

Company Information

Directors

DC McCrickard, Chairman
DL Adamson
V Campbell
R King (resigned 31 March 2002)
M Richardson
(appointed 31 March 2002)
JMP Welman

Secretary

P Scales

Registered Office

PO Box 174
St James's Chambers
Athol Street
Douglas
Isle of Man IM99 1PP

Administrator and Registrar

Barings (Isle of Man) Limited
PO Box 174
St James's Chambers
Athol Street
Douglas
Isle of Man IM99 1PP

Auditors

Ernst & Young
Jubilee Buildings
Victoria Street
Douglas
Isle of Man IM1 2SH

Investment Manager

The Equity Partnership Limited
55 Bishopsgate
London EC2N 3AS

Stockbroker

Teather & Greenwood Limited
Beaufort House
15 St Botolph Street
London EC3A 7QR

Solicitors

Latham and Watkins
99 Bishopsgate
London EC2M 3XF

Bankers

Barclays Bank PLC
54 Lombard Street
London EC3 9EX



The Equity Partnership
Investment Company PLC

Interim Report (unaudited)

For the period 6 July 2001 to 31 January 2002

Chairman's Statement

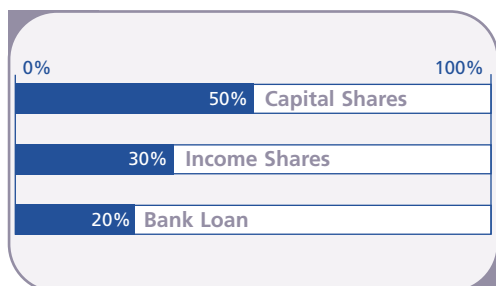
Results and Issue Details

The Company began trading on 17 August 2001 with assets of £69 million, including debt. This was below our £100 million target but constitutes a creditable result given the difficult market background.

During the five and a half months between launch and 31 January the capital share NAV has risen by 11.15% against a benchmark return (LIBOR + 3% per annum) of 3.48%. At the time of writing we have also, in accordance with the prospectus forecast, paid two interim dividends totalling 4p per income share.

Since the Company's flotation, the managers have made significant progress investing the assets in line with the allocations outlined in the prospectus and the performance has been most encouraging. However, before describing this in more detail I feel that I should remind shareholders of the capital structure and where this structure differs from other split capital investment companies.

Capital Structure



Capital Shares

Capital shares will, at the end of the Company's life, have the right to all capital growth and accumulated income after all debt once other liabilities and income share obligations are satisfied. The holders of capital shares also benefit from the Company's initial 29.9% shareholding in The Equity Partnership Limited (EPL) which is currently valued at net asset value plus 1.5% of funds under management.

Warrants

Each capital shareholder who subscribed under the placing was issued warrants (on the basis of one warrant for every five capital shares subscribed) entitling the warrant holder to subscribe for capital shares on any subscription date at a subscription price of 100p per capital share. The warrants are separately listed and expire in 2006.

Income Shares

The income shares carry the entitlement to cumulative preferential dividends, the rate of which will be increased annually in proportion to any increase in the Retail Price Index (RPI), capped at a maximum 5% increase for any year. The first RPI increase will apply to the payment due in November 2002. Income shares are repaid (the 100p subscription price) ahead of any capital share entitlement.

Since The Equity Partnership Investment Company PLC (EPIC) was launched, much criticism has been levelled towards split capital investment trusts in the press and elsewhere. The gearing which served these vehicles well through the bull market of the 1990's has in many cases become their "bête noire". As asset values have declined, a number of split capital trusts have found it increasingly difficult to balance the conflicting interests of holders of different classes of shares, to maintain dividend payments at expected levels and/or to comply with bank covenants. Concern has been exacerbated by the existence of cross shareholdings amongst numerous split capital trusts, which are now recognised to have given rise to systemic risk within the split capital sector as a whole.

I am pleased to report that the structure of EPIC introduced specific measures designed to address many of these concerns. In particular:

- income shares represent a comparatively small proportion of the total capital raised through equity issuance and bank borrowings, resulting in a commensurately low portfolio yield requirement;
- the yield entitlement attaching to income shares is ascertained by reference to a fixed formula, removing any conflict between different share classes;
- EPIC is prohibited from acquiring ordinary income or income shares in other split capital trusts; and
- although EPIC does employ bank borrowings to provide gearing, borrowings currently amount to approximately £14.2 million, representing a comparatively modest 19.5% of gross assets.

When EPIC was launched, its acquisition of a significant stake in EPL, the fund management company, promised to provide an immediate uplift in the stated NAV. I am pleased to report that at the time of writing, as expected, the Equity Partnership group of companies have already amassed over £800 million under discretionary management and is forecast to exceed its budgets for the current year.



Don McCrickard, April 2002

Manager's Report

Investment Background

Less than a month after the Company's launch on 17 August 2001 economic confidence and equity markets were badly knocked by the catastrophic World Trade Center terrorist attack. The quoted equity portion of the EPIC portfolio already contained a full weighting in the insurance sector with a view to benefiting from the recovering insurance cycle and these investments have obviously suffered as a result of the largest and most diverse insurance claim in history. However, I am pleased to report that successful stock selection in other areas of the equity market has more than offset these effects and the portfolio has made positive progress over a period when the FTSE 100 Index has fallen by over 3%.

Within the quoted equity portfolio we have looked to invest in shares with above average yields and where there is a prospect of dividend growth. Many of these investments provide the additional comfort of substantial asset backing. Our "bottom-up" stock picking

approach has resulted in several large sectors of the market such as natural resources, telecoms and pharmaceuticals being unrepresented.

Over the past six months we have made a strong start on the unquoted equity portfolio where we aim to invest in companies with a leading market position that have strong incumbent management, historic financial performance and growth potential. Core investments include Pinnacle-psg, a provider of social housing management services with over 70,000 homes under management in London, and Varga, Europe's leading animation company which is responsible for animating the "Mr Bean" series currently being aired on ITV.

As flagged in the prospectus, the largest investment in the portfolio is represented by Sunrise CDO I Ltd, a collateralised bond obligation. Of the £13.5 million invested by the Company 37% is represented by the principal protection strategy which ensures 75% of the capital invested is protected by a sterling zero coupon bond. Sunrise CDO I Ltd is secured on USD denominated fixed and

floating rate debt securities issued predominantly by US issuers. The underlying portfolio consists of 25% residential mortgage backed securities, 8% commercial mortgage backed securities, 33% (other) asset backed securities, 17% CDOs and 17% corporate securities.

Fixed income markets first rallied and then were sold off as more signs of US recession were gradually replaced by data suggestive of US and global economic recovery. Increases in UK yields were limited by a lingering perception that there may yet be one more base rate cut, insulating shorter dated securities from the worst of the bond market sell-off. The improving economic outlook boosted corporate profit prospects to the benefit of the fund's non-government bond holdings.

Looking ahead, we believe that global bond yields will rise as world-wide economic recovery gathers momentum. Gilt yields will drift

higher as a result and indeed attention will likely begin to focus on the extent of rate rises deemed necessary by the Monetary Policy Committee to curb UK consumer spending (currently running 5.7% higher than a year ago). Upward pressure on interest rates will impede the stock market recovery. This implies that stock selection will be the key driver of performance in both stock and corporate bond markets in the period ahead, with the best equity performance likely to emanate from cyclicals and the insurance sector which looks set to benefit from increased premiums.

The Equity Partnership Limited
April 2002

Statement of Operations and Changes in Net Assets

For the period 6 July 2001 to 31 January 2002 (unaudited)

Notes	6 July 2001 to 31 January 2002	
	£	£
Income:		
Interest receivable	16,168	
Investment income	<u>1,130,219</u>	
Total income		1,146,387
Expenses:		
Loan interest	416,455	
Investment management fees	322,308	
Irrecoverable VAT	64,847	
Other administration fees and expenses	79,752	
Directors' fees	7,500	
Audit fees	<u>7,500</u>	
Total expenses:		<u>898,362</u>
Net investment income		248,025
Realised and unrealised gains on investments		
Net realised gain	265,026	
Net unrealised gain	<u>4,170,085</u>	
		4,435,111
Net increase in net assets resulting from operations		<u>4,683,136</u>
3 Dividends in respect of income shares		(829,453)
Net assets beginning of period		–
Share capital transactions		53,929,100
Net assets end of period		<u><u>£57,782,783</u></u>
Net assets		
Attributable to capital shares		37,046,450
Attributable to income shares		<u>20,736,333</u>
		<u><u>£57,782,783</u></u>
Net asset value per share		
As at 31 January 2002 (unaudited)		
Capital shares (equity shares)		107.189 p
Income shares (non equity shares)		100.000 p
5 Capital shares after dilution (equity shares)		<u>105.991 p</u>

Statement of Assets and Liabilities

As at 31 January 2002 (unaudited)

Notes	2002
	£ £
Tangible assets	
Investments	72,548,889
 Current assets	
Debtors and prepayments	363,515
Cash at bank and in hand	57,462
	<u>420,977</u>
 Current liabilities	
Creditors and accrued expenses	(502,219)
3 Dividends in respect of income shares	(518,408)
	<u>(1,020,627)</u>
 Net current liabilities	(599,650)
Long-term liabilities	
4 Bank loan	<u>(14,166,456)</u>
 Total assets less liabilities	<u>£57,782,783</u>
 Shareholders' funds (including non-equity interests)	<u>£57,782,783</u>

Summarised Statement of Cashflows

For the period 6 July 2001 to 31 January 2002 (unaudited)

	6 July 2001 to 31 January 2002
	£
Net cash inflow from operating activities	583,869
Service of finance	
Interest paid	–
Expenses of long-term loan	–
Net cash outflow from servicing of finance	–
Capital expenditure and financial investment	
Purchase of investments	(211,599,975)
Sales of investments	143,705,513
Net cash (outflow) from capital expenditure and financial investment	(67,894,462)
Non equity dividends paid	(311,045)
Net cash (outflow) before financing	<u>(67,621,638)</u>
Financing	
Proceeds of share issue	53,929,100
Loan proceeds	13,750,000
Net cash inflow from financing	<u>67,679,100</u>
Increase in cash	<u>57,462</u>
Notes to summarised cash flow	
Reconciliation of net cost of operations to net cash inflow from operating activities	
Net cost of operations	248,025
Increase in debtors	(363,515)
Increase in creditors and accrued expenses	502,219
Loan interest included in long-term liabilities	416,455
Outstanding settlements on investments	(219,315)
	<u>583,869</u>

Notes to the interim statement (unaudited)

1 Accounting policies

- a The financial statements have been prepared under the historical cost convention modified by the revaluation of investments. The principal accounting policies that have been applied are set out below, such policies conforming with International Accounting Standards currently in force.
- b Investment and policy transactions are recorded on a trade date basis.
- c Listed investments are valued at the middle market quotation where they are quoted on a recognised stock exchange. In the case of collective investment schemes the directors' policy is to value the holding at the NAV provided by the Fund Manager. For unquoted securities where it proves impossible to obtain a market price the directors decide to value investments at book cost with the exception of the Company's investment in The Equity Partnership Limited, which has been revalued based on an independent valuation.
- d Investment income is accounted for as it becomes receivable by the Company.
- e Realised and unrealised gains and losses are reflected in the Statement of Operations and Changes in Net Assets.

2 Company

The Company is a closed-end investment company incorporated on 6 July 2001 on the Isle of Man as a public limited company which will be wound up on 31 July 2011.

3 Dividends

The income shares have received the following dividends during the period.

Dividend date	Amount per share	
		£
31 October 2001	1.5p	311,045
31 January 2002	2.5p	518,408
		<u>829,453</u>

The dividend declared on 31 January 2002 was paid on 27 February 2002.

The capital shares are not entitled to any dividend until the Company is wound up.

Notes to the interim statement (unaudited)

4 Bank Loan

The bank loan of £13,750,000 is fixed for five and a half years at 6.70% per annum. The interest is rolled up until maturity of the loan.

	£
Bank loan	13,750,000
Interest charged in period	416,456
	<u>14,166,456</u>

5 Share Capital

At 31 January 2002

	Number of shares in issue
Income shares	<u>20,736,333</u>
Capital shares	<u>34,561,666</u>

Capital shareholders who subscribed under the placing were issued with warrants on the basis of one warrant for every five capital shares subscribed.

At 31 January 2002 there are 6,912,333 warrants in issue. The warrants have the right to convert into capital shares at the price of £1 per share on 30 November in any of the years 2002 to 2006 inclusive.

The diluted NAV calculation on the Statement of Operations and Changes in Net Assets assumes that all the warrant holders convert their warrants for capital shares at £1 each. This would increase the number of capital shares in issue to 41,473,999 and the pro forma net assets available to the capital shareholders to £43,958,783.

Investment Portfolio at 31 January 2002

Top 15 Holdings Based on Market Value

	% of Total Investments
Sunrise Capital Principal Protected Income Note	18.56
UK Government 9.5% 18 April 2005	14.36
The Equity Partnership Limited	4.61
Davis Service Group PLC	3.48
Strand Partners Limited	3.44
SIG PLC	3.20
Jupiter Hyde Park Hedge Fund	2.82
Pinnacle-psg Limited	2.75
Gleeson (MJ) Group PLC	2.54
Brit Insurance Holdings PLC 8.5% Convertible	2.43
Heywood Williams PLC	2.08
Novar PLC	1.95
Provident Financial PLC	1.88
Varga Holdings Limited	1.85
Greene King PLC	1.84
Total of 15 largest investments	67.79