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# GRAPHITE ENTERPRISE TRUST PLC

Report and Accounts

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GRAPHITE CAPITAL

The objective of Graphite Enterprise is to provide shareholders with long term capital growth through investment in unquoted companies, mostly through specialist funds but also directly.

Graphite Enterprise has been investing in private equity for over 25 years. It applies the skills, disciplines and experience of direct investment in unquoted companies to the selection and management of its portfolio of funds. By investing in Graphite Enterprise, shareholders gain exposure to a diversified portfolio of mature unquoted companies.

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## Summary of the year

Net asset value per share.....**-13.6%**

The net asset value per share fell by 13.6% compared with a fall of 32.8% in the FTSE All-Share Index

Share price.....**-60.5%**

The discount to the net asset value per share widened from 8.7% to 58.4%

Closing cash and cash equivalents.....**£139.0m**

Cash and cash equivalents increased by £4.3 million and accounted for 41.9% of total assets at the year end

Undrawn commitments.....**£307.3m**

The level of undrawn commitments increased by £4.3 million

## Financial summary

As at 31 December	2008	2007	Change
Net asset value per share	449.0p	519.4p	<b>-13.6%</b>
Share price	187.0p	474.0p	<b>-60.5%</b>
Dividend per share	4.5p	8.0p	<b>-43.8%</b>
FTSE All-Share Index	2,209	3,287	<b>-32.8%</b>

## Chairman's Statement

*The defensive action taken during the year has significantly strengthened the Company's financial position*

Years	1	3	5	10
NAV per share	-13.6%	+12.7%	+55.2%	+64.6%
Share price	-60.5%	-48.7%	-15.9%	-28.8%
FTSE All-Share	-32.8%	-22.4%	+0.1%	-17.4%

### Summary

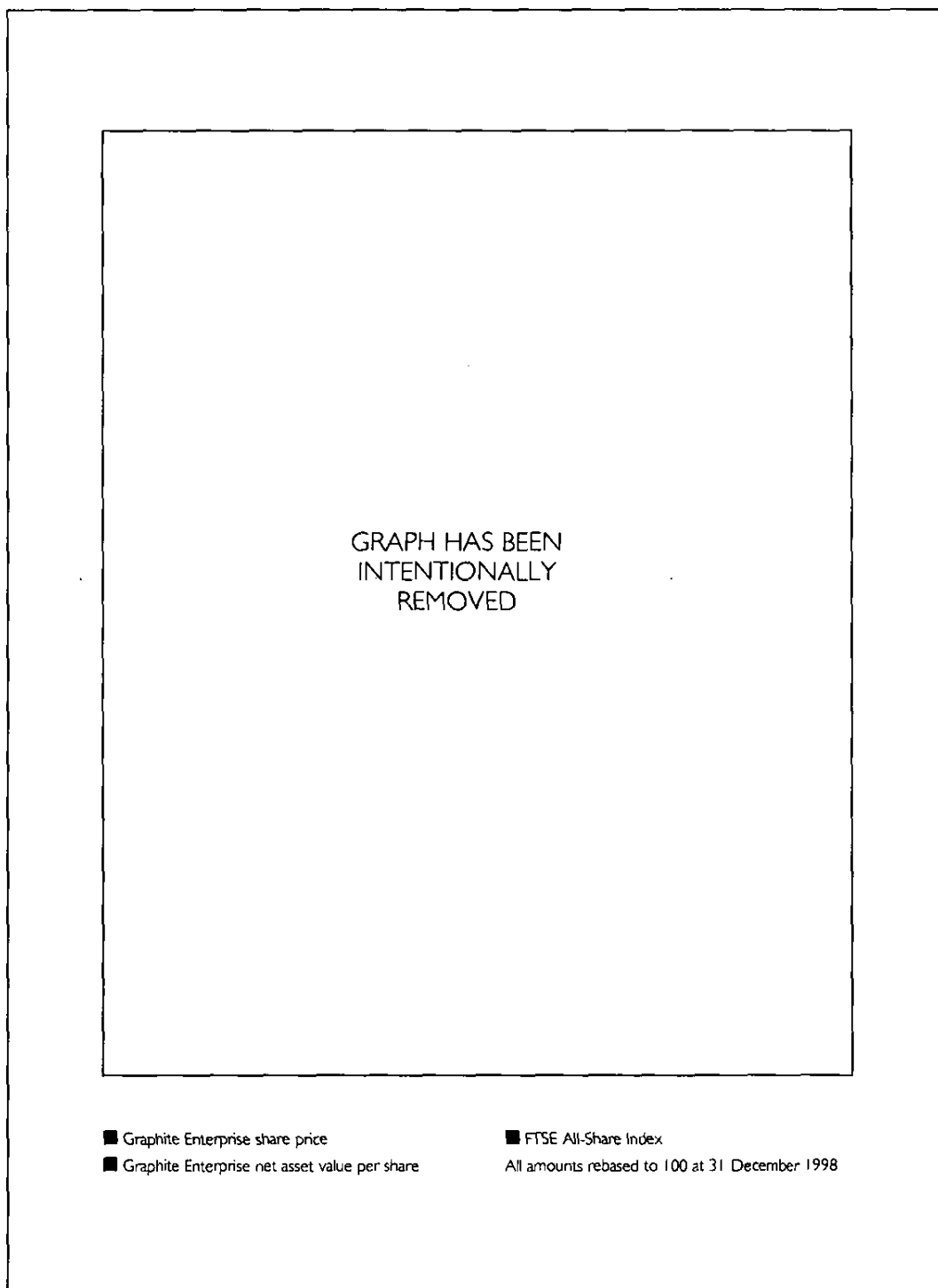
In 2008 Graphite Enterprise Trust PLC experienced the most turbulent year in its history. This was reflected in disappointing results, with the net asset value per share falling by 13.6% and the share price falling by 60.5%. By comparison the FTSE All-Share Index fell by 32.8% in the year.

The very sharp fall in the share price, which was common throughout the private equity sector, was driven by a widening of the discount of the share price to the net asset value from 8.7% to 58.4%. At the year end the discount was at its highest ever level reflecting the market's concerns over the weakness of the balance sheets of listed private equity funds and over the valuations of their underlying portfolios.

In the first quarter we became concerned that market conditions might deteriorate during the year and took some early action to conserve cash and to strengthen the Company's financial position. However, as the year developed it became clear that cash inflows from the portfolio might remain at low levels for some time and that if bank funding remained unavailable we might have difficulties in meeting our commitments to funds in the longer term. We therefore took further steps to secure the Company's position by selling a portfolio of fund investments and associated commitments and by transferring some of the cash balance into euros to cover part of our euro denominated fund commitments.

The result of these defensive actions has been to strengthen significantly the Company's financial position. Cash and cash equivalents at the year end totalled £139.0 million, equivalent to 41.9% of net assets. We believe that there are clear advantages in holding high levels of cash at this point in the economic cycle, particularly as the Company continues to have substantial undrawn commitments to funds. It is not easy to predict the speed at which these commitments will be drawn down, but at the low point in the cycle we would expect to be more or less fully invested.

## Ten Year Performance 1998-2008



## Chairman's Statement (continued)

### Additions

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INTENTIONALLY  
REMOVED

### The external environment

In 2008 the problems in the international credit markets which became apparent towards the end of 2007 started to have a material impact on the real economy. Confidence levels both in financial markets and in the economy as a whole declined steadily in the first half of the year. Conditions became much worse following the failure of Lehman Brothers in September and deteriorated further when the US and UK governments were forced to intervene to support the banking sector.

Despite government action on an unprecedented scale to inject liquidity into the global banking system, confidence in international financial markets fell very sharply in the final quarter. Levels of economic activity declined rapidly in response and the world economy moved into recession. It is now generally accepted that the scale of the banking crisis and the speed of the economic slowdown are without parallel since the 1930s.

### Performance

The financial crisis has had a severe impact on the Graphite Enterprise share price. While the fall in the net asset value per share of 13.6% was relatively modest by comparison with the fall in the stock market, the fall in the share price was much greater. In total, the share price fell by 60.5% of which 25.1% was in the first nine months and 35.4% in the last three. This reflected a general loss of confidence in the private equity sector which became more pronounced in the final quarter as economic conditions deteriorated.

The fall in the net asset value per share would have been considerably greater had the Company not benefited from substantial currency gains and retained substantial cash balances throughout the year.

The underlying value of the investment portfolio would have declined by 26.0% had the year end valuation been based solely on the valuations prepared by the managers of our fund portfolio.

However, as many of these valuations still appeared high and the economic outlook remained extremely uncertain, we thought it prudent to make a further provision which increased the total fall to 30.7%.

This decline was partially offset by currency movements. At the beginning of the year 53.3% of our investment portfolio was denominated in euros and 7.6% was denominated in US dollars. Both currencies rose sharply against sterling in the final quarter of the year and the resultant rise in the sterling value of these foreign currency denominated investments had a substantial impact on the value of the portfolio as a whole. The overall effect was to reduce the fall in the value of the portfolio in the year from 30.7% to 17.7%.

As the Company held substantial cash balances throughout the year, the percentage fall in the net asset value per share was materially less than the percentage fall in the value of the portfolio, with the 17.7% fall in the portfolio translating into a fall of 14.6% in the net asset value per share. Other revenue and capital items, the largest of which was the currency gain on cash balances, generated a net increase of 1.0%, bringing the overall decline in the net asset value per share for the year down to 13.6%.

Details of the performance of the investment portfolio and of the provision are given in the Manager's Review.

#### *The discount*

As a result of the financial crisis, the stock market rating afforded to the private equity sector fell very sharply. This reflected a combination of doubts over the valuations of investment portfolios, and concerns that listed companies investing in funds might not be able to meet their commitments without either making asset sales at a penal discount or raising capital on highly dilutive terms. A number of companies have had well publicised problems of this nature and the market has

responded by marking down the valuations of the sector as a whole.

At the end of the year the share price was at its lowest level since 2002, having briefly dipped during December to a level last experienced in 1997. The discount of the net asset value to the share price widened from 8.7% at the beginning of the year to 58.4% at the end. This gave the Company a market capitalisation of £136.3 million by comparison with the net asset value attributable to shareholders of £327.3 million. As cash and other net current assets stood at £139.5 million, this attributed a negative value of £3.2 million to the investment portfolio by comparison with its year end valuation of £192.2 million.

Reflecting the market's very negative view, the discount at the year end was the highest since Graphite Enterprise was established in 1981. In the recession of the early 1990s and again following the dotcom crash in 2000, the market became concerned that private equity portfolios were overvalued, but had little or no concern over the security of the balance sheets of listed funds. At both times, discounts typically rose to a maximum of 30-40%, considerably less than the range for listed private equity funds of funds at the end of 2008 of 60-70%.

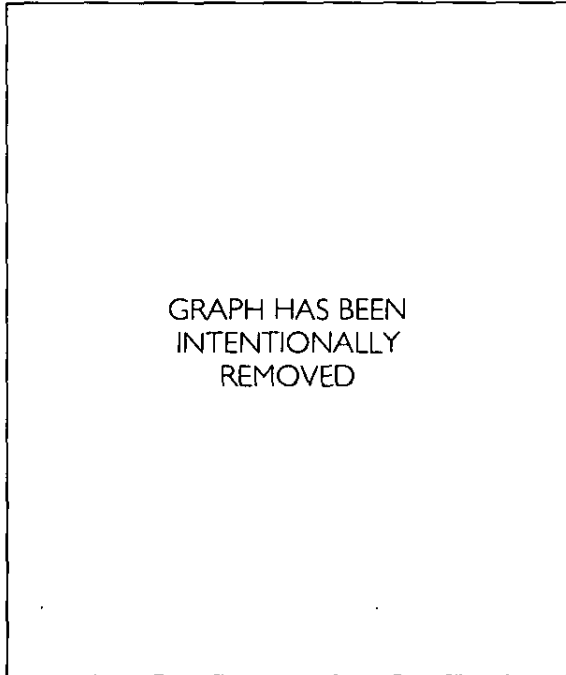
#### *Long term performance*

We measure long term performance against the benchmark of the FTSE All-Share Index, as we believe that this is the relevant comparator for the great majority of shareholders. While there is no reason for the performance of Graphite Enterprise to move closely with the All-Share over shorter periods, we aim to outperform the Index over five and ten years.

Over the five and ten years to December 2008, the net asset value per share rose by 55.2% and 64.6% respectively, while the share price fell by 15.9% and 28.8% as a result of the sharp widening of the discount in the last quarter. In the same

## Chairman's Statement (continued)

Disposals as a percentage of the opening portfolio



periods the FTSE All-Share Index rose by 0.1% and fell by 17.4% respectively. The net asset value per share has therefore comfortably outperformed the benchmark, while regrettably the recent performance of the share price has fallen short.

### The balance sheet

As discussed earlier, we believe that concerns over the weakness of balance sheets in our sector largely explain Graphite Enterprise's poor share price performance in the last quarter of the year. By comparison with our peer group, we have consistently held high levels of cash compared with the size of our undrawn commitments. Prior to the current financial crisis, undrawn commitments appeared to be comfortably covered by a combination of these cash balances, cash inflows expected from realisations and the availability of bank debt in the unlikely event that the first two sources of funds were not sufficient.

### Cash and commitments

Early in the year, concerned by the general deterioration in economic and investment conditions, we decided to strengthen the balance sheet by suspending new commitments to funds, stopping share buy backs and selling the remainder of the option over the FTSE 100 Index.

Although these measures were extremely helpful in strengthening the Company's financial position we were concerned that, in the continued absence of bank debt, they might not be sufficient. While we were confident that both drawdowns and realisations would remain low for some time, we felt that drawdowns might eventually pick-up before realisations. This could arise if the managers of our fund portfolio started to make new investments while pricing remained depressed but deferred the sale of existing investments in such conditions.

We therefore moved rapidly to sell a portfolio of fund investments and commitments. The terms of this secondary sale were agreed in October and the disposal was completed in December. The

sale further strengthened the balance sheet, increasing the level of cash by £54.9 million and reducing outstanding commitments to funds by £49.2 million. Details of the transaction are given in the Manager's Review.

#### *Foreign currency*

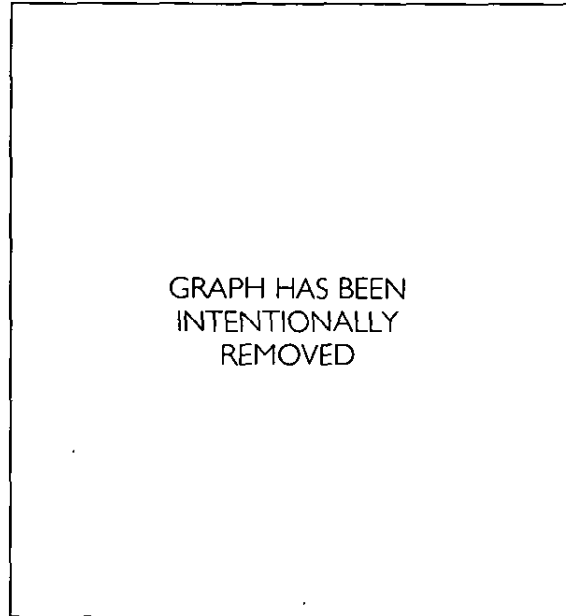
The final significant measure we took to secure the balance sheet was in the management of foreign currency. Graphite Enterprise has substantial investments and commitments in euros and, to a much lesser degree, in US dollars and other currencies. We regularly review our foreign currency exposure, and until late 2008 had concluded that hedging was unjustified given the long term nature of the activities of the Company, the unpredictability of its cash flows and the likelihood that long-term investment returns would, overall, be largely unaffected by currency fluctuations. We believed that the balance sheet was of sufficient strength to absorb any short term increase in foreign currency denominated liabilities which might result from a fall in the value of sterling.

In the new and much tighter financial conditions we concluded that, while in the long term these views remained valid, in the short term we should seek to minimise the risk of a fall in sterling increasing the cost of funding foreign currency denominated commitments. We therefore moved to match our cash, the great majority of which was in sterling, more closely to our commitments, which were largely in euros. In October we transferred £48.0 million into euros which proved prescient as the euro strengthened considerably in the following months. By the year end the rise in the euro had increased the value of the amount transferred by £10.0 million.

#### *The year end balance sheet*

At 31 December the Company had net assets of £331.7 million, of which £192.2 million (57.9%) was in the investment portfolio and £139.5 million (42.1%) was held in cash and other net current assets. Outstanding commitments to funds totalled

#### Outstanding commitments



## Chairman's Statement (continued)

£307.3 million. Commitments therefore exceeded cash balances by £167.8 million. This overcommitment was equivalent to 50.6% of net assets as compared with 62.0% at 30 June 2008. The overcommitment level would have been materially lower were it not for the large currency movements in the fourth quarter of the year which greatly increased the sterling value of euro denominated commitments.

Based on what we believe to be highly cautious assumptions in relation to future drawdowns, the current level of cash should be sufficient to meet all commitments for the next two years even if no cash inflows are received from the portfolio. We expect however that cash outflows will be lower and cash inflows materially higher than in these assumptions and that bank finance will be available if required. We therefore remain confident that the company will continue to be able to meet its commitments in the longer term without the need to raise additional capital.

A more detailed analysis of future cash flows is given in the Manager's Review.

### Income statement and dividend

The total loss after tax attributable to shareholders was £46.8 million, or 64.1p per share. This comprised a capital loss of £50.5 million (69.2p per share) and a revenue return of £3.7 million (5.1p per share).

As predicted in last year's statement, the revenue return, which determines the level of the annual dividend, was materially lower than in 2007. The fall of 46.4% was largely the result of lower income being received from the investment portfolio. In the light of this reduction, the Board is proposing that the dividend per share for the year to December 2008 should be reduced to 4.5p. By comparison, the dividend in 2007 was 8.0p and in 2006 was 6.5p.

It is likely that the revenue return, and therefore the dividend, will fall again in 2009, as average cash balances are forecast to be lower and interest rates considerably lower than in 2008.

### The Board

Having been the chairman of Graphite Enterprise since 1986, I shall be retiring from the Board at the Annual General Meeting in May. My place will be taken by Mark Fane, who has been on the Board since 2000 and has wide and relevant experience in the private equity market and elsewhere.

I have worked in financial services for 46 years and for half that period I have been Chairman of Graphite Enterprise Trust. This has been an exceptional privilege and pleasure as the task itself has been fascinating and as my fellow directors, our managers and our professional advisors have throughout been of the highest calibre. I have always received most generous support from them all, for which I offer my heartfelt thanks.

I have noticed in recent years that there are those in some circles who apparently seek to encourage an atmosphere of suspicion and distrust between the boards and managers of investment trusts – as also between the non-executive and executive directors of other companies. I believe that in our Company's case we have demonstrated the wisdom and benefit not only of challenging each other but also of working in partnership together to secure our common objective – good service to our shareholders.

On balance, in spite of the extraordinary turmoil and destruction of capital which have characterised the last six to nine months, I believe that we have served our shareholders effectively and well throughout the life of our Company. It is, of course, a great disappointment to me that in my final year the share price performance has been the worst since I became Chairman. However it was much better that this should have happened in my last year as Chairman rather than in Mark's first.

So I wish Mark, his colleagues and our shareholders well. I personally believe that our market has passed its darkest hour and I am sure that Mark will successfully lead our Company onwards and upward. I hope he enjoys his tenure as much as I have enjoyed mine.

### Outlook

Uncertainty in the economy and in credit markets continues, with all major developed economies now in a recession, the length and depth of which is hard to predict. Despite government pressure and incentives, banks remain unwilling or unable to lend as they struggle to repair their damaged balance sheets. The continued shortage of bank finance further weakens the real economy by putting under pressure businesses which would normally have no difficulty in withstanding the impact of a recession. This could create a spiral of decline in economic activity.

The impact of the recession on the long term performance of private equity portfolios remains difficult to quantify. Much will depend on the position taken by the banks. While many companies are trading well and should have no difficulty in meeting their debt obligations, others are in weaker positions. For these companies, it will be important that the banks allow them to maintain their current levels of borrowing. If they do not, new equity may be required which would further depress investment returns.

In these circumstances our priority is clear. We shall continue to focus on managing the balance sheet. This should improve market confidence in Graphite Enterprise and give us the strength and flexibility to take advantage of the investment opportunities which will almost certainly arise in this very difficult period. Our experience of the recession of the early 1990s shows that some of the best investments are made when cash is scarce and confidence is at its lowest. We are in the fortunate position of having substantial cash balances which may well be invested when market conditions are at their most attractive.

John Sclater  
April 2009

## Manager's Review

The year to 31 December 2008 proved to be extremely challenging for Graphite Enterprise. Against a hostile background, in which financial markets fell sharply and the global economy deteriorated rapidly, the net asset value per share experienced its largest percentage fall for seven years, falling by 13.6% to 449.0p. This fall would have been considerably greater had not the rise in the value of the euro and the US dollar generated substantial currency gains which partially offset the decline in the value of the portfolio.

At the end of the year the investment portfolio was valued at £192.2 million, 23.8% lower than a year earlier. A summary of the main changes during the year is set out below.

2008 £m	Opening value	Invested	Proceeds	Net valuation decrease	Closing value
Continuing portfolio	200.8	66.9	(24.5)	(51.0)	192.2
Portfolio sold in December	51.3	11.0	(54.9)	(7.4)	–
Investment portfolio	252.1	77.9	(79.4)	(58.4)	192.2

### Market environment

The slowdown in European buy-out activity that started towards the end of 2007 continued in 2008. The number of buy-outs completed during the year fell by 29% to 580, while their total value fell by 62% to €70 billion. The greater decline in value reflected the impact of the tightening of the banking market on the large buy-out sector. This is best illustrated by the sharp falls in the number of larger transactions with those of over €1 billion falling from 42 in 2007 to 11 in 2008 and those of between €500 million and €1 billion falling from 45 to 19.

The full year figures mask the scale of the decline in activity towards the end of the year, with deal volume and value falling by 64% and by 74% respectively in the last quarter compared with the same period in 2007. Figures are not yet available for the first quarter of 2009 but, based on the pattern of drawdowns from our own portfolio, we expect activity levels to have contracted further.

Uncertainty over the economic outlook has undoubtedly been a major factor in this slowdown but perhaps of more significance has been the scale of the contraction in the leveraged finance market. This contraction has resulted from banks being unwilling or unable to underwrite large loans and from many of the institutional buyers of leveraged loans, to whom the banks would

normally syndicate, having withdrawn from the market. The reduction in debt capacity has both reduced the number of transactions completed and reduced the level of debt used in those transactions. This is reflected in the fall in the market average total debt to EBITDA<sup>1</sup> ratio for new transactions from an all-time high of 6.1 in 2007 to 5.2 in 2008. It seems unlikely that bank lending will recover in the short term and deal volumes, particularly in the large buy-out market, will therefore almost certainly remain relatively depressed in 2009.

### Portfolio performance

The underlying value of the investment portfolio fell by £120.6 million or by 30.7% during the year. Currency gains on investments denominated in foreign currencies partially offset this, reducing the net decline in the value of the portfolio to £58.4 million or 17.7%.

Managers of private equity funds typically value their portfolios every three months. In the first nine months of the year, the value of the portfolio remained broadly unchanged as managers of our fund investments were slow to adjust valuations to take account of the changed economic circumstances. However at December most managers made substantial reductions which brought the unadjusted fall in the value of the portfolio to 26.0%

<sup>1</sup> EBITDA (earnings before interest, tax, depreciation and amortisation) is the measure of profitability which is most consistently used by managers of private equity funds.

As many of the underlying portfolio companies were acquired with relatively high levels of debt, the value of the equity in these companies is particularly sensitive to changes in profitability or in valuation multiples. After taking this into account we felt that it would be prudent to make a provision against the reported valuation of the third party portfolio. The provision, which amounted to 11.7% of that valuation at 31 December 2008, had the effect of increasing the fall in the value of the total portfolio by £18.5 million to £120.6 million and the percentage fall from 26.0% to 30.7%.

At the beginning of the year £134.3 million of the underlying investment portfolio was denominated in euros and £19.2 million in US dollars. Both these currencies rose strongly against sterling during the year and the sterling value of the portfolio increased by £62.2 million as a result. This reduced the fall in the portfolio as a whole from £120.6 million to £58.4 million and the percentage fall to 17.7%.

These figures may overstate the currency gain, as certain funds which report in euros have investments in the UK. In the December 2008 accounts of these funds the valuations of these investments may have declined on account of the fall in sterling. Such falls have been included in the unadjusted portfolio movement figure discussed above. The conversion of the euro value of these funds into sterling in the Company's accounts will

have resulted in a corresponding currency gain.

#### Summary of portfolio performance

	£m
Unadjusted movement in portfolio	(102.1)
Provision	(18.5)
Total movement in portfolio before currency	(120.6)
Effect of currency	62.2
Total movement in portfolio	(58.4)

#### Investment activity

##### New investments

Reflecting the general downturn in the market, Graphite Enterprise invested materially less in 2008 than in 2007, with total new investment falling by 24.4% to £77.9 million. Drawdowns from funds accounted for the overwhelming majority of new investment, representing 97.8% of the total. This compares with last year's figure of 91.1%.

The rate at which commitments were drawn down also declined materially. In 2007, 34.2% of commitments outstanding at the beginning of the year were drawn down while in 2008 this figure fell to 22.3%.

The pattern of investment was extremely uneven. Although the amount invested in the first half was broadly similar to that in the second, the last quarter saw a dramatic fall off with only £5.9 million invested, equivalent to only 7.5% of the full year total.

#### New investments by type and geography

2008 £m	UK	Continental Europe	Rest of World	Total
Mid-market buy-outs	11.4	8.5	–	19.9
Large buy-outs	3.9	35.3	6.7	45.9
Small buy-outs	3.7	–	–	3.7
Mezzanine	–	6.2	–	6.2
Quoted	1.5	–	–	1.5
Infrastructure	0.7	–	–	0.7
Total	21.2	50.0	6.7	77.9

## Manager's Review (continued)

### Net new fund commitments

Fund	Investment type	Focus	Commitment £m
CVC European Equity Partners V	Large buy-out	Global	28.9
CSP Secondary Opportunities Fund II	Secondary fund	Europe	10.0
AnaCap Financial Partners II	Financial services	Europe	9.9
Vision Capital Partners VII	Secondary investments	Europe	9.2
Advent Central and Eastern Europe IV	Mid-market buy-out	Europe	7.9
Other movements			(1.0)
<b>Total</b>			<b>64.9</b>

#### *New commitments*

The amount committed to new funds fell even more sharply than the rate of new investment, with £64.9 million being committed to five funds in 2008 compared with £186.0 million to nine funds in 2007. Even if the £70.0 million committed to funds raised by Graphite Capital in 2007 were excluded, the fall exceeded 40%. The great majority of the commitments made in 2008 were made in the first quarter. In most cases these were closings of commitments made in the final quarter of 2007. Details of these funds are given above.

This was the second time that we had invested in funds managed by CVC Capital Partners, Vision Capital and Newgate CSP and the first time we had invested with Advent International and AnaCap Financial Partners.

#### *Secondary sale*

As discussed in the Chairman's Statement, with market conditions deteriorating we decided that we should take steps to strengthen the balance sheet. Although the Company still retained substantial levels of cash, we were concerned that drawdowns for investment might start to recover before the rate of realisations.

We believed that realisations would remain at relatively low levels in both the short and the medium term. However, while we expected drawdowns to remain low in the short term, we

felt that they might then gradually accelerate as managers started to make new investments to take advantage of the relatively low prices available at the bottom of the economic cycle. This increase might well start before realisations recovered, as the low prices might continue to deter the managers of our fund investments from selling portfolio companies. Drawdowns might also be required to provide follow-on finance to portfolio companies, either to support those which were underperforming or to provide expansion or acquisition finance to those which were continuing to perform well.

In normal circumstances we would have expected bank finance to have been available to cover any potential shortfall in funding but in current market conditions this could not be relied upon.

In October we therefore exchanged contracts on the sale of a portfolio of interests in ten funds. We sold our entire interest in four third party funds and 25% of our interest in another three. We also sold 20% of our interests in Graphite Capital Partners VI and Graphite Capital Partners VII and 50% of our interest in Graphite Capital Partners VII Top Up Fund.

The sale of the portfolio offered the combined benefits of generating cash from the sale of existing investments and of releasing the Company from undrawn commitments.

The sale completed on 30 December, generating cash proceeds of £54.9 million and releasing the Company from £49.2 million of commitments. The proceeds represented a discount of £7.4 million or 11.8% to the valuation of the interests at the beginning of the year. After taking account of drawdowns and distributions received in earlier years the portfolio sold generated a net gain of £1.4 million over original cost.

The effect of the sale was to increase year end cash balances by 64.7% and to reduce the level of outstanding commitments by 13.8%. It also reduced the Company's current and future exposure to large buy-outs as 80.5% of the proceeds and 65.7% of the commitments released related to funds focusing on this sector.

#### Realisations

Realisations from the continuing portfolio were at a historically low level totalling only £24.5 million, or 12.2% of the opening value of the continuing portfolio. This compares with an average in the preceding four years of 54.1% of the opening portfolio value and the average for the seven years before that of 31.2%. The sharp reduction reflected the very weak market for private equity realisations during the year.

The pattern of realisations from the continuing portfolio, like that of drawdowns, was extremely uneven with 80.0% of proceeds being received in the first half of the year and a minimal amount being received in the fourth quarter.

#### The closing portfolio

At 31 December 2008, Graphite Enterprise had holdings in 40 funds and in 19 direct investments. Third party private equity firms selected by the Manager were responsible for managing 36 of these funds and these 26 firms collectively managed 70.5% of the portfolio by value. Graphite Capital directly managed the remaining 29.5% of the portfolio.

The secondary sale discussed in the previous section both reduced the size of the portfolio and changed its profile. As over 80% of the investments sold were in large buy-outs and almost 85% were made in the years 2005 to 2007, the sale reduced exposure to the two categories of investment which are perceived to have been most exposed to the peak of the pricing cycle.

Small and mid-market buy-outs replaced large buy-outs as the largest category of investment at

#### Realisations by type and geography

2008 £m	UK	Continental Europe	Rest of World	Total
Mid-market buy-outs	7.9	3.0	–	10.9
Large buy-outs	–	7.6	–	7.6
Small buy-outs	4.1	–	–	4.1
Mezzanine	–	1.7	–	1.7
Quoted	0.2	–	–	0.2
Infrastructure	–	–	–	–
Secondary sale	10.6	37.8	6.5	54.9
<b>Total</b>	<b>22.8</b>	<b>50.1</b>	<b>6.5</b>	<b>79.4</b>

## Manager's Review (continued)

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the end of the year. This was primarily because the effect of the secondary sale and of valuation changes was to generate a larger fall in the closing value of large buy-outs. Overall, large buy-outs fell from 42.3% to 36.3% of the portfolio while small and mid-market buy-outs fell only marginally from 42.1% to 40.9%. The two categories combined fell from 84.4% to 77.2% of the portfolio and from 53.2% to 44.7% of total assets.

Mezzanine and infrastructure investments increased from 11.9% to 21.0% of the total as none of these assets were included in the secondary sale and as funds in these categories generally reported lower declines in value.

The Company had holdings in 159 underlying companies in the buy-out portfolio, with a total valuation of £148.4 million. After taking account of the provision discussed earlier, these companies were valued on an a weighted average multiple of 7.9 times 2008 EBITDA. The average level of debt in these companies was equivalent to 4.2 times 2008 EBITDA and the average gearing was therefore 53.2%.

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INTENTIONALLY  
REMOVED

In recent years an increasing proportion of commitments made have been to funds which invest wholly or partly outside the UK. The balance of the portfolio has therefore been moving steadily towards continental Europe as these commitments have been drawn down. This trend continued in 2008 with continental European investments increasing from 39.5% to 46.6% of the total and UK investments falling from 50.7% to 41.2%.

The age profile of investments is shown in the chart opposite. The proportion of investments made in the three years from 2005 to 2007 has fallen from 76.4% to 66.2% of the portfolio and from 48.4% to 38.3% of total assets.

The 263 underlying companies in the total portfolio operate across a broad range of sectors of the economy. The most important of these remain business services, manufacturing and engineering and consumer goods and services which together account for nearly 60% of the portfolio by value.

Closing commitments

Movements in commitments

	£m
Opening at 1 January 2008	303.0
Net new commitments	64.9
Drawdowns	(76.3)
Commitments sold	(49.2)
Currency movements	64.9
Closing at 31 December 2008	307.3

At the year end the Company had undrawn commitments totalling £307.3 million of which 48.7% was committed to small and mid-market buy-out funds and 45.0% to large buy-out funds. If all of these were to be drawn down, small and mid-market buy-outs would account for 45.7% of the portfolio and large buy-outs 41.7%.

The great majority of outstanding commitments are to funds that are at a relatively early stage in their lives, with more than half being to funds that have drawn down less than 20% of commitments. Funds which are still within their initial investment periods account for 94.0% of these commitments and these funds have on average 3.9 years in which to complete their investment programme. The immaturity of the funds to which the Company is committed has the dual benefits of reducing pressure on the underlying managers to invest quickly and of reducing the amount that is likely to be drawn down into follow-on, rather than new investments.

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INTENTIONALLY  
REMOVED

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INTENTIONALLY  
REMOVED

## Manager's Review (continued)

### Fund portfolio – percentage drawn down

	Percentage of commitments
0-20%	50.7%
21-40%	13.4%
41-60%	28.4%
61-80%	0.5%
81-90%	5.5%
90%+	1.5%
	100.0%

### Fund portfolio – commitments

	Original commitment £m	Outstanding commitment £m	Percentage of outstanding commitments
Funds in investment period	428.1	288.8	94.0%
Funds post-investment period	200.1	18.5	6.0%
Total	628.2	307.3	100.0%

### Fund portfolio – remaining investment period

	Percentage of commitments
5-6 years	23.2%
4-5 years	23.6%
3-4 years	24.2%
2-3 years	18.6%
1-2 years	3.8%
<1 year	0.6%
Investment period completed	6.0%
	100.0%

#### Liquidity

At 31 December the Company had cash and other net current assets of £139.5 million and outstanding commitments of £307.3 million. The net level of overcommitment was therefore £167.8 million. A standard measure of liquidity is the overcommitment percentage which expresses net overcommitment as a percentage of net asset value. At the year end Graphite Enterprise was 50.6% overcommitted. In comparison with most other listed private equity funds of funds, a number of which had net debt at the end of the year, the Company had materially higher levels of cash and a materially lower percentage level of overcommitment.

In predicting future cash movements it is important to point out that most funds typically draw down cash for new investment over a period of five years and normally retain approximately 20% of commitments at the end of this investment period to fund follow-on investments and expenses.

We estimate that if funds were to make drawdowns at a constant rate such that they had drawn down 80% of total commitments at the end of their investment periods, the annual cash outflow would be between £60 million and £65 million over the next two years. This suggests that the Company has sufficient cash reserves to meet all drawdown requirements for at least two years even under the most conservative assumptions.

We expect the net cash outflow to be materially lower than this for two main reasons. Firstly, no proceeds are assumed to be received from realisations whereas, even in the very difficult market conditions of 2008, proceeds of £24.5 million were received. Secondly we believe drawdowns will be at lower levels, as most managers are likely to conserve cash in the first part of the downturn and large funds are constrained by the absence of bank debt from making new investments. In the six months to 31 March 2009, drawdowns totalled only £11.1 million.

Furthermore, we would expect debt markets to recover sufficiently within the next two years for the Company to be able to obtain debt facilities if required.

#### Currency

At the end of 2008, 67.5% of the Company's net asset value was denominated in foreign currencies. Of the £331.7 million of net assets, £198.8 million (59.9%) was in euros and £24.4 million (7.4%) was in US dollars. Almost all of the balance was denominated in sterling. The £307.3 million of undrawn commitments was also heavily weighted towards foreign currencies, with £224.9 million (73.2%) being denominated in euros and £12.3 million (4.0%) in US dollars.

This creates a number of issues. If the euro rises against sterling the Company benefits to the extent that the sterling value of its euro denominated investments and hence the net asset value also rises. However, counterbalancing this, the sterling cost of funding euro denominated commitments also rises. The reverse is true if the euro falls, with the net asset value falling but the sterling cost of commitments also falling. A movement in the value of the euro in either direction therefore has both a negative and a positive effect. In less volatile times we might have been able to hedge these foreign currency risks by buying options but the sharp swings in currency have made these prohibitively expensive. Similarly, we are not currently in a position to obtain currency borrowings to hedge these risks.

The importance of currency movements on the Company's performance is best illustrated by the results for 2008 when currency movements generated a gain of £74.7 million but also caused our commitments to increase by £64.9 million. This outcome was partly the result of our following a more interventionist currency strategy. At the end of the third quarter we became concerned that the rise in the euro had already generated a substantial increase in commitments and that a further rise could have a material adverse effect on

## Manager's Review (continued)

future cash flow. In October we therefore transferred £48 million of sterling cash balances into euros. This was to ensure that if further rises in the euro drove up the sterling value of commitments the impact would be partially offset by a rise in the sterling value of euro cash balances. In the event, the euro rose by 15.7% between the date of the transfer and the year end and as a result the Company made a currency gain on cash balances of £11.8 million in the final quarter.

At 31 December 2008 the euro was at close to an all time high against sterling. While the rise in the euro had generated the currency gain discussed in the previous paragraph it had also increased the sterling value of euro denominated commitments to a level which was considerably higher than we had anticipated when the original commitments were made. In deciding how much of the Company's £139.0 million of cash balances should be held in euros we have had to weigh up the risk that a fall in the euro from this high level might materially reduce the net asset value against the risk that a further rise could materially increase the level of outstanding commitments.

Looking forward, we will continue to review currency closely, adapting our policy in the light of movements in exchange rates and in the value of undrawn commitments.

### Share price

As reported in the Chairman's Statement, the share price fell by 60.5% in the year reflecting a general loss of confidence in the private equity sector. During the first nine months of the year, the share price fell by 25.1%, which was broadly in line with the decline in the FTSE All-Share Index which fell by 24.4%. In the final quarter, however, share prices in the listed private equity sector were particularly badly affected by the financial crisis with the result that the share price fell by a further 47.3% compared with a fall of only 11.1% in the Index. Although the fall in the share price was obviously disappointing it was less than the falls suffered by many of the other companies in the listed private equity sector.

### Prospects for 2009

In the first three months of the current financial year, new investment has remained low while realisations have been minimal. A total of £5.2 million has been drawn down by funds while no new direct investments have been made. The Company has made no new commitments.

The share price on 2 April 2009 was broadly unchanged from its year end level at 186.0p. Again, this was less than the share price falls experienced by other companies in the listed private equity sector, which declined on average by more than 25% in the same period.

In last year's review, we commented that there were signs that the crisis in international credit markets was deepening and questioned whether this would lead to a recession in the wider economy or to a sustained fall in equity markets. Clearly, the eventual outcome has been considerably worse than we had anticipated.

Looking forward, the next twelve months are likely to be difficult for the great majority of our portfolio companies. How well they respond will be the main determinant of the performance of the Company in 2009. With 60% of the net asset value denominated in euros at the beginning of the year and with the euro at close to an historical high, foreign currency movements will again play an important role.

On a more positive note, at the end of 2008 approximately 42% of the net asset value was held in cash and other net current assets. This both gives the Company considerable protection against a further downturn and puts it in a very strong position to take advantage of the attractive investment opportunities which invariably become available at times of economic uncertainty.

Graphite Capital  
April 2009

## The Board

John Sclater\*, CVO (Chairman), 68, was appointed to the Board as Chairman in 1986. He trained as a banker and was successively Chief Executive of Nordic Bank, Chairman of Guinness Mahon and Chairman of Hill Samuel Bank.

He also has extensive experience of other fields, having been Chairman of Foreign & Colonial Investment Trust plc from 1985 to 2002, President of the Equitable Life Assurance Society from 1994 to 2001 and a trustee of the Grosvenor Estate from 1973 to 2005.

He is currently Chairman of The Biotech Growth Trust PLC and Argent Group Europe Limited.

Mr Sclater will retire as Chairman and as a director at the forthcoming Annual General Meeting.

Peter Dicks\*+, 66, was appointed to the Board in 1998. He was co-founder of Abingworth plc, a venture capital investment company, where he worked from 1973 to 1991.

Since then he has been non-executive director or chairman of a number of companies. He is currently Chairman of Private Equity Investor plc and Sportingbet plc, and a director of Polar Capital Technology Trust PLC, MearsGroup PLC and Standard Microsystems Corporation, a U.S. based NASDAQ listed company.

Mr Dicks is the Chairman of the Audit Committee and is the senior independent non-executive director.

Michael Cumming\*+, 68, was appointed to the Board in 1999. He has been involved in private equity for 40 years having helped found Midland Montagu Industrial Finance in 1969 and Barclays Private Equity in 1979. He was Managing Director of the latter from 1981 to 1995.

Since then he has undertaken a wide range of non-executive roles. He is currently Chairman of Private & Commercial Finance PLC, and Chairman of the Advisory Committees for Mercia Fund 1 and 2 and a director of other quoted and unquoted companies.

Mark Fane\*+, 50, was appointed to the Board in 2000. He was a director of Graphite Capital Management from 1988 until 1990 and was Executive Chairman of Waterers Landscape plc from 1990 until its sale in 2003.

He is Chairman and Chief Executive of Crocus.co.uk Limited, an internet-based gardening retailer established in 1999.

He is a non-executive director of the commercial arm of the Royal Horticultural Society and was also a non-executive director of Ottakar's, a company in the portfolio of Graphite Enterprise, from 1992 until its takeover by HMV in July 2006.

Mr Fane will become Chairman at the forthcoming Annual General Meeting if he is re-elected.

Sean O'Connor\*, 60, was appointed to the Board in 2001. He worked in advertising for a number of leading agencies from 1970 to 1991, culminating in the role of Vice Chairman of Lowe International.

He was the founder of Stoves Group PLC and Chairman until 2001.

He is currently Chairman of Cape PLC, Premium Appliance Brands and Springboard Urban. During 2008 he resigned as Chairman of the Board of Babel Media. He is the senior independent non-executive director of Sportingbet plc, a non-executive director of Crow TV and Escape Studios.

Jeremy Tigue\*+, 49, was appointed to the Board in March 2008. He has been the fund manager of Foreign & Colonial investment Trust plc since 1997 and a Deputy Chairman of the Association of Investment Companies since 2006.

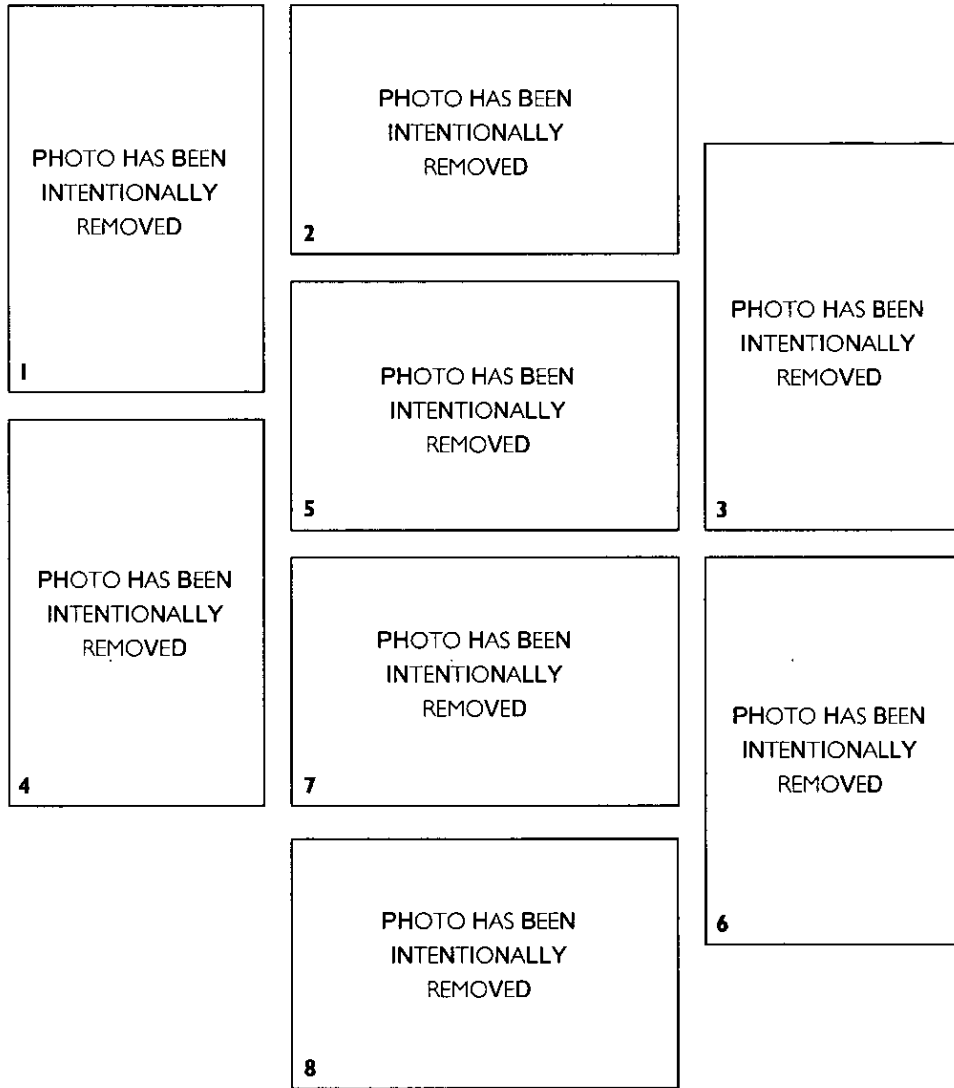
He is the Head of Global Equities at F&C Management, which he joined in 1981.

He is also an Investment Advisor to the BP and British Steel pension funds.

\* Independent non-executive director

+ Member of Audit Committee

# The Graphite Capital Team



- 1 Rod Richards
- 2 Emma Osborne
- 3 Stephen Cavell
- 4 Tim Spence
- 5 Markus Golser
- 6 Fiona Macdonald
- 7 Simon ffitch
- 8 Andy Gray

## The Manager

*Graphite Capital is one of the leading UK mid-market private equity firms*

The Manager of the Company is Graphite Capital Management LLP ("Graphite Capital"). Graphite Capital is one of the leading UK mid-market private equity firms and manages over £1.2 billion of funds from investors worldwide. It has a total team of 17 professionals with an average of over 9 years' experience in private equity investment and operates from a single office in London. In addition to managing Graphite Enterprise, Graphite Capital is a long established direct private equity investor which is advantageous when selecting the managers of third party funds.

Graphite Capital's most recent limited life fund, Graphite Capital Partners VII, had a single closing in May 2007 with total commitments of £555 million. The fund invests in mid-market companies with headquarters in the UK and which are valued at £25 million to £200 million. The fund is structured as a main fund with £475 million of total commitments, and a Top Up Fund with £80 million of commitments. The latter invests alongside the main fund in selected larger transactions. Graphite Enterprise has a commitment of £40 million to the main fund and a £10 million commitment to the Top Up Fund of which £7.5 million and £3.0 million have been drawn down respectively.

## Investing in Private Equity

### The private equity market

Private equity is a term used to describe investment in private companies. It covers a wide spectrum from start-up companies capitalised at less than £1 million to large management buy-outs capitalised at over £1 billion. The main sub-sectors of the private equity market are venture capital, which covers early stage investing, and buy-outs, which covers management buy-outs, buy-ins and similar transactions. Graphite Enterprise's focus is on the buy-out market.

Buy-out investments generally involve the purchase of entire companies. The sellers may be the founders or other individuals, or they may be larger companies seeking to divest subsidiaries. Quoted companies are also bought by private equity investors in public to private transactions.

There is less short term performance pressure on private equity investments, making it possible to adopt a longer term approach. When companies are eventually ready for disposal, they may be sold to trade or financial buyers, or they may be floated on the stock market.

Buy-out investments are generally in well established companies and are structured with higher levels of debt than quoted companies, using senior bank debt and sometimes mezzanine debt. Mezzanine is junior debt with a higher return than senior debt to compensate for the greater risk. Private equity investors provide the remainder of the funding, in the form of equity and equity-related investments. These both carry the greatest risk in the structure and earn the highest return when investments are successful.

### Fund investing

A private equity fund-of-funds invests primarily in funds managed by private equity managers; it may also invest directly in buy-outs or other transactions.

Private equity funds are generally structured with a life of ten years. Commitments are drawn down from investors as investments in underlying companies are made and proceeds are returned to investors as investments are realised.

Cash is typically drawn down over a period of four to six years and may begin to be returned in the fourth or fifth year. As a result, the maximum net amount drawn down by individual funds is often considerably less than the amount committed to them.

In order to achieve full or near-full investment from a portfolio of funds, it is therefore usual to make commitments exceeding the amount of cash available for investment. This is described as 'overcommitment' in the private equity industry.

### Graphite Enterprise

Graphite Enterprise makes investments mainly through specialist private equity funds managed by third parties but also directly. The overall objective is to provide shareholders with long term capital growth through investment in unquoted companies.

Investments in UK-based medium-sized companies are primarily made through Graphite Capital's own funds. Investments in other sectors of the UK market and in overseas markets are made through third party funds selected by Graphite Capital. As it has long experience both of managing its own funds and of investing in third party funds, Graphite Capital has the advantage of an unusually broad perspective when assessing new fund investments.

As well as investing in funds, Graphite Enterprise makes co-investments alongside them. When funds are considering investments that are too large for them to make alone, they often invite other investors to participate. Graphite Enterprise is attractive to funds as a co-investor as it is able to use the resources and experience of Graphite Capital's direct investment team to evaluate and execute co-investments.

## Historical Record

Year ended 31 December	Revenue return per share p	Total dividend per share p	Net asset value per share p	Mid-market price per share p
2008	5.12	4.5	449.0	187.0
2007	8.86	8.0	519.4	474.0
2006	7.44	6.5	454.6	386.0
2005	10.24	8.8*	398.4	364.3
2004	8.54	7.1+	324.9	283.0
2003	4.88	4.3	289.2	222.3
2002	4.47	4.3	263.5	206.5
2001	4.38	4.3	284.8	228.5
2000	4.73	4.3	333.9	316.0
1999	5.17	4.3	322.4	323.0

\* Includes special dividend of 4.5p per share

+ Includes special dividend of 2.8p per share

## Analysis of Investors

31 December 2008	Number of Investors	Number of shares held	Percentage of issued share capital	Average holding
Individuals	32,314	49,485,903	67.9	1,531
Insurance companies	27	8,969,532	12.3	332,205
Investment companies	31	6,944,870	9.5	224,028
Pension funds	22	5,627,492	7.7	255,795
Bank and nominee companies	9	1,087,909	1.5	120,879
Others	4	797,294	1.1	199,324
	32,407	72,913,000	100.0	2,250

## The 30 Largest Underlying Investments

The tables below and on the following pages present the 30 companies in which Graphite Enterprise had the largest investments by value at 31 December 2008. These investments may be held directly, through funds, or in some cases both. Values are shown as a percentage of the total investment portfolio of £192.2 million.

Company	Year of investment	Country	Value as a % of investment portfolio
1 <b>Micheldever Tyre Services</b> Distributor and retailer of tyres	2006	UK	5.2%
2 <b>MCE</b> Provider of industrial services	2007	Germany	2.7%
3 <b>Park Holidays UK</b> Operator of caravan parks	2006	UK	2.6%
4 <b>NES Group</b> Recruitment agency for technical contractors	2006	UK	2.3%
5 <b>Kurt Geiger</b> Retailer and distributor of luxury footwear	2008	UK	2.2%
6 <b>Alexander Mann Solutions</b> Provider of recruitment process outsourcing	2007	UK	2.0%
7 <b>Ceridian</b> Provider of human resource and payment processing services	2007	USA	2.0%
8 <b>Wagamama</b> Chain of Japanese noodle restaurants	1996	UK	1.8%
9 <b>Svendborg Brakes</b> Provider of industrial brake solutions	2008	Denmark	1.7%
10 <b>Norit</b> Supplier of water purification technologies	2007	Netherlands	1.5%
<b>Total of the 10 largest underlying investments</b>			<b>24.0%</b>

Company	Year of investment	Country	Value as a % of investment portfolio
11 <b>Intermediate Capital*</b> Provider of mezzanine finance	1989	UK	1.4%
12 <b>Algeco Scotsman</b> Supplier and operator of modular buildings	2007	USA	1.4%
13 <b>Evonik Industries</b> Diversified industrial group	2008	Germany	1.4%
14 <b>Data Explorers Group</b> Provider of information to global securities lending industry	2007	UK	1.3%
15 <b>Dominion Gas</b> Supplier of specialist gases	2007	UK	1.3%
16 <b>Stork</b> Diversified engineering group	2008	Netherlands	1.3%
17 <b>Avanza Group</b> Operator of buses	2007	Spain	1.3%
18 <b>Ziggo</b> Cable operator	2006	Netherlands	1.2%
19 <b>Clyde Bergemann</b> Supplier of components for power generation industry	2005	Germany	1.2%
20 <b>TMF</b> Provider of management and accounting outsourcing services	2008	Netherlands	1.2%
<b>Total of the 20 largest underlying investments</b>			<b>37.0%</b>

\* Quoted

## The 30 Largest Underlying Investments (continued)

Company	Year of investment	Country	Value as a % of investment portfolio
21 <b>Hellermann Tyton</b> Manufacturer of high performance cable management products	2006	UK	1.1%
22 <b>Segur Iberica</b> Provider of security services	2004	Spain	1.0%
23 <b>Balta</b> Manufacturer of carpets and floor coverings	2004	Belgium	1.0%
24 <b>Alma Consulting</b> Provider of cost reduction and tax recovery services	2007	France	1.0%
25 <b>Optimum Care</b> Owner and operator of care homes for the elderly	2007	UK	1.0%
26 <b>Parques Reunidos</b> Operator of attraction parks	2007	Spain	0.9%
27 <b>Marken</b> Provider of specialist courier services	2007	UK	0.9%
28 <b>CEVA</b> Manufacturer and distributor of animal health products	2007	France	0.9%
29 <b>West Corporation</b> Provider of outsourced communication services	2006	USA	0.9%
30 <b>KPI</b> Manufacturer of prefabricated concrete products	2007	France	0.9%
<b>Total of the 30 largest underlying investments</b>			<b>46.6%</b>

## The 15 Largest Fund Investments

The largest funds by value at 31 December 2008 are set out below.

Fund	Outstanding commitment £m	Year of commitment	Country/ region	Value £m
1 <b>Graphite Capital Partners VI</b> Mid-market buy-outs	7.0	2003	UK	21.2
2 <b>ICG European Fund 2006</b> Mezzanine loans to buy-outs	15.1	2007	Europe	13.0
3 <b>Doughty Hanson &amp; Co V</b> Mid-market and large buy-outs	12.9	2006	Europe	10.8
4 <b>Euromezzanine 5</b> Mezzanine loans to mid-market buy-outs	2.6	2006	France	10.5
5 <b>Thomas H Lee Equity Fund VI</b> Large buy-outs	12.3	2007	USA	10.3
6 <b>Doughty Hanson &amp; Co IV</b> Mid-market and large buy-outs	0.3	2005	Europe	9.5
7 <b>Fourth Cinven Fund</b> Large buy-outs	13.2	2006	Europe	8.4
8 <b>Candover 2005 Fund</b> Large buy-outs	5.3	2005	Europe	7.8
9 <b>Deutsche Beteiligungs AG Fund V</b> Mid-market buy-outs	12.0	2006	Germany	7.4
10 <b>Apax Europe VII</b> Large buy-outs	16.4	2007	Global	6.8
11 <b>Graphite Capital Partners VII</b> Mid-market buy-outs	32.5	2007	UK	6.5
12 <b>Deutsche Beteiligungs AG Fund IV</b> Mid-market buy-outs	0.9	2002	Germany	5.1
13 <b>Barclays European Infrastructure Fund</b> Infrastructure projects	0.4	2001	UK	3.6
14 <b>CVC European Equity Partners Tandem Fund</b> Large buy-outs	4.9	2006	Global	3.5
15 <b>Activa Capital Fund</b> Mid-market buy-outs	1.8	2002	France	3.5
<b>Total of largest 15 fund investments</b>	<b>137.6</b>			<b>127.9</b>
<b>Percentage of total investment portfolio</b>				<b>66.6%</b>

## Investment Policy

The objective of Graphite Enterprise is to provide shareholders with long term capital growth through investment in unquoted companies, mainly through specialist funds but also directly.

### Asset allocation

Graphite Enterprise invests principally in unquoted companies either indirectly through a fund or directly in a company. Where investments are made through a fund, that fund may itself be either unquoted or quoted. Unquoted companies in which Graphite Enterprise has an interest may from time to time obtain a quotation and the Company may continue to hold its interest in quoted form. Investments in unquoted companies and quoted companies held post-flotation will typically comprise between 50% and 100% of the Company's gross assets.

The Company makes a significant majority of its investments through funds. It also invests directly, mainly in the form of co-investments alongside funds.

The Company expects the largest part of its investment portfolio to be in well established companies. The Company may also invest in infrastructure projects, early stage companies and other unquoted investments.

Underlying investments will mostly be in equity, or equivalent risk instruments. A minority may also be in lower risk instruments such as mezzanine debt.

The Company may from time to time make investments which provide exposure to other asset classes or which provide exposure to unquoted companies in other forms. These investments (including the market exposure provided by them) may comprise up to 40% of the Company's gross assets.

### Risk diversification

Graphite Enterprise's policy is to maintain an investment portfolio which provides exposure to unquoted companies across a broad range of sizes, with the greatest emphasis on medium-sized and large companies. The aim is for the portfolio to be diversified by geography, industry sector and year of investment. The expectation is that the portfolio will include investments in the order of 200 underlying companies at any given point.

The Company will ensure that its interest in any one company, taking into account direct and indirect holdings, will not exceed 15% of the Company's total investments at the time of initial acquisition or subsequent addition. This is a condition for the Company to maintain its investment trust status.

It is the Company's policy to invest no more than 15% of its gross assets in other listed investment companies (including listed investment trusts). This allows other investment trusts to have larger holdings in the shares of the Company than would be permitted in the absence of this policy.

#### Borrowings

The companies in which Graphite Enterprise invests often use borrowings to enhance the returns to equity investors. It is also possible for the funds through which the Company invests to use borrowings.

The Company does not expect to take on long term borrowings but may have long term facilities. Short to medium term borrowings may be required from time to time.

#### Overcommitment

Overcommitment is the practice of making commitments to funds which exceed the cash available for immediate investment. Overcommitment is explained further in Investing in Private Equity on page 22.

The Company may be overcommitted in order to ensure that it is more fully invested. The level of overcommitment is monitored regularly by the Board and the Manager, taking into account uninvested cash, the projected timing of cashflows to and from the portfolio, and market conditions.

#### Surplus cash

The Company holds surplus cash on deposit with UK banks or invests it in institutional liquidity funds. These funds invest in high quality short term debt instruments. The Company will invest surplus cash only in low risk assets and will limit exposure to any one deposit institution or fund to 15% of gross assets.

#### Benchmark

The Company's benchmark is the FTSE-All Share Index, which measures the share price performance of quoted companies of all sizes in the UK. The Board considers that this provides the most appropriate comparator for the Company's shareholders.

#### Currency risk

The Company holds investments and makes commitments in currencies other than sterling and is exposed to the risk of movements in the exchange rates of these currencies. From time to time the Company may put in place hedging arrangements in order to manage currency risk.

## Investment Plans

Graphite Enterprise continues to be a member of the F&C Investment Plans. Investors can hold shares in Graphite Enterprise through one or more of these plans, details of the which are set out below.

### Private Investor Plan

Investors can invest a lump sum or make regular monthly payments.

### Pension Savings Plan

Investors can enjoy tax benefits and save for retirement using this plan. Investors can also invest up to £3,600 per annum on behalf of a non-working spouse or a child.

### Individual Savings Account (ISA)

In the 2009/10 tax year, investors can invest up to £7,200 free of capital gains tax or additional income tax in an ISA. Investors can invest a lump sum, make regular monthly payments or transfer existing ISAs (including cash ISAs and ex-PEP ISAs).

### Child Trust Fund

Parents can invest the Government voucher issued to all children born since 1 September 2002. Parents, grandparents and other relatives can add contributions totalling £1,200 per year. Gains and income are tax free.

### Children's Investment Plan

Parents, grandparents and other relatives can invest on behalf of a child by setting up a designated account or bare trust.

### F&C Investor Services Team

The F&C Investor Services Team aims to provide clear answers to investors' questions. The team is trained to deal with all aspects of investment trust plan management and administration. The team provides information on Graphite Enterprise and on investments managed by F&C Management Ltd but cannot offer financial advice.

Existing investors can contact the Investor Services Team on:

Telephone: 0845 600 3030

(UK calls charged at local rate)

Email: [investor.enquiries@fandc.com](mailto:investor.enquiries@fandc.com)

Fax: 020 7410 9203

Address: F&C Plan Administration, Block C,  
Western House, Lynch Wood Business Park,  
Lynch Wood, Peterborough PE2 6BP.

For all other queries about investing in the F&C Investment Plans, please contact the Investor Services Team:

Telephone: 0800 136 420

Email: [info@fandc.com](mailto:info@fandc.com)

Fax: 0131 243 1330

Address: F&C Management Ltd  
Clandeboyne Business Park  
West Circular Road, Bangor BT19 1AR.

Further information is available on F&C's website at [www.fandc.co.uk](http://www.fandc.co.uk)

### Registrars

The registrars of Graphite Enterprise are Computershare Investor Services plc:

Telephone: 0870 702 0010

Address: Registrars Department, PO Box 82,  
The Pavilions, Bridgwater Road,  
Bristol BS99 7NH.

Potential investors are reminded that the value of investments and the income from them may fall as well as rise and investors may not receive back the full amount invested. Tax benefits may vary as a result of individual circumstances.

The information on this page has been issued by Graphite Capital Management LLP and approved by F&C Management Limited, both of which are authorised and regulated in the UK by the Financial Services Authority (FSA).

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# Report of the Directors

for the Year Ended 31 December 2008

This report should be read in conjunction with the Chairman's Statement on pages 2 to 9 and the Manager's Review on pages 10 to 18.

## Status of Company

Graphite Enterprise Trust PLC ("Graphite Enterprise" or the "Company") is an investment company as defined by Section 833 of the Companies Act 2006 and is registered in England (No. 1571089).

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 HM Revenue & Customs in accordance with the provisions of Section 842 of the Income and Corporation Taxes Act 1988 was the year ended 31 December 2007. In accordance with the 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 HM Revenue & Customs 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 Child Trust Fund (CTFs).

The Company makes investments both directly and through its subsidiary limited partnerships, Graphite Enterprise Trust LP and Graphite Enterprise Trust (2) LP. These three entities together form the group (the "Group").

## Investment Policy

The Company's investment policy is set out on pages 28 and 29. There will be no material change to the investment policy without prior shareholder approval.

## Business Review

The investment strategy, key performance indicators and the progress of the Company are discussed in the Chairman's Statement and in the Manager's Review.

The Company's key performance indicator is:

- net asset value per share performance over one, three, five and ten years.

The risks and uncertainties facing the Company are regularly reviewed by the Board, Audit Committee and the Manager. The main risks are set out in note 19 of the Notes to the Accounts.

## Corporate Social Responsibility

In carrying out its activities and in relationships with suppliers and the community, the Company aims to conduct itself responsibly, ethically and fairly. The Company has no employees and the Board is comprised entirely of non-executive directors. As an investment trust, the Company has no direct impact on the environment.

## Dividend

The final dividend in respect of the year ended 31 December 2008 of 4.5p per share will, if approved, be paid on 27 May 2009 to holders of ordinary shares on the register at the close of business on 8 May 2009.

## Directors

All of the directors listed on page 19 held office throughout the year under review, with exception of Mr Tighe who was appointed on 27 March 2008 and Mr Gray who retired at the Annual General Meeting ("AGM") on 14 May 2008. All of the directors of the Company are resident in the UK and their biographical details on page 19 demonstrate the wide range of skills and experience that they bring to the Board.

Mr Sclater will retire at the AGM on 19 May 2009. The Board wishes to extend its sincere thanks to Mr Sclater for his many years of service to the Company as Chairman and his extremely valuable counsel and insight during that time.

Mr Dicks and Mr Cumming have served on the Board for more than nine years and accordingly stand for re-election for a further year. Mr O'Connor and Mr Fane will retire by rotation and stand for re-election. The Board believes that Mr Dicks, Mr Cumming, Mr Fane and Mr O'Connor all make a relevant and significant contribution and bring considerable knowledge and experience to the Board. Their re-election is recommended to shareholders. If re-elected, Mr Fane will become Chairman at the AGM.

The directors have each signed a letter of appointment setting out the terms of their engagement as non-executive directors. Copies of these letters are available for inspection at the Company's registered office during normal business hours and will also be available at the AGM. No director has a service contract with the Company. Details of the directors' interests in contracts and agreements are given in note 10.

In addition to the requirement in the Company's Articles of Association that one third of the Board is subject to retirement each year, all directors are required to submit themselves for re-election at least every three years.

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 2008	31 December 2007
J. Sclater	24,347*	2,747
M. Fane	19,250	19,250
J. Tighe	11,639	–
P. Dicks	7,000	7,000
M. Cumming	5,000	5,000
P. Gray	n/a	–
S. O'Connor	–	–

\* 20,000 of these shares are owned by Mr Sclater's wife.

Since the year end Mr Sclater has purchased 15,000 shares, Mr Fane has purchased 100,000 shares, Mr O'Connor has purchased 20,000 shares, Mr Cumming has purchased 5,000 shares and Mr Tighe has purchased 46,081 shares.

#### Directors Remuneration

The Company has no employees or executive directors and consequently does not have a remuneration committee. The Directors' Remuneration Report, which shareholders will be asked to approve at the Annual General Meeting, can be found on page 69. The directors' remuneration is not conditional upon the resolution being passed.

#### Manager

Under the terms of the Company's management agreement (the "Management Agreement"), Graphite Capital Management LLP ("Graphite Capital" or the

"Manager"), which is authorised and regulated by the Financial Services Authority, provides investment management, company secretarial and general administrative services to the Group. The management agreement can be terminated by either party giving not less than one year's notice.

The investment management charge is calculated as 1.5% of the Investment Portfolio, excluding investments in Graphite Capital funds, and 0.5% of Outstanding Commitments, excluding those to Graphite Capital funds. The Company also pays charges to the Manager on its investments in Graphite Capital funds. These charges are at the same level as those paid by third party investors.

In 2007 the Board made a commitment of £50.0 million to Graphite Capital Partners VII ("Fund VII") and £20.0 million to Graphite Capital Partners VII Top Up Fund (the "Top Up Fund"). In 2003 the Board made a commitment of £50.0 million to Graphite Capital Partners VI ("Fund VI"). The Company also has a small secondary investment in Graphite Capital Partners V. In December 2008, the Company sold £10.0 million of its commitments to each of Fund VI, Fund VII and the Top Up Fund. Other than for the Top Up Fund, the terms of these investments specify that annual management charges are 2.0%, calculated by reference to total commitments for the first five years, and thereafter by reference to the cost of unrealised investments. For the Top Up Fund, annual management charges are 1.0%, calculated by reference to amounts drawn down. The co-investment arrangements within each of these funds are similar to those that are in place in the Group.

The directors review the activities and performance of the Manager on an ongoing basis. In addition, the Audit Committee carries out a formal annual review of the Manager's internal controls and risk management systems and the Board annually reviews the Manager's investment strategy and performance. Such reviews were carried out during the year under review. The Board reviewed the Company's investment record over short and long term periods, taking into account factors including the net asset value per share and the share price as well as the performance and competence of the Manager. The Board was satisfied

## Report of the Directors (continued)

with the past performance and with the way the Company was currently being managed. Based on this it is the Board's opinion that the continuing appointment of Graphite Capital Management LLP as Manager on the agreed terms is in the best interests of shareholders as a whole.

### Capital

At the AGM held on 14 May 2008 shareholders renewed the Board's authority, which expires no later than 15 months after that AGM, to buy back up to 10,929,659 of the Company's ordinary shares for cancellation. A total of 2,374,000 shares (nominal value £237,400) were purchased during the year under review at prices ranging from 437p to 466p per share and for a total consideration of £11,070,000. These shares represented 3.2% of the issued share capital as at 31 December 2008, and all of them were cancelled. No further shares have been purchased by the Company since the year end. A resolution renewing the Board's buy back authority is proposed at this year's AGM.

At the AGM in 2008 shareholders gave the Board authority, which expires no later than 15 months after that AGM, to acquire up to 10% of its issued share capital in any 12 month period and hold those shares in treasury for re-issue at a future date. The resolution passed at the AGM gave the Board the authority to disapply pre-emption rights on up to 10% of the issued share capital to enable the Board to re-issue any ordinary shares held in treasury without having first to offer them to all existing shareholders. No shares have been acquired during the year or since the year end which have been held in treasury at any time. The same resolutions are to be submitted to this year's AGM.

### Substantial Share Interests

At 7 April 2009 the Company had received notification of the following disclosable interests in its issued share capital: Legal and General Investment Management Limited, 3,365,488 ordinary shares, representing 4.6% of issued share capital at that date.

### Co-investment Scheme

There are co-investment arrangements in place under the terms of which the executives of the Manager (or

their nominees) and an associate of the Manager (together the "Co-investors") co-invest with the Company through Graphite Enterprise Trust LP ("Partnership 1") and Graphite Enterprise Trust (2) LP ("Partnership 2"). Investments made through Partnership 1 relate to new fund commitments and new direct investments made before 24 May 2007 and investments made through Partnership 2 relate to those made after 24 May 2007.

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 either partnership. If an investment made by either partnership achieves at least an 8% per annum compound return (the "Threshold"), the Co-investors are entitled to a payment representing 10% of the total of the Group's gross income and capital gains (the "Share") from that investment.

In Partnership 1, if the Threshold is not achieved on any individual investment, the Co-investors receive no payment. For investments in Partnership 1 the Share is paid on the cash receipt by Partnership 1 of gross income and capital proceeds from investments in excess of the Threshold or on the flotation of portfolio companies when it may be satisfied in specie.

In Partnership 2 the cost of the Co-investors' investment is returned to Co-investors at the same time as the Company recovers its cost of investment. The balance of the Share is paid on the cash receipt by Partnership 2 of gross income and capital proceeds from investments in excess of the Threshold 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 2008 the Company had no outstanding trade creditors (2007: nil). However there was an accrued balance of £908,000 in relation to management fees payable to the Manager (2007: £71,000).

### Corporate Governance

The Company is committed to appropriate standards of corporate governance. The Board has considered the principles set out in the revised Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2006 (the "Combined Code"). Save for the exceptions detailed below, the Company complied with the revised code throughout the year under review.

The Board is currently comprised of six non-executive directors. There is no Chief Executive position within the Company as day-to-day management of the Company's affairs has been delegated to the Manager. The Board regularly reviews the independence of its members and, having due regard to the definitions and current guidelines on independence under the Combined Code, considers all Directors to be independent. There are no relationships or circumstances relating to the Company that are likely to affect their judgment. Mr Dicks has been appointed as the Senior Independent Director.

The Board considers that Mr Sclater, Mr Dicks and Mr Cumming are independent despite having served on the Board for more than nine years. The Board is of the view that length of service does not necessarily compromise the independence or contribution of directors of an investment trust, where continuity and experience can add significantly to the strength of the Board. Given the long term nature of the Company's investments the Board considers the long service of these directors as an asset.

The Board's tenure and succession policy seeks to ensure that the Board is well balanced by the appointment of directors with a range of skills and experience. The entire Board is non-executive. The Board has formed a committee, of which all directors are a member, to consider nominations. Candidates for the Board are assessed as to the appropriateness of their skills and experience prior to their appointment. New directors 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. Strategic issues are determined by the Board and a formal schedule

of operational matters reserved for the Board has been adopted. In order to enable them to discharge their responsibilities 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.

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 company secretary.

The quorum for any Board meeting is two directors but attendance by all directors at each meeting is strongly encouraged. During the year under review, four regular meetings were held and each of the directors attended them all, apart from Mr Sclater who was unable to attend one meeting. Three additional telephone meetings were held. Mr Sclater, Mr Tigue, Mr O'Connor and Mr Dicks were each unable to attend one of these additional meetings. At least four directors were present at each meeting.

During the year under review, the Board has maintained appropriate insurance cover in respect of legal action against the directors. The policy does not cover dishonest or fraudulent actions by the directors.

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 contractually delegated to a third party custodian.

### Performance Evaluation

The Board has formalised a process by which to evaluate its own performance and that of the Chairman on an annual basis. This process is based on an open discussion and assessment of the Board and its Committees, with the Chairman making recommendations to improve performance where necessary.

## Report of the Directors (continued)

### Audit Committee

The 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 Tighe. Mr Gray resigned from the Audit Committee on 14 May 2008 when he resigned as a director. Mr Tighe was appointed to the Audit Committee on 24 July 2008. There is a range of recent and relevant financial experience among the members. The primary role of the Committee is to review the accounting policies, the contents of the interim and annual financial statements, the adequacy and scope of the external audit, the risks to which the Company is exposed, the controls in place to mitigate those risks and compliance with regulatory and financial reporting requirements. The Committee meets at least three times a year. In 2008 the Committee met three times, with the Company's auditors, PricewaterhouseCoopers LLP, being present at each meeting. The Committee also has direct access to the auditors as necessary at other times and the opportunity to meet the auditors without the Manager being present. The Committee has met this year to consider the Company's audit process, its financial statements, the report of the auditors and auditor independence.

The quorum for the Audit Committee is any two of the four members comprising the Committee but attendance at each meeting is strongly encouraged. All the meetings in the year were fully attended.

The Audit Committee has carried out a full risk and control assessment, including reviewing the Manager's internal controls and risk management arrangements, the results of which were satisfactory.

The directors have overall responsibility for the Company's systems of internal controls and for reviewing their effectiveness. The purpose of the controls is to ensure that assets of the Company are safeguarded, proper accounting records are maintained and that 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 of 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 misstatement or loss.

The Manager has set out in a Statement of Internal Controls for 2008 its control policies and procedures with respect to the administration of the Company's investments. The effectiveness of these controls is monitored by the Manager and the Statement of Internal Controls contains a report from the external auditors. The Audit Committee has received and reviewed the Statement of Internal Controls.

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.

In common with most investment trusts, the Company does not have an internal audit function. All of the Company's management functions are delegated to the Manager which has its own internal control and risk monitoring arrangements. A report on these arrangements is prepared by the Manager and submitted to the Audit Committee. The need for an internal audit function is reviewed annually by the Audit Committee.

The Audit Committee has reviewed the provision of non-audit services and believes them to be cost effective and not an impediment to the auditors' objectivity and independence. The non-audit services are the provision of training for the directors and a review of payments under the co-investment arrangements. It has been agreed that all non-audit work to be carried out by the external auditors must be ratified by the Audit Committee. Any special projects would be approved by the Audit Committee in advance. The cost of non-audit services for the financial year ended 31 December 2008 was £15,000 and is not of a material nature.

#### 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 of preparation of the Group's financial statements. The Group's business activities, together with factors likely to affect its future development, performance and position as well as its future cash flow requirements are set out in the Chairman's Statement and Manager's Review on pages 2 to 18.

#### 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 AGM 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 AGM.

#### Charitable and Political Donations

The Company has a covenant with the Charities Aid Foundation for £10,000 per annum (2007: £10,000). No political donations were made in 2008 (2007: nil).

#### 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 AGM.

#### Summary of the Company's Articles

Set out below is a summary of:

- a) certain provisions of the Company's current Articles of Association (the "Articles") (these were adopted by special resolution on 25 April 2000 and subsequently amended by special resolutions on 24 May 2007 and 14 May 2008); and
- b) relevant aspects of English company law (the Companies Act 1985 and the Companies Act 2006, together the "Companies Acts").

As this is only a summary, the relevant provisions of the Articles or the Companies Acts should be consulted if further information is required.

#### Share Capital

The Company has a single class of share capital which is divided into ordinary shares of 10 pence each.

#### Dividends and Distributions

Subject to the provisions of the Companies Acts, the Company may by ordinary resolution declare dividends not exceeding the amount recommended by the Board. The Board may pay interim dividends whenever the financial position of the Company, in the opinion of the Board, justifies such payment.

The Board may withhold payment of all or any part of any dividends or other monies payable in respect of the Company's shares from a person with an interest of more than 0.25% (as defined in the Articles) if he has both failed to provide the Company with information concerning interests in those shares required to be provided under the Companies Acts and has been served with notice in respect of that failure.

#### Voting Rights

At any general meeting:

- i) on a show of hands every member entitled to vote who is present in person and every person (not being himself entitled to vote) who is present as proxy for a member entitled to vote shall have one vote; and
- ii) on a poll every member entitled to vote who is present in person or by proxy shall have one vote for every share of which he is the holder,

provided that:

- a) a person appointed as proxy in respect of a share shall not be entitled to vote if the member who appointed that person as his proxy, or (in the case of a corporation) the duly authorised representative of such member, exercises his right to vote in respect of that share; and
- b) subject to paragraph (a) above, in the event that on a poll a member is present both in person and

## Report of the Directors (continued)

by proxy, his proxy shall have one vote for every share in respect of which he has been appointed and the member shall have one vote for every other share he holds.

If two or more persons are joint holders of a share, then only the vote of the senior holder (determined by the order in which the names stand in the Register) shall be accepted.

Under the Companies Acts members are entitled to appoint a proxy, who need not be a member of the Company, to exercise all or any of their rights to attend, and to speak and vote on their behalf at a general meeting. A member may appoint more than one proxy provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member.

A member that is a corporation may appoint one or more individuals to act on its behalf at a general meeting as a corporate representative. Any person so authorised shall be entitled to exercise the same powers on behalf of that corporation as the corporation could exercise if it were an individual member of the Company.

### *Restrictions on voting*

No member shall, unless the Board determines otherwise, be entitled to vote at a general meeting either in person or by proxy, or to exercise any other right or privilege as a member in respect of a share held by him unless all sums due and payable by him in respect of that share has been paid to the Company.

In addition no member shall be entitled to vote if he has both failed to provide the Company with information concerning interests in those shares required to be provided under the Companies Acts and has been served with a notice in respect of that failure.

### *Deadlines for exercising voting rights*

Proxy forms must be submitted not less than 48 hours before the time appointed for the holding of a general meeting.

### *Transfer of shares*

All transfers of shares may be made by transfer in writing or in any other form acceptable to the Board. The instrument of transfer shall be executed by or on behalf of the transferor. The transferor shall remain the holder of the shares concerned until the name of the transferee is entered in the Register of members of the Company.

The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of a share unless (a) it is in respect of a share which is fully paid up, (b) it is in favour of a single transferee or not more than four joint transferees, (c) it is duly stamped (if required), and (d) it is delivered for registration to the Company's registrar, accompanied by the certificate for the shares to which it relates (except in the case of a transfer where a certificate has not been issued).

If the Board refuses to register a transfer it shall within two months after the date on which the letter of transfer was lodged with the Company send a notice of the refusal to the transferee.

### *Appointment and replacement of directors*

There shall be at least two and not more than ten directors. A director is not required to hold any shares in the Company. One third of the directors are required to retire by rotation at each AGM.

The Company may by ordinary resolution appoint a person who is willing to act to be a director, either to fill a vacancy or as an addition to the existing Board. The Board shall have power at any time to appoint any person who is willing to act as a director, either to fill vacancy or as an addition to the existing Board. Any director so appointed shall retire at the AGM of the Company following the appointment and shall not be taken into account in determining the number of directors who are to retire by rotation at that meeting. A director who retires at an AGM (whether by rotation or otherwise) may, if willing to act, be re-appointed.

*Powers of the directors*

Subject to the Articles, the Companies Acts and any directions given by special resolution, the business of the Company will be managed by the Board which may exercise all the powers of the Company.

The Board may exercise all the powers of the Company to borrow money, issue debentures or other securities and to mortgage or charge any of its property. The total borrowing may not, without the prior sanction of an ordinary resolution, exceed an amount equal to shareholders' funds subject to certain adjustments.

*Amendment of Articles of Association*

Amended Articles of Association of the Company came into effect during the year following the commencement of certain provisions of the Companies Act 2006. These relate to electronic web communications, directors' indemnities and loans to fund expenditure, convening extraordinary and annual general meetings, enhanced rights for proxies, registration of transfers and age of directors on appointment. In addition, with effect from 1 October 2008 the directors of the Company have the power in the Articles of Association to authorise certain conflicts of interest as provided for in Section 175 of the Companies Act 2006.

*Annual General Meeting*

The Annual General Meeting of the Company will be held at The Coronation Suite, 2nd Floor, The Hilton Hotel, Park Lane, London W1 at 11.30am on Tuesday, 19 May 2009. The resolutions are set out in the Notice of Meeting on pages 73 to 76.



By order of the Board,  
Graphite Capital Management LLP, Secretary  
8 April 2009

# Consolidated Income Statement

For the year ended 31 December

	Notes	2008			2007		
		Revenue return £'000s	Capital return £'000s	Total £'000s	Revenue return £'000s	Capital return £'000s	Total £'000s
<b>Investment returns</b>							
Gains and losses on investments held at fair value	2,10	1,326	(63,443)	(62,117)	5,563	54,077	59,640
Income from cash and cash equivalents	2	5,001	–	5,001	6,770	–	6,770
Other income	2	298	–	298	45	–	45
Foreign exchange gains and losses		–	12,516	12,516	–	544	544
		<b>6,625</b>	<b>(50,927)</b>	<b>(44,302)</b>	<b>12,378</b>	<b>54,621</b>	<b>66,999</b>
<b>Expenses</b>							
Investment management charges	3	(1,110)	(3,330)	(4,440)	(1,203)	(3,609)	(4,812)
VAT reclaim		647	1,942	2,589	–	–	–
Other expenses	4	(1,090)	(81)	(1,171)	(1,328)	(90)	(1,418)
		<b>(1,553)</b>	<b>(1,469)</b>	<b>(3,022)</b>	<b>(2,531)</b>	<b>(3,699)</b>	<b>(6,230)</b>
<b>Profit/(loss) before tax</b>		<b>5,072</b>	<b>(52,396)</b>	<b>(47,324)</b>	<b>9,847</b>	<b>50,922</b>	<b>60,769</b>
Taxation	6	(1,337)	396	(941)	(2,878)	1,083	(1,795)
<b>Profit/(loss) for the period from continuing operations</b>		<b>3,735</b>	<b>(52,000)</b>	<b>(48,265)</b>	<b>6,969</b>	<b>52,005</b>	<b>58,974</b>
<b>Attributable to:</b>							
Equity shareholders		3,735	(50,527)	(46,792)	6,969	46,143	53,112
Minority interests		–	(1,473)	(1,473)	–	5,862	5,862
Basic and diluted earnings per share	7			<b>(64.09p)</b>			67.56p

The columns headed 'Total' represent the income statement for the relevant years and the columns headed 'Revenue return' and 'Capital return' are supplementary information. See note 1.

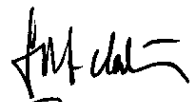

The notes on pages 46 to 68 form an integral part of the financial statements.

# Consolidated Balance Sheet

At 31 December	Notes	2008		2007	
		£'000s	£'000s	£'000s	£'000s
<b>Non-current assets</b>					
<b>Investments held at fair value</b>					
– Unquoted investments	10, 19	188,137		242,354	
– Quoted investments	10, 19	4,041		9,737	
– FTSE 100 Call Option	10, 19	–		12,757	
			192,178		264,848
<b>Current assets</b>					
Trade and other receivables	12	2,750		575	
Cash and cash equivalents	11	138,963		134,699	
		141,713		135,274	
<b>Current liabilities</b>					
Trade and other payables	13	2,152		1,845	
<b>Net current assets</b>			139,561		133,429
<b>Total assets less current liabilities</b>			331,739		398,277
<b>Capital and reserves</b>					
Called up share capital	14, 15		7,292		7,529
Capital redemption reserve	15		2,112		1,875
Share premium	15		12,936		12,936
Capital reserve	15		290,066		351,663
Revenue reserve	15		14,939		17,037
<b>Equity attributable to equity holders</b>	15		327,345		391,040
Minority interests	15, 18		4,394		7,237
<b>Net assets</b>			331,739		398,277
<b>Net asset value per share (basic and diluted)</b>	16		449.0p		519.4p

The notes on pages 46 to 68 form an integral part of the financial statements.

The financial statements were approved by the Board of directors on 8 April 2009 and signed on its behalf by:

J. Slater  }  
 P. Dicks  } Directors

# Consolidated Cash Flow Statement

For the year ended 31 December	Notes	2008 £'000s	2007 £'000s
<b>Operating activities</b>			
Sale of portfolio investments		24,454	106,823
Sale of portfolio of fund interests		54,949	–
Purchase of portfolio investments		(77,869)	(103,536)
Sale of FTSE 100 Call Option		7,693	21,310
Income received from investments		1,791	5,337
Other income received		5,299	6,815
Investment management charges paid		(3,204)	(4,809)
Other expenses paid		(1,412)	(1,576)
Taxation paid		(1,731)	(990)
<b>Net cash inflow from operating activities</b>		<b>9,970</b>	<b>29,374</b>
<b>Financing activities</b>			
Investments by minority interests		580	465
Distributions to minority interests		(1,899)	(6,688)
Purchase of ordinary shares		(11,070)	(33,190)
Equity dividends paid		(5,833)	(5,242)
<b>Net cash outflow from financing activities</b>		<b>(18,222)</b>	<b>(44,655)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(8,252)</b>	<b>(15,281)</b>
Cash and cash equivalents at beginning of year		134,699	149,436
Net decrease in cash and cash equivalents		(8,252)	(15,281)
Effect of changes in foreign exchange rates		12,516	544
Cash and cash equivalents at end of year	11	<b>138,963</b>	<b>134,699</b>

The notes on pages 46 to 68 form an integral part of the financial statements.

## Consolidated Statement of Changes in Equity

For the year ended 31 December	Notes	2008 £'000s	2007 £'000s
<b>Total equity at the beginning of the year</b>		<b>398,277</b>	380,955
(Loss)/profit attributable to equity shareholders		<b>(46,792)</b>	53,112
(Loss)/profit attributable to minority interests		<b>(1,473)</b>	5,862
<b>Total (loss)/profit for the period and total recognised income and expenses</b>		<b>(48,265)</b>	58,974
Dividends to equity shareholders	8, 15	<b>(5,833)</b>	(5,242)
Purchase of ordinary shares	14, 15	<b>(11,070)</b>	(31,100)
Net distribution to minority interests	15	<b>(1,370)</b>	(5,310)
<b>Total equity at the end of the year</b>		<b>331,739</b>	398,277

## Parent Company Statement of Changes in Equity

For the year ended 31 December	Notes	2008 £'000s	2007 £'000s
<b>Total equity at the beginning of the year</b>		<b>391,040</b>	374,270
(Loss)/profit attributable to equity shareholders		<b>(46,792)</b>	53,112
<b>Total (loss)/profit for the period and total recognised income and expenses</b>		<b>(46,792)</b>	53,112
Dividends to equity shareholders	8, 15	<b>(5,833)</b>	(5,242)
Purchase of ordinary shares	14, 15	<b>(11,070)</b>	(31,100)
<b>Total equity at the end of the year</b>		<b>327,345</b>	391,040

The notes on pages 46 to 68 form an integral part of the financial statements.

# Parent Company Balance Sheet

At 31 December	Notes	2008		2007	
		£'000s	£'000s	£'000s	£'000s
<b>Non-current assets</b>					
<b>Investments held at fair value</b>					
– Unquoted investments	10, 19	156,642		201,656	
– Quoted investments	10, 19	4,041		9,737	
– FTSE 100 Call Option	10, 19	–		12,757	
– Subsidiary undertakings	10	42,370		39,522	
			203,053		263,672
<b>Current assets</b>					
Trade and other receivables	12	3,078		1,642	
Cash and cash equivalents	11	123,268		127,526	
		126,346		129,168	
<b>Current liabilities</b>					
Trade and other payables	13	2,054		1,800	
<b>Net current assets</b>			124,292		127,368
<b>Total assets less current liabilities</b>			327,345		391,040
<b>Capital and reserves</b>					
Called up share capital	14, 15		7,292		7,529
Capital redemption reserve	15		2,112		1,875
Share premium	15		12,936		12,936
Capital reserve	15		290,066		351,663
Revenue reserve	15		14,939		17,037
<b>Equity attributable to equity holders</b>			327,345		391,040
<b>Net asset value per share (basic and diluted)</b>	16		449.0p		519.4p

The notes on pages 46 to 68 form an integral part of the financial statements.

The financial statements were approved by the Board of directors on 8 April 2009 and signed on its behalf by:

J. Sclater



P. Dicks



} Directors

# Parent Company Cash Flow Statement

For the year ended 31 December	Notes	2008 £'000s	2007 £'000s
<b>Operating activities</b>			
Sale of portfolio investments		10,681	79,453
Sale of portfolio of fund interests		45,499	-
Purchase of portfolio investments		(64,327)	(85,874)
Sale of FTSE 100 Call Option		7,693	21,310
Income received from investments		2,817	5,110
Other income received		5,008	6,722
Investment management charges paid		(3,204)	(4,809)
Other expenses paid		(1,307)	(1,380)
Taxation paid		(1,731)	(990)
<b>Net cash inflow from operating activities</b>		<b>1,129</b>	<b>19,542</b>
<b>Financing activities</b>			
Purchase of ordinary shares		(11,070)	(33,190)
Equity dividends paid		(5,833)	(5,242)
<b>Net cash outflow from financing activities</b>		<b>(16,903)</b>	<b>(38,432)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(15,774)</b>	<b>(18,890)</b>
Cash and cash equivalents at beginning of the year		127,526	145,924
Net decrease in cash and cash equivalents		(15,774)	(18,890)
Effect of changes in foreign exchange rates		11,516	492
Cash and cash equivalents at end of year	11	<b>123,268</b>	<b>127,526</b>

The notes on pages 46 to 68 form an integral part of the financial statements.

# Notes to the Accounts

## I ACCOUNTING POLICIES

These financial statements relate to Graphite Enterprise Trust PLC (the "Company") and its subsidiaries, Graphite Enterprise Trust LP and Graphite Enterprise Trust (2) LP (the "Partnerships"), together the "Group". The registered address and principal place of business of the Company and the Partnerships is Berkeley Square House, Berkeley Square, London W1J 6BQ.

### (a) Basis of preparation

The consolidated financial information for the year ended 31 December 2008 has been prepared in accordance with the Companies Act 1985 and International Financial Reporting Standards ("IFRS"). IFRS comprises standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") as adopted in the European Union as at 31 December 2008. These financial statements have been prepared on a going concern basis and on the historical cost basis of accounting, modified for the revaluation of certain assets.

In order to reflect the activities of an investment trust company, supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement. In analysing total income between capital and revenue returns, the directors have followed the guidance contained in the Statement of Recommended Practice for investment trusts issued by the Association of Investment Trust Companies in December 2005 (the "SORP").

The recommendations of the SORP which have been followed include:

- Realised and unrealised profits or losses arising on the revaluation or disposal of investments classified as held at fair value through profit and loss should be shown in the capital column of the income statement.
- Returns on any share or debt security for a fixed amount (whether in respect of dividends, interest or otherwise) should be shown in the revenue column of the income statement.
- The Board should determine whether the indirect costs of generating capital gains should also be shown in the capital column of the income statement. If the Board decides that this should be so, the management fee should be allocated between revenue and capital in accordance with the Board's expected long term split of returns, and other expenses should be charged to capital only to the extent that a clear connection with the maintenance or enhancement of the value of investments can be demonstrated.

The accounting policy regarding the allocation of expenses is set out in note 1(h).

In accordance with the Company's status as a UK investment company under Section 833 of the Companies Act 2006, net capital return may not be distributed by way of dividend.

At the balance sheet date the Company had adopted all Standards and Interpretations that were either issued or which had become effective by the year end. The following Standards were issued during the year, but not effective at the balance sheet date:

- IAS 1 (revised): 'Presentation of Financial Statements: Items of Income and Expenses'
- IAS 23 (revised): 'Borrowing Costs'
- IFRS 8: 'Operating Segments'

These standards have not been applied in preparing the financial statements for the year ended 31 December 2008. It is not anticipated that the adoption of these standards will have any significant impact on the financial statements.

## I ACCOUNTING POLICIES (CONTINUED)

### (b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### (c) Financial assets

The Group classifies its financial assets in the following categories: a) at fair value through profit or loss; and b) loans and receivables. The classification depends on the purpose for which the financial assets were acquired. The classification of financial assets is determined at initial recognition.

#### Financial assets at fair value through profit or loss

The Group classifies its quoted and unquoted investments as financial assets at fair value through profit or loss. These assets are measured at subsequent reporting dates at fair value and further details are disclosed in note 1(d).

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are classified as current assets and measured at amortised cost using the effective interest method. The Group's loans and receivables comprise cash and cash equivalents and trade and other receivables in the balance sheet (notes 11 and 12).

### (d) Investments

All investments are designated upon initial recognition as held at fair value through profit and loss (described in these financial statements as investments held at fair value) and are measured at subsequent reporting dates at fair value. Changes in the value of all investments held at fair value, which include returns on those investments such as dividends and interest, are recognised in the income statement and are allocated to the revenue column or the capital column in accordance with the SORP. More detail on certain categories of investment is set out below, and this accounting policy also applies to the Partnerships in the Parent Company balance sheet.

#### Unquoted investments

Fair value for unquoted investments is established by using various valuation techniques. The primary valuation methodology used is an earnings multiple methodology, with other methodologies used where they are more appropriate. Funds are valued at the manager's valuation where this is consistent with the requirement to use fair value. Where this is not the case, which is very rare, alternative methods are used as appropriate. The fair value of direct unquoted investments is calculated in accordance with the International Private Equity and Venture Capital Valuation Guidelines ("IPEVC") issued in October 2006.

#### Quoted investments

Quoted investments include both listed investments and those traded on other recognised markets. They are held at the last traded bid price on the balance sheet date. When a purchase or sale is made under contract, the terms of which require delivery within the timeframe of the relevant market, the contract is reflected on the trade date.

#### Associates

Investments which fall within the definition of an associate under IAS 28 (Investments in Associates) are accounted for as investments held at fair value through profit and loss, as permitted by that standard.

# Notes to the Accounts

## I ACCOUNTING POLICIES (CONTINUED)

IAS 28 requires certain disclosures to be made about associates, including summary historical financial information, even where these associates have been accounted for in accordance with IAS 39 and held at fair value. Graphite Enterprise has a small number of investments which fall within the definition of an associate, all of which are held at fair value.

The disclosures required by IAS 28 have not been made. It is considered that, in the context of the current investment portfolio, such information would not be useful to users of the accounts. Information is considered useful if it helps users assess the net asset value of the Group or the future growth therein. Many factors are taken into account in determining the fair value of individual investments, of which historical financial information is only one. Taken alone, this information would not be useful in making such an assessment and would be misleading in some instances.

### (e) Cash and cash equivalents

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

### (f) Dividend distributions

Dividend distributions to shareholders are recognised in the period in which they are paid or approved.

### (g) Income

When it is probable that economic benefits will flow to the Group and the amount can be measured reliably, interest is recognised using the effective interest method.

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.

Income distributions from funds are recognised when the right to distributions is established.

### (h) Expenses

All expenses are accounted for on an accruals basis. Expenses are allocated to the revenue column in the income statement with the following exceptions:

- Expenses which are incidental to the acquisition of investments (transaction costs) are allocated to the capital column.
- Expenses which are incidental to the disposal of investments are deducted from the disposal proceeds of investments and therefore also effectively allocated to the capital column.
- 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 the capital column and 25% to the revenue column, in line with this expectation.
- Other expenses are allocated to the capital column where a clear connection with the maintenance or enhancement of the value of investments can be demonstrated.

All expenses allocated to the capital column are treated as realised capital losses (see note I(k)).

## I ACCOUNTING POLICIES (CONTINUED)

## (i) Taxation

Investment trusts which have approval as such under Section 842 of the Income and Corporation Taxes Act 1988 are not liable for taxation on capital gains.

Tax recognised in the income statement represents the sum of current tax and deferred tax charged or credited in the period. The tax effect of different items of expenditure is allocated between capital and revenue on the same basis as the particular item to which it relates.

Deferred tax is the tax expected to be payable or recoverable on the difference between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the assets are realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

## (j) Foreign currency translation

The functional currency of each of the entities in the Group is Sterling since that is the currency of the primary economic environment in which the Group operates. The presentation currency for the Group and each entity in it is also Sterling.

Transactions in currencies other than Sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, financial assets and liabilities denominated in foreign currencies are translated at the rates prevailing on the balance sheet date.

Gains and losses arising on the translation of investments held at fair value are included within gains and losses on investments held at fair value in the income statement. Gains and losses arising on the translation of other financial assets and liabilities are included within foreign exchange gains and losses in the income statement.

## (k) Revenue and capital reserves

The revenue return component of total income is taken to the distributable revenue reserve within the Statement of Changes in Equity.

The capital return component of total income is taken to the non-distributable capital reserve within the Statement of Changes in Equity. Gains and losses on the realisation of investments including realised exchange gains and losses and expenses of a capital nature are taken to the realised capital reserve (see note I(h)). Changes in the valuations of investments which are held at the year end and unrealised exchange differences are accounted for in the unrealised capital reserve.

# Notes to the Accounts

## 1 ACCOUNTING POLICIES (CONTINUED)

### (1) Key estimates and assumptions

Estimates and judgements used in preparing the financial information are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The resulting estimates will, by definition, seldom equal the related actual results.

The only estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities relate to the valuation of unquoted investments which may be managed directly by the Manager, Graphite Capital, or by third party private equity firms selected by the Manager.

For investments managed by third parties, funds are valued at the Manager's valuation where this is consistent with the requirement to use fair value. Where this is not the case, which is very rare, alternative methods are used as appropriate.

Investments managed by Graphite Capital are valued in accordance with IPEVC valuation guidelines as set out in note 1(d). Judgement is required in order to determine the appropriate valuation methodology under these guidelines, and subsequently in determining the inputs into the valuation models used. These judgements include making assessments of the future earnings potential of portfolio companies, appropriate earnings multiples to apply, and marketability discounts. Although the judgements are significant, the valuation guidelines are clear, well established and supported by a large part of the global private equity industry.

## 2 GAINS AND LOSSES ON INVESTMENTS HELD AT FAIR VALUE – REVENUE RETURN

Group and Parent Company	2008 £'000s	2007 £'000s
<b>Income from investments</b>		
Dividends from UK companies#	476	529
UK unfranked investment income#	403	2,529
Overseas interest#	–	235
Income from cash equivalents*	3,919	5,009
Other income from investments#	447	2,270
	<b>5,245</b>	<b>10,572</b>
<b>Other income</b>		
Deposit interest on cash*	1,082	1,761
Other	298	45
	<b>1,380</b>	<b>1,806</b>
<b>Total income</b>	<b>6,625</b>	<b>12,378</b>
<b>Analysis of income from investments</b>		
Quoted in Great Britain	476	522
Unquoted	4,769	10,050
	<b>5,245</b>	<b>10,572</b>

# These items make up income from the investment portfolio of £1,326,000 (2007: £5,563,000)

\* These items make up income from cash and cash equivalents of £5,001,000 (2007: £6,770,000)

## 3 INVESTMENT MANAGEMENT CHARGES

Group and Parent Company	Revenue £'000s	2008 Capital £'000s	Total £'000s	Revenue £'000s	2007 Capital £'000s	Total £'000s
Investment management fee	1,110	3,330	4,440	1,065	3,196	4,261
Irrecoverable VAT reclaim/ VAT thereon	(647)	(1,942)	(2,589)	138	413	551
	<u>463</u>	<u>1,388</u>	<u>1,851</u>	<u>1,203</u>	<u>3,609</u>	<u>4,812</u>

The allocation of the total investment management charges was unchanged in 2008 with 75% of the total allocated to capital and 25% allocated to income.

The Company has borne a net management charge of £764,000 (2007: £808,000) in respect of Graphite Capital Partners VI and £784,000 (2007: £250,000) in respect of Graphite Capital Partners VII. These charges are at the same level as those paid by third party investors. The total investment management charges payable by the Group to the Manager (excluding VAT) were therefore £5,988,000 (2007: £5,870,000).

Graphite Capital Management LLP was a related party of Graphite Enterprise Trust PLC during the year. The amounts payable during the year are set out above. There was an amount outstanding of £908,000 (excluding VAT) as at 31 December 2008 (2007: £71,000).

## 4 OTHER EXPENSES

The Group did not directly employ any staff in 2007 or 2008.

Group and Parent Company	2008 £'000s		2007 £'000s	
Directors' fees (see note 5)		175		169
Auditors' remuneration:				
Statutory audit of the Company	58		55	
Additional cost of statutory audit for the prior year	21		–	
Other services				
Auditing of accounts of the subsidiaries of the Company required by legislation	23		16	
Other services required by legislation (interim review)	22		19	
Other	15		5	
Total auditors' remuneration		139		95
Expenses related to shareholder circular and EGM		–		302
General expenses		776		762
Total expenses allocated to revenue		1,090		1,328
Expenses allocated to capital – transaction costs		81		90
		<u>1,171</u>		<u>1,418</u>

## Notes to the Accounts

### 5 DIRECTORS' REMUNERATION AND INTERESTS

The amounts paid by the Company as directors' fees are shown in the Directors' Remuneration Report on page 69. No amounts were received or receivable by the directors from any other entity in the Group. The directors' interests in the share capital of the Company are shown in the Directors' Report on page 33.

### 6 TAXATION

The tax charge is lower than the standard rate of corporation tax, principally due to the Company's status as an investment trust, which means that capital gains are not subject to corporation tax. The effect of this and other items affecting the tax charge is shown in note 6(b) below.

Group and Parent Company	2008 £'000s	2007 £'000s
a) Analysis of charge in year		
Tax charge on items allocated to revenue	1,362	2,850
Tax credit on items allocated to capital	(396)	(1,083)
UK corporation tax at 28.5% (2007 – 30%)	966	1,767
Adjustment in respect of prior years (relating to items allocated to revenue)	(25)	28
	941	1,795
b) Factors affecting tax charge for year		
(Loss)/profit on ordinary activities before tax	(47,324)	60,769
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28.5% (2007 – 30%)	(13,487)	18,231
Effect of:		
– net capital (gains)/losses not subject to corporation tax	14,514	(16,386)
– UK dividends not subject to corporation tax	(136)	(159)
– expenses not deductible for tax purposes	75	81
Adjustment in respect of prior years	(25)	28
Total tax charge	941	1,795

Graphite Enterprise has no carried forward deferred tax assets or liabilities (2007: nil). Due to the Company's status as an investment trust, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments. For all investments the tax base is equal to the carrying amount.

The market value of the Company's ordinary shares at 31 March 1982 was 16.0p.

## 7 EARNINGS PER SHARE

	2008	2007
Revenue return per ordinary share	5.12p	8.86p
Capital (loss)/return per ordinary share	(69.21p)	58.70p
Earnings per ordinary share (basic and diluted)	(64.09p)	67.56p

Revenue return per ordinary share is calculated by dividing the revenue return attributable to equity shareholders of £3,735,000 (2007: £6,969,000) by the weighted average number of ordinary shares outstanding during the year.

Capital return per ordinary share is calculated by dividing the capital return attributable to equity shareholders of (loss of) £50,527,000 (2007: profit of £46,143,000) by the weighted average number of ordinary shares outstanding during the year.

Basic and diluted earnings per ordinary share are calculated by dividing the earnings attributable to equity shareholders of (loss of) £46,792,000 (2007: profit of £53,112,000) by the weighted average number of ordinary shares outstanding during the year.

The weighted average of ordinary shares outstanding during the year was 73,012,852 (2007: 78,620,500). There were no potentially dilutive shares, such as options or warrants, in either year.

## 8 DIVIDENDS

Group and Parent Company	2008 £'000s	2007 £'000s
Final paid: 8.0p (2007: 6.5p) per share	5,833	5,242

The Board has proposed a final dividend of 4.5p per share in respect of the year ended 31 December 2008 which, if approved by shareholders, will be paid on 27 May 2009, to shareholders on the register of members at the close of business on 8 May 2009.

## 9 SUBSIDIARY UNDERTAKINGS

Graphite Enterprise Trust LP and Graphite Enterprise Trust (2) LP (the "Partnerships"), which are registered in England, were subsidiary undertakings at 31 December 2008.

The Company makes investments through the Partnerships, as well as directly. The Co-investors invest alongside the Company in the Partnerships under the co-investment arrangements described in the Directors' Report on page 34. Contributions by the Company and the Co-investors take the form of loans to the Partnerships. The Partnerships are subsidiary undertakings of the Company and accordingly consolidated accounts have been prepared.

## Notes to the Accounts

## 10 INVESTMENTS

Group	Quoted £'000s	Unquoted £'000s	FTSE 100 Call Option £'000s	Total £'000s
Cost at 1 January 2008	1,168	235,966	5,271	242,405
Unrealised appreciation at 1 January 2008	8,569	6,388	7,486	22,443
Valuation at 1 January 2008	9,737	242,354	12,757	264,848
Movements in the year:				
Purchases at cost	1,021	76,848	-	77,869
Sales – proceeds	(249)	(79,154)	(7,693)	(87,096)
– realised gains/(losses) based on carrying value at previous balance sheet date	13	(2,542)	(5,064)	(7,593)
Movement in unrealised appreciation/depreciation	(6,481)	(49,369)	-	(55,850)
Valuation at 31 December 2008	4,041	188,137	-	192,178
Cost at 31 December 2008	2,060	222,971	-	225,031
Unrealised appreciation/(depreciation) at 31 December 2008	1,981	(34,834)	-	(32,853)
Valuation at 31 December 2008	4,041	188,137	-	192,178
Group	Quoted £'000s	Unquoted £'000s	FTSE 100 Call Option £'000s	Total £'000s
Cost at 1 January 2007	4,612	183,355	14,028	201,995
Unrealised appreciation at 1 January 2007	15,461	2,716	15,732	33,909
Valuation at 1 January 2007	20,073	186,071	29,760	235,904
Movements in the year:				
Purchases at cost	-	102,999	-	102,999
Sales – proceeds	(4,895)	(101,927)	(21,310)	(128,132)
– realised (losses)/gains based on carrying value at previous balance sheet date	(462)	15,890	-	15,428
Movement in unrealised depreciation/appreciation	(4,979)	39,321	4,307	38,649
Valuation at 31 December 2007	9,737	242,354	12,757	264,848
Cost at 31 December 2007	1,168	235,966	5,271	242,405
Unrealised appreciation at 31 December 2007	8,569	6,388	7,486	22,443
Valuation at 31 December 2007	9,737	242,354	12,757	264,848

10 INVESTMENTS (CONTINUED)

Group	2008 £'000s	2007 £'000s
Realised (losses)/gains based on cost	(7,906)	65,174
Amounts recognised as unrealised in previous years	313	(49,746)
Realised (losses)/gains based on carrying values at previous balance sheet date	(7,593)	15,428
(Decrease)/increase in unrealised appreciation/depreciation	(55,850)	38,649
(Losses)/gains on investments	(63,443)	54,077

Parent	Quoted £'000s	Unquoted £'000s	FTSE 100 Call Option £'000s	Subsidiary Undertakings £'000s	Total £'000s
Cost at 1 January 2008	1,168	196,698	5,271	26,344	229,481
Unrealised appreciation at 1 January 2008	8,569	4,958	7,486	13,178	34,191
Valuation at 1 January 2008	9,737	201,656	12,757	39,522	263,672
Movements in the year:					
Purchases at cost	1,021	63,306	-	9,428	73,755
Sales – proceeds	(249)	(65,448)	(7,693)	-	(73,390)
– realised gains/(losses) based on carrying value at previous balance sheet date	13	(2,207)	(5,064)	-	(7,258)
Movement in unrealised appreciation/depreciation	(6,481)	(40,665)	-	(6,580)	(53,726)
Valuation at 31 December 2008	4,041	156,642	-	42,370	203,053
Cost at 31 December 2008	2,052	185,813	-	35,772	223,637
Unrealised appreciation/(depreciation) at 31 December 2008	1,989	(29,171)	-	6,598	(20,584)
Valuation at 31 December 2008	4,041	156,642	-	42,370	203,053

## Notes to the Accounts

## 10 INVESTMENTS (CONTINUED)

Parent	Quoted £'000s	Unquoted £'000s	FTSE 100 Call Option £'000s	Subsidiary Undertakings £'000s	Total £'000s
Cost at 1 January 2007	4,169	153,114	14,028	18,504	189,815
Unrealised appreciation at 1 January 2007	15,423	1,533	15,732	8,416	41,104
Valuation at 1 January 2007	19,592	154,647	29,760	26,920	230,919
Movements in the year:					
Purchases at cost	–	85,440	–	7,840	93,280
Sales – proceeds	(4,380)	(83,099)	(21,310)	–	(108,789)
– realised (losses)/gains based on carrying value at previous balance sheet date	(668)	5,831	–	–	5,163
Movement in unrealised depreciation/appreciation	(4,807)	38,837	4,307	4,762	43,099
Valuation at 31 December 2007	9,737	201,656	12,757	39,522	263,672
Cost at 31 December 2007	1,168	196,698	5,271	26,344	229,481
Unrealised appreciation at 31 December 2007	8,569	4,958	7,486	13,178	34,191
Valuation at 31 December 2007	9,737	201,656	12,757	39,522	263,672

Parent	2008 £'000s	2007 £'000s
Realised gains based on cost	5,905	54,862
Amounts recognised as unrealised in previous years	(13,163)	(49,699)
Realised gains based on carrying values at previous balance sheet date	(7,258)	5,163
(Decrease)/increase in unrealised appreciation	(53,726)	43,099
(Losses)/gains on investments	(60,984)	48,262

## 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 quoted and unquoted investments of the Group.

Company	Country of incorporation or registration	Number and class of shares held	Percentage of class held
Standard Brands (UK) Limited	England	34,289 'A' ordinary shares	42.9

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 company listed above may therefore be less than the percentage of the share classes shown.

Mr Cumming and Mr Dicks held interests in Lion/Katsu Investments S.a.r.l., the parent company of Wagamama during the year. All of these interests represented less than 5.0% of the equity in these companies.

In addition the Group had a material interest in the following entities:

Fund	Percentage interest of total commitments
Apax Europe VII	0.3
Candover 2005 Fund	0.9
Deutsche Beteiligungs AG Fund IV	4.8
Doughty Hanson & Co IV	1.5
Doughty Hanson & Co V	0.8
Euromezzanine 5	3.0
Fourth Cinven Fund	0.5
Graphite Capital Partners VII	8.4
Graphite Capital Partners VI	10.7
ICG European Fund 2006	2.4
Thomas H Lee Equity Fund VI	1.2

Further information on these funds is given on page 27.

Note: There are no convertible securities. The value of fixed income securities is £9.4 million or 4.9% of the investment portfolio. (2007: £15.3 million or 5.8% of the investment portfolio).

## 11 CASH AND CASH EQUIVALENTS

	2008		2007	
	Group £'000s	Parent £'000s	Group £'000s	Parent £'000s
Cash at bank and in hand	27,201	11,506	42,693	35,520
Institutional money market funds	111,762	111,762	92,006	92,006
	<u>138,963</u>	<u>123,268</u>	<u>134,699</u>	<u>127,526</u>

Cash equivalents consist of institutional money market funds. These are short-term highly liquid investments which may normally be converted into cash within 24 hours.

## Notes to the Accounts

### 12 TRADE AND OTHER RECEIVABLES – CURRENT

	2008		2007	
	Group £'000s	Parent £'000s	Group £'000s	Parent £'000s
Prepayments and accrued income	419	416	575	533
VAT reclaim	2,331	2,331	–	–
Subsidiary undertakings	–	331	–	1,109
	<u>2,750</u>	<u>3,078</u>	<u>575</u>	<u>1,642</u>

Further information on the VAT reclaim is given in note 20.

### 13 TRADE AND OTHER PAYABLES – CURRENT

	2008		2007	
	Group £'000s	Parent £'000s	Group £'000s	Parent £'000s
Taxation	724	724	1,310	1,310
Accruals	1,330	1,330	490	490
Other creditors	98	–	45	–
	<u>2,152</u>	<u>2,054</u>	<u>1,845</u>	<u>1,800</u>

### 14 SHARE CAPITAL

Equity share capital	Authorised		Issued and fully paid	
	Number	Nominal £'000s	Number	Nominal £'000s
Ordinary shares of 10p each				
Balance at 1 January 2008	120,000,000	12,000	75,287,000	7,529
Purchase of ordinary shares in the year	–	–	(2,374,000)	(237)
Balance at 31 December 2008	<u>120,000,000</u>	<u>12,000</u>	<u>72,913,000</u>	<u>7,292</u>

During the year ended 31 December 2008, the Company bought back 2,374,000 (2007: 7,048,718) of its own shares in the market at an average price of 463.1p (2007: 438.2p) per share. All the shares were subsequently cancelled. The number of shares in issue at 31 December 2008 was 72,913,000 (2007: 75,287,000). The total cost of these buy backs including related expenses was £11,070,000 (2006: £31,100,000) and they had the effect of reducing net asset value per share by 0.5p (2007: increasing by 6.4p).

All ordinary shares have equal voting rights.

## 15 CHANGES IN EQUITY

Group	Share capital £'000s	Capital redemption reserve £'000s	Share premium £'000s	Realised capital reserve £'000s	Unrealised capital reserve £'000s	Revenue reserve £'000s	Total shareholders' equity £'000s	Minority interest £'000s	Total equity £'000s
<b>Year ended 31 December 2008</b>									
Opening balance at 1 January 2008	7,529	1,875	12,936	335,232	16,431	17,037	391,040	7,237	398,277
(Loss)/profit for the period attributable to recognised income and expense	–	–	–	(3,579)	(46,948)	3,735	(46,792)	(1,473)	(48,265)
Dividends paid or approved	–	–	–	–	–	(5,833)	(5,833)	–	(5,833)
Purchase of own shares	(237)	237	–	(11,070)	–	–	(11,070)	–	(11,070)
Net distribution to minority interests	–	–	–	–	–	–	–	(1,370)	(1,370)
Closing balance	<u>7,292</u>	<u>2,112</u>	<u>12,936</u>	<u>320,583</u>	<u>(30,517)</u>	<u>14,939</u>	<u>327,345</u>	<u>4,394</u>	<u>331,739</u>
<b>Year ended 31 December 2007</b>									
Opening balance at 1 January 2007	8,233	1,171	12,936	314,474	22,146	15,310	374,270	6,685	380,955
Profit/(loss) for the period attributable to recognised income and expense	–	–	–	51,858	(5,715)	6,969	53,112	5,862	58,974
Dividends paid or approved	–	–	–	–	–	(5,242)	(5,242)	–	(5,242)
Purchase of own shares	(704)	704	–	(31,100)	–	–	(31,100)	–	(31,100)
Net distribution to minority interests	–	–	–	–	–	–	–	(5,310)	(5,310)
Closing balance	<u>7,529</u>	<u>1,875</u>	<u>12,936</u>	<u>335,232</u>	<u>16,431</u>	<u>17,037</u>	<u>391,040</u>	<u>7,237</u>	<u>398,277</u>

The Institute of Accountants in England and Wales, has issued guidance (TECH 01/08) stating that profits arising out of a change in fair value of assets, recognised in accordance with accounting standards, may be distributed, provided the relevant assets can be readily converted into cash. Securities listed on a recognised stock exchange are generally regarded as being readily convertible into cash and hence unrealised profits amounting to £1,982,000 (2007: £8,569,000) in respect of such securities, currently included within the unrealised capital reserve may be regarded as distributable under company law. However, as the Company is an investment trust, the distribution of capital reserves is prohibited by the Articles of Association. These amounts are the same for the Group and the Parent Company.

## Notes to the Accounts

### 15 CHANGES IN EQUITY (CONTINUED)

Parent	Share capital £'000s	Capital redemption reserve £'000s	Share premium £'000s	Realised capital reserve £'000s	Unrealised capital reserve £'000s	Revenue reserve £'000s	Total shareholders' equity £'000s
<b>Year ended 31 December 2008</b>							
Opening balance at 1 January 2008	7,529	1,875	12,936	317,472	34,191	17,037	391,040
(Loss)/profit for the period attributable to recognised income and expense	–	–	–	(3,579)	(46,948)	3,735	(46,792)
Dividends paid or approved	–	–	–	–	–	(5,833)	(5,833)
Purchase of own shares	(237)	237	–	(11,070)	–	–	(11,070)
Closing balance	<u>7,292</u>	<u>2,112</u>	<u>12,936</u>	<u>302,823</u>	<u>(12,757)</u>	<u>14,939</u>	<u>327,345</u>

Parent	Share capital £'000s	Capital redemption reserve £'000s	Share premium £'000s	Realised capital reserve £'000s	Unrealised capital reserve £'000s	Revenue reserve £'000s	Total shareholders' equity £'000s
<b>Year ended 31 December 2007</b>							
Opening balance at 1 January 2007	8,233	1,171	12,936	314,474	22,146	15,310	374,270
Profit for the period attributable to recognised income and expense	–	–	–	34,098	12,045	6,969	53,112
Dividends paid or approved	–	–	–	–	–	(5,242)	(5,242)
Purchase of own shares	(704)	704	–	(31,100)	–	–	(31,100)
Closing balance	<u>7,529</u>	<u>1,875</u>	<u>12,936</u>	<u>317,472</u>	<u>34,191</u>	<u>17,037</u>	<u>391,040</u>

The loss after taxation of the Parent Company was £46,792,000 (2007: profit of £53,112,000). A separate income statement for the Company has not been included, as permitted by Section 230 of the Companies Act 1985.

### 16 NET ASSET VALUE PER SHARE – GROUP AND COMPANY

The net asset value per share is calculated on shareholders' funds of £327,345,000 (2007: £391,040,000) and on 72,913,000 (2007: 75,287,000) ordinary shares in issue at the year end. There were no potentially dilutive ordinary shares, such as options or warrants, at either year end. Calculated on both the basic and diluted basis the net asset value per share is 449.0p (2007: 519.4p).

## 17 CAPITAL COMMITMENTS AND CONTINGENCIES

The Group had uncalled commitments in relation to the following portfolio investments as at 31 December:

	2008		2007	
	Group £'000s	Parent £'000s	Group £'000s	Parent £'000s
Graphite Capital Partners VII	32,541	32,541	45,150	45,150
PAI Europe V	24,670	19,736	29,321	23,457
CVC European Equity Partners V	22,852	18,281	-	-
Activa Capital Fund II	17,775	14,220	14,646	11,717
Apax Europe VII	16,389	13,112	17,077	13,662
TDR Capital Fund II	15,258	12,207	14,602	11,681
ICG European Fund 2006	15,072	12,058	15,445	12,356
Fourth Cinven Fund	13,164	10,531	14,293	11,434
Arcadia II Beteiligungen	13,041	10,433	10,234	8,187
Doughty Hanson & Co V	12,882	10,306	14,778	11,822
Thomas H Lee Fund VI	12,342	9,874	11,607	9,286
Deutsche Beteiligungs AG Fund V	12,046	9,636	11,042	8,834
AnaCap Financial Partners II	12,016	9,613	-	-
Vision Capital Partners VII	11,544	9,223	-	-
Terra Firma Capital Partners III	9,985	7,988	8,387	6,710
Advent Central and Eastern Europe IV	9,283	7,426	-	-
Bowmark Capital Partners IV	8,511	6,809	10,000	8,000
Graphite Capital Partners VI	7,044	7,044	10,203	10,203
CSP Secondary Opportunities Fund II	7,000	5,600	-	-
Graphite Capital Partners VII Top Up Fund	6,980	6,980	17,227	17,227
Candover 2005 Fund	5,334	4,267	10,647	8,517
CVC European Equity Partners Tandem Fund	4,885	3,908	7,795	6,236
Segulah IV	3,665	2,932	3,577	2,862
Piper Private Equity Fund IV	2,613	2,090	3,950	3,160
Euromezzanine 5	2,611	2,089	3,819	3,056
Activa Capital Fund	1,821	1,457	2,044	1,635
Vision Capital Partners VI	1,687	1,349	1,425	1,140
CSP Secondary Opportunities Fund	-	-	1,750	1,400
Piper Private Equity Fund III	-	-	834	667
Funds sold in the year	-	-	16,680	13,344
Other	4,296	3,425	6,502	5,190
<b>Total</b>	<b>307,307</b>	<b>255,135</b>	<b>303,034</b>	<b>256,932</b>

There were no other contingent liabilities or commitments (2007: nil).

# Notes to the Accounts

## 18 MINORITY INTERESTS

Minority interests represent the interests of the Co-investors in the assets of the Partnerships at the year end (see note 9).

During the year ended 31 December 2008 the Co-investors subscribed an amount of £530,000 (2007: £470,000) and received cash payments totalling £1,899,000 (2007: £6,688,000) under the co-investment arrangements. The minority interest shown in the consolidated balance sheet represents the Co-investors' potential share of the gains on investments calculated on the assumption that investments were realised at their valuation at the year end.

## 19 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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 ("Section 842"). The Group's objective is to provide shareholders with long term capital growth through investment in unquoted companies, mostly through specialist funds but also directly.

Investments in funds have anticipated lives of approximately ten years. Direct investments are made with an anticipated holding period of between three and five 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.

### Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (comprising currency risk, interest rate risk and price risk), investment risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Manager has overall responsibility for managing the risks and the framework for monitoring and coordinating these risks. This is monitored by the Board. The Group's financial risk management objectives and processes used to manage these risks has not changed from the previous period and the policies are set out below.

### Market risk

#### (i) Currency

The Group's investments are principally in the UK and continental Europe and are primarily denominated in sterling and in euros. There are also smaller amounts denominated in US dollars and in other European currencies. The Group is exposed to currency risk in that movements in the value of sterling against these foreign currencies will have an impact on net asset value and on the cash required to fund undrawn commitments. The Board regularly reviews the level of foreign currency denominated assets and outstanding commitments in the context of current market conditions and may decide to buy or sell currency or put into place currency hedging arrangements.

## 19 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

The composition of the net assets of the Group by currency at 31 December 2008 and 31 December 2007 is set out below:

	Sterling £'000s	Continental European currencies £'000s	North American currencies £'000s	Total £'000s
<b>31 December 2008</b>				
Group				
Investments	73,807	103,226	15,145	192,178
Cash and cash equivalents and other net current assets	33,924	96,388	9,249	139,561
	<u>107,731</u>	<u>199,614</u>	<u>24,394</u>	<u>331,739</u>
Parent				
Investments	110,615	80,322	12,116	203,053
Cash and cash equivalents and other net current assets	31,813	86,882	5,597	124,292
	<u>142,428</u>	<u>167,204</u>	<u>17,713</u>	<u>327,345</u>
<b>31 December 2007</b>				
Group				
Investments	111,404	134,249	19,195	264,848
Cash and cash equivalents and other net current assets	118,165	10,812	4,452	133,429
	<u>229,569</u>	<u>145,061</u>	<u>23,647</u>	<u>398,277</u>
Parent				
Investments	140,019	108,163	15,490	263,672
Cash and cash equivalents and other net current assets	114,839	9,551	2,978	127,368
	<u>254,858</u>	<u>117,714</u>	<u>18,468</u>	<u>391,040</u>

These figures are based on the reporting currency of the funds and may overstate the foreign currency investments as a proportion of the total investment portfolio, as certain funds which report in euros have underlying investments in the UK. The effect of a 25% increase or decrease in the value of sterling against the euro would be a fall and a rise of £43.4 million and £43.2 million in the value of shareholders' equity at 31 December 2008 respectively (2007: £12.9 million and £12.2 million based on a 10% increase or decrease). As explained above, this does not take account of underlying investments made in the UK by euro denominated funds. The percentages applied are based on market volatility in exchange rates over the year.

## (ii) Interest rate risk

The fair value of the Group's investments, money market funds and cash balances are not directly affected by changes in interest rates. The Group has no borrowings and its liabilities are therefore not affected by changes in interest rates. However, changes in interest rates do affect interest income from money market funds and cash balances.

The impact on loss after tax and on shareholders' equity of a 5.0% increase or a 1.0% decrease in interest rates (2007: 1.0% increase or decrease), in absolute terms and as a percentage of those figures, is shown in the table on the next page:

# Notes to the Accounts

## 19 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

The percentages applied are based on market volatility in interest rates over the year. These sensitivities are not symmetric as UK interest rates had fallen to 1.0% as at 31 December 2008 and therefore cannot fall by more than a further 1.0%.

	2008		2007	
	5% increase in variable £'000s	1% decrease in variable £'000s	1% increase in variable £'000s	1% decrease in variable £'000s
Total impact on loss after tax and shareholders' equity	4,108	(822)	929	(929)
Total impact as a percentage of loss after tax	8.5%	(1.7%)	2.1%	(2.1%)
Total impact as a percentage of shareholders' equity	8.8%	(1.8%)	0.3%	(0.3%)

The Group does not hedge against changes in interest rates.

### (iii) Price Risk

The risk that the value of a financial instrument will change as a result of changes to market prices is one that is fundamental to the Group's objective, which is to provide long term capital growth through investment in unquoted companies. The investment portfolio is continually monitored to ensure an appropriate balance of risk and reward in order to achieve the Group's objective. No hedging of this risk is undertaken.

The Group is exposed to the risk of change in value of its fund investments, direct unquoted investments and quoted investments. For quoted investments and fund investments, the market risk variable is deemed to be the price itself. For unquoted direct investments, the market variable is deemed to be the price/earnings ratio. The impacts on loss after tax and on shareholders' equity, in absolute terms and as a percentage of those figures, of movements in these variables are set out in the table below. The percentages applied are based on market volatility in prices and price/earnings ratio.

	2008		2007	
	Increase in variable £'000s	Decrease in variable £'000s	Increase in variable £'000s	Decrease in variable £'000s
<b>30% (2007: 10%) movement in the price of fund investments</b>				
Impact on loss after tax	47,369	(47,327)	19,378	(19,378)
Impact as a percentage of loss after tax	98.1%	(98.1%)	32.9%	(32.9%)
Impact on shareholders' equity	44,923	(45,648)	17,444	(18,448)
Impact as a percentage of shareholders' equity	96.0%	(97.6%)	4.5%	(4.7%)
<b>30% (2007: 10%) movement in the price/earnings ratio for direct unquoted investments</b>				
Impact on loss after tax	11,093	(22,225)	6,496	(9,076)
Impact as a percentage of loss after tax	23.0%	(46.0%)	11.0%	(15.4%)
Impact on shareholders' equity	10,033	(21,344)	6,020	(8,386)
Impact as a percentage of shareholders' equity	21.4%	(45.6%)	1.5%	(2.1%)
<b>30% (2007: 12.5%) movement in the price of quoted investments</b>				
Impact on loss after tax	1,230	(1,188)	1,217	(1,217)
Impact as a percentage of loss after tax	2.5%	(2.5%)	2.1%	(2.1%)
Impact on shareholders' equity	1,021	(1,398)	1,217	(1,217)
Impact as a percentage of shareholders' equity	2.2%	(3.0%)	0.3%	(0.3%)

## 19 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

## Credit and investment risk

## (i) Investment risk

Investment risk is the risk that the financial performance of the companies in which Graphite Enterprise invests either improves or deteriorates, thereby affecting the value of that investment. Investments in unquoted companies whether held indirectly or directly are by their nature subject to potential investment losses. The investment portfolio is highly diversified and the Group complies with the Section 842 requirement for investment trusts not to invest more than 15% of the portfolio in the securities of any one company at the time of initial or subsequent purchase.

## (ii) Credit risk

The Group's exposure to credit risk arises principally from its investment in money market funds and its cash deposits. This risk is managed through diversification across a number of separate funds which have strong credit ratings. The Group's policy is to limit exposure to any one fund to 15% of gross assets. This is regularly monitored by the Manager as a part of its cash management processes.

Each of the money market funds in which the Company invests has a credit rating of AAAm from Standard & Poor's. As at 31 December 2008 the total invested in money market funds was £111,800,000 (2007: £92,000,000). Cash is held on deposit principally with one UK bank and totalled £27,200,000 (2007: £42,700,000). Together, these represent the maximum exposure to credit risk at the balance sheet date. No collateral is held by the Group in respect of these amounts. None of the Group's money market funds or cash deposits were past due or impaired at 31 December 2008 (2007: nil).

The Manager does not expect any losses from non-performance by these counterparties.

## Liquidity risk

The Group has significant investments in unquoted companies which are inherently illiquid. The Group also has substantial undrawn commitments to funds, the great majority of which are likely to be called over the next five years. The Group aims to manage its affairs to ensure sufficient cash will be available to meet contractual commitments when they are called and also seeks to have cash generally available to meet other short term financial needs. All cash and cash equivalents are available on demand. The Group's liquidity management policy involves projecting cashflows and considering the level of liquid assets necessary to meet these.

The Group has the power to enter into borrowing arrangements, both short and long term. The Group currently has no borrowing facilities in place. In normal circumstances, we would expect borrowing facilities to be available, however, in current market conditions, this cannot be relied upon.

## Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders (whilst remaining within the restrictions imposed by its investment trust status), return capital to shareholders or issue new shares. The Group currently has no debt.

## Fair values and terms and conditions

All private equity and quoted investments are valued at fair value in accordance with IAS 39. Information on the Group's private equity investments is included in notes 1(d) and 10, and information on the Group's cash and cash equivalents is included in note 1(e) and 11.

## Notes to the Accounts

### 19 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies in note 1 describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following tables reconcile the carrying amounts to the financial assets by category as defined in IFRS 7 and by balance sheet heading.

Group	Assets at fair value through profit or loss £'000s	Loans and receivables £'000s	Total £'000s
31 December 2008			
Unquoted investments – indirect	158,167	–	158,167
Unquoted investments – direct	29,970	–	29,970
Quoted investments – direct	4,041	–	4,041
Cash at bank and in hand	–	27,201	27,201
Institutional money market funds	–	111,762	111,762
<b>Total</b>	<b>192,178</b>	<b>138,963</b>	<b>331,141</b>

Group	Assets at fair value through profit or loss £'000s	Loans and receivables £'000s	Total £'000s
31 December 2007			
Unquoted investments – indirect	193,776	–	193,776
Unquoted investments – direct	48,578	–	48,578
Quoted investments – direct	9,737	–	9,737
FTSE 100 Call Option	12,757	–	12,757
Cash at bank and in hand	–	42,693	42,693
Institutional money market funds	–	92,006	92,006
<b>Total</b>	<b>264,848</b>	<b>134,699</b>	<b>399,547</b>

Parent	Assets at fair value through profit or loss £'000s	Loans and receivables £'000s	Total £'000s
31 December 2008			
Unquoted investments – indirect	132,664	–	132,664
Unquoted investments – direct	23,977	–	23,977
Quoted investments – direct	4,041	–	4,041
Subsidiary undertakings	42,371	–	42,371
Cash at bank and in hand	–	11,506	11,506
Institutional money market funds	–	111,762	111,762
<b>Total</b>	<b>203,053</b>	<b>123,268</b>	<b>326,321</b>

## 19 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Parent	Assets at fair value through profit or loss £'000s	Loans and receivables £'000s	Total £'000s
31 December 2007			
Unquoted investments – indirect	162,794	–	162,794
Unquoted investments – direct	38,862	–	38,862
Quoted investments – direct	9,737	–	9,737
FTSE 100 Call Option	12,757	–	12,757
Subsidiary undertakings	39,522	–	39,522
Cash at bank and in hand	–	35,520	35,520
Institutional money market funds	–	92,006	92,006
<b>Total</b>	<b>263,672</b>	<b>127,526</b>	<b>391,198</b>

## 20 VAT ON MANAGEMENT FEES

The Company may be entitled to repayments of VAT previously paid on management fees as HM Revenue & Customs ("HMRC") confirmed in October 2007 that fund management services to investment trusts are exempt from VAT. The Company was charged VAT on invoices for management fees up to and including the third quarter of 2007. Separately, as a result of a decision concerning the way in which a limit was introduced on the time period for which overpaid VAT may be reclaimed, VAT may be recoverable for the period from 1990 to late 1996.

Claims have been lodged with HMRC relating to periods 2002-2007 and 1990-1996. The Company has now been able to quantify the repayment and interest thereon relating to the period from 2002 onwards and considers that there is sufficient certainty over the recovery of these amounts to record them as assets. The back-VAT is £2,589,000 of which £258,000 has been received during 2008. The receivable at 31 December 2008 in respect of this is £2,331,000 (see note 12) and the accrued interest thereon is £277,000. The VAT has been allocated to income and capital in the ratio 25:75. The interest has been allocated to income.

Until all remaining uncertainties surrounding the reclaim process have been resolved, it is not practicable to quantify the amount of VAT relating to 1990-1996 with sufficient certainty and accordingly no asset has been recognised in these accounts. The total amount recovered is likely to be less than 0.2% of the Company's net asset value at 31 December 2008. Any recovery will be credited to the income reserve and realised capital reserve in the same proportion as originally charged.

## Notes to the Accounts

### 21 RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation for the Group. Transactions between the Company and the Manager are disclosed in note 3.

Significant transactions between the parent company and its subsidiaries are shown below:

Subsidiary	Nature of transaction	2008 £'000s	2007 £'000s
Graphite Enterprise Trust LP	Increase in loan balance	5,579	7,840
	Income allocated	335	1,191
Graphite Enterprise Trust (2) LP	Increase in loan balance	3,850	–
	Income allocated	10	–

Subsidiary	Amounts owed by subsidiaries		Amounts owed to subsidiaries	
	2008 £'000s	2007 £'000s	2008 £'000s	2007 £'000s
Graphite Enterprise Trust LP	14,045	8,466	–	–
Graphite Enterprise Trust (2) LP	3,850	–	–	–

# Directors' Remuneration Report

The directors submit this report in accordance with the requirements of Schedule 7A to the Companies Act 1985. An ordinary resolution will be put to the members to approve this Report at the forthcoming Annual General Meeting.

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

Performance Graph

## 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 currently limit the aggregate fees payable to the Board of Directors to a total of £250,000 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 and no non-executive director has a service contract with the Company.

GRAPH HAS BEEN  
INTENTIONALLY  
REMOVED

## 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	2008 Total £000s	2007 Total £000s
John Sclater	37	–	–	–	–	37	36
Michael Cumming	27	–	–	–	–	27	27
Peter Dicks	29	–	–	–	–	29	28
Mark Fane	27	–	–	–	–	27	27
Sean O'Connor	25	–	–	–	–	25	24
Jeremy Tighe #	20	–	–	–	–	20	–
Peter Gray *	10	–	–	–	–	10	27
	<u>175</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>175</u>	<u>169</u>

\* resigned on 14 May 2008 # appointed on 27 March 2008

No director had any share options or any long term incentives in 2007 or 2008.

The information in the above table has been audited – see Independent Auditors' Report on page 71.

The Directors' Remuneration Report was approved by the Board of Directors on 8 April 2009 and signed on its behalf by:

J. Sclater, Chairman



## Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRS as adopted by the European Union; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

As so far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware. The directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Each of the directors, whose names and functions are listed in the Report of the Directors confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of those assets, liabilities, financial position and loss of the Group; and
- the Chairman's Statement and Manager's Review include a fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

J. Sclater  
8 April 2009



# Independent Auditors' Report to the Shareholders of Graphite Enterprise Trust PLC

We have audited the Consolidated and Parent Company financial statements (the "financial statements") of Graphite Enterprise Trust PLC for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

## 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 law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. The information given in the Report of the Directors includes that specific information presented in the Chairman's Statement and the Manager's Review that is cross referred from the

Business Review section of the Report of the Directors. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code 2006 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 form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, Manager's Review, Investing in Private Equity, The Board, Historical Record, Analysis of Investors, The 30 Largest Underlying Investments, The 15 Largest Fund Investments, Investment Plans, Investment Policies, Report of the Directors, the unaudited part of the Directors' Remuneration Report, and Notice of the Annual General Meeting. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

# Independent Auditors' Report to the Shareholders of Graphite Enterprise Trust PLC

(continued)

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 part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

## Opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted in the European Union, of the Group's affairs as at 31 December 2008 and of its loss and cash flows for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted in the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 December 2008 and cashflows for the year then ended;

- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Report of the Directors is consistent with the financial statements.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London

9 April 2009

## Notice of Meeting

Notice is hereby given that the twenty-eighth Annual General Meeting of Graphite Enterprise Trust PLC will be held at The Coronation Suite, 2nd Floor, The Hilton Hotel, Park Lane, London W1K 1BE, on 19 May 2009 at 11.30 a.m. for the following purposes:

### Ordinary Business

- 1 To receive and adopt the reports of the directors and auditors and the Company's accounts for the year ended 31 December 2008.
- 2 To declare a dividend on the ordinary shares.
- 3 To re-elect P. Dicks as a director.
- 4 To re-elect M. Cumming as a director.
- 5 To re-elect M. Fane as a director.
- 6 To re-elect S. O'Connor as a director.
- 7 To re-appoint PricewaterhouseCoopers LLP as auditors to the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company, and to authorise the directors to fix the remuneration of the auditors.
- 8 To consider, and if thought fit, to approve the Directors' Remuneration Report for the year ended 31 December 2008.

### Special Business

#### Authority to repurchase shares

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

- 9 THAT:  
the Company be and is hereby unconditionally and generally authorised for the purpose of Section 166 of the Companies Act 1985 to make market purchases (as defined in Section 163 of that Act) of ordinary shares of 10p each in the capital of the Company on such terms and in such manner as the directors may determine, provided that:

- a) the maximum number of shares which may be purchased is 10,929,658 (being 14.99 per cent. of the issued ordinary share capital);
- b) the minimum price which may be paid for each ordinary share is 10p;
- c) the maximum price which may be paid for a share is an amount equal to the highest of (a) 105 per cent of the average of the closing price of the Company's ordinary shares as derived from the London Stock Exchange Daily Official List for the 5 business days immediately preceding the day on which such share is contracted to be purchased, (b) the price of the last independent trade, or (c) the highest current bid, as stipulated by Article 5(l) of Commission Regulation (EC) 22 December 2003 (No 2273/2003); and
- d) this authority shall expire at the conclusion of the Annual General Meeting of the Company held in 2010 or, if earlier on the expiry of 15 months from the date of resolution (except in relation to the purchase of shares the contract for which was concluded before the expiry of such authority and which might be executed wholly or partly after such expiry) unless such authority is varied, revoked or renewed prior to such time.

#### Authority to allot shares

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

- 10 THAT:
  - a) the directors be 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 the section) up to an aggregate nominal amount of £364,565 (representing 3,645,650 Ordinary shares of 10p each, such amount being equivalent to 5% of the present share capital) during the period commencing on the date

## Notice of Meeting (continued)

of the passing of this resolution and expiring at the conclusion of the Annual General Meeting of the Company in 2010; and

- b) all authorities and powers previously conferred under Section 80 of the Act are hereby revoked, provided that such revocation shall not have retrospective effect.

### Disapplication of pre-emption rights

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

#### 11 THAT:

- a) the directors be empowered to allot equity securities wholly for cash 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 2010:
- i) in connection with an allotment of shares pursuant to the authority referred to in resolution 9 above, up to an aggregate nominal amount of £364,565;
  - ii) in connection with the sale of treasury shares, up to an aggregate nominal value of £728,401; as if Section 89(I) of the Companies Act 1985 (the "Act") did not apply to any such allotment; and
- b) by such power the directors may make offers or agreements which would or might require equity securities to be allotted after the expiry of such period.

By order of the Board  
Graphite Capital Management LLP, Secretary  
8 April 2009

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

### Notes

Note 1: A member entitled to attend and vote at this meeting may appoint one or more persons as his/her proxy to attend, speak and vote on his/her behalf at the meeting. A proxy need not be a member of the Company. If multiple proxies are appointed they must not be appointed in respect of the same shares. To be effective, the enclosed form of proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, should be lodged at the office of the Company's Registrar, Computershare Investor Services PLC, the Pavilions, Bridgwater Road, Bristol BS99 7NH not later than 48 hours before the time of the meeting. In view of this requirement, investors holding shares in the Company through the F&C Private Investor, Pension Savings Plans, an F&C Child Trust Fund or in a 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. The appointment of a proxy will not prevent a member from attending the meeting and voting in person if he/she so wishes. A member present in person or by proxy shall have one vote on a show of hands and on a poll every member present in person or by proxy shall have one vote for every ordinary share of which he is the holder.

To appoint more than one proxy, members will need to complete a separate proxy form in relation to each appointment (you may photocopy the proxy form), stating clearly on each proxy form how many shares the proxy is appointed in relation to. A failure to specify the number of shares each proxy appointment relates to or specifying an aggregate number of shares in excess of those held by the member will result in the proxy appointment being invalid. Please indicate if the proxy instruction is one of multiple instructions being given. All proxy forms must be signed and should be returned together in the same envelope.

Note 2: A person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the Shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the Shareholder as to the exercise of voting rights.

The statements of the rights of members in relation to the appointment of proxies in Notes 1 and 2 above do not apply to a Nominated Person. The rights described in those Notes can only be exercised by registered members of the Company.

Note 3: As at 7 April 2009 (being the last business day prior to the publication of this notice) the Company's issued share capital and total voting rights amounted to 72,913,000 ordinary shares carrying one vote each.

Note 4: Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those Shareholders registered on the Register of Members of the Company as at 7.00am on 18 May 2009 (or in the event that the meeting is adjourned, only those Shareholders registered on the Register of Members of the Company as at 6.00pm on the day which is two days prior to the adjourned meeting) shall be entitled to attend in person or by proxy and vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Note 5: In order to facilitate voting by corporate representatives at the Annual General Meeting, arrangements will be put in place at the meeting so that: (i) if a corporate Shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that corporate Shareholder present at the meeting then, on a poll, those corporate representatives will give voting directions to the Chairman of the meeting and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate Shareholder attends the meeting but the corporate Shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated from those corporate representatives in attendance on behalf of the corporate Shareholder who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate Shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – [www.icsa.org.uk](http://www.icsa.org.uk) – for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in paragraph (i) of this Note 5.

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 weekday and will be available at the place of meeting from 15 minutes prior to the commencement of the meeting until its conclusion.

## Notice of Meeting (continued)

If you are in any doubt as to the content or action you should take, you should consult immediately your stockbroker, bank manager, solicitor, accountant or other independent financial advisor authorised under the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred all of your shares in the Company, please send this document, together with the accompanying form of Proxy and Attendance Card, to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

**GRAPHITE CAPITAL MANAGEMENT LLP  
BERKELEY SQUARE HOUSE  
BERKELEY SQUARE  
LONDON W1J 6BQ**

**AUTHORISED AND REGULATED BY THE  
FINANCIAL SERVICES AUTHORITY**

**GRAPHITE CAPITAL**