

RECONSTRUCTION CAPITAL II LIMITED
INTERIM UNAUDITED FINANCIAL STATEMENTS
For the six months ended 30 June 2018

RECONSTRUCTION CAPITAL II LIMITED
Interim Unaudited Financial Statements
For the six months ended 30 June 2018

Page	Contents
1	Directors and Company Information
3	Adviser's Report
4	Statement of Comprehensive Income
5	Statement of Financial Position
7	Statement of Changes in Equity
8	Cash Flow Statement
9	Notes to the Interim Unaudited Financial Statements

RECONSTRUCTION CAPITAL II LIMITED
Interim Unaudited Financial Statements

DIRECTORS AND COMPANY INFORMATION

Domicile and country of incorporation

Cayman Islands

Legal form

Limited Liability Company

Company number

HL-156549

Directors

Martin Derbyshire

Mihai Rădoi

Dirk Van den Broeck

Secretary and Registered Office

Appleby Corporate Services (Cayman) Limited

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PO Box 1350

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Grand Cayman KY1-1108

Cayman Islands

Adviser

New Europe Capital SRL

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020946 Bucharest

Romania

Nominated Adviser

Grant Thornton UK LLP

30 Finsbury Square

London, EC2P 2YU

Broker

finnCap Ltd

60 New Broad Street

London, EC2M 1JJ

RECONSTRUCTION CAPITAL II LIMITED
Interim Unaudited Financial Statements

DIRECTORS AND COMPANY INFORMATION (continued)

Administrator and Custodian

Sanne Fiduciary Services Limited
13 Castle Street
St Helier
Jersey
JE4 5UT

Independent Auditor

Grant Thornton (Cyprus) Ltd
41-49, Agiou Nicolaou St.
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PO Box 23907
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Cyprus

RECONSTRUCTION CAPITAL II LIMITED
Interim Unaudited Financial Statements

ADVISER'S REPORT
For the six months ended 30 June 2018

On 30 June 2018, Reconstruction Capital II Limited ("RC2") had a total unaudited net asset value ("NAV") of €35.7m or €0.2463 per share, which represents a 1.61% fall since the beginning of the year.

At a general meeting of shareholders held on 21 February 2018 a decision was made to acquire 22% of the issued share capital of Reconstruction Capital Plc (RC) for €1.6m and 10% of the issued share capital of The Romanian Investment Fund Limited (RIF) for €1.7m. Both funds are Romanian-focused and have as their main underlying asset a 60% shareholding in Policolor SA in which RC2 already owns the balance of 40%. RC2 now has a further 15.36% indirect shareholding as a result of these acquisitions. To date, only part of the acquisition has been settled for €1.1m, the balance of €2.1m being due once the vendors have resolved certain technical issues for settlement.

As at 30 June 2018, RC2 had cash and cash equivalents of approximately €4.6m while its wholly-owned subsidiary RC2 Cyprus Ltd had cash and cash equivalents of €2.3m. As at 30 June 2018, RC2 had sundry liabilities of €2.3m, including the €2.1m due for the settlement of the acquisitions of shares in RC and RIF.

In May, Policolor signed an amendment to the sales contract with the buyers of its main site in Bucharest, bringing forward the sale of 4.4ha of its remaining 7.6ha from 2019 to 2018. The land being sold in 2018 has been divided into three plots, with the first plot already having been sold in May generating cash proceeds of €1.4m. A second plot of land was sold in July, generating proceeds of €1.5m, and a further 2.2ha is due to be sold in the autumn, generating cash proceeds of €3m. In May, Policolor also signed the contract for the construction of its new Bucharest plant, which is due to be completed in the spring of 2019 and to become operational in the summer of that year.

Operationally, the Policolor Group had a reasonable first half of the year with sales marginally ahead of the same period last year at €33.3m (cf. 2017 €32.9m), whilst EBITDA fell by 10.6% to €1.95m compared to the same period of the previous year.

The fair value of the investments held under the Private Equity Programme increased by €3.4m to €33.6m during the period, primarily due to the acquisition of the shares in RC and RIF detailed above.

New Europe Capital SRL

RECONSTRUCTION CAPITAL II LIMITED
Interim Unaudited Financial Statements

STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2018

	Notes	30 June 2018 EUR Unaudited	30 June 2017 EUR Unaudited	31 December 2017 EUR Audited
Revenue				
Fair value loss on financial assets at fair value through profit or loss		(2,077,374)	(4,011,373)	(10,981,533)
Recovery of previously written off receivable		-	-	189,000
Interest income		2,153,054	2,146,080	4,334,820
Dividend income	3	-	3,500,000	7,619,610
Other income		10	-	-
Total revenue		75,690	1,634,707	1,161,897
Expenses				
Impairment on trade and other receivables		(126,000)	-	-
Operating expenses	4	(534,322)	(1,096,874)	(1,619,749)
Financial expenses		(721)	(200)	(188)
Total expenses		(661,043)	(1,097,074)	(1,619,937)
Profit for the period/year		(585,353)	537,633	(458,040)
Other comprehensive income		-	-	-
Total comprehensive income for the period/year		(585,353)	537,633	(458,040)
Earnings Per Share attributable to the owners of the Company				
	12			
Basic and diluted earnings per share		(0.0040)	0.0037	(0.0031)

The notes on pages 9 to 16 form an integral part of these interim unaudited financial statements.

RECONSTRUCTION CAPITAL II LIMITED
Interim Unaudited Financial Statements

STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Notes	30 June 2018 EUR Unaudited	30 June 2017 EUR Unaudited	31 December 2017 EUR Audited
ASSETS				
Non-current assets				
Financial assets at fair value through profit or loss	7	33,568,867	34,804,972	30,143,162
Total non-current assets		33,568,867	34,804,972	30,143,162
Current assets				
Trade and other receivables	8	18,281	50,564	136,439
Cash and cash equivalents		4,567,668	3,028,792	6,439,763
Total current assets		4,585,949	3,079,356	6,576,202
TOTAL ASSETS		38,154,816	37,884,328	36,719,364
LIABILITIES				
Current liabilities				
Trade and other payables	9	2,451,315	335,779	430,510
TOTAL LIABILITIES		2,451,315	335,779	430,510
NET ASSETS		35,703,501	37,548,549	36,288,854
EQUITY ATTRIBUTABLE TO OWNERS				
Share capital		1,449,460	1,465,223	1,449,460
Share premium		110,581,355	110,829,614	110,581,355
Retained deficit		(76,327,314)	(74,746,288)	(75,741,961)
TOTAL EQUITY		35,703,501	37,548,549	36,288,854

The notes on pages 9 to 16 form an integral part of these interim unaudited financial statements.

RECONSTRUCTION CAPITAL II LIMITED
Interim Unaudited Financial Statements

STATEMENT OF FINANCIAL POSITION (continued)
As at 30 June 2018

	Notes	30 June 2018 EUR Unaudited	30 June 2017 EUR Unaudited	31 December 2017 EUR Audited
Net Asset Value per share				
Basic and diluted net asset value per share	11	0.2463	0.2563	0.2504

The notes on pages 9 to 16 form an integral part of these interim unaudited financial statements.

RECONSTRUCTION CAPITAL II LIMITED
Interim Unaudited Financial Statements

STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2018

	Share capital EUR	Share premium EUR	Retained (deficit)/ earnings EUR	Equity component of loan notes EUR	Total EUR
Balance at 1 January 2017	1,476,223	127,991,989	(75,283,921)	-	54,184,291
Profit for the period	-	-	537,633	-	537,633
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	537,633	-	537,633
Issue of B shares	16,997,375	(16,997,375)	-	-	-
Redemption of B shares	(16,997,375)	-	-	-	(16,997,375)
Repurchase and cancellation of own shares	(11,000)	(165,000)	-	-	(176,000)
Transactions with owners	(11,000)	(17,162,375)	-	-	(17,173,375)
Balance at 30 June 2017	1,465,223	110,829,614	(74,746,288)	-	37,548,549
Loss for the period	-	-	(995,673)	-	(995,673)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	(995,673)	-	(995,673)
Repurchase and cancellation of own shares	(15,763)	(248,259)	-	-	(264,022)
Transactions with owners	(15,763)	(248,259)	-	-	(264,022)
Balance at 31 December 2017	1,449,460	110,581,355	(75,741,961)	-	36,288,854
Profit for the period	-	-	(585,353)	-	(585,353)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	(585,353)	-	(585,353)
Balance at 30 June 2018	1,449,460	110,581,355	(76,327,314)	-	35,703,501

The notes on pages 9 to 16 form an integral part of these interim unaudited financial statements.

RECONSTRUCTION CAPITAL II LIMITED
Interim Unaudited Financial Statements

CASH FLOW STATEMENT
For the six months ended 30 June 2018

	30 June 2018 EUR Unaudited	30 June 2017 EUR Unaudited	31 December 2017 EUR Audited
Cash flows (used in)/generated from operating activities			
Profit/(loss) before taxation	(585,353)	537,633	(458,040)
<i>Adjustments for:</i>			
Fair value loss on financial assets at fair value through profit or loss	2,077,374	4,011,373	10,981,533
Impairment on trade and other receivables	126,000	-	-
Reversal of loan impairment	-	-	(189,000)
Interest income	(2,153,054)	(2,146,080)	(4,334,820)
Dividend income	-	(3,500,000)	(7,619,610)
Net loss on foreign exchange	721	200	188
Net cash outflow before changes in working capital	(534,312)	(1,096,874)	(1,619,749)
(Increase)/decrease in trade and other receivables	(7,842)	(32,773)	7,352
(Decrease)/increase in trade and other payables	(83,686)	43,377	138,108
Purchase of financial assets	(1,224,079)	(370,000)	(370,000)
Disposals and repayments of financial assets	-	-	63,000
Dividends received	-	3,500,000	7,500,000
Net cash (used in)/generated from operating activities	(1,849,919)	2,043,730	5,718,711
Cash flows used in financing activities			
Payments to purchase own shares	-	(176,000)	(440,022)
Redemptions of B shares	(21,455)	(16,842,979)	(16,842,979)
Net cash flow used in financing activities	(21,455)	(17,018,979)	(17,283,001)
Net decrease in cash and cash equivalents before currency adjustment	(1,871,374)	(14,975,249)	(11,564,290)
Effects of exchange rate differences on cash and cash equivalents	(721)	(200)	(188)
Net decrease in cash and cash equivalents after currency adjustment	(1,872,095)	(14,975,449)	(11,564,478)
Cash and cash equivalents at the beginning of the period/year	6,439,763	18,004,241	18,004,241
Cash and cash equivalents at the end of the period/year	4,567,668	3,028,792	6,439,763

The notes on pages 9 to 16 form an integral part of these interim unaudited financial statements.

RECONSTRUCTION CAPITAL II LIMITED
Interim Unaudited Financial Statements

NOTES TO THE INTERIM UNAUDITED FINANCIAL STATEMENTS
For the six months ended 30 June 2018

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 period from 1 January 2018 to 30 June 2018.

Based on the decision of the shareholder meeting held on 21 February 2018, the Company's investment objective was changed so that it now aims to achieve capital appreciation and/or generate investment income returns through the acquisition of real estate assets in Romania, including the development of such assets, and/or the acquisition of significant or controlling stakes in companies established in, or operating predominantly in Romania, primarily in the real estate sector. Any new private equity investments in companies operating in sectors other than real estate will be limited to 25% of the Company's total assets at the time of effecting the investment. However, the Company may continue to make follow-on investments in existing portfolio companies without any such limitation.

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 two years until the end of 2018. At the general shareholder meeting on 21 February 2018, it was decided that the life of the Company would be further extended until the end of 2023 when the next continuation vote would be held.

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.

RECONSTRUCTION CAPITAL II LIMITED
Interim Unaudited Financial Statements

NOTES TO THE INTERIM UNAUDITED FINANCIAL STATEMENTS (continued)
For the six months ended 30 June 2018

2. Principal accounting policies (continued)

2.1 Basis of preparation (continued)

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 financial information for the six months ended 30 June 2018 and the six months ended 30 June 2017 is unaudited and does not constitute the Company's statutory financial statements for those periods. The comparative financial information for the full year ended 31 December 2017 has, however, been derived from the audited statutory financial statements for that period.

The half-yearly report has been prepared in accordance with the recognition and measurement principles of IFRS, as issued by the International Accounting Standards Board ("IASB"), using accounting policies that are expected to be applied during the financial year ended 31 December 2018.

The Company has chosen not to adopt IAS 34 "Interim Financial Statements" in preparing these interim consolidated financial statements.

3. Dividend income

	30 June 2018 EUR Unaudited	30 June 2017 EUR Unaudited	31 December 2017 EUR Audited
Glasro Holdings Limited	-	3,500,000	7,619,610

4. Operating expenses

	30 June 2018 EUR Unaudited	30 June 2017 EUR Unaudited	31 December 2017 EUR Audited
Advisory fees	404,196	438,936	783,566
Legal and professional fees, including transaction fees	41,624	557,836	640,575
Administration and custodian fees	37,172	45,210	88,267
Directors' fees	27,527	32,233	60,525
Audit fees	11,388	11,750	22,775
Insurance premium	3,912	4,112	7,826
Bank charges	1,903	2,343	4,159
Other expenses	6,600	4,454	12,056
	534,322	1,096,874	1,619,749

RECONSTRUCTION CAPITAL II LIMITED
Interim Unaudited Financial Statements

NOTES TO THE INTERIM UNAUDITED FINANCIAL STATEMENTS (continued)
For the six months ended 30 June 2018

5. 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		
		30 June 2018	30 June 2017	31 December 2017
Holding company: Reconstruction Capital II Limited				
RC2 (Cyprus) Limited	Cyprus	100%	100%	100%
Glasro Holdings Limited	Cyprus	100%	100%	100%
Holding company: RC2 (Cyprus) Limited				
Mamaia Resort Hotels SRL	Romania	63%	63%	63%
Klas DOO	Serbia	-	52%	-
Holding company: Glasro Holdings Limited				
Telecredit IFN S.A.	Romania	80%	-	80%

6. Associates

The Company has the following associates:

	Country of incorporation	Proportion of ownership interest		
		30 June 2018	30 June 2017	31 December 2017
Holding company: Reconstruction Capital II Limited				
Reconstruction Capital Plc	Isle of Man	22%	-	-
Holding company: RC2 (Cyprus) Limited				
S.C. Policolor SA	Romania	40%	40%	40%

7. Financial assets at fair value through profit or loss

	30 June 2018	30 June 2017	31 December 2017
	EUR	EUR	EUR
	Unaudited	Unaudited	Audited
Non-current investments			
Equity investments	6,383,048	7,941,853	3,033,023
Loan receivable	27,185,819	26,863,119	27,110,139
	33,568,867	34,804,972	30,143,162
	33,568,867	34,804,972	30,143,162

RECONSTRUCTION CAPITAL II LIMITED
Interim Unaudited Financial Statements

NOTES TO THE INTERIM UNAUDITED FINANCIAL STATEMENTS (continued)
For the six months ended 30 June 2018

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

7.1 Equity investments

	30 June 2018 EUR Unaudited	30 June 2017 EUR Unaudited	31 December 2017 EUR Audited
Cost	80,003,685	76,534,050	76,653,660
Unrealised loss on equity investments	(73,620,637)	(68,592,197)	(73,620,637)
Fair value of equity investments	6,383,048	7,941,853	3,033,023

Included in equity investments is an investment in RC2 (Cyprus) Limited, a wholly-owned subsidiary of the Company, with a fair value of EUR nil at the period end (30 June 2017: EUR nil).

7.2 Loan receivable at fair value through profit or loss

	30 June 2018 EUR Unaudited	30 June 2017 EUR Unaudited	31 December 2017 EUR Audited
Loan to unconsolidated subsidiary	27,185,819	26,863,119	27,110,139
Amounts due for settlement within 12 months	-	26,863,119	-
Amounts due for settlement after more than 12 months	27,185,819	-	27,110,139

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 19 April 2018, and effective from 31 December 2017, 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 2023. The Company has also committed to provide financial support to RC2 (Cyprus) Limited.

RECONSTRUCTION CAPITAL II LIMITED
Interim Unaudited Financial Statements

NOTES TO THE INTERIM UNAUDITED FINANCIAL STATEMENTS (continued)
For the six months ended 30 June 2018

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

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

	30 June 2018 EUR Unaudited	30 June 2017 EUR Unaudited	31 December 2017 EUR Audited
Changes in loan receivable			
Opening balance	27,110,139	28,330,995	28,330,995
Loan amounts granted	-	370,000	370,000
Interest income	2,153,054	2,146,080	4,334,820
Fair value loss on loan receivable	(2,077,374)	(3,983,956)	(5,925,676)
	27,185,819	26,863,119	27,110,139
	27,185,819	26,863,119	27,110,139

8. Trade and other receivables

	30 June 2018 EUR Unaudited	30 June 2017 EUR Unaudited	31 December 2017 EUR Audited
Trade and other receivables	1,398	-	126,000
Prepayments	16,883	50,564	10,439
	18,281	50,564	136,439
	18,281	50,564	136,439

9. Trade and other payables

	30 June 2018 EUR Unaudited	30 June 2017 EUR Unaudited	31 December 2017 EUR Audited
Advisory fees	135,489	136,838	178,564
Directors' fees and expenses	12,500	-	2,192
Administration fees	17,774	18,316	38,103
Amounts payable in respect of B share redemptions	132,941	-	154,396
Payable for investments purchased	2,125,945	-	-
Other payables and accruals	26,666	180,625	57,255
	2,451,315	335,779	430,510
	2,451,315	335,779	430,510

RECONSTRUCTION CAPITAL II LIMITED
Interim Unaudited Financial Statements

NOTES TO THE INTERIM UNAUDITED FINANCIAL STATEMENTS (continued)
For the six months ended 30 June 2018

9. Trade and other payables (continued)

The payable for investments purchased of EUR 2,125,945 relates to the balance due to vendors for 22% of the issued share capital of Reconstruction Capital Plc and 10% of the issued share capital of The Romanian Investment Fund Limited. The settlement of this acquisition has been delayed for technical reasons and is expected to be finalised before the end of September 2018 at the latest.

10. Transactions with owners

On 13 June 2017, the Company purchased 1,110,000 of its own shares for EUR 176,000 and on 25 October 2017 purchased a further 1.576.250 of its own shares for EUR 264,000. All of the shares were subsequently cancelled.

11. Net Asset Value

	30 June 2018 EUR Unaudited	30 June 2017 EUR Unaudited	31 December 2017 EUR Audited
Net assets	35,703,501	37,548,549	36,288,854
Closing number of shares	144,946,017	146,522,267	144,946,017
Basic and diluted net asset value per share	0.2463	0.2563	0.2504

There are no potentially dilutive instruments.

12. Earnings per share

	30 June 2018 EUR Unaudited	30 June 2017 EUR Unaudited	31 December 2017 EUR Audited
Earnings Earnings for the purposes of basic earnings per share, being net profit attributable to ordinary shareholders of the Company	(585,353)	537,633	(458,040)
Number of shares Weighted average number of shares for the purposes of earnings per share	144,946,017	147,255,601	146,717,893
Basic and diluted earnings per share	(0.0040)	0.0037	(0.0031)

RECONSTRUCTION CAPITAL II LIMITED
Interim Unaudited Financial Statements

NOTES TO THE INTERIM UNAUDITED FINANCIAL STATEMENTS (continued)
For the six months ended 30 June 2018

13. 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.

13.1 Key management compensation

	30 June 2018 EUR Unaudited	30 June 2017 EUR Unaudited	31 December 2017 EUR Audited
Advisory fees	404,196	438,936	783,566
Directors' fees	27,527	32,233	60,525
	<u>431,723</u>	<u>471,169</u>	<u>844,091</u>

a. Advisory fees

New Europe Capital SRL is the Adviser to the Company. The advisory fees are accrued and are payable monthly in arrears. Total advisory fees for the period amounted to EUR404,196 (30 June 2017: EUR438,936). Total fees outstanding as at 30 June 2017 were EUR135,489 (30 June 2017: EUR136,838).

Advisory fees which are unpaid for over a month attract an interest of 10% (2017: 10%) on the entire balance. No interest has been charged during the period to 30 June 2018 (30 June 2017: EUR nil).

b. Directors' fees

	30 June 2018 EUR Unaudited	30 June 2017 EUR Unaudited	31 December 2017 EUR Audited
Martin Derbyshire (appointed on 12 October 2017)	5,027	-	2,192
Dirk Van den Broeck	12,500	12,397	25,000
Mihai Rădoi	10,000	9,918	20,000
Markus Winkler (resigned on 31 August 2017)	-	9,918	13,333
	<u>27,527</u>	<u>32,233</u>	<u>60,525</u>

RECONSTRUCTION CAPITAL II LIMITED
Interim Unaudited Financial Statements

NOTES TO THE INTERIM UNAUDITED FINANCIAL STATEMENTS (continued)
For the six months ended 30 June 2018

13. Related party transactions (continued)

13.2 Trade and other payables to related parties

	30 June 2018 EUR Unaudited	30 June 2017 EUR Unaudited	31 December 2017 EUR Audited
Advisory fees	135,489	136,838	178,564
Directors' fees and expenses	12,500	-	2,192
	<u>147,989</u>	<u>136,838</u>	<u>180,756</u>

13.3 Dividend income from subsidiaries (note 3)

	30 June 2018 EUR Unaudited	30 June 2017 EUR Unaudited	31 December 2017 EUR Audited
Glasro Holdings Limited	-	3,500,000	7,619,610

13.4 Loan to unconsolidated subsidiary

The details of the loan to RC2 (Cyprus) Limited are disclosed in note 7.

14. Events after the reporting period

There have been no material events after the reporting date.