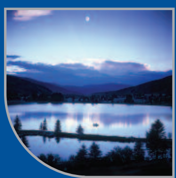
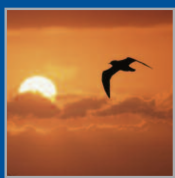
The Equity Partnership Investment Company PLC





06

Report & Financial Statments | **July 06**

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

Contents

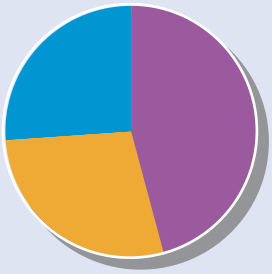

Corporate Information

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

Initial Capital Structure

- Capital Shares 46%
- Income Shares 28%
- ZDP Shares 26%



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 was applied to the payments in respect of the year ending 31 July 2003 and the fourth was applied to payments in respect of the year ending 31 July 2006. Details of the year's payments can be found on page 29 of these financial statements.

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 EPIC Investment Partners.

Zero Dividend Preference Shares ("Zeros")

In April 2006 the Group issued 20 million Zero Dividend Preference Shares from which the bank loan was repaid in full. Shareholders in Zeros are entitled to 139.3p at 29 July 2011. At the time of issue this equated to a 6.5% gross redemption yield.

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 Warrantholder 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 30 days from publication of the year end accounts 31 July 2006.

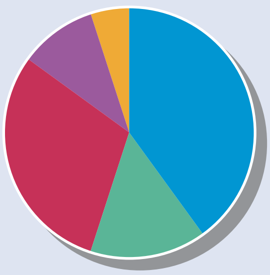
Dividends on Income Shares

1st Interim	November 2005	2.77265p paid
2nd Interim	February 2006	2.77265p paid
3rd Interim	May 2006	2.77265p paid
Final	August 2006	2.77265p paid
Total for the year		11.0906p paid

Investment Policy

Target Asset Allocation

- Quoted Equities 40%
- Specialist Funds 15%
- Unquoted Equities 30%
- Strategic Investments 10%
- Bonds and Structured Income Products 5%



Unquoted Equities

EPIC looks to back cash generative businesses with the potential for growth in the UK. The Managers will often look to partner significant investments from proven entrepreneurs acting as management.

Bonds and Structured Income Products

Bonds and structured income products include a range of asset classes such as investment grade bonds, high yield bonds, convertible bonds and structured high yield products.

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 looks to exploit opportunities where share ratings do not reflect a company's value or growth prospects.

Specialist Funds

EPIC invests 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 owns 33.5% and 14% shareholdings in EPIC Investment Partners Limited and Strand Partners Limited respectively. Collectively, in EPIC's portfolio, these investments are referred to as Strategic Investments.

Biographies of the Directors

Cameron McPhail

Cameron McPhail, Chairman, is a banker specialising in investment management and private equity. Before becoming involved in a number of Channel Island based ventures Cameron was the Chief Executive of the Royal Bank of Scotland's Wealth Management Division. Prior to this he ran Royal Bank International. Cameron has an MA and PhD in economics and an MBA.

Don McCrickard

Don McCrickard 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 and 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. He serves as director or chairman of a number of listed and privately held investment companies including EPIC Reconstruction plc. 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.

Philip Scales

Philip Scales is Managing Director of IOMA Fund and Investment Management Limited and a former Managing Director of Northern Trust International Fund Administration Services (Isle of Man) Limited. Prior to this, Philip was employed by an English merchant bank and has over 30 years' experience of working in offshore corporate and mutual fund administration. Philip joined the IOMA Group in January 2006 to establish a new subsidiary company offering fund administration and investment management services. Philip is a Fellow of the Institute of Chartered Secretaries and Administrators and holds a number of non-executive directorships for fully listed, AIM companies and Mutual Fund Groups.

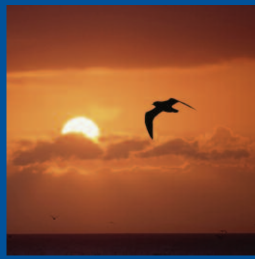
Martin Richardson

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, Shrivenam, 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 when he joined Rawlinson & Hunter.

Paul Keltie

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

Chairman's Statement



Cameron McPhail

EPIC's fifth year has been a particularly successful one with the Capital Share NAV having increased by 14.28% against a benchmark return of 7.5%. The Capital Share price has also risen in line with the underlying asset value.

Income shareholders have received a total of £2,299,773 made up of four quarterly payments of 2.77265p. The portfolio continues to generate a level of income in excess of the Income Share dividend requirement and this growing income reserve offers the Manager greater flexibility to allocate assets without specific reference to yield, with any excess income over and above the Income Shareholders' entitlement benefiting Capital Shareholders at the end of the Company's life.

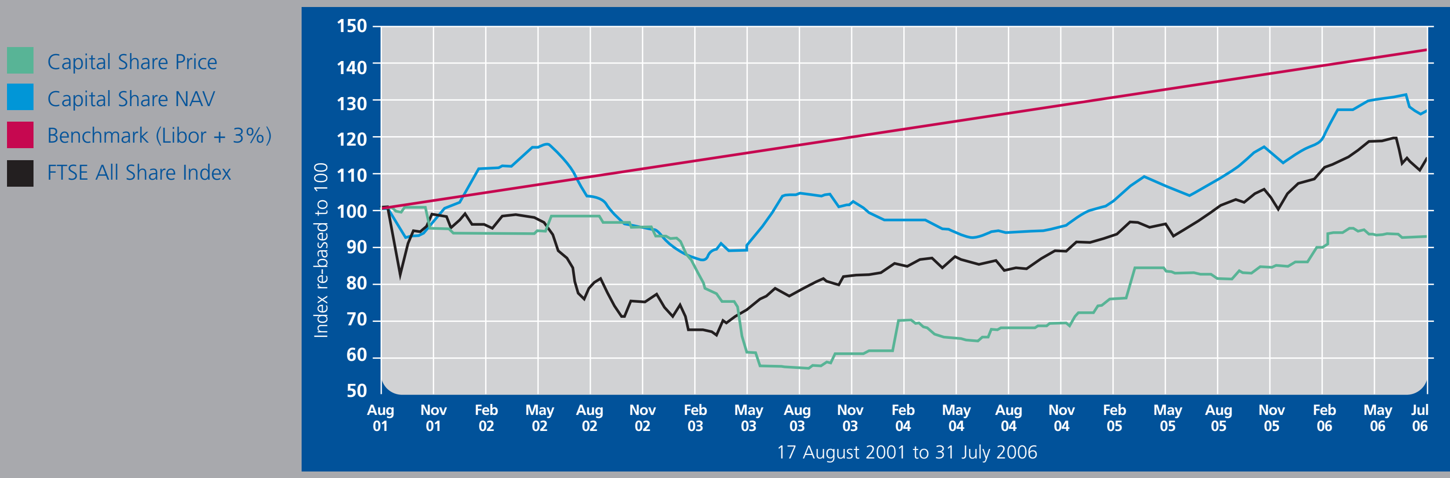
In April 2006 the Company issued zero dividend preference shares which replaced borrowings at a similar cost but with less onerous covenants. The Zero was launched at a yield of 6.5% and this compares favourably with the yield requirement of about 8% demanded by investors in Zeros at the time of the flotation in 2001.

At the time of the placing the Board also recommended the contribution of the Company's private equity investments on advice for a Limited Liability Partnership ("LLP") interest. As the approach to private equity investment has developed over the past five years, our focus has shifted from small equity stakes in unquoted companies to complex structured transactions where EPIC has taken a significant equity position as well as providing some intermediate lending instruments including preference shares, loan stock and mezzanine. The ability of the Manager to structure and participate in larger and more complex situations has been facilitated by the growing team within EPIC Private Equity Limited. This team will be managing the investments within the LLP and under the incentive scheme outlined in the Shareholder Circular dated 4 April 2006. We are looking forward to the coming year with confidence as the private equity portfolio matures.

The Fund has again benefited from an outstanding UK equity performance with a return of 29% which compares with the FTSE All Share return of 17.3%. In addition EPIC's Specialist Fund portfolio contributed a very satisfactory return over the year. Taken together this has resulted in another year of significant out-performance of the Fund's benchmark return of 7.5% and, once again, moves the long-term track record closer to the long term performance objective of Libor + 3% per annum.

Over the latter part of the year the Managers built up a significant cash position primarily through sales of UK equities and a small amount of excess capital raised through the placing of Zeros. Given the relatively high level of equity markets it is anticipated that much of this cash

Share Price and NAV Performance vs Benchmark
(from 17 August 2001 to 31 July 2006 - re-based to 100)



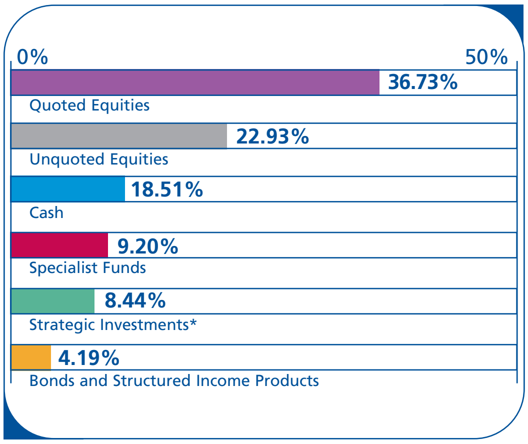
Source: Bloomberg

will be invested in private equity deals and further specialist fund opportunities.

Finally, the investment advisor ("EPIC Investment Partners"), has had a busy year addressing its largest shareholder's objective to decrease its shareholding and this may lead to an opportunity for EPIC to realise its investment. In the current environment it is however unlikely that this will have an appreciable effect on the NAV.

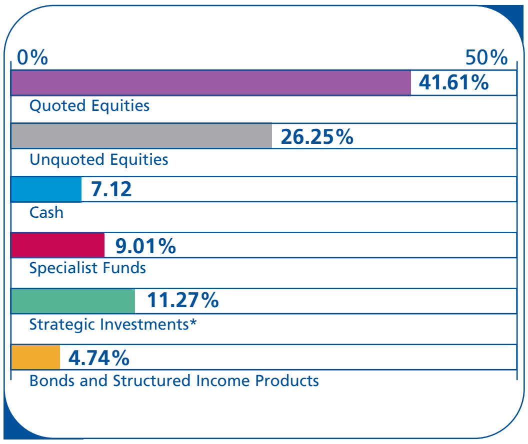
Cameron McPhail
11 December 2006

Asset Allocation as at 31 July 2006



* EPIC Investment Partners, Strand Partners Limited

Asset Allocation as at 31 July 2005



* EPIC Investment Partners, Strand Partners Limited

Investment Manager's Report

Economic Commentary

During the year, strong commodity prices coinciding with renewed momentum in global domestic demand spurred inflation expectations and led central banks to act decisively to reduce excess monetary stimulus by raising interest rates. The subsequent rise in bond yields that followed mired returns to fixed income securities, and corroborated the decision to avoid investment in bonds.

Over the period under review robust economic conditions in Asia have spurred both growth and inflation around the world. The economic expansion in China, Japan and India not only increased the demand for globally traded goods and services which underpinned growth amongst their trading partners, but more specifically this also kept the demand and price of commodities including oil considerably above their historic averages and pushed up raw material prices.

In the third quarter of 2005, this was further exacerbated by the arrival of hurricanes Katrina and Rita which interrupted US oil supplies and prompted oil prices to move higher still. This did not immediately translate into higher inflation as many firms bore the burdens of rising input costs through margin compression. However, as evidence of much stronger than expected global demand emerged, these costs were manifested into higher consumer prices and inflation expectations which forced interest rates and bond yields significantly higher. In May alone fifteen central banks acted to increase their domestic interest rates, the most notable of which was the rise in Japan which moved higher for the first time in six years, albeit by only a modest rise of 0.25%.

In the US, following the arrival of hurricanes Katrina and Rita, US treasury bonds rallied and yields fell 40 basis points lower across the curve. Furthermore, the Dow Jones Equity Index dropped to a low of 10,215 by October. But these movements were quickly reversed as the reconstruction effort got underway and growth elsewhere in the US continued at a robust pace. This not only returned the focus to the impact of higher oil prices on future inflation but also justified further monetary tightening from the Federal Reserve which took the Fed Funds rate to 4.25% by the end of the year.

In 2006, the US housing market endured a sharp slowdown as the widely watched NAHB survey of builder's sentiment fell to the lowest level since the 1991/1992 recession. As such, this precipitated a much weaker outlook for the economy, given the repercussions for domestic consumption. This was further worsened by disappointing employment gains that suggested business confidence and activity had slowed and depressed hiring. However, these fears dissipated as high corporate profitability and evidence of higher hourly earnings indicated growth would remain upbeat. Similarly, the significant flattening of the yield curve also highlighted the continued availability of cheap consumer refinancing which led consumer spending to be resilient. Hence as capacity constraints increased, higher raw material prices lifted headline inflation to 4.70% and prompted the Federal Reserve to adjust the Fed Funds rate to 5.25% in June 2006 in their quest to renormalise interest rates. In line with our expectations, this led short dated bond yields to mirror the rise in rates and the 2-year US

Treasury yield moved from 4.14% to a peak of 5.28%. Longer dated Treasuries also sold off and the 10-year US Treasury yield increased from 4.34% to a peak of 5.25%. Although due to the uncertainties regarding the potential for a retrenchment in household expenditures later in the year and in 2007, the Fed acted to leave rates unchanged at their last meeting, which has since enabled bonds to rally and recover some of their losses.

Over the period, UK Gilts faired moderately better. By contrast, at the start of the second half of 2005, economic activity in the UK was much more subdued with evidence of a UK property market slowdown emerging much sooner. Whilst the PMI manufacturing survey moved back above 50, signalling a modest recovery in manufacturing activity, consumer spending fell to the lowest level in nine years and prompted the Bank of England to cut the UK Base Rate to 4.50% in August 2005. This helped bonds across the Gilt yield curve to rally, with 2-year and 10-year Gilt yields falling by 16 and 40 basis points respectively in the third quarter of 2005. The FTSE also moved lower dropping to a low of 5,142 over the period.

However, these gains were proved to be short lived. In the first quarter of 2006 the housing market showed signs of an upturn, which was likely in response to the earlier cut in interest rates, as the HBOS and Nationwide surveys of house prices rebounded to near double digit figures of growth. As household confidence returned, retail sales growth advanced to 3.7% (year-on-year). Coinciding with this, the manufacturing sector also witnessed a moderate recovery as exports orders were boosted by firming growth prospects in Europe. This was reflected in the rise in the Chartered Institute of Purchasing and Supply PMI Survey of manufacturing activity to 55.1 signalling growth in business orders and prices that certainly exceeded market expectations. These factors indicated that capacity utilisation had increased, and moreover GDP growth accelerated to 2.60% in the second quarter of 2006 whilst headline inflation moved above the MPC's 2% target to 2.50% in June. Whilst the rate of unemployment also moved higher to 5.4%, these factors prompted earlier expectations of interest rates cuts to dissipate entirely, and the market moved towards expecting a rise in UK Base rates to 5% by the end of 2006. At the time of writing this was partially realised as the MPC increased the interest rate to 4.75% in August. As anticipated bond yields moved markedly higher over the period with the 2-year Gilt yield moving from 4.18% at the start of the year to 4.85%, limiting the twelve month return from1-3year Gilts to 3.49%. Although corporate bond spreads tightened led by the ongoing demand for higher yielding assets, these too failed to achieve the Fund's benchmark return, and provided only a marginally better 3.79%. Furthermore 1-10 year BBB securities returned only 3.74% which did not compensate for the level of risk assumed with these assets.

Asset Class	Return during 05/06 (%)*
Benchmark : 12month LIBOR +3%	7.08
1-3yr UK Gilts	3.49
1-3yr A UK Corporates	3.79
1-3yr US Treasuries	2.87
1-10yr UK Gilts	2.60
1-10yr BBB UK Corporates	3.74
FTSE 100 Index (UK)	15.94

Source: Bloomberg   * Returns in the year commencing August 2005

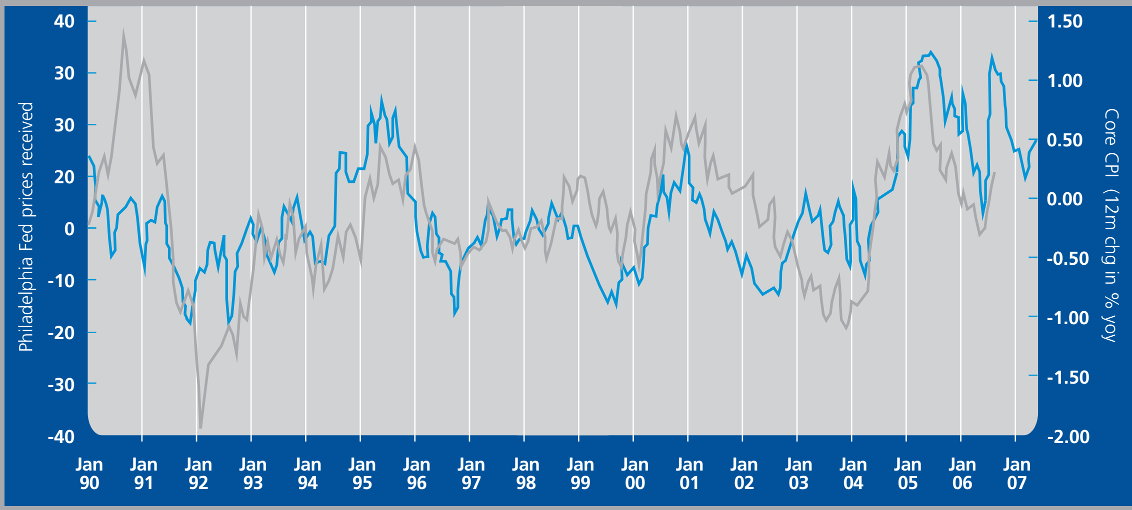
Referring to the comparison of returns in the table above, the Company's zero weighting in investments during the year was highly beneficial.

Looking ahead, we shall continue to be cautious on bond investment for a number of reasons. In the US this is primarily because we believe that, in the near term, indicators of inflationary pressures have the potential to surprise on the upside. Oil and commodity prices are still at historic highs, and therefore as US growth remains at or close to trend, it is increasingly likely that producers will pass on some of these higher prices to consumers.

One such measure of producer prices is the Philadelphia Federal Reserve's survey of prices received. Looking at Chart 2 below, it is suggested that based on gains in the prices received indicator, core inflation has the potential to move significantly beyond the Federal Reserve's comfort zone. On the one hand we are cognisant of the risks that the slowdown in the US housing market may undermine domestic consumption and growth in the future and mitigate some inflationary pressures. But we are also mindful that many other economic indicators remain upbeat. Payroll growth has been disappointing, but as unemployment remains historically low, tight labour markets are beginning to lead to higher hourly compensations. Furthermore, Chart 3 highlights the current strength in corporate profitability which indicates that firms still have the capacity to increase employment and or investment which would ultimately be stimulative to growth. Thus, with the Federal Reserve indicating that their future policy will be dependant on forthcoming data, we are wary of current market expectations for the next direction in interest rates to be lower. On the contrary it is possible that any further rise in inflation expectations or any upward revisions to the outlook for US growth could prompt another interest rate hike which will likely lead to further capital losses for US $ denominated bonds.

Chart two

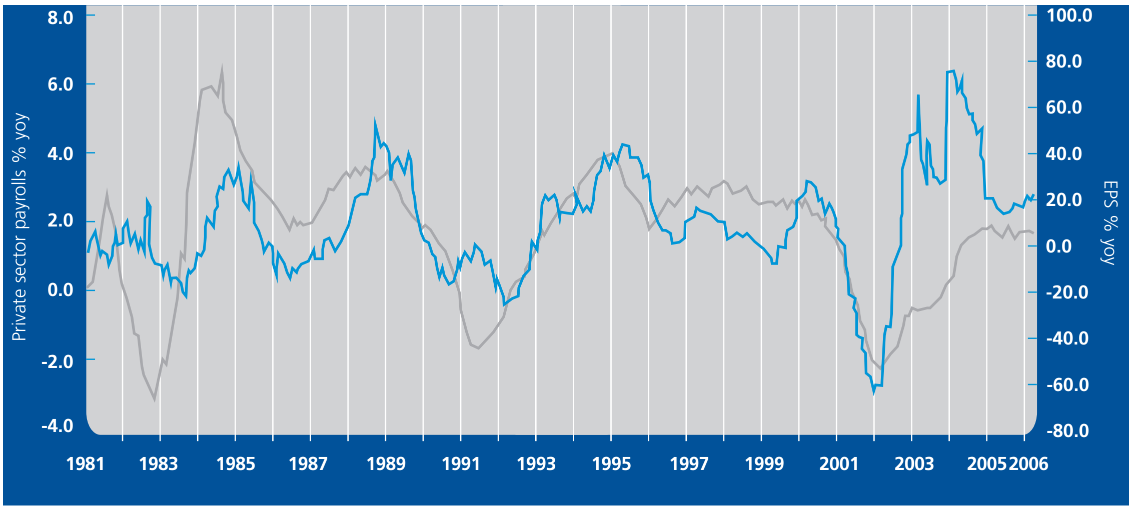
Price pressures are beginning to emerge



Source: Bloomberg, EPAM

Chart three

Corporate profits support economic activity



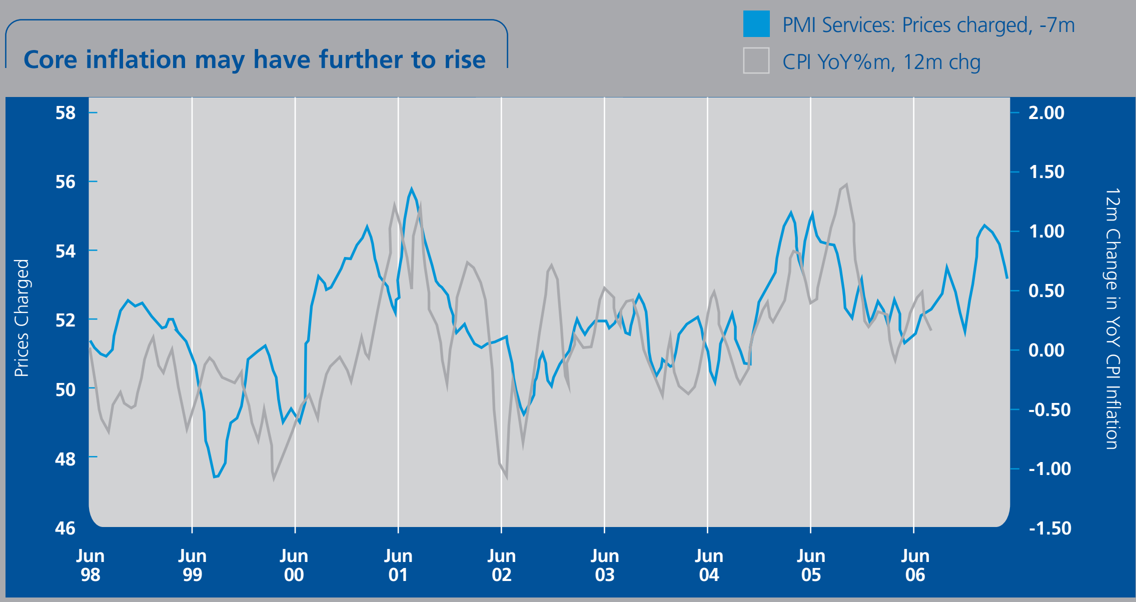
Source: Bloomberg, EPAM

The outlook for the UK is not dissimilar. Revisiting the risk of the likelihood for pass through of higher raw material prices faced by producers on to consumers, it is evident from chart 4 (page 10) illustrating the PMI survey of manufacturing sector producer prices, that core inflation is likely to move higher in coming months. This will certainly not be welcomed by the MPC who appear to be rather concerned about future inflation expectations as outlined in their last inflation report. In particular they have referenced much stronger than expected growth in the first half of 2006 that suggests that capacity constraints are much tighter than had been envisaged earlier in the year. In addition to this, turning to Chart 5 which outlines the potential for house price appreciation to strengthen throughout the remainder of this year, we concur that the outlook for household wealth and growth is still firm.

It is therefore likely that the MPC will come under further pressure to raise the UK Base Rate to 5% later in the year, which could take bond yields higher and therefore hamper returns to UK Gilts. Although it is possible that corporate bonds offering higher yields may provide better protection against any further sell-off in UK bonds, there is some risk that the rise in inflation and interest rate uncertainties may prompt a flight to higher quality investments and lead to a widening of credit spreads.

Chart four

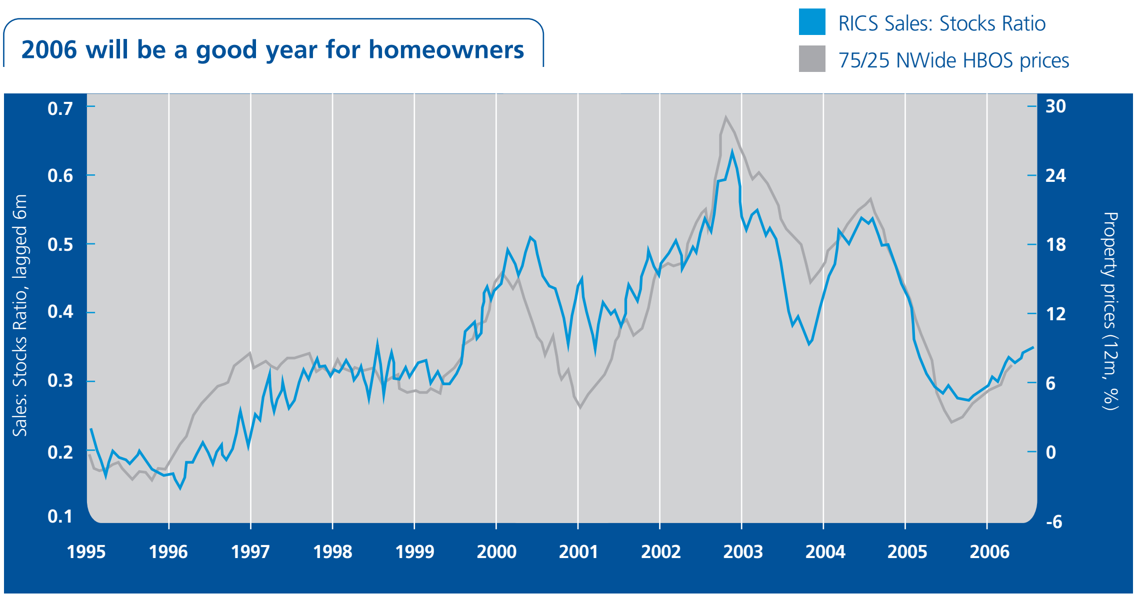
Core inflation may have further to rise



Source: Bloomberg, EPAM

Chart five

2006 will be a good year for homeowners



Source: Bloomberg, EPAM

Against these risks, we believe that in the near term bonds are unlikely to achieve the Fund's benchmark return of 12mth LIBOR +3% as bond yields are likely to follow interest rates higher, and thus recommend an underweight allocation to fixed income securities. Equity returns are likely to be buoyed by upbeat economic momentum in the near term, but we acknowledge the risks from higher oil prices and higher interest rates that may dampen business confidence and activity in the months ahead.

Quoted Equity


"The withdrawal of liquidity from world financial markets not only means that returns from equities are likely to be lower than in the recent past but also that aversion to risk will play a greater part in successful investment decisions."

For most of the last year conditions were favourable for UK equities - growth in the new economies, higher than expected dividends and corporate activity combining to move the All Share Index 13.6% higher. However, the long running bull market that began with the invasion of Iraq came under its first serious threat in early May 2006. High energy and commodity prices began to work through into the inflation numbers and caused central banks to raise interest rates and end a period of exceptionally loose monetary policy. As a result of these measures there is already evidence that investors are becoming more risk averse and it is anticipated that the returns from equity investment will be lower than in the recent past.

EPIC took advantage of the buoyant market to make a number of profitable realisations. Contractor M J Gleeson and port operator Simon Group were both sold after corporate activity boosted their share prices. Ship builder and support services group VT and process engineer Invensys were both re-rated by the market and subsequently sold. Although Diploma and DTZ remain the largest quoted equity holdings in the portfolio they were both pared back substantially during the year.

Major new holdings introduced during the year included electronics group Amstrad, airport services group BBA, oil service group Hunting and Lupus Capital. Lupus is particularly interesting as it is the vehicle of former Tomkins chief Greg Hutchings who has made a substantial financial commitment to the company at the time of the acquisition of a window seal business during the year. Smaller positions were taken in Dialight, McBridge, RPC, Teesland and Wolseley.

The withdrawal of liquidity from world financial markets not only means that returns from equities are likely to be lower than in the recent past but also that aversion to risk will play a greater part in successful investment decisions. EPIC's tactics in such an environment will comprise both a lower equity exposure and a leaning towards larger capitalisation stocks and a higher priority in stock selection given to dividend yield and cover.

Unquoted Equity

The Private Equity portfolio held by EPIC Investments LLP has performed strongly over the past year, and continues to provide a high and stable yield, with £1.3 million income generated from Mezzanine positions.

One new investment was made, however the focus has been on finding exits from mature investments.

New Deals

The Manager continues to see a large number of investment opportunities, with over a hundred deals investigated during the past year. The goal has remained to develop strong equity and mezzanine positions supported by steady historic cash flows and assets, and to invest in commercially attractive sectors or niches. One new deal has been completed as well as a secondary refinancing. There are also two attractive deals in the immediate pipeline, with one in the rapidly growing database management outsourcing sector due to complete shortly.

The deal completed this year was the leveraged buy-out of Bighead Bonding Fasteners Ltd, a specialist engineering firm based near Bournemouth. EPIC backed the existing Managing Director to buy the business from the retiring owner of 40 years. Bighead has a unique, patented product essential in a wide range of manufacturing industries, particularly high-end automotive and marine suppliers. With no pro-active sales and marketing function, we estimate current turnover to be a fraction of full potential. There is also significant spare manufacturing capacity. The aim is to rapidly drive up sales by expanding the customer base and to deliver a strong return for the fund over a 3-5 year time horizon. The cash-generative nature of the business allowed a leveraged structure, and EPIC invested £1.25 million in high yielding Mezzanine and Shareholder Loans, also taking the maximum equity stake allowed, 29.9%. Bighead is trading in line with expectations and with new systems and staff now in place, management are confident in their ability to grow the business over the coming months.

Current Portfolio (held by EPIC Investments LLP)

Pharmacy2U, the online pharmacy, is now profitable and performing ahead of budget. An exit is likely to be sought as this business reaches a solid level of profitability.

Ryness, the electrical retailer, underwent a refinancing in May with a partial exit achieved for EPIC LLP and the other investors. The second-tier management team are taking the business forward, the cash flow position has been improved with immediate effect and the business is now well capitalised.

Blueheath, the stockless grocery wholesaler, has now achieved breakeven performance, and a new management team has been appointed, with a focus on increasing profitability through cost control in addition to the top line growth which has been slower than anticipated. A successful fund raising was completed in June and the company is now well capitalised to move on to the next stage.

Nexus, the electrical wholesaler, is developing well with increasing turnover and an expansion into China underway. In addition the business has been de-leveraged through a successful sale and leaseback of the property.

Kilgour, the Saville Row tailor, continues to perform ahead of budget on the top line, and profits are now coming back in line with expectations, helped by particularly strong Ready-to-Wear sales in the spring.

Palatinate Schools, the London-based schools group, reports solid pupil numbers and financial performance in line with budget.

Independent Living Group, the learning disabilities care homes specialist, is trading well and continues to grow through acquisitions.

Pinnacle-psg, the social housing management company, continues to benefit from government investment in the sector and is performing ahead of budget for the current year, with a promising pipeline of new business.

Exit

EPIC LLP's investment in **Wineworld**, the London-based wine museum, was sold in June for a 2x multiple on the original investment, after 4 years ownership.

Specialist Funds

The Specialist Fund's portfolio has enjoyed another strong year with a return of 14.5% compared with the Fund's benchmark of 7.5%.

During the year the Manager sold the entire holding in the Japanese Opportunities Fund, a leveraged residential property investment which performed particularly strongly over the first part of 2006. Profits were also taken near the all time high in Climate Exchange PLC which had also risen sharply at the end of 2005 and at the start of the new calendar year.

New investments were, in the main, focused on gaining exposure to undervalued assets with low correlations to equity markets. These include the EPIC Life Settlement Fund, Deutsche Land and the European Equity Tranche Income, a fund which seeks to generate high income from residential mortgage backed securities issued by European institutions as banks seek to optimise balance sheets prior to Basel II. Smaller investments were made in the King & Shaxson Premier Fund (a small long/short UK equity hedge fund) and the value driven Cayenne Trust.

We are currently researching a range of third party funds that promise to meet or exceed the Company's performance criteria while at the same time providing diversification benefits to help limit the volatility of the portfolio as a whole. We expect the percentage allocation of this sector to increase over the current financial year.

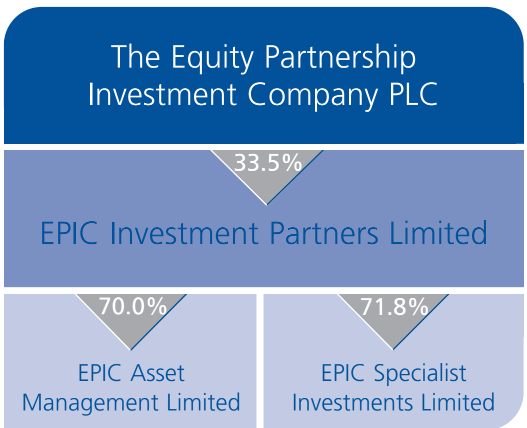
Strategic Investments

Over the past year the investment advisor has been somewhat preoccupied with the requirement to place Brit's large minority stake in EIP. This has been another year of good performance for the fixed income business in particular. The arrival of a large new account was delayed courtesy of the US regulators and likewise structured property deals, which have taken longer than expected to complete, but a strong end to the calendar year is still anticipated. That having been said 2006 will be another profitable year and there are a number of new fund launches contemplated over the coming months, two of which in partnership with an influential banking group in the Middle East.

For Strand Partners the current financial year has got off to a good start and concern that the increased volatility in the stock market might make IPO's more difficult in the second half of the year has proved, as yet, unfounded. The founder and former managing director is now focusing exclusively on the larger transactions and fees from this source are balanced by a regular flow of smaller deals led by a growing team of corporate finance professionals. The franchise is going from strength to strength and Strand's proven ability to complete complex transactions is contributing to more diverse sources of business.

The diagram below shows the relationship between the Management companies:

EPIC Investment Partners Limited



Portfolio Analysis

Largest Investments	Cost	Fair Value	2006 % of total investments	2005 % of total investments
EPIC Investment Partners Limited	2,990	5,000,000*	6.61	7.83
Palatinate Limited DDB 'A' (Mezz) 10% 31/12/12	4,250,007	4,250,007	5.62	5.85
Diploma Plc	2,467,804	3,856,466	5.10	6.70
Communitas DDB 'A' 10%	3,533,740	3,533,740	4.67	4.86
Alpha Real Estate GmbH 8% 11/02/2010	3,446,137	3,417,557	4.52	4.74
Nexus Industries Limited DDB Series A 31/12/04	4,429,500	3,125,000	4.13	6.09
DTZ Holdings plc	1,014,517	3,022,209	4.00	4.75
Jupiter Hyde Park Hedge Fund	2,000,000	2,578,932	3.41	2.88
Pinnacle-psg Limited	2,066,717	2,400,000	3.17	2.75
Hunting Capital Limited	1,656,349	2,383,232	3.15	0.84
Heywood Williams Group Plc	3,199,434	1,984,965	2.62	3.44
Strand Partners Limited	2,512,500	1,804,481*	2.39	3.44
Uniq PLC	1,906,530	1,757,875	2.32	2.13
Wagon	1,733,542	1,751,932	2.32	1.74
Amstrad	1,648,834	1,694,314	2.24	-
Total of 15 largest investments	**35,868,602**	**42,560,710**	**56.27**	**58.04**
Other investments	**35,570,370**	**23,800,397**	**31.56**	**34.84**
BGI Sterling Liquidity First Fund	**9,191,237**	**9,205,274**	**12.17**	**7.12**
Total investments	**80,630,209**	**75,566,381**	**100.00**	**100.00**

* At directors valuation

Biographies of the Senior Investment Managers

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 to become Chairman of Brit Insurance Holdings PLC. He resigned as chairman of Brit in September 2002 and is the co-founder and managing director of EPIC Investment Partners Limited, the investment manager to the Company.

UK Equities

John Lee 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 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.

Unquoted Equities

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

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

Fixed Interest and Structured Income Products

Ravi Shankar holds a BE in Mechanical Engineering from the National Institute of Engineering, India, and an MBA in Finance from Drexel University in Philadelphia. From 1990 Ravi spent four years at the Ministry of Finance in the Sultanate of Oman and a further four years from 1994 at Kemper (Zurich) Investment Management as Director, Fixed Income Strategy. From 1998 Ravi was an Investment Director and a member of the Investment Policy Committee at Norwich Union. In 2000 he founded Benfield Greig Asset Management where he was Managing Director and Chief Investment Officer. In 2001 Ravi co-founded EPIC Asset Management with Jo Welman. He is the Chief Investment Officer and Managing Director of EPIC Asset Management.

Credit and Structured Income Products, Specialist Fund Analysis

Donal Mullane has over twenty years' experience in banking. He joined EPIC Asset Management from the Market Credit Research Team of Tokyo Mitsubishi Bank's investment bank. Formerly the Head of Credit for Visa International for both the EU and CEMEA Regions, he is a graduate of the University of Wales, Aberystwyth; the College of Law, Chester; and Manchester Metropolian University. He holds degree or degree equivalents in International Politics and International History; Banking; and Law; a Post-Graduate Diploma in Legal Practice; and an MA in Legal Research. His Master's thesis was on derivatives law. He is an Associate of the Chartered Institute of Bankers and is a former tutor in Banking Law.

Report of the Directors

Principal activity

The Equity Partnership Investment Company PLC ("EPIC") is an Isle of Man closed-end investment company. The Company and the Group invest in quoted and unquoted equities, bonds and structured income products, specialist funds and strategic investments.

Incorporation

The Company was incorporated on the 6 July 2001. The Company's registered office is:
St James's Chambers, Athol Street, Douglas, Isle of Man, IM99 1PP, British Isles.

Results of the financial year

Results for the year and their appropriation are set out in the Consolidated Statement of Operations on page 20 and in note 15 to the financial statements.

Dividends

Details of the dividends declared and paid during the financial year are analysed on page 29 in note 6.

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 40.

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

Directors

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

Mr Donald Adamson		
Mr Donald McCrickard		
Dr Cameron McPhail (Chairman)		
Mr Martin Richardson		
Mr Philip Scales		
Mr Cormac O'Keeffe	Appointed	20 March 2006
	Resigned	18 September 2006
Mr Paul Keltie	Appointed	18 September 2006

Secretary

The secretary of the Company holding office during the financial year was:

Mr Philip Scales	Resigned	22 December 2005
Mr David Parnell	Appointed	22 December 2005
	Resigned	12 June 2006
Mr John Middleton	Appointed	12 June 2006

Directors’ liability insurance

The Company maintains insurance cover for Directors’ liability in relation to the Company.

Staff

At 31 July 2006 the Group employed no staff.

Going concern

The directors believe it is appropriate to adopt the going concern basis in preparing the financial statements.

Auditors

Ernst & Young LLC being eligible has 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

Dr C McPhail

M Richardson

11 December 2006

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 Group and the Company and of the profit or loss of the Group for that year. In preparing those financial statements, the Directors:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates 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 Group 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 Group and the Company and to enable them to ensure that the financial statements comply with the Isle of Man Companies Acts 1931 to 2004. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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"). A revised version of the Combined Code has been adopted by the Financial Reporting Council ("The New Code") with effect from the group's financial year commencing 1 August 2004. 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 Group complies with the Combined Code, monitors the Group's established procedures. The Board believes that the Group complies with the provisions of the Code to the extent which is appropriate to the Group's nature and scale of operations.

Independent Auditor's Report
to the Members of The Equity Partnership Investment Company PLC

We have audited the company's financial statements for the year ended 31 July 2006, which comprise, the Consolidated Statement of Operations, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Casflows and the related notes 1 to 24. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004. We also report to you if, in our opinion, the Group has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

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 Corporate information, Biographies of the Directors, Chairman's Statement, Capital Share Price and NAV Performance vs Benchmark, Investment Manager's Report, Portfolio Analysis - Largest Investments, Biographies of the Senior Investment Managers, Report of the Directors, Statement of Directors' Responsibilities, Shareholder Information - significant holdings and Notice of Annual General Meeting. 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 International Standards on Auditing (UK and Ireland) 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 judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and Group'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, in accordance with International Financial Reporting Standards, of the state of affairs of the Group and the company as at 31 July 2006 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004.

Ernst & Young LLC
Chartered Accountants
Isle of Man
12 January 2007

Consolidated Statement of Operations
For the year ended 31 July 2006

Notes		2006 £000's	2005 £000's
	Income		
	Dividends	1,362	1,480
	Bond Interest	2,056	1,218
	Bank Interest	256	47
	Other Income	306	38
	Total income	**3,980**	**2,783**
	Expenses		
3	Management fee	933	741
3	Administration fees	124	106
	Custodian fees	36	28
	Audit fee	43	14
4	Directors' fees	79	59
5	Finance costs	1,420	921
3	Performance Fees	158	-
	Other expenses	370	384
	Total expenses	**3,163**	**2,253**
	Net investment income	**817**	**530**
	Gains on investments		
	Realised gains on sale of investments	8,714	4,578
	Net unrealised gain on forward foreign currency contracts	324	-
8	Movement in unrealised (losses)/gains on revaluation of investments at fair value through profit or loss	(2,334)	2,525
	Profit for the year on investments at fair value through profit or loss	**6,704**	**7,103**
6	**Dividends on Income Shares**	**(2,300)**	**(2,236)**
12	**Debt finance costs**	**(403)**	**(65)**
	Net profit for the year	4,818	5,332
7	**Basic gain per Capital Share (pence)**	**13.94p**	**15.43p**
	Diluted gain per Capital Share (pence)	**11.62p**	**12.85p**

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

The accompanying notes on pages 25 to 39 are an integral part of the financial statements.

Consolidated Balance Sheet
As at 31 July 2006

Notes		2006 £000's	2005 £000's
8b	Financial assets measured at fair value through profit or loss	75,566	72,699
	Current assets		
	Cash and cash equivalents	5,871	1,283
10	Trade debtors & other receivables	1,867	1,040
	Total assets	**83,304**	**75,022**
	Current liabilities		
11	Trade creditors & other payables	1,569	1,319
	Non-current liabilities		
12	Loan interest	-	2,901
12	Bank loan	-	13,750
19	Interest rate swap liability	-	355
12	Zero dividend preference shares	19,801	-
12	Income Shares	20,542	20,478
	Total liabilities	**41,912**	**38,803**
	Net assets	**41,392**	**36,219**
	Shareholders' Equity		
13	Share capital	3,456	3,456
14	Share premium	30,240	30,240
15	Reserves	7,696	2,523
	Shareholders' Equity	**41,392**	**36,219**
		Pence	Pencep
16	**Net asset value per Capital Share (pence) - basic**	**119.76p**	**104.79p**
	Net asset value per Capital Share (pence) - diluted	**116.47p**	**104.00p**

The financial statements were approved by the Board of Directors on 11 December 2006 and are signed on 12 January 2007 on its behalf by:

Dr C McPhail
Director

M Richardson
Director

The accompanying notes on pages 25 to 39 are an integral part of the financial statements.

Company Balance Sheet
As at 31 July 2006

Notes		2006 £000's	2005 £000's
8A	Financial assets measured at fair value through profit or loss	56,896	72,547
9	Investment in subsidiaries	-	-
	Current assets		
	Cash and cash equivalents	5,871	1,283
10	Trade creditors & other receivables	20,820	1,192
	Total assets	**83,587**	**75,022**
	Current liabilities		
11	Trade creditors & other payables	2,079	1,319
	Non-current liabilities		
12	Loan interest	-	2,901
12	Bank loan	-	13,750
19	Interest rate swap liability	-	355
12	Loan Note of EPIC Securities PLC	19,801	-
12	Income Shares	20,542	20,478
	Total liabilities	**42,422**	**38,803**
	Net assets	**41,165**	**36,219**
	Shareholders' Equity		
13	Share capital	3,456	3,456
14	Share premium	30,240	30,240
15	Reserves	7,469	2,523
	Shareholders' Equity	**41,165**	**36,219**

The financial statements were approved by the Board of Directors on 11 December 2006 and are signed on 12 January 2007 on its behalf by:

Dr C McPhail
Director

M Richardson
Director

The accompanying notes on pages 25 to 39 are an integral part of the financial statements.

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 July 2006

Notes		2006 £000's	2005 £000's
	Shareholders' Equity b/fwd	**36,219**	**31,057**
	Net profit for the year	4,818	5,332
		41,037	**36,389**
	Movement in cashflow hedge reserve		
	Movement in net unrealised profit/(loss) on revaluation of cash flow hedges	355	(170)
	Shareholders' Equity as at 31 July 2006	**41,392**	**36,219**

The accompanying notes on pages 25 to 39 are an integral part of the financial statements.

Consolidated Statement of Cashflows

For the year ended 31 July 2006

Notes		2006 £000's	2005 £000's
	Operating activities		
	Dividends received	1,900	1,123
	Bond interest received	755	435
	Bank interest and commission received	222	46
	Expenses paid	(1,623)	(1,277)
18	**Net cash inflow from operating activities**	**1,254**	**327**
	Investing activities		
	Purchase of investments	(59,188)	(65,400)
	Proceeds on sale of investments	63,318	68,708
	Net cash inflow from investing activities	**4,130**	**3,308**
	Financing activities		
6	Dividends paid on Income Shares	(2,284)	(2,219)
	Issue of ZDP Shares	20,000	-
	Payments under interest rate swap agreement	(231)	(159)
	Payment of ZDP formation costs	(537)	-
	Repayment of loan and interest	(17,744)	-
	Net cash outflow from financing activities	**(796)**	**(2,378)**
	Increase in cash	**4,588**	**1,257**
	Cash and cash equivalents at start of year	1,283	26
	Cash and cash equivalents at 31 July 2006	**5,871**	**1,283**

The accompanying notes on pages 25 to 39 are an integral part of the financial statements.

Notes to the Financial Statements

As at 31 July 2006

1 Operations

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

2 Statement of accounting policies

a Basis of preparation

The financial statements have been prepared in conformity with International Financial Reporting 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 financial assets measured at fair value through the profit or loss. 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 Group is engaged in a single geographic segment in the United Kingdom and single economic segment being investment business.

c Income

Dividends arising on equity investments are credited to income when the security is quoted ex-dividend. Bond interest and short-term deposit interest income is accounted for on an effective interest basis.

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 Group 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 £475 (2005-£475).

Dividends are shown net of withholding tax. Withholding tax amounted to £52,000 for the year and is shown separately in the Consolidated Statement of Operations.

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 Cashflows, cash and cash equivalents consist of cash in hand and deposits in banks.

g Investments

All investments are classified as "at fair value through profit or loss account". Investments are initially recognised at cost, being the fair value of the consideration given.

After initial recognition, investments are measured at fair value, with unrealised gains and losses on investments recognised in the Statement of Operations. Realised gains and losses on investments sold are calculated as the difference between sales proceeds and cost. The Group applies the First-In First-Out basis for the purposes of determining the historical cost in calculating all realised gains and losses arising throughout the year.

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 Group's investments are in non-marketable equity and debt investments which are carried at cost less any provision for impairment.

Where it proves impossible to obtain a market price, the Directors decide to value investments at fair value. The Directors will use their discretion and awareness of market conditions to evaluate the fair value of such investments.

In valuing the investment in EPIC Investment Partners, the investment manager of the Group, the Board has sought to value the holding on the basis of a simple and transparent formula, which is reviewed from time to time after consultation with an independent specialist advisor, to take account both of changing conditions in the market for asset management companies and developments in EPIC Investment Partners's own business. The group continued to value its investment in EPIC Investment Partners based on 1% of funds under management until 31 December 2004, when the valuation was frozen. On 4 August 2006, following a period marketing a large minority stake in EPIC Investment Partners, the Managers recommended a further write down from the basis disclosed.

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 purchases or sales 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**

The functional and presentational currency is Sterling.

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 on 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 to the Statement of Operations over the term of these shares using the effective interest rate method.

Zero Dividend Preference Shares
Zero Dividend Preference Shares, which exhibit the characteristics of liabilities, are recognised as liabilities in the Balance Sheet in accordance with International Accounting Standard 32 ("IAS 32"), Financial Instruments: Disclosure and Presentation. After initial recognition, these liabilities are measured at amortised cost, which represents the initial proceeds of the issuance plus the accrued entitlement to the date of the financial statements. The accrued entitlement is calculated as the difference between the proceeds on the issue of these shares and the final liability and is charged as interest expense in the Statement of Operations over the term of the life of these shares using the effective interest method.

k **Derivative financial instruments**

The Group uses derivative financial instruments to hedge its risks associated primarily with interest rate and foreign currency fluctuations. It is the Group’s policy not to trade in derivative financial instruments. Details of the Group’s financial risk management objectives and policies are set out in Note 19.

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 hedge accounting under IAS 39: Financial Instruments Recognition and Measurement, 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 hedge accounting under IAS 39: Financial Instruments Recognition and Measurement, 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 year.

l **Consolidation**

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

m **Subsidiaries**

Investment in subsidiaries are stated at cost less any permanent diminution in value in the Company Balance Sheet.

n **Associates**

Where an equity interest of over 20% is held and the group has significant influence, investments are considered to be associates. The group has early adopted IAS 28 (revised), Investments in Associates. Upon initial recognition such investments are designated as at fair value through profit or loss in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Subsequently investments are then measured at fair value in accordance with IAS 39, with changes in fair value recognised in the Statement of Operations.

o **Company Profit & Loss Account**

In accordance with section 3(5)(b)(ii) of the Companies Act 1982, the company is exempt from the requirement to present its own profit and loss account. Of the profit on ordinary activities, a profit of £4,591,000 has been made by EPIC PLC.

p **Impact of revisions to International Financial Reporting Standards**

IFRS 7 Financial Instruments: Disclosures and Related amendment to IAS 1 on Capital disclosure is in issue but not effective until periods commencing on or after 1 January 2007. No material impact is expected on the financial statements when this standard is adopted with the exception of additional disclosures on capital and financial instruments.

3 Management, administration and performance fees

	2006	2005
	£000's	£000's
Management fee	933	741
Administration fee	124	106
Performance Fee	158	-
	1,215	**847**

Management fee

On 14 August 2001 the Group entered into an agreement with EPIC Investment Partners 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 Investment 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.

Under the Investment Management Agreement arrangements are in place to ensure that where investments are made by the Group in a vehicle managed or advised by EPIC Investment Partners adjustments will be made to avoid double charging. The Directors have considered such situations that have arisen during the current financial year and are of the opinion that, although there has been an element of double charging it is not material. The Directors will continue to review investments made by the Group in vehicles managed or advised by EPIC Investment Partners for the forthcoming year.

Under the terms of the Limited Liability Partnership Member's Agreement for the investment in EPIC Investments Limited Liability Partnership (EPIC LLP) dated 27 April 2006 EPIC Private Equity LLP was appointed as investment advisor to the Partnership.

The investment advisor is entitled to receive a fee which shall be an amount equal to 0.5 percent per annum of the net assets (and, for these purposes, the amount of any loans made to the partnership by its members shall not be taken into account in calculating the net assets), subject to an annual minimum of £100,000. Included in the Group accounts are management fees of £933,000 for the period ended 31 July 2006, of which £31,625 remains outstanding at the period end.

Performance fees

EPIC PLC

The agreement above also provides for the provision of a performance-related fee in respect of any financial year where the growth in the NAV of the Group 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 Group 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.

EPIC LLP

As disclosed in the Members Agreement the Net Income, Net Income Losses, the Capital Gains and the Capital Losses shall be allocated between the Members' respective Profit Accounts as follows:

(a) prior to the Hurdle Payment Date, being the date when the loan from The Equity Partnership Investment Company PLC has been repaid, all Relevant Sums shall be allocated to the Equity Members in the following Proportions:

(i) as to Non-Mezzanine Relevant Sums:
EPIC PLC 99.999%
EPIC Carry LLP 0.001%

(ii) as to Mezannine Relevant Sums:
EPIC PLC 100%

(b) On the hurdle payment date 20% of the Non-Mezzanine Relevant Sums previously allocated to The Equity Partnership Investment Company Plc will be transferred to EPIC Carry LLP.

(c) after the Hurdle Payment Date, Relevant Sums shall be allocated to the Equity Members in the following proportions:

(i) as to Non-Mezzanine Relevant Sums:
EPIC PLC 80%
EPIC Carry LLP 20%

(ii) as to Mezzanine Relevant Sums:
EPIC PLC 100%

Distributions shall be allocated in accordance with the Members' Agreement in the following order of priority:
(a) a payment of the Priority Profit Share
(b) in repaying member loans
(c) in paying the members a return, (the hurdle) being 7% compounded annually on the balance of their loans
(d) follow the repayment of the hurdle, various other distribution priorities are contains within the Members' Agreement.

Administration fee

On 14 August 2001 the Group entered into an agreement with Northern Trust International Fund Administration Services (Isle of Man) Limited (NTIOM), 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 Group and 0.15% on any excess of such average NAV of the Group 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 an annual review.

4 Directors' fees

Directors' fees amount to £78,750 and are comprised as follows:

	2006	2005
	£	£
Dr Cameron McPhail (Chairman)	21,250	12,034
Mr Donald Adamson	17,500	15,000
Mr Donald McCrickard	17,500	16,875
Mr Martin Richardson	17,500	15,000
Mr Philip Scales	5,000	-
	78,750	**58,909**

5 Finance costs

	2006	2005
	£000's	£000's
Loan interest payable	1,093	921
Net Swap interest and early termination costs	**327**	-
	1,420	**921**

6 Dividends on Income Shares

	Rate (pence)	2006 £000's	2005 £000's
1st interim dividend paid on 31 January 2006	2.77265 (2005 -2.69475)	575	559
2nd interim dividend paid on 15 February 2006	2.77265 (2005 -2.69475)	575	559
3rd interim dividend paid on 15 May 2006	2.77265 (2005 -2.69475)	575	559
Declared 4th interim dividend paid on 15 August 2006	2.77265 (2005 -2.69475)	575	559
	11.09060 (2005-10.779)	**2,300**	**2,236**

The 4th interim dividend of £574,946 was payable on 31 August to shareholders on the register as at 11 August 2006. The ex-dividend date was 9 August 2006.

7 Basic and diluted earnings per capital share

Capital Shares

Basic earnings per share is calculated by dividing the net profit for the year attributable to Capital Shares by the weighted average number of Capital Shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit for the year attributable to Capital shareholders by the weighted average number of Capital Shares outstanding during the year adjusted for the effect of the dilutive Warrants.

	2006 £000's	2005 £000's
Net profit for the year	**4,818**	**5,332**
Weighted average number of Capital Shares for basic earnings per share	34,561,666	34,561,666
Weighted average number of Capital Shares for diluted earnings per share	41,473,999	41,473,999

8a Company: Financial assets measured at fair value through profit & loss

At bid price	Cash Based Funds £000's	Strategic Investments £000's	Unquoted Investments £000's	Quoted Equities £000's	Specialist Funds £000's	Structured Products £000's	Totals £000's
Closing book cost at 31 July 2006	9,191	2,587	2,444	28,579	6,436	11,841	61,078
Unrealised (loss)/gain on revaluation	13	4,289	(2,444)	1,329	1,054	(8,423)	(4,182)
Market Value at 31 July 2006	**9,204**	**6,876**	**-**	**29,908**	**7,490**	**3,418**	**56,896**
As at 31 July 2005	**5,173**	**8,192**	**18,931**	**30,250**	**6,551**	**3,450**	**72,547**

8b Consolidated: Financial assets measured at fair value through profit & loss

At bid price	Cash Based Funds £000's	Strategic Investments £000's	Unquoted Investments £000's	Quoted Equities £000's	Specialist Funds £000's	Structured Products £000's	Totals £000's
Closing book cost at 31 July 2006	9,191	2,587	21,997	28,579	6,436	11,841	80,631
Unrealised (loss)/gain on revaluation	13	4,289	(3,327)	1,329	1,054	(8,423)	(5,065)
Market Value at 31 July 2006	**9,204**	**6,876**	**18,670**	**29,908**	**7,490**	**3,418**	**75,566**
As at 31 July 2005	**5,173**	**8,192**	**19,083**	**30,250**	**6,551**	**3,450**	**72,699**

9 Investment in subsidiaries

Name	Holding	Type Held	Country of Incorporation	Activity
EPIC Finance Company Limited	100%	Ordinary Shares	Isle of Man	Investment Holding
EPIC Securities Plc	100%	Ordinary Shares	Isle of Man	Investment Holding
EPIC LLP	100%	Partnership interest	United Kingdom	Investment Holding

There were two new subsidiaries incorporated during the period under review.

Epic Securities Plc, a limited liability company was incorporated on 10 February 2006. The Company is a wholly owned subsidiary of EPIC Plc with a fixed life which will expire on 31 July 2011. The Company's investment policy is to invest in the Loan Note issued by EPIC Plc.

Epic LLP, a limited liability partnership was incorporated on 12 April 2006. The partnership is a controlled entity of EPIC Plc. The Partnership's principal purpose is to make private equity investments and to acquire the Private Equity portfolio from EPIC PLC pursuant to the portfolio agreement and will invest in further investments.

10 Trade debtors & other receivables

	Group 2006 £000's	Company 2006 £000's	Group 2005 £000's	Company 2005 £000's
Amounts due from brokers	49	49	355	355
Interest and dividends receivable	1,458	198	661	661
Unrealised gain on outstanding forward fx contracts	346	346	22	22
Intercompany loan due from subsidiary	-	20,212	-	152
Other debtors	14	15	2	2
	1,867	**20,820**	**1,040**	**1,192**

The intercompany loan is an interest free loan in respect of the consideration for the transfer of the Private Equity Portfolio to Epic LLP. This will be payable by Epic LLP to Epic PLC out of the proceeds of disposals.

11 Trade creditors & other payables

	Group 2006 £000's	Company 2006 £000's	Group & Company 2005 £000's
Amounts due to brokers	493	493	353
Accrued expenses	501	471	407
Dividends payable on Income Shares	575	575	559
Due to EPIC LLP	-	540	-
	1,569	**2,079**	**1,319**

The loan from EPIC LLP is an interest free loan with no fixed repayment terms.

12 Non-current liabilities

	Maturity date	Rate %	Group 2006 £000's	Company 2006 £000's	Group & Company 2005 £000's
Bank loan	20 February 2007	Libor + 1.05%	-	-	13,750
Loan interest	-	-	-	-	2,901
Income Shares	31 July 2011	29.15	20,542	20,542	20,478
Zero dividend preference shares	24 April 2011	6.5	19,801	-	-
Loan Note instrument issued by Epic Securities	31 July 2011	6.5	-	19,801	-
			40,343	**40,343**	**37,129**

The loan note due to EPIC Securities was issued by EPIC PLC.

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 Group. £13,750,000 was drawn down under these terms. The facility, which was repayable after five and a half years from the date of signing, bore interest on sterling amounts at an annual rate of 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. This loan was subject to hedging by means of an interest rate swap.

In April 2006 the Company issued 20 million Zero Dividend Preference Shares from which the bank loan and the swap was repaid in full.

b Income Shares

	2006 Number of Shares	2006 £000's	2005 Number of Shares	2005 £000's
Authorised				
Income Shares of 10p each	**45,000,000**	**4,500**	**45,000,000**	**4,500**
Issued and fully paid				
Income Shares of 10p each	**20,736,333**	**2,074**	**20,736,333**	**2,074**

	2006 £000's	2005 £000's
At start of year	**20,478**	**20,413**
Amortisation of Income Shares issue costs	64	65
At close of year	**20,542**	**20,478**

On 17 August 2001, the Group 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 Group provide sufficient cover. The fair value of the Income Shares at 31 July 2006 was £25,298,326 based on the quoted offer price of 122p per Income Share

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 Group, the reduction of the Group'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 carried the right to a cumulative preferential dividend at an initial rate of 10p per share for the year ending 31 July 2003 but shall have no further right to participate in the profits of the Group. The Dividends payable in respect of each financial year thereafter will be increased in proportion to the increase (if any) in the RPI 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 £1 per share.

c Zero Dividend Preference Shares

Epic Securities Plc issued 20,000,000 ZDP shares of 10p each at a price of 100p. These shares had an initial capital entitlement of 100p per share, increasing at a daily compound rate equivalent to an annual compound rate of 6.5% so as to reach a final capital entitlement of 139.3p per share on 31 July 2011. Issue costs totalled £536,960 which have been set off against the issued share capital and will be amortised over the term of the ZDP issue. The fair value of the ZDP shares at 31 July 2006 was £20,400,000 based on the quoted offer price of 102p per ZDP share.

After taking account of issue costs the annual compound rate to reach the final capital entitlement of 139.3p per share on 31 July 2011 is 7.07%.

In accordance with the articles of association of EPIC Securities Plc, the holders of the 20,000,000 Zero Dividend Preference Shares ("ZDP"), are entitled on a winding up to an amount equal to 100p per ZDP share as increased daily at the compound rate as would give a final capital entitlement of 139.3p on the ZDP repayment date. At 31 July 2006 the accrued value was £20,320,000. The entitlement accrued under the contribution of assets agreement (Deed of Undertaking) is equivalent to the annual compound rate of 6.5%.

Rights attaching to ZDP Shares

ZDP Shareholders are not entitled to receive, and cannot participate in, any dividends or other distributions out of the profits of the Company available for dividend and resolved to be distributed in respect of any accounting period or any other income or right to participate therein.

The ZDP Shares do not carry any entitlement to receive income.

On a return of assets on liquidation, after payment of all debts and satisfaction of all creditors there shall be paid to ZDP Shareholders from the surplus assets an amount equal to 100p per ZDP Share as increased daily at such compound rate as will give entitlement to 139.3p on the ZDP redemption date, the first increase occurring on the date the ZDP Shares are first admitted to the Official List of the United Kingdom Listing Authority and the last on the actual date of payment. The redemption entitlements due to holders of the ZDP Shares satisfied by an allocation to the redemption reserve. The daily compound rate applied to the ZDP Shares represents an annual compound rate of 7.07%.

Although the Zero Dividend Preference Shares are entitled to a pre-determined capital repayment on the repayment date, this is not guaranteed and, based on the Principal Bases and Assumptions, following the placing a fall at a rate greater than 15 per cent. per annum (compound) in the value of the Total Assets of EPIC Plc would result in a lower payment than the pre-determined entitlement of 139.3p per Zero Dividend Preference Share, which could potentially be zero.

ZDP Shareholders will not have the right to receive notice of any general meeting of the Company nor to attend or vote at any such meeting except in respect of any resolution altering, modifying or abrogating any of the special rights and privileges attached to the ZDP Shares or to wind up the Company.

13 Share capital - Capital shares

	Number of Shares	2006 £000's	Number of Shares	2005 £000's
Authorised				
Capital Shares	75,000,000	7,500	75,000,000	7,500
Warrants	15,000,000	1,500	15,000,000	1,500
	90,000,000	**9,000**	**90,000,000**	**9,000**
Issued and fully paid				
Capital Shares	34,561,666	3,456	34,561,666	3,456
Warrants	6,912,333	-	6,912,333	-
	41,473,999	**3,456**	**41,473,999**	**3,456**

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 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. All warrants can be exercised up to 30 days from publication of the year end accounts 31 July, 2006.

Capital history

In accordance with International Financial Reporting Standards, the Income Shares and ZDP Shares are treated as liabilities as described under accounting policies in note 2(j) above.

14 Share premium - Capital shares

	2006 £000's	2005 £000's
Share premium at start of year	30,240	30,240
Share premium at 31 July 2005	**30,240**	**30,240**

15 Group and Company Reserves - Capital shares

Group Reserves

	Profit and loss reserve £000's	Hedge reserve £000's	Total £000's
Reserves at start of year	**2,878**	**(355)**	**2,523**
Net profit for the year	4,818	-	4,818
Movement in net unrealised profit on revaluation of cash flow hedges (Note 20)	-	355	355
Reserves at 31 July 2006	**7,696**	**-**	**7,696**

Company Reserves

	Profit and loss reserve £000's	Hedge reserve £000's	Total £000's
Reserves at start of year	**2,878**	**(355)**	**2,523**
Net profit for the year	4,591	-	4,591
Movement in net unrealised profit on revaluation of cash flow hedges (Note 20)	-	355	355
Reserves at 31 July 2006	**7,469**	-	**7,469**

Per the Group's Prospectus, dividends can be paid up to the cumulative total of gross income. As at 31 July 2006 £3,815,000 of undistributed gross income was included in reserves.

An analysis of the profit and loss reserve detailing the split of the retained profit and loss reserve between the Income and Capital Shares is detailed in note 21.

16 Net asset value per share - Capital share (Basic and Diluted)

The net asset value per Capital Share is based on the net assets attributable to Capital shareholders of £41,392,000 on 34,561,666 Capital shares in issue at the end of the year, further diluted by 6,912,333 warrants.

17 Published Net Asset Value

	As at 31 July 2006 £000's	As at 31 July 2006 Pence per share
Published net asset value of capital shares	41,834	121.04
Valuation of investments at bid prices – **a**	(397)	(1.15)
Amortisation of issue costs on Income Shares – **b**	324	0.94
Amortisation of ZDP shares	(338)	(0.98)
Other	(31)	(0.09)
Consolidated net asset value per financial statement	**41,392**	**119.76**

a In accordance with International Financial Reporting 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 Issue costs incurred in respect of the Income Shares have been deferred and amortised on a straight line basis over eight years.

18 Note to the Consolidated Statement of Cashflows

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

	2006 £000's	2005 £000's
Net investment income	**817**	**530**
Adjustment for non-cash items:		
Decrease in interest and dividends receivable	(809)	(594)
Increase in interest and dividends payable and accrued expenses	1,246	391
Net cash inflow from operating activities	**1,254**	**327**

19 Financial instruments

The Group’s financial instruments comprise:

- Equity shares, fixed interest securities, cash funds and unquoted securities that are held in accordance with the Group's investment objectives, which are set out on page 2 of this report and financial statements;
- Cash and cash equivalents that arise directly from the Group’s operations;
- Zero Dividend Preference Shares; and
- Loan Note issued by Epic PLC

Financial risk management objectives and policies

The main risks arising from the Group'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 Group might suffer through holding market positions in the face of price movements. All assets and liabilities are carried at fair value except for ZDP Shares and Income Shares (note 12).

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 Group is shown in the Portfolio Analysis (unaudited) on page 14.

Credit risk

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

The 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 Group invests in a combination of high yield and investment grade bonds.

The obligations of EPIC Plc to repay the Loan Note and discharge its obligations pursuant to the undertakings, will be subordinated to the claims of EPIC Plc's other creditors on a winding up. If at the repayment Date (or any earlier redemption of the Zero Dividend Preference Shares) EPIC Plc has insufficient assets, then its obligation to repay the loan notes and make payment under the undertakings may be satisfied only in part or not at all. Accordingly the Company may have insufficient assets to satisfy the then current or final capital entitlement of the Zero Dividend Preference Shares.

Liquidity risk

Liquidity risk is the risk that the Group will encounter in realising assets or otherwise raising funds to meet financial commitments. The Group's investments include marketable securities in which there is active trade and the investments are readily realisable. The maturity of the Group's existing borrowings is set out in Note 12. In addition there are strategic and unquoted investments in which there are no ready markets and as such, these investments may not be readily realisable.

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 Group has exposure to foreign exchange movements in USD and Euro. The Group’s foreign exchange exposure arises from its investment in securities and cash balances denominated in currencies other than sterling.

The Group has entered into forward exchange contracts to hedge certain anticipated foreign currency revenues and investment in foreign entities.

As at 31 July 2006 the Group held open forward exchange contracts in GBP against the currencies as follows:

Settlement Date of Contract	Contractual Amount	Cost	Market Value	Unrealised Gains/(Losses)
		£000’s	£000’s	£000’s
31 January 2006	Euro 5,000,000	3,417	3,667	250
31 January 2006	USD 3,905,600	2,092	2,188	96
		5,509	**5,855**	**346**

As at 31 July 2005 the Group held open forward exchange contracts in GBP against the currencies as follows:

Settlement Date of Contract	Contractual Amount	Cost	Market Value	Unrealised Gains/(Losses)
		£000's	£000's	£000's
28 February 2005	Euro 5,000,000	3,667	3,631	(36)
8 May 2005	Yen 274,457,400	1,443	1,457	14
		5,110	**5,088**	**(22)**

A breakdown of the investments and cash denominated in currency other than sterling is as follows:

	2006 Denominated in foreign currency	2005 Denominated in foreign currency
	US $000's	US $000's
Investments	3,169	3,693
Cash balances	26	32
Forward Exchange Contract	(3,906)	-
Total : US Dollar	**(711)**	**3,725**
	Japanese Yen 000's	Japanese Yen 000's
Investments	-	265,490
Forward Exchange Contract	-	(274,457)
Total : Japanese Yen	**-**	**(8,967)**
	Euros 000's	Euros 000's
Cash	-	179
Investments	3,418	1,162
Unquoted Investments	-	5,000
Forward Exchange Contract	(5,000)	(5,000)
Total : Euros	**(1,582)**	**1,341**

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's investment portfolio and long-term debt obligations. 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 Group'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 Group uses derivatives to hedge against exposure to changes in interest rates. During the year there was an interest rate swap in place to fix the interest payable on the bank loan which was subsequently settled in full (note 20).

The interest rate profile of the Group at 31 July 2006 is as follows:

Financial assets	Total as per Balance Sheet	Fixed and variable rate	Assets on which no interest is received
	£000's	£000's	£000's
Type:			
Cash	9,205	9,205	-
Unquoted investments	18,670	18,670	-
Equities	29,907	-	29,907
Specialist funds	7,490	-	7,490
Strategic investments	6,876	-	6,876
Structured products	3,418	3,418	-
Assets at fair value through the profit or loss account	**75,566**	**31,293**	**44,273**
Cash and cash equivalents	5,871	5,871	-
Debtors	1,867	-	1,867
	83,304	**37,164**	**46,140**

Financial liabilities	Total as per Balance Sheet	Fixed and variable rate	Liabilities on which no interest is paid
	£000's	£000's	£000's
Type:			
Income Shares	20,542	20,542	-
Creditors	1,569	-	1,569
ZDP Preference Shares	19,801	19,801	-
	41,912	**40,343**	**1,569**

The interest rate profile of the Group at 31 July 2005 is as follows:

Financial assets	Total as per Balance Sheet	Fixed and variable rate	Assets on which no interest is received
	£000's	£000's	£000's
Type:			
Cash	5,173	5,173	-
Unquoted investments	19,083	19,083	-
Equities	30,250	-	30,250
Specialist funds	6,551	-	6,551
Strategic investments	8,192	-	8,192
Structured products	3,450	3,450	-
Assets at fair value through the profit & loss account	**72,699**	**27,706**	**44,993**
Cash and cash equivalents	1,283	1,283	-
Debtors	1,040	-	1,040
	75,022	**28,989**	**46,033**

Notes to the Financial Statements
As at 31 July 2006
continued

Financial liabilities	Total as per Balance Sheet	Fixed and variable rate	Liabilities on which no interest is paid
	£000's	£000's	£000's
Type:			
Bank loan	13,750	13,750	-
Income Shares	20,478	20,478	-
Creditors	4,220	-	4,220
Interest rate swap liability	355	-	355
	38,803	**34,228**	**4,575**

20 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 year	355
Movement during the year	(355)
Fair value of derivative financial instruments at end of year	**-**

Cash flow hedges

The Group had an interest rate swap in place with a notional amount of £13,750,000, whereby it paid a fixed rate of 5.65% and received Libor on the notional amount. The swap was used to protect the bank loan from exposure to changes in interest rates and expired on 20 February 2007, the same day as the bank loan. In April, Epic Securities, a wholly owned subsidiary of Epic PLC issued 20,000,000 Zero Dividend Preference Shares, the proceeds of which was used to repay the bank loan and swap.

21 Split of profit and loss reserve between Income and Capital shareholders

	2006 Income	2006 Capital	2005 Income	2005 Capital
	£000's	£000's	£000's	£000's
Total income	3,980	-	2,783	-
Total expenses	-	(3,566)	-	(2,318)
Net investment income	3,980	(3,566)	2,783	(2,318)
Gains on investments				
Realised gain on sale of investments	-	8,714	-	4,578
Movement in unrealised gain/(loss) on revaluation of investments	-	(2,334)	-	2,525
Net unrealised gain on forward fx contracts	-	324	-	-
Dividends in respect of Income Shares	(2,300)	-	(2,236)	-
	(2,300)	**6,704**	**(2,236)**	**7,103**
Profit for the year	**1,680**	**3,138**	**547**	**4,785**
Reserves brought forward	**2,135**	**743**	**1,588**	**(4,042)**
Reserves carried forward	**3,815**	**3,881**	**2,135**	**743**

22 Directors' interests

The following Directors had interests in the shares of the Group as at 31 July 2006.

	Income Shares	Capital Shares	Warrants
Mr Donald Adamson	50,000	50,000	10,000

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

23 Related parties

(i) Mr Philip Scales, the secretary of the Company for part of the year, was also a director of Northern Trust International Fund Administration Services (Isle of Man) Limited, the Administrator and Registrar, until his resignation on 22 December 2005. Mr Paul Keltie and Mr Cormac O'Keeffe are employees of the Northern Trust Group.

(ii) Administration fees amounting to £123,594 (2005: £106,070) were payable to Northern Trust International Fund Administration Services (Isle of Man) Limited, calculated in accordance with the Administration Agreement, dated 14 August 2001, of which £23,607 (2005: £63,184) was outstanding as at 31 July 2006.

(iii) On 14 August 2001 the Group entered into an agreement with EPIC Investment Partners for the provision of investment management services, terms of which are disclosed in note 3.

Investment management fees of £901,004 (2005: £720,882) were payable to EPIC Investment Partners, of which £220,472 (2005: £222,793) was outstanding as at 31 July 2006. The Group owns 33.5% (2005: 29.9%) of the equity of EPIC Investment Partners.

Performance fees of £157,969 (2005: £Nil) were payable to EPIC Investment Partners, which remained outstanding at 31 July 2006 (2005: £Nil).

(iv) Under the terms of the Limited Liability Partnership Member's agreement for the investment in EPIC Limited Liability Partnership dated 27 April 2006 EPIC Private Equity LLP was appointed as investment advisor to the Partnership, terms of which are disclosed in note 3.

Investment management fees of £31,625 (2005: £Nil) were payable to EPIC Private Equity LLP which remains outstanding at the year end.

The Limited Liability Partnership Members agreement also provides for the provision of a performance-related fee to its members EPIC PLC and EPIC Carry LLP, terms of which are disclosed in note 3.

There were no performance fees payable for the year ended 31 July 2006 (2005: £Nil).

(v) Mr Don McCrickard, a director, is also a non-executive director of Brit Insurance Holdings PLC. As at 31 July 2006 Brit Insurance Holdings PLC held 1,000,000 income shares, representing 4.82% of the income share class, and 5,000,000 capital shares, representing 14.47% of the capital share class. The Capital shares were disposed in full, 1,500,000 on 3 August 2006 and 3,500,000 on 8 August 2006.

24 Post Balance Sheet Events

The Directors are not aware of any post balance sheet events.

Shareholder Information - significant holdings

As at 31 July 2006

Schedule of shareholders holding over 3% of issued shares

Income Shares

	Holdings	% of class
Nortrust Nominees Limited	3,662,489	17.66
The Corporation of Lloyd's	3,400,000	16.40
Ferlim Nominees Limited	3,191,800	15.39
Chaucer Syndicates Limited	2,500,000	12.06
HSBC Global Custody (Nominees) Limited	1,317,450	6.35
Brit Insurance Limited	1,000,000	4.82
BNY (OCS) Nominees Limited	861,976	4.16
	15,933,715	**76.84**

Capital Shares

	Holdings	% of class
Nortrust Nominees Limited TDS	8,150,000	23.58
The Corporation of Lloyd's	7,700,000	22.28
BNY (OCS) Nominees Limited	4,975,000	14.39
HSBC Global Custody Nominee (UK) Limited	3,266,993	9.45
The Bank of New York (Nominees) Limited	3,105,000	8.98
Teather & Greenwood Limited	2,892,399	8.37
SG Option Europe S.A.	2,400,000	6.94
	32,489,392	**93.99**

Zero Dividend Preference Shares

	Holdings	% of class
HSBC Global Custody Nominee (UK) Limited	2,475,000	12.37
BNY (OCS) Nominees Limited	2,215,000	11.07
Credit Suisse Client Nominees (UK) Limited	2,000,000	10.00
SG Option Europe S.A.	2,000,000	10.00
Nortrust Nominees Limited	1,800,000	9.00
Bear Stearns Securities Corporation	1,750,000	8.75
Giltspur Nominees Limited	1,710,991	8.55
Ferlim Nominees Limited	1,360,850	6.80
Chase Nominees Limited	1,100,000	5.50
Smith & Williamson Nominees Limited	680,000	3.40
Pershing King Nominees Limited	675,265	3.38
	17,767,106	**88.82**

Warrants

	Holdings	% of class
Brit Insurance Holdings Plc	1,000,000	14.47
Chaucer Holdings Plc	300,000	4.34
HSBC Global Custody Nominee (UK) Limited	361,233	5.22
HSDL Nominees Limited	304,734	4.40
Nortrust Nominees Limited	960,000	13.89
S.N.C. Nominees Limited	1,255,000	18.15
The Bank of New York (Nominees) Limited	375,000	5.42
The Corporation of Lloyd's	1,150,000	16.64
Walsham Brothers & Co. Limited	250,000	3.62
	5,955,967	**86.15**

Company Information

Directors
Dr C McPhail, Chairman
DL Adamson
DC McCrickard
M Richardson
P Keltie
PP Scales

Secretary
J Middleton

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Administrator and Registrar
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Fund Administration Services
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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 EPIC Investment Partners Limited.

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