THE EQUITY PARTNERSHIP LIMITED

ANNUAL REPORT AND ACCOUNTS

31 DECEMBER 2004

Registered No. 4196006

Contents

THE EQUITY PARTNERSHIP LIMITED

Company Information

Directors

J M P Welman
N D Eckert
M Scales (appointed 21 April 2004)
R Shankar
J Whiter (appointed 22 July 2003 ; resigned 10 March 2004)
M J Williamson

Secretary

P J Goddard (resigned 21 April 2004)
Brit Group Services Limited (appointed 21 April 2004)

Registered Office

55 Bishopsgate
London
EC2N 3AS

Registered Number

4196006

Auditors

Mazars LLP
Chartered Accountants & Registered Auditors
24 Bevis Marks
London
EC3A 7NR

Report of the Directors

The directors present their report and the financial statements of the company for the year ended 31 December 2004.

Principal activities and business review

The company acts as an Investment Manager to The Equity Partnership Investment Company PLC (EPIC), a closed-end investment company incorporated in the Isle of Man and quoted on The London Stock Exchange, and as a holding company. At 31 December 2004 the company had two subsidiary companies regulated by the Financial Services Authority.

At 31 December 2004 the group managed funds totalling £2,186 million (2003: £1,467 million) for a number of clients. Since 31 December the group has attracted further funds for management.

In the opinion of the directors the state of affairs of the company and its subsidiaries at the end of the period was satisfactory. The directors expect the group to develop satisfactorily in the forthcoming year.

Result and dividend

After the payment of a Preference Share dividend of £9,664 to Benfield Group Plc on the 16 July 2004 and the proposed Preference Share dividend of £10,186 for the period to 31 December 2004 paid on 16 January 2005, the retained profit for the year amounts to £799,951 (2003: £361,954) and is dealt with as shown in the profit and loss account.

The directors do not recommend the payment of an ordinary final dividend (2003:£nil).

Directors and share interests

The names of the directors as at the date of this report are listed on page 2.

The interests of the directors and their families in the share capital of the company, according to the register of directors' interests, were as follows:-

	Ordinary 'A' shares of 1 pence each 31 December 2004	Ordinary 'A' shares of £1 each 31 December 2003*
J M P Welman	100,000	1,000
N D Eckert	-	-
M Scales (appointed 21 April 2004)	-	-
J Whiter (appointed 22 July 2003, resigned 10 March 2004)	-	-
R Shankar	30,000	300
M J Williamson	-	-

* or at date of appointment if later

Share Capital

On 10 March 2004 the Company adopted revised Memorandum & Articles of Association which reflected the sub-division of each of its 'A' Ordinary Shares of £1 each into 100 Ordinary Shares of 1p each, each of its 'B' Ordinary Shares of £1 each into 100 'B' Ordinary Shares of 1p each and the conversion of its Non Cumulative Preference Shares of £1 each into Cumulative Convertible Redeemable Preference Shares of £1 each.

It was agreed with Benfield Group Plc to repay 300,000 of £1 Preference Shares which were redeemed on the 10 March 2004 with a further 110,000 Cumulative Convertible Redeemable £1 Preference Shares on the 15 July 2004.

Statement of directors' responsibilities

The directors are required by company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group as at the end of the financial year and of the profit or loss of the Group for the year then ended. In preparing these financial statements, the directors are required to:-

- 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 the 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Donations

The group made no charitable donation during the year (2003:£Nil).

Auditors

Following the conversion of Mazars to a Limited Liability Partnership, Mazars resigned as the Company's auditors on 17 January 2005 and the directors appointed Mazars LLP to fill the casual vacancy created by the resignation. Mazars LLP have indicated their willingness to continue in office and a resolution proposing their re-election will be put to the forthcoming Annual General Meeting

By Order of the Board

Brit Group Services Limited
Secretary
20 April 2005

Independent Auditors' Report
To the Members of The Equity Partnership Limited

We have audited the financial statements for the year ended 31 December 2004 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement and related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out here in.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 purposes. 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

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement within it.

Basis of opinion

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

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

Independent Auditors' Report continued

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's and of the group's affairs as at 31 December 2004 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Mazars LLP
Chartered Accountants & Registered Auditors
24 Bevis Marks
London
EC3A 7NR
20 April 2005

THE EQUITY PARTNERSHIP LIMITED

Consolidated Profit and Loss Account
For the Year Ended 31 December 2004

	Notes	Year ended 31 December 2004 £	Year ended 31 December 2003 £
Turnover – continuing operations	1 (e) & 2	6,993,082	3,878,475
Administrative expenses		(5,227,835)	(3,226,171)
Operating profit – continuing operations	3	1,765,247	652,304
Interest receivable and similar income	4	88,128	53,277
Profit on ordinary activities before taxation		1,853,375	705,581
Taxation	7	(562,809)	(248,077)
Profit on ordinary activities after taxation		1,290,566	457,504
Minority interests			
Equity interests		(470,785)	(95,550)
Profit for the year attributable to members of The Equity Partnership Limited		819,781	361,954
Dividends - Preference Share 5%	8	(19,830)	-
Retained profit carried forward	16	799,951	361,954

The Group has no recognised gains and losses other than those included in the profits above, and therefore no separate statement of total recognised gains and losses has been presented.

The notes on pages 11 to 24 form part of these accounts.

Consolidated Balance Sheet
As at 31 December 2004

	Notes	Year ended 31 December 2004 £	Year ended 31 December 2003 £
Fixed assets			
Tangible assets	9	6,665	10,956
Investment in associated undertaking	10	249	249
		6,914	11,205
Current assets			
Debtors	12	1,218,005	1,087,734
Cash at bank, deposits and cash in hand		3,615,497	1,898,310
		4,833,502	2,986,044
Creditors: *Amounts falling due within one year*	13	(2,654,891)	(1,320,459)
Net current assets		2,178,612	1,665,585
Total assets less current liabilities		2,185,526	1,676,790
Creditors: Amounts falling due greater than one year	14	(300,000)	-
Minority interests - Equity		(595,438)	(124,653)
Net assets		1,290,088	1,552,137
Capital and reserves			
Called up share capital	15	450,000	860,000
Capital redemption reserve	16	410,000	-
Profit and loss account	16	1,082,088	692,137
Investment in own shares	16	(652,000)	-
Shareholders' funds (including non equity interests)	17	1,290,088	1,552,137

The financial statements on pages 7 to 24 were approved by the Board of Directors on 20 April 2005 and signed on their behalf by:-

J M P WELMAN
Director

N D ECKERT
Director

The notes on pages 11 to 23 form part of these accounts.

THE EQUITY PARTNERSHIP LIMITED

Company Balance Sheet
As at 31 December 2004

	Notes	Year ended 31 December 2004 £	Year ended 31 December 2003 £
Fixed assets			
Tangible assets	9	6,665	10,956
Investment in subsidiary undertaking	11	470,300	470,300
		476,965	481,256
Current assets			
Debtors	12	940,629	755,618
Cash at bank, deposits and cash in hand		638,442	1,156,256
		1,579,071	1,911,874
Creditors: Amounts falling due within one year	13	(1,227,892)	(983,271)
Net current assets		351,179	928,603
Total assets less current liabilities		828,144	1,409,859
Creditors: Amounts falling due greater than one year	14	(300,000)	-
Net assets		528,144	1,409,859
Capital and reserves			
Called up share capital	15	450,000	860,000
Capital Redemption Reserve	16	410,000	-
Profit and loss account	16	320,144	549,859
Investment in own shares	16	(652,000)	-
Shareholders' funds (including non equity interests)	17	528,144	1,409,859,

The financial statements on pages 7 to 24 were approved by the Board of Directors on 20 April 2005 and signed on their behalf by:-

J. Well.

J M P WELMAN
Director

N D E

N D ECKERT
Director

The notes on pages 11 to 24 form part of these accounts.

THE EQUITY PARTNERSHIP LIMITED

Consolidated Cash Flow Statement
For the year ended 31 December 2004

	Notes	Year ended 31 December 2004 £	Year ended 31 December 2003 £
Net cash flow from operating activities	21(a)	2,348,470	1,324,125
Returns on investments and servicing of finance			
Preference dividends paid		(9,644)	
Taxation		(207,278)	(147,171)
Capital expenditure			
Payments to acquire tangible fixed assets		(4,360)	(3,666)
Acquisitions and disposals	21(d)		
Purchase of subsidiary undertaking		-	(700)
Net cash acquired with subsidiary undertaking		-	1,000
		-	300
Financing			
Redemption of Preference Shares	21(b)	(410,000)	-
Increase in cash	21(c)	1,717,188	1,173,590

The notes on pages 11 to 24 form part of these accounts

1. Accounting policies

(a) **Accounting convention**
The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

(b) **Consolidated accounts**
The group accounts consolidate the accounts of The Equity Partnership Limited, and its subsidiary undertakings up to 31 December 2004. No profit and loss account is presented for The Equity Partnership Limited as permitted by section 230 of The Companies Act 1985. The retained profit for the Company for the year ended 31 December 2004 was £180,285 (2003:£ 245,705).

(c) **Employee benefit trust**
The group operates an employee benefit trust over which it has de facto control of the shares held by the Trust and bears their benefits and risk. It therefore records the assets and liabilities and the results and cash flow of the Trust as its own. Consideration paid by the Trust to acquire shares in the company and are deducting in arriving at shareholders' funds until the shares vest unconditionally in employees.

(d) **Tangible fixed assets**
Tangible fixed assets are stated at cost. Depreciation is calculated so as to write off the cost over their estimated useful lives on a straight line basis as follows:

Office machinery	25% per annum
Computer equipment	33% per annum

(e) **Turnover**
Turnover consists of investment management fees and advisory fees receivable net of value added tax.

(f) **Expenses**
All expenses are accounted for on an accruals basis.

(g) **Current taxation**
Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

(h) **Deferred taxation**
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Notes to the Financial Statements continued

(i) **Pension benefits**
The Group operates a money purchase pension scheme for its entire staff. Contributions are charged to the profit and loss account in the period to which they relate.

(j) **Going concern**
These financial statements have been prepared on a going concern basis.

(k) **Operating leases**
Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

2. Turnover

Group	Year ended 31 December 2004 £	Year ended 31 December 2003 £
Investment management fees	6,874,047	3,749,331
Other advisory fees	119,035	129,144
	6,993,082	3,878,475

Turnover arises from the UK.

3. Operating profit - continuing operations

This is arrived at after charging:-	Year ended 31 December 2004 £	Year ended 31 December 2003 £
Auditors' remuneration		
- Audit work	19,275	20,450
- Non-audit work	9,885	22,650
Staff costs		
- Salaries	2,960,459	1,523,509
- Social security costs	240,826	172,201
- Other pension costs	272,570	179,039
Hire of other assets – operating lease	251,309	160,912

Notes to the Financial Statements continued

4. *Interest receivable and similar income*

	Year ended 31 December 2004 £	Year ended 31 December 2003 £
Bank interest receivable	88,128	53,277

5. Staff numbers

The average number of persons employed in the activities of the Group during the year, including directors, was as follows:-	Year ended 31 December 2004 No.	Year ended 31 December 2003 No.
Management	10	9
Administration	16	12
	26	21

6. Directors' remuneration and transactions involving directors

	Year ended 31 December 2004 £	Year ended 31 December 2003 £
Directors' remuneration:		
Emoluments	1,844,537	1,181,173
Pension contributions under money purchase scheme	153,511	90,736
Number of directors for whom benefits are accruing under:		
A money purchase scheme	6	3
Number of directors who:		
Exercised share options	Nil	Nil
Highest paid director:	£	£
Remuneration	450,407	228,543
Pension contributions under money purchase scheme	41,177	17,042

Notes to the Financial Statements continued

7. Taxation

a) Analysis of charge in year

	Year ended 31 December 2004 £	Year ended 31 December 2003 £
Current taxation:		
UK Corporation tax on the profit on ordinary activities for the year at 30% (2002: 30%)	576,148	247,731
Adjustment to corporation tax in respect of prior periods	(12,287)	(1,334)
	563,861	246,397
Deferred taxation		
Origination and reversal of timing differences	(1,052)	1,680
	562,809	248,077

b) Factors affecting tax charge for year

Profit on ordinary activities before tax	1,853,375	705,581
Profit on ordinary activities multiplied by standard rate of Corporation tax in the UK 30% (2002: 30%)	556,013	211,674
Effects of:		
Expenses not deductible & other permanent differences	17,620	34,604
Capital allowances less depreciation	1,260	1,453
Adjustments to tax charge in respect of previous periods	(12,287)	(1,334)
Current tax charge for the year	562,605	246,397

8. Dividends

	Year ended 31 December 2004 £	Year ended 31 December 2003 £
5% Preference dividends:		
Interim dividend paid (2003: £nil)	9,664	-
Proposed final dividend (2003: £nil)	10,186	-
Total	19,850	-

Notes to the Financial Statements continued

9. Tangible fixed assets

Group and Company	Computers £	Office Equipment £	Total £
Cost:			
1 January 2004	17,507	11,472	28,979
Additions	3,619	741	4,360
31 December 2004	21,126	12,213	33,339
Depreciation:			
1 January 2004	10,792	7,231	18,023
Charge for year	5,036	3,615	8,651
31 December 2004	15,828	10,846	26,674
Net book value:			
31 December 2004	5,298	1,367	6,665
31 December 2003	6,715	4,241	10,956

10. Investment in associated undertaking

	2004 £	2003 £
Shares at cost	249	249

Under an agreement dated 20 December 2002 the group purchased 249 Ordinary shares of £1 each in Aesop Capital Limited (Aesop) at par, representing 24.9% of the issued share capital. The Group appointed J.Welman as a director to the board of Aesop, which is a registered and operating in England. Aesop commenced trading on 6 January 2003 and its results for the year ended 2004 are immaterial.

11. Investment in subsidiary undertakings

The company's investment in its subsidiary undertakings at 31 December 2004 was:	2004 £	2003 £
At 1 January	470,300	435,300
Additions at cost during the year	-	35,000
At 31 December	470,300	470,300

Further details of the subsidiary's undertakings are disclosed in note 24

Notes to the Financial Statements continued

12. Debtors

Group	2004 £	2003 £
Due within one year:		
Other debtors	59,183	409,554
Prepayments and accrued income	1,158,822	678,180
	1,218,005	1,087,734

Company	2004 £	2003 £
Due within one year:		
Amount due from subsidiary undertakings	447,518	252,362
Other debtors	145,585	148,030
Prepayments and accrued income	347,526	355,226
	940,629	755,618

13. Creditors: Amounts falling due within one year:

Group	2004 £	2003 £
Amounts due to related undertaking	484,106	782,279
Corporation tax payable	606,305	249,713
Deferred taxation	1,293	2,345
Other creditors	12,133	150,701
Accruals and deferred income	1,188,869	135,421
Loan: due to related undertaking	352,000	-
Dividend Proposed	10,186	-
	2,654,891	1,320,459

Company	2004 £	2003 £
Amounts due to related undertaking	484,106	782,279
Corporation tax payable	116,514	126,997
Deferred taxation	1,293	2,345
Other creditors	6,727	39,749
Accruals and deferred income	257,066	31,901
Loan: due to related undertaking	352,000	-
Dividend Paid and Proposed	10,186	-
	1,227,892	983,271

Notes to the Financial Statements continued

14. Creditors: Amounts falling due greater than one year:

Group	2004 £	2003 £
Loan: due to related undertaking	300,000	-
	300,000	-

Company	2004 £	2003 £
Loan: due to related undertaking	300,000	-
	300,000	-

15. Called up share capital

	2004 £	2003 £
Authorised		
1,000,000 'A' Ordinary shares of 1p each (10,000 shares of £1 each)	10,000	10,000
111,100 'B' Ordinary shares of 1p each (1,111 shares of £1 each)	1,111	1,111
1,000,000 Non cumulative preference shares of £1 each	-	1,000,000
850,000 Cumulative convertible redeemable preference shares	850,000	-
	861,111	1,011,111
Issued and fully paid:		
10,000 'A' voting shares of £1 each	10,000	10,000
850,000 Non cumulative preference shares of £1 each	-	850,000
440,000 Cumulative convertible redeemable preference shares of £1 each	440,000	-
	450,000	860,000

The preference shares are redeemable at par by the company ten years after 9 August 2001 or at an earlier date in the event of a change of ownership. They carry no votes and a non-cumulative dividend right of 0.001p per share in any year in which a dividend is payable on the ordinary shares. On a winding up of the company, the preference shareholders have a right, in preference to any payments to the ordinary shareholders, to receive £1 per share.

The 'B' ordinary shares of £1 each, which will be issued on the exercise of the share option scheme, will rank pari passu with the 'A' ordinary shares of £1 each after issue.

In conjunction with the adoption of revised Memorandum & Articles of Association on 10 March 2004, the Company sub-divided each of its 'A' Ordinary Shares of £1 each into 100 Ordinary Shares of 1p each and each of its 'B' Ordinary Shares of £1 each into 100 'B' Ordinary Shares of 1p each.

15. Called up share capital continued

On 10 March 2004 the Company redeemed 300,000 Non Cumulative Preference Shares of £1 each at par. The remaining Non Cumulative Preference Shares were converted into Cumulative Convertible Redeemable Preference Shares of £1 each (Preferred Shares). The Preferred Shares carry a coupon of 5% which, to the extent that any of the Preferred Shares have not been converted previously, increases to 7.5% after 2 years. The Company redeemed a further 110,000 Preferred Shares at £1 each at par on the 15 July 2004. The Company may at any time redeem the Preferred Shares at par plus any arrears and accruals of dividend. In the event that the Preferred Shares have not been redeemed within 2 years, the holders have the option to convert the Preferred Shares into Ordinary Shares up to a maximum of 7.5% of the issued share capital.

On the 10 March 2004 the Company cancelled 150,000 preferred shares of £1 each comprised in the authorised but un-issued share capital of the Company.

16. Reserves

Group

	Capital Redemption Reserve	Profit & Loss Account	Investment in own shares	Total
At 1 January 2004	-	692,137	-	692,137
Retained profit for the year	-	799,951	-	799,951
Shares redeemed in the year	410,000	(410,000)	-	-
Acquisition of own shares	-	-	(652,000)	(652,000)
At 31 December 2004	410,000	1,082,088	(652,000)	840,088

Company

	Capital Redemption Reserve	Profit & Loss Account	Investment in own shares	Total
At 1 January 2004	-	549,859	-	549,859
Retained profit for the year	-	180,285	-	320,144
Shares redeemed in the year	410,000	(410,000)	-	-
Acquisition of own shares	-	-	(652,000)	(652,000)
At 31 December 2004	410,000	320,144	(652,000)	78,144

On 10 March 2004 The Equity Partnership Employee Benefit Trust (EBT) purchased 125,800 ordinary shares of 1p each in the company. These shares are being held for the benefit of the employees of the group.

Details of the EBT are given in Note 20.

Notes to the Financial Statements continued

17. Reconciliation of movements in shareholders' funds

	2004 £	2003 £
Group		
Profit for the year	799,951	361,954
Shares redeemed in the year	(410,000)	-
Investment in own shares	(652,000)	-
Net (decrease)/increase in shareholders funds	(262,049)	361,954
Shareholders' funds at 1 January	1,552,137	1,190,183
Shareholders' funds at 31 December	1,290,088	1,552,137
Shareholders' funds at 31 December are split between		
Equity interests	850,088	702,137
Non-equity interests	440,000	850,000
	1,290,088	1,552,137

	2004 £	2003 £
Company		
Profit for the year	180,285	245,705
Shares redeemed in the year	(410,000)	-
Investment in own shares	(652,000)	-
Net (decrease)/increase in shareholders funds	(881,715)	245,705
Shareholders' funds at 1 January	1,409,859	1,164,154
Shareholders' funds at 31 December	528,144	1,409,859
Shareholders' funds at 31 December are split between		
Equity interests	88,144	559,859
Non-equity interests	440,000	850,000
	528,144	1,409,859

18. Share options

The company has a share option scheme under which options for 711 'B' Ordinary shares of £1 each have been granted on 30 November 2001. The options, which are dependent on the future performance of the group, have an exercise price of £1. The options will expire one year after the vesting events have been met and agreed by the Board. No further options have been issued.

19. The Equity Partnership Employee Benefit Trust

The Urgent Issues Task Force (UITF) of the Accounting Standards Board issued UITF 37: Purchases and sales of own shares in October 2003 and UITF 38: Accounting for ESOP Trusts in December 2003. UITF 37 requires that consideration paid for an entity's own shares should be deducted from equity rather than being shown as an asset on the balance sheet. UITF 38 requires that a similar treatment be made in respect of own shares held within an ESOP trust.

The Equity Partnership Employee Benefit Trust (EBT) was approved by the members of the company on 10 March 2004. The EBT comprises a Trust Deed establishing an Unapproved All Employee Share Ownership Plan. All eligible employees of the group are entitled to participate subject to various provisions. The shares are held by an Independent Trustee and dividends are payable on the Ordinary Shares of the company held in the Trust.

Pursuant to the EBT the Board may award free shares or options to employees to give them the opportunity to participate in the growth of the Company. The EBT has provisions for any options or grants of shares to contain various performance criteria agreed by the Independent Directors of the Company (non EPL Staff). Any options will vest on a change of control or listing of the company and subject to any performance criteria and other conditions agreed by the Independent Directors can be vested in the employees after two years from the grant. If the criteria have not been met at that time the options can vest at any time thereafter subject to a ten year limit.

As at 31 December 2004 no options have been allocated over the shares held in the EBT.

20. Financial commitments

	31 December 2004 £	31 December 2003 £
Group		
Expiry date – within one year		
- Land and building	87,500	-
Company		
Expiry date – within one year		
- Land and building	87,500	-

The Group has a rental lease agreement with Brit Group Services Limited with a six month notice period.

21. Notes to the statement of cash flows

	Year ended 31 December 2004 £	Year ended 31 December 2003 £
(a) Reconciliation of operating profit to net cash inflow from operating activities:		
Operating profit	1,853,375	705,581
Depreciation	8,651	7,764
Increase in debtors	(130,271)	(92,785)
Increase in creditors	616,705	703,565
Net cash inflow from operating activities	2,348,470	1,324,125
(b) Financing		
Redemption of preference shares	(410,000)	-
	(410,000)	-
(c) Movement in cash		
Balance at start of period	1,898,310	724,722
Increase in cash	1,717,187	1,173,588
Balance at 31 December	3,615,497	1,898,310
(d) Purchase of subsidiary undertaking		
Cash at bank and in hand	-	1,000
Minority shareholders interests	-	(300)
Satisfied by cash	-	700

Epic Equity Advisors Limited (subsidiary of Epic Specialist Investments Limited) undertaking acquired during 2003 contributed £1,003 to the group's net operating cash flows in that year.

22. Pensions

The Group provides a non contributory money purchase pension scheme for all its employees. The pension cost charge represents contributions payable by the Group and amounted to £272,570 (2003:£179,039). At 31 December 2004 an amount of £Nil (2003:£Nil) is included in the amounts due to a related undertaking in respect of pension contributions.

23. Related party transactions

The Equity Partnership Investment Company PLC (EPIC) holds 29.9% of the company's ordinary share capital. While EPIC has a shareholding in excess of 20% of the company's shareholding it is entitled to appoint a director of the company. At the year end EPIC had not made such an appointment and had indicated that it has no current intention to make the appointment.

The group has an agreement with EPIC as the investment manager to the EPIC fund. The group receives a management fee of 1% per annum payable quarterly in arrears on 31 October, 31 January, 30 April and 31 July each year. At 31 December the group had earned an amount of £687,058 (2002 - £698,836) of which an amount of £115,000 (2003 - £114,000) was due to be included in the fee to be raised on 31 January 2004.

In the event of the EPIC fund outperforming an agreed benchmark for the investment performance then a performance fee is receivable by the group. No such fee has been receivable as at 31 December 2004.

Since 31 December 2004 Mr Welman resigned as a director of EPIC and has waived his right to any fee from EPIC for his services. Mr Welman holds 50,000 Income and 50,000 Capital shares in EPIC. As a 10% shareholder in the company with options over a further 2% of the company Mr Welman is interested in the fees payable by EPIC to the group.

Mr Welman who resigned on 27 May 2004 as a director of Brit Insurance Holdings PLC (Brit), which increased its share ownership in the company's ordinary share capital on the 10 March 2004 to 40.92% from 34.1%. Brit and its subsidiaries have investment advisory and management agreements with the group and he is therefore interested in the fees earned under these contracts as set out below.

				Fees outstanding	
Investment Advisory	Commenced	Fund at 31 December 2004 £m	Fee charged per annum %	31 December 2003 £	31 December 2003 £
Brit	2001		0.125	9,200	8,200
Investment Management					
Brit Syndicates Limited	2001	666	0.18	102,800	76,000
Brit Insurance Holdings	2002	-	0.15/0.125*	-	3,300
Masthead Insurance Underwriting Limited	2002	185	0.15/0.125*	19,600	16,800
Brit Insurance Limited	2002	656	0.15/0.125*	69,400	26,500

*The investment management fees were reduced on 1 October 2004 from 0.15% to 0.125%

On the 1 January 2004 the group entered into new agreement to pay an annual fixed fee of £175,000 and £4,000 per annum per employee in settlement of all operational and office accommodation costs to Brit. Previously it was agreed to pay £8,500 per annum per employee for operational costs with no rental charge for the office accommodation. At the balance sheet date the group owed £ 78,431 (2003:£52,434) in respect of this agreement.

23. Related party transactions continued

The group has an agreement with Brit Group Services Limited (BGS), a wholly owned subsidiary of Brit, whereby BGS provides employment facilities to the group's employees. In addition BGS pays some costs for the group as they fall due. All costs are recharged by BGS on a monthly basis. These costs totalled £3,377,965 (2003:£2,863,221.) during the year. At the year end the group owed BGS £373,349 (2003: £683,578) in respect of salaries and £110,757 (2003:£98,701) for other costs. BGS also purchased fixed assets for the group and these were recharged at cost. At 31 December 2004 the group owed BGS £ Nil (2003:£Nil) in respect of these assets.

On 4 March 2004 the Company entered into a loan agreement of £700,000 with Brit Insurance Holdings PLC. The Company has drawn down £652,000 against this agreement. The loan is repayable in two equal instalments on 31 March 2005 and 31 March 2006. Interest is payable at 2% over 6 month LIBOR on 5 March 2004 and resets on 1 April 2005.

Benfield Group Plc (Benfield) sold its 20% of the ordinary share capital of the company on 10 March 2004. At 1 January 2004 Benfield had subscribed for 850,000 (2003:850,000) Preference shares at par however at 31 December 2004 440,000 Preference shares were outstanding. Under the agreement Benfield has the right to appoint a director to the company. Mr J Whiter was appointed to act in this capacity on 22 July 2003 and resigned on 10 March 2004. No directors fees are payable in respect of the Benfield appointee. In addition Benfield has agreed to place certain funds under the management of EPAM. At the balance sheet date US$36.8 million (2003:US$50.1m) had been placed; EPAM charges a fee of 0.20% per annum on these fees. At 31 December 2004 EPAM was owed £9,600 (2003: £14,000) in respect of these fees.

24. Details of the company's subsidiary undertakings

The company's subsidiary undertakings at 31 December 2004 were:

	Class of shares	Percentage of shares held by parent company	Subsidiary
Epic Asset Management Limited (EPAM)	Ordinary	70%	-
	Preference	100%	-
Epic Specialist Investments Limited (ESI)	Ordinary	51%	-
	Preference	100%	-
Epic Equity Advisors Limited (EEA)	Ordinary	-	70%
The Equity Partnership Employee Benefit Trust Company Limited	Ordinary	100%	-

EPAM and ESI are investment management companies regulated by The Financial Services Authority. The subsidiary companies are registered in England.

All the subsidiary companies are included in the group's consolidated statements

As at the balance sheet date the company was owed a total £447,518 (2003: £252,362) from the subsidiary companies. Epic Asset Management Limited (EPAM) owed £203,048 (2003:£105,525) whilst Epic Specialist Investments Limited (ESI) owed £244,470 (2003:£149,837) to the company for various operating expenses

24. Details of the company's subsidiary undertakings continued

EPAM and ESI are within the VAT group and as at the year-end the subsidiaries had an outstanding VAT liability of £220,323 (2003:£109,877) to the company.

ESI acquired a 70% of Simon Shaw Advisors Ltd on 23 December 2003 and changed the name to Epic Equity Advisors Ltd (EEA). ESI has an agreement with EEA whereby EEA will provide its services to ESI. As at 31 December 2004 EEA had provided £941,251 (2003:£170,986) of services to ESI of which £183,600 was outstanding (2003:£170,986).

ESI has an arrangement with EEA whereby it will act as paying agent for EEA paying all expenses as and when they fall due. During the year the company incurred £591,535 (2003:£123,837) of expenses and as at 31 December 2004 £102,980 (2003:£4,751) is outstanding and is to be reimbursed in future periods

25. Post balance sheet event

The company was notified on the 17 February 2005 that the shareholders of the EPIC Brands Plc had *decided to close the fund and appoint liquidators. ESI will receive for the period from 17 February 2005 to 31* December 2005 a one-off termination fee of £354,971.91.