RECONSTRUCTION CAPITAL II LIMITED

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2016

RECONSTRUCTION CAPITAL II LIMITED
Annual Report and Audited Financial Statements
For the year ended 31 December 2016

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DIRECTORS AND COMPANY INFORMATION

Domicile and country of incorporation of parent company
Cayman Islands

Legal form
Limited Liability Company

Company number
HL-156549

Directors
Mihai Rădoi
Dirk Van den Broeck
Markus Winkler

Secretary and Registered Office
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Adviser
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Nominated Adviser
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London, EC2P 2YU

Broker
Panmure Gordon (UK) Limited *(from 1 April 2016)*
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London, EC4M 9AF

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DIRECTORS AND COMPANY INFORMATION (continued)

Administrator and Custodian
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Independent Auditor
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1687 Nicosia
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ADVISER'S REPORT
For the year ended 31 December 2016

On 31 December 2016, Reconstruction Capital II Limited ("RC2") had a total audited net asset value ("NAV") of EUR54.2m or EUR0.3670 per share, a 1.75% decrease over the year on an undiluted basis and a 28.92% year-on-year increase on a fully diluted basis.

In 2016, EUR9.0m of convertible loan notes were converted into ordinary shares at the rate of 7.41 shares for every EUR1 of convertible loan notes, resulting in 62.6m new shares being issued. Having acquired 15.0m of its own shares during the course of 2016, at year end RC2 had 147.6m shares in issue, compared to 100m shares at the end of the prior year.

Private Equity Programme

In 2016, RC2 Cyprus Limited, a wholly owned subsidiary of RC2, sold its investment in Albalact S.A., generating cash proceeds of EUR19.5m. The transaction was concluded on 20 September 2016 and generated a profit of EUR14.9m on the total cost of this investment. RC2 Cyprus Limited's holding in Albalact S.A. was valued at EUR12.3m at the end of 2015.

The investments held under the Private Equity Programme had a total fair value of EUR36.0m at the end of 2016, which was significantly less than the 2015 valuation of EUR44.4m, primarily due to the sale of the holding in Albalact S.A. Following the annual independent valuation of its remaining private equity investments at 31 December 2016, RC2 Cyprus Limited recorded a gain on revaluation of EUR3.9m (2015: loss of EUR6.2m), as illustrated by the table below:

	Valuations	
	2016	**2015**
	EUR	**EUR**
Policolor S.A.	20,640,000	19,920,000
Top Factoring Group	11,284,423	9,026,716
Mamaia Hotel Resorts SRL	4,079,921	3,194,735
	36,004,344	**32,141,451**

RC2 received EUR2m of dividends in 2016 from its investment in Glasro Holdings Limited. RC2 did not make any new investments under its Private Equity Programme during 2016.

Trading Programme

RC2 Cyprus Limited sold down its residual listed equities portfolio held under the Trading Programme during the year, generating cash proceeds of EUR0.1m. At the end of the year, the portfolio was worth EUR0.1m compared to EUR0.2m at the end of the prior year. All the investments held under the Trading Programme were in Romanian equities.

ADVISER'S REPORT (continued)
For the year ended 31 December 2016

Economic Overview

Both the Romanian and Bulgarian economies reported increases in GDP during 2016 of 4.8% and 3.4% respectively, and are expected to continue to grow during 2017. Increased private consumption is expected to be the main driver for Romania's GDP growth in 2017 (forecast at 4.4% by the European Commission), whilst Bulgaria is expected to benefit from the positive effect of investments, as a number of big infrastructure projects are to be launched in 2017 (with GDP growth in 2017 forecast at 2.9% in the latest European Commission report).

Events after the Reporting Period

On 23 February 2017, RC2 held an Extraordinary General Meeting to increase its authorised share capital by 17,000,000 non-voting, transferrable B shares of EUR1 nominal value, redeemable at the option of RC2. On 24 February 2017, 16,997,375 B shares were issued as a bonus to existing ordinary shareholders, being one B share for each 8.685 ordinary shares in issue, and all such B shares were redeemed during March and April 2017, with RC2 thereby returning EUR17m to its shareholders, being the bulk of the Albalact S.A. disposal proceeds.

On 19 April 2017, RC2 Cyprus Limited completed the disposal of its 93% interest in Top Factoring SRL, and Glasro Holdings Limited disposed of the whole of its non-performing loan book for a total cash consideration of approximately EUR13.1m.

A condition of the disposal was the acquisition by Glasro Holdings Limited of a 74.5% interest in Telecredit IFN SA ("Telecredit"), a Romanian non-banking financial institution that provides consumer loans, which is majority-owned by Cătălin Neagu, the founder and CEO of Top Factoring SRL. The cash consideration for the acquisition was EUR2.67m, and Glasro Holdings Limited also committed to making a EUR0.15m capital increase in Telecredit, bringing its total shareholding to 80%.

New Europe Capital SRL

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 New Europe Capital SRL (the "Adviser") 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 Adviser believes there is a clear exit strategy available, such as trade sale, break up and subsequent disposal of different divisions or assets, or 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 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 Adviser is involved at board level in the investee entity to seek to implement operational and financial changes to enhance returns. As part of the Company's pre-acquisition due diligence, the Adviser seeks to identify specific actions that it believes will create value in the target investee 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 investee. The Adviser believes 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.

Investing Restrictions and Cross-Holdings

The Directors and the Adviser have sought 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 Directors do not normally authorise any investment in a single investee that is greater than 20% 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 that is greater than 25% of the Company's net asset value at the time of effecting the investment.

Change of Investment Objective and Policy of the Company

Following the annual general meeting of the Company on 14 December 2012, the investment objective and policy of the Company were 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 paying outstanding liabilities and setting aside a sufficient amount for working capital purposes.

INVESTMENT POLICY (continued)

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.

REPORT OF THE DIRECTORS
For the year ended 31 December 2016

The Directors present their annual report together with the audited financial statements of Reconstruction Capital II Limited (the "Company") for the year ended 31 December 2016.

Activities and Business Review
The Company's principal activity is holding and managing of investments in Romania and other countries in South-East Europe. A summary of the Company's business review for the year ended 31 December 2016 is contained within the Adviser's report.

Accounting Policies
The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted for use in the European Union in accordance with Art. 3 of the IAS Regulation (EC) No. 1606/2002.

Share Capital
Details of the Company's authorised and issued share capital as at 31 December 2016 are contained in note 23 of the financial statements.

Results and Dividends
The revenue for the year amounted to EUR12,564,985 (2015: EUR1,644,404) and the net profit for the year amounted to EUR10,558,980 (2015: loss of EUR412,271).

The Directors do not recommend the payment of a dividend.

Events after the Reporting Period
Other than the matters disclosed in note 25, there have been no significant events after the reporting period that require disclosure in 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 at 31 December 2016:

	Ordinary Shares	
	Number	**% of issued share capital**
Mihai Rădoi	1,037,500	0.70%
Dirk Van den Broeck	3,533,651	2.39%
Markus Winkler	1,315,100	0.89%

REPORT OF THE DIRECTORS (continued)
For the year ended 31 December 2016

Board
During the year the Board of Directors comprised three Directors, all of whom are Independent Non-Executive Directors. The Directors have a range of business, financial and asset management skills and experience relevant to the direction and control of the Company.

Since all the day to day management responsibilities are subcontracted to the Administrator, the Company does not have a Chief Executive Officer as the roles are already effectively separated.

The Adviser has ensured that the Directors have had 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 twice each year, and additional meetings are arranged as necessary.

Due to the size of the Board, and the fact that the Directors were independent of the Adviser and all 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.

Audit Related 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 by the Adviser. The audit programme and timetable are drawn-up and agreed with the Company's Auditor 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 Auditor 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 has contracted the advisory and administration activities with third parties and has no employees.

The contracting parties themselves are responsible for paying their employees. The Board's 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 transactions with Directors are given in note 18 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.

REPORT OF THE DIRECTORS (continued)
For the year ended 31 December 2016

Directors' liability insurance
The Company 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 financial statements 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 that are issued by the Adviser which are distributed by e-mail. Copies are also available from the Adviser's office upon request and on the Company's website where the shareholders are able to access all the news and published information about the Company.

Going Concern
Following the annual general meeting of the Company on 22 December 2016, the life of the Company was extended for two years until the end of 2018. A further extension will be discussed at the Annual General Meeting scheduled for 2018.

The Company has made a profit during the year, which has reduced the retained deficit of the Company to EUR75,283,921.

The Directors have reasonable expectations and are satisfied that the Company 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 Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of the annual report and financial statements.

The financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB") and adopted by the European Union, and the AIM rules of the London Stock Exchange for companies with securities admitted to trading on AIM.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company'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 IASB's "Framework for the preparation and presentation of financial statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS.

REPORT OF THE DIRECTORS (continued)
For the year ended 31 December 2016

Directors' responsibilities (continued)
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 of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

Change of investment objective and policy of the Company
Following the annual general meeting of the Company on 14 December 2012, the investment objective and policy of the Company was 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 paying outstanding liabilities and setting aside a sufficient amount for working capital purposes.

Independent Auditor
The independent auditor, Grant Thornton (Cyprus) Ltd, have expressed their willingness to continue in office and the Directors intend to propose a resolution at their next meeting to reappoint them.

On behalf of the Board

Dirk Van den Broeck
Chairman

7 June 2017

Independent Auditor's Report to the Members of Reconstruction Capital II Ltd

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Reconstruction Capital II Ltd (the "Company"), which are presented in pages 17 to 54 and comprise the statement of financial position as at 31 December 2016, the statements of comprehensive income, changes in equity, and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Reconstruction Capital II Ltd as at 31 December 2016 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report to the Members of Reconstruction Capital II Ltd (continued)

Key audit matter	How the matter was addressed
Valuation and existence of unlisted investments designated at fair value through profit or loss The Company investment objective is to achieve long-term total return for shareholders primarily by investment in a diversified portfolio of unlisted equities in Romania. The investment portfolio as at 31 December 2016 amounted to €7.969.370 and is the main driver of the Company's performance. This area was assessed as one of the most significant risks of material misstatement due to the fact that unlisted investments do not have readily determinable prices and because of the degree of judgement exercised by management in determining the inputs used in the valuation models. The valuation methodology primarily used by the Company is based on discounted cash flow techniques making assumptions that are based on market conditions existing at the reporting dates. Unlisted investments are not safeguarded by an independent custodian. There is a risk that the Company may not have sufficient legal entitlement to these investments. Please refer to Notes 10, 11, 12 and 20.5 in the Financial Statements.	Our audit work included: • assessing whether the Company's accounting policy for the valuation of investments is in accordance with IFRSs and whether management has applied correctly its policy; • independently evaluating the key drivers used for valuing the unlisted equity portfolio. This process included a review of audited IFRS financial statements as well as budgets used in the preceding years for each investment to assess the reliability of management's budgeting procedures. Additionally the projected business plans were reviewed to assess the reasonableness of the assumptions used. An in-house valuation specialist was utilised to evaluate the methodology used by the external valuer and identify whether it was correctly applied. • assessing whether the financial statement disclosures, including fair value hierarchy information and sensitivity to key inputs, appropriately reflected the Company's exposure to financial instrument valuation risk in accordance with the requirements of the prevailing accounting standard and; • verifying the existence and legal ownership of investments by confirming holdings to legal certificates of the Companies' Registrar and by confirmations signed by the subsidiary.

Independent Auditor's Report to the Members of Reconstruction Capital II Ltd (continued)

Valuation of the loan receivable designated at fair value through profit or loss

The Company has a loan receivable of €28.330.995 from one of its subsidiaries that represents 52% of the total assets.

This matter was one of the most significant assessed risks of material misstatement since the Management considers the net asset value of its subsidiary to be its fair value, since its underlying assets and liabilities are carried at fair value or regarded as an approximation of fair value. No off-balance sheet items (eg. intangible assets) have been identified for which an adjustment would be required.

Please refer to Note 12 and 20.5 in the Financial Statements.

Our audit work included:

- obtaining the audited financial statements of the subsidiary, prepared under IFRS, to confirm the outstanding balance, verify its net asset value and assess whether it reflects its fair value and also whether this basis is considered reasonable.
- independently evaluating the key drivers used for valuing the underlying unlisted equity portfolio of the specific subsidiary, as described in the previous key audit matter.
- assessing whether the financial statement disclosures, including fair value hierarchy information and sensitivity to key inputs, appropriately reflected the Company's exposure to financial instrument valuation risk in accordance with the requirements of IFRSs.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Adviser's report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report to the Members of Reconstruction Capital II Ltd (continued)

Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

Independent Auditor's Report to the Members of Reconstruction Capital II Ltd (continued)

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditor's Report to the Members of Reconstruction Capital II Ltd (continued)

Other Matters

This report, including the opinion, has been prepared for and only for the Company's members as a body and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The consolidated financial statements of the Company for the year ended 31 December 2015 were audited by another auditor whose report dated 28 April 2016 expressed an unmodified opinion on those statements.

The engagement partner on the audit resulting in this independent auditor's report is Mrs Froso Yiangoulli.

Froso Yiangoulli
Certified Public Accountant and Registered Auditor
for and on behalf of

Grant Thornton (Cyprus) Ltd
Certified Public Accountants and Registered Auditors

Nicosia, ... 2017

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	Notes	2016 EUR	2015 EUR
Revenue			
Fair value gain/(loss) on financial assets at fair value through profit or loss		4,699,325	(6,210,170)
Gain on disposal of investments		-	170,498
Interest income		5,854,313	5,954,844
Dividend income	**4**	2,000,000	1,700,000
Other income		11,347	29,232
Total revenue		**12,564,985**	**1,644,404**
Expenses			
Operating expenses	**5**	(1,230,810)	(1,035,750)
Financial expenses	**6**	(775,195)	(977,821)
Total expenses		**(2,006,005)**	**(2,013,571)**
Profit/(loss) from continuing operations		**10,558,980**	**(369,167)**
Loss for the year from discontinued operations	**9**	-	(69,349)
Profit/(loss) for the year		**10,558,980**	**(438,516)**
Other comprehensive income			
Reclassification of foreign exchange differences to profit or loss		-	26,245
Total comprehensive income/(loss) for the year		**10,558,980**	**(412,271)**
Profit/(loss) for the year attributable to:			
- Owners of the Company		10,558,980	(372,605)
- Non-controlling interest		-	(39,666)
		10,558,980	**(412,271)**
Total comprehensive income/(loss) attributable to:			
- Owners of the Company		**10,558,980**	**(372,605)**
- from continuing operations		10,558,980	(369,167)
- from discontinued operations		-	(3,438)
- Non-controlling interest		**-**	**(39,666)**
- from continuing operations		-	-
- from discontinued operations		-	(39,666)
		10,558,980	**(412,271)**

The notes on pages 23 to 54 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME (continued)
For the year ended 31 December 2016

	Note	2016 EUR	2015 EUR
Total comprehensive income/(loss) from:			
- Continuing operations		10,558,980	(369,167)
- Discontinued operations		-	(69,349)
		10,558,980	**(438,516)**
Total Earnings Per Share attributable to the owners of the Company	**24**		
Basic undiluted earnings per share		0.0971	(0.0037)
Fully diluted earnings per share		0.0971	0.0036
Continuing operations Earnings Per Share attributable to the owners of the Company			
Basic undiluted earnings per share		0.0971	(0.0037)
Fully diluted earnings per share		0.0971	0.0036
Discontinued operations Earnings Per Share attributable to the owners of the Company			
Basic undiluted earnings per share		-	(0.00003)
Fully diluted earnings per share		-	(0.00002)

The notes on pages 23 to 54 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Notes	2016 EUR	2015 EUR
ASSETS			
Non-current assets			
Financial assets at fair value through profit or loss	**12**	36,300,265	4,995,164
Total non-current assets		**36,300,265**	**4,995,164**
Current assets			
Financial assets at fair value through profit or loss	**12**	-	41,158,753
Trade and other receivables	**13**	17,791	37,462
Cash and cash equivalents		18,004,241	269,719
Total current assets		**18,022,032**	**41,465,934**
TOTAL ASSETS		**54,322,297**	**46,461,098**
LIABILITIES			
Current liabilities			
Trade and other payables	**14**	138,006	123,061
Loans and borrowings	**15**	-	46,490
Total current liabilities		**138,006**	**169,551**
Non-current liabilities			
Convertible loan notes	**15**	-	8,934,201
TOTAL LIABILITIES		**138,006**	**9,103,752**
NET ASSETS		**54,184,291**	**37,357,346**

The notes on pages 23 to 54 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION (continued)
As at 31 December 2016

	Notes	2016 EUR	2015 EUR
EQUITY ATTRIBUTABLE TO OWNERS			
Share capital	**23**	1,476,223	1,000,000
Share premium		127,991,989	121,570,802
Retained deficit		(75,283,921)	(85,842,901)
Equity component of convertible loan notes		-	629,445
TOTAL EQUITY		**54,184,291**	**37,357,346**

	Notes	2016 EUR	2015 EUR
Net Asset Value per share			
Basic undiluted net asset value per share	**16**	0.3670	0.3736
Fully diluted net asset value per share	**16**	0.3670	0.2847

The financial statements were approved by the Board of Directors and authorised for issue on 7 June 2017.

Dirk Van den Broeck
Chairman

Mihai Rădoi
Director

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

	Share capital EUR	Share premium EUR	Foreign exchange reserve EUR	Retained (deficit)/ earnings EUR	Equity component of loan notes EUR	**Subtotal EUR**	Non-controlling interest EUR	**Total EUR**
Balance at 1 January 2015	1,000,000	121,570,802	(26,245)	(85,428,323)	629,445	**37,745,679**	277,603	**38,023,282**
Loss for the year	-	-	-	(372,605)	-	**(372,605)**	(39,666)	**(412,271)**
Reclassification of foreign exchange differences to profit or loss	-	-	26,245	-	-	**26,245**	15,123	**41,368**
Total comprehensive income/(loss) for the year	**-**	**-**	**26,245**	**(372,605)**	**-**	**(346,360)**	**(24,543)**	**(370,903)**
Discontinued operations	-	-	-	(41,973)	-	**(41,973)**	(253,060)	**(295,033)**
Transactions with owners	-	-	-	(41,973)	-	**(41,973)**	(253,060)	**(295,033)**
Balance at 31 December 2015	**1,000,000**	**121,570,802**	**-**	**(85,842,901)**	**629,445**	**37,357,346**	**-**	**37,357,346**
Profit for the year	-	-	-	10,558,980	-	**10,558,980**	-	**10,558,980**
Other comprehensive income	-	-	-	-	-	**-**	-	**-**
Total comprehensive loss for the year	**-**	**-**	**-**	**10,558,980**	**-**	**10,558,980**	**-**	**10,558,980**
Conversion of convertible loan notes	626,145	9,711,114	-	-	(629,445)	**9,707,814**	-	**9,707,814**
Repurchase and cancellation of own shares	(149,922)	(3,289,927)	-	-	-	**(3,439,849)**	-	**(3,439,849)**
Transactions with owners	476,223	6,421,187	-	-	(629,445)	**6,267,965**	-	**6,267,965**
Balance at 31 December 2016	**1,476,223**	**127,991,989**	**-**	**(75,283,921)**	**-**	**54,184,291**	**-**	**54,184,291**

The notes on pages 23 to 54 form an integral part of these financial statements.

CASH FLOW STATEMENT
For the year ended 31 December 2016

	2016 EUR	2015 EUR
Cash flows from operating activities		
Profit/(loss) before taxation	10,558,980	(412,271)
Adjustments for:		
Fair value (gain)/loss on financial assets at fair value through profit or loss	(4,699,325)	6,210,170
Gain on disposal of investments	-	(170,498)
Loss for the year from discontinued operations	-	16,859
Interest income	(5,854,313)	(5,954,844)
Financial expenses	775,152	977,294
Dividend income	(2,000,000)	(1,700,000)
Net loss on foreign exchange	43	527
Net cash outflow before changes in working capital	**(1,219,463)**	**(1,032,763)**
Decrease in trade and other receivables	19,671	2,043
Increase/(decrease) in trade and other payables	14,945	(391,797)
Purchase of financial assets	(2,710)	(535,000)
Disposals and repayments of financial assets	20,410,000	778,968
Dividends received	2,000,000	1,700,000
Net cash flows from continuing activities	21,222,443	521,451
Net cash flows from discontinued activities	-	20,296
Net cash generated by operating activities	**21,222,443**	**541,747**
Cash flows from financing activities		
Payments to purchase own shares	(3,439,849)	-
Loans received from subsidiaries	200,000	-
Repayment of loans from subsidiaries	(240,000)	-
Interest paid	(8,029)	(237,274)
Net cash flow generated from financing activities	**(3,487,878)**	**(237,274)**
Net increase in cash and cash equivalents before currency adjustment	**17,734,565**	**304,473**
Effects of exchange rate differences on cash and cash equivalents	(43)	(36,958)
Net increase in cash and cash equivalents after currency adjustment	**17,734,522**	**267,515**
Cash and cash equivalents at the beginning of the year	269,719	124,343
Cash and cash equivalents included in discontinued operations	-	(122,139)
Cash and cash equivalents at the end of the year	**18,004,241**	**269,719**

The notes on pages 23 to 54 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

1. Establishment

Reconstruction Capital II Limited (the "Company") was incorporated on 17 October 2005 in the Cayman Islands as a tax exempt company created to invest in private and listed equity and fixed income securities, including convertible and other mezzanine instruments, primarily in Romania, Bulgaria and Serbia. The Company was admitted to trading on AIM on 23 December 2005 and started trading on 27 January 2006. These financial statements show the results of the Company for the year ended 31 December 2016.

The Company generates returns for its Shareholders through two primary routes: by achieving 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, Serbia and Bulgaria (the Private Equity Programme), and by making portfolio investments in listed equities and fixed income securities, including convertible and other mezzanine instruments, issued primarily by Romanian, Serbian and Bulgarian entities (the Trading Programme) through its subsidiary, RC2 (Cyprus) Limited.

Change of investment objective and policy of the Company
Following the annual general meeting of the Company on 14 December 2012, the investment objective and policy of the Company was amended such that no new investments will be made. Further investments into existing portfolio companies are permitted in certain circumstances pending their realisation and, following each realisation, all proceeds will be returned to the Shareholders after paying outstanding liabilities and setting aside a sufficient amount for working capital purposes.

2. Principal accounting policies
2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), adopted for use in the European Union in accordance with Art. 3 of the IAS Regulation (EC) No. 1606/2002. The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets at fair value through profit or loss and under the going concern basis.

Following the annual general meeting of the Company on 22 December 2016, the life of the Company was extended for at least two years. A further extension will be discussed at the annual general meeting in 2018.

The Directors have reasonable expectations and are satisfied that the Company has adequate resources to continue its operations and meet its commitments for the foreseeable future and they continue to adopt the going concern basis for the preparation of the financial statements.

The preparation of financial statements in accordance 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 Company'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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

2. Principal accounting policies (continued)
2.1 Basis of preparation (continued)

Standards issued but not yet effective
Standards issued and not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective. The directors have not yet made an assessment of the impact of such standards on the Company's financial statements.

- IFRS 9 "Financial Instruments" (effective 1 January 2018)
- IFRS 15 "Revenue from Contracts with Customers" (effective 1 January 2018)
- IFRS 16 "Leases" (effective 1 January 2019)
- Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions" (effective 1 January 2018)
- Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (effective 1 January 2018)
- Amendment to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (postponed)
- Clarification to IFRS 15 "Revenue from Contracts with Customers" (effective 1 January 2018)
- Amendment to IAS 7 "Disclosure Initiative" (effective 1 January 2017)
- Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses" (effective 1 January 2017)
- IFRIC 22 "Foreign Currency transactions and Advance Consideration" (effective 1 January 2018)
- Annual improvements to IFRS 2014-2016 cycle (effective 1 January 2017/2018)
- Amendment to IAS 40 "Transfers of Investment Property" (effective 1 January 2018)

2.2 Revenue recognition

Revenue is wholly attributable to the principal activities of the Company. The Company's principal activities are the holding and managing of investments.

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

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 and unlisted securities is recognised when the right to receive payment is established. Other income mainly comprises interest received from credit institutions, investment management and administration fees.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

2. Principal accounting policies (continued)
2.3 Non-consolidated subsidiaries

The Company has determined that the definition of an investment entity (as defined in IFRS 10) applies to the Company in relation to some of its subsidiaries and entities (including special purpose entities) which the Company has invested in, as the following conditions exist:

- the Company has obtained funds for the purpose of providing investors with investment management services;
- the Company's business purpose, which was communicated directly to investors, is investing solely for returns from capital appreciation and investment income;
- the performance of investments is measured and evaluated on a fair value basis.

An investment entity does not present consolidated financial statements if it is required to measure all of its subsidiaries at fair value through profit or loss. An investment entity shall not consolidate its subsidiaries or apply IFRS 3 when it obtains control of another entity, except in limited circumstances, explained below. Instead, an investment entity shall measure an investment in a subsidiary at fair value through profit or loss in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'.

An investment entity is exempt from consolidation on the date it meets the classification of an investment entity, and the exemption ceases when the investment entity no longer qualifies. The only exception is for subsidiaries that provide services relating to the same investment activities, which are consolidated.

2.4 Foreign currency translation

2.4 a) Functional and presentational currency
Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Euros, which is the Company's functional and presentational currency.

2.4 b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses on non-monetary financial assets and liabilities such as equity investments held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

2.5 Operating segments

Operating segments are reported in a manner consistent with the internal reporting framework provided to the Chief Operating Decision Maker, which is considered to be the Board of Directors.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

2. Principal accounting policies (continued)
2.6 Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

2.6 a) Financial assets at fair value through profit or loss
Investments consist of mainly unlisted securities and are initially recognised at fair value, excluding transaction costs which are expensed in profit or loss.

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 Company's documented investment strategy.

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.

Realised and unrealised gains and losses arising from changes in the fair value of investments are recognised in profit or loss.

All purchases and sales of investment securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised on the trade date, which is the date on which the Company commits to purchase or sell the asset.

2.6 b) 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 plus transaction costs and subsequently at amortised cost, using the effective interest method. Such receivables are as a result of services provided to third parties. Receivable balances are measured at their recoverable amount based on management's expectation on recovery of the asset. Loans and receivables are reported net of impairment allowances.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

2. Principal accounting policies (continued)
2.6 Financial assets (continued)

2.6 b) Loans and receivables (continued)
An allowance for impairment of loan receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within 'Impairment on loans and receivables'. When a loan or receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against 'Impairment on loans and receivables' in profit or loss.

2.7 Cash and cash equivalents

Cash and cash equivalents include cash at bank and short-term highly liquid investments. Cash equivalents are highly liquid investments with original maturities of three months or less.

2.8 Financial liabilities

Financial liabilities are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form. The Company's accounting policies for its financial liabilities are as follows:

2.8 a) Trade and other payables
Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method.

2.8 b) Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is recognised as an expense in profit or loss immediately.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

2. Principal accounting policies (continued)

2.8 b) Borrowings (continued)

Borrowings are classified as current liabilities, unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

2.8 c) Convertible loan notes

Convertible loan notes are compound instruments as they have both equity and liability characteristics. The amounts of the liability and equity components are determined on initial recognition and are subsequently altered only by the effective interest recorded as liability.

The liability portion of convertible loan notes is classified as non-current liability, unless the Company has an unconditional obligation to repay the liability within twelve months after the reporting date at which point it is classified as current liability. The equity portion of the convertible loan notes is classified within equity component of convertible loans.

2.9 Fair value hierarchy

Financial assets and financial liabilities measured at fair value in the statement of financial position are categorised into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities, that the Company can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: unobservable inputs for the asset or liability (see note 20.5 for measurement basis for unobservable inputs).

2.10 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 issues 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.

2.11 Dividends

Equity dividends are recognised when they become legally payable. Interim and final equity dividends are recognised when approved by the shareholders at an annual general meeting.

2.12 Share premium

Share premium is stated net of share issue costs and is not distributable by way of dividend.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

2. Principal accounting policies (continued)
2.13 Profit or loss from discontinued operations

A discontinued operation is a component of the Company that either has been disposed of, or is classified as held for sale. Profit or loss from discontinued operations comprises the post-tax profit or loss of discontinued operations and the post-tax gain or loss resulting from the measurement and disposal of assets classified as held for sale.

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. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The fair value of balances for which estimates and assumptions have been made as at 31 December 2016 were as follows:

	2016 EUR	2015 EUR
Financial assets at fair value through profit or loss (*note 12*)	36,300,265	46,153,917

Critical accounting estimates and assumptions and critical judgements in applying the Company's accounting policies

(i) Functional currency
The Board of Directors considers the Euro as the currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The Euro is the currency in which the Company measures its performance and reports its results, as well as the currency in which it receives subscriptions from its investors. This determination also considers the competitive environment in which the Company is, compared to other European investment products.

(ii) Fair value of financial instruments
The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each reporting date.

The fair value of unlisted equity securities has been determined by independent valuers using DCF analysis. The DCF analysis is based on the investee company's management business plans for the period 2017-2021. The valuation methodology applied by the independent valuers is consistent with IFRS and International Valuation Standards ("IVS").

The critical inputs and assumptions applied in the valuations are stated in note 20.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

3. Critical accounting estimates and assumptions (continued)

(ii) Fair value of financial instruments (continued)
Based on the reports of independent valuers, Management has accepted the fair value estimations of unlisted equity investments as at 31 December 2016, which resulted in a fair value gain of EUR4.7m recognised in profit or loss (2015: fair value loss of EUR6.2m) (note 12).

(iii) Investment entity status
The Board of Directors considers that the Company meets the criteria set out in IFRS 10 'Consolidated Financial Statements' to be classified as an investment entity on the basis that the Company has:

- obtained funds from more than one investor for the purpose of providing those investors with investment management services;
- committed to its investors that its business purpose is to invest funds solely for returns from capital appreciation and investment income; and
- measured and evaluated its performance of all its investments on a fair value basis.

As a result of this classification, the Company is required to account for subsidiaries at fair value through profit or loss, except for subsidiaries providing services that are related to the Company's investment activity, which are consolidated.

Management has assessed that all of its subsidiaries (note 10) should be accordingly measured at fair value through profit or loss for the purposes of the financial statements as at 31 December 2016 and 2015.

New Europe Capital Limited, a subsidiary of the Company which was disposed of in December 2015, provides services related to investment activities and was consolidated up to the date of disposal.

4. Dividend income

	2016 EUR	2015 EUR
Glasro Holdings Limited	2,000,000	1,700,000

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

5. Operating expenses

		2016 EUR	2015 EUR
Advisory fees	(note 18)	847,517	753,965
Legal and professional fees		177,494	111,192
Administration and custodian fees		92,649	81,342
Directors' fees	(note 18)	65,000	25,844
Audit fees		23,688	23,712
Insurance premium		8,224	9,125
Bank charges		3,707	2,626
Other expenses		12,531	27,944
		1,230,810	1,035,750

Advisory fees
New Europe Capital SRL, the Adviser, received an advisory fee equivalent to 2.25% per annum of the average monthly net asset value of the Company, which was accrued and invoiced on a monthly basis.

The Company reimburses the Adviser in respect of its out-of-pocket expenses (including reasonable travel expenses) incurred in connection with the performance of its duties.

The Adviser is 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). The performance fee shall accrue quarterly and be payable annually in arrears (pro rata for partial periods) within three months after the end of each calendar year.

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 total performance fee for the year was EUR nil (2015: EUR nil).

Administrator and custodian fees
The current administrator and custodian, Sanne Fiduciary Services Limited, receives a variable monthly fee based on the Company's NAV, payable quarterly in arrears. An amount of EUR28,386 was outstanding at the year end (2015: EUR18,622).

Directors' fees
The Directors are considered to be key management personnel of the Company. The remuneration of each Director is detailed in note 18. During the prior year, accrued directors' fees of EUR42,307 were written off in respect of former directors, who had waived their entitlements.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

5. Operating expenses (continued)

Directors' fees (continued)
In addition, the Directors were entitled to be reimbursed for their reasonable out of pocket expenses incurred in discharging their duties as directors. During the current and prior years, the Directors did not benefit from long term incentive schemes or post-employment benefits and no Director made gains from exercising share options.

6. Financial expenses

	2016 EUR	2015 EUR
Interest expense	775,152	977,294
Net loss on foreign exchange	43	527
	775,195	977,821

During the year, the Company incurred interest on the following loans:

		2016 EUR	2015 EUR
Effective interest on convertible loan notes		773,613	957,236
Interest on outstanding advisory fees	(note 18)	-	17,758
Loan from Glasro Holdings Limited		1,381	-
Loan from S.C. Policolor SA		158	2,300
		775,152	977,294

Advisory fee interest
On 31 October 2011, the Directors of the Company resolved to accrue interest at a rate of 10% per annum on all advisory fees outstanding for more than one month.

7. Income tax

The Company 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).

8. Tax on components of other comprehensive income

The components of other comprehensive income are not subject to tax.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

9. Discontinued operations

On 8 December 2015, the Company's holding in New Europe Capital Limited was sold for a consideration of EUR20,296. At the date of disposal, the carrying amounts of New Europe Capital Limited's net assets were as follows:

	2015 EUR
Trade and other receivables	28,115
Corporation tax recoverable	2,526
Cash and cash equivalents	349,600
Total current assets	380,241
Trade and other payables	(106,663)
Total current liabilities	(106,663)
Total net assets	273,578

	2015 EUR
Net assets attributable to the Company	20,518
Cash received	(20,296)
Reclassification of foreign exchange differences from other comprehensive income	26,245
Loss on disposal	26,467

The loss on disposal is included in the loss for the year from discontinued operations in the statement of comprehensive income.

Operating loss of New Europe Capital Limited until the date of disposal is summarised as follows:

	2015 EUR
Interest income	858
Operating expenses	(37,519)
Depreciation	(6,221)
Loss for the period until date of disposal	(42,882)
Company's share of New Europe Capital Limited's loss for the period until date of disposal	(3,216)

The total combined loss on disposal of discontinued operations of EUR26,467 and operating loss of discontinued operations of EUR42,882 amounted to EUR69,349.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

10. Subsidiaries

The following subsidiaries of the Company are exempt from consolidation under the requirements of IFRS 10 on consolidation for investment entities:

	Country of incorporation	Proportion of ownership interest 2016	2015
Holding company: Reconstruction Capital II Limited			
RC2 (Cyprus) Limited	Cyprus	100%	100%
Glasro Holdings Limited	Cyprus	100%	100%
Holding company: RC2 (Cyprus) Limited			
Top Factoring SRL	Romania	92%	92%
Mamaia Resort Hotels SRL	Romania	63%	63%
Klas DOO	Serbia	52%	52%

The Company also held a 7.5% interest in New Europe Capital Limited, a company incorporated in the United Kingdom. New Europe Capital Limited had issued a class of share capital that did not have voting rights. Consequently, the voting power held by the Company was 60%, but its economic interest was 7.5%. As a result, the non-controlling interests held 40% of the voting power, with an economic interest of 92.5%. On 8 December 2015, the Company disposed of its entire holding in New Europe Capital Limited.

11. Associates

The following associates of the Company are held through RC2 (Cyprus) Limited:

	Country of incorporation	Proportion of ownership interest 2016	2015
S.C. Policolor SA	Romania	40%	40%
S.C. Albalact SA	Romania	0%	25%

12. Financial assets at fair value through profit or loss

	2016 EUR	2015 EUR
Non-current investments		
Investments in subsidiaries	7,969,270	4,995,164
Loan receivable	28,330,995	-
	36,300,265	4,995,164
Current investments		
Loan receivable	-	41,158,753

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

12. Financial assets at fair value through profit or loss (continued)

12.1 Investments in subsidiaries

	2016 EUR	2015 EUR
Cost	76,534,050	76,534,050
Unrealised loss on investments	(68,564,780)	(71,538,886)
Fair value of non-current investments	7,969,270	4,995,164

Included in investments in subsidiaries is an investment in RC2 (Cyprus) Limited, a wholly-owned subsidiary of the Company, with a fair value of EUR nil at the year end (2015: EUR nil).

During the year ended 31 December 2016, based on the reports of independent valuers, the Company reviewed the value of unlisted equity securities measured at fair value through profit or loss, resulting in a fair value gain of EUR3.0 million (2015: EUR0.6 million).

12.2 Loan receivable at fair value through profit or loss

	2016 EUR	2015 EUR
Loan to unconsolidated subsidiary	28,330,995	41,158,753
Amounts due for settlement within 12 months	-	41,158,753
Amounts due for settlement after more than 12 months	28,330,995	-

Included in the balance of loan to unconsolidated subsidiary is a loan to RC2 (Cyprus) Limited, which bears interest of 8% per annum on the outstanding principal. The loan was repayable on demand, however on 26 May 2017, and effective from 31 December 2016, the Company signed an addendum to the loan agreement with RC2 (Cyprus) Ltd, whereby the Company will not impose the repayment of the outstanding amount or part of the outstanding amount until 31 December 2017.

	2016 EUR	2015 EUR
Changes in loan receivable		
Opening balance	41,158,753	42,579,000
Loan amounts granted	2,711	-
Loan repayments	(20,410,000)	(608,471)
Interest income	5,854,312	5,954,844
Fair value gain/(loss) on loan receivable	1,725,219	(6,766,620)
	28,330,995	41,158,753

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

12. Financial assets at fair value through profit or loss (continued)

12.2 Loan receivable at fair value through profit or loss (continued)

See note 20.5 for further information on financial assets at fair value through profit or loss.

13. Trade and other receivables

	2016 EUR	2015 EUR
Trade and other receivables	478	29,232
Prepayments	17,313	8,230
	17,791	37,462

14. Trade and other payables

		2016 EUR	2015 EUR
Trade payables			19,358
Advisory fees and interest	(note 18)	93,904	61,671
Directors' fees and expenses	(note 18)	-	6,960
Administration fees		28,386	18,622
Other payables and accruals		15,716	16,450
		138,006	123,061

15. Borrowings

	2016 EUR	2015 EUR
Secured and unsecured borrowing at amortised cost		
Convertible loan notes	-	8,934,201
Loans from other related parties	-	46,490
	-	8,980,691
Amounts due for settlement within 1 year	-	46,490
Amounts due for settlement between 1 and 2 years	-	8,934,201
	-	8,980,691

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

15. Borrowings (continued)

	2016 EUR	2015 EUR
Changes in borrowings		
Opening balance	8,980,691	8,021,155
Proceeds from new loans	200,000	-
Repayments	(248,029)	-
Interest charge	775,152	959,536
Conversion of loan to equity	(9,707,814)	-
	-	8,980,691

The Company had the following loans:

a. Secured convertible notes were issued on 31 October 2014 in the sum of EUR8,450,000. The secured convertible loan notes bore interest of 10% p.a. and both interest and principal were repayable on 30 October 2017, should no conversion take place. The secured convertible loan noteholders had the right to convert EUR1.00 of outstanding amount of principal of secured convertible loan note into 7.41 new ordinary shares but forfeit any interest on conversion. Subject to the above, the Company also had the option to partially repay or fully repay the secured convertible loan notes at any time, with at least 45 days prior written notice. No early repayment penalties applied unless the repayment occurred prior to the date falling 6 months after the issue date in which case the repayment included interest accrued during the period.

   Security was held over the totality of shares registered in the name of the Company in the following assets:
   - RC2 (Cyprus) Limited; and
   - Glasro Holdings Limited

   Included in the opening balance above, there is an amount of EUR6,351,488 of principal and accrued interest held by related parties (note 18.3).

   The loan was converted into ordinary shares during the year.

b. An unsecured loan of EUR40,000 was provided by Policolor SA, a portfolio company, on 12 February 2013. The loan bore interest of 5.75% p.a. All interest was repayable either at the request of the lender or upon maturity.

   A total of EUR46,490 was outstanding at 31 December 2015 and classified as due to be settled within 12 months. The loan was subsequently renewed for one year, and was fully repaid on 25 January 2016.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

15. Borrowings (continued)

c. An unsecured loan of EUR200,000 was provided by Glasro Holdings Limited, a wholly-owned subsidiary, on 12 August 2016. The loan bore interest of 6% p.a. The loan and interest were repaid in full on 29 September 2016.

16. Net Asset Value

	2016 EUR	2015 EUR
Net assets	54,184,291	37,357,346
Closing number of shares (undiluted)	147,622,267	100,000,000
Net asset value per share (undiluted)	0.3670	0.3736

	2016 EUR	2015 EUR
Net assets	54,184,291	37,357,346
Adjustments for:		
Convertible loan notes	-	7,820,554
Convertible loan notes accrued interest	-	1,113,647
Net assets (adjusted)	54,184,291	46,291,547
Number of shares (undiluted)	147,622,267	100,000,000
Shares from conversion of convertible loan notes	-	62,614,500
Closing number of shares (fully diluted)	147,622,267	162,614,500
Net asset value per share (fully diluted)	0.3670	0.2847

17. Pledges and guarantees

The Company provided a pledge in respect of convertible loan notes issued in the amount of EUR8,450,000. Security was held over the totality of shares registered in the name of the Company in the following assets:

- RC2 (Cyprus) Limited; and
- Glasro Holdings Limited

Please refer to note 15(a) for further details in respect of the above mentioned loan.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

17. Pledges and guarantees (continued)

The Company also provided a pledge to Raiffeisen Bank S.A. in relation to a secured loan provided to Glasro Holdings Limited, a subsidiary of the Company, in the maximum amount of EUR10,000,000 (2015: EUR10,000,000), of which EUR9,027,592 had been drawn down as at 31 December 2016 (2015: EUR7,559,034). Security for this loan was held over the following assets, registered in the name of the Company or its subsidiaries:

- 116,271,000 shares in S.C. Albalact SA.

On 14 March 2016, the Company issued a Corporate Guarantee in favour of Raiffeisen Bank S.A. for a maximum amount of EUR10,000,000, which replaced the original pledge.

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.

18.1 Key management compensation

	2016 EUR	2015 EUR
Advisory fees	847,517	753,965
Directors' fees	65,000	25,844
	912,517	779,809

a. Advisory fees (note 5)

New Europe Capital SRL was the Adviser to the Company during the year. The advisory fees are accrued and are payable monthly in arrears. Total advisory fees for the year amounted to EUR847,517 (2015: EUR753,965). Total fees outstanding as at 31 December 2016 were EUR93,904 (2015: EUR61,671).

There were no performance fees paid or payable in respect of 2016 (2015: nil).

Advisory fees which are unpaid for over a month attract an interest of 10% (2015: 10%) on the entire balance.

	2016 EUR	2015 EUR
Interest charged on outstanding amounts		
New Europe Capital Limited	-	256
New Europe Capital SRL	-	3,267
New Europe Capital DOO	-	14,235
	-	17,758

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

18. Related party transactions (continued)

18.1 Key management compensation (continued)

b. Directors' fees (note 5)

		2016 EUR	2015 EUR
Howard I. Golden	*(resigned 15 February 2015)*	-	3,781
Markus Winkler		20,000	20,000
Dirk Van den Broeck		25,000	24,370
Mihai Rădoi		20,000	20,000
Waiver of fees		-	(42,307)
		65,000	25,844

18.2 Trade and other payables to related parties (note 14)

	2016 EUR	2015 EUR
Advisory fees	93,904	61,671
Directors' fees and expenses	-	6,960
	93,904	68,631

18.3 Related parties' interests

	2016		2015	
Ordinary shares	**Number**	**% of issued share capital**	**Number**	**% of issued share capital**
Held by directors				
Mihai Rădoi	1,037,500	0.70%	500,000	0.50%
Dirk Van den Broeck	3,533,651	2.39%	2,036,831	2.04%
Markus Winkler	1,315,100	0.89%	500,000	0.50%
Held by other related parties				
Ion Florescu	81,862,859	55.45%	35,846,759	35.85%

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

18. Related party transactions (continued)

18.3 Related parties' interests (continued)

Convertible loan notes	2016 Amount EUR	2016 % of issued convertible loan notes	2015 Amount EUR	2015 % of issued convertible loan notes	Accrued interest EUR
Held by directors					
Dirk Van den Broeck	-	0.00%	202,000	2.39%	26,622
Markus Winkler	-	0.00%	110,000	1.30%	14,497
Howard Golden	-	0.00%	151,000	1.79%	19,901
Held by other related parties					
Ion Florescu	-	0.00%	5,148,000	60.92%	679,468

18.4 Loans payable to related parties (note 15(b) and 15(c))

	2016 EUR	2015 EUR
Loan payable to Policolor S.A.	-	46,490

18.5 Interest expense on loans payable to related parties

	2016 EUR	2015 EUR
Policolor S.A.	158	2,300
Glasro Holdings Limited	1,381	-
	1,539	2,300

18.6 Dividend income from subsidiaries (note 4)

	2016 EUR	2015 EUR
Glasro Holdings Limited	2,000,000	1,700,000

18.7 Loan to unconsolidated subsidiary

The details of the loan to RC2 (Cyprus) Limited are disclosed in note 12.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

18. Related party transactions (continued)

18.8 Pledges and guarantees in respect of subsidiaries

The Company provided a pledge to Raiffeisen Bank S.A. in relation to a secured loan provided to Glasro Holdings Limited in the maximum amount of EUR10,000,000 (2015: EUR10,000,000), of which EUR9,027,592 had been drawn down as at 31 December 2016 (2015: EUR7,559,034). On 14 March 2016, the Company issued a Corporate Guarantee in favour of Raiffeisen Bank S.A. for a maximum amount of EUR10,000,000, which replaced the original pledge. For further details, see note 16.

19. Financial instruments

The carrying amount of each class of financial instruments in the statement of financial position is as follows:

	2016 EUR	2015 EUR
Financial assets at fair value through profit or loss		
Investments in subsidiaries	7,969,270	4,995,164
Loan receivable	28,330,995	41,158,753
	36,300,265	46,153,917
Financial assets at amortised cost		
Trade and other receivables	478	29,232
Cash and cash equivalents	18,004,241	269,719
	18,004,719	298,951
Financial liabilities at amortised cost		
Trade and other payables	138,006	123,061
Loans and borrowings	-	46,490
Convertible loan notes	-	8,934,201
	138,006	9,103,752

20. Financial risk management

The Company is exposed to the following financial risks resulting from its financial instruments: market risk, credit risk and liquidity risk.

The Company's risk management is coordinated by its Board of Directors, which manages the assets to achieve the investment objectives.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

20. Financial risk management (continued)
20.1 Market risk

The Company is exposed specifically to interest rate risk and price risk, which result from both its operating and investing activities.

The Company 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, Serbia, Bulgaria and neighbouring 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.

The Company measures these risks by monitoring its exposure to certain markets, industries and countries, with details of these exposures as follows:

Sector	2016 EUR	2015 EUR
Investments in non-performing loans	7,969,270	4,995,164
Holding of private equity investments	28,330,995	41,158,753
	36,300,265	46,153,917

i. Interest rate risk

The Company 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 Company's exposure to interest rate risks. It includes the Company's assets and liabilities at fair values.

	Interest bearing		Non-interest
	Fixed	Floating	bearing
31 December 2016	**EUR**	**EUR**	**EUR**
Trade and other receivables	-	-	478
Cash and cash equivalents	-	18,004,241	-
Total assets	-	18,004,241	478
Trade and other payables	-	-	138,006
Total interest sensitivity gap	-	18,004,241	(137,528)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

20. Financial risk management (continued)
20.1 Market risk (continued)

i. Interest rate risk (continued)

	Interest bearing		Non-interest
	Fixed	Floating	bearing
31 December 2015	**EUR**	**EUR**	**EUR**
Trade and other receivables	-	-	29,232
Cash and cash equivalents	-	269,719	-
Total current assets	-	269,719	29,232
Trade and other payables	-	-	123,061
Loans and borrowings - current	40,000	-	6,490
Loans and borrowings - non-current	7,820,554	-	1,113,647
Total liabilities	7,860,554	-	1,243,198
Total interest sensitivity gap	(7,860,554)	269,719	(1,213,966)

Should interest rates have been lower by 25 basis points, with all other variables remaining constant, and the cash level remaining constant during the year, the decrease in post-tax profit/(loss) and equity attributable to holders of ordinary shares would amount to approximately EUR45,011 (2015: EUR674). These changes are considered to be reasonable in the opinion of the Directors, based on observations of current market conditions. An increase in interest rates would have an equal and opposite effect on the post-tax profit/(loss) and equity attributable to holders of ordinary shares.

ii. Price risk

The Company trades in financial instruments, taking positions in unlisted instruments. All investments in securities represent a risk of loss of capital. The Company's equity securities are susceptible to market price risk arising from uncertainties about future prices of the instruments. The exposure to price risk of unlisted equity investments is presented in note 20 under "Fair value information".

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

20. Financial risk management (continued)
20.2 Credit risk

The Company is exposed to credit risk as a result of holding financial assets at fair value through profit or loss, cash balances, trade and other receivables and loans receivable. The maximum exposure to credit risk at 31 December is:

		2016 EUR	2015 EUR
Trade and other receivables		478	29,232
Cash and cash equivalents		18,004,241	269,719
Financial guarantee contracts	(note 17)	10,000,000	-
		28,004,719	298,951

Trade and other receivables and cash and cash equivalents are classified as loans and receivables, therefore the total credit risk exposure to loans and receivables is EUR18,004,719 (2015: EUR298,951).

The credit quality of these loans receivable is based on the financial performance of the individual portfolio companies, for which there are no available credit ratings. Management uses other qualitative data such as discounted cash flow projections, and the Adviser consults on the default risk of portfolio companies, with approval from the Board of Directors. For those assets that are not past due, it is believed that the risk of default is low, and the capital repayments and interest payments will be made in accordance with the agreed terms and conditions. No terms or conditions have been renegotiated.

There are no trade and other receivables which are past due or impaired, nor is there any reason to believe that the trade and other receivables balance of EUR478 (2015: EUR29,232) will not be fully recovered.

The Company's cash and cash equivalents are held with regional and foreign banks and are diversified appropriately. The Moody's credit ratings of the banks where the Company held cash and cash equivalents was Aa2 (2015: Aa2).

In accordance with the Company's policy, the Adviser monitors credit risk on a daily basis, and management reviews it on a quarterly basis.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

20. Financial risk management (continued)
20.3 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity needs through the ability to borrow in the short term from shareholders and the cash inflows of dividends from its unlisted investments.

The table below sets out the Company's contractual undiscounted cash flows. The fair values of amounts due within 12 months equal their carrying value, as the impact of discounting is not significant.

	Less than 1 month EUR	Less than 1 year EUR	1-2 years EUR	2-5 years EUR	No stated maturity EUR
31 December 2016					
Trade and other payables	124,506	13,500	-	-	-
	124,506	13,500	-	-	-
31 December 2015					
Trade and other payables	106,611	16,450	-	-	-
Current loans and borrowings	46,490	-	-	-	-
Non-current loans and borrowings	-	-	10,987,315	-	-
	153,101	16,450	10,987,315	-	-

20.4 Capital management and procedures

The current Company 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 maximise the return to shareholders while maintaining a capital base to allow the Company to operate effectively in the marketplace and sustain the future development of the business.

The Company's capital is summarised in the statement of changes in equity and consists of share capital, share premium and retained deficit.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

20. Financial risk management (continued)
20.4 Capital management and procedures (continued)

The amounts managed as capital by the Company for the reporting periods under review are summarised as follows:

	2016 EUR	2015 EUR
Capital	54,184,291	37,357,346
Cash and cash equivalents	(18,004,241)	(269,719)
Capital amount used for calculating gearing	36,180,050	37,087,627
Capital	54,184,291	37,357,346
Borrowings	-	8,980,691
Overall financing	54,184,291	46,338,037
Proportion of capital to overall financing	67%	80%

The Company has complied with its maximum level of gearing of 30% of gross assets, in accordance with the Company's Admission Document, with the current gearing level standing at 0% (2015: 19%) of gross assets.

The Company'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 effecting the investment.

20.5 Fair value information

All of the Company's investments are carried at fair value. Usually the fair value of the financial instruments can be reliably determined within a reasonable range of estimates.

The carrying amounts of the Company's loans and receivables and financial liabilities at amortised cost at the reporting date approximate their fair value.

Estimation of fair values
The major methods and assumptions used in estimating the fair values of financial instruments classified as Level 3 are disclosed in note 3 and below. As the major methods and assumptions used in estimating the fair values are subjective, the Company has conducted a sensitivity analysis on key areas based on the Adviser's reasonable expectations.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

20. Financial risk management (continued)
20.5 Fair value information (continued)

Estimation of fair values (continued)
The Company undertakes valuations of its investments as at each financial reporting date. The determination of fair value is supported by an independent valuer which is engaged to perform the valuation of the investments upon Board of Directors' decision. The selection of the independent valuer is at the discretion of the Company's Board of Directors. The independent valuer follows up a documented valuation procedure when determining the amount that is most representative for the fair value by describing:

- the appropriate valuation techniques to be used;
- the market conditions and the information available;
- the investment horizon and the type of investment;
- the industry in which the investee operates.

The Board of Directors reviews and approves the valuation reports prepared by the independent valuer.

In 2016 the Company used an adjusted net asset approach to value its investments in subsidiaries at fair value through profit or loss. Estimates of the value of an entity can be developed using the adjusted net asset approach by adjusting the entity's statement of financial position to approximate current market values of its assets and liabilities. The adjusted net asset approach is a way of determining a value indication of an entity's assets and/or equity interest using one or more methods. The most common method within this approach is the Net Asset Value, Net Asset Value representing net equity of the entity after assets and liabilities have been adjusted to their fair values.

In the case of financial companies, the estimation of cash flows could not be performed without estimating reinvestments, and estimating the expected future growth becomes more difficult if the reinvestment rate cannot be measured. Hence, it makes more sense to value equity directly, rather than the entire entity. From the analysis of its operations, Glasro Holdings Limited has all the characteristics of a financial company.

The adjusted net asset valuation of a financial company requires valuing the loan portfolio (which comprises its assets) and subtracting the outstanding debt to estimate the value of equity. As at 31 December 2016, all assets and liabilities included in the statement of financial position of Glasro Holdings Limited were recorded at fair value. The equity value of Glasro Holdings Limited amounted to EUR7,953,770.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

20. Financial risk management (continued)
20.5 Fair value information (continued)

Estimation of fair values (continued)
Glasro Holdings Limited
Glasro Holdings Limited was valued by an independent valuer as at 31 December 2016 using an adjusted net asset approach.

As at 31 December 2016, if the net assets of Glasro Holdings Limited increased or decreased by 5%, the effect from the corresponding change on the fair value of the investment would be reflected as follows in the financial statements of the Company:

- 5% increase: increase in the Company's total assets of 0.73% or EUR397,689 and an increase in the Company's post-tax profit of 3.77% or EUR397,689;
- 5% decrease: decrease in the Company's total assets of 0.73% or EUR397,689 and a decrease in the Company's post-tax profit of 3.77% or EUR397,689.

RC2 (Cyprus) Limited
The Company's investment in RC2 (Cyprus) Limited as at 31 December 2016 represents the fair value of its net assets.

As at 31 December 2016, if the net assets of RC2 (Cyprus) Limited increased or decreased by 5%, the effect from the corresponding change on the fair value of the investment would be reflected as follows in the financial statements of the Company:

- 5% increase: increase in the Company's total assets of 2.61% or EUR1,416,550 and an increase in the Company's post-tax profit of 13.42% or EUR1,416,550;
- 5% decrease: decrease in the Company's total assets of 2.61% or EUR1,416,550 and a decrease in the Company's post-tax profit of 13.42% or EUR1,416,550.

Fair value hierarchy
IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 establishes a three-tier fair value hierarchy that prioritises the inputs to valuation techniques to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and lowest priority to unobservable inputs (level 3 measurement). The three levels of the fair value hierarchy under IFRS 7 are described below:

Level 1	quoted prices (unadjusted) in active markets for identical assets or liabilities, that the Company can access at the measurement date;
Level 2	inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
Level 3	unobservable inputs for the asset or liability.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

20. Financial risk management (continued)
20.5 Fair value information (continued)

Fair value hierarchy (continued)
The following tables present the financial assets at fair value through profit or loss by level within the valuation hierarchy:

31 December 2016	Level 1 EUR	Level 3 EUR	Total EUR
Assets			
Investments in subsidiaries	-	7,969,270	7,969,270
Loan to subsidiary	-	28,330,995	28,330,995
	-	36,300,265	36,300,265
31 December 2015			
Assets			
Investments in subsidiaries	-	4,995,164	4,995,164
Loan to subsidiary	-	41,158,753	41,158,753
	-	46,153,917	46,153,917

Investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) were as follows:

	2016 EUR	2015 EUR
Balance at 1 January	4,995,164	3,903,713
Total gains or losses for the year:		
Unrealised fair value gain/(loss)	2,974,106	556,451
Purchases	-	535,000
Balance at 31 December	7,969,270	4,995,164
Total unrealised loss from assets still held at year end	(68,564,780)	(71,538,886)

The above amounts are in respect of assets held at year end.

Refer to note 12.2 for changes in the loan receivable.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

21. Operating segments

According to its Admission Document, the Company's main objective is 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 (the Private Equity Programme), and to make portfolio investments in listed equities and fixed income securities (the Trading Programme) through its subsidiary, RC2 (Cyprus) Limited. On this basis, the Chief Operating Decision Maker, which is considered to be the Board of Directors, has identified its operating segments.

Reportable segments
The Directors have identified a single operating segment based on the Company's current operations.

31 December 2016	Unlisted Private Equity Programme EUR	Other Items EUR	Total EUR
Reportable segment total assets	36,300,265	18,022,032	54,322,297
Reportable segment profit/(loss) before tax	12,564,985	(2,006,005)	10,558,980
Reportable segment total liabilities	-	(138,006)	(138,006)
Fair value gain on investments at FVTPL	4,699,325	-	4,699,325
Interest income	5,854,313	-	5,854,313
Dividends	2,000,000	-	2,000,000
Other income	11,347	-	11,347
Interest expense	-	(773,771)	(773,771)
Other expenses	-	(1,232,234)	(1,232,234)
31 December 2015			
Reportable segment total assets	46,153,917	307,181	46,461,098
Reportable segment profit/(loss) before tax	1,644,404	(1,999,074)	(354,670)
Reportable segment total liabilities	-	9,103,752	9,103,752
Fair value loss on investments at FVTPL	(6,039,672)	-	(6,039,672)
Interest income	5,954,844	-	5,954,844
Dividends	1,700,000	-	1,700,000
Other income	29,232	-	29,232
Interest expense	-	(977,821)	(977,821)
Other expenses	-	(1,035,750)	(1,035,750)
Loss for the year from discontinued operations	-	(16,859)	(16,859)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

21. Operating segments (continued)

Out of the total balance of EUR18,022,032, an amount of EUR18,003,938 is cash at bank.

The investments held under the private equity programme are domiciled in Cyprus.

22. Reserves

Reserve	Description and purpose
Share capital	Par value of a share multiplied by the number of shares issued
Share premium	Amount subscribed for share capital in excess of nominal value
Retained earnings/(deficit)	Cumulative net gains and losses recognised in the statement of comprehensive income, and cumulative transfers from other recognised reserves, where permitted or required
Equity component of convertible loan notes	Allocation of equity part of convertible loan notes issued by the Company
Foreign exchange reserve	Reserve where cumulative gains and losses arising on translation of foreign operations, as reflected in other comprehensive income are held until the operation is disposed of

23. Share capital

	2016		2015	
	Number of shares	EUR	Number of shares	EUR
Authorised				
Ordinary shares of EUR0.01 each	300,000,000	3,000,000	300,000,000	3,000,000
Issued and fully paid				
Ordinary shares of EUR0.01 each	147,622,267	1,476,223	100,000,000	1,000,000

	2016		2015	
	Number of shares	EUR	Number of shares	EUR
Share capital at 1 January	100,000,000	1,000,000	100,000,000	1,000,000
Share cancellations	(14,992,233)	(149,922)	-	-
Share issued from convertible loan notes	62,614,500	626,145	-	-
	147,622,267	1,476,223	100,000,000	1,000,000

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

24. Earnings per share

	2016 EUR	2015 EUR
Earnings		
Earnings for the purposes of basic earnings per share, being net profit attributable to owners of the Company	10,558,980	(372,605)
Number of shares		
Weighted average number of shares for the purposes of basic undiluted earnings per share	108,766,919	100,000,000
Basic undiluted earnings per share	**0.0971**	**(0.0037)**
Earnings		
Earnings for the purposes of basic earnings per share, being net profit attributable to owners of the Company	10,558,980	(372,605)
Adjustment for effective interest on convertible loan notes	-	957,236
Earnings for the purposes of diluted earnings per share, being net profit attributable to owners of the Company after adjusting for effective interest on convertible loan notes	10,558,980	584,631
Number of shares		
Weighted average number of shares based on full conversion of loan notes with a value of EUR8,450,000 at a rate of 7.41 new ordinary shares for EUR1 of convertible loan note principal	-	62,614,500
Weighted average number of shares for the purposes of fully diluted earnings per share	108,766,919	162,614,500
Fully diluted earnings per share	**0.0971**	**0.0036**

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2016

25. Events after the reporting period

B shares

On 23 February 2017, the Company held an Extraordinary General Meeting to increase the authorised share capital of the Company by 17,000,000 non-voting, transferrable B shares of EUR1 nominal value, which are redeemable at the option of the Company.

On 24 February 2017, the Company issued 1 B share for each 8.685 ordinary shares in issue for no consideration, resulting in an increase in the issued share capital of 16,997,375 shares.

The B shares were redeemable on 14 April 2017, unless the shareholders requested an early redemption, in which case they were redeemable on 6 March 2017.

A total of 10,089,154 shares was redeemed on the early redemption date and the balance of 6,908,221 shares was redeemed on 14 April 2017.

Private Equity Programme

On 19 April 2017, RC2 Cyprus Limited completed the disposal of its 93% interest in Top Factoring SRL, and Glasro Holdings Limited disposed of the whole of its non-performing loan book for a total cash consideration of approximately EUR13.26m.

A condition of the disposal was the acquisition by Glasro Holdings Limited of a 74.5% interest in Telecredit IFN SA ("Telecredit"), a Romanian non-banking financial institution that provides consumer loans (the "Acquisition"), which is majority-owned by Cătălin Neagu, the founder and CEO of Top Factoring SRL. The cash consideration for the Acquisition was EUR2.67m, and Glasro Holdings Limited also committed to making a EUR0.15m capital increase in Telecredit, bringing its total shareholding to 80%.

RC2 (Cyprus) Limited loan receivable

On 26 May 2017, the Company signed an addendum to the loan agreement with RC2 (Cyprus) Limited. Further information has been disclosed in Note 12.2 above.