

Report and
accounts
2004

Candover Investments PLC



Registered in England
and Wales No. 1512178

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.

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

For the latest information
www.candover.com

Highlights

+23%

Total net assets increased 23%
to £312.6 million
(2003: £254.7 million)

+23%

Net assets per share up 23%
to 1430p
(2003: 1165p)

+6%

Profit before tax up 6%
to £19.0 million
(2003: £17.9 million)

+10%

Total dividend per share increased
by 10% to 44p
(2003: 40p)

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Candover at a glance

Net assets per share	1995	464p								
	1996		635p							
	1997			703p						
	1998				877p					
	1999					986p				
	2000						1079p			
	2001							1127p		
	2002								1040p	
	2003									1165p
	2004									1430p
Pre tax profits £000	1995	5,222								
	1996	5,389								
	1997		7,270							
	1998				12,069					
	1999					10,456				
	2000						11,679			
	2001							14,408		
	2002								15,257	
	2003									17,913
	2004									18,952
Net dividend per share	1995	13.25p								
	1996	15.00p								
	1997		20.00p							
	1998			25.00p						
	1999				27.00p					
	2000					29.00p				
	2001						32.00p			
	2002							36.00p		
	2003								40.00p	
	2004									44.00p

The review of investments at 31st December, 2004 shows the 15 largest investments by value, whereas the 2003 report and accounts showed the 20 largest investments by value. Although five new investments were made alongside the 2001 Fund, six major realisations and one quoted share sale were achieved during the year, and therefore disclosure of the largest 20 would include several small investments which are not material in the context of Candover's overall net assets. The top 15 investments represent 99% by value of Candover's investee companies (top 20 at 31st December, 2003: 99%).

Top 15 investments – analysis by value

Investments by region

- 1 United Kingdom 47%
- 2 Germany 15%
- 3 Benelux 10%
- 4 Scandinavia 10%
- 5 Switzerland 9%
- 6 Americas 5%
- 7 France 4%

Investments by sector

- 1 Support services 23%
- 2 Media 22%
- 3 Industrials 21%
- 4 Leisure 14%
- 5 Financials 9%
- 6 External funds 8%
- 7 Health 3%

Investments by age

- 1 <1 year 37%
- 2 1-2 years 35%
- 3 2-3 years 14%
- 4 4-5 years 9%
- 5 >5 years 5%

Investments by valuation method

- 1 Multiple of earnings 64%
- 2 Cost 31%
- 3 Discounted stock market price 5%

Chairman's statement

S W Curran Chairman

Candover's net assets per share increased by 22.7% on the prior year. The increase was driven by two main factors. The first of these was the revaluation of a number of our investee companies, while the second was our ability to accomplish a number of successful realisations during the year, which resulted in significant gains over valuation.

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Realisation proceeds from investee companies amounting to £100.7 million were achieved during the year, with the sale of Candover's remaining stake in Inveresk and the disposals of Picard Surgelés and Clondalkin being the most notable.

In the second half of 2004, Candover committed £55.1 million alongside the £431.3 million invested by the 2001 Fund, in five new investments. These were the US\$925.0 million acquisition of Vetco International, a major participant in the global oilfield services sector; the €320.0 million buyout of Innovia Films, a manufacturer of specialist polypropylene and cellulose films; the buyout of Bureau van Dijk, a publisher of specialised financial and company information products; the buyout of ALcontrol, a European environmental and food testing business; and the SEK4,215.0 million buyout of Thule, the world leader in sports utility transportation products.

Results for 2004

As at 31st December, 2004, the net assets attributable to the ordinary shares were £312.6 million compared to £254.7 million at 31st December, 2003. Net assets per share were 1430p compared with 1165p at 31st December, 2003 (and 1239p at 30th June, 2004). This increase in net assets per share over the 12 months to 31st December, 2004 of 22.7% compares with an increase of 9.2% in the FTSE All-Share Index over the same period. The increase in net assets per share over the six months to 31st December, 2004 was 15.4% compared to an increase in the FTSE All-Share Index over the same period of 8.2%.

The compound growth in net assets on a three, five and ten year basis was 8.3%, 7.7% and 14.3% respectively, compared to decreases in the FTSE All-Share Index over three and five years of 1.5% and 5.8% and an increase over ten years of 4.7%.

The increase in net assets for the year of £57.9 million was after taking into account net realised gains of £27.4 million, a net increase of £31.5 million on the revaluation of investments, and other movements.

The value ascribed to Candover's share of the carried interest in the 1997 Fund was increased from £15.7 million (72p per share) to £41.4 million (189p per share). This increase is mainly due to the realisation during the year of most of the remaining companies in the 1997 Fund portfolio.

Profits before tax for the year were £19.0 million compared with £17.9 million for the 12 months to 31st December, 2003. The increase in profits was mainly due to higher income from cash balances and lower administrative costs offsetting lower management fees. The valuation of fixed asset investments at 31st December, 2004 was £198.5 million (2003: £211.2 million). This valuation of £198.5 million was calculated having taken into account realisations, net of new investments, amounting to £44.2 million, and a net increase of £31.5 million in the revaluation of our investments referred to above. The net increase in the revaluation of our investments comprised upward movements of £47.7 million and downward adjustments of £16.2 million.

Cash and liquid assets totalled £124.8 million (2003: £37.3 million) at the year end, representing 39.9% of our net assets (2003: 14.6%). This increase in our cash balances over the period is a natural consequence of the realisations achieved during the year. Listed shares at the year end totalled £8.1 million (2003: £20.4 million), representing 2.6% of our net assets (2003: 8.0%).

Dividends

At the half year the board decided to increase the interim dividend by 11.1% from 13.5p per share to 15.0p per share. The board has decided to pay a final dividend of 29.0p per share (26.5p per share for 2003), making a dividend payable for the year of 44.0p per share against 40.0p for the previous year, an increase of 10.0%. Payment of the dividend will be made on 18th May, 2005 to shareholders on the register at 29th April, 2005.

Chairman's statement

continued

Board and staff

As was reported in the interim statement, during the year Chris Russell was appointed as a non-executive director, and we were joined by two new investment executives, David Brickell and Séverine de Wulf. Since the year end we have been joined by a further investment executive, Owen Wilson, who has recently completed an MBA at Harvard. David and Owen will be based in London, and Séverine will be located in our Paris office.

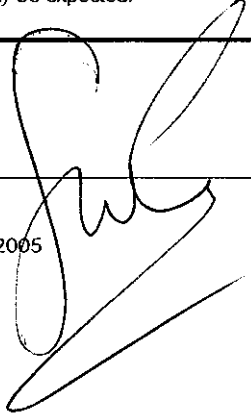
Doug Fairservice and I are announcing our intention to retire as directors of the company following the conclusion of the investment period for the 2001 Fund. We will therefore have no participation in subsequent funds to be managed by Candover. A further announcement on the date of these board changes, which are currently expected to take effect during 2006, will be made in due course.

Derek Wilson has announced his intention to retire from the board at the conclusion of the next AGM on 10th May, 2005. Derek has served on the Candover board for 11 years and we are very grateful for his contribution, both as a director of the company and for much of that period as Chairman of the audit committee, in which role he will be succeeded by Chris Russell.

As usual, I would like to thank all the staff for their hard work during what was a successful and rewarding year for Candover.

Prospects

2004 saw significant growth in the value of European buyouts which comfortably attained record levels of new investment. Providing there is no significant change in the economic environment during the year ahead, the favourable conditions for private equity investing across Europe look set to continue. The recovering M&A market, if maintained, should continue to offer us good quality deal flow, and additionally, may provide us with some exit opportunities, although a slowing down of the realisation pace seen over the last year or so may be expected.



S W Curran
23rd March, 2005

Operational review

The European buyout market enjoyed a record year in terms of amounts invested during 2004, rising 15% on the prior year to €76.6 billion. The mid-market sector, deals between €150 million and €1.5 billion, where Candover focuses, continued to be the backbone of the industry, enjoying consistent growth in both the UK and on the Continent.

We continued to see strong deal flow across our network, and in line with the buoyant market and the favourable investment environment, Candover led several significant transactions. In total, Candover invested £60.6 million in five new transactions and six follow-on investments during the year: £55.1 million of this £60.6 million was invested alongside the 2001 Fund, which invested £431.3 million in these new transactions.

New investments

Vetco International

In July, Candover co-led the private equity syndicate that completed the US\$925.0 million acquisition of part of the oil and gas business of ABB, now renamed Vetco International. Vetco is a major participant in the global oilfield services sector, servicing all the major oil producers around the world. Candover invested £7.5 million and the 2001 Fund invested £58.6 million. The business has significant market positions, strong, long-established brands, and a reputation for innovative and robust technology. These factors, combined with the growing market forecasts for the capital spending of oil exploration and production companies driven by global demand for oil and gas, made this an attractive investment opportunity for Candover.

Innovia Films

In September, Candover led the €320.0 million buyout of UCB Films, now renamed Innovia Films. The company is a manufacturer of specialist polypropylene and cellulose films for speciality packaging and labelling, as well as being the only manufacturer of polymer banknotes in the world via a joint venture with the Reserve Bank of Australia. Candover invested £9.9 million and the 2001 Fund invested £77.9 million.

Bureau van Dijk

In November, Candover led the buyout of Belgium-based Bureau van Dijk, a publisher of specialised financial and company information products via the internet and CD/DVDs. The products contain information on over ten million companies worldwide, with a strong emphasis on private companies. The acquisition presented Candover with the opportunity to invest in the next phase of development of a profitable, growing business that had a unique and defensible competitive position. Candover invested £10.2 million and the 2001 Fund invested £80.3 million.

ALcontrol

In December, Candover led the acquisition of ALcontrol, a leading European laboratory-based environmental and food testing company, headquartered in the Netherlands. The company's key competitive advantage is a production driven approach, employing sophisticated IT systems which enable it to offer high quality testing at a very low cost. ALcontrol operates in a market which will continue to benefit from strong growth as regulators impose increasingly tight standards of health in areas such as food and the environment. Candover invested £12.9 million and the 2001 Fund invested £100.0 million.

Thule

Also in December, Candover completed the SEK4,215.0 million buyout of Thule, the world's leading sports utility transportation company. Headquartered in Sweden, Thule manufactures and distributes car racks and boxes, trailers, roof rails and snow chains. It owns a group of strong brands and is the global number one in its core activity of car racks and boxes. It also holds either global or European market leading positions in all its other product areas. Candover invested £14.6 million and the 2001 Fund invested £114.5 million.

Other investments

Six follow-on investments totalling £5.5 million were made. Three were further participations in a mid-market French buyout fund and two mezzanine funds, and three were further commitments to investee companies. The most significant of these was an investment of £1.4 million by Candover and £10.7 million by the 2001 Fund in Swissport, a global ground handling business, to enable it to acquire Groundstar, a leading UK ground handler.

Operational review

continued

Realisations

Net realised gains over cost achieved by Candover and its managed funds amounted to £396.7 million, of which Candover's share was £75.5 million. During the year, Candover had six full realisations: in February, Bourne Leisure was sold generating gains over cost for Candover of £4.8 million and £40.0 million for the 1997 Fund. In March, the disposal of three investee companies took place: Baxi, with gains over cost of £1.9 million for Candover, £0.4 million for the 1991 Fund and £7.4 million for the 1994 Fund; Clondalkin, with gains over cost of £4.8 million for Candover and £39.8 million for the 1997 Fund; and Centaur, which was listed on AIM, with gains over cost of £3.6 million for Candover. In May, Earls Court & Olympia was sold with gains over cost, including deferred consideration now received, of £2.9 million for Candover and £24.1 million for the 1997 Fund. In December, Picard Surgelés was realised with gains over cost of £13.6 million for Candover and £112.2 million for the 1997 Fund. These six realisations generated an aggregate return of three times the residual investment.

In April and July we sold our residual shares in Inveresk, generating gains over cost of £14.9 million for Candover and £123.8 million for the 1997 Fund, giving an overall return of 4.6 times the original investment.

During the year, two 2001 Fund investee companies, Kabel Deutschland and Springer were refinanced, and a further investee company, Gala, has been refinanced since the year end. As a result, Kabel Deutschland has now returned all of its cost and a gain of £4.0 million for Candover and £32.6 million for the 2001 Fund; and Springer and Gala have returned approximately half of the original investments made. In addition, agreement has been reached in relation to a refinancing of Vetco, which is expected to complete in late March, and which will result in Vetco having returned approximately one third of the original investment.

Outlook

2004 was an active year, both in terms of realisations and new investments. With the outlook for buyouts across Europe positive on most fronts, we believe we are well positioned to continue to see interesting investment opportunities over the coming year. As always, we will monitor the performance of all investee companies closely to ensure performance is in line with expectations, and formulate exit strategies as appropriate.

C J Buffin
M S Gumienny
C L P Chevrillon
23rd March, 2005

Status of funds

In addition to investing on its own account, Candover invests under a co-investment agreement alongside third party funds that are managed by its wholly owned subsidiary, Candover Partners Limited.

In addition to investing on its own account, Candover invests under a co-investment agreement alongside third party funds that are managed by its wholly owned subsidiary Candover Partners Limited. All investment decisions with regard to these third party managed funds and Candover's co-investment with them are made by the board of Candover Partners Limited and not by the board of Candover Investments plc. Candover's co-investment commitment to each of the third party managed funds is shown below.

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

The Candover 1994 Fund had a final closing on 28th February, 1995 with total commitments of £307.5 million including £70.0 million from Candover. The investment period of the Fund was formally terminated on 16th December, 1997. The Fund had a termination date of 18th May, 2002 and this has since been extended until 18th May, 2006 following investor consent. The Fund's remaining active investment in Baxi was realised during the year. As potential remains for deferred consideration on past disposals, the Fund has not been terminated. The Fund called down £176.4 million for investment in 13 transactions and had returned £425.1 million by the year end.

The Candover 1997 Fund had a final closing on 22nd January, 1998 with total third party commitments amounting to £750.0 million and a further £100.0 million provided by Candover. During 2004, the Fund realised its holdings in Boume Leisure, Clondalkin, Earls Court & Olympia and Picard Surgelés, as well as receiving further consideration on Charter and realising its remaining holding in NASDAQ-quoted Inveresk. The investment period for the Fund terminated on 13th June, 2001. The Fund called down £686.0 million for investment in 15 transactions, 13 of which have been realised, and had returned £1,123.2 million by the year end.

The Candover 2001 Fund had a final closing on 13th June, 2002. Total commitments were €2.7 billion, including a €300.0 million commitment from Candover and a €18.7 million commitment from the Candover 2001 Fund Employee Benefit Trust. During the year to 31st December, 2004, the Fund invested in five transactions, the acquisitions of Vetco International, Innovia Films, Bureau van Dijk, ALcontrol and Thule. The Fund has now drawn down €1.8 billion for investment in 13 transactions. Refinancings were completed on two investments during the year, Kabel Deutschland and Springer. Since the year end, additional refinancing has been agreed on Gala and Vetco International, following which the cumulative cash returned to investors since inception will be €339.5 million.

Candover's investment approach

Candover is an independent company investing principally in larger European buyouts. Private equity investment has consistently shown good quality returns over 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.

Candover works with ambitious, entrepreneurial people whose vision matches our own. Our approach is to work in close partnership with management teams and to create an environment where they can perform at their best. To that end, managers always have an equity stake in the businesses we back, 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. 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 management's support – we seek an exit that rewards all participants fully for their time, capital and risk.

Review of 15 largest investments

Gala Group Limited

Location: UK

Date of investment: March 2003

Candover's investment as at 31st December	2004	2003
Cost of investment	£21,728,000	£21,728,000
Directors' valuation	£21,728,000	£21,728,000
Effective equity interest (fully diluted)	2.8%	2.8%
% of Candover's net assets	7.0%	8.5%
Basis of valuation	Multiple of earnings	Cost

In March 2003, Candover invested in the buyout of Gala, the UK's leading high volume, low stake gaming business.

Gala is one of the UK's fastest growing retail gaming companies with two main divisions: Bingo, the UK's largest operator with 166 clubs that pay out £22.0 million in prize money each week and Casinos, a top three UK casino operator with 27 sites located throughout the UK. Candover backed a leading management team which has consistently demonstrated its ability to grow profits and market share. Gala's track record of organic growth, robust cash flows and position in the casino market should ensure it is well placed to benefit from modernisation of UK gaming regulations. Since the year end, Gala has been refinanced, returning 46% of the original investment.

Profit before goodwill amortisation, interest and tax for the year to 25th September, 2004 was £115.3 million on turnover of £544.3 million (proforma profit before goodwill amortisation, interest and tax for the year to 27th September, 2003 was £105.3 million on turnover of £461.6 million).

No dividends were received by Candover for the year ended 31st December, 2004 (2003: £nil).

Sector: Leisure www.candover.com/gala

Springer Science + Business Media S.A.

Location: Germany

Date of investment: January/September 2003

Candover's investment as at 31st December	2004	2003
Cost of investment	€20,823,000 (£14,303,000)	€33,959,000 (£22,884,000)
Directors' valuation	€29,317,000 (£20,737,000)	€33,959,000 (£23,928,000)
Effective equity interest (fully diluted)	4.0%	4.0%
% of Candover's net assets	6.6%	9.4%
Basis of valuation	Multiple of earnings	Cost

In September 2003, Kluwer Academic Publishers (KAP) merged with BertelsmannSpringer to create Springer, the world's second largest scientific, technical and medical (STM) publisher.

Candover completed the €600.0 million acquisition of KAP from Wolters Kluwer in January 2003. The €1.1 billion buyout of BertelsmannSpringer was completed in September 2003 and the two companies have subsequently been merged. Led by a highly regarded management team, the merger will allow Springer to play a significant role in the ongoing consolidation of the fragmented STM publishing industry. Springer publishes more than 1,400 journals and trade magazines and over 4,000 new book titles each year. A refinancing in August 2004 resulted in €13.1 million (£8.6 million) of loan stock being returned.

Full year audited accounts are not yet available for the combined entity.

No dividends were received by Candover for the year ended 31st December, 2004 (2003: £nil).

Sector: Media www.candover.com/springer

Review of 15 largest investments

continued

Thule AB

Location: Sweden

Date of investment: December 2004

Candover's investment as at 31st December	2004
Cost of investment	€21,181,000 (£14,620,000)*
Directors' valuation	€21,098,000 (£14,923,000)
Effective equity interest (fully diluted)	6.7%
% of Candover's net assets	4.7%
Basis of valuation	Cost

Candover led the SEK4,215.0 million buyout in December 2004.

Thule is a consumer goods company with a strong brand which supplies products to the outdoor leisure markets. The company manufactures and distributes car racks and boxes, trailers, snow chains and OEM car rails. It is the global number one in its core activity of car racks and boxes with a 40% market share. Thule also holds either global or European market leading positions in all its other product areas.

Audited accounts for the period since acquisition are not yet available.

No dividends were received by Candover for the year ended 31st December, 2004.

* This investment was made in SEK and Euros.

Sector: **Industrials** www.candover.com/thule

Swissport (SWT (Lux) S.A.)

Location: Switzerland

Date of investment: February 2002

Candover's investment as at 31st December	2004	2003
Cost of investment	€14,481,000 (£8,891,000)*	€12,001,000 (£8,456,000)*
Directors' valuation	€20,449,000 (£14,464,000)	€12,963,000 (£9,134,000)
Effective equity interest (fully diluted)	5.5%	5.5%
% of Candover's net assets	4.6%	3.6%
Basis of valuation	Multiple of earnings	Multiple of earnings

In February 2002, Candover backed the management of Swissport, the global airport ground handling business, in a buyout from Swissair Group AG.

Swissport is the largest ground handling agent in the world, active at 166 destinations in 36 countries on four continents. With a workforce of some 21,000 people, the company provides ground services for over 70 million passengers and three million tonnes of cargo a year on behalf of some 600 airlines. In 2004, Swissport was named as Global Ground Handler of the Year by the Institute of Transport Management for the fourth year running. In April 2004, Swissport acquired Groundstar, the leading UK ground handler, and Candover invested a further £0.4 million net of subsequent syndication.

Profit before goodwill amortisation, interest and tax for the year to 31st December, 2003 was CHF94.8 million on turnover of CHF1,148.6 million (profit before goodwill amortisation, interest and tax for the period 7th February, 2002 to 31st December, 2002 was CHF88.6 million on turnover of CHF976.3 million).

No dividends were received by Candover for the year ended 31st December, 2004 (2003: £nil).

* This investment was made in CHF and Euros.

Sector: **Support services** www.candover.com/swissport

ALcontrol Group Holdings Limited

Location: UK

Date of investment: December 2004

Candover's investment as at 31st December	2004
Cost of investment	€18,585,000 (£12,844,000)
Directors' valuation	€18,585,000 (£13,145,000)
Effective equity interest (fully diluted)	6.8%
% of Candover's net assets	4.2%
Basis of valuation	Cost

In December 2004, Candover acquired ALcontrol, a leading European environmental and food testing company.

Headquartered in the Netherlands, ALcontrol is a laboratory-based testing business which supplies services to the food and environmental markets. It ranks as number one in the UK, Benelux and Sweden, making it a leading player in Western Europe. The group comprises 26 laboratories and operates in ten countries.

Audited accounts for the period since acquisition are not yet available.

No dividends were received by Candover for the year ended 31st December, 2004.

Sector: Support services www.candover.com/ALcontrol

Bureau van Dijk Electronic Publishing BV

Location: Belgium

Date of investment: November 2004

Candover's investment as at 31st December	2004
Cost of investment	€14,597,000 (£10,239,000)
Directors' valuation	€14,597,000 (£10,325,000)
Effective equity interest (fully diluted)	6.3%
% of Candover's net assets	3.3%
Basis of valuation	Cost

Candover led the buyout of Bureau van Dijk (BvD) in November 2004. We acquired a majority stake in the business from the existing management team, who will remain as minority shareholders.

BvD is a global publisher of specialised financial and company information products via the internet and on CD/DVDs on over ten million companies worldwide. Its main databases are market leaders in the niches they target and it currently sells over 20 products. The products typically include detailed financial accounts and data such as ownership, directors, business descriptions, news and peer performance. Proprietary software that enables searching, analysis and presentation by the customer is a key element of the products.

Audited accounts for the period since acquisition are not yet available.

No dividends were received by Candover for the year ended 31st December, 2004.

Sector: Media www.candover.com/bvdep

Review of 15 largest investments

continued

Innovia Films Limited

Location: UK

Date of investment: September 2004

Candover's investment as at 31st December	2004
Cost of investment	€14,448,000 (£9,913,000)
Directors' valuation	€14,448,000 (£10,219,000)
Effective equity interest (fully diluted)	8.0%
% of Candover's net assets	3.3%
Basis of valuation	Cost

Candover led the €320.0 million buyout of Innovia Films in September 2004, from UCB Group, a quoted Belgian pharmaceutical and speciality chemical company.

Innovia Films is a manufacturer of specialist bi-orientated polypropylene (BOPP) and cellulose (cello) transparent and coated films. BOPP is derived from oil and cello is derived from wood pulp. The business enjoys strong positions in niche markets and focuses on higher value-added applications. The films are used primarily in the packaging sector, such as tobacco over-wrap, transparent self-adhesive bottle labels and technically advanced food packaging applications. The films are also used as a substrate for banknotes, and via a joint venture with the Reserve Bank of Australia, Innovia is the only manufacturer of polymer banknotes in the world.

Audited accounts for the period since acquisition are not yet available.

No dividends were received by Candover for the year ended 31st December, 2004.

Sector: Industrials www.candover.com/innoviafilms

Vetco International Limited

Location: UK

Date of investment: July 2004

Candover's investment as at 31st December	2004
Cost of investment	US\$13,870,000 (£7,454,000)
Directors' valuation	US\$16,824,000 (£8,840,000)
Effective equity interest (fully diluted)	2.5%
% of Candover's net assets	2.8%
Basis of valuation	Multiple of earnings

In July 2004, Candover acquired Vetco International which was formerly the upstream oil, gas and petrochemicals division of ABB, the Swiss-Swedish engineering group.

Vetco International is a major global participant in the oilfield services sector and supplies a portfolio of hi-tech proprietary products and services. It serves major international and national oil companies as well as independent producers throughout the world. The group manufactures drilling and production equipment for rigs and production platforms, and designs and manages the installation of subsea production systems. It also undertakes modification and maintenance work on existing offshore installations and constructs new build fixed and floating production facilities. Vetco operates in 31 countries, with headquarters in the UK and key operating centres in Houston, Oslo and Singapore. A refinancing, which will return approximately one third of the original investment, is expected to complete in March 2005.

Audited accounts for the period since acquisition are not yet available.

No dividends were received by Candover for the year ended 31st December, 2004.

Sector: Support services www.candover.com/vetco

Aspen Insurance Holdings Limited

Location: US

Date of investment: June 2002

Candover's investment as at 31st December	2004	2003
Cost of investment	£7,830,000	£7,830,000
Directors' valuation	US\$15,360,000 (£8,071,000)	US\$16,125,000 (£9,008,000)
Effective equity interest (fully diluted)	1.0%	1.0%
% of Candover's net assets	2.6%	3.5%
Diluted earnings per share	US\$2.74	US\$2.56
Basis of valuation	20% discount on market price	17% discount on market price

In June 2002, Candover co-led an equity syndicate which committed £448.0 million to the formation of Aspen Insurance, a new reinsurance and insurance group, which is one of the largest independent reinsurance vehicles in the UK market.

Aspen's key business lines comprise mainly property and casualty reinsurance, but with the business increasingly diversifying into other lines to provide a highly focused leader in key reinsurance and insurance lines. On 4th December, 2003, Aspen successfully completed its listing on the New York Stock Exchange at an initial offer price of US\$22.50 per share.

Income on operations before income tax for the year ended 31st December, 2004 was US\$263.2 million on net premiums earned of US\$1,232.8 million (2003: income on operations before income tax was US\$206.6 million on net premiums earned of US\$812.3 million).

In the year ended 31st December, 2004 Candover received dividends of US\$98,000 or £51,000 (2003: £nil).

Sector: Financials www.candover.com/aspen

Cidad 3

Location: France

Date of investment: April 2000

Candover's investment as at 31st December	2004	2003
Cost of investment	€8,306,000 (£4,854,000)	€7,600,000 (£4,767,000)
Directors' valuation	€9,975,000 (£7,055,000)	€7,430,000 (£5,235,000)
Effective equity interest (fully diluted)	n/a	n/a
% of Candover's net assets	2.3%	2.1%
Basis of valuation	Multiple of earnings	Multiple of earnings

In April 2000, Candover committed €15.0 million to Ciudad 3, an investment company specialising in French buyouts.

Cidad 3, with €82.2 million of commitments, started its investment period in April 2000. Ciudad 3 has invested in 25 companies of which three have been sold and three have been written off.

No dividends were received by Candover for the year ended 31st December, 2004 (2003: £nil).

Sector: External funds

Review of 15 largest investments

continued

Acertec Holdings Limited

Location: UK
Date of investment: June 1999

Candover's investment as at 31st December	2004	2003
Cost of investment	£7,043,000	£7,043,000
Directors' valuation	£7,043,000	£1,765,000
Effective equity interest (fully diluted)	7.9%	7.9%
% of Candover's net assets	2.3%	1.6%
Basis of valuation	Multiple of earnings	Multiple of earnings

In June 1999, Candover led the £135.0 million public-to-private buyout of Hall Engineering (Holdings) plc, now renamed Acertec Holdings Limited.

Acertec consists of four principal businesses: Carrington Wire, a leading manufacturer of wire in the UK; BRC Reinforcement, a leading UK supplier of reinforcement products to the construction industry; Stadco, Acertec's automotive pressings business, which is one of the leading European suppliers of body-in-white pressings and assemblies to the car industry; and in the Far East, BRC Asia, which is the market leader in the supply of prefabricated steel reinforcement systems to the Singapore housing market, and which was listed on the Singapore Stock Exchange in July 2000.

Profit before goodwill amortisation, interest and tax for the year ended 31st December, 2003 was £4.5 million on turnover of £176.8 million (2002: profit before goodwill amortisation, interest and tax was £6.1 million on turnover of £172.7 million).

No dividends were received by Candover for the year ended 31st December, 2004 (2003: £nil).

Sector: Industrials

ICG Mezzanine Fund 2000

Location: UK
Date of investment: July 2000

Candover's investment as at 31st December	2004	2003
Cost of investment	€8,772,000 (£5,519,000)	€11,345,000 (£7,101,000)
Directors' valuation	€8,772,000 (£6,204,000)	€11,345,000 (£7,994,000)
Effective equity interest (fully diluted)	n/a	n/a
% of Candover's net assets	2.0%	3.1%
Basis of valuation	Multiple of earnings	Multiple of earnings

In July 2000, Candover committed €15.0 million to the €475.0 million ICG Mezzanine Fund 2000. The Fund has been active in providing mezzanine finance throughout Europe. The investment period for new investments has terminated and €14.6 million of Candover's commitment of €15.0 million has been drawn down.

Transactions for which the ICG Mezzanine Fund 2000 provided financing include the acquisitions of Tetley by Tata Tea, Baxi by Newmond and the buyouts of Picard Surgelés and Swissport. During the year, capital repayments were received resulting in a reduction in the cost of the investment.

No dividends were received by Candover for the year ended 31st December, 2004 (2003: £nil).

Sector: External funds

Equity Trust Holdings S.á.r.l.

Location: UK

Date of investment: May 2003

Candover's investment as at 31st December	2004	2003
Cost of investment	€7,713,000 (£5,477,000)	€7,713,000 (£5,477,000)
Directors' valuation	€7,713,000 (£5,455,000)	€7,713,000 (£5,435,000)
Effective equity interest (fully diluted)	5.2%	5.2%
% of Candover's net assets	1.7%	2.1%
Basis of valuation	Multiple of earnings	Cost

In May 2003, Candover backed the existing management team to acquire the trust and fiduciary services business of Insinger de Beaufort for €197.5 million.

Equity Trust provides client services, primarily based around the formation and ongoing administration of onshore and offshore trusts and companies. It has an international customer base comprising both private clients and corporate entities, providing them with solutions to business investment, wealth creation and wealth preservation issues.

Profit before goodwill amortisation, interest and tax for the period 28th May, 2003 to 31st December, 2003 was €8.8 million on turnover of €35.9 million.

No dividends were received by Candover for the year ended 31st December, 2004 (2003: £nil).

Sector: Financials www.candover.com/equitytrust

Ontex NV

Location: Belgium

Date of investment: January 2003

Candover's investment as at 31st December	2004	2003
Cost of investment	€26,411,000 (£17,163,000)	€26,058,000 (£16,925,000)
Directors' valuation	€6,610,000 (£4,675,000)	€19,543,000 (£13,771,000)
Effective equity interest (fully diluted)	4.4%	4.1%
% of Candover's net assets	1.5%	5.4%
Basis of valuation	Multiple of earnings	Multiple of earnings

Candover completed the €1,111.8 million buyout and delisting of Ontex, a leading European producer of own-label hygienic disposables, from the Belgian Stock Exchange in January 2003.

Ontex is the leading European manufacturer of retailer-branded diapers and feminine hygiene products. It also has an adult health care business, which is number three in Europe. Ontex supplies supermarket private label products in Western Europe, and a combination of private label and branded products in the rapidly growing markets of Eastern Europe and Turkey. In June 2004, Ontex acquired the Paul Hartmann AG baby diaper business and Candover invested a further €0.3 million.

In the period 15th January, 2003 to 31st December, 2003 Ontex generated profit before goodwill amortisation, interest and tax of €75.3 million on turnover of €743.9 million.

No dividends were received by Candover for the year ended 31st December, 2004 (2003: £nil).

Sector: Health www.candover.com/ontex

Review of 15 largest investments

continued

Kabel Deutschland GmbH

Location: Germany

Date of investment: June 2003

Candover's investment as at 31st December	2004	2003
Cost of investment	€692,000 (£462,000)	€1,405,000 (£1,061,000)
Directors' valuation	€3,578,000 (£2,530,000)	€1,405,000 (£990,000)
Effective equity interest (fully diluted)	0.7%	0.7%
% of Candover's net assets	0.8%	0.4%
Basis of valuation	Multiple of earnings	Cost

The buyout of Kabel Deutschland (KDG) from Deutsche Telekom was completed in March 2003 by a group consisting of Goldman Sachs, Apax Partners and Providence Equity. Candover subsequently took an equity position from Goldman Sachs in June 2003.

KDG is Europe's largest cable TV company, providing cable TV signals to ten million homes in Germany.

Profit before goodwill amortisation, interest and tax for the year to 31st March, 2004 was €52.7 million on turnover of €984.9 million.

No dividends were received by Candover for the year ended 31st December, 2004 (2003: £nil).

Sector: Media

Valuation policy

Investments have been valued by the directors in compliance with the principles of the revised British Venture Capital Association Valuation Guidelines, which took effect on 1st August, 2003.

Principles of valuation of unlisted investments

Investments are stated at amounts considered by the directors to be a reasonable assessment of their fair value, subject to the overriding requirements of prudence, where fair value is the amount at which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

All investments are valued according to one of the following bases:

- cost (less any provision required);
- earnings multiple;
- sale price;
- price of recent investment; or
- net assets.

Investments are only valued at cost for a limited period after the date of acquisition, otherwise investments are valued on one of the other 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 multiple 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 remain 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 an appropriate and reasonable price/earnings multiple. This is normally related to comparable quoted companies, with adjustments made for points of difference between the comparator and the company being valued, in particular for risks, earnings growth prospects and surplus assets or excess liabilities.

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 recent investments by a third party in a new financing round that is deemed to be at arm's 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 taken into account in arriving at the valuation.

Where appropriate, a marketability discount, in the range of 10% to 30% may be applied to the investment valuation, based on the likely timing of an exit, the influence over that exit, the risk of achieving conditions precedent to that exit and general market conditions.

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.

Principles of valuation of listed investments

Investments are valued at mid-market price or the conventions of the market on which they are quoted, subject if appropriate, to marketability discounts where there is a risk that the holding may not be able to be sold immediately or where formal restrictions on trading exist.

Valuation review procedures

Valuations are initially prepared by the relevant investment executive. These valuations are then subject to review by senior management and external auditors, prior to approval by the directors.

The board of directors

1

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1. S W Curran FCCA[†]

Chairman

Mr Curran was appointed Chairman in May 1999 having previously been Chief Executive since 1991 and, before that, 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. Mr Curran is 62.

2. G E Grimstone^{††}

Non-executive Deputy Chairman, remuneration committee chairman, Senior Independent Director

Mr Grimstone was appointed to the Candover board in July 1999, and became Deputy Chairman in May 2004. Formerly an Assistant Secretary at HM Treasury responsible for the UK's privatisation policy, Mr Grimstone latterly held a number of senior appointments in the Schroders group, including Vice Chairman of worldwide investment banking activities. He is a non-executive director of Dairy Crest Group plc, RAF Strike Command, Standard Life Assurance Company and the Tote, and is Chairman of F&C Smaller Companies plc. Mr Grimstone assumed the role of Senior Independent Director in May 2004. Mr Grimstone is 55.

3. G D Fairservice MBA

Director

Mr Fairservice joined Candover in March 1984, was appointed to the board in July 1986, was made Deputy Chief Executive in January 1991, then Deputy Chairman in May 1999. Mr Fairservice stepped down as Deputy Chairman in May 2004. Before joining Candover, Mr Fairservice spent eight years with ICFC (now 3i) followed by two years with the British Technology Group (now BTG plc). Mr Fairservice is 57.

4. D R Wilson FCA[‡]

Non-executive, audit committee chairman

Mr Wilson was appointed to the board of Candover in March 1994. Until December 2002, he served as 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 60.

5. A P Hitchens MBA^{††}

Non-executive, nominations committee chairman

Mr Hitchens joined the board of Candover in December 1989 and became Deputy Chairman in January 1991. He stepped down as Deputy Chairman in May 2004, and remains a non-executive director. He is Chairman of D.S. Smith plc and is a member of the Takeover Panel. He is also a non-executive director of JPMorgan Fleming Income & Capital Investment Trust Plc and a director of WaterRower (UK) Limited. He was previously a Managing Director and Chief Financial Officer of Consolidated Gold Fields. Mr Hitchens is 68.

6. J G West FCA MSI[‡]

Non-executive

Mr West was appointed to the Candover board in December 1985 and 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 Trust plc, New City High Yield Trust plc, Jupiter Second Enhanced Income Trust plc and Rurelec plc and a non-executive director of Aberdeen New Dawn Investment Trust plc, British Assets Trust plc, Global Natural Energy plc and various unquoted companies. Mr West is 57.

* Member of the remuneration committee
 § Member of the audit committee
 † Member of the nominations committee

7. N A Lethbridge[§]

Non-executive

Mr Lethbridge was appointed to the Candover board in January 2003. Mr Lethbridge was previously a senior partner in London of Babcock & Brown, a global investment bank specialising in the acquisition, management and arrangement of asset and project financing worldwide. Previously Mr Lethbridge was a director of J. Henry Schroder Wagg, where he carried out numerous privatisation and project financing assignments. He also worked with the Saudi International Bank and earlier spent nine years with the World Bank in Washington DC. He is a non-executive director of Partnerships UK plc and director of Capital Accumulation Limited. Mr Lethbridge is 55.

8. C Russell [§]FSIP FCA[§]

Non-executive

Mr Russell was appointed to the Candover board in May 2004. Mr Russell is an associate of GaveKal Research and a director of Investec High Income Trust plc, the Korean Fund Inc, Enhanced Index Funds pcc and the LIM Japan Fund. He was formerly a director and Head of Overseas Businesses at Gartmore Investment Management plc. Prior to Gartmore, he was a Holding Board director of the Jardine Fleming Group in Asia. Mr Russell is 56.

Senior management

C J Buffin ^{ACA}

Managing Director

Mr Buffin was appointed joint Managing Director of Candover Investments plc in March 1998 and resigned in December 2002. He is a joint Managing Director of Candover Services Limited, the principal operating company in the Candover Group, and of Candover Partners Limited, the manager of various investment funds. 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. Mr Buffin is 47.

M S Gumienny ^{ACA}

Managing Director

Mr Gumienny was appointed joint Managing Director of Candover Investments plc in March 1998 and resigned in December 2002. He is a joint Managing Director of Candover Services Limited, the principal operating company in the Candover Group, and of Candover Partners Limited, the manager of various investment funds. Prior to joining Candover in January 1987, he qualified as a chartered accountant with Price Waterhouse. Transactions led by Mr Gumienny include the acquisition of Bourne Leisure Holdings Limited, the buyout of Swissport from Swissair Group AG, the formation of Aspen Insurance, and the buyout of Gala Group. He is a non-executive director of a number of unquoted companies in the Candover portfolio. Mr Gumienny is 46.

C L P Chevrillon ^{MBA}

Managing Director

Mr Chevrillon joined Candover as joint Managing Director of Candover Partners Limited, the manager of various investment funds, in December 2002. Candover has worked closely with him on transactions for over five years, jointly completing the buyouts of MC International and Picard Surgelés with Chevrillon Associés. Mr Chevrillon founded Chevrillon Associés, a leading French investment company, in 1992. Prior to that he was General Manager of Investment Banking for France for Salomon Brothers SA, which he joined in 1986, and Finance Director of Gaumont. Mr Chevrillon started his career in 1976 with JP Morgan Investment Banking. Mr Chevrillon is 51.

Report of the directors

The directors present their report together with the audited financial statements for the year ended 31st December, 2004.

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 24.

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 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 Candover Partners Limited, which is regulated by the Financial Services Authority. 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 5 per cent of any profit made in the 2001 Fund.

These funds and the investment activities of each fund are 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 £13,239,000 compared to £12,661,000 for the year ended 31st December, 2003. Revenue was £41,795,000 as against £42,672,000 for the previous year. Administrative expenses charged to revenue were £22,832,000 compared to £24,744,000 for the previous year. The changes in fixed asset investments are described together with a review of the Group's activities in the Chairman's statement and operational review on pages 4 and 7 respectively.

Dividend and proposed transfer to reserves

The directors recommend the payment of a final dividend of £6,338,000, equal to 29.0p per ordinary share (2003: £5,792,000, equal to 26.5p per share) giving a total dividend for the year of £9,584,000, equal to 44.0p per ordinary share (2003: £8,742,000, equal to 40.0p per share). Payment of the dividend will be made on 18th May, 2005 to shareholders on the register at the close of business on 29th April, 2005. The dividend details are shown in note 6 on page 44.

After payment of the dividend, there is a profit of £3,655,000 in respect of the year ended 31st December, 2004 which the directors propose to carry to reserves (2003: profit of £3,919,000 carried to reserves).

Directors

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

S W Curran	J G West*
G E Grimstone*	D R Wilson*
A P Hichens*	N A Lethbridge*
G D Fairservice	C Russell*

*Non-executive

Mr Wilson has indicated his intention to step down from the board, and will resign with effect from the conclusion of the Annual General Meeting on 10th May, 2005.

Mr Russell was appointed a non-executive director on 12th May, 2004 and stands for election at the Annual General Meeting on 10th May, 2005.

In accordance with the Articles of Association and in compliance with the Revised Combined Code, Messrs Curran, Hichens, and West will retire by rotation and, being eligible, will offer themselves for re-election.

All of those seeking re-election have letters of appointment, the terms of which are contained in the directors' remuneration report on page 33.

Messrs Hichens and Fairservice stepped down as joint Deputy Chairmen at the Annual General Meeting on 12th May, 2004. Both remain on the board. Mr Grimstone became Deputy Chairman on that date, and also succeeded Mr Hichens as Senior Independent Director.

The biographical details of the serving directors and those seeking election or re-election appear on pages 20 and 21.

Notifiable interests in the Company's shares

The notification to the Company of interests in excess of 3 per cent of the issued share capital of the Company at 7th March, 2005 is contained in note 16 to the accounts on page 51.

Directors' interests

The statements in respect of directors' interests in the share capital of the Company are contained in note 16 to the accounts on page 52. Other matters requiring disclosure by the directors are contained in the directors' remuneration report on pages 29 to 33.

Political and charitable donations

During the year there were charitable donations of £30,000 (2003: £13,280). There were no political donations made during the year (2003: £nil).

Share buyback

Although authority to buy back the Company's shares was granted to the directors at the Annual General Meetings on 14th May, 2003 and 12th May, 2004, there were no share buybacks during the year.

Annual General Meeting

The Annual General Meeting of the Company will be held on Tuesday 10th May, 2005 at 12 noon at The Stationers' Hall, Ave Maria Lane, London EC4M 7DD. The notice of Annual General Meeting appears on page 56.

Resolutions 3-6 concern the election and re-election of directors. Biographical details for all directors are given on pages 20 and 21. Each of the directors standing for election or re-election has demonstrated their ability to bring a wide ranging and valuable set of skills and knowledge to the Company. The board considers all its non-executive directors to be independent in character and judgement. Messrs Hichens and West have served 15 and 19 years respectively as non-executive directors of the Company. The board believes that this period of service brings a high degree of knowledge and understanding of the mechanisms of the Company, and a wealth of externally gained expertise and that they remain independent. During their periods of service, they have undertaken an appropriate commitment of time to fully perform their duties.

In addition to the ordinary business of the Annual General Meeting, the following special business will be put to shareholders:

Resolution 8, if passed, will approve the directors' remuneration report for the year ended 31st December, 2004.

Resolution 9, if passed, authorises the Company to purchase up to 3,276,306 of its shares. This authority will expire at the next Annual General Meeting of the Company, or on 10th August, 2006 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.

In the event that shares are purchased, they would either be cancelled (and the number of shares in issue reduced accordingly) or, subject to the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (S.I. 2003/1116) (the 'Regulations'), be retained as treasury shares. The Regulations permit companies to hold shares repurchased as treasury shares with a view to possible re-sale at a future date rather than having to cancel them.

The Company would consider holding any of its own shares repurchased pursuant to the proposed resolution in treasury rather than cancelling them, subject to a maximum of 10 per cent of the issued share capital immediately prior to such purchase. By holding its shares in treasury, the Company is afforded the ability to reissue treasury shares quickly and cost effectively, and gains additional flexibility in the management of its capital base. It should be noted that no dividends would be paid on shares while held in treasury, no voting rights would attach to them and the shares would be treated as if cancelled. The resolution follows the rules set down by the Companies Act 1985 and the UK Listing Authority.

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 they believe that it is in shareholders' best interests.

The directors consider the passing of the above resolutions to be in the best interests of the Company and its shareholders as a whole.

Supplier payment policy

The Company negotiates payment terms with its suppliers on an individual basis, with the normal arrangements being within 14 to 30 days from receipt of invoice. Trade creditor days of the Company for the year ended 31st December, 2004 were 21 days based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

Report of the directors

continued

ISA status

The board has considered the ISA status of Candover's shares and for the time being considers that a decision to make Candover's shares eligible for inclusion in an ISA will impose constraints on the Company's investment criteria that will not be in the overall interests of shareholders.

Auditors

On 1st July, 2004, the Grant Thornton partnership transferred its business to a limited liability partnership, Grant Thornton UK LLP. Under section 26(5) of the Companies Act 1989, the directors' consented to extend the audit appointment to Grant Thornton UK LLP from 1st July, 2004. Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985 and an appropriate resolution will be put to the shareholders at the Annual General Meeting.

Tax status

The board of the Inland Revenue has approved the Company's status as an investment trust, under section 842 of the Income and Corporation Taxes Act 1988, for the year ended 31st December, 2003. In the opinion of the directors, the Company's affairs since that date have been conducted so as to enable it to continue to be treated as an investment trust.

International Financial Reporting Standards (IFRS)

The Company has undertaken a review of proposed IFRS including identifying the impact on the financial statements and putting in place procedures to monitor developments in IFRS. Those elements of IFRS likely to affect Candover have been identified, and procedures have been adopted which will enable the Group to comply with IFRS once they become mandatory. The 2005 interim financial statement and the annual report and accounts will be prepared under IFRS.

By order of the board

A C Peel
Company Secretary
20 Old Bailey
London EC4M 7LN
23rd March, 2005



Corporate governance

The following statement sets out the Company's application in the year to 31st December, 2004 of the Revised Combined Code issued in July, 2003. In the opinion of the board, the Company has complied with the principles of that Code in all respects throughout the year except where stated otherwise.

The board

Corporate governance of Candover is achieved through the board which, at the end of the year, comprised eight directors, of whom two were executive and six were non-executive. Mr C Russell, a former director of Gartmore Investment Management and Jardine Fleming Group and a Fellow of the Institute of Chartered Accountants in England and Wales, was appointed a director on 12th May, 2004. Brief biographical details of the directors appear on pages 20 and 21 and the interests of the directors in the share capital of the Company are shown in note 16 on page 52.

The board meets at least four times a year and there is a formal schedule of matters reserved for decision by the board. Matters reserved for decision by the board include, inter alia, corporate strategy, approval of the annual budget, approval of the report and accounts and the valuation of the Company's investments. All meetings during 2004 were attended by all directors.

In line with the requirements of the Revised Combined Code, the board undertakes a formal annual evaluation of its own performance and that of its committees and individual directors. A review was undertaken in December 2004 and the board concluded that its performance, and that of its committees and its directors, was satisfactory. In December 2004, appraisals of the individual non-executive directors were undertaken by the Chairman, and an appraisal of the Chairman was undertaken by the Senior Independent Director on the basis of feedback received from other directors. The results of these appraisals were also satisfactory.

Chairman

The executive responsibilities of the Chairman, Mr Curran, who is responsible for the strategic direction of the Group, are separated from those of Messrs Buffin, Gumienny and Chevrillon, the senior management, who are responsible for the day-to-day operational management of the Company.

A job specification for the role of Chairman has been approved by the nominations committee.

Board committees

The board is supported in its decisions by the following committees:

The audit committee

The audit committee comprises six non-executive directors and the members of this committee are shown on pages 20 and 21. The board is satisfied that audit committee members have recent and relevant financial experience. Mr Russell will become chairman of the audit committee following Mr Wilson's retirement as a director on 10th May, 2005.

The audit committee carries out a number of duties, including review of the interim and annual accounts, and seeks to ensure that appropriate accounting and financial policies and procedures are implemented, that systems of internal control and external audit are in place, and that the auditors' recommendations are considered and appropriate actions are taken. Meetings of the audit committee are held at least three times a year, and are attended by the external auditor. During 2004, four audit committee meetings were held and these were fully attended with the exception of the December meeting which Mr Hitchens was unable to attend.

Among the issues considered by the audit committee during 2004 were audit strategy, compliance with the terms of the Smith Report, and the potential impact of International Financial Reporting Standards on the Group.

The remuneration committee

The remuneration committee, chaired by Mr Grimstone, comprises six non-executive directors, the members of which are shown on pages 20 and 21. This committee supports the board in determining the level of the remuneration of the Chairman and the other executive director and the senior management and other related matters. The full report of the committee is set out in the directors' remuneration report on pages 29 to 33.

The remuneration committee met twice during 2004, and these meetings were fully attended.

The nominations committee

In considering non-executive board appointments, the board is supported by a nominations committee whose remit is to review the structure, size and composition of the board, to satisfy itself that plans are in place for orderly succession for appointments to the board and to identify appropriate candidates. A job specification for the non-executive director role has been approved by the nominations committee. The nominations committee will generally use an appropriate external search consultancy to identify suitable 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 nominations committee, which is chaired by Mr Hitchens, comprises three directors, the majority of whom are non-executive, and the present members of the committee are shown on pages 20 and 21. During the year, the committee approved the appointment of Mr Russell. The appointment of Mr Russell, which involved the use of an external search consultancy, brought to the board considerable experience gained in the financial services sector and was part of the process of succession planning at board level.

The nominations committee met once during 2004 and this meeting was attended by all members.

Corporate governance

continued

Board balance

The board maintained a balance of six non-executive and two executive directors which it considered appropriate to the Company's status as an investment trust. In the view of the board, no non-executive director has any relationships that could materially interfere with their independent judgement. The non-executive directors are furthermore considered to be of sufficient calibre and experience to bring significant influence to bear on the decision-making process. It is therefore the board's view that all non-executives are independent, although three (Messrs West, Wilson and Hichens) have exceeded the nine year period of service envisaged by the Revised Combined Code as being relevant to the determination of a non-executive director's independence.

In this regard, the board acknowledges the Association of Investment Trust Companies' guidelines on corporate governance, which do not recommend that long-serving directors be prevented from forming part of an independent majority.

During the year, a new non-executive director, Mr C Russell, was appointed.

Mr Hichens was the Senior Independent Director on the board until the Annual General Meeting on 12th May, 2004, when Mr Grimstone became Senior Independent Director and Deputy Chairman.

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 that the board may reach proper decisions. They can, if necessary, obtain independent professional advice at the Company's expense.

Directors' training

During the year, the board reviewed the requirement of the Revised Combined Code to provide suitable training on the appointment of new directors, and has provided such training during the year where it was considered to be appropriate.

In line with the provisions of the Revised Combined Code, a formal training process for new non-executive directors now exists.

Re-election of directors

The principle set out in the Revised Combined Code is that all directors should be required to submit themselves for re-election at regular intervals and at least every three years, and in any case as soon as practicable after their initial appointment to the board. The Revised Combined Code further requires that the non-executive directors are appointed for specific terms. At Candover, both executive and non-executive directors are re-elected, subject to retirement by rotation, in accordance with the Company's Articles of Association, with all directors being required to submit themselves for re-election at least every three years. The details of directors' contracts including non-executive directors' letters of appointment are set out in the directors' remuneration report on page 33.

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. A number of meetings with institutional shareholders took place during the year and feedback on these meetings was given to the non-executive directors at subsequent board meetings. Brokers' reports on the Company are circulated to non-executive directors.

The Senior Independent Director is available to be contacted by shareholders in situations where contact through the Chairman is felt to be inappropriate.

Constructive use of the Annual General Meeting

The board uses the Annual General Meeting to communicate with private investors and encourages their participation by ensuring that senior board members attend, including the chairmen of the audit, remuneration and nominations committees (Messrs Wilson, Grimstone and Hichens respectively), to answer shareholders' questions, and adequate notice is given of the meeting.

Voting policy

As Candover's investee companies are principally unlisted companies in which Candover, together with the third party funds managed by Candover, is a significant shareholder, Candover would usually be a party to all issues requiring shareholder approval and would always vote on such issues.

It is the Company's policy with regard to all its investments either made by the Company alone or alongside third party funds to vote in a prudent and diligent manner after careful review of each investee company's proxy statement on an individual basis. Candover's voting decision is based on its reasonable judgement of what will best serve the financial interests of the Company's shareholders and third party investors and Candover will not subordinate the economic interests of its shareholders and third party investors to any other entity or interested party in determining such a vote.

Accountability and audit

Financial reporting

The directors are required to explain their responsibility for the financial statements and this statement is given on page 28. The auditors review the Company's compliance with the provisions of the Revised Combined Code and compliance with the rules of the Financial Services Authority (FSA), the regulatory authority that regulates Candover Partners Limited and Candover Services Limited, and are also required to report on their audit of the financial statements and this report is shown on page 34.

The board seeks to give a balanced and clear assessment of the Group's position and prospects. Further information is given in the Chairman's statement and the operational review.

Going concern

Under the Revised 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, and on the basis of the strength of its balance sheet, 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 should continue to be adopted in the preparation of the financial statements.

Internal control

Under the terms of the Revised Combined Code the board is required to review the effectiveness of Candover's internal controls including its financial, operational and compliance controls and risk management. The board continues to apply the procedures necessary to comply with the requirements of the Turnbull Committee guidelines 'Internal Control – Guidance for Directors on the Combined Code'.

Candover's system of internal control includes, inter alia, the overall control environment, the procedures for identification and evaluation of business risk, the procedures themselves and the review of these internal controls by the audit committee on behalf of the board. Each of these elements that make up the Company's system of internal control is explained in further detail below:

Control environment – Candover is dependent upon the quality and integrity of the Company's management and staff and highly qualified and able staff have been selected at all levels. The long service record of most Candover executives helps to ensure that knowledge and experience is retained within the Company and passed on to new employees, thereby providing continuity and renewal. New executives are recruited when appropriate in order to aid the Company's development and growth within the UK and in continental Europe.

Appropriate members of staff are aware of the internal controls and are also accountable for collectively operating the system of internal controls.

The management are supported by the board with more than one half 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 the Company's financial controls and also those of the Funds which the Candover Group manages. KPMG and Grant Thornton carry out their review only to the extent necessary to give their audit opinions.

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 or an appropriate committee 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 or an appropriate sub-committee of the board.

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

Control procedures – The main areas of control relate to the investments that Candover makes and the financial controls that enable the board to meet its responsibilities for the integrity and accuracy of the Group's accounting records.

The board delegates responsibility for the effectiveness of such controls to the executive directors and senior management, 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 appropriate board;
- A comprehensive system for reporting financial results to the board at least four, and if appropriate more, times per year giving actual results compared to budget. Towards the end of each financial year detailed budgets for the following year are prepared and are reviewed by the board; and
- A review of these financial controls is carried out by the audit committee twice a year and by Candover's external auditors to the extent necessary for expressing their audit opinion.

Although no system of internal control can provide absolute assurance against material misstatement or loss, the Company's system is designed to assist the directors in obtaining reasonable assurance that problems are identified on a timely basis and dealt with appropriately.

Audit committee and auditors

The board has delegated authority for reviewing the effectiveness of the Group's internal controls to its audit committee. The audit committee receives monitoring reports on a six monthly basis from the Company Secretariat with regard to the operational aspects of internal controls over the areas of key risk identified, which include FSA regulatory matters. The chairman of the audit committee reports on the review of internal controls and any matters arising to the full board at the following board meeting. Using the above process, the effectiveness of the Company's internal controls has been reviewed in respect of the year ended 31st December, 2004.

As required by the Revised Combined Code, the board has reviewed the need for an internal audit function. Due to the size of Candover, it does not consider an internal audit function appropriate, although this is a matter under continuous review. However, a number of internal checks are carried out in accordance with the requirements of the FSA as well as those checks required to be made to enable the board to report in compliance with the Internal Controls Guidelines, the efficiency of which is continuously reviewed.

Corporate governance

continued

The audit committee considers the scope and effectiveness of the Company's external auditors. The Company's auditors, Grant Thornton, also provide non-audit services to the Company. These services relate mainly to tax advice and do not, in the board's opinion, compromise the independence of Grant Thornton's audit team. During the year, the audit committee adopted a policy on the provision by the auditors of non-audit services. This policy recognises three categories into which non-audit services may fall, namely work from which the external auditors are excluded, work for which the auditors can be engaged without referral to the audit committee, and work for which a case-by-case decision by the audit committee is necessary.

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 that are disclosed and explained under the accounting policies set out on pages 35 and 36.

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

A C Peel
Company Secretary
23rd March, 2005



Directors' remuneration report

The directors' remuneration report describes Candover's remuneration policy, the role of its remuneration committee and sets out the directors' remuneration for the year ended 31st December, 2004. It will be put to shareholders for approval by ordinary resolution at the Annual General Meeting to be held on 10th May, 2005.

Audited sections of the directors' remuneration report are the tables of directors' remuneration and pension contributions.

Remuneration committee

Composition and operation

The remuneration committee consists entirely of non-executive directors. At 31st December, 2004 its members were Messrs Grimstone (chairman), Hichens, West, Wilson, Lethbridge and Russell. Mr Russell joined the remuneration committee on 28th June, 2004.

The remuneration committee, which usually meets twice a year and more often if necessary, supports the board by reviewing the remuneration policy and determining the level of remuneration of the executive directors of the Company, as well as the senior management of the Group. Its written terms of reference are available on the Company's website. In 2004, the remuneration committee met on two occasions with full attendance at each meeting.

No member of the remuneration committee has any personal financial interests or conflicts of interest (other than as shareholders). In this regard, the remuneration committee gives full consideration to the provisions of the Revised Combined Code on Corporate Governance.

Professional advice

During the period, the remuneration committee received at the Company's expense professional advice from Grant Thornton, the Company's auditors and tax advisers, and Ashurst, the Company's lawyers.

Candover participates in the annual Towers Perrin remuneration survey of the private equity industry, the results of which are reviewed by the remuneration committee, to ensure that the Company's remuneration policy remains in line with market trends and practice. Mr Curran also attends meetings at the committee's invitation, except when the committee discusses his remuneration.

Remuneration policy

The Company's policy in regard to directors' remuneration is designed to ensure that the Company maintains competitive remuneration packages in order to recruit, retain and motivate executives of exceptional quality in the overall interest of shareholders. The remuneration policy detailed below is that applied in the year ended 31st December, 2004 and is intended to remain the same for the next and subsequent financial years, but it will be kept under review by the remuneration committee. The executive directors' remuneration package comprises both fixed and variable elements and is set out under the following main headings:

- Base salary
- Performance related bonuses
- Directors' share options
- Pension
- Employee benefit trust

Base salary

This is a fixed component of executive directors' compensation. Base salaries are reviewed annually by the committee after considering the relative salary levels within the industry, the estimated movement in net assets and the profits for the year. The committee did not increase executive directors' salaries for the year ended 31st December, 2004.

Directors' remuneration report

continued

Performance related bonus

The policy is to offer the executive directors the opportunity to earn performance related bonuses. These annual performance related bonuses, which are usually paid in two instalments, are determined by the remuneration committee after due consideration, at each half year stage, of the profit and net asset performance, operational achievements of the Company including progress on investments and realisations, and the external market. The performance of each executive director is then determined under the appraisal system operated by the Company.

During the year ended 31st December, 2004, Messrs Curran and Fairservice received bonus payments. These amounts are shown under 'performance related pay' in the table of directors' emoluments below.

Total emoluments received by directors during the year ended 31st December, 2004 were as follows:

	Salaries/ directors' fees	Performance related pay ¹	Taxable benefits ²	Insurance costs ²	Total emolument excluding pension contributions 2004	Total emolument excluding pension contributions 2003
	£	£	£	£	£	£
S W Curran	345,000	603,750	15,341	8,005	972,096	904,513
G D Fairservice	265,000	463,750	9,240	7,796	745,786	560,605
Executive directors	610,000	1,067,500	24,581	15,801	1,717,882	1,465,118
A P Hichens ⁵	36,712	—	—	—	36,712	40,000
P J Scott Plummer ⁴	—	—	—	—	—	10,445
J G West ³	27,500	—	—	—	27,500	27,500
D R Wilson ³	35,000	—	—	—	35,000	35,000
N A Lethbridge ³	27,500	—	—	—	27,500	27,500
G E Grimstone ⁵	38,094	—	—	—	38,094	35,000
C Russell ⁶	17,460	—	—	—	17,460	—
Non-executive directors	182,266	—	—	—	182,266	175,445
Totals	792,266	1,067,500	24,581	15,801	1,900,148	
2003 comparatives	785,445	790,000	49,649	15,469	1,640,563	1,640,563

¹ The performance related pay comprises the discretionary bonus only.

² It is Candover's policy to provide certain other benefits which form part of the usual employment package for the recruitment of employees. These include death in service and health insurance arrangements which are complementary to the pension arrangements. Executive directors are provided with a company car or equivalent cash benefit. Other small benefits in kind may also be provided during the year to executive directors.

³ The non-executive directors receive fees (which in one case is paid directly to their primary employing company) and do not receive any other remuneration. Amounts paid to third parties on behalf of non-executive directors are shown on page 33.

⁴ Mr Scott Plummer retired on 14th May, 2003 and therefore received his fee of £27,500 p.a. pro rated in accordance with time served on the board in 2003.

⁵ With effect from the Annual General Meeting on 12th May, 2004, Mr Grimstone became Deputy Chairman in place of Messrs Hichens and Fairservice.

⁶ Mr Russell became a director with effect from 12th May, 2004.

Directors' share options

The Candover (1994) executive share option scheme, which was approved by shareholders on 3rd May, 1994 closed to new grants in July 2004. In the year ended 31st December, 2004 no share options were granted to directors and no share options were exercised. As at 31st December, 2004 none of the executive directors held any share options.

A schedule of directors' interests in shares is shown on page 52.

Pension

Candover operates a non-contributory money purchase pension scheme for its executives and there were no changes to this arrangement during the year. Contributions in respect of members are payable as a percentage of base salary only and these are adjusted at the appropriate time 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, 2002 with the next review being due for the three years to 31st December, 2005. The present contribution rates that were set in 1998 are related to the age of the individual. Actual contributions paid during the year in respect of the directors are shown below.

	2004	2003
	£	£
S W Curran	138,000	138,000
G D Fairservice	106,000	106,000
Total	244,000	244,000

Both the executive directors, with the approval of the remuneration committee, operate funded unapproved retirement benefit schemes (FURBS), although there have been no payments made into these FURBS during the year ended 31st December, 2004.

Employee Benefit Trust

The 2001 Fund Employee Benefit Trust (2001 Fund EBT), which was established as part of the arrangements constituting the 2001 Fund, co-invests alongside the Company and the 2001 Fund under a co-investment agreement dated 13th June, 2001. Messrs Curran and Fairservice together with Group executives are potential beneficiaries of the 2001 Fund EBT. During the year ended 31st December, 2004, Candover paid £2,253,604 into the 2001 Fund EBT, and the trustees of the 2001 Fund EBT have invested a total of £3,625,327 in nine investments.

Other incentive arrangements

The remuneration committee also periodically reviews other incentive arrangements that have been made available to directors and executives and that are customary in the private equity industry. Details of these arrangements are also set out below.

Investors in third party funds managed by Candover Partners Limited expect executives who manage those funds to participate in various incentive arrangements that are accepted practice in the private equity industry. These arrangements, commonly known as carried interest arrangements, are reviewed by the remuneration committee periodically but not on an annual basis. Although Candover has received advice that these arrangements do not give rise to emolument of office or employment, they have been included in this report for the purpose of completeness.

Messrs Curran and Fairservice had, during the year, a beneficial interest in the carried interest arrangements in the Limited Partnerships comprising the 1991 Fund, the 1994 Fund, the 1997 Fund and the 2001 Fund (the Funds). In order to align the executive directors' participation in the above carried interest with those of the third party investors in those Funds, certain performance conditions are applied, whereby any gains achieved through the carried interest associated with these Funds are conditional upon a certain minimum return being generated for investors. The attainment of this minimum return is subject to independent verification by KPMG in their capacity as auditors to the Funds. These carried interest gains are paid by the Funds out of profits made by those Funds and are not a charge on the profits of Candover.

Under a co-investment scheme Messrs Curran and Fairservice 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. Under the Listing Rules, these interests are covered by the rules governing 'Transactions with Related Parties'. In view of the insignificant level of these transactions by the above named directors, the fair and reasonable opinion of the Company's auditors is not required.

Directors' remuneration report

continued

Details of the investments made by the executive directors under these co-investment arrangements during the year were as follows:

Company name	Class of share	Equity investments in companies subscribed in year £	% of class held by the directors
Bureau van Dijk Electronic Publishing BV	Ordinary shares	2,793	0.13
Springer Science + Business Media S.A.	Interest free loan	19	0.00
	Convertible bonds	113	0.00
	Ordinary shares	1	0.00
Linguaphone Group Holdings Limited	Ordinary shares	79	0.00
Ontex NV	A shares	149	0.01
SWT (Lux) S.A.	Preferred ordinary shares	95	0.00
Thule AB	Ordinary shares	2,830	0.13
Innovia Films Limited	Ordinary shares	6,561	0.16
Vetco International Limited	Preferred ordinary shares	1,192	0.05
ALcontrol Group Holding Limited	Ordinary shares	56	0.07
	Ordinary UK4 shares	1	0.20
	Preferred ordinary shares	247	0.01

Comparative performance

Set out below is a graph showing the Company's total shareholder return performance assuming an original investment of £1,000 and with dividends reinvested for the five years to 31st December, 2004. This is compared against the return performance achieved by the FTSE All-Share Total Return Index and the FTSE 250 Total Return Index. As changes in the Company's market capitalisation may result in Candover's inclusion in either of these indices, it has been considered appropriate to measure the Company's performance against both.

	Candover shareholder return £	FTSE 250 Total Return Index £	FTSE All-Share Total Return Index £
Dec 99	1000	1000	1000
Jun 00	1000.8	1036.8	945.3
Dec 00	976.23	1039.9	941
Jun 01	1017.27	1015.8	872
Dec 01	953.12	970.2	815.9
Jun 02	1140.32	911.11	747.1
Dec 02	1148.18	724.3	625.1
Jun 03	1180.74	852.4	670.7
Dec-03	1373.8	1009.8	762.4
Jun 04	1429.33	1107.9	784
Dec-04	1630.72	1240.9	860.3

Directors' service contracts

The Company's policy on the duration of contracts with directors complies with the recommendation of the Revised Combined Code that directors' notice periods should be no more than one year. There are no provisions for directors to receive compensation upon early termination.

	Date of contract	Notice period	Unexpired term
S W Curran	6th December, 1984	One year's notice required from Mr S W Curran six months' notice required from the Company	Open ended
G D Fairservice	22nd January, 1985	One year's notice required from Mr G D Fairservice six months' notice required from the Company	Open ended
G E Grimstone	1st July, 1999	Terminable at the will of the parties	Appointment reviewed annually on 1st June
N A Lethbridge	1st January, 2003	Terminable at the will of the parties	Appointment reviewed annually on 1st December
J G West	3rd February, 2004	Terminable at the will of the parties	Appointment reviewed annually on 1st December
D R Wilson	3rd February, 2004	Terminable at the will of the parties	Appointment reviewed annually on 1st December
A P Hichens	3rd February, 2004	Terminable at the will of the parties	Appointment reviewed annually on 1st December
C Russell	12th May, 2004	Terminable at the will of the parties	Appointment reviewed annually on 1st December

Non-executive directors' fees

The Chairman of the Company formally recommends the level of fees to be paid to non-executive directors, based on market information, time commitment required and the level of responsibility undertaken. These recommendations are then put to a meeting of the board for approval, with non-executive directors abstaining from any vote. For the year ended 31st December, 2004, there was no increase in the level of fees paid to non-executive directors.

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

It is intended that these policies will remain the same for the next and subsequent financial years but will be kept under review by the Company's board.

Termination payments and payments to third parties

No payments were made to a director of the Company for termination of employment.

A payment to a third party for directors' services during the year was made in the case of Mr West, for whom £21,250 was paid to Jimmy West Associates Limited. This amount is included in the directors' fees shown in the directors' emolument schedule on page 30.

Signed on behalf of the board

G E Grimstone
Chairman of the remuneration committee
23rd March, 2005



Report of the independent auditors

To the members of Candover Investments plc

We have audited the financial statements of Candover Investments plc for the year ended 31st December, 2004 which comprise the principal accounting policies, the Group statement of total return, the balance sheets, the Group cash flow statement and notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. 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 explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the Revised Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the directors'

report, the unaudited part of the directors' remuneration report, the Chairman's statement, operational review, the valuation policy, the review of the 15 largest investments and other information as listed in the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with United Kingdom 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 and the part of the directors' remuneration report to be audited. 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 and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31st December, 2004 and of the return of the Group for the year then ended;
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton UK LLP

Grant Thornton UK LLP

Registered Auditors
Chartered Accountants
London
23rd March, 2005

Notes

1. The maintenance and integrity of the Candover Investments plc website is the responsibility of the directors: the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

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 complied with the recommendations of the Statement of Recommended Practice (SORP) – Financial Statements of Investment Trust Companies, issued in January 2003.

Management expenses

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 10 on page 47). The financial statements of each undertaking in the Group have been prepared to 31st December, 2004. 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 11 on page 48.

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 managed fund are consolidated within fixed asset investments and the third party interests deducted immediately thereafter. The income is consolidated gross in the Group revenue and the third party interests deducted immediately thereafter in accordance with Regulation 7 of the Partnerships and Unlimited Companies (Accounts) Regulations 1993. The managed funds have 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 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 10 on pages 47 and 48.

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, which is accounted for on an accruals basis. A provision will be made against this income where there is uncertainty as to its future recoverability.

Placement fees

Prepaid placement fees incurred in the establishment of managed funds are carried as current assets recoverable from future management fees receivable and are written off over five years from the commencement date of the fund to which the placement fees relate.

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 two to five years and motor vehicles three years. Leasehold improvements are depreciated over the duration of the lease.

Investments

Fixed asset investments are valued in compliance with the revised British Venture Capital Association Valuation Guidelines, the principles of which are set out on page 19.

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 as a dividend. The difference between the market value of fixed asset investments and cost to the Group is shown as an unrealised gain or loss.

Investments held as current assets are held at market 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.

Deferred tax

Deferred tax is recognised on all timing differences where the transactions or events that give the Group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Accounting policies

continued

Due to the Company's status as an investment trust, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided for deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

Foreign currencies

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

Pension costs

The Group contributes towards a number of funded defined contribution pension 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 payable by the Group to the schemes in respect of the accounting period.

Operating leases

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

Group statement of total return incorporating the revenue account

for the year ended 31st December, 2004

		Revenue	2004 Capital	Total	Revenue	2003 Capital	Total
	Notes	£000	£000	£000	£000	£000	£000
Gains/(losses) on investments							
Realised gains and losses	17	–	27,420	27,420	–	1,380	1,380
Unrealised gains and losses	17	–	31,560	31,560	–	26,734	26,734
		–	58,980	58,980	–	28,114	28,114
Income – managed funds							
Net income	10	60,524	–	60,524	78,921	–	78,921
Less: third party interests in managed funds		(60,363)	–	(60,363)	(78,875)	–	(78,875)
Add: management fees		24,633	–	24,633	27,192	–	27,192
Net income from managed funds		24,794	–	24,794	27,238	–	27,238
Income – own funds		17,001	–	17,001	15,434	–	15,434
Total income	1	41,795	–	41,795	42,672	–	42,672
Administrative expenses	2	(22,832)	(6,764)	(29,596)	(24,744)	(6,233)	(30,977)
Net return before finance costs and taxation		18,963	52,216	71,179	17,928	21,881	39,809
Interest payable and similar charges	3	(11)	–	(11)	(15)	–	(15)
Return on ordinary activities before taxation		18,952	52,216	71,168	17,913	21,881	39,794
Tax on ordinary activities	4	(5,713)	2,029	(3,684)	(5,252)	1,871	(3,381)
Return on ordinary activities after taxation for the financial year		13,239	54,245	67,484	12,661	23,752	36,413
Dividends	6	(9,584)	–	(9,584)	(8,742)	–	(8,742)
Transfer to reserves	17	3,655	54,245	57,900	3,919	23,752	27,671
Return per ordinary share							
Basic and diluted	7	60.57p	248.19p	308.76p	57.95p	108.72p	166.67p

The accounting policies on pages 35 and 36 and notes on pages 41 to 55 form part of these financial statements.

Group balance sheet

at 31st December, 2004

		2004		2003	
	Notes	£000	£000	£000	£000
Fixed assets					
Tangible assets	8		1,091		1,175
Investments					
Managed funds	10	1,128,292		1,183,670	
Less: third party interests in managed funds		(1,086,871)		(1,136,386)	
Net investment in managed funds	9	41,421		47,284	
Investee companies	9	157,029		163,871	
		198,450		211,155	
Associated undertakings	11	1		1	
			198,451		211,156
Current assets					
Debtors	12	27,810		26,826	
Investments	13	111,452		110	
Cash at bank		13,355		37,196	
			152,617		64,132
Creditors: amounts falling due within one year	14		(33,463)		(13,492)
Net current assets			119,154		50,640
Total assets less current liabilities			318,696		262,971
Provisions for liabilities and charges	15		(6,082)		(8,257)
			312,614		254,714
Capital and reserves					
Called up share capital	16		5,464		5,464
Share premium account	17		1,451		1,451
Capital redemption reserve	17		290		290
Capital reserve – realised	17		259,433		188,668
Capital reserve – unrealised	17		19,280		35,800
Revenue reserve	17		26,696		23,041
Shareholders' funds	18		312,614		254,714
Net asset value per share	7		1430p		1165p

The accounting policies on pages 35 and 36 and notes on pages 41 to 55 form part of these financial statements.

The financial statements were approved by the directors on 23rd March, 2005.

S W Curran
Chairman

G D Fairservice
Director

Balance sheet

at 31st December, 2004

		2004		2003	
	Notes	£000	£000	£000	£000
Fixed assets					
Investments	9	203,157		215,862	
Associated undertakings	11		1		1
		203,158		215,863	
Current assets					
Debtors	12	10,533		18,415	
Investments	13	111,452		–	
Cash at bank		6,320		17,463	
		128,305		35,878	
Creditors: amounts falling due within one year	14	(38,421)		(12,959)	
Net current assets			89,884		22,919
Total assets less current liabilities			293,042		238,782
Provisions for liabilities and charges	15		–		–
			293,042		238,782
Capital and reserves					
Called up share capital	16		5,464		5,464
Share premium account	17		1,451		1,451
Capital redemption reserve	17		290		290
Capital reserve – realised	17		260,954		190,189
Capital reserve – unrealised	17		18,877		35,397
Revenue reserve	17		6,006		5,991
Shareholders' funds			293,042		238,782

The accounting policies on pages 35 and 36 and notes on pages 41 to 55 form part of these financial statements.
The financial statements were approved by the directors on 23rd March, 2005.

S W Curran
Chairman



G D Fairservice
Director



Group cash flow statement

for the year ended 31st December, 2004

		2004		2003	
	Notes	£000	£000	£000	£000
Net cash inflow from operating activities	22		26,042		4,168
Returns on investments and servicing of finance					
Interest paid			(11)		(15)
Taxation					
UK corporation tax paid			(1,194)		(33)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(322)		(354)	
Purchase of investments		(60,631)		(78,533)	
Sale of investments		131,119		41,771	
Sale of tangible fixed assets		31		63	
Sale of associated undertaking		--		73	
Net cash inflow/(outflow) from capital expenditure and financial investment			70,197		(36,980)
Equity dividends paid			(9,080)		(8,194)
Management of liquid resources	23		(111,662)		34,767
Financing					
Issue of shares			--		155
(Decrease) in cash	23		(25,708)		(6,132)

The accounting policies on pages 35 and 36 and notes on pages 41 to 55 form part of these financial statements.

Notes to the financial statements

for the year ended 31st December, 2004

Note 1 Income

	2004		2003	
	£000	£000	£000	£000
Financial services		26		49
Investment dealing		1,081		—
Investment management fees		24,633		27,192
		25,740		27,241
Investment income				
Income from fixed asset investments	13,350		14,445	
Income from treasury bills and other fixed interest securities	2,084		363	
Other income receivable arising on cash deposits	621		623	
		16,055		15,431
		41,795		42,672

Of the income from fixed asset investments of £13,350,000 (2003: £14,445,000), £161,000 (2003: £46,000) arose from managed funds. Investment management fees of £24,633,000 (2003: £27,192,000) arose from these funds.

Of the income from fixed asset investments, £51,000 arose from listed investments (2003: £11,000). No income arose from financial services originating from outside the United Kingdom (2003: £nil).

All income arose from the single activity of originating and investing in buyouts and buyins and providing capital to unquoted companies.

All income is attributable to continuing activities.

Notes to the financial statements

continued

Note 2 Administrative expenses

		2004	2003
		£000	£000
Management expenses	Revenue	1,691	1,558
	Capital	6,764	6,233
Other administrative expenses		21,141	23,186
Total administrative expenses		29,596	30,977
Staff costs		17,713	17,298
Depreciation		402	487
Auditors' remuneration	Audit work	87	82
	Non-audit work – tax advice	141	113
	FSA compliance	12	10
Operating lease rentals	Building	884	858
Profit on disposal of tangible fixed assets		(28)	(34)
Staff costs			
Salaries		11,922	11,394
Social security costs		1,565	1,414
Pension, insurance and other costs		4,226	4,490
		17,713	17,298

The average number of employees of the Group during the year was 54 (2003: 49), of this 22 were investment executives (2003: 21).

Note 3 Interest payable and similar charges

	2004	2003
	£000	£000
On bank loans, overdrafts and other loans		
repayable within five years otherwise than by instalments	11	15

Note 4 Taxation on profit on ordinary activities

The analysis of the charge is as follows:

	2004	2003
	£000	£000
Current tax		
UK corporation tax on profits for the year	7,874	2,065
Adjustments in respect of previous years	14	46
Total current tax	7,888	2,111
Deferred tax		
Origination and reversal of timing differences	(2,160)	3,437
Adjustment in respect of previous years	(15)	(296)
Total deferred tax	(2,175)	3,141
Tax on profit on ordinary activities	5,713	5,252
UK corporation tax at 30% (2003: 30%) charged to capital	(2,029)	(1,871)
	3,684	3,381

The rate of tax for the year based on the UK standard rate of corporation tax is 30% (2003: 30%). The actual tax charge for the current and the previous year differs from the standard rate for the reasons set out in the following reconciliation:

	2004	2003
	£000	£000
Profit on ordinary activities before tax	18,952	17,913
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK	5,686	5,374
Effects of:		
Contributions to Employee Benefit Trust not relieved in current year	810	810
Other short-term timing differences	26	(24)
Movement on non recourse loan	2,306	(2,085)
Losses (utilised) in current year	(931)	(2,127)
Expenses not deductible for tax purposes	60	166
Adjustments to tax charge in respect of previous years	14	46
Dividends not taxable	—	(49)
Overseas taxation	(83)	—
Current tax charge for the year	7,888	2,111

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, 2003. In the opinion of the directors, the Company's affairs since that date have been conducted so as to enable it to continue to be treated as an investment trust.

Notes to the financial statements

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Note 5 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 after tax for the year includes £9,600,000 (2003: £8,900,000) which is dealt with in the financial statements of the holding company.

Note 6 Dividends

	2004	2003
	£000	£000
Paid interim of 15p (2003: 13.5p)	3,246	2,950
Proposed final of 29p (2003: 26.5p)	6,338	5,792
	9,584	8,742

Note 7 Returns per share

The calculation of returns and net asset values per share is based on the following:

	2004	2003
	£000	£000
Revenue return	13,239	12,661
Capital return	54,245	23,752
Net assets	312,614	254,714
	2004	2003
	000	000
Weighted average number of shares – basic and diluted	21,857	21,847

At the year end there were 21,856,615 shares in issue (no options to dilute).

Note 8 Tangible fixed assets

	Leasehold improvements	Plant and equipment	Motor vehicles	Total
	£000	£000	£000	£000
Group				
Cost				
At 1st January, 2004	1,435	1,012	258	2,705
Additions	33	244	45	322
Disposals	–	(36)	(90)	(126)
At 31st December, 2004	1,468	1,220	213	2,901
Depreciation				
At 1st January, 2004	(620)	(774)	(136)	(1,530)
Provided in the year	(193)	(148)	(61)	(402)
Disposals	–	34	88	122
At 31st December, 2004	(813)	(888)	(109)	(1,810)
Net book value at 31st December, 2004	655	332	104	1,091
Net book value at 31st December, 2003	815	238	122	1,175

Note 9 Fixed asset investments

	Managed funds £000	Investee companies £000	Total £000
Group			
Valuation at 1st January, 2004	47,284	163,871	211,155
Additions at cost	–	60,631	60,631
Disposals	(31,514)	(73,332)	(104,846)
Appreciation	25,651	5,859	31,510
Valuation at 31st December, 2004	41,421	157,029	198,450
Reconciliation			
Cost of investments	149	179,473	179,622
Net unrealised appreciation/(depreciation) of investments	41,272	(22,444)	18,828
	41,421	157,029	198,450

	Shares in subsidiary undertakings £000	Managed funds £000	Investee companies £000	Total £000
Company				
Cost or valuation at 1st January, 2004	4,707	47,284	163,871	215,862
Additions at cost	–	–	60,631	60,631
Disposals	–	(31,514)	(73,332)	(104,846)
Appreciation	–	25,651	5,859	31,510
Cost or valuation at 31st December, 2004	4,707	41,421	157,029	203,157
Reconciliation				
Cost of investments	4,707	149	179,473	184,329
Net unrealised appreciation/(depreciation) of investments	–	41,272	(22,444)	18,828
	4,707	41,421	157,029	203,157

Notes to the financial statements

continued

At 31st December, 2004, cumulative downward adjustments of £42,336,000 (2003: £42,446,000) had been made against investments with original costs of £51,995,000 (2003: £70,628,000).

Investments at valuation include:

	2004	2003
	£000	£000
Group and Company		
UK		
Unquoted at directors' valuation	108,212	94,192
Europe		
Unquoted at directors' valuation	81,366	94,644
US		
Listed	8,071	20,421
Unquoted at directors' valuation	801	1,898
	198,450	211,155
Equity shares	82,479	102,935
Fixed income securities	115,192	106,387
Convertible securities	779	1,833
	198,450	211,155

At 31st December, 2004, 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 list of these undertakings would result in particulars of excessive length and the financial results of such undertakings do not materially 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) of the Companies Act 1985.

Note 10 Subsidiary undertakings

At 31st December, 2004, the principal subsidiary undertakings included in the consolidation were:

	Nature of business	Issued share capital
Candover Services Limited *	Administration and management company	£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 1994, 1997 and 2001 Funds	£2,050,000 ordinary
Candover France S.A.S. **	Identifying investment opportunities in France	€37,000 ordinary
Deutsche Candover (Managing Limited Partner) GmbH *	Managing Limited Partner of Candover 2001 GmbH & Co KG	€25,000 ordinary
Deutsche Candover (General Partner) GmbH *	General Partner of Candover 2001 GmbH & Co KG	€25,000 ordinary
Candover Deutschland GmbH *	Identifying investment opportunities in Germany	€100,000 ordinary

* 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 these companies are incorporated in Great Britain and are registered and operational in England and Wales with the exception of Candover France S.A.S., which is incorporated and operational in France, and Deutsche Candover (Managing Limited Partner) GmbH, Deutsche Candover (General Partner) GmbH and Candover Deutschland GmbH, which are incorporated and operational in Germany.

Interests in the Candover 1994, 1997 and 2001 Funds (managed funds)

Candover Partners Limited is the General Partner of the limited partnerships comprising the Candover 1994, 1997 and 2001 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) of the 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 therefore 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 2001 Fund and is a unit holder in the unauthorised unit trusts that 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.

The Company also holds a direct interest in all the limited partnerships comprising the Candover 1994 Fund, which at 31st December, 2004 was valued at £nil (cost £nil).

Notes to the financial statements

continued

For the reasons set out in the accounting policies, the limited partnerships comprising the Candover 1994, 1997 and 2001 Funds have not been accounted for under the method of full consolidation. At 31st December, 2004, the net assets of the Funds were £1,128.3 million (2003: £1,183.7 million) and the net income for the year was £60.5 million (2003: £78.9 million). The net assets and net income can be summarised as follows:

	2004	2003
	£m	£m
Investments	1,073.6	1,106.9
Debtors	10.3	43.8
Cash	48.9	36.3
Creditors	(4.5)	(3.3)
	1,128.3	1,183.7
Income from fixed asset investments	64.9	89.2
Interest receivable	0.5	0.4
	65.4	89.6
Expenses	(3.3)	(1.6)
Tax	(1.6)	(9.1)
	60.5	78.9

As at 31st December, 2004, Candover's investment as a Special Limited Partner in the 2001 Fund was valued at £21,000 (2003: £18,000). Candover's investments in the unauthorised unit trusts, which are Special Limited Partners in the Candover 1994 and 1997 Funds, were valued at £nil and £41,400,000 respectively (2003: £31,000,000 and £15,750,000 respectively).

Note 11 Associated undertakings

	Nature of business	Issued share capital	% held
Hoare Candover Limited	Former manager of the Hoare Candover Exempt Fund	£1,000 ordinary	50.0

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.

	Group share of net assets	Company share at cost
	£000	£000
Cost at 1st January, 2004 and 31st December, 2004	1	1

Note 12 Debtors

	Group		Company	
	2004	2003	2004	2003
	£000	£000	£000	£000
Amounts falling due within one year				
Trade debtors	7,915	407	23	23
Other debtors	4,009	1,921	105	192
Amounts owed from Group undertakings	–	–	100	–
Prepayments and accrued income	13,761	19,973	10,305	18,200
	25,685	22,301	10,533	18,415
Amounts falling due after more than one year				
Prepayments and accrued income	2,125	4,525	–	–
Total debtors	27,810	26,826	10,533	18,415

Note 13 Current asset investments

	Group		Company	
	2004	2003	2004	2003
	£000	£000	£000	£000
Listed fixed interest securities and money market funds	111,452	–	111,452	–
Unlisted equity shares	–	110	–	–
	111,452	110	111,452	–

Notes to the financial statements

continued

Note 14 Creditors: amounts falling due within one year

	Group		Company	
	2004	2003	2004	2003
	£000	£000	£000	£000
Trade creditors	3,460	275	17	20
Amounts owed to Group undertakings	–	–	31,577	6,986
Corporation tax payable	3,683	–	–	–
Social security and other taxes	867	2,385	–	–
Proposed dividends	6,296	5,792	6,296	5,792
Other creditors	2,391	1,865	435	72
Accruals and deferred income	16,766	3,175	96	89
	33,463	13,492	38,421	12,959

Note 15 Provision for deferred tax

	Group	
	2004	2003
	£000	£000
Accelerated capital allowances	(128)	(155)
Other timing differences	6,210	9,326
Tax losses carried forward	–	(914)
Provision for deferred tax	6,082	8,257
Provision at 1st January, 2004	8,257	5,116
Deferred tax charge/(credit) in profit and loss account for the year		
Prior year	(15)	(296)
Current year	(2,160)	3,437
Provision at 31st December, 2004	6,082	8,257

Note 16 Share capital

	2004		2003	
	Number	£000	Number	£000
Authorised:				
Ordinary shares of 25p each	29,000,000	7,250	29,000,000	7,250
Allotted, called up and fully paid:				
Ordinary shares of 25p each at 1st January and 31st December	21,856,615	5,464	21,856,615	5,464

No shares were bought in or issued during the year by the Company.

The Candover 1994 executive share option scheme formally terminated on 27th July, 2004 having reached its 10th anniversary. No options remain exercisable under the scheme.

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:

	As at 7th March, 2005	
	Number	%
BP Pension Trustees Limited	1,345,743	6.2
Scottish Widows Investment Partnership Ltd	991,305	4.5
Prudential plc	919,814	4.2
Electra Investment Trust plc	750,000	3.4
Legal & General Group plc	728,396	3.3
Total	4,735,258	21.6

Notes to the financial statements

continued

Directors' interests in shares

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

There have been no changes to the directors' share interests up to 23rd March, 2005.

	Ordinary shares of 25p each 1st January, 2004 or date of appointment	Ordinary shares disposed during the year	Ordinary shares of 25p each 31st December, 2004
S W Curran	649,703	(150,000)	499,703
G D Fairservice	198,750	(50,000)	148,750
A P Hichens	40,000	—	40,000
J G West	1,500	—	1,500
G E Grimstone	5,000	—	5,000
D R Wilson	—	—	—
N A Lethbridge	—	—	—
C Russell*	—	—	—
Total	894,953	(200,000)	694,953

* Mr Russell was appointed a director of the Company on 12th May, 2004.

Note 17 Reserves

	Share premium account £000	Capital redemption reserve £000	Realised capital reserve £000	Unrealised capital reserve £000	Revenue reserve £000
Group					
At 1st January, 2004	1,451	290	188,668	35,800	23,041
Surplus on revaluation of investments	—	—	—	31,560	—
Realised gain on investments	—	—	75,500	(48,080)	—
Net revenue	—	—	—	—	3,655
Costs net of tax	—	—	(4,735)	—	—
At 31st December, 2004	1,451	290	259,433	19,280	26,696
Company					
At 1st January, 2004	1,451	290	190,189	35,397	5,991
Surplus on revaluation of investments	—	—	—	31,560	—
Realised gain on investments	—	—	75,500	(48,080)	—
Net revenue	—	—	—	—	15
Costs net of tax	—	—	(4,735)	—	—
At 31st December, 2004	1,451	290	260,954	18,877	6,006

Note 18 Reconciliation of movements in shareholders' funds

	2004	2003
	£000	£000
Net revenue	13,239	12,661
Dividends	(9,584)	(8,742)
	3,655	3,919
Issue of share capital	—	156
Capital surplus for the year	54,245	23,752
Net addition to shareholders' funds	57,900	27,827
Shareholders' funds at 1st January	254,714	226,887
Shareholders' funds at 31st December	312,614	254,714

Note 19 Capital commitments

The directors have authorised commitments of €300.0 million and £100.0 million, which will be invested pro rata and in parallel with the Candover 2001 Fund and the Candover 1997 Fund respectively. At 31st December, 2004, the outstanding commitments were €66.3 million (2003: €161.0 million) and £nil (2003: £8.6 million) respectively. At 31st December, 2004, the outstanding commitments to other investment funds were £3.1 million (2003: £1.7 million).

Note 20 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 schemes are held separately from the Group in independently administered funds. The pension cost charge represents contributions by the Group to the schemes in respect of the accounting period and amounted to £1,160,000 (2003: £1,352,000). At 31st December, 2004, there were no amounts payable to the schemes (2003: £nil).

Note 21 Lease commitments

Operating lease payments relating to land and buildings amounting to £865,000 (2003: £865,000) are due within one year. The leases to which these amounts relate expire in more than five years.

Notes to the financial statements

continued

Note 22 Reconciliation of operating income to net cash inflow from operating activities

	2004	2003
	£000	£000
Income	41,795	42,672
Administrative expenses	(29,596)	(30,977)
Operating income	12,199	11,695
(Increase) in debtors	(1,815)	(1,565)
Increase/(decrease) in creditors	15,284	(6,415)
Depreciation	402	487
Profit on disposal of tangible fixed assets	(28)	(34)
Net cash inflow from operating activities	26,042	4,168

Note 23 Reconciliation of net cash flow to movement in net funds

	2004	2003
	£000	£000
(Decrease) in cash in the year	(25,708)	(6,132)
Cash outflow/(inflow) from management of liquid resources	111,662	(34,767)
Exchange movements	1,547	–
Change in net funds	87,501	(40,899)
Net funds at start of the year	37,306	78,205
Net funds at end of the year	124,807	37,306

Listed fixed interest securities repayable on demand are treated as liquid resources.

Note 24 Analysis of net funds

	1st January, 2004	Cash flow	Exchange movement	31st December, 2004
	£000	£000	£000	£000
Cash at bank	37,196	(25,708)	1,867	13,355
Current asset investments (liquid resources)	110	111,662	(320)	111,452
	37,306	85,954	1,547	124,807

Included in cash at bank at 31st December, 2004 was restricted cash of £46,000 (2003: £603,000) in the 2001 Fund Employee Benefit Trust.

Note 25 Financial instruments

The Group's primary financial assets consist of listed and unquoted equity investments and unquoted fixed income securities. These primary financial assets are valued at fair value according to the valuation policy set out on page 19. The currency exposure of the financial assets is shown below. Note 9 on page 46 shows the geographical split of investments. The Group does not hold any derivatives. Interest rate risk emanates from the Group's fixed income securities and interest rate exposure of the fixed income securities by currency as at 31st December, 2004 was:

	Fixed	Weighted average rate	Nil	Total
	£000	%	£000	£000
£ sterling	28,282	10.28	—	28,282
€ euro	63,704	10.25	618	64,322
CHF	9,473	10.00	—	9,473
SEK	5,887	12.00	—	5,887
\$ USD	7,228	10.00	—	7,228
	114,574	10.31	618	115,192

The current asset investments, consists of short-dated listed fixed income securities and money market instruments, with credit rating of AA- or above, split by currency according to the anticipated long-term requirements. At the year end £55.9 million was held in sterling, £38.0 million was held in euros and £17.6 million in US dollars.

Note 26 Related party transactions

The Company's interest in the Candover 1994, 1997 and 2001 Funds is disclosed in note 10 on page 47 and in note 19 on page 53.

The co-investment by directors is disclosed in the directors' remuneration report on page 32.

Note 27 Contingent liabilities

Other than in the normal course of business, there were no contingent liabilities at 31st December, 2004 or 31st December, 2003.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Candover Investments plc (the 'Company') will be held at The Stationers' Hall, Ave Maria Lane, London EC4M 7DD on Tuesday 10th May, 2005 at 12 noon for the following purposes:

- 1 To receive the audited financial statements for the year ended 31st December, 2004, together with the reports of the directors and the auditors therein.
- 2 To declare a final dividend of 29p per share on the ordinary shares in respect of the year ended 31st December, 2004.
- 3 To elect Mr C Russell as a director of the Company. Mr Russell's biography appears on page 21.
- 4 To re-elect Mr S W Curran, who retires by rotation.
- 5 To re-elect Mr A P Hichens, who retires by rotation.
- 6 To re-elect Mr J G West, who retires by rotation.
- 7 To re-appoint Grant Thornton UK LLP, 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 of which number 8 will be proposed as an ordinary resolution and number 9 will be proposed as a special resolution:

- 8 To approve the directors' remuneration report for the year ended 31st December, 2004.
- 9 That the Company be and is hereby authorised, generally and without conditions, for the purposes of section 166 of the Companies Act 1985 (the 'Act') to make market purchases (within the meaning of section 163(3) of the Act) of its own shares, on such terms and in such manner as the directors may from time to time determine, and where such shares are held as treasury shares, the Company may use them for the purpose of its employee share schemes provided that:
 - (a) the Company may not buy more than 3,276,306 shares, equal to 14.99 per cent of the shares issued at the date of the 2004 report and accounts;
 - (b) the minimum price that the Company may pay for each share is 25p;
 - (c) the maximum price (excluding expenses) that the Company may pay for each share is 5 per cent over the average of the mid-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 10th August, 2006 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.

By order of the board

A C Peel

Company Secretary
23rd March, 2005

Notes

- 1 A member entitled to attend and vote at the Annual General Meeting may appoint a proxy or proxies (who need not be a member of the Company) to attend and, on a poll, to vote on his or her behalf. In order to be valid an appointment of proxy must be returned by one of the following methods:
 - in hard copy form by post, by courier or by hand to the Company's registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4BR; or
 - in the case of CREST members or CREST Personal Members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.

In each case they must be received by the Company not less than 48 hours before the time of the Annual General Meeting.

CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

- 2 Only those shareholders registered in the register of members of the Company 48 hours prior to the commencement of the Annual General Meeting shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their names at that time (Regulation 41 of the Uncertificated Securities Regulations 2001). 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 Annual General Meeting.
- 3 The register of directors' interests in the share capital of the Company is available for inspection at the registered office during business hours on any weekday (excluding public holidays) from the date of this notice until the date of the Annual General Meeting and will be available for inspection at the venue of the Annual General Meeting from 11.45 am on 10th May, 2005 until the conclusion of the meeting.

Ten year record

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total net assets										
(£000)	103,798	142,453	159,970	199,474	225,040	246,606	250,426	226,887	254,714	312,614
Net assets										
per share (p)	464	635	703	877	986	1079	1127	1040	1165	1430
Revenue return on										
ordinary activities										
before taxation (£000)	5,222	5,389	7,270	12,069	10,456	11,679	14,408	15,257	17,913	18,952
Revenue return on										
ordinary activities										
after taxation (£000)	3,721	3,960	5,520	8,547	7,718	7,660	10,232	11,458	12,661	13,239
Net dividend										
per share (p)	13.25	15.00	20.00	25.00	27.00	29.00	32.00	36.00	40.00	44.00
Basic revenue return										
per share (p)	16.63	17.67	24.36	37.57	33.87	33.53	45.64	51.87	57.95	60.57
Fully diluted										
revenue return										
per share (p)	16.06	16.95	23.37	37.30	33.62	33.37	45.43	51.79	57.95	60.57
Closing share										
price at end										
of December (p)	500.0	572.5	740.5	803.5	1089.0	1035.0	980.0	1145.0	1328.0	1531.0

Shareholder information

Financial calendar

Event	Date
Preliminary announcement of results for the year ended 31st December, 2004	14th March, 2005
Final dividend for the year ended 31st December, 2004 – ex-dividend date	27th April, 2005
Final dividend for the year ended 31st December, 2004 – record date	29th April, 2005
Candover Investments plc Annual General Meeting	10th May, 2005
Final dividend for the year ended 31st December, 2004 – payment date	18th May, 2005
Interim announcement of results for the half year ending 30th June, 2005	12th September, 2005*
Interim dividend for the half year ending 30th June, 2005 – ex-dividend date	21st September, 2005*
Interim dividend for the half year ending 30th June, 2005 – record date	23rd September, 2005*
Interim dividend for the half year ending 30th June, 2005 – payment date	18th October, 2005*

*provisional

Share price information

(Prices shown are the mid-market price per share at the close of business on the relevant day).

Highest price during the year	1538.0p
Lowest price during the year	1293.0p
Price as at 31st December, 2004	1531.0p

Addresses

Candover Investments plc
Registered in England
and Wales No. 1512178

Registered Office

20 Old Bailey
London EC4M 7LN
Telephone +44 20 7489 9848
Facsimile +44 20 7248 5483
email info@candover.com
website www.candover.com

Solicitors

Ashurst
Broadwalk House
5 Appold Street
London EC2A 2HA

Stockbrokers

JPMorgan Cazenove Ltd
20 Moorgate
London EC2R 6GA

Registered Auditors

Grant Thornton UK LLP
Melton Street
Euston Square
London NW1 2EP

Bankers

Bank of Scotland
London Chief Office
PO Box No. 267
38 Threadneedle Street
London EC2P 2EH

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Form of proxy

For use at the Annual General Meeting of Candover Investments plc to be held on Tuesday 10th May, 2005.

If you wish to vote at the Annual General Meeting but are unable to attend in person you may appoint a proxy or proxies to act on your behalf either by completing this form or, in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out in the Notice of Annual General Meeting.

I/We _____ of _____
being (a) member(s) of Candover Investments plc, hereby appoint the Chairman of the Meeting or (see note 2) _____
as my/our proxy to vote for me/us on my/our behalf at the Annual
General Meeting to be held at 12 noon on Tuesday 10th May, 2005 and at any adjournment thereof.

I/We direct my/our proxy to vote on the resolutions as set out in the notice convening the Meeting as indicated with an 'X' in the appropriate space below.

Ordinary resolutions	For	Against	Vote withheld
Resolution 1 To receive the audited financial statements for the year ended 31st December, 2004 and the reports by the directors and the auditors therein	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2 To declare a final dividend of 29p per ordinary share for the year ended 31st December, 2004	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3 To elect Mr C Russell * §	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4 To re-elect Mr S W Curran †	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5 To re-elect Mr A P Hichens * § †	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6 To re-elect Mr J G West * §	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7 To reappoint the auditors and to authorise the directors to fix their remuneration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8 To approve the directors' remuneration report for the year ended 31st December, 2004	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Special resolution	For	Against	Vote withheld
Resolution 9 To grant the Company the power pursuant to section 163(3) of the Companies Act 1985 to make certain market purchases of its own equity securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

* Member of the remuneration committee § Member of the audit committee † Member of the nominations committee

Date _____ Signature _____ (see notes 3 & 4)

Notes 1 If no indication is given, the proxy holder will vote or abstain from voting at his or her discretion. 2 A member may appoint a proxy or proxies other than the Chairman of the Annual General Meeting by inserting the name and address of such proxy (who need not be a member) in the space provided above. The appointment of a proxy will not preclude a member from attending and voting in person should he/she subsequently decide to do so. 3 In the case of joint holders, the signature of any one holder will be sufficient but, if more than one votes, the vote of the first named on the register of members will be accepted to the exclusion of other joint holders. 4 In the case of a corporation, the proxy should be executed under its common seal, or signed as a deed, or under the hand of an officer, duly authorised in writing. 5 Unless instructed otherwise, the proxy may also vote or withhold from voting as he or she sees fit on any business that may properly come before the Annual General Meeting (including amendments to resolutions). 6 The 'vote withheld' option is provided to enable you to instruct your proxy not to vote on any particular resolution, however, it should be noted that a 'vote withheld' in this way is not a vote in law and will not be counted in the calculation of the proportion of votes 'for' and 'against' a resolution.

This form, to be valid, must be lodged at the office of the registrars of the Company, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4BR not less than 48 hours before the time of the Annual General Meeting.

Only those shareholders registered in the register of members of the Company 48 hours prior to the commencement of the Annual General Meeting shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their names at that time (Regulation 41 of the Uncertificated Securities Regulations 2001). Changes to entries on the register after this time shall be disregarded in determining the right of any person to attend and vote at the Annual General Meeting.

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BUSINESS REPLY SERVICE
Licence No. MB122

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Capita Registrars
Proxy Department
PO Box 25
Beckenham
Kent BR3 4BR

First fold

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