

RECONSTRUCTION CAPITAL II LIMITED
ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS
For the year ended 31 December 2023

RECONSTRUCTION CAPITAL II LIMITED
Annual Report and Audited Financial Statements

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DIRECTORS AND COMPANY INFORMATION

Domicile and country of incorporation

Cayman Islands

Legal form

Limited Liability Company

Company number

HL-156549

Non-executive directors

Zoran Melovski

Paolo Bassetti

Martin Derbyshire

Secretary and Registered Office

Ocorian Trust (Cayman) Limited

Windward 3

Regatta Office Park

PO Box 1350

Grand Cayman KY1-1108

Cayman Islands

Adviser

New Europe Capital SRL

24 Thomas Masaryk Street, 1st Floor

Sector 2, Bucharest

Romania

Administrator and Registrar

Suntera (IOM) Limited

Pervill Buildings

Pervill Square

Douglas

Isle of Man

IM99 1RZ

RECONSTRUCTION CAPITAL II LIMITED
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DIRECTORS AND COMPANY INFORMATION (continued)

Independent Auditor

PKF Finconta SRL

38 Str. Jean Louis Calderon

Sector 2

Bucharest

Romania

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ADVISER'S REPORT
For the year ended 31 December 2023

On 31 December 2023, Reconstruction Capital II Limited ("RC2" or the "Company") had a total audited net asset value ("NAV") of €28.1m, or €0.2072 per share. The NAV per share increased by 17.93% over the course of the year.

Private Equity Programme

At the end of December 2023, the investments held under the Private Equity Programme had a total fair value of €28.9m, 20.5% above the 2022 valuation of €24.0m. The valuations of Policolor, Mamaia and Telecredit were all performed by independent valuers. The valuations of the Company's investments in Reconstruction Capital Plc ("RC") and The Romanian Investment Fund Limited ("RIF") were also based on their audited net asset values, but these were in turn based on the same valuation of their main underlying asset, Policolor SA, as adopted by the Company.

	2023	2022
Policolor S.A.	17,560,000	14,080,000
Mamaia Hotel Resorts SRL ("Mamaia")	4,013,219	4,814,247
Telecredit IFN S.A. ("Telecredit")	4,284,000	3,255,500
The Romanian Investment Fund Limited	1,707,072	1,180,103
Reconstruction Capital Plc	1,302,000	644,777
	<u>28,866,291</u>	<u>23,974,627</u>

Based on unaudited figures, although the Policolor Group's turnover fell 16.8% from € 85.6m in 2022 to € 71.2m in 2023, this was almost entirely due to the closure of its phthalic anhydride plant for a large part of the year. The Group achieved a significant improvement in its gross margin, from 23.6% in 2022 to 30.4%, mainly driven by an improved performance at its coatings and resins divisions. Importantly, the Romanian coatings division achieved a € 1.9m turnaround in its EBITDA, which was € 0.5m in 2023 compared to a negative € -1.4m in 2022, whilst the Group's total EBITDA of € 3.7m was 34.5% higher year-on-year.

Based on audited figures for 2023, Telecredit's financing volumes grew by 40% to € 40.6m, generating interest revenues of € 2.0m and an Operating profit before depreciation and interest expenses of € 0.79m, 48% higher than in 2022.

Based on audited figures for 2023, Mamaia Resort Hotels underperformed expectations, with operating revenues of € 2.9m, 26.8% below budget and 25.8% below 2022, due to lower off-season rental contracts, and weaker peak-season demand. As the Hotel failed to adapt its off-season cost base to the lower revenues, it turned loss-making, generating negative EBITDA of €-0.36m, € 0,85m below budget and € 1.0m below the previous year.

Apart from the shareholdings in RC and RIF, the other private equity investments are held through the Cyprus-based wholly-owned subsidiary, RC2 (Cyprus) Limited, which is not consolidated in the present financial statements, in accordance with IFRS. The Assets at Fair Value shown in the present financial statements, which amounts to €29.23m, reflects the valuations of the underlying private equity holdings outlined in the above table, plus cash and cash equivalents of €0.14m, and net sundry assets of € 0.22m, held by the intermediary holding company.

During the year, the directors reviewed the operations of the Company's subsidiary, Glasro Holdings Limited ("Glasro"). It was noted that its sole purpose was to hold the investment in Telecredit. The directors therefore decided to consolidate all investee companies in RC2 (Cyprus) Limited. The investment in Telecredit as well as sundry assets and liabilities of Glasro were transferred to RC2 (Cyprus) Limited at market value and Glasro was subsequently dissolved.

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ADVISER'S REPORT (continued)
For the year ended 31 December 2023

Economic Overview

Both the Romanian and Bulgarian economies reported a slowing down of GDP growth, from 4.8% in 2022 to 2.1% in 2023 in Romania, and from 3.4% to 1.8% in Bulgaria. The two economies continued to grow despite the on-going Russian invasion of Ukraine and continued high interest rate environment. Inflation fell to 6.6% by the end of 2023 in Romania from a peak of 16.4% in December 2022. A similar fall was recorded in Bulgaria, where the inflation rate was 4.7% at the end of 2023, having reached a peak of 18.7% in September 2022. In spite of the economic headwinds, the European Commission has forecast economic growth of 3.3% in Romania and 1.9% in Bulgaria in 2024.

31 July 2024

New Europe Capital SRL

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INVESTMENT POLICY

Investment Objective and Policy of the Company

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

Gearing

The Company may borrow up to a maximum level of 30% of its gross assets (as defined in its articles).

Distribution Policy

The Company's investment objective is focused principally on the provision of capital growth. For further details of the Company's distribution policy, please refer to the Admission Document on the Company's website.

RECONSTRUCTION CAPITAL II LIMITED
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REPORT OF THE DIRECTORS
For the year ended 31 December 2023

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 2023.

The financial statements do not constitute statutory financial statements.

Activities and Business Review

The Company's principal activity is holding and managing investments in Romania and other countries in South-East Europe. A summary of the Company's business review for the year ended 31 December 2023 is contained within the Adviser's report.

Accounting Policies

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Share Capital

Details of the Company's authorised and issued share capital as at 31 December 2023 are contained in note 16 of the financial statements.

Results and Dividends

The net investment income for the year amounted to EUR 5,120,744 (2022: net investment loss of EUR 2,097,738) and the net income for the year amounted to EUR 4,280,560 (2022: net loss of EUR 2,943,590).

The Directors do not recommend the payment of a dividend (2022: EUR nil).

Events after the Reporting Year

Events after the reporting period that require disclosure in the financial statements are detailed in note 22 of the financial statements.

Directors and their Interests

No Director held shares in the Company as at 31 December 2023.

The Board of Directors comprised of three Directors during 2023. Two of the Directors, Paolo Bassetti and Martin Derbyshire, are Independent Non-Executive Directors, while Zoran Melovski is also a Director of Portadrix Investments Limited, Reconstruction Capital Plc, The Romanian Investment Fund Limited, RC2 (Cyprus) Limited and New Europe Capital SRL, all of which are related parties of the Company. The Directors have a range of business, financial and asset management skills and experience relevant to the direction and control of the Company.

RECONSTRUCTION CAPITAL II LIMITED
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REPORT OF THE DIRECTORS (continued)
For the year ended 31 December 2023

Directors and their interests (continued)

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 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 New Europe Capital, a related party, and 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 21 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.

RECONSTRUCTION CAPITAL II LIMITED
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REPORT OF THE DIRECTORS (continued)
For the year ended 31 December 2023

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 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 the annual calculation of the net asset value of the Company's ordinary shares and quarterly reports that are issued by the Adviser. The reports are e-mailed to shareholders and are also available from the Adviser. The Company maintains a website where the shareholders are able to access all the news and published information about the Company.

Going Concern

At the Annual General Meeting held on 29 November 2023, it was decided that the life of the Company would be extended until the end of 2028 when the next continuation vote will be held.

The Company has made a profit during the year, which has decreased the accumulated deficit of the Company to EUR 82,444,912 (2022: EUR 86,725,474).

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").

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 "Conceptual Framework for Financial Reporting". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS.

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REPORT OF THE DIRECTORS (continued)
For the year ended 31 December 2023

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; and
- state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

Independent Auditor

The independent auditor, PKF Finconta SRL, 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

Zoran Melovski
Chairman

31 July 2024

REPORT OF THE INDEPENDENT FINANCIAL AUDITOR

To the shareholders of,
Reconstruction Capital II Limited

Opinion

1. We have audited the financial statements of Reconstruction Capital II Limited (*the Company*), which comprise the statement of financial position as at 31 December 2023, the statement of comprehensive income, statement of changes in equity, statement of cash flows for the year ended and a summary of significant accounting policies and explanatory notes.
2. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2023 and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards (*IFRSs*) as issued by the International Accounting Standards Board (*IASB*).

Basis for opinion

3. 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 Code of Ethics for Professional Accountants (IESBA Code) issued by the Council for International Ethics Standards for Professional Accountants and we have fulfilled our other ethical responsibilities in accordance with the requirements of IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

4. This report is made solely to the Company's shareholders, as a body. Our audit work has been carried out so that we disclose to the Company's shareholders those matters we are required to disclose in the auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report or for the opinion we have formed.

The responsibilities of the management and those charged with governance for the financial statements.

5. Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs and for that internal control that management

considers needed to allow preparation of financial statements that are free from material misstatement, whether due to fraud or error.

6. In the preparation of the financial statements, the management is responsible for the assessment of the capacity of the Company to continue as going concern, presenting, if needed, the aspects related to the going concern and using the going concern basis accounting, except for the situation when either the management intends to liquidate the Company or cease operations or there is no realistic alternative except those.

7. Those charged with governance are responsible for the supervision of the financial reporting process of the Company.

The responsibilities of the auditor in an audit of the financial statements

8. 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.

9. 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 management;
- Conclude on the appropriateness of management's 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 fair presentation;

We communicate with those charged with governance 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.



August 1, 2024

RECONSTRUCTION CAPITAL II LIMITED
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STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2023

	Notes	2023 EUR	2022 EUR
Investment income			
Fair value gains/(losses) on financial assets at fair value through profit or loss	20.5	1,522,123	(2,615,823)
Dividend income	4	3,074,339	-
Interest income	11.3	524,282	518,085
Net investment income/(loss)		5,120,744	(2,097,738)
Expenses			
Operating expenses	5	(802,001)	(844,981)
Net financial expense	6	(38,183)	(871)
Total expenses		(840,184)	(845,852)
Profit/(loss) for the year		4,280,560	(2,943,590)
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year attributable to owners		4,280,560	(2,943,590)
Earnings/(loss) per share			
Basic and diluted earnings/(loss) per share	8	0.0316	(0.0217)

The notes on pages 17 to 43 form an integral part of these audited financial statements.

RECONSTRUCTION CAPITAL II LIMITED
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STATEMENT OF FINANCIAL POSITION
As at 31 December 2023

	Notes	2023 EUR	2022 EUR
ASSETS			
Non-current assets			
Financial assets at fair value through profit or loss	11	29,227,928	24,104,083
Total non-current assets		29,227,928	24,104,083
Current assets			
Trade and other receivables	12	3,885	15,492
Cash and cash equivalents	13	2,205	73,337
Total current assets		6,090	88,829
TOTAL ASSETS		29,234,018	24,192,912
LIABILITIES			
Current liabilities			
Trade and other payables	14	296,849	124,485
Borrowings	15	839,013	-
Total current liabilities		1,135,862	124,485
Non-current liabilities			
Borrowings	16	-	250,833
TOTAL LIABILITIES		1,135,862	375,318
NET ASSETS		28,098,156	23,817,594
EQUITY AND RESERVES			
Share capital	17	1,355,784	1,355,784
Share premium		109,187,284	109,187,284
Accumulated deficit		(82,444,912)	(86,725,474)
TOTAL EQUITY		28,098,156	23,817,594
Net Asset Value per share			
Basic and diluted net asset value per share	18	0.2072	0.1757

The financial statements were approved by the Board of Directors and authorised for issue on 31 July 2024.

Zoran Melovski
Chairman

Martin Derbyshire
Director

The notes on pages 17 to 43 form an integral part of these audited financial statements.

RECONSTRUCTION CAPITAL II LIMITED
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STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2023

	Share capital EUR	Share premium EUR	Accumulated deficit EUR	Total EUR
Balance at 1 January 2022	1,358,569	109,206,779	(83,781,884)	26,783,464
Loss for the year	-	-	(2,943,590)	(2,943,590)
Total comprehensive loss for the year	-	-	(2,943,590)	(2,943,590)
Repurchase and cancellation of own shares	(2,785)	(19,495)	-	(22,280)
Transactions with owners	(2,785)	(19,495)	-	(22,280)
Balance at 31 December 2022/ 1 January 2023	1,355,784	109,187,284	(86,725,474)	23,817,594
Profit for the year	-	-	4,280,560	4,280,560
Total comprehensive income for the year	-	-	4,280,560	4,280,560
Balance at 31 December 2023	1,355,784	109,187,284	(82,444,192)	28,098,156

The notes on pages 17 to 43 form an integral part of these audited financial statements.

RECONSTRUCTION CAPITAL II LIMITED
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STATEMENT OF CASH FLOWS
For the year ended 31 December 2023

	Notes	2023 EUR	2022 EUR
Cash flows from operating activities			
Profit/(loss) for the year		4,280,560	(2,943,590)
<i>Adjustments for:</i>			
Fair value gains/(losses) on financial assets at fair value through profit or loss	20.5	(1,522,123)	2,615,823
Dividend income	4	(3,074,339)	-
Interest income	11.3	(524,282)	(518,085)
Interest expense	6	38,180	833
Net loss/(gain) on foreign exchange		3	6
Net cash outflow before changes in working capital		(802,001)	(845,013)
Decrease/(increase in trade and other receivables	12	11,607	(9,465)
Increase/(decrease) in trade and other payables	14	172,364	(81,200)
Additions to financial assets		(73,102)	-
Repayment of financial assets		70,000	770,000
Net cash (used in)/generated from operating activities		(621,132)	(165,678)
Cash flows from financing activities			
Proceeds from borrowings	15	550,000	250,000
Payments to purchase own shares		-	(22,280)
Net cash generated (used in)/from financing activities		550,000	227,720
Net (decrease)/increase in cash and cash equivalents before currency adjustment			
		(71,132)	62,042
Effects of exchange rate differences on cash and cash equivalents		0	(6)
Net (decrease)/increase in cash and cash equivalents after currency adjustment		(71,132)	62,036
Cash and cash equivalents at the beginning of the year		73,337	11,301
Cash and cash equivalents at the end of the year	13	2,205	73,337

The notes on pages 17 to 43 form an integral part of these audited financial statements.

RECONSTRUCTION CAPITAL II LIMITED
Annual Report and Audited Financial Statements

NOTES TO THE AUDITED FINANCIAL STATEMENTS
For the year ended 31 December 2023

1. Establishment

The Company is a closed-ended company created to invest in private and listed equity securities and fixed income securities, including convertible and other mezzanine instruments, primarily in Romania and Bulgaria. Following a general shareholder meeting on 21 February 2018, the investment objective of the Company was changed so that it now aims to achieve capital appreciation and/or to generate investment income returns through the acquisition of real estate assets in Romania, including the development of such assets, and/or the acquisition of significant or controlling stakes in companies established in, or operating predominantly in Romania, primarily in the real estate sector. Any new private equity investments in companies operating in sectors other than real estate would 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.

The Company was admitted to AIM, a market owned and operated by the London Stock Exchange in December 2005. It was subsequently delisted from it on 18 December 2023.

Following the annual general meeting of the Company on 29 November 2023, the life of the Company was extended for five years until the end of 2028.

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"). 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. These financial statements do not constitute statutory financial statements.

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.

New Accounting Standards, amendments to existing Accounting Standards and/or interpretations of existing Accounting Standards (separately or together, "New Accounting Requirements") adopted during the current year

The Directors have assessed the impact, or potential impact, of all New Accounting Requirements. In the opinion of the Directors, there are no mandatory New Accounting Requirements applicable in the current year, that had any material effect on the reported performance, financial position, or disclosures of the Company. The Company has not early adopted any New Accounting Requirements that are not mandatory.

RECONSTRUCTION CAPITAL II LIMITED
Annual Report and Audited Financial Statements

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2023

2. Principal accounting policies (continued)

2.2 Revenue recognition

Dividend from investments in securities is recognised when the right to receive payment is established. Withheld taxes are transferred to the Statement of Comprehensive Income.

Interest income is recognised on a time-proportion basis using the effective interest method.

Profits or losses from the sale of investments in securities represent the difference between the net proceeds and the carrying amount of the investments sold and is transferred to the Statement of Comprehensive Income.

The difference between the fair value of investments at fair value through profit or loss as at 31 December 2022 and the mid cost price represents unrealised gains and losses and is included in the Statement of Comprehensive Income in the year in which it arises.

2.3 Non-consolidated subsidiaries and investment undertakings

The Company has determined that the definition of an investment entity (as defined in IFRS 10) applies to the Company, 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; and
- 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 IFRS 9 'Financial Instruments'.

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.

The investments in associate undertakings are also measured at fair value through profit or loss under IFRS10 requirements.

2.4 Foreign currency translation

2.4 a) Functional and presentation 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 Euro ("EUR"), which is the Company's functional and presentation currency.

RECONSTRUCTION CAPITAL II LIMITED
Annual Report and Audited Financial Statements

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2023

2. Principal accounting policies (continued)

2.4 Foreign currency translation (continued)

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 the Statement of Comprehensive Income.

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 the Statement of Comprehensive Income 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.

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 (both in subsidiaries and associate undertakings) and are initially recognised at fair value, excluding transaction costs which are expensed in the Statement of Comprehensive Income.

The financial assets, including the loan receivable from subsidiary 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.

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.

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NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2023

2. Principal accounting policies (continued)

2.6 Financial assets (continued)

2.6 b) Debt instruments

Measurement of debt instruments depends on the Company's business model for managing the asset and the cashflow characteristics of the asset. These are recognised initially at fair value. They are subsequently measured at amortised cost using the effective interest rate method.

At each reporting date, the Company shall measure the loss allowance on debt instruments at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Company shall measure the loss allowance at an amount equal to 12-month expected credit losses.

Significant financial difficulties of the borrower, probability that the borrower will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that an expected credit loss may be required. A significant increase in credit risk is defined by management as any contractual payment which is more than 90 days past due. Any contractual payment which is more than 180 days past due is considered credit impaired.

2.7 Cash and cash equivalents

Cash and cash equivalents include cash at bank and short-term 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.

2.9 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.

2.10 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 the Statement of Comprehensive Income over the period of the borrowings using the effective interest method.

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NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
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2. Principal accounting policies (continued)

2.11 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.

2.12 Share premium

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

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 2023 and 31 December 2022 were as follows:

	2023	2022
	EUR	EUR
Financial assets at fair value through profit or loss (<i>Note 11</i>)	29,227,928	24,104,083

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 (EUR) as the currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The income received and expenses incurred by the Company are almost exclusively in Euro, 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.

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NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2023

3. Critical accounting estimates and assumptions (continued)

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

a. 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 the Company's subsidiaries and associates, which are unlisted equity securities, has been determined by using an adjusted net asset approach. 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.

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

Based on the adjusted net asset approach, Management has accepted the fair value estimations of unlisted equity investments as at 31 December 2023, which resulted in a net fair value gain of EUR 1.5m. This gain is comprised of a fair value gain of EUR 0.3m (being the fair value gain on the loan receivable from the unconsolidated subsidiary, RC2 (Cyprus), as described in note 11.3) and a net fair value gain of EUR 1.2m for investments in associates, respectively, recognised in the Statement of Comprehensive Income (2022: net fair value loss EUR 2.6m) (Note 20.5).

The fair value of unlisted equity securities held by the Company's subsidiaries and associates has been determined by independent valuers using a discounted cash flow approach, which is based on the investee company's management's business plans for the period 2024-2028. The inputs used in valuing these investments are not based on observable market data and require judgement, considering factors specific to the investment. The valuation methodology applied by the independent valuers is consistent with IFRS and International Valuation Standards ("IVS").

b. 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, disclosed in note 2.3 and as a result of this classification, the Company is required to account for subsidiaries and associates at fair value through profit or loss, except for subsidiaries that are related to the Company's investment activity, which are consolidated. Associates providing services that are related to the Company's investment activity are accounted for by the equity method.

Management has assessed that all of its subsidiaries (Note 9) and associates (Note 10) should not be consolidated and therefore be accordingly measured at fair value through profit or loss for the purposes of the financial statements as at 31 December 2023 and 31 December 2022.

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NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2023

4. Dividend income

	2023	2022
	EUR	EUR
Glasro Holdings Limited	3,074,339	-
	3,074,339	-

5. Operating expenses

	2023	2022
	EUR	EUR
Advisory fees (Note 22.1)	557,413	584,572
Legal and professional fees, including transaction fees	149,234	152,429
Administration and custodian fees	66,345	61,576
Audit fees	8,330	25,360
Directors' fees (Note 22.1)	20,000	20,000
Bank charges	679	1,044
	802,001	844,981

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 for advisory services provided.

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.

Performance fees

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%. The total performance fee for the year was EUR nil (2022: EUR nil).

Administrator and custodian fees

The current administrator and custodian, Apex Group Fiduciary Services Limited, receives a variable monthly fee based on the Company's Net Asset Value ("NAV"), payable quarterly in arrears. An amount of EUR 17,823 was outstanding at the year-end (2022: EUR 29,502), as detailed in Note 14.

Directors' fees

The Directors are considered to be key management personnel of the Company. The remuneration of each Director is detailed in Note 22.1.

RECONSTRUCTION CAPITAL II LIMITED
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NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2023

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 any long-term incentive schemes or post-employment benefits and no Director made gains from exercising any share options.

6. Net financial expense

	2023	2022
	EUR	EUR
Net loss on foreign exchange	(3)	(38)
Finance costs	(38,180)	(833)
	(38,183)	(871)
	(38,183)	(871)

7. Income tax

The Company is exempt from income tax in the Cayman Islands.

8. Earnings/(loss) per share

	2023	2022
	EUR	EUR
Earnings/(loss)		
Earnings/(loss) for the purposes of basic earnings/(loss) per share, being net profit/(loss) attributable to ordinary shareholders of the Company	4,280,560	(2,943,590)
	4,280,560	(2,943,590)
Number of shares (Note 17)	135,578,413	135,578,413
	135,578,413	135,578,413
Basic and diluted (loss)/earnings per share	0.0316	(0.0217)

There are no potentially dilutive instruments.

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NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2023

9. Subsidiaries

The Company has the following subsidiaries:

	Principal activity	Principal place of business and Country of incorporation	Proportion of ownership interest	
			2023	2022
Holding company: Reconstruction Capital II Limited				
RC2 (Cyprus) Limited	Investment holding	Cyprus	100%	100%
Holding company: RC2 (Cyprus) Limited				
Mamaia Resort Hotels S.R.L.	Hotel operation	Romania	63%	63%
Telecredit IFN S.A.	Factoring services	Romania	85%	-

In 2023 the Directors decided to transfer the shares of Telecredit IFN S.A. from Glasro Holdings Limited (“Glasro”) to RC2 (Cyprus) Limited and then to proceed to dissolve Glasro.

10. Associates

The Company has the following associates:

	Principal activity	Principal place of business and Country of incorporation	Proportion of ownership interest	
			2023	2022
Holding company: Reconstruction Capital II Limited				
Reconstruction Capital Plc	Investment holding	Isle of Man	23%	23%
The Romanian Investment Fund Limited	Investment holding	Cayman Islands	27%*	27%*

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10. Associates (continued)

	Principal activity	Principal place of business and Country of incorporation	Proportion of ownership interest	
			2023	2022
Holding company: RC2 (Cyprus) Limited				
Policolor S.A.	Paint and varnish manufacture	Romania	40%	40%

* The Company's proportion of ownership interest in The Romanian Investment Fund Limited comprises direct and indirect holdings of 11.3% and 16.11%, respectively, and were unchanged as at 31 December 2023.

11. Financial assets at fair value through profit or loss

	2023	2022
	EUR	EUR
Non-current investments		
Investment in subsidiary	-	3,228,478
Investments in associates	3,009,072	1,824,880
Loan receivable	26,218,856	19,050,725
	<u>29,227,928</u>	<u>24,104,083</u>
11.1 Investment in subsidiary		
	2023	2022
	EUR	EUR
Cost	75,998,689	76,653,660
Net unrealised loss on investment	(75,998,689)	(74,425,182)
Fair value of non-current investment	<u>-</u>	<u>3,228,478</u>

The investment in subsidiary is an equity investment in RC2 (Cyprus) Limited, a wholly-owned subsidiary of the Company, with a fair value of EUR nil at year-end (2022:EUR nil),

During the year, the Company disposed of its investment in Glasro Holdings Limited (see note 11.3).

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NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
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11. Financial assets at fair value through profit or loss (continued)

11.2 Investments in associates

	2023	2022
	EUR	EUR
Cost	3,566,648	3,566,648
Net unrealised loss on investments	(557,576)	(1,741,768)
Fair value of non-current investments	<u>3,009,072</u>	<u>1,824,880</u>

Included in investments in associates are investments in Reconstruction Capital Plc and The Romanian Investment Fund Limited with fair values of EUR 1,302,000 and EUR 1,707,072, respectively, at the year-end (2022: EUR 644,777 and EUR 1,180,103 respectively).

11.3 Loan receivable at fair value through profit or loss

	2023	2022
	EUR	EUR
Loan to unconsolidated subsidiary	26,218,856	19,050,725

Included in the balance of loan to unconsolidated subsidiary is a loan to RC2 (Cyprus) Limited, which is designated at fair value through profit or loss and which bears interest of 1% 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. On 17 May 2023, the Company signed a further addendum to the loan agreement with RC2 (Cyprus) Limited with effective date 31 December 2022, whereby RC2 (Cyprus) Limited may repay any outstanding balance prior to 31 December 2025.

	2023	2022
	EUR	EUR
Changes in loan receivable		
Opening balance	19,050,725	21,697,290
Loan addition	3,267,439	-
Loan repayments	(70,000)	(770,000)
Interest income	524,282	518,085
Fair value gain/(loss) on loan receivable	3,446,410	(2,394,650)
	<u>26,218,856</u>	<u>19,050,725</u>

The valuation of the loan is based on the adjusted net asset value of RC2 (Cyprus) Limited which is available to repay the loan principal and interest payable to the Company (Note 20.5). The value of the loan receivable increased by EUR 7,168,131 during the year (2022: decreased by EUR 2,646,565). The increase is a result of the accrued interest income of EUR 524,282 (2022: EUR 518,085) being added with the fair value gain on the loan receivable of EUR 3,446,410 (2022: fair value loss of EUR 2,394,650) and the net loan additions of EUR 3,197,439 (2022: net loan repayments EUR 770,000) following the acquisition of Glasro Holdings Limited.

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NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
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12. Trade and other receivables

	2023	2022
	EUR	EUR
Other receivables and prepayments	3,885	15,492

13. Cash and cash equivalents

	2023	2022
	EUR	EUR
Cash at bank	2,205	73,337

14. Trade and other payables

	2023	2022
	EUR	EUR
Due within one year:		
Advisory fees (Note 22.1)	203,642	36,069
Auditor's fees	8,330	25,360
Administration fees	17,823	29,502
Professional fees	57,534	24,867
Valuation fees	9,520	8,687
	296,849	124,485

15. Borrowings

	2023	2022
	EUR	EUR
Due within one year:		
Loan from related party	839,013	-
Due in more than one year:		
Loan from related party	-	250,833

On 15 December 2022, the Company entered into an agreement with Ion Florescu for a loan facility of EUR 800,000, bearing interest of 8% per annum and repayable on or before 15 December 2024.

	2023	2022
	EUR	EUR
Changes in borrowings		
Opening balance	250,833	-
Repayment during the year	-	-
Loan received	550,000	250,000
Interest expense	38,180	833
Closing balance	839,013	250,833

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16. Reserves

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of par value, as reduced by bonus issues.
Accumulated deficit	Cumulative net gains and losses recognised in the Statement of Comprehensive Income, and cumulative transfers from other recognised reserves, where permitted or required.

17. Share capital

	2023		2022	
	Number of shares	EUR	Number of shares	EUR
<i>Authorised</i>				
Ordinary shares of EUR0.01 each	300,000,000	3,000,000	300,000,000	3,000,000
B shares of EUR1 each	17,000,000	17,000,000	17,000,000	17,000,000
<hr/>				
<i>Issued and fully paid</i>				
Ordinary shares of EUR0.01 each	135,578,413	1,355,784	135,578,413	1,355,784
<hr/>				
	2023		2022	
	Number of shares	EUR	Number of shares	EUR
Ordinary shares				
Share capital at 1 January and 31 December	135,578,413	1,355,784	135,578,413	1,355,784

18. Net Asset Value per share

	2023	2022
	EUR	EUR
Net assets	28,098,156	23,817,594
Closing number of shares	135,578,413	135,578,413
Basic and diluted net asset value per share	0.2072	0.1757

There are no potentially dilutive instruments.

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NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
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19. Financial assets and liabilities

The carrying amounts of the Company's financial assets and liabilities are:

		2022	2022
		EUR	EUR
Financial assets at fair value through profit or loss			
Investments in subsidiaries	(Note 11.1)	-	3,228,478
Investments in associates	(Note 11.2)	3,009,072	1,824,880
Loan receivable	(Note 11.3)	26,218,856	19,050,725
		<u>29,227,928</u>	<u>24,104,083</u>
Financial assets at amortised cost			
Trade and other receivables	(Note 12)	3,885	6,027
Cash and cash equivalents	(Note 13)	2,205	11,301
		<u>6,090</u>	<u>17,328</u>
Financial liabilities at amortised cost			
Trade and other payables	(Note 14)	269,849	205,685
Borrowings	(Note 15)	839,013	-
		<u>1,135,862</u>	<u>205,685</u>

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 Company's investment objectives.

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, through its subsidiaries, invests in securities of 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 more 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, Bulgaria and neighbouring countries is substantially less developed. Investments in unlisted securities are more speculative and involve a higher degree of risk and lower level of liquidity.

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20. Financial risk management (continued)

20.1 Market risk (continued)

The Company measures these risks by monitoring its exposure to certain markets, industries and countries. The details of these exposures are analysed at the level of the Company's subsidiaries as follows:

	2023	2022
	EUR	EUR
Sector		
Corporate loans	4,284,000	3,228,478
Other private equity investments	24,943,928	20,875,605
	<u>29,227,928</u>	<u>24,104,083</u>
Other items	<u>6,090</u>	<u>88,829</u>
Geographical analysis		
Corporate loans		
Romania	<u>4,284,000</u>	<u>3,228,478</u>
Other private equity investments		
Romania	<u>24,943,928</u>	<u>20,875,605</u>
Other items		
Jersey	<u>6,090</u>	<u>88,829</u>

Corporate loans have been allocated based on the location of the borrower. Other private equity investments and other items are disclosed based on the location of the underlying investments.

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 19.5 under "Fair value information".

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NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2023

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 and cash equivalents, trade and other receivables. The maximum exposure to credit risk at 31 December is:

	2023	2022
	EUR	EUR
Financial assets at fair value through profit or loss	26,218,856	19,050,725
Financial assets at amortised cost	6,090	88,829
	26,224,946	19,139,554

The total credit risk exposure from financial assets at amortised cost is EUR 6,090 (2022: EUR 88,829).

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 A1 (2022: A1).

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

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. The loan from related party under '1 to 12 months' bears an interest rate of 8% per annum until 15 December 2024.

	Carrying amount	Contractual cash flows	Less than 1 month	1 to 12 months	1 to 2 years
	EUR	EUR	EUR	EUR	EUR
2023					
Trade and other payables	296,849	296,849	-	296,849	-
Loan from related party (see note 14)	839,013	900,346	-	900,346	-
	1,135,862	1,197,195	-	1,197,195	-

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NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
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20. Financial risk management (continued)

20.3 Liquidity risk (continued)

	Carrying amount	Contractual cash flows	Less than 1 month	1 to 12 months	1 to 2 years
	EUR	EUR	EUR	EUR	EUR
2022					
Trade and other payables	124,485	124,485	99,125	25,360	-
Loan from related party (note 14)	250,833	290,011	-	-	290,011
	<u>375,318</u>	<u>414,496</u>	<u>99,125</u>	<u>25,360</u>	<u>290,011</u>

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 equity is summarised in the Statement of Changes in Equity and consists of share capital, share premium and accumulated deficit.

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

	2023 EUR	2022 EUR
Equity	28,098,156	23,817,594
Cash and cash equivalents	(2,205)	(73,337)
Capital	<u>28,095,951</u>	<u>23,744,257</u>
Equity	28,098,156	23,817,594
Borrowings	839,013	250,833
Overall financing	<u>28,934,964</u>	<u>24,068,427</u>
Proportion of capital to overall financing	<u>97%</u>	<u>99%</u>

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 3% (2022: 1%) of gross assets. The increase is as a result of the drawdown of the loan from Ion Florescu (Note 14).

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NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
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20. Financial risk management (continued)

20.5 Fair value information

All of the Company's investments, as well as the loan receivable, 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.

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.

Estimation of fair values - non-consolidated subsidiaries

The Company undertakes valuations of its private equity investments at fair value through profit or loss as at each financial reporting date. In 2022 and 2023, 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 representing net equity of the entity after assets and liabilities have been adjusted to their fair values.

The valuation of the investments in Reconstruction Capital Plc and The Romanian Investment Fund Limited are based on their audited net asset values which are in turn based on the same valuations of their main underlying asset, Policolor SA, as adopted by the Company.

Reconstruction Capital Plc

As at 31 December 2023, all significant assets included in the Statement of Financial Position of Reconstruction Capital Plc were recorded at fair value. The equity value of the Company's investment in Reconstruction Capital Plc amounted to EUR 1,302,000 (2022: EUR 644,777).

As at 31 December 2023, if the net assets of Reconstruction Capital Plc 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 0.22% or EUR 65,100 and an increase in the Company's post-tax profit of 1.52% or EUR 65,100;
- 5% decrease: decrease in the Company's total assets of 0.22% or EUR 65,100 and a decrease in the Company's post-tax profit of 1.52% or EUR 65,100;

As at 31 December 2022, if the net assets of Reconstruction Capital Plc 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 0.13% or EUR 32,239 and an increase in the Company's post-tax loss of 1.1% or EUR 32,239;
- 5% decrease: decrease in the Company's total assets of 0.13% or EUR 32,239 and a decrease in the Company's post-tax loss of 1.1% or EUR 32,329;

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NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
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20. Financial risk management (continued)

20.5 Fair value information (continued)

The Romanian Investment Fund Limited

As at 31 December 2023, all significant assets included in the Statement of Financial Position of The Romanian Investment Fund Limited were recorded at fair value. The equity value of the Company's Investment in The Romanian Investment Fund Limited amounted to EUR 1,707,072 (2022: EUR 1,180,103).

As at 31 December 2023, if the net assets of The Romanian Investment Fund 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 0.29% or EUR 85,354 and an increase in the Company's post-tax profit of 1.99% or EUR 85,354;
- 5% decrease: decrease in the Company's total assets of 0.24% or EUR 85,354 and a decrease in the Company's post-tax profit of 1.99% or EUR 85,354;

As at 31 December 2022, if the net assets of The Romanian Investment Fund 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 0.24% or EUR 59,005 and an increase in the Company's post-tax loss of 2% or EUR 59,005;
- 5% decrease: decrease in the Company's total assets of 0.24% or EUR 59,005 and a decrease in the Company's post-tax loss of 2% or EUR 59,005;

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20. Financial risk management (continued)

20.5 Fair value information (continued)

RC2 (Cyprus) Limited

At 31 December 2023, the Company's investment in RC2 (Cyprus) Limited had a fair value of EUR nil. The loan receivable (see note 10.3) from RC2 (Cyprus) Limited had a fair value of EUR 26,218,856 (2022: EUR 19,050,725) determined on an adjusted net value approach as explained in note 10.3. The fair value of the loan receivable reflects the fair value of the underlying investments made by RC2 (Cyprus) Limited in Policolor and Mamaia.

As at 31 December 2023, if the net asset position of RC2 (Cyprus) Limited increased or decreased by 5%, the effect from the corresponding change on the fair value of the loan would be reflected as follows in the financial statements of the Company:

- 5% increase: increase in the Company's total assets of 4.48% or EUR 1,310,943 and an increase in the Company's post-tax profit of 30.63% or EUR 1,310,943;
- 5% decrease: decrease in the Company's total assets of 4.48% or EUR 1,310,943 and a decrease in the Company's post-tax profit of 30.63% or EUR 1,310,943;

As at 31 December 2022, if the net asset position of RC2 (Cyprus) Limited increased or decreased by 5%, the effect from the corresponding change on the fair value of the loan would be reflected as follows in the financial statements of the Company:

- 5% increase: increase in the Company's total assets of 3.94% or EUR 952,536 and an increase in the Company's post-tax loss of 32.36% or EUR 952,536;
- 5% decrease: decrease in the Company's total assets of 3.94% or EUR 952,536 and a decrease in the Company's post-tax loss of 32.36% or EUR 952,536;

The equity investment in the subsidiary would not be impacted by the above changes in net assets.

The investments held through the Company's non-consolidated subsidiaries are valued 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. 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; and
- the industry in which the investee operates.

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

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NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
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20. Financial risk management (continued)

20.5 Fair value information (continued)

Policolor S.A.

Policolor S.A. was valued by an independent valuer as at 31 December 2023. The major assumptions used in the valuation are as follows:

- weighted average cost of capital of 16.6% (2022: 16.4%);
- EBITDA margin rate between 6.5% and 13.6% (2022: 5.4% and 11.5%);
- revenue growth rate between 6.4% and 14% (2022: 6.1% and 12.8%); and
- long term growth rate of 2% (2022: 2%).

Increase/(decrease) in the Company's net assets relative to changes in valuation assumptions:

	2023		2022	
	+0.5%	-0.5%	+0.5%	-0.5%
Weighted average cost of capital	(760,000)	880,000	(840,000)	920,000
	+5%	-5%	+5%	-5%
EBITDA margin rate	1,520,000	(1,480,000)	1,600,000	(1,560,000)
	+5%	-5%	+5%	-5%
Revenue growth rate	1,520,000	(1,480,000)	1,600,000	(1,560,000)
	+0.5%	-0.5%	+0.5%	-0.5%
Long term growth rate	480,000	(440,000)	520,000	(480,000)

Mamaia Resort Hotels S.R.L.

Mamaia Resort Hotels S.R.L. was valued by an independent valuer as at 31 December 2023. The major assumptions used in the valuation are as follows:

- weighted average cost of capital of 12.6% (2022: 12.9%);
- EBITDA margin rate between 11.6% and 24% (2022: 12.4% and 21.1%);
- revenue growth rate between 7.5% and 14.6% (2022: 2.3% and 9.1%); and
- long term growth rate of 2% (2022: 2%).

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20. Financial risk management (continued)

20.5 Fair value information (continued)

Mamaia Resort Hotels S.R.L. (continued)

Increase/(decrease) in the Company's net assets relative to changes in valuation assumptions:

	2023		2022	
	+0.5%	-0.5%	+0.5%	-0.5%
Weighted average cost of capital	(202,144)	226,861	(214,247)	226,849
EBITDA margin rate	296,180	(289,878)	270,959	(277,260)
Revenue growth rate	302,482	(296,180)	277,260	(277,260)
Long term growth rate	151,241	(132,336)	144,932	(132,329)

Telecredit IFN SA

Telecredit IFN SA was valued by an independent valuer as at 31 December 2023. The major assumptions used in the valuation are as follows:

- weighted average cost of equity of 16.8% (2022: 15.4%);
- EBITDA margin rate between 46% and 51.9% (2022: 42.4% and 53.7%);
- revenue growth rate between 5.2% and 27.4% (2022: 2.4% and 31.7%); and
- long term growth rate of 2% (2022: 2%).

Increase/(decrease) in the Company's net assets relative to changes in valuation assumptions:

	2023		2022	
	+0.5%	-0.5%	+0.5%	-0.5%
Weighted average cost of capital	(136,000)	153,000	(136,000)	144,500
EBITDA margin rate	272,000	(272,000)	229,500	(238,000)
Revenue growth rate	272,000	(272,000)	229,500	(238,000)
Long term growth rate	68,000	(59,500)	59,500	(59,500)

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20. Financial risk management (continued)

20.5 Fair value information (continued)

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 13 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; and
Level 3	unobservable inputs for the asset or liability.

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

	2023	2022
	EUR	EUR
Level 3		
Investments in subsidiaries	-	3,228,478
Investments in associates	3,009,072	1,824,880
Loan to subsidiary	26,218,856	19,050,725
	<u>29,227,928</u>	<u>24,104,083</u>

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

	2023	2022
	EUR	EUR
Balance at 1 January	24,103,083	26,971,821
Total gains or losses for the year:		
Fair value gains/(losses)	1,522,123	(2,615,823)
Interest income, loan additions and repayments	3,602,722	(251,915)
Balance at 31 December	<u>29,227,928</u>	<u>24,104,083</u>

Fair value gains in 2023 include a loss of EUR 120,000 arising from the write off of a payable due to Glasro Holdings Limited.

The balances as at 31 December represents the fair value of assets held at year end.

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21. Operating segments

According to the decision of the general shareholder meeting on 21 February 2018, the Company's investment objective was modified as achieving capital appreciation and/or generation of investment income returns through the acquisition of real estate assets in Romania, and/or the acquisition of significant or controlling stakes in companies established in, or operating predominantly in Romania, primarily in the real estate sector. Follow-on investments in existing portfolio companies may also be made. 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 two reportable segments which are the same as the Company's operating segments - the private equity programme (for all assets, liabilities, income and expenses directly related to investments made) and other items (for all sundry assets, liabilities, income and expenses of the Company not directly connected to the investments).

	Private equity programme EUR	Other items EUR	Total per financial Statements EUR
2023			
Reportable segment total assets	29,227,928	6,090	29,239,018
Reportable segment profit/(loss) before tax	5,120,744	(840,184)	4,280,560
Reportable segment total liabilities	-	(1,135,862)	(1,135,862)
Fair value gain on financial assets at FVTPL	1,522,123	-	1,522,123
Dividend income	3,074,339	-	3,074,339
Interest income	524,282	-	524,282
Financial costs	-	(38,180)	(38,180)
Net loss on foreign exchange	-	(3)	(3)
Operating expenses	-	(802,001)	(802,001)
2022			
Reportable segment total assets	24,104,083	88,829	24,192,912
Reportable segment loss before tax	(2,097,738)	(845,852)	(2,943,590)
Reportable segment total liabilities	-	(375,318)	(375,318)
Fair value loss on financial assets at FVTPL	(2,615,823)	-	(2,615,823)
Interest income	518,085	-	518,085
Financial costs	-	(833)	(833)
Net loss on foreign exchange	-	(38)	(38)
Operating expenses	-	(844,981)	(844,981)

The geographical location of the investments held under the private equity programme is disclosed in Note 19.1.

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22. 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.

22.1 Key management compensation

		2023	2022
		EUR	EUR
Advisory fees	(Note 5)	557,413	584,572
Directors' fees	(Note 5)	20,000	20,000
		<u>577,413</u>	<u>604,572</u>

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 EUR 557,413 (2022: EUR 584,572). Total fees outstanding as at 31 December 2023 were EUR 203,642 (2022: EUR 36,069).

There were no performance fees paid or payable in respect of 2023 (2022: EUR nil).

Advisory fees which are unpaid for over a month attract an interest rate of 10% (2022: 10%) on the entire balance. No interest was charged during the year (2022: EUR nil).

b. Directors' fees (Note 5)

	2023	2022
	EUR	EUR
Paolo Bassetti	10,000	10,000
Martin Derbyshire	10,000	10,000
	<u>20,000</u>	<u>20,000</u>

Zoran Melovski, who is not shown in the table above, has not received a fee in the current or prior year, and is thus excluded from the table.

22.2 Related parties' interests

	2023		2022	
		% of issued		% of issued
Ordinary shares	Number	share capital	Number	share capital
Held by other related parties				
Ion Florescu and related parties *	85,495,577	63.06%	81,862,859	60.38%

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22. Related party transactions (continued)

22.2 Related parties' interests (continued)

* As at 31 December 2023, 85,389,592 of the Company's shares were owned by Portadrix Investments Limited, which is wholly-owned by The Florescu Family Trust, and 105,985 shares were owned by New Europe Capital SRL, which is the adviser to the Company and is 84% owned by Ion Florescu.

22.3 Loan to unconsolidated subsidiary

The details of the loan to RC2 (Cyprus) Limited are disclosed in Note 10.

22.4 Loans to and from related parties

On 11 May 2021, the following parties entered into agreements to provide a total of EUR 1.26m in unsecured loans to Telecredit IFN S.A. ("Telecredit"): Portadrix Investments Limited (a company wholly beneficially-owned by Ion Florescu, a significant shareholder in the Company) EUR 960,000; Mihai Radoi (a director of the Company until 27 July 2021) EUR 140,000; and Cornelia Oancea (CEO of New Europe Capital SRL, Adviser to the Company, and a director of Telecredit) EUR 200,000 (the "May Loans"). The May Loans matured in May 2022 and carried an annual interest rate of 9.75% in addition to a 0.25% arrangement fee.

On 18 October 2021, the following parties entered into agreements to provide a total of EUR 200,000 in unsecured loans to Telecredit IFN S.A. ("Telecredit"): Ion Florescu (a significant shareholder in the Company) EUR 120,000, and Mihai Radoi (a former director of the Company) EUR 80,000 (the "October Loans"). The October Loans matured in October 2022 and carried an annual interest rate of 8%.

On 16 November 2021, the following parties entered into agreements to provide a total of EUR 200,000 in unsecured loans to Telecredit IFN S.A. ("Telecredit"): Ion Florescu (a significant shareholder in the Company) EUR 100,000, and Cornelia Oancea (CEO of New Europe Capital SRL, Adviser to the Company) EUR 100,000 (the "November Loans"). The November Loans were due to mature in November 2022 and, prior to the extensions mentioned below, carried an annual interest rate of 8%.

On 22 December 2021, Ion Florescu (a significant shareholder in the Company) entered into an agreement to provide a total of EUR 250,000 in unsecured loans to Telecredit IFN S.A. ("Telecredit") (the "December Loan"). The December Loan was due to mature in December 2022 and, prior to the extensions mentioned below, carried an annual interest rate of 8%.

On 10 May 2022, Ion Florescu (a significant shareholder in the Company) entered into an agreement to provide a total of EUR 860,000 in unsecured loans to Telecredit IFN S.A. ("Telecredit"), replacing part of the loan previously provided by Portadrix Investments Limited, a company wholly beneficially-owned by him. Additionally, Cornelia Oancea (CEO of New Europe Capital SRL, Adviser to the Company, and a director of Telecredit) agreed to extend the loan of EUR 200,000 originally made in May 2021 for a further 12 months (the "May 2022 Loans"). The May 2022 Loans matured on 10 May 2023 and carried an annual interest rate of 9%.

On 14 November 2022, the maturity of the November loans was extended to 16 February 2024 and the maturity of the December Loan was extended to 22 March 2024. The interest rate for these loans was also modified to 9.2%.

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22.4 Loans to and from related parties (continued)

On 23 June 2023, Ion Florescu (a significant shareholder in the Company) entered into an agreement to provide a total of EUR 150,000 in unsecured loans to Telecredit IFN S.A. (“Telecredit”). Additionally, Cornelia Oancea (CEO of New Europe Capital SRL, Adviser to the Company, and a director of Telecredit) agreed to make a loan of EUR 100,000 (“the June 2023 Loans”). The June 2023 Loans mature in June 2024 and carry an annual interest rate of 8%.

On 28 September 2023, Ion Florescu (a significant shareholder in the Company) entered into an agreement to provide an unsecured loan of EUR 500,000 to Telecredit IFN S.A. The loan matures in September 2024 and carries an annual interest rate of 8%.

On 15 December 2022, the Company entered into an agreement with Ion Florescu for a loan facility of EUR 800,000, bearing interest of 8% per annum and repayable on or before 15 December 2024.

22.5 Pledges and guarantees

On 30 June 2022 the Company issued a Corporate Guarantee in favour of QAS SICAV RAIF for a maximum amount of EUR 200,000. This Corporate Guarantee was provided in relation to a revolving credit facility granted to Telecredit IFN SA. On 15 June, 2023 the Corporate Guarantee was increased to EUR 300,000.

22.6 Ultimate controlling party

Ion Florescu along with parties connected to him are the ultimate controlling parties of the Company.

23. Events after the reporting date

There were no events after the reporting date that require disclosure in these financial statements.