

Company Information

Directors

DA Adamson
RBM Quayle
CL Spears
GO Vero
NV Wilson

Secretary

PP Scales

Administrator, Registrar and Registered Office

Barings (Isle of Man) Limited
PO Box 174
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

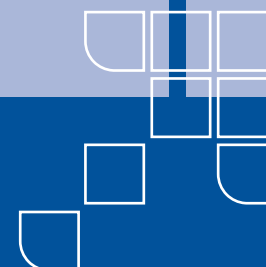
KPMG Audit LLC
Heritage Court
41 Athol Street
Douglas
Isle of Man IM99 1HN

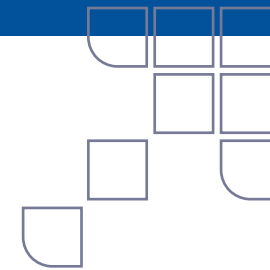
Crest Provider

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

Interim Report & Unaudited Accounts

31 July 2004





Chairman's Statement

Background and Results

EPIC Reconstruction plc ("ER" or the "Company") is a closed-end Isle of Man registered Company investing in companies emerging from distressed and insolvent situations in the UK. The Company was listed on the Alternative Investment Market on 16th September 2003, having raised £28.1m net of issue expenses in a placing to institutional investors.

ER is advised by EPIC Specialist Investments Limited ("ESI" or "the Manager"). ER has clearly defined investment criteria which target businesses with strong asset backing, high cash generation and the potential for significant operational improvement, driven by an experienced management team. ER makes its investments through a combination of securities, which

include shareholder loans, mezzanine, debt financing, secured stock financing, plant and machinery financing, invoice discounting and additional equity. ER invests through a third party, EPIC Structured Finance, which acts as the guarantor of ER's investments. The balance and structure varies from deal to deal, but ER seeks to ensure that they represent the optimal returns for the shareholders. Through this combination of securities ER provides a one-stop shop to companies in the short time frames determined by distressed situations.

The results since the listing of the Company have shown a total income of £729,108 from commissions and interest, leading to a net investment income of £147,556 after expenses. In addition, the net realised and

unrealised gain on the revaluation of investments of £353,782 has resulted in a cumulative increase in net assets of £501,338 for the period.

The approach adopted by the Company for the purpose of determining the profit available for distribution by way of dividends is that all commissions received, preference share dividends received and capital gains realised within the twelve months following an investment are included in the calculation of the profit available for distribution. Similarly, commission received and preference share dividends received after twelve months following an investment are included in the calculation of the profit available for distribution, but capital gains realised after twelve months are not so included.

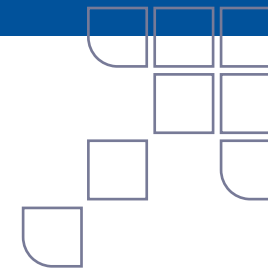
Once fully invested, ER is targeted with returning a minimum of an 8% annual dividend to its investors. ER looks to provide third party finance through its close relationship with a major UK clearing bank. In addition, ER will take equity stakes in businesses to which financing is provided, so as to participate in any long term value uplift in those businesses.

Dividends

ER proposes paying an Interim Dividend of 1.67p per share.

Recent Investments

ER has completed seven deals of varying sizes since the Company listed ten months ago. The first completed investment was in a subsidiary of Carpets International, a US based carpet manufacturer that went into Chapter 11



Chairman's Statement (cont.)

in 2003. With ER's support, the management cut the overhead base by rationalising three UK manufacturing facilities into one plant in Wales thereby improving the operational efficiency of the business. ER supported the incumbent management team, providing total access to funds of up to £10m for the business.

Other investments have ranged between £0.2m and £7.0m of total funding provided to companies in the Food, Beverage, Building Materials, Engineering and Support Services sectors. There have been more opportunities to invest in equity than was anticipated at the time of listing, and ER retains significant equity stakes in six of the seven investments. Currently, there are £9.7m of funds outstanding from ER and the UK clearing bank.

In addition, ER has already sold one of the portfolio investments during the year. The Company invested £0.6m in a small Internet Retail business selling digital cameras. A trade buyer looking for expansion in this increasingly competitive market offered an attractive price, which ER accepted, yielding circa 1.5 times our original investment in six months.

Investment Outlook and Strategy

To date, the Company has made fewer individual investments but of a greater average size and with larger equity stakes than was expected at the time of the listing. The Manager expects this trend towards larger investment opportunities to continue as the fund becomes increasingly recognised within the marketplace.

The Manager has reviewed over 100 potential transactions to date from a wide range of sources. In addition, the Manager decided not to pursue seven investments at the latter stages of Due Diligence, as it became apparent those investments did not fulfil our investment criteria. The pipeline of potential deals remains strong and is increasing as our sources become more aware both of the Company's existence and our strict investment criteria.

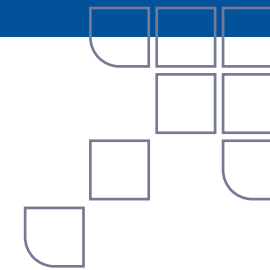
Conclusion

The opportunity to invest in distressed and insolvent situations within the UK remains strong, and has the potential to increase as the Bank of England tightens monetary policy. The pipeline of investment opportunities has so far validated our original objectives for the

Company and I am confident this will continue going forward. I believe good opportunities for larger investments with greater lending potential are beginning to present themselves.

The deals completed to date have proved resilient and there remains the potential for further value creation through ER's residual equity stakes. Additional repayments from the portfolio companies and a continued strong deal flow is required if we are to achieve our 8% dividend target at the year end. I look forward to reporting further on our progress early in the New Year.

Donald Adamson



Investment Manager's Report

Introduction

To date, over 100 transactions have been reviewed, of which seven have completed. These deals have been sourced predominantly from major Accountancy firms, Insolvency Practitioners, Investment Banks and other Venture Capital/Private Equity groups. These transactions have ranged across industry and in size, and we aim to maintain a diversified portfolio going forward.

Abingdon Carpets

ER completed an investment of £2.0m in Abingdon Carpets in October 2003, supported by an invoice discounting facility of £8.0m. The business was previously a subsidiary of the international carpet manufacturer, Carpets International ("CI"). CI went into

Chapter 11, leaving the UK operations looking for a solution to their insolvent situation. The Manager co-ordinated the rationalisation of the nationwide plants and retained the key brand names, to assist in creating the UK based company. Management invested a significant element of its own capital to support the investment. The business has £0.5m currently outstanding, and significant headroom in the invoice discounting facility.

Crystal Drinks

An investment of £0.75m was made in Crystal Drinks, a manufacturer of carbonated soft drinks for the major multiples within the UK. The management of the business acquired the Company in 1988, and grew the turnover threefold prior to realising their investment in 1995 through a

sale to a trade buyer. The management team then remained with the business, during which a misguided strategy to expand into alcopops was pursued. The difficulties encountered by this strategy were compounded by the loss of a major contract, and the business then went into insolvency. ER then backed the management team of Crystal to buy the business from the parent Company. Crystal has faced difficulties in trading, as certain customers have taken longer than anticipated to return their custom. There is £0.45m outstanding, and an invoice discounting facility of £1.8m.

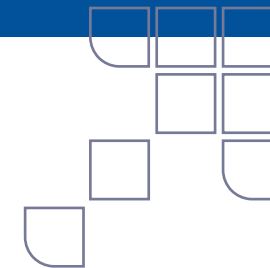
Adam G Brown

ER completed an investment of £0.15m, supported by £0.15m Plant and Machinery finance and £0.49m Property Bridging loan into Adam G Brown in February 2004. Adam G

Brown is a manufacturer of steel sheets, flashings, gutters, purlins and rails, predominantly for cladding and steel contractors in the UK. ER supported a new management team, who have extensive experience in this field, to buy the business from the parent company. Of the initial investment, the bridging loan has been repaid, and £0.19m is currently outstanding.

Internet Direct

Internet Direct was formed in 1999, and grew to £19m turnover in the year to 2003. The business is focussed on selling digital cameras and brown goods on the internet. In 2003, the management employed a new Managing Director, and the founder moved to become non executive Chairman. The new Managing Director hired a team which proved too costly for the business, and



Investment Manager's Report (cont.)

focus was removed from the day to day running of the group. As such, costs escalated and profitability suffered. ER backed the founder to buy the business back, and provided a £0.6m investment. Due to the nature of the customer base, no invoice discounting facility was utilised. The Manager was approached in May this year to sell the business. A sale for £0.86m after costs was completed at the beginning of August, and is therefore a post-Balance Sheet event. The sale yielded a £0.26m capital gain for the Company in less than 6 months.

Connections Plus

Connections Plus is a call centre business, focussed on both outbound and inbound clients. The business suffered a significant problem with a key employee during 2003 and moved

from profitability to insolvency in a short period of time. The pressure on cashflow resulted in the business going into administration. The aforementioned employee left the business, and ER supported the remaining core members of the management team to take the business forward. ER invested £0.5m, supported by an Invoice Discounting facility of up to £0.7m. Management have shown their commitment through reinvesting in the business.

Newline Display

Newline Display is a manufacturer of shop-fittings and displays. Certain employees of the company left to set up a rival company, and were accused of causing significant disruption to the business. The Company pursued litigation against those employees and the Managing Director then became

distracted from the business. This unfortunate series of incidents resulted in the business going into administration early in 2004. ER invested £0.1m, and provided an invoice discounting facility of £0.25m, to support the business going forward. A restructured and bolstered management team has been put in place, who also invested significantly in the business.

Bonne Bouche

ER completed a £1.5m investment in the frozen dessert manufacturer, Bonne Bouche, in July 2004. Bonne Bouche was previously part of a larger frozen food manufacturer of sausages and desserts. Due to the large operational losses of one of the plants, which was focussed on the savoury side of the business, the entire group was put into Administrative Receivership. ER

backed an incumbent Group Director, supported by an external Finance Director, to buy the business. An Invoice Discounting facility of £2.8m has been put in place, and the management also invested in the business.

Outlook

There have been fewer deals completed to date than expected at launch. However, the investments made have been larger than forecast, and often with significant equity stakes.

Consolidated Statement of Changes in Net Assets

For the period 25 July 2003 to 31 July 2004

	25 July 2003 to 31 July 2004
	£
Net assets at start of period	-
Capital share proceeds	28,150,479
Net profit for the period	501,338
Dividends payable	-
Net assets at end of period	<u>28,651,817</u>

Consolidated Statement of Cashflow

For the period 25 July 2003 to 31 July 2004 (unaudited)

	25 July 2003 to 31 July 2004 (unaudited)
	£
Operating activities	
Bank interest	280,758
Commission income	100,337
Expenses paid	<u>(447,650)</u>
Net cash outflow from operating activities	<u>(66,555)</u>
Investing activities	
Purchase of investments	(22,099,023)
Sale of investments	<u>14,246,000</u>
Net cash outflow from investing activities	<u>(7,853,023)</u>
Financing activities	
Proceeds on issue of equity shares	30,000,000
Issue cost expenses	<u>(1,849,521)</u>
Net cash inflow from financing activities	<u>28,150,479</u>
Increase in cash	20,230,901
Cash and cash equivalents at start of period	-
Cash and cash equivalents at end of period	<u>20,230,901</u>
Note to the Statement of Cash Flow	
Net Investment Income	147,556
Adjustment for non-cash items	
Increase in debtors and prepayments	(357,815)
Increase in accrued expenses	143,704
Net cash outflow from operating activities	(66,555)

EPIC Reconstruction plc

Portfolio Holdings

As at 31 July 2004

Investment	Holding	Closing Valuation at Cost/Market Value
		£
Abingdon £100 "B" redeemable shares	1	-
Abingdon £0.0001 Ordinary Shares	510,000	-
Adam G Brown £22 "B" redeemable shares	1	-
Adam G Brown £0.0001 Ordinary Shares	111,000	-
Bonne Bouche £1 "B" redeemable shares	1	-
Bonne Bouche £0.0001 Ordinary Shares	751,000	-
Connections Plus £1 "B" redeemable shares	1	-
Connections Plus £0.001 Ordinary shares	50,200	-
Crystal Drinks £101 "B" redeemable shares	1	-
Crystal Drinks £0.001 Ordinary shares	50,000	-
Internet Direct £1 "B" redeemable shares	1	-
Internet Direct £0.10 Ordinary shares	501	-
Newline £90 "B" redeemable shares	1	-
Newline £0.0001 Ordinary shares	90,405	-
RBS Money Market Funds Ltd £	682,524	8,206,805
		<u>8,206,805</u>

EPIC Reconstruction plc

Notes to the interim report and unaudited accounts

1 Accounting policies

The interim financial statements have been prepared under the historical cost convention modified by the revaluation of investments. The principal accounting policies that have been applied are set out below, such policies conforming with International Financial Reporting Standards currently in force.

- Investment and policy transactions are recorded on a trade date basis.
- Investment income is accounted for as it becomes receivable by the Company.
- Realised and unrealised gains and losses are reflected in the Statement of Operations.
- All investments are classified as available-for-sale. Investments have been initially recognised at cost, being the initial fair value. Gains and losses are taken to the income statement.

The Directors are of the opinion that given all unquoted investments have been held for a period of less than 12 months and have not breached any ongoing legal obligations in terms of existing loan covenants or repayments, the unquoted investments may be carried at cost with no requirements for any write down provisions arising from impairment issues.

Listed investments are valued at the middle market quotation where they are quoted on a recognised stock exchange.

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. As at 31 July there has been no breach of any ongoing legal obligations in terms of existing loan covenants or repayments and as such no such provision for such liability is required.

As at 31 July 2004 £10,436,570 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 £501,000 (1.67p per ordinary share). The dividends have not been provided for.

5 Share capital

	Number	£
At 31 July 2004		
<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 £28,651,817 divided by 30,000,000 shares in issue at the end of the period.