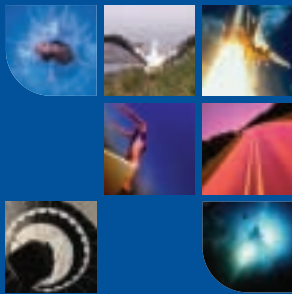
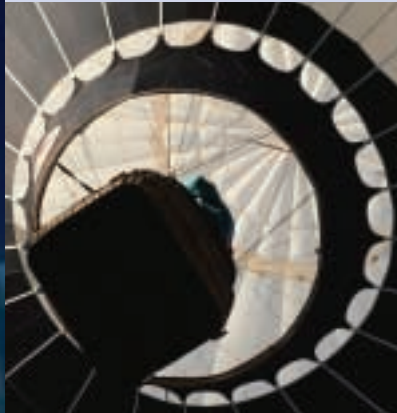




The Equity Partnership  
Investment Company PLC



Report & Accounts | **July 02**



The concept of partnership permeates our approach to servicing clients. We will forge successful partnerships with both our clients and intermediaries in order to be in a position to provide imaginative and bespoke solutions.

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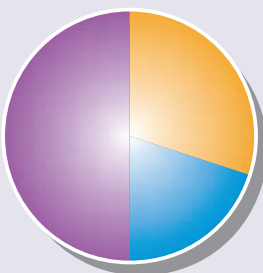
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Inside back cover	Company Information

The Equity Partnership Investment Company PLC (“EPIC” or “the Company”) is an Isle of Man closed-end investment company. EPIC invests in quoted and unquoted equities, fixed income securities, structured income products and investment funds. The Company’s objective is to provide Income shareholders with a high starting yield (defined as 10.0% with annual rises in line with the Retail Price Index) and generate long term value for Capital shareholders in excess of 3% per annum over the risk free rate of return (defined as LIBOR).

## Share Classes

### Capital Structure

- Capital Shares 50%
- Income Shares 30%
- Bank Loan 20%



### Warrants

Each Capital shareholder who subscribed under the Placing was issued Warrants (on the basis of 1 Warrant for every 5 Capital Shares subscribed) entitling the Warranholder to subscribe for Capital Shares on any Subscription Date (30 November) 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 annual rate of which will be increased each year 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 payments in respect of the year ending 31 July 2003.

### 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, 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 which is currently valued at 1.5% of Funds under Management.

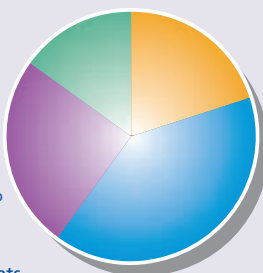
### Dividends Paid

<b>1st Interim</b>	November 2001	1.5p paid
<b>2nd Interim</b>	February 2002	2.5p paid
<b>3rd Interim</b>	May 2002	2.5p paid
<b>Final</b>	August 2002	3.5p paid

## Investment Policy

### Target Asset Allocation\*

- Quoted Equities 40%
- Bonds & Structured Income Products 25%
- Investment Funds 15%
- Unquoted Equities 20%



\*Excludes strategic investments

### Unquoted Equities

EPIC will invest in companies that have established business models where there is the opportunity for a significant uplift in market value, for example in companies that are actively seeking a listing.

### Bonds

Bonds and structured income products include a range of asset classes such as investment grade bonds, high yield bonds, convertible bonds and Collateralised Bond Obligations (CBOs). A CBO is a repackaged security whose underlying collateral is a diversified portfolio of bonds.

### Quoted Equities

The performance of the major UK equity market indices has become increasingly influenced by a small number of very large companies. Many smaller companies find it difficult to generate interest from the investment community and, as a result, can remain under-researched and trade at low valuations. EPIC will exploit opportunities where share ratings do not reflect a company’s value or growth prospects.

### Investment Funds

EPIC will invest in specialist sector funds, closed-end funds traded on deep discounts, funds that are investing in new asset classes, and hedge funds. The Company is prohibited from investing in the ordinary income and income share capital of split capital funds.

### Strategic Investments

EPIC benefits from a 29.9% shareholding in The Equity Partnership Limited. Neither EPIC’s holding in The Equity Partnership Limited nor its holding in Strand Partners are reflected in the Target Asset Allocation chart above. Collectively, in EPIC’s portfolio, these investments are referred to as Strategic Investments.

# Biographies of the Directors

**Don McCrickard**



**Don McCrickard**, Chairman, was previously a director of American Express International Inc from 1978 to 1983, group chief executive of the TSB Group plc from 1990 to 1992, TSB Bank Plc from 1989 to 1992 and chairman of Hill Samuel Bank from 1991 to 1992. He was also a member of the executive committee of the British Bankers Association and a member of the Bank of England's Deposit Protection Board. He is a fellow of the Chartered Institute of Bankers. He is currently chairman of London Town plc and a non-executive director of a number of public and private companies, including Brit Insurance Holdings PLC.

**Donald Adamson**



**Donald Adamson** has over 20 years' experience of fund management, corporate finance and private equity in Edinburgh, London and Jersey. He is the principal of Research and Consulting Associates Limited, a specialist offshore consulting business linked to Collins Stewart Limited, and was until 1999 the joint principal of Graham Investment Managers Limited, a fund investment manager overseeing assets worth over £250 million, whose acquisition by Aberdeen Asset Management Plc he co-ordinated. He serves as director or chairman of a number of listed and privately-held investment companies. He was awarded an MA in Economics and History from University College, Oxford, carried out post-graduate research at Nuffield College, Oxford, and is a member of the Securities Institute.

**Vincent Campbell**



**Vincent Campbell** is an executive director of Barings (Isle of Man) Limited and a fellow of the Chartered Institute of Management Accountants. He gained 13 years' industry experience as a management accountant in the Courtaulds Group and as financial controller within the food manufacturing divisions of the Argyll Foods Group. On moving to the Isle of Man in 1986 he joined GAM Administration Limited in 1988. He became the finance director of GAM's Isle of Man and Dublin operations and was responsible for their company secretariat, operational audit, compliance and corporate finance departments. Joining Barings in 1998, he now heads up the third party fund administration business, with further responsibilities as company compliance officer and money laundering reporting officer.

**Martin Richardson**



**Martin Richardson** has been a partner of the Jersey practice of Rawlinson & Hunter, Chartered Accountants, since 1987, specialising in trust and mutual fund administration services to the financial services sector. He serves as a director of a number of listed and privately-held investment companies. He has a BA in Science Engineering from the Royal Military College of Science, Shrivenham, and served in the Royal Engineers between 1968 and 1977. On leaving the Army he qualified as a chartered accountant with Coopers & Lybrand, Jersey, for whom he worked from 1977 to 1981.

**Jo Welman**



**Jo Welman** graduated in economics from Exeter University in 1979. He joined Baring Brothers where he managed several large segregated UK and US public company pension funds and The Barings UK Smaller Companies Unit Trust. In 1989 he was recruited by Rea Brothers to become the managing director of the investment management subsidiary. He resigned as a director of Rea Brothers Group plc in August 1999 following the bank's take-over by Close Brothers. He resigned as chairman of Brit Insurance Holdings PLC in September 2002 and is managing director of The Equity Partnership Limited, the investment manager to the Company, and is chairman of EPIC Asset Management, the regulated investment management subsidiary of The Equity Partnership Limited.

# Chairman's Statement



Don McCrickard

The Equity Partnership Investment Company ("EPIC" or "the Company") has had an eventful year since its launch on 17 August 2001. On its first day of trading the All Share Index was 2,590.61 and, following the September 11 US terrorist attack, fell over 300 points before recovering to end the calendar year back over 2,500.

Over the first six months of 2002 the world's equity markets traded in a relatively narrow range before their sharp declines in July when the All Share Index fell below 1,850 to six year trading lows.

During the 11½ months since launch, the Capital Share Net Asset Value ("NAV") has risen by 5.06% against a benchmark return (LIBOR + 3% per annum) of 7.74% and a fall in the All Share Index of 20.84%. In accordance with the prospectus forecast the Company has paid three interim and a final dividend totalling 10p per Income Share.

EPIC's Capital Share benchmark return and profit sharing arrangements incentivise the managers to follow an absolute return strategy and despite dramatically outperforming the equity market indices it is obviously disappointing to have undershot the benchmark during the first year. However, given the background to world equity markets I believe that the Company's performance is creditable and puts us in a very strong position for when equity markets begin their recovery.

As stated in the prospectus the Company's investment objective is to achieve growth for Capital shareholders of at least 3% per annum above risk free rate (defined as LIBOR) and to provide Income shareholders with a high level of income with an annual increase each year in line with inflation. I am therefore happy to report that despite a 20% fall in the UK equity index over EPIC's first year we end the year with a net asset value above its starting level net of issue expenses.

We have also paid four quarterly dividends totalling 10p per Income Share and enter the Company's second financial year with over £1.5 million in the income reserve.

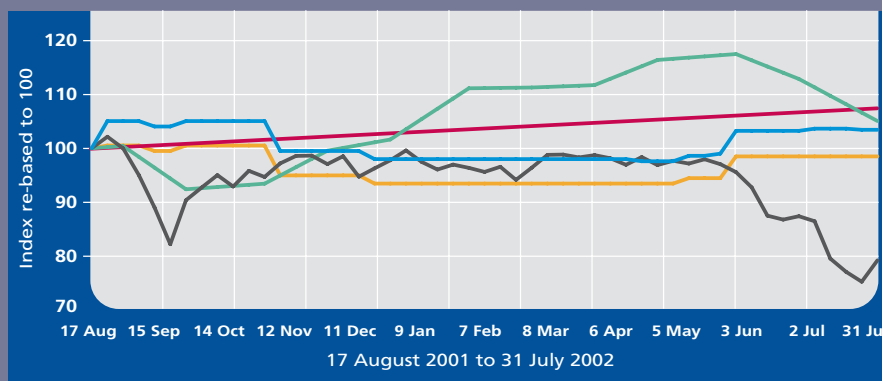
The Manager has made significant progress towards the investment of the Company's assets in line with the policy laid out in the prospectus. Understandably however, given the market circumstances, the manager has retained a higher proportion of cash and fixed income securities whilst they seek value in both quoted and unquoted equity markets. One of the Company's largest individual investments is in preference shares issued by Sunrise CDO I Ltd, a collateralised bond obligation, which is providing a significant proportion of the income required to satisfy the Company's obligations to Income shareholders.

The collateral portfolio underlying this investment has performed satisfactorily despite a difficult credit environment. The investment is 75% principal protected through the investment in Credit Suisse First Boston (CSFB) (USA) zero coupon bonds.

## Share Price and NAV Performance vs Benchmark

(from 17 August 2001 to 31 July 2002 – re-based to 100)

- Capital Share Price
- Benchmark (Libor + 3%)
- Capital Share NAV
- FTSE All Share Index
- Capital Share Price + Warrant Price



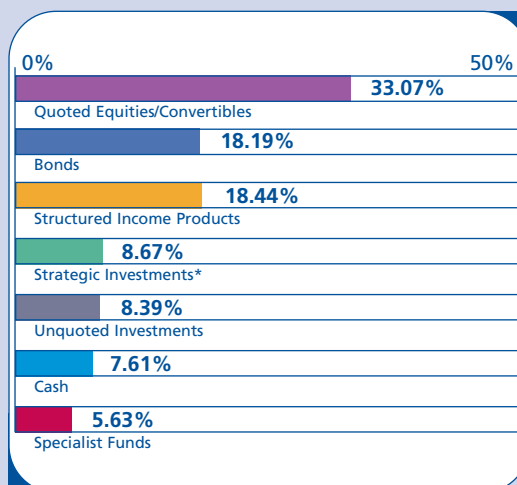
Source: Bloomberg

As I outlined briefly in my interim statement, EPIC has an innovative split capital structure designed to remove the potential conflicts and difficulties inherent in splitting the returns from ordinary shares between Capital and Income shareholders. The well-publicised problems within the split capital investment trust sector have, I believe, been addressed by EPIC's relatively low portfolio yield requirement, relatively low gearing and the absence of shareholdings in other split capital investment companies. The stable performance of both the Capital and Income Shares seems to suggest that the market holds a similar view.

The quoted equity portfolio has outperformed the falling market via a combination of successful value based investments and active trading in a volatile market environment. A significant proportion of the relatively stable asset performance can also be attributed to a successful first year in the life of The Equity Partnership Limited ("EPL"), EPIC's asset manager in which the Company has a 29.9% shareholding. EPIC Asset Management, EPL's 70% owned FSA regulated subsidiary, has already attracted a number of fixed income fund management clients and is confident of securing further mandates before the end of this calendar year. EPL is also in the process of applying for a second FSA licence for EPIC Specialist Investments, a vehicle launched in partnership with some founder investors to advise,

structure and launch specialist funds targeted at institutions and high net worth private investors. EPL is on target for a profitable first year of trading and we are hopeful that the Company's progress and increased valuation will continue to provide further growth in the value of our 29.9% shareholding.

### Asset Allocation as at 31 July 2002



\*The Equity Partnership Limited, Strand Partners Limited

I would like to thank the Managers for their efforts over what has been a testing first year.

**Don McCrickard**  
27 September 2002

# Investment Manager's Report

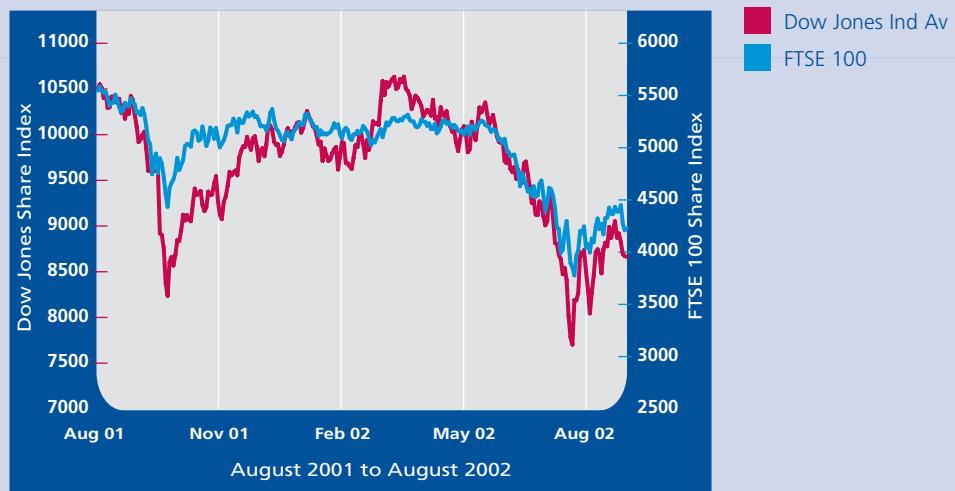
## Economic Highlights for the Year

The last year has been characterised by exceptional volatility in bond and equity markets that has mirrored fluctuating expectations of global economic growth.

Shortly after launch EPIC was confronted by the challenges which followed the tragic events that took place at the World Trade Center on September 11. As perceptions of global risk increased in the aftermath, so investors sought the safe haven of government bonds at the expense of riskier asset classes. Equity markets fell sharply as a result (see chart one) and business and consumer confidence was understandably affected. Since consumers had, in part, relied upon previous equity market gains as a source of wealth and confidence, economists reasoned that consumption would fall as a result, driving the US and UK economies into recession. Bond prices around the world rose sharply in anticipation of this scenario with US Treasuries and UK Gilts rising in the weeks following the terrorist attack.

Chart one

Equity market volatility since launch



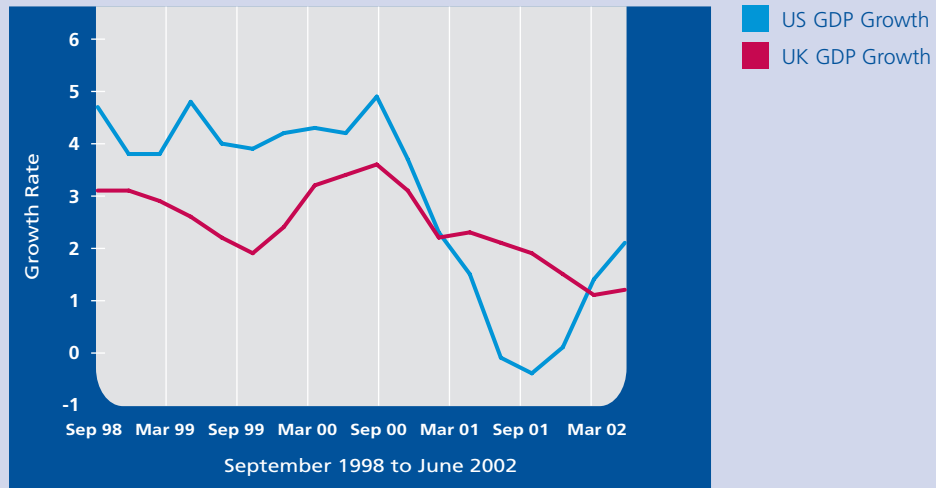
Source: Bloomberg

Central banks around the world responded to the threat of recession by implementing a series of interest rate cuts in the fourth quarter of 2001. The US Federal Reserve attempted to bolster confidence by cutting interest rates by 1.75% on top of the 3% by which they had already lowered them in 2001. The UK Monetary Policy Committee similarly lowered base rates by 1% to 4%, thus doubling the cuts that had already taken place as a response to slowing economic growth.

As stock markets recovered in response to easier monetary policy, so business and consumer confidence stabilised. Indeed, the low cost of credit soon sparked an increase in business and consumer spending that drove US growth markedly higher around December 2001 (see chart two). Although European weakness constrained UK growth, the consensus remained optimistic that US recovery would benefit prospects on this side of the Atlantic too.

Chart two

US and UK economic growth



Source: Bloomberg

Optimism continued to build during the first quarter of 2002 when a number of indicators suggested that low interest rates were indeed propelling US economic growth higher. A recovery in consumer confidence drove annualised US retail sales 8% higher in the first quarter 2002, propelling industrial production 1.3% higher. In the UK, production gains were more modest but retail sales growth reached an impressive 1.3%. By March these gains drove consensus expectations of 2002 economic growth markedly higher, constraining gilt returns to just 0.6% in the period.

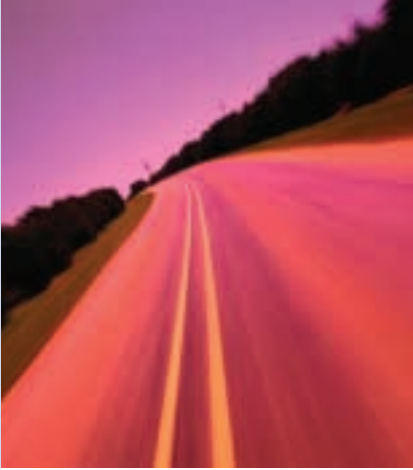
Since April, however, concern has mounted that UK and global economic recovery is losing steam. As chart one illustrates, US equity markets have fallen back in 2002, once again causing economists to voice concern that debt laden consumers will rebuild savings at the expense of spending, driving economies into recession. Although UK consumer spending remains underpinned by 20% gains in property prices, it is questionable whether this growth is sustainable. As a result, bonds have once again rallied significantly in anticipation of even more central bank easing and, as the table below illustrates, fixed income returns have comfortably exceeded those of equities since launch. Moving into EPIC's second year, short dated Gilt yields at 3.9% are below UK base rates and US Treasury yields are at record lows. Further gains seem likely until equities stabilise ahead of economic recovery.

Selected performance measures since launch

Asset class	Return since launch
UK 12 month LIBOR +3%	7.74%
UK 1-5 year Gilt index	6.79%
FTSE all share index	-20.84%

Source: Bloomberg

## Quoted Equity



“...Despite the popularity of new value measurements designed by analysts to enable companies to achieve high valuations without generating profits and cash, we believe that the basic price to earnings measurement remains a key investment yardstick.”

At the time of launch investors were already questioning the strength of the US economy and the World Trade Center terrorist attack sapped confidence further. Prior to September 11 EPIC had invested approximately one third of the UK equity weighting indicated in the Prospectus. The subsequent market turbulence resulted in central banks providing large amounts of liquidity to mitigate the effect on the underlying economies but the stock market weakness offered opportunities to invest at lower prices and by the half year EPIC held a full UK equity weighting.

At launch the managers took a significant over-weighting in the insurance sector and the World Trade Center claim caused significant damage to insurance company balance sheets. The terrorist attack followed a difficult period for the insurance sector and as a result both policy terms and pricing have moved in favour of insurers to an extent not seen for many years. Successful capital raisings have helped rebuild many London companies' balance sheets and as the threat of further terrorist atrocities receded the sector began to show some recovery. By the Company's year-end, EPIC had invested in excess of £3.5 million in Lloyd's insurance companies in anticipation of a substantial profit turnaround as rates continue to improve.

Over the past year the characteristics that have attracted us to quoted shares have been associated with fundamental valuations and even the rather complex Lloyd's insurance companies have substantial net tangible asset backing in relation to their share prices. Indeed many of our other holdings such as Baggeridge Brick, Beale, Eldridge Pope, Gleeson and RMC trade at discounts to their

net asset value. Whereas such valuations can point to poorly managed businesses, they can also provide a limit to the downside and significant potential gain if management shows the ability to generate higher returns from these assets.

Recent concerns over accounting practices followed by some US companies also highlight the benefits of strong free cash flows as another measure of value. Although companies such as Davis Service Group and Greene King have been acquisitive over the past year, strong cash flows inspire confidence that profit growth is real as opposed to a sleight of the bookkeeper's hand. It also provides evidence that debt can be both serviced and repaid.

Despite the popularity of new value measurements designed by analysts to enable companies to achieve high valuations without generating profits and cash, we believe that the basic price to earnings measurement remains a key investment yardstick. The majority of EPIC's investments are on relatively low prospective p/e ratios and some such as Havelock Europa and Hitachi Credit are on potentially low single figure multiples.

Over the first year of EPIC's life, markets have been both on a downward trend and particularly volatile and in these circumstances it has been advantageous to take profits during periods of market strength. Although valuations appear reasonable on an historic basis, the equity markets remain vulnerable to further weakness on Wall Street, but given the more promising UK economic indicators we will continue to take advantage of further significant weakness to move EPIC back to a full UK equity weighting.

## Unquoted Equity

20% of EPIC's portfolio is allocated to private equity investments and during the year we have been successful in sourcing sufficient quality investments to make a satisfactory start.

The principle of partnership that permeates the Equity Partnership group of companies is fundamental to the success of the private equity portfolio. The ability to create innovative financial and strategic solutions for portfolio companies is dependent on the manager's experience, the quality of portfolio companies' management and the opportunities sourced through our network. We aim to work closely with smaller growth companies (interpreted as equity values of less than £50.0 million) in particular with respect to issues of management, corporate governance, strategy, finance and value realisation.

During the past year we have concentrated on the following sectors: Financial Services, Media, Public Private Partnerships, Home & Personal Care and General Retail. The portfolio is split into two sections: core and "nursery" investments and to implement this strategy we have focused on the following types of transactions:

- Public to private
- Leveraged buy-outs
- Consolidations
- Recapitalisations, restructurings, turnarounds and corporate rescues
- Pre-flotation bridge finance or working capital plays
- Securitisations and fixed income structured products

### Core Investments

In this section of the portfolio our objective is to invest in established, cash-generative companies at valuations below the equivalent quoted comparable. We aim to invest between £1-5 million in the capital of such portfolio companies. During the past financial year we have made the following core investments:

- Pinnacle-psg, the largest social housing manager in the UK with 70,000 homes under management. Giles Brand has joined the Board of Pinnacle-psg and advises on corporate finance and strategic issues. Currently EPIC is in the process of negotiating a joint venture to establish an operating company that will negotiate Public Private Partnership deals on behalf of Pinnacle-psg.
- Varga is a leading European animator responsible for the production of recent animation hits such as animated Mr Bean, Angelina Ballerina and Kipper. Jo Welman is on the main Board of Varga and EPIC is currently in the process of negotiating a joint financing of a cartoon series for television.

### "Nursery" Investments

In this section of the portfolio the aim is to accumulate smaller shareholdings in private companies that are at a slightly earlier stage in their development than EPIC's core investments or that have less proven management teams. We believe that the relationship between us and investee company will be a significant determinant of fund performance and we hope to nurture a proportion of these investments through to the core portfolio. We have made several investments of between £0.25-0.50 million on behalf of EPIC particularly in distressed media and internet companies.

## Strategic Investments

EPIC owns 29.9% of its fund manager The Equity Partnership Limited (“EPL”). Other significant shareholders include strategic partners of the Equity Partnership - Brit Insurance Holdings PLC, Benfield Group PLC and the Management.

As at 31 July 2002 the Equity Partnership group of companies had over US\$1.3 billion of funds under management. Currently EPL is valued monthly as part of the NAV calculation on the basis of 1.5% of Funds under Management, which equates to an implied valuation as at 31 July 2002 for EPL of approximately US\$19.5 million and EPIC’s shareholding of US\$5.8 million at current exchange rates. In order to ensure that the valuation methodology remains appropriate for the nature of EPL’s business and reflects trends in the industry, the basis of formula will be regularly reviewed by the Board and their independent advisors.

**The diagram below shows the relationship between each of the Group companies:**



The following key milestones and events occurred during the year to 31 July 2002:

EPIC was one of the few successfully launched IPO’s of the August/September 2001 period. EPIC’s satisfactory first year performance in spite of a falling market and bad press with regards to Split Capital Investment Trusts has been very helpful in marketing the Equity Partnership group of companies.

EPIC Asset Management went on from the successful launch of the Sunrise CDO I Ltd for EPIC to win new third party funds from institutional clients in the insurance sector. EPIC Asset Management has progressed in building distribution capability in Continental Europe for structured income products with capital protection aimed at pension funds and financial institutions.

We have applied for a second FSA licence for EPIC Specialist Investments which will structure, market and manage specialist investment products to institutions and high net worth investors. EPIC Specialist Investments will provide an environment that will attract investment managers and industry advisors with specialist skills with whom we can structure and co-manage innovative new investment concepts using the Equity Partnership and EPIC brands.

EPIC has a strategic investment in Strand Partners Limited, a corporate finance boutique. All corporate finance houses had a difficult year in 2001/2002 and Strand Partners was no different. Despite these adverse conditions costs were covered and a dividend was paid. The current year, however, has started strongly and opportunities continue to present themselves in the mergers and acquisitions, public-to-private and private equity markets.

# Investment Funds and Structured Investments

## Investment Funds

In the immediate post launch period we made investments in The London Market Fund and The Jupiter Hyde Park Hedge Fund. The former offers exposure to the insurance sector which was already enjoying significant premium rate increases following the difficult period experienced by the sector in the late 1990's. However, the World Trade Center attack in September had a severe effect on sentiment and this was reflected in share prices. The Jupiter Hyde Park Hedge Fund focuses on the financial sectors and has performed very creditably over the year, appreciating by approximately 15.5% by the year end in what was a very difficult and volatile market.

Subsequent smaller investments have been focused on deeply discounted investment trusts with a value investment bias.

By the year end we had invested less than 50% of the 15% target allocation in the specialist funds sector.



## Structured Investments

EPIC has invested in the Preference Shares issued by Sunrise CDO I Ltd., a US\$300 million Collateralised Debt Obligation ("CDO") structure, secured on 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% Asset Backed Securities, 17% CDOs and 17% Corporate Securities. At Closing, the portfolio's Weighted Average Life was 8.2 years and its average rating was Baa1/Baa2 (Moody's). The underlying securities have been selected and are continuously monitored by the credit unit of EPIC Asset Management.

Sunrise CDO is performing satisfactorily despite the difficult conditions in CDO and Asset Backed Securities markets in the US, such as franchise loans and commercial vehicles. Deterioration in collateral quality in these markets had been anticipated and is manageable, and further developments depend on the recovery of the US economy. Overall collateral quality is still acceptable and the portfolio benefits from diversification over several sectors. Sunrise's over-collateralisation and interest coverage tests are comfortably met. The average Moody's rating of the portfolio has decreased to just below Baa2, but remains well within investment grade boundaries.

The first distributions of the transaction took place on 29 July 2002 and exceeded expectations. The distribution to EPIC amounted to US\$1.8 million (whereas the preference shares have a face value of US\$12.25 million) and the de-leveraging of the structure was higher than projected.

EPIC has also invested in zero coupon senior unsecured Notes issued by Credit Suisse First Boston (USA) Inc. maturing 14 November 2013. This investment serves to protect EPIC's investment in the Sunrise Preference Shares and appreciates to 75% of EPIC's aggregate investment amount in this structure. Rating agency Fitch upgraded the rating of Credit Suisse First Boston (USA) Inc. from A+ to AA- in May this year, bringing its rating in line with Moody's and Standard & Poors.

The structuring and management of products such as the Sunrise CDO is one out of a range of structured products offered by EPIC Asset Management. The company aims at a wide investor base and is able to offer investment products tailor-made to these investors' requirements. EPIC Asset Management's employees have many years of experience in portfolio management, credit management and structuring.

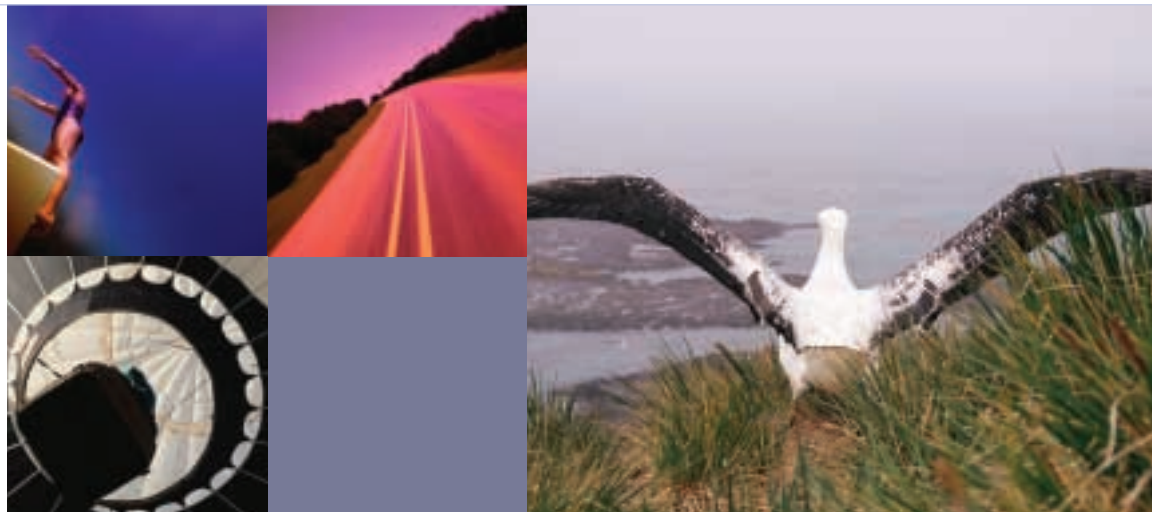
## Bonds

The fixed income component of EPIC has moved in tandem with the economic background noted previously, seeking to earn capital gains ahead of forecast falls in interest rates (ie price rises) and to preserve capital ahead of price falls.

Consistent with this objective, EPIC established at launch a core holding in a UK Gilt maturing in April 2005. This benefited from the flight to government bonds (at the expense of equities) which followed the terrorist attack of September 11 that reinforced expectations of falling UK base rates. EPIC also established exposure to Daimler Chrysler at the outset in anticipation of increased auto spending in 2002, driven largely by lower interest rates. Exposure to British Telecom was added shortly thereafter to gain the benefit of the significantly higher yield available from this issuer which did not appear justified given the company's cash flow generation ability and plans to reduce leverage.

Positioning the portfolio in short dated, defensive, securities proved particularly beneficial during the first quarter when yields rose in tandem with global economic recovery prospects. The realisation of forecast rising auto sales delivered substantial benefits in particular to EPIC's Daimler Chrysler holding.

The subsequent faltering of economic recovery triggered a move into longer dated securities, most notably those issued by the global electrical engineering company ABB Group. Although this issuer is currently constrained by high gearing, the group's highly cash generative core operations and planned asset sales are forecast to ease this debt burden before next year. Assuming that global economic recovery also occurs at that stage, it is likely that EPIC will increase exposure to other higher yielding corporate bonds at that time, probably at the expense of the April 2005 Gilt that is approaching historically high levels.



# Portfolio Analysis

Largest Investments	% of total investments
UK Government 9.5% 18 April 2005	14.41%
Sunrise CDO I Ltd Class 2 Preference Shares*	11.16%
CSFB (USA) Inc 0% Notes due November 2013	7.28%
Equity Partnership Limited**	5.22%
Pinnacle-psg Limited	4.26%
Davis Service Group Plc	3.71%
Gleeson (MJ) Group Plc	3.66%
Strand Partners Limited	3.45%
Jupiter Hyde Park Hedge Fund	3.05%
SIG Plc	2.99%
ABB International Finance Limited 10% 29 May 2009	2.34%
Diploma Plc	2.12%
Varga Group Limited	2.12%
RMC Group plc	1.96%
Heywood Williams Group Plc	1.62%
<b>Total of 15 largest investments</b>	<b>69.33%</b>

\*The investment has been split into Sunrise Preference Shares and the CFSB (USA) Notes

\*\*Director's Valuation of 1.5% of Funds under Management

# Biographies of the Investment Managers

## Quoted & Unquoted Equities

**John Lee** John graduated in Economic History from the New University of Ulster in 1972. During the 1970's he was a financial analyst with Phillips Petroleum working on various North Sea projects. In 1979 he joined the London stockbroker Fielding Newson Smith as a specialist oil analyst and institutional salesman. In 1984 he joined Hoare Govett as an institutional general equity salesman. After similar roles with BZW, Credit Lyonnais and Greig Middleton he left stockbroking in 1998 to focus on smaller company investments.

**Giles Brand** Giles joined ING Barings from Bristol University in 1997. After a year as part of the London Mergers and Acquisition team he moved to Paris where he focused on the Retail, Luxury Goods and Transport sectors advising companies such as Delhaize, Michelin, Gucci and Arianespace. On his return to London in 1999 he joined the Transport and Logistics advisory group working with clients such as LOT, Sabena and Malev. During the year before he joined the Manager, Giles advised on private equity investments in financial service businesses on behalf of ING Group and ING Barings.

## Fixed Income & Structured Products

**Ravi Shankar** Ravi joined EPIC Asset Management from Benfield Greig Asset Management where he was managing director and chief investment officer. He was previously an investment director and a member of the investment policy committee at Norwich Union. He spent nearly four years as director of fixed income strategy at Kemper (Zurich) Investment Management and four years as head of investments at the Ministry of Finance in the Sultanate of Oman. He holds an MBA in finance from Drexel University in Philadelphia and a BE in mechanical engineering from the National Institute of Engineering, India.

**Bryan Bazin** Bryan has a Masters degree in economics and over seventeen years' experience of running conservative fixed income portfolios for insurance companies and Lloyd's syndicates. He was senior investment manager with Whittingdale Limited before joining JR Butler Investment Management as managing director in 1989. He remained a director with JR Butler's successor, Apsley Investment Management, where he was jointly responsible for all investment policy and the management of £1.6 billion. Prior to joining EPIC Asset Management he spent four years with City Capital Counselling UK where he was responsible for establishing a UK investment dealing desk for its US parent company City Capital Inc.

**Martyn Clissold** Martyn joined EPIC Asset Management from Benfield Greig Asset Management where he was a portfolio manager. Prior to this he was a member of the international bond team at Norwich Union. He holds a first class honours degree in finance from Curtin University, Australia, where he subsequently also worked as a research associate, co-authoring several academic papers.

**Steven Jankowski** Steven joined EPIC Asset Management from Allied Irish Bank (AIB) where he was head of Credit & Risk Management for the bank's capital markets activities in Britain. Prior to employment with AIB, he was an associate director at Tokyo Mitsubishi International responsible for credit analysis. He holds an MBA and higher degree in economic history. He has co-authored several papers on corporate credit risk assessment, acted as a tutor in Strategic Management for the Open Business School and taught financial analysis courses in the City of London.

**Gerbrand Haanschoten** Gerbrand joined EPIC Asset Management from Allied Irish Bank where he was a senior credit analyst. Previously, he was an associate director in Risk Management at Visa International. Prior to this he spent seven years with Nomura Bank where he worked in the areas of credit analysis, business origination and portfolio management. He graduated with a degree in finance, investment and accounting from the State University of Groningen, the Netherlands.

# Report of the Directors

## Principal activity

The Equity Partnership Investment Company PLC (“EPIC”) is an Isle of Man closed-end investment company. The Company invests in quoted and unquoted equities, fixed income securities, structured income products and investment funds.

## Incorporation

The Company was incorporated on 6 July 2001. The Company’s registered office is: St James’s Chambers, Athol Street, Douglas, Isle of Man IM1 1JE.

## Results of the financial period

Results for the period and their appropriation are set out in the Statement of Operations on page 20 and in note 14 to the financial statements.

## Dividends

Details of the dividends declared and paid during the financial period are analysed in note 6 to the financial statements.

## Significant holdings

The number of shares held and the percentage of the issued shares which that number represents at the date of the signing of these financial statements are analysed on page 35.

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

## Directors

The Directors of the Company holding office for the financial period were:

	Appointed	Resigned
Mr Donald Adamson	12 July 2001	
Mr Vincent Campbell	6 July 2001	
Mr Alan Crowther	6 July 2001	12 July 2001
Mr Richard King	12 July 2001	31 March 2002
Mr Don McCrickard	12 July 2001	
Mr Martin Richardson	31 March 2002	
Mr Jo Welman	8 August 2001	
Mr Philip Scales (alternate to Vincent Campbell)	13 July 2001	

## Secretary

The secretary of the Company holding office for the financial period was Mr Philip Scales who served throughout the period.

# Report of the Directors

continued

## **Directors' liability insurance**

The Company maintains insurance cover for directors' liability in relation to the Company.

## **Staff**

At 31 July 2002 the Company employed no staff.

## **Auditors**

The auditors, Ernst and Young were appointed during the period and being eligible, have expressed their willingness to continue in office in accordance with Section 12(2) of the Isle of Man Companies Act 1982.

## **By order of the Board**

### **Philip Scales**

Company Secretary

27 September 2002

# Statement of Directors' Responsibilities

Isle of Man company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors:

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Isle of Man Companies Acts 1931 to 1993. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

# Corporate Governance Statement

## **Corporate governance**

In December 1992, the Committee on the Financial Aspects of Corporate Governance (“the Cadbury Committee”) published a Code of Best Practice. This was updated by the issue of The Combined Code: Principles of Good Governance and Code of Best Practice (“The Combined Code”). The Combined Code contains recommendations as to best practice, focusing on the control and reporting functions of boards of directors.

The Board of The Equity Partnership Investment Company PLC, whilst not being under a formal obligation to report to the shareholders regarding the extent to which the Company complies with the Combined Code, monitors the Company’s established procedures. The Board believes that the Company complies with the provisions of the Combined Code to the extent which is appropriate to the Company’s nature and scale of operations. In particular the Board included four non-executive directors for most of the year, three at the beginning of the year, who together formed a majority.

# Independent Auditors' Report

## to the Members of The Equity Partnership Investment Company PLC

We have audited the Company's financial statements on pages 20 to 34 for the period ended 31 July 2002 which comprise the Statement of Operations, Balance Sheet, The Reconciliation of Net Asset Value to Published Net Asset Value, Statement of Changes in Equity and the Statement of Cash Flow and the related notes 1 to 20. These financial statements have been prepared on the basis of the accounting policies set out therein.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with Isle of Man law and applicable accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Isle of Man Companies Acts 1931 to 1993. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by the Listing Rules regarding directors' transactions with the company is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Chairman's Statement, the Investment Manager's Report, the Portfolio Analysis and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 July 2002 and of its profit for the period then ended and have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 1993.

### Ernst & Young

Isle of Man

27 September 2002

# Statement of Operations

For the period from 6 July 2001 (date of incorporation) to 31 July 2002

Notes	£000's
<b>Income:</b>	
Dividends	1,520
Bond interest	2,101
Bank interest	28
Other income	18
<b>Total income</b>	<b>3,667</b>
<b>Expenses:</b>	
3 Management fee	691
3 Administration fee	103
3 Performance fee	–
2 Amortisation of issue expenses-income shares	65
Custodian fees	30
Audit fee	15
4 Directors' fees	52
5 Interest payable	873
Other expenses	245
<b>Total expenses</b>	<b>2,074</b>
<b>Net investment income</b>	<b>1,593</b>
<b>Gains on investments:</b>	
Realised gain on sale of investments	2,283
8 Movement in unrealised loss on revaluation of investments	(598)
<b>Profit for the period</b>	<b>1,685</b>
<b>Net increase in net assets resulting from operations</b>	<b>3,278</b>
6 <b>Dividends in respect of income shares</b>	<b>(2,074)</b>
<b>Total gains on investments</b>	<b>1,204</b>
	Pence
7 <b>Basic gain per capital share (pence)</b>	<b>3.48p</b>
7 <b>Diluted gain per capital share (pence)</b>	<b>3.47p</b>

All items in the above statement are derived from continuing operations.

The accompanying notes on pages 25 to 34 are an integral part of the financial statements.

# Balance Sheet

As at 31 July 2002

Notes		£000's
	<b>Non-current assets:</b>	
8	Available-for-sale investments	68,725
	<b>Current assets</b>	
	Cash and cash equivalents	5
9	Debtors	3,334
	<b>Total assets</b>	<b>72,064</b>
	<b>Current liabilities:</b>	
10	Creditors	3,131
	<b>Non-current liabilities:</b>	
11	Bank loan	13,750
18	Interest rate swap liability	462
11	Income shares	20,283
	<b>Total liabilities</b>	<b>37,626</b>
	<b>Net assets</b>	<b>34,438</b>
	<b>Represented by:</b>	
12	Share capital	3,456
13	Share premium	30,240
14	Reserves	742
	<b>Issued capital and reserves</b>	<b>34,438</b>
		Pence
15	<b>Net asset value per capital share (pence)</b>	<b>99.64p</b>

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

**Donald Adamson**

Director

27 September 2002

**Martin Richardson**

Director

# Reconciliation of Net Asset Value to Published Net Asset Value

As at 31 July 2002

	£000's	Pence per share
Published net asset value	34,878	100.90
Valuation of investments at bid prices – a	(43)	(0.12)
Accounting for derivatives on balance sheet – b	(462)	(1.32)
Amortisation of issue costs on income shares – c	65	0.18
<b>Net asset value per financial statement</b>	<b>34,438</b>	<b>99.64p</b>

- a In accordance with International Accounting Standards (IAS 39), investments have been valued at Stock Exchange quoted market bid prices at the close of business on the Balance Sheet date. However, in accordance with general business practice, the net asset value reported each month reflects these investments valued at Stock Exchange quoted market mid prices.
- b In accordance with International Accounting Standards (IAS 39), derivative instruments, whether hedging or not, are remeasured to fair value and recognised in the Balance Sheet. However, in accordance with general business practice, the net asset value reported each month to the London Stock Exchange excludes the value of derivative instruments, even if used for hedging purposes.
- c Issue costs incurred in respect of the Income Shares have been deferred and amortised on a straight line basis over eight years.

The accompanying notes on pages 25 to 34 are an integral part of the financial statements.

# Statement of Changes in Equity

For the period from 6 July 2001 (date of incorporation) to 31 July 2002

Notes		£000's
	Net profit for the period	3,278
	Capital share proceeds, net of issue expenses	33,696
6	Dividends payable	(2,074)
		<b>34,900</b>
	<b>Movement in hedge reserve:</b>	
18	Movement in net unrealised loss on revaluation of cash flow hedges	(462)
	<b>Net assets as at 31 July 2002</b>	<b>34,438</b>

The accompanying notes on pages 25 to 34 are an integral part of the financial statements.

# Statement of Cash Flow

For the period from 6 July 2001 (date of incorporation) to 31 July 2002

Notes		£000's
	<b>Operating activities:</b>	
	Dividends received	1,467
	Bond interest received	617
	Bank interest and commission received	46
	Expenses paid	(810)
	Loan interest paid	–
	Payments under interest rate swap agreement	(47)
16	<b>Net cash inflow from operating activities</b>	<b>1,273</b>
	<b>Investing activities:</b>	
	Purchase of investments	(265,270)
	Sale of investments	197,685
	<b>Net cash outflow from investing activities</b>	<b>(67,585)</b>
	<b>Financing activities:</b>	
	Proceeds on issue of capital shares	33,697
	Proceeds on issue of income shares	20,218
	Draw down of bank loan	13,750
6	Dividends paid	(1,348)
	<b>Net cash inflow from financing activities</b>	<b>66,317</b>
	<b>Increase in cash:</b>	
	Cash and cash equivalents at start of period	–
	<b>Cash and cash equivalents at 31 July 2002</b>	<b>5</b>

The accompanying notes on pages 25 to 34 are an integral part of the financial statements.

# Notes to the Financial Statements

As at 31 July 2002

## 1 Operations

The Equity Partnership Investment Company PLC was incorporated in the Isle of Man on 6 July 2001. The Company is a closed-end investment company, managed by The Equity Partnership Limited ("EPL"), and was formed primarily for investment in quoted equities, bonds and structured income products, unquoted equities and investment funds. The aim of the Company is to provide long-term capital growth, together with a high level of income. The Company has no employees.

## 2 Statement of accounting policies

### a Basis of preparation

The financial statements have been prepared in conformity with International Accounting Standards and applicable requirements of Isle of Man law.

The financial statements have been prepared on a historical cost basis except for the measurement at fair value of derivatives and available-for-sale investments. The carrying amount of recognised assets and liabilities that are hedged is adjusted to record changes in the fair value attributable to the risks that are being hedged.

### b Segmental reporting

The Directors are of the opinion that the Company is engaged in a single segment of business being investment business.

### c Income

Dividends arising on equity investments are credited to income when the security is quoted ex-dividend, and is shown net of withholding tax. Bond interest and short-term deposit interest income is accounted for under the effective interest rate method.

### d Expenses

All expenses are accounted for on an accruals basis. Issue costs incurred in respect of the Income Shares have been deferred and are amortised on a straight-line basis over eight years.

### e Taxation

The Company is exempt from taxation in the Isle of Man under the provision of the Income Tax (Exempt Companies) Act 1984, and is charged an annual exemption fee of £430. The Directors intend to conduct the Company's affairs such that it continues to remain eligible for exemption.

### f Cash and cash equivalents

Cash in hand and at bank and short-term deposits which are held to maturity are carried at cost.

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purposes of the Statement of Cash Flow, cash and cash equivalents consist of cash in hand and deposits in banks.

### g Investments

All investments are classified as "available for sale". Investments are initially recognised at cost, being the fair value of the consideration given, including transaction costs associated with the investment.

After initial recognition, investments are measured at fair value, with unrealised gains and losses on investments and impairment of investments recognised in the Statement of Operations. Realised gains and losses on investments sold are calculated as the difference between sales proceeds and cost, or if previously re-valued, the valuation as at the last balance sheet date. The Company applies the First-In First-Out basis for the purposes of determining the historic cost in calculating all realised gains and losses arising throughout the period.

For investments actively traded in organised financial markets, fair value is generally determined by reference to Stock Exchange quoted market bid prices at the close of business on the Balance Sheet date.

A portion of the Company's investments are in non-marketable equity investments which are carried at cost, including capitalised expenses such as legal fees and other professional charges.

Where it proves impossible to obtain a market price, the Directors decide to value investments at book cost, a discount from book cost or at nil value. The Directors will use their discretion and awareness of market conditions to evaluate the prudent valuation of such investments.

# Notes to the Financial Statements

As at 31 July 2002

continued

## 2 Statement of accounting policies *continued*

### g **Investments** *continued*

Short investments, which are obligations to deliver securities sold but not yet purchased, are accounted for as investments. Funds held to cover these obligations are included in balances due from brokers.

Berkshire Capital Corporation UK Limited ("BCC") have been contracted by the Company to provide an independent formula for calculating the monthly valuation of EPL equating to 1.5% of assets under management plus retained earnings and cash. EPL subsequently provide the Company with a monthly valuation of its' assets under management.

### h **Trade date accounting**

All 'regular way' purchases and sales of financial assets are recognised on the 'trade date', i.e. the day that the entity commits to purchase or sell the asset. Regular way transactions are purchases or sales of financial assets that require delivery of the asset within the time frame generally established by regulation or convention in the market place.

### i **Foreign currency translation**

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling on the date of the transaction. Foreign currency monetary assets and liabilities are translated into sterling at the rate ruling on the Balance Sheet date. Gains and losses arising on revaluation of foreign currency assets and liabilities are recorded in the Statement of Operations. All gains and losses arising to date on the revaluation of monetary assets have been included within the unrealised gains arising in investments.

### j **Non-current liabilities**

#### **Loans and borrowings**

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received less issue costs where applicable. After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on settlement.

#### **Income shares**

Income Shares which exhibit characteristics of liabilities are recognised as liabilities in the Balance Sheet. The corresponding dividends on these shares and the difference between the net proceeds on the issue of these shares and the final liability are charged as interest expenses in the Statement of Operations over the term of these shares using the effective interest rate method.

### k **Derivative financial instruments**

The Company uses derivative financial instruments such as an interest rate swaps to hedge its risks associated primarily with interest rate and foreign currency fluctuations. It is the Company's policy not to trade in derivative financial instruments. Details of the Company's financial risk management objectives and policies are set out in notes 17 and 18.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (b) cash flow hedges, which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to fair value hedges, which meet the conditions for special hedge accounting, any gain or loss from re-measuring the hedging instrument at fair value is recognised immediately in the Statement of Operations. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the Statement of Operations.

In relation to cash flow hedges, which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity through the Statement of Changes in Equity and any ineffective portion is recognised in the Statement of Operations.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for special hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the Statement of Operations for the period.

#### **Fair value of derivatives**

The fair value of the interest rate swap contract is determined as the difference in the present value of the future interest cash flows.

### 3 Management, administration and performance fees

	2002 £000's
Management fee	691
Administration fee	103
Performance fee	–
	<b>794</b>

#### Management fee

On 14 August 2001 the Company entered into an agreement with EPL for the provision of investment management services. Investment management fees are paid quarterly in arrears at the rate of 1.00% per annum of the Total Assets valued at the close of business on the last business day of each quarter.

The Management agreement is fixed for an initial period of 2 years and thereafter is terminable by either of the parties giving not less than 12 months notice.

#### Administration fee

On 14 August 2001 the Company entered into an agreement with Barings (Isle of Man) Limited ("BIOM") for the provision of administration, registration and secretarial services. The fee is payable at a rate of 0.20% per annum on the first £50,000,000 of the average of the monthly Net Asset Value ("NAV") of the Company and 0.15% on any excess of such average NAV of the Company over £50,000,000 subject to a maximum fee of £150,000 per annum or pro-rata for any period less than one year. The fee is subject to review on 14 August 2002 and annually thereafter.

#### Performance fee

The management agreement also provides for the provision of a performance-related fee in respect of any financial year where the growth in the NAV of the Company exceeds a benchmark annual return of 12 Month LIBOR plus 3%. The performance fee is payable at 10% of any outperformance of the benchmark, and is only provided when the NAV of the Company at the year-end in question exceeds the highest NAV at the end of the previous year or the NAV immediately following completion of the placing. For the first three years of the Company's life any performance fee due is accrued and will not be paid until the publication of the Company's audited accounts for the year ended 31 July 2004.

### 4 Directors' fees

Directors' fees amount to £52,000 and are comprised as follows:

	2002 £'s
Mr Don McCrickard (Chairman)	19,000
Mr Donald Adamson	15,000
Mr Richard King	10,000
Mr Martin Richardson	5,000
Mr Vincent Campbell	3,000
Mr Jo Welman	nil

### 5 Interest payable

	2002 £000's
Loan interest payable	737
Amounts payable under interest rate swap agreement	136
	<b>873</b>

# Notes to the Financial Statements

As at 31 July 2002

continued

## 6 Dividends on income shares

	Rate (pence)	2002 £000's
1st interim dividend paid on 30 November 2001	1.5	312
2nd interim dividend paid on 27 February 2002	2.5	518
3rd interim dividend paid on 22 May 2002	2.5	518
Proposed 4th interim dividend to be paid on on 29 August 2002	3.5	726
	<b>10.0</b>	<b>2,074</b>

## 7 Basic and diluted gain per share

### Capital shares

Basic earnings per share is calculated by dividing the net profit for the period attributable to capital shares by the weighted average number of capital shares outstanding during the period.

Diluted earnings per share is calculated by dividing the net profit for the period attributable to capital shareholders by the weighted average number of capital shares outstanding during the period adjusted for the effect of the dilutive warrants.

	Number	2002 £000's
<b>Net profit attributable to capital shareholders</b>		<b>1,204</b>
Weighted average number of capital shares for basic earnings per share	34,561,666	
Effect of dilution: Warrants	103,367	
	<b>34,665,033</b>	

## 8 Available-for-sale investments

At bid price	Cash Funds	Bonds & UK Gilts	Unquoted Loan Stock	Equities	Unquoted Equities	Specialist Funds	Structured Products	2002 Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Closing book cost	3,655	13,362	1,448	25,812	7,027	4,496	13,523	69,323
Unrealised (loss)/gain on revaluation	–	(549)	6	(2,525)	3,535	(531)	(534)	(598)
	<b>3,655</b>	<b>12,813</b>	<b>1,454</b>	<b>23,287</b>	<b>10,562</b>	<b>3,965</b>	<b>12,989</b>	<b>68,725</b>

## 9 Debtors

	2002 £000's
Amounts due from brokers	1,795
Interest and dividends receivable	1,537
Other debtors	2
	<b>3,334</b>

## 10 Creditors

	2002 £000's
Amounts due to brokers	1,250
Loan interest payable	737
Amounts payable under interest rate swap agreement	89
Accrued expenses	329
Dividends payable on income shares	726
	<b>3,131</b>

## 11 Non-current liabilities

	Maturity date	Rate %	2002 £000's
Bank loan – a	20 February 2007	5.65	13,750
Income shares – b			20,283
			<b>34,033</b>

### a Bank loan

On 10 August 2001 a Medium Term Sterling Bank Facility was negotiated with Barclays Bank PLC to a maximum of £30,000,000 based on 25% of the capital proceeds raised by the Company. £13,750,000 was drawn down under these terms during the financial period. The facility, which is repayable after five and a half years from the date of signing, will bear interest on sterling amounts at an annual rate which is the sum of (i) a margin of up to 105 basis points and (ii) LIBOR and (iii) the cost of the Bank 's complying with Government and regulatory requirements regarding the Bank Loan. The interest will be rolled-up and paid at maturity of the facility. As described in note 18 this loan is subject to hedging by means of an interest rate swap.

By way of a floating charge and security interest agreement dated 10 August 2001 the Company has granted to Barclays Bank PLC security over its beneficial rights, interest and title to all investments and cash owned by the Company to secure the loan referred to above.

### b Income shares

	2002 Authorised		2002 Issued and fully paid	
	Number	£000's	Number	£000's
Income shares of 10p each	45,000,000	4,500	20,736,333	2,074

	2002 £000's
At start of period	–
20,736,333 issued share capital 10p per share	2,074
20,736,333 share premium at 90p per share	18,662
Issue costs on income shares	(518)
Amortisation of income shares issue costs	65
<b>Balance at 31 July 2002</b>	<b>20,283</b>

On 17 August 2001, the Company issued 20,736,333 Income Shares at 100p each. Each share has a par value of 10p and is redeemable on 31 July 2011 for 100p provided that the assets of the Company provide sufficient cover.

### Voting and other rights

Holders of Income Shares are not entitled to vote at general meetings unless either at the date of the notice convening the meeting any dividend payable on such shares is in arrears and/or the business of the meeting includes the consideration of a resolution for winding up the Company, the reduction of the Company's capital or any resolution directly abrogating or varying any of the special rights or privileges attached to Income Shares. Under these circumstances the Income shareholders are entitled to one vote for each share held.

### Dividends

The Income Shares carry the right to a cumulative preferential dividend at an initial rate of 10p per share for the period ending 31 July 2002 but shall have no further right to participate in the profits of the Company. The dividend payable in respect of each financial year thereafter will be increased in proportion to the increase (if any) in the Retail Price Index over the preceding year, capped at a 5% increase in any year.

### Winding up

On a winding up, the holders of the Income Shares shall be entitled pro rata to their holdings, out of the assets available for distribution to shareholders, to payment of any arrears of the preferential dividend entitlement and to repayment of the original issue price of 100p per share.

# Notes to the Financial Statements

As at 31 July 2002

continued

## 12 Share capital

	2002		2002	
	Number	£000's	Number	£000's
Capital shares of 10p each	75,000,000	7,500	34,561,666	3,456
Warrants	15,000,000	1,500	6,912,333	–
<b>Share capital at 31 July 2002</b>	<b>90,000,000</b>	<b>9,000</b>	<b>41,473,999</b>	<b>3,456</b>

### Voting and other rights

Holders of Capital Shares are entitled to one vote for each share held.

### Dividends

Dividends are payable only to income shareholders

### Winding up

On a winding up, the holders of the Capital Shares shall be entitled, pro rata to their holdings, to all the assets of the Company available for distribution to shareholders after satisfaction of the entitlement of the holders of the Income Shares.

### Warrants

Each Capital shareholder who subscribed under the Placing was also issued Warrants (on the basis of 1 Warrant for every 5 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.

### Capital history

On 17 August 2001, the Company issued 34,561,666 Capital Shares of 10p each at a price of 100p per share.

In accordance with International Accounting Standards, the Income Shares are treated as liabilities as described under accounting policies in note 2j above.

## 13 Share premium

	2002
	£000's
Share premium at start of period	–
Proceeds on capital shares issued	31,105
Formation expenses	(865)
<b>Share premium at 31 July 2002</b>	<b>30,240</b>

## 14 Reserves

	2002		2002
	Profit and loss reserve	Hedge reserve	Total
	£000's	£000's	£000's
Reserves at start of period	–	–	–
Net profit for the period	3,278	–	3,278
Movement in net unrealised loss on revaluation of cash flow hedges (note 18)	–	(462)	(462)
Dividends paid and proposed	(2,074)	–	(2,074)
<b>Reserves at 31 July 2002</b>	<b>1,204</b>	<b>(462)</b>	<b>742</b>

Per the Company's Prospectus, dividends can be paid up to the cumulative total of gross income. As at 31 July 2002, £2,320,000 of undistributed gross income was included in reserves. This balance will be reduced to £1,594,000 after the payment of the fourth interim dividend to income shareholders of 3.5p on 29 August 2002.

## 15 Net asset value per share

The net asset value per Capital Share is based on the net assets attributable to Capital shareholders of £34,438,000 and on 34,561,666 shares in issue at the end of the period.

## 16 Note to the Statement of Cash Flow

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

	<b>2002</b>
	£000's
<b>Net investment income</b>	<b>1,593</b>
<b>Adjustment for non-cash items:</b>	
Amortisation of issue costs on income shares	65
Increase in interest and dividends receivable	(1,577)
Increase in interest and dividends payable and accrued expenses	1,192
<b>Net cash inflow from operating activities</b>	<b>1,273</b>

## 17 Financial instruments

The Company's financial instruments comprise:

- Equity shares, fixed interest securities and unquoted securities that are held in accordance with the Company's investment policy, which is set out on page 2 of this report and financial statements;
- Cash and cash equivalents that arise directly from the Company's operations and;
- Bank loan, together with the associated interest rate swap, the main purpose of which is to raise finance for the Company's operations.

### Financial risk management objectives and policies

The main risks arising from the Company's financial instruments are market price risk, credit risk, liquidity risk, foreign currency risk and interest rate risk. The Board regularly reviews and agrees policies for managing each of these risks and these are summarised below.

#### Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Company might suffer through holding market positions in the face of price movements.

To mitigate the risk the Board's investment strategy is to select investments for their fundamental value. Stock selection is therefore based on disciplined accounting, market and sector analysis, with the emphasis on long term investments. An appropriate spread of investments is held in the portfolio in order to reduce both the statistical risk and the risk arising from factors specific to a country or sector. The Investment Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly in order to consider investment strategy.

A list of the 15 largest investments held by the Company is shown in the Portfolio Analysis on page 13.

#### 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 Company.

The Investment Manager assesses the risk associated with fixed interest investments by performing financial analysis on the issuing companies as part of its normal scrutiny of prospective investments. The Company invests in a combination of high yield and investment grade bonds.

#### Liquidity risk

Liquidity risk is the risk that the Company will encounter in realising assets or otherwise raising funds to meet financial commitments. The Company's investments comprise marketable securities in which there is active trade and the investments are readily realisable. The maturity of the Company's existing borrowings is set out in note 11.

# Notes to the Financial Statements

As at 31 July 2002

continued

## 17 Financial instruments continued

### Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company does not use foreign currency hedging activities to protect against the volatility associated with foreign currency purchases of assets and liabilities created in the normal course of business.

The Company's foreign exchange exposures arise from its investment in securities and cash balances denominated in currencies other than sterling. A breakdown of the investments and cash denominated in currency other than sterling is as follows:

	2002 Denominated in foreign currency US\$000's
Investments	15,137
Cash balances	1,150
	<b>16,287</b>

### Interest rate risk

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment portfolio and long-term debt obligations. The Company does not use derivative financial instruments to hedge its investment portfolio. The portfolio includes only debt securities with active secondary or resale markets to ensure portfolio liquidity.

Bond and preference share yields, and as a consequence their prices, are determined by market perception as to the appropriate level of yields given the economic background. Key determinants include economic growth prospects, inflation, the government's fiscal position, short-term interest rates and international market comparisons. The Investment Manager takes all these factors into account when making any investment decisions as well as considering the financial standing of the potential investee company.

Returns from bonds and preference shares are fixed at the time of purchase, as the fixed coupon payments are known, as are the final redemption proceeds. Consequently, if a bond is held until its redemption date, the total return achieved is unaltered from its purchase date. However, over the life of a bond the market price at any given time will depend on the market environment at that time.

The Company's policy is to manage its interest cost using a mix of fixed and variable rate debt. To manage this mix in a cost efficient manner, the Company has entered into an interest rate swap agreement, under which the Company has agreed to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. The swap is designed to fix the interest payable on the bank loan. At 31 July 2002 after taking into account the effect of the interest rate swap, 100% of the Company's borrowings were at a fixed rate of interest.

The interest rate profile of the Company at 31 July 2002 is as follows:

Financial assets	Total as per balance sheet £000's	Fixed and variable rate £000's	Assets on which no interest is received £000's
<b>Type:</b>			
Cash funds	3,655	3,655	–
Bonds & UK Gilts	12,813	12,813	–
Unquoted loan stock	1,454	1,454	–
Equities	23,287	–	23,287
Unquoted equities	10,562	–	10,562
Specialist funds	3,965	–	3,965
Structured products	12,989	12,989	–
<b>Available-for-sale securities</b>	<b>68,725</b>	<b>30,911</b>	<b>37,814</b>
Cash and cash equivalents	5	5	–
Debtors	3,334	–	3,334
	<b>72,064</b>	<b>30,916</b>	<b>41,148</b>

## 17 Financial instruments continued

Financial liabilities	Total as per balance sheet	Fixed and variable rate	Liabilities on which no interest is paid	Weighted average interest rate
	£000's	£000's	£000's	%
<b>Type:</b>				
Bank loan	13,750	13,750	–	6.70*
Income shares	20,283	20,283	–	
Creditors	3,131	3,131	–	
Interest rate swap liability	462	–	462	
	<b>37,626</b>	<b>37,164</b>	<b>462</b>	

\*As fixed by the interest rate swap agreement; variable rate is equal to 5.65% as at 31 July 2002.

## 18 Derivative financial instruments

The fair value of derivative financial instruments included in the Balance Sheet as debtors or creditors are as follows:

	Interest rate swap liability £000's
Fair value of derivative financial instruments at start of period	–
Movement in unrealised loss on revaluation of cash flow hedges	462
<b>Fair value of derivative financial instruments at 31 July 2002</b>	<b>462</b>

### Cash flow hedges

As of 31 July 2002, the Company had an interest rate swap in place with a notional amount of £13,750,000, whereby it pays a fixed rate of 5.65% and receives LIBOR plus 1.05% on the notional amount. The swap is used to protect the bank loan from exposure to changes in interest rates. The swap covers 100% of the bank loan outstanding as of 31 July 2002 and expires on 20 February 2007, the same day as the bank loan. An unrealised loss of £462,000 is recognised in equity representing the estimated fair value of this swap at 31 July 2002.

## 19 Directors' interests

The following Directors had interests in the shares of the Company as at 31 July 2002.

	Income shares	Capital shares	Warrants
Mr Donald Adamson	50,000	50,000	10,000
Mr Jo Welman	50,000	50,000	10,000

Directors who are Manx resident are prohibited from having any interest in the shares of the Company under the provisions of the Income Tax (Exempt Companies) Act 1984 (see note 2e).

None of the other Directors had any interest in the shares of the Company at any time during the period ending 31 July 2002.

# Notes to the Financial Statements

As at 31 July 2002

continued

## 20 Related parties

Mr Philip Scales, the Company Secretary, is also a director of BIOM, the Administrator and Registrar.

Mr Vincent Campbell, a director is also a director of BIOM, the Administrator and Registrar.

Administration fees amounting to £102,848 were payable to BIOM, calculated in accordance with the Administration Agreement, dated 14 August 2001, of which £33,366 was outstanding as at 31 July 2002.

Mr Jo Welman a director, is a 10% shareholder of EPL, the Investment Manager, with options to subscribe for a further 2% of these shares.

Management fees amounting to £691,221 were payable to EPL calculated in accordance with the Management Agreement, dated 14 August 2001, of which £187,443 was outstanding as at 31 July 2002.

Mr Jo Welman is also a director of Brit Insurance Holdings PLC, which as at 31 July 2002 held 5,000,000 Capital Shares and 1,000,000 Warrants. He is also a director of Brit Insurance Limited a 100% owned subsidiary of Brit Insurance Holdings PLC which held 1,000,000 Income Shares as at 31 July 2002.

Mr Don McCrickard, a director, is also a non-executive director of Brit Insurance Holdings PLC.

As at 31 July 2002, the Company held 728,041 Brit Insurance Holdings PLC 8.5% Convertible Unsecured Loan Stock 2008.

# Shareholder Information – significant holdings

## Schedule of shareholders holding over 3% of issued shares (each class)

### Income shares

	Holdings	% of class
Nortrust Nominees Limited	3,450,000	16.93
Chaucer Syndicates Limited a/c 587	2,500,000	12.27
The Corporation of Lloyds a/c 5358923	2,500,000	12.27
Carr PEP Nominees Ltd	1,072,850	5.27
Brit Insurance Limited	1,000,000	4.91
Investment Administration Nominees Limited a/c CSCISA	656,600	3.22
	<b>11,179,450</b>	<b>54.87</b>

### Capital shares

	Holdings	% of class
Nortrust Nominees Limited	6,075,000	17.58
The Corporation of Lloyds a/c 5472545	5,750,000	16.64
Brit Insurance Holdings PLC	5,000,000	14.47
Bank of Scotland Branch Nominees Limited a/c PE111114	3,455,000	10.00
BNY (OCS) Nominees Limited	2,669,200	7.72
Nortrust Nominees Limited TDS	2,125,000	6.15
The Corporation of Lloyds a/c 5358923	1,500,000	4.34
Walsham Brothers & Co. Limited	1,250,000	3.62
Junction Nominees Limited	1,190,000	3.44
	<b>29,014,200</b>	<b>83.96</b>

# Notice of Annual General Meeting

Notice is hereby given that the first Annual General Meeting of The Equity Partnership Investment Company PLC will be held:

at **The Castledown Golf Links Hotel, Langness, Isle of Man**  
on **19 November 2002 at 11.00 a.m.**

for the purpose of dealing with the following ordinary business:

- Resolution 1** Considering and, if thought fit, adopting the audited accounts of the Company for the period ended 31 July 2002, together with the Directors' and Auditors' reports thereon.
- Resolution 2** To approve the payment of Directors' fees for the period ended 31 July 2002.
- Resolution 3** To re-appoint the auditors and authorise the Directors to determine their remuneration.

**By order of the Board**

**Philip Scales**

Company Secretary

27 September 2002

**Notes** A Member entitled to attend and vote at this Meeting may appoint one or more proxies to attend and, on a poll, vote in his stead. The proxy need not be a Member of the Company. Proxies must reach the office of the Registrars at least forty eight hours before the Meeting.

A form of proxy is provided with the Annual Report (see opposite). If you wish to use it, simply complete, then detach and post it. Completion of the form of proxy will not prevent a Member from attending the Meeting and voting in person.

Contracts of service are not entered into with the Directors, who hold office in accordance with the Articles of Association.

# The Equity Partnership Investment Company PLC

## Form of Proxy

I/We

of

a member/members of the above named Company and entitled to vote, hereby appoint the Chairman of the meeting

or

as my/our proxy to attend, represent and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at **The Castledown Golf Links Hotel, Langness, Isle of Man** on **19 November 2002 at 11.00 a.m.**, and at any adjournment thereof.

Please indicate with an 'x' in the space below how you wish your votes to be cast in respect of the Resolutions set out in the Notice convening the meeting. If no specific direction as to voting is given, the proxy will vote or abstain at his discretion.

	For	Against
Resolution 1	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	<input type="checkbox"/>	<input type="checkbox"/>

Signature

Date

### Notes

1. A member may appoint a proxy of his own choice. If such an appointment is made, delete the words "the Chairman of the meeting" and insert the name of the person appointed proxy in the space provided.
2. If the member is a corporation, this form must be under its common seal, or under the hand of some officer or attorney duly authorised.
3. In the case of joint holders, the signature of any one holder will be sufficient, but the vote of the holder first in the register shall be accepted to the exclusion of the votes of other holders.
4. If this form is returned without any indication as to how the person appointed proxy shall vote, he will exercise his discretion as to how he votes or whether he abstains from voting.
5. To be valid, this form must be completed and deposited at the registered office of the Company not less than forty eight hours before the time fixed for holding the meeting or adjourned meeting.

BUSINESS REPLY SERVICE  
Licence No. DO59



The Equity Partnership Investment Company PLC  
St James's Chambers  
Athol Street  
Douglas  
ISLE OF MAN  
IM86 1TB

# 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 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  
St James's Chambers  
Athol Street  
Douglas  
Isle of Man IM1 1JE

## 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**  
Registered in the Isle of Man number 103447C.  
The Equity Partnership Investment Company PLC is  
listed on the London Stock Exchange and is managed  
by The Equity Partnership Limited.

[www.epic-am.com](http://www.epic-am.com)