GRAPHITE ENTERPRISE TRUST PLC

Report and Accounts

2007

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 and disciplines 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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Highlights of the year

Net asset value per share **+14.3%**
The portfolio generated a strong overall performance

Share price **+22.8%**
The discount to the net asset value per share narrowed from 15.1% to 8.7% in the year

New commitments to funds **£186.0m**
Undrawn commitments rose to a record level of £303.0 million at the year end

Proceeds from the investment portfolio **£106.8m**
Proceeds represented 51.8% of the opening value of the portfolio

Share buy-backs **£31.1m**
Share buy-backs represented 8.6% of the opening share capital

Financial summary

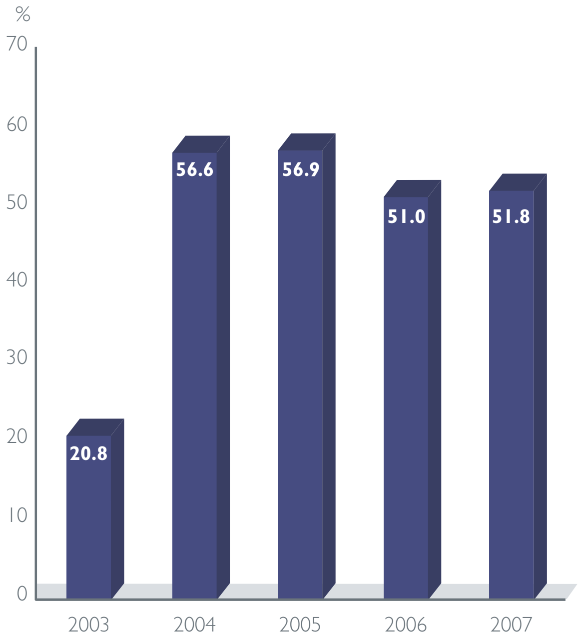
As at 31 December	2007	2006	Change
Net asset value per share	519.4p	454.6p	**14.3%**
Share price	474.0p	386.0p	**22.8%**
Final dividend per share	8.0p	6.5p	**23.1%**
FTSE All-Share Index	3,287	3,221	**2.0%**

Chairman's Statement

The net asset value per share has outperformed the benchmark FTSE All-Share Index in eight out of the last ten years

Years	1	3	5	10
NAV per share	+14.3%	+59.9%	+97.1%	+150.1%
Share price	+22.8%	+67.5%	+129.5%	+154.8%
FTSE All-Share	+2.0%	+36.3%	+73.6%	+36.3%

Proceeds as a percentage of the opening portfolio



Performance

Graphite Enterprise Trust PLC ('Graphite Enterprise' or the 'Company') had another good year in 2007. The net asset value per share increased by 14.3% to 519.4p and the share price by 22.8% to 474.0p. The strong share price performance reflected a narrowing of the discount from 15.1% to 8.7%. These increases were significantly ahead of the Company's benchmark, the FTSE All-Share Index, which rose by 2.0% over the same period. The net asset value per share of Graphite Enterprise has now outperformed the FTSE All-Share Index in eight out of the last ten years and in thirteen out of the last fifteen years.

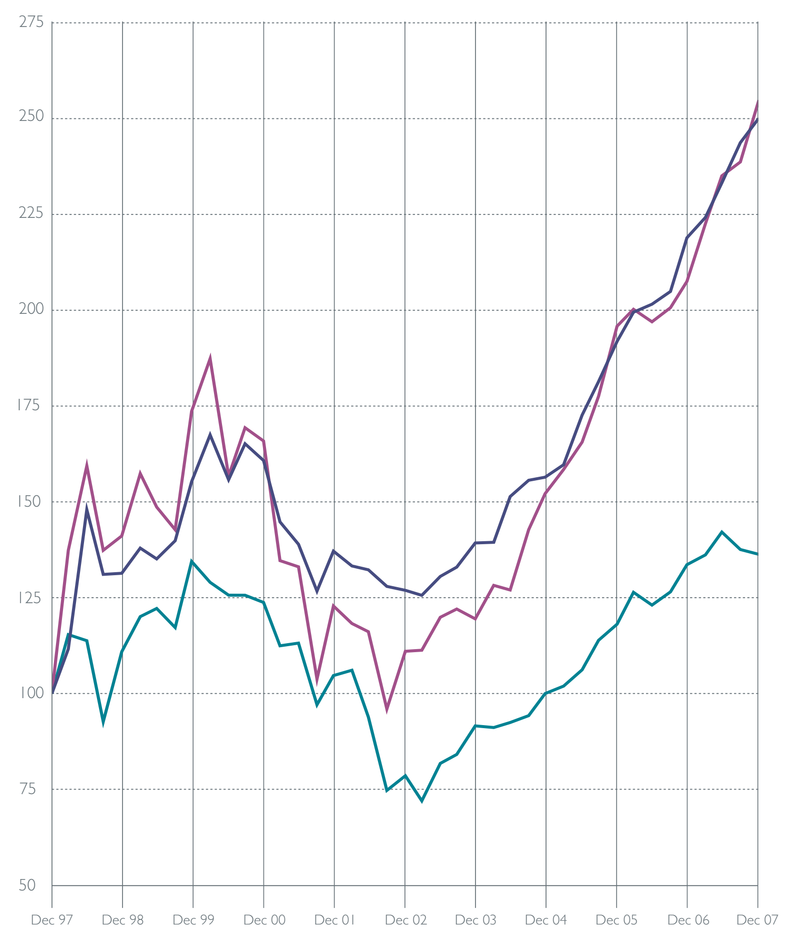
The objective of Graphite Enterprise is to provide shareholders with long term capital growth through investment in unquoted companies, mainly through specialist funds but also directly. The growth in the net asset value per share and share price of the Company have significantly exceeded that of the FTSE All-Share Index over both five and ten years. In the five years to December 2007, the net asset value per share rose by 97.1% and the share price by 129.5%. This compares with an increase in the FTSE All-Share Index of 73.6% over the same period. Over ten years the net asset value per share and the share price increased by 150.1% and 154.8% respectively, compared with a rise in the FTSE All-Share Index of 36.3%.

Net income and gains attributable to shareholders for the year totalled £53.1 million. Shareholders' funds closed the year a net £16.8 million higher at £391.0 million as £36.3 million was returned to shareholders through substantial share buy-backs and through the dividend.

The portfolio

The investment portfolio performed well in the year, increasing by 26.8% over the opening value. Both funds and direct investments contributed to this good performance. Realisations play an important role in driving private equity returns and 2007 was the fourth consecutive year in which proceeds exceeded 50% of the value of the

Ten Year Performance 1997-2007



Graphite Enterprise share price

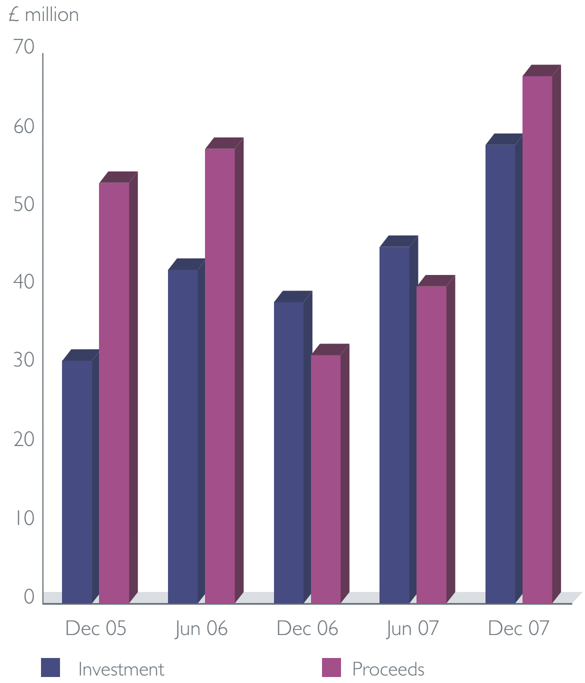
Graphite Enterprise net asset value per share

FTSE All-Share Index

All amounts rebased to 100 at 31 December 1997

Chairman's Statement (continued)

Investment and proceeds



opening investment portfolio. This compares with the average for the previous seven years of 31%.

New investment increased by 28.4% to £103.1 million, with almost all being in the form of drawdowns from commitments made to funds. Despite this increase, the investment portfolio generated £3.7 million of net cash as realisations were also more than 20% higher at £106.8 million. As the underlying investments made total gains of £49.7 million, the portfolio closed the year a net £45.9 million higher at £252.1 million.

In line with the objective of increasing the weighting of the portfolio towards funds, the fund portfolio of £193.8 million accounted for 76.9% of the investment portfolio at the year end. This represented an increase of £83.0 million over the previous year. The portfolio consisted of commitments to 39 funds and investments in 238 underlying companies. The direct investment portfolio is now a combination of investments made by Graphite Capital and co-investments made alongside funds. It accounted for the remaining 23.1% of the investment portfolio at the year end.

A record £186.0 million was committed to new funds in 2007, with the largest commitment being to Graphite Capital Partners VII, Graphite Capital's latest buy-out fund. Graphite generally raises funds every four years and this fund was once again heavily oversubscribed with strong demand from investors in the UK, continental Europe and the US. Graphite Enterprise committed £70.0 million to the fund, making it the largest investor. The remaining £116.0 million was committed to eight funds, of which 62.4% was with managers who we have previously backed.

Balance sheet and share buy-backs

At the year end the investment portfolio accounted for 63.3% of net assets, compared with 54.1% a year earlier. Cash and near cash balances, which fell by £11.7 million from £145.1 million to £133.4 million, accounted for a further 33.5% with the remainder invested in the FTSE 100 option.

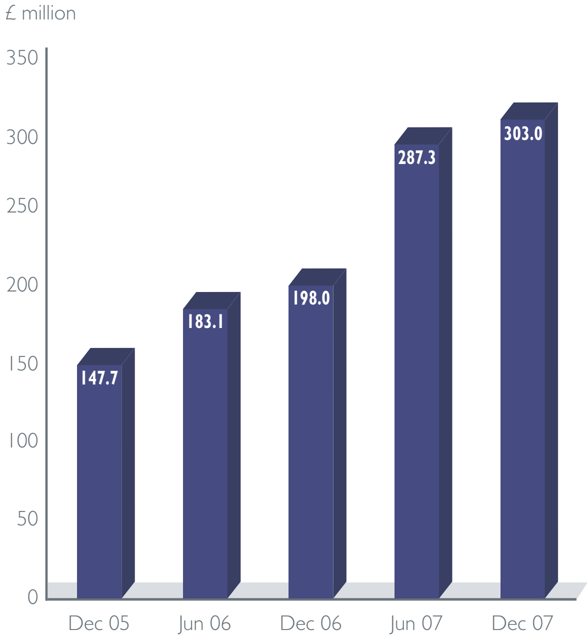
As a result of the very high level of realisations noted earlier, cash balances have been considerably higher than normal in recent years. To address this we put proposals to shareholders to increase the level of overcommitment to funds and to implement a more active share buy-back programme. These proposals were overwhelmingly approved at the Extraordinary General Meeting held in May.

The overcommitment level is the amount by which commitments exceed cash holdings, expressed as a percentage of total net assets. In 2007 the overcommitment level of Graphite Enterprise rose from 13.9% to 42.6%. This material change reflected a substantial increase in outstanding commitments to funds from £198.0 million to £303.0 million and the £11.7 million fall in cash and near cash balances noted earlier. The share buy-back programme both reduced cash balances and held down the rise in the closing net assets.

It is not easy to predict how the level of overcommitment will move over the next twelve months. If investment activity levels fall, less cash will be drawn down by funds to finance new investments but less cash is likely to be returned as realisations will also be lower. A reduced level of new investment could also delay the planned fundraisings of private equity managers which in turn would reduce the level of new commitments. Despite these considerations we would expect the level of overcommitment to increase in 2008.

In May we announced plans to buy back up to £70.0 million of shares over the following twelve to eighteen months. Since then the rate of buy-backs has increased markedly, with £24.5 million of shares being acquired in the remainder of the year. This brought total buy-backs

Outstanding commitments



£421 million has been committed to new funds in the past three years, of which 32% has been drawn down

Chairman's Statement (continued)

in 2007 to £31.1 million. Overall we bought 8.6% of the shares in issue at the beginning of the year, at an average discount to net asset value per share of 6.8%. The purchases had the effect of increasing the net asset value per share by 6.7p.

Concerns over the impact on private equity of the tightening of the debt market have caused discounts of quoted funds investing in the sector to widen. This has enabled us to buy back a further £11.1 million of shares in the first quarter of 2008 at a higher average discount of 10.2%. This brings the total value of share buy-backs since the May announcement to £35.6 million at an average discount of 7.0%.

FTSE Option

In October 2005 we purchased an option over the FTSE 100 Index as we were concerned that the high level of cash on the balance sheet at the time could cause the Company to underperform against its benchmark, the FTSE All-Share Index, if the market were to rise sharply.

The cost of the option was £14.0 million and it gave the Company effective exposure of £120.0 million to the FTSE 100 Index for three years. In 2007, as cash balances started to fall and new proposals were adopted to reduce cash levels, we took the opportunity to begin to sell the option. During the year we sold part of the option for £21.3 million and in January 2008 we sold the balance for £7.7 million. Over the life of the option the Company therefore received total cash proceeds of £29.0 million, representing a multiple of 2.1 times cost.

Income statement and dividend

Profit after tax attributable to shareholders increased to £53.1 million in 2007 or 67.6p per share. The capital return was £46.1 million and the revenue return attributable to shareholders was £7.0 million. The revenue return per share, which determines the level of dividend, increased from 7.4p to 8.9p. As a result, the board is proposing to increase the dividend from 6.5p to 8.0p per share.

In the last four years the dividend has increased from 4.3p to 8.0p per share, having previously been unchanged for many years. The majority of the income received in recent years has come from interest on high levels of cash. As one of the main objectives agreed at the EGM was to reduce the level of cash, interest income is likely to decline as the Company becomes more fully invested. We therefore expect future dividends to fall as interest income declines.

The Board

Peter Gray will be retiring from the Board at the forthcoming Annual General Meeting. Peter has made a very valuable contribution to the Company since his appointment to the Board in 2002. We have especially valued his knowledge of the financial sector in general and of investment trusts in particular. I would like to thank him on behalf of Graphite Enterprise shareholders for all his hard work over the last six years and to wish him the very best for the future.

Jeremy Tigue was appointed as a non-executive director on 25 March 2008. Jeremy has been the fund manager of Foreign & Colonial Investment Trust plc since 1997 and is a deputy chairman of the Association of Investment Companies. He is the Head of Global Equities at F&C Management, which he joined in 1981. We are delighted to welcome Jeremy on to the Board.

Market review and outlook

The reduced availability and increased cost of debt funding (the 'credit crunch') resulting from the sub-prime mortgage crisis in the US has had a material impact on activity levels in the private equity market. Figures from the Centre for Management Buy-Out Research suggest that, after reaching a peak in the second and third quarters of 2007, the value of transactions in the UK fell sharply in the third and fourth quarters. Only three of the largest thirty transactions completed in 2007 were closed in the last quarter. The mid-market appears to have been less affected than the large buy-out sector as transactions are less dependent on large syndicated debt packages.

At this stage it is difficult to predict to what degree the disruption in the financial markets will affect the wider economy in the UK and in continental Europe. Certain sectors will inevitably be more affected than others. Graphite Enterprise's underlying investment portfolio should prove to be resilient, as it is broadly diversified by company size, business sector and geographic region.

In the last three years we have committed a total of £421 million to new funds. As commitments are typically drawn down over a four to five year period, 32% of these commitments were drawn down at December 2007. As a result, undrawn commitments exceeded the value of the investment portfolio at the year end. This should ensure that if the economy weakens, as we believe is likely, Graphite Enterprise will be well positioned to take advantage of more attractive investment opportunities than have generally been available for the last few years.

John Sclater
April 2008

Manager's Review

Introduction

The year to December 2007 was an extremely active one for Graphite Enterprise. The absolute level of commitments to funds and the overcommitment level both rose substantially in the year. In cash terms, additions to and proceeds from the investment portfolio were evenly balanced and at high levels. Overall the investment portfolio performed well, increasing in value by £49.7 million or 24.1% of its opening value. At the end of the year the investment portfolio was valued at £252.1 million.

2007 £m	Opening value	Invested	Proceeds	Net valuation increase	Closing value
Investment portfolio	206.1	103.1	(106.8)	49.7	252.1

Market Environment

After five years of rapid growth the European buy-out market slowed sharply in the second half of 2007. Between 2002 and 2006, the market rose from 363 transactions with a value of €57 billion to a then record high of 731 transactions with a value of €174 billion. The main drivers of this growth were a plentiful supply of bank debt on attractive terms and a substantial increase in equity committed to private equity firms. Although the preliminary full year figures for 2007 show further rises in both the number of transactions to 796 and in the value of transactions to €178 billion, the number of completions was 8% lower in the second half than in the first half of 2007 while the total value was down by 44%.

Conditions changed in the third quarter of 2007 as concerns over the US sub-prime debt market led to a general tightening of liquidity throughout the banking system. In particular, banks became unwilling to underwrite debt for large buy-outs as they were concerned that they would be unable to syndicate it. The UK, the largest of the European buy-out markets, was particularly affected by the credit crunch with the value of buy-outs falling by over 60% in the final quarter.

Although less affected than larger buy-outs, the European mid-market also fell sharply in the last quarter of 2007 with the top end of the mid-market proving less resilient than the lower end. The mid-market nevertheless continued to account for the largest proportion of the buy-out market in Europe, representing nearly two thirds of the total number of transactions. Mezzanine funds, by contrast, have seen their market conditions improve as private equity managers have used mezzanine debt to fill the gap left by the reduced availability of senior debt.

Portfolio Movements

The investment portfolio increased in value by £49.7 million or 24.1% in the year with both funds and direct investments performing well. Reflecting their greater importance in the portfolio, this was the first year in which funds generated a large majority of the overall increase in value. Of the total of £49.7 million, £38.3 million (77.0%) came from funds and £11.4 million (23.0%) came from direct investments. The performance of the fund portfolio was particularly encouraging as large buy-outs, mid-market buy-outs, mezzanine debt and infrastructure investments all contributed to the increase in value. The performance of the direct investments was driven primarily by the disposal of a number of UK companies which had been in the portfolio for some time.

Portfolio analysis at 31 December 2007 £m	Third party	Graphite Capital	Totals
Fund investments	154.8	39.0	193.8
Direct investments	26.3	32.0*	58.3
Totals	181.1	71.0	252.1

* Including quoted investments

Disposals 2007 £m	UK	Continental Europe	Rest of world	Total
Mid-market buy-outs	59.6	9.2	1.4	70.2
Large buy-outs	6.2	3.5	–	9.7
Small buy-outs	10.9	–	–	10.9
Infrastructure	6.7	–	–	6.7
Mezzanine	–	4.5	–	4.5
Quoted	4.7	–	0.1	4.8
Total	88.1	17.2	1.5	106.8

Additions 2007 £m	UK	Continental Europe	Rest of world	Total
Mid-market buy-outs	19.1	5.8	–	24.9
Large buy-outs	10.9	28.3	21.8	61.0
Small buy-outs	6.5	–	–	6.5
Infrastructure	0.9	–	–	0.9
Mezzanine	–	9.8	–	9.8
Quoted	–	–	–	–
Total	37.4	43.9	21.8	103.1

New commitments in 2007

Fund	Investment type	Focus	Total fund size £m	Commitment £m
Graphite Capital Partners VII	Mid-market buy-outs	UK	555	70.0
PAI Europe V	Large buy-outs	Europe	3,672	27.5
ICG European Fund 2006	Mezzanine	Europe	863	20.6
Apax Europe VII	Large buy-outs	Europe	5,846	20.5
Thomas H Lee Equity Fund VI	Large buy-outs	US	4,137	17.4
Activa Capital Fund II	Mid-market buy-outs	France	206	13.6
Bowmark IV	Mid-market buy-outs	UK	265	10.0
Segulah IV	Mid-market buy-outs	Scandinavia	367	3.6
CSP Secondary Opportunities Fund	Secondary fund investments	UK	6	2.5
Other				0.3
Total				186.0

Manager's Review (continued)

Graphite Enterprise has made commitments to 39 funds which in turn have so far invested in 238 underlying unquoted companies

Proceeds from the investment portfolio represented 51.8% of its opening value, and additions represented 50.0%. The majority of the realisations came from direct investments while the great majority of the additions were to funds. As a result, the overall shape of the investment portfolio changed considerably, with funds accounting for 76.9% of investments at the end of the year by comparison with 53.7% at the beginning.

New Investment

New investment rose from £80.3 million in 2006 to £103.1 million in 2007. Drawdowns from funds accounted for £93.9 million (91.1%) of the total, with direct investments accounting for the balance of £9.2 million (8.9%).

The majority of drawdowns came from funds which we had committed to in previous years. A total of £67.8 million was drawn down by these funds, equivalent to 34.2% of outstanding commitments at the beginning of the year. The balance of £26.1 million was drawn down by funds which we had committed to in 2007. This represented 14.0% of commitments made during the year. One new investment in the UK and two in the US accounted for £7.9 million of the additions to the direct portfolio, with the remainder being spread across a number of existing investments.

Proceeds

At the beginning of the year the investment portfolio was valued at £206.1 million of which £110.7 million was in funds and £95.4 million was in direct investments. This portfolio generated total proceeds of £106.8 million during the year. The majority of these proceeds came from direct investments, which generated £57.6 million or

Analysis of the portfolio and outstanding commitments

31 December 2007	Investment portfolio £m	Outstanding commitments £m	Total £m
Large buy-outs	106.7	146.3	253.0
Mid-market buy-outs	102.6	118.7	221.3
Small buy-outs	3.6	16.3	19.9
Mezzanine	25.9	20.6	46.5
Infrastructure	4.0	1.1	5.1
Quoted	9.3	–	9.3
Total	252.1	303.0	555.1

60.5% of their opening value, while distributions from funds totalled £49.2 million or 44.4% of their opening value.

Despite the change in general market conditions there was no discernible change in the pattern of Graphite Enterprise's realisations. After a slow first quarter, realisation proceeds were evenly spread across the last three quarters of 2007.

The disposals of Huntress, Go Plant, Golden Tulip, Applied Energy and PIFC together accounted for £41.2 million, or 71.5% of capital proceeds from direct investments. These were mature UK mid-market buy-outs which had been in the portfolio for over five years and which had generated substantial long term gains.

Closing Portfolio

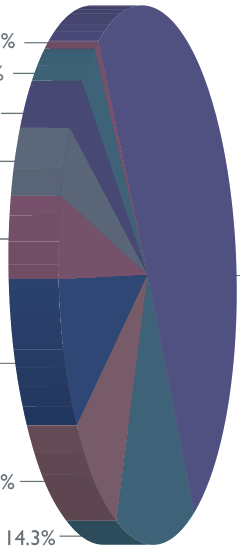
The medium-term strategy of Graphite Enterprise is to construct a balanced portfolio of buy-out and private equity related funds investing primarily in continental Europe and the UK but also with exposure to the US and possibly over time to other regions. In addition to geographic diversification, the portfolio will continue to be diversified by transaction size, economic sector and by year of investment.

The current portfolio has been built up through commitments to 39 funds which in turn have so far invested in 238 underlying unquoted companies. In addition, it consists of 15 direct investments of significant value made alongside either funds managed by Graphite Capital or third party funds. An analysis of the portfolio is included in the following two pages.

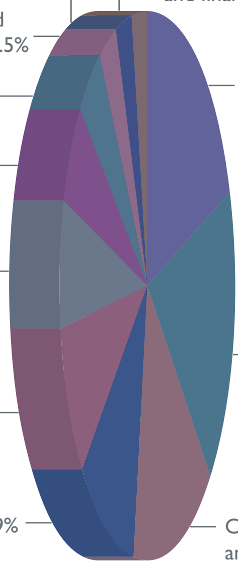
For many years the investment focus has overwhelmingly been on management buy-outs and buy-ins and the commitments made in the last three years will ensure that this focus will be retained for the foreseeable future. At December 2007 buy-outs and buy-ins accounted for £212.9 million or 84.4% of the investment portfolio and were evenly balanced between larger transactions, which accounted for 42.3% of the portfolio, and small and mid-market buy-outs which accounted for 42.1%.

Manager's Review (continued)

Portfolio – Geographic distribution



Portfolio – Sector analysis



At the year end, undrawn commitments totalled £303.0 million of which 48.3% were to larger buy-out funds and 44.6% were to small and mid-market funds. This would suggest that, if the pattern of realisations is broadly similar across all categories, the weighting of the portfolio will move marginally towards larger buy-outs in the medium term. The table on the previous page shows both the current allocation of the portfolio and the allocation of the outstanding commitments. Although total outstanding commitments are 20.2% higher than the total value of the current portfolio, the overall allocation would not change materially if all the commitments were to be drawn down today. For example, larger buy-outs would increase from 42.3% to 45.6%.

As many of the new commitments made in the last two years have been to pan-European funds which invest primarily outside the UK, the balance of the investment portfolio has moved towards continental Europe as these commitments have started to be drawn down. The portfolio is now 50.7% invested in the UK (2006: 72.1%), 39.5% in continental Europe (2006: 25.4%) and 9.8% outside Europe (2006: 2.5%). The move towards continental Europe is likely to continue as 65.2% of outstanding commitments were to funds investing across Europe with 30.3% to funds investing in the UK. Although a useful guideline, this analysis is likely to overstate the future importance of continental Europe in the investment portfolio as some commitments to pan-European funds will be invested in the UK.

Our exposure to investments outside Europe increased materially during the year as we are starting to build up a US buy-out programme. The first commitment was made in 2006 and the second was made in 2007. Both were to larger buy-out funds. Although our US exposure is currently small, we would expect it to increase in future years and we are currently evaluating a number of US-based funds.

The current portfolio of 238 companies is spread across a broad range of economic sectors. The most important of these are business services, consumer goods, manufacturing and leisure, which together account for over two thirds of the portfolio by value.

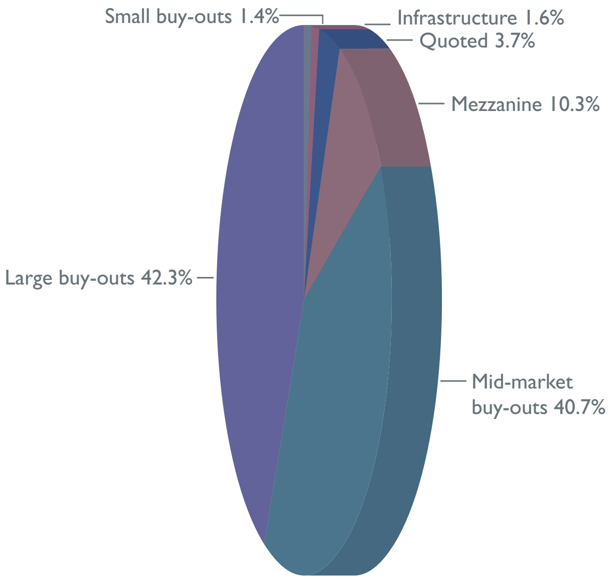
The age profile of the underlying investment portfolio is shown in the chart opposite, which shows that investments made in the last three years make up 76.4% of the portfolio. This reflects both the increased level of investment in recent years and the favourable environment for exits which has enabled us to realise a number of our more mature investments.

New commitments to funds

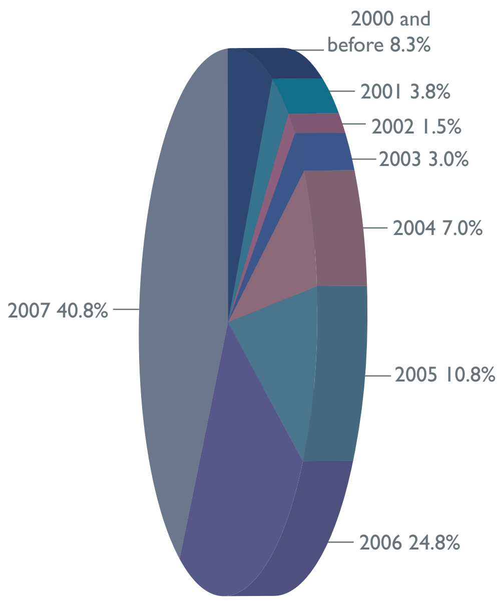
A total of £186.0 million was committed to new funds in 2007. In addition to the £70.0 million committed to Graphite Capital's latest fund, described below in the section on the Manager, a further £116.0 million was committed to eight private equity funds. These commitments were two to pan-European large buy-out funds, three to mid-market funds, one to a US large buy-out fund, one to a special situations fund and one to a mezzanine fund.

The total value of outstanding commitments rose by 53.0% from £198.0 million to £303.0 million during the year. The new commitments described above exceeded drawdowns by £92.1 million and most of the remainder of the uplift came from a £15.8 million currency related increase in the level

Portfolio – Investment type



Portfolio – Year of investment



Manager's Review (continued)

of undrawn commitments. As many of the outstanding commitments are Euro denominated the value of these increased as the Euro appreciated significantly against Sterling during the year. Currency movements had a lesser impact on the value of the investment portfolio as the majority of the invested assets at the beginning of the year were denominated in Sterling.

A summary of the changes in commitments during the year is set out below.

Outstanding commitments	£m
As at 1 January 2007	198.0
New commitments	186.0
Drawdowns	(93.9)
Currency movements	15.8
Waived commitments	(2.9)
As at 31 December 2007	303.0

A short summary of each new third party fund, its manager and its investment focus is given below.

PAI Europe V

In August 2007 Graphite Enterprise committed £27.5 million (€40.0 million) to PAI Europe V. This is a pan-European buy-out fund with a target size of €5.0 billion. The fund's manager, PAI Partners ("PAI"), is headquartered in Paris with offices in London, Madrid, Milan and Munich and a team of 49 professionals. The fund's investment strategy is to make controlling equity investments in market-leading consumer goods, capital goods and service companies with headquarters in Europe valued at more than €500 million. This is Graphite Enterprise's second commitment to a fund managed by PAI and it also has a co-investment alongside the predecessor fund. Our commitment to the fund gives us the opportunity to continue to back a manager with a strong franchise in the French market, an expanding presence in the rest of Europe and a strong sector-focused approach to adding value to the companies it acquires.

ICG European Fund 2006

In March 2007 Graphite Enterprise committed £20.6 million (€30.0 million) to ICG European Fund 2006. This is a €2.2 billion fund focusing on European mezzanine investments, primarily in support of management buy-outs. The fund is managed by Intermediate Capital Group plc ("ICG"), a recognised leading provider of mezzanine finance. Graphite Enterprise has a long-standing profitable relationship with ICG having been a founder shareholder in ICG in 1989. Graphite Enterprise subsequently invested in ICG's 2000 fund as well as in several co-investments alongside ICG. The commitment to the 2006 fund was completed in two stages: an initial commitment in the final closing of the fund and a subsequent secondary purchase. We consider that the recent credit market difficulties will have a favourable impact on the environment for mezzanine investing.

Apax Europe VII

In May 2007 Graphite Enterprise committed £20.5 million (€30.0 million) to Apax Europe VII. This fund is managed by Apax Partners ("Apax"), a long-established private equity manager with a 30-year history, a team of 80 professionals and over $35.0 billion under management. The fund has total commitments of €11.0 billion and will focus mainly on buy-outs in Europe but also in the US and, to a lesser extent, in Asia. Apax focuses on the technology, telecommunications, media, retail and consumer, business services and financial services sectors. This is Graphite

Enterprise's first commitment to a fund managed by Apax and gives us the opportunity to back a highly experienced manager investing in sectors to which Graphite Enterprise previously had relatively low exposure.

Thomas H Lee Equity Fund VI

In April 2007 Graphite Enterprise committed £17.4 million ($35.0 million) to Thomas H Lee Equity Fund VI, an $8.1 billion US buy-out fund managed by Thomas H Lee Partners ("THL"). THL was established in 1974 and is one of the oldest private equity firms in the US. THL has a focus on large growth buy-outs in six sectors: business and information services; consumer and retail; financial services; healthcare; industrial; and media and communications. The fund had seven portfolio companies at its final closing and was 38% invested. This is Graphite Enterprise's first commitment to a fund managed by THL. The ability to evaluate the existing underlying portfolio was a key attraction of an investment in the fund.

Activa Capital Fund II

In April 2007 Graphite Enterprise committed £13.6 million (€20.0 million) to Activa Capital Fund II, a €320 million French mid-market buy-out fund. The fund will focus on French industrial, consumer and business services companies valued at between €20 million and €200 million. This is Graphite Enterprise's second commitment to a fund managed by Activa Capital. It gives us the opportunity to continue to back a manager with proven experience of executing both complex corporate spin-outs as well as acquisitions of family-owned companies in the French mid-market.

Bowmark Capital Partners IV

In December 2007 Graphite Enterprise committed £10.0 million to Bowmark Capital Partners IV, a £265 million fund managed by Bowmark Capital ("Bowmark"). The fund will focus on UK companies valued at between £10 million and £75 million. This is Graphite Enterprise's second commitment to a fund managed by Bowmark, in addition to which Graphite Enterprise has co-invested in two of Bowmark's transactions. The fund gives Graphite Enterprise the opportunity to increase its exposure to the UK smaller buy-out market.

Segulah IV

In October 2007 Graphite Enterprise committed £3.6 million (SEK 47.5 million) to Segulah IV, a SEK 5 billion (£380 million) Nordic mid-market fund. The manager, Segulah Advisor AB ("Segulah"), is based in Stockholm and was founded in 1994. Segulah has a strong network of affiliated Nordic industrial advisors. The fund will focus on Nordic companies with enterprise values in the range £30-£200 million, principally in Sweden. This is Graphite Enterprise's first commitment to a fund managed by Segulah and gives us the opportunity to access a geographical segment of the mid-market to which Graphite Enterprise had no prior exposure through a fund managed by one of the leading market participants.

CSP Secondary Opportunities Fund

In August 2007 Graphite Enterprise committed £2.5 million to this £6.0 million fund managed by Newgate CSP Capital LLP ("Newgate"). Newgate was formed in 2006 by four highly experienced private equity industry professionals and is focused on acquiring mature secondary private equity fund interests. The fund was formed specifically to

Manager's Review (continued)

The Graphite Capital Team

1 Rod Richards
2 Emma Osborne
3 Stephen Cavell
4 Tim Spence
5 William Eccles
6 Dana Haimoff
7 Simon ffitch
8 Andy Gray

acquire a portfolio of more than 30 mature fund interests from Guardian Assurance plc. This is Graphite Enterprise's first commitment to a fund managed by Newgate and gives us the opportunity to access a segment of the secondary market that we consider has attractive pricing.

The Manager

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 team of 18 professionals with an average of 11 years' experience in private equity investment and who are based in London. In addition to managing Graphite Enterprise, Graphite Capital is a long established direct private equity investor. It has managed a variety of both quoted funds and limited life partnerships through several economic cycles.

Graphite Enterprise is the largest investor in Graphite Capital's most recent limited life fund, Graphite Capital Partners VII, which had a single closing in May 2007 with total commitments of £555 million. The fund will invest 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 committed £50 million to the main fund and £20 million to the Top Up Fund. The fundraising was heavily oversubscribed with high levels of demand from investors in the UK, continental Europe, the US and Japan.

We believe that our direct private equity experience puts us in an advantageous position when selecting the managers of third party funds.

Prospects for 2008

Disposals from the investment portfolio in the first two months were at a far lower level than the average in 2007, while cash additions have been at approximately half the level of last year. However, it is too early in the year to identify trends with any confidence

So far in 2008 we have made three new commitments to funds totalling £47.1 million. These were £28.3 million to CVC European Equity Partners V, a pan-European large buy-out fund, £10.0 million to CSP Secondary Opportunities II, a fund established to acquire a portfolio of mature private equity fund investments, and £8.8 million to Vision Capital Partners VII, a fund investing in direct secondary portfolio transactions.

The crisis in international credit markets is continuing and there are signs that it may be deepening. It is not yet clear, however, whether this will lead to a recession in the wider economy or to a sustained fall in equity markets. Graphite Enterprise will not be immune to any severe downturn, but we believe that its strong balance sheet and the profile of its commitments to funds leave it relatively well positioned. Its strong performance in the mid 1990s was driven by investments made in the last major economic downturn and, if conditions were to deteriorate, it would again be in a position to make new investments on attractive terms. Its substantial undrawn fund commitments could, therefore, be drawn down at an advantageous point in the economic cycle.

Graphite Capital
April 2008

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 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 Capital'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 a higher level 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 three to five years and may begin to be returned in the second or third 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. The level of overcommitment made by investors in private equity funds varies depending on the nature of the underlying investments, expected market conditions for acquisitions and disposals over the medium term and the appetite for risk.

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 may also make 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 draw on the resources and experience of Graphite Capital's direct investment team to evaluate and execute co-investments.

The Board

John Sclater*, CVO (Chairman), 67, 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 and a director of James Cropper PLC.

Peter Dicks*+, 65, 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*+, 67, was appointed to the Board in 1999. He has been involved in private equity for 39 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, Chairman of the Advisory Committees for Mercia Fund 1 and 2 and a director of other quoted and unquoted companies.

Mark Fane*+, 49, 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.

Peter Gray*+, 71, was appointed to the Board in 2002. He was head of the investment operations of the Crown Agent for Oversea Governments and Administrations from 1977 to 1983 and managing director of Touche Remnant & Co from 1983 to 1987.

He has held a number of directorships of investment trust companies, is a former deputy chairman of the Association of Investment Companies, and also has experience in the field of insurance.

Sean O'Connor*, 59, 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 its sale in 2001.

He is currently Chairman of Babel Media, Premium Appliance Brands and Springboard Urban. He was chairman of Applied Energy Holdings Limited, a company in the portfolio of Graphite Enterprise until its sale in September 2007. He is a non-executive director of a number of public and private companies including Cape plc, Sportingbet plc, Crow TV and Escape Studios.

Jeremy Tigue*, 48, 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

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
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
1998	5.21	4.3	272.8	262.5

* Includes special dividend of 4.5p per share

+ Includes special dividend of 2.8p per share

Analysis of Investors

31 December 2007	Number of Investors	Number of Shares held	%	Average Holding
Individuals	32,223	50,341,432	66.9	1,562
Insurance companies	28	8,323,739	11.0	297,276
Unit trusts and investments trusts	30	8,044,062	10.7	268,135
Pension funds	22	5,916,575	7.9	268,935
Private equity funds of funds	8	2,023,539	2.7	252,942
Other	11	637,653	0.8	57,968
	32,322	75,287,000	100.0	2,329

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 (directly or indirectly) by value at 31 December 2007. Values are shown as a percentage of the total investment portfolio of £252.1 million. The list of the ten largest investments, which consists of both companies and funds, is shown in note 21 to the financial statements.

	Company	Year of investment	Country	Value as a % of investment portfolio
1	**Micheldever Tyre Services** Independent distributor of tyres	2006	UK	3.8%
2	**Wagamama** Chain of Japanese noodle restaurants	1996	UK	3.3%
3	**Park Holidays UK** Operator of caravan parks	2006	UK	3.0%
4	**Alexander Mann Solutions** Provider of recruitment process outsourcing	2007	UK	2.5%
5	**Intermediate Capital Group*** Provider of mezzanine finance	1989	UK	2.5%
6	**Moeller** Supplier of electrical components	2005	Germany	2.2%
7	**Standard Brands** Manufacturer of branded firelighters	2001	UK	1.9%
8	**NES Group** Recruitment agency for technical contractors	2006	UK	1.8%
9	**Data Explorers Group** Information provider to global securites lending industry	2007	UK	1.7%
10	**EMI** Music producer and publisher	2007	UK	1.7%
			Total of the 10 largest underlying investments	24.4%

* Quoted

The 30 Largest Underlying Investments (continued)

	Company	Year of investment	Country	Value as a % of investment portfolio
11	**Preh** Manufacturer of control system devices	2003	Germany	1.7%
12	**Weetabix** Manufacturer of breakfast cereals	2004	UK	1.6%
13	**Dominion Gases** Supplier of specialist gases	2007	UK	1.4%
14	**Ceridian** Provider of human resources and payment processing services	2007	US	1.4%
15	**Perstorp** Manufacturer of speciality chemicals	2005	Sweden	1.3%
16	**VWR International** Distributor of equipment and chemicals to laboratories	2007	US	1.2%
17	**Kwik-Fit** Provider of automotive fast-fit services	2005	UK	1.2%
18	**AA/Saga** Provider of financial and consumer services	2007	UK	1.2%
19	**Hellermann Tyton** Manufacturer of solutions for communication networks	2006	UK	1.1%
20	**Kaufman & Broad** Housebuilders	2007	France	1.1%
	Total of the 20 largest underlying investments			37.6%

	Company	Year of investment	Country	Value as a % of investment portfolio
21	**OPD Group*** Group of specialist recruitment agencies	1991	UK	1.1%
22	**Christian Hansen** Supplier of natural food ingredients	2005	Denmark	1.1%
23	**Ferretti** Manufacturer of luxury boats	2007	Italy	1.0%
24	**Summit Medical** Supplier of medical devices and accessories	2001	UK	1.0%
25	**Balta** Manufacturer of floor and wall coverings	2004	Belgium	1.0%
26	**TMP** Provider of recruitment communications and related services	2006	UK	1.0%
27	**Aktrion** Provider of outsourced managed services	2004	UK	0.9%
28	**Tumi** Manufacturer and retailer of performance luggage and accessories	2004	US	0.9%
29	**Clyde Bergmann** Supplier of components for power generation industry	2005	Germany	0.8%
30	**Design Objectives** Designer and distributor of papercraft products	2006	UK	0.8%
			Total of the 30 largest underlying investments	47.2%

* Quoted

The 15 Largest Fund Investments

The largest funds by value at 31 December 2007 are set out below.

	Fund	Outstanding commitment £m	Year of commitment	Country/ region	Value £m
1	**Graphite Capital Partners VI** Mid-market buy-outs	10.2	2003	UK	31.6
2	**Doughty Hanson & Co IV** Medium-sized and large buy-outs	1.1	2005	Europe	18.7
3	**PAI Europe IV** Large buy-outs	6.9	2005	Europe	15.9
4	**Candover 2005 Fund** Large buy-outs	10.6	2005	Europe	11.7
5	**Euromezzanine 5** Mezzanine loans to mid-market buy-outs	3.8	2006	France	10.9
6	**Madison Dearborn Capital Partners V** Large buy-outs	2.2	2006	US	9.2
7	**Charterhouse Capital Partners VIII** Large buy-outs	5.4	2006	Europe	8.8
8	**CVC European Equity Partners IV** Large buy-outs	2.1	2005	Europe	8.0
9	**Fourth Cinven Fund** Large buy-outs	14.3	2006	Europe	7.4
10	**Deutsche Beteiligungs AG Fund IV** Mid-market buy-outs	0.8	2000	Germany	7.0
11	**ICG European Fund 2006** Mezzanine loans to buy-outs	15.4	2007	Europe	6.3
12	**Thomas H Lee Equity Fund VI** Large buy-outs	11.6	2007	US	6.0
13	**Terra Firma Capital Partners III** Large buy-outs	8.4	2006	Europe	5.7
14	**Apax Europe VII** Large buy-outs	17.1	2007	Europe	4.8
15	**Graphite Capital Partners VII** Mid-market buy-outs	45.2	2007	UK	4.5
	Total of 15 largest fund investments	155.1			156.5
	Percentage of total investment portfolio				62.1%

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 2008/09 tax year Investors can invest up to £7,200 free of capital gains tax in an ISA. Investors can invest a lump sum or make regular monthly payments.

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.

Personal Equity Plan (PEP)

In April 2008 all PEPs will become stocks and shares ISAs. Whilst not available for new subscriptions, these accounts may be transferred from one manager to another.

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 management and administration. It provides information on Graphite Enterprise and on investments managed by F&C Management. F&C Management is not able to offer financial advice.

Existing investors can contact F&C Plan Administration:

Telephone: 0845 600 3030
(UK calls charged at local rate)
Email: investor.enquiries@fandc.com
Fax: 020 7410 9203
Address: Block C, Western House
Lynch Wood Business Park, Lynch Wood
Peterborough PE2 6BP.

For all other queries, investors can contact the Investor Services Team:

Telephone: 0800 136 420
(UK calls charged at local rate)
Email: info@fandc.com
Fax: 0131 243 1330
Address: F&C Management
Clandeboye Business Park
West Circular Road, Bangor BT19 1AR.

Further information is available on F&C's website at www.fandc.com under Private Investors.

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).

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) will 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 more than 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. However, 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 18.

The Company may be overcommited in order to ensure that it is more fully invested. The level of overcommitment will be monitored regularly by the Board and the Manager, taking into account uninvested cash, the projected timing of cash flows 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 in currencies other than sterling and is exposed to the risk of movements in these currencies. No currency hedging is currently undertaken but the Board keeps this policy under regular review.

Report of the Directors

for the Year Ended 31 December 2007

Results and Dividend

	£'000s
Net revenue for the year available for distribution	6,969
Final dividend of 6.5p per share in respect of 2006 paid on 31 May 2007	(5,242)
Amount set aside to revenue reserve	1,727

This report should be read in conjunction with the Chairman's Statement and Manager's Review.

Status of Company

Graphite Enterprise Trust PLC ("Graphite Enterprise") is an investment company as defined by Section 266 of the Companies Act 1985 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 2006. 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), Personal Equity Plans (PEPs) 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 26 and 27. 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 on pages 2 to 7 and in the Manager's Review on pages 8 to 17.

The Company's key performance indicators include:

- net asset value per share performance over one, three, five and ten years; and
- new commitments to funds.

The risks and uncertainties facing the Company are regularly reviewed by the Audit Committee and the Manager. The main risks are set out in note 20 of the Notes to the Accounts.

Dividend

The final dividend in respect of the year ended 31 December 2007 of 8.0p per share will, if approved, be paid on 22 May 2008 to holders of ordinary shares on the register at the close of business on 11 April 2008.

Directors

All of the directors listed on page 19 held office throughout the year under review, with the exception of Mr Tigue who was appointed after the year end. 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 Gray is retiring at the Annual General Meeting and has decided not to stand for re-election. Mr Sclater, Mr Dicks and Mr Cumming have all served on the Board for more than nine years and accordingly stand for re-election for a further year. The Board believes that Mr Sclater, Mr Dicks and Mr Cumming provide a relevant and significant contribution and bring considerable knowledge and experience to the Board. Their re-election is recommended to shareholders. Mr Tigue will also stand for re-election, as the forthcoming Annual General Meeting will be the first following his appointment as a director.

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 Annual General Meeting. No director has a service contract with the Company. Details of the directors' interests in contracts and agreements are given in note 10 to the accounts.

In addition to the requirement of 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 2007**	31 December 2006
J. Sclater	**2,747**	22,747
M. Cumming	**5,000**	5,000
P. Dicks	**7,000**	7,000
M. Fane	**19,250**	19,250
P. Gray	**–**	–
S. O'Connor	**–**	–
J. Tigue	**–**	–

Mr Sclater's wife acquired 20,000 shares in the Company on 20 March 2008. Other than that, there has been no change in the above shareholdings since the end of the financial year and no director has held any interest in the Company's share capital other than as shown above.

Directors' Remuneration

The Company has no employees or executive directors and consequently does not have a remuneration committee. A Directors' Remuneration Report, which shareholders will be asked to approve at the Annual General Meeting, can be found on page 68. 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 ("FSA"), provides investment management and general administrative services to the Group. The Management Agreement was amended during the year following the approval of revised arrangements with the Manager at an Extraordinary General Meeting in May 2007. The Management Agreement can be terminated by either party giving not less than one year's notice.

During the first half of 2007 the Manager received an investment management charge of 1.5% per annum of the Group's total assets less all liabilities other than borrowings, less the value of the FTSE 100 Option and any investments in Graphite Capital funds, calculated quarterly.

Revised arrangements came into effect on 1 July 2007. The charge is now calculated as 1.5% of the Investment Portfolio, excluding investments in Graphite Capital funds and the FTSE 100 Option, and 0.5% of Outstanding Commitments, excluding those to Graphite Capital funds. The Company also pays a charge to the Manager on its investments in Graphite Capital funds. These charges are at the same level as those paid by third party investors. The new arrangements were explained in more detail in the circular sent to investors prior to the Extraordinary General Meeting in 2007.

In 2007 the Board made a commitment of £50.0 million to Graphite Capital Partners VII and £20.0 million to Graphite Capital Partners VII Top Up Fund. In 2003 the Board made a commitment of £50.0 million to Graphite Capital Partners VI. The Company also has a small secondary investment in Graphite Capital Partners V. Other than for the Top Up Fund, the terms of these investments specify that annual management charges are 2%, 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%, calculated by reference to amounts drawn down. The co-investment arrangements within these funds are similar to those that are in place in the Group.

Report of the Directors (continued)

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, the share price and new commitments to funds, as well as the performance and competence of the Manager. The Board was satisfied 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 Annual General Meeting ("AGM") held on 24 May 2007 shareholders renewed the Board's authority, which expires no later than 15 months after the AGM, to buy back up to 12,090,292 of the Company's ordinary shares for cancellation. A total of 7,048,718 shares (nominal value £704,872) was purchased during the year under review at prices ranging from 391p to 485p per share and for a total consideration of £31,100,000. These shares represented 8.6% of the issued share capital as at 31 December 2006, and all of them were cancelled. Since the year end, the Company has purchased 2,374,000 further shares (nominal value £237,400) at an average price of 463.1p per share for total consideration of £11,070,000. These shares represented 2.9% of the issued share capital at 31 December 2006 and all of them were cancelled. A resolution renewing the Board's buy back authority is being submitted to this year's AGM.

At the AGM held on 24 May 2007 shareholders gave the Board authority, which expires no later than 15 months after the AGM, to acquire up to 10% of its issued share capital in any twelve month period and hold those shares in treasury for reissue at a future date. The resolution passed at the Annual General Meeting gave the Board the authority to disapply pre-emption rights on up to 10% of the issued share capital to enable the Board to reissue 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 being submitted to this year's AGM.

Substantial Share Interests

At 31 March 2008 the Company had received notification of the following disclosable interests in its issued share capital: Legal & General Investment Management Limited, 3,400,842 ordinary shares, representing 4.2% of issued share capital at that date.

Co-investment Schemes

There are two co-investment schemes 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 2 relate to new fund commitments and new direct investments 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 receives 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 2007 the Company had no outstanding trade creditors (2006: nil).

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 June 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 seven 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 and is involved in the nomination of directors. The board has formed a separate committee 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, a total of seven meetings were held and the directors attended them all apart from Mr Fane and Mr Cumming who each missed one 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.

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 Gray. 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 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 2007 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 any 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 apart from Mr Fane and Mr Gray who each missed one meeting.

The Audit Committee has carried out a full risk and control assessment, including reviews of the Manager's internal controls and risk management arrangements, the result of which was 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 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 the 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 2007 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 the review of payments under the co-investment schemes. 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 2007 was £5,000.

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.

Investor Relations

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

Charitable and Political Donations

The Company has a covenant with the Charities Aid Foundation for £10,000 per annum (2006: £4,000). No political donations were made in 2007 (2006: 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 Annual General Meeting.

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 resolution on 24 May 2007); 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. Certain amendments will be proposed to the Articles at the Annual General Meeting to be held on 14 May 2008, as explained under Annual General Meeting below. Further details are set out in the Notice of the Annual General Meeting on pages 74 to 76.

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 a 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

Report of the Directors (continued)

b) subject to paragraph (a) above, in the event that on a poll a member is present both in person and 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 have 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 than 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 so 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 no 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 annual general meeting.

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 a vacancy or as an addition to the existing Board. Any director so appointed shall retire at the annual general meeting 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 annual general meeting (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

Any amendments to the Articles of the Company may be made in accordance with the provisions of the Companies Acts by way of special resolution.

Annual General Meeting

The Annual General Meeting of the Company will be held at The Mount Vernon Room, The Westbury Hotel, Conduit Street, London W1 at 11.30am on Wednesday, 14 May 2008. Two resolutions will be put to the Meeting to amend the Company's Articles. The proposed changes are described in the section entitled Proposed Changes to the Articles on pages 72 and 73. These and the remaining resolutions are set out in the Notice of Meeting on pages 74 to 76.

By order of the Board,
Graphite Capital Management LLP, Secretary
3 April 2008

Consolidated Income Statement

For the year ended 31 December		2007			2006		
	Notes	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, 9	**5,563**	**54,077**	**59,640**	3,978	49,993	53,971
Income from cash and cash equivalents	2	**6,770**	**–**	**6,770**	6,531	–	6,531
Other income	2	**45**	**–**	**45**	202	–	202
Foreign exchange gains and losses		**–**	**544**	**544**	–	(705)	(705)
		12,378	**54,621**	**66,999**	10,711	49,288	59,999
Expenses							
Investment management charges	3	**(1,203)**	**(3,609)**	**(4,812)**	(1,193)	(3,578)	(4,771)
Other expenses	4	**(1,328)**	**(90)**	**(1,418)**	(920)	(82)	(1,002)
		(2,531)	**(3,699)**	**(6,230)**	(2,113)	(3,660)	(5,773)
Profit before tax		**9,847**	**50,922**	**60,769**	8,598	45,628	54,226
Taxation	6	**(2,878)**	**1,083**	**(1,795)**	(2,334)	1,071	(1,263)
Profit for the period from continuing operations		**6,969**	**52,005**	**58,974**	6,264	46,699	52,963
Attributable to:							
Equity shareholders		**6,969**	**46,143**	**53,112**	6,264	43,120	49,384
Minority interests		**–**	**5,862**	**5,862**	–	3,579	3,579
Basic and diluted earnings per share	7			**67.56p**			58.66p

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 42 to 67 form an integral part of the financial statements.

Consolidated Balance Sheet

At 31 December	Notes	2007 £'000s	2007 £'000s	2006 £'000s	2006 £'000s
Non-current assets					
Investments held at fair value					
– Unquoted investments	10	**242,354**		186,071	
– Quoted investments	10	**9,737**		20,073	
– FTSE 100 Call Option	10, 20	**12,757**		29,760	
			264,848		235,904
Current assets					
Trade and other receivables	12	**575**		433	
Cash and cash equivalents	11	**134,699**		149,436	
		135,274		149,869	
Current liabilities					
Trade and other payables	13	**1,845**		4,818	
Net current assets			**133,429**		145,051
Total assets less current liabilities			**398,277**		380,955
Capital and reserves					
Called up share capital	14,15		**7,529**		8,233
Capital redemption reserve	15		**1,875**		1,171
Share premium	15		**12,936**		12,936
Capital reserve	15		**351,663**		336,620
Revenue reserve	15		**17,037**		15,310
Equity attributable to equity holders	15		**391,040**		374,270
Minority interests	15,18		**7,237**		6,685
Net assets			**398,277**		380,955
Net asset value per share (basic and diluted)	16		**519.4p**		454.6p

The notes on pages 42 to 67 form an integral part of the financial statements.

The financial statements were approved by the Board of directors on 3 April 2008 and signed on its behalf by:

J. Sclater

} Directors

P. Dicks

Consolidated Cash Flow Statement

For the year ended 31 December	Notes	2007 £'000s	2006 £'000s
Operating activities			
Sale of portfolio investments		**106,823**	88,904
Purchase of portfolio investments		**(103,536)**	(79,680)
Sale of FTSE 100 Call Option		**21,310**	–
Income received from investments		**5,337**	4,398
Other income received		**6,815**	6,733
Investment management charges paid		**(4,809)**	(4,806)
Other expenses paid		**(1,576)**	(1,109)
Taxation paid		**(990)**	(1,600)
Net cash inflow from operating activities		**29,374**	12,840
Financing activities			
Investments by minority interests		**465**	141
Distributions to minority interests		**(6,688)**	(2,546)
Purchase of ordinary shares		**(33,190)**	(7,515)
Equity dividends paid		**(5,242)**	(3,650)
Net cash outflow from financing activities		**(44,655)**	(13,570)
Net decrease in cash and cash equivalents		**(15,281)**	(730)

Cash and cash equivalents at beginning of year		**149,436**	150,871
Net decrease in cash and cash equivalents		**(15,281)**	(730)
Effect of changes in foreign exchange rates		**544**	(705)
Cash and cash equivalents at end of year	11	**134,699**	149,436

The notes on pages 42 to 67 form an integral part of the financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December	Notes	**2007 £'000s**	2006 £'000s
Total equity at the beginning of the year		**380,955**	344,529
Profit attributable to equity shareholders		**53,112**	49,384
Profit attributable to minority interests		**5,862**	3,579
Total profit for the period and total recognised income and expense		**58,974**	52,963
Dividends to equity shareholders	15	**(5,242)**	(3,650)
Purchase of ordinary shares	14,15	**(31,100)**	(9,604)
Net distribution to minority interests	18	**(5,310)**	(3,283)
Total equity at the end of the year		**398,277**	380,955

Parent Company Statement of Changes in Equity

For the year ended 31 December	Notes	**2007 £'000s**	2006 £'000s
Total equity at the beginning of the year		**374,270**	338,140
Profit attributable to equity shareholders		**53,112**	49,384
Total profit for the period and total recognised income and expense		**53,112**	49,384
Dividends to equity shareholders	15	**(5,242)**	(3,650)
Purchase of ordinary shares	14,15	**(31,100)**	(9,604)
Total equity at the end of the year		**391,040**	374,270

The notes on pages 42 to 67 form an integral part of the financial statements.

Parent Company Balance Sheet

At 31 December	Notes	2007 £'000s	2007 £'000s	2006 £'000s	2006 £'000s
Non-current assets					
Investments held at fair value					
– Unquoted investments	10	**201,656**		154,647	
– Quoted investments	10	**9,737**		19,592	
– FTSE 100 Call Option	10, 20	**12,757**		29,760	
– Subsidiary undertakings	10	**39,522**		26,920	
			263,672		230,919
Current assets					
Trade and other receivables	12	**1,642**		1,180	
Cash and cash equivalents	11	**127,526**		145,924	
		129,168		147,104	
Current liabilities					
Trade and other payables	13	**1,800**		3,753	
Net current assets			**127,368**		143,351
Total assets less current liabilities			**391,040**		374,270
Capital and reserves					
Called up share capital	14		**7,529**		8,233
Capital redemption reserve	15		**1,875**		1,171
Share premium	15		**12,936**		12,936
Capital reserve	15		**351,663**		336,620
Revenue reserve	15		**17,037**		15,310
Equity attributable to equity holders			**391,040**		374,270
Net asset value per share (basic and diluted)	16		**519.4p**		454.6p

The notes on pages 42 to 67 form an integral part of the financial statements.

The financial statements were approved by the Board of directors on 3 April 2008 and signed on its behalf by:

J. Sclater

} Directors

P. Dicks

Parent Company Cash Flow Statement

For the year ended 31 December	Notes	2007 £'000s	2006 £'000s
Operating activities			
Sale of portfolio investments		**79,453**	71,758
Purchase of portfolio investments		**(85,874)**	(67,618)
Sale of FTSE 100 Call Option		**21,310**	–
Income received from investments		**5,110**	4,987
Other income received		**6,722**	6,760
Investment management charges paid		**(4,809)**	(4,806)
Other expenses paid		**(1,380)**	(1,090)
Taxation paid		**(990)**	(1,600)
Net cash inflow from operating activities		**19,542**	8,391
Financing activities			
Purchase of ordinary shares		**(33,190)**	(7,515)
Equity dividends paid		**(5,242)**	(3,650)
Net cash outflow from financing activities		**(38,432)**	(11,165)
Net decrease in cash and cash equivalents		**(18,890)**	(2,774)
Cash and cash equivalents at beginning of the year		**145,924**	149,283
Net decrease in cash and cash equivalents		**(18,890)**	(2,774)
Effect of changes in foreign exchange rates		**492**	(585)
Cash and cash equivalents at end of year	11	**127,526**	145,924

The notes on pages 42 to 67 form an integral part of the financial statements.

Notes to the Accounts

1 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 2007 has been prepared in accordance with 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 2007. 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 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 266 of the Companies Act 1985, net capital return may not be distributed by way of dividend.

IFRS 7: 'Financial Instruments: Disclosures', and the complementary Amendment to IAS 1: 'Presentation of Financial Statements – Capital Disclosures', introduce new disclosures relating to financial instruments and do not have any impact on the classification and valuation of the Group or Company's financial instruments, or the disclosures relating to taxation and trade and other payables.

1 ACCOUNTING POLICIES (CONTINUED)

The IASB has issued the following standards to be applied to financial statements with periods commencing on or after 1 January 2009:

- 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 2007. It is not anticipated that the adoption of these standards will have any significant impact on the financial statements.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Only entities the Company controls are consolidated. 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 loan 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 or 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. This accounting policy also applies to the FTSE 100 Call Option and, in the Parent Company balance sheet, to Subsidiaries.

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 ("IPEVC") Valuation Guidelines issued in March 2005.

Notes to the Accounts

1 ACCOUNTING POLICIES (CONTINUED)

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 or loss, as permitted by that standard.

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 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 as 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 income 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 been allocated 75% to the capital column and 25% to the revenue column, in line with this expectation.

1 ACCOUNTING POLICIES (CONTINUED)

- 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 1(k)).

(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 future 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 1(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)

(l) 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. These 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	**2007 £'000s**	2006 £'000s
Income from investments		
Dividends from UK companies#	**529**	976
UK unfranked investment income#	**2,529**	941
Overseas interest#	**235**	350
Income from cash equivalents*	**5,009**	5,203
Other income from investments#	**2,270**	1,711
	10,572	9,181
Other income		
Deposit interest on cash*	**1,761**	1,328
Other	**45**	202
	1,806	1,530
Total income	**12,378**	10,711
Analysis of total income		
Dividends	**529**	976
Interest from investment portfolio	**5,034**	3,003
Other income	**6,815**	6,732
	12,378	10,711
Analysis of income from investments		
Quoted in Great Britain	**522**	389
Unquoted	**10,050**	8,792
	10,572	9,181

These items make up income from the investment portfolio of £5,563,000 (2006: £3,978,000)

* These items make up income from cash and cash equivalents of £6,770,000 (2006: £6,531,000)

3 INVESTMENT MANAGEMENT CHARGES

Group and Parent Company	2007 Revenue £'000s	2007 Capital £'000s	2007 Total £'000s	2006 Revenue £'000s	2006 Capital £'000s	2006 Total £'000s
Investment management fee	**1,065**	**3,196**	**4,261**	1,017	3,050	4,067
Irrecoverable VAT thereon	**138**	**413**	**551**	176	528	704
	1,203	**3,609**	**4,812**	1,193	3,578	4,771

The allocation of the total investment management charges was unchanged in 2007 with 75% of the total allocated to capital and 25% allocated to income.

VAT was charged by the Managers on the management fee for the first three quarters but not for the final quarter of 2007. See note 22 for further information.

The Company has borne management charges of £1,000,000 (2006: £1,000,000) in respect of Graphite Capital Partners VI and £250,000 (2006: nil) in respect of Graphite Capital Partners VII. The total investment management charges payable by the Group to the Manager were therefore £6,062,000 (2006: £5,771,000), as explained in the Directors' Report on page 29.

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 were no balances outstanding as at 31 December 2007 (2006: nil)

4 OTHER EXPENSES

The Group did not directly employ any staff in 2006 or 2007.

Group and Parent company	2007 £'000s	2007 £'000s	2006 £'000s	2006 £'000s
Directors' fees (see note 5)		**169**		159
Auditors' remuneration:				
Statutory audit of the Company	**55**		69	
Other services				
Auditing of accounts of the subsidiary of the Company required by legislation	**16**		20	
Other services required by legislation (interim review)	**19**		19	
Other	**5**		25	
Total auditors' remuneration		**95**		133
Expenses related to shareholder circular and EGM		**302**		–
General expenses		**762**		628
Other expenses allocated to revenue		**1,328**		920
Other expenses allocated to capital – transaction costs		**90**		82
		1,418		1,002

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 68. No income was 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 29.

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	**2007 £'000s**	2006 £'000s
a) Analysis of charge in year		
Tax charge on items allocated to revenue	**2,850**	2,334
Tax credit on items allocated to capital	**(1,083)**	(1,071)
UK corporation tax at 30% (2006 – 30%)	**1,767**	1,263
Adjustment in respect of prior years	**28**	–
	1,795	1,263
b) Factors affecting tax charge for year		
Profit on ordinary activities before tax	**60,769**	54,226
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 – same)	**18,231**	16,268
Effect of:		
– net capital gains not subject to corporation tax	**(16,386)**	(14,786)
– UK dividends not subject to corporation tax	**(159)**	(293)
– utilisation of brought forward tax losses	**–**	2
– expenses not deductible for tax purposes	**81**	72
Adjustment in respect of prior years	**28**	–
Total tax charge	**1,795**	1,263

Graphite Enterprise has no carried forward deferred tax assets or liabilities (2006: 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 16p.

7 EARNINGS PER SHARE

	2007	2006
Revenue return per ordinary share	**8.86p**	7.44p
Capital return per ordinary share	**58.70p**	51.22p
Earnings per ordinary share (basic and diluted)	**67.56p**	58.66p

Revenue return per ordinary share is calculated by dividing the revenue return attributable to equity shareholders of £6,969,000 (2006: £6,264,000) 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 £46,143,000 (2006: £43,120,000) 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 £53,112,000 (2006: £49,384,000) by the weighted average number of ordinary shares outstanding during the year.

The weighted average of ordinary shares outstanding during the year was 78,620,500 (2006: 84,181,632). There were no potentially dilutive shares in either year.

8 DIVIDENDS

Group and Parent company	**2007 £'000s**	2006 £'000s
Final paid: 6.5p (2006: 4.3p) per share	**5,242**	3,650

In addition, the directors are proposing a final dividend in respect of the financial year ended 31 December 2007 of 8.0p per share which will reduce shareholders' equity by an estimated £5.8 million, depending on the number of shares outstanding on the ex-dividend date. It will be paid on 22 May 2008 to shareholders who are on the register of members on 11 April 2008.

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 2007.

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. Contributions by the Company and the Co-investors take the form of commitments to the Partnerships. The Partnerships are considered to be subsidiary undertakings of the Company and accordingly consolidated financial statements 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 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 gains based on carrying value at previous balance sheet date	(462)	15,890	–	15,428
Movement in unrealised appreciation/(depreciation)	(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

Group	Quoted £'000s	Unquoted £'000s	FTSE 100 Call Option £'000s	Total £'000s
Cost at 1 January 2006	2,893	155,721	14,028	172,642
Unrealised appreciation at 1 January 2006	12,172	3,565	6,226	21,963
Valuation at 1 January 2006	15,065	159,286	20,254	194,605
Movements in the year:				
Purchases at cost	–	80,210	–	80,210
Transfer between unquoted and quoted	3,095	(3,095)	–	–
Sales – proceeds	(2,115)	(86,789)	–	(88,904)
– realised gains based on carrying value at previous balance sheet date	(316)	9,703	–	9,387
Movement in unrealised appreciation/(depreciation)	4,344	26,756	9,506	40,606
Valuation at 31 December 2006	20,073	186,071	29,760	235,904
Cost at 31 December 2006	4,612	183,355	14,028	201,995
Unrealised appreciation at 31 December 2006	15,461	2,716	15,732	33,909
Valuation at 31 December 2006	20,073	186,071	29,760	235,904

10 INVESTMENTS (CONTINUED)

	2007 £'000s	2006 £'000s
Realised gains based on cost	**65,174**	38,322
Amounts recognised as unrealised in previous years	**(49,746)**	(28,935)
Realised gains based on carrying values at previous balance sheet date	**15,428**	9,387
Increase in unrealised appreciation	**38,649**	40,606
Gains on investments	**54,077**	49,993

Parent	Quoted £'000s	Unquoted £'000s	FTSE 100 Call Option £'000s	Subsidiary Undertaking £'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 gains based on carrying value at previous balance sheet date	(668)	5,831	–	–	5,163
Movement in unrealised appreciation/(depreciation)	(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

Notes to the Accounts

10 INVESTMENTS (CONTINUED)

Parent	Quoted £'000s	Unquoted £'000s	FTSE 100 Call Option £'000s	Subsidiary Undertaking £'000s	Total £'000s
Cost at 1 January 2006	2,893	127,166	14,028	18,713	162,800
Unrealised appreciation at 1 January 2006	12,172	2,352	6,226	4,810	25,560
Valuation at 1 January 2006	15,065	129,518	20,254	23,523	188,360
Movements in the year:					
Purchases at cost	–	68,040	–	–	68,040
Transfer between unquoted and quoted	2,289	(2,289)	–	–	–
Sales – proceeds	(2,115)	(69,433)	–	(211)	(71,759)
– realised gains based on carrying value at previous balance sheet date	(482)	6,715	–	–	6,233
Movement in unrealised appreciation/(depreciation)	4,835	22,096	9,506	3,608	40,045
Valuation at 31 December 2006	19,592	154,647	29,760	26,920	230,919
Cost at 31 December 2006	4,169	153,114	14,028	18,504	189,815
Unrealised appreciation at 31 December 2006	15,423	1,533	15,732	8,416	41,104
Valuation at 31 December 2006	19,592	154,647	29,760	26,920	230,919

	2007 £'000s	2006 £'000s
Realised gains based on cost	**54,862**	30,985
Amounts recognised as unrealised in previous years	**(49,699)**	(24,752)
Realised gains based on carrying values at previous balance sheet date	**5,163**	6,233
Increase in unrealised appreciation	**43,099**	40,045
Gains on investments	**48,262**	46,278

A geographical and sector analysis of the portfolio is given in note 19.

During the year there were no significant write downs of unquoted portfolio investments (2006: none). There were no significant investments in unquoted companies at the year end (2006: none). There were no significant disposals of unquoted portfolio investments. (2006: none).

10 INVESTMENTS (CONTINUED)

Significant interests in Investee Undertakings

The Group had an interest of more that 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, excluding the FTSE 100 Call Option.

Company	Country of incorporation or registration	Number and class of shares held	Percentage of class held
Standard Brands (UK) Limited	England	40,000 'A' ordinary shares	50.0
Summit Medical Limited	England	205,200 'A' ordinary shares	30.0

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

Mr Cumming and Mr Dicks held interests in Lion/Katsu Investments S.a.r.l., the parent company of Wagamama, during the year, and Mr O'Connor held an interest in Applied Energy Holdings Limited until its sale in October 2007. All of these interests represented less than 5.0% of the equity in these companies.

In addition the Group had an interest that was material to the Group in the following entities:

Fund	Percentage interest
Candover 2005 Fund	0.9
Charterhouse Capital Partners VIII	0.5
CVC European Equity Partners IV	0.3
Doughty Hanson & Co IV	1.5
Euromezzanine 5	3.0
Fourth Cinven Fund	0.5
Graphite Capital Partners VI	13.3
Madison Dearborn Capital Partners V	0.3
PAI Europe IV	1.1

Further information on these funds is given on page 24.

11 CASH AND CASH EQUIVALENTS

	2007		2006	
	Group £'000s	**Parent £'000s**	Group £'000s	Parent £'000s
Cash at bank and in hand	**42,693**	**35,520**	38,580	35,068
Money market funds	**92,006**	**92,006**	110,856	110,856
	134,699	**127,526**	149,436	145,924

Notes to the Accounts

12 TRADE AND OTHER RECEIVABLES – CURRENT

	2007 Group £'000s	2007 Parent £'000s	2006 Group £'000s	2006 Parent £'000s
Prepayments and accrued income	**575**	**533**	433	351
Subsidiary undertakings	**–**	**1,109**	–	829
	575	**1,642**	433	1,180

13 TRADE AND OTHER PAYABLES

	2007 Group £'000s	2007 Parent £'000s	2006 Group £'000s	2006 Parent £'000s
Taxation	**1,310**	**1,310**	777	777
Accruals	**490**	**490**	464	464
Other creditors	**45**	**–**	580	423
Amount owed in respect of share-buybacks	**–**	**–**	2,089	2,089
Amount owed in respect of the co-investment scheme	**–**	**–**	908	–
	1,845	**1,800**	4,818	3,753

14 SHARE CAPITAL

Equity share capital	Authorised Number	Authorised Nominal £'000s	Issued and fully paid Number	Issued and fully paid Nominal £'000s
Ordinary shares of 10p each				
Balance at 1 January 2007	120,000,000	12,000	82,335,718	8,233
Purchase of ordinary shares in the year	–	–	(7,048,718)	(704)
Balance at 31 December 2007	120,000,000	12,000	75,287,000	7,529

During the year ended 31 December 2007, the Company bought back 7,048,718 (2006: 2,539,282) of its own shares in the market at an average price of 438.2p (2006: 375.6p) per share. All the shares were subsequently cancelled. The number of shares in issue at 31 December 2007 was 75,287,000 (2006: 82,335,718). The total cost of these buy backs including related expenses was £31,100,000 (2006: £9,604,000) and they had the effect of enhancing net asset value per share by 6.4p (2006: 2.3p).

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
Year ended 31 December 2007									
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 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	7,529	1,875	12,936	335,232	16,431	17,037	391,040	7,237	398,277

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
Year ended 31 December 2006									
Opening balance at 1 January 2006	8,487	917	12,936	286,018	17,086	12,696	338,140	6,389	344,529
Profit for the period attributable to recognised income and expense	–	–	–	38,060	5,060	6,264	49,384	3,579	52,963
Dividends paid or approved	–	–	–	–	–	(3,650)	(3,650)	–	(3,650)
Purchase of own shares	(254)	254	–	(9,604)	–	–	(9,604)	–	(9,604)
Net distribution to minority interests	–	–	–	–	–	–	–	(3,283)	(3,283)
Closing balance	8,233	1,171	12,936	314,474	22,146	15,310	374,270	6,685	380,955

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 £8,569,000 (2006: £15,461,000) in respect of such securities, currently included within the unrealised capital reserve may be regarded as distributable under Company Law. 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
Year ended 31 December 2007							
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	7,529	1,875	12,936	317,472	34,191	17,037	391,040

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
Year ended 31 December 2006							
Opening balance at 1 January 2006	8,487	917	12,936	286,018	17,086	12,696	338,140
Profit for the period attributable to recognised income and expense	–	–	–	38,060	5,060	6,264	49,384
Dividends paid or approved	–	–	–	–	–	(3,650)	(3,650)
Purchase of own shares	(254)	254	–	(9,604)	–	–	(9,604)
Closing balance	8,233	1,171	12,936	314,474	22,146	15,310	374,270

The profit after taxation of the parent company was £53,112,000 (2006: £49,384,000). 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 £391,040,000 (2006: £374,270,000) and on 75,287,000 (2006: 82,335,718) ordinary shares in issue at the year end. There were no potentially dilutive ordinary shares at either year end. Calculated on both the basic and diluted basis the net asset value per share was 519.4p (2006: 454.6p).

17 CAPITAL COMMITMENTS AND CONTINGENCIES

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

	2007		2006	
	Group £'000s	**Parent £'000s**	Group £'000s	Parent £'000s
Graphite Capital Partners VII	**45,150**	**45,150**	–	–
PAI Europe V	**29,321**	**23,457**	–	–
Graphite Capital Partners VII Top Up Fund	**17,227**	**17,227**	–	–
Apax Europe VII	**17,077**	**13,662**	–	–
ICG European Fund 2006	**15,445**	**12,356**	–	–
Doughty Hanson & Co V	**14,778**	**11,822**	16,785	13,428
Activa Capital Fund II	**14,646**	**11,717**	–	–
TDR Capital Fund II	**14,602**	**11,681**	13,475	10,780
Fourth Cinven Fund	**14,293**	**11,434**	20,210	16,168
Thomas H Lee Equity Fund VI	**11,607**	**9,286**	–	–
Deutsche Beteiligungs AG Fund V	**11,042**	**8,834**	13,475	10,780
Candover 2005 Fund	**10,647**	**8,517**	12,339	9,871
Arcadia II Beteiligungen	**10,234**	**8,187**	10,106	8,085
Graphite Capital Partners VI	**10,203**	**10,203**	17,825	17,825
Bowmark Capital Partners IV	**10,000**	**8,000**	–	–
Terra Firma Capital Partners III	**8,387**	**6,710**	13,176	10,540
CVC Tandem Fund	**7,795**	**6,236**	10,106	8,085
PAI Europe IV	**6,908**	**5,527**	9,678	7,742
Charterhouse Capital Partners VIII	**5,448**	**4,358**	11,504	9,203
Piper Private Equity Fund IV	**3,950**	**3,160**	4,400	3,520
Euromezzanine 5	**3,819**	**3,056**	7,007	5,606
Segulah IV	**3,577**	**2,862**	–	–
Madison Dearborn Capital Partners V	**2,195**	**1,756**	10,988	8,790
CVC European Equity Partners IV	**2,129**	**1,703**	5,294	4,235
Activa Capital Fund	**2,044**	**1,635**	2,212	1,770
CSP Secondary Opportunities Fund	**1,750**	**1,400**	–	–
Vision Capital Partners VI	**1,425**	**1,140**	2,808	2,247
Doughty Hanson & Co IV	**1,110**	**888**	3,442	2,754
Barclays European Infrastructure Fund	**1,095**	**876**	2,035	1,628
Bowmark Capital Partners III	**926**	**741**	2,550	2,040
Piper Private Equity Fund III	**834**	**667**	834	667
ICG Mezzanine Fund 2000	**834**	**667**	765	612
Deutsche Beteiligungs AG Fund IV	**783**	**626**	1,950	1,560
HSBC Infastructure Fund	**–**	**–**	2,880	2,302
Other	**1,753**	**1,391**	2,190	1,741
Total	**303,034**	**256,932**	198,034	161,979

There were no other contingent liabilities or commitments (2006: 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 2007 the Co-investors subscribed an amount of £470,000 (2006: £100,000) and received cash payments totalling £6,688,000 (2006: £2,546,000) 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 GEOGRAPHICAL AND SECTOR ANALYSIS OF INVESTMENTS IN PORTFOLIO COMPANIES

	UK		Non-UK		**2007 Total**	2006 Total
	Q %	U %	Q %	U %	**%**	%
Advertising and recruitment	1.1	2.5	–	–	**3.6**	7.8
Breweries, pubs and restaurants	0.5	4.3	–	0.5	**5.3**	5.0
Business services	–	8.0	–	6.7	**14.7**	15.8
Chemicals	–	–	–	2.6	**2.6**	1.4
Communications and office equipment	–	1.8	–	1.3	**3.1**	3.1
Computer services and software	0.1	0.6	–	0.7	**1.4**	2.6
Construction and building supplies	–	2.8	–	5.7	**8.5**	6.7
Consumer goods	–	10.4	–	1.7	**12.1**	17.0
Consumer services	–	2.3	–	0.8	**3.1**	4.7
Electronics	–	–	–	0.4	**0.4**	0.4
Engineering	–	1,6	–	3.1	**4.7**	0.6
Health care and pharmaceuticals	–	3.3	–	3.0	**6.3**	4.2
Insurance	–	0.8	–	0.4	**1.2**	0.1
Investment banking and finance	2.5	–	–	0.6	**3.1**	6.3
Leisure	–	5.0	–	0.9	**5.9**	7.4
Manufacturing	0.3	2.3	–	10.4	**13.0**	8.6
Newspapers, publishing and other media	–	0.9	0.4	3.1	**4.4**	1.8
Retailing	–	1.1	–	2.0	**3.1**	5.2
Transport and distribution	–	0.2	–	3.3	**3.5**	1.3
2007 Totals	4.5	47.9	0.4	47.2	**100.0**	
2006 Total	8.8	63.4	0.9	26.9		100.0

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

U Unquoted investments.

Note: There were no convertible securities with value at either year end. The value of fixed income securities was £15.3 million or 5.8% of the investment portfolio (2006: £30.9 million, 13.1% of the investment portfolio).

20 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, Europe and the US are primarily denominated in Sterling, the Euro and the US dollar. There are also smaller amounts in other European and North American currencies. The Group is exposed to currency risk to the extent that investments and cash balances are held in foreign currencies. The Group does not currently undertake any hedging activities in respect of currency exposures. The nature and irregular timing of cash flows mean there will not generally be opportunities to hedge against the potentially adverse consequences of movements in currency exchange rates. Even if hedging were deemed to be appropriate, it may not be practical to hedge currency exposure partially or fully. This policy is kept under regular review by the Board. The valuation of investments and cash balances are monitored on a monthly basis.

The net currency exposure of the net assets of the Group at 31 December 2007 and 31 December 2006 was:

31 December 2007	Sterling £'000s	Continental European currencies £'000s	North American currencies £'000s	Total £'000s
Group				
Investments	118,218	127,267	19,363	264,848
Cash and cash equivalents and other assets and liabilities	118,165	10,812	4,452	133,429
	236,383	138,079	23,815	398,277
Parent				
Investments	140,019	108,163	15,490	263,672
Cash and cash equivalents and other assets and liabilities	114,839	9,551	2,978	127,368
	254,858	117,714	18,468	391,040

Notes to the Accounts

20 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

31 December 2006	Sterling £'000s	Continental European currencies £'000s	North American currencies £'000s	Total £'000s
Group				
Investments	159,712	74,289	1,903	235,904
Cash and cash equivalents and other assets and liabilities	125,959	17,938	1,154	145,051
	285,671	92,227	3,057	380,955
Parent				
Investments	173,938	55,574	1,407	230,919
Cash and cash equivalents and other assets and liabilities	125,536	16,922	893	143,351
	299,474	72,496	2,300	374,270

The impacts on profit after tax and on shareholder's equity of 10% increases and decreases in the value of continental European and North American currencies, in absolute terms and as a percentage of those figures, are shown in the table below:

	2007		2006	
	Increase in variable £'000s	**Decrease in variable £'000s**	Increase in variable £'000s	Decrease in variable £'000s
10% movement in continental European currencies				
Impact on profit after tax	**13,808**	**(13,808)**	9,223	(9,223)
Impact as a percentage of profit after tax	**23.4%**	**-23.4%**	18.7%	-18.7%
Impact on shareholders' equity	**12,163**	**(12,913)**	8,806	(8,882)
Impact as a percentage of shareholders' equity	**3.1%**	**-3.3%**	2.4%	-2.4%
10% movement in North American currencies				
Impact on profit after tax	**2,381**	**(2,381)**	306	(306)
Impact as a percentage of profit after tax	**4.0%**	**-4.0%**	0.6%	-0.6%
Impact on shareholders' equity	**2,231**	**(2,368)**	293	(293)
Impact as a percentage of shareholders' equity	**0.6%**	**-0.6%**	0.1%	-0.1%

(ii) Interest rate risk

The fair value of the Group's investments (other than the FTSE 100 call option – see below), money market funds and cash balances are not directly affected by changes in interest rates. The Group has no borrowings and its liabilities are there not affected by changes in interest rates. However, changes in interest rates do affect interest income from money market funds and cash balances and the value of the FTSE 100 call option.

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

20 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

	2007 Increase in variable £'000s	2007 Decrease in variable £'000s	2006 Increase in variable £'000s	2006 Decrease in variable £'000s
Impact on interest income from cash and cash equivalents	**929**	**(929)**	1,078	(1,078)
Impact on valuation of the FTSE option	**298**	**(297)**	1,540	(1,433)
Total impact on profit after tax and shareholders' equity	**1,227**	**(1,226)**	2,618	(2,511)
Total impact as a percentage of profit after tax	**2.1%**	**-2.1%**	5.3%	-5.1%
Total impact as a percentage of shareholders' equity	**0.3%**	**-0.3%**	0.7%	-0.7%

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 risk variable is deemed to be the price/earnings ratio. The impacts on profit 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:

	2007 Increase in variable £'000s	2007 Decrease in variable £'000s	2006 Increase in variable £'000s	2006 Decrease in variable £'000s
10% movement in the price of fund investments				
Impact on profit after tax	**19,378**	**(19,378)**	11,078	(11,078)
Impact as a percentage of profit after tax	**32.9%**	**-32.9%**	22.4%	-22.4%
Impact on shareholders' equity	**17,444**	**(18,448)**	10,559	(10,645)
Impact as a percentage of shareholders' equity	**4.5%**	**-4.7%**	2.8%	-2.8%
10% movement in the price/earnings ratio for direct unquoted investments				
Impact on profit after tax	**6,496**	**(9,076)**	7,063	(12,044)
Impact as a percentage of profit after tax	**11.0%**	**-15.4%**	14.3%	-24.4%
Impact on shareholders' equity	**6,020**	**(8,386)**	6,449	(11,573)
Impact as a percentage of shareholders' equity	**1.5%**	**-2.1%**	1.7%	-3.1%
12.5% movement in the price of quoted investments				
Impact on profit after tax	**1,217**	**(1,217)**	397	(397)
Impact as a percentage of profit after tax	**2.1%**	**-2.1%**	0.8%	-0.8%
Impact on shareholders' equity	**1,217**	**(1,217)**	397	(397)
Impact as a percentage of shareholders' equity	**0.3%**	**-0.3%**	0.1%	-0.1%

Notes to the Accounts

20 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Other than its portfolio investments, the FTSE 100 Call Option held by the Group is sensitive to movements in the FTSE 100 index, and the volatility and divdend yield of that index, as well as interest rates (see above):

	2007 Increase in variable £'000s	2007 Decrease in variable £'000s	2006 Increase in variable £'000s	2006 Decrease in variable £'000s
12.5% movement in the level of the FTSE 100 Index				
Impact on profit after tax and shareholders' equity	**6,480**	**(5,739)**	15,180	(13,061)
Impact as a percentage of profit after tax	**11.0%**	**-9.7%**	30.7%	-26.4%
Impact as a percentage of shareholders' equity	**1.7%**	**-1.5%**	4.1%	-3.5%
10 percentage points movement in the volatility of the FTSE 100 Index				
Impact on profit after tax and shareholders' equity	**1,059**	**(542)**	5,059	(3,023)
Impact as a percentage of profit after tax	**1.8%**	**-0.9%**	10.2%	-6.1%
Impact as a percentage of shareholders' equity	**0.3%**	**-0.1%**	1.4%	-0.8%
1.0% movement in the dividend yield of the FTSE 100 Index				
Impact on profit after tax and shareholders' equity	**(396)**	**405**	(2,028)	2,110
Impact as a percentage of profit after tax	**-0.7%**	**0.7%**	-4.1%	4.3%
Impact as a percentage of shareholders' equity	**-0.1%**	**0.1%**	-0.5%	0.6%

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 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 inital 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 and are managed by blue chip institutions. The Group's policy is to limit exposure to any one deposit institution or fund to 15% of gross assets. This is regularly monitored by the Manager as part of its cash management on a monthly basis.

Each of the money market funds in which the Company invests has a credit rating of AAAm from Standard & Poor's. The total invested in money market funds was £92,000,000 (2006: £110,900,000). Cash is held on deposit with two UK banks and totalled £42,700,000 (2006: £38,600,000). 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 2007 (2006: nil).

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

20 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk

The Group has significant investments in unquoted companies which are inherently illiquid. The Group manages its liquid investments to ensure sufficient cash is available to meet contractual commitments 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 Manager monitors the Group's cash and cash equivalents on the basis of expected cash flow on a quarterly basis. In addition, 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.

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 and since 2001 has undergone a programme of share buy backs to reduce the level of cash held on the balance sheet whilst maintaining sufficient liquidity for new investments.

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 notes 1(e) and 11. The FTSE 100 Call Option held by the Group at 31 December 2007 is a European style call option over the FTSE 100 Index. This was acquired on 21 October 2005 for £14,028,000 at a strike level of 5,142 and after three partial disposals now has a notional principal amount of £45,000,000. The option was due to mature three years after the acquisition date.

The effect of the option is to give Graphite Enterprise exposure to a £45,000,000 investment in the FTSE 100 Index at an opening level of 5,142. If the Index rises, the option gives the Group exposure to the rise.

The fair value of the option is dependent on the level, volatility and yield of the Index as well as the time remaining to maturity and market interest rates. Further information, including the fair value at the year end, is disclosed in note 10. The remaining option was sold after the year end – see note 23. The fair values of other financial assets and liabilities are disclosed in notes 11 and 12.

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 analyse the carrying amounts of the financial assets by category as defined in IFRS 7 and by balance sheet heading.

Notes to the Accounts

20 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Group 31 December 2007	Assets at fair value through profit or loss £'000s	Loans and receivables £'000s	Total £'000s
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 liquidity funds	–	92,006	92,006
Total	264,848	134,699	399,547

Group 31 December 2006	Assets at fair value through profit or loss £'000s	Loans and receivables £'000s	Total £'000s
Unquoted investments – indirect	115,198	–	115,198
Unquoted investments – direct	70,873	–	70,873
Quoted investments – direct	20,073	–	20,073
FTSE 100 Call Option	29,760	–	29,760
Cash at bank and in hand	–	38,580	38,580
Institutional liquidity funds	–	110,856	110,856
Total	235,904	149,436	385,340

Company 31 December 2007	Assets at fair value through profit or loss £'000s	Loans and receivables £'000s	Total £'000s
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 liquidity funds	–	92,006	92,006
Total	263,672	127,526	391,198

20 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Company 31 December 2006	Assets at fair value through profit or loss £'000s	Loans and receivables £'000s	Total £'000s
Unquoted investments – indirect	95,681	–	95,681
Unquoted investments – direct	58,966	–	58,966
Quoted investments – direct	19,592	–	19,592
FTSE 100 Call Option	29,760	–	29,760
Subsidiary undertakings	26,920	–	26,920
Cash at bank and in hand	–	35,068	35,068
Institutional liquidity funds	–	110,856	110,856
Total	230,919	145,924	376,843

21 TEN LARGEST INVESTMENTS

The ten largest investments held by Graphite Enterprise at 31 December 2007 are set out below. Further information on the largest funds in which the Company is invested and the largest underlying companies is set out on pages 21 to 24.

	Percentage of equity held	Cost £'000s	Value at 31 Dec 07 £'000s	Profit before tax £'000s	Net assets £'000s
1 Graphite Capital Partners VI	**n/a**	**32,020**	**31,554**	n/a	n/a

Graphite Capital Partners VI was raised in 2003 to invest in mid-market management buy-outs in the UK. Graphite Enterprise committed £50 million out of total investors' commitments of £375 million. Graphite Enterprise received no income in 2007. The last audited financial period was the year to 31 December 2006.

	Percentage of equity held	Cost £'000s	Value at 31 Dec 07 £'000s	Profit before tax £'000s	Net assets £'000s
2 Doughty Hanson & Co IV	**n/a**	**10,651**	**18,658**	n/a	n/a

Doughty Hanson was raised in 2004 and 2005 to invest in leveraged buy-outs of medium to large companies throughout Europe. Graphite Enterprise committed €22 million out of total investors' commitments of €1.5 billion. Graphite Enterprise received no income in 2007. The last audited financial period was the year to 31 December 2006.

	Percentage of equity held	Cost £'000s	Value at 31 Dec 07 £'000s	Profit before tax £'000s	Net assets £'000s
3 PAI Europe IV	**n/a**	**10,196**	**15,884**	n/a	n/a

PAI Europe IV was raised in 2005 to invest in large management buy-outs throughout Europe. Graphite Enterprise committed €30 million out of total investors' commitments of €2.7 billion. Graphite Enterprise received gross income of €156. The last audited financial period was the year to 31 December 2006.

Notes to the Accounts

21 TEN LARGEST INVESTMENTS (CONTINUED)

	Percentage of equity held	Cost £'000s	Value at 31 Dec 07 £'000s	Profit before tax £'000s	Net assets £'000s
4 FTSE 100 Call Option	**n/a**	**5,271**	**12,758**	n/a	n/a

This option is described in note 20 to the accounts.

5 Euromezzanine 5	**n/a**	**10,240**	**10,863**	n/a	n/a

Euromezzanine 5 was raised in 2005 to invest in mezzanine loans, primarily in support of mid-market buy-outs in France. Graphite Enterprise committed €20 million out of total investors' commitments of €660 million. Graphite Enterprise received no income in 2007. The last audited financial period was the year to 31 December 2006.

6 Candover 2005 Fund	**n/a**	**10,134**	**11,689**	n/a	n/a

Candover 2005 Fund invests in large management buy-outs throughout Europe. Graphite Enterprise committed €30 million out of total investors' commitments of €3.5 billion. Graphite Enterprise received gross income of €5,335 in 2007. The last audited financial period was the year to 31 December 2006.

7 Madison Dearborn Capital Partners V	**n/a**	**9,059**	**9,211**	n/a	n/a

Madison Dearborn was raised in 2006 to invest in buy-outs of large companies throughout the US. Graphite Enterprise committed $22.5 million out of total investors' commitments of $6.5 billion. Graphite Enterprise received no income in 2007. The last audited financial period was the year to 31 December 2006.

8 Lion/Katsu Investments S.a.r.l.	**11.8%**	**–**	**8,831**	8,856	3,935

Lion/Katsu operates the Wagamama chain of Japanese noodle restaurants based primarily in London and the South East. Graphite Enterprise received gross income of £313,000. The last audited financial period was the year to 30 April 2007.

9 Charterhouse Capital Partners VIII	**n/a**	**8,594**	**8,793**	n/a	n/a

Charterhouse Capital Partners VIII was raised in 2006 to invest in buy-outs of large companies throughout Europe. Graphite Enterprise committed €20 million out of total investors' commitments of €4 billion. Graphite Enterprise received no income in 2007. The last audited financial period was the year to 31 December 2006.

10 CVC European Equity Partners IV	**n/a**	**5,184**	**8,023**	n/a	n/a

CVC European Equity Partners IV was raised in 2005 to invest in buy-outs of medium sized and large companies throughout Europe. Graphite Enterprise committed €15 million out of total investors' commitments of €6 billion. Graphite Enterprise received gross income of £15,725. The last audited financial period was the year to 31 December 2006.

* Profit before tax is stated before amortisations of goodwill where relevant.

22 CONTINGENT ASSET – VAT ON MANAGEMENT FEES

Graphite Enterprise Trust PLC may be entitled to a repayment of VAT previously paid to Graphite Capital.

HM Revenue & Customs ("HMRC") confirmed in October 2007 that fund management services to investment trusts are exempt from VAT. The Manager charged VAT on its invoices to the Company for management fees up to and including the third quarter of 2007. No VAT was charged in the fourth quarter. The Manager has confirmed that it has lodged claims with HMRC to recover back VAT paid from 2002 onwards. Separately, as a result of a decision concerning the way in which a cap was introduced on the time period for which overpaid VAT can be reclaimed, the Manager may be able to reclaim VAT charged to the Company for the period from 1990 to late 1996. The Manager has not yet lodged claims in respect of this earlier period.

The Company and the Manager have agreed that the net amount reclaimed by the Manager as a result of these two changes (that is, the overpaid output VAT less the resulting reduction in input VAT recovered) will be passed to the Company. However, until all remaining uncertainties surrounding the reclaim process have been resolved, it is not practicable to quantify the amount of VAT which will be recoverable by the Company with sufficient certainty and accordingly no asset has been recognised in these accounts. The total amount recovered is likely to be less than 1% of net asset value. Any recovery willl be credited to the income reserve and realised capital reserve in the same proportion as originally charged.

The amount and timing of this repayment are not certain and are therefore not recognised in these financial statements.

23 EVENTS AFTER THE BALANCE SHEET DATE

On 24 January 2008, the Company sold its remaining interest in the FTSE 100 Call Option for cash proceeds of £7,693,000. This was £5,064,000 less than the carrying value at 31 December 2007.

Since the year end, the Group has made commitments to the following funds: CVC European Equity Partners V, CSP Secondary Opportunities II and Vision Capital VII. Taken on their own, the financial effect of these was to increase outstanding commitments by approximately £47,100,000.

Since the year end the Company has bought back 2,374,000 shares for a total cost of £11,070,000.

On 28 March 2007, the Group realised its investment in Summit Medical for £4,520,000, an increase of £1,876,000 over the carrying value at the year end.

24 RELATED PARTY TRANSACTIONS

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

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

Subsidiary	Nature of transaction	**2007 £'000s**	2006 £'000s
Graphite Enterprise Trust LP	Increase/(decrease) in loan balance	**7,840**	(210)
	Income allocated	**1,191**	851

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

	Amounts owed by subsidiaries		Amounts owned to subsidiaries	
Subsidiary	**2007 £'000s**	2006 £'000s	**2007 £'000s**	2006 £'000s
Graphite Enterprise Trust LP	**8,466**	626	**–**	–

Directors' Remuneration Report

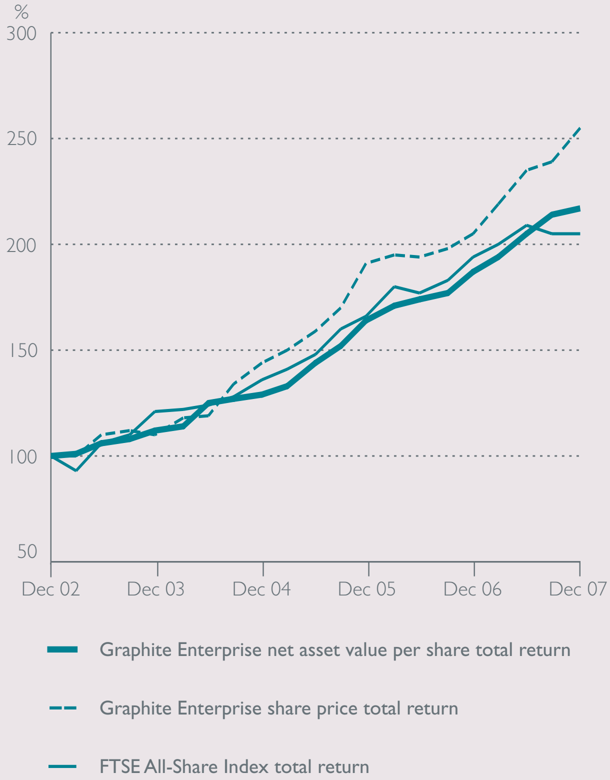
Remuneration Committee

As the Board of Directors is comprised solely of non-executive directors, it has taken advantage of the exemption granted by the Listing Rules not to appoint a remuneration committee. The 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.

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 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	2007 Total £000s	2006 Total £000s
John Sclater	36	–	–	–	–	36	35
Michael Cumming	27	–	–	–	–	27	25
Peter Dicks	28	–	–	–	–	28	26
Mark Fane	27	–	–	–	–	27	25
Peter Gray	27	–	–	–	–	27	25
Sean O'Connor	24	–	–	–	–	24	23
	169	–	–	–	–	169	159

No director had any share options or any long term incentives in 2006 or 2007.

The information in the above table has been audited – see Independent Auditors' Report on pages 70 and 71.

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. Under that law, the directors have prepared the Group and parent company accounts in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. 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.

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.

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 2007 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 Policy, Report of the Directors, the unaudited part of the Directors' Remuneration Report, Proposed Changes to the Articles 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.

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 2007 and of its profit 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 2007 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

3 April 2008

Proposed Changes to the Articles

Significant changes to English company law are being made by the Companies Act 2006 in a number of phases. The directors are proposing to take immediate advantage of certain of those changes which have now come in to force by adopting new Articles of Association to take effect from the end of the meeting.

The directors propose further amendments to the new Articles to reflect changes in the law in relation to directors' conflicts of interests. These amendments would be effective from the date from which the relevant changes in the law come in to force (expected to be 1 October 2008).

The Board anticipates making further revisions to the new Articles at next year's Annual General Meeting to take account of further provisions of Companies Act 2006 that are scheduled to come into force on 1 October 2009.

Changes to the Articles to take effect following the AGM

Electronic and web communications

The new Articles will allow the Company to take advantage of two changes in the law:

a) all company notices, documents and other information can now be provided to shareholders electronically, provided that shareholders agree to this and supply an appropriate address; and

b) if shareholders are invited to agree that the Company may send or supply shareholder information by means of a website, those who do not respond within 28 days are deemed to have agreed to the Company communicating shareholder information to them by means of a website. Shareholders can at any time elect to continue to receive all shareholder information in hard copy form.

The Company is not currently seeking agreement from shareholders to take advantage of these changes and shareholders need take no action at present.

Directors' indemnities and loans to fund expenditure

The Companies Acts allow the Company to indemnify its directors, former directors and officers against liability to third parties arising in connection with any negligence, default, breach of duty or breach of trust. Such an indemnity may not, however, protect against liability. The Company may not provide an indemnity against (1) liability incurred by directors to the Company (or any associated company) or (2) liability incurred by a director in defending criminal proceedings in which he is convicted or (3) a liability to pay a fine imposed in criminal proceedings or by a regulatory authority. The new Articles place the Company under an obligation to indemnify its current and former directors and officers in this way,

The Companies Act 2006 also allows the Company to fund defence costs of its current and former directors and officers as they are incurred in defending criminal or civil proceedings in connection with any negligence, default, breach of duty or breach of trust in relation to the Company, through the granting of a loan. The loan must be repaid by any person who is convicted, has judgment given against him or where the court refuses to grant him relief on an application. A loan may also now be granted to fund a defence to regulatory proceedings. The proposed new Articles provide the Company with discretion to offer this defence funding.

The directors believe that the provision of appropriate indemnities and the funding of directors' defence costs as they are incurred, as permitted by the new legislation, are reasonable protection for the Company's directors, and are important to ensure that the Company continues to attract and retain the highest calibre of directors.

Convening extraordinary and annual general meetings

It is proposed that the current provisions dealing with the convening of general meetings and the length of notice required to convene general meetings be amended to conform to the Companies Acts. Under the new Articles it would be possible to convene an extraordinary general meeting to consider a special resolution on 14 clear days' notice. Under the existing provisions 21 clear days' notice is required.

Enhanced rights for proxies

Under the Companies Acts, the rights of a proxy have been enhanced, although certain of these extended rights were already available under the Company's existing Articles.

The time limits for the appointment or termination of a proxy have been altered by the Companies Acts to allow more time in certain circumstances. Multiple proxies may now be appointed provided that each proxy is appointed to exercise the rights attached to different shares held by the shareholder.

It is proposed that the new Articles reflect these changes to allow shareholders to benefit from these enhanced proxy rights.

Registration of transfers

Under the Company's existing Articles, if the directors refuse to register a transfer of shares, they are under no obligation to provide reasons for that refusal. Under the Companies Acts, they are now required to provide reasons for that refusal and to do so as soon as practicable. It is proposed that the new Articles reflect these changes.

Age of directors on appointment

Since the statutory age limit has been removed by the Companies Acts, we propose that the provision concerning the statutory age limit is removed from the Articles.

Chairman

The Companies Acts provide that on a show of hands, either the chairman's declaration or an entry in the minute book is conclusive evidence that a resolution has or has not been passed or passed with a particular majority. The new Articles will reflect this position.

The Companies Acts also refer to resolutions "of the members" of the Company and therefore exclude the possibility of the chairman of a meeting being able to have a casting vote. The new Articles will therefore remove the provision giving the chairman a casting vote.

Changes to the Articles scheduled to take effect on 1 October 2008 – Directors' interests

The Companies Acts set out directors' general duties that largely codify the existing law with some changes. From 1 October 2008, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interest. The requirement is widely defined and could apply, for example, if a director becomes a director of another company or a trustee of another organisation.

Where the articles contain a provision to this effect, the Companies Acts allow directors of public companies to authorise conflicts and potential conflicts which might otherwise put a director in breach of his new obligations. The Companies Acts also allows articles to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The amendments to the Articles will give the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position. These changes are expected to take effect on 1 October 2008.

A number of safeguards will apply when the directors decide whether to authorise a conflict or potential conflict.

Recommendation

The directors believe that the above proposals are in the best interests of the Company and shareholders as a whole and recommend shareholders vote in favour of all the resolutions to be proposed at the Annual General Meeting.

The directors intend to vote in favour of the resolutions in respect of their own beneficial holdings.

Notice of Meeting

Notice is hereby given that the twenty-seventh Annual General Meeting of Graphite Enterprise Trust PLC will be held at The Mount Vernon Room, The Westbury Hotel, Conduit Street, London W1, on Wednesday, 14 May 2008 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 2007.

2 To declare a dividend on the ordinary shares.

3 To re-elect J. Sclater as a director.

4 To re-elect P. Dicks as a director.

5 To re-elect M. Cumming as a director.

6 To re-elect J. Tigue 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 2007.

Special Business

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

Authority to repurchase shares

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 10,929,659 (or such lesser number of shares as is equal to 14.99 per cent. of the issued ordinary share capital as at the date of passing of this resolution);

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 2009 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

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 of the passing of this resolution and expiring at the conclusion of the Annual General Meeting of the Company in 2009; 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

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 2009:

  i) in connection with an allotment of shares pursuant to the authority referred to in resolution 10 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 £729,130; as if Section 89(l) 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.

Articles of Association

12 THAT the Articles of Association submitted to this Annual General Meeting marked "Version A" and initialled for the purposes of identification by the Chairman be approved and adopted as the new Articles of Association of the Company, in substitution for and to the exclusion of the existing Articles of Association with effect from the end of this meeting.

13 THAT with effect from 00.01 a.m. on 1 October 2008 or any later date on which Section 175 of the Companies Act 2006 comes into effect:

(a) For the purposes of Section 175 of the Companies Act 2006, the directors of the Company be given power in the Articles of Association to authorise certain conflicts of interest as described in that Section; and

(b) The Articles of Association of the Company be amended by the deletion of Articles 123 to 129 in their entirety and by the insertion in their place of new Articles 123 to 127 in accordance with the printed document produced to this Annual General Meeting, marked "Version B" and initialled by the Chairman for the purposes of identification and to renumber the remaining Articles and update cross-references.

By order of the Board
Graphite Capital Management LLP, Secretary
3 April 2008

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

Notes

In accordance with Regulation 41 of The Uncertificated Securities Regulations 2001, only shareholders registered on the register of members of the Company at 7.00 a.m. on 13 May 2008 shall be entitled to attend and vote at the meeting in respect of the shares registered in their name at that time. Changes to entries on the register of members after 7.00 a.m. on 13 May 2008 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

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

To be valid, a form of proxy for use at the meeting and the power of attorney or other authority (if any) under which it is signed, or a notarially certified or office copy of such power of authority, must be deposited with the

Notice of Meeting (continued)

Company's registrars, Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH, not less than 48 hours before the time appointed for holding the meeting. In view of this requirement, investors holding shares in the Company through the F&C Private Investor, Personal Equity or Pension Savings Plans, 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.

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.

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
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London W1J 6BQ

GRAPHITE CAPITAL