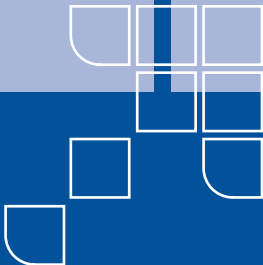




EPIC Reconstruction plc

Interim Report & Unaudited Accounts

31 July 2005



Chairman's Statement

EPIC Reconstruction plc ("ER" or the "Company") has continued to develop during the first half of 2005, yielding £0.26m of total Profit before Tax (including investment gains of £0.36m), and allowing the Company to return a dividend of 0.88p to shareholders.

The Company has maintained a steady investment rate in the first half of 2005. Three new deals were completed, one of which was consolidated with a current asset. In addition, as part of those deals, three properties have been acquired by EPIC Reconstruction Property Company, our wholly owned subsidiary. Unfortunately, one of the businesses, Crystal Drinks, continued to underperform, and has therefore been placed into Administration. Whilst this is a setback for the Company, the loss was low in relation to our asset base, and the write-off has been minimised.

Much of the available capital is now invested. The difference in the level of debtor book assets underwritten in comparison to that expected at the time of listing means that the potential gearing within the fund has been less than anticipated. However, asset realisations are expected in the coming months which will both facilitate increased returns to shareholders and provide additional capital to invest.

The pipeline remains strong, and the Investment Advisor expects to complete a similar number of deals in the next half of the year as were completed in the first half. As the portfolio develops and settles, the key for the Company is to minimise downside and generate acceptable yield from the remainder of the portfolio. The residual equity stakes and preference shares on each



investment should realise benefit in the medium term, whilst the Investment Advisor moves to an increased focus on long term capital gain over short term yield generation.

Recent investments have had a positive start, and provide comfort that the refinements and improvements in the investment model are proving successful. With the level of available capital rapidly diminishing, and the core portfolio returning a strong yield, there may come a point in the coming months where the Company's investment capacity will be constricted, although an asset sale will relieve this constriction. At some point, further funds may be required to maintain the ongoing investment rate. However, the Company remains committed to demonstrating strong performance,

minimising downside, and driving asset realisations to generate the returns that shareholders expect. I look forward to reporting on the Company's progress early in the New Year.

Donald Adamson

Investment Advisor's Report

Summary

The current portfolio remains diversified and continues to generate yield. The Investment Advisor expects the annual yield expectation (8%) to be driven by a combination of yield from the current portfolio (4%) and asset realisations (4%).

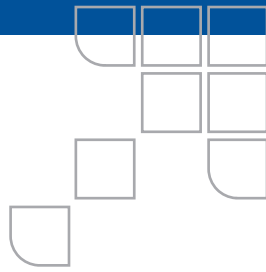
Three new investments have been made during the period, investing a further £3.3m in overlend, as well as underwritten debtor book facilities, and investment in the properties of those investments (£5.5m). Those investments have been in Kemutec, a mixers manufacturer, Gaskell MacKay, a carpeting business and Autocue, an equipment manufacturer for the media industry. A total of £8.3m of funds has been invested during the period, with additional funds committed as a result of underwriting the debtor book facilities.

Crystal Drinks has proved a consistently difficult investment, and has now been placed into Administration, resulting in

a £0.4m write off against income for the period to 31 July 2005. Whilst a set back for the Company, the Investment Advisor believes that the reason for the write-off was driven by actions somewhat beyond the Company's control. The Investment Advisor and the Board have subsequently restructured the ongoing relationships with financing partners to ensure that shareholders maintain the optimum risk profile for distressed investing.

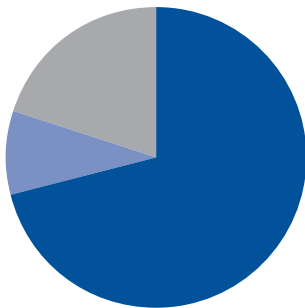
The debt on A.G. Brown continues to be collected. No further losses have been crystallised during the period. £1.1m remains to be collected on the Debtor Book, most of which is subject to legal action.

The Company is nearly fully invested. £20m is held on the security deposit, required under the Eurosales guarantee to cover Eurosales debtor book risk, overlend, and plant and machinery risk on all of the investments. In addition, property investments total £5.5m in



EPIC Reconstruction Property Company. The current portfolio should return capital to the Company in the coming months as overlend is repaid. However, due to the fact that many sizeable investments were made over the past two quarters, and the average repayment period is circa 18 months, this leaves a period of relatively low cash availability for the Company.

EPIC Reconstruction plc: breakdown of Available Funds



- Security Deposit Account 71%
- Available Capital 9%
- Property 20%

The Investment Advisor proposes to increase the sum of available funds through the sale or refinancing of the EPIC Reconstruction Property Company portfolio, a reduction in the underwriting requirements with Eurosales, and a partial refinancing of some of the Plant & Machinery finance, as well as the aforementioned ongoing return of capital. All of these processes are currently underway.

Going forward, as the precise level of risk associated with each type of investment becomes more apparent, the Investment Advisor expects the investment rate to decline marginally. However, as a significant proportion of the Company's capital has already been invested, the Company is now moving to protecting downside, and driving the maximum upside realisation from the current portfolio.

The loss incurred on Crystal Drinks is expected to impact by circa 1% the half year Dividend. However, capital upside within the portfolio, as well as continued strong yield from a highly invested

Investment Advisor's Report (cont.)

portfolio is expected to offset these losses. Currently, the Investment Advisor expects to generate a 4% yield from the portfolio, with an additional 4% from asset realisations required to attain the full year dividend target of 8%.

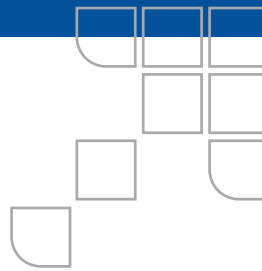
New Deals

Three new deals have been completed in the first half. The first of these was Kemutec, in which the Company invested £0.9m overlend and £2.7m in the property. Kemutec is a manufacturer of high quality mixers, sifters and large machinery for the chemicals, pharmaceuticals and food industries. Kemutec is contract driven, and has had a successful opening first three months, performing well ahead of budget. The Investment Advisor believes the strong management team, and niche manufacturing skill will see this business develop in the coming months.

Hugh MacKay was integrated with the contract carpeting division of Gaskell

Plc, a business that focussed on retail and contracting carpeting and underlay that went into administration driven by the decline in the retail side of the business. The Company bought the contract carpeting element of Gaskell, and integrated it with the current asset, Hugh MacKay, investing £1.9m in overlend, as well as underwritten debtor facilities. In addition, EPIC Reconstruction Property Company purchased the property in a sale and leaseback transaction. The Company is performing to budget, although export sales are marginally behind. The investment remains in its early stages, with most post-Administration issues now overcome.

Finally, the Company invested £0.5m in Autocue. Autocue is a business that manufactures 'autocues' for newsrooms and TV studios across the world. In addition, it has a range of software for use in the newsroom and with a wide range of applications. The Investment



Advisor backed a new management team to reinvigorate the business. Initial indications are positive, although this business again remains at a very early stage of its development.

Outlook

The investment model continues to undergo changes as the Company matures. Some of the earlier losses (A.G. Brown and Crystal Drinks) have emphasised the fact that the investments carry fewer similarities to the provision of debtor book finance as was originally envisaged. In addition, these investments have emphasised the risks involved with underwriting the core debtor book. The gross yield returned last year of 8.1% (before A.G. Brown write-off) comprised just 1% of income received from the debtor book, with the majority of the return coming from preference shares and asset sales. However, the debtor book represented a significant element of the downside risk experienced on A.G. Brown.

The return pattern is expected to be similar in the coming year. The Investment Advisor still expects that the targeted yield of 8% is achievable. However, the way in which the yield is realised will be highly dependent on asset sales. The Investment Advisor estimates that the yield on the portfolio for the year to 31 January 2006 will be circa 4%. Therefore, the remaining 4% targeted yield will be realised from asset sales.

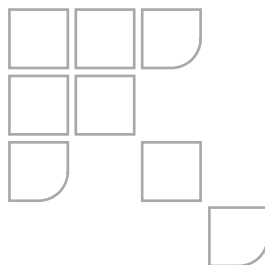
The return profile has impacted the Investment Advisor's approach to investment opportunities. A model in which a large number of deals are undertaken is unlikely to return shareholder value. This is due to the risks taken in highly leveraged underperforming businesses resulting in a high level of write off's, that would prove unacceptable to the Company. The Investment Advisor believes that the investment characteristics of propositions are more akin to equity

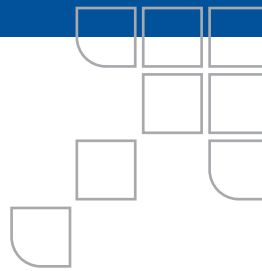
Investment Advisor's Report (cont.)

than debt in many cases. This increases the 'threshold' investment criteria for investment, with any potential weakness less acceptable, due to reduced downside protection. The Investment Advisor therefore expects to make fewer, but larger, investments. Indeed, it may be that the underwriting of all debtor books is no longer a facet of the Company going forward, if the risk profile is viewed to be too great. The underwriting of the debtor book will now be considered on a deal by deal basis.

Shareholder value will now be driven by the exit value of the equity holdings the Company has built up. The yield received in the interim remains a shareholder requirement and de-risking proposition, but itself places a consistent cash burden on the portfolio businesses and therefore increases the risk profile of each investment. The Company expects to invest at a slower rate, structuring each deal with a higher interest rate on the debt instruments (to reflect the

higher risk), and continuing to take significant equity stakes. A strong running yield will be generated from investments, but it is expected asset realisations will result in the greater part of the ongoing shareholder return.





Current Portfolio

Abingdon (2003)

The Company has significantly reduced exposure to Abingdon Flooring, the retail carpet manufacturer with a turnover of circa £45m, with only £0.26m currently outstanding. The business continues to perform well, and the Company has received a strong return from the investment over the period.

Abbseal (2004)

Abbseal is a glass processor, selling to both the domestic and commercial markets, with a turnover of circa £18.0m. The Investment Advisor used the Administration process to restructure the cost base of the Company by reducing the number of manufacturing plants. The Company has a £2.3m overlend exposure to Abbseal, with £2.9m funds in use at Eurosales, and £0.6m Plant & Machinery loan. Abbseal has experienced a steady opening trading period and maintains a strong order book. Sales are increasing and overheads have been radically reduced.

Autocue (2005)

The Company has a £0.5m overlend exposure to Autocue, yielding 15%. 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 disastrous. 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 fundamentally restructure the business, through the removal of a number of unnecessary excess costs, and a realignment of the business to its core prompter (rather than software) sales. There is also a renewed focus on driving sales through new product development and sales incentives. Initial signs are encouraging, as the business begins to stem historic losses.

Current Portfolio (cont.)

Bonne Bouche (2004)

Bonne Bouche, a manufacturer of frozen gateaux and puddings for the food service and retail industries with a turnover of circa £13m, is currently in the build up to Christmas.

The Company invested £1.5m in overlend, in addition to a stock facility and the underwriting of the Debtor book. Due to the seasonality of the business, it remains difficult to report on the ongoing success of the business without visibility over the success of the Christmas period. However, the Christmas listings are in place, and indications are that the Company will enjoy a buoyant trading period during this season. The past three months have seen the softest trading period for the business, and it has sustained consistent losses over the summer. The Investment Advisor expects to financially support the business as it builds stock in the run up to Christmas, in order to realise the significant anticipated profits during this period.

Connections Plus (2004)

Connections Plus, a call centre operator with a turnover of circa £5m, has experienced difficulties over the past three months. The loss of major customers during the first half of 2005 has been mitigated by increased business from the current customer base. The Company invested £0.5m in overlend, and has provided additional financing of £0.15m for the development of new customers. The business is expected to return to profitability in the coming months through business from confirmed new customers. However, the Investment Advisor remains concerned that the business is sub-scale and would have difficulty sustaining any further short term shocks. As such, the Investment Advisor is looking to build the business through acquisition or merger in the coming months.

Ex-Pac (2004)

Ex-Pac, the provider of labels and signage for the bottling industry, continues to perform on target.



The Company invested £0.37m in overlend in 2004, as well as underwriting the debtor book. The business has commenced overlend repayments over the period, and is currently meeting budget.

Gaskell MacKay (2005)

Gaskell MacKay is the newly merged entity of the Gaskell contract carpeting business and Hugh Mackay, the previously held asset of the Company. The Company invested £1.9m in overlend, as well as underwriting the debtor book, and buying the property through EPIC Reconstruction Property Company. The greater scale within the contract carpeting industry allows the business to leverage the variety of the brands it holds, as well as develop the important export market. In addition, the consolidation of two strong brands and manufacturing operation onto a single manufacturing site facilitates a reduced cost base supported by an improved customer proposition and product range. Since completion of

the deal, the business has continued to perform within budget expectations.

Kemutec (2005)

Kemutec is a manufacturer of mixing and sifting equipment for the chemical, pharmaceutical and food industries, with sales of circa £10m. The Company invested £0.9m in overlend, as well as underwriting the debtor book (which has minimal utilisation, due to the contract nature of the business), and purchasing of the properties through EPIC Reconstruction Property Company. Since acquisition, the business has performed strongly. A major new contract has been won, worth £1m, and the business has outperformed budget significantly.

Newline (2004)

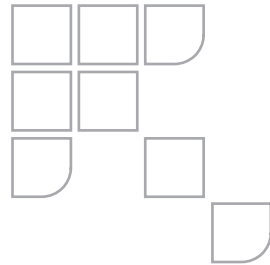
Newline is a provider of in-store retail displays with sales of circa £3.0m, continues to perform steadily. The Company invested £0.15m in overlend, and provided underwritten debtor book facilities. The management issue with the previous CEO has now been

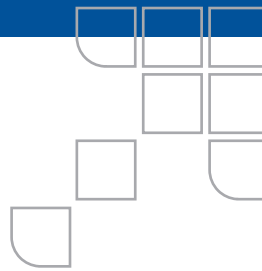
Current Portfolio (cont.)

resolved and the remaining management team are focused on the business. The repayment of the overlend is nearly complete, and the business continues to perform to expectation.

EPIC Reconstruction Property Company (2004)

EPIC Reconstruction Property Company has now acquired a portfolio of four key properties, which are leased to Gaskell Mackay, Kemutec and Abbseal. The asset purchase value of those properties was £5.5m, with each property generating yields within a 10-15% range. The Investment Advisor is investigating the potential to generate capital upside from this portfolio, which is likely to impact the income yield at year end.





Distressed Investments

Crystal Drinks (2003)

The Company invested in Crystal Drinks in December 2003. Crystal Drinks is a manufacturer of both own brand and branded soft drinks for large Retailers and Foodservice sellers. The Company invested £0.75m as overlend, and underwrote the debtor book facilities. £0.40m of overlend has been returned. In addition, a 'B share' of £0.15m has been paid.

Trading in the business slowed in the early part of this year. Own brand business proved less profitable than expected, and further investment was required. The management team invested a further £0.15m, and the Company a further £0.1m to support the business in the early parts of the year. In April 2005, it became apparent that a turnaround of the sales was not forthcoming and therefore the business was insolvent.

PwC were appointed Administrators on the 23 May 2005. The Investment Advisor was of the view that continuing

to fund the business would have resulted in longer term difficulties for the Company, and there were certain supply liabilities during the summer season that made ongoing trading untenable. Therefore, the Company will provision £0.4m which represents the expected loss on the investment, not yet crystallised.

The investment has yielded, to date, a return (including interest) of £0.26m on the initial investment of £0.75m, as well as the repayment of £0.4m of capital. The level of impact is likely to be circa 1% on the full year Dividend.

A.G. Brown (2004)

The recovery of assets on A.G. Brown's debtor book is still ongoing. No further losses have crystallised during the period. £1.1m remains to be collected on the Debtor Book, most of which is subject to legal action. Administrators and advisory fees have been incurred which will have an impact on the professional fee expenses for the year to 31 January 2006.

Unaudited Consolidated Statement of Operations

For the period 1 February 2005 to 31 July 2005

	6 months ended 31 July 2005 (unaudited)		6 months ended 31 July 2004 (unaudited)		25 July 2003 to 31 January 2005 (audited)	
	£	£	£	£	£	£
Notes						
Income						
Interest receivable	381,467		456,470		1,554,962	
Dividends received	-		-		1,225,000	
Commission income	342,044		106,886		403,028	
Total income		<u>723,511</u>		<u>563,356</u>		<u>3,182,990</u>
Expenses:						
Investment advisory fees	(213,699)		(199,825)		(556,495)	
Administration fees	(26,120)		(24,959)		(69,742)	
Directors fees	(43,225)		(55,672)		(123,600)	
Directors and officers' insurance	(20,257)		(21,191)		(85,973)	
Professional fees paid	(72,813)		(12,577)		(66,592)	
Crest service provision	(1,735)		(1,750)		(3,797)	
Printing and advertising expenses	(2,478)		(9,687)		(9,904)	
Travel expenses	(3,051)		(3,512)		(7,923)	
Auditors' remuneration	(17,248)		(4,394)		(12,169)	
Bank interest and other charges	(1,640)		(292)		(720)	
Sundry expenses	(424)		(208)		(14,442)	
Stock Exchange fees	(3,677)		(3,050)		(8,445)	
Advisor and broker fees	(15,048)		(17,577)		(48,674)	
Provision for bad debt	(400,000)		-		(435,000)	
Total expenses		<u>(821,415)</u>		<u>(354,694)</u>		<u>(1,443,476)</u>
Net investment (expenses)/income		<u>(97,904)</u>		<u>208,622</u>		<u>1,739,514</u>
Capital gains on investments						
Net realised gains	362,400		165,537		260,656	
Profit for the period before taxation		<u>264,496</u>		<u>374,199</u>		<u>2,000,170</u>
Taxation		-		-		-
Profit for the period after taxation		<u>264,496</u>		<u>374,199</u>		<u>2,000,170</u>
4 Dividends paid		<u>(1,497,000)</u>		-		<u>(501,000)</u>
(Losses)/profit transferred to reserves		<u>(1,232,504)</u>		<u>374,199</u>		<u>1,499,170</u>
6 Basic earnings per ordinary share (pence)		0.882p		1.247p		6.667p

Unaudited Consolidated Statement of Assets and Liabilities

As at 31 July 2005

	31 July 2005 (unaudited)		31 July 2004 (unaudited)		31 January 2005 (audited)	
	£	£	£	£	£	£
Notes						
	Non-current assets					
		5,513,600		-		1,100,000
	Current assets					
		500,000		-		-
		221,520		357,815		850,687
		4,495,116		10,463,571		12,887,931
3		18,648,312		17,974,135		15,406,414
		<u>23,364,948</u>		<u>28,795,521</u>		<u>29,145,032</u>
	Current liabilities					
		(126,403)		(143,704)		(160,383)
3		(835,000)		-		(435,000)
		<u>(961,403)</u>		<u>(143,704)</u>		<u>(595,383)</u>
	Net current assets/(liabilities)	22,903,545		28,651,817		28,549,649
	Net assets	<u>28,417,145</u>		<u>28,651,817</u>		<u>29,649,649</u>
	Represented by:					
5	Share capital	300,000		300,000		300,000
	Share premium	27,850,479		27,850,479		27,850,479
	Revenue reserves	266,666		501,338		1,499,170
		<u>28,417,145</u>		<u>26,651,817</u>		<u>29,649,649</u>
7	Net asset value per share (pence)	94.724p		95.506p		98.832p

Unaudited Consolidated Statement of Changes in Net Assets

For the period 1 February 2005 to 31 July 2005

	Share capital	Share Premium	Revenue Reserve	Total	25 July 2003 to 31 January 2005
	£	£	£	£	£
Net assets at start of period	300,000	27,850,479	1,499,170	29,649,649	-
Share Capital proceeds	-	-	-	-	28,150,479
Profit for the period	-	-	264,496	264,496	2,000,170
Dividend paid	-	-	(1,497,000)	(1,497,000)	(501,000)
Net assets at end of period	<u>300,000</u>	<u>27,850,479</u>	<u>266,666</u>	<u>28,417,145</u>	<u>29,649,649</u>

Unaudited Statement of Cash Flow

For the period 1 February 2005 to 31 July 2005

	6 months ended 31 July 2005 (unaudited)	6 months ended 31 July 2004 (unaudited)	25 July 2003 to 31 January 2005 (audited)
	£	£	£
Operating activities			
Bank interest received	1,217,886	322,567	831,527
Dividends received	-	-	1,225,000
Commission income	398,898	100,337	280,177
Expenses paid	(354,101)	(346,617)	(852,494)
Net cash flows from operating activities	<u>1,262,683</u>	<u>76,287</u>	<u>1,484,210</u>
Investing activities			
Purchase of investments	(4,913,600)	-	(1,100,000)
Sale of investments	-	-	260,656
Transfer to committed cash	(3,244,898)	(12,724,135)	(15,406,414)
Net cash flows from investing activities	<u>(8,158,498)</u>	<u>(12,724,135)</u>	<u>(16,245,758)</u>
Financing activities			
Proceeds on issue of equity shares net of issue costs	-	-	28,150,479
Dividends paid	(1,497,000)	-	(501,000)
Net cash flows from investing activities	<u>(1,497,000)</u>	<u>-</u>	<u>27,649,479</u>
(Decrease)/increase in cash	(8,392,815)	(12,647,848)	12,887,931
Cash and cash equivalents at start of period	12,887,931	23,111,419	-
Cash and cash equivalents at end of period	<u>4,495,116</u>	<u>10,463,571</u>	<u>12,887,931</u>

EPIC Reconstruction plc

Notes to the interim report and unaudited accounts

1 Accounting policies

The Basis of Preparation of Interim Financial Information

The interim financial information has been prepared on the basis of the accounting policies set out in the group's statutory accounts for the period ended 31 January 2005. The financial information contained in the interim statement does not constitute statutory accounts under Isle of Man law.

2 Company and Group

The Company is a closed-end investment company incorporated on 25 July 2003 on the Isle of Man as a public limited company.

The Company has a 100% owned subsidiary, Epic Structured Finance Limited ("ESF"), a company incorporated on 21 August 2003 on the Isle of Man.

The consolidated statement contains the results of the Company and its subsidiary ESF.

3 Financial Commitments and Guarantees

The Group is committed to fund 70% minimum (to a maximum 100% in certain cases) of the credit losses for the loans arranged by the Group and funded by a third party finance company. Provision is made for any loans which are considered impaired and hence the commitment to fund related credit losses will be called. As at 31 July 2005 a provision of £835,000 had been established against two loans where the businesses have gone into administration after the balance sheet date.

As at 31 July 2005 £18,468,312 of the cash balances are charged in favour of the third party finance company.

4 Dividends

After the balance sheet date the Directors proposed an interim dividend of 0.88p. The dividends have not been provided for in the financial statements

5 Share capital

	Number	£
At 31 July 2005		
<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

On 25 July 2003 the Company issued 30,000,000 ordinary shares of 1p each at a price of 100p per share.

6 Basic earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of shares in issue during the period being 30,000,000.

7 Net asset value per share

Net asset value per share is based on the net assets as at the period-end of £28,417,145 divided by 30,000,000 shares in issue at the end of the period.

Company Information

Directors

DA Adamson
RBM Quayle
CL Spears
GO Vero
NV Wilson

Secretary

PP Scales

Administrator, Registrar and Registered Office

Northern Trust International
Fund Administration Services
(Isle of Man) Limited
St James's Chambers
Athol Street
Douglas
Isle of Man IM1 1JE

Nominated Advisor, Broker and Placing agent

Numis Securities Limited
Cheapside House
138 Cheapside
London EC2N 6LH

Bankers

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

Investment Advisor

EPIC Specialist Investments Limited
55 Bishopsgate
London EC2M 3AS

Solicitors to the Company

Latham and Watkins
99 Bishopsgate
London EC2M 3XF

Isle of Man Solicitors

Cain's Advocates Limited
15-19 Athol Street
Douglas
Isle of Man IM1 1LB

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

