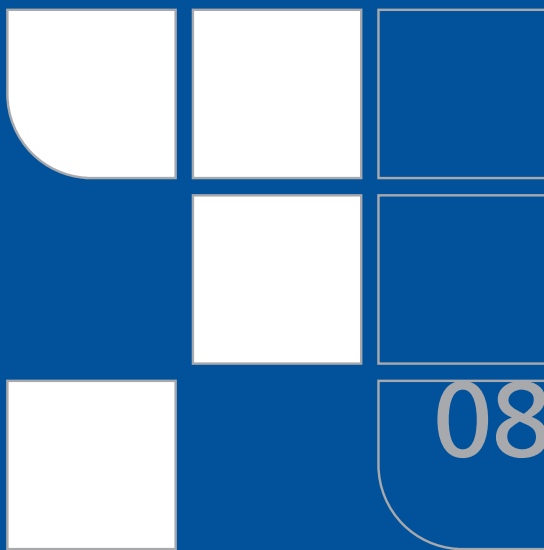
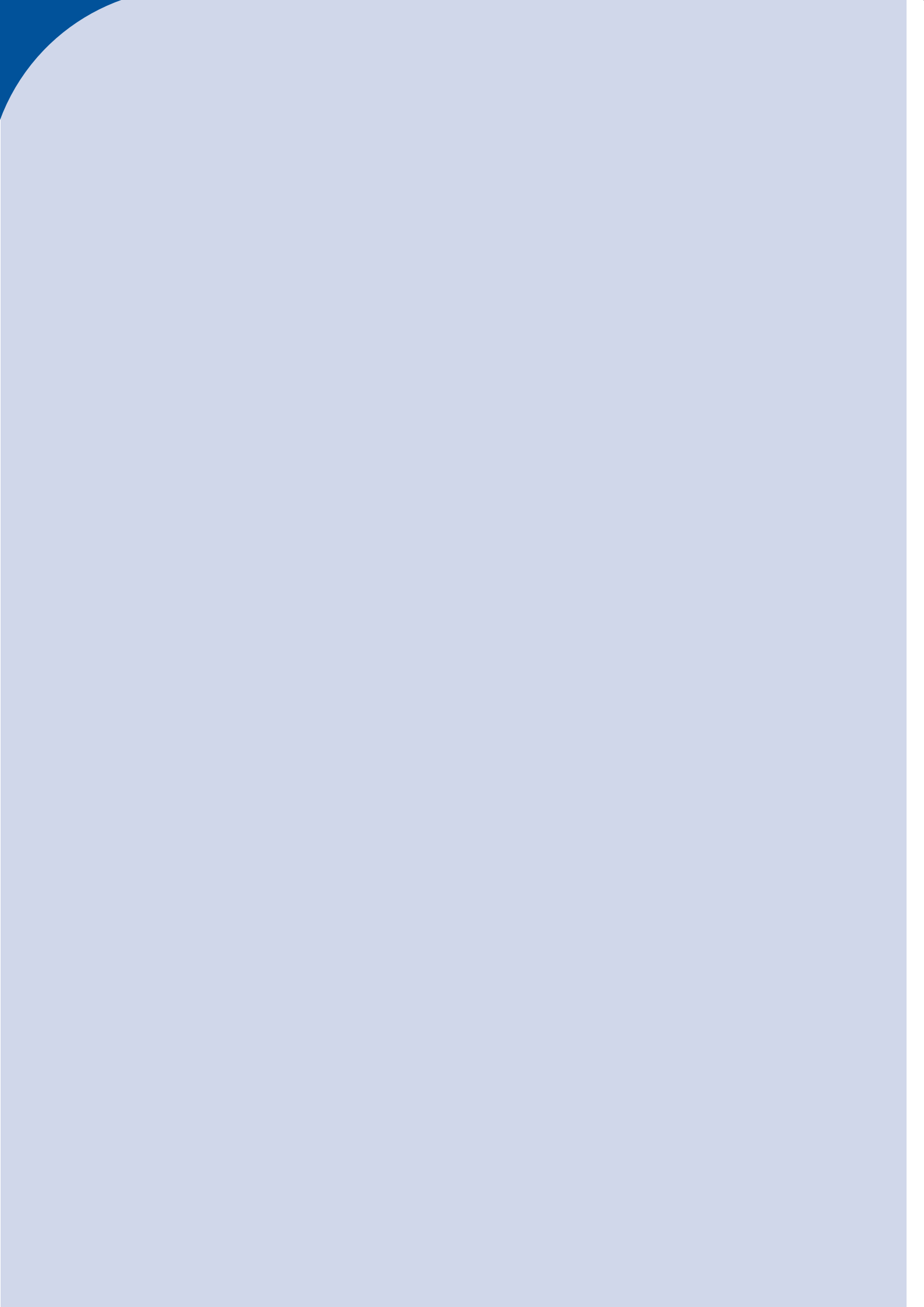




EPIC Reconstruction plc

Report & Accounts | **January 08**





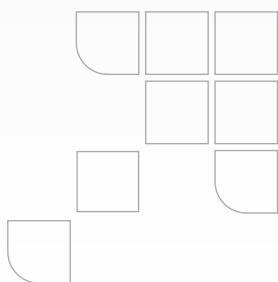
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## Biographies of the Directors

**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 specialising in, among other 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** is an Associate of the Chartered Institute of Bankers and a Member of The Securities & Investment Institute. He currently runs his own local corporate services consultancy business, being on the board of a number of regulated offshore funds mainly covering the private equity, mezzanine debt and property fund markets. Principal appointments are with the Nomura Bank Group and Nordic Capital Group. He retired from the Royal Bank of Scotland in 2003 after 32 years service of which 25 years were spent in Jersey, latterly as Deputy Director responsible for corporate business. He is the current President of the Jersey Chamber of Commerce.





**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 totalling 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 Ltd 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 Manager

EPIC Private Equity ("EPE") was founded in June 2001 and is independently owned. EPE focuses on niche investment opportunities throughout the UK and Europe with a focus on leveraged buyouts (EPIC plc) and turnaround transactions (EPIC Reconstruction plc). EPE has completed over 45 transactions in six years resulting in its current portfolio of businesses with combined turnover of more than £300m and £30m 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 electricals retailer; Nexus Industries; and Palatinat 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.

**Duncan Palmer** worked as a strategy consultant at Bain & Company before joining EPE, and advised both corporate and private equity clients on corporate strategy and transformation in a variety of industries. Prior to Bain, he worked in Mergers and Acquisitions in the healthcare team at NM Rothschild and at biotech start-up Cytocell. Duncan read Natural Sciences at Cambridge 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

During the financial year ending 31 January 2008, EPIC Reconstruction Plc ("the Company") generated net revenues of £1.90m, which translated to a net revenue profit for the Company of £1.04m. Regrettably, there were also capital losses of £3.30m giving a total loss for the year of £2.25m. Net asset value per share as at the 31 January 2008 for the Company was down from 65.01p at 31 January 2007 to 55.51p. A final dividend of 3.24p has been proposed by the Board of Directors.

The net revenue during the financial year was generated from the Company's exposure to yielding instruments advanced to portfolio companies, most notably Past Times. It is expected that, apart from refinancings, interest bearing instruments will continue to provide the Company with further net revenues during 2008. Total write-offs and provisions of £2.10m have been accounted for during the financial year, of which £1.35m related to final provisions for Abbseal.

Despite only holding Dolcis for just over 12 months, it was disposed of to management during the financial year. This investment showed, similarly to Botes and Past Times, the Company's ability to identify and secure downside protected investments that generate mezzanine levels of return and offer attractive upside characteristics. Unfortunately, following disposal by the Company, the market trends proved irreversible and management were unable to halt like-for-like sales decline. However notwithstanding these

difficulties, all funds, including interest, were returned to the Company.

The rest of the portfolio continues to perform in line with expectations. In particular Past Times has strengthened further, with positive like-for-like sales and additional improvements driven through the business. The business is on track to make a profit in the current financial year.

Exposure to Eurosales, the RBoS subsidiary in run-off, with whom the Company financed a number of early transactions reduced from £8.32m in 2007 to £1.98m as at the year ending 31 January 2008, reflecting a considerable amount of hard work by the Investment Advisor to mitigate any further risk from what is a diminishing relationship.

The Company is seeking to exit its smaller investments and continues to identify potential bolt-on opportunities for the remainder of the portfolio. Taking account of the ever more challenging economic and credit climate the Company's focus remains predominantly on value creation from within the existing portfolio and this strategy will be the main focus for the rest of the current financial year. However the more volatile economic conditions will inevitably create buying opportunities for sophisticated distressed investors and the Investment Advisor will continue to seek and review new transactions.

Geoffrey Vero  
1 May 2008

# Investment Advisor's Report



In the 12 month period to 31 January 2008, the Investment Advisor has continued to focus on creating value from within the portfolio. The Company acquired no new assets during the period, though 119 opportunities were investigated. A total of £3.6m was invested during the financial year as follow-on investments to: Autocue, Dolcis, Kemutec, Morada and Past Times. Sadly there were also further capital losses of £3.30m giving a total loss for the year of £2.26m, of which over £2.1m related to provisions for Abbseal, AG Brown and the Eurosales relationship. Although the share price performance remains disappointing there has been some investment success since inception:

Since inception the Company has:

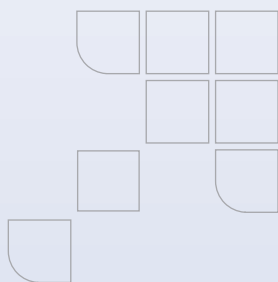
- Generated Net Revenues of 34.3p per share;
- Paid 16.8p per share and declared 3.24p of dividends, current dividend yield circa 6%;
- Built portfolio investments running at gross 0.9x money multiple – Past Times continues to show promise. The Company is running at net c. 0.7x money multiple after establishment and running costs;
- Deployed over £39m of capital and portfolio companies have already returned over £27m to the Company in the form of £17m capital and £10m gross income; and
- Created an extensive contact network of deal sources, advisory providers and financing partners has been created with over 450 opportunities investigated in four years and 17 transactions completed since inception.

During the financial year loans advanced in Dolcis were fully repaid and management acquired the Company's equity. Despite the significant change and improvement in Dolcis' operations, sales declined due to the difficult market conditions and the general retail environment. The Company decided to exit on the best terms possible and before the Company's security began to erode. The return on the investment was 9% IRR which reflects the mezzanine type yield and the strength of security. The transaction underlines the Investment Advisor's strategy to seek fewer but larger opportunities which provide sufficient levels of security and downside protection whilst exposing the Company to superior returns should the business be turned around.

The current portfolio is expected to yield a good return to shareholders as the Investment Advisor investigates a number of bolt-on opportunities that could grow revenue, profitability and strengthen market positions. The Investment Advisor also continues to explore opportunities for adding value to portfolio companies through revenue enhancing

and cost saving initiatives as well as through support in identifying the appropriate management to optimise performance. The Investment Advisor continues to develop relationships with various lenders to ensure portfolio companies have access to financing on optimal terms. Re-financings continue to be sought where the turnaround in a portfolio company's results has largely been effected, though looking forward credit may be less available in 2008 than in 2007 for this type of operation.

The Investment Advisor believes that the potential to create value within the distressed market remains significant. The tightening of economic conditions continues to create a wide range of investment opportunities. As such, the Investment Advisor is actively engaged in communicating the Company's investment strategy and capabilities to the financial community. The Investment Advisor continues to strengthen its existing network and develop new relationships with advisors and managers who can provide deal flow and the necessary expertise to acquire and turn around distressed assets.



## Portfolio Companies

### Autocue (2005)

Autocue is a manufacturer of prompting equipment for the media industry, as well as the developer and provider of a range of software for a similar customer base. The business went into Administration early in 2005 due to significant historic leverage raised to expand the software side of the business, a strategy which subsequently proved disastrous. The Company teamed up with another private equity provider to buy the business out of Administration, employing a new management team who have looked to restructure the business fundamentally, through the removal of a number of unnecessary excess costs, and a realignment of the business to its core prompter (rather than software) sales. The Company has a £0.9m overlend exposure to Autocue, yielding 15% per annum. The last twelve months has seen the development of Qnxt, a prompter which management are confident is significantly ahead of all competition. Qnxt has recently been launched and the performance of the business is expected to improve.

### Kemutec (2005)

Kemutec is a manufacturer of mixing and sifting equipment for the chemical, pharmaceutical and food industries, with annual sales of circa £10m. The business has repaid all of the initial loan from the Company and further balances were lent to assist with working capital due to the growth in the business. The Company has £0.84m in overlend and acquisition finance yielding 15% per annum. The business continues to grow sales strongly (+10%) but the margin has suffered due to operational inefficiencies and a shift in the market to more sophisticated 'system' orientated projects. The Investment Advisor has sought to rectify the management issues through the appointment of new personnel and steps are now being taken to improve the operations to return margin to expected levels and meet changing market demands. Both Management and the Investment Advisor continue to seek strategic acquisitions to supplement the organic growth.

# Portfolio Companies

continued

## Morada Home Limited (2005)

The Company backed Stuart Taylor to buy the Morada Home business out of administration with a secured debt instrument of £0.75m yielding 15% per annum. The division was based originally on contracts with the Ministry of Defence (“MoD”), which comprised around two thirds of the division’s turnover, to supply curtains and blinds for MoD living accommodation. The business also supplies local authorities and educational establishments, including a two year contract with Lancashire Purchasing Agency. In the retail sector, it supplies custom-made and ready-made furnishings to a number of independent and national customers, including Paul Simon and Dunelm. Morada has had a stable initial period and further uplift is now expected following the lifting of the MoD spending moratorium in the fourth quarter of this year. The order book is now growing and sales are forecast to improve over the coming period.

## Past Times (2005)

Past Times is the Company’s largest investment and 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, with Will Hobhouse, formerly of Tie Rack and Whittards of Chelsea brought in as Chairman. The Company has committed up to £8.9m at a 15% yield per annum. The secured debt instrument is currently £7.75m. Past Times has undergone a major restructuring process, with the number of stores reduced, the head office cost base reduced, and the product range improved. The business is now experiencing the benefits of these improvements. The recruitment of a new CEO, Mike Taylor, has also boosted prospects as he has started to drive through further improvements capitalising on the now stable core business. Like-for-like sales have increased year-on-year, and the business is forecast to be profitable in the current year of trading.

## Portfolio Companies

continued

### AGB Steel (2005)

AGB Steel is the buyout by management of parts of the failed AG Brown business. As part of the settlement in January 2005 the Company retained a 20% stake in AGB Steel and a property in Glasgow. The business is stable, but profits are marginal due to a highly competitive market. Management are currently reviewing strategic options for the company.

# 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 financing for businesses emerging from distressed situations.

## 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.

## Results of the financial year

Results for the year and their appropriation are set out in the Consolidated Income Statement on page 15 and in the Consolidated Statement of Changes in Net Assets on page 18.

## Dividends

Under the distribution policy capital gains and losses are taken against Capital and all income and expenses are taken to the Revenue Reserve Account, with the exception of expenses directly attributable to capital items.

Details of the dividends paid and proposed during the year are analysed on page 25 in Note 7.

## Corporate Governance Principles

The Committee on Corporate Governance published its latest report on the principles of good governance and code of best practice (the “Combined Code”, or the “Code”) in July 2003. The Company is an Isle of Man incorporated company, and as such is not required to comply with the Code. However, the Directors place a high degree of importance on ensuring that high standards of corporate governance are maintained and have therefore adopted the spirit of the Code.

The Board having reviewed the Code, considers that it has maintained procedures during the year ended 31 January, 2008 to ensure that it complies with the spirit of the Code subject to the exceptions explained below and its special circumstances as an offshore company.

## Nomination Committee

The Board as a whole fulfils the function of a Nomination Committee.

## Audit Committee

At a Board Meeting held on 22 March 2007 it was resolved that an Audit Committee be set up comprising the independent Directors with Clive Spears appointed as Chairman. The Audit Committee operates within clearly defined terms of reference which have been approved by the Board and provides a forum through which the Company’s external Auditors report to the Board. The Board is satisfied that the Audit Committee contains members with sufficient recent and relevant financial experience.

# Report of the Directors

continued

## Investment Committee

At a Board Meeting held on 22 March 2007 it was resolved that an Investment Committee be set up comprising the Directors, with Nick Wilson appointed as Chairman. The Investment Committee operates within clearly defined terms of reference which have been approved by the Board. The Board is satisfied that the Investment Committee contains members with sufficient recent and relevant financial experience.

The purpose of this committee is to review the performance of the Investment Advisor to the Group.

## Significant holdings

Significant shareholdings are analysed on page 34.

The Directors are not aware of any other holding of greater than 3%.

## 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

Mr. P. Keltie (Resigned on 8 August 2007)

## Secretary

The secretary of the Company holding office for the financial year and to 11 February 2008 was Mr. J. Middleton.

Mr. P. P. Scales replaced Mr. J. Middleton as secretary on this date.

## Staff

At 31 January 2008 the Group employed no staff (2007: 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

1 May 2008

# 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 EPIC Reconstruction plc

We have audited the Group and Parent Company financial statements (“the financial statements”) of EPIC Reconstruction plc for the year ended 31 January 2008 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 12.

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 EPIC Reconstruction plc

continued

## **Basis of opinion (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 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 certain 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 this 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 2008;
- 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 certain 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 2008 and of the Group's loss for the year then ended.

## **KPMG Audit LLC**

### **Chartered Accountants**

Douglas

Isle of Man

1 May 2008

# Consolidated Income Statement

## For the year ended 31 January 2008

Notes	31 January 2008		31 January 2007	
	Revenue £	Capital £	Total £	Total £
<b>Income:</b>				
	35,000	–	35,000	766
3	1,762,518	–	1,762,518	2,007,270
	106,956	–	106,956	587,772
	<b>1,904,474</b>	<b>–</b>	<b>1,904,474</b>	<b>2,595,808</b>
<b>Expenses:</b>				
4	(217,685)	–	(217,685)	(345,518)
4	(30,000)	–	(30,000)	(57,923)
5	(75,417)	–	(75,417)	(86,538)
	(11,953)	–	(11,953)	(22,479)
8	(243,992)	–	(243,992)	(327,946)
	(5,001)	–	(5,001)	(1,749)
	6,635	–	6,635	(20,524)
	(5,643)	–	(5,643)	(19,207)
	(49,963)	–	(49,963)	(40,266)
	(30,932)	–	(30,932)	(48,669)
	(92,110)	–	(92,110)	(105,858)
	(46,605)	–	(46,605)	(12,064)
	(4,850)	–	(4,850)	(8,511)
	(30,000)	–	(30,000)	(36,633)
	–	–	–	(13,449)
	(24,511)	–	(24,511)	(76,082)
	<b>(862,027)</b>	<b>–</b>	<b>(862,027)</b>	<b>(1,223,416)</b>
	<b>1,042,447</b>	<b>–</b>	<b>1,042,447</b>	<b>1,372,392</b>
<b>Gains on investments</b>				
10	–	–	–	201,236
10	–	(1,270,000)	(1,270,000)	3,770,000
10	–	88,353	88,353	–
19	–	(341,847)	(341,847)	(5,802,965)
23	–	(1,754,360)	(1,754,360)	(7,413,794)
	<b>1,042,447</b>	<b>(3,277,854)</b>	<b>(2,235,407)</b>	<b>(7,873,131)</b>
6	(7)	(18,189)	(18,196)	(22,642)
	<b>1,042,440</b>	<b>(3,296,043)</b>	<b>(2,253,603)</b>	<b>(7,895,773)</b>
16	<b>3.47p</b>	<b>(10.98p)</b>	<b>(7.51p)</b>	<b>(26.32p)</b>

The total column of this statement represents the Group 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 20 to 33 form an integral part of these financial statements.

# Consolidated Statement of Assets and Liabilities

## As at 31 January 2008

Notes	31 January 2008 £	31 January 2007 £
<b>10 Non-current assets</b>		
Investment property	676,000	587,647
Financial assets	12,761,460	12,808,500
	<b>13,437,460</b>	<b>13,396,147</b>
<b>Current assets</b>		
Accrued interest and other receivables	471,070	511,101
<b>12</b> Cash and cash equivalents	2,944,914	2,831,477
<b>12</b> Committed cash balances	1,983,065	8,319,035
	<b>5,399,049</b>	<b>11,661,613</b>
<b>Current liabilities</b>		
Accrued expenses and sundry creditors	(196,631)	(103,701)
<b>6</b> Tax liability	(18,189)	–
Guarantee payable	–	(250,000)
<b>23</b> Provision for call under guarantee	(1,460,095)	(4,653,909)
	<b>(1,674,915)</b>	<b>(5,007,610)</b>
<b>Net current assets</b>	<b>3,724,134</b>	<b>6,654,003</b>
<b>Creditors: amounts falling due in more than one year</b>		
<b>13</b> Bank loan	(508,021)	(545,974)
<b>Net assets</b>	<b>16,653,573</b>	<b>19,504,176</b>
<b>Represented by:</b>		
<b>14</b> Share capital	300,000	300,000
<b>15</b> Share premium	27,850,479	27,850,479
Capital reserve	(12,541,320)	(9,245,277)
Revenue reserve	1,044,414	598,974
	<b>16,653,573</b>	<b>19,504,176</b>
<b>17 Net asset value per share (pence)</b>	<b>55.51p</b>	<b>65.01p</b>

The financial statements were approved by the Board of Directors on 1 May 2008 and signed on its behalf by:

**Geoffrey Vero**  
Director

**Nicholas Wilson**  
Director

The notes on pages 20 to 33 form an integral part of these financial statements.

# Company Statement of Assets and Liabilities

As at 31 January 2008

Notes	31 January 2008 £	31 January 2007 £
<b>10 Non-current assets</b>		
Financial assets	2,500,000	3,770,001
Investment in subsidiaries	1	275,001
	<b>2,500,001</b>	<b>4,045,002</b>
<b>Current assets</b>		
<b>11</b> Loan to subsidiary	14,027,020	12,668,475
Accrued interest and other receivables	30,887	170,006
<b>12</b> Cash and cash equivalents	133,442	489,873
	<b>14,191,349</b>	<b>13,328,354</b>
<b>Current liabilities</b>		
Accrued expenses and sundry creditors	(177,281)	(97,474)
	<b>(177,281)</b>	<b>(97,474)</b>
<b>Net current assets</b>	<b>14,014,068</b>	<b>13,230,880</b>
<b>Net assets</b>	<b>16,514,069</b>	<b>17,275,882</b>
<b>Represented by:</b>		
<b>14</b> Share capital	300,000	300,000
<b>15</b> Share premium	27,850,479	27,850,479
Capital reserve	(12,759,303)	(11,552,365)
Revenue reserve	1,122,893	677,768
	<b>16,514,069</b>	<b>17,275,882</b>
<b>Net asset value per share (pence)</b>	<b>55.05p</b>	<b>57.59p</b>

The loss dealt with in the financial statements of the Company for the year ended 31 January 2008 was £164,813 (2007: loss of £10,109,597).

The financial statements were approved by the Board of Directors on 1 May 2008 and signed on its behalf by:

**Geoffrey Vero**  
Director

**Nicholas Wilson**  
Director

# Consolidated Statement of Changes in Net Assets

For the year ended 31 January 2008

	Year ended 31 January 2008				Year ended 31 January 2007	
	Share Capital £	Share Premium £	Capital Reserve £	Revenue Reserve £	Total £	Total £
Net assets at start of year	300,000	27,850,479	(9,245,277)	598,974	19,504,176	29,574,949
(Loss)/profit for the year after taxation	–	–	(3,296,043)	1,042,440	(2,253,603)	(7,895,773)
Dividends paid	–	–	–	(597,000)	(597,000)	(2,175,000)
<b>Net assets at end of year</b>	<b>300,000</b>	<b>27,850,479</b>	<b>(12,541,320)</b>	<b>1,044,414</b>	<b>16,653,573</b>	<b>19,504,176</b>

The notes on pages 20 to 33 form an integral part of these financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 January 2008

Notes	31 January 2008 £	31 January 2007 £
<b>Operating activities</b>		
Rental income	35,000	18,614
Interest	1,742,728	1,762,652
Commission income	175,255	672,969
Expenses paid	(790,921)	(1,447,311)
<b>18 Net cash inflow from operating activities</b>	<b>1,162,062</b>	<b>1,006,924</b>
Taxation paid	(7)	(590,049)
<b>Net cash flows from operating activities</b>	<b>1,162,055</b>	<b>416,875</b>
<b>Investing activities</b>		
Purchase of investments and investment property	–	(20,000)
Sale of investments and investment property	–	1,088,836
Loan advances	(3,642,629)	(17,771,390)
Loan repayments	2,091,168	6,892,595
Payments called under the guarantee	(4,948,174)	(3,202,885)
Deferred consideration paid	(250,000)	–
Transfer from/(to) committed cash	6,335,970	8,995,801
<b>Net cash flows from investing activities</b>	<b>(413,665)</b>	<b>(4,017,043)</b>
<b>Financing activities</b>		
Dividends paid	(597,000)	(2,175,000)
Part payment of bank-loan	(37,953)	(20,294)
<b>Net cash flows from financing activities</b>	<b>(634,953)</b>	<b>(2,195,294)</b>
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>113,437</b>	<b>(5,795,462)</b>
<b>Cash and cash equivalents at start of year</b>	<b>2,831,477</b>	<b>8,626,939</b>
<b>Cash and cash equivalents at end of year</b>	<b>2,944,914</b>	<b>2,831,477</b>

The notes on pages 20 to 33 form an integral part of these financial statements.

# Notes to the Financial Statements

For the year ended 31 January 2008

## 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 financing for businesses emerging from distressed situations.

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 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).

In preparing these consolidated financial statements, the Group has adopted IFRS 7 *Financial Instruments: Disclosures* and IAS 1 *Presentation of Financial Statements – Capital Disclosures*. The adoption of IFRS 7 and the amendment to IAS 1 impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the Group. In accordance with the transitional requirements of the standards, the Group has provided full comparative information.

The preparation of financial statements in conformity with IFRS requires management 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. 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 management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year relate to impairment provisioning in connection with secured loans, provisioning with regard to commitments under the guarantee with Eurosales and valuation of unquoted equity investments.

# Notes to the Financial Statements

For the year ended 31 January 2008

continued

## b Subsidiaries

Subsidiaries are those enterprises controlled by the Company. 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.

As part of the Group's arrangement of finance for 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. Such shares are received for nil consideration and the equity interest of the Group is capped by way of management options to purchase the Group's interest at a set amount. In addition, Board representation is only assumed in default situations. For such interests the Directors consider that they do not meet the definition of subsidiaries under IAS 27.

For two investments (2007: four investments) in portfolio companies, the equity interest of the Company is not capped. It is considered that such companies meet the definition of subsidiaries and would therefore fall to be consolidated under IAS 27. However, the Directors consider that consolidation would render the consolidated accounts 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 two investments had been consolidated, the Group net assets would have been decreased by £4,317,000 (2007: net assets decreased by £3,634,000).

## 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. The return on shares held in money market funds is treated as interest receivable.

## 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.

# Notes to the Financial Statements

For the year ended 31 January 2008

continued

**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. Money market funds are treated as cash and cash equivalents.

**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.

Financial liabilities that are not at fair value through profit or loss comprise accrued expenses and sundry creditors.

**(ii) Recognition**

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

A regular way purchase of financial assets is recognised by 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.

Financial liabilities are not recognised unless one of the parties has performed.

**(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 management'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.

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.

# Notes to the Financial Statements

For the year ended 31 January 2008

continued

(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.

(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 property held to earn rental income or for capital appreciation or both. Investment property is stated at fair value with any change therein recognised in profit or loss. 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 these financial statements:

		<b>Effective date</b>
		(accounting periods commencing after)
<hr/>		
International Accounting Standards (IAS/IFRS)		
IFRS 8	Operating segments	1 January 2009
IAS 23	Amendment – Borrowing costs	1 January 2009
<hr/>		
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC11	IFRS 2 – Group and Treasury Share Transactions	1 March 2007
IFRIC12	Service Concession Arrangements	1 January 2008
IFRIC13	Customer loyalty programmes	1 July 2008
IFRIC14	IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008

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.

# Notes to the Financial Statements

For the year ended 31 January 2008

continued

## 3 Interest income

	31 January 2008	31 January 2007
	£	£
Cash Balances	285,560	758,917
Secured loans	1,476,958	1,248,353
<b>Total</b>	<b>1,762,518</b>	<b>2,007,270</b>

## 4 Investment advisory, administration and performance fees

### a Investment advisory fees

On 10 September 2003 the Company entered into an Investment Advisory Agreement with EPIC Private Equity Limited (Formerly EPIC Specialist Investments Limited) ('EPE' or 'the Manager') for the provision of investment advisory services. Investment advisory fees are 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).

The management agreement can be terminated by either party giving not less than 12 months notice at any time after the second anniversary of the commencement of the Investment Advisory Agreement.

The Manager is entitled to charge and retain structuring and exit 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 2008, no such fees were charged.

### b Administration fees

On 10 September 2003 the Company entered into an Administration agreement with Northern Trust International Fund Administration Services (Isle of Man) Limited for the provision of administration, registration and secretarial services. The fee was 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. This agreement was terminated on 30 November 2007 and IOMA Fund and Investment Management Limited were appointed as administrators for the provision of administration, registration and secretarial services. 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. The agreement is terminable by either of the parties giving not less than 6 months notice.

### c 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 2008 (2007: £Nil).

# Notes to the Financial Statements

For the year ended 31 January 2008

continued

## 5 Directors' fees

Directors' fees payable for the year (excluding VAT) were as follows:

	2008	2007
	£	£
GO Vero (Chairman)	20,417	15,625
DL Adamson	–	17,598
RBM Quayle	20,000	20,000
CL Spears	15,000	15,000
NV Wilson	20,000	20,000
Under-accrual for prior year	–	(1,685)
	<b>75,417</b>	<b>86,538</b>

## 6 Taxation

Both the Company and EPIC Structured Finance Limited are Isle of Man tax resident. The Companies are liable to a zero percent rate of income tax.

UK Corporation tax at 30% on the profit on ordinary activities of the UK property company subsidiary has been provided for.

	2008	2007
	£	£
Actual UK Corporation Tax charge in the accounts	7	22,642
Deferred tax on property revaluation	18,189	
	<b>18,196</b>	<b>22,642</b>

## 7 Dividends paid and proposed

Under the terms of the Company's prospectus, it is the policy of the Company to distribute substantially all of its distributable profits each year. The Directors, having taken legal advice to ensure compliance with the applicable regulations, agreed to amend the Company's dividend distribution policy with effect from 1 February 2006. Dividends are now declared from available revenue reserves rather than from the total return of the Company.

During the year the following dividends were paid.

		Rate	Total £
2007 Final	Paid 31 December 2007	1.99p	597,000

After the balance sheet date, the Directors have proposed a final dividend of 3.24p per ordinary share for the year ended 31 January 2008. The proposed final dividend has not been provided for in the financial statements.

## 8 Professional fees

Professional fees represent the employment of third party advisers on a number of aborted transactions together with accountancy fees for subsidiary companies.

# Notes to the Financial Statements

For the year ended 31 January 2008

continued

## 9 Financial assets and liabilities

	2008		2007	
	Group £	Company £	Group £	Company £
<b>Assets</b>				
<b>Financial assets at fair value through profit or loss – designated on initial recognition:</b>				
Equity investments	2,500,000	2,510,002	3,770,000	4,045,002
<b>Loans and receivables and cash balances</b>				
	15,660,509	12,051,495	20,700,113	13,328,354
<b>Total financial assets</b>	<b>18,160,509</b>	<b>14,561,497</b>	<b>24,470,113</b>	<b>17,373,356</b>
<b>Liabilities</b>				
<b>Financial liabilities measured at amortised cost</b>				
	(2,182,936)	(50,583)	(5,553,584)	(97,474)
<b>Total financial liabilities</b>	<b>(2,182,936)</b>	<b>(50,583)</b>	<b>(5,553,584)</b>	<b>(97,474)</b>

Loans and receivables and cash balances presented above represents cash balances and accrued interest and other receivables as detailed in the balance sheet.

Financial liabilities measured at amortised cost presented above represents accrued expenses and sundry creditors, guarantee payable, provision for calls under guarantee and bank loan, as detailed in the balance sheet.

## 10 Non-current assets

	2008		2007	
	Group £	Company £	Group £	Company £
Investment property	676,000	–	587,647	–
<b>Financial assets:</b>				
Secured loans	10,261,460	–	9,038,500	–
Unquoted equity investments	2,500,000	2,500,001	3,770,000	3,770,001
Investment in subsidiaries	–	10,001	–	275,001
	<b>13,437,460</b>	<b>2,510,002</b>	<b>13,396,147</b>	<b>4,045,002</b>

An external independent valuation company having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued, values the investment property based on market values.

The secured loans are secured by way of floating charge. The terms of secured loans are disclosed in note 19.

Unquoted equity investments comprises unrealised fair value gains of £2,500,000 (2007: £3,770,000) on two (2007: two) portfolio companies. Fair value is determined by the Directors, based on valuation techniques. The movement in unrealised gains/(losses) is reflected in the income statement being a loss of £1,270,000 (2007: gains of £3,770,000) in the year.

There were no realised capital gains in the year (2007: £207,479) in respect of investment property sales. There were no realised gains/(losses) on other investments of the Group (2007: net loss £6,243).

# Notes to the Financial Statements

For the year ended 31 January 2008

continued

## 11 Loan to subsidiary – EPIC Structured Finance Limited

	2008	2007
	<b>Company</b>	<b>Company</b>
	£	£
Loan to subsidiary	<b>14,027,020</b>	<b>12,668,475</b>

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

## 12 Cash at bank

	2008		2007	
	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
	£	£	£	£
Current and call accounts	2,944,914	101,841	274,471	3,875
Money market fund	–	–	2,557,006	485,998
Term deposit	1,983,065	–	8,319,035	–
	<b>4,927,979</b>	<b>101,841</b>	<b>11,150,512</b>	<b>489,873</b>

£1,983,065 (31 January 2007: £8,319,035) of the term deposit is charged in favour of the third party finance company to support the Group's commitment under a credit risk participation agreement (see Note 23).

The current and call accounts and money market fund have been classified as cash and cash equivalents in the Consolidated Statement of Cash Flows together with the uncharged part of the term deposit.

## 13 Bank loan

	2008	2007
	<b>Group</b>	<b>Group</b>
	£	£
Mortgage loan	<b>508,021</b>	<b>545,974</b>

The mortgage bank loan bears interest at 9.10% and is secured on investment property valued in the financial statements at £676,000 (2007: £587,647). The loan expiry date is May 2029.

## 14 Share capital

At 31 January 2008/2007	Number	£
<b>Authorised</b>		
Ordinary shares of 1p each	<b>50,000,000</b>	<b>500,000</b>
<b>Called up, allotted and fully paid</b>		
Ordinary shares of 1p each	<b>30,000,000</b>	<b>300,000</b>

# Notes to the Financial Statements

For the year ended 31 January 2008

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 2008 the Company had capital of £16,653,573 (2007: £19,504,176).

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 2008, although a subsidiary has a mortgage loan of £508,021 in relation to investment property (Note 13).

## 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.

## 16 Basic and diluted loss per share (pence)

Basic and diluted loss per share are calculated by dividing the loss for the year attributable to ordinary shareholders of £2,253,603 (2007: loss of £7,895,773) by the weighted average number of shares outstanding during the period of 30,000,000 (2007: 30,000,000).

## 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 £16,653,573 (2007: £19,504,176) divided by 30,000,000 shares (2007: 30,000,000 shares) in issue at the end of the year.

## 18 Note to the consolidated statement of cash flows

Reconciliation of net investment income to net cash inflows from operating activities:

	2008	2007
	£	£
Net investment income	1,042,447	1,372,392
Adjustment for loan settlement expenses	(13,346)	–
Movement in debtors and prepayments	40,031	(62,705)
Movement in accrued expenses	92,930	(302,763)
<b>Net cash flows from operating activities</b>	<b>1,162,062</b>	<b>1,006,924</b>

## 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, including the investment of surplus liquidity in a money market fund.

### 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 Adviser. The Investment Adviser is responsible for day to day management.

# Notes to the Financial Statements

For the year ended 31 January 2008

continued

## 19 Financial instruments (continued)

### 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 does not have sufficient liquid resources to meet any demands made under the credit risk participation agreement. 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 2008

Financial liabilities	Less than 1 month £	1-3 months £	3 months to 1 year £	1-5 years £	Over 5 years £	No stated maturity £
Accrued expenses and other creditors	214,820	–	–	–	–	–
Guarantee payable	–	–	–	–	–	–
Provision for call	–	1,460,095	–	–	–	–
Bank loan	–	–	–	–	508,021	–
<b>Total</b>	<b>214,820</b>	<b>1,460,095</b>	<b>–</b>	<b>–</b>	<b>508,021</b>	<b>–</b>

### 31 January 2007

Financial liabilities	Less than 1 month £	1-3 months £	3 months to 1 year £	1-5 years £	Over 5 years £	No stated maturity £
Accrued expenses and other creditors	103,701	–	–	–	–	–
Guarantee payable	–	250,000	–	–	–	–
Provision for call	–	4,653,909	–	–	–	–
Bank loan	–	–	–	–	545,974	–
<b>Total</b>	<b>103,701</b>	<b>4,903,909</b>	<b>–</b>	<b>–</b>	<b>545,974</b>	<b>–</b>

### 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.

Under the credit risk participation agreement (see Note 23), the Group is exposed to significant credit risk by way of its commitment to fund any credit losses on loans arranged by the Group. The total exposure of the Group as at 31 January 2008 under the credit risk participation agreement was £134,479 (2007: £2,745,550) net of provided loans. Under the credit risk participation agreement there were three investments in default at 31 January 2008 (2007: 5) in respect to some or all of their loans, for which provision has been made (see Note 23).

In addition the Group has advanced loans to a number of unquoted private companies which exposes the Group to significant credit risk (see Note 10). The impairment of loan portfolio charge in the Income Statement comprises £341,847 (2007: £5,802,965) in respect of impairment provisions against two secured loans during the year and nil (2007: £250,000) payable in respect of a guarantee on behalf of a portfolio company.

# Notes to the Financial Statements

For the year ended 31 January 2008

continued

## 19 Financial instruments (continued)

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

	2008	2007
	£	£
Secured loans	10,261,460	9,038,500
Cash balances	4,927,979	11,150,512
Accrued interest and other receivables	471,070	511,101
<b>Total</b>	<b>15,660,509</b>	<b>20,700,113</b>
<b>Exposure under the credit risk participation Agreement (Note 23)</b>	<b>1,983,065</b>	<b>8,319,035</b>

The secured 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 Adviser taking an active role in the management of the borrowing companies. As part of the Group's investment strategy, loans and investments are made in companies that are in a recovery phase and therefore carry a relatively high risk of default – which is reflected in the interest rates charged and equity rights taken.

As at the 31 January 2008 there are secured loans to four companies. Therefore, the Group is exposed to concentration risk relating to these loans.

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

### 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 in the balance sheet comprised two holdings – representing the unrealised fair value gains on those portfolio companies (2007: 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 accounts for 15% (2007: 19%) of net assets. A 5% increase in the value of these investments as at 31 January 2008 would have increased net assets by £125,000 (2007: £188,500); 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 15% and are repayable as follows:

	Principal	Interest Rate	Maturity
	£		
Past Times Ltd	7,750,000	15%	22 December 2008
Morada Home Ltd	863,000	15%	19 September 2008
Autocue Group Ltd	875,000	15%	31 December 2015
Kemutec	773,464	15%	31 December 2016

# Notes to the Financial Statements

For the year ended 31 January 2008

continued

## 19 Financial instruments (continued)

### Interest rate risk (continued)

The table below summarises the Group's exposure to interest rate risk. 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:

31 January 2008

<b>Assets</b>	Less than 1 month £	1-3 months £	3 months to 1 year £	1-5 years £	Over 5 years £	Non- interest bearing £	Total £
<b>Designated at fair value through profit or loss</b>							
Equities	–	–	–	–	–	2,500,000	2,500,000
<b>Loans and receivables</b>							
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
<b>Total financial assets</b>	<b>12,677,979</b>	<b>–</b>	<b>863,000</b>	<b>773,460</b>	<b>875,000</b>	<b>2,971,070</b>	<b>18,160,509</b>
<b>Liabilities</b>							
<b>Financial liabilities measured at amortised cost</b>							
Accrued expenses and other creditors	–	–	–	–	–	(214,820)	(214,820)
Provision for call	–	–	–	–	–	(1,460,095)	(1,460,095)
Bank loan	–	–	–	–	(508,021)	–	(508,021)
<b>Total financial liabilities</b>					<b>(508,021)</b>	<b>(1,674,915)</b>	<b>(2,182,936)</b>
<b>Total interest rate sensitivity gap</b>	<b>12,677,979</b>	<b>–</b>	<b>863,000</b>	<b>773,460</b>	<b>366,979</b>		

# Notes to the Financial Statements

For the year ended 31 January 2008

continued

## 19 Financial instruments (continued)

### Interest rate risk (continued)

31 January 2007

Assets	Less than 1 month £	1-3 months £	3 months to 1 year £	1-5 years £	Over 5 years £	Non- interest bearing £	Total £
<b>Designated at fair value through profit or loss</b>							
Equities	–	–	–	–	–	3,770,000	3,770,000
<b>Loans and receivables</b>							
Secured loans	–	–	7,613,500	750,000	675,000	–	9,038,500
Accrued interest and other debtors	–	–	–	–	–	511,101	511,101
Cash	2,831,477	–	–	–	–	–	2,831,477
Committed cash	8,319,035	–	–	–	–	–	8,319,035
<b>Total financial assets</b>	<b>11,150,512</b>	<b>–</b>	<b>7,613,500</b>	<b>750,000</b>	<b>675,000</b>	<b>4,281,101</b>	<b>24,470,113</b>
<b>Liabilities</b>							
<b>Financial liabilities measured at amortised cost</b>							
Accrued expenses and other creditors	–	–	–	–	–	(103,701)	(103,701)
Guarantee payable	–	–	–	–	–	(250,000)	(250,000)
Provision for call	–	–	–	–	–	(4,653,909)	(4,653,909)
Bank loan	–	–	–	–	(545,974)	–	(545,974)
<b>Total financial liabilities</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(545,974)</b>	<b>(5,007,610)</b>	<b>(5,553,584)</b>
<b>Total interest rate sensitivity gap</b>	<b>11,150,512</b>	<b>–</b>	<b>7,613,500</b>	<b>750,000</b>	<b>129,026</b>	<b>–</b>	<b>–</b>

### 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. It is not practicable to determine fair value for these loans.

## 20 Directors' interests

None of the Directors had any interests in the shares of the Company as at 31 January 2008 (2007: £Nil).

# Notes to the Financial Statements

For the year ended 31 January 2008

continued

## 21 Related parties

Investment advisory fees amounting to £217,685 (2007: £345,518) were payable to the Manager calculated in accordance with the Investment Advisory Agreement, of which £16,745 (2007: £19,672) was outstanding as at 31 January 2008. 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 (2007: £36,633) were payable to Numis Securities Limited, of which £3,750 (2007: £15,000) was paid in advance as at 31 January 2008.

Lehman Brothers, a significant shareholder, have rights to 20%, subject to costs, of the performance fee due to the Manager.

## 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 11 October 2004 the Company incorporated EPIC Reconstruction Property Limited in England and Wales, with paid up share capital of £275,100. During the year this company was liquidated.

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

## 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. Provision is made for any loans which are considered impaired and hence the commitment to fund the related credit losses will be called. As at 31 January 2008 provisions of £1,460,095 have been established against the loans (2007: £4,653,909). Total calls under the agreement in the year, charged to the Income Statement amounted to £1,754,360 (2007: £7,413,794).

Under the terms of the credit risk participation agreement, the Group must retain a minimum amount in a security account, which is charged in favour of Eurosales, to support the Group's commitment under the agreement. As at 31 January 2008, £1,983,065 (31 January 2007: £8,319,035) of the term deposit was charged in favour of Eurosales.

# Shareholder Information

## Schedule of shareholders holding over 3% of issued shares

### Shares

	<b>Holdings</b>	<b>%</b>
Lehman Brothers Nominees Limited	11,000,000	36.67
Brit Insurance Holdings Limited	5,000,000	16.67
Nortrust Nominees Limited	3,000,000	10.00
BNY (OCS) Nominees Limited	2,440,000	8.13
Numis Nominees Limited	1,726,048	5.75
Littledown Nominees Limited	1,190,476	3.97
Harewood Nominees Limited	1,044,314	3.48
HSBC Global Custody Nominee (UK)	933,878	3.11
	<b>26,334,716</b>	<b>87.78</b>

# Notes

# Company Information

## Directors

GO Vero (*Chairman*)  
RBM Quayle  
CL Spears  
NV Wilson

## Secretary

Mr P. P. Scales

## Registrar and Registered Office

IOMA Fund and Investment  
Management Limited  
IOMA House  
Hope Street  
Douglas  
Isle of Man IM1 1AP  
Tel. 01624 681250  
Fax 01624 681392

## Nominated Advisor and Broker

Numis Securities Limited  
10 Paternoster Square  
London EC4M 7LT

## Bankers

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

## Investment Advisor

EPIC Private Equity Limited  
22 Billiter Street  
London EC3M 2RY

## Auditors and Reporting Accountants

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

## Crest Provider

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

