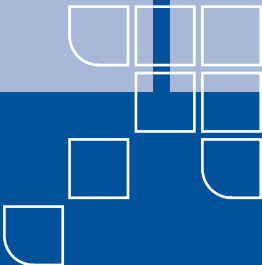




EPIC Reconstruction plc

Interim Report & Unaudited Accounts

For the period ended 31 July 2007



Contents

Chairman's Statement	2
Investment Advisor's Report	4
Unaudited Consolidated Statement of Operations	8
Unaudited Consolidated Statement of Assets and Liabilities	9
Unaudited Consolidated Statement of Changes in Net Assets	10
Unaudited Consolidated Statement of Cash Flows	11
Notes to the Interim Financial Statements	12
Company Information	16

Chairman's Statement

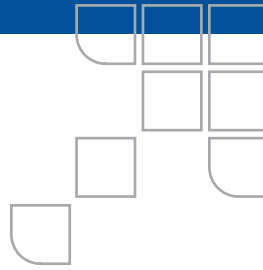
At the interim stage, EPIC Reconstruction Plc ("the Company" or "ER") had gross income of £964k. This translated to a net revenue profit for the Company of £513k. Regrettably, there were also capital losses of £1,660k, giving a total loss for the period of £1,147k, including losses previously reported on Abbseal as a post balance sheet event as at 31 January 2007. Net asset value per share as at the 31 July 2007 for the Company was down from 65.01p at 31 January 2007 to 61.19p. The Board has decided to focus on preserving cash balances at the half year by not declaring an interim dividend and will review dividend payments at the year end.

The gross income from the period was generated through income yielding instruments in the portfolio companies, most notably Past Times. Except through re-financings and scheduled repayment of capital from portfolio companies the expectation is that these instruments will remain in place providing the Company

with healthy revenue streams for the rest of the financial year. The majority of the capital losses sustained were as a result of the final demise of Abbseal.

The remainder of the current portfolio continues to perform in line with expectations. Past Times continues to perform well with positive like-for-like sales and further improvements being driven through the business by the new CEO, Mike Taylor. The business is on track to make a profit in the current year.

The current economic environment and perceived or real credit crunch for consumers and companies is being watched with acute interest by the Company. The Company's exposure to consumer facing businesses such as Past Times and Dolcis makes any weakening in consumer confidence due to higher interest rates and the impact on property prices of particular concern. However elsewhere in the economy the end to cheap credit could



bring fresh and interesting opportunities for the Company as overleveraged and cyclical businesses are forced to seek more radical redress to funding and operational problems.

The Company is seeking to exit a number of its smaller investments and continues to identify potential bolt-on opportunities for the remainder of the portfolio. This strategy will be the main focus for the remainder of the year whilst new acquisitions will continue to be reviewed. The Company's focus on value creation is predominantly from within the existing portfolio. I look forward to reporting on the Company's performance at year end.

Geoffrey Vero

Investment Advisor's Report

In the six month period to 31 July 2007, the Investment Advisor has continued to focus on creating value from within the portfolio.

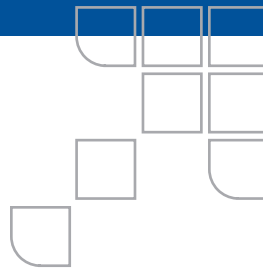
The current portfolio is expected to continue to yield a good return to shareholders as the Investment Advisor investigates a number of bolt-on opportunities which should return capital to the Company and grow revenues and strengthen market positions. Re-financings continue to be arranged, in particular where the turnaround has largely been affected and the results are showing in the company's financial results.

The Investment Advisor also continues to explore opportunities for adding value to portfolio companies through revenue enhancing and cost saving initiatives as well as support in identifying appropriate management to optimise performance. The Investment Advisor continues to develop relationships with various lenders to ensure portfolio companies have access to financing on optimal terms.

The Investment Advisor believes that the potential to create value within this space remains significant, and the economic cycle continues to create a wide range of investment opportunities. As such the Investment Advisor is actively engaged in communicating the Company's investment strategy within the industry. The Investment Advisor is strengthening its existing network and developing new relationships with advisors and managers who can provide deal flow and the necessary expertise in acquiring and turning around distressed assets.

The Portfolio Autocue (2005)

Autocue is a manufacturer of prompting equipment for the media industry, as well as the developer and provider of a range of software for a similar customer base. The business went into administration early in 2005 due to significant historic leverage raised to expand the software side of the business, a strategy which subsequently



proved to be a mistake. The Company teamed up with another private equity provider to buy the business out of administration, employing a new management team who have looked to restructure the business fundamentally, through the removal of a number of unnecessary excess costs, and a realignment of the business to its core prompter (rather than software) sales. The Company has a £0.775m overlend exposure to Autocue, yielding 15% per annum. The last twelve months has seen the development of Qnxt, a prompter which management are confident is significantly ahead of all competition. Qnxt has recently been launched and the performance of the business is expected to improve further over the next period.

Dolcis (2006)

Dolcis, a high street shoe retailer, was bought out of Alexon Group plc during December 2006 with John Kinnaird, a retail entrepreneur. The key turnaround

strategies to be employed initially are to improve buying, reduce stock levels, extend credit and dispose of loss making stores and significant progress on these has taken place within the first six months of ownership. The management are now focusing on the product offering and the store format to increase awareness and improve footfall. First roll-out of new stores are due to take place in Q4 2007. Dolcis repaid £1.05m of the original £1.7m investment in March 2007 though further funding may be advanced in the future. The remaining balance yields 9% per annum.

Kemutec (2005)

Kemutec is a manufacturer of mixing and sifting equipment for the chemical, pharmaceutical and food industries, with annual sales of circa £10m. The business has repaid all of the initial loan from ER and further balances were lent to assist with working capital due to the growth in the business. The Company has £0.64m in overlend and acquisition finance yielding

Investment Advisor's Report (cont.)

15% per annum. Demand from the US and the Continent remains strong and the business is now looking to develop its presence further in new sectors and markets. Both Management and the Investment Advisor continue to seek strategic acquisitions to supplement the organic growth.

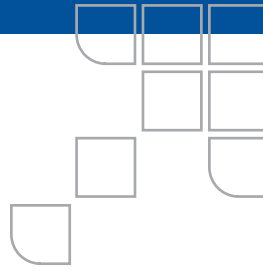
Morada Home Limited (2005)

The Company backed Stuart Taylor to buy the Morada Home business out of administration with a secured debt instrument of £0.75m yielding 15% per annum. The division was based originally on contracts with the Ministry of Defence ("MoD"), which comprised around two thirds of the division's turnover, to supply curtains and blinds for MoD living accommodation. Further orders are expected following the suspension of the MoD spending moratorium in the April of this year. The business also supplies local authorities and educational establishments, including a two year contract with

Lancashire Purchasing Agency. In the retail sector, the business supplies custom-made and ready-made furnishings to a number of independent and national customers, including Paul Simon and Dunelm. Morada has had a stable initial period. The order book is now growing and sales are forecast to improve over the coming period.

Past Times (2005)

Past Times is a niche retailer of historically inspired jewellery, gifts, books and housewares. Past Times was acquired in December 2005 from the administrators of Retail Variations plc, with Will Hobhouse, formerly of Tie Rack and Whittards of Chelsea brought in as Chairman. The Company has committed up to £8.9m at a 15% yield per annum. The secured debt instrument is currently £7.75m. Past Times has undergone a major restructuring process, with the number of stores reduced, the head office cost base reduced, and the product range has been improved. The business is now experiencing the benefits of



these improvements. The recruitment of a new CEO, Mike Taylor, has also boosted prospects as he has started to drive through further improvements capitalising on the now stable core business. Like-for-like sales have increased year-on-year, and the business is forecast to be profitable in the current year of trading.

EPIC Specialist Investments Limited
Investment Advisor to
EPIC Reconstruction Plc

Unaudited Consolidated Statement of Operations

For the period from 1 February 2007 to 31 July 2007

notes	1 Feb 2007 to 31 July 2007 (unaudited)			1 Feb 2006 to 31 July 2006 (unaudited)	1 Feb 2006 to 31 Jan 2007 (audited)
	Revenue	Capital	Total	Total	Total
	£	£	£	£	£
	Income:				
	Rental income	–	–	–	766
	Interest	859,194	859,194	1,204,047	2,007,270
	Commission income	105,099	105,099	344,276	587,772
	Total income	964,293	–	964,293	1,548,323
	Expenses:				
	Investment advisor's fees	(121,229)	–	(121,229)	(176,293)
	Administration fees	(9,912)	–	(9,912)	(21,371)
	Directors' fees	(37,917)	–	(37,917)	(97,064)
	Directors and Officers' insurance	(11,500)	–	(11,500)	(15,175)
	Professional fees	(139,399)	–	(139,399)	(219,150)
	Crest service provision	(2,500)	–	(2,500)	(2,500)
	Printing and advertising expenses	6,635	–	6,635	(7,325)
	Board meeting and travel expenses	(3,626)	–	(3,626)	(15,790)
	Auditors' remuneration	(23,498)	–	(23,498)	(32,118)
	Interest and other charges	(3,989)	–	(3,989)	(76,515)
	Irrecoverable VAT	(46,712)	–	(46,712)	–
	Sundry expenses	(24,826)	–	(24,826)	(65,318)
	Stock exchange fees	(2,582)	–	(2,582)	(2,090)
	Advisor and broker fees	(15,000)	–	(15,000)	(15,000)
	Rental expenses	–	–	–	(37,349)
	Bad debts	(15,128)	–	(15,128)	–
	Total expenses	(451,183)	–	(451,183)	(783,058)
	Net investment income	513,110	–	513,110	765,265
	Gains on investments				
	Net realised gains	–	–	–	131,400
	Unrealised gains on investments	–	–	–	–
	Impairment of loan portfolio	–	(341,847)	(341,847)	–
	Commitments under guarantee	–	(1,318,535)	(1,318,535)	(2,759,885)
	Loss for the period before taxation	513,110	(1,660,382)	(1,147,272)	(1,863,220)
	Taxation	(7)	–	(7)	–
	Loss for the period after taxation	513,103	(1,660,382)	(1,147,279)	(1,863,220)
7	Basic and diluted loss per ordinary share (pence)	1.71p	(5.53p)	(3.82p)	(6.21p)
					(26.32p)

The total column of this statement represents the Group's Income Statement, prepared in accordance with IFRS. The supplementary revenue return and capital return columns are both prepared under Board approved guidelines in relation to the allocation between revenue and capital. All items in the above statement derive from continuing operations.

The accompanying notes on pages 12 to 15 are an integral part of the financial statements.

Unaudited Consolidated Statement of Assets and Liabilities

As at 31 July 2007

	31 July 2007 (unaudited)	31 July 2006 (unaudited)	31 January 2007 (audited)
notes	£	£	£
4	Non-current assets		
	Investment property	587,647	587,647
3,4	Financial assets	14,434,367	12,808,500
		15,022,014	13,396,147
	Current assets		
	Accrued interest and other receivables	974,928	511,101
	Cash and cash equivalents	1,919,058	2,831,477
	Committed cash balances	1,956,065	8,319,035
		4,850,051	11,661,613
	Current liabilities		
	Accrued expenses and sundry accruals	(78,379)	(103,701)
	Tax liability	–	–
	Guarantee payable	–	(250,000)
	Provision for call under guarantee	(924,270)	(4,653,909)
		(1,002,649)	(5,007,610)
	Net current assets	3,847,402	6,654,003
	Creditors: amounts falling due in more than one year		
10	Bank loan	(512,519)	(545,974)
	Net assets	18,356,897	19,504,176
	Represented by:		
5	Share capital	300,000	300,000
6	Share premium	27,850,479	27,850,479
	Capital reserve	(10,905,659)	(9,245,277)
	Revenue reserve	1,112,077	598,974
		18,356,897	19,504,176
8	Net asset value per share (pence)	61.19p	65.01p

The accompanying notes on pages 12 to 15 are an integral part of the financial statements.

Unaudited Consolidated Statement of Changes in Net Assets

For the period 1 February 2007 to 31 July 2007

	6 months ended 31 July 2007 (unaudited)					6 Months ended 31 July 2006 (unaudited)	Year ended 31 January 2007 (audited)
	Share Capital	Share Premium	Capital Reserve	Revenue Reserve	Total	£	£
	£	£	£	£	£	£	£
Net assets at start of period/year	300,000	27,850,479	(9,245,277)	598,974	19,504,176	29,574,949	29,574,949
(Loss)/profit for the period/year after taxation	–	–	(1,660,382)	513,103	(1,147,279)	(1,863,220)	(7,895,773)
Dividends paid	–	–	–	–	–	(1,410,000)	(2,175,000)
Net assets at end of period/year	300,000	27,850,479	(10,905,659)	1,112,077	18,356,897	26,301,729	19,504,176

The accompanying notes on pages 12 to 15 are an integral part of the financial statements.

Unaudited Consolidated Statement of Cash Flows

For the period 1 February 2007 to 31 July 2007

	1 February 2007 to 31 July 2007 (unaudited)	1 February 2006 to 31 July 2006 (unaudited)	1 February 2006 to 31 January 2007 (audited)
	£	£	£
Operating activities			
Rental income	–	–	18,614
Interest	326,314	870,047	1,762,652
Dividend received	–	2,638	–
Commission income	175,255	420,716	672,969
Expenses paid	(487,547)	(987,444)	(1,447,311)
Net cash (outflow)/inflow from operating activities	14,022	305,957	1,006,924
Taxation paid	432	(5,882)	(590,049)
Net cash flows from operating activities	14,454	300,075	416,875
Investing activities			
Purchase of investments and investment property	–	(8,739,155)	(20,000)
Sale of investments and investment property	–	93,885	1,088,836
Loan advances	(3,050,183)	–	(17,771,390)
Loan repayments	1,095,816	–	6,892,595
Payments called under the guarantee	(5,311,521)	(3,202,885)	(3,202,885)
Transfer from committed cash	6,362,970	8,111,829	8,995,801
Net cash flows from investing activities	(902,918)	(3,736,326)	(4,017,043)
Financing activities			
Dividends paid	–	(1,410,000)	(2,175,000)
Proceeds from borrowings	9,500	–	–
Part payment of loan	(33,455)	–	(20,294)
Net cash flows from financing activities	(23,995)	(1,410,000)	(2,195,294)
Decrease in cash and cash equivalents	(912,419)	(4,846,251)	(5,795,462)
Cash and cash equivalents at start of period/year	2,831,477	8,626,939	8,626,939
Cash and cash equivalents at end of period/year	1,919,058	3,780,688	2,831,477

The accompanying notes on pages 12 to 15 are an integral part of the financial statements.

EPIC Reconstruction plc

Notes to the Interim Financial Statements

1 Operations

The Company was incorporated with limited liability in the Isle of Man with the registered number 108834C on 25 July 2003. The Company's ordinary shares are listed on the Alternative Investment Market ("AIM"), a market of the London Stock Exchange Plc. The Company raised £30m by the placing of ordinary shares at 100 pence per share.

The Company has four wholly owned subsidiaries – EPIC Structured Finance Limited, a company incorporated on 21 August 2003 in the Isle of Man; EPIC Reconstruction Property Limited, a company incorporated on 11 October 2004 in England and Wales; EPIC Reconstruction Property Company II Limited, a company incorporated on 30 December 2004 in England and Wales and EPIC Reconstruction Property Company (Isle of Man) Limited, a company incorporated on 29 September 2005 in the Isle of Man.

The principal activity of the Company and its subsidiaries (together "the Group") is to arrange financing for businesses emerging from distressed situations. The Group may make loans and where appropriate introduce third party finance, which advances loans to the portfolio companies. The Investment Advisor looks to set realistic repayment schedules, but does not view a portfolio company not repaying on time and in full as 'underperforming' though in all cases the Investment Advisor reserves the right to exercise step in rights. In addition to the repayment of debt instruments, the Group will often arrange additional preference share structures and take significant equity stakes so as to create shareholder value. It is the performance on the combination of all securities that determines the Group's view of each investment.

2 Accounting Policies

Basis of Preparation

The interim financial information has been prepared on the basis of the accounting policies set out in the Group's statutory accounts for the year ended 31 January 2007. The financial information contained in the interim statement does not constitute accounts under Isle of Man Law.

The condensed set of interim financial statements has been prepared using accounting policies consistent with International Financial Reporting Standards (IFRSs) and in accordance with IAS 34 'Interim Financial Reporting' except for the non-consolidation of certain companies.

Change in accounting policies

In the current financial year, the group will adopt International Financial Reporting Standard 7 'Financial instruments: Disclosures' (IFRS 7) for the first time. As IFRS 7 is a disclosure standard, there is no impact of that change in accounting policy on the Interim Report and Accounts. Full details of the change will be disclosed in our annual report for the year ended 31 January 2008.

2 Accounting Policies cont.

The total column of this statement represents the Group's Income Statement, prepared in accordance with IFRS. The supplementary revenue return and capital return columns are both prepared under Board approved guidelines in relation to the allocation between revenue and capital. All items in the above statement derive from continuing operations.

Segmental reporting

The Directors are of the opinion that the Group is engaged in a single segment of business and geographic area being arranging financing for businesses emerging from distressed situations in the United Kingdom.

3 Financial Assets

Under a credit risk participation agreement signed with Eurosales, a division of RBS, a third party finance company, the Group is committed to fund a minimum of 70% and a maximum of 100% (depending on the nature of loan and amount of security) of the credit losses for loans arranged by the Group and funded by Eurosales. Provision is made for any loans which are considered impaired and hence the commitment to fund the related credit losses will be called. As at 31 July 2007 provisions of £924,270 have been established against the loans, (31 January 2007: £4,653,909). Total calls under the agreement in the period, charged to the statement of operations amounted to £1,318,535 (31 January 2007: £7,413,794).

Under the terms of the credit risk participation agreement, the Group must retain a minimum amount in a security account, which is charged in favour of Eurosales, to support the Group's commitment under the agreement. As at 31 July 2007, £1,956,065 (31 January 2007: £8,319,035) of the term deposit was charged in favour of Eurosales.

4 Non-current assets

	31 July 2007 £	31 July 2006 £	31 January 2007 £
Investment property	587,647	587,647	587,647
Financial assets:			
Secured loans	10,664,367	13,813,500	9,038,500
Unquoted equity investments	3,770,000	50,000	3,770,000
	15,022,014	14,451,147	13,396,147

EPIC Reconstruction plc

Notes to the Interim Financial Statements

5. Share Capital

	Number	£
<i>Authorised</i>		
Ordinary shares of 1p each	50,000,000	500,000
<i>Called up, allotted and fully paid</i>		
Ordinary shares of 1p each	30,000,000	300,000

6 Share Premium

The share premium arose on the issue of the ordinary shares and represents the difference between the price at which the shares were issued (100p) and the par value (1p). Issue expenses amounting to £1,849,521 were written off against the share premium account.

7 Basic and Diluted Loss Per Share

Basic and diluted loss per share is calculated by dividing the loss for the period attributable to ordinary shareholders of £1,147,279 (31 January 2007: £7,895,773) by the weighted average number of shares outstanding during the period of 30,000,000 (31 January 2007: 30,000,000).

8 Net asset value per share (pence)

The net asset value per share is based on the net assets as at the period end of £18,356,897 (31 January 2007: £19,504,176) divided by 30,000,000 shares in issue at the end of the period.

9 Dividends paid and proposed

Under the terms of the Company's prospectus, it is the policy of the Company to distribute substantially all of its distributable profits each year.

At a meeting of the Board of Directors, having taken legal advice to ensure compliance with the applicable regulations, it was agreed to amend the Company's dividend distribution policy with effect from 1 February 2006. Dividends are now declared from available revenue reserves rather than from the total return of the Company.

A final dividend of £597,000 (1.99 pence per share) based on the results for the year ended 31 January 2007 is payable to shareholders. The ex-dividend date for this dividend is 12 December 2007 and the payment date is 31 December 2007. This dividend has not been included as a liability in these interim financial statements.

10 Bank Loan

	31 July 2007	31 July 2006	31 January 2007
	£	£	£
Mortgage loan	512,519	566,268	545,974

The mortgage bank loan bears interest of 9.10% and is secured on investment property valued in the financial statements at £587,647. The term currently outstanding on the loan is 21 years and 11 months.

Company Information

Directors

GO Vero
RBM Quayle
CL Spears
NV Wilson
P Keltie (*resigned 8 August 2007*)

Secretary

J Middleton

Registrar and Registered Office

IOMA Fund and Investment
Management Limited
IOMA House
Hope Street
Douglas
Isle of Man
IM1 1AP

Nominated Advisor, Broker

Numis Securities Limited
10 Pasternoster Square
London
EC4M 7LT

Bankers

Royal Bank of Scotland International
PO Box 64
71 Bath Street
St Helier
Jersey JE4 8PJ

Investment Advisor

EPIC Specialist Investments Limited
22 Billiter Street
London EC3M 2RY

Auditors and Reporting Accountants

KPMG Audit LLC
Heritage Court
41 Athol Street
Douglas
Isle of Man IM99 1HN

Crest Provider

Computershare Investor Services (CI) Limited
Ordnance House
31 Pier Road
St Helier, Jersey

