

Reconstruction Capital II Limited (the “Company”)

30 June 2010

Annual Report and Audited Consolidated Financial Statements for the year ended 31 December 2009

Reconstruction Capital II Ltd (“RC2, the “Company” or the “Group”), a closed-end investment company incorporated in the Cayman Islands admitted to trading on the AIM market of the London Stock Exchange, today announces its results for the year ended 31 December 2009.

Financial highlights

- The audited net asset value as at 31 December 2009 was EUR 86.7m, representing EUR 0.8666 per share (EUR 83.7m or EUR 0.8373 per share as at 31 December 2008);
- As at 31 December 2009 the Company’s market capitalisation was approximately EUR 52m, with a closing price of EUR 0.52 per share;
- Total investment income of EUR 11.0m for the year (expense of EUR 61.8m in 2008)
- The Directors do not recommend the payment of a dividend.

Operational highlights

The Private Equity Programme

- During 2009, RC2’s only investment under its Private Equity Programme was the follow-on purchase of an additional 1% of Romanian milk processor Albalact S.A. over January-April 2009. The acquisition lifted the Company’s overall shareholding in Albalact to 25.4%.
- The squeeze-out of minorities and the subsequent de-listing of Romanian paints producer Policolor S.A. was completed in April 2009. RC2’s shareholding in Policolor was written up from EUR 29m at 31 December 2008 to EUR 32m at 31 December 2009.
- The failure of East Point Holdings Ltd (“EPH”) to reorganize its business into separate business lines by December 2009 resulted in RC2’s right to put its shareholding back to its other shareholders at an IRR of 25% per annum on its original investment. As at 31 December 2009, RC2’s 21.33% shareholding in EPH was valued at EUR 14.3m, whilst the put option was valued at a further EUR 5.5m.

The Trading Programme

Taking into account higher stock prices, in particular in Romania, RC2 reduced its positions under its Trading Programme, thereby generating EUR 4.8m of cash proceeds.

The financial information has been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted in the European Union.

The financial information set out in the announcement does not constitute the Company’s audited financial statements for the years ended 31 December 2009 or 2008. The financial information for the year ended 31 December 2008 is derived from the audited financial statements for that year.

The audit of the financial statements for the year ended 31 December 2009 is complete. The auditors reported on those accounts; their report was unqualified and did not include references to any matters to which the auditors drew attention to by way of emphasis without qualifying their report.

The annual report and financial statements will be posted to shareholders today and published on its web site (www.reconstructioncapital2.com).

For further information, please contact:

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INVESTMENT MANAGER AND INVESTMENT ADVISORS' REPORT

During the year, Reconstruction Capital II Limited ("RC2" or the "Company") made no new, and only one follow-on, investment under its Private Equity Programme. On the other hand, in line with its declared strategy of focussing increasingly on its Private Equity investments, the Company realized a total of EUR 4.8m by selling down listed equities held under its Trading Programme.

As at 31 December 2009, RC2 had an audited net asset value ("NAV") per share of EUR 0.8666, representing an increase of 3.5% over the year. The higher NAV was the result of the positive net effect of the revaluation of some of the Company's unlisted Private Equity investments pursuant to independent valuations, as well as the general recovery in equity markets in RC2's countries of operations, which affected both the Trading Programme as well as the listed portion of RC2's Private Equity Programme. Due to this, the Company had positive total investment income of EUR 11.0m over the year.

RC2's audited NAV per share compares to an unaudited published NAV per share of EUR 0.9241 at year end. The difference of EUR 0.0575 is mainly the result of the effects of the consolidation of Mamaia Resort Hotels SRL and Top Factoring SRL. Both these investments are booked at fair value when computing RC2's published net asset value per share.

Private Equity Programme

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The squeeze-out of minorities and the subsequent de-listing of Romanian paints producer Policolor S.A. was completed in April 2009. RC2's shareholding in Policolor S.A. was written up from EUR 29m at 31 December 2008 to EUR 32m at 31 December 2009.

The failure of East Point Holdings Ltd ("EPH") to reorganize its business into separate business lines by December 2009 resulted in RC2's right to put its shareholding back to its other shareholders at an IRR of 25% per annum on its original investment. As at 31 December 2009, RC2's 21.33% shareholding in EPH was valued at EUR 14.3m, whilst the put option was valued at a further EUR 5.5m.

Trading Programme

Taking into account higher stock prices, in particular in Romania, RC2 reduced its positions under its Trading Programme, thereby generating EUR 4.8m of cash proceeds.

Outlook

Although the macro-economic situation in South East Europe remains fragile, the outlook for the Company is positive for a number of reasons. In early 2010, the exercise of RC2's put option in respect of its shareholding in EPH resulted in a settlement whereby RC2 increased its shareholding in EPH from 21.3% to 42.0% at no extra cost, whilst a mezzanine lender to EPH's river shipping business exchanged its claim against EPH into equity, thereby significantly de-leveraging the company. The other main investee companies held under RC2's Private Equity Programme (in particular Policolor, the Company's largest equity investment), achieved significant operational improvements in 2009, which should result in better financial results in 2010.

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INVESTMENT POLICY

Private Equity Programme

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

Trading Programme

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

Value Creation

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

INVESTMENT POLICY *(Continued)*

Investing Restrictions and Cross-Holdings

The Directors, the Investment Advisers and the Investment Manager will take steps to ensure that the portfolio of investments is sufficiently diversified to spread the risks of those investments. The Investment Strategy does not restrict the Company from investing in other closed-ended funds operating in the Target Region. In line with the Company's investment policy, the Board will not normally authorise any investment in a single investee company that is greater than 20 per cent of the Company's net asset value at the time of effecting the investment and in no circumstances will it approve an investment in a single investee company that is greater than 25 per cent of the Company's net asset value at the time of effecting the investment.

Gearing

The Company may borrow up to a maximum level of 30 per cent of its gross assets (as defined in its articles).

Distribution Policy

The Company's investment objective is focused principally on the provision of capital growth. For further details of the Company's distribution policy, please refer to the Admission Document on the Company's website.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009**

	31-Dec-09	31-Dec-08
	EUR	EUR
Revenue	3,083,961	2,712,877
Total Revenue	<u>3,083,961</u>	<u>2,712,877</u>
Investment income		
Gain/ (loss) on investments at fair value through profit or loss	10,379,006	(65,229,295)
Interest income	73,311	2,409,026
Dividend income	293,312	569,268
Other income	279,591	482,321
Total investment income/ (expense)	<u>11,025,220</u>	<u>(61,768,680)</u>
Expenses		
Bargain purchase	-	(3,210,739)
Operating expenses	8,924,356	7,704,325
Total operating expenses	<u>8,924,356</u>	<u>4,493,586</u>
Profit/ (loss) before taxation	5,184,825	(63,549,389)
Income tax expense	1,545,772	630,012
Net profit/ (loss) for the year	<u>3,639,053</u>	<u>(64,179,401)</u>
Other comprehensive income		
Exchange differences on translating foreign operations	(806,210)	(2,012,191)
Total comprehensive income for the year	<u>2,832,843</u>	<u>(66,191,592)</u>
Net profit/ loss for the year attributable to:		
- Equity holders of the parent	3,731,544	(64,576,849)
- Minority interest	(92,491)	397,448
	<u>3,639,053</u>	<u>(64,179,401)</u>
Total comprehensive income attributable to:		
- Equity holders of the parent	2,925,334	(65,794,144)
- Minority interest	(92,491)	397,448
	<u>2,832,843</u>	<u>(66,191,592)</u>
Basic and diluted earnings/(loss) per share	<u>0.0373</u>	<u>(0.5766)</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2009**

	31-Dec-09	31-Dec-08
<u>Assets</u>	EUR	EUR
Non-current assets		
Property, plant and equipment	13,795,880	16,872,497
Financial assets at fair value through profit or loss	61,977,165	57,749,033
Goodwill	1,257,153	1,257,153
Total non-current assets	77,030,198	75,878,683
 Current assets		
Financial assets at fair value through profit or loss	13,551,893	10,317,104
Inventories	27,000	80,000
Trade and other receivables	1,273,793	855,759
Cash and cash equivalents	5,017,459	6,426,366
Total current assets	19,870,145	17,679,229
 Total assets	96,900,343	93,557,912
 <u>Liabilities</u>		
Current liabilities		
Trade and other payables	1,273,241	1,312,722
Loans and borrowings	-	530,000
Corporation tax payable	49,943	199,400
Total current liabilities	1,323,184	2,042,122
 Non-current liabilities		
Deferred tax	1,180,000	-
Loans and borrowings	638,146	89,429
Total non-current liabilities	1,818,146	89,429
 Total liabilities	3,141,330	2,131,551
 Total net assets	93,759,013	91,426,361

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2009 (continued)

	31-Dec-09	31-Dec-08
	EUR	EUR
<u>Capital and reserves attributable to equity holders</u>		
Share capital	1,000,000	1,000,000
Share premium reserve	121,900,310	121,900,310
Retained deficit	(33,280,080)	(37,011,624)
Foreign exchange reserve	(2,964,356)	(2,158,146)
Total equity and reserves	86,655,874	83,730,540
Minority Interest	7,103,139	7,695,821
Total equity	93,759,013	91,426,361

The financial statements were approved by the Board of Directors and authorised for issue on 29 June 2010.

Ion Florescu (Director)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS OF
31 DECEMBER 2009**

	Share Capital EUR	Share Premium EUR	Foreign exchange reserve EUR	Retained (Deficit)/ Earnings EUR	Sub-total EUR	Minority Interest EUR	Total EUR
Balance at 1 January 2008	1,126,811	134,263,071	(145,955)	27,565,225	162,809,152	2,081,895	164,891,047
Total comprehensive income	-	-	(2,012,191)	(64,576,849)	(66,589,040)	562,276	(66,026,764)
Redemption of Share Capital	(126,811)	(12,362,761)	-	-	(12,489,572)	-	(12,489,572)
Minority interest arising on acquisition	-	-	-	-	-	6,581,261	6,581,261
Dividends paid to minorities	-	-	-	-	-	(1,529,612)	(1,529,612)
Balance at 31 December 2008	1,000,000	121,900,310	(2,158,146)	(37,011,624)	83,730,540	7,695,820	91,426,360
Total comprehensive income	-	-	(806,210)	3,731,544	2,925,334	(92,491)	2,832,843
Dividends paid to minorities	-	-	-	-	-	(500,190)	(500,190)
Balance at 31 December 2009	1,000,000	121,900,310	(2,964,356)	(33,280,080)	86,655,874	7,103,139	93,759,013

Share premium is stated net of share issue costs

**CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED
31 DECEMBER 2009**

	31-Dec-09	31-Dec-08
	EUR	EUR
Cash flows from operating activities		
Net profit/ (loss) before tax	5,184,825	(63,549,389)
<i>Adjustments for:</i>		
Depreciation and amortisation	203,109	130,002
Impairment	2,181,000	-
(Gain)/ loss on financial assets at fair value through profit or loss	(10,379,006)	65,229,295
Bargain purchase	-	(3,210,739)
Loss on foreign exchange	169,559	-
Interest income	(73,311)	(2,409,026)
Dividend income	(293,312)	(569,268)
Net cash outflow before changes in working capital	(3,007,136)	(4,379,125)
(Increase)/ decrease in trade and other receivables	(422,338)	388,664
Decrease in trade and other payables	(39,481)	(4,943,089)
Decrease/ (increase) in inventories	53,000	(63,125)
Interest received	79,912	2,528,221
Dividend received	291,015	544,793
Payments for purchase of financial assets	(405,890)	(8,571,980)
Net proceeds from sale of financial assets	4,761,660	12,594,761
Net cash generated by operating activities	1,310,742	1,900,880
Income tax paid	(515,229)	1,399,505
Cash flows from investing activities		
Sale of property, plant and equipment	31,192	5,780,449
Purchase of property, plant and equipment	(314,438)	(254,005)
Purchase of financial assets	(1,439,700)	(66,974,488)
Acquisition of subsidiary (net of cash acquired)	-	(2,276,000)
	(927,433)	(64,225,419)
Cash flows from financing activities		
Dividends paid to minorities	(500,191)	(1,529,612)
Payments of loan	18,717	(4,657,571)
Payments on shares redeemed	-	(12,489,572)
Decrease in cash and cash equivalents	(1,408,907)	(82,902,174)
Cash at beginning of year	6,426,366	89,328,540
Cash at end of year	5,017,459	6,426,366

