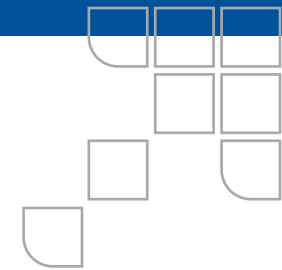




The Equity Partnership  
Investment Company PLC

## Interim Report & Unaudited Accounts

31 January 2005



## Chairman's Statement

I am pleased to report that over the first six months of our financial year your Company's assets and share price have both performed strongly. The FTSE All Share Index has risen by 11.4% over the period compared with the return on our equity portfolio of 20.1%. This is a continuation of the UK equity manager's outstanding relative performance since the Company was launched in August 2001.

Over the six months under review the Capital Share's NAV has increased by 11.1%. This has been mirrored by a share price performance which has shown an appreciation of a little under 11.5% over the period and since the period end the share price has continued to recover. Income shares have also performed strongly, rising 7.5% over the six months.

Towards the end of the period some profits have been taken within the UK equity portfolio and this together with a sale of the CSFB Zero Coupon Bond has resulted in the Company's cash

balances rising significantly. The Board concluded that it was in the best interests of both Capital and Income Shareholders to redeploy the proceeds from the zero bond sale (which was originally bought as protection for the CDO) into other assets in order to improve the total portfolio return. Some of this liquidity has already been committed to the unquoted investments detailed within the manager's report. The private equity team have access to a range of interesting cash generative businesses of a size which remains below the radar of most of the major investors in this sector. It is therefore possible to commit funds at relatively low valuations. Both the completed deals and those under current consideration also involve significant tranches of mezzanine finance which promises to provide the high levels of income required to fulfil the Directors' objective of maintaining a healthy income surplus.

The manager continues to retain a nil allocation to bond markets believing that there is little opportunity to

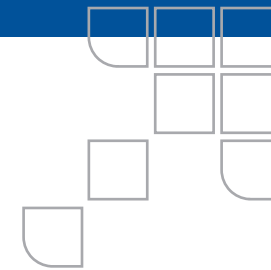
generate the returns required to meet the income and growth objectives of the Company. As was communicated in the last quarterly newsletter, as a consequence of further write-downs within the underlying collateral, the Sunrise CDO has been written down. Although there is excess income being generated and a possibility that there could at a later stage be value remaining within the structure, the manager believes it prudent to value Sunrise at zero.

EPIC's structure does allow for a surplus of income over the life of the Company and our continuing focus on this area offers comfort both to Income Shareholders that their dividend entitlements can be met and to Capital Shareholders that any surplus allows the manager greater flexibility to pursue growth. Moreover any income in excess of that required to meet the obligations to Income Shareholders is ultimately payable to Capital Shareholders, and the Board continues to take the steps which it believes to be necessary to generate

adequate income to meet the requirements of Income Shareholders.

EPIC's strategic diversification has provided a mix of asset classes, each with its own distinct performance and risk characteristics. As was the initial intention, this mix of assets can and will continue to be adjusted by the Board and the manager as necessary.

At the time of writing the second half of the Company's financial year has got off to a promising start and the Board remain confident that the recent performance trend can be continued.



## Manager's Report

Whilst interest rates around the world have moved higher in response to earlier gains in indicators of production and inflation, the accompanying moderation in house price increases and sales activity led UK Gilt yields lower in the second half of 2004. Although EPIC's bond exposure has remained limited through this time, the flat yield curve slope has offered little incentive to take on interest rate and duration risk and corporate bonds have continued to offer little additional value. Given that expectations for further rises in UK Base rates have dissipated, an uncertain outlook for the property market and consumer sentiment suggests that Gilt yields are close to the bottom of their trading range. As such we believe that the Fund's total return objectives are best met maintaining a limited allocation to bonds until opportunities arise to reinvest in corporate and government bonds at higher yields.

In the last financial year, due to continued deterioration in the underlying securities, EPIC regrettably but prudently wrote-off its investment in Sunrise CDO I Ltd. ("Sunrise"), a US\$300 million Collateralised Debt Obligation ("CDO") structure. Sunrise was secured on static and largely illiquid fixed and floating rate debt securities issued predominantly by US issuers. The write-off has been reflected in the reported Net Asset Value of EPIC since the end of May 2004. Indeed the write-off has been the ultimate consequence of a series of write-downs reflecting a continued deterioration in the underlying portfolio which consisted of 25% Residential Mortgage Backed Securities, 8% Commercial Mortgage Backed Securities, 33% Asset Backed Securities, 17% CDOs and 17% Corporate Securities.

The investment in the CDO was 75% protected by an investment in a zero coupon senior unsecured Note issued by Credit Suisse First Boston (USA)

Inc. which was due to mature on 14 November 2013. The Board decided that it would be in the best interests of EPIC's shareholders to liquidate this zero coupon Note earlier and to re-invest the proceeds in assets which would generate a greater return over the same period. Accordingly the zero coupon was liquidated in October and raised £5.99m - which was in line with its book value at that time.

As we stated in our last Annual Report, the write-down in Sunrise can be attributed to difficult conditions in the CDO and Asset Backed Securities markets in the US, in particular manufactured housing, franchise loans and commercial vehicles. In the 2003 Annual Report we drew attention to a post balance sheet default in one of the underlying securities within the CDO which led to a partial write-down of EPIC's investment (Note 22 of the 2003 Annual Report). Subsequent deterioration in the portfolio has thwarted the attempts of the asset manager to dispose of EPIC's interest in the CDO and have led to the investment being written down to zero as at the end of May.

The write-down reflected the current value of the underlying securities in the opinion of the asset manager. It is possible that over time excess interest generated by these investments could lead to a write-back, however, the likelihood or timing of this is uncertain. Consequently, we do not believe that it would be worth disposing of our investment in Sunrise but prefer instead to carry it (even at Nil value) so that in the event of any future recovery, it would be for the benefit of EPIC's shareholders. EPIC Asset Management continues to monitor the value of the CDO on a monthly basis.

UK Equity markets performed well during the period. The FTSE All Share Index rose by 11.4%. EPIC spent most of the half year with around 45%

of its gross assets invested in UK equities but during January the large FTSE 100 Index constituents - BT and Lloyds TSB - were sold. Earlier disposals of Abbot Group, Davis Service Group and Vedanta made way for new holdings in advertising group Aegis, foam extruder British Vita, port operator Simon Group and miner UK Coal. Encouraged by good trading statements additions were made to the holdings of Diploma, DTZ, Invensys and Macro 4.

The past six months have seen significant activity within the private equity portfolio. EPIC has made two new investments into leveraged and cash generative Management Buy Outs. The first of these was a £300,000 investment into ILLACE Holdings Ltd. The business has a number of care homes for individuals with learning disabilities across South and Central England. It possesses eight homes, all of which are freehold properties, and has an EBITDA of £825k. With a consistent record of sales growth driven by opening and filling new homes, the manager believes this provides a strong opportunity for significant value creation.

In early January, EPIC completed the acquisition of both Masterplug and British General. These businesses are Distributors of electrical and home entertainment accessories to the UK Retail and Wholesale markets respectively. The Company has experienced significant growth recently, and is now looking to extend its operation internationally. EPIC invested £4.175m in a combination of mezzanine and shareholder loans to back the Operations Director as the new CEO and integrate the two businesses into one efficient operation.

The current portfolio continues to perform well. E-media-c has undergone some operational and financial restructuring over the past six months. The prospects for a successful exit remain good, and we are looking forward to better news in 2005.

Blueheath continues to win new customers, and is progressing well towards profitability. Pharmacy 2U is now in a strong position to capitalise on the government's confirmation of rolling out the NHS IT program throughout this year. Ryness has opened another new electrical store in Fulham, and the Board have appointed a new CEO, whilst the previous CEO has become Chairman.

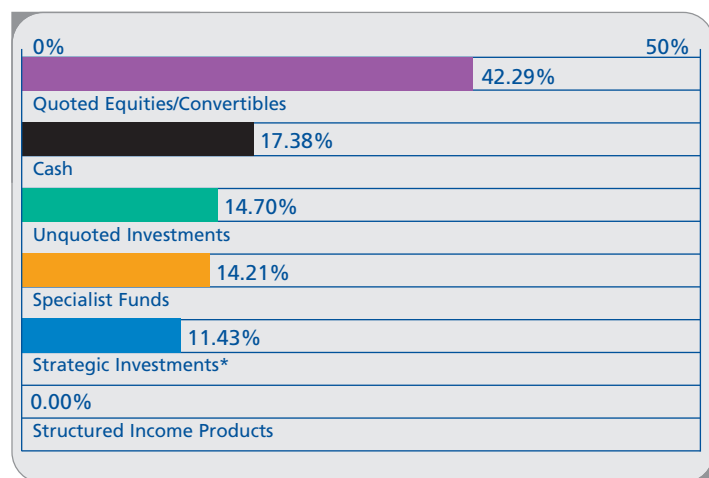
There remains a strong pipeline of opportunities in the private equity sector, and we envisage continued high levels of activity in the coming months.

We have had an active period in the specialist funds section of the portfolio with additional tranches of the Japanese specialist housing fund being drawn down following investment of the initial monies, and the ongoing liquidation of the Intrinsic Value Investment Trust. Cash is also being returned by EPIC Brands following a period in the market for home and personal care products when it has not been possible to commit the monies raised at acceptable valuations. This has caused the discount to narrow significantly over the period.

The Equity Partnership Limited (EPL), the Company's fund manager in which EPIC has a 29.9% shareholding, continued to make useful progress over the final quarter of 2004. Funds under management continued to increase both within EPIC Asset Management, the bond management business and EPIC Specialist Investments which launched a successful rights issue for their environmental fund. Fixed income performance was outstanding in 2004 and the Management are confident of attracting further new mandates in the current year. After a difficult 2003/04, Strand Partners has bounced back well and at the calendar year end with 9 months of their financial year completed, the Company has seen a substantial turnaround in its financial performance.

## Asset Allocation

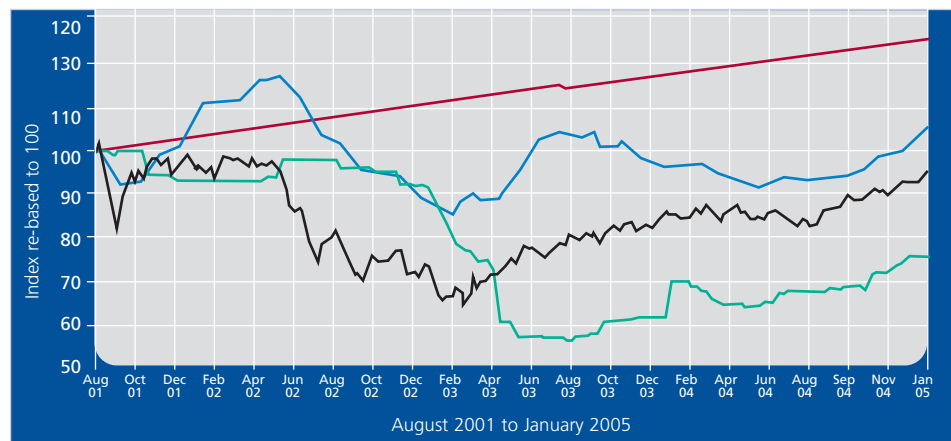
As at 31 January 2005



\* The Equity Partnership Limited, Strand Partners Limited and EPIC Specialist Investments Limited

## Share Price and NAV Performance vs Benchmark

(from 17 August 2001 to 31 January 2005 - re-based to 100)



Source: Bloomberg

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

## Statement of Operations and Changes in Net Assets

For the period 1 August 2004 to 31 January 2005 (unaudited)

	1 August 2004 to 31 January 2005 (unaudited)		1 August 2003 to 31 January 2004 (unaudited)		1 August 2003 to 31 July 2004 (audited)	
	£000's	£000's	£000's	£000's	£000's	£000's
<b>Income:</b>						
Interest receivable	14		1		4	
Investment income	1,268		1,027		1,689	
<b>Total income</b>		<u>1,282</u>		<u>1,028</u>		<u>1,693</u>
<b>Expenses:</b>						
Amortisation-issue costs of income shares	(32)		(32)		(65)	
Loan Interest	(464)		(445)		(904)	
Investment management fees	(354)		(351)		(630)	
Irrecoverable VAT	(78)		(83)		(159)	
Other administration fees and expenses	(213)		(171)		(494)	
Directors' fees	(28)		(20)		(44)	
Audit fees	(5)		(8)		(15)	
<b>Total expenses:</b>		<u>(1,174)</u>		<u>(1,110)</u>		<u>(2,311)</u>
<b>Net investment income</b>		108		(82)		(618)
<b>Gains on investments</b>						
Net realised gain on sale of investments	2,119		2,053		3,915	
Movement in unrealised gain/(losses) on revaluation of investments	2,640		(3,675)		(5,483)	
<b>Gains/(Losses) on investments</b>		<u>4,759</u>		<u>(1,622)</u>		<u>(1,568)</u>
<b>Net profit/(losses)</b>		4,867		(1,704)		(2,186)
<b>Dividends in respect of income shares</b>		(1,118)		(1,084)		(2,169)
<b>Total gains/(losses) transferred to reserves</b>		<u>3,749</u>		<u>(2,788)</u>		<u>(4,355)</u>
<b>Basic earnings per capital share (pence)</b>		10.85p		(8.07)p		(12.60)p
<b>Diluted earnings per capital share (pence)</b>		10.82p		-		-

Notes

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## Balance Sheet

As at 31 January 2005

	31 January 2005 (unaudited)		31 January 2004 (unaudited)		31 July 2004 (audited)	
	£000's	£000's	£000's	£000's	£000's	£000's
Notes						
<b>Non-current assets</b>						
Available-for-sale investments		71,404		69,786		68,584
<b>Current assets</b>						
Debtors and prepayments	1,203		360		538	
Cash at bank and in hand	308		110		26	
	<u>1,511</u>		<u>470</u>		<u>564</u>	
<b>Current liabilities</b>						
Creditors and accrued expenses	(677)		(935)		(1,062)	
Dividends in respect of income shares	(559)		(542)		(543)	
	<u>(1,236)</u>		<u>(1,477)</u>		<u>(1,605)</u>	
<b>Net current (liabilities)/assets</b>		275		(1,007)		(1,041)
<b>Long term liabilities</b>						
4 Loan Interest	(2,494)		(1,841)		(2,138)	
4 Bank loan	(13,750)		(13,750)		(13,750)	
5 Interest rate swap liability	(314)		(485)		(185)	
6 Income shares	(20,444)		(20,380)		(20,413)	
		(37,002)		(36,456)		(36,486)
<b>Total assets less liabilities</b>		<u>34,677</u>		<u>32,323</u>		<u>31,057</u>
<b>Represented by:</b>						
7 Share Capital		3,456		3,456		3,456
Share Premium		30,240		30,240		30,240
8 Reserves as at 31 January 2005		981		(1,373)		(2,639)
		<u>34,677</u>		<u>32,323</u>		<u>31,057</u>
<b>Net asset value per capital share</b>		100.33p		93.52p		89.86p
<b>Net asset value per income share</b>		100.00p		100.00p		100.00p

## Statement of Cashflow

For the period 1st August 2004 to 31st January 2005

	1 August 2004 to 31 January 2005 (unaudited)	1 August 2003 to 31 January 2004 (unaudited)	1 August 2003 to 31 July 2004 (audited)
	£000's	£000's	£000's
<b>Operating activities</b>			
Dividends received	997	649	1,317
Bond Interest received	242	168	125
Bank Interest and commission received	53	1	5
Expenses paid	(700)	(679)	(1,333)
Payments under interest rate swap agreement	(109)	(151)	(314)
<b>Net cash flows from operating activities</b>	<u>483</u>	<u>(12)</u>	<u>(200)</u>
<b>Investing activities</b>			
Purchase of investments	(32,933)	(38,693)	(73,103)
Sale of investments	33,833	39,843	75,441
<b>Net cash flows from investing activities</b>	<u>900</u>	<u>1,150</u>	<u>2,338</u>
<b>Financing activities</b>			
Dividends paid	(1,101)	(1,069)	(2,153)
<b>Net cash flows from investing activities</b>	<u>(1,101)</u>	<u>(1,069)</u>	<u>(2,153)</u>
<b>Increase in cash</b>			
Cash and cash equivalents at start of period	26	41	41
<b>Cash and cash equivalents at end of period</b>	<u>308</u>	<u>110</u>	<u>26</u>

## Statement of Changes in Equity

For the period 1st August 2004 to 31st January 2005

	31 January 2005 (unaudited)	31 January 2004 (unaudited)	31 July 2004 (audited)
	£000's	£000's	£000's
Notes			
Net assets brought forward	31,057	34,696	34,696
Net profit/(losses) for the period	4,867	(1,705)	(2,186)
3 Dividends payable	(1,118)	(1,084)	(2,169)
	<u>34,806</u>	<u>31,907</u>	<u>30,341</u>
<b>Movement in hedge reserve:</b>			
5 Movement in net unrealised (loss)/profits on revaluation of cash flow hedges	(129)	416	716
<b>Net assets carried forward</b>	<u>34,677</u>	<u>32,323</u>	<u>31,057</u>

## The Equity Partnership Investment Company PLC

Notes to the interim statement (unaudited)

### 1 Accounting policies

The interim financial statements have been prepared using accounting policies set out in the Company's 2004 annual reports and accounts and in accordance with International Financial Reporting Standards.

### 2 Company

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

### 3 Dividends

The Income Shares have received the following dividends during the period.

Dividend date	Amount per share	£000's
31 July 2004	2.69475 p	559
30 October 2004	2.69475 p	559
		<u>1,118</u>

A dividend was declared at 2.69475p per Income Share on 14 January 2005. This was paid on 25 February 2005.

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

### 4 Bank loan

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

	£000's
Bank loan	13,750
Interest charged in period	2,494
	<u>16,244</u>

## The Equity Partnership Investment Company PLC

Notes to the interim statement (unaudited)

### 5 Derivative financial instruments

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

	Interest rate swap liability £000's
Fair value of derivative financial instruments at start of period	(185)
Movement in unrealised loss on revaluation of cash flow hedges	<u>(129)</u>
Fair value of derivative financial instruments at 31 January 2005	<u>(314)</u>

#### Cash flow hedges

As of 31 January 2005, the Company had an interest rate swap in place with a notional amount of £13,750,000 whereby it pays a fixed rate of 5.65% and receives LIBOR plus 1.05% on the notional amount. The SWAP is used to protect the bank loan from exposure to changes in interest rates.

The SWAP covers 100% of the bank loan outstanding as of 31 January 2005 and expires on 20 February 2007, the same as the bank loan. An unrealised loss of £129,000 is recognised in equity representing the movement in the estimated fair value of this swap at 31st January 2005.

### 6 Income shares

	£000's
At start of period 1 August 2004	20,413
Amortisation of income shares issue costs	<u>31</u>
<b>Balance at 31 January 2005</b>	<b><u>20,444</u></b>

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

## The Equity Partnership Investment Company PLC

Notes to the interim statement (unaudited)

### 7 Share capital

At 31 January 2005	Number of Shares in issue
Income shares	20,736,333
Capital shares	34,561,666

Capital shareholders who subscribed under the placing were issued with warrants on the basis of one warrant for every five capital shares subscribed. At 31 January 2005 there are 6,912,333 warrants in issue. The warrants have the right to convert into capital shares at the price of £1 per share on 30 November in any of the years 2002 to 2006 inclusive.

The diluted NAV calculation on the Statement of Operations and Changes in Net Assets assumes that all the warrant holders convert their warrants for capital shares at £1 each. This would increase the number of capital shares in issue to 41,473,999 and the pro forma net assets available to the capital shareholders to £36,792,582.

### 8 Reserves

	Profit and Loss Reserve £000's	Hedge Reserve £000's
<b>Reserves at start of period</b>	(2,454)	(185)
Net profit for the period	4,867	-
Movement in net unrealised loss on revaluation of cash flow hedges	-	(129)
Dividends paid and proposed	(1,118)	-
<b>Reserves at 31 January 2005</b>	<b><u>1,295</u></b>	<b><u>(314)</u></b>

## Investment Portfolio as at 31 January 2005

For the period 1 August 2004 to 31 January 2005

Top 15 Holdings based on Market Value	% of Total investments
Equity Partnership Limited*	7.94
Diploma PLC	6.80
Hamsard 2765 Ltd DDB Series A 31/12/04	4.36
EPIC Brand Investments	4.15
Gleeson (MJ) Group Plc	3.70
Strand Partners Limited	3.49
DTZ Holdings PLC	3.44
VT Group Plc	3.18
Blueheath Holdings Plc	3.02
Heywood Williams Group PLC	2.97
Pinnacle-psg Limited	2.79
Jupiter Hyde Park Hedge Fund	2.77
Uniq PLC	2.46
Invensys PLC	2.19
Luminar plc	1.71
<b>Total of 15 largest investments</b>	<b><u>54.97</u></b>

\* Directors' Valuation

## Company Information

### Directors

DC McCrickard, Chairman  
DL Adamson  
V Campbell  
M Richardson  
JMP Welman

### Secretary

P Scales

### Registered Office

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

### Administrator and Registrar

Barings (Isle of Man) Limited  
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Athol Street  
Douglas  
Isle of Man IM99 1PP

### Auditors

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Douglas  
Isle of Man IM1 1AZ

### Investment Manager

The Equity Partnership Limited  
55 Bishopsgate  
London EC2N 3AS

### Stockbroker

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Beaufort House  
15 St Botolph Street  
London EC3A 7QR

### Solicitors

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99 Bishopsgate  
London EC2M 3XF

### Bankers

Barclays Bank PLC  
54 Lombard Street  
London EC3 9EX