

Reconstruction Capital II Limited
Annual Report and Audited Financial Statements
for the year ended 31 December 2020

Reconstruction Capital II Limited (“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 2020.

Copies of the Company’s annual report will today be posted to shareholders. The annual report is also available to view on the Company’s website <http://www.reconstructioncapital2.com>.

Financial highlights

- The audited net asset value as at 31 December 2020 was €0.1586 per share (€0.1450 per share as at 31 December 2019), a 9.38% increase over the year;
- The Directors do not recommend the payment of a dividend.

Operational highlights

Private Equity Programme

At the end of December 2020, the investments held under the Private Equity Programme had a total fair value of €20.25m, which was 14.3% more than the 2019 valuation of €17.7m. The valuations of Policolor and Mamaia were performed by independent valuers, whilst the valuation of Telecredit IFN SA was based on its audited net asset value. The valuations of Reconstruction Capital Plc and the Romanian Investment Fund Ltd were also based on their audited net asset values, but these were in turn based on the same valuation of their main underlying asset, Policolor SA, as adopted by the Company. The valuations are based on assumptions that applied as of 31 December 2020.

Policolor proved relatively resilient to the effects of the COVID pandemic, and its improved performance and prospects is reflected in the increased valuation of the business. In spite of the pandemic, the Policolor Group achieved a 5.5% year-on-year increase in sales to €64.08m, and recorded recurring EBITDA of €2.41m (compared to just €0.98m in 2019). The relocation of production to the new plants in Bucharest and Ruse was completed during the year as was the sale of the land at Theodor Pallady. A new Group CEO was appointed in September. She has initiated a turnaround plan focussed mainly on the Romanian business, including a more streamlined organisational structure and more efficient logistics.

The Mamaia hotel was closed for the redecoration of its public areas and facades during the first five months of the year. Its 2020 revenues of €1.8m were 12.6% below the revised budget prepared in May to reflect the estimated impact of the Covid-19 pandemic, and 40% below 2019, due to Covid-19 related restrictions. These included limits on the use of the restaurant, a ban on conferences and other corporate events as well as a country-wide lockdown in the spring, whose knock-on effect was a delay to the start of the season which only took off in July as opposed to June in previous years.

Telecredit deployed €11m in factoring products to small and medium sized businesses in 2020, generating EBITDA of €0.09m, compared to an expected loss of €-0.17m in its revised budget prepared in May to reflect the impact of the Covid-19 pandemic. The Company tightened its lending criteria as well as increased its levels of provisioning during the year. This resulted in the book value of its SME portfolio shrinking from €2.3m to €1.9m over the year.

Related parties' interests

As at 31 December 2020, Mr Florescu held 39,030,555 shares, Portadrix Investments Limited (which is wholly-owned by The Florescu Family Trust) held 42,726,319 shares, and New Europe Capital SRL (which is the adviser to the Company and is 84% owned by Portadrix Investments Limited) held 105,985 shares. Following this revision in the shareholdings, Mr Florescu and interests related to him own in aggregate 81,862,859 shares (previously notified as 81,391,311 shares) representing 60.26% of the current issued share capital of the Company.

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ADVISER'S REPORT
For the year ended 31 December 2020

On 31 December 2020, Reconstruction Capital II Limited ("RC2" or the "Company") had a total audited net asset value ("NAV") of €21.5m, or €0.1586 per share. The NAV per share increased by 9.38% over the course of the year.

Private Equity Programme

At the end of December 2020, the investments held under the Private Equity Programme had a total fair value of €20.25m, 14.3% above than the 2019 valuation of €17.7m. The valuations of Policolor and Mamaia were performed by independent valuers, whilst the valuation of Telecredit IFN SA was based on its audited net asset value. The valuations of the Company's investments in Reconstruction Capital Plc and The Romanian Investment Fund Limited were also based on their audited net asset values, but these were in turn based on the same valuation of their main underlying asset, Policolor SA, as adopted by the Company.

	2020	2019
	EUR	EUR
Policolor S.A	13,960,000	12,000,000
Mamaia Hotel Resorts SRL ("Mamaia")	3,440,548	3,371,233
Telecredit IFN S.A. ("Telecredit")	624,545	804,859
The Romanian Investment Fund Limited	1,256,983	992,643
Reconstruction Capital Plc	972,485	555,738
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	20,254,561	17,724,473
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The above valuations are based on assumptions that applied as of 31 December 2020.

Policolor proved relatively resilient to the effects of the COVID pandemic, and its improved performance and prospects is reflected in the increased valuation of the business. In spite of the pandemic, the Policolor Group achieved a 5.5% year-on-year increase in sales to €64.08m, and recorded recurring EBITDA of €2.41m (compared to just €0.98m in 2019). The relocation of production to the new plants in Bucharest and Ruse was completed during the year as was the sale of the land at Theodor Pallady. A new Group CEO was appointed in September. She has initiated a turnaround plan focussed mainly on the Romanian business, including a more streamlined organisational structure and more efficient logistics.

The Mamaia hotel was closed for the redecoration of its public areas and facades during the first five months of the year. Its 2020 revenues of €1.8m were 12.6% below the revised budget prepared in May to reflect the estimated impact of the Covid-19 pandemic, and 40% below 2019, due to Covid-19 related restrictions. These included limits on the use of the restaurant, a ban on conferences and other corporate events as well as a country-wide lockdown in the spring, whose knock-on effect was a delay to the start of the season which only took off in July as opposed to June in previous years.

Telecredit deployed €11m in factoring products to small and medium sized businesses in 2020, generating EBITDA of €0.09m, compared to an expected loss of €-0.17m in its revised budget prepared in May to reflect the impact of the Covid-19 pandemic. The Company tightened its lending criteria as well as increased its levels of provisioning during the year. This resulted in the book value of its SME portfolio shrinking from €2.3m to €1.9m over the year.

Apart from the shareholdings in RC and RIF, the other private equity investments are held through two Cyprus-based wholly-owned subsidiaries, RC2 (Cyprus) Limited and Glasro Holdings Limited, which are not consolidated in the present financial statements, in accordance with IFRS. The Assets at Fair Value shown in the present financial statements, which amounts to €22.0m, reflects the valuations of the underlying private equity holdings outlined in the above table, plus loan receivables of €1.5m, cash and cash equivalents of €0.1m, and a net €0.1m of sundry financial assets and liabilities, held by these intermediary holding companies.

Economic Overview

Due to the COVID pandemic which resulted in governments taking various measures such as lockdowns which restricted economic activity, the Romanian and Bulgarian economies reported decreased GDP in 2020, of 3.9% and 4.2% respectively. However, both countries are expected to recover during 2021, with the European Commission forecasting annual GDP increases in 2021 of 3.8% for Romania, and 2.7% for Bulgaria. The speed of the recovery will be dependent on the roll out of the Covid-19 vaccination programmes, allowing Covid related restrictions to be eased, and a combination of fiscal policies and successful deployment of the EU “Next Generation” funds, with Romania set to receive €33.5bn and Bulgaria €29bn over 2021-2027.

INVESTMENT POLICY

Investment Objective and Policy of the Company

At a general shareholder meeting on 21 February 2018, the investment objective of the Company was changed so that it now aims to achieve capital appreciation and/or to generate investment income returns through the acquisition of real estate assets in Romania, including the development of such assets, and/or the acquisition of significant or controlling stakes in companies established in, or operating predominantly in Romania, primarily in the real estate sector. Any new private equity investment in companies operating in sectors other than real estate is limited to 25% of the Company's total assets at the time of effecting the investment. However, the Company may continue to make follow-on investments in existing portfolio companies (which include Policolor SA, Mamaia Resort Hotels SRL and Telecredit SA IFN) without any such limitation.

Gearing

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020 EUR	2019 EUR
Investment income		
Fair value loss on financial assets at fair value through profit or loss	(1,752,486)	(14,482,512)
Interest income	4,280,442	4,319,475
Net investment income/(loss)	2,527,956	(10,163,037)
Expenses		
Operating expenses	(660,299)	(845,572)
Net financial (expense)/income	(16,286)	255
Total expenses	(676,585)	(845,317)
Profit/(loss) for the year	1,851,371	(11,008,354)
Other comprehensive income	-	-
Total comprehensive income/(loss) for the year attributable to owners	1,851,371	(11,008,354)
Gain/(loss) Per Share		
Basic and diluted gain/(loss) per share	0.0136	(0.0806)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	2020 EUR	2019 EUR
ASSETS		
Non-current assets		
Financial assets at fair value through profit or loss	21,999,552	19,651,596
Total non-current assets	21,999,552	19,651,596
Current assets		
Trade and other receivables	13,600	16,673
Cash and cash equivalents	33,073	65,887
Total current assets	46,673	82,560
TOTAL ASSETS	22,046,225	19,734,156
LIABILITIES		
Current liabilities		
Trade and other payables	91,782	37,362
Borrowings	406,278	-
Total current liabilities	498,060	37,362
TOTAL LIABILITIES	498,060	37,362
NET ASSETS	21,548,165	19,696,794
EQUITY AND RESERVES		
Share capital	1,358,569	1,358,569
Share premium	109,206,779	109,206,779
Accumulated deficit	(89,017,183)	(90,868,554)
TOTAL EQUITY	21,548,165	19,696,794
Net Asset Value per share		
Basic and diluted net asset value per share	0.1586	0.1450

**STATEMENT OF CHANGES IN
EQUITY**

For the year ended 31 December 2020

	Share capital EUR	Share premium EUR	Accumulated deficit EUR	Total EUR
Balance at 1 January 2019	1,403,324	109,862,098	(79,860,200)	31,405,222
Loss for the year	-	-	(11,008,354)	(11,008,354)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	-	(11,008,354)	(11,008,354)
Repurchase and cancellation of own shares	(44,755)	(655,319)	-	(700,074)
Transactions with owners	(44,755)	(655,319)	-	(700,074)
Balance at 31 December 2019	1,358,569	109,206,779	(90,868,554)	19,696,794
Profit for the year	-	-	1,851,371	1,851,371
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	1,851,371	1,851,371
Balance at 31 December 2020	1,358,569	109,206,779	(89,017,183)	21,548,165

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020	2019
	EUR	EUR
Cash flows from operating activities		
Profit/(loss) for the year	1,851,371	(11,008,354)
<i>Adjustments for:</i>		
Fair value loss on financial assets at fair value through profit or loss	1,752,486	14,482,512
Interest income	(4,280,442)	(4,319,475)
Interest expense	6,278	-
Net (loss)/gain on foreign exchange	8	(255)
	(670,299)	(845,572)
Net cash outflow before changes in working capital		
Decrease in trade and other receivables	3,073	4,338
Increase/(decrease) in trade and other payables	54,420	(58,233)
Purchase of financial assets	-	(133,603)
Repayments of financial assets	180,000	800,000
	(432,806)	(233,070)
Net cash used in operating activities		
Cash flows from financing activities		
Proceeds from borrowings	400,000	-
Payments to purchase own shares	-	(1,048,662)
Redemptions of B shares	-	(132,941)
	400,000	(1,181,603)
Net cash generated from/(used in) financing activities		
Net decrease in cash and cash equivalents before currency adjustment	(32,806)	(1,414,673)
Effects of exchange rate differences on cash and cash equivalents	(8)	255
	(32,814)	(1,414,418)
Net decrease in cash and cash equivalents after currency adjustment		
Cash and cash equivalents at the beginning of the year	65,887	1,480,305
	33,073	65,887
Cash and cash equivalents at the end of the year		