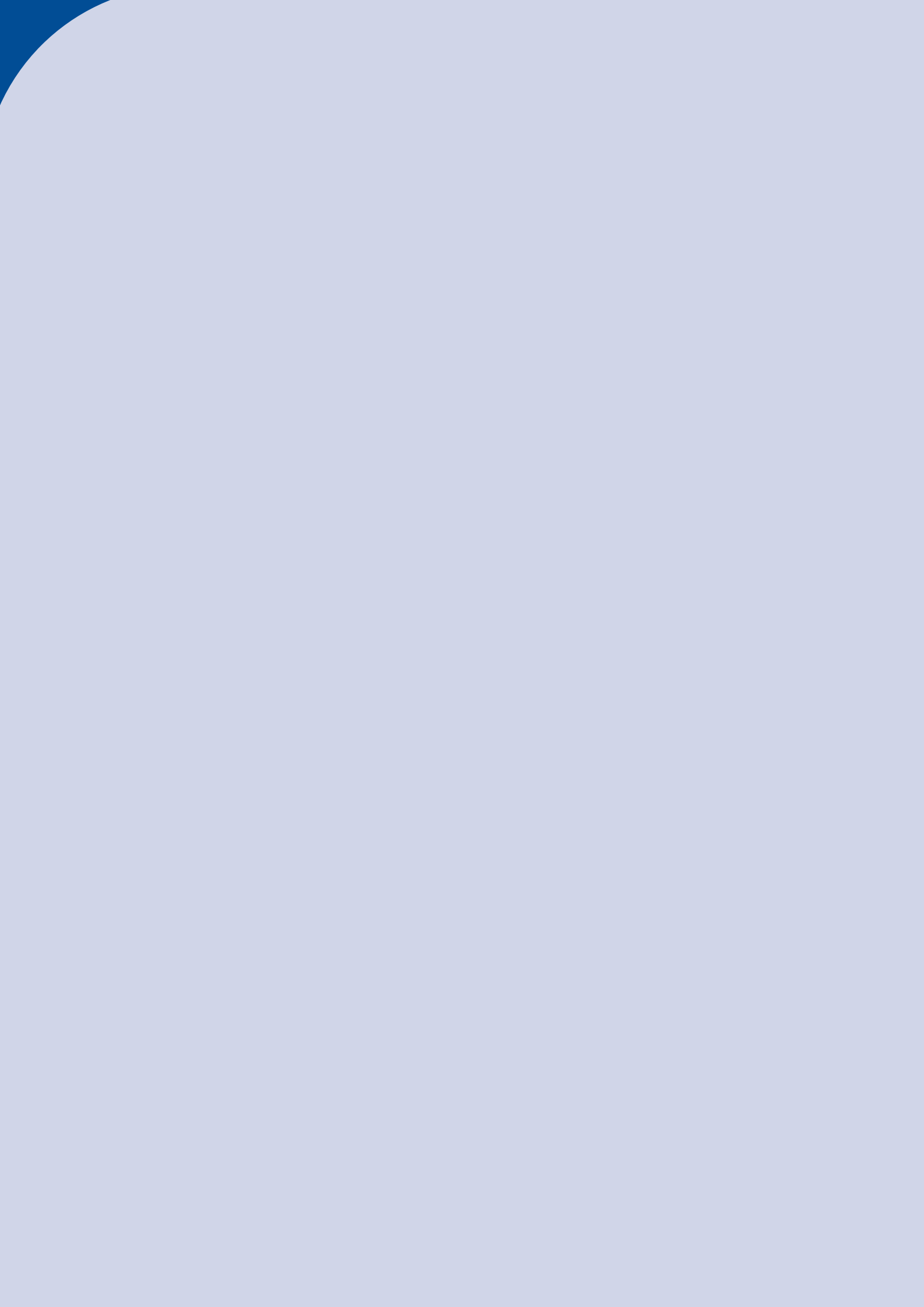




EPE Special Opportunities plc
(formerly EPIC Reconstruction plc)

Report & Accounts | **January 09**





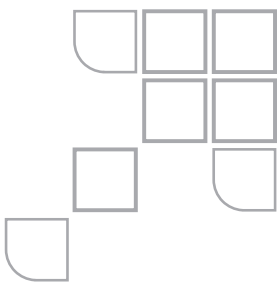
Contents

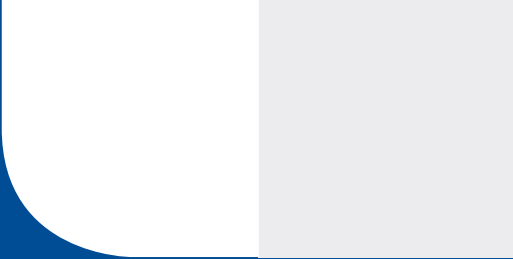
Page	
2	Biographies of the Directors
4	Profile of Investment Manager
5	Chairman's Statement
7	Investment Advisor's Report
10	The Portfolio
12	Report of the Directors
15	Statement of Directors' Responsibilities
16	Independent Auditors' Report
18	Consolidated Income Statement
19	Consolidated Statement of Assets and Liabilities
20	Company Statement of Assets and Liabilities
21	Consolidated Statement of Changes in Net Assets
22	Consolidated Statement of Cash Flows
23	Notes to the Financial Statements
38	Shareholder Information-Schedule of Major Shareholders
Inside back cover	Company Information

Biographies of the Directors

Geoffrey Vero FCA qualified as a chartered accountant with Ernst & Young and then worked for Savills chartered surveyors, and The Diners Club Limited. He has been active in venture capital since 1985, initially with Lazard Development Capital Limited and then from 1987 to 2002 as a director of Causeway Capital Limited which became ABN Amro Capital Limited. In 2002, he set up The Vero Consultancy, specializing in corporate advisory services and recovery situations. He has considerable experience in evaluating investment opportunities and dealing with corporate recovery. While at Causeway Capital, Mr. Vero was a founder director of Causeway Invoice Discounting Company Limited, which was subsequently sold to N.M. Rothschild.

Clive Spears retired from the Royal Bank of Scotland International Limited in December 2003 as Deputy Director of Jersey after 32 years' service. His main activities prior to retirement included Product Development, Corporate Finance, Trust and Offshore Company Services and he was Head of Joint Venture Fund Administration with Rawlinson & Hunter. Mr. Spears is an Associate of the Chartered Institute of Bankers and an Associate Member of the Securities Institute. Since January 2004 he has been building his own consultancy business offshore providing project and non executive director services.





Robert Quayle qualified as an English solicitor at Linklaters & Paines in 1974 after reading law at Selwyn College, Cambridge. He subsequently practiced in London and the Isle of Man as a partner in Travers Smith Braithwaite. He served as Clerk of Tynwald (the Isle of Man's parliament) for periods totaling 12 years and holds a number of public and private appointments, and is active in the voluntary sector. Mr. Quayle's directorships include Bradford and Bingley International Limited, Isle of Man Steam Packet Co Limited, Axa Isle of Man Limited and Total Isle of Man Limited as well as companies in the financial services sector. He is also a Commissioner of the Northern Lighthouse Board.

Nicholas Wilson has over 30 years experience in hedge funds, derivatives and global asset management. He has run offshore branch operations for MeesPierson Derivatives Limited, ADM Investor Services International Limited and several other London based brokerage companies. He is non-executive chairman of Alternative Investment Strategies Limited, the longest running quoted fund of hedge funds and a constituent of the FTSE All Share Index. In addition, he sits on the boards of a number of other public companies, including RAB Special Situations Company Limited. He is resident in the Isle of Man.

Profile of Investment Advisor

EPIC Private Equity (“EPE”) was founded in June 2001 and is independently owned by its Partners. EPE focuses on niche investment opportunities throughout the UK and Europe with a focus on leveraged buyouts (EPIC plc) and turnaround transactions (EPE Special Opportunities plc). EPE has completed 42 transactions in eight years and has a current portfolio of businesses with combined turnover of more than £240m and £39m of invested capital. EPE is generally lead investor and takes control positions in its investments, partnering with Management and Entrepreneurs to leverage financial and operational expertise.

Giles Brand is a founder of EPIC Private Equity and EPIC Investment Partners. He is currently a non-executive director of a number of portfolio companies: Pinnacle-psg, the largest social housing manager in the UK; Ryness, a London based electrical retailer; Nexus Industries; and Palatinate Schools. Before joining EPE he spent five years working in Mergers and Acquisitions at Baring Brothers in both Paris and London. Giles read History at Bristol University.

James Henderson worked in the Investment Banking division at Deutsche Bank before joining EPE LLP. Whilst at Deutsche Bank he worked on a number of M&A transactions and IPOs in the energy, property, retail and gaming sectors, as well as providing corporate broking advice to mandated clients. James read Modern History at Oxford University and Medicine at Nottingham University.

Roland Houchin worked as an Assistant Manager in the Financial Sponsors team at NM Rothschild before joining EPE, and worked on buy & sell mandates for private equity backed companies as well as supporting sector teams with financial sponsor analysis. Prior to NM Rothschild, Roland worked in PwC’s corporate finance and assurance and business advisory divisions. Roland has also had internships at Shell and Morgan Stanley. Roland read Economics at Trinity College, Dublin.

Mark Colley worked as an Investment Analyst at the Private Equity firm 3i before joining EPIC. At 3i he worked on UK mid-market buyouts in a variety of sectors. Prior to 3i, he worked in Audit at KPMG. Mark read Economics at Cambridge University.

Chairman's Statement

The last twelve months have been an extraordinary period. The United Kingdom is now officially acknowledged to be in recession, but the detrimental effects of the economic downturn have been felt for some time already. Beneficial disposals are problematic due to the impact of the credit crunch and the lack of bank and equity finance, but there are no doubt significant opportunities emerging in a period of such distress in the financial markets. It is difficult to forecast what impact the economic downturn will have on the performance of portfolio companies but considerable effort continues to be taken by the Investment Advisor to position them to weather the storm.

For the full financial year ended 31 January 2009, EPE Special Opportunities Plc ("the Company") had gross income of £1.3m. This translated to a net loss for the Company of £1.7m. Net asset value per share as at 31 January 2009 for the Company was 45.67p. On 22 December 2008, shareholders passed the necessary resolutions to issue a scrip dividend for the year ending 31 January 2008.

The gross income for the period, received or receivable, arises from yielding instruments in the portfolio companies. Except through re-financings and scheduled repayment of capital from portfolio companies, the expectation is that these instruments will remain in place, yielding the Company an income stream throughout the forthcoming financial year.

The Company completed the well-publicised acquisition of Whittard of Chelsea on 23 December

2008 for £0.6m. The acquisition was completed within seven days, demonstrating the ability of the Company to identify and execute value buying opportunities and its optimal positioning to take advantage of the current economic environment.

The remainder of the portfolio continues to perform much in line with expectations. The Company is seeking to exit the smaller investments and continues to identify potential bolt-on opportunities for the remainder of the portfolio. All portfolio companies are subject to the vagaries of the market place and the Directors and the Investment Advisor have applied a write-down policy as appropriate. The Company has continuing facilities with Cattles for Morada and Kemutec which are under ongoing reviews by the Board, following the recent negative press coverage of Cattles and Welcome Financial Services in particular.

In light of the continuing economic downturn the Company is investigating raising further capital to enable it to pursue a tightly focused acquisition strategy over the short and medium terms. The re-focus of the Company since 2005, combined with the current economic climate, mean that it is optimally placed to take advantage of the significant number of investment opportunities anticipated to arise.

It is the view of the Board who have consulted widely with the auditors – KPMG – that whilst public markets remain unsettled a "fair value" valuation of the portfolio is problematic. Valuations have been prudently downgraded to reflect current circumstances but it is hoped that these reductions in

Chairman's Statement

continued

value represent value deferred rather than value permanently lost. Portfolio companies are held to maturity, have little external bank debt, and the Company predominantly holds the most senior position in the capital structure reducing the likelihood that it becomes a forced seller. Other uncertainties remain and there is a concentration of risk in the retail sector, and in Past Times in particular. However, so far this year Past Times continues to perform in line with expectations and with the acquisition of Whittards of Chelsea the overhead cost base is now significantly reduced on a shared basis. Further detail on the methodology behind the valuation process is outlined in the Investment Advisor's Report. This has included stress-testing and reviewing a range of upside and downside valuations to come to what the Directors consider to be an appropriate median valuation.

Your Board was very disappointed that an overseas institutional shareholder sold 90,000 shares on the market in February 2009, at a significant discount to the then prevailing share price, as it went about exiting all of its positions in the United Kingdom equity markets. It did so without contacting the Company's broker and as a result of this the share

price fell by 46 per cent. The Company is investigating the introduction of a buyback facility to address market anomalies such as this in the future.

Under the circumstances, and in light of the number of investment opportunities available to the Company in the current market, the Board do not recommend a dividend in respect of the year ended 31 January 2009.

I would like to acknowledge the considerable efforts of Giles Brand and his Investment Advisory team and thank them for their hard work during the last twelve months, their endeavours to mitigate the adverse effects of this severe economic downturn and especially their ability to complete on the Whittard of Chelsea deal on a timely basis.

Times are difficult and challenging but I look forward to reporting on the Company's progress at the half year.

Geoffrey Vero
Chairman

Investment Advisor's Report



In the six month period since 31 July 2008, the Investment Advisor has continued to focus on maintaining and creating value from within the portfolio. The Company is focused on the control and ownership of distressed assets.

On 16 September 2008, shareholders voted in favour of the continuation of the Company's investment mandate. Since 2005 there have been changes in the advisory team and in the method of operation of the Company. Giles Brand continues to lead the private equity team of the Investment Advisor. The previous arrangements for providing finance to portfolio companies through the Royal Bank of Scotland's Eurosales Finance business have also been discontinued and since 2005 no new underwriting business with Eurosales has been undertaken. With the acquisition of Whittard of Chelsea on 23 December 2008, the Company now has five trading assets in the portfolio, all of which are relatively immature and in the early stages of profit turnaround and stabilisation. The sixth asset, a property in Glasgow, requires further development to realise the full potential gain, which will almost certainly be delayed given current property market conditions. Since the end of the last economic slowdown in 2003 and until recently, economic conditions have been remarkably benign. However, given the ongoing banking crisis and prevailing market conditions, the Board and Investment Advisor expect more opportunities to be available over the coming months.

The current portfolio is entirely constituted of investments funded post 31 January 2005, which are therefore outside of the underwriting arrangements with Eurosales. The Investment Advisor continues to develop relationships with various lenders to ensure portfolio companies have access to financing on

optimal terms. The Investment Advisor also continues to explore opportunities for adding value to portfolio companies through revenue enhancing and cost saving initiatives as well as seeking to identify appropriate management to optimise performance. The onset of the banking crisis and the associated lack of liquidity, combined with a worsening economic outlook, have made these initiatives ever more important. Since the Placing in September 2003, which raised a net £28.1m (93.8p on the basis of 30 million shares), the Company has achieved the following investment highlights:

- Generated gross income of £11.6m;
- Paid a total of £5m in dividends;
- The Portfolio is currently valued at a gross 0.9x money multiple (calculated as the current value of investments plus sums received or receivable from investments compared with total capital invested to date) and the Company at a net 0.7x money multiple (calculated as current NAV plus dividends paid to date compared with the aggregate net proceeds of the Placing); and
- Deployed £39m of capital and already returned over £25m to the Company in capital and income.

The Investment Advisor believes that the potential to create value within the distressed investing market place remains significant, and the economic cycle continues to create a wide range of investment opportunities. As such the Investment Advisor is

Investment Advisor's Report

continued

actively engaged in communicating the Company's investment strategy within the restructuring industry:

- The Company has been actively involved in acquiring distressed assets since 2003 and has built up an extensive network of deal sources, advisers and financing partners.
- The Investment Advisor has investigated over 550 opportunities in the last five years, with 17 transactions completed to date;
- The Company has a well concentrated and informed shareholder base including Brit Insurance plc, Jupiter Asset Management, Immia Investment Management and EPIC plc;
- The Company is able to use its own cash resources to fund acquisitions. The Company also intends to use its shares as currency in the acquisition of quoted companies. Furthermore for larger acquisitions the Company is able to engage with its larger shareholders and third parties for co-investment; and
- The Investment Advisor continues to strengthen its existing network and develop new relationships with advisers and managers who can provide deal flow and the necessary expertise in acquiring and turning around distressed assets.

The Investment Advisor believes that market conditions for distressed investing in the three years from January 2006 were poor. Between the end of 2005 and June 2007 excessive liquidity and the benign economic environment meant that companies could re-finance existing debt without hindrance. In the eighteen months to December 2008 there was a severe

deterioration in the economic environment and the companies that were the first to face difficulties in this period often did not have any sustainable advantage. However, the Investment Advisor believes that the confluence of the economic downturn and the continuing banking crisis has generated optimal conditions for distressed investing, with even strong businesses facing difficulties due to recessionary pressure and lack of available finance. The Investment Advisor therefore believes that increased opportunities to acquire companies with good underlying business models will arise from the current economic climate, that the peak of these opportunities has not yet been reached, and that current market conditions are expected to persist over the coming months.

Valuation methodology

BVCA guidelines state that portfolio companies should be valued on an EBIT/EBITDA multiple basis using publicly quoted comparables and/or transaction comparables, then discounting the equity value by an appropriate percentage to account for marketability considerations. It is then possible to determine on a case by case basis whether it makes more sense to value the investment at "cost" or "fair value". If there is sufficient evidence that the value the investment is held at needs review fair value is applied.

The Investment Advisor has, in conjunction with the Board, constructed a valuation range for the portfolio and other assets with 'downside case' and 'upside case' valuations. The Investment Advisor has then recommended a median valuation for the portfolio, writing down where appropriate given the uncertainty in the financial markets and economy in general. It is the view of the Investment Advisor that this valuation is robust, particularly in the context of the hold to

Investment Advisor's Report

continued

maturity investment policy of the Company. The 'downside case' and 'upside case' represent a respective c.25% discount and c.25% premium to this median valuation. It is the view of the Investment Advisor and the Board that this median valuation represents fair value for the current assets of the Company and is appropriate in the context of continuing public market instability and minimal transaction activity, which make the BVCA guidelines problematic:

- Both transaction comparables and publicly quoted comparables are commonly accepted to present distorted valuations in the context of prevailing market conditions;
- The most recent comparable transactions generally took place at the height of the boom phase of the economic cycle, and therefore may indicate over-inflated values when applied to companies today;
- Transaction activity is currently minimal, giving no useful comparable transactions;
- Market 'noise' and ubiquitous downward correction has impacted specific company share prices;
- UK markets have declined c.30% overall since September 2008 and now bear no resemblance to longer term averages for certain industries;
- The earnings outlook for 2009 is uncertain and market participant views remain unsettled; and
- It is therefore difficult to use publicly quoted comparable valuation as a meaningful methodology until the markets have stabilised.

In addition EPE Special Opportunities plc has certain characteristics which help support the recommended median valuation of the portfolio. These include:

- The Company has a hold to maturity policy and often holds the most senior secured facility in capital structure, reducing the likelihood that it becomes a forced seller;
- Portfolio companies have committed working capital lines from high street banks;
- Portfolio companies have more stable capital structures compared with many leveraged buyouts (frequently 3x – 8x EBITDA leveraged). The portfolio has only c.£0.6m of external debt (as at 31 January 2009, with peak working capital facilities of £5m at Past Times);
- Wind up values at Past Times and Whittard are considered to be in excess of the valuations implied from publicly quoted and transaction comparables – valuations at which the Company would not consider selling the assets; and
- The Company's investment strategy is the acquisition of distressed and underperforming (generally EBITDA negative) businesses which cannot be easily valued on an EV/EBITDA multiple basis. Typical turnaround strategy duration is >12-36 months.

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 an inability to service the finance raised to expand the software division of the business, a strategy which subsequently proved disastrous. The Company bought the business out of administration alongside another private equity provider, employing a new management team who have looked to fundamentally restructure the business, via 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 £0.875m debt exposure to Autocue, yielding 15% per annum. Autocue has made significant progress in the development of new products over the last 12 months and is seeing strong growth within developing markets.

Kemutec (2005)

Kemutec is a manufacturer of mixing and sifting equipment for the chemical, pharmaceutical and food industries. The business has sales of c. £10m and has £1.3m of loans outstanding to the Company yielding 15% per annum. During the period, and initiated by a dip in trading performance for the year ending March 2008, a review focused on contracts and costs was undertaken. Kemutec has emerged considerably more efficient and with greater potential. The subsequent impact on margins at the gross and operational level, combined with the healthy status of the order book provides a positive outlook for financial performance for the rest of the financial year to March 2009. Both Management and the Investment Advisor continue to seek strategic acquisitions to supplement the organic growth.

The Portfolio

continued

Morada Home Limited (2005)

In 2005 the Company backed a management buyout of the Morada Home business from the administration of Morada International. The Company has a £0.99m debt exposure to Morada Home yielding 15% per annum. The business was originally focused on contracts with the Ministry of Defence (“MoD”) to supply curtains and blinds for MoD living accommodation. Morada has since begun to diversify, supplying PFI contractors as well as a large number of customers in the retail sector. Morada has recently recruited a new Managing Director and the business has begun to experience strong performance. The Investment Advisor expects continued improved trading.

Past Times (2006)

Past Times is a niche retailer of historically inspired jewellery, gifts, books and house-wares. Past Times was acquired in December 2005 from the administrators of Retail Variations plc. The Company has provided debt of £7.75m yielding 15% per annum. Past Times has undergone a major restructuring process, with the number of stores reduced, the head office cost base reduced, and the product range improved. The business is now experiencing the benefits of these improvements and is expanding the number of stores under the guidance of the CEO Mike Taylor. Past Times was profitable in the last year and the Investment Advisor expects continued improved financial performance despite the current weak retail environment.

Whittard of Chelsea (2008)

Whittard of Chelsea, a specialist retailer of tea and coffee, was acquired in December 2008, following ownership by Baugur. A restructuring of the business is now being undertaken with the number of stores being significantly reduced and overhead base slimmed down. Following this restructuring, the business is expected to have sales of around £30m.

Report of the Directors

Principal activity

The Company was incorporated in the Isle of Man as an AIM listed public company limited by shares under the Laws with registered number 108834C on 25 July 2003.

The principal activity of the Company and its subsidiaries (together “the Group”) is to arrange income yielding financing for businesses emerging from distressed situations. It aims to hold these investments with a view to exiting in due course at a profit.

Incorporation

The Company was incorporated on the 25 July 2003. The Company’s registered office is:

IOMA House, Hope Street, Douglas, Isle of Man, IM1 1AP, British Isles.

Details of subsidiaries are provided in Note 22.

Change of name

By a special resolution and with the approval of the Financial Supervision Commission, the Company changed its name from EPIC Reconstruction plc to EPE Special Opportunities plc with effect from 17 September 2008.

Results of the financial year

Results for the year are set out in the Consolidated Income Statement on page 18 and in the Consolidated Statement of Changes in Net Assets on page 21.

Dividends

The Company has adopted a distribution policy to take capital gains and losses against Capital and all income and expenses will be taken to the Revenue Reserve Account, with the exception of expenses directly attributable to capital items.

Under the circumstances the Board does not recommend a dividend in relation to the current year (see note 7 for further details).

Corporate Governance Statement

As an Isle of Man registered company and under the AIM rules for companies, the Company is not required to comply with The Combined Code on Corporate Governance published by the Financial Reporting Council (“Code”). The Directors, however, place a high degree of importance on ensuring that the Company maintains high standards of Corporate Governance and have therefore adopted the spirit of the Code to the extent they consider appropriate, taking into account the size of the Company and nature of its operations.

Report of the Directors

continued

The Board holds at least four meetings annually and has established audit and investment committees. The Board does not intend to establish remuneration and nomination committees given the current composition of the Board and the nature of the Company's operations. The Board reviews annually the remuneration of the Directors and agree on the level of Directors' fees.

Composition of the Board

The Board currently comprises four non-executive members all of whom are independent. Geoffrey Vero is Chairman of the Company, Clive Spears is Chairman of the Audit Committee and Nicholas Wilson is Chairman of the Investment Committee. The Company has no executive Directors and, as all the Directors are non-executive and independent, the Chairman (Geoffrey Vero) is, de facto, the senior non-executive Director.

Audit Committee

The Board established an Audit Committee, which comprises Clive Spears (Chairman of the Committee) and all the other Directors. The Audit Committee provides a forum through which the Company's external Auditors report to the Board.

The Audit Committee meets twice a year and is responsible for considering the appointment and fee of the external auditors and for discussing the scope of the audit and its findings. It is responsible for monitoring compliance with accounting and legal requirements, ensuring that an effective system of internal controls is maintained and for reviewing annual and interim financial statements of the Company before their submission for approval by the Board.

The Board is satisfied that the Audit Committee contains members with sufficient recent and relevant financial experience.

Investment Committee

The Board established an Investment Committee, which comprises Nicholas Wilson (Chairman of the Committee) and all the other Directors. The purpose of this committee is to review the portfolio of the Company and evaluate the performance of the Investment Adviser.

The Board is satisfied that the Investment Committee contains members with sufficient recent and relevant financial experience.

Significant holdings

Significant shareholdings are analysed on page 38. The Directors are not aware of any other holding of greater than 3%.

Report of the Directors

continued

Directors

The Directors of the Company holding office during the financial year and to date were:

Mr. G.O. Vero (Chairman)
Mr. R.B.M. Quayle
Mr. C.L. Spears
Mr. N.V. Wilson

Secretary

The secretary of the Company holding office for the financial year ended 31 January 2008 and to 11 February 2008 was Mr. J. Middleton. Mr. P. P. Scales replaced Mr. J. Middleton as secretary on that date.

Staff

At 31 January 2009 the Group employed no staff (2008: none).

Auditors

Our auditors, KPMG Audit LLC, being eligible, have expressed their willingness to continue in office in accordance with Section 12(2) of the Isle of Man Companies Act 1982.

On behalf of the Board

Nicholas Wilson

Director

23 April 2009

Statement of Directors' Responsibilities

in respect of the Directors' Report and the financial statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year, which meet the requirements of Isle of Man company law. In addition, the Directors have elected to prepare the Group and Parent Company financial statements in accordance with International Financial Reporting Standards.

The Group and Parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Parent Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and to enable them to ensure that the financial statements comply with the Isle of Man Companies Acts 1931 to 2004. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Report of the Independent Auditors

KPMG Audit LLC, to the members of EPE Special Opportunities plc
(formerly EPIC Reconstruction plc)

We have audited the Group and Parent Company financial statements (“the financial statements”) of EPE Special Opportunities plc (formerly EPIC Reconstruction plc) for the year ended 31 January 2009 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Statement of Assets and Liabilities, the Consolidated Statement of Changes in Net Assets, the Consolidated Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company’s members, as a body, in accordance with section 15 of the Companies Act 1982. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors’ responsibilities for preparing the financial statements in accordance with applicable Isle of Man company law and International Financial Reporting Standards are set out in the Statement of Directors’ Responsibilities on page 15.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with Isle of Man Companies Acts 1931 to 2004. We also report to you whether in our opinion the information given in the Directors’ Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors’ transactions with the Company is not disclosed.

We read the Directors’ Report and any other information accompanying the financial statements and consider the implications for our report if we become aware of any apparent misstatements or inconsistencies within it.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the UK Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group’s and Company’s circumstances, consistently applied and adequately disclosed.

Report of the Independent Auditors

KPMG Audit LLC, to the members of EPE Special Opportunities plc
(formerly EPIC Reconstruction plc)

continued

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Qualified opinion resulting from disagreement about accounting treatment

As stated in Note 2(b) to the financial statements, the Company has not included in the consolidated financial statements the results of the controlled portfolio companies because the Directors are of the opinion that their inclusion would render the Company's consolidated financial statements misleading. However, the results of controlled portfolio companies are required to be included in the consolidated financial statements by International Accounting Standard 27 "Consolidated and Separate Financial Statements" and such non-inclusion constitutes a departure from the above mentioned accounting standard. The effect of such non-inclusion of the results of certain portfolio companies on the consolidated financial statements is disclosed in Note 2(b).

In our opinion:

- The financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Company's affairs as at 31 January 2009;
- The financial statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004; and
- The information given in the Directors' Report is consistent with the financial statements.

In our opinion:

- Except for the effect of the non-inclusion of the results of controlled portfolio companies in the consolidated financial statements as referred to above, the financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Group's affairs as at 31 January 2009 and of the Group's loss for the year then ended.

KPMG Audit LLC
Chartered Accountants

Douglas
Isle of Man
23 April 2009

Consolidated Income Statement

For the year ended 31 January 2009

Notes	31 January 2009		31 January 2008	
	Revenue £	Capital £	Total £	Total £
	Income:			
	46,900	–	46,900	35,000
3	1,253,640	–	1,253,640	1,762,518
	–	–	–	106,956
	1,300,540	–	1,300,540	1,904,474
	Expenses:			
4	(328,969)	–	(328,969)	(217,685)
4	(30,000)	–	(30,000)	(30,000)
5	(75,000)	–	(75,000)	(75,417)
	(9,531)	–	(9,531)	(11,953)
8	(154,454)	–	(154,454)	(243,992)
	(2,077)	–	(2,077)	(5,643)
	(34,457)	–	(34,457)	(49,963)
	(53,901)	–	(53,901)	(30,932)
	(96,010)	–	(96,010)	(92,110)
	(49,169)	–	(49,169)	(44,971)
	(755)	–	(755)	(4,850)
	(27,095)	–	(27,095)	(30,000)
	–	–	–	(24,511)
	(861,418)	–	(861,418)	(862,027)
	439,122	–	439,122	1,042,447
	Gains/(losses) on investments			
	Net realised gains on investments at fair value through the profit or loss			
	–	202,657	202,657	–
10	Unrealised losses on investments at fair value through profit or loss			
	–	(1,750,000)	(1,750,000)	(1,270,000)
10	Revaluation of investment property			
	–	(176,000)	(176,000)	88,353
19	Impairment of loan portfolio			
	–	(450,000)	(450,000)	(341,847)
23	Commitments under guarantee			
	–	–	–	(1,754,360)
	439,122	(2,173,343)	(1,734,221)	(2,235,407)
6	Taxation			
	–	18,189	18,189	(18,196)
	439,122	(2,155,154)	(1,716,032)	(2,253,603)
16	Basic and diluted loss per ordinary share (pence)			
	1.45p	(7.12p)	(5.67p)	(7.51p)

The total column of this statement represents the Group Consolidated Income Statement, prepared in accordance with IFRS. The supplementary revenue and capital return columns are prepared in accordance with the Board of Directors' agreed principles. All items derive from continuing activities.

The notes on pages 23 to 37 form an integral part of these financial statements.

Consolidated Statement of Assets and Liabilities

As at 31 January 2009

Notes	31 January 2009 £	31 January 2008 £
9,10 Non-current assets		
Investment property	500,000	676,000
Financial assets	11,936,464	12,761,460
	12,436,464	13,437,460
Current assets		
Accrued interest and other receivables	1,448,994	471,070
12 Cash and cash equivalents	1,633,890	2,944,914
12 Committed cash balances	1,247,895	1,983,065
	4,330,779	5,399,049
Current liabilities		
Accrued expenses and sundry creditors	(89,584)	(196,631)
6 Deferred tax liability	-	(18,189)
23 Provision for call under guarantee	(1,239,759)	(1,460,095)
	(1,329,343)	(1,674,915)
Net current assets	3,001,436	3,724,134
Non-current liabilities		
13 Bank loan	(500,359)	(508,021)
Net assets	14,937,541	16,653,573
Equity		
14 Share capital	327,075	300,000
15 Share premium	28,795,404	27,850,479
Capital reserve	(14,696,474)	(12,541,320)
Revenue reserve	511,536	1,044,414
Total equity	14,937,541	16,653,573
17 Net asset value per share (pence)	45.67p	55.51p

The financial statements were approved by the Board of Directors on 23 April 2009 and signed on its behalf by:

Geoffrey Vero
Chairman

Nicholas Wilson
Director

The notes on pages 23 to 37 form an integral part of these financial statements.

Company Statement of Assets and Liabilities

As at 31 January 2009

Notes		31 January 2009 £	31 January 2008 £
	Non-current assets		
9,10	Financial assets	750,000	2,500,000
	Investment in subsidiaries	1	1
		750,001	2,500,001
	Current assets		
11	Loan to subsidiary	14,253,590	14,027,020
	Accrued interest and other receivables	18,249	30,887
12	Cash and cash equivalents	14,772	133,442
		14,286,611	14,191,349
	Current liabilities		
	Accrued expenses and sundry creditors	(69,677)	(177,281)
	Net current assets	14,216,934	14,014,068
	Net assets	14,966,935	16,514,069
	Equity		
14	Share capital	327,075	300,000
15	Share premium	28,795,404	27,850,479
	Capital reserve	(14,756,646)	(12,759,303)
	Revenue reserve	601,102	1,122,893
	Total equity	14,966,935	16,514,069

The loss dealt with in the financial statements of the Company for the year ended 31 January 2009 was £1,547,133 (2008: loss of 164,813).

The financial statements were approved by the Board of Directors on 23 April 2009 and signed on its behalf by:

Geoffrey Vero
Chairman

Nicholas Wilson
Director

The notes on pages 23 to 37 form an integral part of these financial statements.

Consolidated Statement of Changes in Net Assets

For the year ended 31 January 2009

	Year ended 31 January 2009				Total £	Year ended 31 January 2008 £
	Share Capital £	Share Premium £	Capital Reserve £	Revenue Reserve £		
Net assets at start of year	300,000	27,850,479	(12,541,320)	1,044,414	16,653,573	19,504,176
Scrip dividend paid	27,075	944,925	–	(972,000)	–	–
Loss for the year after taxation	–	–	(2,155,154)	439,122	(1,716,032)	(2,253,603)
Dividends paid	–	–	–	–	–	(597,000)
Net assets at end of year	327,075	28,795,404	(14,696,474)	511,536	14,937,541	16,653,573

The notes on pages 23 to 37 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 January 2009

Notes	31 January 2009 £	31 January 2008 £
Operating activities		
Rental income received	46,900	35,000
Interest income received	337,624	1,742,728
Commission income received	–	175,255
Expenses paid	(856,792)	(790,921)
18 Net cash (outflow)/inflow from operating activities	(472,268)	1,162,062
Taxation paid	–	(7)
Net cash (used in)/generated from operating activities	(472,268)	1,162,055
Investing activities		
Purchase of equipment for sale	(261,893)	–
Receipts on disposal of equipment	175,000	–
Loan advances to investee companies	(1,375,000)	(3,642,629)
Receipts on repayments of loans	–	2,091,168
Payments called under the guarantee	(345,170)	(4,948,174)
Receipts from calls under guarantee	274,737	
Payments of investments transaction costs	(33,938)	–
Deferred consideration paid	–	(250,000)
Transfer from committed cash	735,170	6,335,970
Net cash used in investing activities	(831,094)	(413,665)
Financing activities		
Dividends paid	–	(597,000)
Part payment of loan	(7,662)	(37,953)
Net cash used in financing activities	(7,662)	(634,953)
(Decrease)/increase in cash and cash equivalents	(1,311,024)	113,437
Cash and cash equivalents at start of year	2,944,914	2,831,447
Cash and cash equivalents at end of year	1,633,890	2,944,914

The notes on pages 23 to 37 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 January 2009

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"). The Company raised £30m by a placing of ordinary shares at 100 pence per share.

The Company has four wholly owned subsidiaries, detailed in Note 22.

The principal activity of the Company and its subsidiaries (together "the Group") is to arrange income yielding financing for businesses emerging from distressed situations. It aims to hold these investments with a view to exiting in due course at a profit.

The consolidated financial statements comprise the results of the Company and its subsidiaries (the "Group") (see Notes 2(b) and 22).

The Company has no employees.

2 Accounting policies

a Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB) except for the non-consolidation of certain companies as detailed in Note 2(b) and applicable legal and regulatory requirements of Isle of Man law and reflect the following policies, which have been adopted and applied consistently.

The financial statements are presented in Sterling. They are prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss (FVTPL).

The preparation of financial statements in conformity with IFRSs requires Directors and the Investment Advisor to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The Directors have, to the best of their ability given the extraordinary market conditions currently experienced in the global economy, provided as true and fair a view as is possible under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by Directors and the Investment Advisor in the application of IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year relate to impairment provisioning in connection with secured loans and valuations of unquoted equity investments. Due to the current market conditions, the level of estimation required in the valuation of unquoted equity investments and impairment provisions is increased due to a lack of reliable quoted market comparables and recent transaction comparables (notes 10 and 19).

b Subsidiaries

Subsidiaries are those enterprises controlled by the Company, except where the enterprises are portfolio companies acquired with a view to income and capital gain. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Notes to the Financial Statements

For the year ended 31 January 2009

continued

2 Accounting policies (continued)

As part of the Group's investment in businesses emerging from distressed situations the Group may receive preference and ordinary shares. Such shares permit the Group to participate in any increase in the value of portfolio companies.

However, the Directors consider that consolidation would render the consolidated financial statements misleading, as such interests were acquired for nil consideration, as part of loan finance arranged for such companies and such interests were acquired with a view to income and capital gain.

If these three investments had been consolidated, the Group net assets would have been reduced by £7,415,330 (2008: £4,317,000).

c 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.

d Income

Interest income is recognised in the Consolidated Income Statement as it accrues. Dividend income is accounted for when the right to receive such income is established.

e Expenses

All expenses are accounted for on an accruals basis.

f Taxation

Income tax on the profit or loss for the period presented comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date and any adjustment to tax payable in respect of the previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

g Cash and cash equivalents

Cash comprises current deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value and are held for the purposes of meeting short-term cash commitments rather than for investments or other purposes.

Notes to the Financial Statements

For the year ended 31 January 2009

continued

2 Accounting policies (continued)

h Investments

(i) Classification

Equity and preference share investments have been designated at fair value through profit and loss.

Financial assets that are designated as loans and receivables comprise loans and accrued interest and other receivables.

(ii) Recognition

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

It is normal practice to recognise the purchase of financial assets using trade date accounting. From this date any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

(iii) Measurement

Financial instruments are measured initially at cost (transaction price).

Subsequent to initial recognition, all instruments classified as FVTPL are stated at fair value. The fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices.

If a quoted market price is not available on a recognised stock exchange or from a broker / dealer for non-exchange-traded financial instruments, the fair value of the instrument is estimated using valuation techniques, including use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions. BVCA valuation guidelines are also taken into account in determining fair value.

Where discounted cash flow techniques are used, estimated future cash flows are based on the Investment Advisor's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

Given continuing instability in the publicly quoted markets and uncertainty around earnings outlook for 2009, the Investment Advisor has used a valuation range to determine fair value.

Financial assets classified as loans and receivables are carried at amortised cost using the effective interest rate method, less impairment losses, if any.

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective interest rate.

(iv) Impairment

Financial assets that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the consolidated income statement as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the Consolidated Income Statement.

Notes to the Financial Statements

For the year ended 31 January 2009

continued

2 Accounting policies (continued)

(v) Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39.

The Company uses the weighted average method to determine realised gains and losses on derecognition.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

i Financial guarantees

Commitments under financial guarantees are provided for when an event has occurred that will result in the commitment being called (see Note 23).

j Investment property

Investment property is stated at fair value determined annually by the Directors. Any gain or loss arising from a change in fair value is recognised in the Consolidated Income Statement. Rental income from investment property is accounted for on an accruals basis. Property interests held under operating leases for investment purposes are classified and accounted for as investment property.

k Future changes in accounting policies

IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of the financial year of these financial statements:

International Accounting Standards (IAS/IFRS)

		Effective date (accounting periods commencing after)
International Accounting Standards (IAS/IFRS)		
IAS 1	Presentation of Financial Statements (Revised)	1 January 2009
IAS 23	Borrowing costs (Revised)	1 January 2009
IAS 27	Consolidated and Separate Financial Statements (Amended)	1 January 2009
IAS 1 and 32	Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (Amended)	1 January 2009
IAS 39	Eligible Hedged Items – Amendment to IAS 39 Financial Instruments: Recognition and Measurement (Amended)	1 July 2009
IFRS 2	Share-based Payment – Vesting Conditions and Cancellations (Amended)	1 January 2009
IFRS 3	Business Combinations (Revised)	1 July 2009
IFRS 8	Operating Segments	1 January 2009
IFRS 7	Financial Instruments: Disclosures (Amended)	1 January 2009

Revised IAS 1 *Presentation of Financial Statements* (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Group's 2010 consolidated financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements. The Group plans to provide total comprehensive income in a single statement of comprehensive income for its 2010 consolidated financial statements.

Notes to the Financial Statements

For the year ended 31 January 2009

continued

2 Accounting policies (continued)

IFRS 8 introduces the “management approach” to segment reporting, with information based on internal reports. Management are currently assessing the impact of this on the disclosures to be presented regarding segmental reporting.

The Directors do not expect the adoption of the other standards and interpretations to have a material impact on the Group's financial statements in the period of initial application.

3 Interest income

	2009	2008
	£	£
Cash balances	179,552	285,560
Secured loans	1,074,088	1,476,958
Total	1,253,640	1,762,518

4 Investment advisory, administration and performance fees

Investment advisory fees

On 10 September 2003 the Company entered into an Investment Advisory Agreement with EPIC Private Equity Limited (formerly EPIC Specialist Investments) ('EPE' or the 'Investment Advisor') for the provision of investment advisory services. Investment advisory fees were paid quarterly in arrears at a rate of 1% per annum of the Group's Gross Asset Value (including the Group's attributable proportion of financing contracts for which it is participating in the credit risk). This was amended with effect from 01 February 2008. Under the amended terms the management fee is calculated as 2% of the Groups' Net Assets, with the minimum of £325,000 payable per annum.

The Manager is entitled to charge and retain structuring fees of a maximum of 2% of the value of the total facilities provided on any transaction or a minimum of £35,000 per transaction, whichever is the higher. In the year ending 31 January 2009, £50,000 (2008: £nil) was charged.

Administration fees

On 30 November 2007 the Group entered into an agreement with IOMA Fund and Investment Management Limited ("IOMA"), for the provision of administration, registration and secretarial services. IOMA delegated the provision of accounting services to EHM Service Providers Limited. The fee is payable at a rate of 0.15% per annum of the Group's Net Asset Value, subject to a minimum fee of £30,000 per annum.

Performance fees

The Investment Advisory Agreement above also provides for the provision of a performance fee. The fee is payable if the Total Return (taken as Net Asset Value plus dividends distributed) is equal to at least 8% per annum from the date of admission of the Company's shares to AIM, based on the funds raised through the Placing of shares and compounded annually. No performance fee has accrued for the year ended 31 January 2009 (2008: £nil).

Notes to the Financial Statements

For the year ended 31 January 2009

continued

5 Directors' fees

Directors' fees payable for the year were as follows:

	2009	2008
	£	£
GO Vero (Chairman)	20,000	20,417
RBM Quayle	20,000	20,000
CL Spears	15,000	15,000
NV Wilson	20,000	20,000
	75,000	75,417

6 Taxation

Both the Company and EPIC Structured Finance Limited are Isle of Man tax residents. The companies are liable to zero percent income tax.

	2009	2008
	£	£
UK Corporation Tax charge	–	7
Deferred (credit)/tax charge	(18,189)	18,189
	(18,189)	18,196

7 Dividends paid and proposed

During the year it was determined by Special Resolution to settle the proposed dividend in scrip in lieu of cash dividend declared earlier.

	Rate	Total £
2008 Scrip dividend settled on 23 December 2008	3.24p	972,000

No dividends are proposed for the year ended 31 January 2009.

8 Professional fees

Professional fees represent the fees paid to third party advisors for the provision of services in matters requiring their professional expertise.

Notes to the Financial Statements

For the year ended 31 January 2009

continued

9 Financial assets and liabilities

	2009		2008	
	Group £	Company £	Group £	Company £
Assets				
Financial assets at fair value through profit or loss – designated on initial recognition:				
Equity investments	750,000	750,001	2,500,000	2,500,001
Loans and receivables and cash balances	15,517,243	14,286,611	15,660,509	14,191,349
Total financial assets	16,267,243	15,036,612	18,160,509	16,691,350
Liabilities				
Financial liabilities measured at amortised cost				
	(1,829,702)	(69,677)	(2,164,747)	(177,281)
Total financial liabilities	(1,829,702)	(69,677)	(2,164,747)	(177,281)

Loans and receivables presented above represent cash balances and accrued interest and other receivables as detailed in the consolidated statement of assets and liabilities.

Financial liabilities measured at amortised cost presented above represent accrued expenses and sundry creditors, guarantees payable, provision for calls under guarantee and bank loans, as detailed in the consolidated statement of assets and liabilities.

10 Non-current assets

	2009		2008	
	Group £	Company £	Group £	Company £
Investment property	500,000	–	676,000	–
Financial assets:				
Secured loans	11,186,464	–	10,261,460	–
Unquoted equity investments	750,000	750,000	2,500,000	2,500,000
Investment in subsidiaries	–	1	–	1
	12,436,464	750,001	13,437,460	2,500,001

Investment property is stated at the Directors' considered current valuation.

The secured loans are secured by way of floating charge. The terms of secured loans, credit risk and impairment provisions are disclosed in note 19.

Unquoted equity investments comprise unrealised fair value gains of £750,000 (2008: £2,500,000), on Kemutec Powder Technologies Limited £750,000 (2008: £1,000,000) and Past Times Trading Limited £nil (2008: £1,500,000). Fair value is determined by the Directors, after reviewing a range of upside and downside valuations to come to what the Directors consider to be an appropriate median valuation. The movement in unrealised gains/ (losses) is reflected in the consolidated income statement being a loss of £1,750,000 (2008: loss of 1,270,000) in the year.

Notes to the Financial Statements

For the year ended 31 January 2009

continued

11 Loan to subsidiary – EPIC Structured Finance Limited

	2009	2008
	Company	Company
	£	£
Loan to subsidiary	14,253,590	14,027,020

The loan to the subsidiary is unsecured, interest free and not subject to any fixed repayment term.

12 Cash at bank

	2009		2008	
	Group	Company	Group	Company
	£	£	£	£
Current and call accounts	1,633,890	14,772	2,944,914	133,442
Term deposit	1,247,895	–	1,983,065	–
	2,881,785	14,772	4,927,979	133,442

The term deposit is charged in favour of Eurosales and Royal Bank of Scotland to support the Group's commitment under a credit risk participation agreement (see Note 23). The Group is not writing any new business under this agreement.

The current and call accounts have been classified as cash and cash equivalents in the Consolidated Statement of Cash Flows.

13 Bank loan

	2009	2008
	Group	Group
	£	£
Mortgage loan	500,359	508,021

The mortgage bank loan bears interest at 10.30% and is secured on investment property valued in the consolidated financial statements at £500,000. The loan expiry date is May 2029.

14 Share capital

	2009		2008	
	Number	£	Number	£
Authorised Share Capital				
Ordinary shares of 1p each	50,000,000	500,000	50,000,000	500,000
Called up, allotted and fully paid				
Ordinary shares of 1p each	32,707,509	327,075	30,000,000	300,000

A scrip dividend was paid on 23 December 2008 in lieu of a cash dividend declared earlier during the year. This increased share capital by £972,000 including share premium and increased shares in issue by 2,707,509.

Notes to the Financial Statements

For the year ended 31 January 2009

continued

14 Share capital (continued)

The Company treats share capital, share premium and reserves as capital. The Company does not have any externally imposed capital requirements. As at 31 January 2009 the Company had capital of £14,937,541 (2008:£16,653,573).

The Company's capital is deployed to meet the Company's investment objective as set out in Note 1. The Company has no debt as at 31 January 2009, although a subsidiary has a mortgage loan of £500,359 (2008: £508,021) in relation to investment property (note 13) and certain investee companies have bank facilities.

15 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. A scrip dividend paid on 23 December 2008 resulted in an increase of £944,925 in share premium.

16 Basic and diluted loss per share (pence)

Basic and diluted loss per share is calculated by dividing the loss for the year attributable to the ordinary shareholders of £1,716,031 (2008: £2,253,603 loss) divided by the weighted average number of shares outstanding during the year of 30,289,297 (2008: 30,000,000 shares).

17 Net asset value per share (pence)

The net asset value per share is based on the net assets as at the year-end of £14,937,541 (2008: £16,653,573) divided by 32,707,509 shares in issue at the end of the year (2008: 30,000,000 shares).

18 Note to the consolidated statement of cash flows

Reconciliation of net investment income to net cash (outflow)/inflow from operating activities:

	2009	2008
	£	£
Net investment income	439,122	1,042,447
Adjustment for loan settlement expenses	–	(13,346)
Movement in debtors and prepayments	(902,928)	40,031
Movement in accrued expenses	(8,462)	92,930
Net cash (outflow)/inflow from operating activities	(472,268)	1,162,062

19 Financial instruments

The Group's financial instruments comprise:

- Investments in unlisted companies, comprising equity and loans that are held in accordance with the Group's investment objectives;
- Cash and cash equivalents and bank loan; and
- Accrued interest and other receivables, accrued expenses and sundry creditors and provisions for calls under guarantee.

Notes to the Financial Statements

For the year ended 31 January 2009

continued

19 Financial instruments (continued)

Financial risk management objectives and policies

The main risks arising from the Group's financial instruments are liquidity risk, credit risk and interest rate risk. None of these risks are hedged. These risks are managed by the Directors in conjunction with the Investment Advisor. The Investment Advisor is responsible for day to day management.

Liquidity risk

Under the credit risk participation agreement (see Note 23), the Group is committed to funding a proportion of any credit losses on loans arranged by the Group and advanced by a third party finance company. The Group has no other significant liabilities or commitments. Therefore, the key liquidity risk facing the Group is that the Group may not have sufficient liquid resources to meet any demands made under the credit risk participation agreement. No new business has been written under this agreement since July 2005 (see Note 23). The Group's liquid assets comprise cash and cash equivalents, which are readily realisable and a term deposit account, which is partly held as security under the credit risk participation agreement (see Note 23).

Residual contractual maturities of financial liabilities:

31 January 2009

	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	No stated maturity
	£	£	£	£	£	£
Financial liabilities						
Accrued expenses and other creditors	89,584	–	–	–	–	–
Provision for calls under guarantee	–	–	1,239,759	–	–	–
Bank loan	–	–	–	–	500,359	–
Total	89,584	–	1,239,759	–	500,359	–

31 January 2008

	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	No stated maturity
	£	£	£	£	£	£
Financial liabilities						
Accrued expenses and other creditors	214,820	–	–	–	–	–
Provision for calls under guarantee	–	1,460,095	–	–	–	–
Bank loan	–	–	–	–	508,021	–
Total	214,820	1,460,095	–	–	508,021	–

Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Group.

The Group has advanced loans to a number of private companies which exposes the Group to significant credit risk. The loans are advanced to unquoted private companies, which have no credit risk rating. They are entered into as part of the investment strategy of the Group and credit risk is managed by taking security where available (typically a floating charge) and the Investment Advisor taking an active role in the management of the borrowing companies.

Notes to the Financial Statements

For the year ended 31 January 2009

continued

19 Financial instruments (continued)

Although the Investment Advisor looks to set realistic repayment schedules, it does not necessarily view a portfolio company not repaying on time and in full as 'underperforming' and seeks to monitor each portfolio company on a case-by-case basis. However, in all cases the Investment Advisor reserves the right to exercise step in rights. In addition to the repayment of loans advanced, 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 including third party debt that determines the Group's view of each investment.

Included in the accrued interest is an amount of £1,158,000 (2008: £99,000) relating to the year ended 31 January 2009 for Past Times Trading Limited. The Investment Advisor views the accrued interest as deferred rather than non-recoverable and as such does not consider the non-payment to represent a material impairment to the loan. The Investment Advisor anticipates that repayment of the deferred interest will be made in the year to 31 January 2010.

In addition, under the credit risk participation agreement (see Note 23), the Group is exposed to credit risk by way of its commitment to fund any credit losses on loans arranged by the Group. No new business has been written under this agreement since July 2005. The total exposure of the Group as at 31 January 2009 under the credit risk participation agreement was £nil (2008: £134,479) net of provided loans. Under the credit risk participation agreement there were three previous investments in default at 31 January 2009 (2008: 3) in respect to some or all of their loans, for which provision has been made (see Note 23).

At the reporting date, the Group's financial assets exposed to credit risk amounted to the following:

	2009	2008
	£	£
Secured loans	11,186,464	10,261,460
Cash balances	2,879,314	4,927,979
Accrued interest and other receivables	1,448,994	471,070
Total	15,514,772	15,660,509
Exposure under the credit risk participation Agreement (note 23)	1,247,895	1,983,065

The impairment of loan portfolio charge in the Consolidated Income Statement includes £450,000 (2008: £341,847) in respect of impairment provisions against one secured loan during the year, Autocue Group Limited. The Group assesses the value of equity interest and the need for impairment provisions on secured loans together by estimating the value of the Group's interest in investee companies.

As at 31 January 2009 there are secured loans to five companies (2008: four). Therefore, the Group is exposed to concentration risk relating to these loans, with particular concentration in Past Times Trading Limited with a loan of £7,750,000 (2008: £7,750,000) and accrued interest of £1,158,000 (2008: £99,000).

The Group is also subject to credit risk on lending facilities to its investee companies from third party lending institutions. The portfolio companies of the Group currently have lending facilities in place from Lloyds Banking Group plc, Cattles plc, Five Arrows Leasing Group, Alliance One International Inc and Commercial First Mortgages Limited. Given the ongoing banking crisis there can be no certainty that these financial institutions will be able to provide lending facilities on a continuing basis.

Cash balances are placed with Royal Bank of Scotland International in Jersey.

Notes to the Financial Statements

For the year ended 31 January 2009

continued

19 Financial instruments (continued)

Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk). The Group is exposed to market price risk via its equity investments, which are stated at fair value – with gains and losses recognised in the income statement.

As at the reporting date, the Group's equity investments comprised one holding – representing an unrealised fair value gain (2008: two holdings). The Group also has equity interests in other portfolio companies, linked to lending facilities, which have not been revalued.

Market price risk sensitivity

The Group's interest in unquoted equity investments comprises 5% of net assets. A 5% increase in the value of these investments as at 31 January 2009 would have increased net assets by £37,500 (2008: £125,000); an equal change in the opposite direction would have decreased net assets by an equal but opposite amount.

Interest rate risk

The Group is exposed to significant interest rate risk, through the secured loan portfolio and cash balances. The return on the bank balances is linked to short-term deposit rates and is therefore linked closely to bank base rate changes.

The secured loans bear interest at fixed rates of between 15% and 20% and are repayable as follows:

	Principal £	Interest Rate	Maturity
Past Times Trading Limited	7,750,000	15%	30 April 2011
Morada Home Limited	1,088,000	15%	31 January 2011
Whittard of Chelsea (Hamsard 3146 Limited)	600,000	20%	22 December 2009
Autocue Group Limited	875,000	15%	31 December 2015
Kemutec Powder Technologies Limited	1,323,464	15%	31 December 2016

The table below summarises the Group's exposure to interest rate risks. It includes the Groups' financial assets and liabilities at the earlier of contractual re-pricing or maturity date, measured by the carrying values of assets and liabilities:

Notes to the Financial Statements

For the year ended 31 January 2009

continued

19 Financial instruments (continued)

31 January 2009

Assets	Less than 1 month £	1-3 months £	3 months to 1 year £	1-5 years £	Over years £	Non- interest bearing £	Total £
Designated at fair value through profit or loss							
Equities	–	–	–	–	–	750,000	750,000
Loans and receivables							
Secured loans			600,000	8,838,000	1,748,464	–	11,186,464
Accrued interest and other debtors	–	–	–	–	–	1,448,994	1,448,994
Cash	1,633,890	–	–	–	–	–	1,633,890
Committed cash	1,247,895	–	–	–	–	–	1,247,895
Total financial assets	2,881,785		600,000	8,838,000	1,748,464	2,198,994	16,267,243
Liabilities							
Financial liabilities measured at amortised cost							
Accrued expenses and other creditors	–	–	–	–	–	(89,584)	(89,584)
Guarantee payable	–	–	–	–	–	(1,239,759)	(1,239,759)
Provision for call	–	–	–	–	–	–	–
Bank loan	–	–	–	–	(500,359)	–	(500,359)
Total financial liabilities	–	–	–	–	(500,359)	(1,329,343)	(1,829,702)
Total interest rate sensitivity gap	2,881,785	–	600,000	8,838,000	1,248,105		

Notes to the Financial Statements

For the year ended 31 January 2009

continued

19 Financial instruments (continued)

31 January 2008

Assets	Less than 1 month £	1-3 months £	3 months to 1 year £	1-5 years £	Over years £	Non- interest bearing £	Total £
Designated at fair value through profit or loss							
Equities	–	–	–	–	–	2,500,000	2,500,000
Loans and receivables							
Secured loans	7,750,000		863,000	773,460	875,000	–	10,261,460
Accrued interest and other debtors	–	–	–	–	–	471,070	471,070
Cash	2,944,914	–	–	–	–	–	2,944,914
Committed cash	1,983,065	–	–	–	–	–	1,983,065
Total financial assets	12,677,979	–	863,000	773,460	875,000	2,971,070	18,160,509
Liabilities							
Financial liabilities measured at amortised cost							
Accrued expenses and other creditors	–	–	–	–	–	(214,820)	(214,820)
Provision for call under guarantee	–	–	–	–	–	(1,460,095)	(1,460,095)
Bank loan	–	–	–	–	(508,021)	–	(508,021)
Total financial liabilities	–	–	–	–	(508,021)	(1,674,915)	(2,182,936)
Total interest rate sensitivity gap	12,677,979	–	863,000	773,460	366,979		

Interest rate sensitivity

The Group is exposed to market interest rate risk via its bank balances. A sensitivity analysis has not been provided as it is not considered significant to Group performance.

Currency risk

The Group has no exposure to currency risk as it has no non-Sterling assets or liabilities.

Fair Values

All financial instruments are considered to be stated at fair value except for secured loans and the bank loan, which carry a fixed interest rate and are stated at amortised cost.

20 Directors' interests

None of the Directors had any interests in the shares of the Company as at 31 January 2009 (2008: £nil).

Notes to the Financial Statements

For the year ended 31 January 2009

continued

21 Related parties

Investment advisory fees amounting to £328,969 (2008: £217,685) were payable to the Manager calculated in accordance with the Investment Advisory Agreement, of which £28,704 (2008: £16,745) was outstanding as at 31 January 2009. The Investment Advisor is also entitled to structuring fees and fees on the sale of investments (see Note 4).

Mr Geoffrey Vero is a Non-executive Director of Numis Corporation plc and a former Non-executive Director of Numis Securities Limited, the Nominated Advisors, Brokers and Placing Agent to the Company. Advisory and broker fees of £30,000 (2008: £30,000) were payable to Numis Securities Limited paid in advance half-yearly of which £9,280 (2008: £3,750) was paid in advance as at 31 January 2009.

22 Subsidiary Companies

On 21 August 2003 the Company incorporated EPIC Structured Finance Limited in the Isle of Man, with paid up share capital of £2.

On 30 December 2004 the Company incorporated EPIC Reconstruction Property Company II Limited in England and Wales, with paid up share capital of £1.

On 26 September 2005 the Company incorporated EPIC Reconstruction Property Company (IOM) Limited in Isle of Man, with paid up capital of £2.

On 7 November 2008 a limited liability partnership was formed, namely ESO Investments LLP. EPE Special Opportunities plc owns 80% of the LLP and further 20% is owned by the ESO Carry LLP.

23 Financial commitments and guarantees

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. No new business has been written under this agreement since July 2005.

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. As at 31 January 2009, £1,247,895 (31 January 2008: £1,983,065) of the term deposit was charged in favour of Eurosales.

This agreement is now in run-off and no new business is written under this agreement.

The Company provides certain guarantees to Lloyds TSB Bank plc ("Lloyds") on the facilities that Lloyds provide to Past Times Limited. Such obligations are limited to a maximum of £3,000,000, and relate to the provision of facilities such as a Letter of Credit facility, customs and excise guarantees, a BACS facility and corporate credit cards.

24 Post balance sheet events

There were no significant post balance sheet events after 31 January 2009.

Shareholder Information

Schedule of shareholders holding over 3% of issued shares – Updated

Shares

	%
The Bank of New York (Nominees)	36.67
Brit Insurance Holdings Ltd	16.67
Securities Services Nominees	12.42
Nortrust Nominees Limited	10.00
Credit Agricole Cheuvreux	3.97
Harewood Nominees Limited	3.48
HSBC Global Custody Nominee (UK)	3.11
Total over 3% holdings	86.32

Notes

Notes

Company Information

Directors	GO Vero (<i>Chairman</i>) RBM Quayle CL Spears NV Wilson	Investment Advisor	EPIC Private Equity LLP 22 Billiter Street London EC3M 2RY
Secretary	Philip P Scales	Auditors and Reporting Accountants	KPMG Audit LLC Heritage Court 41 Athol Street Douglas Isle of Man IM99 1HN
Registrar and Registered Office	IOMA Fund and Investment Management Limited IOMA House Hope Street Douglas Isle of Man IM1 1AP	Crest Provider	Computershare Investor Services (CI) Limited Ordnance House 31 Pier Road St Helier Jersey
Nominated Advisor and Broker	Numis Securities Limited The London Stock Exchange Building 10 Paternoster Square London EC4M 7LT		
Bankers	Royal Bank of Scotland International PO Box 64 71 Bath Street St Helier Jersey JE4 8PJ		

