

GRAPHITE ENTERPRISE TRUST PLC

UNAUDITED RESULTS FOR THE 13 MONTHS TO 31 JANUARY 2011

SUMMARY OF THE PERIOD

Net asset value per share	+15.1%
The net asset value per share increased to a record level of 534.0p	
Underlying value of the portfolio in local currency	+27.2%
The value of the portfolio increased by 27.2%, after increasing by 20.7% in 2009	
Investment portfolio as a % of net assets	+89.2%
The level of investments increased from 67.1% of net assets at 31 December 2009	
New investments	£84.8m
Investment in the portfolio increased significantly from £24.0 million in 2009	
Realisation proceeds	£18.6m
An additional £30.5 million was contracted after the Period end	
Bank facility	£30.0m
A four year bank facility was secured after the Period end	

FINANCIAL SUMMARY

	31 January 11	31 December 09	Change
Net asset value per share	534.0p	464.1p	+15.1%
Share price	308.0p	305.0p	+1.0%
Dividend per share	2.25p	2.25p	-
FTSE All-Share Index	3,044	2,761	+10.3%

CHAIRMAN'S STATEMENT

SUMMARY

Against a background of weak economic growth, Graphite Enterprise performed well in the 13 month period to 31 January 2011* ("the Period") with the net asset value per share increasing by 15.1%. By comparison, the Company's benchmark, the FTSE All-Share Index, rose by 10.3%. At 31 January the net asset value per share was at its highest ever level at 534.0p, and net assets were £399.5 million.

Although the share price rose by only 1.0% in the Period, it has since risen by 13.5% to 349.5p at 31 March 2011. In the 15 months since the start of the Period, the share price has therefore risen by 14.6% compared with a rise in the Index of 11.1%. At 31 January 2011 the share price was at a discount of 42.3% to the net asset value per share at that date and, after taking account of the share price rise since the Period end, the discount has fallen to 34.7%.

The rise in the net asset value per share was driven by the strong performance of the portfolio, which increased in value by 27.2% in local currencies. This reflected a combination of continued growth in the earnings of underlying portfolio companies and an increase in the level of realisations. The growth in the portfolio was considerably greater than that of the net asset value per share as approximately one third of net assets at the start of the Period was in cash.

After falling during the first year of the economic downturn, the Company's net asset value per share is now higher than it was at December 2007 having outperformed the Index by 10.2% since then. The net asset value per share has also materially outperformed the Index over five and ten years having risen by 34.0% since December 2005 and by 59.9% since December 2000. These figures compare with respective rises of 6.9% and 2.0% in the Index.

For most of 2008 and 2009 the Company held relatively high levels of cash as we felt that this would offer protection against a further downturn and would give us the flexibility to take advantage of any opportunities which might arise. In 2010, as European economies started to emerge from recession, the rate of investment increased substantially and the Company became more fully invested. The increased investment reflected an acceleration in drawdowns of fund commitments and an increase in new investments. At 31 January 2011 the Company was 89.2% invested having been 67.1% invested at the start of the Period.

Since the Period end the Company has secured a £30.0 million loan facility and has signed contracts to realise three of its ten largest holdings. After adjusting for these, and for cashflows since the Period end, total available liquidity has increased to £94.3 million from £42.9 million at 31 January 2011. This puts the Company in a strong position to continue making new investments in the current year. We believe that, at this point in the economic cycle, we have broadly the right mix of investments, liquid resources and commitments to funds.

ENVIRONMENT

The Company's investment programme is focused on countries with mature private equity markets, primarily in Europe. At 31 January nearly 90% of the portfolio was in Europe with the USA accounting for almost all of the remainder. Of the European economies, the UK is the most important, accounting for almost 50% of the total portfolio with France, Germany and the Benelux countries accounting for a further 28% combined. The performance of these European economies therefore has much the greatest impact on the Company's own performance.

The Company had only limited exposure to those countries in the euro area with the highest levels of government debt. Spain represented 3.9% of the portfolio, while Ireland, Portugal, Greece and Italy combined represented only 3.6%.

*This report covers a 13 month period following the change in year end to 31 January announced in May 2010

After contracting in 2009, the key European economies returned to growth in 2010. The recovery in the UK, France and the Benelux countries was relatively weak with growth rates of between 1.5% and 2.0%. These economies are forecast to grow relatively slowly over the next few years as they continue to deal with the problems caused by the financial crisis. Indeed, the fourth quarter contraction in the UK demonstrates that future growth is by no means assured. Germany remains the exception, after growing by 3.5% in 2010, it is forecast to continue to grow at a higher rate than the other European economies.

While economic growth may remain relatively weak in the short term, the outlook is less uncertain than it was in 2008 or 2009. This should allow private equity managers to invest with greater confidence and, despite the generally low growth environment, we would expect the managers of our funds to continue to identify attractive investment opportunities.

As the financial crisis has receded, geopolitical risks are becoming increasingly important. While the continuing developments in parts of the Middle East, for instance, do not have a significant direct impact on the Company's portfolio, the resultant uncertainty and the impact on the oil price may act as a drag on the global economy in the short to medium term.

PERFORMANCE

Overview

Strong growth in the investment portfolio of 27.2% over the Period led to a 17.5% increase in the net asset value per share after currency movements, as nearly one third of the Company's assets was in cash at the beginning of the Period. The costs of running the Company and the payment of the dividend reduced the overall increase in net asset value per share to 15.1%.

While holding high levels of cash protected the net asset value when markets were falling in 2008 it held back performance in 2009 and 2010 when private equity valuations started to recover. This is more than justified by the lower level of risk taken during the downturn. Had the Company been fully invested or geared the risk would have been considerably greater.

Portfolio

The investment portfolio continued to perform well in the Period, rising in value by 27.2% in local currency having risen by 20.7% in 2009. As the portfolio fell by 30.7% in 2008, the underlying value growth since the start of the economic downturn has been 10.8%. In contrast to the previous two years, currency had relatively little impact in the Period, with the slight appreciation of sterling against the euro reducing the net increase in the portfolio to 25.6%.

The increase in value reported for the Period takes account of three material realisations for which contracts were exchanged after the Period end. Two of these, Wagamama and Kwik-Fit, have previously been announced and the third remains confidential. In these accounts we have valued the Company's interest in each of these three companies at, or close to, the sale proceeds which we expect to receive in the coming weeks. Total gains achieved on realisations, including these three agreed realisations, represented 36.8% of the total underlying gain in the portfolio in the Period.

As the largest 30 underlying companies accounted for 43.6% of the portfolio at 31 January 2011, their performance will, to a large extent, determine the future performance of the Company. It is encouraging that these 30 investments performed well in 2010, increasing revenues by 14% and profits by 36% and paying down substantial levels of debt.

A more detailed analysis of the performance of the investment portfolio is given in the Manager's Review.

Discount

As the net asset value per share grew strongly while the share price rose only marginally in the Period, the discount increased from its opening level of 34.3% to 42.3% at 31 January 2011. The discount has since narrowed to 34.5% at 31 March 2011. While this is lower than the extremely high levels at the height of the financial crisis, it nonetheless remained historically high. In the 10 years to December 2007, prior to the economic downturn, the average discount was 10.7%. Since then the average discount has been 34.7%.

Long term performance

We have always measured long term performance against the benchmark of the FTSE All-Share Index and aim to outperform in the medium to long term. We continue to believe that this Index is the most relevant for most of our shareholders as approximately two thirds are private individuals.

In the period since December 2007, which covers the economic downturn, the net asset value has outperformed the Index by 10.2%. Over this period, in net asset value terms the Company has been one of the top performing companies in its peer group, not only within the fund of funds sector but also within the wider listed private equity sector.

The Company's net asset value has outperformed the Index in eight of the last ten years and in sixteen of the last twenty years. It has only underperformed when the Index has been rebounding from a sharp fall. Since 1991 it has outperformed the Index in all rolling three year periods.

Although the net asset value per share has strongly outperformed the market over five and ten years, based on the price at 31 March 2011 the share price has outperformed over ten years but not over five.

BALANCE SHEET AND COMMITMENTS

At 31 January 2011 the Company had net assets of £399.5 million of which the investment portfolio accounted for £356.6 million or 89.2% and cash and near cash for the balance of £42.9 million. Outstanding commitments at 31 January totalled £173.7 million.

In line with our strategy of becoming more fully invested, the level of cash and near cash fell by £70.5 million in the Period from £113.4 million to £42.9 million. This fall was almost exactly mirrored by a £69.5 million fall in commitments from £243.2 million to £173.7 million. These reductions were primarily the result of increased investment activity, with drawdowns from the existing fund portfolio being more than three times higher than in 2009, and a number of new co-investments and secondary fund purchases being made. The rise in new investment activity, together with strong valuation gains in the Period, increased the value of the portfolio from £231.2 million at the beginning of the Period to £356.6 million at 31 January.

The balance sheet has remained strong throughout the downturn and will be further strengthened when the proceeds from the three recently agreed realisations are received. The new £30.0 million bank facility will further increase liquidity. At 31 March the Company had proforma total liquid resources of £94.3 million comprising cash and near cash of £33.8 million, the undrawn bank facility of £30.0 million and proceeds due from contracted realisations of £30.5 million. This figure compares with commitments to funds at the same date of £162.4 million. As we have discussed in the past, these commitments are extremely unlikely to be drawn in full and will be drawn over a number of years.

Further details of the Company's liquidity and commitments are given in the Manager's Review.

INCOME STATEMENT AND DIVIDEND

In the Period the total gain after tax attributable to shareholders was £52.6 million or 72.2p per share. This comprised a capital gain of £51.5 million, or 70.7p per share, and net revenue of £1.1 million or 1.5p per share. The net revenue figure compares with the net loss of £0.1 million or 0.1p per share reported in 2009, but remained at a historically low level. The increase in revenues was primarily the result of higher income being received from the portfolio.

Last year, in the absence of net income available for distribution, we decided to maintain the dividend at 2.25p per share by making a transfer from reserves. The total cost of this was £1.7 million. Having made this transfer, the Company had accumulated revenue reserves at 31 January 2011 of £11.0 million equivalent to 15.1p per share.

In deciding on the level of dividend to recommend for the Period, the Board has looked at likely levels of future income. This is difficult to predict as it is driven by income from portfolio companies which is normally rolled up and paid when the relevant company is sold. In years when we had few realisations such as 2009 and 2010, levels of income were low, while in years when we have many realisations the level of income could be quite high. We expect income from the portfolio in 2011 to be substantially higher than in the Period just ended.

After taking these factors into account, we are recommending that the dividend should be maintained at the previous year's level of 2.25p per share. This will involve a transfer from reserves of 0.74p per share.

BOARD

Andy Pomfret was appointed as a non-executive director on 11 March 2011. Andy has been the Chief Executive of Rathbone Brothers Plc ("Rathbones"), since 2004, having been its Finance Director for the five previous years. Rathbones is a leading, independent provider of investment and wealth management services for private investors, charities and trustees with over £15 billion of funds under management. Prior to joining Rathbones, Andy spent over 13 years with Kleinwort Benson (now Dresdner Kleinwort) in a variety of senior roles. He is also a director of the Association of Private Client Investment Managers & Stockbrokers (APCIMS) and the senior independent director of Beazley plc. We are delighted to welcome someone of his calibre and experience to the Board.

OUTLOOK

In last year's annual report, we predicted that the rate of investment in the Period would be materially higher than in 2009, that realisations would start to increase in the second half and that the Company would become more fully invested. We also suggested that earnings growth would generate most of the future valuation increase. In the event, all of these proved to be correct.

Activity levels in the private equity market showed signs of an upturn in 2010, particularly in the second half, but new investment remained relatively subdued compared with historic levels. Looking forward, the pressure on managers to invest the remainder of their current funds before the expiry of their investment periods could lead to a further increase in levels of new investment. The prices paid for these new investments will be heavily influenced by the levels of available debt. Based on recent developments within our portfolio we would also expect the level of realisations to continue to rise. In the Period, new investment greatly exceeded realisations. We would expect this gap to narrow materially in the current financial year.

The recently agreed realisations and the new bank facility will give us substantial additional liquidity in the coming months. In addition to financing drawdowns by the fund portfolio we should be in a position to make a number of new investments. We will continue to make primary commitments to new funds. We would also hope to take advantage of co-investment and secondary fund opportunities as with these investments, cash is invested more quickly without materially increasing outstanding commitments.

At the Period end the top 30 underlying companies accounted for 44.8% of the portfolio. These companies have generally performed well over the last two years and have increased materially in value. As this performance has been against a background of continued economic weakness we would expect them to make further progress in the current financial year even if economic growth remains low.

Discounts in the listed private equity sector have historically been more sensitive to market sentiment than have discounts in the investment trust sector as a whole. At times of strong growth in equity markets private equity has generally traded at a premium to the investment trust sector and when markets have been weaker it has tended to trade at a discount. Although private equity discounts have narrowed in the last two years, in the light of the recovery in equity markets they still appear high. If history is a guide to the future, these discounts should continue to narrow, and this, combined with the anticipated growth in the portfolio should be positive for the Company's share price.

Mark Fane

April 2011

MANAGER'S REVIEW

Strong earnings growth and an increase in realisations generated a 27.2% underlying rise in the portfolio in the period to 31 January 2011 ("the Period"). The portfolio closed the Period at its highest ever level of £356.6 million and 54.2% above its opening value as a result of substantial investment combined with strong valuation gains.

Summary of changes to the portfolio

£m	Opening value	Invested	Proceeds	Net valuation increase	Closing value
Investment portfolio	231.2	84.8	18.6	59.2	356.6

MARKET ENVIRONMENT

Investment activity

New investment activity in the European buy-out market continued to recover from the low in the first quarter of 2009. The rise in activity in the first half of 2010 accelerated in the second half of the year with the number of buy-outs increasing by 16% and the value increasing by 103% in the second half. The more pronounced rise in value reflected a large increase in the average investment size.

A total of 378 buy-outs with a total value of €64 billion were completed in Europe in 2010. The number of new investments was 40% higher than in 2009 and the total value 160% higher. Although these increases appear substantial, activity levels in 2009 were at a historical low. To put these figures into context, volumes in 2010 remained at less than half of the level at the 2007 peak and values at just over a third.

Prices paid for new investments in 2010 were marginally above those paid in 2009 but remained below those paid at the height of the market in 2007. In the second half of the year there were signs that debt financing for buy-outs was becoming more available with average debt rising to approximately half of total funding. This again remains materially below the average prior to the downturn.

Fundraising

In contrast to the increase in investment activity, the amount raised for European private equity funds fell further in 2010. A total of €12 billion was raised for 28 buy-out funds in 2010 compared with €28 billion raised for 33 funds in 2009. At the fundraising peak in 2008 €57 billion was raised for 66 funds.

The low level of new funds raised reflected a combination of reduced investor demand and a low requirement for additional funding. Investor appetite has fallen as returns and cash distributions have been depressed since the start of the financial crisis. Funding requirements have also been low because most managers have had substantial uninvested commitments from previous funds as investment activity has been well below the level originally anticipated.

Fundraising should start to recover in 2011 as cash distributions are rising and many private equity managers are planning to raise new funds in the next 12-24 months.

Secondary market

Prices of secondary fund interests rose markedly in 2010 with discounts to reported net asset values narrowing substantially. High quality funds now trade at close to reported net asset values, even though those values rose substantially during the year. This reflects a rise in confidence in both earnings growth and valuations and is in stark contrast to 2008 and 2009 when fund interests traded at extremely high discounts.

PORTFOLIO PERFORMANCE

The value of the portfolio before currency movements increased by £62.8 million, or by 27.2%, during the Period. This increase was marginally offset by £3.6 million of adverse currency movements which reduced the overall increase to £59.2 million or to 25.6% of the opening valuation.

	£m	% of opening portfolio	% of total gain
Gains arising from realisations			
In the period	3.8	1.6%	6.0%
After the period end	19.4	8.4%	30.8%
	23.2	10.0%	36.8%
Other unrealised gains	39.6	17.2%	63.2%
Total underlying	62.8	27.2%	100.0%
Currency	(3.6)	(1.6%)	
Total portfolio movement	59.2	25.6%	

The closing portfolio value takes account of the valuation uplifts from three sales which were on-going at the Period end and for which contracts have since been exchanged. These three investments generated a gain in the Period of £19.4 million and gains from six realisations completed in the Period generated £3.8 million. Combined these generated a gain of £23.2 million which accounted for 36.8% of the underlying valuation increase. Further details are given in the section on realisations below.

The unrealised portfolio increased in value by £39.6 million or by 18.7% of its opening value. This was driven by strong growth in the earnings of the underlying companies, as valuation multiples remained broadly flat during the Period. The performance of the top 30 investments was particularly encouraging with the sales of these companies increasing by an average of 14.1% and profits by an average of 36.0% in 2010. The profits of 28 of these 30 investments increased in the year with those of 20 companies growing by more than 10%. If the three investments realised since the Period end are excluded from this, the sales growth increases marginally to 14.2% and the profit growth falls to 26.1%.

All segments of the portfolio performed well in the Period, with large buy-outs contributing £24.6 million of the total gain, mid-market and small buy-outs £22.6 million and mezzanine, infrastructure and others contributing the remaining £12.0 million. Large buy-outs performed particularly well because, having fallen in value more sharply during the financial crisis, they rebounded more strongly as the economy started to recover. These larger companies generally have higher levels of debt and this contributed both to the sharper fall and to the more rapid recovery in equity values.

INVESTMENT ACTIVITY

Reflecting the rise in activity levels in the private equity market as a whole, the Company's rate of investment increased materially in the Period. A total of £84.8 million was invested in the portfolio compared with £24.0 million in 2009. The level of realisations was also higher, totalling £18.6 million compared with £13.1 million in 2009. Net investment therefore amounted to £66.2 million, compared with only £10.9 million in 2009.

£m	New investments				Realisations				Net Total
	UK	Continental Europe	Rest of world	Total	UK	Continental Europe	Rest of world	Total	
Mid market buy-outs	20.4	7.2	-	27.6	3.9	7.7	-	11.6	16.0
Large buy-outs	4.1	29.6	9.5	43.2	-	2.7	0.1	2.8	40.4
Small buy-outs	4.1	-	-	4.1	0.2	-	-	0.2	3.9
Infrastructure	-	-	-	-	-	0.1	-	0.1	(0.1)
Mezzanine	-	9.9	-	9.9	-	3.9	-	3.9	6.0
Total	28.6	46.7	9.5	84.8	4.1	14.4	0.1	18.6	66.2

New investments

The total amount invested in the Period of £84.8 million was more than 3.5 times the level of 2009. Drawdowns of commitments to funds of £65.9 million accounted for 77.8% of the total with secondary purchases of £12.4 million and direct co-investments of £6.4 million accounting for the balance.

Drawdowns

Drawdowns of fund commitments increased to 17.5% of original commitments, compared with only 4.6% in 2009. We had expected drawdowns to rise as many funds were approaching the end of their investment periods and the rate of drawdown was broadly in line with our expectation.

Our funds completed 50 new investments in the Period compared with only 13 in 2009. The cost of these new investments accounted for 88.4% of the total drawn down for investment. Of these, 26 were large buy-outs, 16 were mid-market buy-outs and the remaining 8 were small buy-outs or mezzanine investments.

Follow-on investments accounted for 11.6% of the amount drawn down for investment. These were primarily for balance sheet restructurings but also included an element of funding for growth or acquisitions.

Secondary purchases

We completed three secondary purchases of fund interests in the period at a total cost of £12.4 million. Two of the funds acquired are managed by third parties, CVC European Equity Partners IV and Charterhouse Capital Partners VIII, while the third, Graphite Capital Partners VII, is managed by Graphite Capital's direct investment team. Although the entry discounts were low, the three funds increased in value by £1.9 million or by 15.1% between acquisition and the Period end.

Direct co-investments

Five direct co-investments were completed during the period at a total cost of £6.3 million. All of these were alongside third-party managers of our fund portfolio. The three largest direct co-investments are described below:

Vue Entertainment – a £2.0 million co-investment alongside Doughty Hanson in the £450 million buy-out of the UK's third largest cinema chain;

Kwik-Fit – a £2.0 million follow-on investment alongside PAI Partners in the restructuring of Europe's largest automotive fast-fit services provider. This investment was realised after the Period end as discussed below; and

ICG EOS Loan Fund I – a £1.7 million co-investment alongside ICG in the acquisition of a discounted portfolio of private equity backed senior loans.

New underlying portfolio companies

The table below summarises the largest ten new investments in underlying companies made either directly or through funds in the Period.

<u>Investment</u>	<u>Description</u>	<u>Country</u>	<u>£m</u>
U-POL	Manufacturer of automotive refinish products	UK	6.1
London Square	Developer of residential property	UK	3.5
Vue Entertainment	Operator of cinemas	UK	3.3
Teaching Personnel	Provider of supply teachers	UK	2.1
Sunrise Communications	Provider of telecoms services	Switzerland	1.8
Stonegate Pub Co	Operator of pubs	UK	1.7
Abertis	Operator of toll roads	Spain	1.7
Team System	Provider of accounting and business software	Italy	1.6
CPA Global	Renewal of patents and trademarks	UK	1.5
Sebia	Provider of medical diagnostic equipment	France	1.4
Total of top 10 new investments			24.7

Graphite Capital directly manages three of the four largest new investments, U-POL, London Square and Teaching Personnel, and the fourth, Vue Entertainment, included the co-investment noted above.

Realisations

The level of realisations was 42% higher than in 2009 but remained low by historic levels. The portfolio generated £17.3 million of proceeds and the sale of a fund investment added £1.3 million, bringing total realisations in the Period to £18.6 million.

Realisations generated by the portfolio represented 7.5% of the opening portfolio value compared with 6.8% in 2009. By comparison, in the ten years to 2004 the average annual level of realisations was 36.3% of the opening portfolio value or almost five times the average of the last two years. In the peak years of 2005 to 2007, the average level of realisations was even higher at 53.2%.

Six full realisations were completed in the Period accounting for £11.4 million or 61.1% of total proceeds. These generated an average return of 2.3 times original cost and an uplift over the prior quarter's valuation of almost 70%. Two of these sales were completed by one mid-market fund, two by mezzanine funds and two by one large buy-out fund. The remaining proceeds of £7.3 million were generated by a number of partial disposals and refinancings.

In last year's report we predicted that the level of realisations would start to increase in the second half of 2010. In the event, proceeds in the last six months were more than double those in the first seven months.

Contracts have been exchanged for three material realisations since the Period end, of which two, Wagamama and Kwik-Fit, have been announced, and the third remains confidential. The two announced sales are expected to complete within the coming weeks and are effectively unconditional. The valuation of these three realised investments was £38.4 million at 31 January 2011, representing an average return of 2.6 times original cost and an uplift over the prior valuation of more than 150%.

CLOSING PORTFOLIO

At 31 January 2011, Graphite Enterprise had holdings in 42 funds and in 23 direct investments. Third party private equity firms were responsible for managing 37 of these funds and these 24 firms collectively managed 79.1% of the portfolio by value. Graphite Capital directly managed the remaining 20.9% of the portfolio. In total the Company had holdings in 294 underlying companies.

The portfolio remains well diversified by type, sector, geography and vintage. The most significant movement in the composition of the portfolio during the Period was the increase in large buy-outs which accounted for 42.8% of the portfolio at 31 January 2011 compared with 35.8% at 31 December 2009. This was because large buy-out funds generated greater valuation gains and made more drawdowns in the Period. They also generated lower realisation proceeds than the mid-market segment.

Both the geographic spread and the sector diversification have remained broadly unchanged in the Period. The greatest exposure was to the UK which accounted for 48.7% of the portfolio. This is based on the location of the headquarters of the underlying company and does not necessarily reflect the underlying geographic exposure. Business services remained much the largest sector at 25.1% of the closing portfolio.

We believe the portfolio strikes a good balance between diversification and concentration. The level of diversification is sufficient to reduce overall risk but individual investments are still able to impact future performance. The top ten underlying companies represented 23.9% of the total value of the underlying portfolio while the top 30 accounted for 44.8%. The performance of these 30 investments will therefore, to a large extent, determine the future performance of the Company. As discussed earlier, the performance of these investments in 2010 was encouraging. At 31 January 2011 the top 30 investments were valued at an average of 8.7 times EBITDA and had net debt of 3.4 times EBITDA.

The closing portfolio had an average maturity of 4.8 years and was valued at an average gross multiple of 1.3 times cost in local currency, of which 0.2 times cost had been realised. Almost two thirds of the portfolio was valued at between cost and twice cost. We consider that the closing valuation gives considerable scope for future growth in value as the current portfolio matures.

COMMITMENTS

Movement in commitments

£m

Opening at 1 January 2010	243.2
New commitments	11.0
Secondary purchase	4.5
Drawdowns	(65.9)
Commitments released	(16.5)
Currency	(5.1)
Other	2.5
Closing at 31 January 2011	173.7

During the Period, undrawn commitments fell by £69.5 million or by 28.6% to £173.7 million. The great majority of the fall was attributable to drawdowns of £65.9 million. In addition, the Company was released from £16.5 million of commitments and the rise in sterling reduced the value of euro denominated commitments by £5.1 million. These movements were partially offset by new commitments to funds of £11.0 million and by commitments acquired through secondary fund purchases of £4.5 million.

Three small primary fund commitments were made during the Period, of which one was to a fund managed by Graphite Capital and two were to funds managed by third parties. Both of the third party commitments were to new funds raised by managers that have previously generated significant gains for Graphite Enterprise. Details of the new commitments, including those acquired as part of secondary fund purchases, are set out in the table below.

Fund	Strategy	£m
Graphite Capital Partners VII Top Up Fund Plus	UK mid-market buy-outs	3.0
Trident Private Equity Fund III	UK small buy-outs	3.0
Piper Private Equity Fund V	UK small buy-outs and growth capital	5.0
Total primary fund commitments		11.0
Graphite Capital Partners VII	UK mid-market buy-outs	1.8
CVC European Equity Partners IV	Pan-Europe large buy-outs	1.6
Charterhouse Capital Partners VIII	UK and France large buy-outs	1.1
Total secondary fund commitments		4.5
Total new commitments		15.5

Mid-market and small buy-out funds accounted for 59.5% of commitments at the Period end, while large buy-out funds accounted for 36.0%. If all commitments outstanding at 31 January 2011 were drawn down, large buy-outs would fall from 42.8% to 40.6% of the portfolio and mid-market and small and buy-outs would rise from 41.0% to 47.0%.

Closing commitments	Original commitment*	Outstanding commitment	Average drawdown percentage	% of commitments
Funds in investment period	274.4	156.6	42.9%	90.2%
Funds post investment period	232.6	17.1	92.6%	9.8%
Total	507	173.7	65.7%	100.0%

*Original commitment at 31 January 2011 rates

As the table above shows, approximately 90% of commitments are to funds that are still within their investment periods. These funds have on average 2.1 years in which to complete their investment programmes, compared with 2.7 years at 1 January 2010. Managers of some funds are starting to seek to extend their investment periods and we expect this trend to continue in 2011. The table below shows an analysis of closing commitments by remaining investment period.

Closing commitments - remaining investment period	% of commitments
>5 years	2.9%
4-5 years	1.4%
3-4 years	17.5%
2-3 years	20.2%
1-2 years	39.4%
< 1 year	8.9%
Investment period complete	9.7%
Total	100.0%

CURRENCY

The Company's foreign currency exposure impacts both the net asset value and the level of outstanding commitments. When the euro rises against sterling, the sterling value of euro denominated investments rises and the net asset value therefore also rises. However, offsetting this, the sterling cost of funding euro denominated commitments also increases. Both effects are reversed when the euro falls, as this reduces the net asset value but also reduces the sterling cost of funding euro denominated commitments. The Company has a much smaller exposure to the US dollar.

Currency effects were less pronounced in the Period than in previous years, as the euro ended the Period only slightly weaker against sterling than it began it, falling by 3.8% from €1.126:£1 to €1.168:£1. The dollar remained virtually unchanged over the Period. Currency movements reduced the value of the portfolio by £3.6 million and the level of commitments by £5.1 million.

At the beginning of the Period, £158.7 million or 46.1% of the Company's net asset value was denominated in foreign currencies. This is 28.8% lower than the £223.0 million or 55.8% of net asset value at 31 January 2011 of which £199.3 million was in euros and £21.8 million in dollars.

At the Period end, £118.6 million or 68.3% of undrawn commitments were in foreign currencies, of which £108.6 million was in euros and £7.9 million in dollars. This compares with £177.3 million or 72.9% of undrawn commitments in foreign currencies at the start of the Period.

The Company's net asset value exposure to currency movements increased substantially in the Period as new euro denominated investments were added to the portfolio and the euro denominated portfolio increased in value. However as a substantial proportion of the new investments came from existing commitments to funds, the commitment exposure was reduced materially.

CASH AND LIQUIDITY

At 31 January 2011, the Company had cash and near cash of £42.9 million and outstanding commitments of £173.7 million. The Company was therefore £130.6 million overcommitted. This is broadly unchanged from the start of the Period. However, the overcommitment percentage fell from 37.7% of net assets to 32.7%, as a result of the strong increase in the net asset value in the Period. As discussed below, total liquidity has increased materially since the Period end.

Bank facility

As noted in the Chairman's Statement, the Company entered into a bank facility provided by RBS on 1 April 2011 which provides £30.0 million of additional liquidity with which to fund commitments. We have felt for some time that at some point it would be appropriate to have a bank facility in place in order to allow the Company to become more fully invested. Without a facility we must maintain a permanent cash buffer which acts as a drag on investment returns.

As the Company is unlikely to need long term borrowings, the agreement is for a standby facility which is likely to remain undrawn for much of the time. The facility has a four year term and a set of covenants which give us the flexibility to use the facility when required. The upfront arrangement fee for the facility is 3.5%, and the margin over LIBOR on drawn amounts is 3.5% and the commitment fee on the undrawn facility is 2.0%. Although these costs are significant, they are materially lower than were available in the market 12 to 18 months ago. We are confident that the cost of the facility will be more than offset by the returns generated from incremental investments financed with cash released from the current buffer.

Total liquidity

The Company's liquidity position should increase in the coming weeks with the receipt of £30.5 million of proceeds from the agreed realisations discussed earlier. After adjusting for these, for the bank facility and for net drawdowns since the Period end of £9.1 million, available liquidity should increase to £94.3 million and the overcommitment level would be reduced to £68.1 million or 17.0% of net assets. This is very low in comparison with the peer group.

As explained in previous annual reports, it is highly unlikely that all commitments will be drawn down, as managers invariably retain reserves to fund follow-on investments and expenses after the end of the investment period. These contingencies are not always drawn and those that are required are usually called down over several years. Analysis of the Company's portfolio of commitments indicates that the current annualised drawn down rate is approximately £60-70 million and that this rate is likely to fall sharply next year. The £94.3 million of available liquidity should therefore be sufficient to meet drawdowns for over 18 months even if no further realisations are achieved. It is highly likely that substantial additional proceeds will be received in this time.

As a result of the Company's high levels of liquidity, we would expect to accelerate the existing investment programme through a combination of new fund commitments, secondary fund purchases and selective direct co-investments.

**Graphite Capital
April 2011**

Enquiries:
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Portfolio - Investment type

	% of total investment portfolio
Large buy-outs	42.8%
Small and mid-market buy-outs	41.0%
Mezzanine	13.0%
Infrastructure	2.3%
Quoted	0.9%
Total	100.0%

Portfolio - Geographic distribution

	% of total investment portfolio
UK	48.7%
France	12.4%
North America	10.2%
Germany	7.9%
Benelux	7.2%
Spain	3.9%
Scandinavia	3.1%
Other Europe	5.0%
Rest of world	1.6%
Totals	100.0%

Portfolio - Year of investment

	% of total investment portfolio
2011	0.9%
2010	14.4%
2009	2.3%
2008	14.9%
2007	26.8%
2006	16.8%
2005	6.4%
2004	6.5%
2003	1.2%
2002 and before	9.8%
Total	100.0%

Portfolio - Sector analysis

	% of total investment portfolio
Business services	25.1%
Consumer goods and services	15.7%
Manufacturing and engineering	14.1%
Leisure	13.1%
Healthcare and education	9.4%
Financial services	5.8%
Retailing	5.2%
Construction and building supplies	2.9%
Infrastructure	2.6%
Media	2.6%
Other	3.5%
Total	100.0%

Portfolio – valuation basis

	% of total investment portfolio
> 3 x cost	5.2%
> 2 x cost	15.6%
1.5 - 2 x cost	24.5%
1 - 1.5 x cost	23.3%
At or near cost	17.3%
< cost	11.0%
Quoted	3.1%
Total	100.0%

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 January 2011. These investments may be held directly, through funds, or in some cases both. The valuations are gross and are shown as a percentage of the total investment portfolio.

	Company	Year of investment	Country	Value as a % of investment portfolio
1	Wagamama Chain of Japanese noodle restaurants	1996	UK	4.8%
2	Micheldever Tyre Services Distributor and retailer of tyres	2006	UK	4.4%
3	Kwik-Fit Provider of automotive fast-fit services	2005	UK	2.4%
4	Kurt Geiger Retailer and distributor of luxury footwear	2008	UK	2.1%
5	Preh Manufacturer of control system devices	2003	Germany	2.0%
6	Park Holidays UK Operator of caravan parks	2006	UK	2.0%
7	U-POL Manufacturer and distributor of automotive refinish products	2010	UK	1.8%
8	Hellerman Tyton Manufacturer of high performance cable management products	2006	UK	1.4%
9	Standard Brands Manufacturer of domestic fire products	2001	UK	1.4%
10	NES Group Provider of recruitment services	2006	UK	1.4%
Total of the 10 largest underlying investments				23.9%

The 30 Largest Underlying Investments (continued)

	Company	Year of investment	Country	Value as a % of investment portfolio
11	Norit Supplier of water purification technologies	2007	Netherlands	1.4%
12	Data Explorers Group Provider of information to the global securities lending industry	2007	UK	1.4%
13	Evonik Industries Diversified industrial group	2008	Germany	1.4%
14	Alexander Mann Solutions Provider of recruitment process outsourcing	2007	UK	1.3%
15	Ziggo Operator of cable TV networks	2006	Netherlands	1.2%
16	Algeco Scotsman Supplier and operator of modular buildings	2007	USA	1.2%
17	Ceridian Provider of human resources services and payment processing services	2007	USA	1.1%
18	Stork Diversified engineering group	2008	Netherlands	1.1%
19	CEVA Manufacturer and distributor of animal health products	2007	France	1.0%
20	Tumi Manufacturer and retailer of performance luggage and accessories	2004	USA	1.0%
Total of the 20 largest underlying investments				36.0%

The 30 Largest Underlying Investments (continued)

	Company	Year of investment	Country	Value as a % of investment portfolio
21	Intermediate Capital* Provider of mezzanine finance	1989	UK	1.0%
22	Avio Manufacturer of aerospace engine components	2007	Italy	0.9%
23	Vue Operator of cinemas	2010	UK	0.9%
24	Phadia Manufacturer of medical testing equipment	2007	Sweden	0.9%
25	Clyde Bergemann Supplier of components for the power generation industry	2005	Germany	0.9%
26	Balta Manufacturer of carpets and floor coverings	2004	Belgium	0.9%
27	Avanza Group Operator of buses	2007	Spain	0.8%
28	Kisimul School Group Limited Provider of specialist education services	2007	UK	0.8%
29	TMF Provider of management and accounting outsourcing services	2008	Netherlands	0.8%
30	Spire Health Club Provider of healthcare	2007	UK	0.8%
Total of the 30 largest underlying investments				44.8%

*Quoted

The 15 Largest Fund Investments

The largest funds by value at 31 January 2011 are set out below:

	Fund	Outstanding commitment	Year of commitment	Country/region	Value £m
1	Graphite Capital Partners VI Mid-market buy-outs	5.1	2003	UK	23.7
2	Fourth Cinven Fund Large buy-outs	7.7	2006	Europe	20.3
3	ICG European Fund 2006 Mezzanine loans to buy-outs	5.3	2007	Europe	20.3
4	Graphite Capital Partners VII Mid-market buy-outs	21.5	2007	UK	17.1
5	Doughty Hanson & Co IV Mid-market and large buy-outs	1.1	2005	Europe	15.4
6	Doughty Hanson & Co V Mid-market and large buy-outs	8.6	2006	Europe	14.7
7	Thomas H Lee Parallel Fund VI Large buy-outs	7.9	2007	USA	14.2
8	Euromezzanine 5 Mezzanine loans to mid-market buy-outs	1.8	2006	France	13.7
9	CVC European Equity Partners V Large buy-outs	11.2	2008	Global	13.1
10	Apax Europe VII Large buy-outs	4.6	2007	Global	11.9
11	Candover 2005 Fund Large buy-outs	2.2	2005	Europe	10.8
12	CVC European Equity Partners Tandem Large buy-outs	1.3	2006	Global	9
13	CVC European Equity Partners IV Large buy-outs	1.7	2008	Global	8.8
14	TDR Capital II Fund Large buy-outs	8.7	2006	Europe	8.0
15	Deutsche Beteiligungs AG Fund IV Mid-market buy-outs	-	2002	Germany	6.8
Total of the largest 15 fund investments		88.7			207.8
Percentage of total investment portfolio					58.3%

Consolidated Income Statement

	13 months to 31 January 2011			Year ended 31 December 2009		
	Revenue return £'000s	Capital return £'000s	Total £'000s	Revenue return £'000s	Capital return £'000s	Total £'000s
Investment returns						
Gains and losses on investments held at fair value	2,467	59,309	61,776	892	28,166	29,058
Income from cash and cash equivalents	316	-	316	1,020	-	1,020
Return from current asset investments	310	(62)	248	-	-	-
Other income	508	-	508	117	-	117
Foreign exchange gains and losses	-	(659)	(659)	-	(9,143)	(9,143)
	<u>3,601</u>	<u>58,588</u>	<u>62,189</u>	<u>2,029</u>	<u>19,023</u>	<u>21,052</u>
Expenses						
Investment management charges	(813)	(3,195)	(4,008)	(887)	(2,662)	(3,549)
Other expenses	(1,249)	(89)	(1,338)	(1,170)	(68)	(1,238)
	<u>(2,062)</u>	<u>(3,284)</u>	<u>(5,346)</u>	<u>(2,057)</u>	<u>(2,730)</u>	<u>(4,787)</u>
Profit/(loss) before taxation	1,539	55,304	56,843	(28)	16,293	16,265
Taxation	(435)	435	-	(54)	-	(54)
Profit/(loss) for the period from continuing operations	<u>1,104</u>	<u>55,739</u>	<u>56,843</u>	<u>(82)</u>	<u>16,293</u>	<u>16,211</u>
Attributable to:						
Equity shareholders	1,104	51,507	52,611	(82)	14,382	14,300
Non-controlling interest	-	4,232	4,232	-	1,911	1,911
Basic and diluted earnings per share			72.2p			19.6p

The columns headed 'Total' represent the income statement for the relevant financial periods and the columns headed 'Revenue return' and 'Capital return' are supplementary information. There is no Other Comprehensive Income.

Consolidated Balance Sheet

	31 January 2011		31 December 2009	
	£'000s	£'000s	£'000s	£'000s
<hr/>				
Non-current assets				
Investments held at fair value				
– Unquoted investments	353,140		228,464	
– Quoted investments	3,419		2,757	
		356,559		231,221
Current assets				
Trade and other receivables	441		690	
Current asset investments held at fair value	15,248		–	
Cash and cash equivalents	28,306		113,970	
	43,995		114,660	
Current liabilities				
Trade and other payables	1,071		1,284	
Net current assets		42,924		113,376
Total assets less current liabilities		399,483		344,597
Capital and reserves				
Called up share capital		7,292		7,292
Capital redemption reserve		2,112		2,112
Share premium		12,936		12,936
Capital reserve		355,956		304,448
Revenue reserve		11,038		11,576
Equity attributable to equity holders		389,334		338,364
Non-controlling interest		10,149		6,233
Net assets		399,483		344,597
Net asset value per share (basic and diluted)		534.0p		464.1p

Consolidated Cash Flow Statement

	13 months to 31 January 2011 £'000s	Year ended 31 December 2009 £'000s
Operating activities		
Sale of portfolio investments	18,646	13,074
Purchase of portfolio investments	(84,674)	(23,950)
Net purchase of current asset investments held at fair value	(15,000)	–
Income received from investments	2,604	842
Other income received	824	1,137
Investment management charges paid	(4,718)	(4,398)
VAT reclaimed on investment management charges	726	2,271
Taxation paid	(58)	(789)
Other expenses paid	(1,714)	(756)
Net cash outflow from operating activities	(83,364)	(12,559)
Financing activities		
Equity dividends paid	(1,641)	(3,281)
Net cash outflow from financing activities	(1,641)	(3,281)
Net decrease in cash and cash equivalents	(85,005)	(15,851)
Cash and cash equivalents at the beginning of the period	113,970	138,963
Net decrease in cash and cash equivalents	(85,005)	(15,850)
Effect of changes in foreign exchange rates	(659)	(9,143)
Cash and cash equivalents at the end of the period	28,306	113,970

Consolidated Statement of Changes in Equity

	13 months to 31 January 2011 £'000s	Year ended 31 December 2009 £,000s
Total equity at the beginning of the financial period	344,597	331,739
Profit attributable to equity shareholders	52,611	14,300
Profit attributable to non-controlling interests	4,232	1,911
Total profit for the period and total recognised income and expenses	56,843	16,211
Dividends to equity shareholders	(1,641)	(3,281)
Net distribution to non-controlling interests*	(316)	(72)
Total equity at the end of the financial period	399,483	344,597

*No cash was distributed to non-controlling interests during the period to 31 January 2011, however, £316,000 was recognised as a creditor at the end of the period.

Notes to the Accounts

1 GENERAL INFORMATION

Graphite Enterprise Trust PLC (“the Company”) and its subsidiaries, (together “Graphite Enterprise” or “the Group”) are registered in England and Wales and domiciled in England. The registered address and principal place of business of the Company and the Partnerships is Berkeley Square House, Berkeley Square, London W1J 6BQ. The Company’s objective is to provide shareholders with long term capital growth through investment in unquoted companies, mostly through specialist funds but also directly.

2 UNAUDITED RESULTS

The consolidated financial information is for the period to 31 January 2011 and does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006 and has not been audited.

Statutory accounts for the year ended 31 December 2009 were approved by the Board of Directors on 31 March 2010 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statements under section 498 of the Companies Act 2006.

Statutory accounts for the period to 31 January 2011 will be delivered to the Registrar of Companies following the Company’s Annual General Meeting which will be held at the Westbury Hotel, Bond Street, London, W1S 2YF at 11.30am on 15 June 2011.

3 BASIS OF PREPARATION

This preliminary results announcement was approved by the Board on 1 April 2011. The condensed consolidated financial information has been prepared in accordance with applicable accounting standards and with Listing Rule 9.7A ‘Preliminary statement of annual results’. The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009, as described therein.

4 DIVIDENDS

	31 January 2011 £’000s	31 December 2009 £’000s
Group and Parent company		
Final paid: 2.25p (2009: 4.5p) per share	1,641	3,281

The Board has proposed a final dividend of 2.25p per share in respect of the period to 31 January 2011 which, if approved by shareholders, will be paid on 22 June 2011, to shareholders on the register of members at the close of business on 3 June 2011.

5 EARNINGS PER SHARE

	31 January 2011	31 December 2009
Revenue return/(loss) per ordinary share	1.51p	(0.11p)
Capital return per ordinary share	70.64p	19.72p
Earnings per ordinary share (basic and diluted)	72.16p	19.61p

6 CHANGES IN EQUITY

Group	Share capital	Capital redemption reserve	Share premium	Capital Reserve	Revenue reserve	Total equity	Non-controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
13 months to 31 January 2011								
Opening Balance at 1 January 2010	7,292	2,112	12,936	304,448	11,576	338,364	6,233	344,597
Profit for the period attributable to recognised income and expense	-	-	-	51,508	1,103	52,611	4,232	56,843
Dividends paid or approved	-	-	-	-	(1,641)	(1,641)	-	(1,641)
Net distribution to non-controlling interest	-	-	-	-	-	-	(316)	(316)
Closing Balance	7,292	2,112	12,936	355,956	11,038	389,334	10,149	399,483

Group	Share capital	Capital redemption reserve	Share premium	Capital Reserve	Revenue reserve	Total equity	Non-controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Year ended 31 December 2009								
Opening Balance at 1 January 2009	7,292	2,112	12,936	290,066	14,939	327,345	4,394	331,739
Profit/(loss) for the period attributable to recognised income and expense	-	-	-	14,382	(82)	14,300	1,911	16,211
Dividends paid or approved	-	-	-	-	(3,281)	(3,281)	-	(3,281)
Net distribution to non-controlling interest	-	-	-	-	-	-	(72)	(72)
Closing Balance	7,292	2,112	12,936	304,448	11,576	338,364	6,233	344,597

7 INVESTMENT MANAGEMENT CHARGES

Group and Parent Company	31 January 2011			31 December 2009		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Investment management fee	1,171	3,512	4,683	872	2,617	3,489
Irrecoverable VAT	12	39	51	20	61	81
Irrecoverable VAT (reclaim)	(370)	(356)	(726)	(5)	(16)	(21)
	813	3,195	4,008	887	2,662	3,549

The allocation of the total investment management charges was unchanged in the 13 months to 31 January 2011 with 75% of the total allocated to capital and 25% allocated to income.

7 INVESTMENT MANAGEMENT CHARGES (CONTINUED)

The Company has borne a management charge of £479,000 (2009: £438,000) in respect of Graphite Capital Partners VI and £778,000 (2009: £795,000) in respect of Graphite Capital Partners VII and Graphite Capital Partners Top Up Fund. These charges are at the same level as those paid by third party investors. The Company does not pay any additional fees to the Manager on these investments. The total investment management charges payable by the Group to the Manager (excluding VAT), including the amounts set out in the table on the previous page, were therefore £5,265,000 (2009: £4,782,000).

Graphite Capital Management LLP was a related party of Graphite Enterprise Trust PLC during the period. The amounts payable during the period are set out above. There was an accrued amount outstanding of £193,000 (excluding VAT) as at 31 January 2011 (2009: £151,000).

8 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is an investment company as defined by section 833 of the Companies Act 2006 and conducts its affairs so as to qualify as an investment trust under the provisions of section 1158 of the Corporation Tax Act 2010 ("Section 1158"). 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 installments 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 have 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 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 affect the net asset value and 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 in place currency hedging arrangements.

(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 fair value of fixed income funds classified as current assets may vary with changes in interest rates but the fixed income manager aims to generate positive returns irrespective of the interest rate environment in any specific market. 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 institutional liquidity funds and cash balances.

(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.

8 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 invest either improves or deteriorates, thereby affecting the value of that investment. Investments in unquoted companies whether 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 1158 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 process.

Each of the institutional liquidity funds in which the Company invests has a credit rating of AAAm from Standard & Poor's. As at 31 January 2011 the total invested in institutional liquidity funds was £19,072,000 (2009: £104,400,000). Cash is held on deposit principally with two UK banks and totalled £9,234,000 (2009: £9,592,000). 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 institutional liquidity funds or cash deposits were past due or impaired at 31 January 2011 (2009: nil).

In addition, the Group has invested in two fixed income funds managed by PIMCO which are not rated in the same way as liquidity funds. PIMCO are one of the largest fixed income fund managers.

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, other liquid assets and undrawn borrowing facilities 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 liquidity necessary to meet these.

The Group has power to enter into borrowing arrangements, both short and long term. The group agreed a four year £30 million committed bank facility in April 2011.

As at 31 January 2011 the Group's financial liabilities amounted to £1,071,000 of trade and other payables (2009: £1,284,000) which were due in less than one year.

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.

9 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 7.

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

Subsidiary	Nature of transaction	31 January	31 December
		2011	2009
		£'000s	£'000s
Graphite Enterprise Trust LP	Increase/(decrease) in loan balance	2,927	(11,385)
	Income allocated	361	335
Graphite Enterprise Trust (2) LP	Increase in loan balance	6,478	226
	Income allocated	100	10

Subsidiary	Amounts owed by subsidiaries		Amounts owed to subsidiaries	
	31 January	31 December	31 January	31 December
	2011	2009	2011	2009
	£'000s	£'000s	£'000s	£'000s
Graphite Enterprise Trust LP	5,587	2,660	–	–
Graphite Enterprise Trust (2) LP	10,553	4,075	–	–