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# GRAPHITE ENTERPRISE TRUST PLC

Report and Accounts 2003



  
GRAPHITE CAPITAL

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## Company Objective

To provide shareholders with long term capital growth primarily through investment in unquoted companies both directly and through specialist funds.

## Summary of the Year

Net assets per share rose by 9.9%

Closing shareholders' funds were £258.7 million

Realisations from the investment portfolio totalled £34.5 million

Additions to the investment portfolio totalled £35.0 million

## Financial Results

Attributable to ordinary shareholders	2002	2003	Change
Net assets per share	259.2p	284.9p	9.9%
Share price	206.5p	222.3p	7.6%
Dividend per share	4.3p	4.3p	-

## Chairman's Statement

### Performance

In 2003 the net asset value per share of Graphite Enterprise Trust rose by 9.9% and its share price by 7.6%. These increases compare with a 16.6% increase in the FTSE All-Share Index. Over the last two years, however, the FTSE All-Share Index has fallen by 12.5%. This compares with an increase of 1.6% and a fall of 2.7% in the Enterprise Trust's net asset value per share and share price respectively.

The discount of the share price to the underlying net asset value rose during 2003 from 20.3% to 22.0%, having risen from 18.5% in the previous year. At the time of writing the share price has risen by 6.9% since the year end compared with a fall in the FTSE All-Share Index of 0.1%. Assuming an unchanged net asset value this has the effect of reducing the discount to 16.9%.

As its assets are held primarily in unquoted investments the Enterprise Trust is unlikely to perform in line with quoted markets over short periods and its net asset value is likely to be less volatile. It is therefore unsurprising that having outperformed in 2002 it underperformed in 2003.

The objective of the Enterprise Trust is to provide shareholders with long term capital growth. Over the unsettled period of the last five years its net asset value per share has risen by 6.1% and its share price has fallen by 15.3% compared with a fall of 17.4% in the FTSE All-Share Index. Longer term performance has been strong, with increases of 291.0% in the net asset value and 213.0% in the share price in the ten years to 31 December 2003, compared with increases in the FTSE All-Share Index and the UK Retail Prices Index of 31.2% and 29.3% respectively.

### Portfolio movements

The rise in the Enterprise Trust's net asset value per share in 2003 reflected an overall increase in the investment portfolio of 13.1% reduced by the effect of holding substantial cash or near-cash holdings throughout the year.

The unquoted portfolio increased in value overall by 10.3% during the year, benefiting from gains both from direct investments and from investments in funds. A small proportion of the investment portfolio is still held in quoted investments and these had a good year, rising in value by 30.5%.

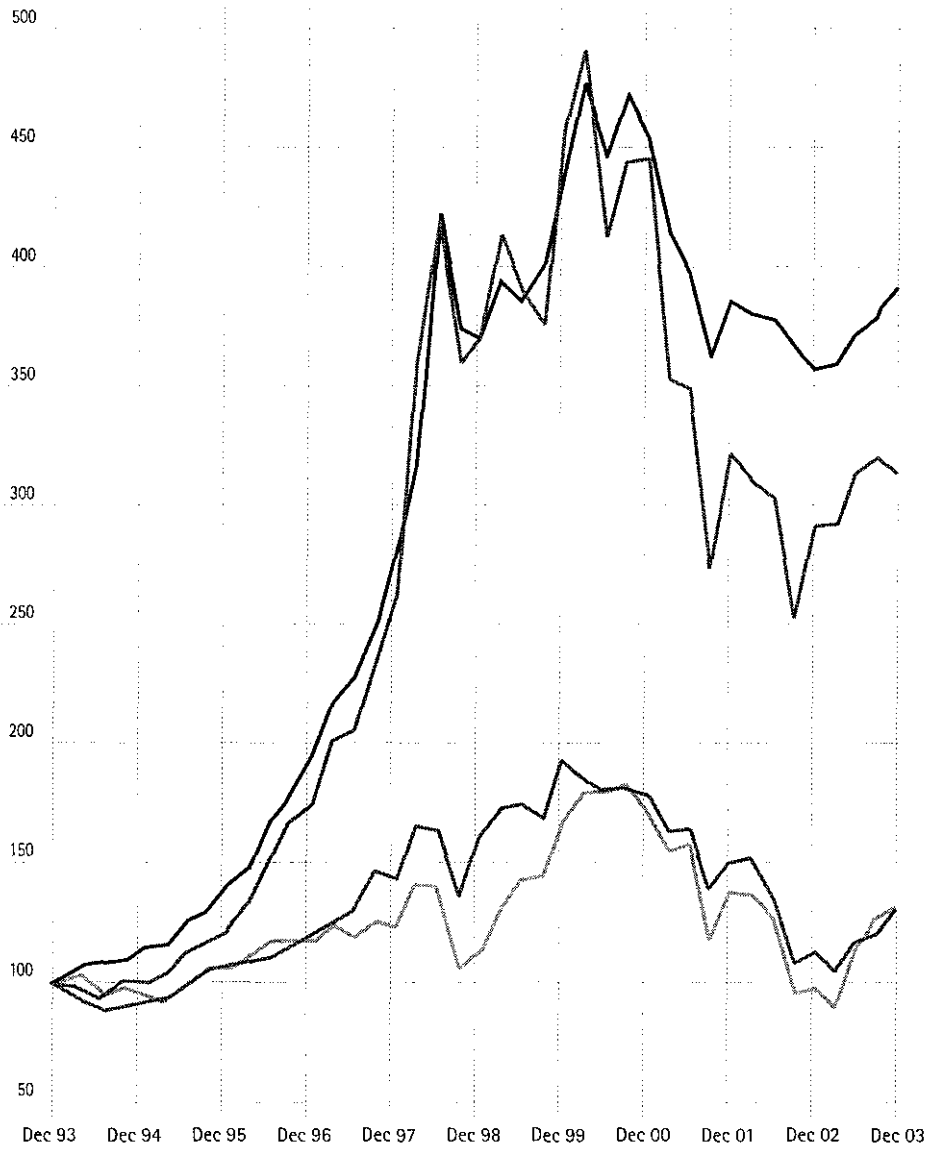
New investments and disposals were roughly in balance in the investment portfolio as a whole, with net purchases in the unquoted portfolio being funded by disposals from the quoted portfolio. At the year end 59.2% of the investment portfolio was held in direct unquoted investments, 28.0% in funds investing in unquoted companies and 12.8% in quoted investments. Movements in the portfolios during the year and their performance are discussed in greater detail in the Manager's Review.

In 2002 the Enterprise Trust benefited in falling markets from holding substantial cash and near-cash holdings (referred to from this point as "net liquid holdings"). Conversely, in the rising market of 2003 relative performance was adversely affected. Net liquid holdings averaged approximately 28.1% of net assets during the year.

### Balance Sheet

The proportion of the Enterprise Trust's assets held in the investment portfolio rose during the year from 69.5% to 73.5%, while that in net liquid holdings fell correspondingly from 30.5%

### Ten Year Performance 1993 - 2003



- Enterprise Trust net asset value per share
- Enterprise Trust Share Price
- FTSE All-Share Index
- FTSE SmallCap Index

to 26.5%. This was primarily the result of the increase in the value of the investment portfolio. The unquoted portfolio represented 64.1% of net assets at the year end compared with 59.9% a year earlier. The quoted portfolio was little changed at 9.4%.

Commitments to the unquoted portfolio rose substantially during the year primarily as a result of the commitment of £50 million to Graphite Capital Partners VI in April 2003. At the end of the year total commitments were £101.8 million compared with net liquid holdings of £69.7 million and commitments a year earlier of £54.4 million. This is the first time for a number of years that commitments have exceeded net liquid holdings. It is likely that these commitments will be drawn down over the next three or four years and that they will be at least partly funded by realisations. If, however, they had all crystallised at the end of 2003 the Enterprise Trust's gearing would have been 10.9%.

#### Share buy backs

The discount of the share price to net asset value was consistently lower in 2003 than it had been in the previous year, fluctuating between 17.7% and 22.0% having reached a peak of 32.8% in 2002. We bought back no shares in the year. When shares are available in the market in reasonable volumes and at a high discount to net assets, we shall consider further purchases while maintaining sufficient liquidity for existing commitments and for making new investments.

#### Statement of Total Return and Dividend

The total return for the year was £27.2 million or 30.0p per share. This represented 11.6% of opening shareholders' funds. The capital return was £22.8 million or 25.1p per share, and the net revenue attributable to shareholders was

£4.4 million or 4.9p per share. The net revenue attributable to shareholders was 7.6% higher than in the previous year. This primarily reflected higher dividend and interest income. The overall management charges from Graphite Capital have not changed as a result of the commitment to Graphite Capital Partners VI and remain at 1.5% of gross assets.

In 2003 net revenues would have fallen by 17.8% to 3.7p per share if a large dividend had not been received from Maplin, one of the Enterprise Trust's largest portfolio companies. This has enabled the Board to recommend an unchanged dividend of 4.3p per share.

#### Investors and Savings Schemes

The number of investors in the Enterprise Trust was little changed during the year, falling from approximately 31,000 to approximately 30,000. The proportion of shares held by individuals, whether directly or through savings schemes, rose from 67.2% to 68.2%. The Enterprise Trust continues to be a member of the F&C Investor Savings Plans, details of which are given on page 20 of this report.

#### Valuation Policy

For a number of years the Enterprise Trust has followed the same valuation policy. This was developed from the experience of investing in unquoted companies since 1981. In June 2003 the BVCA published new Valuation Guidelines for the valuation of private equity portfolios. In common with the majority of our peers, we have decided to adopt the Guidelines for the valuation of the direct unquoted investment portfolio in these and subsequent accounts. We do not believe that there has been a significant impact on the overall valuation of the portfolio as a result of adopting the Guidelines. The new policy is set out on page 29 in note 1 to the accounts.

One of the aims of the Guidelines is to increase the comparability and standardisation of valuation techniques used by private equity funds. While this may be at least partly achieved, there continues to be an inevitable uncertainty in valuing unquoted companies. As the Guidelines themselves say "it is important to recognise the subjective nature of private equity investment valuation" and "whilst valuations do provide useful interim indications of the progress of a particular investment or portfolio of investments, ultimately it is not until realisation that true performance is apparent".

#### Outlook

Confidence in the private equity market is higher than it was a year ago when the international outlook and economic prospects were both highly uncertain. While the recovery in stockmarkets has only been partial and there remain significant areas of economic and political concern, there is a general sense that the worst is past.

The demand for high quality private equity funds remains high, particularly from fund of fund operators, while in our view the supply remains considerably lower. We expect the Enterprise Trust to make few new commitments while we believe that the sector remains out of balance.

In the direct investment market there has been some increase in volumes and a stronger new issue market after a period of unusual weakness. The recovery in confidence and competition for direct investments have together driven prices higher, supported by debt finance and possibly also by lower target rates of return. There is a plentiful supply of senior and mezzanine debt at low interest rates enabling private equity managers to pay higher prices while taking on greater risk. Prices may also be higher as managers reduce their target rates of return in the expectation of lower returns from the quoted markets against which they are ultimately compared.

Increased competition and a recovery in the new issue market signal an improvement in the conditions for disposals. We anticipate that the rate of disposals from the Enterprise Trust's portfolio will be higher in the next twelve months.

John Sclater  
March 2004

## Manager's Review

The Enterprise Trust's investment portfolio is divided between three distinct categories: direct unquoted investments, investments in funds and quoted investments. Taking the portfolio as a whole, in 2003 acquisitions and disposals were evenly balanced. Underlying this, there were net acquisitions in the direct unquoted portfolio and net disposals from the quoted portfolio while the flow of cash into and out of the fund portfolio was roughly equal. All three sections of the investment portfolio showed significant gains in the year. Direct unquoted investments rose in value by 9.0%, investments in funds by 13.0% and quoted investments by 30.5%.

The table below summarises the movements in the investment portfolio. Overall there was an increase in the value of the portfolio from £166.3 million to £193.1 million, almost entirely as a result of the appreciation of the underlying investments.

### Direct unquoted investments

The direct investment portfolio was valued at £114.3 million at the end of the year, representing 59.2% of the investment portfolio as a whole. As we anticipated twelve months ago, 2003 was a relatively quiet year for new

investments and disposals in an uncertain market. Flotations and trade sales were both at low volumes, reflecting a general lack of confidence particularly in the first half of the year.

A total of £22.1 million was added to the direct investment portfolio during the year. The largest new investment was of £7.4 million in Jane Norman, a retailer of women's fashion products.

Further investments were made of £3.8 million in Leading Edge, a label printing and flexible packaging company, and of £3.2 million in the mezzanine debt of Elis, a French industrial cleaning group. An additional £7.7 million was invested in companies already in the portfolio, mostly in scheduled draw downs against existing commitments.

Approximately half of the capital proceeds from the direct investment portfolio came from the refinancing of companies that were performing well, with the other half coming from trade sales and a flotation. Refinancing is a useful interim tool for generating cash returns from mature and successful investments that might be sold or floated in more buoyant market conditions.

### Summary of movements in the investment portfolio in 2003

2003 £m	Opening value	Purchases	Transfers	Sales	Gains and losses	Closing value	% of portfolio
Direct unquoted investments	97.6	22.1	(2.3)	(13.9)	10.8	114.3	59.2%
Investments in funds	45.7	12.0	-	(11.2)	7.5	54.0	28.0%
Unquoted investments	143.3	34.1	(2.3)	(25.1)	18.3	168.3	87.2%
Quoted investments	23.0	0.9	2.3	(9.4)	8.0	24.8	12.8%
Total investment portfolio	166.3	35.0	-	(34.5)	26.3	193.1	100.0%

The largest refinancings during the year were of Maplin, which generated £3.5 million, and of Leaderflush+Shapland, which generated £3.2 million. A further £2.7 million was received on the sale of Clearminster and £2.5 million on the flotation of Yell. Total proceeds from the direct investment portfolio, including a number of smaller disposals, were £13.9 million.

The overall increase in the valuation of the direct investment portfolio was £10.8 million, representing an increase in value of 9.0%. The largest increases were in the valuations of Maplin and Paperchase and the largest fall was in HLF.

Maplin, the retailer of electronic components and accessories, had another excellent year. Turnover rose by 29.9% to £99.3 million and operating profits rose by 41.9% to £17.8 million. The trading performance of Paperchase, the high quality stationary retailer, also reached record levels. Partly offsetting these successes, the valuation of the insurance broking group HLF was reduced to reflect the terms of a refinancing in which the Enterprise Trust injected new capital and converted its mezzanine debt into equity.

#### Investments in funds

At the end of 2003 there were twelve active funds in the portfolio. They cover a broad range of unquoted investment sectors not covered by Graphite Capital's direct investment activities. These include large management buy-out funds, single-country private equity funds in continental Europe, mezzanine funds and infrastructure funds. All the funds invest in the UK or continental Europe. As a result of investing in funds, the Enterprise Trust is sometimes also given the opportunity to make direct investments in companies introduced to it by the funds' managers.

The Enterprise Trust committed a total of

£15.6 million to three funds in the year. Activa Capital Fund is a French private equity fund focusing on mid-market transactions. Euro Mezzanine IV is a fund specialising in mezzanine debt mostly in continental Europe. Piper Private Equity Fund III is a UK fund investing in early stage retail companies. A total of £4.1 million was drawn down by these funds during the year. The total amount drawn down by the fund portfolio during the year was £12.0 million.

The two largest funds in the portfolio are the Hicks, Muse, Tate & Furst Europe Fund ("Hicks Muse") and the ICG Mezzanine Fund 2000. Both of these funds made substantial distributions during the year following disposals from their portfolios. Hicks Muse distributed £6.3 million, mostly as a result of the flotation of Yell in which the Enterprise Trust also held a direct investment. Since the year end the residual holdings in Yell have been sold and the Enterprise Trust has received a further £8.7 million, of which £6.0 million was distributed by Hicks Muse and £2.7 million were the proceeds from the sale of the remaining direct investment. The ICG Mezzanine Fund 2000 distributed £3.1 million to the Enterprise Trust following the repayment of loans by two of its portfolio companies. Overall the Enterprise Trust received a total of £11.2 million from funds in 2003.

The gains from the fund portfolio were £7.5 million, representing an increase of 13.0%. We were pleased with this performance in a relatively subdued market for disposals. The fund portfolio was valued at £54.0 million at the end of the year, and there were outstanding commitments of a further £48.7 million. These amounts exclude the commitment to Graphite Capital Partners VI. This fund is consolidated on a line by line basis.

#### Quoted investments

The Enterprise Trust's quoted investments are almost entirely the legacy of a successful and extended period of flotations from the direct unquoted portfolio in the 1990s. We follow a policy of selling them when we believe them to be fully valued and of reinvesting the proceeds in the unquoted portfolio. At the end of 2003 quoted investments represented 12.8% of the investment portfolio by contrast with 62.5% at the end of 1999.

During the year we made total net disposals of £9.4 million from the quoted portfolio which was valued at £23.0 million at the beginning of the year. Despite this, as a result of strong performance and the £2.3 million transfer into the portfolio of Yell on its flotation, the portfolio was valued at £24.8 million at the end of the year. Net realised and unrealised gains totalled £8.0 million, representing an increase of 30.5%.

#### The 2004 investment environment

We have made one new direct investment since the year end in European Golf Brands, the world's largest manufacturer and supplier of

electric golf trolleys, and we are currently investigating a number of other opportunities. The market remains competitive with a relatively low conversion rate of opportunities to completed investments. On the other hand the outlook for disposals, whether to trade or financial buyers or through flotation, is improving. There may also be further opportunities to refinance companies that are cash generative and performing well.

In the fund portfolio we have made one new commitment to Sagitta Private Equity Partners III, a fund investing in small UK companies. This portfolio should benefit from any sustained improvement in the market for disposals, particularly if the volume of flotations increases. In the meantime we are continuing to seek further high quality funds to add to the portfolio.

**Graphite Capital  
March 2004**

## Graphite Capital

Graphite Capital is a specialist provider of private equity finance to small and medium-sized companies. It has funds under management of over £750 million in five funds all of which concentrate on the unquoted sector.

Our objective is to provide shareholders with a higher rate of return than they could expect from a representative portfolio of UK quoted companies. We make investments both directly in unquoted companies and indirectly through specialist funds.

### Direct unquoted investments

We make direct unquoted investments with an anticipated holding period of between three and five years in companies valued typically at between £20 million and £100 million. Our main emphasis is on mature, UK-based companies. While aiming to maintain a reasonably well diversified portfolio, we take an opportunistic approach and have invested in almost all sectors of the economy. As well as supporting management buy-outs and buy-ins, we provide finance for acquisitions, expansion and to replace existing shareholders. We act as lead or sole investors in a high proportion of our investments.

The investments we make are generally illiquid in the short term and they can be dependent on one or two key managers or products. We believe, however, that flexibility and potential for growth in smaller companies can far outweigh the associated risks. As we usually

have unrestricted access to potential investments, we are able to conduct thorough investigations into their markets, their operations and their forecasts. We generally negotiate rights to a comprehensive flow of monthly information from unquoted companies and we are frequently represented at the board meetings of investee companies. We are therefore able to monitor unquoted investments closely and to take early action if performance fails to meet agreed plans. In these respects we have considerable advantages over investors in quoted equities and we are able to mitigate the risks of unquoted investments.

### Investments in Funds

In addition to making direct unquoted investments, we invest in third party funds specialising in areas of investments not covered by Graphite Capital. These investments generally have an expected life of ten years. As private equity managers ourselves, we believe that we are well placed to assess the merits of funds raised by other specialist unquoted fund managers. We have invested, as examples, in funds focusing on mezzanine loan finance, in funds focusing on project and infrastructure financing, in funds focusing on medium-sized companies outside the UK and in funds focusing on large management buy-outs. These funds invest both in the UK and in continental Europe. The diversification of the Enterprise Trust's portfolio has been significantly increased by investing in third party funds.

## Graphite Enterprise Trust PLC

### Directors

**John Selater\***, CVO (Chairman), 63, was appointed to the Board in 1986. He is Chairman of Finsbury Life Sciences Investment Trust PLC and Argent Group Europe Limited. He is Deputy Chairman of Grosvenor Group Limited and a Trustee of The Grosvenor Estate. He is a director of James Cropper PLC, Millennium & Copthorne Hotels PLC and of Wates Group Limited.

**Peter Dicks\*+**, 61, was appointed to the Board in 1998. He is Chairman of Second London American Trust PLC, Enterprise Capital PLC and The East German Investment Trust plc. He is also a non-executive director of a number of companies including Polar Capital Technology Trust PLC, Sportingbet plc, Vencap International PLC and Standard Microsystems Corporation, a United States company. Mr Dicks is the Chairman of the Enterprise Trust's Audit and Management Engagement Committee and is the senior independent non-executive director.

**Michael Cumming\*+**, 63, was appointed to the Board in 1999. He is a former managing director of Barclays Private Equity. He is also a director of Enterprise Capital Trust PLC, Chairman of the Mercia Fund and Chairman of Matrix Venture Fund VCT plc.

**Mark Fane\*+**, 45, was appointed to the Board in 2000. He is Chairman and Chief Executive of Crocus.co.uk Ltd. He was Chairman and Chief Executive of Waterers Landscape plc until its sale in 2003. He is also a non-executive director of Ottakar's plc. He was a director of Graphite Capital Management Limited from 1988 until 1990.

**Peter Gray\*+**, 67, was appointed to the Board in 2002. He is Chairman of Close Finsbury EuroTech Trust PLC and of Enhanced Zero Trust PLC, and a director of Gartmore Distribution Trust plc and of Folio Corporate Finance Ltd.

**Sean O'Connor\***, 55, was appointed to the Board in 2001. He was the founder of the Stoves Group and Chairman until 2001. He founded Trillium Ventures in 1991 and is currently Chairman of Applied Energy Limited, one of the unquoted companies in the Enterprise Trust's portfolio. He is also a non-executive director of Sportingbet plc, Cape PLC, Phoenix Equity Partners, Crow TV, Babel Media and Escape Studios Ltd.

### Manager and Secretary

Graphite Capital Management Limited  
(Authorised and regulated by the Financial Services Authority)

### Registered Office

4th Floor, Berkeley Square House,  
Berkeley Square, London W1J 6BQ

### Bankers

The Royal Bank of Scotland plc

### Registrars

Computershare Investor Services PLC  
Registrar's Department, PO Box 82  
The Pavilions, Bridgewater Road  
Bristol BS99 7NH  
Telephone 0870 702 0010

Investor Services Helpdesk  
0845 600 3030

### Independent Auditors

PricewaterhouseCoopers LLP  
Southwark Towers, 32 London Bridge Street,  
London SE1 9SY

\* Independent non-executive director  
+ Member of audit committee

## The 30 Largest Investments

	Percentage of equity held by the Enterprise Trust	Cost £'000s	Value at 31 Dec 03 £'000s	Percentage of portfolio	Country and year of investment
<b>1 Maplin Electronics</b>	<b>20.0</b>	<b>99</b>	<b>17,218</b>	<b>8.9</b>	<b>UK 2001</b>

Maplin Electronics is a retailer of electronic components and accessories operating a chain of 81 stores in the UK and the Republic of Ireland. Maplin also has a rapidly growing e-commerce operation and a well established mail-order activity. The Enterprise Trust invested £5.2 million in the £42.3 million management buy-out of Maplin in June 2001. The company performed strongly in the year to December 2003 with turnover increasing by 29.9% to £99.3 million. Operating profit rose by 41.9% to £17.8 million. Maplin has now fully redeemed the Enterprise Trust's £5.2 million of institutional loan notes of which £3.5 million was received in 2003. During the year the Company also paid a dividend of £1.0 million to the Enterprise Trust.

The valuation represents a multiple of operating profit for the year to December 2003 of 6.1. In 2003 the Enterprise Trust received gross income of £1,590,000.

31 December £m	2002	2003*
Turnover	76.4	99.3
Operating Profit †	12.6	17.8
Profit Before Tax	8.1	14.0
Profit After Tax	4.9	9.4
Net Assets	18.3	12.7

† Before amortisation of goodwill

<b>2 Hicks, Muse, Tate &amp; Furst Europe Fund</b>	<b>n/a</b>	<b>17,247</b>	<b>16,925</b>	<b>8.8</b>	<b>Europe 2000</b>
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Hicks, Muse, Tate & Furst Europe Fund (the "Fund") is a private equity fund specialising in large European management buy-outs. The Enterprise Trust committed €50 million out of total investors' commitments of €1.5 billion. The Fund is now fully invested and has committed €1.2 billion to 13 companies. By 31 December 2003 the Enterprise Trust had invested a total of £27.8 million which compares with the total value generated by the investment to date of £32.8 million of which £15.8 million has been received in cash. At 31 December 2003 the Enterprise Trust's outstanding commitment to the Fund was £4.2 million. Since the year end the Fund has fully realised its investment in Yell and the Enterprise Trust has received further proceeds of £6.0 million. The Fund has now distributed a total of 71.0% of the amount drawn down from the Enterprise Trust.

The valuation of the holding follows that applied by Hicks, Muse, Tate & Furst to the underlying portfolio, adjusted for exchange rate movements. In 2003 the Enterprise Trust received gross income of £26,000.

31 December €m	2002	2003*
Net Assets	739.1	711.4

\* Unaudited.

## The 30 Largest Investments

	Percentage of equity held by the Enterprise Trust	Cost £'000s	Value at 31 Dec 03 £'000s	Percentage of portfolio	Country and year of investment
3 ICG Mezzanine Fund 2000	n/a	13,827	15,014	7.8	Europe 2000

The ICG Mezzanine Fund 2000 ("the Fund") was raised in 2000 to provide mezzanine loans, primarily for private equity transactions in western Europe. The Enterprise Trust committed €30 million out of total investors' commitments of €307.5 million. The Fund is managed by Intermediate Capital Group ("ICG"), one of the leading European providers of mezzanine finance. The Fund has made investments in 34 companies in seven countries with a total cost of €360 million. The fund was 94.5% drawn down at 31 December 2003 with the remaining capital being reserved for follow-on investments. At 31 December 2003 the Enterprise Trust's outstanding commitment to the Fund was £1.2 million.

The valuation of the holding follows that applied by ICG to the underlying portfolio, adjusted for exchange rate movements. In 2003 the Enterprise Trust received gross income of £942,000.

31 December €m	2002	2003*
Net Assets	278.0	243.7

4 Wagamama	36.1	5,899	9,137	4.7	UK 1996
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Wagamama operates a chain of Japanese noodle restaurants based primarily in London. The Enterprise Trust's initial investment was made in 1996 when Wagamama had two restaurants. In the year to 30 April 2003 turnover rose by 30.4% and operating profit by 57.9%. The business continues to expand rapidly. Since April 2003 Wagamama has opened six restaurants and now has 24 restaurants in the UK. It also has franchises in Ireland, the Netherlands, Australia and UAE. Operating profits have been increasing rapidly.

The valuation represents a multiple of 10.3 times operating profit for the year to April 2003. No income was received in 2003.

30 April £m	2002	2003
Turnover	19.4	25.3
Operating Profit †	1.9	3.0
Profit Before Tax	1.4	2.6
Profit After Tax	0.8	1.7
Net Assets	4.8	6.2

† Before exceptionals

\* Unaudited

## The 30 Largest Investments

	Percentage of equity held by the Enterprise Trust	Cost £'000s	Value at 31 Dec 03 £'000s	Percentage of portfolio	Country and year of investment
5 Standard Brands	39.0	8,211	8,760	4.5	UK 2001

Standard Brands is a manufacturer of household fire and barbecue lighting products. Its brands include ZIP, Europe's leading firelighter brand. The company's main markets are in the Republic of Ireland, the UK, France, Belgium and Germany. The Enterprise Trust invested in the £29.7 million management buy-out of Standard Brands in 2001. After two years of strong performance the company suffered a setback in the year to 31 December 2003. Turnover fell from €22.0 million to €18.8 million and operating profit from €6.8 million to €3.5 million following pricing pressures, an unusually warm spring and autumn and adverse movements in raw material prices.

The valuation represents a multiple of operating profit for the year to December 2003 of 11.0. No income was received in 2003.

31 December €m	2002	2003*
Turnover	22.0	18.8
Operating Profit †	6.8	3.5
Profit Before Tax †	3.8	0.9
Profit After Tax †	3.4	0.8
Net Assets	5.0	3.7

† Before amortisation of goodwill

6 Jane Norman	22.0	7,426	7,426	3.9	UK 2003
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Jane Norman is a chain of 31 high street stores selling female fashion goods throughout the UK. The Enterprise Trust invested in the £62.3 million management buy-out of Jane Norman in January 2003. In the year to March 2003 turnover rose by 13.5% to £49.7 million and operating profit rose by 13.0% to £11.3 million.

The valuation represents a multiple of operating profit for the year to March 2003 of 5.0. No income was received in 2003.

31 March £m	2002	2003
Turnover	43.8	49.7
Operating Profit †	10.0	11.3
Profit Before Tax	9.8	8.6
Profit After Tax	6.7	5.9
Net Assets	8.4	9.5

† Excluding exceptional and non-recurring costs

\* Unaudited

## The 30 Largest Investments

	Percentage of equity held by the Enterprise Trust	Cost £'000s	Value at 31 Dec 03 £'000s	Percentage of portfolio	Country and year of investment
<b>7 Computacenter +</b>	<b>0.8</b>	<b>1,321</b>	<b>6,681</b>	<b>3.5</b>	<b>UK 1985</b>

Computacenter is the leading provider of distributed information technology and related services to large corporate and public sector organisations in the UK. It also has operations in Belgium, France, Germany and Luxembourg. It was floated on the London Stock Exchange in May 1998. In 2003 turnover rose by 28.8% to £2.5 billion and operating profit rose by 17.4% to £65.9 million. The share price rose by 67.9% in the year. The Enterprise Trust sold 450,000 shares during 2003.

The holding of 1,421,489 shares is valued at the share price of £4.70 on 31 December 2003. In 2003 the Enterprise Trust received gross income of £91,000.

31 December £m	2002	2003*
Turnover	1,926.7	2,481.3
Operating Profit †	56.2	65.9
Profit Before Tax	55.1	65.2
Net Assets	242.8	282.9

† Before non operating exceptional charges and share of joint ventures.

<b>8 Intermediate Capital Group +</b>	<b>0.9</b>	<b>1,571</b>	<b>6,385</b>	<b>3.3</b>	<b>UK 1989</b>
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Intermediate Capital Group is a UK-based arranger and provider of mezzanine finance to unquoted companies throughout Europe. The Enterprise Trust was a founding shareholder in 1989. In June 1994 the company was floated on the London Stock Exchange. In the six months to July 2003 core income rose by 40.8% to £25.2 million and profit before tax rose by 22.5% to £32.1 million. The share price rose by 23.4% in 2003. The Enterprise Trust sold 340,000 shares during the year.

The holding of 604,669 shares is valued at the share price of £10.56 on 31 December 2003. In 2003 the Enterprise Trust received gross income of £203,000.

31 January £m	2002	2003	6 Months to 31 July 2003*
Total Net Fee Income	50.3	60.4	37.0
Gains from Disposals less Portfolio Provisions	4.9	16.4	6.9
Profit Before Tax	41.7	53.5	32.1
Profit After Tax	28.9	35.1	21.5
Net Assets	198.5	216.2	234.6

+ Quoted \* Unaudited

## The 30 Largest Investments

	Percentage of equity held by the Enterprise Trust	Cost £'000s	Value at 31 Dec 03 £'000s	Percentage of portfolio	Country and year of investment
9 Deutsche Beteiligungs AG IV	n/a	5,546	5,863	3.0	Europe 2002

Deutsche Beteiligungs AG Fund IV ("the Fund") specialises in investments in German Mittelstand companies and subsidiaries of large groups in both the manufacturing and service sectors. In 2002 the Enterprise Trust committed €15.0 million to the Fund out of total investors' commitments of €228 million. The fund was 54.7% drawn down at 31 December 2003. The Fund has made five investments to date. At 31 December the Enterprise Trust's outstanding commitment to the Fund was £4.8 million.

The valuation of the holding follows that applied by Deutsche Beteiligungs AG to the underlying portfolio, adjusted for exchange rate movements. No income was received in 2003.

31 December €m	2002	2003*			
Net Assets	30.2	102.3			
10 U-POL	20.2	4,456	5,820	3.0	UK 2002

U-Pol is a UK-based manufacturer of fillers, coatings and other products for the automotive aftermarket. Its main markets are in the UK, France, Ireland and the US. In the year to December 2003 turnover rose by 13.7% to £26.4 million and operating profit rose by 29.7% from £4.8 million to £6.2 million. As scheduled at the time of the original investment, the Enterprise Trust invested a further £2.9 million in the year to redeem vendors' loan notes.

The valuation represents a multiple of operating profit for the year to December 2003 of 7.0. In 2003 the Enterprise Trust received gross income of £318,000.

31 December Proforma £m	2002	2003*	
Turnover	23.2	26.4	
Operating Profit	4.8	6.2	
Profit Before Tax	4.7	6.5	
Net Assets	0.7	1.2	
Total of ten largest investments	65,603	99,229	51.4

\* Unaudited.

## The 30 Largest Investments

	Cost £'000s	Value at 31 Dec 03 £'000s	Percentage of portfolio	Country and year of investment
11 PSD Group +	13	4,849	2.5	UK 1991
A group of specialist recruitment companies				
12 Charterhouse Capital Partners VI	2,696	4,843	2.5	Europe 1997
A partnership formed to invest in large management buy-outs				
13 Corpfm Capital II	4,155	4,824	2.5	Europe 2000
A fund investing in private equity transactions in Spain				
14 Paperchase	1,036	4,655	2.4	UK 1996
A chain of stores selling high quality stationery products				
15 HLF Insurance	10,890	4,495	2.3	UK 2000
An insurance broking group				
16 Tesla Magnetic	2,304	4,475	2.3	UK 1995
A manufacturer of gradient coils and large magnets				
17 Huntress Search	2,061	4,283	2.2	UK 2001
A specialist recruitment business				
18 PIFC Group	5,394	3,825	2.0	UK 2002
A pension and healthcare advisory business				
19 Leading Edge	3,817	3,817	2.0	UK 2003
A printer of self-adhesive labels and packaging				
20 Elis III	3,162	3,171	1.7	Europe 2003
An industrial cleaning business				
<b>Total of twenty largest investments</b>	<b>101,131</b>	<b>142,466</b>	<b>73.8</b>	

+ Quoted

## The 30 Largest Investments

	Cost £'000s	Value at 31 Dec 03 £'000s	Percentage of portfolio	Country and year of investment
<b>21 Ridgmont</b>	<u>2,251</u>	<u>3,115</u>	<u>1.6</u>	<u>UK 2001</u>
An operator of residential and nursing care homes for the elderly				
<b>22 Napier</b>	<u>2,979</u>	<u>2,979</u>	<u>1.5</u>	<u>UK 2002</u>
A manufacturer of Christmas crackers				
<b>23 Applied Energy</b>	<u>2,250</u>	<u>2,872</u>	<u>1.5</u>	<u>UK 2001</u>
A manufacturer and distributor of ventilation and heating products				
<b>24 Leaderflush+Shapland</b>	<u>-</u>	<u>2,804</u>	<u>1.5</u>	<u>UK 1999</u>
A manufacturer of specialist doors				
<b>25 Ottakar's +</b>	<u>200</u>	<u>2,784</u>	<u>1.4</u>	<u>UK 1995</u>
A chain of bookshops				
<b>26 Barclays European Infrastructure Fund</b>	<u>2,624</u>	<u>2,608</u>	<u>1.4</u>	<u>UK 2002</u>
A fund investing in PFI infrastructure projects				
<b>27 Yell Group +</b>	<u>1,231</u>	<u>2,454</u>	<u>1.3</u>	<u>UK 2001</u>
The publisher of the Yellow Pages in the UK and the US				
<b>28 Golden Tulip</b>	<u>2,414</u>	<u>2,414</u>	<u>1.2</u>	<u>UK 2002</u>
A developer and manager of hotels				
<b>29 Leapfrog</b>	<u>4,898</u>	<u>2,398</u>	<u>1.2</u>	<u>UK 1998</u>
An operator of day care nurseries				
<b>30 Go Plant</b>	<u>1,728</u>	<u>2,358</u>	<u>1.2</u>	<u>UK 1995</u>
The largest UK operator of road sweeping vehicles				
<b>Total of thirty largest investments</b>	<b>121,706</b>	<b>169,252</b>	<b>87.6</b>	
<b>Other investments</b>	<b>82,030</b>	<b>23,829</b>	<b>12.4</b>	
<b>Total investment portfolio</b>	<b>203,736</b>	<b>193,081</b>	<b>100.0</b>	

+ Quoted

## Analysis of Net Assets

	Cost £'000s	Value at 31 Dec 03 £'000s	Percentage of net assets
<b>Portfolio Investments</b>			
UK Unquoted	111,603	110,967	42.3
UK Quoted *	19,491	24,542	9.3
<b>Total UK</b>	<b>131,094</b>	<b>135,509</b>	<b>51.6</b>
Non-UK Unquoted	72,264	57,404	21.8
Non-UK Quoted *	378	168	0.1
<b>Total Non-UK</b>	<b>72,642</b>	<b>57,572</b>	<b>21.9</b>
<b>Total portfolio investments</b>	<b>203,736</b>	<b>193,081</b>	<b>73.5</b>
<b>Net current assets</b>		<b>69,734</b>	<b>26.5</b>
<b>Net assets</b>		<b>262,815</b>	<b>100.0</b>

\* Quoted investments include both listed investments and those traded on other organised markets

## Analysis of Investors

31 December 2003	Number of Investors	Shares held Number	%	Average Holding
Individuals	29,557	61,938,114	68.2	2,096
Insurance companies	13	7,468,748	8.2	574,519
Investment companies	28	13,888,524	15.3	496,019
Bank and nominee companies	12	2,554,991	2.8	212,916
Pension funds	13	3,516,725	3.9	270,517
Other	7	1,432,898	1.6	204,700
	<b>29,630</b>	<b>90,800,000</b>	<b>100.0</b>	<b>3,064</b>

## Historical Record

### Revenue and Assets

Year ended 31 December	Earnings per share p	Ordinary dividend per share p	Net asset value per share p	Mid-market price per share p
2003	4.88	4.30	284.9	222.3
2002	4.47	4.30	259.2	206.5
2001	4.38	4.30	280.5	228.5
2000	4.73	4.30	329.6	316.0
1999	5.17	4.30	318.1	323.0
1998	5.21	4.30	268.5	262.5
1997	4.62	3.90	203.8	186.0
1996	2.99	2.40	140.9	123.3
1995	1.72	1.20	102.6	86.0
1994	1.42	0.80	83.2	70.5
1993	0.89	0.60	72.9	71.0

### Realisation of Portfolio Investments

Year ended 31 December	Realisation proceeds £'000s	Prior year valuation £'000s	Original cost £'000s
Quoted investments	8,968	7,440	1,800
Unquoted investments	25,602	23,361	26,200
2003 total	34,570	30,801	28,000
2002	36,049	31,735	25,067
2001	87,677	77,963	37,496
2000	62,803	34,853	11,316
1999	36,816	23,243	13,359

### Tax on Capital Gains

The market value of the Company's ordinary shares at 31 March 1982 was 16p. The market value of the warrants in issue at that date was 6p.

## Investor Savings Plans

The Enterprise Trust continues to be a member of the F&C Investor Savings Plans. Details of the Plans are set out below.

### Private Investor Plan (PIP)

This savings scheme has low dealing costs of 0.2% (plus 0.5% Government Stamp Duty on purchases). Investors can invest a lump sum or make regular monthly payments.

### Pension Savings Plan (PSP)

Investors can maximise their tax benefits and save for retirement using this low cost plan, which includes a Personal Pension and free standing AVCs. Investors can also invest on behalf of a dependant.

### Individual Savings Account (ISA)

Investors can invest up to £7,000 capital gains tax free in an ISA. The fixed rate administration charging structure provides excellent value for money. Investors can invest a lump sum or make regular monthly payments.

### Personal Equity Plan (PEP)

PEPs are no longer available for new subscriptions. Investors can, however, continue to hold investments in any existing PEPs and transfer investments from one manager to another, subject to Inland Revenue requirements. The fixed rate administration charging structure provides excellent value for money.

### Telephone Services

The Investor Services Team aims to provide clear answers to investors' questions. The team is trained to deal with all aspects of investment trust management and administration. The team provides information on the Enterprise Trust and on investments managed by F&C Management.

The mid market price of the Enterprise Trust's shares is listed daily in the main national broadsheet newspapers including the *Financial Times*. Investors in the F&C Private Investor Plan who wish to confirm the price at which shares were last purchased can call F&C Investor Services at the local call rate.

F&C Management may record and randomly monitor telephone conversations for training purposes. Whilst everything reasonable will be done to help investors with queries, F&C Management is not able to offer financial advice.

For further details and application forms, please contact:

F&C Investor Services on 0845 600 3030 or  
F&C Broker Support on 0845 600 1868  
(UK calls charged at local rate)  
Fax 020 7825 2108

or visit the website:  
[www.fandc.com](http://www.fandc.com) under Investment Trusts

or write to:  
F&C Investor Services Team  
F&C Management Limited  
Exchange House, Primrose Street, London EC2A 2NY

or contact an Independent Financial Adviser.

Potential investors are reminded that the value of investments and the income from them may go down as well as up and investors may not receive back the full amount invested. Tax benefits may vary as a result of individual circumstances. Within ISAs and PEPs the Inland Revenue will no longer repay the 10% tax credit on dividends from April 2004, although capital gains will remain tax free.

The information on this page has been issued by Graphite Capital Management Limited and approved by F&C Management Limited, both authorised and regulated by the Financial Services Authority.

# Report of the Directors

for the Year Ended 31 December 2003

## Status of Company

Graphite Enterprise Trust PLC (the "Enterprise Trust") is an investment company as defined by Section 266 of the Companies Act 1985.

During the year under review the Company carried on the business of an investment trust. The last accounting period for which the Company has been approved by the Inland Revenue in accordance with the provisions of Section 842 of the Income and Corporation Taxes Act 1988 was the year ended 31 December 2002. In accordance with the system for self assessment of corporation tax this approval is based on the computations submitted by the Company and is subject to the findings of any enquiries that the Inland Revenue may make. The Company has subsequently directed its affairs with the objective of retaining such approval.

The Company's shares are eligible for inclusion in Individual Savings Accounts ("ISAs") and in Personal Equity Plans ("PEPs").

The Company makes investments both directly and through its subsidiary partnerships, Graphite Enterprise Trust Limited Partnership and Graphite Capital Partners VI 'E' (together the "Group").

Graphite Enterprise Trust PLC is registered in England (No. 1571089).

## Results and Dividend

	£'000s
Net revenue for the year available for distribution	4,434
Proposed dividend of 4.3p per share	3,904
Amount transferred to revenue reserve	530

The dividend in respect of the year ended 31 December 2003 will, if approved, be paid on 25 May 2004 to holders of ordinary shares on the register at the close of business on 16 April 2004.

## Review of the Business

A review of the Company's activities is given in the Chairman's Statement on pages 2 to 5 and in the Manager's Review on pages 6 to 8.

## Directors

All of the directors listed on page 10 held office throughout the year under review. The directors retiring by rotation are Mr P Dicks and Mr S O'Connor who, being eligible, offer themselves for re-election. In common with the other board members Mr Dicks and Mr O'Connor do not have service contracts with the Company. Details of the directors' shareholdings in the Company and their interests in contracts and agreements are given in note 5 and note 10 to the accounts. A report on the directors' remuneration is set out on page 45.

## Directors Remuneration

The Company has no employees or executive directors and consequently does not have a remuneration committee. A Directors' Remuneration Report, which shareholders will be asked to approve at the Annual General Meeting, can be found on page 45.

**Manager**

Under the terms of the Company's management agreement, Graphite Capital Management Limited ("Graphite Capital" or the "Manager"), which is regulated by the Financial Services Authority ("FSA"), provides investment management and general administrative services to the Group for an investment management charge of 1.5% per annum of the Group's total assets less all liabilities other than borrowings, calculated quarterly, less the value of one portfolio investment which is advised by Graphite Capital, F&C Buy-out Trust. The value of the investment in the F&C Buy-out Trust at 31 December 2003 was £116,000 (2002 – same). The management agreement of the Company (the "Management Agreement") can be terminated by either party giving not less than one year's notice.

During the year the Board made a commitment of £50 million to Graphite Capital Partners VI 'E'. The terms of this investment specify that, although the management charges within this fund are higher than those charged under the management agreement between Enterprise Trust and Graphite Capital, there is an offset to ensure that the overall charges from Graphite Capital do not change. The carried interest arrangements within the fund will also be identical to those that were already in place. Graphite Capital advises a fund in which the Enterprise Trust has an investment, F&C Buy-out Trust. The value of this investment is excluded from the value of the Company's total assets for the purpose of calculating its management fees.

**Capital**

At the Annual General Meeting ("AGM") held on 4 June 2003 shareholders renewed the Board's authority which expires no later than 15 months after the AGM to buy back up to 13,529,200 of the Company's ordinary shares for cancellation. No shares were purchased during the year under review and none have been purchased since the year end. A resolution will be put to shareholders at the forthcoming AGM to renew this authority.

**Co-investment Scheme**

There is a Co-investment scheme in place ("the Scheme") under the terms of which the executives of the Manager (or their nominees), a subsidiary of the Manager and F&C (C.I.) Limited (together the "Co-investors") co-invest with the Company through Graphite Enterprise Trust Limited Partnership and Graphite Capital Partner VI 'E' (the "Partnerships"). For so long as Graphite Capital is the manager of the Group, the Co-investors are required to subscribe 0.5% of the Group's cost of each new investment made by the Partnerships. If an investment made by the Partnerships achieves at least an 8% per annum compound return, the Co-investors are entitled to a payment representing 10% of the Group's gross income and capital gains ("the Share") from that investment. If this compound return is not achieved on any individual investment, the Co-investors lose the amount subscribed by them in respect of that investment. The Share is calculated and, if applicable, paid on the cash receipt by the Partnerships of gross income and capital proceeds from investments or on the flotation of portfolio companies when it may be satisfied in specie.

**Policy on payments to suppliers**

The Company's principal supplier, the Manager, is paid for its services in accordance with the terms and conditions of the Management Agreement. Payment terms are negotiated with other suppliers on an individual basis. At 31 December 2003 the Company had no outstanding trade creditors (2002:Nil).

**Substantial Share Interests**

At 17 March 2004 the Company had received notification of the following disclosable interests in its issued share capital:

	Number of ordinary shares	%
Legal & General Investment Management Limited	2,799,969	3.1

### **Corporate Governance**

The Company has considered the principles set out in the Combined Code on Corporate Governance issued by the London Stock Exchange in June 1998 (the "Code") and believes that the Company's current practice, given the special circumstances of an investment trust company is, in all material respects, consistent with the principles of the Code. The Company has complied throughout the year under review with the provisions set out in Section 1 of the Code. The Board notes the issue of a revised Combined Code in July 2003, which is effective for financial years starting on or after 1 November 2003, and will give the publication full consideration during the course of the forthcoming year. The FSA issued The Investment Entities (Listing Rules and Conduct of Business) Instrument 2003 in September 2003 and the Board has made the appropriate disclosures to ensure the Company meets its continuing obligations under that instrument. The Company announced to the London Stock Exchange on 23 October 2003 that it is the Group's policy to invest no more than 15 per cent of its gross assets in other listed investment companies (including investment trusts). The implementation of this policy has not required the Group to dispose of any existing shareholding.

The Board is comprised of six directors, all of whom are wholly independent of the Manager. The senior independent director of the Company, which does not have a chief executive officer, is Mr P Dicks. All of the directors of the Company are resident in the UK and they have a wide range of skills and experience. The Board considers that Mr J Sclater is independent despite having served on the Board for more than nine years. Given the long term nature of the Company's investments the Board considers his long service as an asset.

The entire Board is non-executive and is involved in the nomination of directors. The Board has not delegated this function to a separate committee. Candidates for new appointments to the Board are assessed as to the appropriateness of their skills and experience prior to their appointment. New appointees to the Board are given a preliminary briefing on the workings of the Group by the Chairman and by executives of the Manager.

It is the responsibility of the Board to ensure that there is effective stewardship of the Group's affairs. The Board monitors compliance with the Group's objective and determines investment policy and other strategic issues. In order to enable them to discharge their responsibilities, all directors have full and timely access to relevant information. The Board, which meets at least four times each year, reviews the Group's investment portfolio and investment performance and considers financial reports. There is also contact with the directors between meetings where this is necessary for the Group's business.

Matters specifically reserved for decision by the full Board have been defined and there is an agreed procedure under which directors, wishing to do so in the furtherance of their duties, may take independent professional advice at the Company's expense. The directors have access to the advice and services of the corporate company secretary, through its appointed representative. Under the articles of association, all directors are required to submit themselves for re-election at least every three years.

### **Accountability and Audit**

The Audit and Management Engagement Committee ("Audit Committee") of the Company operates within written terms of reference clearly setting out its authority and duties. It is comprised of four independent directors: Mr Dicks (Chairman), Mr Cumming, Mr Fane and Mr Gray. The primary duties of the Audit Committee are to review the accounting policies, the contents of the annual financial statements, the adequacy and scope of the external audit and compliance with regulatory and financial reporting requirements. The Audit Committee meets at least twice a year with the Company's auditors, PricewaterhouseCoopers LLP, being present at each meeting. The Audit Committee also has direct access to the auditors as necessary at other times. The Audit Committee has met this year to consider the Company's audit process, its financial statements, the report of the auditors and auditor independent.

The Board has carried out a full risk and control assessment, including reviewing the Manager's risk management infrastructure.

The directors have overall responsibility for the Company's systems of internal controls and for reviewing their effectiveness. These aim to ensure that assets of the Company are safeguarded, proper accounting records are maintained and the financial information used within the business and for publication is reliable. The identification, control and evaluation of risk is assisted by a series of quarterly investment performance reports, Manager's reports and the Manager's Annual Statement on Internal Controls. The systems of internal controls are designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material mis-statement or loss.

The Board has contractually delegated responsibility for management of the investment portfolio, the operation of custodial services for unquoted securities and the provision of accounting and company secretarial services to the Manager. The operation of custodial services for quoted securities has been delegated to a third party custodian.

The Manager has set out in a Statement on Internal Controls for the year ended 31 December 2003 its control policies and procedures with respect to the administration of its clients' investments. The effectiveness of these controls is monitored by the Manager and the Statement contains a report from the Manager's external auditors. The Audit Committee has received and reviewed the Statement.

By means of the procedures set out above, and in accordance with "Internal Control: Guidance for Directors on the Combined Code" published by the Working Party of the Institute of Chartered Accountants in England and Wales, the directors have established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and have reviewed the effectiveness of the internal control systems for the year. This process has been in place throughout the year under review and up to the date of this report and will be reviewed by the Board on a regular basis going forward.

#### **Going Concern**

Having reviewed the balance sheet and current activities of the Group, the directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

#### **Investor Relations**

Both the Company's Annual Report and Accounts, containing a detailed review of performance and of changes made to the investment portfolio, and the Interim Report, containing updated information in a more abbreviated form, are sent to investors. At the Annual General Meeting investors are given an opportunity to question the Chairman, the other directors and the Manager. The Company has arrangements in place to ensure that questions raised by investors at other times are properly addressed. Proxy voting figures are announced to investors at the Annual General Meeting.

#### **Charitable and Political Donations**

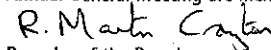
The Company has a covenant with the Charities Aid Foundation for £3,846 per annum. No political donations were made in 2003.

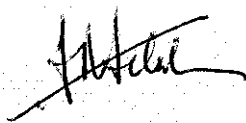
#### **Independent Auditors**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution re-appointing them and authorising the directors to fix their remuneration will be submitted at the Annual General Meeting.

#### **Annual General Meeting**

The Annual General Meeting of the Company will be held at The Royal Room, The Chesterfield Mayfair Hotel, 35 Charles Street, London W1J 5EB at 3.30pm on Thursday, 20 May 2004. Details of the resolutions to be proposed at the Annual General Meeting are included in the Notice of Meeting on page 48.

  
By order of the Board,  
Graphite Capital Management Limited, Secretary  
17 March 2004



## Consolidated Statement of Total Return

(Incorporating the Revenue Account\*)

For the year ended 31 December	Notes	2003			2002		
		Revenue £'000s	Capital £'000s	Total £'000s	Revenue £'000s	Capital £'000s	Total £'000s
Gains and losses on investments	10	-	26,319	26,319	-	(18,514)	(18,514)
Income	2	7,537	-	7,537	7,408	-	7,408
Investment management charges	3	(1,076)	(3,229)	(4,305)	(1,096)	(3,287)	(4,383)
Other expenses	4,15	(770)	(152)	(922)	(697)	461	(236)
<b>Net return before finance costs and tax</b>		<b>5,691</b>	<b>22,938</b>	<b>28,629</b>	<b>5,615</b>	<b>(21,340)</b>	<b>(15,725)</b>
Interest payable and similar charges	6	(15)	-	(15)	(8)	-	(8)
<b>Return on ordinary activities before tax</b>		<b>5,676</b>	<b>22,938</b>	<b>28,614</b>	<b>5,607</b>	<b>(21,340)</b>	<b>(15,733)</b>
Tax on ordinary activities	7	(1,242)	1,245	3	(1,488)	1,488	-
<b>Return on ordinary activities after tax</b>		<b>4,434</b>	<b>24,183</b>	<b>28,617</b>	<b>4,119</b>	<b>(19,852)</b>	<b>(15,733)</b>
Minority interests	22	-	(1,406)	(1,406)	-	(1,760)	(1,760)
<b>Return attributable to equity shareholders</b>		<b>4,434</b>	<b>22,777</b>	<b>27,211</b>	<b>4,119</b>	<b>(21,612)</b>	<b>(17,493)</b>
Dividends in respect of ordinary shares (equity)							
Proposed final of 4.3p per share (2002 - 4.3p)		(3,904)	-	(3,904)	(3,904)	-	(3,904)
<b>Transfer to/(from) reserves</b>	15	<b>530</b>	<b>22,777</b>	<b>23,307</b>	<b>215</b>	<b>(21,612)</b>	<b>(21,397)</b>
<b>Return per ordinary share (basic and diluted)</b>	8	<b>4.88p</b>	<b>25.08p</b>	<b>29.96p</b>	<b>4.47p</b>	<b>(23.46p)</b>	<b>(18.99p)</b>

\*The column of this statement headed "Revenue" is the Profit and Loss Account of the Group.  
All revenue and capital items in the above statement derive from continuing operations.

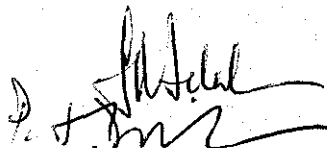
The notes form part of these accounts.

## Consolidated Balance Sheet

At 31 December	Notes	2003		2002	
		£'000s	£'000s	£'000s	£'000s
<b>Fixed assets</b>					
Investments	10				
Listed in Great Britain		24,446		21,624	
Listed outside Great Britain		168		283	
		<u>24,614</u>		<u>21,907</u>	
Unlisted at directors' valuation		168,467		144,410	
			193,081		166,317
<b>Current assets</b>					
Debtors	11	584		1,174	
Investments		44,881		61,831	
Cash at bank and short-term deposits		28,647		14,804	
		<u>74,112</u>		<u>77,809</u>	
<b>Current liabilities</b>					
Creditors: amounts falling due within one year	12	4,378		4,797	
<b>Net current assets</b>			69,734		73,012
<b>Total assets less current liabilities</b>			<u>262,815</u>		<u>239,329</u>
<b>Capital and reserves</b>					
Called up share capital	14		9,080		9,080
Capital redemption reserve	15		324		324
Share premium	15		12,936		12,936
Capital reserve	15		230,154		207,377
Revenue reserve	15		6,211		5,681
			<u>258,705</u>		<u>235,398</u>
Shareholders' funds (equity)	17				
Minority interests	22		4,110		3,931
<b>Net assets</b>			<u>262,815</u>		<u>239,329</u>
<b>Net asset value per share (basic and diluted)</b>	16		284.9p		259.2p

The financial statements were approved by the Board of directors on 17 March 2004.

J.R. Sclater }  
P.F. Dicks } Directors



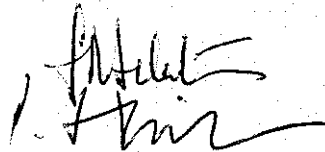
The notes form part of these accounts.

## Parent Company Balance Sheet

At 31 December	Notes	2003		2002	
		£'000s	£'000s	£'000s	£'000s
<b>Fixed assets</b>					
Investments	10				
Listed in Great Britain		23,955		20,979	
Listed outside Great Britain		168		283	
		<u>24,123</u>		<u>21,262</u>	
Unlisted at directors' valuation		134,760		115,952	
Subsidiary undertakings	9	<u>31,563</u>		<u>26,583</u>	
			190,446		163,797
<b>Current assets</b>					
Debtors	11	1,434		1,749	
Investments		44,882		61,831	
Cash at bank and short-term deposits		<u>26,284</u>		<u>12,657</u>	
		<u>72,600</u>		<u>76,237</u>	
<b>Current liabilities</b>					
Creditors: amounts falling due within one year	12	<u>4,341</u>		<u>4,636</u>	
<b>Net current assets</b>			68,259		71,601
<b>Total assets less current liabilities</b>			<u>258,705</u>		<u>235,398</u>
<b>Capital and reserves</b>					
Called up share capital	14		9,080		9,080
Capital redemption reserve	15		324		324
Share premium	15		12,936		12,936
Capital reserve	15		230,154		207,377
Revenue reserve	15		<u>6,211</u>		<u>5,681</u>
<b>Shareholders' funds (equity)</b>			<u>258,705</u>		<u>235,398</u>
<b>Net asset value per share (basic and diluted)</b>	16		284.9p		259.2p

The financial statements were approved by the Board of directors on 17 March 2004.

J.R. Sclater }  
P.F. Dicks } Directors



The notes form part of these accounts.

## Consolidated Cash Flow Statement

For the year ended 31 December		2003		2002	
	Notes	£'000s	£'000s	£'000s	£'000s
<b>Operating activities</b>					
Income received from investments		4,559		2,767	
Interest received from deposits		776		1,123	
Other income received		599		758	
Investment management charges paid		(4,115)		(4,274)	
Amounts paid to and on behalf of directors		(127)		(85)	
Other cash payments		(749)		(794)	
<b>Net cash inflow/(outflow) from operating activities</b>	18		943		(505)
<b>Return on investments and servicing of finance</b>					
Interest paid		(15)		(7)	
<b>Net cash outflow from returns on investments and servicing of finance</b>			(15)		(7)
<b>Tax</b>					
Tax recovered		544		173	
<b>Net cash inflow from taxation</b>			544		173
<b>Investing activities</b>					
Purchase of portfolio investments		(35,438)		(46,769)	
Sale of portfolio investments		34,573		32,015	
<b>Net cash outflow from investing activities</b>			(865)		(14,754)
Equity dividends paid			(3,904)		(4,021)
<b>Cash outflow before management of liquid resources and financing</b>			(3,297)		(19,114)
<b>Management of liquid resources</b>					
Sale/(purchase) of institutional sterling funds	19	18,500		(14,500)	
<b>Net cash inflow/(outflow) from movement in liquid resources</b>			18,500		(14,500)
<b>Financing</b>					
Investments by minority interests		163		239	
Distributions to minority interests		(1,371)		(1,308)	
Repurchase of Company's own shares		-		(6,621)	
Capital expenses		(113)		-	
<b>Net cash outflow from financing</b>			(1,321)		(7,690)
<b>Increase/(decrease) in cash</b>			13,882		(41,304)
<b>RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS</b>					
Net liquid funds at 1 January			76,635		100,874
Increase/(decrease) in cash as above		13,882		(41,304)	
Sale/(purchase) of institutional sterling funds		(18,500)		14,500	
<b>Change in net liquid funds resulting from cash flows</b>		(4,618)		(26,804)	
Exchange difference		(39)		461	
Capitalised income		1,550		2,104	
<b>Movement of net liquid funds</b>			(3,107)		(24,239)
<b>Net liquid funds at 31 December</b>	20		73,528		76,635

The notes form part of these accounts.

## Notes to the Accounts

### 1 ACCOUNTING POLICIES

#### a) Basis of accounting

The accounts have been prepared on the historical cost basis of accounting, modified to include fixed asset investments at valuation and have been prepared in accordance with applicable accounting standards and with the revised Statement of Recommended Practice "Financial Statements of Investment Trust Companies" issued in January 2003. There have been no changes for this Company following the issue of the revised Statement of Recommended Practice.

All transactions on the realisation of investments held as fixed asset investments are treated as transactions on the capital account.

#### b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings.

#### c) Associated undertakings

The Companies Act 1985 requires associated undertakings to be equity accounted. There are some investments in the portfolio that might be classified as associated undertakings. In the directors' view equity accounting would not give a true and fair view of the Company's interests in these investments which are held as part of an investment portfolio for the purpose of generating capital gains. These investments are accounted for as investments and valued under the rules in paragraph d) below. This treatment is in accordance with the provisions of Financial Reporting Standard 9, "Associates and Joint Ventures". It is not practicable to quantify the effect of this departure from the requirements of the Companies Act 1985.

#### d) Valuation of investments

The investments in the portfolio are valued by the directors, as advised by the Manager, according to the following rules. For direct unquoted investment valuations these rules follow the Valuation Guidelines issued by the BVCA in June 2003. The new guidelines have not had a significant impact on the valuations. For quoted investments they follow the Statement of Recommended Practice "Financial Statements of Investment Trust Companies" issued by the AITC.

##### Direct Unquoted Investments

The basis of valuation is fair value. Fair value represents the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. The primary valuation methodology used is an earnings multiple methodology, with other methodologies used where they are more appropriate. A marketability discount is used in the calculation of fair value. The marketability discount is the return market participants demand to compensate for the risk that they may not be able to sell an asset immediately.

##### Third Party Fund Investments

Third party funds are valued at the external manager's valuation unless there are overriding reasons to apply a discount.

##### Quoted Investments

Quoted investments include both listed investments and those traded on other recognised markets. They are held at the mid-market value ruling at the balance sheet date unless there are risks that they might not be readily saleable or there are formal restrictions in place, in which case a discount is applied.

##### Current Asset Investments

Current asset investments are stated at the lower of cost and net realisable value.

## Notes to the Accounts

### e) Income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date. Dividends receivable on equity shares where no ex-dividend date is applicable are brought into account when the Group's right to receive payment is established. UK dividends are accounted for net of any tax credit.

Fixed returns on non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield on the shares. Other returns on non-equity shares are recognised when the right to the return is established. The fixed return on a debt security is recognised on a time apportionment basis so as to reflect the effective yield on the debt security. Income distributions from funds are recognised when the right to the return is established. Where reasonable doubt exists that income which falls to be recognised in the period will actually be received income is deferred until the reasonable doubt is removed.

### f) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account with the following exceptions:

Expenses which are incidental to the acquisition of investments are included within the cost of investments.

Expenses which are incidental to the disposal of investments are deducted from the disposal proceeds of investments.

Expenses are charged to realised capital reserve where a connection with the maintenance or enhancement of the value of investments can be demonstrated. The Board expects the substantial majority of long term returns from the portfolio to be generated from capital gains. The investment management charges have therefore been allocated 75% to capital and 25% to revenue account, in line with this expectation.

### g) Finance costs

Finance costs are accounted for on an accruals basis. Finance costs of debt, insofar as they relate to the financing of the Group's investments or to financing activities aimed at maintaining or enhancing the value of the Group's investments, are allocated 75% to capital and 25% to revenue account, on the same basis as the investment management charges. However, where there is a specific relationship between a particular finance cost and the returns or expected returns from a particular investment or from the investment portfolio, the allocation between capital and revenue reflects this.

### h) Taxation

The tax effect of different items of income or gain and expenditure or loss is allocated between capital and revenue on the same basis as the particular item to which it relates, using the Group's effective rate of tax for the accounting period.

### i) Foreign currency

Foreign currency assets and liabilities are expressed in sterling at the rates of exchange at the balance sheet date. Foreign currency transactions are translated at the rates of exchange on the dates of those transactions. Exchange differences arising from translation are credited or charged to capital or revenue reserve as appropriate.

### j) Deferred tax

Deferred tax is recognised on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are only recognised to the extent that they are regarded as recoverable.

## Notes to the Accounts

## 2 INCOME

	2003 £'000s	2002 £'000s
<b>Income from investments</b>		
Dividends from UK companies	1,682	703
UK unfranked investment income	1,717	1,753
Overseas interest	165	797
Income from current asset investments	1,550	2,104
Other income from investments	1,270	638
	<u>6,384</u>	<u>5,995</u>
<b>Other income</b>		
Deposit interest	776	1,107
Other	377	306
	<u>1,153</u>	<u>1,413</u>
<b>Total income</b>	<u>7,537</u>	<u>7,408</u>
<b>Analysis of total income</b>		
Dividends	1,682	703
Interest from investments	3,432	4,654
Other income	2,423	2,051
	<u>7,537</u>	<u>7,408</u>
<b>Analysis of income from investments</b>		
Listed in Great Britain	630	695
Unlisted	5,754	5,300
	<u>6,384</u>	<u>5,995</u>

## 3 INVESTMENT MANAGEMENT CHARGES

	2003			2002		
	Revenue £'000s	Capital £'000s	Total £'000s	Revenue £'000s	Capital £'000s	Total £'000s
Investment management fee	923	2,340	3,263	940	2,818	3,758
Irrecoverable VAT thereon	153	389	542	156	469	625
General Partner's Share	-	500	500	-	-	-
	<u>1,076</u>	<u>3,229</u>	<u>4,305</u>	<u>1,096</u>	<u>3,287</u>	<u>4,383</u>

The allocation of the investment management charges was unchanged in 2003 with 75% of the total charged to capital and 25% charged to revenue.

## Notes to the Accounts

### 4 OTHER EXPENSES

The Group does not directly employ any staff.

	2003 £'000s	2002 £'000s
Directors' fees (see note 5)	137	92
Auditors' remuneration:		
for services as auditors	54	32
for non audit services	-	(5)
General expenses	579	578
	<u>770</u>	<u>697</u>

Auditors' remuneration excluding VAT in relation to the audit of the parent company totalled £50,000 (2002: £32,000).

### 5 DIRECTORS' REMUNERATION AND INTERESTS

#### a) Remuneration from the Company

The amounts paid by the Company as directors' fees were as follows:

	2003 £'000s	2002 £'000s
J. Sclater (Chairman)	30	25
M. Cumming	22	16
P. Dicks	23	17
M. Fane	22	16
P. Gray	20	3
S. O'Connor	20	15
	<u>137</u>	<u>92</u>

#### b) Directors' interests in shares

The interests of the directors in the share capital of the Company, which are beneficial unless otherwise noted, were as follows:

#### Ordinary Shares

	31 December 2003	31 December 2002
J. Sclater	2,747	2,747
M. Cumming	-	-
P. Dicks	-	-
M. Fane	7,000	7,000
P. Gray	-	-
S. O'Connor	-	-

There has been no change in the above shareholdings since the end of the financial year and no director has held any interest in the Company's share capital other than as shown above.

## Notes to the Accounts

### 6 INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £'000s	2002 £'000s
Repayable within five years, not by instalments:		
Overdraft	-	8
Other	15	-
	<u>15</u>	<u>8</u>

### 7 TAXATION

	2003 £'000s	2002 £'000s
a) Analysis of charge in year		
UK corporation tax at 30.0% (2002 - same)	1,245	1,488
Prior year adjustment	(3)	-
Revenue tax charge	1,242	1,488
Tax effect of capital items	(1,245)	(1,488)
	<u>(3)</u>	<u>-</u>
b) Factors affecting tax charge for year		
Revenue on ordinary activities before tax	5,676	5,607
Revenue on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002 - same)	1,703	1,682
Effect of:		
- expenses not deductible for tax purposes	47	17
- UK dividends not subject to corporation tax	(505)	(211)
	<u>1,245</u>	<u>1,488</u>

The Enterprise Trust has not recognised deferred tax assets of £1,211,000 (2002: £803,000) arising as a result of unrelieved management expenses. These expenses will only be utilised if the Company has profits chargeable to corporation tax in the future and this is unlikely.

### 8 RETURN PER ORDINARY SHARE

Revenue return per ordinary share is based on revenue return attributable to equity shareholders of £4,434,000 (2002 - £4,119,000). The revenue return per share is 4.88p (2002 - 4.47p).

Capital return per ordinary share is based on a capital gain attributable to equity shareholders for the financial year of £22,777,000 (2002 - loss of £21,612,000). Calculated on both the basic and diluted basis the capital gain per share is 25.08p (2002 - loss of 23.46p).

Both the revenue and capital returns are based on a weighted average of 90,800,000 ordinary shares in issue during the year (2002 - 92,112,055).

## Notes to the Accounts

### 9 SUBSIDIARY UNDERTAKINGS

Graphite Enterprise Trust Limited Partnership and Graphite Capital Partners VI 'E' (the "Partnerships"), which are registered in England, were subsidiary undertakings at 31 December 2003.

The Company makes investments through the Partnerships. The Co-investors invest alongside the Company under the co-investment arrangements described in the Directors' Report. Contributions by the Company and the Co-investors take the form of commitments to the Partnerships. As a limited partner the Company's liability is restricted to the amount of its loans to the Partnerships. The Partnerships are considered to be subsidiary undertakings of the Company and accordingly consolidated accounts have been prepared. The address of the Partnerships' principal place of business is the registered office of the Company.

In the Company's accounts the Partnerships are valued at an amount reflecting their underlying assets and liabilities. Investments held by the Partnerships are valued in accordance with the valuation policy set out in note 1.

### 10 INVESTMENTS

Group	Listed £'000s	Unlisted £'000	Total £'000
Cost at 1 January 2003	6,289	190,432	196,721
Unrealised appreciation/(depreciation) at 1 January 2003	15,618	(46,022)	(30,404)
Valuation at 1 January 2003	21,907	144,410	166,317
Movements in the year:			
Purchases at cost	851	34,164	35,015
Transfer between unlisted and listed	2,265	(2,265)	-
Sales - proceeds	(9,436)	(25,134)	(34,570)
- realised gains based on carrying value at previous balance sheet date	1,527	2,241	3,768
Movement in unrealised appreciation/(depreciation)	7,500	15,051	22,551
Valuation at 31 December 2003	24,614	168,467	193,081
Cost at 31 December 2003	6,562	197,174	203,736
Unrealised appreciation/(depreciation) at 31 December 2003	18,052	(28,707)	(10,655)
Valuation at 31 December 2003	24,614	168,467	193,081
		2003	2002
		£'000s	£'000s
Realised gains based on cost		6,569	11,015
Less: amounts recognised as unrealised in previous years		(2,801)	(6,669)
Realised gains based on carrying values at previous balance sheet date		3,768	4,346
Increase/(decrease) in unrealised appreciation		22,551	(22,860)
Gains and losses on investments		26,319	(18,514)

## Notes to the Accounts

## 10 INVESTMENTS (CONTINUED)

Parent	Listed £'000s	Unlisted £'000s	Subsidiary	Total £'000s
			Undertaking £'000s	
Cost at 1 January 2003	6,203	153,442	31,734	191,379
Unrealised appreciation/(depreciation) at 1 January 2003	15,059	(37,490)	(5,151)	(27,582)
Valuation at 1 January 2003	21,262	115,952	26,583	163,797
Movements in the year:				
Purchases at cost	851	27,302	3,307	31,460
Transfer between unlisted and listed	1,809	(1,809)	-	-
Sales - proceeds	(8,708)	(20,483)	-	(29,191)
- realised gains based on carrying value at previous balance sheet date	2,236	2,267	-	4,503
Movement in unrealised appreciation/(depreciation)	6,673	11,531	1,673	19,877
Valuation at 31 December 2003	24,123	134,760	31,563	190,446
Cost at 31 December 2003	6,235	158,808	35,041	200,084
Unrealised appreciation/(depreciation) at 31 December 2003	17,888	(24,048)	(3,478)	(9,638)
Valuation at 31 December 2003	24,123	134,760	31,563	190,446
			2003 £'000s	2002 £'000s
Realised gains based on cost			6,435	9,447
Less: amounts recognised as unrealised in previous years			(1,932)	(9,266)
Realised gains based on carrying values at previous balance sheet date			4,503	181
Increase/(decrease) in unrealised appreciation			19,877	(20,207)
Gains and losses on investments			24,380	(20,026)

A geographical and sector analysis of the portfolio is given in note 23. Details of the largest investments are given on pages 11 to 17.

During the year there were no material write downs of unquoted portfolio investments.

During the year no material disposals of unquoted portfolio investments were made.

Details of material investments in unquoted companies are as follows:

Company	Cost at	Cost at	Carrying	Carrying
	31/12/02	31/12/03	value at	value at
	£'000s	£'000s	£'000s	£'000s
Maplin Electronics (Holdings) Limited				
1p Ordinary shares	99	99	8,555	17,218
Loan stock	3,439	-	3,439	-
Short-term loan	47	-	47	-
	3,585	99	12,041	17,218

## Notes to the Accounts

### 10 INVESTMENTS (CONTINUED)

#### Significant interests in Investee Undertakings

The Group had an interest of more than 20% of a class of share capital of the investee undertakings shown below which also each represent more than 1% by value of the fixed asset investments of the Group.

Company	Country of incorporation or registration	Number and class of shares held	Percentage of class held
Applied Energy Holdings Limited	England	23,925 'A' ordinary shares of 1p	30.0
BROOMCO (3146) Limited*	England	157,635 ordinary shares of £1	30.0
Equanet Holdings Limited	England	19,500 'A' ordinary shares of 1p	30.0
Go Plant Limited	England	125,955 'A' ordinary shares of 10p	57.9
Golden Tulip (UK) Limited	England	1,167,275 'A' ordinary shares	29.9
Huntress Search Limited	England	12,075,000 'A' ordinary shares of 0.01p	100.0
Jane Norman (Holdings) Limited	England	21,984 ordinary shares of 1p	31.5
LEL Holdings Limited	England	135,000 'A' ordinary shares of 10p	30.0
Leapfrog Day Nurseries (Trading) Limited	England	3,513,030 redeemable preference shares of £1	22.9
		647,528 'B' preferred ordinary shares of 10p	22.2
		359,384 super preference shares of £1	22.2
Maplin Electronics (Holdings) Limited	England	219,107 'A' ordinary shares of 1p	22.6
Napier Industries Group Limited	England	175,800 'A' ordinary shares of 10p	26.0
Paperchase Products Limited	England	42,905 'BB' ordinary shares of £1	70.6
PIFC Group Limited	England	159,408 'A' ordinary shares of 1p	38.7
Pilot Hotels Limited	England	1,167,275 'A' ordinary shares	29.9
Ridgmont Holdings Limited	England	58,500 'B' ordinary shares of 1p	30.0
Standard Brands (UK) Limited	England	40,000 'A' ordinary shares of 1p	50.0
Summit Medical Limited	England	205,200 'A' ordinary shares of 1p	30.0
Tesla Limited	England	250,442 'A' ordinary shares of 1p	32.0
U-POL Products Limited	England	80,955 'A' ordinary shares of 10p	27.0
Wagamama Group Limited	England	88,023 'A' ordinary shares of £1	41.3
		1,000,568 preference shares of £1	41.3
		136,159 'B' ordinary shares of £1	41.3
		151,289 'A1' ordinary shares of £1	35.5
		151,289 'A2' ordinary shares of US \$0.01	35.5

\*Parent of Leaderflush+Shapland

None of the above holdings represents a participating interest as defined in the Companies Act 1985.

Investee companies may issue a number of different classes of share. The percentage of the total issued ordinary share capital held by the Company in the investee companies listed above may therefore be less than the percentage of the share classes shown.

Mr M Cumming and Mr P Dicks held interests in Wagamama Group Limited and Mr S O'Connor held an interest in Applied Energy Holdings Limited. All of these interests represented less than 5.0% of the equity in any of these companies.

During the year and at the year end the Group had a 10.0% or more interest in the following Funds:

A 24.7% interest in Piper Private Equity Fund III, a UK fund investing in early stage retail companies.

A 10.0% interest in Corffin Capital Fund II, a Spanish private equity fund.

During the year and at the year end the Group had an interest that was material to the Group in the following funds:

A 9.8% interest in the ICG Mezzanine Fund 2000.

A 3.3% interest in the Hicks, Muse, Tate & Furst Europe Fund.

Further information on both of these funds is contained in the description of the ten largest investments on pages 11 to 15.

The Group had the following holdings of 3% or more in investee companies that are material in the context of the financial statements:

A 20.0% interest in Maplin Electronics (Holdings) Limited.

## Notes to the Accounts

### 11 DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003		2002	
	Group £'000s	Parent £'000s	Group £'000s	Parent £'000s
Prepayments and accrued income	233	199	473	380
Other debtors	351	1,235	701	1,369
	<u>584</u>	<u>1,434</u>	<u>1,174</u>	<u>1,749</u>

### 12 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003		2002	
	Group £'000s	Parent £'000s	Group £'000s	Parent £'000s
Accruals	438	434	350	342
Dividend payable on ordinary shares	3,904	3,904	3,904	3,904
Taxation payable	-	-	100	100
Other creditors	36	3	443	290
	<u>4,378</u>	<u>4,341</u>	<u>4,797</u>	<u>4,636</u>

### 13 LOANS

The Company has a £20 million uncommitted loan facility with Bank of Scotland with annual reviews. No amounts were outstanding under this facility at 31 December 2003 (2002 - same). The next annual review is due in August 2004.

### 14 SHARE CAPITAL

Equity share capital	Authorised	Nominal	Issued and	Nominal
	Number	£'000s	fully paid Number	£'000s
Ordinary shares of 10p each				
Balance at 1 January 2003 and 31 December 2003	<u>120,000,000</u>	<u>12,000</u>	<u>90,800,000</u>	<u>9,080</u>

There were no ordinary shares purchased for cancellation during the year.

## Notes to the Accounts

## 15 RESERVES

Group	Realised capital reserve £'000	Unrealised capital reserve £'000s	Total capital reserve £'000s	Capital redemption reserve £'000s	Share premium £'000s	Revenue reserve £'000s
Balance at 1 January 2003	242,300	(34,923)	207,377	324	12,936	5,681
Exchange difference	(39)	-	(39)	-	-	-
Transfer on disposal of investments	2,801	(2,801)	-	-	-	-
Net gain on realisation of investments	3,768	-	3,768	-	-	-
Increase in unrealised appreciation	-	22,551	22,551	-	-	-
Management charges	(3,229)	-	(3,229)	-	-	-
Tax effect of capital items	1,245	-	1,245	-	-	-
Purchase of ordinary shares in the year	-	-	-	-	-	-
Expenses in connection with the formation of Graphite Capital Partners VI 'E'	(113)	-	(113)	-	-	-
Minority interests	(2,893)	1,487	(1,406)	-	-	-
Retained revenue for the year	-	-	-	-	-	530
Balance at 31 December 2003	243,840	(13,686)	230,154	324	12,936	6,211

Parent	Realised capital reserve £'000s	Unrealised capital reserve £'000s	Total capital reserve £'000s	Capital redemption reserve £'000s	Share premium £'000s	Revenue reserve £'000s
Balance at 1 January 2003	223,394	(16,017)	207,377	324	12,936	5,681
Exchange difference	(67)	-	(67)	-	-	-
Transfer on disposal of investments	1,932	(1,932)	-	-	-	-
Net gain on realisation of investments	4,503	-	4,503	-	-	-
Increase in unrealised appreciation	-	19,877	19,877	-	-	-
Management charges	(2,729)	-	(2,729)	-	-	-
Tax effect of capital items	1,245	-	1,245	-	-	-
Purchase of ordinary shares in the year	-	-	-	-	-	-
Expenses in connection with the formation of Graphite Capital Partners VI 'E'	(52)	-	(52)	-	-	-
Retained revenue for the year	-	-	-	-	-	530
Balance at 31 December 2003	228,226	1,928	230,154	324	12,936	6,211

The revenue return after taxation of the parent company was £4,434,000 (2002 - £4,119,000). A separate revenue account for the Company has not been included, as permitted by Section 230 of the Companies Act 1985.

## 16 NET ASSET VALUE PER SHARE

The net asset value per share is calculated on shareholders' funds of £258,705,000 (2002 - £235,398,000) and on 90,800,000 (2002 - 90,800,000) ordinary shares in issue at the year end. Calculated on both the basic and diluted basis the net asset value per share is 284.9p (2002 - 259.2p).

## Notes to the Accounts

## 17 RECONCILIATION OF MOVEMENTS IN ORDINARY SHAREHOLDERS' FUNDS

	2003		2002	
	Group £'000s	Parent £'000s	Group £'000s	Parent £'000s
Net revenue attributable to ordinary shareholders	4,434	4,434	4,119	4,119
Dividend	(3,904)	(3,904)	(3,904)	(3,904)
Revenue surplus	530	530	215	215
Opening shareholders' funds	235,398	235,398	262,267	262,267
Capital surplus/(deficit)	22,777	22,777	(21,612)	(21,612)
Purchase of ordinary shares	-	-	(5,472)	(5,472)
Revenue surplus	530	530	215	215
Closing shareholders' funds	258,705	258,705	235,398	235,398

## 18 RECONCILIATION OF NET REVENUE ON ORDINARY ACTIVITIES BEFORE TAXATION TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	2003 £'000s	2002 £'000s
Net revenue on ordinary activities before taxation	5,676	5,607
Add back interest payable	15	8
Income before interest payable and taxation	5,691	5,615
Decrease/(increase) in debtors	241	(282)
Increase/(decrease) in creditors	88	(165)
Tax on investment income included within income	(298)	(282)
Income received via capital	(1,550)	(2,104)
Management charges taken to capital	(3,229)	(3,287)
Net cash inflow/(outflow) from operating activities	943	(505)

## 19 ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

During the year there were purchases of current asset investments of £7,500,000 (2002 - £30,000,000) and sales of £26,000,000 (2002 - £15,500,00).

## 20 ANALYSIS OF NET LIQUID FUNDS

	At 1 Jan 2003 £'000s	Cash flow £'000s	Exchange movement £'000s	Capitalised income £'000s	At 31 Dec 2003 £'000s
Cash at bank and short-term deposits	14,804	13,882	(39)	-	28,647
Current asset investments: institutional sterling funds	61,831	(18,500)	-	1,550	44,881
Total	76,635	(4,618)	(39)	1,550	73,528

## Notes to the Accounts

### 21 CAPITAL COMMITMENTS AND CONTINGENCIES

Until 31 December 2003, most investments made by the Group were allocated 80% to the Company and 20% to *Graphite Enterprise Trust Limited Partnership*. Under this arrangement the Company is committed to provide funds to the *Graphite Enterprise Trust Limited Partnership* to enable it to take up its 20% share. From 1 January 2004 most direct investments made by the Group will be allocated to *Graphite Capital Partners VI 'E'* to which the Company has committed £50 million. Investments in third party funds and certain direct investments will continue to be allocated 80% to the Company and 20% to *Graphite Enterprise Trust Limited Partnership*.

The Group had uncalled commitments and other contingencies in relation to the following portfolio investments at 31 December, excluding the remaining commitment of £49.4 million to *Graphite Capital Partners VI 'E'*:

	2003	2002
	£'000s	£'000s
Charterhouse Project Equity Fund	9,523	9,901
Barclays European Infrastructure Fund	9,368	9,368
Activa Capital Fund	6,153	-
Corpfin Capital Fund II	4,883	5,736
Deutsche Beteiligungs AG IV	4,784	4,755
Hicks, Muse, Tate & Furst Europe Fund	4,244	6,198
Euro Mezzanine IV	3,996	5,214
Piper Private Equity Fund III	2,237	-
Huntress	1,579	1,579
Golden Tulip	1,441	3,331
ICG Mezzanine Fund 2000	1,173	1,116
U-POL	915	3,782
Paperchase	728	1,711
Charterhouse Capital Partners VI	478	521
Hibernia Development Capital Partners	385	603
Hill Leigh Holdings	250	250
Leapfrog	222	222
Charterhouse Capital Partners V	85	85
Total	52,444	54,372

### 22 MINORITY INTERESTS

Minority interests, which are also described in note 9, represent the interests of the Co-investors in the assets of the Partnerships at 31 December 2003.

During the year ended 31 December 2003 the Co-investors subscribed an amount of £144,000 (2002 - £232,000) and received cash payments totalling £1,371,000 (2002 - £1,308,000) under the co-investment arrangements. The minority interest shown on the balance sheet represents the Co-investors' potential share of the gains on investments calculated on the assumption that investments were realised at their valuation on 31 December 2003.

## Notes to the Accounts

## 23 GEOGRAPHIC AND SECTOR ANALYSIS OF INVESTMENTS IN PORTFOLIO COMPANIES

	UK		Non-UK		2003	2002
	Q	U	Q	U	Total	Total
	%	%	%	%	%	%
Advertising and recruitment	2.5	2.2	-	-	4.7	4.0
Breweries, pubs and restaurants	-	4.7	-	0.5	5.2	5.6
Chemicals	-	0.8	-	0.3	1.1	1.5
Communications and office equipment	-	0.2	-	0.6	0.8	1.0
Computer services and software	3.5	1.2	-	0.3	5.0	5.5
Construction and building supplies	-	6.1	-	1.7	7.8	8.8
Consumer goods manufacturing	-	9.6	-	0.5	10.1	12.5
Consumer services	-	2.0	-	0.5	2.5	4.2
Electronics	-	8.9	-	-	8.9	7.4
Engineering	-	-	-	0.6	0.6	-
Health care and pharmaceuticals	-	5.2	-	0.5	5.7	5.9
Industrial materials and services	0.6	6.9	-	7.5	15.0	13.7
Insurance	-	2.3	-	0.1	2.4	5.3
Leisure	-	3.6	-	1.2	4.8	4.2
Merchant banking and finance	3.3	0.1	-	-	3.4	6.2
Mortgages and personal finance	-	-	-	0.1	0.1	0.2
Newspapers and publishing	-	4.6	-	2.5	7.1	5.4
Property	-	-	-	-	-	0.1
Retailing	1.4	6.5	-	2.1	10.0	4.8
Transport and distribution	-	3.8	0.1	0.9	4.8	3.7
Totals	11.3	68.7	0.1	19.9	100.0	
2002 Totals	13.3	70.7	0.2	15.8		100.0

Q Quoted investments, including both listed investments and those traded on other organised markets.

U Unquoted investments.

Note: The value of convertible securities is £0.4 million or 0.2% of the investment portfolio. The value of fixed income securities is £52.0 million or 21.3% of the investment portfolio.

## Notes to the Accounts

### 24 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Company is an investment company as defined by Section 266 of the Companies Act 1985 and conducts its affairs so as to qualify as an investment trust under the provisions of Section 842 of the Income and Corporation Taxes Act 1988. The Group's objective is to provide shareholders with long term capital growth primarily through investment in unquoted companies both directly and through specialist funds. Direct investments are made with an anticipated holding period of between three and five years while investments in funds have anticipated lives of approximately ten years. Investment agreements will, however, usually provide that any loans advanced to investee companies are for a longer period than this. The agreements will usually provide for repayments to be made by instalments with provision for full repayment on sale or flotation.

The Group has the power to take out both short and long term borrowings.

The Chairman's Statement on pages 2 to 5 summarises the capital and revenue performance for the year to December 2003.

The Manager's Review on pages 6 to 8 summarises the investment performance of the Group for the year.

In pursuing its objectives the Group faces risks to both assets and revenue. These risks, and the directors' approach to the management of the risks, are as follows:

	Risk	Management of Risk
Credit	Failure by counterparties to deliver securities for which the Group has paid, or to pay for securities which the Group has delivered.	Transactions on quoted companies are settled on the basis of delivery against payment. Transactions on unquoted investments are generally made according to detailed legal agreements and are either settled through lawyers or are paid to existing portfolio companies.
Liquidity	Difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments.	The Group has significant investments in unquoted companies which are inherently illiquid. The Group seeks to have cash generally available to meet short term financial needs. It also has the power to take out borrowings, both short and long term. The Group currently has a borrowing facility of £20 million.
Market	The Group's assets consist principally of quoted and unquoted investments. The value of the quoted investments is determined by market forces and the value of unquoted investments is partially determined by market forces.	The Board monitors market risk inherent in the Group's portfolio by ensuring that it has full and timely access to relevant information from the Manager. The Board meets at least four times a year and at each meeting reviews investment performance and financial results. It monitors compliance with the Group's objective and is responsible for investment strategy.
Currency	The Group's assets consist principally of sterling investments. The value of non-sterling investments and the income from them can change according to movements in exchange rates.	The Board monitors the currency risk inherent in the Group's portfolio by ensuring that it has full and timely access to relevant information from the Manager. The Board meets at least four times a year and at each meeting reviews the Group's currency exposure.

## Notes to the Accounts

### 24 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

The interest rate profile of the financial assets of the Group at 31 December 2003 was:

	Fixed rate £'000s	Floating rate £'000s	Non-interest bearing £'000s	Total £'000s
Sterling	40,372	70,060	95,137	205,569
European currencies (excluding sterling)	456	3,237	55,392	59,085
North American currencies	192	231	1,532	1,955
<b>Total</b>	<b>41,020</b>	<b>73,528</b>	<b>152,061</b>	<b>266,609</b>

The interest rate profile of the financial assets of the Group at 31 December 2002 was:

	Fixed rate £'000s	Floating rate £'000s	Non-interest bearing £'000s	Total £'000s
Sterling	43,503	74,499	74,821	192,823
European currencies (excluding sterling)	1,345	3,836	42,817	47,998
North American currencies	174	133	1,824	2,131
<b>Total</b>	<b>45,022</b>	<b>78,468</b>	<b>119,462</b>	<b>242,952</b>

The profile of the fixed rate financial assets at 31 December 2003 was:

	Weighted average interest rate	Weighted average period for which rate is fixed
Sterling	10%	3.9 years
European currencies (excluding sterling)	5%	3.0 years
North American currencies	13%	3.0 years
<b>Total</b>	<b>10%</b>	<b>3.9 years</b>

The profile of the fixed rate financial assets at 31 December 2002 was:

	Weighted average interest rate	Weighted average period for which rate is fixed
Sterling	9%	4.9 years
European currencies (excluding sterling)	6%	4.6 years
North American currencies	13%	4.0 years
<b>Total</b>	<b>9%</b>	<b>4.9 years</b>

The Group's short term debtors and creditors are excluded from the analysis above.

## Notes to the Accounts

### 24 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

Net currency exposure of the net assets of the Group at 31 December 2003 was:

£'000s	Sterling	European currencies (excluding sterling)	North American currencies	Total
Sterling	201,775	59,085	1,955	262,815

Net currency exposure of the net assets of the Group at 31 December 2002 was:

£'000s	Sterling	European currencies (excluding sterling)	North American currencies	Total
Sterling	189,200	47,998	2,131	239,329

The directors are of the opinion that the financial assets and liabilities of the Group are stated at fair value in the balance sheet.

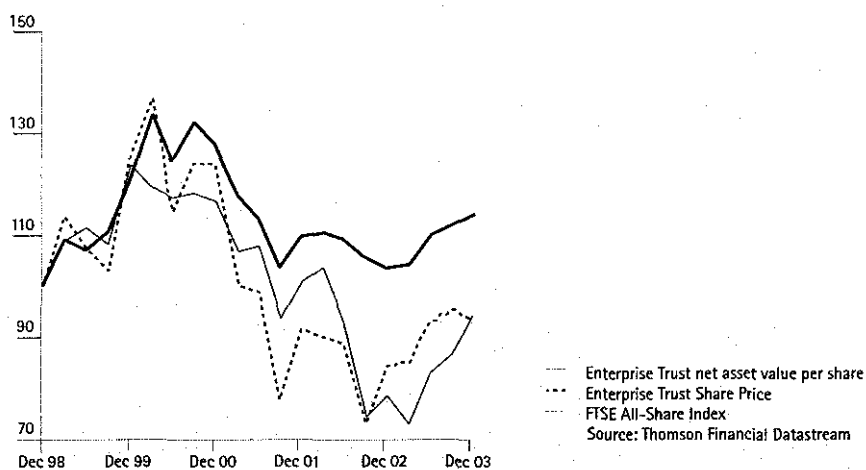
## Directors' Remuneration Report

### Remuneration Committee

As the Board of Directors is comprised solely of non-executive directors, it has taken advantage of the exemption granted by the Listing Rules not to appoint a remuneration committee. The determination of the directors' fees is a matter dealt with by the whole Board. The level of fees for non-executive directors is reviewed annually by the whole Board.

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £175,000 per annum. Subject to this overall limit and any amendment to the Articles of Association, it is the Company's policy to determine the level of directors' fees having regard to the level of fees payable to non-executive directors in the industry generally, the role that individual directors fulfil, and the time committed to the Company's affairs. It is not the Company's policy to include an element of performance related pay. It is not the Company's policy to provide service contracts with its non-executive directors. No non-executive director has a service contract with the Company.

### Five Year Performance Graph



The Company's performance is measured against the FTSE All-Share Index as this is considered to be the most appropriate benchmark.

### Remuneration for Qualifying Services

Name	Salary and Fees £'000s	Bonus £'000s	Taxable expense allowance £'000s	Compensation for loss of office £'000s	Estimated value of non-cash benefits† £'000s	2003 Total £'000s	2002 Total £'000s
John Sclater	30	-	-	-	-	30	25
Michael Cumming	22	-	-	-	-	22	16
Peter Dicks	23	-	-	-	-	23	17
Mark Fane	22	-	-	-	-	22	16
Peter Gray	20	-	-	-	-	20	3
Sean O'Connor	20	-	-	-	-	20	15
	137	-	-	-	-	137	92

† Not including share options or long term incentives. No director has any share options or any long term incentives.

The information in the above table has been audited – see Independent Auditors' Report on page 46.

## Directors' Statement of Responsibility

As required by company law, the directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of results for the year then ended.

In preparing the financial statements, suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made. The financial statements are prepared in accordance with applicable accounting standards, the Statement of Recommended Practice "Financial Statements of Investment Trust Companies" and the Listing Rules of the Financial Services Authority. The directors are also responsible for ensuring that adequate accounting records are maintained and have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent fraud and other irregularities.

## Independent Auditors' Report

To the members of Graphite Enterprise Trust PLC

We have audited the financial statements which comprise the consolidated statement of total return, the consolidated balance sheet and the Company balance sheet, the consolidated cash flow statement and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report ("the auditable part").

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Directors' Statement of Responsibility.

Our responsibility is to audit the financial statements and the auditable part of the Directors' Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been 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 or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the Chairman's Statement, the Manager's Review, The 30 Largest Investments and the corporate governance statement and the Directors' Remuneration Report (the "non-auditable part").

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code issued in June 1998 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

#### Basis of audit opinion

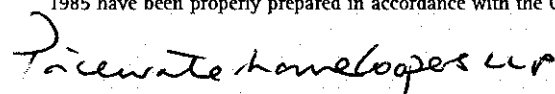
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the Directors' Remuneration Report. It also includes an assessment of the significant estimates and judgements made by the directors in preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 and the auditable part of the Directors' Remuneration Report are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

#### Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the affairs of the Company and the Group at 31 December 2003 and of the total return and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP  
Chartered Accountants  
and Registered Auditors  
30 March 2004

Southwark Towers  
32 London Bridge Street  
London SE1 9SY

Note to those who access this document by electronic means

Neither an audit nor a review provides assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

## Notice of Meeting

Notice is hereby given that the twenty-third Annual General Meeting of Graphite Enterprise Trust PLC will be held at The Royal Room, The Chesterfield Mayfair Hotel, 35 Charles Street, London W1J 5EB, on 20 May 2004 at 3.30 p.m. for the following purposes:

### Ordinary Business

- 1 To receive and adopt the directors' report and accounts for the year ended 31 December 2003.
- 2 To declare a dividend on the ordinary shares.
- 3 To re-elect the following directors:
  - a) P. Dicks, retiring by rotation
  - b) S. O'Connor, retiring by rotation
- 4 To re-appoint PricewaterhouseCoopers LLP as auditors to the Company and to authorise the directors to fix their remuneration.

### Special Business

To consider and, if thought fit, to pass the following resolutions as special resolutions:

- 5 THAT:
  - a) the directors be and they are hereby:
    - (i) generally and unconditionally authorised, in accordance with Section 80 of the Companies Act 1985 (the "Act"), to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £454,000 (5% of the issued ordinary share capital) during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the Annual General Meeting of the Company in 2005; and
    - (ii) empowered, pursuant to Section 95 of the Act, to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the authority referred to in paragraph (a)(i) of this resolution as if Section 89(1) of the Act did not apply to any such allotment, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority and power and notwithstanding such expiry the directors may allot relevant securities and/or equity securities in pursuance of such offers or agreements; and
  - b) all authorities and powers previously conferred under Section 80 or Section 95 of the Act be and they are hereby revoked, provided that such revocation shall not have retrospective effect.

This resolution 5 gives the directors a general authority to allot shares and a power to allot shares for cash. If it is passed the directors will have the authority to issue 4,540,000 new shares, representing 5% of the issued ordinary share capital of the Company. The resolution gives the directors the power to issue shares for cash without rights of pre-emption applying.

- 6 THAT:

the Company be and is hereby generally and unconditionally authorised, in accordance with Section 166 of the Companies Act 1985 (the "Act"), to make market purchases (within the meaning of Section 163 of the Act) of ordinary shares of 10p each in the capital of the Company ("ordinary shares") on such terms and in such manner as the directors may from time to time determine, provided that:

  - a) the maximum number of ordinary shares hereby authorised to be purchased shall be 13,529,200 (14.9% of the issued ordinary share capital);
  - b) the minimum price which may be paid for an ordinary share is 10p;
  - c) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased;
  - d) the minimum and maximum prices per ordinary share referred to in sub-paragraphs b) and c) of this resolution are in each case exclusive of any expenses payable by the Company;
  - e) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2005 or, if earlier, on the expiry of 15 months from the date of the passing of this resolution, unless such authority is varied, revoked or renewed prior to such time by the Company in general meeting by special resolution; and
  - f) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract.

### Ordinary Business

- 7 To consider and, if thought fit, to approve the Directors' Remuneration Report for the year ended 31 December 2003.

By order of the Board  
Graphite Capital Management Limited  
Secretary  
8 April 2004

Registered office  
Berkeley Square House,  
Berkeley Square,  
London W1J 6BQ

**Notes**

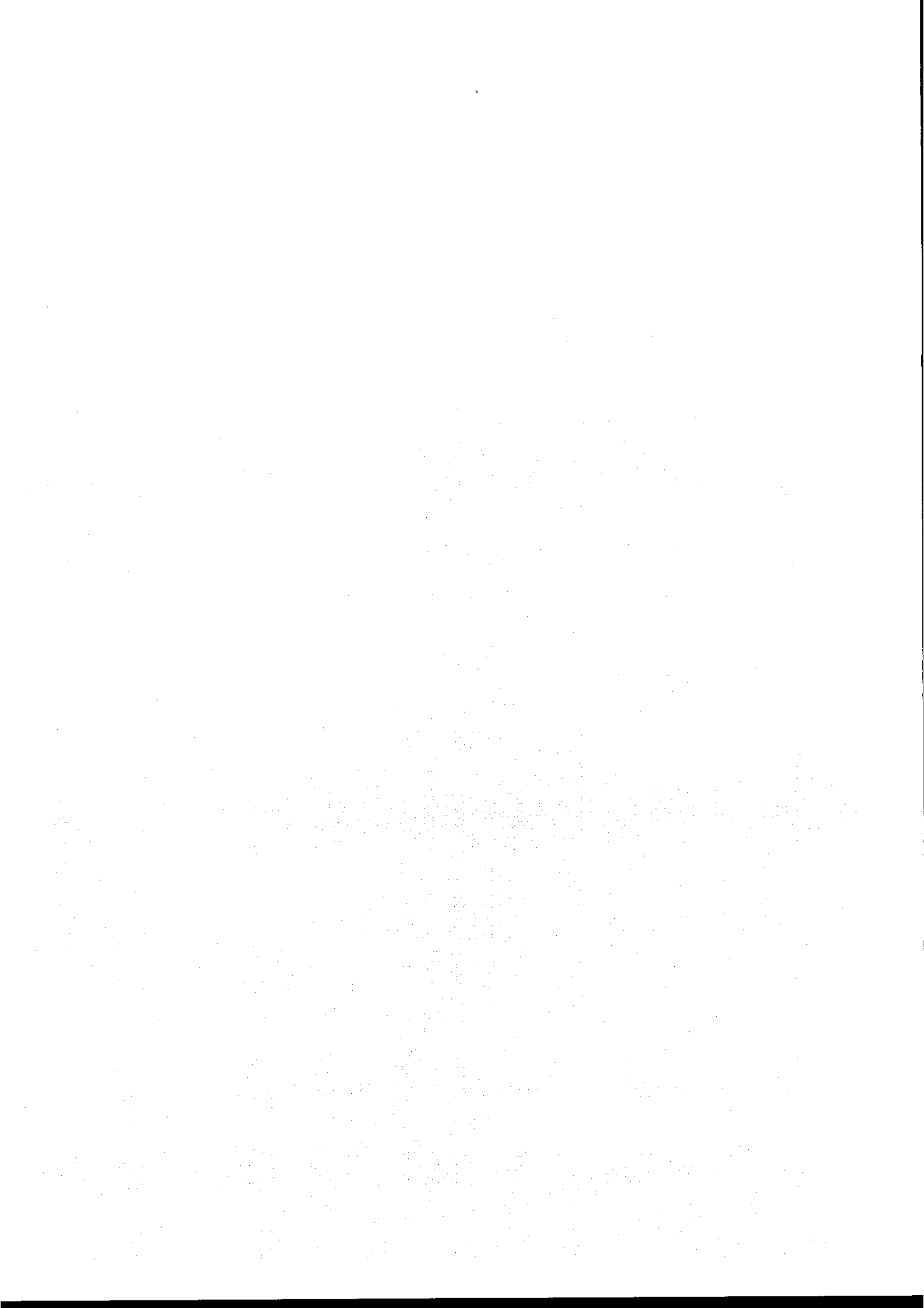
In accordance with Regulation 41 of The Securities Regulations 2001, only shareholders registered on the register of members of the Company at 7.00 a.m. on 19 May 2004 shall be entitled to attend and vote at the meeting in respect of the shares registered in their name at that time. Changes to entries on the register of members after 7.00 a.m. on 19 May 2004 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and vote instead of the member. A proxy need not be a member of the Company.

To be valid, a form of proxy for use at the meeting and the power of attorney or other authority (if any) under which it is signed, or a notarially certified or office copy of such power of authority, must be deposited with the Company's registrars, Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgewater Road, Bristol BS99 7NH, not less than 48 hours before the time appointed for holding the meeting. In view of this requirement, investors holding shares in the Company through the F&C Private Investor, Personal Equity or Pension Savings Plans or in an F&C Individual Savings Account should ensure that forms of direction are returned to Computershare Investor Services PLC not later than 96 hours before the time appointed for the meeting.

No director has any contract of service with the Company. The register of directors' holdings and the Company's memorandum and articles of association are available for inspection at the registered office of the Company during normal business hours on any week day and will be available at the place of meeting from 15 minutes prior to the commencement of the meeting until its conclusion.





GRAPHITE CAPITAL MANAGEMENT LIMITED  
BERKELEY SQUARE HOUSE  
BERKELEY SQUARE  
LONDON W1J 6BQ  
(AUTHORISED AND REGULATED BY THE  
FINANCIAL SERVICES AUTHORITY)

**GRAPHITE CAPITAL**