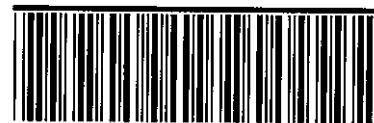


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candover

Candover* organises and invests principally in large buyouts. Our primary objectives are to achieve above average capital gains from our investments and to earn satisfactory income for our shareholders. We do this by working in partnership with management teams to acquire companies in the UK and Continental Europe and build substantial businesses with excellent prospects.

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*References in this report and accounts to 'Candover' mean Candover Investments plc and/or, where appropriate, one or more of its subsidiaries.

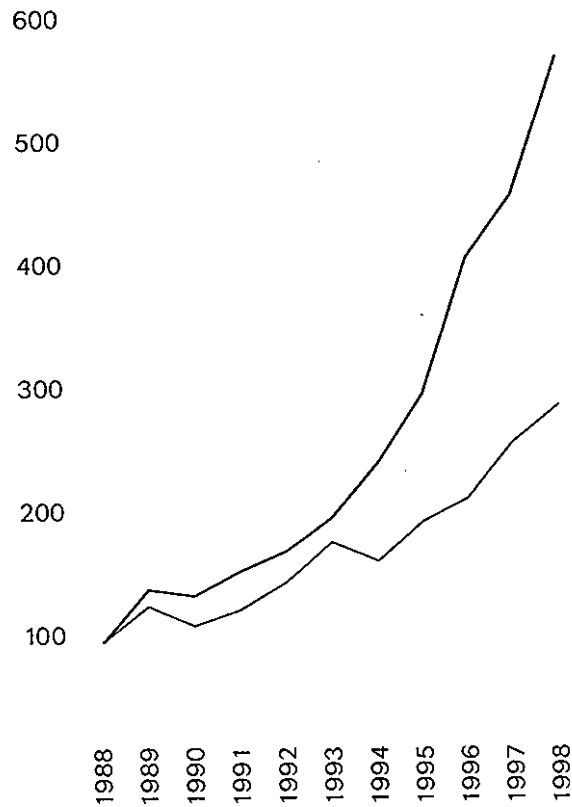
Total net assets up **+25%**
from £160.0m in 1997 to £199.5m in 1998

Net assets per share up **+25%**
from 703p in 1997 to 877p in 1998

Profits before tax up **+66%**
from £7.3m in 1997 to £12.1m in 1998

Final dividend up 13% to 17p. Total dividend up from 20p in 1997 to 25p in 1998 **+25%**

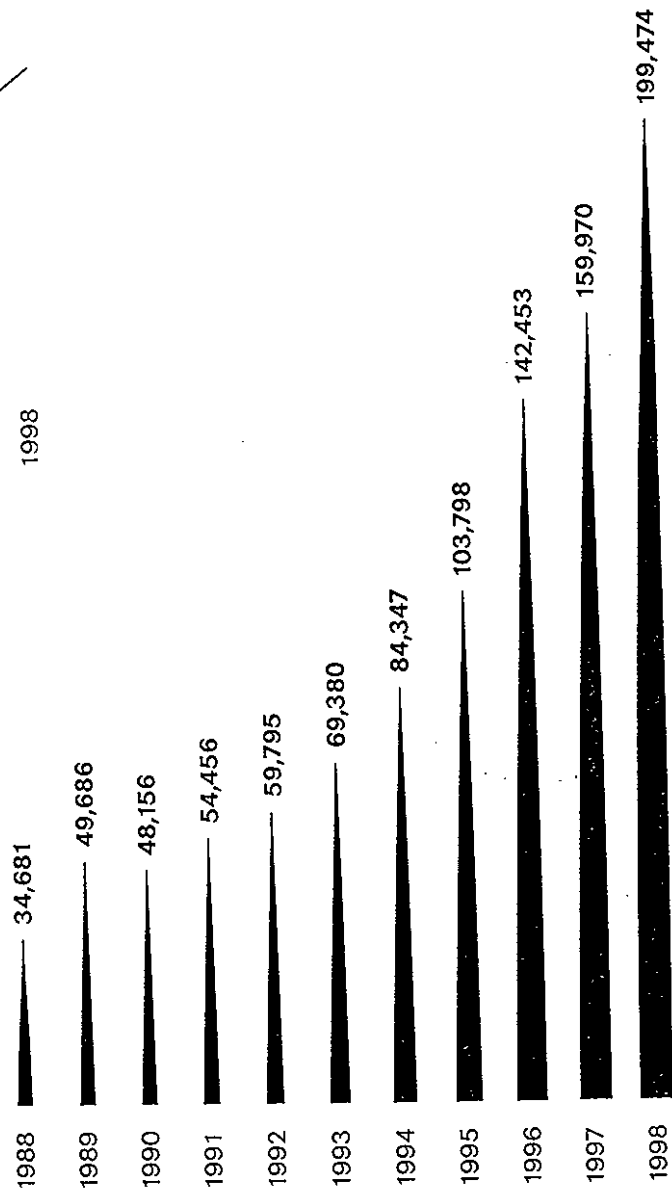
A year of continued growth



Net assets growth
compared to FTSE All-Share index

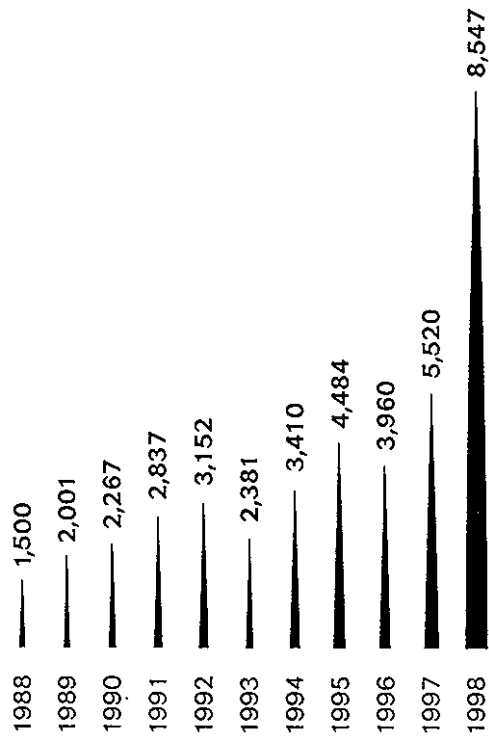
— FTSE All-Share index
(31st December, 1988 = 100)

— Candover net assets
(31st December, 1988 = 100)

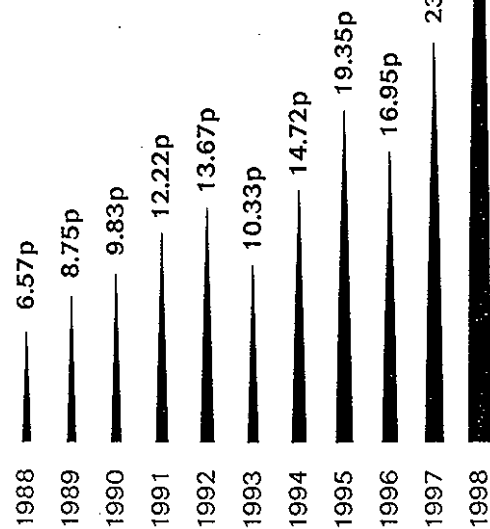


Net assets record in £ thousands

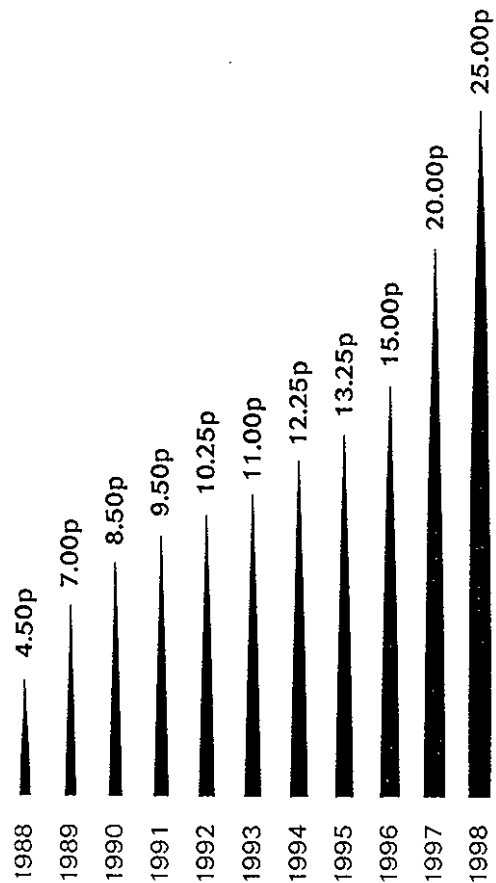
Profit after taxation in £ thousands



Earnings per share fully diluted



Net dividend per share





Introduction

1998 was another excellent year for Candover with a healthy increase in net assets and a strong rise in profits. Once again the growth in net assets was principally due to some successful realisations during the year, the most substantial of which were Castle Transmission International (CTI), which merged with its sister company Crown Castle International Corporation (CCIC) and then listed, Albion Automotive and Orion Publishing Group. The total uplift on these investments during the year was £22.9 million with CTI/CCIC accounting for £20.7 million. Shares in CCIC were valued at US\$17.63, a 25% discount to the listed share price of US\$23.50 at 31st December, 1998. On March 4th, 1999 the closing mid-market share price was US\$18.12.

In my statement for the half year to June 1998 I explained that the board had for the first time decided to ascribe a value to Candover's share of the carried interest in the Candover 1994 Fund of £8.5 million (approximately 37p per share). This has now been increased to £12.1 million (or 53p per share).

During the year, Candover, the 1994 and 1997 Funds invested £105.6 million of which Candover's share was £13.7 million, the 1994 Fund £1.5 million and the 1997 Fund £90.4 million. The 1997 Fund's investments were in three companies, Claverham (formerly Fairey Hydraulics), Regional Independent Media (a regional newspaper group including the Yorkshire Post and other leading northern titles) and TeleCast Communications (which owns a group of companies providing specialist services to the broadcast and media industries).

Since the year end we have completed an investment in ASW Holdings PLC, a specialist steel manufacturer which has acquired a major competitor Co-Steel Sheerness plc, as a result of which ASW is the market leader in steel reinforcement and merchant bar.

There have been some major developments in 1998 that have influenced our activities and the prospects for the future. First, it has become apparent that with a number of large funds now available for private equity transactions, we have to find innovative ways to identify, acquire and build businesses. For example, Candover has begun to make initial investments, in partnership with new or incumbent managers, to be followed by one or more later acquisitions with the purpose of developing the resulting group into a much more substantial business and a leading competitor in its sector.

A further important development has been the change we are beginning to see in continental European economies. With the introduction of the Euro in January we believe that the volume of European deals will increase as corporate restructuring becomes more prevalent, partly as a result of competitive pressure arising from greater price transparency. We are already seeing an increase in deal flow from our major target markets, France and Germany, and this is likely to influence the eventual investment mix in the 1997 Fund. There should be positive new developments in both the bond and equity markets, which in turn should encourage more flotations.

In the UK the uncertain economic outlook which emerged during the year meant that, while the number of investment opportunities remains at a high level, we have been more cautious in evaluating new projects. We have also faced more difficulty in achieving realisations, not least because volatility in the stock market effectively ruled out most new flotations in the second half of 1998.

Results for 1998

As at 31st December, 1998 the net assets attributable to the ordinary shares, after including current asset investments at market or directors' valuation, less attributable taxation, were £199.5 million as against £160.0 million at 31st December, 1997 an increase of 25%. Net assets per share were 877p compared with 703p at 31st December, 1997. This increase in net assets per share of 25% compares with an increase of 10.9% for the year in the FTSE All-Share Index.

It is noteworthy that during the last ten years Candover's net assets have risen by 18.6% per annum compound compared with an increase of 11.2% in the FTSE All-Share Index.

Profits before tax for the year were £12.1 million compared with £7.3 million for the twelve months to 31st December, 1997. The main reason for the increase in profits in 1998 was the increase in management fees arising from the new 1997 Fund. During the year, however, staffing costs also increased substantially and the full impact of these higher costs will be reflected in the results for 1999.

The valuation of fixed asset investments at 31st December, 1998 was £106.0 million (1997: £70.6 million) after taking into account downward adjustments of £2.7 million made to reflect the underperformance of some investee companies, as well as a decrease of £3.0 million over the year in the market value of shares in our investee companies which have obtained stock exchange listings (excluding the shareholding in CCIC). At the year end our cash and liquid assets totalled £91.8 million, a rise of £1.7 million over the year. Listed shares (excluding the shareholding in CCIC) at the year end totalled £12.1 million, representing 6.1% of our net assets.

Dividends

At the half year the board decided to increase the dividend from 5p to 8p per share, indicating at the time that we wish, as a general objective, to set the interim dividend at one-third of the total for the year. The board has decided to pay a final dividend of 17p (15p in 1997) making a dividend total for the year of 25p against 20p in the previous year, an uplift of 25%. Payment of the dividend will be made on 20th May, 1999 to holders on the register at 30th April, 1999.

Board and staff

Richard King will be retiring from the board at the forthcoming Annual General Meeting. He has been a member of the board since 1981 and has made a consistently constructive contribution to our development, not least in the early years when we were making our way as a new company. We are most grateful to him.

As announced last year, I too am retiring from the board at the Annual General Meeting. While this will certainly be a wrench, I am pleased and honoured that my colleagues have designated me as Honorary Life President and I shall, of course, remain no less interested in and supportive of the future progress of the Company.

Candover has certainly come a long way since its establishment in 1980 with capital comprising £2 million of 6% unsecured loan stock and £100,000 of equity. The average size of our early transactions in 1981 was under £10 million. This contrasts with three of our more recent investments, Eversholt (£620 million), Regional Independent Media (£360 million) and Newmond (£372 million). It has given me immense satisfaction to have played a part in the growth and success of the Company. It gives me no less satisfaction that my successor as Chairman will be Stephen Curran, who has been with us since the early days and has been in charge as Chief Executive since 1991. Much of the credit for the good investments we have made should go to him, as well as to Doug Fairservice, our Deputy Chief Executive, who will become Joint Deputy Chairman with Antony Hichens.

More recently, greater responsibility for our investment programme has been passed to the Joint Managing Directors, Colin Buffin and Marek Gumieny, who were appointed to the board last year. They have an outstanding track record with Candover and they have been particularly involved in developing the innovative ideas to which I refer earlier in this report.

During the year we were joined by Ian Gray, from Bank of Scotland, and Charlie Green, from Deutsche Bank. In order to lead our new investment programme in Continental Europe, particularly in France and Germany, we were joined by Christopher Spencer and Jens Tonn.

This adds up to a considerable expansion of our executive team – necessary to enable us to undertake the much larger, more complex and more international investment opportunities now becoming available to the 1997 Fund.

Finally, we have strengthened our support staff with Alistair Peel joining as deputy to Peter Neal, our Company Secretary. We are fortunate to have a strong back-up staff with Helen Walsh as our Marketing Director and the Finance Team headed by Philip Symonds and Tian Tan. They, together with our secretarial staff, provide an essential support to the enlarged executive team. I would like to express my appreciation for the excellent work that they have done over the years to help ensure that we comply with the increasingly onerous regulatory regime now in force in the UK.

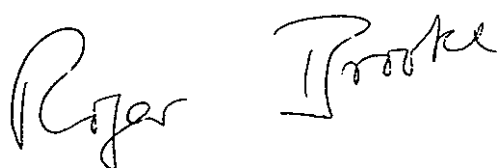
Chairman's statement

Future prospects

Despite the weaker performance of the British economy in 1998 and the uncertain prospects for 1999, it is encouraging that most of our portfolio companies continue to report good results and show good progress. We are also continuing to see a strong flow of new investment opportunities and on past experience prices will in due course reflect the fact that the business outlook is less rosy than a year ago. I would expect that for these reasons we should continue to identify profitable new investments in the months ahead.

The increased level of profits reported for 1998 is not expected to be repeated in 1999. This is because as I reported previously, the full impact of the substantial costs that we have incurred during 1998, particularly with respect to staff increases, will only affect our profits from 1999. This increase in costs was necessary if we are to continue in the longer term to identify and complete profitable investments, not only in our home market but increasingly on the Continent. In the short term, the growth of our net assets during 1999 will depend initially upon the continuing good performance of our existing portfolio companies and thereafter upon the new investments that we undertake, primarily in conjunction with the Candover 1997 Fund.

Overall, I believe that the Company remains in good hands and enjoys excellent future prospects.



C R E Brooke
25th March, 1999



Investments

We made three new investments during the year in conjunction with the Candover 1997 Fund, which had its final closing on 22nd January, 1998.

The first was in Claverham (formerly Fairey Hydraulics), an aerospace engineering company with activities spanning a wide range of civilian and military aerospace applications. The Candover 1997 Fund invested £20.8 million in this transaction, with Candover investing £2.8 million. We acquired Claverham from Fairey Group, a company we already knew well through leading its own buyout from Pearson in 1986.

The second investment, and our largest of the year, was in Regional Independent Media, the northern newspaper interests of United News & Media. The 1997 Fund invested £49 million and Candover invested £6.5 million. This was our second foray into regional press ownership – in 1991 we led the buyout of Midland Independent Newspapers, which achieved a stock market listing in 1994 before being bought by Mirror Group in 1997. This previous sector experience, together with the opportunity to work with the key members of the same management team, was a significant factor in our decision to invest.

Our third investment was in TeleCast Communications, a leveraged buildup vehicle in the media and event services industry. Its strategic objective is to grow by acquisition, consolidating suppliers of services to the broadcast media and business communications market. TeleCast has made three acquisitions to date, with the 1997 Fund investing £20.6 million and Candover investing £2.7 million.

Claverham, Regional Independent Media and TeleCast have all made good progress during the year and are actively considering acquisition opportunities with our support.

We made a number of follow-on investments. Three were to specialist funds and the fourth was to provide additional

capital, alongside the 1994 Fund, to support Camden Motors' continued development. The total invested by Candover during the year was £13.7 million, with the 1997 Fund investing £90.4 million and the 1994 Fund investing £1.5 million.

Since the year end we have invested in publicly listed ASW Holdings, a specialist steel manufacturer, to enable it to acquire a major competitor. ASW's consolidated position makes it the UK market leader in its field and one of Europe's lowest cost producers. Candover and the 1997 Fund's core investment comprised £29 million of unlisted convertible loan notes. Additionally, in an innovative use of private equity, we underpinned an open offer of shares through a commitment to subscribe to further notes to the extent that the open offer was not taken up. After subscribing to a further £7.8 million of loan notes, our total investment in ASW comprised £36.8 million, with the 1997 Fund investing £32.5 million and Candover investing £4.3 million. This deal marks a new direction for us, which we hope will prove attractive to other smaller quoted companies currently constrained by inability to raise sufficient funds from conventional sources for major strategic acquisitions or investments.

Realisations

Realisations totalled £84.7 million, of which Candover's share was £17.8m, in a difficult and volatile exit environment, particularly during the second half of the year. Of the eight realisations made, three proved particularly successful for Candover and the respective funds.

The most significant was the merger and subsequent flotation of terrestrial broadcast transmitter Castle Transmission International (CTI). Candover was part of an international consortium which backed the formation of CTI to buy the BBC's home transmission business in February 1997. The business demonstrated potential to grow substantially and in its first year won contracts for the launch of digital terrestrial television. In April 1998, Candover and the 1994 Fund sold 40% of their holding in CTI for an amount equivalent to the total cost of the investment in order to facilitate the merger of the company with its US sister company, Crown Castle International.

Chief Executive's report

The merged entity then successfully obtained an initial public offering on NASDAQ in August, realising substantial potential capital gains for Candover and the 1994 Fund.

Candover and the 1994 Fund valued their holding in Crown Castle at a 25% discount to the listed share price at 31st December, 1998 to reflect the restrictions on liquidity that are conventional with this type of listing.

In July, Orion Publishing Group, a 1991 Fund investment, was sold to French publishing house Hachette; and in October, Albion Automotive, another 1994 Fund investment, was sold to American Axle. Candover led the institutional financing of Albion, a Glasgow-based manufacturer of commercial vehicle components, in 1995.

Overseas activities

In 1998 we progressed our aim of participating in buyouts in Continental Western Europe by recruiting additional executives with appropriate linguistic and technical skills to originate and transact deals primarily in France, Germany and the Benelux. The increase in Continental deal flow has been encouraging and we anticipate that it should lead to significant investments by Candover and the 1997 Fund on the Continent in due course.

Outlook

The overall performance of our portfolio companies in 1998 has been good, with most of them trading in line with or ahead of their budgets. We will continue to monitor their progress carefully over the months ahead and seek out realisation opportunities when it becomes appropriate to do so. The strengthening of the executive team in 1998 leaves us better equipped to transact deals in Continental Europe, in addition to continuing to take advantage of the strong flow of investment opportunities we see in the UK.



S W Curran
25th March, 1999

In addition to investing on its own account, Candover invests under a co-investment agreement with third party managed funds which are managed by the Candover Group subsidiaries, principally Candover Partners.

The status of the funds that have not been terminated is as follows:

The Candover 1987 Fund was constituted in May 1987 with funds of £30 million. During 1998 the Fund disposed of two investments: BPC where a small amount was returned against the provision previously made; and Cambridge Capacitors. Two investments now remain in the portfolio. As at 31st December, 1998, £32.8 million had been returned to investors.

The Candover 1991 Fund had total commitments of £37.5 million including a £5 million co-investment from Candover, at its final closing on 30th April, 1992. The investment period of this Fund was formally terminated on 30th April, 1998 although the capacity to make modest follow-on investments remains. No new or follow-on investments were made in the year. During 1998, Orion Publishing Group was sold to Hachette, producing a capital gain of £3.7 million for the Fund. The Fund has drawn down £26 million for investment and to date has returned £52.8 million. Three investments now remain in the portfolio with the prospect of further profitable realisations in due course.

The Candover 1994 Fund had a final closing on 28th February, 1995 with total commitments of £307.5 million including £70 million from Candover. The investment period of the 1994 Fund was formally terminated on 16th December, 1997 although the capacity to make follow-on investments remains. During the year, the Fund provided additional finance of £1.6 million for one existing investment and made significant capital gains from the realisations of Castle Transmission International and Albion Automotive. The Fund has called down £171 million for investment in thirteen transactions and has returned £159.7 million to date. Following the sales referred to above, together with the earlier realisations of Eversholt and European Rail Catering, there are now nine companies remaining in the 1994 Fund portfolio, together with a holding of listed shares in Crown Castle International. It is anticipated that the realisation programme for this Fund should produce further satisfactory returns over the next two to three years.

The Candover 1997 Fund had a final closing on 22nd January, 1998 with total third party commitments amounting to £750 million, and a further £100 million provided by Candover under a co-investment agreement. The Fund has made four investments to date, drawing down a total of £139.9 million.

Candover's investment approach

Candover is an independent company investing principally in large buyouts. Private equity investment has shown good quality returns in recent years, and Candover's performance has consistently ranked it among the leaders. Our success is underpinned by an emphasis on quality management – both our own and in investee companies – and a distinctive approach.

Candover works with ambitious, entrepreneurial people whose vision matches our own: vendors, advisers and, of course, management teams. In recent years, two-thirds of deals have involved incumbent managers; others are headed by teams that we have introduced. Candover's approach is to work in close partnership with management teams and to ensure that they can perform at their best. To that end, managers always have an equity stake with the potential to produce substantial rewards.

There is no set Candover formula – we treat every business as unique – but there is a clear guiding philosophy. We look for the fundamentals: a good team and good growth prospects. Once we have identified an opportunity we pursue it rigorously, only making investments that we believe in wholeheartedly. The scale of Candover's resources means that we can support portfolio companies' growth plans with follow-on funds as appropriate, and increasingly our strategy is to focus on companies that can be built rapidly through add-on acquisitions. When the time is right – and with managements' support – we seek an exit that rewards all participants fully for their time, capital and risk.

Review of twenty largest investments

Crown Castle International Corp Tower operator

Candover's investment as at 31st December

	1998	1997
Cost of investment	£3,625,000	£6,043,000

Directors' valuation **US\$41,065,876** **£9,590,000**

	(£24,584,000)	
Effective equity interest (fully diluted)	2.8%	5.0%
% of Candover's net assets	12.3%	6.0%
Basis of valuation: Discounted quoted market price		

Candover's involvement in the acquisition of the BBC's home service transmission business demonstrates our willingness not to be constrained by the buyout label and to be proactive in generating deal flow. We joined the multinational consortium that bought this business in February 1997.

Crown Castle owns a network of transmitter towers in the USA and the UK. We originally invested in the buyout of the BBC Transmitters Network for £244 million to form Castle Transmission International. This was subsequently merged into Crown Castle and at the same time listed on the NASDAQ market in August 1998 at US\$13 a share. In April 1998 as part of the process to facilitate this merger and listing, we made a partial profitable realisation of our investment, recovering the cost of Candover's original £6 million investment and the Candover 1994 Fund's £20.9 million. Since the listing, the share price has increased substantially but due to continuing share dealing restrictions we have valued our holding at a significant discount to market value.

In the year to 31st December, 1998 Crown Castle achieved earnings before interest, tax, depreciation and amortisation of US\$37.1 million on revenues of US\$113.1 million (1997: earnings before interest, tax, depreciation and amortisation of US\$3.5 million on revenues of US\$31.4 million).

Candover received no dividends in the year ended 31st December, 1998 (1997: £Nil).

Newmond plc Construction, heating and home products

Candover's investment as at 31st December

	1998	1997
Cost of investment	£9,398,000	£9,398,000

Directors' valuation **£7,190,000** **£9,398,000**

Effective equity interest (fully diluted)	3.8%	3.8%
% of Candover's net assets	3.6%	5.9%
Basis of valuation: Multiple of earnings		

A good knowledge and understanding of the sector gained from supporting the buyout of Caradon in 1985 was influential in our decision to pursue this investment.

Newmond consists of a group of businesses acquired from Williams in December 1996. These included Rawlplug and Ancon Clark (fixings), Heatrae Sadia (electric showers and water heating), Aqualisa (showers) and Valor (gas fires). Candover originally invested £15.7 million in this transaction and the Candover 1994 Fund and Candover 1991 Fund invested £34.9 million and £4.3 million respectively, but in 1997 this was reduced following syndication to third party investors.

In the year to 31st December, 1997 Newmond achieved profits before interest and tax of £35.4 million on sales of £268.4 million.

Candover received no dividends in the year ended 31st December, 1998 (1997: £Nil).

Review of twenty largest investments

Regional Independent Media Holdings Limited Regional newspaper publishing

Candover's investment as at 31st December

1998

Cost of investment

£6,503,000

Directors' valuation

£6,503,000

Effective equity interest (fully diluted)

4.9%

% of Candover's net assets

3.3%

Basis of valuation: Cost

This is Candover's second venture in regional newspapers, following our 1991 buyout of Midland Independent Newspapers. The opportunity to work with key members of the same team was one of the reasons for our decision to invest.

Candover announced the purchase of UPN Holdings Limited for a total consideration of £360 million on 27th February, 1998. Now renamed Regional Independent Media, it has a total of 44 titles consisting of dailies, weekly paid and weekly free newspapers. It has one of the UK's best portfolios of regional newspapers, with market leadership in Yorkshire and a strong presence in North West England. Its flagship titles are the Yorkshire Post, the Yorkshire Evening Post, The Star, the Lancashire Evening Post and the Wigan Evening Post.

Profit before interest and tax for the year ended 31st December, 1998 was £31.5 million on sales of £149 million.

Candover received no dividends in the year ended 31st December, 1998.

Camden Motors Limited Motor dealership

Candover's investment as at 31st December

1998

1997

Cost of investment

£3,897,000

£3,449,000

Directors' valuation

£5,078,000

£4,545,000

Effective equity interest (fully diluted)

10.6%

10.6%

% of Candover's net assets

2.5%

2.8%

Basis of valuation: Multiple of earnings

We aim to help investee managements build substantial businesses and are willing, where appropriate, to provide additional investment in support of this aim. During 1998 we injected additional capital into this successful motor group to finance a strategic acquisition.

Camden is one of the UK's top 20 motor retailers and operates a multi-franchise network covering Ford, Vauxhall, Peugeot, Rover, Renault, Nissan, Volkswagen, Audi, Honda, Fiat and Alfa Romeo. It was a buyout from Barclays Bank in November 1996, in which Candover invested £2.3 million and the Candover 1994 Fund invested £7.9 million. During the year Candover invested a further £0.45 million as part of the funding to support the development of a company specialising in the financing of second hand car sales.

Profits before interest and tax, excluding SPA Holdings and before one-off restructuring costs following the acquisition of Charles H Allen Limited, for the year ended 31st December, 1998 were £7.9 million on sales of £492.8 million (1997: 13 months period £4.6 million on sales of £339.5 million).

Candover received gross dividends of £103,828 in the year ended 31st December, 1998 (1997: £140,748).

Shepperton Holdings Limited Film studio

Candover's investment as at 31st December

1998

1997

Cost of investment

£2,616,000

£2,616,000

Directors' valuation

£4,422,000

£3,693,000

Effective equity interest

10.1%

10.1%

% of Candover's net assets

2.2%

2.3%

Basis of valuation: Multiple of earnings

The quality of management is always a primary consideration. We supported film-makers Ridley and Tony Scott and the well regarded Shepperton management team in 1995 because of their experience, worldwide contacts and record of box office success. In 1997 we invested again to support the team's ambition to diversify into digital special effects.

Shepperton, in which Candover and the Candover 1994 Fund invested in January 1995, is a major film and TV studio complex. In July 1997, Shepperton acquired a 40% interest in The Mill (Facility) Limited and its subsidiary Millfilm, a company producing the computerised digital special effects used in many modern films. Now upgraded, Shepperton is regarded as one of the finest film and TV studios in Europe. Films recently produced include "Lost in Space" and "Shakespeare in Love". In addition, production work continues on a range of film and TV advertisements. Millfilm has recently completed the special effects on "Enemy of the State" and "Babe 2".

Profits before interest and tax for the year ended 31st December, 1997 were £3 million on sales of £12.5 million (1996: £2.7 million on sales of £11.2 million).

Candover received gross dividends of £163,668 in the year ended 31st December, 1998 (1997: £92,050).

Cork Industries Limited Engineering group

Candover's investment as at 31st December

1998

1997

Cost of investment

£4,390,000

£4,419,000

Directors' valuation

£4,390,000

£4,419,000

Effective equity interest

11.1%

11.1%

% of Candover's net assets

2.2%

2.8%

Basis of valuation: Cost

Cork Industries was created as a leveraged buildup. Its strategy is to build an international engineering group through acquisitions and organic growth, capitalising on the opportunities arising from consolidation in the engineering sector. We backed a team headed by Nigel McCorkell, former Deputy Chairman of Meggitt, to create Cork with three initial acquisitions. It has since made six more.

Cork Industries is a focused group of companies specialising in aerospace and power transmission. Candover and the Candover 1994 Fund made their original investments in June 1996. To date Candover has invested £4.4 million and the Candover 1994 Fund £15.4 million.

In the year to 30th June, 1998 profits before interest and tax were £5.5 million on sales of £46.6 million as against £3.1 million on sales of £35.5 million in the thirteen months to 30th June, 1997. In September 1998 Cork acquired Burnham Products Inc, a US manufacturer of ducting, for £12 million.

Candover received no dividends in the year ended 31st December, 1998 (1997: £205,017).

Review of twenty largest investments

MC International SA Design, installation and maintenance of refrigeration equipment

Candover's investment as at 31st December	1998	1997
Cost of investment	FFr897,000	FFr10,824,000
	(£100,000)	(£1,206,000)

Directors' valuation **FFr38,435,000** **FFr10,824,000**

	(£4,135,000)	(£1,093,000)
Effective equity interest	3.6%	6.4%
% of Candover's net assets	2.1%	0.7%
Basis of valuation: Multiple of earnings		

This was the first step in what we intend to become a substantial programme of investment in Continental Europe. Working with Chevrillon Philippe, our joint venture partner in France, we identified MC International (MCI) as a potential disposal candidate and approached management with the idea of a buyout. We were the successful bidders in an auction.

MCI designs, installs and maintains refrigeration and chilling systems, which it supplies mainly to large supermarket and hypermarket chains. The company operates in France and increasingly in other European countries.

In the year ended 31st January, 1998 it had sales of FFr1.4 billion (£143.7 million) and profit before interest and tax of FFr104.1 million (£10.4 million). In December 1998, MCI repaid all of its outstanding loans to investors.

Candover received no dividends in the year ended 31st December, 1998.

Dakota, Minnesota & Eastern Railroad Corporation Railroad operations

Candover's investment as at 31st December	1998	1997
Cost of investment	US\$1,478,000	US\$1,478,000
	(£888,000)	(£888,000)

Directors' valuation **US\$6,027,000** **US\$6,027,000**

	(£3,622,000)	(£3,664,000)
Effective equity interest (fully diluted)	10.5%	12.3%
% of Candover's net assets	1.8%	2.3%
Basis of valuation: Multiple of earnings		

Our investment in DM&E was co-ordinated by Lombard Investments Inc.

DM&E Railroad operates 1,105 miles of track in the USA, mainly in South Dakota and Minnesota. Candover and the Hoare Candover Exempt Fund originally invested in this company in September 1986 in a transaction organised by Lombard Investments, Inc. There are large quantities of low sulphur coal in the Powder River Basin which adjoins part of DM&E's network, and DM&E is exploring ways to extend its rail line in order to participate in the market for the transportation of this coal.

Profits before interest and tax for the year ended 31st December, 1998 were US\$11.1 million on sales of US\$56.9 million (1997: US\$7.6 million on sales of US\$57.5 million).

Candover received dividends of US\$24,307 (£14,608) in the year ended 31st December, 1998 (1997: £Nil).

Erycinus plc Insurance broker

Candover's investment as at 31st December

1998

1997

Cost of investment

£3,552,000

£3,552,000

Directors' valuation

£3,552,000

£3,552,000

Effective equity interest (fully diluted)

3.6%

3.6%

% of Candover's net assets

1.8%

2.2%

Basis of valuation: Cost

Several factors made this complex public-to-private buyout possible. Only four institutions needed to sell to transfer control. We had experience of three previous insurance buyouts. And, most importantly, there was an able executive team in place. Since the buyout the emphasis has been on re-engineering the culture – some 110 of the company's staff now hold equity – and reducing its cost base.

Erycinus is the holding company that owns the business of C E Heath plc, an international Lloyds broker, which was de-listed in August 1997. Candover invested £3.6 million and the Candover 1994 Fund invested £12.5 million.

Profits before interest and tax for the period 22nd July, 1997 to 31st March, 1998 were £4.4 million on turnover of £81.4 million.

Candover received no dividends in the year ended 31st December, 1998 (1997: £Nil).

Jarvis Hotels plc Hotel owners and managers

Candover's investment as at 31st December

1998

1997

Cost of investment

£1,054,000

£1,054,000

Directors' valuation

£3,420,000

£4,506,000

Equity interest

1.7%

1.7%

% of Candover's net assets

1.7%

2.8%

Earnings per share (net basis) before exceptional items

16.7p

13.0p

Dividend cover

3.7x

3.3x

Basis of valuation: Quoted market price

In 1990 we backed John Jarvis, previously Chairman of Hilton International, in his buyout of 41 Embassy Hotels from Allied Lyons. Through a strategy of acquisition and introducing new products the company has grown to be the UK's eighth largest hotel chain with 64 hotels and over 5,000 rooms.

Jarvis Hotels owns and manages a nationwide portfolio of hotels under the Jarvis name offering conference training and leisure facilities. Candover invested in 1990, together with the Candover 1987 and 1989 Funds. The company was listed on the London Stock Exchange in June 1996.

In the half year to 11th October, 1998 profits before interest, tax and exceptional items were £22.9 million on sales of £77.6 million, as against comparable profits of £20.6 million on sales of £73.1 million for the same period last year. In the year to 29th March, 1998 profits before interest and tax were £36.5 million on sales of £136.5 million (1997: profits before interest and tax of £29 million before exceptional items on listing, on sales of £118.2 million).

Candover received gross dividends of £167,287 in the year ended 31st December, 1998 (1997: £111,525).

Review of twenty largest investments

Alpinvest Holding N.V. Investment company

Candover's investment as at 31st December	1998	1997
Cost of investment	DFL9,280,000	DFL9,280,000
	(£2,920,000)	(£2,920,000)

Directors' valuation DFL8,750,000 DFL8,640,000

	(£2,803,000)	(£2,590,000)
Equity interest (fully diluted)	0.9%	0.9%
% of Candover's net assets	1.4%	1.6%
Earnings per share	DFL5.4	DFL4.9
Basis of valuation: Quoted market price		

Candover has a growing relationship with Alpinvest, which is not only an institutional investor in both the Candover 1994 and 1997 Funds but also a holder of 4.3% of Candover's ordinary shares.

Alpinvest is a Netherlands-based independent investment company with a focus on Western Europe, which listed on the Amsterdam Stock Exchange in June 1997. Candover made its investment at the time of the listing, partly recognising its relationship with Alpinvest and partly as a straightforward long-term investment.

Operating profits for the year ended 31st December, 1998 were DFL26.9 million on total dividend and interest income of DFL42.5 million. For the previous year profits were DFL18.7 million after flotation costs of DFL3.4 million on total dividend and interest income of DFL35.9 million.

Candover received no dividends in the year ended 31st December, 1998 (1997: £Nil).

Claverham Limited Aerospace engineering

Candover's investment as at 31st December	1998
Cost of investment	£2,764,000

Directors' valuation £2,764,000

Effective Equity interest (fully diluted)	8.4%
% of Candover's net assets	1.4%
Basis of valuation: Cost	

Candover knew the vendor well: it was Fairey Group, whose buyout from Pearson we led in 1986. Fairey was floated in 1988. Claverham is performing ahead of its business plan and is actively considering acquisition and joint venture opportunities.

Claverham, formerly Fairey Hydraulics Limited, a subsidiary of Fairey Group plc, designs, manufactures and supports actuation systems, hydraulic systems and landing gear mainly for the defence, aerospace and specialist industrial markets. The buyout of Claverham, completed in January 1998, was the first investment made by the Candover 1997 Fund. The fund invested £20.8 million and Candover invested £2.8 million.

There are no audited results available for this company since the date of the investment.

Candover received no dividends in the year ended 31st December, 1998.

TeleCast Communications Limited Media and event services

Candover's investment as at 31st December

1998

Cost of investment

£2,742,000

Directors' valuation

£2,742,000

Effective equity interest (fully diluted)

7.4%

% of Candover's net assets

1.4%

Basis of valuation: Cost

This is another leveraged buildup vehicle. Its strategic objective is to grow by acquisition, consolidating suppliers of services to the broadcast media and business communications market.

TeleCast currently comprises of two divisions, the Broadcast Equipment Rental division and the Event Staging division. To date, three companies have been acquired and it is anticipated that further acquisitions will follow shortly.

Candover has invested £2.7 million and the Candover 1997 Fund £20.6 million.

There are no audited results available for this company since the date of investment.

Candover received no dividends in the year ended 31st December, 1998.

The Smith Group Holdings plc Information technology solutions consultancy

Candover's investment as at 31st December

1998

1997

Cost of investment

£1,445,000

£1,445,000

Directors' valuation

£2,047,000

£1,445,000

Effective equity interest

8.0%

8.0%

% of Candover's net assets

1.0%

0.9%

Basis of valuation: Multiple of earnings

We backed Tom Black, Managing Director of The Smith Group, to acquire the business from its founder. As a result of the buyout, the company has been able to offer shares to a significant proportion of its consultants and to refocus the business on areas of core competence.

The Smith Group Holdings plc is a leading consultancy firm providing advice to organisations planning major investments in advanced technology, particularly in the fields of communications and information systems. The buyout was completed in June 1997, with Candover investing £1.5 million and the Candover 1994 Fund investing £5 million.

In the period ended 31st March, 1998 profits before interest and tax were £1.7 million on turnover of £12.1 million.

For the year ended 31st December, 1998 Candover received gross dividends totalling £63,203 (1997: £16,687).

Review of twenty largest investments

BIP Group Limited Chemicals

Candover's investment as at 31st December

1998

1997

Cost of investment

£1,901,000

£1,901,000

Directors' valuation

£1,901,000

£1,901,000

Effective equity interest (fully diluted)

5.7%

5.7%

% of Candover's net assets

1.0%

1.2%

Basis of valuation: Cost

We backed an experienced buyin team to acquire BIP from the T&N group in October 1995. Since that time, profits have increased notwithstanding difficult trading conditions.

BIP produces a wide range of moulding materials and speciality resins which are marketed to a range of customers with diverse end-user applications. Candover and the Candover 1994 Fund invested £8.5 million in October 1995.

In the year to 27th December, 1997 profits before interest and tax were £5.9 million on sales of £80.1 million, compared to £3.1 million on sales of £100 million for the previous 17 month period to 28th December, 1996.

Candover received no dividends in the year ended 31st December, 1998 (1997: £Nil).

BTG plc Technology transfer

Candover's investment as at 31st December

1998

1997

Cost of investment

£77,000

£77,000

Directors' valuation

£1,750,000

£3,400,000

Equity interest

0.6%

0.6%

% of Candover's net assets

0.9%

2.1%

Loss per share

(10.0p)

(3.31p)

Dividend cover

(10.8x)

(4.1x)

Basis of valuation: Quoted market price

Candover was part of the equity syndicate which invested in the buyout of BTG from the Government in 1992.

BTG is one of the world's leading specialist technology transfer companies. It identifies and seeks to obtain commercially promising technology from a broad range of academic and corporate sources, which it usually protects by applying for patents and then licenses to companies throughout the world.

BTG listed on the London Stock Exchange on 6th June, 1995. During the year the business of Torotrak was demerged in order to permit its continued development and Candover was granted one new share in Torotrak for every BTG share held.

On 31st December, 1998 Candover's investment in Torotrak was valued at £427,500.

In the six months to 30th September, 1998 BTG showed a loss before interest and tax of £5.9 million on turnover of £8.6 million as against a loss of £4.7 million on turnover of £9 million for the same period in the previous year. In the full year to 31st March, 1997 losses before interest and tax were £9 million on turnover of £19.8 million (1996: loss of £3 million on turnover of £22.5 million).

Candover received gross dividends of £5,775 in the year ended 31st December, 1998 (1997: £5,500).

Provend Group plc Vending services

Candover's investment as at 31st December

1998

1997

Cost of investment

£30,000

£30,000

Directors' valuation

£1,495,000

£1,764,000

Equity interest (fully diluted)

6.7%

6.7%

% of Candover's net assets

0.7%

1.1%

Earnings per share after exceptional items

11.6p

9.6p

Dividend cover

2.6x

3.2x

Basis of valuation: Quoted market price

The company's strong market share and high quality customer base, combined with the turnaround experience of the Managing Director were influential in our decision to back the buyout of Provend from Sketchley in 1991. The company was listed on the London Stock Exchange in November 1996.

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

For the six months ended 28th December, 1998 profits before interest and tax were £1.7 million on sales of £33.1 million as against £1.4 million on sales of £31.2 million for the same period in the previous year. In the year ended 28th June, 1998 profits before interest and tax were £3.1 million on sales of £62.5 million (1997: profits of £2.6 million on sales of £52.3 million).

On 8th March, 1999 Bunzl announced an offer to purchase Provend at 165p per share. In addition to the share price, shareholders will retain the right to receive a final dividend of 2p per share. At the offer price Candover's holding, including the dividend, is valued at £2 million.

Candover received gross dividends for the year ended 31st December, 1998 totalling £67,274 (1997: £44,850).

Ciclad 2 French buyout fund

Candover's investment as at 31st December

1998

1997

Cost of investment

FFr10,325,000

FFr6,6165,000

(£1,159,000)

(£725,000)

Directors' valuation

FFr13,465,000

FFr5,014,000

(£1,449,000)

(£506,000)

% of Candover's net assets

0.7%

0.6%

Basis of valuation: Share of fund assets

Ciclad 2 is a FFr300 million French fund to which Candover has committed FFr20 million of which FFr10.3 million (£1.2 million) has been drawn down. The fund is managed by the same team that managed the successful Ciclad I Fund where Candover received a return of 3.6x its original investment.

Review of twenty largest investments

Alupac Holding, Inc Packaging materials

Candover's investment as at 31st December	1998	1997
Cost of investment	US\$204,000	US\$204,000
	(£121,000)	(£121,000)
Directors' valuation	US\$2,398,000	US\$2,398,000
	(£1,441,000)	(£1,457,000)
Effective equity interest (fully diluted)	15.9%	15.9%
% of Candover's net assets	0.7%	0.9%
Basis of valuation: Multiple of earnings		

This was a transaction organised for us by Lombard Investments Inc in April 1989.

Alupac is a manufacturer of packaging materials based in Belpre and Caldwell, Ohio, USA.

In the year ended 31st December, 1997 profits before interest and tax were US\$3.8 million on sales of US\$59.7 million (1996: US\$3.1 million on sales of US\$52.2 million).

Candover received no dividends in the year ended 31st December, 1998 (1997: £Nil).

Midlands Mining Limited Colliery management

Candover's investment as at 31st December	1998	1997
Cost of investment	£2,485,000	£2,485,000
Directors' valuation	£1,232,000	£1,232,000
Effective equity interest (fully diluted)	17%	17%
% of Candover's net assets	0.6%	0.8%
Basis of valuation: Cost less provision		

Midlands Mining Limited was a buyout in June 1996 from the administrators of Coal Investments of the Silverdale mine in Newcastle-under-Lyme and the Annesley Bentinck mine in Nottinghamshire.

In December 1998, the Silverdale mine was closed and in January 1999 the decision was made to close the Annesley Bentinck mine later in the year. It is therefore expected that the company will cease to trade during the year 2000.

During the year ended 31st May, 1998 the loss before interest and tax was £17.2 million (after £14.3 million of exceptional items) on sales of £57.8 million as against profits before interest and tax of £2.6 million on sales of £57.3 million in the period to 31st May, 1997. The exceptional items relate to writedowns of assets and provisions for closure costs.

No dividends were received by Candover in the year ended 31st December, 1998 (1997: £1,971).

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, profits before interest and tax of the current year will normally be used, depending on whether or not more than six months of the accounting period remains and the predictability of future profits. Such profits 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 usually related to comparable quoted companies and are normally discounted by 25 per cent. The discount used may be lower where, for example, 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.

The board of directors



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 Cinven. He is a non-executive director of Greggs plc, Jarvis Hotels plc and a number of unquoted companies. Mr Curran is 56.



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 spent eight years with ICFC (3i) followed by two years with the British Technology Group (now BTG plc). He is a non-executive director of BTG plc, Stoves plc, and several unquoted companies in the Candover portfolio. Mr Fairservice is 51.



C R E Brooke MA
Chairman, non-executive

Mr Brooke, Chief Executive of Candover from its formation in 1980, was appointed Chairman on 1st January, 1991 and with effect from February 1996 he became non-executive Chairman. He is Chairman of Innisfree Limited and also a non-executive director of Slough Estates plc, Lambert Fenchurch Group plc, Tarmac plc, Wembley plc and various unquoted companies. In November 1998 he completed his term as Chairman of the Audit Commission. Mr Brooke is 68.



A P Hichens^{††} MA MSc
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 Deputy Chairman of Courtaulds Textiles plc and Lasmo plc. He is also a non-executive director of 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 62.



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 Estates in 1986 he held senior appointments at Cadbury Schweppes PLC and Wilkinson Match Limited. He is a non-executive director of Westbury plc. Mr Wilson is 54.



P J Scott Plummer*§† FCA

Non-executive

Mr Scott Plummer was appointed to the Candover board in December 1985. He was appointed Chief Executive of Martin Currie Limited in April 1996 and is Chairman of its subsidiary, Martin Currie Investment Management Limited, 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 55.



C J Buffin MA ACA

Managing Director

Mr Buffin was appointed joint Managing Director on 9th March, 1998. He is also a director of Candover Partners Limited and other Candover subsidiaries. He joined Candover in September 1985, from Deloitte Haskins & Sells where he spent two years in the investigations and corporate finance departments after qualifying as a chartered accountant. Mr Buffin has been responsible for a number of transactions which have led to Stock Exchange listings or trade sales, including the buyouts of Motor World Group PLC, Midland Independent Newspapers plc and Eversholt Leasing Limited. Mr Buffin led the buyout of Regional Independent Media Group plc in February 1998. He is a non-executive director of a number of unquoted companies in the Candover portfolio. Mr Buffin is 41.



J G West*§ FCA

Non-executive

Mr West who was appointed to the Candover board 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 Fledgling Index Trust plc and a non-executive director of Aberdeen New Dawn Investment Trust plc, British Assets Trust plc, Bensons Crisps plc, Middlesex Holdings plc and various unquoted companies. Mr West is 51.



R A P King*

Non-executive

Mr King was appointed to the board 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 64.



M S Gumienny ACA

Managing Director

Mr Gumienny was appointed joint Managing Director on 9th March, 1998. He is also a director of Candover Partners Limited and other Candover subsidiaries. Prior to joining Candover in January 1987 he qualified as a Chartered Accountant with Price Waterhouse. Transactions led by Mr Gumienny include Lowndes Lambert Group (now Lambert Fenchurch Group plc), Economic Insurance Company Limited, Shepperton Holdings Limited, Cork Industries Limited, Camden Motors Limited, Newmond plc and the de-listing of C E Heath plc. Mr Gumienny is a non-executive director of Provend Group plc and a number of unquoted companies in the Candover portfolio. Mr Gumienny is 40.

* Member of the remuneration committee

§ Member of the audit committee

† Member of the nomination committee

Report of the directors

The directors present their report together with the financial statements for the year ended 31st December, 1998.

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 26.

Candover is engaged principally in the identification, implementation and monitoring of large buyouts and buyins. 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, principally Candover Partners Limited, which is regulated by IMRO. Candover participates in the profit made in certain of these Funds subject to an overall minimum return having first been generated for investors in the Funds. This minimum return varies from Fund to Fund. Subject to the minimum return having first been achieved, Candover will participate in 7 per cent of any profit made in the Candover 1997 Fund.

These Funds and the investment activities of each fund is set out under the 'Status of funds' on page 9.

Results and review of business

The Group profit for the financial year after taxation was £8,547,000 compared with £5,520,000 for the year ended 31st December, 1997. Revenue was £20,739,000 as against £12,106,000 for the previous year. Administrative expenses charged to revenue were £8,625,000 compared with £4,827,000. The changes in fixed asset investments are described together with a review of the Group's activities in the Chairman's statement and Chief Executive's report on pages 4 and 7.

Dividend and proposed transfer to reserves

The directors recommend the payment of a final dividend of £3,867,000 equal to 17p per ordinary share (1997: £3,454,000, equal to 15p per share) giving a total dividend

for the year of £5,687,000 equal to 25p per ordinary share (1997: £4,591,000 equal to 20p per share). Payment of the dividend will be made on 20th May, 1999 to holders on the register at the close of business on 30th April, 1999. The dividend details are shown in Note 7 on page 47.

After payment of the dividend, there is a profit of £2,860,000 in respect of the year ended 31st December, 1998 which the directors propose to carry to reserves (1997: profit of £929,000 carried to reserves).

Directors

The directors listed below served on the board during the year and except where indicated were in office at the end of the year.

C R E Brooke*	A P Hitchens*
R A P King*	J G West*
S W Curran	D R Wilson*
G D Fairservice	C J Buffin (appointed 9th March, 1998)
P J Scott Plummer*	M S Gumienny (appointed 9th March, 1998)
	J M Raisman* (retired 14th May, 1998)

* non-executive

Messrs C R E Brooke and R A P King have indicated their intention to retire as directors immediately following the 1999 Annual General Meeting.

In accordance with the Articles of Association Messrs S W Curran, A P Hitchens and D R Wilson will retire by rotation and, being eligible, will offer themselves for re-election. Of those seeking re-election, only Mr S W Curran has a service contract, which has a two year notice period.

The biographical details of the serving directors and those seeking re-election appear on pages 22 and 23.

Directors' interests

The statements in respect of directors' interests in the share capital, contracts or any other matter requiring disclosure are contained in the corporate governance report on pages 27 to 33 and in Note 3 to the financial statements on pages 44 to 46.

Notifiable interests in the Company's shares

The Company has been advised of the following notifiable interests in excess of 3 per cent of the issued share capital of the Company at 8th March, 1999.

	Number	%
Schroder Investment Management Limited	2,868,617	12.6
Electra Investment Trust plc	2,000,000	8.8
The Scottish Eastern Investment Trust plc	1,875,000	8.3
Prudential Corporation	1,497,086	6.6
BP Pension Trustees Limited	1,345,743	5.9
Royal Life Insurance Limited	1,237,000	5.4
British Airways Pension Fund	984,666	4.3
Alpinvest Holding N.V.	980,000	4.3
Totals	12,788,112	56.2

Political and charitable donations

During the year £46,851 (1997: £31,175) was given for charitable purposes. There were no political donations made during the year (1997: Nil).

Annual General Meeting

The Annual General Meeting of the Company will be held on Tuesday 11th May, 1999 at 12 noon at the Howard Hotel, Temple Place, London WC2; the notice of meeting appears on pages 59 and 60.

In addition to the ordinary business of the meeting certain Special Business will be put to shareholders.

Under Resolution 7, it is proposed to allow your directors the authority to issue new shares for cash, without following the statutory pre-emption procedures, so long as such issue does not exceed £284,346 (being 5 per cent 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 the above authority. These guidelines require prior consultation with the IPC before making any issue under the 5 per cent element of the authority but which exceeds 7.5 per cent in any rolling three year period. This authority will expire at the next Annual General Meeting or on 11th August, 2000, whichever is earlier.

Resolution 8 contained in the Notice of Annual General Meeting dated 25th March, 1999, if passed, authorises the Company to purchase up to 3,409,878 of its shares. This authority will expire at the next Annual General Meeting of the Company or on 11th November, 2000 if the next Annual General Meeting has not been held by then. This Resolution also sets out the highest and lowest price at which the shares can be bought. If the Company buys any shares under this authority, they will be cancelled. The Resolution follows the rules set down by the Companies Act 1985 and the London Stock Exchange.

The directors are committed to managing the Company's capital efficiently and will keep under review the possibility of buying back the Company's shares. However, they will only do this if the directors believe that it is in shareholders' best interests.

The directors consider the passing of Resolutions 7 and 8 to be in the best interests of the Company and its shareholders as a whole.

Supplier payment policy

The Group negotiates payment terms with its suppliers on an individual basis, with the normal arrangements being within 30 to 50 days from receipt of invoice. Trade creditor days of the Group for the year ended 31st December, 1998 were nine days based on the ratio of Group trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

Report of the directors

PEP / ISA 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. It is our understanding that Candover will not be eligible for ISA investment when ISAs succeed PEPs from April 1999.

Year 2000 compliance

As is widely known, many computer systems will have to be amended or replaced due to the effect of the Year 2000 problem which stems from computer programs using two digits rather than four to define relevant years.

We have addressed this issue in tandem with a general requirement to replace and upgrade all of the Company's computer systems. This exercise has already been implemented and is now largely complete. The total cost was approximately £170,000 and has mostly been taken into the previous year's accounts.

It has also been identified that there are potentially indirect risks to Candover arising from the Year 2000 impact upon our significant investee companies. Enquiries have been made of our significant investee companies as to their own Year 2000 risks and this review is ongoing. We have also requested confirmation of Year 2000 compliance from our trading partners with whom information is exchanged electronically.

The issue remains complex and no business can guarantee that there will be no Year 2000 problems. However, the board believes that its plans and the resources allocated are appropriate to address the issue. There is not expected to be any further significant expenditure by Candover above the cost already incurred.

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, 1997.

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

25th March, 1999



In June 1998, the Committee on Corporate Governance, chaired by Sir Ronald Hampel, published its principles of good governance and code of best practice, otherwise known as the Combined Code of the Committee on Corporate Governance (the "Combined Code"). This combined and rationalised the recommendations of the Cadbury, Greenbury and Hampel Reports into one corporate governance code.

Section 1 of the Combined Code sets out fourteen key principles of corporate governance. The listing rules of the London Stock Exchange (the "Listing Rules") have now been amended so that they require, amongst other things, a listed company to include in its annual report and accounts, for financial years ending on or after 31st December, 1998 a narrative statement as to how the company has applied these principles and to state whether the company has complied with the principles throughout the accounting period and if it has not, to provide an explanation of why not.

The following statement sets out the Company's application of the Combined Code. The Company has complied with the principles of good governance throughout the year except where noted in the statement.

Directors

The board

Corporate governance of Candover is achieved through the board which at the end of the year consisted of ten directors of whom four are executive and six are non-executive. During the year one non-executive director retired and two new executive directors were appointed as shown in the directors' report on page 24. Brief biographical details of the directors appear on pages 22 and 23 and the interests of the directors in the share capital of the Company are shown on page 45.

The board meets at least five times a year and there is a formal schedule of matters reserved for decision by the board.

Chairman and CEO

The responsibilities of the Chairman, Mr C R E Brooke are separated from those of the Chief Executive, Mr S W Curran. As referred to in the Chairman's statement on page 5 Mr Curran will be appointed Executive Chairman upon Mr Brooke's retirement and the day to day operational management of the Company will be taken over by the two managing directors, Mr C J Buffin and Mr M S Gumieny.

Board balance

The board maintained the appropriate balance between non-executive and executive directors throughout the year. All the non-executive directors have long and distinguished service on the board of more than ten years, except Mr D R Wilson who has served for five years. Mr C R E Brooke and Mr D R Wilson also hold cross-directorships. However, in the view of the board, no non-executive director has any relationships which could materially interfere with their independent judgement and are furthermore considered to be of sufficient calibre and experience to carry significant weight in reaching independent decisions.

Mr A P Hitchens is the senior independent director on the board.

Supply of information

The Chairman ensures that all directors are properly briefed on issues arising at board meetings. The Candover management provides the board with appropriate and timely information in order for the board to reach proper decisions. Where necessary the directors are able to independently verify this information by direct discussions with the Company's auditors.

Appointments to the board

In considering non-executive board appointments, the board is supported by a nomination committee whose remit is to identify appropriate candidates. All such appointments, together with the appointment of any executive directors are subject to final approval of the full board before ratification at a general meeting of shareholders.

The nomination committee, which is chaired by Mr A P Hichens, consists of three directors, a majority of whom are non-executive, and the present members of the committee are shown on pages 22 and 23. During the year the number of members dropped to two non-executive directors following the retirement of Mr J M Raisman in May 1998.

The nomination committee did not meet in 1998.

During the year the board considered the requirement of the Combined Code to provide suitable training to new directors following the appointments of Mr C J Buffin and Mr M S Gumienny to the board but considered such training to be inappropriate.

Re-election

The principle set out in the Combined Code is that all directors should be required to submit themselves for re-election at regular intervals and at least every three years. The Company's Articles of Association, however, provide for one-third of directors, or if their number is not a multiple of three, then the number nearest to (but not exceeding) one-third, to retire. The Combined Code further requires that the non-executive directors are appointed for specific terms. In view of the above conflicts the board considers that the current procedure, whereby both executive and non-executive directors are re-elected, subject to retirement by rotation, in accordance with the Company's Articles of Association, is satisfactory in view of the present size and structure of the board of directors.

Directors' remuneration

The board's policy in regard to directors' remuneration 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.

The Combined Code requires the board to annually consider whether shareholders should be invited at the AGM to approve the board's remuneration policy. This has been reviewed and in the opinion of the board this opportunity will not be provided this year to shareholders as they are considered to have ample opportunity to express their views on this issue when voting to re-elect directors following their retirement by rotation.

The remuneration committee which usually meets twice a year supports the board by determining the level of remuneration of the Chairman and executive directors. The committee is chaired by Mr A P Hichens and comprises three other non-executive directors, none of whom has any personal financial interests or conflicts of interest (other than as shareholders). In doing this it gives full consideration to the provisions of the Combined Code. The members of the committee are shown on pages 22 and 23.

The committee consults the Chairman and Chief Executive about its proposals and, if necessary, has access to professional advice from inside and outside the Company at the Company's expense. In future, consultation will be with the Executive Chairman and the Managing Directors.

The main elements of the executive directors' remuneration package, which are shown in greater detail on Note 3 on page 44, 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 private equity industry the results of which are reviewed by the committee in the light of Candover's relative performance.

Salaries

Salaries of the executive directors to be paid in 1998 were reviewed in December 1997 for implementation on 1st January, 1998. After considering the relative salary levels within the industry, the estimated increase in net assets, the profits for the year ended 31st December, 1997 and the successful raising of the £850 million Candover 1997 Fund, the committee approved an overall increase in executive directors' salaries of 28 per cent.

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 per cent 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 £8,883,516, a total of £222,088 will be paid to staff in respect of the year ended 31st December, 1998.

During the year ended 31st December, 1998 Messrs S W Curran, G D Fairservice, C J Buffin and M S Gumienny received performance related pay which in total was equal to 50 per cent of basic salary.

Share options

The share option scheme is no longer deemed the most important element of director's incentivisation at Candover following the Government's changes to the tax rules governing these schemes, and the Company's policy for the foreseeable future is to limit the grant of options under these schemes to appropriate executives or members of staff, within the Inland Revenue limits.

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.

In the year ended 31st December, 1998 no options were granted to, or exercised by, directors during the year and their interests in shares and share options are disclosed in the schedule under Note 3 to the accounts on page 46.

The details of the total 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 payable as a percentage of basic salary only and these are adjusted annually to reflect increases in salary. There is no pension promise under the Candover scheme.

Every three years the scheme is subject to actuarial review and a review was last completed on the executive pension scheme for the three years to 31st December, 1996 with the next actuarial review due to be carried out on the three years to 31st December, 1999. Following the latest actuarial review, contributions were revised in 1998 and the new contribution levels, which are related to the age of the individual, are not expected to change. The actual contributions made during the year in respect of directors is shown in Note 3 on page 45.

Some of the directors with the approval of the Remuneration Committee have elected to establish a funded unapproved retirement benefit scheme ("FURB"). Certain amounts were paid during the year by way of bonus sacrifice into the FURBs of Messrs S W Curran (£500) and M S Gumienny (£10,000) and these amounts are included under pension contributions in Note 3 of the accounts on page 45.

No further pension contributions are payable in respect of the Chairman who, during the year, was in receipt of an annual pension from his pension scheme in addition to the salary paid for his continuing role as non-executive Chairman. The arrangement whereby Mr C R E Brooke agreed to forego £50,000 per annum of his salary, subject to this amount being paid into a FURB also continued during the year.

Last year it was reported that it had been agreed that as part of the arrangements following Mr C R E Brooke's retirement from the board after the Annual General Meeting in 1999, a further ex-gratia sum would be paid to Mr C R E Brooke. This sum has now been determined at £150,000.

With regard to other benefits, there have been no changes to the death in service or health insurance arrangements. Under the company car scheme eligible directors are given the option to receive a company car or the equivalent cash benefit.

Incentive arrangements and co-investment scheme

Candover continues to recognise that, in order to remain competitive in the private equity 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 remuneration committee periodically but not on an annual basis, do not constitute a "long term incentive scheme" as defined by the Stock Exchange Listing Rules. However, the board has determined that it would be appropriate to refer to these arrangements as part of its report to shareholders.

Messrs S W Curran, G D Fairservice, C J Buffin and M S Gumienny together with certain other executives of the Company had, during the year, a beneficial interest in the Limited Partnerships of the Candover 1989 Fund, Candover 1991 Fund, the Candover 1994 Fund and the Candover 1997 Fund. Mr C R E Brooke had a beneficial interest in the Limited Partnerships of the Candover 1989 Fund, Candover 1991 Fund and the Candover 1994 Fund only. As previously reported, the participation of these directors and executives in such arrangements was approved by shareholders at an Extraordinary General Meeting of the Company held on 4th May, 1989.

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, £1.25 million in cash in respect of the Candover 1989 Fund and the Candover 1991 Fund was transferred to the Candover Executive Trust and The Candover 1991 Executive Trust, in which units were subscribed for in some cases 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 these trusts, it is not possible to allocate this to specific beneficiaries.

Under a co-investment scheme Messrs S W Curran, G D Fairservice, C J Buffin and M S Gumienny together with certain other executives were permitted during the year to make an investment in the ordinary equity of 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 45. Mr C R E Brooke no longer participates in such arrangements.

Directors' service contracts

In December 1997, Mr S W Curran, Mr G D Fairservice, Mr C J Buffin and Mr M S Gumienny together with certain executives, entered into new supplemental service

agreements under which an annual loyalty bonus became payable for a period of six years subject to their continued employment with the Company. Under the terms of these contracts a one year notice period is required on either side (two years in the case of Mr S W Curran) and the individuals can be placed on gardening leave, during which time they will lose the right to such loyalty bonus. Over the full six years of the contract the loyalty bonus will total £666,666 for each of Mr S W Curran, Mr G D Fairservice, Mr C J Buffin and Mr M S Gumienny of which the first instalment of £150,000 was paid during the year. The remaining portion will be paid in each year in reducing amounts unless terminated earlier.

These contracts have been established in order to reflect the importance of retaining the services of these key directors and executives over the life of the Candover 1997 Fund.

There is presently no intention to reduce Mr S W Curran's two-year contract to an annual contract in line with the other executive directors as this arrangement has been in place since Mr Curran joined the Company in 1981 and altering the contract at this time would, in the opinion of the board, provide no benefit to shareholders. This will, however, be kept under review.

With effect from 1st February, 1996 Mr C R E Brooke's contract was cancelled following his change to a non-executive role, and a new arrangement came into effect which will expire at the Annual General Meeting in 1999 when Mr C R E Brooke retires from the Company as outlined in his statement on page 5.

Directors' fees

The policy during the year with regard to the level of fees to be paid to non-executive directors serving on the board was for these fees to be formally recommended by the Chief Executive as to the appropriate level to be paid. These fees are then put to a meeting of the full board for approval with non-executive directors abstaining from any vote.

The policy in respect of 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 to Candover for the benefit of Candover or the fund investors, whichever is appropriate.

Relations with shareholders

Dialogue with institutional shareholders

The board is willing to enter into a dialogue with institutional shareholders based on a mutual understanding of objectives bearing in mind the duties regarding equal treatment of shareholders and the dissemination of price sensitive information.

Constructive use of AGM

The board uses the AGM to communicate with private investors and encourages their participation by ensuring that senior board members attend and adequate notice is given of the meeting.

The Company complies with the provisions of the Combined Code in all respects except where the Combined Code requires a company to count all proxy votes at the AGM and to indicate the level of proxies lodged on each resolution, specifying the balance for and against each resolution, following a show of hands. This information will, in the future, be stated at the AGM.

Accountability and audit

Financial reporting

The directors are required to explain their responsibility for the financial statements and this statement is given on page 33.

The auditors are also required to report on corporate governance matters and on their audit of the financial statements and this report is shown on page 35.

Corporate governance

Going concern

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

After making enquiries, the directors are of the opinion that the Company has adequate resources to continue in operational existence for the foreseeable future. The board is therefore of the opinion that the going concern basis be continued in the preparation of the financial statements.

Internal controls and internal financial controls

The Combined Code also requires the board to review the effectiveness of Candover's internal controls including its financial operations, compliance and risk management. However, the application of this requirement remains unclear and a working party has been set up by the Institute of Chartered Accountants in England and Wales to look at and produce guidelines to directors on the scope, extent, nature and review of internal controls. Until this body reports, the board has decided, in line with guidance from the London Stock Exchange, to restrict its reporting on internal controls to a review of the effectiveness of internal financial controls.

Although no system of internal financial control can provide absolute assurance against material misstatement 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 of experience. New executives have been recruited during the year of a high calibre and with relevant background experience, in order to ensure the continued development of the Company's future.

The management are supported by the board with at least one third being made up of non-executive directors who, in conjunction with the Company's auditors, Grant Thornton, and the auditors of the managed funds, KPMG, carry out an external review of 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. An investment report is then prepared and, in the case of an investment by one of the managed funds, is sent to the board of Candover Partners Limited for their decision as to whether or not to proceed; and in the case of other investments, a report is sent to the board of Candover Investments plc.

The responsibility for identification of other business risks is delegated to the executive directors who would always advise the board of any material risks.

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 record.

The board delegates responsibility for the effectiveness of such controls to the executive directors who in turn ensure the completion of the required procedures. These key procedures involve:

- Analysis of potential investments leading, where appropriate, to the preparation of a full investment report
- Regular monitoring of completed investments by executives who make progress reports to the board.
- A comprehensive system for reporting financial results to the board on a regular 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.

- A review of these financial controls is subject to review by the audit committee and by Candover's external auditors to the extent necessary for expressing their audit opinion.

The board has reviewed the effectiveness of the system of internal financial control for the financial year ended 31st December, 1998 and up until the date of signing these accounts, utilising the process set out above.

Audit committee and auditors

The board has established an audit committee of three non-executive directors, under the chairmanship of Mr D R Wilson and the members of this committee are shown on pages 22 and 23.

The audit committee carries out a number of duties and seeks to ensure that appropriate accounting and financial policies and procedures are implemented, that systems of internal financial control and external audit are in place, and that the auditors recommendations are considered and appropriate actions are taken.

As required by the Combined Code the board has reviewed the need for an internal audit function and due to the size of Candover does not consider an internal audit function appropriate. However, a number of internal checks are carried out in accordance with the requirements of IMRO, the regulatory authority which regulates two of the Company's main subsidiaries.

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 have been adequately disclosed, 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

25th March, 1999



Financial statements

To the members of Candover Investments plc

We have audited the financial statements on pages 36 to 57, which have been prepared under the accounting policies set out on pages 36 and 37.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report, including as described on page 33 the financial statements. Our responsibilities, as independent auditors are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanation we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 27 to 33 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Group's corporate governance procedures or its internal controls.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited financial statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion

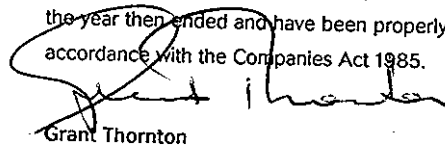
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant

to the amounts and disclosures in the financial statements. It also includes an assessment of 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 Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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, 1998 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 25th March, 1999

Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards except for the policies relating to accounting for managed funds 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 are set out below:

Investment trust SORP

The Company has continued to comply with the recommendations of the Statement of Recommended Practice – Financial Statements of Investment Trust Companies ("SORP"). Management expenses have been allocated 80 per cent to capital and 20 per cent to revenue.

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, 1998. 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 exercises 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 revenue 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, as they are held for capital

appreciation. Furthermore, the Group's share of an investee company's undistributed profits, when those profits cannot be realised as income unless distributed, has not been included in the consolidated revenue reserves.

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 thereafter. The income has been consolidated gross in the Group revenue reserves and the third party interests deducted immediately thereafter in accordance with Regulation 7 of the Partnership and Unlimited Companies (Accounts) Regulations 1993. The fund has not been accounted for under the method of full consolidation, 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 1994 Fund and the Candover 1997 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. Unlisted fixed asset investments are included at directors' valuation, the principles of which are set out on page 21.

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 resale and any gains on realisations 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. 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 other than managed funds 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 toward a number of funded defined contribution pension and funded unapproved retirement benefit 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)

The cash flow statement has been prepared in accordance with Financial Reporting Standard No.1 (Revised 1996) "Cash Flow Statements" issued by the Accounting Standards Board. For the purposes of the cash flow statement fixed interest securities repayable on demand are treated as liquid resources. Liquid resources previously included cash deposits repayable on demand and comparatives have been adjusted accordingly.

Group statement of total return

Incorporating the revenue account for the year ended 31st December, 1998

		1998			1997		
	Notes	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gains/(losses) on investments							
Realised gains and losses	18	–	7,534	7,534	–	9,487	9,487
Unrealised gains and losses	18	–	31,258	31,258	–	7,821	7,821
Exchange differences	18	–	20	20	–	14	14
		–	38,812	38,812	–	17,322	17,322
Income – managed funds							
Net income	11	785	–	785	3,866	–	3,866
Less: third party interests in managed funds		(785)	–	(785)	(1,194)	–	(1,194)
Add: management fees		12,013	–	12,013	–	–	–
Net income from managed funds		12,013	–	12,013	2,672	–	2,672
Income – own funds		8,726	–	8,726	9,434	–	9,434
Total income	1	20,739	–	20,739	12,106	–	12,106
Administrative expenses	2	(8,625)	(3,421)	(12,046)	(4,827)	(1,870)	(6,697)
Net return before finance costs and taxation							
		12,114	35,391	47,505	7,279	15,452	22,731
Interest payable & similar charges	4	(45)	–	(45)	(9)	–	(9)
Return on ordinary activities							
before taxation		12,069	35,391	47,460	7,270	15,452	22,722
Tax on ordinary activities	5	(3,522)	1,061	(2,461)	(1,750)	591	(1,159)
Return on ordinary activities after taxation for the financial year							
		8,547	36,452	44,999	5,520	16,043	21,563
Dividends	7	(5,687)	–	(5,687)	(4,591)	–	(4,591)
Transfer to reserves	18	2,860	36,452	39,312	929	16,043	16,972
Return per ordinary share:							
Basic	8	37.57p	160.24p	197.81p	24.36p	70.80p	95.16p
Fully diluted	8	37.30p	159.10p	196.40p	23.37p	67.92p	91.29p

The accounting policies on pages 36 and 37 and Notes on pages 42 to 57 form part of these financial statements.

Group balance sheet

at 31st December, 1998

	Notes	1998 £000	1997 £000
Fixed assets			
Tangible	9	350	230
Investments			
Managed funds	11	314,469	168,146
Less: third party interests in managed funds		(301,076)	(166,734)
Net investment in managed funds	10	13,393	1,412
Other fixed asset investments	10	92,628	69,211
		106,021	70,623
Associated undertakings	12	66	143
		106,087	70,766
Current assets			
Debtors	13	12,909	5,299
Investments	14	73,549	79,301
Cash at bank		18,267	10,806
		104,725	95,406
Creditors: amounts falling due within one year	15	(9,382)	(6,168)
Net current assets		95,343	89,238
Total assets less current liabilities		201,780	160,234
Provisions for liabilities and charges	16	(2,591)	(357)
		199,189	159,877
Capital and reserves			
Called up share capital	17	5,687	5,687
Share premium	18	705	705
Capital reserve -- realised	18	135,176	129,650
Capital reserve -- unrealised	18	47,814	16,888
Revenue reserve	18	9,807	6,947
Shareholders' funds	19	199,189	159,877

The accounting policies on pages 36 and 37 and Notes on pages 42 to 57 form part of these financial statements.
The financial statements were approved by the directors on 25th March, 1999.

Roger Brooke

C R E Brooke
Chairman

S W Curran

S W Curran
Chief Executive

[Signature]

Balance sheet

at 31st December, 1998

	Notes	1998 £000	1997 £000
Fixed assets			
Investments	10	110,898	75,500
Associated undertakings	12	1	1
		110,899	75,501
Current assets			
Debtors	13	4,362	3,491
Investments	14	69,013	74,852
Cash at bank		14,284	8,773
		87,659	87,116
Creditors: amounts falling due within one year	15	(4,727)	(5,747)
Net current assets		82,932	81,369
Total assets less current liabilities		193,831	156,870
Provisions for liabilities and charges	16	-	(142)
		193,831	156,728
Capital and reserves			
Called up share capital	17	5,687	5,687
Share premium account	18	705	705
Capital reserve – realised	18	136,030	130,509
Capital reserve – unrealised	18	47,662	16,751
Revenue reserve	18	3,747	3,076
		193,831	156,728

The accounting policies on pages 36 and 37 and Notes on pages 42 to 57 form part of these financial statements.

The financial statements were approved by the directors on 25th March, 1999.

C R E Brooke

C R E Brooke
Chairman

Roger Brooke

S W Curran

S W Curran
Chief Executive

S W Curran

Group cash flow statement

for the year ended 31st December, 1998

	Notes	1998 £000	1997 £000
Net cash inflow from operating activities	23	5,444	3,169
Returns on investments and servicing of finance			
Interest paid		(45)	(9)
Taxation			
UK corporation tax paid		(1,058)	(942)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(277)	(213)
Purchase of investments		(13,695)	(20,026)
Sale of investments		16,478	57,371
Purchase of associated undertaking		—	(26)
Sale of associated undertaking		58	—
Sale of tangible fixed assets		36	23
Net cash inflow from capital expenditure and financial investment		2,600	37,129
Equity dividends paid		(5,232)	(3,469)
Management of liquid resources		5,752	(26,549)
Financing			
Issue of shares		—	567
Increase in cash		7,461	9,896

The accounting policies on pages 36 and 37 and Notes on pages 42 to 57 form part of these financial statements.

Notes to the financial statements

for the year ended 31st December, 1998

Note 1 Income

	1998	1997
£000	£000	£000
Financial services	119	1,102
Investment dealing	164	189
Investment management fees	12,138	2,912
	12,421	4,203
Investment income		
Income from fixed asset investments	2,265	2,643
Income from Treasury bills and other fixed interest securities	5,057	4,506
Other income receivable arising on cash deposits	996	754
	8,318	7,903
	20,739	12,106

Of the income from fixed asset investments, of £2,265,000 (1997: £2,643,000), £Nil (1997: £3,000) arose from managed funds. Of the income from investment management of £12,138,000 (1997: £2,912,000), £12,013,000 (1997: £2,669,000) also arose from these funds.

Of the income from fixed asset investments, £423,000 arose from listed investments (1997: £490,000). Income from financial services originating from outside the United Kingdom was £Nil (1997: £70,000). All income arose from the single activity of originating and investing in management buyouts and buyins and providing capital to unquoted companies. All income is attributable to continuing activities.

Note 2 Administrative expenses

	1998	1997
	£000	£000
Management expenses		
Revenue	855	467
Capital	3,421	1,870
Other administrative costs	7,770	4,360
	12,046	6,697
Staff costs	6,176	3,151
Depreciation	137	101
Auditors' remuneration	42	42
audit work		
non-audit work -- tax advice	74	70
-- IMRO compliance	9	9
Operating lease rentals		
building	534	534
other	2	1
Staff costs during the year were		
Salaries	4,653	2,228
Social security costs	462	221
Pension, insurance and other costs	1,061	702
	6,176	3,151

The average number of employees of the Group in the UK during the year was 28 (1997: 25).

Notes to the financial statements

for the year ended 31st December, 1998

Note 3 Directors' remuneration, emoluments and interests

The remuneration policy in respect of the executive directors is set out in the corporate governance report on pages 28 to 31.

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, 1998 were as follows:

	Salaries/ directors' fees	Performance related pay	Loyalty bonus	Taxable benefits	Insurance costs	Total emoluments excluding pension contributions	Total emoluments excluding pension contributions
	£	£	£	£	£	£	£
S W Curran	320,000	166,130	150,000	26,912	7,014	670,056	395,783
G D Fairservice	250,000	130,258	150,000	11,096	8,747	550,101	293,163
C J Buffin	231,320	115,701	150,000	12,622	4,028	513,671	197,150
M S Gumieny	236,667	105,701	150,000	1,654	3,844	497,866	184,117
Management	1,037,987	517,790	600,000	52,284	23,633	2,231,694	1,070,213
Remuneration							
C R E Brooke*	40,000	—	—	10,043	—	50,043	51,487
A P Hichens*	36,250	—	—	—	—	36,250	35,000
R A P King*	21,500	—	—	—	—	21,500	21,000
P J Scott Plummer*	21,500	—	—	—	—	21,500	21,000
J G West*	21,500	—	—	—	—	21,500	21,000
D R Wilson*	21,500	—	—	—	—	21,500	21,000
J M Raisman*	7,875	—	—	—	—	7,875	21,000
Directors' fees	170,125	—	—	10,043	—	180,168	191,487
Totals	1,208,112	517,790	600,000	62,327	23,633	2,411,862	1,261,700
1997 comparatives	991,667	190,000	—	55,101	24,932	1,261,700	

The non-executive directors (*), other than Mr C R E Brooke, only receive fees which in some cases are paid directly to their primary employing company, and do not receive any other remuneration. Mr J M Raisman retired as a non-executive director during the year.

The loyalty bonus is payable over a six-year period in reducing amounts as referred to in the corporate governance report on page 31.

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

During the year the following pension contributions were paid on behalf of individual directors:—

	1998	1997
	£	£
Mr S W Curran	99,500	128,944
Mr G D Fairservice	88,500	91,967
Mr C J Buffin	67,500	19,592
Mr M S Gummienny	55,000	32,196
	<u>310,500</u>	<u>272,699</u>

Contributions made to certain individual FURBs have been included in the above figures.

Mr C R E Brooke received no contributions to his pension (1997: £Nil) but received a £50,000 contribution to his FURB (1997: £50,000).

Directors' interests in shares

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

Beneficial	Ordinary shares of 25p each 1st January, 1998	Ordinary shares acquired/(sold) during the year	Ordinary shares of 25p each 31st December, 1998
C R E Brooke	514,347	(114,347) ¹	400,000
S W Curran	649,703	Nil	649,703
G D Fairservice	201,000	Nil	201,000 ²
C J Buffin	40,500	Nil	40,500
M S Gummienny	110,600	(500)	110,100
A P Hichens	22,000 ³	7,000	29,000
P J Scott Plummer	12,000	Nil	12,000
J G West	1,500	Nil	1,500
J M Raisman	Nil	Nil	Nil
R A P King	Nil	Nil	Nil
D R Wilson	Nil	Nil	Nil
Non-Beneficial			
C R E Brooke	35,000	112,500 ¹	147,500

¹ During the year, Mr C R E Brooke acquired 10,653 shares and transferred 125,000 shares from his beneficial holding to his non-beneficial personal charitable trust. 12,500 shares were then sold from this charitable trust.

² Since the year end, 800 shares have been sold by a connected person of Mr G D Fairservice.

³ Restated following adjustment, which was subsequently disclosed to the London Stock Exchange.

Notes to the financial statements

for the year ended 31st December, 1998

Directors' share options

	1st January, 1998	Exercised during year	Deemed gain on exercise	31st December, 1998	Exercise price	Date from which exercisable	Expiry date
	No.	No.	£	No.			
C J Buffin	25,000	Nil	Nil	25,000	208.00p	13/03/93	13/03/00
	25,000	Nil	Nil	25,000	235.00p	20/10/95	20/10/02
	20,000	Nil	Nil	20,000	340.00p	17/06/97	17/06/04
M S Gumienny	25,000	Nil	Nil	25,000	235.00p	20/10/95	20/10/02
	20,000	Nil	Nil	20,000	340.00p	17/06/97	17/06/04

There were no new options granted to the directors during the year or since the balance sheet date. Messrs C R E Brooke, S W Curran and G D Fairservice held no options over the Company's shares during the year.

Co-investment by directors

During the year, Messrs S W Curran, G D Fairservice, M S Gumienny and C J Buffin who are all directors of the Company, have invested in the ordinary equity of companies in which Candover has also made an investment in all the equity and loan capital. Under the Stock Exchange Listing Rules 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
		£	
Claverham	Convertible cumulative participating preferred ordinary shares	3,633	0.66
Regional Independent Media	Convertible cumulative participating preferred ordinary shares	15,221	0.39
Telecast Communications	Ordinary shares	1,353	0.54
	A ordinary shares	1,691	0.68
Camden Motors	Preferred ordinary shares	47	0.09
Cork Industries	Preferred ordinary shares	14,912	0.44

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 £3,704 remained payable at 31st December, 1998 (1997: £7,783).

Note 4 Interest payable and similar charges

	1998	1997
	£000	£000
On bank loans, overdrafts and other loans		
repayable within 5 years otherwise than by instalments	45	9

Note 5 Taxation on profit on ordinary activities

The taxation charge is based on profit for the year and is made up as follows:—

	1998	1997
	£000	£000
Revenue		
United Kingdom corporation tax at 31 per cent (1997: 31 per cent)	1,061	1,475
Deferred tax (see note 16)	2,381	(629)
Tax attributable to franked investment income	230	955
Adjustment relating to prior years:		
United Kingdom corporation tax	(3)	299
Deferred tax	(147)	(350)
	3,522	1,750
Capital		
United Kingdom corporation tax at 31% (1997: 31%)	(1,061)	(591)
	2,461	1,159

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, 1997. 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 6 Profit for the financial year

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 £6,358,000 (1997: £5,618,000) which is dealt with in the financial statements of the holding company.

Note 7 Dividends

	1998	1997
	£000	£000
Paid interim of 8.00p (1997: 5.00p)	1,820	1,137
Proposed final of 17.00p (1997: 15.00p)	3,867	3,454
	5,687	4,591

Notes to the financial statements

for the year ended 31st December, 1998

Note 8 Returns per share

The calculation of basic capital return per ordinary share is based on net capital gains for the financial year of £36,452,000 (1997: £16,043,000) and a weighted average number of shares of 22,747,685 (1997: 22,659,103).

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 £36,452,000 (1997: £16,043,000) and a weighted average number of shares of 22,911,273 (1997: 23,619,429).

The calculation of basic revenue return per ordinary share is based on net revenue for the financial year of £8,547,000 (1997: £5,520,000) and weighted average number of shares of 22,747,685 (1997: 22,659,103). 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 £8,547,000 (1997: £5,520,000) and a weighted average number of shares of 22,911,273 (1997: £23,619,429).

Note 9 Tangible fixed assets

	Plant and equipment £000	Motor vehicles £000	Total £000
Group			
Cost			
At 1st January, 1998	543	203	746
Additions	128	149	277
Disposals	(241)	(69)	(310)
At 31st December, 1998	430	283	713
Depreciation			
At 1st January, 1998	421	95	516
Provided in the year	75	62	137
Disposals	(239)	(51)	(290)
At 31st December, 1998	257	106	363
Net book value at 31st December, 1998	173	177	350
Net book value at 31st December, 1997	122	108	230

Note 10 Fixed asset investments

	Managed funds £000	Investments investee companies £000	Total £000	
Group				
Valuation at 1st January, 1998	1,412	69,211	70,623	
Additions at cost	—	13,695	13,695	
Disposals	(103)	(9,425)	(9,528)	
Appreciation	12,084	19,147	31,231	
Valuation at 31st December, 1998	13,393	92,628	106,021	
Reconciliation				
Cost of investments	775	57,504	58,279	
Net unrealised appreciation of investments	12,618	35,124	47,742	
	13,393	92,628	106,021	
Company				
	Shares in subsidiary undertakings £000	Managed funds £000	Investee companies £000	Total £000
Cost or valuation at 1st January, 1998	4,877	1,412	69,211	75,500
Additions at cost	—	—	13,695	13,695
Disposals	—	(103)	(9,425)	(9,528)
Appreciation	—	12,084	19,147	31,231
Cost or valuation at 31st December, 1998	4,877	13,393	92,628	110,898
Reconciliation				
Cost of investments	4,877	775	57,504	63,156
Net unrealised appreciation of investments	—	12,618	35,124	47,742
	4,877	13,393	92,628	110,898

At 31st December, 1998 cumulative downward adjustments of £5,845,000 (1997: £7,510,000) had been made against investments with original costs of £15,449,000 (1997: £12,332,000).

Notes to the financial statements

for the year ended 31st December, 1998

Investments at valuation include:

	1998 £000	1997 £000
Group and Company		
UK	9,310	13,987
Listed	58,284	45,682
Unquoted at directors' valuation		
Europe	2,803	2,750
Listed	5,848	2,735
Unquoted at directors' valuation		
US	24,584	217
Listed	5,192	5,252
Unquoted at directors' valuation	106,021	70,623
	62,132	30,977
Equity shares	43,004	38,737
Fixed income securities	885	909
Convertible securities	106,021	70,623

At 31st December, 1998 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, 1998, the Company had an interest of more than 20 per cent in the nominal value of the total allotted share capital of the following company:

Companies	Class of shares held	Percentage of class held
Lombard Investments, Inc (State of California)	Preferred	100.00

For the reasons set out in the accounting policies this investment has not been included as an associated undertaking.

Note 11 Subsidiary undertakings

At 31st December, 1998 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 1991, 1994 and 1997 Funds	£2,050,000 ordinary
Candover Investments (Nassau) Inc*	Investment holding company	US \$500,000 common stock

* Wholly owned directly by the holding company

** Wholly owned by a subsidiary undertaking

*** 90 per cent owned by a subsidiary undertaking and 10 per cent 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 Candover Investments (Nassau) Inc which is incorporated and is operational in the Bahamas.

Interests in the Candover 1991, 1994 and 1997 Funds ("managed funds")

Candover Partners Limited is the General Partner of the limited partnerships comprising the Candover 1991, 1994 and 1997 Funds. 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 1991 Fund and is a unitholder in the unauthorised unit trusts which are Special Limited Partners in the Candover 1994 and 1997 Funds. 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 all the Candover 1994 limited partnerships which at 31st December, 1998 was valued at £984,000 (cost £584,000).

Notes to the financial statements

for the year ended 31st December, 1998

For the reasons set out in the accounting policies, the limited partnerships comprising the Candover 1991, 1994 and 1997 Funds have not been accounted for under the method of full consolidation. At 31st December, 1998, the net assets of the Funds were £314.5 million (1997: £168.1 million) and the net income for the year ended was £0.8 million (1997: £3.9 million). The net assets and net income can be summarised as follows:

	1998	1997
	£m	£m
Investments	304.9	153.7
Debtors	0.4	0.1
Cash	11.8	14.7
Creditors	(2.6)	(0.4)
	314.5	168.1
Income from fixed asset investments	3.2	4.8
Interest receivable	0.6	0.7
	3.8	5.5
Expenses	(2.5)	(0.8)
Tax	(0.5)	(0.8)
	0.8	3.9

As at 31st December, 1998, Candover's investment as a Special Limited Partner in the Candover 1991 Fund was valued at £178,000 (1997: £519,000). Candover's investment in the unauthorised unit trusts which are Special Limited Partners in the Candover 1994 and 1997 Funds was valued at £12,231,000 (1997: £191,000).

Note 12 Associated undertakings

	Nature of business	Issued share capital	Percentage held
Hoare Candover Limited	Former manager of the Hoare Candover Exempt Fund	£1,000 Ordinary	50%
Chevillon Philippe Candover SA	Identifying investment opportunities in France	FFr 500,000	50%

During the year Candover sold its interest in LGV Candover.

Hoare Candover Limited is incorporated and operational in Great Britain and registered in England and Wales. Candover's interest in Hoare Candover Limited is owned by the holding company whilst its interest in Chevrillon Philippe Candover SA is owned by a subsidiary undertaking. Chevrillon Philippe Candover SA is incorporated and is operational in France.

	Group share of net assets	Company share at cost
	£000	£000
Cost at 1st January, 1998	143	1
Disposal	(77)	-
Share of post-acquisition reserves at 1st January, 1998	-	-
Increase	-	-
Total	66	1

Note 13 Debtors

	1998	Group 1997	1998	Company 1997
	£000	£000	£000	£000
Amounts falling due within one year				
Trade debtors	854	240	630	-
Amounts owed by subsidiary undertakings	-	-	517	195
Amounts owed by associated undertaking	8	8	-	-
Other debtors	3,267	1,455	1,139	1,829
Prepayments and accrued income	4,848	3,342	2,076	1,467
	8,977	5,045	4,362	3,491
Amounts falling due after more than one year				
Prepayments and accrued income	3,932	254	-	-
Total debtors	12,909	5,299	4,362	3,491

Note 14 Current asset investments

	1998	Group 1997	1998	Company 1997
	£000	£000	£000	£000
Fixed interest securities	73,549	79,301	69,013	74,852

Notes to the financial statements

for the year ended 31st December, 1998

Note 15 Creditors: amounts falling due within one year

	1998	Group	1998	Company
	£000	1997	£000	1997
		£000		£000
Trade creditors	129	112	17	24
Amounts owed to group undertakings	—	—	70	880
Current taxation	13	1,339	533	1,190
Proposed dividends	3,867	3,412	3,867	3,412
Other creditors	3,856	392	186	188
Accruals and deferred income	1,517	913	54	53
	9,382	6,168	4,727	5,747

Note 16 Provisions for liabilities and charges

	1998	Group	1998	Company
	£000	1997	£000	1997
		£000		£000
Deferred taxation:				
At 1st January	357	1,336	142	—
Increase/(decrease) in year	2,234	(979)	(142)	142
At 31st December, 1998	2,591	357	—	142
Deferred taxation provided for in the financial statements is set out below:				
Accelerated capital allowances	—	(90)	—	—
Other timing differences	2,591	447	—	142
	2,591	357	—	142

There was no unprovided deferred taxation in the financial statements at 31st December, 1998 (1997: £Nil).

Note 17 Share capital

	Number	1998 £000	Number	1997 £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	22,747,685	5,687	22,421,095	5,605
Issued in year	—	—	326,590	82
Ordinary shares of 25p each at 31st December	22,747,685	5,687	22,747,685	5,687

3,930 options were granted but no options were exercised during the year. At 31st December, 1998 the following options remained exercisable at the following prices and dates.

No. of options	Exercise price	Exercisable between
25,000	208.00p	13th March, 1993 to 13th March, 2000
20,000	282.67p	29th April, 1994 to 29th April, 2001
70,000	235.00p	20th October, 1995 to 20th October, 2002
150,000	340.00p	17th June, 1997 to 17th June, 2004
3,930	762.00p	8th September, 2001 to 8th September, 2008
268,930		

As at 31st December, 1998 there remained 564,763 options available to be granted under the Candover (1994) executive share option scheme (1997: 606,744).

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 corporate governance report on page 29.

Notes to the financial statements

for the year ended 31st December, 1998

Note 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, 1998	705	129,650	16,888	6,947
Surplus on investments revaluation	—	—	31,258	—
Investments realised in year	—	7,881	(347)	—
Exchange differences	—	5	15	—
Net revenue for the year	—	—	—	2,860
Costs net of tax	—	(2,360)	—	—
At 31st December, 1998	705	135,176	47,814	9,807
Company				
At 1st January, 1998	705	130,509	16,751	3,076
Surplus on investments revaluation	—	—	31,258	—
Investments realised in year	—	7,881	(347)	—
Net revenue for the year	—	—	—	671
Costs net of tax	—	(2,360)	—	—
At 31st December, 1998	705	136,030	47,662	3,747

Note 19 Reconciliation of movements in shareholders' funds

	1998	1997
	£000	£000
Net revenue	8,547	5,520
Dividends	(5,687)	(4,591)
	2,860	929
Issue of share capital	—	567
Capital surplus for the year	36,452	16,043
Net addition to shareholders' funds	39,312	17,539
Shareholders' funds at 1st January, 1998	159,877	142,338
Shareholders' funds at 31st December, 1998	199,189	159,877

Note 20 Capital commitments

The directors have authorised commitments of £100 million, £70 million and £5 million, which will be invested pro rata and parallel with the Candover 1997 Fund, the Candover 1994 Fund and the Candover 1991 Fund respectively. At 31st December, 1998 the outstanding commitments were £87.9 million (1997: £100 million), £7 million (1997: £7 million) and £0.5 million (1997: £0.7 million) respectively.

At 31st December, 1998 the outstanding commitments to other investment funds were £8.8 million (1997: £1.4 million).

Note 21 Pension commitments

The Group contributed towards a number of funded defined contribution pension and funded unapproved retirement benefit schemes designed to provide retirement benefits for its directors and employees. The assets of the scheme 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 £706,000 (1997: £526,000). At 31st December, 1998 there were no amounts payable to the schemes (1997: £Nil).

Note 22 Lease commitments

Operating lease payments relating to land and buildings amounting to £534,000 (1997: £534,000) are due within one year. The lease to which these amounts relate expires in more than five years.

Note 23 Reconciliation of operating income to net cash inflow from operating activities

	1998	1997
	£000	£000
Operating income	8,693	5,409
(Increase)/decrease in debtors	(7,307)	940
Increase/(decrease) in creditors	4,098	(2,969)
Tax on franked investment income included within income from UK companies	(180)	(299)
Depreciation	137	101
Profit on disposal of tangible fixed assets	(16)	(13)
Loss on disposal of associated undertaking	19	—
Net cash inflow from operating activities	5,444	3,169

Note 24 Related party transactions under Financial Reporting Standard No. 8

The Company's interest in the Candover 1991, 1994 and 1997 Funds is disclosed in Notes 11 and 20. The co-investment by directors is disclosed in Note 3.

Note 25 Contingent liabilities

There were no contingent liabilities at 31st December, 1998 or 31st December, 1997.

Note 26 Post balance sheet events

In January 1999 Candover invested £4.3 million in ASW Holdings plc.

Distribution of fixed asset investments

as at 31st December, 1998

Sector	UK %	Europe %	Americas %	1998 Total	1997 Total
Mineral extraction	1.2	—	—	1.2	1.7
Extractive industries	1.2	—	—	1.2	1.7
General industrials	0.9	—	—	0.9	1.3
Building and construction	7.0	—	—	7.0	13.7
Building materials and merchants	1.8	—	—	1.8	2.9
Chemicals	—	—	—	—	1.3
Electronics and electrical equipment	8.7	3.9	1.4	14.0	12.4
Engineering – general	0.4	—	—	0.4	2.1
Engineering – vehicles	—	—	—	—	0.1
Paper, packaging and printing	18.8	3.9	1.4	24.1	33.8
Consumer goods	0.3	—	—	0.3	1.8
Household goods	0.3	—	—	0.3	1.8
Services	4.8	—	—	4.8	6.4
Distributors	3.2	—	—	3.2	6.4
Leisure and hotels	14.0	—	—	14.0	7.1
Media	1.4	—	—	1.4	2.5
Retailers – food	—	—	—	—	0.2
Retailers – general	2.0	—	—	2.0	6.2
Support services	—	—	3.4	3.4	5.4
Transport	—	—	23.2	23.2	13.5
Telecommunications	25.4	—	26.6	52.0	47.7
Financials	3.3	—	—	3.3	5.0
Insurance	14.7	4.3	0.1	19.1	10.0
Other financial	18.0	4.3	0.1	22.4	15.0
Totals %	63.7	8.2	28.1	100.0	100.0
Totals £000	67,594	8,651	29,776	106,021	70,623

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 Tuesday 11th May, 1999 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, 1998.
- 2 To declare a final dividend of 17p per share on the ordinary shares in respect of the year ended 31st December, 1998.
- 3 To re-elect Mr S W Curran who retires by rotation.
- 4 To re-elect Mr A P Hichens who retires by rotation.
- 5 To re-elect Mr D R Wilson who retires by rotation.
- 6 To reappoint 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.

Special business

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

7 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 8(a) passed at the Annual General Meeting of the Company held on 14th May, 1998 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 £284,346; 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 11th August, 2000 (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.

8 That

the Company be and is hereby authorised, generally and without conditions, to make market purchases (as defined in Section 163 (3) of the Companies Act 1985) of its own shares, but:

- (a) the Company may not buy more than 3,409,878 shares, equal to 14.99 per cent of the shares issued at the date of the 1998 Report and Accounts;

Notice of meeting

- (b) the minimum price which the Company may pay for each share is 25p;
- (c) the maximum price (excluding expenses) which the Company may pay for each share is 5 per cent over the average of the middle market price of the shares, based on the London Stock Exchange Daily Official List, for the five business days immediately before the day on which the Company buys the shares;
- (d) this authority will last from the date of this Annual General Meeting until the next Annual General Meeting (or until 11th November, 2000 if the next Annual General Meeting has not been held by then); and
- (e) the Company may agree, before the authority ends, to buy shares even though the purchase is, or may be, completed after the authority ends.

P R Neal

Secretary

25th March, 1999

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. Only those shareholders registered in the register of members of the Company as at close of business on the day before the meeting shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their names at that time (Regulation 34 of the Uncertificated Securities Regulations 1995). Changes to entries in the register after this time shall be disregarded in determining the rights of any person to attend and vote at 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 11th May, 1999 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.

Ten year record

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Total net assets (£000)	34,681	49,686	48,156	54,456	59,795	69,380	84,347	103,798	142,453	159,970	199,474
Net Assets per Share (p)	159	224	217	244	267	310	377	464	635	703	877
Profit on Ordinary Activities before taxation (£000)	2,132	2,985	3,702	3,955	4,099	3,300	4,855	6,563	5,389	7,270	12,069
Profit after taxation (£000)	1,500	2,001	2,267	2,837	3,152	2,381	3,410	4,484	3,960	5,520	8,457
Net Dividend per Share (p)	4.50	7.00	8.50	9.50	10.25	11.00	12.25	13.25	15.00	20.00	25.00
Basic Earnings per Share (p)	6.90	9.03	10.20	12.69	14.09	10.64	15.24	20.03	17.67	24.36	37.57
Fully diluted earnings per Share (p)	6.57	8.75	9.83	12.22	13.67	10.33	14.72	19.35	16.95	23.37	37.30

Financial calendar

Event	Date
Interim dividend for the year ended 31.12.98 – ex-dividend date	14th September, 1998
Interim dividend for the year ended 31.12.98 – record date	18th September, 1998
Interim dividend for the year ended 31.12.98 – payment date	22th October, 1998
Preliminary Announcement of results for the year ended 31.12.98	8th March, 1999
Final dividend for the year ended 31.12.98 – ex-dividend date	26th April, 1999
Final dividend for the year ended 31.12.98 – record date	30th April, 1999
Candover Investments plc Annual General Meeting	11th May, 1999
Final dividend for the year ended 31.12.98	20th May, 1999
Interim announcement of results for the half year ended 30.6.99	5th September, 1999*

*provisional

Addresses

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and Wales No. 1512178

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