUR 72,637)

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

6. Net profit for the year

This has been arrived at after charging:

	31-Dec-07 EUR	31-Dec-06 EUR
Depreciation	1,772	5,307
Rental of assets-operating leases	15,000	16,337
Auditors' remuneration - audit services	111,190	40,877
Directors' fees	125,000	123,150

One of the directors received remuneration from New Europe Capital Limited of EUR 140,587

7. Tax expense

	31-Dec-07 EUR	31-Dec-06 EUR
Corporation tax	1,047,088	67,844
Withholding tax	69,529	50,370
Tax on profit on ordinary activities	**1,116,617**	**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:

	31-Dec-07 EUR	31-Dec-06 EUR
Profit before taxation	24,493,174	6,646,805
Expected tax charge based on the standard rate of corporation tax in the Cayman Islands of 0%	-	-
Effect of:		
Withholding tax	69,529	50,370
Foreign tax - UK Corporation tax	936,791	67,844
Foreign tax - Cyprus Corporation tax	110,297	-
Tax on profit on ordinary activities	**1,116,617**	**118,214**

8. Goodwill

	Goodwill EUR
Cost	
At 1 January 2007	-
Additions in 2007	1,257,153
At 31 December 2007	**1,257,153**
Amortisation / impairment	-
Net book value at 31 December 2007	**1,257,153**

A discounted cash flow based on future forecasts has confirmed that the recoverable amount is in excess of the carrying amount of goodwill, therefore it has been deemed that no impairment is necessary. The forecasts used were over 4 years and the discount rate used was 8%.

9. Property, plant and equipment

	Leasehold Improvements EUR	Computer Hardware & Software EUR	Motor vehicles EUR	Office equipment and furniture EUR	Total EUR
Cost					
At 1 January 2007	5,192	2,871	-	454	8,517
Additions in 2007	-	14,597	22,131	904	37,632
Acquired on purchase of subsidiary	-	-	-	26,568	26,568
At 31 December 2007	**5,192**	**17,468**	**22,131**	**27,926**	**72,717**
Depreciation					
At 1 January 2007	4,039	814	-	454	5,307
Provided for 2007	1,153	888	2,341	3,759	8,141
At 31 December 2007	**5,192**	**1,702**	**2,341**	**4,213**	**13,448**
Net book value					
At 31 December 2007	**-**	**15,766**	**19,790**	**23,713**	**59,269**

9. Property, plant and equipment *(continued)*

	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**

Investment Property	
	EUR
At 1-Jan-2007	-
Additions	3,640,000
Disposals	-
Revaluation	3,639,779
At 31-Dec-2007	**7,279,779**

The investment property was revalued at 6 December 2007 by EFG Eurobank Property Services as external valuers, on the basis of market value. The market value was derived with reference to available market evidence.

EFG Eurobank Property Services have considerable experience in valuing similar properties.

10. Subsidiaries

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

	Country of incorporation	Proportion of ownership interest
Reconstruction Capital II (Cyprus) Ltd	Cyprus	100%
Reconstruction Capital II (Cyprus) Imobiliara Ltd	Romania	99%
New Europe Capital Limited	Great Britain	60%
Top Factoring S.R.L.	Romania	92%

10. Subsidiaries *(continued)*

New Europe Capital Ltd has issued a particular class of share 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.

11. Financial assets

Non-current	**31-Dec-07**	**31-Dec-06**
	EUR	**EUR**
Unlisted equity securities	3,100,000	-
Total financial assets at fair value through profit or loss	**3,100,000**	**-**
Cost	3,000,000	-
Unrealised gain on investments	100,000	-
Fair value of the investments	**3,100,000**	**-**

On 19 June 2007 Reconstruction Capital II acquired 33.33% of the Romar Group ("Romar"). Romar is one of the largest providers of private health care services in Romania and is the market leader in the provision of occupational health services. It includes the following five operating entities: Centrul Medical Romar (operating twelve clinics and two laboratories in Bucharest), Romar Diagnostic Center (operating two clinics), Medimar Diagnostic (operating a clinic in Iasi and a laboratory), Romar Clinic (operating a clinic and laboratory in Constanta) and SGL Management & Consulting (which owns and rents out medical equipment to Medimar Diagnostic and Romar Clinic). The investment has been included in the financial statements at fair value as above.

Current	**31-Dec-07**	**31-Dec-06**
	EUR	**EUR**
Listed equity securities	63,573,298	23,421,490
Listed debt securities	5,486,919	5,847,324
Total financial assets at fair value through profit or loss	**69,060,217**	**29,268,814**
Cost	51,402,337	23,232,717
Unrealised gain on investments	17,657,880	6,036,097
Fair value of the investments	**69,060,217**	**29,268,814**

The fair value of quoted equity securities have been determined by using the closing bid price on the relevant exchange or market

All financial assets at fair value through the profit or loss were designated as such upon initial recognition.

12. Trade and other receivables

	31-Dec-07	31-Dec-06
	EUR	EUR
Trade receivables	680,337	72,758
Other receivables	580,961	474,740
	1,261,298	**547,498**

All trade receivables are classed as loans and receivables under IAS 39. The book value equates to the fair value.

13. Cash and cash equivalents

	31-Dec-07	31-Dec-06
	EUR	EUR
Cash on hand and demand deposits	**89,328,540**	**41,404,822**

14. Trade and other payables

	31-Dec-07	31-Dec-06
	EUR	EUR
Trade payables	1,950,380	31,724
UK Corporation tax	858,596	57,452
Cyprus Corporation tax	110,297	-
Other payables and accruals	3,535,936	576,614
	6,455,209	**665,790**

All trade payables are classed as financial liabilities measured at amortised cost under IAS 39. The book value equates to the fair value.

15. Exchange Rates

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

Currency	31-Dec-07	31-Dec-06
GBP	1.363605373	1.48423006
USD	0.679301678	0.75835134
RON	0.279704632	0.29580985
BGN	0.511273582	0.51180713

16. Net Asset Value

	31-Dec-07 EUR	31-Dec-06 EUR
Net assets (excluding minority interest)	162,809,152	70,037,170
Number of shares	112,681,054	65,039,425
Net Asset Value per share	**1.4449**	**1.0768**

17. Commitments under operating leases

As at 31 December 2007, the Group had annual commitments for land and buildings under non-cancellable operating leases as set out below:

	31-Dec-07 EUR	31-Dec-06 EUR
Minimum lease payments due:		
Not later than one year	14,967	16,377
Later than one year and not later than five years	4,989	21,743
	19,956	**38,120**

18. 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 were the Investment Manager and Investment Adviser to the Company. Total management and advisory fees for the year amounted to EUR 2,191,223. Total fees outstanding as at 31 December 2007 were EUR 488,658.

The Investment Manager and Investment Adviser received a performance fee for 2007 for the total amount of EUR 4,383,783 divided between both companies pro rata to the respective allocation between the Company's respective Trading and Private Equity investment programmes. The crystallisation date for this fee is 31 December each year and as such this amount was outstanding at this date.

19. Risk management objectives and policies

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group'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 Group is exposed are set out below.

19. Risk management objectives and policies *(continued)*

Business risk

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

Credit risk

The Group is exposed to credit risk as a result of holding cash balances, debt investments and trade receivables. The maximum exposure to credit risk on 31 December is:

	2007 EUR	2006 EUR
Financial assets at fair value through the profit or loss	5,486,919	5,847,324
Trade receivables	1,261,298	547,498
Cash and cash equivalents	89,328,540	41,404,822
	96,076,757	**47,799,644**

Trade receivables and cash are both classified as loans and receivables so the total credit risk exposure to loans and receivables is EUR 90,589,838 (2006 EUR 41,952,320).

There are no amounts past due or impaired. The Group's cash is held with regional and foreign banks and is diversified appropriately. The majority of trade receivables relate to Top Factoring. The Group purchased a portfolio of receivables at 21 December 2006 and a second portfolio at 20 December 2007. The financial assets through the profit or loss are debt securities listed on the Romanian and Bulgarian stock exchanges. Since the Group operates in the same region there is a concentration of geographic risk.

The portfolio by rating category, including the rating of the banks where the Group held cash and cash equivalents, are shown below.

	Rating (31-Dec-2007)	Rating Agency	2007 EUR	2006 EUR
Cash and cash equivalents	A/Stable/A-1	Standard & Poor's	37,058,317	20,890,121
	AA-	Standard & Poor's	52,270,223	20,514,701
Trade and other receivables	-	-	1,261,298	547,498
Listed debt securities	BBB-	Standard & Poor's	1,422,811	1,505,808
	AAA	Moody's	4,064,108	4,341,516
			96,076,757	**47,799,644**

In accordance with the Group's policy the Investment Manager monitors credit risk on a daily basis, and Management reviews it on a quarterly basis.

19. Risk management objectives and policies *(continued)*

Market risk
The Group may invest in securities of smaller issuers which are believed by the investment team to have growth potential. Investment in such securities may present greater opportunities for growth but also involves greater risk than is customarily associated with the securities of more established issuers. Such issuers may have limited product lines, markets or financial recourses and therefore being subject to erratic market movements than securities of larger companies and may be dependent for their management on one or two key individuals.

The market for buying and selling private company securities in Romania, Bulgaria and neighboring countries is substantially less developed and the formalities for transferring shares are lengthy. Investments in unlisted securities are more speculative and involve a higher degree of risk and lower level of liquidity.

Foreign currency risks
The Group holds assets denominated in RON and BGN. Accordingly, a change in the value of the RON and/or BGN relative to the Euro will result in corresponding change in the Euro value of the Group's assets denominated in RON and/or BGN. 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 RON and BGN than in Western Europe in relation to major Western European currencies.

The Group is unlikely to hedge currency risks or the risk of fluctuations in the value of the assets of the Group 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 Group reserves the right to employ a hedging strategy for such purposes. The Investment Adviser closely monitors the currency fluctuations to minimize the exposure to currency risks. The table below summarises the Group's exposure to currency risks:

All amounts stated in euro	**Monetary Assets**	**Monetary liabilities**	**Net exposure**
December 31, 2007			
GBP	565,967	(947,757)	(381,790)
USD	222	-	222
RON	62,018,704	(86,532)	61,932,172
BGN	8,491,785	-	8,491,785
	71,076,678	**(1,034,289)**	**70,042,389**
December 31, 2006			
GBP	13,473	(51,546)	(38,073)
USD	140,563	-	140,563
RON	41,344,107	(5,761)	41,338,346
BGN	3,567,447	-	3,567,447
	45,065,590	**(57,307)**	**45,008,283**

At 31 December, had the exchange rates between the Euro and all other currencies increased by 5%, with all other variables held constant, the increase in net assets attributable to holders of ordinary shares would be as follows:

19. Risk management objectives and policies *(continued)*

Foreign currency risks *(continued)*

31-Dec-07	**EUR**	**31-Dec-06**	**EUR**
GBP	(19,089)	GBP	(1,904)
USD	11	USD	7,028
RON	3,096,609	RON	2,066,917
BGN	424,589	BGN	178,372
	3,502,120		**2,250,413**

A 5% decrease in the exchange rates would have had an equal but opposite effect on the net assets attributable to holders of ordinary shares.

Liquidity risk

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 Group in purchasing securities for its portfolio and may affect the speed at which, the Group can initially invest those proceeds. This relative lack of liquidity may also make it difficult for the Group to effect an orderly disposal of an investment listed on the Bucharest Stock Exchange, RASDAQ or the Bulgarian Stock Exchange. The liquidity risk is managed by both the Board and the Investment Adviser.

The table below sets out the Group's contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

At 31 December 2007	**Less than 1 month EUR**	**Less than 1 year EUR**	**No stated maturity EUR**
Accrued expenses	5,486,319	-	
	5,486,319	**-**	**-**

19. Risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

At 31 December 2006	Less than 1 month EUR	Less than 1 year EUR	No stated maturity EUR
Accrued expenses	608,336	-	-
	608,336	**-**	**-**

Interest rate risk

The majority of the Group's financial assets and liabilities are non-interest bearing; as a result, the Group 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 current deposit positions are closely monitored. The Investment Manager takes a prudent approach when selecting deposits and banks and not exposing the Group at risk by holding cash with banks who have aggressive investment policies.

The Group 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. The table below summarises the Group's exposure to interest rate risks. It includes the Group's assets and liabilities at fair values.

19. Risk management objectives and policies *(Continued)*

Interest rate risk *(continued)*

2007	**Interest Bearing Fixed**	**Floating**	**Non-interest bearing**
Financial assets at fair value through profit or loss	5,486,919	-	63,573,298
Receivables and prepayments			1,261,298
Cash at bank	52,210,174	37,118,365	-
Total assets	**57,697,093**	**37,118,365**	**64,834,596**

	Interest Bearing Fixed	**Floating**	**Non-interest bearing**
Accrued expenses	-	-	6,455,209
Total liabilities	**-**	**-**	**6,455,209**
Total Interest rate sensitivity gap	**57,697,093**	**37,118,365**	**58,379,387**

2006	**Interest Bearing Fixed**	**Floating**	**Non-interest bearing**
Financial assets at fair value through profit or loss	5,847,324	-	23,421,490
Receivables and prepayments	-	-	547,498
Cash at bank	41,404,822		-
Total assets	**47,252,146**	**-**	**23,968,988**

	Interest Bearing Fixed	**Floating**	**Non-interest bearing**
Accrued expenses	-	-	665,790
Total liabilities	**-**	**-**	**665,790**
Total Interest rate sensitivity gap	**47,252,146**	**-**	**23,303,198**

19. Risk management objectives and policies *(Continued)*

Interest rate risk *(continued)*

At 31 December, should interest rates have lowered by 25 basis points with all other variables remaining constant, the decrease in net assets attributable to holders of ordinary shares would amount to approximately €237,038 (2006: €118,306). An increase in interest rates would have an equal and opposite effect on the net assets attributable to holders of ordinary shares.

Price risk

The Group trades in financial instruments, taking positions in traded and over-the-counter instruments. All securities investments represent a risk of loss of capital. The Investment Adviser moderates this risk through a careful selection of securities. The Group's equity and debt securities are susceptible to market price risk arising from uncertainties about future prices of the instruments. At 31 December , the overall market exposures were as follows:

	31-Dec-07		31-Dec-06	
Investment assets	**EUR**	**Percentage of Net Assets**	**EUR**	**Percentage of Net Assets**
Listed equity investments	63,573,298	39%	23,421,490	33%
Listed debt investments	5,486,919	3%	5,847,324	8%
Total investment assets	**69,060,217**	**42%**	**29,268,814**	**41%**

As at 31 December, if the BET (Bucharest Exchange Trading index) rose or fell by 5% and the listed equity and debt investments reacted in the same way, the increase or decrease respectively in net assets attributable to holders of ordinary shares would be 2.12% or €3,453,011 (2006: €1,463,440)

Capital Management and procedures

The current Group policy is to fund investments through equity. No future change in this policy is envisaged. In the medium term the intention is that capital will be managed so as to maximize the return to shareholders while maintaining a capital base to allow the Group to operate effectively in the marketplace and sustain future development of the business. The policy is for realisations from the investment portfolio to lead to the return of capital to shareholders.

The Group's capital is summarised by the consolidated changes of statement in equity.

The Group's policy is not to invest in a single investee company that is greater than 25% of the net asset value at the time of affecting the investments.

20. Segment note

Whilst the Group operates three business segments, there is only one reportable 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. 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
Foreign exchange reserve	Gains / losses arising on retranslating the net assets of overseas operations into Euros

22. Share Capital

	Authorised		Authorised	
	2007	**2007**	**2006**	**2006**
	Number	**EUR**	**Number**	**EUR**
Ordinary shares of EUR 0.01 each	300,000,000	3,000,000	100,000,000	1,000,000

	Issued and fully paid		Issued and fully paid	
	2007	**2007**	**2006**	**2006**
	Number	**EUR**	**Number**	**EUR**
Ordinary shares of EUR 0.01 each				
At beginning of period	65,039,325	63,930,602	-	-
Other issues for cash during the year	47,641,729	476,417	65,039,325	650,394
Share premium from issues		72,891,692		64,662,902
Less issuance cost		(1,908,829)		(1,382,694)
	112,681,054	**135,389,882**	**65,039,325**	**63,930,602**

23. Earnings per share

	31-Dec-07	**31-Dec-06**
	EUR	**EUR**
Numerator		
Profit for the period	21,458,657	6,106,568
Earnings used in EPS	**21,458,657**	**6,106,568**
Denominator		
Weighted average number of shares used in basic and diluted EPS	63,800,044	29,195,002
EPS	**0.3363**	**0.2092**

24. Events after balance sheet date

In March 2008 the Group acquired a 63% shareholding in Antares Hotel SRL for a total consideration of EUR 8,000,000. Antares Hotels SRL is the owner and operator of the 305-room Fantasy Beach Hotel located in Mamaia, Romanian's premium holiday resort on the Black Sea.

The provisional fair values at acquisition were as follows:

Provisional fair values at acquisition	**EUR**
Property, plant and equipment	7,101,709
Inventories	362,346
Trade and other receivables	29,088
Cash and cash equivalents	377,545
Trade and other payables	(749,435)
	7,121,253
Group share 63%	4,486,390
Consideration paid	
Cash	8,000,000
Goodwill	**3,513,610**

The Group has signed a put and call option agreement which, if exercised, will increase its stake in Policolor S.A. by 25.1%. Policolor S.A. is a leading producer of coatings in Romania and Bulgaria and the Group already owns a 9.2% shareholding.

25. Acquisition during the period

On 24 May 2007, Reconstruction Capital II (Cyprus) Ltd acquired 92.31% of the voting shares in Top Factoring SRL, for a total cash consideration of EUR 3,000,273. As a result, goodwill of EUR 1,257,153 has arisen. The Company's principal activity is receivables collection.

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

Fair values	**EUR**
Property, plant and equipment	26,568
Trade and other receivables	1,901,546
Cash and cash equivalents	39,815
Trade and other payables	(79,596)
	1,888,333
Group share 92.31%	1,743,120
Consideration paid	
Cash	3,000,273
Goodwill	**1,257,153**

25. Acquisition during the period *(Continued)*

There were no other intangible assets other than goodwill which arose on acquisition.

The loss Top Factoring SRL incurred in the post-acquisition period is EUR 348,111.

If the acquisition of Top Factoring SRL had taken place on 1 January 2007 group revenue would be EUR 27,160,425 and group profit before tax would be EUR 24,729,577.