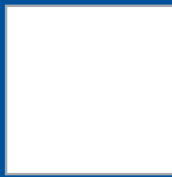


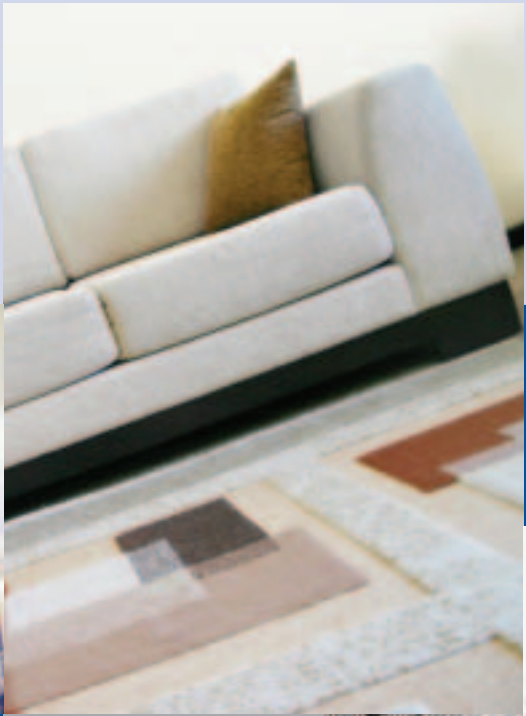


EPIC Reconstruction plc



Report & Accounts | **January 07**





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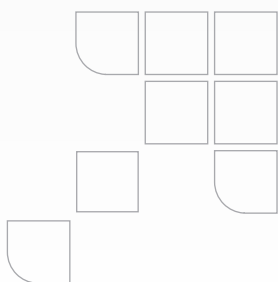


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Biographies of the Directors

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

Clive Spears retired from the Royal Bank of Scotland International Ltd 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 Securities Institute. Since January 2004 he has been building his own consultancy business offshore providing project and non executive director services.

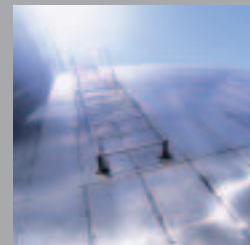




Nick Wilson has over 30 years experience in hedge funds, derivatives and global asset management. He has run offshore branch operations for MeesPierson Derivatives Limited, ADM Investor Services International Limited and several other London based brokerage companies. He is non-executive chairman of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

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

Paul Keltie has been an employee of Northern Trust International Fund Administration Services (Guernsey) Limited ("NT") for 5 years and is Divisional Manager of Fund Accounting Operations. Mr Keltie qualified as a Chartered Accountant in Johannesburg with Arthur Andersen in 1990 prior to joining the Project and Structured Finance Division of Standard Corporate and Merchant Bank as a Marketing Manager. Mr Keltie joined NT from KPMG in Guernsey where he was employed as Senior Manager in the Audit Department with responsibility for the audit of a number of local banking, trust and fund clients.



Profile of Investment Manager

EPIC Private Equity ("EPE") was founded in June 2001 and is independently owned by its Partners. EPE focuses on niche investment opportunities throughout the UK and Europe with a focus on leveraged buyouts (EPIC plc) and turnaround transactions (EPIC Reconstruction plc). EPE has completed over 45 transactions in five years resulting in its current portfolio of businesses with combined turnover of more than £450m and £41m of invested capital. EPE is generally lead investor and takes controlling positions in its investments, partnering with Management and Entrepreneurs to leverage financial and operational expertise.

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

Andrew Castle is a founder of EPIC Private Equity. Before joining EPE he worked for 20 years as a solicitor, specialising in corporate finance and insolvency law before founding Corporate Solutions in 1999. He has advised on over 110 restructuring deals, and has extensive experience in the purchasing of distressed companies by management teams. In 2003, he resigned from Corporate Solutions to become a specialist adviser to EPIC Specialist Investments, the fund manager of EPIC Reconstruction plc. Andrew read Law at Kings College, London.

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

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

Robert Leeming worked for Cobra, PwC's Strategy Group, a boutique strategy consulting practice advising both corporate and private equity clients prior to joining EPE. While at PwC he advised Private Equity firms such as Permira, Candover and Cinven on the strategic rationale for acquisitions. He also worked on the turnaround plans of Mikron Holdings and Boxclever. Robert read Natural Sciences at Cambridge University.

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

Chairman's Statement



As my first Chairman's Statement to Shareholders as Chairman since taking over from Donald Adamson in November 2006, I would like to take this opportunity to record our thanks to Donald for his service and commitment, and wish him well for his future endeavours.

On a more salutary note, regretfully I must report that the investment performance of EPIC Reconstruction Plc ("ER" or the "Company") over the last 6 months has been disappointing and this is reflected in a poor overall trading result for the year ending 31 January 2007. Although the Company has yielded £1.4m of revenue profit before tax there have been capital losses of £9.3m in the year to 31 January 2007. The net asset value per share as at 31 January 2007 was 65.01p. Despite this adversity the Board has determined to return a total dividend for the year of 4.54p to shareholders, including an interim dividend of 2.55p. Adding further disappointment was the administration of Abbseal/N&U post year end, the details of which have included in Note 22 to this report. The financial impact of this was reflected in the Company's March net asset value announcement.

ER has made five investments over the course of the year, three of which were bolt-ons for current portfolio businesses. The other two investments were GGS Holdings, a construction and maintenance company, and Dolcis, a shoe retailer.

The overall reduction in net asset value has mainly been as a consequence of the need to provide against three of the existing portfolio companies, two of which have now failed. Details of these investments and provisions are included in the Investment Manager's report.

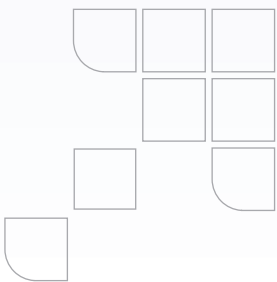
The Board and Manager have addressed the issues faced by the Company through a review of strategy, a full provisioning of value destroying investments and the determination of a refocused and robust investment strategy. The Dolcis and GGS Holdings acquisitions underline ER's strategy of concentrating on fewer, larger deals.

Since inception and from the initial 93.8p of net asset value per share funded by shareholders in September 2003 the Company has generated gross income of 28.1p per share and paid 14.8p per share of dividends to 31 January 2007. This is against a fall in net asset value of 28.9p per share due to gains, losses and provisions. These figures are based on eighteen investments made over three years. Five of these are still held, four yielded good returns upon exit, five were exited at break even or at a small loss. Provisions have been made against four investments which have seriously impacted on the performance of the Company. This variability, and in the context of the pace of recent events in the portfolio, highlights the high risk profile of the distressed equity asset class.



In light of this, the Company's main focus in the near term is to deliver shareholder value by consolidating the positions of the five remaining performing assets and maximise value from within these investments.

I look forward to reporting to you on progress of the Company during the year and hopefully brighter prospects as the year unfolds.



Investment Manager's Report



The Manager is disappointed to report a poor trading period for ER and also had the need to make material provisions to take into account early investments that could no longer be supported without significant further cash resource. It was deemed by the Manager and the Board that it would not be in the best interests of the Shareholders to continue supporting these investments (Abbseal, Bonne Bouche and C30).

Despite the provisions there are certain factors that have been positive including the further development of the investment model, supported by two key investments (GGs and Dolcis) and also the progress of other investee companies, in particular Kemutec, Morada and Past Times. The Manager is of the view that this period has seen a significant restructuring in the Company and also brings to an end relationships with third parties that have failed the Company's objectives.

During the year to 31 January 2007 the Manager completed two new acquisitions and three bolt-on acquisitions for the Company. The Manager updated the Shareholders on those investments completed during the first six months in the Interim report for the period to 31 July 2006. The purpose of this report is to provide a fuller insight into each of the portfolio companies, the rationale for investment, and their current prospects. Over the period the Manager has looked to rationalise the portfolio and focus on supporting the key investments while at the same time supplementing these with high potential opportunities such as Dolcis.

The two new acquisitions GGS Holdings and Dolcis underline ER's strategy of focusing on fewer, larger deals. Dolcis is a UK and European retailer of women's and men's footwear and accessories with revenues of c. £60m per annum. ER acquired Dolcis from Alexon plc in partnership with a successful retail entrepreneur, John Kinnaird. ER has commenced a focused turnaround plan with the aim of improving working capital management, increasing margins, reducing head office costs and returning loss-making stores to profitability. In addition, due to strong trading over the Christmas period, the Board of Dolcis approved a return of cash to shareholders of £1.05m or 65% of the initial investment in less than two months (paid March 2007). As discussed in the interim report, the investment in GGS Holdings highlights the ability of ER to protect downside and generate return. As expected, following the sale of GGS Holdings, the entire £4.6m investment has been returned and interest over the course of the investment has been returned to ER achieving a 10.6% IRR.

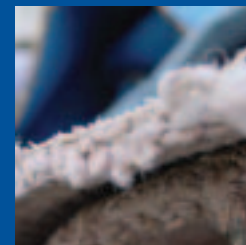
As part of the year-end portfolio evaluation the Manager has made a number of carrying value adjustments to ensure the NAV continues to be a conservative assessment of the underlying asset value of the portfolio. In performing the revaluation the Manager has adhered to latest BVCA approved guidelines.

Two investments have achieved significant progress since acquisition and have been subject to an upward re-valuation. The first portfolio company, Morada, has been successfully stabilised since its acquisition and Kemutec has returned ER's initial investment and has declared a dividend to repay the first tranche of the B shares due to ER. While companies such as Past Times and the newly acquired Dolcis are performing strongly, these assets will be held at cost until the Manager has had the opportunity to observe a longer period of trading performance.

The Manager has written off a further £0.6m related to AG Brown to reflect the winding down of the Administration process as the realisation figures are further crystallised. This is additional to the £0.6m provisioned in the first half. Due to the consistent underperformance of C30 and a recent loss of customers due to changes in outsourcing strategy, the Manager has written off £1.2m in relation to C30. Bonne Bouche has failed to generate cash and the profits which had been expected over the period despite high sales volume during the peak season. Furthermore the bank funding was gradually withdrawn from the business and the Manager has determined that further funding of the business, given the expected level of profitability going forward, would not be in the best interests of Shareholders.

Investment Manager's Report

continued



As a result Bonne Bouche has been put into Administration and £4.5m has been written off. Finally, provisions have been put in place in respect of the Company's investment in Abbseal. This is because despite a large scale restructuring to reduce the number of sites from three down to one, the remaining business still faced tough market trading conditions on the demand-side and the prospect of further increases in raw material prices. Therefore 100% of the overlend facilities have been provided for as at 31 January 2007 and also other amounts in relation to guarantees to third parties. Since the year end the business failed to meet projections and has been put into Administration. Further provisions have been made as at 31 March 2007. Please refer to Note 22 of these financial statements. The remaining investments have been held at cost as this is considered to be fair value in these cases.

The Investment Model

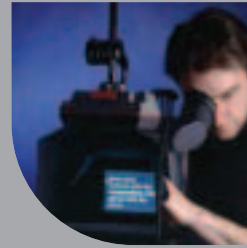
As outlined in the Chairman's Statement the investment model continues to be refined. The past year has seen ER, as forecast in last year's report complete a smaller number of larger deals. In addition, the controls surrounding each deal continue to evolve and become more sophisticated. The Manager increasingly looks to bring external management skill to support incumbent management teams in turnaround situations and the Manager's monitoring team continues to build.

2006 has also seen a move in the type of opportunities seen. ER's earlier investments focussed on the acquisition of businesses from Administration or Receivership. The past year has seen a range

of stressed and distressed opportunities and the requirement to provide liquidity and restructuring expertise in solvent scenarios with asset backing. In such situations, it is the operational and financial restructuring skill of the Manager that adds value to longer term equity, rather than pursuing a range of small overlends on debtor facilities to small distressed business bought from Administration.

The Manager is of the view that the hands-on operational skill is critical to drive real value from the underlying portfolio, and that the range of management teams that the Manager knows assists in providing that skill capital. Going forward, the Manager expects this style of investing to develop, with more major corporate and business unit restructurings undertaken, lead by exceptional managers with significant reorganisation expertise.

The Manager believes that the potential to create value within this space remains significant, and the economic cycle continues to create a wide range of investment opportunities. In addition, the 'on the ground' requirement for monitoring of investments is significantly higher in the arena of distressed investing than traditional private equity investments. It is also the case that the evolution of the investment style has created a portfolio where the Company's latest investments are, in the Manager's view, of higher quality and with greater potential than some of the earlier investments. The Manager has been through a rationalisation process of the earlier investments and, by removing this drain on resources, is focussed on the remaining better quality portfolio.



The Portfolio

During the period the retail exposure in the portfolio has increased significantly and the Manager has seen a greater number of deal opportunities in this sector. Manufacturing businesses remain a focus, as these businesses are frequently suitable due to their asset-rich nature. The remainder of the opportunities have arisen as a result of specific circumstances within that industry or business, often driven by over capacity of some nature.

Portfolio Companies

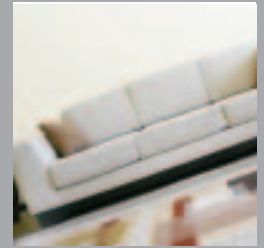


Autocue (2005)

Autocue is a manufacturer of prompting equipment for the media industry, as well as the developer and provider of a range of software for a similar customer base. The business went into Administration early in 2005 due to significant historic leverage raised to expand the software side of the business, a strategy which subsequently proved disastrous. The Company teamed up with another private equity provider to buy the business out of Administration, employing a new management team who have looked to restructure the business fundamentally, through the removal of a number of unnecessary excess costs, and a realignment of the business to its core prompter (rather than software) sales. The Company has a £0.675m overlend exposure to Autocue, yielding 15% per annum. The last twelve months has seen the development of Qnxt, a prompter which management are confident is significantly ahead of all competition. Qnxt is due to be launched in May 2007 and therefore the performance of the business is expected to improve further over the next period.

Dolcis (2006)

Dolcis, a high street shoe retailer, was bought out of Alexon Group plc during December 2006 with John Kinnaird, a retail entrepreneur. The key turnaround strategies to be employed initially are to improve buying, reduce stock levels, extend credit and dispose of loss making stores. Christmas trading met expectations and Management have made significant progress with suppliers. Cash balances have been healthy and the Dolcis Board repaid £1.05m of the original £1.7m investment in March 2007. The remaining balance yields 9% per annum.



Kemutec (2005)

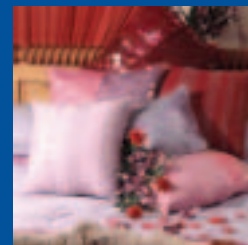
Kemutec is a manufacturer of mixing and sifting equipment for the chemical, pharmaceutical and food industries, with annual sales of circa £10m. The Company has £0.22m in overlend and acquisition finance yielding 15% per annum, as well as underwriting of the debtor book (which has minimal utilisation, due to the contract nature of the business), and purchasing of the properties through EPIC Reconstruction Property Company (since sold). Since acquisition, the business has performed strongly and a dividend has been declared in favour of the Company to repay the first tranche of the 'B' Share. Demand from the US and Continental remains strong and the business is now looking to develop its presence further in new sectors and markets.

Morada Home Limited (2005)

The Company backed Stuart Taylor to buy the Morada Home business out of administration with a secured debt instrument of £0.75m yielding 15% per annum. The division was based originally on contracts with the Ministry of Defence ("MoD"), which comprised around two thirds of the division's turnover, to supply curtains and blinds for MoD living accommodation. The business also supplies local authorities and educational establishments, including a two year contract with Lancashire Purchasing Agency. In the retail sector, it supplies custom-made and ready-made furnishings to a number of independent and national customers, including Paul Simon and Dunelm. Morada has had a promising initial period and further uplift is expected once a current MOD spending moratorium is lifted. The order book remains in line with expectations, and the cash availability is forecast to improve over the coming period.

Portfolio Companies

continued



Past Times (2005)

Past Times is a niche retailer of historically inspired jewellery, gifts, books and housewares. Past Times was acquired in December 2005 from the administrators of Retail Variations plc, with Will Hobhouse, formerly of Tie Rack and Whittards of Chelsea brought in as Chairman. The Company has committed up to £8.9m at a 15% yield per annum. The secured debt instrument is currently £5.9m. Past Times has undergone a major restructuring process, with the number of stores reduced, the head office cost base reduced, and the product range has been improved. The business is now experiencing the benefits of these improvements. With the business now stabilised, like-for-like sales have increased on last year, and is forecast to profitable in the coming year.

AGB Steel (2005)

ER owns a 20% stake in AGB Steel. The business has been trading in line with expectations, but profits are low due to a highly competitive market. Management are currently reviewing strategic options for the company.



DISTRESSED INVESTMENTS

A.G. Brown (2004)

The debtor book of AG Brown continues to be collected, the majority of which is subject to legal action. The administration is likely to continue for another 6 months in order to facilitate legal action with regard to the debtor book.

Abbseal/N&U (2004/2006)

Abbseal is a glass processor, selling to both the domestic and commercial markets. An administration process was used to restructure the cost base of Abbseal by reducing the number of manufacturing plants. During September 2006 the Company acquired a further business, Norman & Underwood (Eastern) Limited in order to supplement revenue streams and also facilitate further restructuring. The market in which Abbseal operates continues to remain tough with increasing glass prices and constrained supply due to high demand in Europe. On the demand side the market is competitive and several operators are pushing prices lower and lower to gain throughput volumes. Due to this the Manager decided to undertake further restructuring and reduce the number of sites from three down to one in order to generate a higher margin business with lower working capital requirements. The restructuring also provided the Manager with an opportunity to streamline central costs. However, despite the potential opportunity to recoup the investment and the single site did not perform to plan and the Manager decided that it would be in the best interests of the shareholders to withhold further funding to the Company. Since 31 January 2007 the whole group has been put into Administration. The amount provided for at 31 January 2007 was £3.98m. Further provisions have been made subsequent to the year end (see Note 22).

Bonne Bouche/Oriental Express Frozen Food (2004/2006)

Bonne Bouche, a manufacturer of frozen gateaux and puddings for the food service and retail industries merged with Oriental Express Frozen Foods (OEFF) which specialises in distributing and marketing Oriental frozen ready meals in 2006. The transaction united the companies under the same management team and further advantages in the form of revenue and cost synergies were also envisaged. A bolt-on acquisition (CFH Limited) was completed during December 2006 in order to boost revenue and margins and diversify the product offering. Despite a strong sales for Bonne Bouche over the peak Christmas period all the Group has been placed into Administration due to cash constraints through a combination of lower than expected margin through poor operational execution and increased input costs and withdrawal of bank financing. ER was unwilling to support the business through further funding on the recommendation of the Manager. In particular it was deemed this would not be in the best interests of the Shareholders considering the forecast profit levels. The investment in this Group has now been written off at £4.5m.

Portfolio Companies

continued



C3O (2004)

C3O, the business formerly called Connections Plus, is a call centre operator based in Skipton focussing on both inbound and outbound customers. The Company invested £0.5m in overlend yielding 7.5% per annum, and has provided additional financing of £0.5m. Revenues have fallen recently as a result of changes in customer outsourcing strategies. Due to the heightened risk of not recovering the investment the Manager has recommended a 100% provision.

Report of the Directors

Principal activity

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

The principal activity of the Company and its subsidiaries (together “the Group”) is to arrange financing for businesses emerging from distressed situations. The Group may itself make loans, and where appropriate introduce a third party finance company, which advances the loans to the investee businesses. The Manager looks to set realistic repayment schedules, but does not view a portfolio company not repaying on time and in full as ‘underperforming’ though in all cases the Manager reserves the right to exercise step in rights. In addition to the repayment of the overlend, 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, typically held with the third party finance company that determines the Group’s view of each investment.

Incorporation

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

St James’s Chambers, Athol Street, Douglas, Isle of Man, IM99 1PP, British Isles.

Details of subsidiaries are provided in Note 20.

Results of the financial year

Results for the year and their appropriation are set out in the Consolidated Statement of Operations on page 20 and in the Consolidated Statement of Changes in Net Assets on page 23.

Dividends

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

Details of the dividends paid and proposed during the year are analysed on page 30 in Note 6.

Corporate Governance Principles

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

The Board having reviewed the Code, considers that it has maintained procedures during the year ended 31 January 2007 to ensure that it complies with the spirit of the Code subject to the exceptions explained below and its special circumstances as an offshore company.

Nomination Committee

The Board as a whole fulfils the function of a Nomination Committee. Whilst the independent Directors take the lead in the appointment of new Directors, any proposal for a new Director will be discussed and approved by all of the Board.

Report of the Directors

continued

Audit Committee

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

Investment Committee

At a Board Meeting held on 22 March 2007 it was resolved that an Investment Committee be set up comprising the independent Directors with Geoffrey Vero appointed as Chairman. The purpose of this committee is to review the performance of the portfolio companies. The Board is satisfied that the Investment Committee contains members with sufficient recent and relevant investment experience.

Significant holdings

Significant shareholdings are analysed on page 35.

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

Directors

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

	Appointed	Resigned
Mr. G.O. Vero* (Chairman)		
Mr. R.B.M. Quayle		
Mr. C.L. Spears		
Mr. N.V. Wilson		
Mr. P. Keltie	18 September 2006	
Mr. D.L. Adamson (Chairman)		17 November 2006
Mr. C. O'Keefe	20 March 2006	18 September 2006

* Upon the resignation on 17 November 2006 of Mr. D.L. Adamson, Mr. G.O.Vero was appointed Chairman.

Secretary

The secretary of the Company holding office for the financial year and to date were:

	Appointed	Resigned
Mr. J. Middleton	28 April 2006	–
Mr. D.J. Parnell	02 December 2005	28 April 2006

Staff

At 31 January 2007 the Group employed no staff.

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.

By order of the Board

N.V. Wilson

25 April 2007

Statement of Directors' Responsibilities

in respect of the Directors' report and the financial statements

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

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

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

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

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

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

Under applicable law the Directors are also responsible for preparing a Directors' Report that complies with that law.

Report of the Independent Auditors

KPMG Audit LLC, to the members of EPIC Reconstruction plc

We have audited the Group and Parent Company financial statements (“the financial statements”) of EPIC Reconstruction plc for the year ended 31 January 2007 which comprise the Consolidated Statement of Operations, the Consolidated and Parent Company Statement of Assets and Liabilities, the Consolidated Statement of Changes in Net Assets, the Consolidated Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company’s members, as a body, in accordance with section 15 of the Companies Act 1982. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors’ responsibilities for preparing the financial statements in accordance with applicable Isle of Man company law and International Financial Reporting Standards are set out in the Statement of Directors’ Responsibilities on page 17.

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

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

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

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

Basis of opinion

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

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

Qualified opinion resulting from disagreement about accounting treatment

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

In our opinion:

- the financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Company's affairs as at 31 January 2007;
- the financial statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004; and
- the information given in the Directors' Report is consistent with the financial statements.

In our opinion:

- except for the effect of the non-inclusion of the results of certain portfolio companies in the consolidated financial statements as referred to above, the financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Group's affairs as at 31 January 2007 and of the Group's loss for the year then ended.

KPMG Audit LLC

Chartered Accountants

Douglas

Isle of Man

25 April 2007

Consolidated Statement of Operations

For the year ended 31 January 2007

Notes	31 January 2007			31 January	
	Revenue	Capital	Total	Total	
	£	£	£	£	
	Income:				
	Rental income	766	–	766	702,889
	Interest	2,007,270	–	2,007,270	1,164,577
	Commission income	587,772	–	587,772	773,577
	Total income	2,595,808	–	2,595,808	2,641,043
	Expenses:				
3	Investment advisor's fees	(345,518)	–	(345,518)	(467,016)
3	Administration fees	(57,923)	–	(57,923)	(53,649)
4	Directors' fees	(86,538)	–	(86,538)	(119,959)
	Directors and Officers' insurance	(22,479)	–	(22,479)	(4,693)
7	Professional fees	(327,946)	–	(327,946)	(318,136)
	Crest service provision	(1,749)	–	(1,749)	(4,875)
	Printing and advertising expenses	(20,524)	–	(20,524)	(55,462)
	Board meeting and travel expenses	(19,207)	–	(19,207)	(13,767)
	Auditors' remuneration	(40,266)	–	(40,266)	(34,154)
11	Interest and other charges	(48,669)	–	(48,669)	(57,337)
5	Irrecoverable VAT	(105,858)	–	(105,858)	–
	Sundry expenses	(12,064)	–	(12,064)	(10,710)
	Stock exchange fees	(8,511)	–	(8,511)	(2,353)
	Advisor and broker fees	(36,633)	–	(36,633)	(32,818)
	Rental expenses	(13,449)	–	(13,449)	(41,997)
	Bad debts on rental income	(76,082)	–	(76,082)	–
	Total expenses	(1,223,416)	–	(1,223,416)	(1,216,926)
	Net investment income	1,372,392	–	1,372,392	1,424,117
	Gains on investments				
8	Net realised gains	–	201,236	201,236	1,653,953
8	Unrealised gains on investments	–	3,770,000	3,770,000	–
8	Impairment of loan portfolio	–	(5,802,965)	(5,802,965)	–
21	Commitments under guarantee	–	(7,413,794)	(7,413,794)	(824,363)
	(Loss)/profit for the period before taxation	1,372,392	(9,245,523)	(7,873,131)	2,253,707
5	Taxation	(22,642)	–	(22,642)	(567,407)
	(Loss)/profit for the period after taxation	1,349,750	(9,245,523)	(7,895,773)	1,686,300
14	Basic and diluted (loss)/earnings per ordinary share (pence)	4.50p	(30.82p)	(26.32p)	5.62p

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

The notes on pages 25 to 34 form an integral part of these financial statements.

Consolidated Statement of Assets and Liabilities

As at 31 January 2007

Notes	31 January 2007 £	31 January 2006 £
8 Non-current assets		
Investment property	587,647	1,425,247
Financial assets	12,808,500	3,742,670
	13,396,147	5,167,917
Current assets		
Accrued interest and other receivables	511,101	448,396
10 Cash and cash equivalents	2,831,477	8,626,939
10 Committed cash balances	8,319,035	17,314,836
	11,661,613	26,390,171
Current liabilities		
Accrued expenses and sundry accruals	(103,701)	(406,464)
5 Tax liability	–	(567,407)
8 Guarantee payable	(250,000)	–
21 Provision for call under guarantee	(4,653,909)	(443,000)
	(5,007,610)	(1,416,871)
Net current assets	6,654,003	24,973,300
Creditors: amounts falling due in more than one year		
11 Bank loan	(545,974)	(566,268)
Net assets	19,504,176	29,574,949
Represented by:		
12 Share capital	300,000	300,000
13 Share premium	27,850,479	27,850,479
Capital reserve	(9,245,277)	1,090,246
Revenue reserve	598,974	334,224
	19,504,176	29,574,949
15 Net asset value per share (pence)	65.01p	98.58p

The financial statements were approved by the Board of Directors on 25 April 2007 and signed on its behalf by:

C.L. Spears

N.V. Wilson

Company Statement of Assets and Liabilities

As at 31 January 2007

Notes	31 January 2007 £	31 January 2006 £
8 Non-current assets		
Financial assets	3,770,001	30,000
Investment in subsidiaries	275,001	1,252,704
	4,045,002	1,282,704
Current assets		
9 Loan to subsidiary	12,668,475	22,343,521
Accrued interest and other receivables	170,006	97,164
10 Cash and cash equivalents	489,873	6,032,523
	13,328,354	28,473,208
Current liabilities		
Accrued expenses and sundry accruals	(97,474)	(195,433)
	(97,474)	(195,433)
Net current assets	13,230,880	28,277,775
Net assets	17,275,882	29,560,479
Represented by:		
12 Share capital	300,000	300,000
13 Share premium	27,850,479	27,850,479
Capital reserve	(11,552,365)	(1,259,363)
Revenue reserve	677,768	2,669,363
	17,275,882	29,560,479
Net asset value per share (pence)	57.59p	98.53p

The loss dealt with in the accounts of the Company for the year ended 31 January 2007 was £10,109,597 (2006: profit of £1,671,830).

The financial statements were approved by the Board of Directors on 25 April 2007 and signed on its behalf by:

C.L. Spears

N.V. Wilson

Consolidated Statement of Changes in Net Assets

For the year ended 31 January 2007

	Year ended 31 January 2007				Year ended 31 January 2006	
	Share Capital £	Share Premium £	Capital Reserve £	Revenue Reserve £	Total £	Total £
Net assets at start of year	300,000	27,850,479	1,090,246	334,224	29,574,949	29,649,649
(Loss)/profit for the year after taxation	–	–	(9,245,523)	1,349,750	(7,895,773)	1,686,300
Dividends paid	–	–	(1,090,000)	(1,085,000)	(2,175,000)	(1,761,000)
Net assets at end of year	300,000	27,850,479	(9,245,277)	598,974	19,504,176	29,574,949

The notes on pages 25 to 34 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 January 2007

Notes	31 January 2007 £	31 January 2006 £
Operating activities		
Rental income	18,614	698,879
Interest	1,762,652	1,734,343
Commission income	672,969	908,261
Expenses paid	(1,447,311)	(1,237,393)
16 Net cash inflow from operating activities	1,006,924	2,104,090
Taxation paid	(590,049)	–
Net cash flows from operating activities	416,875	2,104,090
Investing activities		
Purchase of investments and investment property	(20,000)	(4,893,631)
Sale of investments and investment property	1,088,836	6,160,736
Loan advances	(17,771,390)	(3,712,670)
Loan repayments	6,892,595	–
Payments called under the guarantee	(3,202,885)	(816,363)
Transfer from/(to) committed cash	8,995,801	(1,908,422)
Net cash flows from investing activities	(4,017,043)	(5,170,350)
Financing activities		
Dividends paid	(2,175,000)	(1,761,000)
Proceeds from borrowings	–	566,268
Part payment of loan	(20,294)	–
Net cash flows from financing activities	(2,195,294)	(1,194,732)
Decrease in cash and cash equivalents	(5,795,462)	(4,260,992)
Cash and cash equivalents at start of year	8,626,939	12,887,931
Cash and cash equivalents at end of year	2,831,477	8,626,939

The notes on pages 25 to 34 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 January 2007

1 Operations

The Company was incorporated with limited liability in the Isle of Man with the registered number 108834C on 25 July 2003. The Company's ordinary shares are listed on the Alternative Investment Market ("AIM"). The Company raised £30m by a placing of ordinary shares at 100 pence per share.

The Company has four wholly owned subsidiaries, detailed in Note 20.

The principal activity of the Company and its subsidiaries (together "the Group") is to arrange financing for businesses emerging from distressed situations. The Group may itself make loans and where appropriate introduce a third party finance company, which advances the loans to the investee businesses. The Manager looks to set realistic repayment schedules, but does not view a portfolio company not repaying on time and in full as 'underperforming' though in all cases the Manager reserves the right to exercise step in rights. In addition to the repayment of the overlend, 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, typically held with the third party finance company that determines the Group's view of each investment.

The consolidated financial statements comprise the results of the Company and its subsidiaries (the "Group") (see Notes 2(b) and 20).

The Company has no employees.

2 Accounting policies

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

The financial statements are presented in Sterling. They are prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss (FVTPL). See Note 2(h)(i) regarding the redesignation of investments in equity instruments from available-for-sale to FVTPL.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Notes 8 and 21.

Notes to the Financial Statements

For the year ended 31 January 2007

continued

b Subsidiaries

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

As part of the Group's arrangement of finance for businesses emerging from distressed situations the Group may receive preference and ordinary shares. Such shares permit the Group to participate in any increase in the value of portfolio companies. Such shares are received for nil consideration and the equity interest of the Group is capped by way of management options to purchase the Group's interest at a set amount. In addition, Board representation is only assumed in default situations. For such interests the Directors consider that they do not meet the definition of subsidiaries under IAS 27.

For four investments (2006: three) made in the year in portfolio companies, the equity interest of the Company is not capped. It is considered that such companies meet the definition of subsidiaries and would therefore fall to be consolidated under IAS 27. However, the Directors consider that consolidation would render the consolidated accounts misleading, as such interests were acquired for nil consideration, as part of loan finance arranged for such companies and such interests were acquired with a view to income and capital gain.

If these four investments had been consolidated, the group loss would have been increased by £3,634,000 (2006: profit reduced by £1,990,000) and net assets would have been reduced by the same amount (2006: profit reduced by £1,990,000).

c Segmental reporting

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

d Income

Interest income is recognised in the Consolidated Statement of Operations as it accrues. Dividend income is accounted for when the right to receive such income is established. The return on shares held in money market funds is treated as interest receivable.

e Expenses

All expenses are accounted for on an accruals basis.

f Taxation

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

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

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

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

g Cash and cash equivalents

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

h Investments

(i) Classification

Equity and preference share investments have been re-designated from available-for-sale category to fair value through profit and loss. Such redesignation has been made to better reflect the nature of the Group's investments, which are managed and revalued on a fair value basis. This redesignation has had no effect on the prior year figures. The effect on the current year figures is to include fair value gains in profit or loss instead of equity.

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

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

(ii) Recognition

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

A regular way purchase of financial assets is recognised by using trade date accounting. From this date any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

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

(iii) Measurement

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

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

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

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

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

Financial liabilities, other than those at FVTPL, are measured at amortised cost using the effective interest rate.

Notes to the Financial Statements

For the year ended 31 January 2007

continued

(iv) **Impairment**

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

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

(v) **Derecognition**

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

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

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

i **Financial guarantees**

Commitments under financial guarantees are provided for when an event has occurred that will result in the commitment being called (see Note 21).

j **Investment property**

Investment property is stated at fair value determined annually by the Directors. Any gain or loss arising from a change in fair value is recognised in the Consolidated Statement of Operations. 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.

3 **Investment advisory, administration and performance fees**

a **Investment advisory fees**

On 10 September 2003 the Company entered into an Investment Advisory Agreement with EPIC Specialist Investments Limited ('ESI' or 'the Manager') for the provision of investment advisory services. Investment advisory fees are paid quarterly in arrears at a rate of 1% per annum of the Group's Gross Asset Value (including the Group's attributable proportion of financing contracts for which it is participating in the credit risk).

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

The Manager is entitled to charge and retain structuring fees of a maximum of 2% of the value of the total facilities provided on any transaction or a minimum of £35,000 per transaction, whichever is the higher. In the year ending 31 January 2007, such fees amounted to £155,000 (2006: £365,000). The fees are paid by the investee companies.

b **Administration fees**

On 10 September 2003 the Company entered into an Administration agreement with Northern Trust International Fund Administration Services (Isle of Man) Limited for the provision of administration, registration and secretarial services. The fee is payable at a rate of 0.15% per annum of the Group's Net Asset Value, subject to a minimum fee of £30,000 per annum.

The agreement is terminable by either of the parties giving not less than 6 months notice.

A fee is charged by the Manager for administering the EPIC Reconstruction Property Company, in the year ending 31 January 2007, such fees are fixed by agreement and amounted to £17,500 (2006: £50,000).

c Performance fees

The Investment Advisory Agreement above also provides for the provision of a performance fee. The fee is payable if the Total Return (taken as Net Asset Value plus dividends distributed) is equal to at least 8% per annum from the date of admission of the Company's shares to AIM, based on the funds raised through the Placing of shares and compounded annually. No performance fee has accrued for the year ended 31 January 2007 (2006: £Nil).

4 Directors' fees

Directors' fees payable for the year (including VAT where applicable in 2006) were as follows. The charge for the year in the Consolidated Statement of Operations of £86,538 includes an adjustment for an under accrual in respect of prior year.

	2007 (£)	2006 (£)
DL Adamson	17,598	20,000
RBM Quayle	20,000	23,500
GO Vero	15,625	17,625
CL Spears	15,000	15,000
NV Wilson	20,000	23,500
Under accrual for prior year	(1,685)	20,334
	<u>86,538</u>	<u>119,959</u>

5 Taxation

Both the Company and EPIC Structured Finance Limited are Isle of Man tax resident.

No Isle of Man Tax charge arises as dividends paid and proposed are deductible from taxable income and all taxable income has been paid or proposed to be paid as a dividend.

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

	2007 £	2006 £
(Loss)/profit before tax of UK property company subsidiaries	(17,791)	1,839,145
UK Corporation Tax charge at 30%	(5,337)	551,744
Actual UK Corporation Tax charge in the accounts	22,642	567,407

During the year irrecoverable VAT amounting to £105,858 was accounted for separately in the Consolidated Statement of Operations. In prior years expenses were shown net of VAT.

Notes to the Financial Statements

For the year ended 31 January 2007

continued

6 Dividends paid and proposed

Under the terms of the Company's prospectus, it is the policy of the Company to distribute substantially all of its distributable profits each year. During the year the following dividends were paid.

		Rate	Total £
2006 Final	Paid 30 June 2006	4.7p	1,410,000
2007 Interim	Paid 22 December 2006	2.55p	765,000

After the balance sheet date, the Directors have proposed a final dividend of 1.99p per ordinary share. The proposed final dividend has not been provided for in the financial statements.

7 Professional fees

Professional fees represents the employment of third party advisers on a number of aborted transactions together with accountancy fees for subsidiary companies. As the complexity and size of transactions investigated has increased, the professional fee levels have increased accordingly.

8 Non-current assets

	2007		2006	
	Group £	Company £	Group £	Company £
Investment property	587,647	–	1,425,247	–
Financial assets:				
Secured loans	9,038,500	–	3,712,670	–
Unquoted equity investments	3,770,000	3,770,001	30,000	30,000
Investment in subsidiaries	–	275,001	–	275,104
Mortgage loan to subsidiary	–	–	–	977,600
	13,396,147	4,045,002	5,167,917	1,282,704

Investment property is stated at Directors' valuation which is equivalent to cost.

The mortgage loan to the subsidiary was interest bearing at 8.0%. It was repaid in the year.

The secured loans are secured by way of floating charge. The terms of secured loans are disclosed in note 17.

Realised net capital gains in the year comprise of £207,479 (2006: £1,710,637) in respect of gain on sale of investment property, £43,757 gains on investments and £50,000 losses on investments (2006: loss of £56,684).

Unquoted equity investments comprised unrealised fair value gains of £3,770,000 (2006: £Nil) on two portfolio companies.

The impairment of loan portfolio charge in the statement of operations includes £5,552,965 (2006: £Nil) in respect of impairment provisions against secured loans during the year and £250,000 payable in respect of a guarantee on behalf of a portfolio company.

9 Loan to subsidiary – EPIC Structured Finance Limited

	2007	2006
	Company	Company
	£	£
Loan to subsidiary	12,668,475	22,343,521

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

10 Cash at bank

	2006		2005	
	Group	Company	Group	Company
	£	£	£	£
Current and call accounts	274,471	3,875	2,360,085	1,242,544
Money market fund	2,557,006	485,998	5,081,690	4,789,979
Term deposit	8,319,035	–	18,500,000	–
	11,150,512	489,873	25,941,775	6,032,523
Committed cash	8,319,035	–	17,314,836	–
Cash and cash equivalents	2,831,477	489,873	8,626,939	6,032,523
	11,150,512	489,873	25,941,775	6,032,523

£8.3 million (31 January 2006: £17.3 million) of the term deposit is charged in favour of the third party finance company to support the Group's commitment under a credit risk participation agreement (see Note 21).

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

11 Bank loan

	2007	2006
	Group	Group
	£	£
Mortgage loan	545,974	566,268

The mortgage bank loan bears interest at 9.10% and is secured on investment property valued in the financial statements at £587,647. The term currently outstanding on the loan is 22 years and 4 months.

12 Share capital

At 31 January 2007/2006	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

Notes to the Financial Statements

For the year ended 31 January 2007

continued

13 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.

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

Basic and diluted (loss)/earnings per share are calculated by dividing the loss for the year attributable to ordinary shareholders of £7,895,773 (2006: profit of £1,686,300) by the weighted average number of shares outstanding during the period of 30,000,000 (31 January 2006: 30,000,000).

15 Net asset value per share (pence)

The net asset value per share is based on the net assets as at the year-end of £19,504,176 (2006: £29,574,949) divided by 30,000,000 shares in issue at the end of the year.

16 Note to the consolidated statement of cash flows

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

	2007	2006
	£	£
Net investment income	1,372,392	1,424,117
<i>Adjustment for non-cash items</i>		
Movement in debtors and prepayments	(62,705)	433,936
Movement in accrued expenses	(302,763)	246,037
Net cash flows from operating activities	1,006,924	2,104,090

17 Financial instruments

The Group's financial instruments comprise:

- Investments in unlisted companies, comprising equity and loans that are held in accordance with the Group's investment objectives.
- Cash and cash equivalents, including the investment of surplus liquidity in a money market fund.

Financial risk management objectives and policies

The main risks arising from the Group's financial instruments are liquidity risk, credit risk, market price risk and interest rate risk. None of these risks are hedged. The Board regularly reviews and agrees policies for managing each of these risks and these are summarised below.

Liquidity risk

Under the credit risk participation agreement (see Note 21), the Group is committed to funding a proportion of any credit losses on loans arranged by the Group and advanced by a third party finance company. The Group has no other significant liabilities or commitments. Therefore, the key liquidity risk facing the Group is that the Group does not have sufficient liquid resources to meet any demands made under the credit risk participation agreement. The Group's liquid assets comprise cash and cash equivalents, which are readily realisable and a term deposit account, which is partly held as security under the credit risk participation agreement (see Note 21).

Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Group. Under the credit risk participation agreement (see Note 21), the Group is exposed to significant credit risk by way of its commitment to fund any credit losses on loans arranged by the Group. In addition the Group has advanced secured loans (see Note 8). The credit risk model continues to be subject to stringent ongoing review. The total exposure of the Group as at 31 January 2007 under the credit risk participation agreement was £6.44 million (2006:£14.77 million) net of provided loans.

Under the credit risk participation agreement, there were 5 investments in default at 31 January 2007 (2006: 2) in respect to some or all of their loans, for which provision has been made (see Note 21). Impairments on secured loans are detailed in Note 8.

Market price risk

Market price risk arises mainly from uncertainty about future movements and value of the Group's investments. As there are no quoted investments within the investment portfolio the exposure to market price risk is reduced. However, the valuation of unquoted investments may take market price movements for similar instruments into account.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's cash at bank and secured loans. The return on the bank balances is linked to short-term deposit rates and is therefore linked closely to bank base rate changes.

The secured loans bear interest at fixed rates of between 9% and 15% and are repayable as follows:

	Principal £	Interest Rate	Maturity
Past Times Ltd	5,900,000	15%	22 December 2007
Morada Home Ltd	750,000	15%	19 September 2008
Autocue Group Ltd	675,000	15%	31 December 2015
Dolcis	1,700,000	9%	17 December 2007

The terms of the mortgage bank loan are disclosed in Note 11.

Fair Values

All financial instruments are considered to be stated at fair value except for secured loans, which carry a fixed interest rate and are stated at cost. It is not practicable to determine fair value for these loans.

18 Directors' interests

None of the Directors had any interests in the shares of the Company as at 31 January 2007.

19 Related parties

Investment advisory fees amounting to £345,518 (2006: £476,016) were payable to the Manager calculated in accordance with the Investment Advisory Agreement, of which £23,700 (31 January 2006: £72,277) was outstanding as at 31 January 2007. The Investment Advisor is also entitled to structuring fees and fees on the sale of investments (see Note 3).

Mr Geoffrey Vero is a Non-executive Director of Numis Corporation plc and a former Non-executive Director of Numis Securities Limited, the Nominated Advisors, Brokers and Placing Agent to the Company. Advisory and broker fees of £51,633 (2006: £32,818) were payable to Numis Securities Limited, of which £15,000 was paid in advance as at 31 January 2007 (2006: £6,633 in advance).

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

Notes to the Financial Statements

For the year ended 31 January 2007

continued

20 Subsidiary Companies

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

On 11 October 2004 the Company incorporated EPIC Reconstruction Property Limited in England and Wales, with paid up share capital of £275,100.

On 30 December 2004 the Company incorporated EPIC Reconstruction Property Company II Limited in the Isle of Man, with paid up share capital of £2.

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

21 Financial commitments and guarantees

Under a credit risk participation agreement signed with Eurosales, a division of RBS, a third party finance company, the Group is committed to fund a minimum of 70% and a maximum of 100% (depending on the nature of loan and amount of security) of the credit losses for loans arranged by the Group and funded by Eurosales. Provision is made for any loans which are considered impaired and hence the commitment to fund the related credit losses will be called. As at 31 January 2007 provisions of £4,653,909 have been established against the loans, (2006: £443,000). Total calls under the agreement in the year, charged to the statement of operations amounted to £7,413,794 (2006: £824,363).

Under the terms of the credit risk participation agreement, the Group must retain a minimum amount in a security account, which is charged in favour of Eurosales, to support the Group's commitment under the agreement. As at 31 January 2007, £8,319,035 (2006: £17,314,836) of the term deposit was charged in favour of Eurosales.

22 Post balance sheet events

At a meeting of the Board Directors held on 13 April 2007 it was resolved to make further provisions in respect of the Abbseal investment, amounting to £1,260,467.

Abbseal has continued to underperform, despite the restructuring in progress at year end, and as a consequence has now been put into administration. The contributory factors include:

- Continued difficult trading conditions within the industry
- Increasing glass prices
- High levels of competition
- Glass demand from the Continent affecting supply
- Sales underperformance
- Withdrawal of bank funding
- Cash calls from the business that, in the context of the prospective performance of the business, could not be justified

The Directors have therefore approved that provisions be put in place in respect of the investment, associated costs and guarantees to third parties.

Shareholder Information

Schedule of shareholders holding over 3% of issued shares

Income Shares

	Holdings	% of class
Lehman Brothers Nominees Limited	11,000,000	36.67
Brit Insurance Holdings Limited	5,000,000	16.67
Nortrust Nominees Limited	3,000,000	10.00
HSBC Global Custody Nominee (UK) Ltd	2,548,878	8.50
BNY (OCS) Nominees Limited	2,165,000	7.22
Numis Nominees Limited	1,751,597	5.84
Harewood Nominees Limited	1,528,125	5.09
Man Financial Limited	1,190,476	3.97
	28,184,076	93.96

Notes

Company Information

Directors

GO Vero
RBM Quayle
CL Spears
NV Wilson
P Keltie (*appointed 18 September 2006*)
DL Adamson (*resigned 17 November 2006*)
C O'Keeffe (*resigned 18 September 2006*)

Secretary

J Middleton

Registrar and Registered Office

Northern Trust International Fund Administration Services (Isle of Man) Limited
PO Box 174
St James's Chambers
Douglas
Isle of Man IM1 1JE

Nominated Advisor and Broker

Numis Securities Limited
10 Paternoster Square
London EC4M 7LT

Bankers

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

Investment Advisor

EPIC Specialist Investments Ltd
22 Billiter Street
London EC3M 2RY

Auditors and Reporting Accountants

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

Crest Provider

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

