EPE Special Opportunities plc

Report & Accounts | January 2014

Audited Report and Accounts for
the Year Ended 31 January 2014

Contents

Biographies of the Directors

Geoffrey Vero FCA

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

Clive Spears

Clive Spears retired from the Royal Bank of Scotland International Limited in December 2003 as Deputy Director of Jersey after 32 years of service. His main activities prior to retirement included Product Development, Corporate Finance, Trust and Offshore Company Services and he was Head of Joint Venture Fund Administration with Rawlinson & Hunter. Mr Spears is an Associate of the Chartered Institute of Bankers and a Member of the Chartered Institute for Securities & Investment. He has accumulated a well spread portfolio of directorships centring on private equity, infrastructure and corporate debt. His appointments currently include being Chairman of Nordic Capital Limited and sitting on the board of Jersey Finance Limited.

Robert Quayle

Robert Quayle qualified as an English solicitor at Linklaters & Paines in 1974 after reading law at Selwyn College, Cambridge. He subsequently practiced in London and the Isle of Man as a partner in Travers Smith Braithwaite. He served as Clerk of Tynwald (the Isle of Man's parliament) for periods totalling 12 years and holds a number of public and private appointments, and is active in the voluntary sector. Mr. Quayle is Chairman of the Isle of Man Steam Packet Company Limited, AXA Isle of Man Limited, W.H. Ireland (IOM) Limited and a number of other companies in the financial services, manufacturing and distribution sectors.

Nicholas Wilson

Nicholas Wilson has over 35 years of experience in hedge funds, derivatives and global asset management. He has run offshore branch operations for Mees Pierson Derivatives Limited, ADM Investor Services International Limited and several other London based financial services companies. He is Chairman of Qatar Investment Fund Plc, a premium listed company, and chairman of Alternative Investment Strategies Limited, the longest running quoted fund of hedge funds and a FTSE all share constituent. In addition, he sits on the boards of several other public companies. He is resident in the Isle of Man.

Profile of Investment Advisor

EPIC Private Equity LLP ("EPE" or the "Investment Advisor") was founded in June 2001 and is independently owned by its Partners. EPE focuses on niche investment opportunities throughout the UK with a focus on special situations, distressed, growth and buyout transactions.

Giles Brand is a Partner and the founder of EPE. He is currently a non-executive director of a number of portfolio companies: Whittard, Nexus Industries and Pharmacy2U. Before joining EPE, Giles was a founding Director of EPIC Investment Partners, a fund management business which at sale to Syndicate Asset Management plc had US$5bn under management and spent five years working in Mergers and Acquisitions at Baring Brothers in Paris and London. Giles read History at Bristol University.

James Henderson worked in the Investment Banking division at Deutsche Bank before joining EPE. Whilst at Deutsche Bank he worked on a number of M&A transactions and IPOs in the energy, property, retail and gaming sectors, as well as providing corporate broking advice to mandated clients. He manages the Company's investments in Indicia and Pharmacy2U. He is currently a non-executive director of Indicia, an integrated marketing services provider and digital marketing agency. James read Modern History at Oxford University and Medicine at Nottingham University.

Alex Leslie worked in Healthcare Investment Banking at Piper Jaffray before joining EPE. Whilst at Piper Jaffray he worked on a number of M&A transactions and equity fundraisings within the Biotechnology, Specialty Pharmaceutical and Medical Technology sectors. He manages the Company's investment in Process Components where he is currently a non-executive director. Alex read Human Biological and Social Sciences at Oxford University and obtained an MPhil in Management from the Judge Business School at Cambridge University.

Robert Fulford worked at Barclaycard Consumer Europe before joining EPE. Whilst at Barclaycard, Robert was the Senior Manager for Strategic Insight and was responsible for identifying, analysing and responding to competitive forces. Prior to Barclaycard, Robert spent four years as a strategy consultant at Oliver Wyman Financial Services, where he worked with a range of major retail banking and institutional clients in the UK, mainland Europe, Middle East and Africa, specialising in strategy and risk modelling. He manages the Company's investments in Nexus Industries and Whittard. He is currently a non-executive director of Whittard. Robert read Engineering at Cambridge University.

Daniel Roddick has over ten years' experience in corporate finance, private equity and strategy consulting; most recently as a consultant and trusted advisor to a number of London-based private equity firms. Prior to EPE, Daniel was a Vice President at Campbell Lutyens where he led the marketing of funds across the Nordic region and assisted in raising private equity funds and on the sale and restructuring of private equity assets. Before Campbell Lutyens, he was at McKinsey & Co., working across London, Munich and Amsterdam in the Corporate Finance and Strategy Practice. Daniel read Engineering, Economics and Management at Oxford University and is a CFA charter holder.

Camille Rougié worked in investment banking at Rothschild before joining EPE. Whilst at Rothschild, she worked on a number of M&A transactions within the Emerging Markets and the Generalist teams in Paris, covering a large range of sectors, including consumer and retail, energy, TMT, financial services and healthcare. Camille obtained an MSc in Finance and Strategy from Sciences Po Paris and read Linguistics at Oxford University.

Chairman's Statement

In the twelve months to January 2014, the UK enjoyed a period of economic recovery with 0.7% GDP growth in the fourth quarter, ending the best year since 2007. Growth has been driven by consumption of services and manufacturing, suggesting a broad recovery across a number of sectors. Lower inflation and the decrease in unemployment levels to 7.1%, a consequence of a shift from short term staffing to long-term staffing, provides further positive signs that a long term recovery is well underway, albeit one that still has a long way to run. Given the UK's international exposure, particularly through its financial and services sectors, its near and medium term growth will also depend on the outlook of those international markets, where stability has improved markedly over the prior year. Overall we are optimistic that economic conditions appear to be improving, founded on sustainable indicators.

EPE Special Opportunities plc ("ESO" or the "Company") did not complete any new transactions in the prior year. Improving economic conditions may however yield investment opportunities and the Company continues to actively source deals.

The year proved encouraging for the portfolio, most notably the Company's two largest investments, Nexus Industries and Whittard of Chelsea. Over the course of 2013, Nexus traded significantly ahead of budget and is continuing to expand and increase margins, supported by its wholly-owned manufacturing facility based in China. Looking ahead to 2014, Nexus is budgeting organic sales and EBITDA growth which could be augmented by its acquisition strategy. Whittard of Chelsea continued to perform solidly in the twelve months to 31 December 2013, and is expecting its premium positioning strategy together with its international and wholesale businesses to support the delivery of improved EBITDA in 2014. Your Board is optimistic that economic conditions appear to be improving overall and that the Company's portfolio will continue to progress.

On 11 June 2013, the Company exited its investment in Palatinate Schools Holdings Limited to Minerva Education Finance Limited, generating a total return to ESO Investments 1 LP ("ESO 1 LP") since September 2010 of 2.4x Money Multiple and a 43.3% IRR.

A second disposal was made post year end, on 19 February 2014, with the Company exiting its investment in Bighead Holdings Limited to management, generating a total return to ESO 1 LP since September 2010 of 3.6x Money Multiple and a 51.7% IRR.

Your Board was pleased with the overwhelming shareholder support at the AGM to extend the life of the Company to December 2020, with five year extensions thereafter. The revised structure of the Company creates a framework for longevity, providing the opportunity to maximise value within the current portfolio and in new transactions. The Board believes that the increased duration of the Company is a significant step in maximising capital gain in the medium and long term for the benefit of shareholders.

The Board and the Investment Advisor are currently investigating the possibility of raising additional funds for the Company by way of senior debt, mezzanine finance or bonds. Should the Company decide to raise funds by way of debt or debt-like instruments, it would anticipate that those instruments and any existing Convertible Loan Notes in aggregate would be more than 3.5x covered by the Gross Assets of the Company. Any new funds raised would be used, inter alia, to retire existing Convertible Loan Notes ("CLNs") in light of the December 2015 end date (extendable to December 2016 at the Company's behest), buy-in minorities in the existing investments, and support new investments.

The 31 January 2014 Net Asset Value ("NAV") of 135.37 pence per share represents an increase of 31.5% on the NAV per share of 102.92 pence as at 31 January 2013. The share price as at 31 January 2014 for the Company was 87.00 pence, representing an increase of 55.4% on the share price of 56.00 pence as at 31 January 2013.

I would like to extend my thanks to the Investment Advisor, EPE, as well as my fellow Directors and professional advisors, for their concerted efforts over the last twelve months. I look forward to once again updating you on continued success in the coming year.

Geoffrey Vero
Chairman
17 March 2014

Investment Advisor's Report

In the twelve month period since 31 January 2013, the Investment Advisor has focused on maintaining and creating value from within the existing portfolios held by the Company. The Investment Advisor continues to undertake cost saving and revenue improvement measures in investee companies to increase the value of the current portfolio. At the same time, the Investment Advisor has endeavoured to find new opportunities by way of platform or bolt-on investment opportunities. All new investments will be made via ESO Investments 2 LP ("ESO 2 LP"), in which the Company is the sole investor.

During 2013, the UK economy enjoyed a period of recovery and the portfolio has started to benefit from these changes. Inflation stood at 2.0% in December 2013 versus 2.7% in December 2012, and the unemployment rate fell to 7.1% in the three months to December, the largest quarterly drop since 1997 as a result of a shift to greater long term job provision. GDP growth was driven by consumption of services and manufacturing, generally seen as a sign of positive growth expectations.

The underlying portfolio has performed well since January 2013. Nexus finished the financial year to 31 December 2013 significantly ahead of budget, despite a challenging retail environment, thanks in part to strong export and retail sales, as well as strong supply chain margins delivered by its 250,000 square foot factory in China. Whittard of Chelsea delivered a solid performance in 2013, with strong gross margin gains reflecting the success of the change of trading stance initiated in 2012 in order to cease discounting and drive the premium position of the brand. The business continues to show encouraging growth in web and UK wholesale activities, both at the sales and gross margin level, compared to the previous year. Together, Nexus and Whittard represent 52% of the Company's Gross Asset Value ("GAV"). Indicia underperformed against budget in 2013 due to slower than expected conversion of new business. The company has been investing significantly in its commercial team and processes, and despite the underperformance in 2013 has recently been successful in securing a number of high profile new clients including ITV and Majestic Wine. Process Components finished the year to 30 June 2013 behind sales and EBITDA budget, predominantly driven by poor trading performance in the US. However, following a repositioning of the sales infrastructure, trading in the six months to December 2013 has increased significantly on the prior six month period, and growth continues to be driven by investment in sales, marketing and product development.

On 11 June 2013, the Company disposed of its residual investment in Palatinate to Minerva Education Finance Limited. The disposal returned £6.9 million to ESO 1 LP at the exit date, comprising of £6.8 million in cash and £0.1 million as a warranty retention. In total the investment has returned £11.4 million since acquisition in September 2010 after allowing for prior debt reductions and property proceeds. The total return to ESO 1 LP since September 2010 equates to a 2.4x Money Multiple and 43.3% IRR. A second disposal was made post year end, on 19 February 2014, with the Company exiting its investment in Bighead Holdings Limited to Management, generating a total return to ESO 1 LP since September 2010 of 3.6x Money Multiple and a 51.7% IRR. Both disposals have had a positive impact on the Company, with Palatinate completed at a 31.4% premium to its prevailing May 2013 holding value and Bighead completed at a 31.4% premium to its prevailing December 2013 holding value.

The recent exits of Bighead and Palatinate, both above their prevailing holding values, provide continued validation of the Company's NAV approach. These exits follow the exit of Pinnacle Regeneration Group at a 5.7% premium to NAV in June 2011 and the disposal of Ryness at a 40.3% premium to NAV in May 2011.

Company highlights

The NAV per share as at 31 January 2014 for the Company was 135.37 pence, calculated on the basis of 27.5 million ordinary shares (versus 30.0 million at issue), representing an increase of 31.5% on the NAV per share of 102.92 pence as at 31 January 2013. The share price as at 31 January 2014 for the Company was 87.00 pence, representing an increase of 55.4% on the share price of 56.00 pence as at 31 January 2013.

Based on the latest NAV, as set out above, Gross Asset Cover for the outstanding CLN's of £6.0 million is now 7.2x. Net cash now stands at £4.5 million with CLN interest coverage of 17.5x per annum. Overall liquidity in the Company allowing for facilities available in the structure remains high at £11.5 million.

Third party debt in the Company's portfolio stands at only 1.2x EBITDA, whilst arithmetic average Net Debt to EBITDA across the portfolio is 2.0x. The portfolio remains conservatively valued with a weighted average Enterprise Value equating to an EBITDA multiple of 5.2x with 43.2% of the portfolio's GAV comprised of yielding loans[1]. By comparison, listed European Private Equity competitors' weighted average Enterprise Value to EBITDA multiple is 8.9x[2].

Investment highlights from the inception of the Company (16 September 2003) to date include:

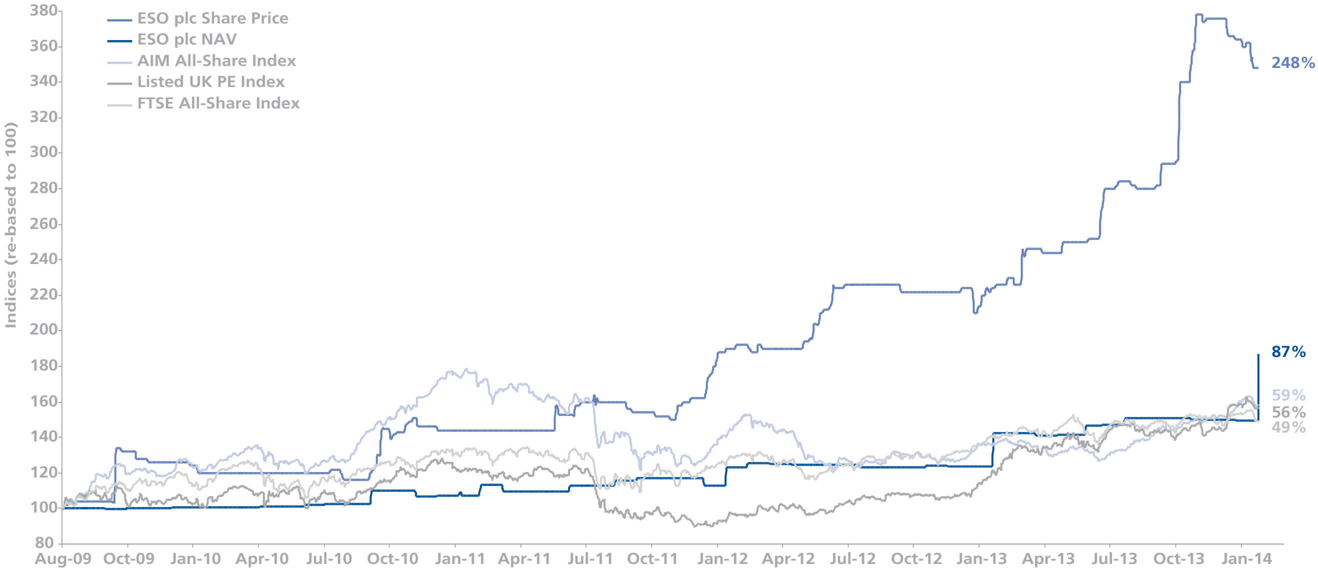
- Deployed £65 million of capital;
- Returned over £53 million to the Company in capital and income;
- Generated gross income of £16 million;
- Paid dividends of £5 million; and
- The underlying portfolio, as at 31 January 2014, is valued at a gross 3.4x money multiple and 36% internal rate of return.

Performance summary

As at 31 January 2014	Six Months	One Year	Three Years
ESO plc Share Price	30%	55%	142%
ESO plc NAV Per Share	27%	31%	71%
AIM All-Share Index	24%	17%	(9%)
Listed UK PE Index*	13%	32%	30%
FTSE All-Share Index	6%	6%	15%

* Listed UK PE Index constituents: 3i, Better Capital, Dunedin Enterprise, Electra Private Equity, HgCapital Trust, Graphite and Oakley Capital Investments. The Index has been constructed by weighting the daily share price of each constituent by its market capitalisation as at 31 January 2014.

ESO plc NAV per share and share price performance versus various alternative indices



[1] Excludes two assets which represent 0.9% or £0.4 million of the GAV.
[2] Sources: Latest Report and Accounts for 3i, Better Capital, Dunedin Enterprise, Electra Private Equity, HgCapital Trust, Graphite and Oakley Capital Investments.

Recent developments

- June 2013: sale of Palatinate at 2.4x Money Multiple and 43% IRR.
- July 2013: passed Continuation Vote to extend life of Company to December 2020, five year votes thereafter.
- January 2014: Mark Dunhill, former TM Lewin International Director, appointed new CEO of Whittard.
- February 2014: sale of Bighead at 3.6x Money Multiple and 52% IRR.

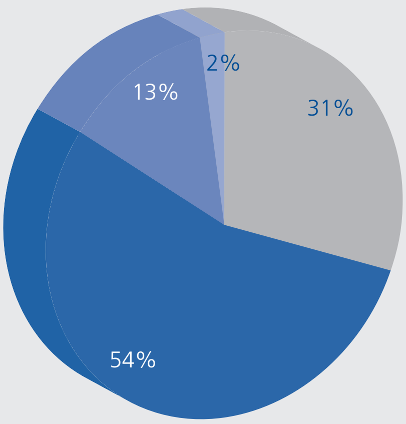
Outlook

The Investment Advisor is focussed on consolidation with a view to preserving and creating value in its core investments. The Investment Advisor expects to achieve continued cost savings and revenue improvement measures in portfolio companies, especially those in manufacturing and consumer focussed sectors. At the same time, new investment opportunities will be pursued if positive economic signs continue. All new investments will be made via ESO 2 LP, in which the Company is the sole investor.

Portfolio Diversification

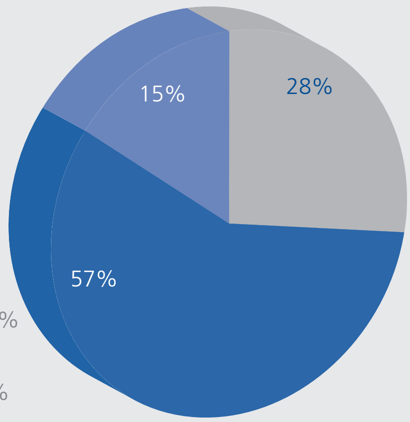
The current portfolio is diversified by sector and instrument as follows:

Sector Diversification



Retail/FMCG 31%
Engineering, Manufacturing and Distribution 54%
Business Services 13%
Healthcare 2%

Instrument Diversification



Shareholder Loans 28%
Equity 57%
Mezzanine Loans 15%

Current Portfolio: ESO Investments (PC) LLP ("ESO (PC) LLP")

Process Components

Process Components is an engineering parts and equipment supplier to the powder processing industries, primarily food, agriculture and pharmaceuticals. The business was formed in June 2009 and since then has demonstrated substantial year-on-year growth, doubling EBITDA in that time. It finished the year to 30 June 2013 behind sales and EBITDA budget, predominantly driven by poor trading performance in the US. However, following a restructuring of the sales infrastructure, trading in the six months to December 2013 has increased significantly on the prior financial year and growth continues to be driven by investment in sales, marketing and product development. Customers are blue chip global manufacturers, and the business has been growing its international supply operations. The business is also seeking to grow via acquisition and targeting suppliers of adjacent products.

Current Portfolio: ESO 1 LP

Nexus Industries

Nexus Industries ("Nexus") is a manufacturer and distributor of electrical accessories in the UK, operating under the brand names Masterplug and British General, supplying both the retail and wholesale markets. The business finished the financial year to 31 December 2013 significantly ahead of budget, despite a challenging retail environment, thanks in part to strong export and retail sales, as well as strong supply chain margins delivered by its 250,000 square foot factory in China. International expansion is a major focus for the business, with penetration growing in the US, China and Australasia. Nexus is also working on acquiring complementary businesses in both adjacent product categories and new strategically suitable locations.

Indicia

Indicia is a marketing services agency focussed on customer engagement, which uses data to help brands understand and communicate more successfully with their customers. Indicia was created through the acquisition and consolidation of three separate businesses. The business underperformed budget in 2013, and its management has engaged a recovery plan focussing on delivering additional sales by fully converting its strong sales pipeline, as well as increasing profitability on existing customers. Despite this weaker performance, Indicia's strategy of investing in its commercial team continues to generate a strong pipeline of potential new clients and the business has had some transformational client wins during the year including ITV, who appointed Indicia as its lead agency on a three year contract.

Whittard of Chelsea

Whittard of Chelsea ("Whittard") is a specialist retailer of tea and coffee. The Investment Advisor has focussed on developing the Whittard of Chelsea brand by growing the online, wholesale and franchise channels. The strategy has driven a very strong turnaround in profitability since the date of investment. The cessation of discounting and focus on the premium positioning of the brand in 2013 achieved a significant improvement in gross margins.

Pharmacy2U

Pharmacy2U is an online pharmacy business, delivering National Health Service and private prescriptions direct to the home using an innovative technology developed in conjunction with the NHS, the Electronic Prescription Service ("EPSr2").

Bighead Bonding Fasteners

Bighead Bonding Fasteners ("Bighead") is a specialist engineering business manufacturing specialist load-spreading fasteners and fixings for composites, plastics and traditional materials. Bighead performed above budget both at sales and EBITDA level. Bighead was sold post year end on 19 February 2014, with the Company exiting its investment to Management. The disposal generated a total return to ESO 1 LP since September 2010 of 3.6x Money Multiple and a 51.7% IRR. The disposal was completed at a 31.4% premium to Bighead's prevailing December 2013 holding value.

Objectives and opportunities

The Company is an investment company and has been quoted on the Alternative Investment Market ("AIM") since September 2003. Its objective is to provide long-term return on equity for its shareholders by way of investment in a portfolio of private equity assets. This includes the pursuit of private equity investment opportunities as well as the use of share and CLN buybacks where appropriate. Since September 2010, the Company has retired £7.4 million of par value CLNs and ordinary shares at a cost of £5.0 million.

The Investment Advisor to the Company is EPE. EPE was founded in June 2001 and is an independent investment manager wholly owned by its Partners. Since 2001, EPE has made 44 investments. EPE manages the Company's investments in accordance with guidelines determined by the Directors and as specified in the limited partnership and in management and investment guideline agreements. EPE was appointed as the Investment Advisor in September 2003.

Investment policy

The Investment Advisor believes that the current economic environment continues to create a wide range of investment opportunities in UK small and medium sized enterprises ("SMEs"). As a result, the Investment Advisor continues to use proprietary deal sourcing approaches to source these opportunities, as well as engaging actively with the wider restructuring and advisory community to communicate the Company's investment strategy. The Company seeks to target growth and buyout opportunities, as well as special situations and distressed transactions, making investments where it believes pricing to be attractive and the potential for value creation strong. The Company will continue to target the following types of investments:

- Growth, Buyout and Pre-IPO opportunities: leveraging the Investment Advisor's investment experience, contacts and ability. The Company is particularly focussed on making investments in sectors where the opportunity exists to create a unique asset via the consolidation of a number of smaller companies, taking advantage of the lack of liquidity in the SME market and the attraction to secondary buyers of larger operations.

- Special Situations: investment opportunities where the Investment Advisor believes that assets are undervalued due to specific, event-driven circumstances and where asset-backing may be available and the opportunity exists for recovery and significant upside. Target companies may or may not be distressed as a result of the situation. The Investment Advisor will aim to use its restructuring and refinancing expertise to resolve the situation and achieve a controlling position in the target company. The Company seeks to acquire distressed debt, undervalued equity or the assets of target businesses in solvent or insolvent situations.

- Private Investment in Public Equities (PIPEs): the Company may consider making investments in a number of smaller quoted companies, primarily ones whose shares are admitted to AIM. The Company will either seek to acquire and de-list the target company or make an investment in the ordinary equity of a quoted target company. The Company may offer ordinary shares in the Company as all or part of the consideration for such investments.

- Secondary portfolios / LP positions (Secondary or Primary) / EPE Funds: the Company is able, through EPE's Placement business, to invest as a limited partner in various Private Equity funds on substantially improved terms. On occasion, the Company will seek to take advantage of these commitments. The EPE skill-set and experience is well suited to the requirements of co-investing in funds.

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

The Company will seek to invest between £2 million and £10 million in a range of debt and equity instruments with a view to generating returns through both yield (c.5 to 15% per annum) and capital gain. Whilst in general the Company aims to take controlling equity positions, it may seek to develop companies as a minority investor.

Occasionally the Board may authorise investments of less than £2 million. For investments larger than £10 million, the Company may seek co-investment from third parties or additional public market fundraisings.

The Company looks to invest in businesses with strong fundamentals, including defensible competitive advantage, opportunity for strong future cashflow and dynamic management teams.

Current and future development

A detailed review of the year and outlook is contained in the Chairman's Statement and the Investment Advisor's Report.

The Board regularly reviews the development and strategic direction of the Company. The Board's main focus continues to be on the Company's long term investment return. It is believed that the Company has foundations in place to build a successful and durable investment vehicle given its supportive shareholder base, with EPE executives owning 25.7% of the Company[1], and the provision of equity funding until at least December 2020, with five year extensions thereafter, via the passing of the Continuation Vote in July 2013.

The Board and the Investment Advisor are investigating the possibility of raising additional funds for the Company to be used, inter alia, to retire existing Convertible Loan Notes in light of the December 2015 end date (extendable to December 2016 at the Company's behest), buy-in minorities in the existing investments, investment behind key assets such as Nexus, Whittard and Process Components and support new investments.

The Board believes that the current investment strategy remains effective in the light of existing market conditions.

Performance

A detailed review of performance is contained in the Chairman's Statement and the Investment Advisor's Report. A number of key indicators are considered by the Board and the Investment Advisor in assessing the progress and performance of the Company. These are well established industry measures and are as follows:

- Return on equity over the long term
- Movement in NAV per ordinary share
- Movement in share price

Further details of these key performance indicators can be found on page 6 and 7.

Risk management

All risks associated with the Company are the responsibility of the Board, which reviews and manages these either directly or through EPE. The main risks which the Company faces are as follows:

Macroeconomic risks

The performance of the Company's underlying portfolio of assets as well as the Company's ability to exit these assets is materially influenced by the macroeconomic conditions, including the current business environment and market conditions, the availability of debt finance, the level of interest rates, as well as the number of active buyers. Considerable effort continues to be taken by the Investment Advisor to position the portfolio companies to cope with the changing macroeconomic climate.

Share Price Volatility and Liquidity

The market price of the shares could be subject to significant fluctuations due to a change in investor sentiment regarding the Company or the industry in which the Company operates or in response to specific facts and events, including positive or negative variations in the Company's interim or full year operating results and business developments of the Company and/or competitors. The market price of the shares may not reflect the underlying value of the Group and it is possible that the market price of the shares will trade at a discount to NAV.

Long term strategic risks

The Company is subject to the risk that share price performance and long-term strategy fail to meet the expectations of its shareholders. The Board monitors share price to NAV per share discount, and considers the most effective methodologies to keep this at a minimum. These methodologies include the share buyback policy. Directors will continue to seek shareholder authority on an

[1] Excluding awards made under the Joint Share Ownership Plan.

annual basis to enable them to purchase shares for cancellation when they believe it will be in the best interests of shareholders. Since September 2010, the Company has retired c.£7.4 million of par value CLNs and ordinary shares at a cost of £5.0 million. In addition, the Board regularly reviews the Objective and Investment Policy in light of prevailing investor sentiment to ensure the Company remains attractive to its shareholders.

Investment risks

The Company operates in a very competitive market. Changes in the number of market participants, the availability of investable assets, the pricing of investable assets, or in the ability of EPE to access and execute deals could have a significant effect on the Company's competitive position and on the sustainability of returns.

Adequate sourcing and execution of deals is primarily dependent on the ability of EPE to attract and retain key investment executives with the requisite skills and experience.

Adequate performance of portfolio assets once acquired is primarily dependent on macroeconomic conditions, conditions within each asset's market and the ability of the respective management teams of each asset to execute their business strategy. Any one of these factors could have an impact on the valuation of a portfolio company and upon the Company's ability to make a profitable exit from the investment within the desired timeframe.

The Company may at certain times hold a relatively concentrated investment portfolio. The Company could be subject to significant losses if it, for example, holds a large position in a particular investment that declines in value. Such losses could have a material adverse effect on the performance of and returns achieved by the Company.

A rigorous process is put in place by EPE for managing the relationship with each portfolio company. This includes regular asset reviews, an assessment of concentration of the investment portfolio at any given period and board representation by one or more EPE executives. The Board reviews both the performance of EPE and its incentive arrangements on a regular basis to ensure that both are appropriate to the objectives of the Company.

Gearing risks

Gearing can cause both gains and losses in the asset value of the Company to be magnified. Gearing can also have serious operational impacts on the Company if a breach of its banking covenants occurs. Secondary risks relate to whether the cost of gearing is too high and whether the length of the gearing is appropriate. The Board regularly monitors the headroom available under banking covenants and reviews the impact of the various forms of gearing and their cost to the Company. The Company uses gearing directly via its CLNs and an overdraft facility at ESO 1 LP, and indirectly via gearing in individual portfolio assets.

Foreign exchange risk

The base currency of the Company is Sterling. Certain of the Company's assets may be invested in investee companies which may have operations in countries whose currency is not Sterling and securities and other investments which are denominated in other currencies. Accordingly, the Company will necessarily be subject to foreign exchange risks and the value of its assets may be affected unfavourably by fluctuations in currency rates.

Valuation risks and methodology

The Investment Advisor determines asset values using BVCA and IPEV guidelines and other valuation methods with reference to the valuation principles of IFRS 13: Fair Value Measurement. This determination is subject to many assumptions and requires considerable judgment. As all investments are unquoted, the valuation principles adopted are classified as Level 3 in the IFRS 7 fair value hierarchy. BVCA and IPEV guidelines recommend the use of comparable quoted company metrics and comparable transaction metrics to determine an appropriate enterprise value, to which a marketability discount is applied given the illiquid nature of private equity investments. The Investment Advisor also seeks to confirm value using discounted cash flow and other methods of valuation, and by applying a range approach. The Investment Advisor adopts a conservative approach to valuation with reference to the aforementioned methodology having regard for on-going volatile market conditions.

The Company announces an estimated net asset value per ordinary share on a monthly basis following a review of the valuation of the Company's investments.

Operational risks

The Company's investment management and administration are provided or arranged for the Company by EPE. The Company is therefore exposed to internal and external operational risks at EPE, including regulatory, legal, information technology, human resources and deficiencies in internal controls. The Company monitors the provision of services by EPE to ensure they meet the Company's business objectives.

Sources of funds

The Company's sources of funds are numerous and include its own cash resources as well as third party funds. Own cash resources originate via income from ESO 1 LP and ESO (PC) LLP and capital from asset realisations and refinancings. The focus on utilising these cash resources allows the Company to minimise dilution from public market fundraisings and provides sufficient capital for small share buybacks and the execution of one to two new investment opportunities per annum.

The Company's own cash resources may be supplemented by additional third party funding. One route of which includes the provision of co-investment capital alongside the Company in ESO 2 LP, either as private investment capital directly into ESO 2 LP or on a deal by deal basis. The Company may also seek opportunistic public market fundraisings, in particular in relation to transformational investment opportunities such as the acquisition of the EPIC plc private equity portfolio in 2010. Alternatively, third party debt funding may be sourced; comprising zero dividend preference shares, preference shares, senior and mezzanine debt, such as the £10 million of CLNs raised in 2010 to part-fund the EPIC plc portfolio acquisition.

Geoffrey Vero
Chairman
17 March 2014

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. On 23 July 2012, the Company re-registered under the Isle of Man Companies Act 2006, with registration number 008597V.

The principal activity of the Company and its subsidiaries (together "the Group") and its associates is to arrange income yielding financing for growth, buyout and special situations and holding the investments with a view to exiting in due course at a profit.

Incorporation

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

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

Details of subsidiaries are provided in note 25.

Results of the financial year

Results for the year are set out in the Consolidated Statements of Comprehensive Income on page 18 and in the Consolidated Statement of Changes in Equity on page 20.

Dividends

The Board does not recommend a dividend in relation to the current year (see note 11 for further details).

Corporate Governance Principles

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

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

Composition of the Board

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

Risk and Audit Committee

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

The Risk and Audit Committee meets twice a year, at a minimum, and is responsible for considering the appointment and fee of the external auditors and for agreeing the scope of the audit and reviewing its findings. It is responsible for monitoring compliance with accounting and legal requirements, ensuring that an effective system of internal controls in maintained and for reviewing annual and interim financial statements of the Company before their submission for approval by the Board. The Risk and Audit Committee has adopted and complied with the extended terms of reference implemented on the Company's readmission in August 2010.

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

Investment Committee

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

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

Significant holdings

Significant shareholdings are analysed on page 40. The Directors are not aware of any other holdings greater than 3% of issued shares.

Directors

The Directors of the Company holding office during the financial year and to date are:
Mr. G.O. Vero (Chairman)
Mr. R.B.M. Quayle
Mr. C.L. Spears
Mr. N.V. Wilson

Secretary

The secretary of the Company holding office for the financial year ended 31 January 2014 was Mr. P.P. Scales.

Staff

At 31 January 2014 the Group employed no staff (2013: none).

Auditors

Our Auditors, KPMG Audit LLC, being eligible, have expressed their willingness to continue in office.

On behalf of the Board

Nicholas Wilson
Director
17 March 2014

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. In addition, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs"), as adopted by the European Union ("EU").

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with International Financial Reporting Standards, as adopted by the EU; 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 are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time its financial position. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

We have audited the financial statements of EPE Special Opportunities plc for the year ended 31 January 2014 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statements of Assets and Liabilities, the Consolidated Statements of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs), as adopted by the EU.

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

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 16, the Directors are responsible for the preparation of financial statements that give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 January 2014 and of the Group's profit for the year then ended; and
- have been properly prepared in accordance with IFRSs, as adopted by the EU.

KPMG Audit LLC
Heritage Court, 41 Athol Street, Douglas
Isle of Man IM99 1HN
17 March 2014

Consolidated Statement of Comprehensive Income

For the year ended 31 January 2014

Note		Revenue £	Capital £	31 January 2014 Total £	31 January 2013 Total £
	Income				
	Rental income	–	–	–	(12,243)
4	Interest income	11,033	–	11,033	3,157
	Total income	**11,033**	**–**	**11,033**	**(9,086)**
	Expenses				
5	Investment advisor's fees	(594,952)	–	(594,952)	(216,667)
5	Administration fees	(74,967)	–	(74,967)	(54,133)
6	Directors' fees	(124,000)	–	(124,000)	(126,500)
	Directors' and Officers' insurance	(5,728)	–	(5,728)	(7,412)
8	Professional fees	(72,874)	–	(72,874)	(32,811)
	Board meeting and travel expenses	(15,227)	–	(15,227)	(6,490)
	Auditors' remuneration	(31,766)	–	(31,766)	(32,952)
	Bank charges	(938)	–	(938)	(960)
	Irrecoverable VAT	(205,162)	–	(205,162)	(100,863)
7	Share based payment expense	(145,520)	–	(145,520)	(14,092)
	Sundry expenses	(40,287)	–	(40,287)	(11,256)
	Nominated advisor and broker fees	(60,449)	–	(60,449)	(40,357)
9	JSOP expenses	(34,594)	–	(34,594)	–
	Listing fees	(22,258)	–	(22,258)	(19,632)
	Total expenses	**(1,428,722)**	**–**	**(1,428,722)**	**(664,125)**
	Net expense	**(1,417,689)**	**–**	**(1,417,689)**	**(673,211)**
	Gains/(losses) on investments				
12	Share of profit of equity accounted investees	–	10,454,358	10,454,358	4,013,103
	Deconsolidation of subsidiary	–	(9,003)	(9,003)	–
	Gain on buy-back of convertible loan notes	–	–	–	303,629
	Amounts due from equity accounted investees written off	–	–	–	(167,750)
	Revaluation of investment property	–	–	–	(27,840)
	Gains for the year on investments	**–**	**10,445,355**	**10,445,355**	**4,121,142**
	Finance charges				
	Interest on mortgage loan	–	–	–	(16,869)
17	Interest on convertible loan note instruments	(483,303)	–	(483,303)	(504,819)
	Profit/(loss) for the year before taxation	**(1,900,992)**	**10,445,355**	**8,544,363**	**2,926,243**
10	**Taxation**	–	–	–	–
	Profit/(loss) for the year	**(1,900,992)**	**10,445,355**	**8,544,363**	**2,926,243**
	Other comprehensive income	–	–	–	–
	Total comprehensive income/(loss)	**(1,900,992)**	**10,445,355**	**8,544,363**	**2,926,243**
19	**Basic earnings/(loss) per ordinary share (pence)**	**(6.81)**	**37.44**	**30.62**	**9.95**
19	**Diluted earnings/(loss) per ordinary share (pence)**	**(6.57)**	**36.08**	**29.51**	**9.85**

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

The notes on pages 22 to 39 form an integral part of these financial statements.

Consolidated Statement of Assets and Liabilities

At 31 January 2014

Note		31 January 2014 £	31 January 2013 £
	Non-current assets		
12	Investments in equity accounted investees	34,050,939	28,736,582
12,14	Loans to equity accounted investees and related companies	1,298,017	1,854,227
		35,348,956	**30,590,809**
	Current assets		
14	Cash and cash equivalents	7,862,252	4,417,775
	Trade and other receivables	77,822	66,486
		7,940,074	**4,484,261**
	Current liabilities		
16	Trade and other payables	(42,518)	(53,074)
		(42,518)	**(53,074)**
	Net current assets	**7,897,556**	**4,431,187**
	Non-current liabilities		
17	Convertible loan note instruments	(6,005,994)	(5,977,377)
		(6,005,994)	**(5,977,377)**
	Net assets	**37,240,518**	**29,044,619**
	Equity		
18	Share capital	1,534,411	1,540,146
18	Share premium	1,815,385	1,815,385
	Capital reserve	6,179,463	(4,265,892)
	Revenue reserve	27,711,259	29,950,543
	Capital redemption reserve	–	4,437
	Total equity	**37,240,518**	**29,044,619**
20	**Net asset value per share (pence)**	**135.37**	**102.92**

The financial statements were approved by the Board of Directors on 17 March 2014 and signed on its behalf by:

Clive Spears
Director

Nicholas Wilson
Director

The notes on pages 22 to 39 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 January 2014

		Year ended 31 January 2014					
Note		Share Capital £	Share premium £	Capital redemption reserve £	Capital reserve £	Revenue reserve £	Total £
	Balance at 1 February 2013	1,540,146	1,815,385	4,437	(4,265,892)	29,950,543	29,044,619
	Total comprehensive income for the year	–	–	–	10,445,355	(1,900,992)	8,544,363
	Contributions by and distributions to owners						
18	Cancelled ordinary shares	(5,735)	–	–	–	5,735	–
	Removal of capital redemption reserve	–	–	(4,437)	–	4,437	–
7	Share based payment charge	–	–	–	–	145,520	145,520
	Cash received from JSOP participants	–	–	–	–	31,511	31,511
18	Purchase of treasury shares	–	–	–	–	(525,495)	(525,495)
	Total transactions with owners	**(5,735)**	**–**	**(4,437)**	**–**	**(338,292)**	**(348,464)**
	Balance at 31 January 2014	**1,534,411**	**1,815,385**	**–**	**6,179,463**	**27,711,259**	**37,240,518**

		Year ended 31 January 2013					
Note		Share Capital £	Share premium £	Capital redemption reserve £	Capital reserve £	Revenue reserve £	Total £
	Balance at 1 February 2012	1,540,146	1,815,385	4,437	(8,387,034)	32,187,320	27,160,254
	Total comprehensive income for the year	–	–	–	4,121,142	(1,194,899)	2,926,243
	Contributions by and distributions to owners						
7	Share based payment charge	–	–	–	–	14,092	14,092
	Cash received from JSOP participants	–	–	–	–	17,671	17,671
18	Purchase of treasury shares	–	–	–	–	(1,073,641)	(1,073,641)
	Total transactions with owners	**–**	**–**	**–**	**–**	**(1,041,878)**	**(1,041,878)**
	Balance at 31 January 2013	**1,540,146**	**1,815,385**	**4,437**	**(4,265,892)**	**29,950,543**	**29,044,619**

The notes on pages 22 to 39 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 January 2014

Note		31 January 2014 £	31 January 2013 £
	Operating activities		
	Rental income received	–	33,750
	Interest income received	11,033	3,157
	Expenses paid	(1,323,823)	(732,225)
21	**Net cash used in operating activities**	**(1,312,790)**	**(695,318)**
	Investing activities		
	Loan repayments from investee companies	572,644	117,273
	Deconsolidation of subsidiary	(6,706)	–
12	Capital distribution from associate	5,140,000	3,681,921
	Net cash generated from investing activities	**5,705,938**	**3,799,194**
	Financing activities		
	Mortgage loan interest paid	–	(24,709)
	Convertible loan note interest paid	(454,687)	(505,067)
	Convertible loan note repurchases	–	(2,994,902)
18	Purchase of treasury shares	(525,495)	(1,073,641)
	Share ownership scheme participation	31,511	17,671
	Net cash used in financing activities	**(948,671)**	**(4,580,648)**
	Increase/(decrease) in cash and cash equivalents	3,444,477	(1,476,772)
	Cash and cash equivalents at start of year	4,417,775	5,894,547
14	**Cash and cash equivalents at end of year**	**7,862,252**	**4,417,775**

The notes on pages 22 to 39 form an integral part of these financial statements.

1 Operations

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. On 23 July 2012, the Company re-registered under the Isle of Man Companies Act 2006, with registration number 008597V. The Company raised £30 million by a placing of ordinary shares at 100 pence per share. In 2009 the Company raised an additional £5 million by a placing of ordinary shares at 5 pence per share. During the year ended 31 January 2011, the Company issued a further £2.4 million in share capital.

The Company has four wholly owned subsidiary companies (note 25) and has interests in two partnerships that are accounted for as associates. The partnerships comprise one limited liability partnership and one limited partnership. The Company also has an interest in a third partnership, ESO 2 LP, through which new investments will be made. As at 31 January 2014, ESO 2 LP had made no investments.

The principal activity of the Group and its associates is to arrange income yielding financing for growth, buyout and special situations and holding the investments and its associates with a view to exiting in due course at a profit.

The consolidated financial statements comprise the results of the Group and its associates (see notes 3(a) and 25).

The Company has no employees.

2 Basis of Preparation

a. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards and interpretations as adopted by the EU and applicable legal and regulatory requirements of Isle of Man law and reflect the following policies, which have been adopted and applied consistently, with the exception of the adoption of the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013:

a. IFRS 13 Fair Value Measurement;

b. Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7);

c. Presentation of Items of Other Comprehensive Income (Amendments to IAS 1);

d. IAS 19 Employee Benefits (2011);

e. Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) (2013); and

f. Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39).

The nature and the effects of significant changes are explained below.

Fair value measurement

In accordance with the transitional provisions of IFRS 13, the Group has applied the new definition of fair value, as follows: fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

This change had no significant impact on the measurements of the Group's assets and liabilities, however the Group has included new disclosures in the financial statements, which are required under IFRS 13.

In the prior reporting period, the Company early adopted the amendments to IFRS 10 Investment Entities (issued October 2012) along with the consolidation suite of standards, namely: IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 (revised) and IAS 28 (revised). The amendments to IFRS 10 require investment entities to state controlled portfolio entities at fair value under IAS 39 instead of consolidating such subsidiaries.

The consolidated financial statements were authorised for issue by the Board of Directors on 17 March 2014.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit or loss which are measured at fair value.

c. Functional and presentation currency

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

d. Use of estimates and judgements

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

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

Judgements made by Directors and the Investment Advisor in the application of IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year relate to impairment provisioning in connection with secured loans and valuations of unquoted equity investments held by equity accounted investees.

3 Significant accounting policies

a. Basis of consolidation

Subsidiaries

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

The Company holds interests in ESO 1 LP and ESO (PC) LLP, which are managed and controlled by EPE for the benefit of the Company and the other members. The Company has the power to appoint members to the investment committee of ESO 1 LP and ESO (PC) LLP but does not have the ability to direct the activities of ESO 1 LP and ESO (PC) LLP. The Directors consider that ESO 1 LP and ESO (PC) LLP do not meet the definition of subsidiaries. These entities are instead treated as associates and equity accounted.

Transactions eliminated on consolidation

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

Associates

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

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

3 Significant accounting policies continued

b. Segmental reporting

The Directors are of the opinion that the Group is engaged in a single segment of business and geographic area being arranging financing for growth, buyout and special situations in the United Kingdom. Information presented to the Board of Directors for the purpose of decision making is based on this single segment.

c. Income

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

d. Expenses

All expenses are accounted for on an accruals basis.

e. 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.

f. Financial assets and financial liabilities

i. Classification

Equity and preference share investments, including those held by equity accounted investees, have been designated at fair value through profit and loss.

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

ii. Recognition

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

iii. Measurement

Equity and preference share investments, including those held by equity accounted investees, are stated at fair value. Loans and receivables are stated at amortised cost less any impairment losses.

The Investment Advisor determines asset values using BVCA and IPEV guidelines and other valuation methods with reference to the valuation principles of IFRS 13. As all investments are unquoted, the valuation principles adopted are classified as Level 3 in the IFRS 7 fair value hierarchy. BVCA and IPEV guidelines recommend the use of comparable quoted company metrics and comparable transaction metrics to determine an appropriate enterprise value, to which a marketability discount is applied given the illiquid nature of private equity investments. The Investment Advisor also seeks to confirm value using discounted cash flow and other methods of valuation, and by applying a range approach. The Investment Advisor then seeks to determine whether holding the investment at cost is appropriate given the implied value, or whether an adjustment should be made to achieve fair value: whether this be in the form of an impairment or a write-up.

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantages market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Group measures instruments quoted in an active market at mid-price.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Group recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Financial assets that are not carried at fair value though profit and loss are subject to an impairment test. For loans to portfolio companies the impairment test is undertaken as part of the assessment of the fair value of the enterprise value of the related business, as described above. If expected life cannot be determined reliably, then the contractual life is used.

iv. Impairment

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

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

v. Derecognition

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

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

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

g. Share capital

Ordinary share capital

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

Repurchase of share capital (treasury shares)

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

h. Compound financial instruments

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

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

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

3 Significant accounting policies continued

When convertible loan notes are repurchased, the nominal value of the convertible loan notes repurchased is first deducted from the consideration paid with any gain or loss from the repurchase being recognised in the profit or loss.

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

i. EPIC Private Equity Employee Benefit Trust ("EBT")

As the Company is deemed to have control of its EBT, the EBT is treated as a subsidiary and consolidated for the purposes of the Group accounts. The EBT's assets (other than investments in the Company's shares), liabilities, income and expenses are included on a line-by-line basis in the Group financial statements. The EBT's investment in the Company's shares is deducted from shareholders' funds in the Group balance sheet as if they were treasury shares (see note 7).

Share based payments

Certain employees (including directors) of the Group receive remuneration in the form of equity settled share-based payment transactions, through a Joint Share Ownership Plan ("JSOP").

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value is determined based on the share price of the equity instrument at the grant date. The fair value determined at the grant date of the equity-settled share-based payment is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest. The instruments are subject to a three year service vesting condition from the grant date, and their fair value is recognised as an employee benefit expense with a corresponding increase in retained earnings within equity over the vesting period.

Contributions received from employees as part of the JSOP arrangement are recognised directly in equity.

j. Future changes in accounting policies

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

New/Revised International Financial Reporting Standards (IAS/IFRS)	**European Union Effective Date** (accounting periods commencing on or after)
Recoverable amount disclosures for non-financial assets – Amendments to IAS 36	Endorsed 19 December 2013 IASB effective date 1 January 2014
IFRIC 21 Levies	Not yet endorsed IASB effective date 1 January 2014
Continuing hedge accounting after derivative novations – Amendments to IAS 39	Endorsed 19 December 2013 IASB effective date 1 January 2014
Annual Improvements to IFRSs – 2010-2012 Cycle	Not yet endorsed IASB effective date 1 July 2014
Annual Improvements to IFRSs – 2011-2013 Cycle	Not yet endorsed IASB effective date 1 July 2014
IFRS 9 Financial Instruments	Not yet endorsed IASB effective date to be confirmed. Will not be before 1 January 2015

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

4 Interest Income

	2014	2013
	£	£
Cash balances	11,033	3,157
Total	**11,033**	**3,157**

5 Investment advisory, administration and performance fees

Investment advisory fees

ESO

The investment advisory fee payable to EPE was, until 31 August 2010, calculated at 2% of the Group's NAV, with a minimum of £325,000 payable per annum. On 31 August 2010, the Investment Advisor agreed to waive the fee from the Company for a period of two years in return for a priority profit share paid from ESO 1 LP, as detailed below. Consequently, the payment of fees has resumed at a rate of 2% per annum of the Company's NAV (including its share of the Fund) plus VAT. The charge for the current year was £594,952 (2013: £216,667).

ESO 1 LP

On the completion of the creation of ESO 1 LP on 31 August 2010, the Investment Advisor agreed to waive entitlement to management fees from the Company and ESO Investments LLP in exchange for a fixed priority profit share paid by ESO 1 LP of £800,000 per annum for the first two years (a year being calculated as ending on 31 August), £500,000 for the third year and £350,000 for the fourth and fifth years, thereafter in any subsequent period of the ESO 1 LP Partnership, such amount as may be agreed between the Partners.

ESO Investments LLP

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

Administration fees

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

Performance fees

ESO

The Investment Advisory Agreement with EPE as described above also provides for the provision of a performance fee. The fee is payable if the Total Return (taken as NAV plus dividends distributed) is equal to at least 8% per annum from the date of admission of the Company's shares to AIM, based on the funds raised through the placing of shares and compounded annually. No performance fee has accrued for the year ended 31 January 2014 (2013: £nil).

Carried interest in ESO 1 LP

The distribution policy of ESO 1 LP includes a carried interest portion retained for the Investment Advisor such that, for each investor where a hurdle of 8% per annum has been achieved, the carry vehicle of the Investment Advisor is entitled to receive 20% of the increase in that investor's investment. For the period ended 31 January 2014 £3,219,522 (2013: £1,315,264) has been credited to the carry account of the Investment Advisor in the records of ESO 1 LP.

Carried interest in ESO (PC) LLP

The Investment Advisor is entitled to receive 20% of the profits ESO (PC) LLP where a hurdle of 8% has been achieved over the initial value of the investment. For the period ended 31 January 2014, £163,084 (2013: £2,722) has been credited to the Investment Advisor.

6 Directors' fees

	2014 £	2013 £
G.O. Vero (*Chairman*)	32,000	32,000
R.B.M. Quayle	30,000	30,000
C.L. Spears	32,000	32,000
N.V. Wilson	30,000	30,000
Total	**124,000**	**124,000**
P.P. Scales	–	2,500
Total	**124,000**	**126,500**

Note: P.P. Scales is Company Secretary and a director of EPIC Reconstruction Property Company II Ltd.

7 Share based payment expense

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined based on the share price of the equity instrument at the grant date.

The EBT was created to award shares to eligible employees as part of the JSOP. Participants are awarded a certain number of shares ("Matching Shares") which vest after 3 years of service. In order to receive their Matching Share allocation participants are required to purchase shares in the Company on the open market ("Bought Shares"). The participant will then be entitled to acquire a joint ownership interest in the Matching Shares for the payment of a nominal amount, on the basis of one joint ownership interest in one Matching Share for every Bought Share they acquire in the relevant award period.

The EBT holds the Matching Shares jointly with the participant until the award vests.

During the year, 752,291 Bought Shares were acquired by eligible participants under the JSOP. The EBT held 1,022,720 matching shares at the year end.

The amount expensed in the income statement has been calculated by reference to the grant date fair value of the equity instrument and the estimated number of equity instruments to be issued after the vesting period, less the nominal amount paid for the joint ownership interest in the Matching Shares. The total expense recognised on the share based payments during the year amounts to £145,520 (2013: £14,092).

8 Professional fees

During the year, the Company incurred exceptional non-recurring legal costs in relation to re-registration under the Isle of Man Companies Act 2006 and legal costs in relation to the continuation resolution brought at the 2013 AGM. These costs amounted to £30,000 (2013: £nil).

9 JSOP expenses

JSOP expenses include costs that were incurred as a result of setting up and the maintaining the JSOP scheme. The Company, together with the participants of the scheme share both the set up and maintenance costs.

10 Taxation

The Company is a tax resident of the Isle of Man. The Company is subject to 0% income tax (2013: 0%).

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

11 Dividends paid and proposed

No dividends were paid or proposed for the year ended 31 January 2014 (2013: £nil).

12 Non-current assets

	2014 Group £	2013 Group £
Financial assets		
Investments in equity accounted investees	34,050,939	28,736,582
Loans to equity accounted investees and related companies (note 15)	1,298,017	1,854,227
	35,348,956	**30,590,809**

Investment in equity accounted investees

The Investment Advisor has applied appropriate valuation methods with reference to BVCA and IPEV guidelines and the valuation principles of IAS 39 Financial Instruments: Recognition and Measurement, with regard to the underlying investments held by the equity accounted investees. See note 13 regarding the assessment of the fair values of the underlying investments.

Investments in equity accounted investees comprise the investment in ESO 1 LP and ESO (PC) LLP (formerly ESO Investments 2 LLP) which are stated at cost plus the share of remaining profit and loss to date. The equity accounted investees have accounted for their equity investments at fair value.

During the year, the Company received £5,140,000 (2013: £3,681,921) from ESO 1 LP. The movements in the equity accounted investees during the year are as follows:

	ESO 1 LP £	ESO (PC) LLP £	Total £
Investment in equity accounted investees			
Opening balance	25,539,380	3,197,201	28,736,581
Share of profit from equity accounted investees	9,752,431	701,927	10,454,358
Distribution from equity accounted investee	(5,140,000)	–	(5,140,000)
	30,151,811	**3,899,128**	**34,050,939**

12 Non-current assets continued

Summary financial information for equity accounted investees as at 31 January 2014 is as follows:

	31 January 2014			31 January 2013		
	ESO (PC) LLP	**ESO 1 LP**	**Total**	**ESO (PC) LLP**	**ESO 1 LP**	**Total**
	£	£	£	£	£	£
Non-current assets	5,100,000	47,428,504	52,528,504	4,500,000	38,058,325	42,558,325
Current assets	100	3,324,791	3,324,891	100	5,053,476	5,053,577
Total assets	**5,100,100**	**50,753,295**	**55,853,395**	**4,500,100**	**43,111,801**	**47,611,902**
Current liabilities	(285,962)	(1,015,559)	(1,301,521)	(550,972)	(1,313,485)	(1,864,457)
Total liabilities	**(285,962)**	**(1,015,559)**	**(1,301,521)**	**(550,972)**	**(1,313,485)**	**(1,864,457)**
Group's share of net assets	**3,899,128**	**30,151,811**	**34,050,939**	**3,197,202**	**25,539,380**	**28,736,632**
Income	80,000	1,753,679	1,833,679	26,149	2,330,911	2,357,060
Gains on investments	799,644	15,004,508	15,804,152	55,144	5,160,596	5,215,740
Expenses	(14,633)	(222,538)	(237,171)	(11,258)	(240,238)	(251,496)
Profit	**865,011**	**16,535,649**	**17,400,660**	**70,035**	**7,251,269**	**7,321,304**
Group's share of profit	**701,927**	**9,752,431**	**10,454,358**	**67,312**	**3,945,791**	**4,013,153**

Controlled investee companies

The Company has control over the following underlying investee companies but these companies have not been consolidated on the basis of the early adoption of the amendments to IFRS 10:

	Country of incorporation	**Equity percentage held at year end**
Whittard of Chelsea	UK	85.3%
Process Components	UK	85.0%
Make it Rain	UK	60.0%

Key terms of LP Agreement for ESO 1 LP

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

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

- 37% to DES Holdings IV(A) LLC
- 63% to ESO

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

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

- 25% to DES Holdings IV(A) LLC
- 75% to ESO

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

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

- 18% to DES Holdings IV(A) LLC
- 82% to ESO

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

13 Financial assets and liabilities

	2014 Group £	2013 Group £
Assets		
Financial assets at fair value through profit or loss – designated on initial recognition		
Investments in equity accounted investees	34,050,939	28,736,582
Financial assets at amortised cost		
Loans and receivables and cash balances	9,238,091	6,338,488
Total financial assets	**43,289,030**	**35,075,070**
Liabilities		
Financial liabilities measured at amortised cost		
Other financial liabilities	(42,518)	(53,074)
Convertible loan note instruments	(6,005,994)	(5,977,377)
Total financial liabilities	**(6,048,512)**	**(6,030,451)**

13 Financial assets and liabilities continued

Fair values of financial instruments

The fair values of financial assets and financial liabilities that are traded in an active market are based on quoted market prices. For all other financial instruments, the Group determines fair values using other valuation techniques, based on the BVCA and IPEV rules.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using; quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data;
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments. All of the Group's underlying investments held by equity accounted investees are deemed as level 3 in the fair value hierarchy.

Various valuation techniques may be applied in determining the fair value of investments held as level 3 in the fair value hierarchy. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used. As discussed below, the Investment Advisor has selected to use the EBITDA multiple valuation model in arriving at the fair value of investments held as level 3 in the fair value hierarchy.

Valuation framework

The Group has developed a valuation framework with respect to the measurement of fair values. The valuation of investments is performed by the Investment Advisor. As detailed in note 3(f), the Investment Advisor determines fair values using the BVCA and IPEV guidelines. The following approach is used:

- 'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk;
- The EBITDA multiple valuation model is used, based on budgeted EBITDA for the next financial year;
- Loans made are stated at amortised cost but impairment tested based on the enterprise value derived from the valuation.

Bighead has been recognised at a holding value consistent with its exit proceeds as of its disposal on 19 February 2014, a post balance sheet event (note 27).

Fair value hierarchy – Financial instruments measured at fair value

The table below analyses the underlying investments held by the equity accounted investees measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. Debt securities are also included, as although stated at amortised cost, the Investment Advisor assesses the fair value of the total investment, which includes debt and equity. The amounts are based on the values recognised in the statement of financial position. All fair value measurements below are recurring. There are no other financial assets or liabilities carried at fair value.

31 January 2014	Level 3 £	Total £
Financial assets at fair value through profit or loss		
Unlisted private equity investments	29,995,285	29,995,285
Debt securities, unlisted	22,533,219	22,533,219
Total investments	**52,528,504**	**52,528,504**

The following table shows a reconciliation of the opening balances to the closing balances for fair value measurements in Leve1 3 of the fair value hierarchy.

Unlisted private equity investments	2014 £	2013 £
Balance at 1 February	17,829,979	9,982,080
Sale of investment	(1,832,715)	–
Change in fair value through profit or loss	13,998,021	7,847,899
Balance at 31 January	**29,995,285**	**17,829,979**

Significant unobservable inputs used in measuring fair value

The table below sets out information about significant unobservable inputs used at 31 January 2014 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Description	Fair value at 31 January 2014 £	Valuation technique
Unlisted private equity investments	29,995,285	EBITDA multiple

Significant unobservable inputs are developed as follow:

- EBITDA multiple: Represents amounts that market participants would use when pricing the investments. EBITDA multiples are selected from comparable public companies based on geographic location, industry, size, target markets and other factors that management considers to be reasonable. The traded multiples for the comparable companies are determined by dividing the enterprise value of the company by its EBITDA and further discounted for considerations such as the lack of marketability and other differences between the comparable peer group and specific company.
- The EBITDA multiple is applied to the budgeted EBITDA for the next financial year.

IFRS 13 requires disclosure, by class of financial instrument, if the effect of changing one or more inputs to reasonably possible alternative assumptions would result in a significant change to the fair value measurement. The information used in determination of the fair value of Level 3 investments is chosen with reference to the specific underlying circumstances and position of the investee company. On that basis the Board believe that the impact of changing one or more of the inputs to reasonably possible alternative assumptions would not change the fair value significantly.

Financial instruments not measured at fair value

The carrying value of short-term financial assets and financial liabilities (cash, debtors and creditors) approximate their fair value. The carrying value of the convertible loan note instrument is also considered to approximate fair value.

Investments in equity accounted investees are considered to be stated at fair value, as the underlying investments are at fair value.

14 Cash and cash equivalents

	2014 Group £	2013 Group £
Current and call accounts	7,862,252	4,417,775
	7,862,252	**4,417,775**

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

15 Loans to equity accounted investees and related parties

	2014 Group £	2013 Group £
ESO (PC) LLP	285,962	549,172
ESO 1 LP	512,055	805,055
EPIC Structured Finance Limited	500,000	500,000
	1,298,017	**1,854,227**

The loans to equity accounted investees and related companies are unsecured, interest free and not subject to any fixed repayment terms.

16 Trade and other payables

	2014 £	2013 £
Accrued administration fee	9,000	18,000
Accrued audit fee	11,661	16,589
Accrued professional fee	10,941	5,592
Convertible loan note buy-back (note 17)	–	1,977
Accrued Directors' fees	10,916	10,916
Total	**42,518**	**53,074**

17 Non-current liabilities

Convertible loan note instruments were issued on 31 August 2010 to The Equity Partnership Investment Company plc. The amount issued, net of issue costs was £9,870,304. The notes carry interest at 7.5% per annum and are convertible at the option of the holder at a price of 170 pence per ordinary share. The convertible shares fall under the definition of compound financial instruments within IAS 32 Financial Instruments: Presentation. On issue of the loan notes, the Directors were required to assess the elements of equity and liability contained with the compound instrument. At the date of issue, the Directors considered that the instrument had no equity element and therefore the whole instrument was treated as a liability.

Issue costs of £129,696 were offset against the value of the convertible loan note instruments and are being amortised over the life of the instrument at an effective interest rate of 0.24% per annum. A total of £28,617 was expensed in the year ended 31 January 2014 (2013: £36,652).

The convertible loan notes are repayable on 31 December 2016, but each Noteholder has the right to require the redemption of some or all of his notes on 31 December 2015 by providing the Company written notice up to the close of business on 30 November 2015. The carrying value of the convertible loan notes in issue at the year end was £6,005,994. The total interest expensed on the convertible loan notes for the year is £483,303 (2013: £504,819). This includes the amortisation of the issue costs.

18 Share capital

	2014 Number	2014 £	2013 Number	2013 £
Authorised share capital				
Ordinary shares of 5p each	33,000,000	1,650,000	33,000,000	1,650,000
Called up, allotted and fully paid				
Ordinary shares of 5p each	30,688,222	1,534,411	30,802,911	1,540,146
Ordinary shares of 5p each held in treasury	(3,178,030)	–	(2,583,551)	–
	27,510,192	**1,534,411**	**28,219,360**	**1,540,146**

During the year ended 31 January 2014, the company cancelled 114,689 shares which were previously held in treasury (2013: none).

Corvina Ltd, a subsidiary of the Company, purchased 709,168 shares for a total consideration of £525,495 at a weighted average price of 74.10 pence per share. These were held in treasury as at the year end.

At the year end 1,022,720 treasury shares were held by the EBT (note 7) (2013: 1,022,720).

Share premium

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

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

Basic earnings per share are calculated by dividing the profit for the Group for the year attributable to the ordinary shareholders of £8,544,363 (2013: £2,926,243) divided by the weighted average number of shares outstanding during the year of 27,900,351 after excluding treasury shares (2013: 29,403,897 shares).

Diluted earnings per share are calculated by dividing the profit for the Group for the year attributable to ordinary shareholders of £8,544,363 (2013: £2,926,243) divided by the weighted average number of ordinary shares outstanding during the year, as adjusted for the effects of all dilutive potential ordinary shares of 28,953,683 after excluding treasury shares (2013: 29,704,938 shares).

20 NAV per share (pence)

The Group's NAV per share of 135.37 pence is based on the net assets of the Group at the year end of £37,240,518 (2013: £29,044,619) divided by the shares in issue at the end of the year of 27,510,192 after excluding treasury shares (2013: 28,219,360).

The Group's diluted NAV per share of 130.38 pence is based on the net assets of the Group and the Company at the year end of £37,240,518 (2013: £29,044,619) divided by the shares in issue at the end of the year, as adjusted for the effects of dilutive potential ordinary shares of 28,563,524, after excluding treasury shares (2013: 28,520,401).

21 Net cash used in operating activities

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

	2014 £	2013 £
Net investment expense	(1,417,689)	(673,211)
Non-cash items	126,790	–
Movement in trade and other receivables	(11,336)	30,542
Movement in trade and other payables	(10,556)	(52,649)
Net cash used in operating activities	**(1,312,791)**	**(695,318)**

22 Financial instruments

The Group's financial instruments comprise:

- Investments in unlisted companies held by equity accounted investees, comprising equity and loans.
- Cash and cash equivalents, bank loan and convertible loan note instruments; and
- Accrued interest and trade and other receivables, accrued expenses and sundry creditors.

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 those risks are hedged. These risks arise through directly held financial instruments and through the indirect exposures created by the underlying financial instruments in the equity accounted investees. These risks are managed by the Directors in conjunction with the Investment Advisor. The Investment Advisor is responsible for day to day management.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's liquid assets comprise cash and cash equivalents and trade and other receivables, which are readily realisable.

Residual contractual maturities of financial liabilities:

31 January 2014	Less than 1 month £	1 – 3 months £	3 months to 1 year £	1 – 5 years £	Over 5 years £	No stated maturity £
Financial liabilities						
Trade and other payables	42,518	–	–	–	–	–
Convertible loan note instruments	–	–	–	6,005,994	–	–
Bank loan	–	–	–	–	–	–
Total	**42,518**	**–**	**–**	**6,005,994**	**–**	**–**

31 January 2013	Less than 1 month £	1 – 3 months £	3 months to 1 year £	1 – 5 years £	Over 5 years £	No stated maturity £
Financial liabilities						
Trade and other payables	53,074	–	–	–	–	–
Convertible loan note instruments	–	–	–	5,977,377	–	–
Bank loan	–	–	–	–	–	–
Total	**53,074**	**–**	**–**	**5,977,377**	**–**	**–**

Credit risk

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

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

Although the Investment Advisor looks to set realistic repayment schedules, it does not necessarily view a portfolio company not repaying on time and in full as 'underperforming' and seeks to monitor each portfolio company on a case-by-case basis. However, in all cases the Investment Advisor reserves the right to exercise step in rights. In addition to the repayment of loans advanced, the Group and associates will often arrange additional preference share structures and take significant equity stakes so as to create shareholder value. It is the performance on the combination of all securities including third party debt that determines the Group's view of each investment.

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

	2014	2013
	£	£
Cash and cash equivalents	7,862,252	4,417,775
Trade and other receivables	77,822	66,486
Loans to equity accounted investees and related companies	1,298,017	1,854,227
Total	**9,238,091**	**6,338,488**

Cash balances are placed with HSBC Bank plc and Barclays Bank plc.

Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk). The Group is exposed to a market price risk via its equity investments held through its interests in equity accounted investees, which are stated at fair value.

Market price risk sensitivity

The Group is exposed to market price risk with regard to its investment in the partnerships, which own equity interests in a number of unquoted companies which are stated at fair value.

Interest rate risk

The Group is exposed to interest rate risk through its investment in the equity accounted investees and on its cash balances. The equity accounted investees provide loans to portfolio companies. Most of the loans are at fixed rates. Cash balances earn interest at variable rates. The convertible loan note instruments carry fixed interest rates.

22 Financial instruments continued

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

31 January 2014	Less than 1 month £	1-3 months £	3 months to 1 year £	1 – 5 years £	Over 5 years £	Non-interest bearing £	Total £
Assets							
Loans and receivables							
Loans to equity accounted investees and related companies	–	–	–	–	–	1,298,017	1,298,017
Trade and other receivables	13,979	–	–	–	–	63,843	77,822
Cash and cash equivalents	7,862,252	–	–	–	–	–	7,862,252
Total financial assets	**7,876,231**	**–**	**–**	**–**	**–**	**1,361,860**	**9,238,091**
Liabilities							
Financial liabilities measured at amortised cost							
Trade and other payables	–	–	–	–	–	(42,518)	(42,518)
Convertible loan note instruments	–	–	–	(6,005,994)	–	–	(6,005,994)
Bank loan	–	–	–	–	–	–	–
Total financial liabilities	**–**	**–**	**–**	**(6,005,994)**	**–**	**(42,518)**	**(6,048,512)**
Total interest rate sensitivity gap	**7,876,231**	**–**	**–**	**(6,005,994)**	**–**	**–**	**–**

31 January 2013	Less than 1 month £	1-3 months £	3 months to 1 year £	1 – 5 years £	Over 5 years £	Non-interest bearing £	Total £
Assets							
Loans and receivables							
Loans to equity accounted investees and related companies	–	–	–	–	–	1,854,227	1,854,227
Trade and other receivables	2,999	–	–	–	–	63,487	66,486
Cash and cash equivalents	4,417,775	–	–	–	–	–	4,417,775
Total financial assets	**4,420,774**	**–**	**–**	**–**	**–**	**1,917,714**	**6,338,488**
Liabilities							
Financial liabilities measured at amortised cost							
Trade and other payables	–	–	–	–	–	(53,074)	(53,074)
Convertible loan note instruments	–	–	–	(5,977,377)	–	–	(5,977,377)
Bank loan	–	–	–	–	–	–	–
Total financial liabilities	**–**	**–**	**–**	**(5,977,377)**	**–**	**(53,074)**	**(6,030,451)**
Total interest rate sensitivity gap	**4,420,774**	**–**	**–**	**(5,977,377)**	**–**	**–**	**–**

Interest rate sensitivity

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

Currency risk

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

23 Directors' interests

Four of the Directors have interests in the shares of the Company as at 31 January 2014 (2013: four). Geoffrey Vero holds 60,620 ordinary shares (2013: 60,620). Nicholas Wilson holds 50,931 ordinary shares (2013: 50,931). Robert Quayle holds 30,612 ordinary shares (2013: 30,612). Clive Spears holds 30,612 ordinary shares (2013: 30,612).

24 Related parties

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. Broker fees of £60,449 (2013: £40,357) were payable to Numis Securities Limited.

25 Subsidiary companies

On 29 October 2005, the Company incorporated EPIC Reconstruction Property Company (IOM) Limited, in the Isle of Man.

On 16 November 2012, the Company incorporated Corvina Limited, in the Isle of Man, whose principal activity is that of acquiring shares in the Company, which are held as treasury shares (note 18).

The Company holds 100% of the issued share capital of EPIC Reconstruction Property Company II Limited. The subsidiary is likely to enter into liquidation and has been deconsolidated.

The Company is deemed to have control of its EBT, which is therefore treated as a subsidiary and consolidated for the purpose of the Group accounts (note 18).

26 Financial commitments and guarantees

Under the terms of the limited partnership agreement the Company is committed to provide a maximum of £2 million additional investment to ESO 1 LP.

27 Subsequent events

Subsequent to the year end, ESO 1 LP, an equity accounted investee of the Company, disposed of its investment in Bighead Holdings Limited for £4.0 million in cash and a total of £4.6 million since the acquisition in September 2010 via income and disposal proceeds. The total return to ESO 1 LP equates to a 3.6x Money Multiple and 51.7% IRR.

Schedule of shareholders holding over 3% of issued shares

	Percentage holding
Giles Brand	22.88%
The Corporation of Lloyds	10.35%
Nortrust Nominees Limited	7.82%
Henderson Global Investors	6.45%
Miton Asset Management	5.35%
Hoares Bank	5.23%
Renaissance Capital Partners Limited	3.64%
Total over 3% holding	**61.72%**

Group Information

Directors:	G.O. Vero (*Chairman*) R.B.M. Quayle C.L. Spears N.V. Wilson
Secretary:	P.P. Scales
Registrar and Registered Office:	*IOMA Fund and Investment Management Limited* IOMA House Hope Street Douglas Isle of Man IM1 1AP
Nominated Advisor and Broker:	*Numis Securities Limited* 10 Paternoster Square London EC4M 7LT
Bankers:	*Barclays Bank PLC* 1 Churchhill Place Canary Wharf London E14 5HP
Investment Advisor:	*EPIC Private Equity LLP* Audrey House 16-20 Ely Place London EC1N 6SN
Auditors and Reporting Accountants:	*KPMG Audit LLC* Heritage Court 41 Athol Street Douglas Isle of Man IM99 1HN
Crest Providers:	*Computershare Investor Services (Jersey) Limited* Queensway House Hilgrove Street St Helier Jersey JE1 1ES

EPE Special Opportunities plc
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