

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt about the contents of this document or about what action to take, you are recommended immediately to seek your own professional advice from your stockbroker, solicitor, accountant or other appropriately qualified independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are taking advice in the United Kingdom or, if you are taking advice in another jurisdiction, from another appropriately authorised independent financial adviser.

If you have sold or otherwise transferred all of your Shares in Reconstruction Capital II Limited you should pass this document, as soon as possible, to the purchaser or transferee or to the person through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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## **Reconstruction Capital II Limited**

*(an exempted company incorporated in the Cayman Islands with registration number HL156549)*

**Continuation of the Life of the Company**

**and**

**Proposed change to Investment Objective and Policy**

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Notice of the Annual General Meeting of the Company to be held at 10.00am at the offices of Sanne Trust Company Limited at 13 Castle Street, St Helier, Jersey JE4 5UT on Friday 14<sup>th</sup> December 2012 is set out at the end of this document.

To be valid, Forms of Proxy for use at the meeting must be completed and returned in accordance with the notes to the Notice of Meeting and the Form of Proxy itself.

## CONTENTS

Action to be taken .....	Page 3
Expected timetable of principal events.....	Page 4
Definitions.....	Page 5
Part I - Letter from the Chairman .....	Page 6
Part II – Risk Factors.....	Page 11
Notice of Annual General Meeting.....	Page 13

ACTION TO BE TAKEN

**SHAREHOLDERS WILL FIND ENCLOSED A FORM OF PROXY - PLEASE COMPLETE AND RETURN THE FORM OF PROXY TO INDICATE HOW YOU WISH TO VOTE ON THE PROPOSALS**

There are two proposals for Shareholders to consider and vote on:

- 1. Extraordinary Resolution:** that the Company continue as presently constituted.
- 2. Ordinary Resolution:** to change the Company's investing policy.

**The Board recommends that Shareholders vote FOR Extraordinary Resolution no.1 and FOR Ordinary Resolution no. 2.**

Whether or not you intend to be present at the Annual General Meeting, you are requested to complete and return the Form of Proxy in accordance with the instructions printed on it to the Company's Registrars, Sanne Trust Company Limited at the address shown below, so as to arrive no later than 10.00am on Thursday, 13<sup>th</sup> December 2012. Completion and return of the Form of Proxy will not affect your right to attend in person and vote at the Annual General Meeting should you so wish.

Sanne Trust Company Limited  
13 Castle Street,  
St Helier,  
Jersey,  
JE4 5UT

**Attn: Heather Wilkins**

If Shareholders have any queries regarding the completion of the Form of Proxy, please contact Ion Florescu of New Europe Capital Limited, by telephone on +44 (0)20 7244 0088 or +40 (0)7767 477192 or by e-mail at [ionf@neweuropecapital.com](mailto:ionf@neweuropecapital.com). Please note that the investment manager can only give procedural advice and is not authorised to provide investment advice.

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Date of Posting of Circular	19 <sup>th</sup> November 2012
Record date for voting at Annual General Meeting,	9.00am on 13 <sup>th</sup> December 2012
Latest time for receipt of Forms of Proxy	10.00am on 13 <sup>th</sup> December 2012
Annual General Meeting	10.00am on 14 <sup>th</sup> December 2012
Announcement of Results of Annual General Meeting	14 <sup>th</sup> December 2012

If any of the above times and/or dates change, the revised times and/or dates will be notified to Shareholders by announcement through a Regulatory Information Service.

## DEFINITIONS

In this Circular, unless the context otherwise requires, the following expressions bear the following meanings:

Admission Document	the document issued by the Company on 19 <sup>th</sup> December 2005 relating to the admission of the Company's Shares to trading on AIM
Annual Buyback Programme	the programme to use realised profits to effect buybacks of Shares by means of an annual tender offer as permitted by the Articles and described in the Admission Document
Annual General Meeting	the annual general meeting of the Company to be held at the offices of Sanne Trust Company Limited at 13 Castle Street, St Helier, Jersey JE4 5UT on 14 <sup>th</sup> December 2012
Articles	the articles of association of the Company as amended from time to time
Circular	this document dated 19 <sup>th</sup> November 2012, addressed to the Shareholders
Company	Reconstruction Capital II Limited
Directors or Board	the directors of the Company from time to time
Investment Team	together New Europe Capital SRL, New Europe Capital DOO and New Europe Capital Limited
NAV	the net asset value of the Company and per Share as the case may be determined in accordance with the Articles
Resolutions	the Resolutions to be put to the Annual General Meeting as detailed on page 9 of this Circular and in the notice of the Annual General Meeting
Shareholders	holders of Shares
Shares	ordinary shares of €0.01 each in the capital of the Company

## PART I - LETTER FROM THE CHAIRMAN

Reconstruction Capital II Limited

Clifton House  
75 Fort Street  
PO Box 1350  
Grand Cayman  
KY1-1108  
Cayman Islands

19<sup>th</sup> November 2012

Directors:

Howard Golden, *Chairman*

Ion Florescu

Dirk Van den Broeck

Markus Winkler

Robert Petch

Dear Shareholder

### **Continuation of the Life of the Company and Proposed Change to the Investment Policy of the Company**

#### **Introduction**

The purpose of this Circular is to set out your Board's proposals for the continuation of the life of the Company and the amendment of the Company's investment objective and policy.

The Company was incorporated in 2005 to invest in private and listed equity securities and fixed income securities primarily in Romania and Bulgaria. The Articles provided that, at the 2012 Annual General Meeting and at a general meeting of the Company in each second subsequent year, a resolution would be proposed for the Company to continue as presently constituted. Should the resolution not be passed, the Directors would be required to formulate proposals to be put to Shareholders to reorganise, unitise or reconstruct the Company or for the Company to be wound up.

The Directors believe that the Company should continue for at least a further two years but believe that it would now be appropriate to amend the investment objectives and policy of the Company in order to focus on the realisation of investments and the return of proceeds to Shareholders.

Accordingly, subject to Shareholder approval, it is proposed that:

- the life of the Company be continued for a further two years; and
- the investment objective and policy of the Company be amended such that no new investments will be made, further investments into existing portfolio companies will be permitted in certain circumstances pending their realisation and, following each realisation, all proceeds will be returned to Shareholders after setting aside a sufficient amount for working capital purposes,

(together the "Proposals").

#### **Background to and Reasons for the Proposals**

The Company's primary strategy since inception has been to invest in, and subsequently dispose of, significant or controlling stakes in companies in South East Europe where the Company's Investment Team believe they can add value to companies by implementing operational and/or financial restructuring over a three to five year horizon prior to achieving an exit.

Whilst most of the Company's investments were made prior to 2009, the financial crisis has delayed the achievement of exits. Meanwhile, the strong general change of sentiment towards South East Europe, and listed private equity funds, has resulted in the Company's Shares trading at a significant discount to their NAV. Therefore, the Board believes that it is not appropriate for the Company to be making further investments. Rather, the Board believes the Investment Team should focus its efforts on finalising the operational and financial restructuring of current investments and on completing exits, thereby enabling the Company to return cash to Shareholders.

However, at the same time, due to the highly illiquid nature of the Company's investments and the possible complexity of exits, the Board believes that the Company's investments cannot be liquidated or disposed of quickly without risking a large scale destruction of their value. The Board believes that some exits will require a trade sale, while others may require a reorganisation and break up and subsequent disposal of separate divisions or assets. Also the Company's investments are at different stages of realisation: (i) some investments are already in a good position to be sold by way of a trade sale and are indeed currently being marketed to trade buyers; and (ii) other investments still require their operational and financial restructuring programmes to be completed by the Investment Team before being offered for sale.

Therefore, in order for the Investment team to realise the best value from the Company's investments, the Board anticipates that the overall exit process will last between two and four years and that, due to the concentrated nature of the portfolio, subsequent distributions will take place periodically when there are sufficient funds to warrant a return of cash to Shareholders.

### **Continuation of the Life of the Company**

In order to allow for the orderly realisation of the Company's investments, the Directors propose that the Company continue for at least a further two years. During this time, the Company's investments may be realised in accordance with the proposed new investment objective and policy. If the realisation programme has not been completed by 2014, when the next continuation vote falls due, the Directors will review the then current position of the Company and appropriate proposals will be put to Shareholders at that time,

### **New Investment Objective and Policy**

The Board is proposing that the investment objective be restated as follows:

"The investment objective of the Company is to conduct an orderly realisation of the assets of the Company, to be effected in a manner that seeks to achieve a balance between an efficient return of cash to Shareholders and maximising the value of the Company's investments."

The Board and the Investment Team believe that the Company's portfolio will require careful management in order to achieve the Company's proposed new investment objective.

Any material change to the investment policy of the Company requires Shareholder approval in accordance with the AIM Rules. Resolution 2 will therefore be proposed at the Annual General Meeting pursuant to which, if passed, the Company's entire existing investment policy will be replaced and the Company will adopt and adhere to the following amended and restated investment policy.

"The Company's investments will be realised in an orderly manner that seeks to achieve a balance between an efficient return of cash to Shareholders and maximising the value of the Company's investments.

The Company may not make any new investments save that (a) investments may be made to honour commitments under existing contractual arrangements; (b) further investments may be made into the Company's existing portfolio companies in order to protect or enhance the value of such investments or facilitate the orderly realisation of such investments; and (c) cash (including

realised cash) may be invested in liquid cash-equivalent securities, including short-dated corporate bonds, government bonds or cash funds, or in bank cash deposits and/or in other permitted investments as set out above, pending its return to Shareholders in accordance with the Company's investment objective.

The Company will maintain a sufficient cash reserve for working capital and in order to fund any further investments falling within sub-paragraphs (a) and (b) above. The Board currently estimates that this reserve will not exceed €4 million."

This policy will involve a continuing evaluation of the portfolio in order to assess the most appropriate realisation strategy to be pursued in relation to each investment. Whilst some investments may be considered appropriate for sale in the shorter term, other investments may require more work to enable their inherent value to be realised successfully.

The strategy for realising individual investments will be flexible and may need to be altered to reflect changes in the circumstances of a particular investment or in the prevailing market conditions. The Board will meet regularly to review progress in implementing the Company's new investment objective and policy and the then current position of unrealised holdings.

The Board and the Investment Team regard the orderly realisation of the Company's assets as the best strategic option in all the circumstances. However, should Shareholders reject the proposed change, the Board and the Investment Team will continue to deliver the existing investment strategy and work to identify other options for developing the Company.

The Board aims to realise the portfolio and return cash in an efficient manner to ensure that a balance between value and speed is achieved. Due to the illiquid nature of private equity investments, it is very difficult to provide any certainty on the timeframe for realisation. However, the Board is aware that Shareholders expect some guidance on the expected timeframe for the return of capital. With this in mind, the Board, assisted by the Investment Team, has undertaken an exercise to estimate a realisation timetable. Although Shareholders should place only limited reliance on this information, it is the Board's current estimate that the overall timeframe for realisation will be approximately two to four years. As the portfolio realisation will be an on-going process, the Board intends to provide Shareholders with regular updates on the exit process in the Company's annual reports and through the quarterly reports prepared by the Investment Team.

### **Return of Proceeds to Shareholders**

The Board intends to return the net proceeds of realisations to Shareholders by means of a series of maximum price tenders structured using a strike price mechanism. Accordingly, Shareholders will be invited to tender some or all of their Shares at such price or prices they determine, following which the strike price will be fixed at the lowest price proposed by Shareholders that will permit the Company to purchase the maximum number of Shares for a total cost not exceeding the amount of cash available to return to Shareholders. All tenders at or below the strike price will be accepted.

The Board believes that this mechanism best addresses the diverse shareholder base of the Company, and the difficulties in putting a precise market price on an illiquid and what is likely to be an increasingly concentrated investment portfolio. The Board will write to Shareholders again in due course with full details of the first tender offer.

The current intention of the Board is that tender offers would occur periodically when there are sufficient funds to warrant a return of cash to Shareholders. Prior to launching any such tender offer, the Company may use the proceeds of asset realisations to make market purchases of the Company's Shares at a discount to NAV as described in the Articles and the Company's Admission Document. At the same time, the Company will seek to retain sufficient funds to ensure the continuation of the Company and to cover necessary expenses relating to the running of the Company and maintaining investments effectively.



The proposed tender offers and permitted market purchases noted above are separate from the Annual Buyback Programme, pursuant to which realised profits may be returned to Shareholders on an annual basis by way of tender offers to repurchase Shares at NAV, which will remain in place in order to distribute any realised profits if applicable. Consequently, unlike tender offers carried out under the Annual Buyback Programme, the proposed tender offers will require the prior approval of the Company's Shareholders by an ordinary resolution.

### **Benefits of the Proposals**

The Board believes that the Proposals offer the following significant potential benefits to Shareholders:

- The realisation process and return of proceeds to Shareholders will enable Shareholders to liquidate their investments over a period of time.
- Continuing the life of the Company and commencing a managed realisation of assets, rather than winding up the Company and seeking immediate sale of the portfolio, should enable the Company to increase the value realised on the sale of its investments.
- Since the Company's Shares will remain traded on AIM throughout the realisation process, Shareholders and prospective investors will, subject to market conditions, continue to be able to buy and sell the Company's Shares if they choose to do so.

### **Risk factors**

Your attention is drawn to the information set out in Part II of this document.

### **Annual General Meeting**

The Proposals are being made subject to the passing of the resolutions to be proposed at the Annual General Meeting.

Page 13 of this Circular contains a notice of the Annual General Meeting of the Company to be held at 10.00am on Friday 14<sup>th</sup> December 2012 when the following resolutions will be proposed:

- 1 That in accordance with Article 138.2 of the Articles, the Company continues as presently constituted for a further two years until the Annual General Meeting to be convened in 2014.
- 2 That, conditional on Resolution 1 being approved, the proposed new investment objective and policy of the Company set out in this Circular be adopted as the investment objective and policy of the Company with immediate effect in substitution for the existing investment objective and policy.

In accordance with the Articles, the vote on Resolution 1 will be taken on a poll and will be deemed not to have been passed if the votes against the Resolution constitute a majority against the Resolution and represent at least 25 per cent. of the total number of votes capable of being cast on that Resolution.

Resolution 2 is proposed as an Ordinary Resolution, which requires the approval of 50 per cent of those Shareholders voting at the Annual General Meeting in person or by proxy.

### **Action to be taken by Shareholders**

Shareholders will find enclosed with this Circular a Form of Proxy to enable you to vote at the Annual General Meeting. Whether or not you intend to be present at the General Meeting, you are requested to complete and return the Form of Proxy in accordance with the instructions printed on it to the Company's Registrars, Sanne Trust Company Limited, so as to arrive no later than 10.00am on Thursday, 13<sup>th</sup> December 2012. Completion and return of the form of proxy will not affect your right to attend in person and vote at the Annual General Meeting should you so wish.

**Recommendation**

Your Board considers that the Proposals are in the best interest of the Company and its Shareholders as a whole and unanimously recommends Shareholders to vote in favour of all the resolutions to be proposed at the Annual General Meeting, as your Directors intend to do in respect of their own beneficial holdings which, in aggregate, amount to 7,833,125 Shares representing approximately 7.83 per cent of the issued share capital of the Company.

Yours sincerely

Howard Golden

Chairman

## PART II – RISK FACTORS

In considering the Proposals set out in this document, Shareholders should have regard to and carefully consider the Risk Factors described below in addition to the other information set out in this document. The following are those Risk Factors which the Board considers to be material as at the date of this document (based on the assumption that the Proposals are approved and implemented). If any of the adverse events described below actually occur, the Company's business, financial condition, results or prospects could be materially and adversely affected. Additional risks and uncertainties which were not known to the Board at the date of this document or that the Board considers at the date of this document to be immaterial based on the assumption that the Resolutions are approved and implemented may also materially and adversely affect the Company's business, financial condition, results or prospects.

### RISKS RELATING TO THE PROPOSALS

#### *Conditionality of the Resolutions*

Given that Resolution 2 is conditional upon Resolution 1 having been passed, implementation of the Resolutions will only take effect if Resolution 1 is passed. If Resolution 1 is not passed, the Proposals will not succeed.

#### *Realisation*

If the Resolutions are implemented, this may possibly lead to speculation as to the prospects of the Company and the assets in which it is invested. This in turn may have an adverse effect on the realisable value of the Company's assets, in particular (but not only) in the short and potentially medium term. The exact timing, form and value of payments to Shareholders is uncertain and will depend, amongst other things, on the speed and price at which each asset of the Company is realised. The sale of some assets may only be possible at prices substantially less than the values used to calculate the NAV per Ordinary Share.

#### *Liquidity of the Company's investments*

The Company's investments comprise mainly private equity investments. Some investments may take a substantial length of time to realise. There can be no guarantee that the Company will be able to realise its investments and distribute the net proceeds to the Shareholders within a specific period of time.

#### *Achievement of new investment objective*

There is no guarantee that the change to the Company's investment objective and policy will provide the returns or realise the capital sought by Shareholders. There can be no guarantee that the Company will achieve its new investment objective.

#### *Concentration*

As investments are sold, it is likely that the portfolio will become less diverse and more concentrated in fewer sectors. The Board will review the investment portfolio with the Investment Team on a regular basis throughout the realisation process.

#### *Other factors*

Events such as economic recession or general fluctuations in stock markets and interest rates may affect the valuation of investee companies and their ability to access adequate financial resources, as well as affecting the Company's own share price and discount to NAV.

*Forward looking statements*

This document may contain statements that constitute forward-looking statements that include but are not limited to statements regarding the expected proceeds generated from the divestment of private equity assets owned by the Company. Undue reliance should not be placed on forward-looking statements. Forward-looking statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those anticipated by the Company and described in the forward-looking statements. These risks and uncertainties include but are not limited to delays in receipt of payments and unforeseen changes to general economic and business conditions. Forward-looking statements are based on the estimates and opinions of the Company's Board and Investment Team at the time the statements are made. The Company assumes no obligation to update forward-looking statements should circumstances or the Board and Investment Team's estimates or opinions change, except as required by law.

**In addition to the risks outlined in this Part II, Shareholders will continue to be subject to the risks as outlined in the Admission Document.**

**The foregoing factors are not exhaustive and do not purport to be a complete explanation of all risks and significant considerations relating to the Proposals. Accordingly, additional risks and uncertainties not presently known to the Board may also have an adverse effect on the Company and/or the Company's business, financial condition, results and prospects.**

## RECONSTRUCTION CAPITAL II LIMITED

### Notice of Annual General Meeting

Notice is hereby given that an Annual General Meeting of the Company will be held at the offices of Sanne Trust Company Limited at 13 Castle Street, St Helier, Jersey JE4 5UT at 10.00am on Friday 14<sup>th</sup> December 2012 for the purpose of considering and, if thought fit, passing the following resolutions of which Resolution 1 will be proposed as an extraordinary resolution in accordance with Note 1 and Resolution 2 will be proposed as an ordinary resolution:

#### RESOLUTIONS

1. That in accordance with Article 138.2 of the articles of association of the Company, the Company continues as presently constituted for a further two years until the Annual General Meeting to be convened in 2014.
2. That, conditional on Resolution 1 being approved, the proposed new investment objective and policy of the Company set out in the circular to Shareholders dated 19 November 2012 to which this notice forms part be adopted as the investment objective and policy of the Company with immediate effect and the existing investment objective and policy be and is hereby replaced.

By order of the Board

Secretary

19<sup>th</sup> November 2012

#### NOTES:

1. The vote on Resolution 1 will be taken on a poll and will be deemed not to have been passed if the votes against the Resolution constitute a majority against the Resolution and represent at least 25 per cent. of the total number of votes capable of being cast on that Resolution.
2. A member entitled to attend and vote at the above mentioned Annual General Meeting is entitled to appoint a proxy or proxies to attend and, on a poll, vote in his/her place. A proxy need not be a member of the Company. Completion and return of a proxy form will not prevent a member from attending and voting at the meeting in person.
3. A form of proxy is enclosed with this Notice. To be valid, the form of proxy (together, if appropriate, with the power of attorney or other written authority under which it is signed or an office copy or a certified copy of such power or authority) must be received at the office of the Company's Registrars, Sanne Trust Company Limited, not later than 24 hours before the time appointed for holding the meeting.
4. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders on the Register of Members at 9.00 a.m. on Thursday 13<sup>th</sup> December 2012 shall be entitled to attend and vote at the Annual General Meeting in respect of the number of Shares registered in their name at that time. Changes to the entries in the register of members of the Company after 9.00 a.m. on Thursday 13<sup>th</sup> December 2012 will be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting.
5. As at Friday 16<sup>th</sup> November 2012 (being the last business day prior to the date of this notice) the Company's issued share capital consisted of 100,000,000 ordinary shares each carrying one vote per share. Accordingly the total number of voting rights in the Company as at Friday 16<sup>th</sup> November 2012 was 100,000,000.