

6 October 2014

**Reconstruction Capital II Limited (the "Company")**

**Proposed issue of €8,450,000 nominal value Convertible Loan Notes**

**Continuation of the life of the Company**

**Notice of Extraordinary General Meeting**

Reconstruction Capital II Ltd ("RC2, the "Company" or the "Group"), announces that it is today posting an explanatory circular (the "**Circular**") to the shareholders of the Company incorporating formal notice of a general meeting (the "**General Meeting**") to seek the approval of Shareholders for a proposed issue of €8,450,000 nominal value Convertible Loan Notes (the "**Notes**") together with the continuation of the life of the Company (the "**Continuation**"). The General Meeting will be held at 10.00 a.m. on 29 October 2014 at the offices of Sanne Fiduciary Services Limited at 13 Castle Street, St Helier, Jersey JE4 5UT.

The Circular together with the Notice of General Meeting will shortly be made available on the Company's website at [www.reconstructioncapital2.com](http://www.reconstructioncapital2.com).

**Highlights**

- The Company proposes to issue a €8,450,000 secured convertible bond in order to meet substantially all of the Company's liabilities and to provide additional working capital for the following twelve months.
- Assuming no further issues of Ordinary Shares, if Conversion were to occur in full, the Company would have an enlarged share capital comprising 162,614,500 Ordinary Shares and any Shareholder who does not subscribe for the Convertible Loan Notes would on Conversion suffer an immediate maximum dilution of approximately 38.50 per cent. to their shareholdings in the Company.
- The Notes attract simple interest at 10 per cent. per annum, which will accrue from the Issue Date until the Repayment Date. The Term of the Notes is three years.
- The Notes will be secured by first ranking securities granted by the Company over the shareholdings in and intercompany indebtedness owed to the Company by its direct subsidiaries, RC2 (Cyprus) Limited and Glasro Holdings Limited (being SPVs which hold the majority of the Company's investments).
- The Company proposes to extend the life of the Company for a further two years until the Annual General Meeting to be convened in 2016.
- As at the date of the Circular, the Company has received applications from certain existing Shareholders to take up €2,188,000 in aggregate of the Convertible Loan Notes. Ion Florescu has undertaken to subscribe for the balance of the Issue immediately following the EGM.
- The Company has also received irrevocable commitments from existing Shareholders to vote in favour of the Resolutions in respect of 41,867,122 Ordinary Shares representing approximately 41.87 per cent. of the Ordinary Shares in issue at the date of the Circular. Subject to the passing of the Resolutions, the Directors expect to constitute and issue the Convertible Loan Notes on 31 October 2014 following the EGM to such of those persons who have validly applied for them as the Directors then determine.

Extracts from certain parts of the circular are set out below.

<b>Event</b>	<b>Time and/or date</b>
Publication of this Circular and announcement of the Proposals	<b>6 October 2014</b>
Latest time and date for receipt of Forms of Proxy for the EGM	<b>10.00 a.m. on 27 October 2014</b>
Extraordinary General Meeting	<b>10.00 a.m. on 29 October 2014</b>
Results announced through a Regulatory Information Service	<b>29 October 2014</b>
Despatch of definitive Convertible Loan Note certificates	<b>By 7 November 2014</b>

Each of the times and dates in the above timetable are London times, unless otherwise stated and are subject to change at the absolute discretion of the Company. Any such change will be notified by an announcement on a Regulatory Information Service.

#### **KEY STATISTICS**

Number of Existing Ordinary Shares as at the date of this Circular	100,000,000
Nominal value of the Convertible Loan Notes	€8,450,000
Estimated net proceeds of the Proposals	€8,233,000
Simple interest rate per annum of the Convertible Loan Notes	10 per cent.
Maximum amount repayable on the Repayment Date	€10,985,000
Maximum number of New Ordinary Shares to be issued upon conversion of all the Convertible Loan Notes	62,614,500
Enlarged ordinary share capital assuming conversion of all the Convertible Loan Notes	162,614,500
Percentage of the enlarged ordinary share capital represented by the New Ordinary Shares issued upon conversion of the Convertible Loan Notes on the Repayment Date	38.50 per cent.

#### **For further information, please contact:**

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Grant Thornton UK LLP (Nominated Adviser)

## **1. INTRODUCTION**

On 1 April 2014, RC2 announced that the Board had decided to start a period of consultations with Shareholders relating to the issuance of a secured convertible bond in order to meet substantially all of the Company's liabilities and provide additional working capital for the following twelve months.

Having consulted a number of the Company's major Shareholders, the Board is now making proposals to Shareholders to issue the Convertible Loan Notes, and to extend the life of the Company for another two years, in order to provide more time for the asset divestment process.

The purpose of this Circular is to give you further information regarding the Proposals, to explain why your Board considers that they are in the best interests of the Shareholders and to seek your approval of certain Resolutions to be proposed at the EGM.

## **2. BACKGROUND TO AND REASONS FOR THE PROPOSALS**

On 14 December 2012, the Company held an Annual General Meeting at which its life was extended for two years in order to allow for the orderly sale of investments. Subsequently, the Investment Team initiated the sales process for certain investee companies and their underlying assets. Unfortunately, the exit process coincided with one of the worst periods for Foreign Direct Investment into South East Europe, and the efforts did not result in any substantial disposals.

Meanwhile, the Company continued to accrue liabilities as it was unable to pay its running costs. Initially these were primarily financed by the Investment Team agreeing to postpone the payment of their management and advisory fees, as well as by Director loans. However, this was not sufficient to meet all of the Company's needs. Consequently, in April 2012 the Company arranged a €3 million loan from a shareholder which was due for repayment in April 2014. The cost of this loan was high but it was expected to be temporary, based on the expectation that at least one divestment would occur during its term.

Whilst the Company started to receive dividends from certain of its investee companies in 2013, and managed to refinance loans it had made to some of its investee companies, it was not able to effect any substantial disposals of its assets prior to the repayment date of the shareholder loan.

On 1 April 2014, the Board announced that it had secured a Bridge Loan from Ion Florescu, at the time a Director of the Company. The Bridge Loan has been applied to repay the prior shareholder loan and some other accrued liabilities, and to provide working capital for the Company. The Bridge Loan is for a seven month term with repayment due on 31 October 2014 and is seen by the Board as a short term funding solution for the Company.

Although the asset divestment process is ongoing, in the absence of any firm commitments from buyers to acquire any of the investee companies, the Board considered that it was necessary to put the finances of the Company on a more stable footing by the issuance of an instrument which the Directors believe will provide sufficient funds to meet substantially all of the Company's liabilities, and the Company's working capital needs for the next twelve months.

The Board has considered several funding options for the Company and believes that the issuance of the Convertible Loan Notes will provide RC2 with financial stability over the term of the Notes.

As at the date of this Circular, the Company has received applications from certain existing Shareholders to take up €2,188,000 in aggregate of the Convertible Loan Notes. Subject to the Resolutions being agreed by Shareholders at the EGM Ion Florescu has provided an undertaking that, should there be insufficient demand for the Convertible Loan Notes, he or entities related to him would invest up to the amount of the Bridge Loan in Convertible Loan Notes.

### **3. OVERVIEW OF THE PRINCIPAL TERMS OF THE PROPOSALS**

A summary of the principal terms and conditions of the Convertible Loan Notes is contained in Part 2 of this Circular.

The Company will use all reasonable endeavours to procure that any New Ordinary Shares issued upon conversion of the Convertible Loan Note are admitted to trading on AIM as soon as practicable following conversion.

### **4. EFFECT OF THE PROPOSALS ON THE SHAREHOLDERS**

Assuming no further issues of Ordinary Shares, if Conversion were to occur in full, the Company would have an enlarged share capital comprising 162,614,500 Ordinary Shares and any Shareholder who does not subscribe for the Convertible Loan Notes would on Conversion suffer an immediate maximum dilution of approximately 38.5 per cent. to their shareholdings in the Company.

### **5. RELATED PARTY TRANSACTION**

Certain Directors, namely Howard I. Golden, Dirk Van den Broeck and Markus Winkler have subscribed for Notes to the value of €151,000, €202,000 and €110,000 respectively. Ion Florescu, a former Director has provided an undertaking that he or entities related to him would invest up to the amount of the Bridge Loan in Convertible Loan Notes. The Directors subscribing for Notes and Ion Florescu are related parties of the Company (as defined under the AIM Rules) and accordingly their participation in the Issue constitutes a related party transaction for the purposes of Rule 13 of the AIM Rules.

Mihai Radoi, who is not subscribing for Notes and is therefore an independent Director for these purposes, having consulted with the Company's nominated adviser, Grant Thornton, considers the participation by the other Directors and Ion Florescu in the Issue to be fair and reasonable insofar as Shareholders are concerned.

### **6. CURRENT TRADING**

On 1 October 2014, the Company announced that the unaudited NAV per Ordinary Share as at 31 August 2014 was €0.3669, which represents an increase of 3.59 per cent. from the 30 June 2014 figure of €0.3542 per Ordinary Shares, which was announced as part of the Company's Interim Results on 22 August 2014.

In May 2014, RC2 exchanged half of its shareholder loans to Klas (the bakery division of East Point Holdings Limited) for a 40.9 per cent. shareholding in the company, increasing its shareholding to 52 per cent.. Accordingly, the value of the shareholding in Klas as at 30 June 2014 increased to €1,666,836, having previously been valued at €677,100.

Policolor S.A., the largest investment of the Company, has agreed to sell its Bucharest site for €18.3 million, which is to be received over the next three years. The deal should generate net proceeds of €6.6 million for Policolor over the coming three years, after deducting the costs of building a new factory on which to relocate Policolor's production (estimated at €8.0 million), the demolition and environmental clean-up costs for the site (estimated at €1.0 million), and the estimated capital gains tax on the sale (€2.7 million).

Albalact SA and Top Factoring posted strong results in the first semester of 2014, with Albalact increasing its euro-denominated sales revenue by 10 per cent. and its recurring EBITDA following a similar trend. Top Factoring's EBITDA improved from €1.4 million to €2.4 million, largely due to the write-up of the valuation of its proprietary portfolios pursuant to quarterly impairment tests.

### **7. CONTINUATION OF THE COMPANY**

At the Company's Annual General Meeting in December 2012, Shareholders voted in favour of the life of the Company being continued for a further two years, during which time there would be an orderly realisation of the Company's current investments with no new investments being made.

At that time, the Board stated that due to the highly illiquid nature of the Company's private equity

investments and the possible complexity of divestments, it was difficult to provide Shareholders with any certainty regarding the timetable for realisation, but did estimate that it could be approximately two to four years.

The Board, assisted by the Investment Team, has undertaken an exercise to estimate a realisation timetable. Although Shareholders should place only limited reliance on this information it is the Board's current estimate that the overall timetable for realisation will be a further two to three years. The Board therefore believes that the issuance of the Convertible Loan Notes represents an appropriate juncture at which to seek Shareholders' approval to continue the Company, as it is presently constituted, for a further two years.

It is therefore proposed that Resolution 1 will be put to Shareholders at the Extraordinary General Meeting to seek Shareholders' approval to continue the Company, as it is presently constituted, for a further two years until the Annual General Meeting to be convened in 2016.

## **8. RELATIONSHIP AGREEMENT**

Ion Florescu is currently the beneficial owner either directly or indirectly of 28,297,656 Ordinary Shares, representing approximately 28.3 per cent. of the voting rights of the Company. Should there be insufficient demand for the Notes, Ion Florescu has provided an undertaking that he or entities related to him would invest up to the amount of the Bridge Loan in Convertible Loan Notes, subject to the terms being those presented to Shareholders at the EGM. On the basis that Ion Florescu subscribes for €6.26 million of the Notes, being the amount not subscribed for by other investors, and based on the number of Ordinary Shares in issue and Notes to be issued as detailed in this Circular, Ion Florescu would be the beneficial owner, either directly or indirectly, of approximately 45.94 per cent. of the voting rights of the Enlarged Ordinary Share Capital of the Company on conversion of the Notes into Ordinary Shares.

As a consequence Ion Florescu would be able to exercise controlling influence on the business of the Company and may cause or take actions that are not in, or may conflict with, the best interests of the Company or its Shareholders as a whole.

Accordingly, the Company and Ion Florescu have entered into a relationship agreement dated 3 October 2014 which is conditional on Ion Florescu and his connected persons holding, at any time, Ordinary Shares representing 30 per cent. or more of the issued share capital and which regulates the relationship between the Company and Ion Florescu and his connected persons. Under the terms of the relationship agreement, Ion Florescu agrees not to carry on any activity in conflict with those of the Company which may lead to transactions and relationships between the Company and Ion Florescu and his connected persons which are not at an arm's length or on a normal commercial basis. Accordingly, Ion Florescu undertakes that to the extent that he or his connected persons are on the Board, he shall and shall procure that his connected persons abstain from voting at any meeting of the Board in relation to any matter in which he or his connected persons may be interested other by virtue of holding Shares and not prejudice the rights of minority Shareholders in a manner which does not affect him in the same way.

## **9. EXTRAORDINARY GENERAL MEETING**

A notice convening an Extraordinary General Meeting to be held at the offices of Sanne Fiduciary Services Limited at 13 Castle Street, St Helier, Jersey JE4 5UT at 10.00 a.m. on 29 October 2014 is set out at the back of this Circular. Set out below is a summary of the Resolutions which are to be proposed at the Extraordinary General Meeting. Resolution 1 will be proposed as an extraordinary resolution and Resolution 2 will be proposed as an ordinary resolution. The vote on Resolution 1 will be taken on a poll and will be deemed not to have passed if the votes against the Resolution constitute a majority against the Resolution and represent at least 25 per cent. of the total number of votes capable of being cast on that Resolution. Resolution 2 will be deemed not to have passed unless a majority of the votes cast are in favour of the Resolution.

Resolution 1 – Continuation of the Company

Resolution 1 is being proposed to continue the Company as presently constituted for a further two years until the Annual General Meeting to be convened in 2016.

## Resolution 2 – Authority to allot securities in connection with the Issue

Resolution 2 is being proposed to authorise the Directors to be authorised to issue Convertible Loan Notes up to an aggregate nominal amount of €8,450,000 including the right to convert the amounts outstanding on the basis of 7.41 New Ordinary Shares for every €1.00 of outstanding amount of principal of Convertible Loan Notes (or as the conversion ratio may be adjusted under the anti-dilution provisions of the Convertible Loan Notes).

Save in respect of the allotment of any New Ordinary Shares that may need to be issued pursuant to the terms of the Convertible Loan Notes, the Directors currently have no plans to issue any New Ordinary Shares.

### 10. ACTION TO BE TAKEN IN RESPECT OF THE EGM

Shareholders will find enclosed with this Circular a Form of Proxy for use at the EGM. The Form of Proxy should be completed and returned in accordance with the instructions printed thereon so as to arrive at the Company's Registrars, Sanne Fiduciary Services Limited, 13 Castle Street, St Helier, Jersey JE4 5UT as soon as possible and in any event not later than 10.00 a.m. on 27 October 2014.

If the Form of Proxy is not returned by 10.00 a.m. on 27 October 2014, your vote will not count.

### 11. APPLICATIONS TO SUBSCRIBE FOR CONVERTIBLE LOAN NOTES

As at the date of this Circular, the Company has received applications from certain existing Shareholders to take up €2,188,000 in aggregate of the Convertible Loan Notes. Ion Florescu has undertaken to subscribe for the balance of the Issue immediately following the EGM. The Company has also received irrevocable commitments from existing Shareholders to vote in favour of the Resolutions in respect of 41,867,122 Ordinary Shares representing approximately 41.87 per cent. of the Ordinary Shares in issue at the date of this Circular. Subject to the passing of the Resolutions, the Directors expect to constitute and issue the Convertible Loan Notes on 31 October 2014 following the EGM to such of those persons who have validly applied for them as the Directors then determine.

### 12. RECOMMENDATION

The Directors, certain of whom have subscribed for Notes as set out in paragraph 5, believe that the Resolutions are fair and reasonable and in the best interests of the Shareholders of the Company as a whole. The Directors recommend that Shareholders vote in favour of the Resolutions as they intend to do so in respect of their aggregate holdings of 4,096,563 Ordinary Shares, equivalent to approximately 4.10 per cent. of the Existing Ordinary Shares.

### 13. GLOSSARY

<b>Issuer:</b>	The Company.
<b>Security Trustee:</b>	Josedo Limited, a company created by SMP Partners.
<b>Securities Offered:</b>	€8,450,000 principal amount of 10 per cent. convertible secured loan notes due 2017 of the Company (the "Notes").
<b>Issue Price:</b>	At par.
<b>Issue Date:</b>	31 October 2014.
<b>Coupon:</b>	Simple interest at 10 per cent. per annum will accrue from the Issue Date until the Repayment Date.

<b>Security:</b>	<p>The Notes will be secured by first ranking securities granted by the Company over the shareholdings in and intercompany indebtedness owed to the Company by its direct subsidiaries, RC2 (Cyprus) Limited and Glasro Holdings Limited (being SPVs which hold the majority of the Company's investments).</p> <p>The security will be granted in favour of the Security Trustee on behalf of the Noteholders under a security trust deed in standard form. Instructions will be given to the Security Trustee, where required, by an extraordinary resolution of the Noteholders on which 75 per cent. of the votes cast are in favour ("<b>Extraordinary Resolution</b>").</p>
<b>Ranking:</b>	<p>The Notes will rank in priority to all unsecured creditors. Without prior Noteholder consent by a resolution on which at least two-thirds of the votes cast are in favour, no dividends, returns of capital or other payments shall be made to any shareholder in respect of its shares until the Notes have been repaid in full.</p>
<b>Repayment Date:</b>	30 October 2017.
<b>Mandatory Repayment:</b>	<p>Customary early repayment provisions to apply, including on a takeover of the Company. In addition, at least 75 per cent. of the net proceeds received by the Company of a disposal of any investment held by the Company from time to time must be applied to redeem the outstanding Convertible Loan Notes (and any such disposal of an investment will result in the release of the security granted by the Company over that asset pursuant to the security trust deed).</p>
<b>Early Prepayment:</b>	<p>At any time on not less than 45 days' prior written notice by the Company to the holders. No early repayment penalties apply unless the repayment occurs prior to the date falling 6 months after the Issue Date in which case the repayment amount shall include a minimum interest accrual equal to the interest which would otherwise have accrued between the Issue Date and the date falling 6 months after the Issue Date.</p> <p>Prepayment to be pro rata amongst holders by reference to principal amount held.</p>
<b>Repayment Amount:</b>	At the principal plus accrued but unpaid interest as of the date of repayment.

**Conversion:**

Notes will be convertible at the option of the Noteholders at any time (including prior to any proposed repayment of Notes or equity issuance) on giving 15 days' prior written notice to the Company on the basis of:

7.41 new ordinary shares of €0.01 each in the capital of the Company for every €1.00 of principal of Notes (equivalent to a conversion price of €0.135 per new ordinary share)

Any unpaid accrued interest on the Notes will be disregarded for the purposes of conversion and shall be cancelled.

Fractional entitlements will be rounded down to the nearest whole share.

**Anti-dilution:**

Customary anti-dilution provisions in respect of issues of new shares at below the conversion price per share, bonus issues, consolidation, conversion, etc.

Noteholders will be given the opportunity to convert their Notes into shares in the event of any equity issuance or a takeover offer being made for the Company.

**Covenants:**

Without prior Noteholder consent by a resolution on which at least two-thirds of the votes cast are in favour, no dividends, returns of capital or other payments shall be made to any shareholder in respect of its shares until the Notes have been repaid in full.

Without prior Noteholder consent by Extraordinary Resolution:

- No further debt may be incurred ranking ahead of or pari passu with the Notes
- No new investments (other than follow-on investments in existing investments as permitted by the Company's investment policy)

**Provision of Information**

The Company will provide information to Noteholders at the same time and on the basis as it is provided to shareholders (if a Noteholder is not also a shareholder).



**Events of Default:**

- Failure to pay on due date (subject to grace period of 14 days to cure)
- Insolvency
- Breach of terms of the Notes (subject to grace period of 14 days to cure)
- Failure to have authority to issue new shares in the Issuer on Conversion (subject to grace period of 14 days to cure)
- Change of the Company's investment policy without prior Noteholder consent by Extraordinary Resolution
- Any resolution to continue the life of the Company beyond the Repayment Date not being approved by shareholders

**Transferable:**

The Notes are transferable. The Notes will not however be listed on any exchange.

**Conditions to Issue:**

- Shareholder approval of the issue of the Notes
- Shareholder approval of the continuation of the Company until at least the Annual General Meeting of the Company to be held in 2016

**Governing law:**

English law.