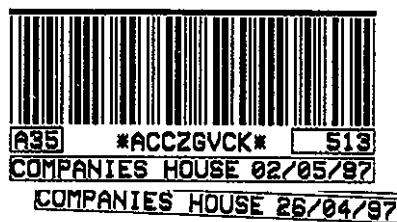


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REPORT AND ACCOUNTS



Candover Investments plc *

Registered in England and Wales No. 1512178

Registered Office

20 Old Bailey, London EC4M 7LN
Telephone 0171-489 9848, Facsimile 0171-248 5483

Solicitors

Ashurst Morris Crisp
Broadwalk House, 5 Appold Street, London EC2A 2HA

Stockbrokers

Cazenove & Co.
12 Tokenhouse Yard, London EC2R 7AN

Registered Auditors

Grant Thornton
Melton Street, Euston Square, London NW1 2EP

Bankers

Barclays Bank PLC
PO Box 544, 54 Lombard Street, London EC3V 9EX

Registrars

Independent Registrars Group Limited
Bourne House, 34 Beckenham Road, Beckenham
Kent BR3 4TU

** References in this Report and Accounts to "Candover" means Candover Investments plc and/or, where appropriate, one or more of its subsidiaries.*

CANDOVER INVESTMENTS plc

Report and Accounts

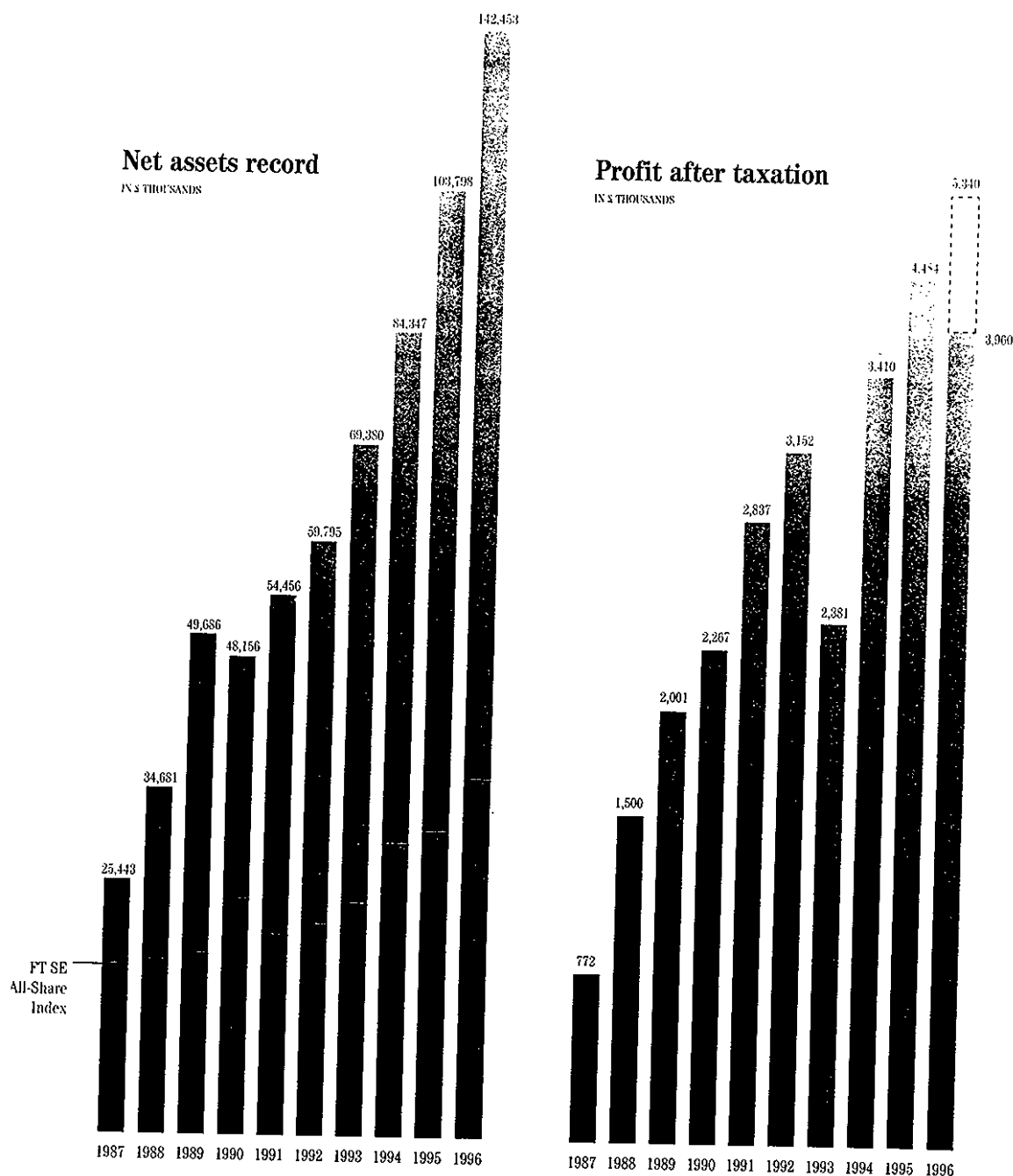
For the year ended 31st December, 1996

Candover organises and invests in large management buy-outs and buy-ins, and provides development capital to unquoted companies. Candover's primary objective is to achieve above average growth in its net assets through capital gains from its investments and to earn a satisfactory income for its shareholders.

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TEN-YEAR RECORD



Where appropriate, figures have been adjusted for the 1989 capitalisation issue.

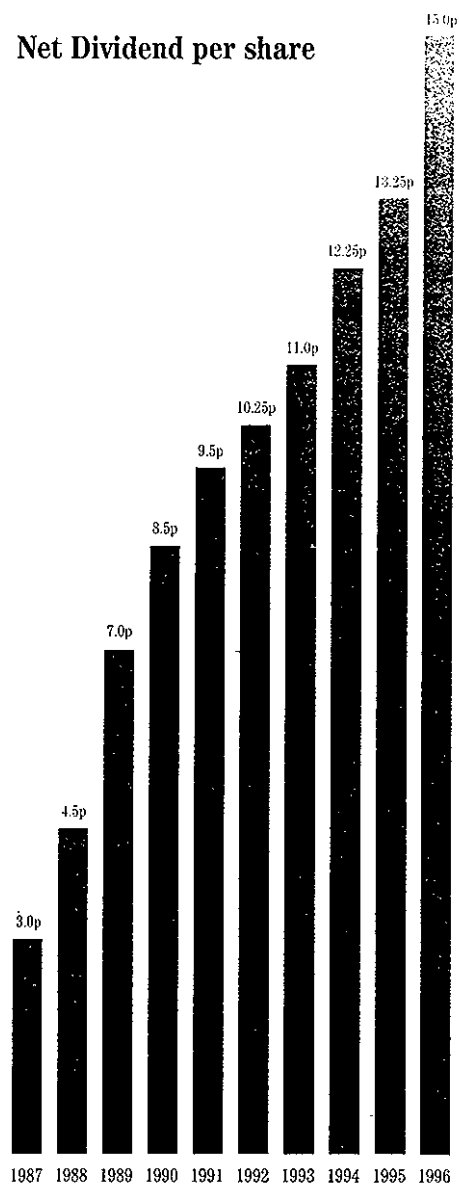
	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Total Net Assets £'000	25,443	34,681	49,686	48,156	54,456	59,795	69,380	84,347	103,798	142,453
Net Assets per share	117p	159p	224p	217p	244p	267p	310p	377p	464p	635p
Profit on Ordinary Activities before Taxation £'000	1,212	2,132	2,985	3,702	3,955	4,099	3,300	4,855	6,563	5,389
Profit after Taxation £'000	772	1,500	2,001	2,267	2,837	3,152	2,381	3,410	4,484	3,960

Notes

1. The profits for 1995 have been restated to show the effects of adopting the Investment Trust SORP.
2. The profits for 1996 are after an exceptional cost of £2,060,000 (£1,380,000 after tax).

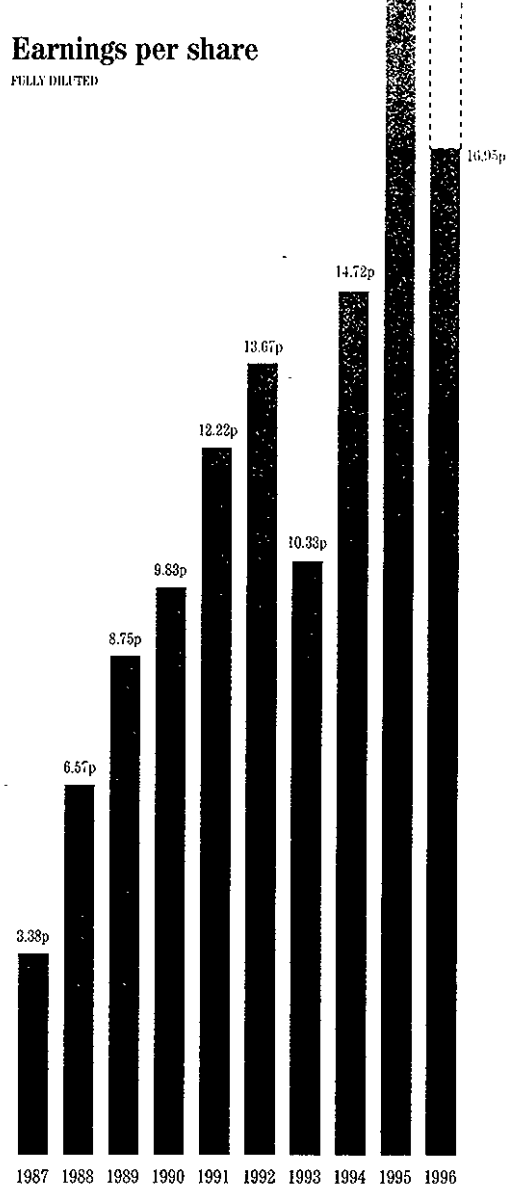
TEN-YEAR RECORD - CONTINUED

Net Dividend per share



Earnings per share

FULLY DILUTED



	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Net Dividend per share	3.00p	4.50p	7.00p	8.50p	9.50p	10.25p	11.00p	12.25p	13.25p	15.0p
Earnings per share:										
Basic	3.58p	6.90p	9.03p	10.20p	12.69p	14.09p	10.64p	15.24p	20.03p	17.67p
Fully diluted	3.38p	6.57p	8.75p	9.83p	12.22p	13.67p	10.33p	14.72p	19.35p	16.95p

Notes

1. The earnings per share for 1995 have been restated to show the effects of adopting the Investment Trust SORP.
2. The earnings per share (fully diluted) for 1996 are after an exceptional cost of 8.8p (5.9p after tax).

THE EXECUTIVE TEAM



P.G. Symonds FCA
INVESTMENT DIRECTOR

Mr Symonds joined Candover in January 1983 and was appointed a director of Candover Partners Limited on 7th February, 1995 and of Candover Services Limited and other Candover subsidiaries on 16th October, 1996. After qualifying as a Chartered Accountant in 1976 with Peat, Marwick, Mitchell & Co he spent seven years in various aspects of professional practice.

In addition to his duties as an investment executive with responsibility for a number of Candover's investee companies Mr Symonds also has responsibility for various accounting and administrative functions within Candover. Mr Symonds is 45.



C.J. Buffin ACA
INVESTMENT DIRECTOR

Mr Buffin joined Candover in September 1985 and was appointed a director of Candover Partners Limited on 7th February, 1995. After qualifying as a Chartered Accountant in 1984 with Deloitte Haskins & Sells he spent two years in the Investigations and Corporate Finance Departments. Mr Buffin has been responsible for a number of transactions some of which have led to Stock Exchange

listings, including the buy-outs of Motor World Group PLC and Midlands Independent Newspapers plc (of which he is a non-executive director) and other more recent deals including the buy-out from the Government of Eversholt Holdings Limited. Mr Buffin is 39.



M.S. Gumienny ACA
INVESTMENT DIRECTOR

Mr Gumienny joined Candover in January 1987 and was appointed a director of Candover Partners Limited on 7th February, 1995. After qualifying as a Chartered Accountant with Price Waterhouse he spent 15 months on secondment in the Price Waterhouse Training Department before transferring to Price Waterhouse Bahrain for 12 months. Mr Gumienny has been involved in a number of deals including Lowndes

Lambert Group Holdings plc, Gaymer Group Europe Limited, Fishers International plc, Economic Insurance Company Ltd and Shepperton Holdings Limited, the buy-outs of which he led. Mr Gumienny is a non-executive director of Fishers International plc, Provend Services plc, Camden Motors Limited and Shepperton Holdings Limited. Mr Gumienny is 38.



S.N.A. Leefe ACA
INVESTMENT EXECUTIVE

Mr Leefe joined Candover in January 1992 after qualifying with Arthur Andersen & Co in 1990. He gained experience in a number of areas including Corporate Recovery. Mr Leefe has been involved in a number of deals including the buy-outs of Vero Group plc, Bibby & Baron Group Limited, Midlands Mining Limited and Druid Group plc which obtained a Stock Exchange listing

in November 1996. Mr Leefe is a non-executive director of Druid Group plc and Midlands Mining Limited. Mr Leefe is 31.



M.N. Calderbank MBA
INVESTMENT EXECUTIVE

Mr Calderbank joined Candover in October 1995 from the management consultancy firm of McKinsey & Co., where he had been working as a consultant on a number of corporate projects. Prior to that he had achieved an MBA from the Harvard Business School in 1993. At Candover he has been involved in investments in Cork Industries Limited and, since the year end, Castle

Transmission Services (Holdings) Limited (The BBC Home Service Transmitters Network) and MC International, where he is a non-executive director. Mr Calderbank is 30.



J.M. Delano ACA
INVESTMENT EXECUTIVE

Mr Delano joined Candover in January 1997. After qualifying as a Chartered Accountant with Price Waterhouse in 1991, he spent three years working in corporate finance and recovery and a further two years on secondment to the Structured Finance Department of the Bank of Scotland where he gained experience in a number of buy-out transactions. Mr Delano is 31.



P.R. Neal ACIS
COMPANY SECRETARY

Mr Neal joined Candover in October 1990 as Company Secretary. He has been Company Secretary or Assistant Company Secretary to a number of companies in shipping, insurance and stockbroking and prior to joining Candover was Assistant Company Secretary of The Great Universal Stores plc. Mr Neal qualified as a Chartered Secretary in 1981. In addition to his

duties as Company Secretary Mr Neal manages many of the administrative functions of the company as well as being the company's compliance officer. Mr Neal is 47.



T. Tan ACA CPA
FINANCIAL CONTROLLER

Ms Tan joined Candover in September 1990 after qualifying as a Chartered Accountant in 1979 with Grant Thornton. She spent three years in the United States where she qualified as a Certified Public Accountant before returning to the Audit Department in London. Ms Tan manages the accounts of Candover and the various Candover Funds. Ms Tan is 43.

THE BOARD OF DIRECTORS



C.R.E. Brooke MA
CHAIRMAN, NON-EXECUTIVE

Mr Brooke was Chief Executive of Candover from its formation in 1980 and was appointed Chairman on 1st January, 1991. At the AGM in May 1995 he became part time Chairman and with effect from February 1996 he became non-executive Chairman. In 1966 he was appointed Deputy Managing Director of the Industrial Reorganisation Corporation and from 1969 to 1971 he was Managing Director of Scienta SA which was involved in investments in small and medium sized advanced technology businesses in Europe. He was a director of Pearson Group for eight years and in June 1979 was appointed Group Managing Director of EMI, leaving the company in February 1980 after its merger with Thorn. He is also a non-executive director of Slough Estates plc, Lambert Fenchurch Group plc, Tarmac plc, Wembley plc and various unquoted companies, and Chairman of Innisfree Management Ltd. In December 1995 he was appointed Chairman of the Audit Commission. Mr Brooke is 66.



S.W. Curran FCCA
CHIEF EXECUTIVE

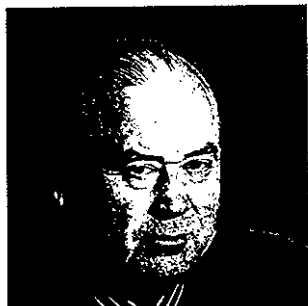
Mr Curran was appointed Chief Executive on 1st January, 1991 having previously been Deputy Chief Executive and a director of Candover since July 1982. Prior to joining Candover in May 1981, he was a managing consultant with Coopers & Lybrand Associates and then an Investment Manager with what is now CIMCo. He is a non-executive director of Greggs plc, Jarvis Hotels plc and a number of unquoted companies. Mr Curran is 54.



G.D. Fairservice Bsc MBA
DEPUTY CHIEF EXECUTIVE

Mr Fairservice joined Candover in March 1984, was appointed to the Board in July 1986 and was made Deputy Chief Executive on 1st January, 1991. Before joining Candover, Mr Fairservice was eight years with ICFC (3i) followed by two years with the British Technology Group (now BTG plc). He is a non-executive director of Kenwood Appliances plc, BTG plc, Stores plc, Vero Group plc and several unquoted companies. Mr Fairservice is 49.

THE BOARD OF DIRECTORS - CONTINUED



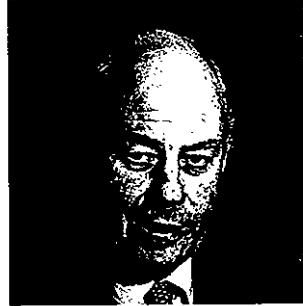
A.P. Hichens MA MBA *
DEPUTY CHAIRMAN, NON-EXECUTIVE

Mr Hichens joined the Board of Candover in December 1989 and was appointed Deputy Chairman of the company with effect from 1st January, 1991. He is Chairman of Caradon plc, and Deputy Chairman of Courtaulds Textiles plc and Lasmo plc. He is also a non-executive director of Greenfriar Investment Company Plc, The British Coal Corporation, London Insurance Market Investment Trust Plc and The Fleming Income & Capital Investment Trust Plc. He was previously a managing director and chief financial officer of Consolidated Gold Fields. Mr Hichens is 60.



R.A.P. King*
NON-EXECUTIVE

Mr King was appointed to the Board of Candover in July 1981 and is Chairman of KBW Limited, a computer software company which he founded in 1992. Prior to that he was Chairman of Majestic Films International, which he founded in 1988. Mr King is 62.



P.J. Scott Plummer FCA §
NON-EXECUTIVE

Mr Scott Plummer was appointed to the Board of Candover in December 1985. He was appointed Chief Executive of Martin Currie Ltd on 1st April, 1996 and is a director of its subsidiary, Martin Currie Investment Management Ltd, the managers of The Scottish Eastern Investment Trust Plc, on which Board he also serves. He was previously a partner of Cazenove & Co from 1974 to 1980 and has had many years experience in the investment field. Mr Scott Plummer is 53.

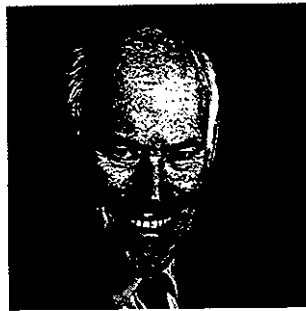
* Member of the Remuneration Committee

§ Member of the Audit Committee



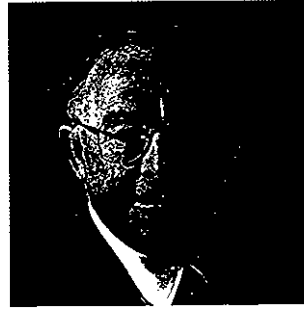
J.G. West FCA* §
NON-EXECUTIVE

Mr West who was appointed to the Board of Candover in December 1985 is a former Managing Director of Lazard Brothers and Chief Executive of Lazard Investors. He was previously Managing Director of Globe Investment Trust Plc. He is Chairman of Gartmore Micro Index Trust plc, and a non-executive director of Abtrust New Dawn Investment Trust plc, British Assets Trust plc, Bensons Crisps plc, Middlesex Holdings plc and various unquoted companies. Mr West is 49.



J.M. Ralsman CBE*
NON-EXECUTIVE

Mr Ralsman was appointed to the Board of Candover in July 1990. Until March 1985 he was the Chairman and Chief Executive of Shell UK Limited and retired in October 1991 from the post of Deputy Chairman of British Telecom plc. He was non-executive director of Glaxo Holdings plc until October 1990 and non-executive director of Vickers plc until December 1990. He is Chairman of British Biotech plc, and a non-executive director of Lloyds TSB plc and Tandem Computers Ltd. He is also Chairman of the Council for Industry and Higher Education and Deputy Chairman of the National Commission on Education. Mr Ralsman is 67.



D.R. Wilson FCA §
NON-EXECUTIVE

Mr Wilson was appointed to the Board of Candover in May 1994. He is Chief Executive of Slough Estates plc, one of the UK's largest investment property companies, where he had previously been Group Managing Director, and before that, Finance Director. Prior to joining Slough in 1986 he held senior appointments at Cadbury Schweppes PLC and Wilkinson Match Limited. He qualified as a chartered accountant with Deloitte Haskins & Sells in London and Geneva. He is a non-executive director of Westbury plc. Mr Wilson is 52.

CHAIRMAN'S STATEMENT



Roger Brooke

I am pleased to report a substantial increase in Candover's net assets and profits before tax and exceptional items during 1996.

Once again, the main reason for this net asset growth was the achievement of a series of successful realisations. Three companies, Jarvis Hotels, Druid Systems and Provend Services, were floated on the London Stock Exchange and four were sold to other companies on terms which yielded substantial capital gains. All the investments made by the 1989 Fund have now been effectively realised and overall the Fund will have produced an attractive return to the institutions which participated - and one which compares well with other funds of the same vintage. It should be remembered that during the life of the Fund, companies had to cope with a long and deep recession and the fact that the Fund nevertheless did so well is a tribute in particular to the managers we backed.

Since the year end we have made the first sale of a company in which Candover invested alongside the Candover 1994 Fund, namely Eversholt Leasing. This sale produced a large capital gain (incorporated in the 1996 net asset valuations) and represents an encouraging start for the Fund.

1996 also saw a major increase in the level of investments made by Candover and the two active associated funds which we manage. We led five large buy-outs and buy-ins and these, together with a number of small follow-on investments in our portfolio companies, produced a total investment amount of over £120 million. Candover's share of this was £32 million, the 1994 Fund's share was £87 million and the 1991 Fund's £4.6 million. This amount was the largest by a considerable margin ever invested by Candover and its associated funds in one year. Since the year end, we have completed two further major transactions, the purchase of the BBC Home Service Transmitters Network and our first significant buy-out in France, MC International.

RESULTS FOR 1996

As was reported in September this year, the Board has decided to implement the proposals made by the Association of Investment Trust Companies in its Statement of Recommended Practice (SORP) relating to the Financial Statements of Investment Trust Companies ("ITCs") issued in December 1995. Under the SORP expenses and interest attributable to capital may be charged to capital account with the effect that revenue profits will increase at the expense of capital profits. The Board considered that this treatment provided a more accurate reflection of the relative contribution to the Company of capital gains as against revenue profits and accordingly the 1995 figures have been restated to take account of this change in accounting policy.

A further recommendation of the SORP was for ITCs to produce a Statement of Total Return in place of the Profit and Loss Account, the aim of which is to show the total return to shareholders over the year by combining both the net capital gains and profits after taxation but before dividends.

The first Statement of Total Return produced for the year to 31st December, 1996 shows Candover as having achieved a total return of 187.6p per share, before the payment of a dividend, which is an 86% increase on last year's total return of 100.9p.

At 31st December, 1996 the net assets attributable to the ordinary shares, after including current asset investments at market or directors' valuations, less attributable taxation, were £142,453,000 as against £103,798,000 at 31st December, 1995, an increase of 37%. Net assets per share were 635p compared with 464p at 31st December, 1995. At 30th June, 1996, the net asset value per share was 524p. The rise of 37% is to be compared with an increase of 12% for the year in the FTSE All-Share Index.

After restating last years figures, profits before tax and exceptional costs rose 13% to £7,449,000 compared with £6,563,000 in 1995. After the exceptional cost of £2,060,000 incurred in making an out of court settlement of certain U.S. litigation, as previously reported, the profit before tax for the year was £5,389,000 as compared to the previous year's total of £6,563,000.

The valuation of fixed asset investments is £90,617,000 (1995: £54,170,000) after taking into account downward adjustments of £2,626,000 made to reflect the underperformance of some companies, as well as an increase of £642,000 over the year in the market value of shares held in those of our investee companies which have obtained listings on the Stock Exchange. At the year end, our cash and liquid assets totalled £53,703,000, a rise of £2,154,000 during the year. The listed shares at the year end totalled £18,184,000, representing 13% of our net assets.

The performance statistics of the Association of Investment Trust Companies ("AIRC") showed that over the ten years from 1st January, 1987 to 31st December, 1996, assuming that all net dividends were reinvested, the value of an investment in Candover shares grew more, by a significant margin, than an investment in any other AIRC member investment trust included in the FTSE All-Share Index. Over those ten years, Candover's net assets rose by 22% per annum compound as compared with an increase of 9% per annum in the FTSE All-Share Index.

DIVIDENDS

At the half year your Board decided to put up the dividend from 4.5p per share to 4.75p per share. In the light of the profit improvement (before exceptional costs) for the full year, and the company's strong cash position, the Board has decided to recommend an increase in the final dividend from 8.75p to 10.25p. This gives a dividend total for the year of 15.0p against 13.25p the previous year, an increase of 13%. Payment of the dividend will be made on 22nd May, 1997 to holders on the Register at 18th April, 1997.

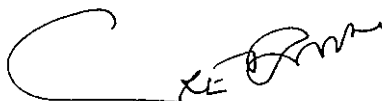
BOARD AND STAFF

Since the year end we have recruited two new members of the executive team, reflecting the Company's increased activity, particularly in analysing, completing and monitoring investments and in helping to negotiate realisations. The record results in 1996 are a tribute to the dedication and hard work of all the staff at a time when the size and number of our investments have been growing strongly.

FUTURE PROSPECTS

The level of Candover's activities in 1996 and the early months of 1997 contrasted sharply with the previous few years when our investment rate had been less than I expected. When large groups are disposing of divisions in Britain it is now normal practice to approach financial buyers, such as Candover, as well as potential trade purchasers, and this will probably become increasingly the practice in the main Continental European markets. The performance of the British economy has continued to improve steadily and this progress seems likely to continue. The fact that the main political parties appear to be broadly in agreement on the importance of encouraging free markets and enterprise suggests that whatever the outcome of the forthcoming election, opportunities for buy-outs and buy-ins will continue. Candover has consolidated its position as a leader in its field, particularly in implementing large transactions. According to the league table published by *Acquisitions Monthly* on 6th February, 1997, Candover completed buy-outs and buy-ins during 1996 with a greater combined value than any other comparable company in the UK. I believe that our record over many years in earning good returns for those investing with us will encourage institutions to support us further in the future. For these reasons, although the rate of asset growth achieved in 1996 is unlikely to be matched in the short term, I remain generally optimistic of the Company's future prospects.

Roger Brooke
Chairman



27th March, 1997

CHIEF EXECUTIVE'S REPORT

ACTIVITIES IN 1996



Stephen Curran

Five major investments were made during the year by Candover together with the 1991 and 1994 Funds, plus a number of smaller follow-on investments. The first was in Eversholt Leasing, one of the three rolling stock leasing companies sold by the Government early in the year. The second was in a new engineering group, Cork Industries, comprising companies bought from Wellman plc and other groups. The third was in Midlands Mining, a company which operates two large coal mines in the Midlands area. The fourth was in Camden Motors, a successful car dealer with a leadership position in the company car fleet sector. The fifth was in Newmond, a group of companies purchased from Williams Holdings plc and operating mainly in the building products and supplies sector. All these investee companies have made encouraging early progress and one, Eversholt, has already been realised.

The total which Candover itself invested in these various transactions during the year was £32 million, the largest amount so far invested by the company in a single year.

In the early part of 1997, Candover and the 1994 Fund have together invested in BBC Home Service Transmitters (£6 million from Candover and £21 million from the 1994 Fund), which comprises the transmitter network in the UK previously owned by the BBC and where we have made the investment in partnership with US and French companies with particular relevant expertise. We believe the company to be well placed to take advantage of the changes in the trends of both television and telecommunications towards digital transmission. The second investment (£1.5 million from Candover and £5 million from the 1994 Fund) was in M.C. International, a French company with a leadership position in the design, production and installation of refrigeration equipment, mainly for supermarkets. This is our first substantial French investment made in partnership with Chevrillon Philippe and with the support of Ciclad Investissements, with whom we have had a successful and profitable relationship since 1988.

In general, the performance of our portfolio companies in 1996 was satisfactory, most of them benefiting from the steady progress of the UK economy.

REALISATIONS

Once again we saw a major series of successful realisations during the year. Three companies floated on the London Stock Exchange - Jarvis Hotels, Druid Systems and Provend Services. Four companies were sold during the year - Blue Arrow Personnel Services, Bibby & Barron, Economic Insurance and Intermotor, all achieving substantial capital gains both for Candover and the funds involved. The single largest gain was achieved by Jarvis Hotels which, thanks to the outstanding performance of the management, had successfully traded through the recession, outperforming most of its competitors. The same can be said of the management of Provend Services who were able to build up the business despite weak consumer demand and are now benefiting strongly from the recovery in this demand in the UK. Druid Group plc showed great skill in managing the rapid development of their specialist consultancy business and the business which we acquired in December 1993 for £3.0m is now capitalised on the Stock Exchange at over £100m. We made a substantial gain on our investment, the multiple being 11.4 times our original cost of £1.5 million.

All the companies which were sold had also traded successfully through the recession and the values obtained at their sale provided a good recognition of and reward for the efforts of their management. In total, at their listing prices, the companies floated in 1996 achieved gains of £7.1 million for Candover and £63.4 million for the Funds involved. The companies sold produced gains of £1.7 million for Candover and £19.3 million for the Funds.

CHIEF EXECUTIVE'S REPORT - CONTINUED

In February 1997, Eversholt Leasing was sold to Forward Trust Limited. The company had made excellent progress since the purchase in February 1996 and the sale produced a gain of \$22.4 million to Candover and \$81.8 million to the 1994 Fund. This gain has been incorporated in the Candover balance sheet at 31st December, 1996.

OVERSEAS ACTIVITIES

I have reported above the first direct investment in France which has emerged from our working relationship with Chevrillon Philippe. Also in France, Ciclad Investissements, in which we have an interest, continued to make good progress and the Cambria Fund in Italy made one new investment and a successful realisation. LGV-Candover, the company which we jointly own in Germany, is seeing an increased flow of new propositions. Lombard has been successful in attracting a substantial amount of funds under management and in February 1997 successfully sold the Radio Fund in which we had invested \$3.5 million, realising a profit of \$1.7 million for Candover.

FUNDS

THE HOARE CANDOVER EXEMPT FUND

THE ELECTRA CANDOVER DIRECT INVESTMENT PLAN

THE CANDOVER 1987 FUND

The Hoare Candover Exempt Fund has now been formally terminated and the Electra Candover Direct Investment Plan has been almost fully realised. During the year, the flotation of Provend produced a capital gain of \$2.9m for the 1987 Fund and we continue to expect that there will be further realisations among the eight investments remaining in that Fund in the reasonably near future.

THE CANDOVER 1989 FUND

As reported by the Chairman, all of the investments in this Fund have now been effectively realised. We expect to make arrangements, probably in 1997, to deal with some minor residual assets so that the Fund can be formally terminated.

THE CANDOVER 1991 FUND

Two investments were made by the Fund during the year and three successful realisations were achieved (Bibby & Baron, Intermotor and Druid Systems), producing total gains for the Fund of \$12.2 million. Of the \$32.5 million (excluding Candover's \$5 million co-investment commitment) originally committed to the Fund, \$26 million has been drawn down for investment. The investment period terminates on 30th April, 1997 (unless extended) and the overall outlook for the Fund's performance remains excellent, with most of the companies in the portfolio performing well.

THE CANDOVER 1994 FUND

As will be seen from this report, 1996 was a very important year for the Fund, with \$87 million being invested in five transactions and a further \$26 million invested in the first months of 1997. This brings the total invested to date to \$135 million which, together with Candover's investment of \$39 million represents 57% of the total of \$307.5 million committed by the limited partners and Candover together. The realisation of Eversholt, which is the first achieved for the Fund, augurs well for the future.



Stephen Curran
Chief Executive

27th March, 1997

REVIEW OF TWENTY LARGEST INVESTMENTS

Investment in Eversholt

<i>Candover's Investment as at 31st December</i>		1996
Railway rolling stock leasing	Cost of Investment	£5,086,000
	Directors' Valuation	£27,504,000
	Effective Equity Interest	7.0%
	% of Candover's Net Assets	19.3%
	Basis of valuation : Price on realisation	

Eversholt was purchased in an open auction from the British Government in February 1996 as part of the Government's privatisation programme of British Rail, and was one of the three rolling stock companies disposed of at that time. Eversholt was, and is, responsible for the maintenance of a number of electric multiple units, electric locomotives and non-powered coaches, which are leased to the various train operating companies.

Candover invested £5.1 million and the Candover 1994 Fund invested £17.7 million in this deal.

Subsequently in February 1997 this company was sold to Forward Trust Limited, a subsidiary of HSBC Holdings plc realising £27.5 million, excluding accrued income, giving a capital gain to Candover of £22.4 million.

Gross dividends received by Candover in the year ended 31st December, 1996 totalled £49,807.

NEWMOND PLC

<i>Candover's Investment as at 31st December</i>		1996
Heating, construction and home products	Cost of Investment	£15,745,000
	Directors' Valuation	£15,745,000
	Effective Equity Interest (fully diluted)	7.2%
	% of Candover's Net Assets	11.05%
	Basis of valuation : Cost	

Newmond is the new name given to a series of businesses bought from Williams Holdings PLC in December 1996. Amongst the businesses purchased are included a number of household names including Rawlplug (fixings), Swish (curtain tracks), Aqualisa (Showers), Amdega (conservatories) and Valor (gas fires). Candover invested £15.7 million in this deal and the Candover 1994 Fund and Candover 1991 Fund invested £34.9 million and £4.3 million respectively.

In view of the short period of time since the buy-out no audited figures are available.

No dividends were received by Candover in the year ended 31st December, 1996.

Candover's Investment as at 31st December

	1996	*1995
Hotel owners and managers		
Cost of Investment	£1,054,000	\$4,159,000
Directors' Valuation	\$4,758,000	\$5,268,560
Equity Interest	1.7%	3.2%
% of Candover's Net Assets	3.3%	4.4%
Earnings per Share (net basis)	9.7p	8.5p
Dividend Cover	n/a	n/a
Basis of valuation : Quoted Market Price		

* The figures for 1995 have been adjusted to include Candover's investment through the Candover 1989 UK Limited Partnership.

Jarvis Hotels, owns and manages a nationwide portfolio of hotels under the Jarvis name offering conference, training and leisure facilities. During the year four new hotels have been added to the portfolio: the Sleep Inn in Nottingham, the Jarvis International at Gatwick, the Heath Hotel and Country Club in Kidderminster, and the Carnarvon Hotel, Ealing.

In June 1996 Jarvis listed on the London Stock Exchange at 175p per share. At the listing price Candover received cash and shares worth £7,197,000 from its direct investment (Cost: £3,624,000), a further £901,000 (Cost: £535,000) from its investment in the Candover 1989 UK Limited Partnership and £5,964,000 from the Candover 1989 Fund carried interest arrangements.

Shortly after the listing Candover sold 3,000,000 Ordinary Shares equal to 1.7% of Jarvis's share capital in a placing organised by SBC Warburg achieving a profit on cost of £4,326,000. Following this placing Candover retains approximately 50% of its original shareholding acquired in the listing.

Profits before interest and tax for the half year to 12th October, 1996 were £15.4 million (after exceptional items arising on flotation) on sales of £61.8 million as against profits of £12.4 million on sales of £53.7 million for the same period last year. In the full year to 30th March, 1996, profits before interest and tax and after including acquisitions were £23.0 million on sales of £101.7 million.

No dividends were received by Candover in the year ended 31st December, 1996 (1995: £43,631).

REVIEW OF TWENTY LARGEST INVESTMENTS - CONTINUED

CORK INDUSTRIES LIMITED

<i>Candover's Investment as at 31st December</i>		1996
Engineering	Cost of Investment	£3,747,000
	Directors' Valuation	£3,747,000
	Effective Equity Interest (fully diluted)	17.02%
	% of Candover's Net Assets	2.6%
	Basis of valuation : Cost	

Cork Industries is a growing group of engineering companies. It is a "leveraged build-up" which commenced with the purchase in June 1996 of Baxter Woodhouse Taylor Limited, an aerospace engineering business, which was followed shortly thereafter with the acquisition of six companies from Wellman plc, and subsequently by the purchase of the eponymous Drum Closures Limited. To date Candover has invested £3.7 million and the Candover 1994 Fund £13.0 million.

No audited figures are available at this time in view of the short period since the initial investment.

No dividends were received by Candover in the year ended 31st December, 1996.

BTG PLC

<i>Candover's Investment as at 31st December</i>		1996	1995
Technology transfer	Cost of Investment	£112,000	£243,000
	Directors' Valuation	£3,288,000	£3,522,000
	Equity Interest	0.9%	1.8%
	% of Candover's Net Assets	2.3%	3.4%
	Loss per Share	(21.96p)	(16.75p)
	Dividend Cover	n/a	n/a
	Basis of valuation : Quoted Market Price		

BTG plc is one of the world's leading specialist technology transfer companies in which Candover invested £240,000 in March 1992 in the buy-out of this company from the Government. BTG identifies commercially promising technology from a broad range of academic and corporate sources which it usually protects by applying for patents and then licenses these products throughout the world. Included among the many technologies presently in its portfolio is "Torotrak", which is an infinitely variable transmission system for motor vehicles; "Factor IX Protein" which can be used in the treatment of haemophilia and which has now been launched in the USA; and "Supertag" which is a low cost tagging system which could ultimately replace bar codes.

On 6th June, 1995, BTG listed on the London Stock Exchange at 225p per share. In December 1996 each ordinary share of 50p was divided into shares of 10p each.

During the year Candover sold 169,446 shares before the share split, achieving a net profit on cost of £2,584,406.

In the six months to 30th September, 1996 BTG showed a profit before interest and tax of £0.03 million on turnover of £12.1 million as against a loss of £2.0 million on turnover of £8.8 million for the same period in the previous year. In the full year to 31st March, 1996 losses before interest and tax were £2.8 million on turnover of £20.7 million.

Gross dividends received by Candover in the year ended 31st December, 1996 totalled £8,250 (1995: £Nil).

LOMBARD NOGALES RADIO PARTNERS, L.P.

<i>Candover's Investment as at 31st December</i>		1996	1995
Radio fund	Cost of Investment	US\$5,410,000	US\$5,327,000
		(£3,505,000)	(£3,451,000)
	Directors' Valuation	US\$5,410,000	US\$5,327,000
		(£3,162,000)	(£3,431,000)
	Effective Equity Interest	16.5%	16.5%
	% of Candover's Net Assets	2.2%	3.3%
Basis of valuation : Cost			

Lombard/Nogales Radio Partners, L.P. is a Fund established in July 1994 which closed with total commitments of US\$40.5 million, of which Candover's total commitment was US\$6.7 million. The Fund invested US\$29.2 million in eight radio stations in four markets on the West Coast of the United States of America, and was managed by Lombard Investments, Inc. of California USA.

On 28th February, 1997, the Fund was sold to a US purchaser from which Candover received a total of US\$8,358,000 (£4,885,000) giving a profit of US\$2,948,000 (£1,723,000).

Due to the timing of the completion of this deal the profits from the sale have not been included in Candover's asset valuations as at 31st December, 1996.

No dividends had been received by Candover during the year ended 31st December, 1996 (1995: £Nil).

DAKOTA, MINNESOTA & EASTERN RAILROAD CORPORATION

<i>Candover's Investment as at 31st December</i>		1996	1995
Railroad operations	Cost of Investment	US\$397,000	US\$363,000
		(£213,000)	(£191,000)
	Directors' Valuation	US\$5,310,000	US\$5,275,000
		(£3,103,000)	(£3,398,000)
	Effective Equity Interest (fully diluted)	14.4%	14.4%
	% of Candover's Net Assets	2.2%	3.3%
Basis of valuation : Multiple of Earnings			

DM&E Railroad, following the purchase in May 1996 of the 203 mile Colony Line, now operates 1,118 miles of track in the mid-Western States of America. During the year DM&E replaced approximately 100 miles of light weight rail with a heavier rail thereby allowing increased track speeds. Candover and the Hoare Candover Exempt Fund made an investment in this company in September 1986 in a transaction organised by Lombard Investments, Inc.

Operating income for the year ended 31st December, 1996 was US\$9.4 million on sales of US\$56.6 million as against US\$8.6 million on sales of US\$45.7 million for the previous year.

No dividends were received in the year ended 31st December, 1996 (1995: £Nil).

REVIEW OF TWENTY LARGEST INVESTMENTS - CONTINUED

EUROPEAN RAIL CATERING SERVICES LIMITED

<i>Candover's Investment as at 31st December</i>		1996	1995
Railway catering services	Cost of Investment	£1,565,000	\$1,565,000
	Directors' Valuation	£2,508,000	\$1,565,000
	Effective Equity Interest (fully diluted)	10.5%	10.5%
	% of Candover's Net Assets	1.8%	1.5%
	Basis of valuation : Multiple of Earnings		

European Rail Catering Services was the subject of a buy-out of the on-board catering services of British Rail in a deal led by Candover in October 1995, in which Candover invested £1.6 million and the Candover 1994 Fund invested £5.4 million.

Profits before interest and tax for the year ended 31st March, 1996 were £1.0 million on sales of \$21.1 million.

Gross dividends received by Candover during the year ended 31st December, 1996 totalled £79,878 (1995: £Nil).

MIDLANDS MINING LIMITED

<i>Candover's Investment as at 31st December</i>		1996
Coal mining	Cost of Investment	£2,485,000
	Directors' Valuation	£2,485,000
	Effective Equity Interest (fully diluted)	17.02%
	% of Candover's Net Assets	1.7%
	Basis of valuation : Cost	

Midlands Mining was a buy-out from the Administrators of the Coal Investments Group in June 1996 of the Silverdale mine in Newcastle-under-Lyme and the Annesley Bentinck mine in Nottinghamshire. The Candover 1994 Fund originally invested £13.3 million and Candover itself invested £3.8 million in this deal. As a result of a strong cash flow performance, £4.7 million has already been repaid to the Candover 1994 Fund and £1.3 million to Candover.

In view of the short period of time since the buy-out no audited figures are available.

No dividends were received by Candover in the year to 31st December, 1996.

<i>Candover's Investment as at 31st December</i>		1996
Motor dealership	Cost of Investment	£2,284,000
	Directors' Valuation	£2,284,000
	Effective Equity Interest (fully diluted)	9.6%
	% of Candover's Net Assets	1.6%
	Basis of valuation : Cost	

Camden is the 15th largest motor retailer in the UK and operates a multi-franchise network covering Ford, Vauxhall, Peugeot, Rover, Renault, Nissan, Volkswagen, Audi and Honda.

The buy-out of Camden from Barclays Bank plc was completed in November 1996 in which Candover invested £2.3 million and the Candover 1994 Fund invested £7.9 million.

In view of the short period of time since the buy-out no audited figures are available.

No dividends were received by Candover in the year ended 31st December, 1996.

SHEPPERTON HOLDINGS LIMITED

<i>Candover's Investment as at 31st December</i>		1996	1995
Film studios	Cost of Investment	£1,456,000	£1,456,000
	Directors' Valuation	£2,182,000	£1,456,000
	Effective Equity Interest (fully diluted)	10%	10%
	% of Candover's Net Assets	1.5%	1.4%
	Basis of valuation : Multiple of Earnings		

Shepperton Studios, in which Candover and the Candover 1994 Fund invested £6.4 million in February 1995, is a major film and TV studio complex. Films recently produced include "101 Dalmatians", "Hamlet" and "Evita" and presently in production is "Lost in Space". In addition, production work continues on a range of film and TV advertisements.

Profits before interest and tax for the period 1st November, 1994 to 31st December, 1995 were £1.9 million on sales of £8.7 million.

Gross dividends of £91,575 were received by Candover in the year ended 31st December, 1996 (1995: £44,802).

REVIEW OF TWENTY LARGEST INVESTMENTS - CONTINUED

<i>Candover's Investment as at 31st December</i>		1996	1995
Chemicals	Cost of Investment	£1,901,000	£1,901,000
	Directors' Valuation	£1,901,000	£1,901,000
	Effective Equity Interest (fully diluted)	5.7%	6.2%
	% of Candover's Net Assets	1.3%	1.8%
	Basis of valuation : Cost		

BIP Group Limited, in which Candover and the Candover 1994 Fund invested £8.5 million in October 1995, produces a wide range of moulding materials and speciality resins which are marketed to a wide range of customers with diverse end-user applications, including "metal paint", paper and textiles.

No audited figures are presently available for the period since the buy-out but are expected shortly.

No dividends were received by Candover during the year ended 31st December, 1996 (1995: £Nil).

STOVES PLC

<i>Candover's Investment as at 31st December</i>		1996	1995
Manufacturers of cookers	Cost of Investment	£11,000	£35,000
	Directors' Valuation	£1,797,000	£5,457,000
	Effective Equity Interest (fully diluted)	2.6%	8.4%
	% of Candover's Net Assets	1.3%	5.3%
	Earnings per Share	14.2p	14.2p
	Dividend Cover	2.7x	* 3.1x
	Basis of valuation : Quoted Market Price		

*based upon the notional dividend set out in the listing prospectus.

Stoves, which is an independent cooker manufacturer based in Prescot, Merseyside, was the subject of a buy-in supported by Candover and the 1987 Fund in May 1989 and listed on the London Stock Exchange on 21st June, 1995 at 163p per share.

During the year Candover sold 1,449,000 shares producing a net profit on cost of £3,749,000.

The half year results to 30th November, 1996 showed profits before interest and tax of £2.4 million on sales of £39.8 million against £1.5 million on sales of £27.9 million for the same period last year. Profits for the full year to 31st May, 1996 were £4.4 million on sales of £63.0 million.

Gross dividends received by Candover during the year ended 31st December, 1996 were £81,789 (1995: £132,543).

REVIEW OF TWENTY LARGEST INVESTMENTS - CONTINUED

VERO GROUP PLC			
<i>Candover's Investment as at 31st December</i>		1996	1995
Manufacturer of specialist racking and related products for the electronics and telecommunications industries	Cost of Investment	£24,000	£38,000
	Directors' Valuation	£1,766,000	\$4,450,000
	Effective Equity Interest (fully diluted)	1.7%	2.7%
	% of Candover's Net Assets	1.2%	4.3%
	Earnings per Share	14.4p	12.8p
	Dividend Cover	2.5x	n/a
	Basis of valuation : Quoted Market Price		

VERO Group PLC manufactures a range of specialist racking and related products mainly for the telecommunications networking and general electronics industries.

VERO listed on the London Stock Exchange on 17th November, 1995 at a price of 220p per share. Although the share price has dropped substantially, VERO's results continue to show steady progress.

During the year Candover sold a total of 600,000 shares producing a net profit on cost of £1,370,000.

Profits before interest and tax for the year to 31st December, 1996 were £14.2 million on sales of £106.1 million compared with profits of £9.7 million, after exceptional costs of £3.2 million, on sales of £97.2 million for the previous year.

Gross Dividends received by Candover in the year to 31st December, 1996 totalled £25,749 (1995: £Nil).

PROVEND SERVICES PLC

<i>Candover's Investment as at 31st December</i>		1996	1995
Vending services	Cost of Investment	£32,000	£392,000
	Directors' Valuation	£1,756,000	\$495,000
	Effective Equity Interest (fully diluted)	7.5%	8.3%
	% of Candover's Net Assets	1.2%	0.5%
	Basis of valuation : Quoted Market Price		

Provend, through its vending division, is one of the leading independent national suppliers of vending services in the UK. In addition its supplies division is one of the largest suppliers of ingredients, cups, catering and hygiene supplies to commercial and work place sites and to the hotel and outdoor catering sectors.

Provend was originally a buy-out from Sketchley plc in July 1991 in which Candover and the Candover 1987 Fund together invested £1.7 million.

On the 18th November, 1996, Provend listed on the London Stock Exchange at a price of 125p per share at which price Candover's investment was valued at £1,980,000.

Interim results to 29th December, 1996 showed profits before interest and tax of £1.1 million on sales of £26.0 million compared with £0.5 million on sales of £22.2 million for the same period last year. Figures in the listing prospectus showed profits before interest and tax for full year to 30th June, 1996 of £2.0 million on sales of £45.8 million.

No dividends were received by Candover during the year ended 31st December, 1996 (1995: £Nil).

REVIEW OF TWENTY LARGEST INVESTMENTS - CONTINUED

MIDLANDS INDEPENDENT NEWSPAPER PLC

<i>Candover's Investment as at 31st December</i>		1996	1995
Regional daily and weekly newspaper group	Cost of Investment	£15,000	£23,000
	Directors' Valuation	£1,193,000	£1,632,000
	Equity Interest	0.5%	0.9%
	% of Candover's Net Assets	0.8%	1.6%
	Earnings per share	5.22p	7.91p
	Dividend Cover	1.4x	2.3x
	Basis of valuation : Quoted Market Price		

Midlands Independent Newspapers, which listed in March 1994, is one of the major regional newspaper publishers in the UK and the leading newspaper publisher in the Midlands and publishes a range of newspaper titles which includes, The Birmingham Post, The Birmingham Evening Mail, The Sunday Mercury and The Coventry Evening Telegraph in a portfolio of six paid for and 33 free titles. It also publishes controlled business distribution magazines and organises related industry exhibitions.

During the year Candover sold 416,000 shares in Midlands realising a net profit on cost of £527,000.

Midland's results for the year ended 31st December, 1996 showed profits before interest and tax of £16.1 million, before an exceptional write-off of £4.6 million, on sales of £113.9 million compared with profits of £19.1 million on sales of £98.3 million for the previous year.

Gross dividends received by Candover in the year to 31st December, 1996 totalled £48,337 (1995: £67,593).

KELLER GROUP PLC

<i>Candover's Investment as at 31st December</i>		1996	1995
Specialist contractors in building foundations	Cost of Investment	£4,000	£14,000
	Directors' Valuation	£967,000	£2,793,000
	Equity Interest	0.9%	3.5%
	% of Candover's Net Assets	0.7%	2.7%
	Earnings per share	13.9p	11.7p
	Dividend Cover	2.4x	2.2x
	Basis of valuation : Quoted Market Price		

Keller, which listed in May 1994, is a leading international specialist contractor providing a range of services in the area of building foundation support, speciality grouting, underpinning, ground retention, groundwater control and seismic protection.

During the year Candover sold 1,426,000 shares in Keller which produced a net profit on cost of £2,254,000.

Profits before interest and tax for the year ended 31st December, 1996 were £12.8 million on sales of £234.7 million, compared with profits of £11.5 million on sales of £218.9 million for the previous year.

Candover received gross dividends of £74,700 in the year to 31st December, 1996 (1995: £156,000).

REVIEW OF TWENTY LARGEST INVESTMENTS - CONTINUED

HEIDEMANN, located in Einbeck, near Hanover, is engaged in the manufacture of special automotive components and electroplating.

<i>Candover's Investment as at 31st December</i>		1996	1995
Automotive components manufacturer	Cost of Investment	DM3,231,000	DM3,321,000
		(£1,099,000)	(£1,099,000)
	Directors' Valuation	DM2,346,000	DM2,346,000
		(£890,000)	(£1,056,000)
	Effective Equity Interest (fully diluted)	9.5%	9.5%
	% of Candover's Net Assets	0.6%	1.0%
Basis of valuation : Multiple of Earnings			

Heidemann, located in Einbeck, near Hanover, is engaged in the manufacture of special automotive components and electroplating.

Profits before interest and tax for the year ended 31st January, 1996 were DM 9.1 million on sales of DM 161.0 million, compared with profits of DM 8.0 million on sales of DM 134.0 million for the previous year.

No dividends were received by Candover in the year ended 31st December, 1996 (1995: £Nil).

ALBION AUTO INDUSTRIES LIMITED

<i>Candover's Investment as at 31st December</i>		1996	1995
Automotive components manufacturer	Cost of Investment	£1,453,000	£1,453,000
	Directors' Valuation	£726,000	£1,453,000
	Effective Equity Interest (fully diluted)	5.3%	5.3%
	% of Candover's Net Assets	0.5%	1.4%
	Basis of valuation : Cost less provision		

Albion Auto Industries is principally engaged in the manufacture and assembly of truck, van and bus axles, crankshafts and vehicle and engine components, and was the subject of a buy-out from Leyland vehicles led by Candover in July 1995 in which Candover and the Candover 1994 Fund invested £6.5 million.

Profits before interest and tax for the period 7th July, 1995 to 31st March, 1996 were £0.7 million on sales of £49.2 million.

Gross dividends received by Candover during the year ended 31st December, 1996 totalled £69,543 (1995: £Nil).

ALUPAC HOLDING, INC

<i>Candover's Investment as at 31st December</i>		1996	1995
Packaging materials	Cost of Investment	US\$204,000	US\$204,000
		(£121,000)	(£121,000)
	Directors' Valuation	US\$1,189,000	US\$1,189,000
		(£695,000)	(£766,000)
	Effective Equity Interest (fully diluted)	16.5%	15.3%
	% of Candover's Net Assets	0.5%	0.7%
Basis of valuation : Multiple of Earnings			

Alupac is a manufacturer of packaging materials based in Belpre and Caldwell, Ohio, USA in which Candover alone invested in a transaction organised by Lombard Investments Inc.

Profits before interest and tax for the year ended 31st December, 1995 were US\$3.0 million on sales of US\$49.0 million compared with US\$2.5 million on sales of US\$50.2 million for 1994.

No dividends were received by Candover during the year ended 31st December, 1996 (1995: £Nil).

REPORT OF THE DIRECTORS

The directors present their report together with the financial statements for the year ended 31st December, 1996.

PRINCIPAL ACTIVITIES

Candover Investments plc is an investment company within the meaning of Part VIII of the Companies Act 1985 as well as an Investment Trust under section 842 of the Income and Corporation Taxes Act 1988, the tax status of which is shown on page 28.

Candover is engaged in the identification, implementation and monitoring of large management buy-outs and buy-ins. Candover Investments plc makes an investment either under a co-investment agreement with the third party managed Funds or on its own account. The third party managed Funds, established with commitments from a wide range of international institutional investors, are managed by the Candover Group subsidiaries, Candover Partners Limited and Candover Services Limited, both of which are regulated by IMRO. These Funds are as follows:

The Candover 1994 Fund - The 1994 Fund, which replaced the Candover 1989 Fund, closed on 28th February, 1995 with total commitments of £307.5 million including £70 million from Candover under a co-investment agreement. By 31st December, 1996 £109 million had been invested and since the year end, one realisation has been achieved and two further investments made as reported in the Chief Executive's Report on pages 10 and 11.

The Candover 1991 Fund - At its final closing on 30th April, 1992 the fund had £32.5 million available for investment, in addition to Candover's £5 million commitment under a co-investment agreement. By 31st December, 1996 £26 million had been drawn down and £35 million returned in cash and shares to investors, with eight investments remaining in the portfolio. Investors' commitments to this fund will terminate in April 1997, unless extended.

The Candover 1989 Fund - The 1989 Fund closed in June 1989 with £319 million, including £20 million from Candover under a co-investment agreement, for investment in transactions requiring equity in excess of £5 million. By the end of the investment period, which terminated on 11th May, 1994, £235 million had been drawn down, and by 31st December, 1996 effectively all the investments have been realised, with £447 million returned to investors in cash and shares. The fund is due to terminate in May 1997 unless extended.

VALUATION POLICY

..... PRINCIPLES OF VALUATION OF UNLISTED INVESTMENTS

In valuing unlisted investments the Directors follow a number of general principles which are based upon the British Venture Capital Association guidelines for valuing unquoted development stage investments and are set out below:

Investments are stated at amounts considered by the Directors to be a fair assessment of their value, subject to overriding requirements of prudence. All investments are valued according to one of the following bases:

- cost (less any provision required);
- open market valuation;
- earnings multiple; or
- net assets.

Investments are normally valued at cost until the availability of the first set of audited accounts post completion of the investment. Provisions against cost, however, will be made as soon as appropriate in the light of adverse circumstances - for example, where an investment performs significantly below expectations. In exceptional circumstances upward adjustments to cost may be made within one year.

Investments held for more than one year are valued on one of the bases described above and generally the earnings multiple basis of valuation will be used unless this is inappropriate as in the case of certain asset-based businesses. When valuing on an earnings basis, the profit before interest and tax of the current year will normally be used, depending on whether or not more than 6 months of the accounting period remains and provided this can be predicted with reasonable certainty. Such earnings will be adjusted to a maintainable basis, taxed at the full corporation tax rate, and multiplied by a discounted price/earnings multiple. Price/earnings multiples utilised are related to comparable quoted companies and normally discounted by 25%. The discount used may be lower where a realisation is planned within 12 months and higher if the timing of a realisation is long-term or not currently being contemplated.

Where a company has incurred losses, or if comparable quoted companies are not primarily valued on an earnings basis, then the valuation may be calculated with regard to the underlying net assets and any other relevant information, such as the pricing for subsequent investments by a third party in a new financing round which is deemed to be at arms length. In cases where an exit is actively being sought, then any offers from potential purchasers would be relevant in assessing the valuation of an investment and are a factor taken into account in arriving at the valuation.

When investments have obtained an exit (either by listing or trade sale) after the valuation date but before finalisation of Candover's relevant accounts (interim or final), the valuation is based on the exit valuation subject to an appropriate discount to take account of the time period between valuation and exit dates.

In arriving at the value of an investment, the percentage ownership is calculated after taking into account any dilution through outstanding warrants, options and performance related mechanisms.

REPORT OF THE DIRECTORS - CONTINUED

DIVIDEND AND PROPOSED TRANSFER TO RESERVES

The directors recommend the payment of a final dividend of £2,298,000 equal to 10.25p per ordinary share (1995: £1,958,000 equal to 8.75p) giving a total dividend for the year of £3,363,000 equal to 15.00p (1995: £2,965,000 equal to 13.25p). Payment of the dividend will be made on 22nd May, 1997 to holders on the register at the close of business on 18th April, 1997. The dividend details are shown in Note 7 on page 49.

After payment of the dividend, there is a profit of £597,000 in respect of the year ended 31st December, 1996 which the directors propose to carry to reserves. (1995: profit of £1,519,000 carried to reserves).

DIRECTORS

The directors listed below served on the Board throughout the year and were in office at the end of the year.

C.R.E. Brooke*	A.P. Hichens*	J.M. Raisman*
S.W. Curran	D.R. Wilson*	P.J. Scott Plummer*
G.D. Fairservice	R.A.P. King*	J.G. West*

**non-executive*

In accordance with the Articles of Association Messrs A.P. Hichens, G.D. Fairservice and D.R. Wilson will retire by rotation and, being eligible, will offer themselves for re-election.

Of those seeking re-election Mr Fairservice has a service contract and reference is made to the Remuneration Committee Report on page 31.

The biographical details of the serving directors appear on pages 6 to 7.

DIRECTORS' INTERESTS

The statements in respect of directors' interests in the share capital, contracts or any other matter requiring disclosure are contained in the Remuneration Committee Report on pages 31 to 34 and in Note 3 to the Financial Statements on pages 46 and 47.

DIRECTORS' AND OFFICERS' INSURANCE

During the year a contract of insurance existed as referred to in section 310(3)(a) of the Companies Act 1985 as amended for the purpose of indemnifying the directors and officers against liabilities that may arise in the performance of their duties. This contract is due to be renewed in 1997.

REPORT OF THE DIRECTORS - CONTINUED

The Candover 1987 Fund - This Fund was constituted in May 1987 as an authorised Unit Trust with funds of £30 million available for investment in smaller transactions. £27.4 million had been returned to investors by 31st December, 1996 and there will be no new investments, although limited funds are available for follow-on investments if required. The 1987 Fund will terminate in May 1997 unless extended.

The Electra Candover Direct Investment Plan - established in November 1985 with total commitments of £260 million to invest in transactions requiring equity in excess of £10 million. Investors in the Plan were released from their commitments in February 1989 when £213 million had been invested. £319 million has been realised with one investment remaining.

The Hoare Candover Exempt Fund - In March 1984 a total investment of £7.5 million was raised with the assistance of Hoare Govett Limited. The Fund was fully invested by 1986 and a total of £8.2 million has been invested following the reinvestment of some realised funds. By 31st December, 1995 a total of £14.4 million had been realised, with two investments remaining. In February 1993 the Fund was extended for two years and on 1st March, 1995, at an Extraordinary General Meeting of Unitholders, it was resolved to terminate the Fund on 30th June, 1995. The remaining assets of the fund following termination continue to be managed by Candover Services Limited until an exit is achieved.

..... INVESTMENT TRUST SORP

Following the publication of the Statement of Recommended Practice - Financial Statements of Investment Trust Companies ("SORP") which the company has adopted for the year ended 31st December, 1996, the presentation of the financial statements has been changed to conform to the recommendations of the SORP. As permitted under the SORP, management expenses have now been allocated 80% to capital and 20% to revenue. The Board considered that this treatment provided a more accurate reflection of the relative contribution to the Company of capital gains as against revenue profits. Prior year figures have been restated accordingly.

..... RESULTS AND REVIEW OF BUSINESS

After restating last year's figures the group profit for the financial year after taxation, and after exceptional costs of £2,060,000 was £3,960,000 compared with £4,484,000 for the year ended 31st December, 1995. Revenue increased from £11,386,000 to £12,169,000. Administrative expenses, excluding the exceptional cost, were £4,710,000 compared with £4,811,000 in 1995. There were no significant changes in tangible fixed assets during the year and the changes in fixed asset investments are described together with a review of the Group's activities in the Chairman's Statement on page 8 and Chief Executive's Report on page 10.

REPORT OF THE DIRECTORS - CONTINUED

SUPPLIER PAYMENT POLICY

The Company negotiates payment terms with its suppliers on an individual basis, with the normal arrangements being within 30 to 50 days from receipt of invoice.

PEP STATUS

Your Board have again considered the PEP Status of Candover's shares and for the time being consider that a decision to ensure Candover remains eligible for inclusion in a PEP will impose constraints on Candover's investment criteria which will not be in the overall interests of shareholders. This policy will continue to be reviewed from time to time.

AUDITORS

Grant Thornton offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985 and a resolution will be put to shareholders at the Annual General Meeting.

TAX STATUS

The Board of the Inland Revenue has approved the Company as an investment trust, under section 842 of the Income and Corporation Taxes Act 1988, for the year ended 31st December, 1994.

In the opinion of the directors, the Company's affairs since that date have been conducted so as to enable it to continue to seek approval as an investment trust. In addition, they are of the opinion that the Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.



By Order of the Board

P.R. Neal

Secretary

20 Old Bailey
London EC4M 7LN
27th March, 1997

NOTIFIABLE INTERESTS IN THE COMPANY'S SHARES

The Company has been advised of the following notifiable interests in excess of three per cent of the issued share capital of the Company at 27th March, 1997.

	Number	%
Electra Investment Trust plc	2,000,000	8.9
The Scottish Eastern Investment Trust plc	1,875,000	8.4
The Prudential Assurance Co Ltd	1,497,086	6.7
BP Prudential Trustees Limited	1,345,743	6.0
Royal Life Insurance Limited	1,266,000	5.6
London and Manchester Group of Companies	1,119,641	5.0
British Airways Pension Fund	984,666	4.4
	10,088,136	45.0

POLITICAL AND CHARITABLE DONATIONS

During the year £9,791 (1995: £21,938) was given for charitable purposes. There were no political donations made during the year (1995: Nil).

POST BALANCE SHEET EVENTS

Since the year end Eversholt Holdings Limited and Lombard/Nogales Radio Partners, L.P. have been sold and new investments made in M.C. International in France, and Castle Transmission Services (Holdings) Limited. Details are shown in Note 25 on page 58, and in the Chief Executive's report on page 10.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Thursday 15th May, 1997 at 12 noon at the Howard Hotel, Temple Place, London WC2; the Notice of Meeting appears on page 61.

In addition to the Ordinary business of the meeting, as usual, a Special Resolution will be put to shareholders to permit the renewal of the authority of the Directors to issue new shares for cash, without following the statutory pre-emptive procedures, so long as such issue does not exceed £280,264 (being 5% of the issued share capital of the Company) or as long as the issue is a rights issue or is pursuant to a scrip dividend offer or any pre-emptive invitation.

The Company will have regard to the Investor Protection Committees' ("IPC") guidelines in relation to any exercise of this authority. These guidelines require prior consultation with the IPC before making any issue under the 5% element of the authority but which exceeds 7.5% in any rolling three year period. This authority will expire at the next Annual General Meeting or on 15th August, 1998, whichever is earlier.

CORPORATE GOVERNANCE - CONTINUED

As required by the Cadbury Code, Candover clearly separates the responsibilities of the non-executive Chairman, Mr Roger Brooke from those of the Chief Executive Mr Stephen Curran and the membership of the Audit and Remuneration Committees consists solely of non-executive directors.

A list of members of the Board and the Committees is shown on pages 6 and 7.

Going Concern

As required by the Cadbury Code, the directors are required to satisfy themselves that it is reasonable to presume that the Company is a going concern.

After making enquires, the directors are of the opinion that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Board are therefore of the opinion that the going concern basis be continued in the preparation of the financial statements.

Internal Financial Control

The directors are responsible for the Company's system of internal financial control. Although no system of internal financial control can provide absolute assurance against material mis-statement or loss, the Company's system is designed to provide the directors with reasonable assurance that problems are identified on a timely basis and dealt with appropriately. Key procedures that have been established and are designed to provide effective internal financial control are described under the following headings:

Control Environment - As always this is dependent upon the quality and integrity of the Company's management and staff. At Candover highly qualified and able staff have been selected at all levels and, with the long service record of most executives, there is a continuity and enhancement of experience.

This is then supported by the Board, with a majority of non-executive directors, together with external review by two sets of auditors reviewing both the Company's financial controls and also those of the funds which the Candover group manages.

Identification and Evaluation of Business Risk - The key business risk at Candover remains the identification and evaluation of our investments and this is achieved by a comprehensive study of potential investments by executives in co-operation with outside resources provided by market research specialists, lawyers and accountants. A detailed investment report is then prepared and sent to the full Board for their decision as to whether or not to proceed. Further due diligence is then carried out before completion of an investment.

The responsibility for identification of other business risks is delegated to the Executive Directors who would always advise the Board of any material risks.

CORPORATE GOVERNANCE

As in previous years there are certain requirements placed upon the Board of Directors to review and report to shareholders on the management and controls governing the operations of listed companies.

Again this Board has considered the provisions of the Cadbury Committee report on the "Financial Aspects of Corporate Governance", together with the Code of Best Practice ("The Cadbury Code"), and the guidance notes issued in November 1994 for directors of listed companies on "Going Concern and Financial Reporting" and further guidance notes issued in December 1994 on "Internal Control and Financial Reporting".

Furthermore the Greenbury Report, which was issued in July 1995, contained a number of suggested improvements in the reporting by companies of the remuneration of Directors, most of which have now been incorporated into the Stock Exchange Listing Rules. These have also been considered and except where expressly noted, have been implemented by the Board.

In considering all of these issues your Board has reviewed all of the following aspects of good corporate governance and the review of these issues is covered below with suitable cross referencing where appropriate.

The Company has complied throughout the year with Section A of the Best Practice Provisions for Remuneration Committees as annexed to the Listing Rules.

.....The Board of Directors

Corporate Governance of Candover is achieved through the Board which consists of two executive directors and seven non-executive directors. The Board meets monthly and there is a formal schedule of matters reserved for decision by the Board which includes the review of strategy, business planning, the level of commitment to the various Candover Funds of which Candover Partners Limited acts as General Partner, and major acquisitions and disposals which are not part of the investment process of the Candover Funds.

The work of the Board is supported by standing committees which include:

- The Audit Committee, chaired by Mr D.R. Wilson, which seeks to ensure that appropriate accounting and financial policies and procedures are implemented, that systems of internal control and external audit are in place, and that the auditors recommendations are considered and appropriate actions are taken.
- The Remuneration Committee chaired by Mr A.P. Hichens, which determines the level of remuneration of the Chairman, Executive Directors and Senior Executives and advises in respect of staff remuneration policy. The report of the Remuneration Committee is on pages 31 to 34.
- The Nomination Committee chaired by Mr C.R.E Brooke meets as and when necessary for the purpose of selecting non-executive directors. All such appointments, together with the appointment of any executive director are subject to the final approval of the full Board before ratification at a General Meeting of shareholders. The Committee did not meet in 1996.

CORPORATE GOVERNANCE - CONTINUED

The main elements of the remuneration package include the following:

- a) *Basic Annual Salary.*
- b) *Annual performance related payments which include annual bonus and Profit Related Pay Schemes.*
- c) *Share Option incentives.*
- d) *Pensions and other benefits.*
- e) *Other incentive arrangements.*

In considering the appropriateness of the above incentives, Candover participates in an annual remuneration survey of the Venture Capital Industry, the results of which are reviewed by the Committee in the light of Candover's relative performance.

Salaries

Salaries of the Executive Directors and other executives to be paid in 1996 were reviewed by the committee in December 1995 for implementation on 1st January, 1996. After considering the relative salary levels within the industry, the estimated increase in net assets and after tax profits for the year ended 31st December, 1995, the Committee approved an overall increase in basic salaries of 6.6 percent. Following a further interim performance related increase to certain executives during the year, basic executive pay on a like for like basis grew by an overall 10 percent.

As previously reported, the Chairman's salary was substantially reduced with effect from 1st February, 1996 to reflect the non-executive status of his role.

Annual Bonuses

The annual bonuses which are paid in two instalments, are determined by the Committee after due consideration of the profit and net asset performance of the Company at each half year stage, with adjustments as necessary for individual performance.

A Profit Related Pay ("PRP") Scheme is also provided which receives 2.5% of the Company's net profit into the scheme for distribution to all employees. Based on an adjusted profit in accordance with PRP Rules of £3,861,334, a total of £96,533 was payable to staff for the year ended 31st December, 1996.

During the year ended 31st December, 1996 Messrs S.W. Curran and G.D. Fairservice received annual bonuses and PRP together totalling 31% of basic salary. Mr C.R.E. Brooke no longer participates in the bonus or PRP schemes.

Share Options

There are two share option schemes at Candover; the Candover Executive share option scheme which was closed to new grants of options in July 1994 and the Candover (1994) Executive share option scheme approved by shareholders on 3rd May, 1994.

Under the terms of the Candover (1994) Executive share option scheme the exercise of options issued under the scheme are subject to performance criteria which requires Candover's net asset growth over a three year period to exceed the growth of the FTSE All-Share Index over the same three year period.

Control Procedures - The main areas of control relate to the investments which Candover makes and the financial controls which enable the Board to meet its responsibilities for the integrity and accuracy of the Group's accounting records.

The Board delegates responsibility for the effectiveness of such controls to the Executive Directors who in turn ensure compliance with the required procedures. These key procedures involve:

- Analysis of potential investments leading to a full report to the Board.
- Regular monitoring of completed investments by executives who make regular progress reports to the Board.
- A comprehensive system for reporting financial results to the Board on a monthly basis giving actual results compared against budget. Towards the end of each financial year detailed budgets for the following year are prepared and are reviewed by the Board.
- These controls are subject to review by the Audit Committee and by Candover's external auditors to the extent necessary for expressing their audit opinion.

The Board reviewed the effectiveness of the system of internal financial control for the financial year ended 31st December, 1996 and up until the date of signing these accounts.

REPORT OF THE REMUNERATION COMMITTEE FOR THE YEAR ENDED 31st DECEMBER 1996

.....Committee Membership.....

The members of the Committee are shown on page 7. None of the Committee has any personal financial interest in the matters to be decided (other than as shareholders), potential conflicts of interest arising from cross-directorships nor any day-to-day involvement in running the business. The Committee consults the Chairman and Chief Executive about its proposals and has access to professional advice from inside and outside the Company.

..... Objective of the Committee

The aim of the Committee is to ensure that the Company has competitive remuneration packages in place in order to recruit, retain and motivate top quality people in the overall interest of shareholders. In framing their policy the Committee has given full consideration to the provisions of Section B of the Best Practice Provisions annexed to the Listing Rules.

In the year ended 31st December, 1996 no options were granted but 40,000 share options were exercised by certain executives in accordance with the Candover Executive Share Option Scheme rules.

The details of the share options granted and remaining exercisable are shown in Note 17 on page 55.

Pensions and Other Benefits

Candover operates a non-contributory money purchase pension scheme and there were no changes to this arrangement. Contributions in respect of individuals are adjusted annually to reflect increases in salary. Every three years the scheme is subject to actuarial review following which the contribution levels are amended subject to the approval of the Committee. The next actuarial review will be carried out this year based on the three years to 31st December, 1996. The actual amount of contributions made to Directors is shown in Note 3 on page 46.

As previously reported it was agreed to pay as part of Mr Brooke's revised terms of employment on becoming non-executive Chairman, a lump sum amount of £240,000 into Mr Brooke's pension scheme being an amount equal to three years of his revised level of pension contributions at a discounted rate. This amount was accrued in Candover's accounts for 1995, and was paid in 1996 and is included in the statement of pension contributions in Note 3 on page 46.

Whilst there are no further pension contributions payable to the Chairman, the Remuneration Committee agreed that with effect from January 1997 Mr Brooke would agree to sacrifice £50,000 per annum of his salary subject to this amount being paid into a Funded Unapproved Retirement Benefit Scheme. The overall cost to the Company in implementing this arrangement remains unchanged.

There have been no changes to the insurance arrangements. Under the Company Car Scheme, eligible executives are given the option to receive a company car or the equivalent cash benefit.

Incentive Arrangements and Co-investment Scheme

The Committee recognises that, in order to remain competitive in the venture capital industry, various incentive arrangements which are customary in that industry should be made available to directors and executives. These arrangements, which are reviewed by the Committee periodically but not on an annual basis, are considered to fall outside the scope of the disclosures required by the Companies Act and the Stock Exchange Listing Rules. However, the Remuneration Committee has determined that it would be appropriate to refer to these arrangements as part of its report to shareholders.

Messrs C.R.E. Brooke, S.W. Curran and G.D. Fairservice, together with certain other executives of the Company, have a beneficial interest in the Limited Partnerships of the Candover 1989 Fund, the Candover 1991 Fund and the Candover 1994 Fund. Any gains achieved through the arrangements associated with these three Funds are conditional upon a certain minimum return being generated for investors in these Funds.

During the year, £8.5 million in cash and shares in respect of the Candover 1989 Fund was transferred to the Candover Executive Trust, in which units were subscribed for by certain discretionary and life interest trusts of which these directors, a number of other executives and their respective families are the main beneficiaries. Because of the nature of the trusts, it is not possible to allocate this to specific beneficiaries.

Under a co-investment scheme Messrs C.R.E. Brooke, S.W. Curran and G.D. Fairservice, together with certain other executives, are permitted to make an investment in the ordinary equity of all the companies in which Candover has also made an investment in the equity and loan capital. As in previous years the amounts invested by directors during the year are shown under Note 3 on page 46.

During the year there were no changes to the above arrangements.

.....**Directors' Service Contracts**.....

During the year Mr S.W. Curran was on a two year rolling service contract and Mr G.D. Fairservice was on a six month rolling service contract. Mr Fairservice is seeking re-election at the Annual General Meeting on 15th May, 1997.

With effect from 1st February, 1996, Mr C.R.E. Brooke's contract was cancelled and a new fixed term three year contract is being finalised in order to reflect Mr Brooke's change of role to non-executive Chairman.

There is presently no intention to reduce Mr Curran's two year contract to an annual contract but this will be kept under review.

.....**Directors' Fees**

The policy with regard to the level of fees to be paid to non-executive directors serving on the Board is for these fees to be formally reviewed by the Remuneration Committee, following a recommendation from the Chairman and Chief Executive as to the appropriate level to be paid. These fees are then put to a meeting of the full Board for approval.

The policy with regard to non-executive directors fees payable by investee companies of Candover for the services of Candover directors and executives who sit on these boards as official appointees of either Candover or of the funds managed by Candover is that these fees are always paid either to Candover or to the Candover managed funds for the benefit of the fund investors, whichever is appropriate.

Mr A.P. Hichens

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors are required by UK Company Law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group as at the end of the financial year and of the profit or loss of the Group for that period.

The directors are required to confirm that suitable accounting policies have been adopted and applied consistently, and reasonable and prudent judgements and estimates have been made. Applicable accounting standards have been followed with the exception of the departures which are disclosed and explained under the Accounting Policies.

The directors are also responsible for keeping proper accounting records, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.



By Order of the Board

P.R. Neal

Company Secretary

27th March, 1997

REPORT BY THE AUDITORS TO CANDOVER INVESTMENTS plc
ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the financial statements, we have reviewed the directors' statements on pages 29 and 30 on the Company's compliance with paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

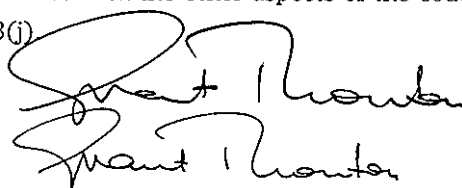
We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures nor on the ability of the Group to continue in operational existence.

Opinion

With respect to the directors' statement on internal financial control on pages 30 and 31 and on going concern on page 30, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 29 appropriately reflects the Company's compliance with the other aspects of the code specified for our review by Listing Rules 12.43(j).

Grant Thornton
Registered Auditors
Chartered Accountants



London
27th March, 1997

ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards except for the policies relating to accounting for managed funds and certain associated undertakings as described below. The financial statements are prepared under the historical cost convention except that investments are stated at valuation. The principal accounting policies of the Group, which have remained unchanged from the previous year except for the allocation to capital of management expenses are set out below:

INVESTMENT TRUST SORP

Following the publication of the Statement of Recommended Practice - Financial Statements of Investment Trust Companies ("SORP") which the Company has adopted for the year ended 31st December, 1996, the presentation of the financial statements has been changed to conform to the recommendations of the SORP. As permitted under the SORP, management expenses have now been allocated 80% to capital and 20% to revenue. The Board considered that this treatment provided a more accurate reflection of the relative contribution to the Company of capital gains as against revenue profits. Prior year figures have been restated accordingly.

BASIS OF CONSOLIDATION

The Group financial statements consolidate those of the Company and of its subsidiary undertakings (see note 11). The financial statements of each undertaking in the Group have been prepared to 31st December, 1996. The results of subsidiary undertakings have been included from the date of acquisition.

ASSOCIATED UNDERTAKINGS

An associated undertaking is defined as an entity, not being a subsidiary undertaking, in which the Group has a substantial and long-term interest and over whose financial and operating policy decisions the Group is in a position to exercise significant influence. Where such entities are an integral part of the Group's investment management operations, the Group's share of profits is included in the Group profit and loss account, and the investment is carried in the Group balance sheet at an amount equivalent to the Group's share of net assets. The Company balance sheet shows the investment in such undertakings at cost, and particulars of entities accounted for as associated undertakings are set out in note 12.

The Group has certain other investments in companies which fall within the definition of associated undertakings contained in the Companies Act 1985 (as amended) but which are not accounted for as associated undertakings, and accordingly, the Group does not equity account its share of the net assets and results of such investments. In the opinion of the directors it would not show a true and fair view for such investments to be equity accounted while the remainder are held at valuation, since all such investments are held for capital appreciation. Furthermore, the directors consider it is inappropriate to include in the consolidated revenue reserves the Group's share of an investee company's undistributed profits when those profits cannot be realised as income unless distributed,

REPORT OF THE AUDITORS

TO THE MEMBERS OF
CANDOVER INVESTMENTS plc

We have audited the financial statements on pages 38 to 59, which have been prepared under the accounting policies set out on pages 38 to 40.

..... Respective responsibilities of Directors and Auditors

As described on page 35 the directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

..... Basis of Opinion

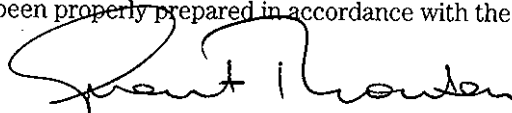
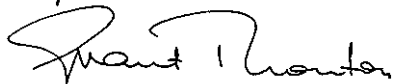
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 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.

..... Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31st December, 1996 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton
Registered Auditors
Chartered Accountants

London
27th March, 1997

ACCOUNTING POLICIES - CONTINUED

Investments held as current assets are held at the lower of cost and net realisable value to the relevant Group undertaking. Gains and losses on realisations of current asset investments held by subsidiary undertakings are dealt with through the revenue reserve. Gains and losses on realisations of current asset investments held by the Company are dealt with through the realised capital reserve.

Shares in subsidiary undertakings are held at cost less provisions.

DEFERRED TAXATION

Deferred taxation is the taxation attributable to timing differences between profits or losses computed for taxation purposes and results as stated in the financial statements. Provision for deferred taxation is made to the extent that it is probable that a liability will crystallise. Deferred tax is calculated at the rate at which it is estimated that the tax will be paid when the timing differences reverse. Unprovided deferred tax is disclosed as a contingent liability.

FOREIGN CURRENCIES

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Balance sheets and profit and loss accounts of overseas companies are also translated at the rates of exchange ruling at the balance sheet date. Where exchange differences result from the translation into sterling of foreign currency resources to be used for further investment, they are taken to the realised and unrealised capital reserves as appropriate. All other exchange differences are dealt with through the revenue reserve.

PENSION COSTS

The Group contributes towards a number of funded defined contribution pension schemes designed to provide retirement benefits for its directors and employees. The assets of the schemes are held separately from the Group in independently administered funds. The pension cost charge represents contributions by the Group to the schemes in respect of the accounting period.

OPERATING LEASES

Payments made under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

FINANCIAL REPORTING STANDARD NO.1 (REVISED 1996)

In October 1996, the Accounting Standards Board issued Financial Reporting Standard No.1 (Revised 1996) 'Cash Flow Statements.' The standard has been adopted this year and prior year figures have been restated accordingly. Short term deposits and fixed interest securities repayable on demand are treated as liquid resources for the purposes of the cash flow statement.

ACCOUNTING POLICIES - CONTINUED

and if realised by sale of the Company will be taken to non-distributable capital reserves. The effect if such investments were equity accounted is set out in Note 10.

MANAGED FUNDS

Where the constitution of a managed fund involves it being a subsidiary undertaking under the Companies Act 1985 (as amended) but the Group has no substantial beneficial interest in the income, assets or liabilities, the total net assets of the fund are consolidated within fixed asset investments and the third party interests deducted immediately after. The income has been consolidated gross in the Group revenue reserves and the third party interests deducted immediately after in accordance with regulation 7 of the Partnership and Unlimited Companies (Accounts) Regulation 1993. The third party interests have not been presented separately from the assets and income of the fund, since in the opinion of the directors, it would be misleading to do so and the overriding duty to give to shareholders a true and fair view of the income and state of affairs of the Group requires its exclusion. Details of these managed funds are set out in Note 11.

INCOME

Income arises from investment management and other financial services provided and investment transactions undertaken during the year. It also includes income from investments and interest receivable.

DEFERRED EXPENDITURE

Placement fees incurred in the establishment of the Candover 1991 Fund and the Candover 1994 Fund have been carried forward in current assets and are being written off over five years.

DEPRECIATION

Depreciation is calculated to write down the cost less residual value of all tangible fixed assets by equal annual instalments over their expected useful lives. The periods generally applicable are:

Plant and equipment	2-5 years
Motor vehicles	3-4 years

INVESTMENTS

Listed fixed asset investments are valued at middle market quotations derived from the London Stock Exchange Daily Official List. Unquoted investments are included at directors' valuation, the principles of which are set out on page 23.

Gains and losses on realisation of fixed asset investments are dealt with through the realised capital reserve. Fixed asset investments are not held for immediate re-sale and any gains on realisation are not available for distribution. The excess of the market value of fixed asset investments over cost to the Group is shown as an unrealised gain.

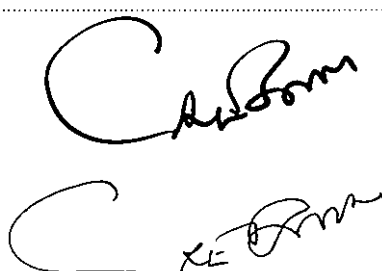
GROUP BALANCE SHEET

at 31st December, 1996

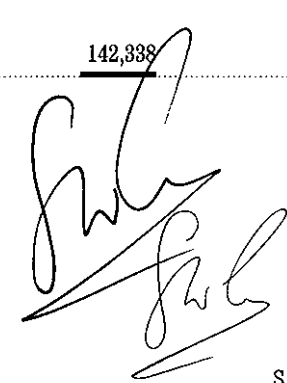
The accounting policies on pages 38 to 40 and notes on pages 45 to 59 form part of these financial statements.

	Notes	1996	1995
		£'000	restated £'000
Fixed assets			
Tangible	9	128	136
Investments			
Managed Funds	11	209,400	149,800
Less: Third party interests in managed funds		(208,627)	(147,675)
Net investment in managed funds	10	773	2,125
Other	10	89,844	52,045
		90,617	54,170
Associated undertakings	12	117	92
		90,734	54,262
Current assets			
Debtors	13	7,506	5,180
Investments	14	53,614	51,455
Cash at bank		89	94
		61,209	56,729
Creditors: due within one year	15	(8,397)	(5,614)
Net current assets		52,812	51,115
Total assets less current liabilities		143,674	105,513
Provisions for liabilities and charges	16	(1,336)	(1,980)
		142,338	103,533
Capital and reserves			
Called up share capital	17	5,605	5,595
Share premium account	18	220	126
Capital reserve - realised	18	93,806	71,552
Capital reserve - unrealised	18	36,689	20,839
Revenue reserve	18	6,018	5,421
Shareholders' Funds	19	142,338	103,533

The financial statements were approved by the Directors on 27th March, 1997



C.R.E. Brooke
Chairman



S.W. Curran
Chief Executive

GROUP STATEMENT OF TOTAL RETURN

(INCORPORATING THE REVENUE ACCOUNT)

for the year ended 31st December, 1996

		1996			1995 restated		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gain/(losses) on investments:-							
Realised gains and losses	18	-	16,743	16,743	-	9,352	9,352
Unrealised gains and losses	18	-	22,574	22,574	-	9,541	9,541
Exchange differences	18	-	(106)	(106)	-	(30)	(30)
		-	39,211	39,211	-	18,863	18,863
Income - Managed Funds							
Net income	11	14,736	-	14,736	11,979	-	11,979
Less: Third party interests in Managed Funds		(12,927)	-	(12,927)	(7,340)	-	(7,340)
Net income from Managed Funds		1,809	-	1,809	4,639	-	4,639
Income - Own funds		10,360	-	10,360	6,747	-	6,747
	1	12,169	-	12,169	11,386	-	11,386
Administrative expenses	2	(4,710)	(1,626)	(6,336)	(4,811)	(1,341)	(6,152)
Net return before exceptional costs, share of profits of associated undertakings, finance costs and taxation							
		7,459	37,585	45,044	6,575	17,522	24,097
Administrative expenses - exceptional costs	2, 24	(2,060)	-	(2,060)	-	-	-
Net return after exceptional costs, before share of profits of associated undertakings, finance costs and taxation							
		5,399	37,585	42,984	6,575	17,522	24,097
Share of profits of associated undertakings	12	-	-	-	3	-	3
Net return before finance costs and taxation							
		5,399	37,585	42,984	6,578	17,522	24,100
Interest payable & similar charges	4	(10)	-	(10)	(15)	-	(15)
Return on ordinary activities before taxation							
		5,389	37,585	42,974	6,563	17,522	24,085
Tax on ordinary activities							
Group	5	(1,429)	519	(910)	(2,078)	578	(1,500)
Associated undertakings		-	-	-	(1)	-	(1)
Return on ordinary activities after taxation for the financial year							
		3,960	38,104	42,064	4,484	18,100	22,584
Dividends	7	(3,363)	-	(3,363)	(2,965)	-	(2,965)
Transfer to reserves	18	597	38,104	38,701	1,519	18,100	19,619
Return per ordinary share:							
Basic	8	17.67p	169.95p	187.62p	20.03p	80.87p	100.90p
Fully diluted	8	16.95p	163.05p	180.00p	19.35p	78.11p	97.46p

The accounting policies on pages 38 to 40 and notes on pages 45 to 59 form part of these financial statements.

GROUP CASH FLOW STATEMENT

for the year ended 31st December, 1996

The accounting
policies on pages 38
to 40 and notes on
pages 45 to 59 form
part of these
financial statements.


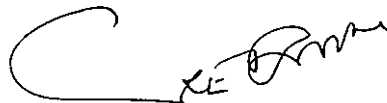
	Notes	1996 £'000	1995 £'000 restated
Net cash inflow from operating activities	23	3,265	5,634
Returns on investments and servicing of finance			
Interest paid		(10)	(15)
Taxation			
UK corporation tax paid		(1,036)	(186)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(101)	(47)
Purchase of investments		(32,020)	(8,197)
Sales of investments		34,935	30,757
Purchase of associated undertakings		(24)	-
Sale of tangible fixed assets		66	7
		2,856	22,520
Equity dividends paid		(3,025)	(2,820)
Management of liquid resources		(2,159)	(25,263)
Financing			
Issue of shares		104	-
Decrease in cash		(5)	(130)

BALANCE SHEET

at 31st December, 1996

	Notes	1996 £'000	1995 £'000
Fixed Assets			
Investments	10	95,494	59,047
Associated undertakings	12	1	1
		<u>95,495</u>	<u>59,048</u>
Current assets			
Debtors	13	2,069	1,352
Investments	14	48,018	43,871
Cash at bank		68	-
		<u>50,155</u>	<u>45,223</u>
Creditors: amounts falling due within one year	15	(6,545)	(3,755)
Net current assets		<u>43,610</u>	<u>41,468</u>
Total assets less current liabilities		<u>139,105</u>	<u>100,516</u>
Provisions for liabilities and charges	16	-	(67)
		<u>139,105</u>	<u>100,449</u>
Capital and reserves			
Called up share capital	17	5,605	5,595
Share premium account	18	220	126
Capital reserve - realised	18	94,669	72,404
Capital reserve - unrealised	18	36,562	20,617
Revenue reserve	18	2,049	1,707
		<u>139,105</u>	<u>100,449</u>

The accounting policies on pages 38 to 40 and notes on pages 45 to 59 form part of these financial statements.

C.R.E. Brooke
Chairman




S.W. Curran
Chief Executive

The financial statements were approved by the Directors on 27th March, 1997

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st December, 1996

1

INCOME				
	1996		1995	
	£'000	£'000	£'000	£'000
Financial services		3,248		612
Investment dealing		259		414
Investment management fees		1,937		5,224
		5,444		6,250
Investment income:				
Income from fixed asset investments	3,211		2,334	
Income from Treasury bills and other fixed interest securities	3,028		2,231	
Other income receivable, arising on short-term deposits and loans	486		571	
		6,725		5,136
		12,169		11,386

Of the income from fixed asset investments of £3,211,000 (1995: £2,334,000), £214,000 (1995: £104,000) arose from managed funds. Of the income from investment management of £1,937,000 (1995: £5,224,000), £1,595,000 (1995: £4,535,000) also arose from these funds.

Of the income from fixed asset investments £398,000 arose from listed investments (1995: £368,000). Income from financial services originating from outside the United Kingdom was £15,000 (1995: £173,000). All income arose from the single activity of originating and investing in management buy-outs and buy-ins and providing capital to unquoted companies. All income is attributable to continuing activities.

2

ADMINISTRATIVE EXPENSES				
	1996		1995	
	£'000	£'000	£'000	£'000
Management expenses:				
Revenue	406		335	
Capital	1,626		1,341	
Other administrative costs	4,304		4,476	
Exceptional cost	2,060		-	
	8,396		6,152	
Staff costs	2,629		3,010	
Depreciation	84		82	
Auditors' remuneration - audit work	39		44	
- non-audit work	93		84	
Operating lease rentals - building	534		534	
- other	12		18	
Staff costs during the year were:				
Salaries	2,015		2,126	
Social Security costs	224		198	
Pension, insurance and other costs	390		686	
	2,629		3,010	

The average number of employees of the group in the UK during the year was 18 (1995: 18).

3

The remuneration policy in respect of the Executive Directors is set out in the report of the Remuneration Committee on pages 31 to 34.

Listed below is the detailed information required to be shown in respect of directors remuneration and benefits.

Directors' Emoluments

Total Emoluments received by directors during the year ended 31st December, 1996 were as follows:

Name	Salaries / Directors' Fees	Performance Related Pay	Taxable Benefits	Insurance Costs	Total Emoluments excluding Pension Contributions 1996	Total Emoluments including Pension Contributions 1996
	£	£	£	£	£	£
C.R.E. Brooke	104,167	2,388	9,033	11,975	127,563	280,545
S.W. Curran	260,000	80,636	18,456	9,275	368,367	348,924
G.D. Fairservice	210,000	65,171	3,889	8,357	287,417	280,495
Management Remuneration	574,167	148,195	31,378	29,607	783,347	909,964
A.P. Hitchens *	35,000	-	-	-	35,000	30,000
R.A.P. King *	20,000	-	-	-	20,000	19,500
P.J. Scott Plummer *	20,000	-	-	-	20,000	19,500
J.M. Raisman *	20,000	-	-	-	20,000	19,500
J.G. West *	20,000	-	-	-	20,000	19,500
D.R. Wilson *	20,000	-	-	-	20,000	19,500
Directors' Fees	135,000	-	-	-	135,000	127,500
TOTALS	709,167	148,195	31,378	29,607	918,347	1,037,464
1995 COMPARATIVES	790,278	192,544	25,892	28,750	1,037,464	-

The non-executive directors (*) only receive fees, which in some cases are paid directly to their primary employing company, and do not receive any other remuneration.

The performance related pay is comprised of pay arising from the profit related pay scheme and a discretionary bonus.

During the year pension contributions were paid in respect of Mr C.R.E. Brooke which totalled £247,333 (1995: £88,000); Mr S.W. Curran, £78,000 (1995: £72,833) and Mr G.D. Fairservice, £52,500 (1995: £50,000). Mr Brooke's contribution included a lump sum payment of £240,000 referred to in the Report of the Remuneration Committee on page 33.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

4

	1996	1995
	£'000	£'000
On bank loans, overdrafts and other loans		
- repayable within 5 years otherwise than by instalments	10	15

5

THE TAXATION CHARGE BASED ON PROFIT FOR THE YEAR AND IS MADE UP AS FOLLOWS:

	1996	1995
	£'000	£'000
Revenue		
United Kingdom corporation tax at 33 per cent (1995: 33 per cent)	1,576	880
Deferred tax (see note 16)	(644)	881
Tax attributable to franked investment income	549	323
Adjustment relating to prior years:		
United Kingdom corporation tax	(52)	(6)
	1,429	2,078
Capital		
United Kingdom corporation tax at 33% (1995: 33%)	(519)	(578)
	910	1,500

The Board of the Inland Revenue has approved the Company as an investment trust, under section 842 of the Income and Corporation Taxes Act 1988, for the year ended 31st December, 1994. In the opinion of the directors, the Company's affairs since that date have been conducted so as to enable it to continue to seek approval as an investment trust.

Note 3 continued**Directors' Interests in Shares**

The interests of the directors in the ordinary shares of the company are detailed below.

	Ordinary Shares of 25p each 31st December 1996	1st January 1996	Share Options 31st December 1996	1st January 1996	Exercise Price	Date from which exercisable	Expiry Date
Beneficial							
C.R.E. Brooke	466,552	501,552	12,795	12,795	113.89p	28/10/90	28/10/97
S.W. Curran	636,908	638,108	12,795	12,795	113.89p	28/10/90	28/10/97
G.D. Fairservice	162,500	162,500	12,795	12,795	113.89p	28/10/90	28/10/97
" "	-	-	87,205	87,205	235.00p	20/10/95	20/10/02
A.P. Hichens	15,000	15,000	Nil	Nil			
P.J. Scott Plummer	12,000	12,000	Nil	Nil			
J.G. West	1,500	1,500	Nil	Nil			
R.A.P. King	Nil	Nil	Nil	Nil			
J.M. Raisman	Nil	Nil	Nil	Nil			
D.R. Wilson	Nil	Nil	Nil	Nil			
Non-Beneficial							
C.R.E. Brooke	35,000	Nil					

During the year, Mr C.R.E. Brooke transferred 35,000 shares to family trusts in which he has non-beneficial interest and a connected person of Mr S.W. Curran sold 1,200 shares.

There were no options granted or exercised during the year, or since the balance sheet date.

Co-investment by Directors

During the year, Messrs C.R.E. Brooke, S.W. Curran and G.D. Fairservice, who are all directors of the company, have invested in the ordinary equity of all the companies in which Candover has also made an investment in the equity and loan capital. Under the Stock Exchange Yellow Book these interests are covered under the rules governing "Transactions with Related Parties" ("the rules"). In view of the insignificant level of these transactions by the above named directors, under the rules, the fair and reasonable opinion of the company's auditors is not required.

Details of these investments are as follows:

	Class of Share	Equity investments in companies:	
		Subscribed in year	% (of class) held by the directors
		£	%
Eversholt Holdings Limited	Preferred Ordinary shares of 10p each	3,572	0.16
Ciclad 2 Fund	Ordinary 'B' and 'C' shares of FF 1,000 each	13	0.25
Midlands Mining Limited	Cumulative Participating Preferred		
	Ordinary Shares of 1p each	488	0.49
Cork Industries Limited	Ordinary shares of 1p each	4,823	0.49
Knickerbox Holdings Limited	Ordinary Shares of £1 each	1,088	0.08
Camden Motors Limited	Cumulative Participating Preferred		
	Ordinary Shares of 1p each	245	0.45

During the year a subsidiary company advanced funds under the Candover staff co-investment scheme and season ticket loan scheme to an officer of the company. The amount of \$4,152 remained payable at 31st December, 1996 (1995: £3,240).

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

10

Group	Investments		
	Managed Funds	Investee Companies	Total
	£'000	£'000	£'000
Valuation at 1st January, 1996	2,125	52,045	54,170
Additions at cost	411	31,609	32,020
Disposals	(1,859)	(16,320)	(18,179)
Appreciation	96	22,510	22,606
Valuation at 31st December, 1996	773	89,844	90,617
Reconciliation			
Cost of investments	588	53,421	54,009
Net unrealised appreciation of investments	185	36,423	36,608
	773	89,844	90,617

Company	Investments			
	Shares in subsidiary undertakings	Managed Funds	Investee Companies	Total
	£'000	£'000	£'000	£'000
Cost or valuation at 1st January, 1996	4,877	2,125	52,045	59,047
Additions at cost	-	411	31,609	32,020
Disposals	-	(1,859)	(16,320)	(18,179)
Appreciation	-	96	22,510	22,606
Cost or valuation at 31st December, 1996	4,877	773	89,844	95,494
Reconciliation				
Cost of investments	4,877	588	53,421	58,886
Net unrealised appreciation of investments	-	185	36,423	36,608
	4,877	773	89,844	95,494

At 31st December, 1996 cumulative downward adjustments of \$8,421,000 (1995: \$7,623,000) had been made against investments with original costs of \$15,535,000 (1995: \$14,477,000)

Investments at valuation include:

Group and Company	1996 £'000	1995 £'000
UK		
Listed	18,020	21,355
Unquoted at directors' valuation	62,343	20,707
Europe		
Unquoted at directors' valuation	2,995	3,853
US		
Listed	164	307
Unquoted at directors' valuation	7,085	7,948
	90,607	54,170
Equity shares	52,133	36,358
Fixed income securities	37,780	17,207
Convertible securities	694	605
	90,607	54,170

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

As permitted by section 230 of the Companies Act 1985, the Company has not included its own profit and loss account in these financial statements. The Group profit for the year includes \$3,705,000 (1995: \$3,629,000) which is dealt with in the financial statements of the holding company.

DIVIDEND		
	1996	1995
	£'000	£'000
Paid interim of 4.75p (1995: 4.5p)	1,065	1,007
Proposed final of 10.25p (1995: 8.75p)	2,298	1,958
	<u>3,363</u>	<u>2,965</u>

RETURNS PER SHARE

The calculation of basic capital return per ordinary share is based on net capital gains for the financial year of \$38,104,000. (1995: £18,100,000) and a weighted average number of shares of 22,421,095 (1995: 22,381,095).

The calculation of fully diluted capital return per share takes account of the share options and is based on net capital gains for the financial year of \$38,104,000 (1995: £18,100,000) and a weighted average number of shares of 23,369,355 (1995: 23,172,255).

The calculation of basic revenue return per ordinary share is based on net revenue for the financial year of \$3,960,000 (1995: £4,484,000) and weighted average number of shares of 22,421,095 (1995: 22,381,095). The calculation of fully diluted revenue return per share takes account of the share options and is based on net revenue for the financial year of \$3,960,000 (1995: £4,484,000) and a weighted average number of shares of 23,369,355 (1995: 23,172,255).

TANGIBLE FIXED ASSETS			
Group	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost			
At 1st January, 1996	412	234	646
Additions	7	94	101
Disposals	-	(159)	(159)
At 31st December, 1996	<u>419</u>	<u>169</u>	<u>588</u>
Depreciation			
At 1st January, 1996	329	181	510
Provided in the year	47	37	84
Disposals	-	(134)	(134)
At 31st December, 1996	<u>376</u>	<u>84</u>	<u>460</u>
Net book value at 31st December, 1996	<u>43</u>	<u>85</u>	<u>128</u>
Net book value at 31st December, 1995	<u>83</u>	<u>53</u>	<u>136</u>

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

11

SUBSIDIARY UNDERTAKINGS

At 31st December 1996, the principal subsidiary undertakings included in the consolidation were:

	Nature of business	Issued share capital
Candover Services Limited *	Arrangement of investment syndications	\$4,400,000 Ordinary
Candover Realisations Limited **	Investment dealing company	£100 Ordinary
Candover (Trustees) Limited *	Nominee company	£100 Ordinary
Candover Nominees Limited *	Nominee company	£100 Ordinary
Candover Partners Limited ***	General Partner of the Candover 1989 Fund, the Candover 1991 Fund and the Candover 1994 Fund	\$2,050,000 Ordinary
Candover Investments (Nassau) Inc *	Investment holding company	US\$500,000 Common Stock
Deutsche Candover GmbH *	Arrangement of management buy-out and buy-in investments in Germany	DM 200,000 Ordinary

* Wholly owned directly by the holding company

** Wholly owned by a subsidiary undertaking

*** 90% owned by a subsidiary undertaking and 10% owned directly by the holding company

All of the preceding companies are incorporated in Great Britain and are registered and operational in England and Wales with the exception of Deutsche Candover GmbH which is incorporated and is operational in the Federal Republic of Germany and Candover Investments (Nassau) Inc which is incorporated and is operational in the Bahamas.

Interests in the Candover 1989, 1991 and 1994 Funds ("Managed Funds")

Candover Partners Limited is the General Partner of the limited partnerships comprising the Candover 1989 Fund, the Candover 1991 Fund and the Candover 1994 Fund. In view of the excessive length the name and address of each partnership will be enclosed with the Company's next annual return as permitted under section 231(5) Companies Act 1985. In addition advantage has been taken of the exemption conferred by regulation 7 of the Partnerships and Unlimited Companies (Accounts) Regulations 1993 and accordingly accounts in accordance with the Companies Act 1985 have not been prepared for each of the limited partnerships.

The Company is a Special Limited Partner in the Candover 1989 and Candover 1991 Funds and is a unitholder in an unauthorised unit trust which is a Special Limited Partner in the Candover 1994 Fund. In each case the Special Limited Partner is entitled to participate in profits after a minimum rate of return has been achieved by the Limited Partners. This profit entitlement is referred to as the carried interest.

Candover also holds a direct interest in one of the Candover 1989 Limited Partnerships which at 31st December, 1996 was valued at £nil (cost £nil) and in all the Candover 1994 Limited Partnerships which at 31st December, 1996 was valued at £0.8 million (cost £0.6 million).

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Note 10 continued

At 31st December, 1996 the Company held shares in excess of 10 per cent of a class of shares in a number of investee undertakings but did not have more than 20 per cent of the total allotted share capital in any of these investee undertakings. However, in the opinion of the directors, the listing of these undertakings would result in particulars of excessive length and the financial results of such undertakings do not principally affect the figures shown in these accounts. The list of these undertakings will therefore be enclosed with the Company's next annual return as permitted under section 231(5) Companies Act 1985.

At 31st December, 1996, the Company had an interest of more than 20 per cent in the nominal value of the total allotted share capital of the following companies:

Companies	Class of shares held	Percentage of class held
Lombard Investments, Inc	Preferred	100.00
<i>(State of California)</i>		
VCI Candover Management BV	Ordinary	30.00
<i>(incorporated in the Netherlands)</i>	Loan Capital	30.00

For the reasons set out in the Accounting Policies these investments have not been included as associated undertakings. Based on the latest audited accounts received by the Company in respect of each investment, if equity accounting had been applied in these financial statements, the Group profit after tax would have been increased by approximately \$89,000 (1995: £76,000) and the Group net assets decreased by £1,000 (1995: £140,000).

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

Note 11 continued

For the reasons set out in the Accounting Policies, the limited partnerships comprising the Candover 1989, the Candover 1991 and the Candover 1994 Funds have not been accounted for under the method of full consolidation. At 31st December, 1996, the net assets of the Funds were £209.4 million (1995: £149.8 million) and the net income for the year ended was £14.7 million (1995: £11.9 million). The net assets and net income can be summarised as follows:

	1996	1995
	£'m	£'m
Investments	202.2	143.6
Debtors	4.2	2.3
Cash	3.3	3.9
Creditors	(0.3)	-
	<u>209.4</u>	<u>149.8</u>
Income from fixed asset investments	20.8	13.4
Interest receivable	0.3	0.5
Other income	0.2	0.2
	<u>21.3</u>	<u>14.1</u>
Expenses	(2.5)	(0.2)
Tax	(4.1)	(2.0)
	<u>14.7</u>	<u>11.9</u>

As at 31st December, 1996 Candover's investment as a Special Limited Partner in the Candover 1989 Fund was valued at £nil (1995: £0.9 million).

ASSOCIATED UNDERTAKINGS

	Nature of business	Issued share capital/ capital account	Percentage held
Hoare Candover Limited	Management of the Hoare Candover Exempt Fund	£1,000 Ordinary	50%
LGV Candover	Identifying investment opportunities in Germany	DM250,000	49%

Hoare Candover Limited is incorporated and operational in Great Britain and registered in England and Wales; Candover's interest in Hoare Candover Limited and LGV Candover are owned by the holding company and by a subsidiary undertaking respectively.

LGV Candover is incorporated and is operational in the Federal Republic of Germany.

	Group share of net assets	Company share at cost
	£'000	£'000
Cost at 1st January, 1996	54	1
Addition	24	-
Share of post-acquisition reserves at 1st January, 1996	39	-
Increase	-	-
	<u>117</u>	<u>1</u>

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	Group		Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
<i>Amounts falling due within one year:</i>				
Trade debtors	490	489	-	-
Amounts owed by subsidiary undertakings	-	-	35	27
Amounts owed by associated undertakings	8	8	-	-
Other debtors	2,993	1,491	1,485	1,020
Prepayments and accrued income	3,085	1,576	549	305
	6,576	3,564	2,069	1,352
<i>Amounts falling due after more than one year:</i>				
Prepayments and accrued income	930	1,616	-	-
Total debtors	7,506	5,180	2,069	1,352

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CURRENT ASSET INVESTMENTS

	Group		Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Short term deposits and fixed interest securities	53,614	51,455	48,018	43,871

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CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Trade creditors	662	289	28	8
Amounts owed to group undertakings	-	-	2,848	582
Current taxation	2,084	628	1,142	925
Social security and other taxation	-	31	-	-
Proposed dividends	2,289	1,951	2,289	1,951
Other creditors	2,330	1,281	186	190
Accruals and deferred income	1,032	1,434	52	99
	8,397	5,614	6,545	3,755

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

18

RESERVES

	Non-distributable reserves			Distributable reserves
	Share premium account	Realised capital reserve	Unrealised capital reserve	Revenue reserve
	£'000	£'000	£'000	£'000
Group				
At 1st January, 1996	126	72,315	20,839	4,658
Prior year adjustment	-	(763)	-	763
Increase in year	94	-	-	-
Surplus on investments revaluation	-	-	22,574	-
Investments realised in year	-	23,372	(6,629)	-
Exchange differences	-	(11)	(95)	-
Net revenue for the year	-	-	-	597
Costs net of tax	-	(1,107)	-	-
At 31st December, 1996	220	93,806	36,689	6,018
Company				
At 1st January, 1996	126	72,404	20,617	1,707
Increase in year	94	-	-	-
Surplus on investments revaluation	-	-	22,574	-
Investments realised in year	-	23,372	(6,629)	-
Net revenue for the year	-	-	-	342
Cost net of tax	-	(1,107)	-	-
At 31st December, 1996	220	94,669	36,562	2,049

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RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1996	1995
	£'000	£'000
Net revenue for the year	3,960	4,484
Dividends	(3,363)	(2,965)
	597	1,519
Issue of share capital	104	-
Capital surplus for the year	38,104	18,100
Net addition to shareholders' funds	38,805	19,619
Shareholders' funds at 1st January	103,533	83,914
Shareholders' funds at 31st December	142,338	103,533

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

	Group		Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Deferred taxation:				
At 1st January	1,980	1,099	67	69
Increase/(decrease) in year	(644)	881	(67)	(2)
At 31st December	1,336	1,980	-	67
Deferred taxation provided for in the financial statements is set out below:				
Accelerated capital allowances	(111)	(70)	-	-
Other timing differences	1,447	2,050	-	67
	1,336	1,980	-	67

There was no unprovided deferred taxation in the financial statements at 31st December, 1996 (1995 £Nil).

SHARE CAPITAL				
	1996		1995	
	Number	£'000	Number	£'000
Authorised:				
Ordinary shares of 25p each	29,000,000	7,250	29,000,000	7,250
Allotted, called up and fully paid:				
Ordinary shares of 25p each at 1st January and at 31st December	22,381,095	5,595	22,381,095	5,595
Issued in year	40,000	10	-	-
	22,421,095	5,605	22,381,095	5,595

No options were granted but 40,000 options were exercised and 10,000 options lapsed during the year. At 31st December, 1996 the following options remained exercisable at the following prices and dates.

No. of options	Exercise Price	Exercisable between
115,155	113.89p	28th October, 1990 - 28th October, 1997
49,230	137.44p	6th October, 1991 - 6th October, 1998
75,000	208.00p	13th March, 1993 - 13th March, 2000
20,000	282.67p	29th April, 1994 - 29th April, 2001
182,205	235.00p	20th October, 1995 - 20th October, 2002
150,000	340.00p	17th June, 1997 - 17th June, 2004
591,590		

As at 31st December, 1996 there remained 356,670 options available to be granted under the New Candover (1994) Executive share option scheme (1995: 149,570 options available).

The performance criteria for the exercise of any options issued under the terms of Candover (1994) executive share option scheme are referred to in the Remuneration Committee report on page 32.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

23

RECONCILIATION OF OPERATING INCOME TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1996	1995
	£'000	£'000
Operating income	5,833	5,234
Exceptional costs	(2,060)	-
(Increase)/decrease in debtors	(811)	767
Increase/(decrease) in creditors	589	(201)
Tax on franked investment income included within income from UK companies	(329)	(248)
Depreciation	84	82
Profit on disposal of tangible fixed assets	(41)	-
Net cash inflow from operating activities	3,265	5,634

24

EXCEPTIONAL COSTS

The exceptional cost was in respect of an out of court settlement of certain US litigation relating to negotiations on a transaction in Germany. This was referred to in the 1995 Report and Accounts.

25

POST BALANCE SHEET EVENTS

The equity of Eversholt Holdings Limited was sold on 19th February, 1997, from which Candover received proceeds of £27.7 million. Eversholt Holdings was valued at 31st December, 1996 at its realisation amount. Lombard/Nogales Radio Partners LP was sold in February 1997 realising a profit of £1.7 million on costs of £3.5 million.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

CAPITAL COMMITMENTS

20

The directors have authorised commitments of £70 million and \$5 million which will be invested pro rata and in parallel with the Candover 1994 Fund and the Candover 1991 Fund respectively. At 31st December, 1996 the outstanding commitment was \$38.9 million (1995: \$62.5 million) and £1.1 million (1995: £1.8 million) respectively.

At 31st December, 1996 the outstanding commitment to the Ciclad 2 Fund was FF16 million (£1.8 million) ((1995: FF19 million (£2.5 million)).

PENSION COMMITMENTS

21

The Group contributed towards a number of funded defined contribution pension schemes designed to provide retirement benefits for its directors and employees. The assets of the schemes are held separately from the group in independently administered funds. The pension cost charge represents contributions by the group to the schemes in respect of the accounting period and amounted to £237,000 (1995: £569,000). At 31st December, 1996 there were no amounts payable to the schemes (1995: £240,000).

LEASE COMMITMENTS

22

Operating lease payments amounting to £534,000 (1994: £552,000) are due within one year. The leases to which these amounts relate expire as follows:

	1996		1995	
	Land and Buildings	Other	Land and Buildings	Other
	£'000	£'000	£'000	£'000
Commitments expiring in less than one year	-	-	-	18
2 - 5 years	-	-	-	-
More than 5 years	534	-	534	-
	534	-	534	18

The agreement to sublet a portion of the premises which was due to expire in January 1998 was terminated by mutual consent in December 1996 and these premises are now occupied by the Company.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

8.4 INVESTMENTS IN ASSOCIATES

26

The Company's interest in the Candover 1989, 1991 and 1994 Funds is disclosed in Notes 11 and 20. The coinvestment by directors is disclosed in Note 3.

9.1 NON-CASH TRANSFERS

27

During the year the Company received proceeds for the sale of investments in the form of shares valued at £13.8m.

10.1 CONTINGENT LIABILITIES

28

There were no contingent liabilities at 31st December, 1996.

DISTRIBUTION OF FIXED ASSET INVESTMENTS

as at 31st December, 1996

Sector	UK	Europe	Americas	1996	1995
	%	%	%	Total	Total
Mineral Extraction					
Extractive Industries	2.7	-	-	2.7	-
Oil Exploration & Production	0.6	-	-	0.6	1.9
	3.3	-	-	3.3	1.9
General Industrials					
Building and Construction	1.1	-	-	1.1	5.2
Building Materials & Merchants	17.8	-	-	17.8	0.6
Chemicals	2.6	0.3	-	2.9	4.8
Electronics & Electrical Equipment	1.9	-	-	1.9	8.5
Engineering - General	4.6	-	0.8	5.4	2.8
Engineering - Vehicles	0.8	1.0	-	1.8	5.2
	28.8	1.3	0.8	30.9	27.1
Consumer Goods					
Alcoholic Beverages	-	-	-	-	2.0
Household Goods	2.2	-	-	2.2	10.6
	2.2	-	-	2.2	12.6
Services					
Distributors	2.7	-	-	2.7	0.4
Leisure & Hotels	5.3	-	-	5.3	8.5
Media	4.3	-	3.5	7.8	12.9
Retailers - Food	4.7	-	-	4.7	4.4
Retailers - General	0.1	-	-	0.1	0.2
Support Services	4.7	-	0.2	4.9	12.4
Transport	-	0.3	3.4	3.7	6.8
	21.8	0.3	7.1	29.2	45.6
Financials					
Insurance	0.2	-	-	0.2	2.7
Other Financial	32.4	1.7	0.1	34.2	10.1
	32.6	1.7	0.1	34.4	12.8
Totals %					
	88.7	3.3	8.0	100.0	100.0
Totals £'000					
	80,363	2,995	7,249	90,607	54,170

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of Candover Investments plc will be held at The Howard Hotel, Temple Place, London WC2 on **Thursday 15th May, 1997 at noon** for the following purposes:

- 1 To receive the Report of the Directors and the audited financial statements for the year ended 31st December, 1996.
- 2 To declare a final dividend of 10.25p per share on the ordinary shares in respect of the year ended 31st December, 1996.
- 3 To re-elect Mr D.R. Wilson who retires by rotation.
- 4 To re-elect Mr A.P. Hichens who retires by rotation.
- 5 To re-elect Mr G.D. Fairservice who retires by rotation.
- 6 To re-appoint Messrs Grant Thornton, Chartered Accountants, as Auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration.
- 7 **Special Business**

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

"That the Directors be and are hereby given power pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) pursuant to the authority conferred by resolution Number 4(a) passed at the Annual General Meeting of the Company held on 11th May 1993 as if Section 89(1) of the said Act did not apply to any such allotment, provided that this power shall be limited:

(i) to the allotment of equity securities for the purpose of or in connection with a rights issue or scrip dividend offer pursuant to the Articles of Association of the Company or any pre-emptive invitation in favour of the holders of ordinary shares (notwithstanding that by reason of such exclusions or other arrangements as the Directors may deem necessary or desirable by virtue of overseas regulations or to deal with problems arising in any overseas territory or in connection with fractional entitlements or record dates or otherwise howsoever, the equity securities to be allotted are not offered to all of such holders in proportion to the number of ordinary shares held by each of them); and

(ii) to the allotment of equity securities (otherwise than pursuant to sub-paragraph (i) above) up to an aggregate nominal amount equal to £280,264; and shall expire at the conclusion of the next Annual General Meeting of the Company to be held after the conclusion of the meeting at which this resolution is passed or at the close of business on 15th August, 1998 (whichever is the earlier) save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

P.R. Neal

Secretary

27th March, 1997

Notes

- 1 Every member entitled to attend and vote at the above Meeting may appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company. Forms of proxy must be lodged not less than 48 hours before the Meeting.
- 2 The following documents will be available for inspection at the registered office during business hours on any weekday

(excluding Saturdays and public holidays) from the date of this Notice until the date of the Annual General Meeting and at the venue of the Meeting from 11.45 am on 15th May, 1997 until the conclusion of the Meeting: (i) copies of the service contracts of the Directors; (ii) the Company's Articles of Association; (iii) the register of Directors' interests in the share capital of the Company.