EPE Special Opportunities plc

Report & Accounts | **January 2011**

Contents

Biographies of the Directors

Geoffrey Vero FCA

Geoffrey Vero 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. He is also a non-executive director of Numis Corporation plc and Chairman of Albion Development VCT plc.

Clive Spears

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 a Member of the Chartered Institute for Securities & Investment. He has accumulated a well spread portfolio of directorships centering on private equity, property and corporate debt. His appointments currently include Chairman of Nordic Capital Limited and he sits on the board of Jersey Finance Limited.

Robert Quayle

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 is Chairman of Isle of Man Steam Packet Co Limited and Neville James International Funds PCC plc. His directorships include 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

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 Qatar Investment Fund plc. He is resident in the Isle of Man.

Profile of Investment Advisor

EPIC Private Equity LLP ("EPE") was founded in June 2001 and is independently owned by its Partners. EPE focuses on niche investment opportunities throughout the UK with a focus on special situations, distressed, growth and buyout transactions. EPE has completed over 42 transactions in ten years resulting in its current portfolio of businesses with combined turnover of more than £270m and £45m 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 the founder of EPE. He is currently a non-executive director of a number of portfolio companies: Pinnacle Regeneration Group, a social housing group and PFI manager; Nexus Industries, an electrical and wiring accessories business; Pharmacy2U, an online pharmacy business; and Palatinate Schools, a group of private nurseries, pre-preparatory and preparatory schools. Before joining EPE he spent five years working in M&A at Baring Brothers in both Paris and London. Giles read History at Bristol University.

Alex Leslie worked in Healthcare Investment Banking at Piper Jaffray before joining EPE. Whilst at Piper Jaffray he worked on a number of M&A transactions and equity fundraisings within the Biotechnology, Specialty Pharmaceutical and Medical Technology sectors. Alex read Human Biological and Social Sciences at Oxford University and obtained an MPhil in Management from the Judge Business School at Cambridge University.

Charles Vivian previously worked as an Investment Manager at Marwyn Capital, a fund manager specialising in listed, small cap buy-and-build investment strategies, where he led numerous acquisitions and disposals as well as managing the investments in portfolio companies. Prior to Marwyn, Charles worked for over six years as an associate at international law firm Freshfields Bruckhaus Deringer, where he specialised in public and private M&A and capital markets and completed an 18 month secondment at UBS Investment Bank. Charles read Law at Cambridge University.

James Henderson worked in the Investment Banking division at Deutsche Bank before joining EPE. 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. He manages the Company's investments in Indicia, Pharmacy2U and Ryness. He is currently a non-executive director of Indicia, an integrated marketing services provider and digital marketing agency. James read Modern History at Oxford University and Medicine at Nottingham University.

Alastair Seaman worked at private equity investor and fund management business SVG Capital before joining EPE in 2009. Whilst at SVG Capital, he worked on the structuring, development and distribution of new, in-house private equity-related investment products. He is currently a non-executive director of Bighead Bonding Fasteners, a manufacturer of specialist fasteners. Prior to SVG Capital, he gained intern experience at J.P. Morgan Cazenove. Alastair read Classics at Cambridge University.

Joe Wilson worked as a Strategy and Business Development Manager at Betfair before joining EPE. Whilst at Betfair he led global planning and forecasting for sports, identifying opportunities for growth in customer segments, geographical regions and new sport categories. Prior to Betfair, Joe worked as a Business Analyst at McKinsey & Co., where he worked across a wide range of industries on strategic and operational projects. He manages the Company's investments in Evolving, Past Times and Whittard of Chelsea. Joe read Economics and Management at Oxford University.

Chairman's Statement

The twelve months since January 2010 have once again presented a challenging and continually uncertain economic environment for the Company. Uncertainty surrounding May's general election and the installation of a Coalition Government did little to quell rising fears over the UK economy, whilst the subsequent announcement of fiscal tightening adversely impacted the prospects for an expeditious economic recovery. Meanwhile, rising unemployment, falling house prices and consistently above-target inflation have continued to impact consumers at a time when banks are still reluctant to extend credit. These conditions remain highly conducive to one leg of the Company's investment strategy, special situations investing, but equally demanding for the Company's portfolio assets.

Whilst the economic backdrop has presented the Company with opportunities and challenges in equal measure, the acquisition of a majority interest in the private equity portfolio from The Equity Partnership Investment Company plc ("EPIC plc") in August 2010 transformed the complexion of the Company to the significant benefit of shareholders. Prior to the acquisition, the Company's portfolio consisted of four trading private equity assets, predominantly weighted towards the UK retail sector, whilst the Company's strategy was solely focused on distressed and special situation scenarios. Following the acquisition, the Company has increased its ownership of trading private equity assets from four to thirteen, enhancing its sector, stage and vintage diversification, whilst the Company's investment mandate has expanded to incorporate the Investment Advisor's historic investment strategy across special situations, distressed, growth and buyout transactions.

The introduction of a £10.0 million equity investment by the European Secondary Development Fund IV LP ("ESD") in order to part finance the acquisition also advanced the ownership structure of the Company, resulting in all of the Company's current private equity assets (with the exception of Process Components) being held in a new Limited Partnership, ESO Investments 1 LP (the "Fund"). As part of the transaction, the Company agreed to commit an additional £2.0 million to the Fund by way of follow-on investment into the current portfolio, pro rata with its holding in the Fund, with ESD therefore committing a total of £0.8 million for this purpose. Going forward, Process Components, together with any new platform investments, will be held in a separate Limited Liability Partnership vehicle, ESO Investments 2 LLP, in which the Company is a sole investor.

Since the date of the acquisition, the portfolio has performed satisfactorily, with a number of investments outperforming budget. Adverse, and at times extreme, weather conditions over the Christmas period, however, tarnished the year end performance of the portfolio as a whole, with both Past Times and Whittard delivering below budget performance in what was an extraordinarily challenging December for UK retail sales. The companies reacted differently to the weather, however, with Whittard achieving year end figures that continue what has been an impressive turnaround under the Company's ownership, with 10% like-for-like sales growth during 2010. Performance at both of these companies is now at or around budget within the context of an extremely difficult climate for the UK retail sector and the Investment Advisor is progressing a number of initiatives, including the closure of a number of underperforming stores and investment in the web channel, to enable Past Times to improve its performance over the coming financial year.

For the full financial year ended 31 January 2011, the Group reported gross income of £1.1 million. This translated to net income for the Group of £0.4 million. Total capital gains were £3.0 million, which translated to a net asset value per share as at 31 January 2011 for the Group of 79.21 pence, an increase of 9.3% on the net asset value per share of 72.47 pence for the half year ended 31 July 2010. Shares issued during the year to EPIC plc and EPIC Private Equity LLP ("EPE"), together with the costs of issuing and readmitting these shares, diluted the Group's net asset value per share by 3.6 pence.

The Directors consider that addressing the imbalance between the market price for Ordinary Shares and net asset value is important. The Directors intend to utilise the mechanism of share repurchases to enhance the net asset value per share, whilst the Investment Advisor will continue to engage with both new and existing shareholders in order to enhance liquidity and narrow the discount between the share price and the net asset value per share.

The Directors do not recommend a dividend in respect of the year ended 31 January 2011. The need to service an annual interest payment on £10.0 million of Convertible Loan Notes and the desire to consider both share repurchases in order to manage the discount to Net Asset Value and attractive bolt-on and platform acquisition opportunities, all combine to make the preservation of healthy cash balances at the Company a primary objective of the Directors.

Once again, I would like to thank the Investment Advisor, EPE, as well as my fellow Directors and professional advisors, for their considerable efforts over the last twelve months. I look forward to updating you on developments at the half year.

Geoffrey Vero
Chairman
26 April 2011

Investment Advisor's Report

In the twelve month period since 31 January 2010, considerable time and effort was employed in successfully acquiring the private equity portfolio of EPIC plc on 31 August 2010. Subsequent to the acquisition, the Investment Advisor has focused on maintaining and creating value from within the existing portfolio, whilst at the same time seeking out new opportunities by way of platform or bolt-on investment opportunities. All new investments will be made via ESO Investments 2 LLP, in which the Company is the sole investor. In addition, the Investment Advisor continues to explore opportunities for adding value to the current portfolio through revenue enhancing and cost saving initiatives as well as seeking to identify appropriate management to optimise performance. Within the context of the current economic climate, the importance of these initiatives is clearly acutely felt.

Since the date of the acquisition, the portfolio has performed satisfactorily, with a number of investments outperforming budget. However, an extraordinarily cold December impacted the year end performance of the portfolio as a whole, and Past Times in particular, which delivered below budget figures given its reliance on Christmas trading. Nevertheless, Q1 trading at Past Times has stabilised and the Investment Advisor is instigating a number of measures to prevent a repeat performance in 2011, including store closures, overhead reduction and expansion of the web offering. Whittard, which also delivered a below budget performance but continued its successful turnaround at the EBITDA level, will focus on diluting its reliance on UK trading through a planned expansion of its international and wholesale operations.

The Company also completed the bolt-on acquisitions of two small companies into Morada Home in a continued effort to reduce the business' reliance on public sector-driven revenue streams. The two companies, Gradus Fabrics and SJ Clarke (completed in July and August 2010, respectively), should significantly boost Morada Home's sales in the care homes, universities and hotel sectors. Process Components is also being readied for sale, with indicative offers received from both trade and financial sponsor buyers in January. Elsewhere in the portfolio, Nexus finished the year to 31 December 2010 ahead of budget, with the Chinese factory operations (Jiaxing) continuing to ramp up. Indicia also performed well over the same period, beating its EBITDA budget despite a tough year for its sector, where customer marketing budgets remain constrained and mergers and acquisitions activity continues to cause uncertainty within marketing departments. Indicia continues to target digital acquisitions with strong cross-selling potential.

The net asset value per share as at 31 January 2011 for the Company was 79.21 pence, calculated on the basis of 30.8 million ordinary shares. Investment highlights from the inception of the Company to date include:

- deployed £62 million of capital and returned over £33 million to the Company in capital and income;
- generated gross income of £15 million and paid dividends of £5 million;
- the Portfolio, since inception, is valued at a gross 1.2x money multiple and the Company at 0.9x money multiple, net of all costs.

Uncertainty persists in the wider UK economy, with the strong pace of GDP growth through the second and third quarter of 2010 contrasted sharply by the fourth quarter's contraction and January 2011's sharp rises in inflation. Debt finance remains in scarce supply, reserved largely for better-performing and asset-rich companies, with banks primarily focused on rebuilding their balance sheets as opposed to new primary lending. The period has therefore continued to be one of consolidation for the Company with a positive focus on creating value in the core investments.

Investment Strategy

The Investment Advisor believes that the current economic environment continues to create a wide range of investment opportunities. As a result, the Investment Advisor continues to engage actively with the wider restructuring and advisory community in communicating the Company's investment strategy. Following the acquisition, the Company seeks to target growth and buyout opportunities, as well as special situations and distressed transactions, making investments where it believes pricing to be attractive and the potential for value creation strong. The Company will continue to target the following types of investments:

- Special situations where the Investment Advisor believes that assets are undervalued due to specific, event-driven circumstances. Target companies may or may not be distressed as a result of the situation. The Investment Advisor will aim to use its restructuring and refinancing expertise to resolve the situation and achieve a controlling position in the target company.
- Distressed companies where asset-backing may be available and the opportunity exists for recovery and significant upside. These transactions may involve target companies with a substantial asset base providing the Company with considerable downside protection. The Company seeks to acquire distressed debt, undervalued equity or the assets of target businesses in solvent or insolvent situations.
- Public companies either backing management to acquire and de-list the company or buying ordinary equity in a listed business. The Company may consider making investments in a number of smaller companies, primarily ones whose shares are admitted to AIM, being companies with a market capitalisation in the region of £1 million to £5 million. It is anticipated that these transactions would involve the acquisition of the entire issued share capital of such companies. The Company may offer ordinary sharesas all or part of the consideration for such investments.
- Growth, buyout and pre-IPO opportunities, leveraging the Investment Advisor's investment experience, contacts and ability.

The Company will consider most industry sectors, including consumer, retail, manufacturing, financial services, healthcare, support services and media. The Company partners with management and entrepreneurs to maximise value by combining financial and operational expertise in each investment.

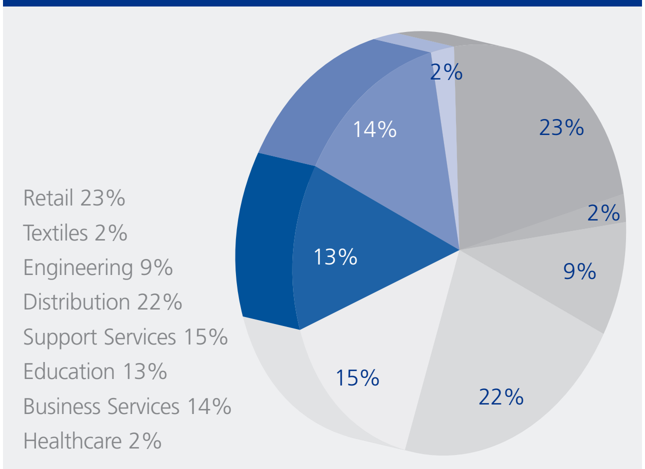
The Company will seek to invest between £2 million and £10 million in a range of debt and equity instruments with a view to generating returns through both yield and capital gain. Whilst in general the Company aims to take controlling equity positions, it may seek to develop companies as a minority investor. Occasionally the Board may authorise investments of less than £2 million. For investments larger than £5 million, the Company may seek co-investment from third parties.

From a portfolio management perspective, the Company aims to continue its strategic focus of seeking to exit the smaller investments and grow the core portfolio (by value) by way of both organic and acquisition-led growth. In addition to reinvestment behind the core portfolio, the Company intends to allocate capital either to new deals or share repurchases where the opportunity for an enhancement in net asset value per share is compelling.

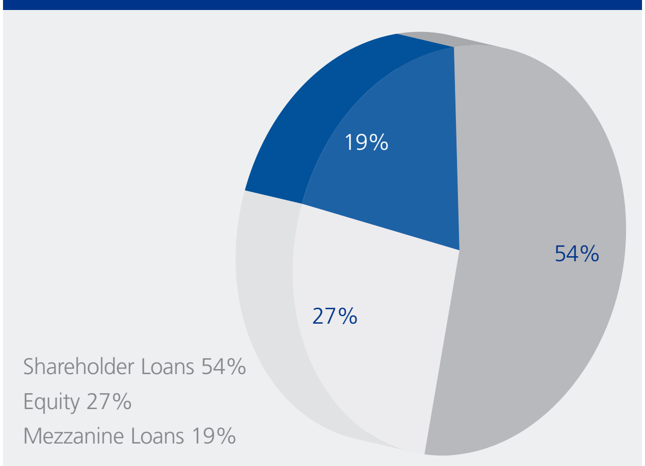
Portfolio Diversification

Following the acquisition, the Company's ownership of trading private equity assets increased from four to thirteen. The Company's current portfolio, as at 31 January 2011, is diversified by sector and instrument as follows:

Sector Diversification



Instrument Diversification



Current Portfolio

Current Portfolio: ESO Investments 2 LLP

Process Components

Process Components is an engineering parts and equipment supplier. It was formed in June 2009 after a significant industry cut-back in capital expenditure programmes forced a secondary restructuring of Kemutec, formerly a manufacturer of mixing and sifting equipment for the chemical, pharmaceutical and food industries that was originally purchased by the Company in March 2005. Previously constrained by its parent, the new business now supplies higher margin products from a significantly lower cost base. The business is currently trading ahead of budget at both the sales and EBITDA level, with credit terms improving with key suppliers and the new operations successfully bedded down.

Current Portfolio: ESO Investments 1 LP

Nexus Industries

Nexus Industries ("Nexus") is a manufacturer and distributor of electrical accessories in the UK, operating under the brand names Masterplug, British General and Ross, and supplies to both the retail and wholesale markets. The business is now deleveraging and performing well despite the current market conditions, with both year end December 2010 sales and EBITDA above budget. The construction of a large freehold factory located in mainland China has recently been completed and this is expected to drive both margin improvement and sales growth over the next three to four years. However, copper price rises, hitting an all time high in January, remain a concern for the business, as does demand from UK consumers.

Pinnacle Regeneration Group

Pinnacle Regeneration Group ("PRG") is a diversified social housing services business. The core facilities management business serves the public sector social housing market. PRG also owns an employment and skills business, Pinnacle People, and a Private Finance Initiative ("PFI") bidding vehicle, Regenter, a joint venture with Laing. PRG finished the year marginally behind sales budget but ahead of EBITDA budget. The Investment Advisor remains cautiously optimistic that, given Treasury-related funding constraints, outsourcing of project bidding to the private sector will become more common, even if margins decrease. Sector concerns remain, however, after the demise of some quoted comparables.

Palatinate Schools

Palatinate Schools ("Palatinate") operates a group of private preparatory, pre-preparatory and nursery schools based in Central London. The schools have good prestige value and pupil growth is anticipated to remain robust, which will drive sales growth. The Investment Advisor manages Palatinate alongside other private equity investors. 2010 August year end performance was solid, although growth was limited. Significant potential exists to drive organic growth via improved branding and advertising.

Whittard of Chelsea

Whittard of Chelsea, a specialist retailer of tea and coffee, was acquired in December 2008. The initial restructuring of the business was completed in the first half of 2009, with the number of stores and overhead base both significantly reduced and new branding now commencing roll-out into the stores and product packaging. 2010 saw a difficult end to trading with the extreme weather conditions affecting key trading in the run-up to Christmas. Nevertheless, after sales were up 10% like-for-like on the previous year, 2011 growth will be driven by the launch of a new website, whilst significant potential exists to develop both the wholesale and international franchising sides of the business.

Indicia

Indicia is a direct marketing business focussed on database and multi-channel analytics. Indicia was formed through the acquisition and consolidation of three separate businesses and is currently in discussions with several parties with regard to the purchase of a digital and market research business to complement its existing database build, analysis and direct marketing portfolio of services. Despite a tough year for the sector, the Company finished the year to December 2010 marginally behind sales budget, although EBITDA was comfortably ahead of budget and significantly ahead of 2009 levels.

Past Times

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. During the initial phase of the turnaround, Past Times underwent a major restructuring process, with the number of stores significantly reduced, the head office cost base reduced, and the product range improved. However, the good progress made in 2009 has slipped back in 2010 and the business concluded the year with a very challenging fourth quarter owing to extreme weather conditions, with sales and EBITDA both behind budget. 2011 will focus on an expansion of proven growth areas, such as the web and temporary stores, coupled with a re-focus on core stores and commensurate closure of under-performing stores.

Bighead Bonding Fasteners

Bighead Bonding Fasteners ("Bighead") is a specialist engineering business, manufacturing specialist load-spreading fasteners and fixings for composites, plastics and traditional materials. December 2010 year end performance was impressive, with EBITDA significantly ahead of budget. The Investment Advisor, over the long-term, aims to replicate Bighead's local success in high-end niche applications by establishing an international network of distributors for the company's products.

Pharmacy2U

Pharmacy2U is an online pharmacy business, delivering National Health Service and private prescriptions direct to the home using an innovative, in-house developed technology, Electronic Prescription Service ("EPSr2"). The business has experienced significant sales growth since inception. Sales were in line with budget for the nine months to January 2011, although EBITDA was significantly ahead of budget. Long range performance remains reliant on the expected roll-out of EPSr2.

Morada Home

In 2005, the Company backed a management buyout of the Morada Home business from the administration of Morada International. The business was originally focussed solely 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. To that end, the Company recently completed the bolt-on acquisitions of Gradus Fabrics and SJ Clarke (completed in July and August 2010, respectively) into Morada Home, significantly diversifying the group's sales base and enhancing the business' presence in the care homes, universities and hotel sectors.

Evolving Media

Evolving Media is a young and growing integrated digital marketing agency, based in Bedford, UK and providing digitally-focussed marketing solutions to a range of clients. Sales for the full year to December 2010 were ahead of budget, although EBITDA was behind budget. The Investment Advisor is currently focussed on establishing a London office in order to drive business and product development and recruitment. Evolving Media will focus in 2011 on improving profitability from current clients, whilst selectively targeting new business.

Ryness

Ryness is a London-based electrical retail and wholesaler, focused on light bulbs, lighting and small electrical goods, operating from 17 locations across London. The investment follows a buy-and-build strategy, with two bolt-on investments of electricals businesses completed in 2008. The Investment Advisor is currently actively searching for further trade counter acquisitions, which it believes should be available at attractive prices owing to the market downturn. Full year results to December 2010 were below budget at both sales and EBITDA level. Nevertheless, the wholesale customer base continues to grow with strong recent wins including the Hilton Group's UK business.

Driver Require

Driver Require is a recruitment company for commercial drivers across all major vehicle categories, based in Stevenage, UK. The recession had a significant impact on the transport sector and Driver Require's target market was particularly affected.

However, trading stabilised in the year to December 2010 with the Company once again reaching break-even. The Investment Advisor is currently actively pursuing bolt-on investments and identifying new office sites in its attempt to grow the business in anticipation of an expected market recovery.

Valuation Methodology

The Company values its investments with reference to the BVCA guidelines which state that portfolio companies should be valued on an 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. Cost may be considered as fair value in some cases but assets will always be held at fair value, whether this is at, above or below cost, and the value of such assets will be reviewed periodically to ensure that such is the case.

The Investment Advisor intends to announce an estimated net asset value per ordinary share on a monthly basis following a review of the valuation of the Company's investments. The Company has always endeavoured to comply with industry-standard guidelines and, as the Fund will be applying the International Private Equity and Venture Capital Valuation Guidelines, for consistency the Board will consider adopting these guidelines going forward. The Company believes that there is unlikely to be any material effect on the valuation process as a result of such a change. The Investment Advisor adopts a conservative approach to valuation with reference to the aforementioned methodology but also having regard for ongoing volatile market conditions, particularly in the UK retail sector, and credit restraints.

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") and its associate is to arrange income yielding financing for growth, buyout and special situations and holding the 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 24.

Results of the financial year

Results for the year are set out in the Company and Consolidated Statements of Comprehensive Income on pages 16 and 17 and in the Company and Consolidated Statements of Changes in Equity on pages 20 and 21.

Distribution and Dividends Policy

The Board does not recommend a dividend in relation to the current year (see Note 8 for further details).

Corporate Governance Principles

As an Isle of Man registered company and under the AIM rules for companies, the Company is not required to comply with the UK Corporate Governance Code 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 that they consider appropriate, taking into account the size of the Company and nature of its operations.

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 agrees on the level of Directors' fees.

Composition of the Board

The Board currently comprises four non-executive members all of whom are independent non-executive directors. Geoffrey Vero is Chairman of the Company, Clive Spears is the Chairman of the Risk and Audit Committee and Nicholas Wilson is Chairman of the Investment Committee.

Risk and Audit Committee

The activities of the Risk and Audit Committee continued, members of which are Clive Spears (Chairman of the Committee) and all the other Directors. The Risk and Audit Committee provides a forum through which the Company's external auditors report to the Board.

The Risk and Audit Committee meets twice a year, at a minimum, 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 in maintained and for reviewing annual and interim financial statements of the Company before their submission for approval by the Board. The Risk and Audit Committee adopted and complied with the extended terms of reference implemented on the Company's readmission in August 2010.

The Board is satisfied that the Risk and 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 Advisor.

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 40. The Directors are not aware of any other holdings greater than 3% of issued shares.

Directors

The Directors of the Company holding office during the financial year and to date are:
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 2011 was Mr. P.P. Scales.

Staff

At 31 January 2011 the Group employed no staff (2010: 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
26 April 2011

Statement of Directors' Responsibilities

in respect of the Directors' Report and the Financial Statements

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

Company law requires the Directors to prepare Group and Parent Company 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 Parent Company and of the profit or loss of the Group and Parent Company 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 they have been prepared in accordance with International Financial Reporting Standards; 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 its financial statements comply with the 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation governing the preparation and dissemination of financial statements may differ from one jurisdiction to another.

Report of the Independent Auditors, KPMG Audit LLC, to members of EPE Special Opportunities plc

We have audited the financial statements of EPE Special Opportunities plc for the year ended 31 January 2011 which comprise the Consolidated and Parent Company Statements of Comprehensive Income, the Consolidated and Parent Company Statements of Assets and Liabilities, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statements of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs).

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 Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 13, the Directors are responsible for the preparation of financial statements that give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Qualified opinion on the Group financial statements resulting from disagreement about accounting treatment

As stated in Note 3(a) 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.

In our opinion, due to the non-inclusion of the results of controlled portfolio companies in the consolidated financial statements as referred to above, the financial statements:

- do not show a true and fair view of the state of the Group's affairs as at 31 January 2011 and of the Group's profit for the year then ended; and
- have not been properly prepared in accordance with IFRSs.

Unqualified opinion in respect of the separate financial statements of the Parent Company

In our opinion the financial statements:

- give a true and fair view of the state of the Parent Company's affairs as at 31 January 2011 and of the Parent Company's profit for the year then ended;
- have been properly prepared in accordance with IFRSs; and
- have been properly prepared in accordance with the provisions of Companies Acts 1931 to 2004.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Acts 1931 to 2004 require us to report to you if, in our opinion:

- proper books of account have not been kept by the Parent Company and proper returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company's Statement of Assets and Liabilities and Statement of Comprehensive Income are not in agreement with the books of account and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

KPMG Audit LLC
Chartered Accountants
Heritage Court
41 Athol Street
Douglas
Isle of Man IM99 1HN
26 April 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 January 2011

Note		Revenue £	Capital £	31 January 2011 Total £	31 January 2010 Total £
	Income				
	Rental income	63,800	-	63,800	58,484
4	Interest income	1,047,773	-	1,047,773	1,326,742
	Total income	**1,111,573**	**-**	**1,111,573**	**1,385,226**
	Expenses				
5	Investment advisor's fees	(230,933)	-	(230,933)	(360,451)
5	Administration fees	(44,319)	-	(44,319)	(30,000)
6	Directors' fees	(100,000)	-	(100,000)	(90,629)
	Directors' and Officers' insurance	(11,813)	-	(11,813)	(10,350)
	Professional fees	(65,204)	-	(65,204)	(182,860)
	Board meeting and travel expenses	(4,997)	-	(4,997)	(10,623)
	Auditors' remuneration	(28,636)	-	(28,636)	(29,697)
	Bank charges	(536)	-	(536)	(533)
	Irrecoverable VAT	(122,209)	-	(122,209)	(105,146)
	Sundry expenses	(95,192)	-	(95,192)	(61,935)
	Nominated advisor and broker fees	(32,054)	-	(32,054)	(20,649)
	Total expenses	**(735,893)**	**-**	**(735,893)**	**(902,873)**
	Net income/(expense)	**375,680**	**-**	**375,680**	**482,353**
	Gains/(losses) on investments				
	Net realised losses on secured loans	-	(50,000)	(50,000)	-
9	Movement in fair value of investments at fair value through profit or loss	-	1,099,365	1,099,365	(750,000)
9	Revaluation of investment property	-	(14,690)	(14,690)	(14,592)
	Gain/(loss) for the year on investments	**-**	**3,024,121**	**3,024,121**	**(764,592)**
	Finance charges				
15	Interest on mortgage loan	(26,823)	-	(26,823)	(28,514)
15	Interest on convertible loan note instruments	(317,919)	-	(317,919)	-
	Profit/(loss) for the year before taxation	**30,938**	**3,024,121**	**3,055,059**	**(310,753)**
7	**Taxation**	**-**	**-**	**-**	**-**
	Profit/(loss) for the year	**30,938**	**3,024,121**	**3,055,059**	**(310,753)**
	Other comprehensive income	-	-	-	-
	Total comprehensive income/(loss)	**30,938**	**3,024,121**	**3,055,059**	**(310,753)**
18	**Basic and diluted earnings/(loss) per ordinary share (pence)**	**0.11**	**10.67**	**10.78**	**(1.59)**

The total column of this statement represents the Group Statement of Comprehensive Income, prepared in accordance with IFRSs. 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 24 to 39 form an integral part of these financial statements.

Company Statement of Comprehensive Income

For the year ended 31 January 2011

Note		Revenue	Capital	31 January 2011 Total	31 January 2010 Total
		£	£	£	£
	Income				
	Interest income	34,454	-	34,454	2,045
4	Dividend income from subsidiaries	-	-	-	1,048,055
	Total income	**34,454**	**-**	**34,454**	**1,050,100**
	Expenses				
5	Investment advisor's fees	(225,357)	-	(225,357)	(358,184)
5	Administration fees	(44,319)	-	(44,319)	(30,000)
6	Directors' fees	(95,000)	-	(95,000)	(80,629)
	Directors and Officers' insurance	(11,813)	-	(11,813)	(10,350)
	Professional fees	(65,204)	-	(65,204)	(182,860)
	Board meeting and travel expenses	(4,997)	-	(4,997)	(10,623)
	Auditors' remuneration	(37,759)	-	(37,759)	(22,000)
	Bank charges	(344)	-	(344)	(321)
	Irrecoverable VAT	(119,218)	-	(119,218)	(103,650)
	Sundry expenses	(81,662)	-	(81,662)	(49,340)
	Nominated advisor and broker fees	(36,755)	-	(36,755)	(20,649)
	Total expenses	**(722,428)**	**-**	**(722,428)**	**(868,606)**
	Net income/(expense)	**(687,974)**	**-**	**(687,974)**	**181,494**
	Gains/(losses) on investments				
	Share of profit of equity accounted investee	-	1,989,446	1,989,446	-
	Net realised gains/(losses) on investments	-	1,179,762	1,179,762	-
9	Movement in fair value of investments at fair value through profit or loss	-	-	-	(750,000)
10	Movement in fair value of investments in subsidiaries at fair value through profit or loss	-	891,744	891,744	257,753
	Gain/(loss) for the year on investments	**-**	**4,060,952**	**4,060,952**	**(492,247)**
	Finance charges				
15	Interest on convertible loan note instruments	(317,919)	-	(317,919)	-
7	**Profit/(loss) for the year before taxation**	**(1,005,893)**	**4,060,952**	**3,055,059**	**(310,753)**
	Taxation	**-**	**-**	**-**	**-**
	Profit/(loss) for the year	**(1,005,893)**	**4,060,952**	**3,055,059**	**(310,753)**
	Other comprehensive income	-	-	-	-
	Total comprehensive income/(loss)	**(1,005,893)**	**4,060,952**	**3,055,059**	**(310,753)**
	Basic and diluted earnings/(loss) per ordinary share (pence)	**(3.55)**	**14.33**	**10.78**	**(1.59)**

The total column of this statement represents the Company Statement of Comprehensive Income, prepared in accordance with IFRSs. 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 24 to 39 form an integral part of these financial statements.

Consolidated Statement of Assets and Liabilities

At 31 January 2011

Note		31 January 2011 £	31 January 2010 £
	Non-current assets		
9	Investment property	470,718	485,408
9, 10	Financial assets	2,494,987	14,796,452
9, 10	Investment in equity accounted investee	27,659,601	-
10, 13	Loans to equity accounted investee and related companies	1,473,678	-
		32,098,984	**15,281,860**
	Current assets		
10, 12	Cash and cash equivalents	3,502,811	3,542,388
10	Trade and other receivables	67,758	1,220,939
10, 12	Committed cash balances	-	5,407
		3,570,569	**4,768,734**
	Current liabilities		
10, 14	Trade and other payables	(918,057)	(219,994)
		(918,057)	**(219,994)**
	Net current assets	**2,652,512**	**4,548,740**
	Non-current liabilities		
10, 15	Convertible loan note instruments	(9,880,429)	-
10, 15	Bank loan	(470,718)	(485,408)
		(10,351,147)	**(485,408)**
	Net assets	**24,400,349**	**19,345,192**
	Equity		
16	Share capital	1,544,583	1,327,075
17	Share premium	1,815,385	-
	Capital reserve	(12,436,945)	(15,461,066)
	Revenue reserve	33,477,326	33,479,183
	Total equity	**24,400,349**	**19,345,192**
	Net asset value per share (pence)	**79.21**	**72.89**

The financial statements were approved by the Board of Directors on 26 April 2011 and signed on its behalf by:

Geoffrey Vero
Chairman

Nicholas Wilson
Director

The notes on pages 24 to 39 form an integral part of these financial statements.

Company Statement of Assets and Liabilities

At 31 January 2011

Note		31 January 2011 £	31 January 2010 £
	Non-current assets		
9, 10	Investment in equity accounted investee	27,659,601	-
10	Investment in subsidiaries at fair value through profit or loss	1,127,234	246,951
10, 11	Loans to subsidiaries	1,482,866	17,262,652
13	Loans to associate and related companies	1,473,678	-
		31,743,379	**17,509,603**
	Current assets		
10, 12	Cash and cash equivalents	3,445,270	2,051,903
10	Trade and other receivables	11,560	10,098
		3,456,830	**2,062,001**
	Current liabilities		
10, 14	Trade and other payables	(912,300)	(207,821)
		(912,300)	**(207,821)**
	Net current assets	**2,544,530**	**1,854,180**
	Non-current liabilities		
9	Investment in subsidiaries at fair value through profit or loss	(7,131)	(18,591)
10, 15	Convertible loan note instruments	(9,880,429)	-
		(9,887,560)	**(18,591)**
	Net assets	**24,400,349**	**19,345,192**
	Equity		
16	Share capital	1,544,583	1,327,075
17	Share premium	1,815,385	-
	Capital reserve	(13,039,533)	(17,100,485)
	Revenue reserve	34,079,914	35,118,602
	Total equity	**24,400,349**	**19,345,192**
	Net asset value per share (pence)	**79.21**	**72.89**

The financial statements were approved by the Board of Directors on 26 April 2011 and signed on its behalf by:

Geoffrey Vero
Chairman

Nicholas Wilson
Director

The notes on pages 24 to 39 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 January 2011

Note		Share Capital	Share premium	Capital reserve	Revenue reserve	Total
		Year ended 31 January 2011				
		£	£	£	£	£
	Balance at 1 February 2010	**1,327,075**	**-**	**(15,461,066)**	**33,479,183**	**19,345,192**
	Total comprehensive income for the year	-	-	3,024,121	30,938	3,055,059
	Contributions by and distributions to owners					
16	Shares issued	217,508	2,212,492	-	-	2,430,000
	Share issue costs	-	(397,107)	-	-	(397,107)
	Purchase of treasury shares	-	-	-	(32,795)	(32,795)
	Total transactions with owners	**217,508**	**1,815,385**	**-**	**(32,795)**	**2,000,098**
	Balance at 31 January 2011	**1,544,583**	**1,815,385**	**(12,436,945)**	**33,477,326**	**24,400,349**

Note		Share Capital	Share premium	Capital reserve	Revenue reserve	Total
		Year ended 31 January 2010				
		£	£	£	£	£
	Balance at 1 February 2009	**327,075**	**28,795,404**	**(14,696,474)**	**511,536**	**14,937,541**
	Total comprehensive loss for the year	-	-	(764,592)	453,839	(310,753)
	Contributions by and distributions to owners					
16	Shares issued	1,000,000	4,000,000	-	-	5,000,000
	Share issue costs	-	(281,596)	-	-	(281,596)
	Cancellation of share premium	-	(32,513,808)	-	32,513,808	-
	Total transactions with owners	**1,000,000**	**(28,795,404)**	**-**	**32,513,808**	**4,718,404**
	Balance at 31 January 2010	**1,327,075**	**-**	**(15,461,066)**	**33,479,183**	**19,345,192**

The notes on pages 24 to 39 form an integral part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 January 2011

Note		Share Capital £	Share premium £	Capital reserve £	Revenue reserve £	Total £
		Year ended 31 January 2011				
	Balance at 1 February 2010	**1,327,075**	**-**	**(17,100,485)**	**35,118,602**	**19,345,192**
	Total comprehensive income for the year	-	-	4,060,952	(1,005,893)	3,055,059
	Contributions by and distributions to owners					
16	Shares issued	217,508	2,212,492	-	-	2,430,000
	Share issue costs	-	(397,107)	-	-	(397,107)
	Purchase of treasury shares	-	-	-	(32,795)	(32,795)
	Total transactions with owners	**217,508**	**1,815,385**	**-**	**(32,795)**	**2,000,098**
	Balance at 31 January 2011	**1,544,583**	**1,815,385**	**(13,039,533)**	**34,079,914**	**24,400,349**

Note		Share Capital £	Share premium £	Capital reserve £	Revenue reserve £	Total £
		Year ended 31 January 2010				
	Balance at 1 February 2009 as previously reported	**327,075**	**28,795,404**	**(14,756,646)**	**601,102**	**14,966,935**
	Effect of change in accounting policy	-	-	(1,851,592)	1,822,198	(29,394)
	Balance at 1 February 2009 as restated	**327,075**	**28,795,404**	**(16,608,238)**	**2,423,300**	**14,937,541**
	Total comprehensive loss for the year	-	-	(492,247)	181,494	(310,753)
	Contributions by and distributions to owners					
16	Shares issued	1,000,000	4,000,000	-	-	5,000,000
	Share issue costs	-	(281,596)	-	-	(281,596)
	Cancellation of share premium	-	(32,513,808)	-	32,513,808	-
	Total transactions with owners	**1,000,000**	**(28,795,404)**	**-**	**32,513,808**	**4,718,404**
	Balance at 31 January 2010	**1,327,075**	**-**	**(17,100,485)**	**35,118,602**	**19,345,192**

The notes on pages 24 to 39 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 January 2011

Note		31 January 2011 £	31 January 2010 £
	Operating activities		
	Rental income received	69,117	40,964
	Interest income received	311,472	157,126
	Expenses paid	(766,414)	(753,031)
20	**Net cash used in operating activities**	**(385,825)**	**(554,941)**
	Investing activities		
	Receipts on disposal of investee company	400,000	-
	Receipts on disposal of equipment	17,500	17,500
	Loan advances to investee companies	(3,734,000)	(3,325,000)
	Loan repayments from investee companies	3,531,841	1,096,000
	Portfolio acquisition costs paid	(2,020)	-
	Cash of subsidiary transferred on acquisition of investment	(414,854)	-
	Net receipts from associate and related companies	801,967	-
	Payments called under the guarantee	-	(1,215,196)
	Transfer from committed cash	5,407	1,215,196
	Net cash generated from/(used in) investing activities	**605,841**	**(2,211,500)**
	Financing activities		
	Loan interest paid	(26,823)	(28,514)
	Part payment of mortgage loan	(14,690)	(14,951)
	Convertible loan note issue costs	(17,845)	-
	Purchase of treasury shares	(32,795)	-
	Share issue proceeds	-	5,000,000
	Share issue expenses paid	(167,440)	(281,596)
	Net cash generated from/(used in) financing activities	**(259,593)**	**4,674,939**
	Increase/(decrease) in cash and cash equivalents	**(39,577)**	**1,908,498**
	Cash and cash equivalents at start of year	**3,542,388**	**1,633,890**
	Cash and cash equivalents at end of year	**3,502,811**	**3,542,388**

Significant non-cash transactions:

During the year the Company issued ordinary shares with a value of £2,000,000 and convertible loan note instruments with a value of £10,000,000 and transferred investments with a value of £13,160,000 as consideration for an interest in an associate: ESO Investments 1 LP.

The Company also issued 796,781 shares with a value of £430,000 as payment of EPIC Private Equity LLP's fees in relation to acquisition of the private equity portfolio.

The notes on pages 24 to 39 form an integral part of these financial statements.

Company Statement of Cash Flows

For the year ended 31 January 2011

Note		31 January 2011 £	31 January 2010 £
	Operating activities		
	Interest income received	211	2,045
	Expenses paid	(747,174)	(722,311)
20	**Net cash used in operating activities**	**(746,963)**	**(720,266)**
	Investing activities		
	Receipts on disposal of investee company	320,800	-
	Loans repaid by/(to) subsidiaries	1,237,664	(1,961,007)
	Portfolio acquisition costs paid	(2,021)	
	Receipts from associate and related companies	801,967	-
	Net cash generated from/(used in) investing activities	**2,358,410**	**(1,961,007)**
	Financing activities		
	Convertible loan note issue costs	(17,845)	-
	Purchase of treasury shares	(32,795)	-
	Share issue proceeds	-	5,000,000
	Share issue costs	(167,440)	(281,596)
	Net cash generated from/(used in) financing activities	**(218,080)**	**4,718,404**
	Increase in cash and cash equivalents	**1,393,367**	**2,037,131**
	Cash and cash equivalents at start of year	**2,051,903**	**14,772**
	Cash and cash equivalents at end of year	**3,445,270**	**2,051,903**

Significant non-cash transactions:

During the year the Company issued ordinary shares with a value of £2,000,000 and convertible loan note instruments with a value of £10,000,000 and transferred investments with a value of £13,160,000 as consideration for an interest in an associate: ESO Investments 1 LP.

The company also issued 796,781 shares with a value of £430,000 as payment of EPIC Private Equity LLP's fees in relation to acquisition of the private equity portfolio.

The notes on pages 24 to 39 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 January 2011

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. In 2009 the Company raised an additional £5m by a placing of ordinary shares at 5 pence per share. During the year ended 31 January 2011 the Company issued a further £2.4m in share capital.

The Company has two wholly owned subsidiary companies and a 100% interest in a limited liability partnership accounted as a subsidiary. During the year the Company acquired an interest in a limited partnership accounted as an associate and transferred certain assets to the limited partnership as detailed in Note 9.

The principal activity of the Company and its subsidiaries (together "the Group") and its associate is to arrange income yielding financing for growth, buyout and special situations and holding the investments and its associates 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") and its associate (see Notes 3(a) and 24).

The Company has no employees.

2 Basis of preparation

a Statement of compliance

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 3(a) and applicable legal and regulatory requirements of Isle of Man law and reflect the following policies, which have been adopted and applied consistently.

The consolidated financial statements were authorised for issue by the Board of Directors on 26 April 2011.

b Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items:

- financial instruments at fair value through profit or loss are measured at fair value; and
- investment property is measured at fair value.

c Functional and presentation currency

These consolidated financial statements are presented in Sterling, which is the Company's functional currency. All financial information presented in Sterling has been rounded to the nearest pound.

d Use of estimates and judgements

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 continuing uncertainty 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 9 and 21).

3 Significant accounting policies

a Basis of consolidation

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 investment policy, the Group may receive preference and ordinary shares. Such shares permit the Group to participate in any increase in the value of portfolio companies. In some cases 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 one investment (2010: three 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 fail to be consolidated as required under *IAS 27*. 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.

The Company holds an interest in ESO Investments 1 LP, which is managed and controlled by EPIC Private Equity LLP for the benefit of the Company and the other members. The Company has the power to appoint members to the investment committee of ESO Investments 1 LP but does not have the ability to direct the activities of ESO Investments 1 LP. The Directors consider that ESO Investments 1 LP does not meet the definition of a subsidiary.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Associates

Associates are those enterprises over which the Company has significant influence, and which are neither subsidiaries nor an interest in a joint venture. Significant influence is exerted when the Company has the power to participate in the financial and operating policy decision of the investee, but is not in control or joint control over those policies.

The Company applies the equity method in accounting for associates. The investment is initially measured at cost and the carrying amount is increased or decreased to recognise the Company's share of the associate's profit or loss.

b 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 growth, buyout and special situations in the United Kingdom. Information presented to the Board of Directors for the purpose of decision making is based on this single segment.

c Income

Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is accounted for when the right to receive such income is established.

d Expenses

All expenses are accounted for on an accruals basis.

e 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 if 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.

f 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.

g 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.

iii Measurement

Equity and preference share investments are stated at fair value. Loans and receivables are stated at amortised cost.

The Investment Advisor determines asset values using BVCA guidelines and other valuation methods with reference to Level 3 valuation principles of *IAS 39*. BVCA guidelines recommend the use of comparable quoted company metrics and comparable transaction metrics to determine an appropriate enterprise value, to which a marketability discount is applied given the illiquid nature of private equity investments. The Investment Advisor also seeks to confirm value using discounted cash flow and other methods of valuation, and by applying a range approach. The Investment Advisor then seeks to determine whether holding the investment at cost is appropriate given the implied value, or whether an adjustment should be made to achieve fair value: whether this be in the form of an impairment or a write-up.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. *IAS 39* provides a hierarchy to be used in determining the fair value for a financial instrument

Quoted market prices in an active market are the best evidence of fair value and should be used, where they exist, to measure the financial instrument. If a market for a financial instrument is not active, an entity establishes fair value by using a valuation technique that makes maximum use of market inputs and includes recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, and option pricing models. An acceptable valuation technique incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. If there is no active market for an equity instrument and the range of reasonable fair values is significant and these estimates cannot be made reliably, then an entity must measure the equity instrument at cost less impairment.

Amortised cost is calculated using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. Financial assets that are not carried at fair value though profit and loss are subject to an impairment test. If expected life cannot be determined reliably, then the contractual life is used.

In the Company Statement of Assets and Liabilities the investments in subsidiaries and associates are stated at fair value, based on the net assets of the subsidiaries and associates respectively.

iv Impairment

Financial assets that are stated at cost or amortised cost are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the profit or loss 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 profit or loss.

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.

h **Financial guarantees**

Commitments under financial guarantees are provided for when an event has occurred that will result in the commitment being called (see Note 25).

i **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 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.

j **Share capital**

Ordinary share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

k **Compound financial instruments**

Compound financial instruments issued by the Group comprise convertible loan note instruments that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest, dividends, losses and gains in relation to the financial liability are recognised in profit or loss. Distributions to the equity holders are recognised in equity net of any tax benefits.

l **Future changes in accounting policies**

IASB (International Accounting Standards Board) and IFRIC (International Financial Reporting Interpretations Committee) have issued the following standards and interpretations with an effective date after the date of these financial statements:

New/Revised International Financial Reporting Standards (IAS/IFRS)	**Effective Date** (accounting periods commencing on or after)
IAS 1 Presentation of Financial Statements (Revised May 2010)*	1 January 2011
IAS 12 Income Taxes - Limited scope amendment (recovery of underlying assets) (December 2010)	1 January 2012
IAS 24 Related Party Disclosures - Revised definition of related parties	1 January 2011
IAS 27 Consolidated and Separate Financial Statements (Revised May 2010)*	1 July 2010
IAS 34 Interim Financial Reporting (Revised May 2010)	1 January 2011
IFRS 3 Business Combinations (Revised May 2010)*	1 July 2010
IFRS 7 Financial Instruments: Disclosures (Revised May 2010)*	1 January 2011
IFRS 7 Financial Instruments: Disclosures Amendments enhancing disclosures about transfers of financial assets (October 2010)	1 July 2011
IFRS 9 Financial Instruments - Classification and Measurement	1 January 2013
IFRIC Interpretation	
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

*Amendments resulting from May 2010 Annual Improvements to IFRSs

The Directors do not expect the adoption of the standards and interpretations to have a material impact on the Group's financial statements in the period of initial application. However, *IFRS 9 Financial Instruments* issued in November 2009 will change classification of financial assets.

The standard is not expected to have an impact on the measurement basis of the financial assets since the majority of the Group's financial assets are measured at fair value through profit or loss.

IFRS 9 deals with the classification and measurement of financial assets and its requirements represent a significant change from the existing *IAS 39* in respect of financial assets. The standard contains two primary measurement categories for financial assets: at amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing *IAS 39* categories of *held to maturity, available for sale and loans and receivables.*

For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income, unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which the entity does not expect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

4 Interest Income

	2011 Group £	**2011 Company** £	**2010 Group** £	**2010 Company** £
Cash balances	298	211	5,556	2,045
Secured loans	1,047,475	34,243	1,321,186	-
Total	**1,047,773**	**34,454**	**1,326,742**	**2,045**

5 Investment advisory, administration and performance fees

Investment advisory fees

EPE Special Opportunities plc

The management fee payable to EPIC Private Equity LLP was, until 31 August 2010, calculated at 2% of the Group's Net Asset Value ("NAV"), with a minimum of £325,000 payable per annum. On 31 August 2010, the Investment Advisor agreed to waive the fee from the Company in return for a priority profit share paid from ESO Investments 1 LP, as detailed below.

ESO Investments 1 LP

On the completion of the creation of ESO Investments 1 LP on 31 August 2010, the Investment Advisor agreed to waive entitlement to management fees from the Company and ESO Investments LLP in exchange for a fixed priority profit share paid by ESO Investments 1 LP of £800,000 per annum for the first two years (a year being calculated as ending on 31 August), £500,000 for the third year and £350,000 for the fourth and fifth years, thereafter in any subsequent period of the Partnership, such amount as may be agreed between the Partners. As from the next calendar day subsequent to the 31 August 2012, the payment of fees will resume at a rate of 2% per annum of the Company's NAV (including its share of the Fund) plus VAT.

ESO Investments LLP

On 31 August 2010 the Investment Advisor agreed to waive the fee from ESO Investments LLP in return for a priority profit share paid from ESO Investments 1 LP as detailed above.

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 International Limited. The fee is payable at a rate of 0.15% per annum of the Group's NAV, subject to a minimum fee of £30,000 per annum.

Performance fees

EPE Special Opportunities plc

The Investment Advisory Agreement above also provides for the provision of a performance fee. The fee is payable if the Total Return (taken as NAV 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 2011 (2010: £nil).

Carried interest in ESO Investments 1 LP

The distribution policy of ESO Investments 1 LP includes a carried interest portion retained for the Investment Advisor such that, for each investor where a hurdle of 8% per annum has been achieved, the carry vehicle of the Investment Advisor is entitled to receive 20% of the increase in that investor's investment. For the period ended 31 January 2011 £1,915,940 has been credited to the carry account of the Investment Advisor in the records of ESO Investments 1 LP.

6 Directors' fees

	2011 Group £	2011 Company £	2010 Group £	2010 Company £
G.O. Vero (Chairman)	25,000	25,000	22,917	22,917
R.B.M. Quayle	25,000	22,500	22,917	17,917
C.L. Spears	25,000	25,000	21,878	21,878
N.V. Wilson	25,000	22,500	22,917	17,917
	100,000	**95,000**	**90,629**	**80,629**

7 Taxation

The Company is Isle of Man tax resident. The Company is subject to zero per cent. income tax (2010: zero per cent.).

EPIC Reconstruction Property Company Limited is resident in England and Wales and subject to corporation tax at the standard UK corporation tax rate of 20% (2010: 20%).

The Limited Liability Partnerships and Limited Partnerships are transparent for tax purposes and tax is paid by the members.

8 Dividends paid and proposed

No dividends were paid or proposed for the year ended 31 January 2011 (2010: £nil).

9 Non-current assets

	2011 Group £	2011 Company £	2010 Group £	2010 Company £
Investment property	470,718	-	485,408	-
Financial assets				
Secured loans	1,395,622	-	14,584,334	-
Unquoted equity investments	1,099,36	-	22,917	-
Investment in subsidiaries	-	1,127,234	-	246,951
Investments in equity accounted investee/associate	27,659,601	27,659,601	-	-
Loans to associate and related companies	1,473,678	1,473,678	-	-
Loans to subsidiaries	-		-	17,262,652
	32,098,984	**31,743,379**	**15,281,860**	**17,509,603**

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 21.

Unquoted equity investments comprise an unrealised fair value gain of £1,099,365 on Process Components Limited (2010: £nil). For the year ended 31 January 2010 the unquoted equity investments comprised £212,118 deferred shares in Past Times Trading Limited.

The Investment Advisor has applied appropriate valuation methods with reference to BVCA guidelines and the valuation principles of *IAS 39 Financial Instruments: Recognition and Measurement*. Underlying investments in the equity accounted investee are valued using the same principles.

In accordance with *IFRS 7 Financial Instruments: Disclosures*, unquoted equity investments are classified as Level 3 investments (see Note 3g (iii)). The following shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy. Underlying equity investments held by ESO Investments 1 LP are also classified as Level 3 investments.

	2011 Group £	2011 Company £	2010 Group £	2010 Company £
Unquoted equity investments				
Opening balance	212,118	-	750,000	-
Additions during the year	-	-	212,118	-
Transferred during the year	(212,118)	-	-	-
Movement in fair value through profit or loss	1,099,365	-	(750,000)	-
	1,099,365	**-**	**212,118**	**-**

Investment in equity accounted investee/associate

Investments in equity accounted investees comprise the investment in ESO Investments 1 LP which is stated at cost plus the share of profit and loss to date. The equity accounted investee has accounted for its equity investments at fair value. During the year, the Company did not receive any distributions from its equity accounted associate.

Summary financial information for equity accounted investee as at 31 January 2011 is as follows:

	2011
	£
Total assets	46,886,333
Total liabilities	(1,813,255)
	45,073,078
Revenue	**2,577,286**
Profit for the period	**9,913,028**

Acquisition of interest in equity accounted investee

The Company, together with DES Holdings IV(A) LLC, acquired on 31 August 2010 the private equity portfolio of The Equity Partnership Investment Company plc ("EPIC plc") for a consideration of £22 million. The assets acquired were transferred to a new limited partnership, ESO Investments 1 LP ("the LP"). The following summarises the consideration for the acquisition:

	£
Cash	10,000,000
Convertible loan note instruments to EPIC plc	10,000,000
Consideration shares to EPIC plc	2,000,000
Total	**22,000,000**

The cash payment of £10 million was financed by DES Holdings IV(A) LLC for participation in the LP and the balance by EPE Special Opportunities plc.

The Company contributed a total of £25,160,000 to the LP comprising the convertible loan note instruments and consideration shares issued to EPIC plc noted above together with the transfer of £13.2 million of investments.

Key terms of LP Agreement

Profits or losses are credited or debited to each Member's account to reflect the distributions payable to each Member were the LP to be liquidated at its statement of financial position value.

Prior to the First Hurdle Point (being the point at which each member has received repayment of the loans advanced and a Hurdle amount being 8% per annum on the loan balances) distributions shall be made as:

- 37% to DES Holdings IV(A) LLC
- 63% to EPE Special Opportunities plc

At the First Hurdle Point for an investor an amount equal to 25% of the Hurdle shall be credited from that investor to EPE Carry LP. After the First Hurdle Point distributions shall be as stated above less 20% which shall be credited to EPE Carry LP until the Second Hurdle Point.

At the Second Hurdle Point, (being the point at which DES Holdings IV(A) LLC has received 1.5 times its loans advanced) distributions shall be made as:

- 25% to DES Holdings IV(A) LLC
- 75% to EPE Special Opportunities plc

Subject to a 20% allocation to EPE Carry LP in the event that the First Hurdle Point has been reached.

At the Third Hurdle Point, (being the point at which DES Holdings IV(A) LLC has received 2 times its loans advanced) distributions shall be made as:

- 18% to DES Holdings IV(A) LLC
- 82% to EPE Special Opportunities plc

Subject to a 20% allocation to EPE Carry LP in the event that the Second Hurdle Point has been reached.

10 Financial assets and liabilities

	2011 Group £	2011 Company £	2010 Group £	2010 Company £
Assets				
Financial assets at fair value through profit or loss – designated on initial recognition				
Equity investments	1,099,365	-	212,118	-
Investments in subsidiaries at fair value	-	1,127,234	-	246,951
Investments in equity accounted investee/associate	27,659,601	27,659,601	-	-
Financial assets at amortised cost				
Loans and receivables and cash balances	6,439,869	6,413,374	19,353,068	19,324,653
Total financial assets	**35,198,835**	**35,200,209**	**19,565,186**	**19,571,604**
Liabilities				
Financial liabilities measured at amortised cost				
Other financial liabilities	(1,388,775)	(912,300)	(705,402)	(207,821)
Convertible loan note instruments	(9,880,429)	(9,880,429)	-	-
Financial liabilities at fair value through profit or loss – designated on initial recognition				
Investments in subsidiaries at fair value	-	(7,131)	-	(18,591)
Total financial liabilities	**(11,269,204)**	**(10,799,860)**	**(705,402)**	**(226,412)**

Loans and receivables presented above represent secured loans, cash balances and accrued interest and other receivables as detailed in the Statement of Assets and Liabilities.

Other financial liabilities measured at amortised cost presented above represent accrued expenses, sundry creditors and bank loan, as detailed in the Statement of Assets and Liabilities.

11 Loans to subsidiaries

	2011 Company £	2010 Company £
ESO Investments 2 LLP	1,372,766	-
EPIC Reconstruction Property Company II Limited	110,100	3,531
EPIC Structured Finance Limited	-	14,672,854
ESO Investments LLP	-	2,586,267
	1,482,866	**17,262,652**

The loans to the subsidiaries are unsecured, interest free and not subject to any fixed repayment term.

12 Cash and cash equivalents

	2011 Group £	2011 Company £	2010 Group £	2010 Company £
Current and call accounts	3,502,811	3,445,270	3,542,388	2,051,903
Term deposit	-	-	5,407	-
	3,502,811	**3,445,270**	**3,547,795**	**2,051,903**

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

13 Loans to associate and related companies

	2011 Group £	2010 Group £	2011 Company £	2010 Company £
ESO Investments 1 LP	915,137	-	915,137	-
EPIC Structured Finance Limited	558,541	-	558,541	-
	1,473,678	**-**	**1,473,678**	**-**

Loans to associate derive from investments passed to ESO Investments 1 LP but whose economic benefit remains with the Company until such time as ESO Investments 1 LP repays the loan. The loans bear interest at a rate reflecting the underlying rate on the assets between zero and 20%.

14 Current Liabilities

	2011 Group £	2011 Company £	2010 Group £	2010 Company £
Accrued Crest fee	4,168	4,168	4,168	4,168
Accrued administration fee	18,617	18,617	8,688	8,688
Accrued audit fee	25,320	22,500	29,338	18,145
Accrued professional fee	133,017	130,080	130,804	130,804
Accrued Directors' fees	9,167	9,167	9,063	8,083
Accrued investment advisor fees	-	-	37,933	37,933
Acquisition fees payable*	419,974	419,974	-	-
Convertible loan note instrument interest	307,794	307,794	-	-
Total	**918,057**	**912,300**	**219,994**	**207,821**

* Fees outstanding from the acquisition of the private equity portfolio of EPIC plc in August 2010.

15 Non-current liabilities

	2011 Group £	2011 Company £	2010 Group £	2010 Company £
Investment in subsidiary	-	7,131	-	18,591
Convertible loan note instruments	9,880,429	9,880,429	-	-
Mortgage loan	470,718	-	485,408	-
	10,351,147	**9,887,560**	**485,408**	**18,591**

The mortgage bank loan bears interest at LIBOR plus 4.5% margin per annum calculated on a daily basis subject to a maximum of 12.9% per annum. The loan is secured on investment property valued in the financial statements at £470,718 (2010: £485,408). The loan expiry date is May 2029.

Convertible loan note instruments were issued on 31 August 2010 to The Equity Partnership Investment Company plc. The notes carry interest at 7.5% per annum and are convertible at the option of the holder at a price of 170 pence per ordinary share. The convertible shares fall under the definition of compound financial instruments within *IAS 32 Financial Instruments: Presentation.* The Directors are required to assess the element of liability contained with the compound instrument. The Directors consider that the instrument has no equity element.

Issue costs of £129,696 have been offset against the value of the convertible loan note instruments and is being amortised over the life of the instrument at an effective interest rate of 0.24% per annum. A total of £10,125 has been expensed in the year ended 31 January 2011.

The convertible loan notes are repayable on 31 December 2015 unless the shareholders of the Company pass a resolution on or before 30 September 2015 for the continuation of the Company beyond 31 December 2016, in which case the final repayment date shall be 31 December 2016, but each Noteholder has the right to require the redemption of some or all of his notes on 31 December 2015 by providing the Company written notice up to the close of business on 30 November 2015.

16 Share capital

	2011 Number	2011 £	2010 Number	2010 £
Authorised share capital				
Ordinary shares of 5p each	33,000,000	1,650,000	33,000,000	1,650,000
Called up, allotted and fully paid				
Ordinary shares of 5p each	30,891,577	1,544,583	26,541,501	1,327,075
Ordinary shares of 5p each held in treasury	(88,750)	-	-	-
	30,802,827	**1,544,583**	**26,541,501**	**1,327,075**

On 8 June 2009, a resolution was passed to increase the authorised share capital of the company from £500,000 to £1,650,000 by the creation of 115,000,000 new ordinary shares of 1 pence each ranking *pari passu* in all respects with the existing ordinary shares.

During the year ended 31 January 2010, the Company issued 100,000,000 ordinary shares of 1 pence each giving a total number of shares in issue of 132,707,509.

On 15 June 2009, each five existing, issued and unissued, shares of 1 pence each in the capital of the Company were consolidated into one ordinary share of 5 pence each with the same rights attached to them in the Articles of Association of the Company. The authorised share capital of the Company became £1,605,000 comprising 33,000,000 ordinary shares of 5 pence each.

During the year the Company issued a further 3,580,379 shares to The Equity Partnership Investment Company plc as partial consideration for the investments in EPIC Investments LLP and EPIC Investments 2 LLP and 769,781 shares were issued to EPIC Private Equity LLP in consideration of transaction fees. The shares were all issued at a price of 55.86 pence per share.

During the year the Company purchased 88,750 treasury shares at a weighted average price of 36.95 pence per share.

17 Share premium

The share premium arose on the issue of the ordinary shares and represented the difference between the price at which the shares were issued (55.86 pence) and the par value (5 pence).

18 Basic and diluted earnings/(loss) per share (pence)

Basic and diluted earnings per share is calculated by dividing the profit for the Group and Company for year attributable to the ordinary shareholders of £3,055,059 (2010: £310,753 loss) divided by the weighted average number of shares outstanding during the year of 28,348,894 after excluding treasury shares (2010: 19,582,597 shares).

19 Net asset value per share (pence)

The Group and Company net asset value per share is based on the net assets of the Group and Company at the year end of £24,400,349 (2010: £19,345,192) divided by the shares in issue at the end of the year of 30,802,827 after excluding treasury shares (2010: 26,541,501).

20 Net cash used in operating activities

Reconciliation of net investment income/expense to net cash used in operating activities:

	2011 Group £	2011 Company £	2010 Group £	2010 Company £
Net investment income/(expense)	375,680	(687,974)	482,353	181,494
Movement in trade and other receivables	(697,556)	(1,457)	(1,026,888)	(1,039,904)
Movement in loans to associate and related companies	(34,243)	(34,243)	-	-
Movement in trade and other payables	(29,706)	(23,289)	(10,406)	138,144
Net cash used in operating activities	**(385,825)**	**(746,963)**	**(554,941)**	**(720,266)**

21 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, bank loan and convertible loan note instruments; and
- Accrued interest and other receivables, accrued expenses, sundry creditors and provisions for calls under guarantee.

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 those risks are hedged. These risks arise through directly held investments and activities of the Group and through the indirect exposures created by the underlying investments in the associate. 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

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's liquid assets comprise cash and cash equivalents which are readily realisable and a term deposit account.

Residual contractual maturities of financial liabilities:

31 January 2011	Less than 1 month £	1-3 months £	3 months to 1 year £	1 - 5 years £	Over 5 years £	No stated maturity £
Financial liabilities						
Trade and other payables	918,057	-	-	-	-	-
Convertible loan note instruments	-	-	-	9,880,429	-	-
Bank loan	-	-	-	-	470,718	-
Total	**918,057**	**-**	**-**	**9,880,429**	**470,718**	**-**

31 January 2010	Less than 1 month £	1-3 months £	3 months to 1 year £	1 - 5 years £	Over 5 years £	No stated maturity £
Financial liabilities						
Trade and other payables	219,994	-	-	-	-	-
Bank loan	-	-	-	-	485,408	-
Total	**219,994**	**-**	**-**	**-**	**485,408**	**-**

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 had 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.

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.

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

	2011 £	2010 £
Secured loans	1,395,622	14,584,334
Cash and cash equivalents	3,502,811	3,542,388
Committed cash balances	-	5,407
Trade and other receivables	67,758	1,220,939
Loans to equity accounted investee and related companies	1,473,678	-
Total	**6,439,869**	**19,353,068**

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

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 a market price risk via its equity investments, which are stated at fair value – with gains and losses recognised in the Statement of Comprehensive Income.

Market price risk sensitivity

The Group's interest in unquoted equity investments comprises 4% (2010: 1%) of net assets. A 5% increase in the value of these investments as at 31 January 2011 would have increased net assets by £54,968 (2010: £10,606); 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 and are repayable as follows:

31 January 2011	Principal £	Interest Rate	Maturity
Process Components Limited	1,395,622	9%	31 May 2013

31 January 2010	Principal £	Interest Rate	Maturity
Past Times Trading Limited	7,750,000	15%	30 April 2011
Past Times Trading Limited	1,168,870	15%	31 December 2012
Morada Home Limited	1,058,000	15%	31 January 2011
Whittard of Chelsea (Hammsard 3146 Limited)	2,734,000	20%	22 December 2010
Autocue Group Limited	450,000	15%	30 April 2013
Process Components Limited	1,423,464	15%	30 June 2010

The table below summarises the Group's exposure to interest rate risks. It includes the Group's 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 2011	Less than 1 month £	1-3 months £	3 months to 1 year £	1 - 5 years £	Over 5 years £	Non-interest bearing £	Total £
Assets							
Designated at fair value through profit or loss							
Equities	-	-	-	-	-	1,099,365	1,099,365
Loans and receivables							
Secured loans	-	-	-	1,395,622	-	-	1,395,622
Loans to equity accounted investee	-	-	-	1,473,678			1,473,678
Trade and other receivables	5,013	-	-	-	-	62,745	67,758
Cash and cash equivalents	3,502,811	-	-	-	-	-	3,502,811
Total financial assets	**3,507,824**	**-**	**-**	**2,869,300**	**-**	**1,162,110**	**7,539,234**
Liabilities							
Financial liabilities measured at amortised cost							
Trade and other payables	-	-	-	-	-	(918,057)	(918,057)
Convertible loan note instruments	-	-	-	(9,880,429)	-	-	(9,880,429)
Bank loan	-	-	-	-	(470,718)	-	(470,718)
Total financial liabilities	**-**	**-**	**-**	**(9,880,429)**	**(470,718)**	**(918,057)**	**(11,269,204)**
Total interest rate sensitivity gap	**3,507,824**	**-**	**-**	**(7,011,129)**	**(470,718)**	**-**	**-**

31 January 2010	Less than 1 month £	1-3 months £	3 months to 1 year £	1 - 5 years £	Over 5 years £	Non-interest bearing £	Total £
Assets							
Designated at fair value through profit or loss							
Equities	-	-	-	-	-	212,118	212,118
Loans and receivables							
Secured loans	-	-	4,157,464	10,426,870	-	-	14,584,334
Trade and other receivables	-	-	-	-	-	1,220,939	1,220,939
Cash and cash equivalents	3,542,388	-	-	-	-	-	3,542,388
Committed cash	5,407	-	-	-	-	-	5,407
Total financial assets	**3,547,795**	**-**	**4,157,464**	**10,426,870**	**-**	**1,433,057**	**19,565,186**
Liabilities							
Financial liabilities measured at amortised cost							
Trade and other payables	-	-	-	-	-	(219,994)	(219,994)
Bank loan	-	-	-	-	(485,408)	-	(485,408)
Total financial liabilities	**-**	**-**	**-**	**-**	**(485,408)**	**(219,994)**	**(705,402)**
Total interest rate sensitivity gap	**3,547,795**	**-**	**4,157,464**	**10,426,870**	**(485,408)**	**-**	**-**

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

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.

22 Directors' interests

Two of the Directors had an interest in the shares of the Company as at 31 January 2011 (2010: two). Geoffrey Vero held 40,000 ordinary shares (2010: 40,000) and Nicholas Wilson held 20,000 ordinary shares (2010: 20,000).

23 Related parties

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 fees of £400,275 in respect of the acquisition of the private equity portfolio of EPIC plc and subsequent readmission of the Company in August 2010 were payable to Numis Securities Limited. Broker fees of £30,000 (2010: £30,000) were payable to Numis Securities Limited paid in advance half-yearly of which £3,647 (2010: £9,280) was paid as at 31 January 2011. Additional fees of nil (2010: £25,000) were paid to Numis Securities Limited in respect of corporate finance work relating to the Open Offer and Placing.

Giles Brand, a partner in the Investment Advisor owns 10.3% (2010: 9.1%) of the ordinary share capital in the Company.

The Principals of the Investment Advisor co-invest in certain portfolio companies invested by Group Companies.

24 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. During the year the Company transferred its holding to ESO Investments 1 LP.

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 7 November 2008, a limited liability partnership was formed, namely ESO Investments LLP. During the year the Company transferred its interest in the partnership to ESO Investments 1 LP.

25 Financial commitments and guarantees

Under the terms of the Limited Partnership agreement the Company is committed to provide a maximum of £2.0 million additional investment to ESO Investments 1 LP.

The Company provides certain guarantees to Lloyds Banking Group Corporate Markets ("Lloyds") on the facilities that Lloyds provide to Past Times Trading Limited. Such obligations are limited to a maximum of £3,000,000.

26 Subsequent events

There have been no significant events since 31 January 2011.

Schedule of shareholders holding over 3% of issued shares

	Percentage holding
Securities Services Nominees Limited	20.05%
Brit Insurance Holdings Limited	13.24%
Mr Giles Robert Brand	10.29%
Nortrust Nominees Limited	8.59%
The Bank Of New York (Nominees) Limited	7.76%
The Corporation Of Lloyds	6.35%
BBHISL Nominees Limited	4.66%
Renaissance Capital Partners Limited	3.24%
Close Summit Trust Company	3.11%
Total over 3% holding	**77.29%**

Group Information

Directors:	G.O. Vero (Chairman) R.B.M. Quayle C.L. Spears N.V. Wilson
Secretary:	P.P. Scales
Registrar and Registered Office:	IOMA Fund and Investment Management Limited IOMA House Hope Street Douglas Isle of Man IM1 1AP
Nominated Advisor and Broker:	Numis Securities Limited 10 Paternoster Square London EC4M 7LT
Bankers:	Barclays Bank PLC 1 Churchill Place Canary Wharf London E14 5HP
Investment Advisor:	EPIC Private Equity LLP 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 Providers:	Computershare Investor Services (CI) Limited Ordnance House 31 Pier Road St Helier Jersey JE4 8PW

EPE Special Opportunities plc
Registered in the Isle of Man number 108834C. EPE Special Opportunities plc is listed on the Alternative Investment Market and is advised by EPIC Private Equity LLP.