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**Company**      [Reconstruction Capital II Ltd](#)  
**TIDM**            RC2  
**Headline**        Interim Results  
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Reconstruction Capital II Ltd

31 August 2006

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RECONSTRUCTION CAPITAL II LIMITED

INTERIM UNAUDITED FINANCIAL STATEMENTS

For the period 19 December 2005 to 30 June 2006

Investment Manager and Adviser Report

Reconstruction Capital II Limited ("RC2" or the "Fund") 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. On 23rd December 2005, RC2's shares were admitted to trading on the London Stock Exchange's AIM market (AIM) and on 15th May 2006 a further net amount of EUR 40.2 million was raised from investors. The period under review was the first for which interim accounts are being prepared. The Fund's NAV was relatively stable during the period.

The Fund operates two investment programmes, a Private Equity Programme and a Trading Programme. It is intended that the volume of investments be balanced equally between the two programmes during the Fund's first year of operations.

Under the Trading Programme, the Investment Manager has invested approximately EUR 12.2m, representing over half the funds raised in December 2005 and just under 20% of all funds raised to date. The majority of investments under the Trading Programme were made in the second half of June 2006, when the Investment Manager took advantage of price falls on the local markets, having taken a very cautious approach earlier on. In retrospect, this has proved a wise approach.

Under the Private Equity Programme, the Investment Adviser has analysed a large number of investment opportunities, and made several indicative offers to prospective vendors during the period. Of these, one has been accepted, subject to contract, two are still being discussed with the prospective vendors, and the

others have lapsed. The Investment Adviser is currently analysing a number of other potential investments.

Although in its early stages, the most encouraging aspect of the Private Equity Programme is the number of companies the Investment Adviser has identified with capital requirements of under EUR 15m which are not actively searching for financing. This has given the Investment Adviser the opportunity to focus on these deals, and to assign a lower level of priority to more competitive auction-type situations. The Investment Adviser is targeting to close at least three private equity deals before the end of the year.

The Romanian and Bulgarian economies have continued to grow healthily over the period under review, with strong improvements in overall GDP, industrial output and inflation. In Romania, inflation was 2.7% over the first six-months of 2006, compared to 4.1% during the same period last year. In June 2006 the country experienced year-on-year GDP growth of 7% and year-on-year growth in industrial output of 6.7%. In Bulgaria, at the end of the first quarter, GDP was 5.6% higher than a year before, while industrial output had undergone 6.7% year-on-year growth by May 2006. Inflation was 2.9% over the first semester of 2006 compared to 1.2% during the same period in 2005.

The Investment Manager and Investment Adviser are confident that with the two main economies in which the Fund invests continuing to show such strong growth rates and proving to be relatively immune to the shocks affecting other emerging markets, and with the date for EU accession rapidly approaching, the investment climate remains very favourable for both RC2's Trading and its Private Equity Programmes.

New Europe Capital Ltd

New Europe Capital SRL

Independent review report to Reconstruction Capital II Limited

## Introduction

We have been instructed by the company to review the financial information for the period ended 30 June 2006 on pages 5 to 12. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Our report has been prepared in accordance with the terms of our engagement to assist the company in meeting the requirements of the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market 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 terms of engagement or has been expressly authorised 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.

#### Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the company's annual accounts having regard to the accounting standards applicable to such annual accounts.

#### Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom by auditors of fully listed companies. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

#### Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

BDO STOY HAYWARD LLP  
Chartered Accountants  
London  
August 2006

#### INCOME STATEMENT

For the period to 30 June 2006

	Notes	2006 EUR
Investment loss	4	(296,017)
Operating expenses	5	(713,925)
		-----

Loss for the period before and after taxation		(1,009,942)
Attributable to equity shareholders of the company		(1,009,942)
Loss per share (cents) - basic and diluted	6	(0.0321) =====

As this is the first period of accounts for the company there are no comparative figures.

BALANCE SHEET  
30 June 2006

	Notes	2006 EUR
Current assets		
- Trade and other receivables	7	113,802
- Investments in transferable securities	8	11,472,545
- Cash and cash equivalents		52,425,848
		-----
Total assets		64,012,195
Liabilities		
Current liabilities		
- Trade and other payables	9	(1,411,783)
		-----
	10	62,600,412
		=====
Capital & reserves attributable to equity holders of the company		
- Share capital		650,393
- Share premium reserve		62,959,961
- Retained deficit		(1,009,942)
		-----
Total equity		62,600,412
		=====

As this is the first period of accounts for the company there are no comparative figures.

CASHFLOW STATEMENT

For the period to 30 June 2006

2006  
EUR

Operating activities	
Net loss from ordinary activities	(1,009,942)
Adjustments for:	
Net unrealised loss on investments	643,519
Operating loss before changes in	-----
working capital	(366,423)
	-----
Increase in trade and other receivables	(113,802)
Increase in trade and other payables	1,411,783
	-----
Cash generated from operations	931,558
Investing activities	
Purchase of securities	(12,323,712)
Proceeds from sales of securities	207,648
	-----
	(12,116,064)
Financing activities	
Net proceeds from issue of ordinary shares	63,610,354
	-----
	-----
Increase in cash and cash equivalents	52,425,848
	-----

STATEMENT OF CHANGES IN EQUITY  
For the period to 30 June 2006

	Share Capital EUR	Share Premium EUR	Retained Earnings EUR	Total EUR
Balance at start of period	-	-	-	-
Transferred to loss for the period	-	-	(1,009,942)	(1,009,942)
Issue of share capital	650,393	62,959,961	-	63,610,354
	-----	-----	-----	-----
Balance at 30 June 2006	650,393	62,959,961	(1,009,942)	62,600,412
	=====	=====	=====	=====

The share premium is stated net of share issue costs of EUR 1,119,605.

Notes to the Interim Unaudited Financial Statements

1. Establishment

Reconstruction Capital II Limited was incorporated on 17 October 2005 as a

closed ended Cayman Islands 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 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 will be 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. Basis of preparation

The interim results were approved by the directors on 31 August 2006. The interim results have been prepared in accordance with International Financial Reporting standards (IFRS) and are not audited but have been subjected to a limited review, in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board, by the auditors of Reconstruction Capital II Limited

## 3. Significant accounting policies

The significant accounting policies adopted by the Company are as follows;

### (a) Revenue recognition

Unrealised gains and losses arising from changes in the fair value of securities and realised gains and losses arising on the sale of securities are recognised in the income statement as they arise.

Realised gains and losses are recognised in the income statement using average weighted cost.

Interest receivable is recognized in the income statement on an accruals basis

### (b) Investments in transferable securities

Investments in transferable securities are initially recognised at cost and subsequently re-measured at fair value. Securities listed on a stock exchange or

traded on any other regulated market will be valued at the last available price on such exchange or market or, if no such price is available, at the mean of the bid and asked 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.

(c) Foreign currency

Assets and liabilities arising in foreign currencies have been translated into Euro at rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies are translated into Euro at the exchange rates prevailing at the dates of the transactions. Exchange differences arising on transactions during the year have been recognised in the income statement.

4. Investment loss

	2006 EUR
Net realised gain on investments	14,719
Net realised loss on foreign exchange	(2,410)
Net unrealised loss on investments	(643,519)
Net unrealised loss on foreign exchange	(11,363)
Interest receivable	346,556
	-----
Investment loss	(296,017)
	-----

5. Operating expenses

	2006 EUR
Administrative expenses	
- Investment Management fees	(424,811)
- Administration fees	(32,922)
- Custody fees	(41,537)
- Directors' fees	(51,781)
	-----
	(551,051)
	-----

## Other expenses

- Audit fees	(20,712)
- Legal fees	(44,696)
- Listing fees	(6,798)
- Other fees	(90,668)

-----  
(162,874)-----  
(713,925)

-----

## Total operating expenses

## 6. Loss per share

The loss per share is calculated on the loss for the period of EUR 1,009,942 and using the weighted average number of ordinary shares in issue during the period of 31,455,354. There are no potentially dilutive shares in issue.

## 7. Trade and other receivables

2006

EUR

-----

## Interest Income Receivable

113,802

=====

## 8. Investments in transferable securities

2006

EUR

## Cost

12,116,064

## Unrealised loss on Investments

(643,519)

-----

## Market Value of Investments

11,472,545

=====

## 9. Trade and other payables

2006

EUR

- Investment Management Fees (157,515)

- Administration Fees (19,614)

- Custody Fees (41,537)

- Directors' Fees (51,781)

- Audit Fees (20,712)

- Other Fees (8,158)

- Payable on trades (1,112,466)

-----  
(1,411,783)

=====

## 10. Net asset value

2006



EUR

NET ASSET VALUE	
As at 30 June 2006	62,600,412
NUMBER OF ORDINARY SHARES IN ISSUE	
As at 30 June 2006	65,039,425
NET ASSET VALUE PER SHARE	
As at 30 June 2006	0.9625

## 11. Dividends

There were no dividends declared or paid during the period.

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