EPE Special Opportunities plc

(formerly EPIC Reconstruction plc)

Interim Report and Unaudited Financial Statements

For the period ended 31 July 2008

Contents

Chairman's Statement

At the interim stage, EPE Special Opportunities plc (formerly EPIC Reconstruction plc) ("the Company") had gross income of £599k, which translated to a net loss for the Company of (£135k), following an investment provision of (£450k). Net asset value per share as at 31 July 2008 for the Company was 51.82p, excluding 3.24p of dividends for the year ending 31 January 2008, payable in December 2008. The Board has decided to focus on preserving cash balances at the half year in anticipation of attractive investment opportunities arising as a result of the current economic climate. The Board will review dividend payments at year end.

The gross income from the period was generated through yielding instruments in the portfolio companies, most notably Past Times. Except through re-financings and scheduled repayment of capital from portfolio companies, the expectation is that these instruments will remain in place, providing the Company with satisfactory revenue for the rest of the financial year.

The remainder of the portfolio continues to perform in line with expectations, with the focus of the last six months on concluding restructuring processes. Past Times has largely concluded its restructuring programme and, with the store roll-outs continuing, has demonstrated growth despite the challenging retail environment. Management change at Morada has had a significant impact whilst Kemutec and Autocue continue to perform in line with expectations.

The Company is seeking to exit the smaller investments and continues to identify potential bolt-on opportunities for the remainder of the portfolio. This strategy will be the main focus for the remainder of the year. The Board is pleased with the steps that the Investment Adviser has taken to re-focus the Company since 2006. This process has resulted in a more focused portfolio. The resolutions passed at the Extraordinary General Meeting held on 16 September 2008, recommended by the Board, restructured the Investment Adviser's mandate and changed the name of the Company to EPE Special Opportunities plc.

The ongoing challenging economic conditions are expected to provide interesting opportunities for possible new investments over the coming 24 months. The Company has already experienced significantly increased deal-flow but has yet to identify an opportunity which fulfils its investment criteria. The Company is therefore cautiously optimistic that the second half of 2008 and early 2009 may provide the prospect of further judicious deployment of capital.

Geoffrey Vero
Chairman

Investment Adviser's Report

In the six month period ended 31 July 2008, the Investment Adviser has continued to focus on attempting to create value from within the portfolio. The Company is focussed on the control and ownership of distressed assets.

On 16 September 2008 shareholders voted in favour of the restructuring of the Company's investment mandate. As previously outlined, there have been changes in the advisory team and in the method of operation of the Company. Andrew Castle is no longer a member of the advisory team and the Company is advised by the private equity team of the Investment Adviser, led by Giles Brand. The previous arrangements for providing finance to portfolio companies through The Royal Bank of Scotland's Eurosales Finance business have also been discontinued and since 2005 no new underwriting business with Eurosales has been undertaken. The current four trading assets in the portfolio are relatively immature and in the early stages of profit turnaround and stabilisation. The fifth asset, a property in Glasgow, requires further development to realise the full potential gain, though in the short to medium term little action is likely, due to current commercial property market conditions. Since the end of the last economic slowdown in 2003, the economic conditions have been remarkably benign and until recently it has been particularly difficult to find attractive investment opportunities. The Board and Investment Adviser expect more opportunities to be available over the next 2 – 3 years.

The current portfolio is entirely constituted of investments funded post 31 January 2005, which are therefore outside of the underwriting arrangements with Eurosales. The Investment Adviser continues to develop relationships with various lenders to ensure portfolio companies have access to financing on optimal terms. The Investment Adviser also continues to explore opportunities for adding value to portfolio companies through revenue enhancing and cost saving initiatives as well as support in identifying appropriate management to optimise performance. Investment highlights to date include:

- generated gross income of **36.7p** per share since the placing carried out in September 2003;
- paid **16.8p** per share, and declared a further **3.24p**, of dividends, with dividend yield circa 6 per cent., based on dividends declared in respect of the year ended 31 January 2008 and a share price of **51.5p** (as at 16 September 2008);
- The Company's portfolio is currently valued at a gross 0.9x money multiple (calculated as the current value of investments plus sums received from investments compared with the aggregate net proceeds of the placing carried out in September 2003) and the Company at a net 0.8x money multiple (calculated as current NAV plus dividends paid to date compared with the aggregate net proceeds); and
- deployed £39million of capital and returned over £25million to the Company in capital and income.

The Investment Adviser believes that the potential to create value within the distressed investing marketplace remains significant, and that the economic cycle continues to create a wide range of investment opportunities. As such the Investment Adviser is actively engaged in communicating the Company's investment strategy within the restructuring industry:

- The Company has been actively involved in acquiring distressed assets since 2003 and has built up an extensive network of deal sources, advisers and financing partners. The Investment Adviser has investigated over 450 opportunities in the last five years, with 17 transactions completed to date.

- The Company has a concentrated and informed shareholder base including Brit Insurance plc, Jupiter Asset Management, Immia Investment Management, Numis Corporation plc, EPIC plc and Lehman Brothers.

- The Company is able to use its own cash resources to fund acquisitions requiring between £1-10million of financing, assuming reasonable levels of bank financing.

- The Company is also able to use its shares to acquire businesses. Furthermore, for larger acquisitions the Company is able to engage with its larger shareholders for co-investment.

- The Investment Adviser continues to strengthen its existing network and develop new relationships with advisers and managers who can provide deal flow and the necessary expertise in acquiring and turning around distressed assets.

Current Portfolio

Kemutec (2005)

Kemutec is a manufacturer of mixing and sifting equipment for the chemical, pharmaceutical and food industries. The business has sales of circa £10million and has £1.3million of loans outstanding to the Company yielding 15% per annum. Following a dip in trading performance a review was undertaken focussed on key contracts and costs. Kemutec is now more efficient with better gross and operating margins as well as a healthy order book. Both Kemutec's management and the Investment Adviser continue to seek strategic acquisitions to supplement organic growth.

Morada Home Limited (2005)

In 2005 the Company backed a management buyout of the Morada Home business from the administration of Morada International. The Company has a £0.99million debt exposure to Morada Home yielding 15% per annum. The business is focussed on contracts with the Ministry of Defence ("MoD") to supply curtains and blinds for MoD living accommodation. Morada has begun to diversify, supplying PFI contractors as well as a large number of customers in the retail sector. Anthony Stennett was recently recruited as Managing Director and the business has experienced improved performance.

Autocue (2005)

Autocue is a manufacturer of prompting equipment for the media industry, as well as the developer and provider of a range of software for a similar customer base. The business went into administration early in 2005 due to significant historic leverage raised to expand the software division of the business. The Company partnered with another private equity provider to buy the business out of administration, employing a new management team who have restructured the business through the removal of a number of unnecessary excess costs and a realignment of the business to its core prompter (rather than software) sales. The Company has a £0.875million debt exposure to Autocue, yielding 15% per annum. Autocue has made significant progress in the development of new products over the last 12 months and is experiencing growth in developing markets.

Past Times (2006)

Past Times is a niche retailer of historically inspired jewellery, gifts, books and house-wares. Past Times was acquired in December 2005 from the administrators of Retail Variations plc, with Will

Hobhouse, formerly of Tie Rack and Whittards of Chelsea, brought in as Chairman. The Company has provided debt of £7.75million yielding 15% per annum. Past Times has undergone a major restructuring process. The number of stores and the head office cost base has been reduced, and the product range has been improved. The business is now experiencing the benefits of these improvements and is expanding the number of stores under the guidance of new CEO, Mike Taylor. Past Times is experiencing some strong like-for-like margin performance, which, combined with new stores openings, is likely to mean continued improved trading despite the difficult current economic and retail environment.

Review report by KPMG Audit LLC to EPE Special Opportunities plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly report for the six months ended 31 July 2008, which comprises the consolidated statement of operations, the consolidated statement of assets and liabilities, the consolidated statement of changes in net assets, the consolidated statements of cash flows and the related explanatory notes. We have read the other information contained in the half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly report in accordance with the AIM Rules.

As disclosed in note 2(a) the annual financial statements are prepared in accordance with IFRS. The condensed set of financial statements included in this half yearly report have been prepared in accordance with IAS 34 *Interim Financial Reporting.*

The accounting policies that have been adopted in preparing the condensed set of financial statements are consistent with those that the Directors currently intend

Review report by KPMG Audit LLC to EPE Special Opportunities plc (continued)

to use in the next annual financial statements.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 31 July 2008 is not prepared, in all material respects, in accordance with IAS 34 and the AIM Rules.

KPMG Audit LLC
Chartered Accountants
Douglas
Isle of Man

30 September 2008

Unaudited Consolidated Statement of Operations

For the period from 1 February 2008 to 31 July 2008

notes		Revenue	1 Feb 2008 to 31 July 2008 (unaudited) Capital	Total	1 Feb 2007 to 31 July 2007 (unaudited) Total	1 Feb 2007 to 31 Jan 2008 (audited) Total
		£	£	£	£	£
	Income:					
	Rental income	20,000	–	20,000	–	35,000
	Interest	579,419	–	579,419	859,194	1,762,518
	Commission income	–	–	–	105,099	106,956
	Total income	599,419	–	599,419	964,293	1,904,474
	Expenses					
	Investment adviser's fees	(165,196)	–	(165,196)	(121,229)	(217,685)
	Administration fees	(15,000)	–	(15,000)	(9,912)	(30,000)
	Directors' fees	(40,565)	–	(40,565)	(37,917)	(75,417)
	Directors' and Officers' insurance	(4,917)	–	(4,917)	(11,500)	(11,953)
	Professional fees	(72,789)	–	(72,789)	(139,399)	(243,992)
	Board meeting and travel expenses	(1,145)	–	(1,145)	(3,626)	(5,643)
	Auditor's remuneration	(18,207)	–	(18,207)	(23,498)	(49,963)
	Interest and other charges	(30,124)	–	(30,124)	(3,989)	(30,932)
	Irrecoverable VAT	(46,904)	–	(46,904)	(46,712)	(92,110)
	Sundry expenses	(24,328)	–	(24,328)	(20,691)	(44,971)
	Stock exchange fees	(755)	–	(755)	(2,582)	(4,850)
	Advisers' and brokers' fees	(7,813)	–	(7,813)	(15,000)	(30,000)
	Bad debt on rental income	–	–	–	(15,128)	(24,511)
	Total expenses	(427,743)	–	(427,743)	(451,183)	(862,027)
	Net investment income	171,676	-	171,676	513,110	1,042,447
	Gains and losses on investments					
	Net realised gains on investments	–	143,523	143,523	–	–
	Unrealised losses on investments	–	–	–	–	(1,270,000)
	Revaluation of investment property	–	–	–	–	88,353
	Impairment of loan portfolio	–	(450,000)	(450,000)	(341,847)	(341,847)
	Commitments under guarantee	–	–	–	(1,318,535)	(1,754,360)
	(Loss)/profit for the period before taxation	**171,676**	**(306,477)**	**(134,801)**	**(1,147,272)**	**(2,235,407)**
	Taxation	**–**	**–**	**–**	**(7)**	**(18,196)**
	(Loss)/profit for the period after taxation	**171,676**	**(306,477)**	**(134,801)**	**(1,147,279)**	**(2,253,603)**
7	**Basic and diluted (loss)/earnings per ordinary share (pence)**	**0.57**	**(1.02)**	**(0.45)**	**(3.82)**	**(7.51)**

The total column of this statement represents the Group's Income Statement, prepared in accordance with IFRS. The supplementary revenue and capital return columns are both prepared under Board approved guidelines in relation to the allocation between revenue and capital. All items in the above statement derive from continuing activities.

The accompanying notes on pages 15 to 17 are an integral part of the interim financial statements.

Unaudited Consolidated Statement of Assets and Liabilities

As at 31 July 2008

notes		31 July 2008 (unaudited) £	31 July 2007 (unaudited) £	31 January 2008 (audited) £
	Non-current assets			
4	Investment property	676,000	587,647	676,000
3,4	Financial assets	12,821,464	14,434,367	12,761,460
		13,497,464	**15,022,014**	**13,437,460**
	Current assets			
	Accrued interest and other receivables	974,819	974,928	471,070
	Cash and cash equivalents	2,463,094	1,919,058	2,944,914
	Committed cash balances	1,377,895	1,956,065	1,983,065
		4,815,808	**4,850,051**	**5,399,049**
	Current liabilities			
	Accrued expense and sundry accruals	(148,380)	(78,379)	(196,631)
	Deferred tax liability	(18,189)	-	(18,189)
	Provision for calls under guarantee	(1,123,494)	(924,270)	(1,460,095)
9	Dividend payable	(972,000)	-	-
		(2,262,063)	**(1,002,649)**	**(1,674,915)**
	Net current assets	**2,553,745**	**3,847,402**	**3,724,134**
	Creditors: amounts falling due in more than one year			
10	Bank Loan	(504,437)	(512,519)	(508,021)
	Net assets	**15,546,772**	**18,356,897**	**16,653,573**
	Represented by:			
5	Share capital	300,000	300,000	300,000
6	Share premium	27,850,479	27,850,479	27,850,479
	Capital reserve	(12,847,797)	(10,905,659)	(12,541,320)
	Revenue reserve	244,090	1,112,077	1,044,414
		15,546,772	**18,356,897**	**16,653,573**
8	**Net assets value per share**	**51.82p**	**61.19p**	**55.51p**

The accompanying notes on pages 15 to 17 are an integral part of the interim financial statements.

Unaudited Consolidated Statement of Changes in Net Assets

For the period from 1 February 2008 to 31 July 2008

	6 months ended 31 July 2008 (unaudited)					6 Months ended 31 July 2007 (unaudited)	Year ended 31 January 2008 (audited)
	Share Capital	Share Premium	Capital Reserve	Revenue Reserve	Total		
	£	£	£	£	£	£	£
Net assets at start of period/year	300,000	27,850,479	(12,541,320)	1,044,414	16,653,573	19,504,176	19,504,176
(Loss)/profit for the period/year after taxation	–	–	(306,477)	171,676	(134,801)	(1,147,279)	(2,253,603)
Dividends payable	–	–	–	(972,000)	(972,000)	–	(597,000)
Net assets at end of the period/year	**300,000**	**27,850,479**	**(12,847,797)**	**244,090**	**15,546,772**	**18,356,897**	**16,653,573**

The accompanying notes on pages 15 to 17 are an integral part of the interim financial statements.

Unaudited Consolidated Statement of Cash Flows

For the period from 1 February 2008 to 31 July 2008

	1 February 2008 to 31 July 2008 (unaudited)	1 February 2007 to 31 July 2007 (unaudited)	1 February 2007 to 31 January 2008 (audited)
	£	£	£
Operating activities			
Rental income	15,000	–	35,000
Interest income	139,041	326,314	1,742,728
Commission income	–	175,255	175,255
Expenses paid	(429,072)	(487,547)	(790,921)
Taxation paid	–	432	(7)
Net cash (outflows)/inflows from operating activities	**(275,031)**	**14,454**	**1,162,055**
Investing activities			
Loan advances	(510,000)	(3,050,183)	(3,642,629)
Purchase of investee company assets	(261,893)	–	–
Loan repayments	–	1,095,816	2,091,168
Net cash paid for calls called under guarantee	(223,982)	(5,311,521)	(4,948,174)
Sale of assets	187,500	–	–
Deferred consideration paid	–	–	(250,000)
Transfer from/(to) committed cash	605,170	6,362,970	6,335,970
Net cash outflows from investing activities	**(203,205)**	**(902,918)**	**(413,665)**
Financing activities			
Dividends paid	–	–	(597,000)
Net repayment of loans	(3,584)	(23,955)	(37,953)
Net cash outflows from financing activities	**(3,584)**	**(23,995)**	**(634,953)**
(Decrease)/increase in cash and cash equivalents	(481,820)	(912,419)	113,437
Cash and cash equivalents at start of period	2,944,914	2,831,477	2,831,477
Cash and cash equivalents at end of period	**2,463,094**	**1,919,058**	**2,944,914**

The accompanying notes on pages 15 to 17 are an integral part of the interim financial statements.

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"), a market of the London Stock Exchange Plc. The Company raised £30 million by the placing of ordinary shares at 100 pence per share.

The Company has two wholly owned subsidiaries – EPIC Structured Finance Limited, a company incorporated on 21 August 2003 in the Isle of Man and EPIC Reconstruction Property Company II Limited, a company incorporated on 30 December 2004 in England and Wales.

2 Accounting Policies

Basis of Preparation

The interim financial information has been prepared on the basis of the accounting policies set out in the Group's statutory accounts for the year ended 31 January 2008. The financial information contained in the interim statement does not constitute accounts under Isle of Man law.

The condensed set of interim financial statements has been prepared using accounting policies consistent with International Financial Reporting Standards (IFRSs) and in accordance with IAS 34 'Interim Financial Reporting' except for the non-consolidation of certain companies.

The total column of this statement represents the Group's Income Statement, prepared in accordance with IFRS. The supplementary revenue return and capital return columns are both prepared under Board approved guidelines in relation to the allocation between revenue and capital. All items in the above statement derive from continuing operations.

Segmental reporting

The Directors are of the opinion that the Group is engaged in a single segment of business and geographic area being arranging financing for businesses emerging from distressed situations in the United Kingdom.

3 Financial Assets

Under a credit risk participation agreement signed with Eurosales, a division of RBS, a third party finance company, the Group was committed to fund a minimum of 70% and a maximum of 100% (depending on the nature of loan and amount of security) of the credit losses for loans arranged by the Group and funded by Eurosales. Provision is made for any loans which are considered impaired and hence the commitment to fund the related credit losses will be called. As at 31 July 2008 provisions of £1,123,494 have been established against the loans, (31 January 2008: £1,460,095).

Under the terms of the credit risk participation agreement, the Group must retain a minimum amount in a security account, which is charged in favour of Eurosales, to support the Group's commitment under the agreement. As at 31 July 2008, £1,377,895 (31 January 2008: £1,983,065) of the term deposit was charged in favour of Eurosales.

This agreement has now been terminated and no new business is written under this agreement.

4 Non-current assets

	31 July 2008	31 July 2007	31 January 2008
	£	£	£
Investment Property	676,000	587,647	676,000
Financial assets:			
Secured loans	10,321,464	10,664,367	10,261,460
Unquoted equity investments	2,500,000	3,770,000	2,500,000
	13,497,464	**15,022,014**	**13,437,460**

Unquoted equity investments are stated at Directors' valuations.

5 Share Capital

	Number	£
Authorised		
Ordinary shares of 1p each	50,000,000	500,000
Called up, allotted and fully paid		
Ordinary shares of 1p each	30,000,000	300,000

6 Share Premium

The share premium arose on the issue of the ordinary shares and represents the difference between the price at which the shares were issued (100p) and the par value (1p). Issue expenses amounting to £1,849,521 were written off against the share premium account.

7 Basic and Diluted (Loss)/Profit per Share

The basic (loss)/profit per share is calculated by dividing the (loss)/profit for the period attributable to ordinary shareholders by the weighted average number of shares outstanding during the period of 30,000,000 (6 month period to 31 July 2007: 30,000,000).

Fully diluted (loss)/profit per share is the same as basic loss per share.

8 Net asset value per share (pence)

The net asset value per share is based on the net assets as at the period end of £15,546,772 (31 January 2008: £16,653,573) divided by 30,000,000 shares in issue at the end of the period.

9 Dividends payable

A final dividend of £972,000 (3.24 pence per share) based on the results for the year ended 31 January 2008 is payable to shareholders. The ex-dividend date for this dividend is 3 December 2008 and the payment date is 31 December 2008. This dividend has been included as a liability in these interim financial statements.

10 Bank Loan

	31 July 2008	31 July 2007	31 January 2008
	£	£	£
Mortgage loan	504,437	512,519	508,021

The mortgage bank loan bears interest of 10.30% and is secured on investment property valued in the financial statements at £676,000. The term currently outstanding on the loan is 20 years and 11 months.

11 Post Balance Sheet Event

At the Extraordinary General Meeting held on the 16 September 2008 the following proposed resolutions were put forward to shareholders for approval:

- Change of name to EPE Special Opportunities plc.
- Ability to buy back Shares totalling 1,500,000 (5% of the issued share capital).
- Cancellation of share premium reserve.
- Amendments to the original investment advisory agreement. The advisory fee to be calculated as 2% of the net assets plus VAT with a minimum advisory fee of £325,000 per annum.

All the proposed resolutions were passed unanimously.

Company Information

Directors

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

Secretary

P.P. Scales

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