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# **Candover Investments plc**

Report and accounts 2008



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Candover was founded in 1980 and listed on the London Stock Exchange in 1984. It invests in buyouts across Europe via funds managed by its wholly-owned subsidiary, Candover Partners Limited, which has raised ten funds to date from investors around the globe. These include pension funds, insurance companies, endowments, foundations and other professional investors.

#### **Investors in Candover Funds\***

##### **Investors by type**

1. Pension funds 36%
2. Fund of funds 28%
3. Academic and endowments 15%
4. Banks 8%
5. Government 6%
6. Individuals 4%
7. Insurance 3%

##### **Investors by geography**

1. US 45%
2. UK 24%
3. Europe 24%
4. RoW 7%

\* Third party investors by value in the Candover 2005 Fund

#### **Top 15 investments - analysis by value as at 31<sup>st</sup> December, 2008**

##### **By valuation method**

1. Discounted cost 17%
2. Multiple of earnings 78%
3. Third party valuations 5%

##### **By region**

1. United Kingdom 41%
2. Benelux 22%
3. France 12%
4. Spain 12%
5. Germany 7%
6. Switzerland 6%

##### **By sector**

1. Industrials 27%
2. Energy 17%
3. Support services 13%
4. Financials 13%
5. Leisure 12%
6. Media 7%
7. Health 6%
8. External funds 5%

##### **By age**

1. <1 year 33%
2. 1-2 years 26%
3. 2-3 years 6%
4. 3-4 years 15%
5. 4-5 years 2%
6. >5 years 18%

## Chairman's statement

2008 has been an extremely turbulent time for the global economy, and in particular, for financial markets. The effect of the global economic crisis on the European buyout industry is stark, with investments, realisations and funding all substantially affected.

The problems in the banking sector, which resulted in a lack of debt finance for buyouts, led to a severe decline in both the value and volume of European buyouts during the year. Total deal values were down from €175.0 billion in 2007 to €73.0 billion in 2008, a decline of 58%. Realisations from private equity portfolios also slowed substantially due to falling stock markets, the uncertain economic outlook and severely reduced debt funding. The fundraising environment was similarly affected, with allocations to private equity hit both by a lack of realisations from previous investments and by declining valuations of existing public equity portfolios. This meant that many investors found that they were over-allocated to private equity.

I regret to report that inevitably Candover has been caught up in the turbulence affecting the private equity sector. In addition, as is set out below, we are facing our own set of challenges which have intensified in recent months.

### Our performance

After five successive years of increases, net assets per share declined by 50.3% during 2008. At 31<sup>st</sup> December, 2008 net assets attributable to the ordinary shares were £224.3 million compared to £451.3 million at 31<sup>st</sup> December, 2007. Net assets per share were 1026p compared with 2065p at 31<sup>st</sup> December, 2007 (and 2051p at 30<sup>th</sup> June, 2008). The decrease in net assets per share of 50.3% over the 12 months to 31<sup>st</sup> December, 2008 compares with a decrease of 32.8% in the FTSE All-Share Index over the same period. Profits before tax were £5.2 million compared to £21.0 million last year, mainly due to provisions made against the investment income from portfolio companies.

The write down in portfolio company valuations was mainly due to a fall in comparable earnings multiples of publicly quoted companies which we use to value our unquoted holdings and the weaker trading results seen in the final quarter of the year. This is discussed further in the operational review.

A worsening economic background and volatile financial markets may lead to further declines in valuations. However, we have revalued all the companies in which we have invested over the last 12 months, even though we are not obliged to do so by the IPEVC guidelines which we follow. This change in valuation basis for these recent investments reduced the net assets by 472p per share.

We invested £168.8 million in the year, of which £138.3 million was invested alongside the Candover 2005 and 2008 Funds in three new investments, namely the buyouts of the Dutch engineering conglomerate, Stork; the oil field services group, Expro International; and the gym equipment manufacturer, Technogym. Realisations and refinancings generated £47.4 million of proceeds during the year, with £24.2 million arising from the sale of our residual shareholdings in Aspen Insurance and Wellstream.

Our year end net debt was £64.9 million (a cash balance of £133.2 million offset by the US private placement bonds of £198.1 million) as against a net cash balance of £117.8 million at the end of the previous year. The increase in net debt is due to the net cash outflow on investments of £121.4 million referred to above. The strength of the Euro and the Dollar against the Pound during the year, which increased the Sterling value of our Euro and Dollar denominated debt by £45.6 million, also contributed to the increase. These movements have, however, benefitted the valuation of our portfolio. The net impact of the exchange rate movement on the NAV per share has been an increase of 264p.

### Our current position

The unprecedented global economic developments which occurred during the latter part of 2008 have weakened Candover's financial position. This is due to both an anticipated delay in realisations and the more immediate impact of the decrease in net asset valuations on the covenants attached to the US private placement bonds that we issued in 2007. While we are not in breach of these covenants, we will be engaging in discussions with our lenders in order to re-establish our financial flexibility for the long term.

The Board's focus in the current climate is to preserve the value of our existing investments. We have an outstanding commitment of £90.4 million to the Candover 2005 Fund which may be drawn over the next two years to fund follow-on investments or to strengthen the capital position of the portfolio companies. The Board's main priority is therefore to ensure that the Company has the capital required to fund this

commitment and to maintain headroom in the bond covenants. Our present gearing level is 29% and we are working to reduce this so that we do not exceed 20% of net assets over the investment cycle.

Our reduced capital strength means that we are not currently in a position to make any further commitment to invest alongside the Candover 2008 Fund beyond our existing investment in Expro International. We are therefore in discussions with the Limited Partners of the Candover 2008 Fund regarding a restructuring of the Fund, which is likely to include a temporary suspension of the investment period until such time as these matters have been resolved.

Our cost base has to be reduced to reflect the current financial position and, very sadly, we have had to make redundant a number of our staff. It is a matter of huge regret that we have had to take such a step.

We were developing operations in Asia and in Eastern Europe but we do not currently have the capacity to finance investments in these regions. The teams concerned are investigating the possibility of raising capital so that they can become effectively self-financing. If they do not succeed in raising funds, these operations will have to cease.

#### **Dividend**

It is clearly not appropriate to pay a final dividend and consequently the dividend for the year is 22.0p per share (2007: 60.0p). Dividends will be resumed when warranted by the financial position of the Company.

#### **Outlook**

The economic outlook has not improved since the year end. The recession will affect trading in our portfolio companies and we expect that it will continue to make realisations challenging for some time. We are committed to working with our portfolio companies to ensure that they are well positioned to minimise the negative impacts of the downturn, as well as being well equipped to build value for the future. Some capital structures will come under pressure because of the depth of the present economic crisis and we are working with the management of the companies concerned to take corrective action where necessary.

The prospects for the private equity industry have altered considerably over the last six months, and it is unclear what our industry will look like in the future. Our priority now is to reinforce the financial position of the firm, so that the value which we believe is inherent in our investments can be realised for shareholders. We will also be examining the various strategic options potentially available to us. We remain convinced that there is significant longer term value in our funds and in Candover's share of the carried interest in those funds.

**Gerry Grimstone**  
Chairman

20<sup>th</sup> March, 2009

#### **KEY FINANCIALS**

##### **Total net assets: £224.3m**

Total net assets decreased by 50% to £224.3 million (2007: £451.3 million)

##### **Net assets per share: 1026p**

Net assets per share down 50% to 1026p in the 12 months to 31<sup>st</sup> December, 2008 (2007: 2065p)

##### **Dividend for 2008: 22.0p**

No final dividend. Dividend of 22.0p for the year (2007: 60.0p)

## Operational review

With limited investment and realisation opportunities and deteriorating market conditions, in the second half of the year our focus has been on managing the portfolio. We are ensuring that the appropriate measures are in place to help each of our portfolio companies maximise profitability and cashflow in this challenging trading environment and this focus will continue into 2010.

We have revised our approach to valuing new investments, which we believe is necessary in the current environment. Rather than maintaining them at cost in line with industry guidelines, we have either applied a significant discount on cost, or used public market comparables. The revised approach to valuing new investments has resulted in a reduction in net assets per share of 472 pence.

The majority of the portfolio companies reported earnings ahead of prior year in the period, however, these earnings uplifts were offset by the decline in public market comparables which we use in our valuation methodology.

### Investments

The Candover managed funds made three new investments during the year, with Candover investing £138.3 million in Stork, Expro International and Technogym alongside those funds. Candover also made 11 follow-on investments totalling £30.5 million in existing portfolio companies which are outlined in Table 1.

<b>Table 1</b>	<b>Candover £m</b>	<b>2001 Fund £m</b>	<b>2005 Fund £m</b>	<b>2008 Fund £m</b>
<b>New investments</b>				
Stork	48.9	-	295.9	-
Expro International	69.5	-	131.1	150.7
Technogym	19.9	-	120.4	-
<b>Follow-on investments</b>				
Parques Reunidos	15.3	-	92.4	-
Wood Mackenzie	3.9	30.1	-	-
Gala Coral	3.8	30.1	-	-
Other	7.5	32.6	13.8	-
<b>Total investments</b>	<b>168.8</b>	<b>92.8</b>	<b>653.6</b>	<b>150.7</b>

### Realisations

Candover and its managed funds achieved realisation proceeds of £313.8 million during the year - Candover's own share of such realisation proceeds was £47.4 million.

In April, Candover sold its residual shares in Wellstream generating proceeds of £15.6 million, bringing Wellstream's overall investment multiple to 6.9 times the original investment. In May, we sold our residual shares in Aspen Insurance, and together with earlier proceeds, the investment generated an investment multiple (at constant currency) of 1.7 times the original investment. In addition, Wood Mackenzie completed its second refinancing, and has now returned 0.8 times the original investment in cash. The principal realisations are set out in Table 2.

<b>Table 2</b>	<b>Candover £m</b>	<b>2001 Fund £m</b>	<b>2005 Fund £m</b>	<b>Type</b>
<b>Company</b>				
Aspen Insurance	8.6	68.0	-	Sale of quoted stock
Wellstream	15.6	143.6	-	Sale of quoted stock
Wood Mackenzie	5.3	49.1	-	Refinancing
Other	17.9	3.8	1.9	
<b>Total realisations</b>	<b>47.4</b>	<b>264.5</b>	<b>1.9</b>	

## Portfolio review

Table 3 shows the valuation movement by portfolio company. Favourable exchange rate movements reduced the effect of market related falls on all Euro and US dollar denominated investments, with those investments held at cost seeing an uplift on the prior valuation as a result.

<b>Table 3</b>	<b>Residual cost<sup>1</sup></b>	<b>Valuation at 31.12.07<sup>2</sup></b>	<b>Valuation movement<sup>3</sup></b>	<b>Valuation movement attributable to FX<sup>3</sup></b>	<b>Valuation at 31.12.08</b>	<b>Valuation movement pence per share<sup>3</sup></b>
<b>Portfolio company</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	
Expro International	69.5	69.5	(34.7)	13.6	48.3	(97)
Stork	48.9	48.9	(12.7)	10.9	47.0	(8)
Parques Reunidos	25.7	26.5	-	7.4	33.9	34
Alma Consulting Group	20.5	21.1	(0.8)	6.4	26.8	26
Wood Mackenzie	5.6	17.6	3.0	-	20.6	14
Springer Science + Business Media	0.6	28.5	(13.3)	4.8	20.0	(39)
Ontex	22.1	12.6	0.2	4.0	16.8	19
Qioptiq	9.6	13.0	(0.6)	3.9	16.2	15
EurotaxGlass's	17.4	18.6	(6.3)	3.9	16.2	(11)
Capital Safety Group	11.8	11.7	(0.7)	4.2	15.2	16
Equity Trust	8.3	8.7	-	2.7	11.4	12
Ciclad 4	3.9	4.7	(0.5)	1.2	5.4	3
ICG Mezzanine Fund 2003	2.9	3.3	0.1	1.1	4.5	5
Ciclad 3	-	3.4	(0.6)	0.9	3.6	1
ICG 2000 Fund LP	1.0	1.2	0.1	0.4	1.6	2
ALcontrol	14.5	15.3	(14.0)	0.3	1.6	(63)
DX Group	28.0	28.0	(28.0)	-	-	(128)
Ferretti	32.9	42.7	(42.7)	-	-	(195)
Gala Coral	28.6	24.8	(24.8)	-	-	(113)
Hilding Anders	27.4	28.8	(28.8)	-	-	(132)
Innovia Films	3.8	6.9	(6.9)	-	-	(31)
Technogym	19.9	19.9	(19.9)	-	-	(91)
Other	24.4	27.9	(12.2)	4.8	20.9	(33)
<b>Total valuation</b>	<b>427.3</b>	<b>483.6</b>	<b>(244.1)</b>	<b>70.5</b>	<b>310.0</b>	<b>(794)</b>

1 Residual cost is original cost less realisations to date.

2 Valuation net of additions and disposals during the year.

3 Compared to the valuation at 31<sup>st</sup> December, 2007 or acquisition date, if later.

**Expro International** is a leading oil field service provider specialising in well flow management with a particular focus on the most technically challenging deepwater environments. Expro's operations are critical to the development of oil and gas reservoirs and are utilised by multinational oil majors as well as state-owned national oil companies. However, the sharp drop in the oil price since July 2008, coupled with a weakening in the medium term outlook for oil exploration and production, has resulted in a decline in the public market comparables, and we have written our investment down by 50% (£34.7 million – excluding foreign exchange movements), despite the increase in profits in 2008. Expro is not immune to the factors governing global recession and the management team are focused on preparing the business for the expected tougher trading conditions. Candover has guaranteed an additional €44.1 million investment in Expro on behalf of the Candover 2008 Fund, pending its syndication and has recognised a provision of £16.8 million in respect of the guarantee.

**Stork** is a diversified Dutch engineering conglomerate active in the aerospace and technical services sectors. The group enjoys good market positions in the sectors and niches in which it operates and there is a clear strategy for driving value from each of the divisions. Stork performed well in 2008 with profits ahead of prior year. Despite the solid performance, our valuation has been impacted by a decline in the public market comparables. This has been partially offset by favourable exchange rate movements, and as a result

we have written down our investment by 25%, which before the positive impact of foreign exchange movements results in a decrease of £12.7 million.

**Parques Reunidos** consolidated its position during the year as one of the world's leading operators of attraction parks. The company enjoys leading market positions in all its key markets and the majority of the parks are the leading family attraction in the surrounding area. In 2008 it made one acquisition in Europe and two significant ones in the US, further diversifying its park portfolio both by geography and park type. The valuation has been held at cost with an increase in profits in 2008 offset by the decline in the public market comparables.

**Alma Consulting Group** is the European leader in cost reduction and tax recovery offering a wide range of services based on a success fee model. During our first year of ownership, the business has developed both organically and through acquisition, adding both product and geographical diversification. We have written our investment down by £0.8 million based on the decline in the public market comparables although this has been partially offset by an increase in profits in 2008. We believe that Alma should continue to benefit from the global downturn as corporates look to make further savings and governments seek to introduce new subsidies and tax credits to stimulate their economies.

**Wood Mackenzie**, a provider of research and consulting services to the energy industry, maintained its strong performance despite the fall in the oil price in the second half of the year. It extended its product offering in August through the acquisition of Brook Hunt, a leading provider of metals and minerals data. Despite a decline in the public comparable multiples during the year, our investment has been written up by 17% or £3.0 million to reflect the profit growth during the year.

**Springer Science+Business Media** is the world's second largest publisher of scientific journals and books. The company has been at the forefront of the industry's move towards electronic content, with the migration from print to online books in particular, driving the company's performance in 2008. Despite the positive performance, the valuation has been written down by 20% due to the fall in the public market comparables. Springer has returned cash equivalent to 1.6 times the original investment to date.

**Ontex**, the leading European manufacturer of retailer branded diapers and feminine hygiene products, further strengthened its market position and reported solid profit growth in 2008. This was despite the volatility in the cost of raw materials in the first half of the year. A strong focus on customer satisfaction has ensured that Ontex has won a number of new contracts during the year enabling it to increase its market share. Our investment has been held at the prior valuation, given a decline in the public market comparables.

**Gioptiq**, the world's leading manufacturer of high-precision optics, particularly benefitted from a strong defence market in the US and in the UK during the year, although this has been partially offset by a weakening commercial market. Operationally the group made significant progress during the year successfully integrating Point Source, which it acquired at the beginning of the year, commissioning a new manufacturing operation in Singapore, and continuing actively to develop cross-selling synergies between its three divisions. We have held our investment at the prior valuation, though the favourable exchange rate movement resulted in an uplift of £3.3 million.

**EurotaxGlass's**, a provider of automotive intelligence, is predominantly a B2B subscription business providing valuation data to all sectors of the automotive industry. Whilst its revenues are not correlated to new car sales, the global downturn has had an impact on some areas of the business such as advertising revenues from dealers. Its sales have however remained stable and management are currently carrying out an aggressive restructuring of the cost base to deliver profit growth. In view of the sector valuations and the market environment, we have written down our investment by 34% or £6.3 million excluding the positive impact of foreign exchange movements.

**Capital Safety Group** is a global market leader in height safety and fall protection equipment. We wrote down our investment by 6% (on a reported currency basis) due to a reduction in the public market comparables. Capital Safety's products are sold globally and are widely used in industries such as oil and gas, construction (predominantly non-residential), manufacturing and telecoms. These sectors are all, to varying degrees, exposed to the global economic sentiment but as Capital Safety is late cycle, the business only started to see an impact on order intake towards the end of the year. Management are currently focused on driving costs out of the business and improving market share.



**Equity Trust**, the world's leading trust and fiduciary services group, performed well during the year, despite the slowdown in global trade and corporate activity. The company was able to enhance its market position by virtue of its quality of service and global positioning and in addition, it expanded its product offering through the acquisition of Custom House, a fund administrator. We continue to value our investment at cost, the increase in profits in 2008 being offset by lower valuation multiples.

The Top 15 is completed by two small French private equity funds managed by Ciclad and two mezzanine funds managed by ICG.

We have taken a full provision against seven portfolio company investments. These companies are largely consumer-facing businesses, and the writedowns are due to a combination of public market comparables as well as weaker trading results.

**Ferretti** is one of the leading brands in the luxury motor boat market. The financial crisis, particularly the collapse of Lehmans in September 2008, has led to a demand shock resulting in a lack of winter boat show sales and some buyers cancelling their orders. Consequently, the company is in the process of finalising a proposal to restructure its capital base. On the terms proposed, Candover has decided not to participate in the restructuring and has therefore written this investment down by £42.7 million (195p per share).

**Hilding Anders** is the European and Asian market-leading manufacturer of beds and mattresses. The company has diverse products and operations, selling both branded and private label products and operates in 40 countries. Since the buyout in December 2006, the company has grown both organically and through the acquisition of eight national bed manufacturers. However, the demand for beds and mattresses is impacted by prevailing economic conditions and consumer confidence, and consequently demand has softened. Public market comparables have also fallen significantly. As a result, we have written down our investment by £28.8 million (132p per share) and provided a further £2.1 million (10p per share) against a future equity commitment. Together with the management team we are focused on ensuring that the company trades through this uncertain period.

**DX Group** is the largest independent end-to-end operator in the UK postal market offering mail solutions for both businesses and the secure mail market. Key customers include property lawyers, financial institutions, national and local government agencies, and credit card companies. The write down of £28.0 million (128p per share) is mainly the result of falls in public market comparables, as well as market related reductions in profitability. The current economic environment is adversely impacting key drivers of DX's business such as property transaction volumes, credit card issuance and high street activity and as a result, management are focusing on initiatives that will help to offset the effect of the downturn on volumes and hence sales. The group continues to innovate and invest in enhanced operational capability, new products and services.

**Gala Coral** is the pre-eminent integrated betting and gaming group in Europe, with strong market positions in licensed betting shops, bingo clubs and casinos and a high quality multimedia offering. Coral, the betting shop operator which represents over half of group sales, continues to perform strongly with EBITDA up in the last financial year. However, the bingo division was adversely affected by the smoking ban in 2008 resulting in a drop in attendances, although there are indications that it is starting to recover. The management team have responded to the adverse trading environment by restructuring the business, cutting costs in all divisions and conserving cash, as well as further developing the growing e-commerce and international divisions. We have written down our investment by £24.8 million (113p per share) as a result of a cyclical low in the public market comparables. However the gaming and gambling sectors are consolidating and the larger players, like Gala, are well placed to benefit from the difficult trading conditions.

**Technogym** is a global leader in the design and manufacture of premium branded fitness equipment and wellness solutions, and enjoys strong brand recognition internationally. Whilst there is a strong fundamental support for growth from social and demographic drivers such as health awareness, business growth has suffered from the lack of commercial finance and the uncertain economic outlook has meant that a number of key accounts deferred the replacement of equipment. Given the current outlook, we have written down our investment by £19.9 million (91p per share) and provided a further £12.2 million (56p per share) against a future equity commitment.

**ALcontrol** is a laboratory based testing business which supplies services to the food and environmental markets in the UK, the Netherlands and a number of other European markets. ALcontrol made a good start to the year with improved underlying trading over prior year. However, the company subsequently suffered from the sharp fall in the UK construction market in 2008, with the decline in this market significantly reducing demand for soil testing. As a result, management have intensified their efforts to restructure the cost base. We have written down our investment by £14.0 million (63p per share).

**Innovia Films** manufactures speciality films primarily for packaging, and is the only manufacturer of polymer bank notes in the world via a joint venture with the Reserve Bank of Australia. Year on year profits were adversely impacted by high input costs, particularly resin, pulp and energy. Now that the unfavourable cost environment is abating, 2009 profits are expected to improve. We have written our investment down by £6.9 million (31p per share) reflecting 2008 results and the reduction in public market comparables.

Candover's share of the Candover 2001 Fund carried interest was valued at £19.2 million (2007: £21.0 million)

In conclusion, the current environment does not seem likely to be resolved in the short term and our focus going forward is to maximise the long-term value in the portfolio companies.

**Colin Buffin**  
Managing Director  
Candover Partners Limited

20<sup>th</sup> March, 2009

**Marek Gumienny**  
Managing Director  
Candover Partners Limited

20<sup>th</sup> March, 2009

## Financial review

### Net asset value per share

As at 31<sup>st</sup> December, 2008 net assets per share were 1026p compared to 2065p at 31<sup>st</sup> December, 2007 and 2051p at 30<sup>th</sup> June, 2008. The decrease in net assets over the 12 months to 31<sup>st</sup> December, 2008 of 50.3% compares with a decrease of 32.8% in the FTSE All-Share Index over the same period. The decrease in net assets per share over the six months to 31<sup>st</sup> December, 2008 was 50.0% compared to a decrease in the FTSE All-Share Index over the same period of 22.6%.

### Net asset bridge analysis

	£m	£m	p/share	p/share
<b>Net asset value at 1<sup>st</sup> January, 2008</b>		<b>451.3</b>		<b>2065</b>
Investment movements:				
- Realised proceeds in excess of 31 <sup>st</sup> December, 2007 book value	17.3		79	
- Unrealised writedown on investments	(244.1)		(1117)	
- Provision against equity commitments and guarantee	(31.1)		(142)	
		(257.9)		(1180)
Currency movements		57.6		264
Retained loss		(9.8)		(45)
Capitalised expenses, net of tax		(16.1)		(74)
Others		(0.8)		(4)
<b>Net asset value at 31<sup>st</sup> December, 2008</b>		<b>224.3</b>		<b>1026</b>

The fall in net asset value is due to the significant write-down in the valuation of investments, caused primarily by the decline in the public market comparables used in our valuations.

### Profit before tax

Profits before tax for the year were £5.2 million, compared with £21.0 million for the 12 months to 31<sup>st</sup> December, 2007. The decline is due principally to the high level of provisions against accrued interest on loan notes with portfolio companies, caused by the write down in the valuation of investments.

### Investment bridge analysis

The valuation of investments of £310.0 million (2007: £344.9 million) was calculated having taken into account new investments net of realisations amounting to £138.7 million, and a net decrease of £173.6 million in the valuation of our investments.

The net decrease in the valuation of our investments comprised net unrealised write down of £244.1 million, with gains from FX movements on the portfolio since 31<sup>st</sup> December, 2007 of £70.5 million.

**Net debt position**

Cash and liquid assets totalled £133.2 million (2007: £240.3 million) at the year end. Loans and borrowings, excluding related derivative transactions and deferred costs, totalled £198.1 million at the year end, giving a net debt position of £64.9 million and gearing of 29%.

£m	2008	2007
Loans and borrowings	217.5	126.1
Fair value hedge adjustment	(21.0)	(5.2)
Deferred costs	1.6	1.6
Value of bonds	198.1	122.5
Cash	(133.2)	(240.3)
<b>Net debt/(cash)</b>	<b>64.9</b>	<b>(117.8)</b>

**Dividends**

At the half year the Board increased the interim dividend by 10.0% from 20.0p per share to 22.0p per share. Given the current economic environment and pressures faced by the Company, the Board is not recommending a final dividend.

## 15 largest investments

### 1 Expro International

Expro is a leading oil field service provider specialising in well flow management, with a particular focus on the most technically challenging deepwater environments. Expro's operations are critical to the development of oil and gas reservoirs and are utilised by multinational oil majors and state owned national oil companies.

Industry sector	Industrials
Geography	UK
Date of investment	July 2008
Residual cost of investment £000	69,497
Directors' valuation £000	48,309
Change over prior valuation £000	(34,748)
Effective equity interest (fully diluted)	4.5%
% of Candover's net assets	21.5%
Basis of valuation	Discounted cost
Dividends received £m	–
Year end	See note 2
Sales	See note 2
Earnings <sup>1</sup>	See note 2

### 2 Stork

Stork, headquartered in the Netherlands, is a diversified Dutch engineering conglomerate active in the manufacture of components for civil and military aircraft, aeroplane maintenance and the provision of technical services such as outsourced plant and equipment maintenance and the manufacturing of precision components and materials testing.

Industry sector	Industrials
Geography	The Netherlands
Date of investment	January 2008
Residual cost of investment £000	48,880
Directors' valuation £000	46,998
Change over prior valuation £000	(12,679)
Effective equity interest (fully diluted)	6.4%
% of Candover's net assets	21.0%
Basis of valuation	Multiple of earnings
Dividends received £m	–
Year end	See note 2
Sales	See note 2
Earnings <sup>1</sup>	See note 2

### 3 Parques Reunidos

Headquartered in Madrid, Parques Reunidos is the third largest operator of attraction parks in Europe. It operates 65 parks in Spain, Italy, France, Belgium and Norway as well as the US and Argentina. Its attractions include amusement parks, water parks and animal parks. It is the largest animal park operator in Europe and operates Europe's largest aquarium in Valencia, Spain.

Industry sector	Leisure
Geography	Spain
Date of investment	March 2007
Residual cost of investment £000	25,707
Directors' valuation £000	33,893
Change over prior valuation £000	–
Effective equity interest (fully diluted)	5.6%
% of Candover's net assets	15.1%
Basis of valuation	Multiple of earnings
Dividends received £m	–
Year end	September 2008
Sales	€311.7m <sup>3</sup>
Earnings <sup>1</sup>	€109.3m <sup>3</sup>

#### 4 Alma Consulting Group

A European leader in tax recovery and cost reduction services, Alma delivers tangible savings for businesses operating on a success fee model. Annual growth for the French-headquartered business has exceeded 20% per annum for over a decade. Alma has over 10,000 clients, including 60% of France's top 200 companies, and is now focusing on international expansion.

Industry sector	Financials
Geography	France
Date of investment	December 2007
Residual cost of investment £000	20,504
Directors' valuation £000	26,752
Change over prior valuation £000	(779)
Effective equity interest (fully diluted)	5.4%
% of Candover's net assets	11.9%
Basis of valuation	Multiple of earnings
Dividends received £m	—
Year end	December 2007
Sales	€184.6m
Earnings <sup>1</sup>	€71.2m

#### 5 Wood Mackenzie

Founded in Scotland over 30 years ago, Wood Mackenzie provides consulting services and research products to the world's leading energy companies. Its commercial analysis and strategic advice has gained a worldwide reputation for being informed, perceptive, thorough, independent and confidential. Wood Mackenzie's clients include virtually every major energy company, as well as governments worldwide.

Industry sector	Support services
Geography	UK
Date of investment	July 2005
Residual cost of investment £000	5,606
Directors' valuation £000	20,550
Change over prior valuation £000	2,988
Effective equity interest (fully diluted)	6.3%
% of Candover's net assets	9.2%
Basis of valuation	Multiple of earnings
Dividends received £m	—
Year end	December 2007
Sales	£79.7m
Earnings <sup>1</sup>	£28.1m

#### 6 Springer Science+Business Media

Springer is the world's second largest publisher of journals in the science, technology and medicine (STM) sector, the largest publisher of STM books, and a significant publisher of professional media in the German-language area. It has around 60 publishing houses in about 20 countries and has published over 150 Nobel laureates.

Industry sector	Media
Geography	Germany
Date of investment	January 2003
Residual cost of investment £000	573
Directors' valuation £000	19,960
Change over prior valuation £000	(13,307)
Effective equity interest (fully diluted)	3.6%
% of Candover's net assets	8.9%
Basis of valuation	Multiple of earnings
Dividends received £m	—
Year end	December 2007
Sales	€907.2m
Earnings <sup>1</sup>	€274.1m

## 7 Ontex

Ontex is a European market leader in hygienic disposables for the private label sector. The group's products include nappies, wipes and feminine hygiene. It is also a key supplier to the adult incontinence sector through its healthcare division.

Industry sector	Health
Geography	Belgium
Date of investment	January 2003
Residual cost of investment £000	22,115
Directors' valuation £000	16,794
Change over prior valuation £000	238
Effective equity interest (fully diluted)	6.3%
% of Candover's net assets	7.5%
Basis of valuation	Multiple of earnings
Dividends received £m	—
Year end	December 2007
Sales	€995.1m
Earnings <sup>1</sup>	€99.5m

## 8 Qioptiq

Qioptiq is a state-of-the-art manufacturer of high-precision optical components. This world-leading company shapes, polishes and coats glass to create high-precision lenses that are used in a wide range of applications in the defence, industrial, medical, aerospace, scientific, projection and telecommunications industries worldwide.

Industry sector	Industrials
Geography	UK
Date of investment	December 2005
Residual cost of investment £000	9,567
Directors' valuation £000	16,235
Change over prior valuation £000	(622)
Effective equity interest (fully diluted)	7.4%
% of Candover's net assets	7.2%
Basis of valuation	Multiple of earnings
Dividends received £m	—
Year end	December 2007
Sales	\$335.0m
Earnings <sup>1</sup>	\$60.7m

## 9 EurotaxGlass's

EurotaxGlass's is a leading pan-European provider of data and intelligence on cars. Its products cover pricing and valuations, technical specification, repair and maintenance data, parts lists and technical reference material. The company's database covers more than half a million vehicle types going back over 70 years.

Industry sector	Support services
Geography	Switzerland
Date of investment	June 2006
Residual cost of investment £000	17,394
Change over prior valuation £000	16,204
Directors' valuation £000	(6,260)
Effective equity interest (fully diluted)	8.0%
% of Candover's net assets	7.2%
Basis of valuation	Multiple of earnings
Dividends received £m	—
Year end	December 2007
Sales	€112.7m
Earnings <sup>1</sup>	€37.8m

### 10 Capital Safety Group

Capital Safety is a global leader in the fall protection market, producing products such as harnesses, self-retracting lifelines and anchors used by those working at height. Its products are sold worldwide, especially to the construction, manufacturing, oil and gas and telecoms industries, and are renowned for technical excellence.

Industry sector	Industrials
Geography	UK
Date of investment	June 2007
Residual cost of investment £000	11,828
Directors' valuation £000	15,168
Change over prior valuation £000	(745)
Effective equity interest (fully diluted)	6.6%
% of Candover's net assets	6.8%
Basis of valuation	Multiple of earnings
Dividends received £m	—
Year end	March 2008
Sales	\$169.6m
Earnings <sup>1</sup>	\$31.4m

### 11 Equity Trust

Equity Trust was established in 1970 and pioneered modern trust services in the Netherlands. Today, Equity Trust is a world-leading trust and fiduciary services group supporting high-net-worth individuals, corporations and intermediaries. It operates in selected jurisdictions in Europe, the UK and Channel Islands, Asia-Pacific, the Americas and the Caribbean.

Industry sector	Financials
Geography	UK
Date of investment	May 2003
Residual cost of investment £000	8,319
Directors' valuation £000	11,350
Change over prior valuation £000	—
Effective equity interest (fully diluted)	5.6%
% of Candover's net assets	5.1%
Basis of valuation	Multiple of earnings
Dividends received £m	—
Year end	December 2007
Sales	€103.2m
Earnings <sup>1</sup>	€20.8m

### 12 Ciclad 4

Following the success of Ciclad 3, a larger successor fund was launched in 2005 which raised €100 million. It focuses on the French lower mid-market, mainly on businesses capitalised between €3 million and €50 million with an investment size of €1 million to €10 million.

Industry sector	External funds
Geography	France
Date of investment	July 2005
Residual cost of investment £000	3,912
Directors' valuation £000	5,432
Change over prior valuation £000	(536)
Effective equity interest (fully diluted)	NA
% of Candover's net assets	2.4%
Basis of valuation	Multiple of earnings
Dividends received £m	—
Year end	See note 4
Sales	See note 4
Earnings <sup>1</sup>	See note 4



### 13 ICG Mezzanine Fund 2003

ICG Mezzanine Fund 2003 has a total size of €1.5 billion comprising €668 million of commitments from institutional investors and leverage through a securitised debt facility. It commenced investing in 2004 and is now fully invested. At 31<sup>st</sup> December, 2008 80 mezzanine investments had been made by the Fund of which 37 had been realised in full and 11 investments had been partially realised.

Industry sector	External funds
Geography	UK
Date of investment	March 2004
Residual cost of investment £000	2,895
Directors' valuation £000	4,477
Change over prior valuation £000	58
Effective equity interest (fully diluted)	NA
% of Candover's net assets	2.0%
Basis of valuation	Multiple of earnings
Dividends received £m	–
Year end	See note 4
Sales	See note 4
Earnings <sup>1</sup>	See note 4

### 14 Ciclad 3

Ciclad is a French mid-cap private equity house founded in 1988. It raises and manages funds from institutional investors, and invests those funds in management buyouts across France. Ciclad 3, an €82 million fund raised in April 2000, invested in 25 such companies.

Industry sector	External funds
Geography	France
Date of investment	April 2000
Residual cost of investment £000	Nil
Directors' valuation £000	3,625
Change over prior valuation £000	(606)
Effective equity interest (fully diluted)	NA
% of Candover's net assets	1.6%
Basis of valuation	Multiple of earnings
Dividends received £m	–
Year end	See note 4
Sales	See note 4
Earnings <sup>1</sup>	See note 4

### 15 ICG Mezzanine Fund 2000

ICG Mezzanine Fund 2000 has a total size of €381.9 million comprising €307.5 million of commitments from institutional investors and leverage through a securitised debt facility. It commenced investing in 2001 and is now fully invested. At 31<sup>st</sup> December, 2008 50 mezzanine investments had been made by the Fund of which 45 had been realised in full and two investments had been fully repaid but not realised.

Industry sector	External funds
Geography	UK
Date of investment	July 2001
Residual cost of investment £000	1,044
Directors' valuation £000	1,649
Change over prior valuation £000	67
Effective equity interest (fully diluted)	NA
% of Candover's net assets	0.7%
Basis of valuation	Multiple of earnings
Dividends received £m	–
Year end	See note 4
Sales	See note 4
Earnings <sup>1</sup>	See note 4

Notes:

1. Earnings figures are taken from the portfolio company's most recent audited accounts or financial statements filed with regulatory bodies. The figures shown are the total earnings on ordinary activities before exceptional items, depreciation, goodwill amortisation, interest and tax for the period.
2. Audited accounts for the period since acquisition are not yet available.
3. Audited accounts for Parques Reunidos Europe operations only; audited accounts for the US business are not available.
4. Investment in a fund, sales and earnings figures not relevant.

## Valuation policy

Investments have been valued by the directors in compliance with the principles of IAS 39 'Financial Instruments: Recognition and Measurement' and the International Private Equity and Venture Capital Valuation Guidelines as recommended by the BVCA.

### 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 requirement to apply a degree of caution in making the necessary estimates. Fair value is the amount at which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. In estimating fair value, the directors use a methodology which is appropriate in light of the nature, facts and circumstances of the investment and its materiality in the context of the total investment portfolio.

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

- transaction value (less any provision required)
- earnings multiple
- net assets
- price of recent investment
- sale price

Investments are only valued at transaction value for a limited period after the date of acquisition. In the light of current financial conditions we have departed from industry guidelines in respect of new investments. Rather than maintaining at cost for 12 months we have either applied a significant discount on cost or used public market comparables.

The fair value of an investment in a company which has not been valued by reference to a recent transaction will be 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 or recent transactions, 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 is loss-making, or the value is derived mainly from the underlying value of its assets rather than its earnings, the valuation may be calculated with regard to the underlying net assets. Where there has been a subsequent recent investment by a third party in a new financing round that is deemed to be at arm's length this may be used as the basis of valuation. 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 likelihood of achieving conditions precedent to that exit and general market conditions.

When investments have obtained an exit after the valuation date but before finalisation of Candover's relevant accounts (interim or final), the valuation is based on the exit valuation, adjusted where appropriate for changes in circumstances and discounting for the time value of money.

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 the bid price last recorded on the balance sheet date without discount.

### 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.

## Board of directors

### Candover Investments plc Board

#### **Mr Gerry Grimstone\*†**

##### **Non-executive Chairman**

Gerry Grimstone was appointed to the Candover Board in July 1999. He became Deputy Chairman in May 2004 and Chairman in May 2006. Formerly an Assistant Secretary at HM Treasury, he latterly held a number of senior appointments in the Schroders group, including Vice Chairman of worldwide investment banking activities. He is Chairman of Standard Life plc. Gerry Grimstone is 59.

#### **Mr Antony Hichens MBA §\*†**

##### **Non-executive**

Antony Hichens joined the Board of Candover in December 1989. He is the Senior Independent Director and Chairman of the nominations committee and was Deputy Chairman of the Board from January 1991 to May 2004. He is a non-executive director of JPMorgan Income & Capital Trust plc and WaterRower Holdings Limited and is a member of the Takeover Panel. He has previously been a Managing Director and Chief Financial Officer of Consolidated Gold Fields and Chairman of a number of public companies including Lasmo plc, Caradon plc and DS Smith plc. Antony Hichens is 72.

#### **Lord Jay of Ewelme GCMG §\*†**

##### **Non-executive**

Michael Jay joined the Candover Board in January 2008. He was formerly the Permanent Under-Secretary at the Foreign Office and Head of the Diplomatic Service, having previously served as British Ambassador to France. He is a non-executive director of Associated British Foods plc, Credit Agricole SA and Valeo SA and Chairman of the international aid agency Merlin, a registered charity. He is Chairman of the House of Lords Appointments Commission. Michael Jay is 62.

#### **Mr Nicholas Jones §\***

##### **Non-executive**

Nicholas Jones was appointed to the Candover Board in April 2008. He is a senior adviser to Lazard in London, having formerly been vice chairman. He was previously a director of J. Henry Schroder Wagg & Co. Ltd and, prior to that, a chartered accountant with Peat, Marwick, Mitchell & Co. He is a non-executive director of Ladbrokes plc and Newbury Racecourse plc. Nicholas Jones is 62.

#### **Mr Jan Oosterveld §\***

##### **Non-executive**

Jan Oosterveld joined the Candover Board in October 2008. He spent over 30 years with Royal Philips Electronics, where he was CEO of Philips Asia Pacific, chairman of LG Philips LCD and a member of the Group Management Committee with responsibility for Corporate Strategy. He is Chairman of Crucell NV (Netherlands) and a non-executive director of Cookson Group plc (UK) and Barco NV (Belgium). Jan Oosterveld is 65.

#### **Mr Chris Russell FSIP FCA §\***

##### **Non-executive**

Chris Russell was appointed to the Candover Board in May 2004 and is Chairman of the audit committee. He is a non-executive director of Investec High Income Trust plc, the Korea Fund Inc, Enhanced Index Funds pcc, JPMorgan Fleming Japanese Smaller Companies Investment Trust plc, Schroders (C.I.) Ltd and the Association of Investment Companies. 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. Chris Russell is 60.

#### **Mr Richard Stone FCA §\*†**

##### **Non-executive**

Richard Stone joined the Candover Board in May 2005 and is Chairman of the remuneration committee. Until 1998 he was Deputy Chairman of Coopers & Lybrand and chairman of the firm's European Corporate Finance activities. From 1998 to 2000, he served as a member of the global board of PricewaterhouseCoopers LLP. He is Chairman of Drambuie Limited and a non-executive director of Halma plc, Trustco Finance plc, TR Property Investment Trust PLC and Gartmore Global Trust plc. Richard Stone is 66.

\* Member of the remuneration committee

§ Member of the audit committee

† Member of the nominations committee

**Senior management****Mr Colin Buffin ACA**

Colin Buffin is a Managing Director of Candover Partners Limited, the manager of various investment funds and Managing Director of Candover Services Limited, the principal operating company in the Candover Group. He joined Candover in September 1985 from Deloitte Haskins & Sells after qualifying as a chartered accountant. Colin Buffin is 51.

**Mr Marek Gumienny ACA**

Marek Gumienny is a Managing Director of Candover Partners Limited, the manager of various investment funds and Managing Director of Candover Services Limited, the principal operating company in the Candover Group. Prior to joining Candover in January 1987 he qualified as a chartered accountant with Price Waterhouse. Marek Gumienny is 50.

# Report of the directors

The directors present their report together with the audited financial statements for the year ended 31<sup>st</sup> December, 2008.

## Principal activities

Candover Investments plc is an investment company within the meaning of Section 833 of the Companies Act 2006 as well as an investment trust under section 842 of the Income and Corporation Taxes Act 1988.

The principal business of the Candover Group is the identification, implementation and monitoring of mid-to-large buyouts and buyins. Candover Investments plc makes investments either alongside third party funds managed by Candover Partners Limited or on its own account. Candover Partners Limited, which is regulated by the Financial Services Authority and is wholly-owned by Candover Investments plc, manages funds established with commitments from a wide range of international institutional investors.

Candover Investments plc participates in the profits from the funds managed by Candover Partners Limited, subject to an overall minimum return having first been generated for investors in the funds. In accordance with agreements entered into by it, Candover Investments plc will be entitled to between 2% and 5% of any profit made by the Candover 2005 and 2008 Funds. The exact percentage received by Candover Investments plc will be determined by a ratchet based on the investment multiple achieved by the relevant fund. However, as referred to in the Chairman's statement on page two, Candover Investments plc is not currently in a position to make any further commitment to invest alongside the Candover 2008 Fund beyond its existing investment in Expro International and is in talks with the Limited Partners of that Fund about a restructuring of the Fund, which is likely to include a temporary suspension of the investment period.

## Co-investment arrangements

Candover Investments plc's commitment to co-invest alongside the funds managed by Candover Partners Limited is set out in the co-investment agreement for each fund entered into between Candover Investments plc, Candover Partners Limited (as general partner or manager of the various partnerships making up the relevant fund) and other parties. Each agreement requires Candover Investments plc to contribute its proportionate share of any investment made by the relevant fund, but allows Candover Investments plc to limit its share of any investment to 15% by value of its overall investments, if holding more than 15% would risk jeopardising Candover Investment plc's status as an approved investment trust. As referred to in the Chairman's statement on page two Candover Investments plc has concluded that it is not currently in a position to make any further commitment to invest alongside the Candover 2008 Fund beyond its existing holding in Expro International.

## Investment policy

Candover Investments plc's principal investment focus has been investing alongside funds managed by Candover Partners Limited, its wholly-owned subsidiary. In recent years these funds have focussed on mid-to-large European buyouts with an enterprise value typically in excess of €500 million, although investments have also been made in both larger and smaller businesses. Typically, the Company has invested between €25 million and €100 million in each of these buyouts. From time to time the Company has also made direct investments, and commitments to other funds, inside and outside Europe.

The funds managed by Candover Partners Limited have a strategy to invest in a wide range of industries and countries, mainly in Europe, to ensure there is diversity in the portfolio. As a result, at any given time, Candover Investments plc's portfolio will contain a risk profile that is balanced both by geography and industry sector.

Candover Investments plc will not invest, on acquisition, more than 15% by value of its investments in a single business or company or more than 15% of its total assets in any other listed closed-ended investment funds.

Candover Investments plc's policy has been to manage its balance sheet and levels of gearing. Net gearing is not expected to exceed 20% of net assets over the investment cycle and will not be greater than 40% of net assets at the time any gearing is taken out.

Future investments will be in line with the policy outlined above, however as referred to in the Chairman's statement on page two the Company's focus for the time being will be on preserving the value of its existing investments. In the short term the Company is unlikely to make further investments except in relation to its existing investments, and does not currently expect to make further investments alongside the 2008 Fund

(other than in relation to its existing holding in Expro International). As referred to in the Chairman's statement, the Company is in discussions with the Limited Partners of the Candover 2008 Fund regarding a restructuring of the Fund, which is likely to include a temporary suspension of the investment period. As part of the restructuring of the Candover 2008 Fund Candover Partners Limited may adjust the Candover 2008 Fund's investment focus.

#### **Application of investment policy**

The summary information on page one, the Chairman's statement on page two, the operational and financial reviews on pages four and nine and the descriptions of the 15 largest investments on pages 11 to 16 explain and demonstrate how Candover has invested its assets with a view to spreading investment risk in accordance with its investment policy.

#### **Results and review of business**

The Group profit for the financial year after taxation was £3,755,000 (2007: £14,119,000). Revenue was £41,187,000 (2007: £59,288,000). Administrative expenses charged to revenue were £33,207,000 (2007: £37,920,000). The changes in fixed asset investments are described, together with a review of the Group's activities, in the Chairman's statement, operational review and financial review on pages two to ten.

The key performance indicators (KPIs) used to measure the progress and performance of the Company are as follows:

- Net asset value growth
- Profit and dividend growth.

Details of the financial KPIs are shown in the financial review on page nine. Candover does not use KPIs other than financial KPIs.

#### **Dividend and proposed transfer to reserves**

The directors do not recommend the payment of a final dividend for 2008 (2007: final dividend of £8,743,000, equal to 40.0p per ordinary share). Taking into account the interim dividend paid on 15<sup>th</sup> October, 2008 the total dividend for the year is £4,808,000, equal to 22.0p per ordinary share (2007: £13,115,000, equal to 60.0p per ordinary share). The interim dividend details are shown in note seven on page 53.

#### **Factors affecting future development**

The main trends and factors likely to affect the future development, performance and position of Candover's business, and the principal risks and uncertainties that Candover faces, are described in the Chairman's statement on page two, the business review on page four and in the paragraph headed 'Financial risk factors' below.

#### **Financial risk factors**

The Group's investment activities expose it to a variety of financial risks: market risk (including currency risk, price risk and interest rate risk), credit risk and liquidity risk. Risk management is embedded in the operating committees in the business and is overseen by the Board in conjunction with senior management. The main risks are considered to be valuation and liquidity risk, enhanced by gearing both at the Company and the portfolio level.

##### *Valuation risk*

The Group's exposure to valuation risk comprises mainly movements in the value of its underlying investments. A breakdown of the Group's portfolio is given on page 54 and a detailed analysis of the 15 largest underlying investments is given on pages 11 to 16. All underlying investments are valued at fair value by the Directors in accordance with the Group's valuation policy set out on page 17. It should be noted that at 31<sup>st</sup> December, 2008, 78% of the Group's underlying investments have been valued on the multiple of earnings basis. Hence, future changes in public market comparables which we use to value our unquoted holdings, and changes in the trading results of portfolio companies, will impact the valuations of the portfolio companies.

Market conditions for exits and the availability of well-priced debt finance all have an impact not only on the Group's valuation of its portfolio but also on the Group's ability to exit from its underlying portfolio, and therefore on the management of the balance sheet and the levels of gearing of the Company.

The Group's sensitivity to valuation risk will be affected by changes in the Group's levels of borrowing and liquidity. Any reduction in the value of the portfolio will be amplified by our balance sheet gearing, which was 29% as at 31<sup>st</sup> December, 2008. It will also be affected by leverage in the companies in which we invest and the local currency denomination of such investments.

#### *Liquidity risk*

This is the risk that the Group will encounter difficulty in meeting obligations associated with uncalled commitments and financial liabilities. The Group invests from its own balance sheet using cash generated from its investing activities. It is anticipated that over the longer term, and in normal circumstances, commitments would be financed by distributions received on the realisation of existing investments. However, over the second half of 2008, the effects of the global economic crisis have meant not only a delay in expected realisations but a major decrease in net asset valuations caused primarily by continued falling public market comparables. The Board therefore reviewed the Group's financing strategy and announced that it is not currently in a position to make any further investment in the Candover 2008 Fund. Instead the Board's main priority is to ensure that it has the capital required to fund its commitment of £90.4 million for follow-on investments in the Candover 2005 Fund and to maintain headroom in the bond covenants.

Further information on other financial risks and on financial risk management is contained in note 25 on page 63.

#### **Directors**

Except where otherwise indicated the directors listed below served on the Board throughout the year and were in office at the end of the year. All directors are non-executive.

Mr Gerry Grimstone – Chairman  
Mr Antony Hichens  
Lord Jay of Ewelme GCMG (appointed 1<sup>st</sup> January, 2008)  
Mr Nicholas Jones (appointed 14<sup>th</sup> April, 2008)  
Mr Jan Oosterveld (appointed 29<sup>th</sup> October, 2008)  
Mr Chris Russell  
Mr Richard Stone  
Mr Jimmy West (retired 14<sup>th</sup> May, 2008)

In accordance with the Company's Articles of Association and in compliance with the Combined Code Jan Oosterveld will seek election at the forthcoming Annual General Meeting and Gerry Grimstone, Antony Hichens and Richard Stone will retire and, being eligible, will offer themselves for re-election at the Annual General Meeting.

The biographical details of the serving directors and those seeking election or re-election appear on pages 18 and 19. Each of those seeking election or re-election has a letter of appointment, the terms of which are described in the directors' remuneration report on page 36.

#### **Share capital structure**

Note 18 to the accounts, on page 59, sets out details of the Company's capital structure. There are no shares in issue other than ordinary shares. 78,035 ordinary shares are held by the Company in treasury.

#### **Notifiable interests in the Company's shares**

The names of those persons who, insofar as the Company is aware, are interested directly or indirectly in 3% or more of the issued share capital of the Company as at 19<sup>th</sup> March, 2009 are shown in note 18 to the accounts on page 60.

#### **Directors' interests**

The statements in respect of directors' interests in the share capital of the Company are contained in note 18 to the accounts on page 60. Other matters requiring disclosure by the directors are contained in the directors' remuneration report on page 35.

#### **Corporate responsibility**

Candover takes care to comply with all relevant legislation and to ensure that we are a reasonable and fair employer. We maintain good relationships with our business partners and portfolio companies, and Candover Partners Limited has developed an active charitable programme.

Our principal social impacts, and the consequent risks and opportunities, arise in our portfolio companies which operate in a diverse range of sectors and countries. We do not manage these businesses directly, but nevertheless we recognise the responsibilities that accompany our ownership and our strategic involvement through the companies' boards.



#### *Portfolio company principles*

Candover backs management teams to run the businesses we invest in. We do not intervene directly in their executive responsibilities, but we do expect them to consider the social and environmental impacts of how they operate.

We have adopted seven principles which we expect each management team to consider at least annually with us, and to use to stimulate ideas and action within their company.

- Invest and build - our aim is to create value, and creating value often requires investment. Our management teams will actively find ways to invest in the technology, facilities and people in their companies to make the businesses profitable and sustainable.
- Respect the law - management teams will ensure they understand the laws and regulations that relate to their companies, and that they are fully compliant.
- Tackle waste - our management teams will understand how their businesses use resources and ensure that consumption and waste are controlled. In companies that use significant amounts of energy, it will be measured and managed.
- Focus on the market - our businesses need healthy markets to grow, and healthy markets in turn need healthy societies. Our management teams will look in depth at trends and social concerns relevant to their market.
- Focus on the positive - we believe in the power of business to solve problems, including social and environmental ones. Our management teams will be alert to opportunities to develop new products and services that benefit society and the environment.
- Integrity - our management teams will run their companies honestly and fairly, ensuring that they – and those who work for them – are free from damaging conflicts of interest, corruption or nepotism.
- Appropriate reporting - many of our businesses are relatively small, and most are business to business operations. In larger businesses, or those whose operations have a significant public face, our management teams will ensure that they report publicly on suitable non-financial topics following sector and industry norms.

#### *The Walker Guidelines*

During 2007 Sir David Walker published his Guidelines for 'Disclosure and Transparency in Private Equity', aimed at helping to improve the understanding of the role of private equity within the UK economy. The Guidelines oblige private equity firms to comply, or to explain clearly why they have not. Candover supports the Guidelines and believes that it is fully compliant with the Guidelines in its 2008 reporting. The Guidelines also stipulate that well-established valuation guidelines should be used by private equity firms to value their assets, and that firms should provide data to the BVCA in support of its role in data gathering and economic impact analysis. Candover is fully compliant in both these respects.

The Guidelines also place enhanced reporting requirements on portfolio companies meeting certain criteria (including having more than 50% of revenues generated in the UK, and more than 1,000 full-time equivalent UK employees). Two of our portfolio companies, Gala Coral and DX Group, meet these criteria and have produced full year and interim year reports that satisfy the required standard.

#### **Political and charitable donations**

During the year the Company made donations totalling £500 to various charities (2007: £21,000). In addition, Candover Partners Limited committed £125,000 to the Private Equity Foundation (2007: £125,000). There were no political donations made during the year (2007: £nil).

#### **Share buyback**

At the Annual General Meeting on 14<sup>th</sup> May, 2008 shareholders granted the directors authority to buy back up to 3,276,306 of the Company's ordinary shares of 25p each at a minimum price of 25.0p per share. The maximum price (excluding expenses) that may be paid by the Company for any such shares is 5% over the average mid-market price of the ordinary shares of the Company based on the London Stock Exchange Daily Official List for the five business days immediately before the day on which the Company buys the ordinary shares.

Between 25<sup>th</sup> November, 2008 and 12<sup>th</sup> December, 2008 the directors exercised this authority to buy back 78,035 ordinary shares of 25p each for an aggregate consideration (excluding broker commission) of £633,000 at an average price per share of just over 811p. The shares purchased represent 0.36% of the total issued share capital. All shares purchased are now held in treasury.

Resolution 12 set out in the Notice of Meeting on page 72 will be proposed as a special resolution to renew the directors' authority to buy back shares.

### **Annual General Meeting**

The Annual General Meeting of the Company will be held on Wednesday 13th May, 2009 at 12 noon at Founders' Hall, 1 Cloth Fair, London EC1A 7HT. The notice of the Annual General Meeting appears on page 71.

**Resolutions 3-6** concern the election or re-election of certain directors. Biographical details for those directors are given on page 18. Each of the directors standing for re-election, namely Gerry Grimstone, Antony Hichens and Richard Stone, has demonstrated a strong commitment to Candover and the ability to bring a wide ranging and valuable set of skills, knowledge and experience to the Company, the Board and the various committees to which they belong and each such director has been the subject of an annual appraisal.

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

**Resolution 9** seeks shareholder approval to increase the authorised share capital of the Company from £7,250,000 to £9,250,000 by the creation of 8,000,000 ordinary shares of 25p each (representing an increase in the authorised ordinary share capital of approximately 27.6%), so that should the directors decide to make use of any authorities granted under resolutions 10 and/or 11 (as described below), they will be in a position to do so.

**Resolutions 10 and 11** seek shareholder approval in relation to the allotment of securities and the disapplication of pre-emption rights. Directors may only allot shares or grant rights over shares if authorised to do so by shareholders. Directors require additional authority from shareholders to allot shares or grant rights over shares or sell treasury shares where they propose to do so for cash and otherwise than to existing shareholders pro rata to their holdings. As the relevant authorities granted to the directors of the Company at the Annual General Meeting in 2004 are due to expire at this year's Annual General Meeting, new authorities are now being sought.

**Resolution 10** will be proposed as an ordinary resolution to grant new authorities to allot shares. In particular, it will grant new authorities to allot relevant securities up to an aggregate nominal value of £1,814,881 and equity securities up to an aggregate nominal value (when added to allotments under part (a) of the resolution) of £3,629,763 where the allotment is in connection with a rights issue.

These amounts represent approximately one-third and approximately two-thirds respectively of the total issued ordinary share capital of the Company (excluding treasury shares) as at 19th March, 2009. If given, these authorities will expire at the conclusion of the Annual General Meeting in 2010 or on 30<sup>th</sup> June, 2010 whichever is the earlier. Where usage of these authorities exceeds the thresholds suggested by the Association of British Insurers (the ABI) in their December 2008 guidance, all the directors will stand for re-election at the following Annual General Meeting to the extent required by the ABI. The directors have no present intention of issuing shares pursuant to this authority.

As at 19<sup>th</sup> March, 2009 the Company held 78,035 treasury shares representing 0.36% of the total ordinary share capital in issue (excluding treasury shares).

**Resolution 11** will be proposed as a special resolution to grant authority to disapply pre-emption rights. Apart from offers or invitations in proportion to the respective number of shares held, the authority will be limited to the issue of shares and sales of treasury shares for cash up to an aggregate nominal value of £273,207 (being 5% of the Company's issued ordinary share capital at 19<sup>th</sup> March, 2009). If given, this authority will expire on 30<sup>th</sup> June 2010, or at the conclusion of the Annual General Meeting in 2010, whichever is the earlier. This authority is in line with the revised December 2008 guidance issued by the ABI.

The directors will have due regard to institutional guidelines in relation to any exercise of this authority, in particular the requirement for advance consultation and explanation before making any such issue which exceeds 7.5% of the Company's issued share capital in any rolling three year period.

**Resolution 12**, if passed, authorises the Company to purchase up to 3,264,609 of its ordinary shares. This authority will expire at the next Annual General Meeting of the Company, or on 30<sup>th</sup> June, 2010 if earlier. This resolution also sets out the highest and lowest price at which the shares can be bought.

In the event that ordinary 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 ordinary shares repurchased pursuant to the proposed resolution in treasury rather than cancelling them, subject to a maximum of 10% 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.

There were 653,437 options outstanding at 19<sup>th</sup> March, 2009 to subscribe for ordinary shares, as set out in note two to the accounts on page 51. Those represent 3% of the issued share capital of the Company (excluding treasury shares) as at 19<sup>th</sup> March, 2009 and would represent 3.53% of such issued share capital (excluding treasury shares) if the full authority to buy back shares pursuant to resolution 12 was used.

**Resolution 13**, if passed, will allow the Company to continue calling general meetings on 14 clear days' notice.

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 31<sup>st</sup> December, 2008 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.

#### **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**

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 485 of the Companies Act 2006 and an appropriate resolution will be put to the shareholders at the Annual General Meeting.

#### **Tax status**

The board of Her Majesty's Revenue and Customs 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 31<sup>st</sup> December, 2007. 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.

#### **Rights attaching to shares**

The rights attaching to the Company's shares are set out in the Company's Articles of Association. There are no special control rights in relation to the Company's shares.

Subject to any restrictions referred to in the next section, members may attend any general meeting of the Company. Voting rights attaching to the ordinary shares are described in the next section.

Members can declare final dividends by passing an ordinary resolution but the amount of the dividends cannot exceed the amount recommended by the Board. The Board can pay interim dividends provided the distributable profits of the Company justify such payment. The Board may, if authorised by an ordinary resolution of the members, offer any member the right to elect to receive new shares, which will be credited as fully paid, instead of their cash dividend. Any dividend which has not been claimed for 12 years or more after becoming due for payment will be forfeited and will then revert to the Company.

If the Company is wound up the liquidator can, with the sanction of the members, divide among the members all or any part of the assets of the Company and can value any assets and determine how the divisions shall be carried out as between the members or different classes of members. The liquidator can also transfer the whole or any part of the assets to trustees upon any trusts for the benefit of the members. No members can be compelled to accept any asset which would give them any liability.

**Voting at general meetings**

Subject to any restrictions below, on a show of hands every member who is present at a general meeting and each person present as a duly appointed proxy of a member has one vote on each resolution and, on a poll, every member who is present has one vote on each resolution for every share of which he is the registered member.

A resolution put to the vote of a general meeting is decided on a show of hands unless before or on the declaration of the result of the show of hands, a poll is demanded by the chairman of the meeting, or by at least five members present in person and having the right to vote on the resolution, or by any members present in person having at least one-tenth of the total voting rights of all members having the right to vote on the resolution, or by any members present in person holding shares on which an aggregate sum has been paid up of at least one-tenth of the total sum paid up on all shares.

A member may vote personally or by proxy at a general meeting. Any form of proxy sent by the Company to members in relation to any general meeting must be delivered to the Company not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the appointment proposes to vote. No instrument of proxy shall be valid after the expiration of 12 months from the date of its deposit or receipt, except at an adjourned meeting originally held within such 12 month period. A corporation which is a member of the Company may authorise a person or persons as it thinks fit to act as its representative or representatives at any general meeting of the Company.

In the case of joint holders, the vote of the senior holder who votes, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose seniority shall be determined by the order in which the names stand in the register of members. No member shall be entitled to attend or vote either personally or by proxy at a general meeting in respect of any share if any call or other sum presently payable by him to the Company in respect of such share remains unpaid.

The Board may direct that a member shall not be entitled to attend or vote either personally or by proxy at a general meeting in respect of some or all of the shares held by him (the 'Default Shares') if he or any person with an interest in shares has been sent a notice under section 793 of the Companies Act 2006 (which confers upon public companies the power to require information with respect to interests in their voting shares) and he or any interested person fails to supply the Company with the information requested within 14 days after delivery of that notice. These restrictions end not more than seven days after receipt by the Company of all the information required by the relevant section 793 notice.

**Restrictions on the transfer of shares**

The Board may refuse to register a transfer of a share which is not fully paid, provided that such discretion may not be exercised in a way which the Financial Services Authority or the London Stock Exchange regards as preventing dealings in the shares of the relevant class or classes from taking place on an open and proper basis. The Board may decline to recognise any instrument of transfer unless (i) it is lodged, duly stamped (if stampable), at the registered office of the Company or any other place decided by the Board, accompanied by the certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on behalf of the transferor, the authority of that person to do so); and (ii) it is in respect of only one class of shares. The Board may also refuse to register any transfer of a share in favour of more than four transferees.

Transfers of uncertificated shares must be carried out using CREST and the Board can refuse to register a transfer of an uncertificated share in accordance with the regulations governing the operation of CREST.

The Board cannot suspend the registration of transfers of any uncertificated shares without gaining consent from CREST. The Board may direct that, subject to certain exceptions set out in the Articles of Association (a 'Permitted Transfer'), no transfers of Default Shares (as defined in the section entitled 'Voting at general meetings' above) shall be permitted if the Default Shares represent at least 0.25% (in nominal value) of the issued shares of the relevant class (the 'Transfer Restrictions'). The Transfer Restrictions end not more than seven days after receipt by the Company of all information required by the relevant section 793 notice or, in the case of a Permitted Transfer, upon receipt by the Company of notice of such a transfer.

There are no other restrictions on the transfer of ordinary shares in the Company other than restrictions imposed from time to time by laws and regulations (e.g. insider trading laws) or pursuant to the Listing Rules of the Financial Services Authority (whereby certain employees of the Company require the approval of the Company to deal in ordinary shares).

**Employees and Employee share schemes**

Information regarding the Group's employees is given in note two to the financial statements on pages 50 and 51 and in the directors remuneration report on page 34.

Shares in the Company may be held, from time to time, by the trustee of the Candover Investments SMP Trust (the 'SMP Trust') established in connection with the share matching plan referred to in the directors' remuneration report on page 34, which is an employees' share scheme. The trustee of the SMP Trust may not vote shares that are held in the trust. As at 31<sup>st</sup> December, 2008 no shares were held by the trustee of the SMP Trust.

**Additional information**

No agreements between the holders of securities are known to the Company which may result in restrictions on the transfer of securities or on voting rights.

There are no significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control of the Company following a takeover bid, other than (i) certain financing agreements, under which borrowings may become prepayable and (ii) in relation to the employee share schemes referred to in the directors' remuneration report on page 34. Awards and options under those schemes will vest or become exercisable upon or shortly after a change of control, although the number of shares comprised within those awards or options may be reduced.

There are no agreements between the Company and its directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid.

The Board may exercise all the powers of the Company, including the power to issue and buy back shares and to borrow money, subject to the provisions of the Company's Memorandum and Articles of Association, relevant statutes and any special resolutions adopted by members in general meeting.

The Company's Articles of Association provide that each director will seek re-election at the Annual General Meeting at least every three years. Additionally, new directors may be appointed by the Board but are subject to election by members at the first opportunity after their appointment. The Articles of Association limit the number of directors to not less than two and not more than 12 save where members decide otherwise. Members may remove any director (subject to the giving of special notice) and, if desired, replace such removed director by ordinary resolution.

The Articles of Association of the Company may be amended by special resolution. There are no conditions contained in the memorandum in relation to the alteration of the Articles of Association of the Company.

By order of the Board

**Philip Price**  
Company Secretary  
20 Old Bailey  
London EC4M 7LN



20<sup>th</sup> March, 2009

## Corporate governance

The following statement sets out the Company's application in the year to 31<sup>st</sup> December, 2008 of the Combined Code on Corporate Governance issued by the Financial Reporting Council (FRC) in June 2006 (the 'Combined Code'). In the opinion of the Board, the Company has complied with the principles and the relevant provisions in section 1 of the Combined Code in all respects throughout the year except where stated otherwise.

### **The Board**

Corporate governance of Candover is achieved through its Board which, at the end of the year, comprised seven directors, all of whom were non-executive. There were a number of changes to the composition of the Board during the year. Jimmy West, who had been a director since December 1985, retired at the Annual General Meeting on 14<sup>th</sup> May, 2008. Michael Jay became a director on 1<sup>st</sup> January, 2008, with Nicholas Jones and Jan Oosterveld joining the Board on 14<sup>th</sup> April, 2008 and 29<sup>th</sup> October, 2008 respectively.

Brief biographical details of the directors currently in office appear on page 18. The interests of the current directors in the share capital of the Company are shown in note 18 on page 60.

The Board typically meets five times a year, although there were eight meetings during 2008. The formal schedule of matters reserved for decision by the Board was updated during the year, and includes corporate strategy, review of the Company's management agreement with Candover Partners Limited (together with monitoring of performance thereunder) and approval of the annual budget, the Report and Accounts, the payment of dividends and the valuation of the Company's investments. All meetings during 2008 were attended by all directors, apart from the meeting held on short notice in October to consider an investment opportunity in Eastern Europe, which was attended by Gerry Grimstone, Nicholas Jones and Chris Russell.

In line with the requirements of the Combined Code, the Board reviews its own performance annually using a predetermined template, designed to act as a tool to facilitate the evaluation process. The assessment covers the functioning of the Board as a whole, and includes a review of the effectiveness of the Board committees. In addition, the Chairman reviews with each of the directors their individual performance, contribution and commitment to the Company and any further development of skills that may be required. Following discussions with the other directors, the Senior Independent Director reviews the performance of the Chairman. The Board does not consider it necessary to employ the services, or to incur the additional expense, of an external third party to conduct the evaluation process as an appropriate mechanism is already in place. A review of the Board's performance in 2008 was undertaken in January 2009. Individual performance is taken into account when recommendations are made regarding the election and re-election of directors.

### **Chairman**

Gerry Grimstone served as non-executive Chairman throughout the year. His appointment letter incorporates a description of the role of non-executive Chairman and was approved by the Chairman of the nominations committee.

### **Board committees**

The Board is supported in its decisions by three principal committees, which are described below. The terms of reference of each of these committees are available on the Company's website. In addition, an executive committee considers day to day issues on behalf of the Board. The terms of reference of the executive committee were extended during the year to enable it to exercise the authority granted to the Board to buy back the Company's ordinary shares and to take decisions on potential investment opportunities in Asia and Central and Eastern Europe. The members of the executive committee are Gerry Grimstone as Chairman and four directors of Candover Partners Limited.

### **The audit committee**

The audit committee, chaired by Chris Russell, comprises six directors, as shown on page 18. All members of the committee are regarded as independent. Jimmy West was a member of the committee until his retirement on 14<sup>th</sup> May, 2008. Michael Jay became a member of the committee on 1<sup>st</sup> March, 2008. Nicholas Jones and Jan Oosterveld joined the committee at the time of their appointment to the Board on 14<sup>th</sup> April, 2008 and 29<sup>th</sup> October, 2008 respectively. The other members served on the committee throughout the year. The Board is satisfied that the Chairman of the audit committee has recent and relevant financial experience, as do other members of the committee.

The audit committee carries out a number of duties, including reviewing the interim and annual accounts, the effectiveness of the systems of accounting and internal financial control and the systems of risk management, and ensuring that arrangements are in place for the staff to whistle-blow on financial reporting or other matters in so far as they may affect the Company. The committee's terms of reference were updated in November 2008. Further information on the committee's remit is given on page 32.

Meetings of the audit committee are held at least three times a year, and are normally attended by the external auditor. Five audit committee meetings were held during 2008, with all members present on each occasion.

#### **The remuneration committee**

The remuneration committee, chaired by Richard Stone, comprises all seven non-executive directors. Its members are shown on page 18. Jimmy West was a member of the committee until his retirement on 14<sup>th</sup> May, 2008. Michael Jay became a member of the committee on 1<sup>st</sup> March, 2008. Nicholas Jones and Jan Oosterveld joined the committee at the time of their appointment to the Board on 14<sup>th</sup> April, 2008 and 29<sup>th</sup> October, 2008 respectively. All other members served on the committee throughout 2008.

This committee supports the Board in determining the level of the remuneration of the Chairman, and reviews the remuneration policy applicable to senior management. The full report of the committee is set out in the directors' remuneration report on page 34.

The remuneration committee met once during 2008, with all members present. A sub-committee of the committee met on a further two occasions. Other business was dealt with by written resolution.

#### **The nominations committee**

In considering Board appointments, the Board is supported by a nominations committee whose remit includes reviewing the structure, size and composition of the Board, satisfying itself that plans are in place for orderly succession for appointments to the Board and identifying appropriate candidates. The appointment letters for non-executive directors incorporate a description of their role, which has been approved by the Chairman of the nominations committee. The nominations committee will generally use an appropriate external search consultancy to identify suitable candidates, and employed the services of Whitehead Mann to assist with the recruitment of both Nicholas Jones and Jan Oosterveld in 2008. All Board appointments are subject to final approval of the Board and election or re-election at a general meeting of shareholders.

The nominations committee, which is chaired by Antony Hitchens, comprises four directors and the present members of the committee are shown on page 18. Jimmy West was a member of the committee until his retirement on 14<sup>th</sup> May, 2008. Michael Jay became a member of the committee on 20<sup>th</sup> August, 2008.

The nominations committee met twice during 2008. All members were present at each meeting. The committee's terms of reference were updated in March 2008.

#### **Board balance**

There are seven non-executive directors on the Board. The Board considers its composition appropriate to the Company's status as an investment trust. The non-executive directors are considered to be of sufficient calibre and experience to bring significant influence to bear on the decision-making process.

In the view of the Board, each director is independent in character and judgement and no director has any relationships that could materially interfere with their independent judgement. It is therefore the Board's view that all non-executives are independent, although Antony Hitchens has exceeded the nine year period of service envisaged by the Combined Code as being potentially relevant to the determination of a non-executive director's independence. In this regard, the Board acknowledges the Association of Investment Companies' guidelines on corporate governance, which do not recommend that long-serving directors be prevented from forming part of an independent majority. In addition, in compliance with the Combined Code, Antony Hitchens has submitted himself for re-election at each Annual General Meeting since May 2004. Antony Hitchens became the Senior Independent Director in May 2008.

#### **Supply of information**

The Chairman ensures that all directors are properly briefed on issues arising at Board meetings. As the Board is entirely non-executive it relies on Candover Partners Limited, as manager, to provide it with appropriate and timely information in order that the Board may reach proper decisions. Its members can, if necessary, obtain independent professional advice at the Company's expense.

### **Directors' training**

Training is available to all directors, particularly new directors, on issues relevant to their role. As part of the annual Board evaluation process directors are asked if there are any areas of knowledge or skill which they would like to develop further. A formal induction process exists for new non-executive directors. Two of the non-executive directors who joined the Board in 2008 attended one-to-one briefing meetings with the Company's auditor, Grant Thornton UK LLP, on tax and other issues related to investment trusts.

### **Election and re-election of directors**

The principle set out in the Combined Code is that all directors should be subject to election by shareholders at the first Annual General Meeting after their appointment, and to re-election thereafter at intervals of no more than three years. The Combined Code requires that the non-executive directors are appointed for specific terms. At Candover, directors are appointed, elected and 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.

Gerry Grimstone's appointment is terminable on 3 months' notice. All other non-executive directors' appointments are terminable at will. The details of non-executive directors' letters of appointment are set out in the directors' remuneration report on page 36.

### **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, subject to its duties regarding equal treatment of shareholders and the dissemination of inside information. The Chairman reports to the Board on relevant contact with major shareholders. 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 investors and encourages their participation by ensuring that senior Board members attend, including the Chairmen of the audit, remuneration and nominations committees (Chris Russell, Richard Stone and Antony Hichens respectively), to answer shareholders' questions.

### **Electronic communications**

Following recent changes in company law and the adoption of new Articles of Association at last year's Annual General Meeting, Candover wrote to all its shareholders in January 2009 to seek their consent to communicating with them electronically. Among other things, this will allow Candover to publish statutory documents such as these Report and Accounts on a website instead of sending out paper copies to all its shareholders.

By publishing the Report and Accounts, notices of AGM and other information on a website Candover can significantly reduce the quantity of documentation sent out to shareholders by post. This will not only result in cost savings for Candover but will also reduce waste and the impact on the environment of printing and distributing paper reports. This year, for the first time, we will send paper copies of the Report and Accounts to those who have indicated they wish to receive paper copies, and will notify other shareholders (either by post, or by electronic communications, according to their instructions) of where and how to access the Report and Accounts on the Candover website (<http://www.candoverinvestments.com>).

### **Voting policy**

As Candover's portfolio 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 expect to 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 portfolio 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 33. The auditors review the Company's compliance with the provisions of the Combined Code and compliance with the rules of the Financial Services Authority (FSA), the regulatory authority that regulates Candover Partners Limited, and are also required to report on their audit of the financial statements. Their report is shown on page 38.

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 and financial reviews on pages two to ten.

**Going concern**

Under the Combined Code and applicable regulation the directors are required to satisfy themselves that it is reasonable to presume that the Company is a going concern.

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Chairman's statement and the operational review on pages two and four. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the financial review on page nine. In addition, note 25 to the financial statements on page 63 includes the Group's financial risk management objectives, its capital management policies and procedures, details of its financial instruments and hedging activities and its exposures to market risk, currency risk, interest rate risk, credit risk, liquidity risk and other price risk.

As described in the Chairman's statement on page two the current economic environment has weakened Candover's financial position. The Group has reported a significant drop in net asset value and the worsening economic background as well as volatile financial markets may lead to further declines in valuation. The directors consider that the outlook presents significant challenges in terms of realising existing investments, the valuation of investments and the availability of funding to meet the Group's commitments. Whilst the directors have initiated measures to preserve cash, reduce the cost base and secure additional finance, these circumstances create material uncertainties over future results and cash flows.

As explained in the Chairman's statement, the directors have concluded that the Company is not currently in a position to make any further commitment to invest alongside the 2008 Fund beyond its existing holding in Expro International. As referred to in the Chairman's statement, the Company is in discussions with the Limited Partners of the Candover 2008 Fund regarding a restructuring of the Fund, which is likely to include a temporary suspension of the investment period. Although the precise outcome cannot be predicted with certainty, the directors have a reasonable expectation that these discussions will result in a satisfactory agreement being reached with regard to the Candover 2008 Fund.

The Group has retained advisers to assist it in negotiations with holders of the US private placement bonds issued in 2007. These negotiations are designed to provide the Group with more flexibility in its financing arrangements. The outcome of these negotiations is uncertain.

The directors have a reasonable expectation that the Group and the Company have adequate resources to continue as a going concern for the foreseeable future, having made enquiries and after considering and taking into account the matters described above. For these reasons, they continue to adopt the going concern basis in preparing the annual Report and Accounts.

**Internal control**

Under the terms of the Combined Code and applicable regulation 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'.

During the year Candover appointed KPMG LLP to undertake a review of Candover's internal controls. Following this review a revised risk register and a revised risk assessment process were adopted. Risk management and monitoring are embedded in the operating committees within the business, rather than being dealt with by a separate risk committee. Risk management is co-ordinated by

a risk manager, who is charged with overall responsibility for risk and is accountable to the executive committee and, ultimately, the Board.

Candover's system of internal control includes, inter alia, the overall control environment, the procedures for identification and evaluation of business risk, the control 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 many senior 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.

Appropriate members of staff are aware of the internal controls and are also collectively accountable for the operation of those controls.

Management are supported by the Board of non-executive directors who, in conjunction with the Company's auditors, Grant Thornton UK LLP, and the auditors of the managed funds, KPMG LLP, carry out an external review of the Company's financial controls and also those of the funds which Candover manages. KPMG LLP and Grant Thornton UK LLP 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 conjunction 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 senior management, who advise the 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 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 five times per year (and more if appropriate) gives 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 or the compliance director 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 Board at the following Board meeting. In February 2008 the committee reviewed the operation of the Company's internal controls in the period July to December 2007. Shortly thereafter, KPMG LLP were appointed to help

review the processes by which internal controls are implemented and assessed. This review was completed in September 2008, and KPMG's recommendations were broadly accepted.

As required by the Combined Code, the audit committee has continued to review 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 kept under 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 regularly reviewed.

The audit committee considers the scope and effectiveness of the Company's external auditors. The Company's auditors, Grant Thornton UK LLP, also provide non-audit services to the Company, as referred to in note 2 on page 50. These services relate mainly to tax advice and do not, in the Board's opinion, compromise the independence of Grant Thornton UK LLP's audit team. The audit committee has 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.

#### **Statement of directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

Each of the directors, whose names are recorded on page 18, confirms to the best of his knowledge (a) that the Group and Company financial statements in this report, which have been prepared in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group taken as a whole; and (b) that the directors' report contained in this report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 1985 and (where applicable) 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Pursuant to section 234ZA (2) of the Companies Act 1985 each of the directors confirms that (a) so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware; and (b) he has taken all steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

**Philip Price**  
Company Secretary

20<sup>th</sup> March, 2009

## Directors' remuneration report

The directors' remuneration report describes Candover's remuneration policy, the role of its remuneration committee and its activities for the year ended 31<sup>st</sup> December, 2008. It has been prepared on behalf of the Board in accordance with the Companies Act 1985 and the Combined Code. It will be put to shareholders for approval by ordinary resolution at the Annual General Meeting to be held on 13<sup>th</sup> May, 2009.

The audited section of the directors' remuneration report is the table of non-executive directors' remuneration.

### Remuneration committee

#### Composition and operation

The remuneration committee supports the Board by determining the level of remuneration of the Chairman of the Company, as well as reviewing the remuneration policy applicable to the senior management of Candover Partners Limited. The Board of the Company is comprised solely of non-executive directors.

At 31<sup>st</sup> December, 2008 the members of the remuneration committee were Richard Stone (Chairman), Gerry Grimstone, Antony Hichens, Chris Russell, Michael Jay, Nicholas Jones and Jan Oosterveld. Michael Jay, Nicholas Jones and Jan Oosterveld joined the committee on 1<sup>st</sup> March 2008, 14<sup>th</sup> April, 2008 and 29<sup>th</sup> October, 2008 respectively. The full remuneration committee, which meets as often as necessary to discharge its duties, met on one occasion in 2008 and a sub-committee of the remuneration committee met on two occasions. Attendances have been noted already in the directors' report. Written terms of reference are available on the Company's website at [www.candoverinvestments.com](http://www.candoverinvestments.com).

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 Combined Code.

### Professional advice

During the year the remuneration committee received, at the Company's expense, professional advice from Ashurst, the Company's lawyers and New Bridge Street Consultants, independent remuneration advisors. New Bridge Street Consultants provided advice on directors' fees and in relation to the operation of the Company's employee share schemes. Candover participates in the MM&K 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.

### Activities during the year

Candover operates a Share Matching Plan (SMP) for the executives of Candover Partners Limited. The purpose of the SMP is to encourage executives to own shares in Candover Investments plc, promoting a better alignment of interests and a focus on Group performance. In March 2008, the remuneration committee invited executives of Candover Partners Limited to participate in the SMP. 94% of Candover's executives purchased a total of 83,205 shares in the Company. Demanding performance criteria requiring the Company's net asset per share growth to outperform the FTSE All-Share Index by a fixed margin over a fixed three year period attach to the receipt of any matching shares. Given the sharp decline in reported net asset value per share as at 31 December, 2008 it is unlikely that any of the matching awards will vest.

Candover also operates a Company Share Option Scheme for its support staff who play an important role that adds to shareholder value, but who do not participate in incentive schemes linked to funds managed by Candover Partners Limited. In March 2008, 33,075 options were granted to support staff. Further details can be found in note 2 to the accounts on page 51.

The Company's non-executive directors are not eligible to participate in either of these schemes, and no individual employee will be eligible for both schemes in any given year.

At the start of 2008, the remuneration committee considered the fee paid to the Chairman of the Company. Based on market information, time commitment required and the level of responsibility undertaken, an increase in fee payable to the Chairman was approved by the Remuneration Committee, effective 1<sup>st</sup> January, 2008.

The remuneration committee reviewed salaries and performance related bonuses payable to Candover Group employees. Salary levels were reviewed after considering relative salary levels within the industry, the estimated movement in net assets and the profits for the year. Performance bonuses were reviewed

after consideration of the profit and net asset performance, operational achievements of the Company, including progress on investments and realisations, and the external market. No discretionary bonuses have been or will be paid to Candover Group directors or investment executives for the period 1<sup>st</sup> July to 31<sup>st</sup> December, 2008. No salary increases have been awarded to any Candover employees in 2009 and we have made a number of redundancies in recent weeks.

#### Remuneration policy

The Group's remuneration policy 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 interests of shareholders. As is customary in the private equity industry, the remuneration package for executives comprises both fixed and variable elements, including salary, performance related bonuses, pension contributions and other incentive arrangements.

For non-executive directors, the Chairman of the Company recommends the level of fees to be paid based on market information, time commitment required and the level of responsibility undertaken. These recommendations are then put to a meeting of the executive committee of the Company for approval. There have been no increases in non-executive directors' fees in 2008. Base fees are set out below.

	2008 £	2007 £
Board member	35,000	35,000
Audit committee Chair	40,000	40,000
Remuneration committee Chair	40,000	40,000
Senior Independent Director	37,500	37,500
Nominations committee Chair	37,500	37,500

Non-executive directors are not paid bonuses or performance fees, granted share options or invited to participate in long-term incentive plans.

#### Non-executive directors

Total emoluments received by non-executive directors during the year ended 31<sup>st</sup> December, 2008 were as follows:

	Salaries/ directors' fees £	Performance related pay £	Taxable benefits £	Insurance costs £	Total Emoluments Excluding Pension Contributions <sup>1</sup> 2008 £	Total Emoluments Excluding Pension Contributions 2007 £
<b>Non-executive directors</b>						
Antony Hitchens	39,131	–	–	–	39,131	35,000
Jimmy West <sup>2</sup>	14,042	–	–	–	14,042	32,500
Richard Stone	40,000	–	–	–	40,000	36,667
Gerry Grimstone <sup>3</sup>	125,000	–	–	–	125,000	100,000
Chris Russell	40,000	–	–	–	40,000	36,667
Michael Jay	35,045	–	–	–	35,045	–
Jan Oosterveld <sup>4</sup>	5,833	–	–	–	5,833	–
Nicholas Jones <sup>5</sup>	25,057	–	–	–	25,057	–
Nico Lethbridge	–	–	–	–	–	18,333
Stephen Curran	–	–	–	–	–	30,000
	324,108	–	–	–	324,108	289,167
<b>Total</b>	<b>324,108</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>324,108</b>	<b>289,167</b>
2007 comparatives	289,167	–	–	–	289,167	

1. No pension contributions have been made on behalf of any directors in 2008.

2. Jimmy West retired from the Board on 14<sup>th</sup> May, 2008. A proportion of Jimmy West's fee was paid to a third party as shown below.

3. Gerry Grimstone's fee was increased to £125,000 pa as from 1<sup>st</sup> January, 2008.

4. Jan Oosterveld joined the Board on 29<sup>th</sup> October, 2008.

5. Nicholas Jones joined the Board on 14<sup>th</sup> April, 2008. A proportion of Nicholas Jones' fee was paid to a third party as shown below.

A schedule of directors' interests in shares is shown in note 18 to the accounts on page 60.

**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 Jimmy West, for whom £11,198 was paid to Jimmy West Associates Limited and a payment to a third party for directors' services during the year was made in the case of Nicholas Jones, for whom £7,557 was paid to Lazards. These amounts are included in the directors' fees shown in the directors' emoluments schedule above.

**Non-executive directors' letters of appointment**

Each non-executive director has a letter of appointment with the Company. All current non-executive directors' letters of appointment have been updated and reissued during 2008 / 2009 to bring them in line with best practice. Non-executive directors' appointments are reviewed annually and are subject to the re-election requirements of the Company's Articles of Association. There are no provisions for directors to receive compensation upon early termination.

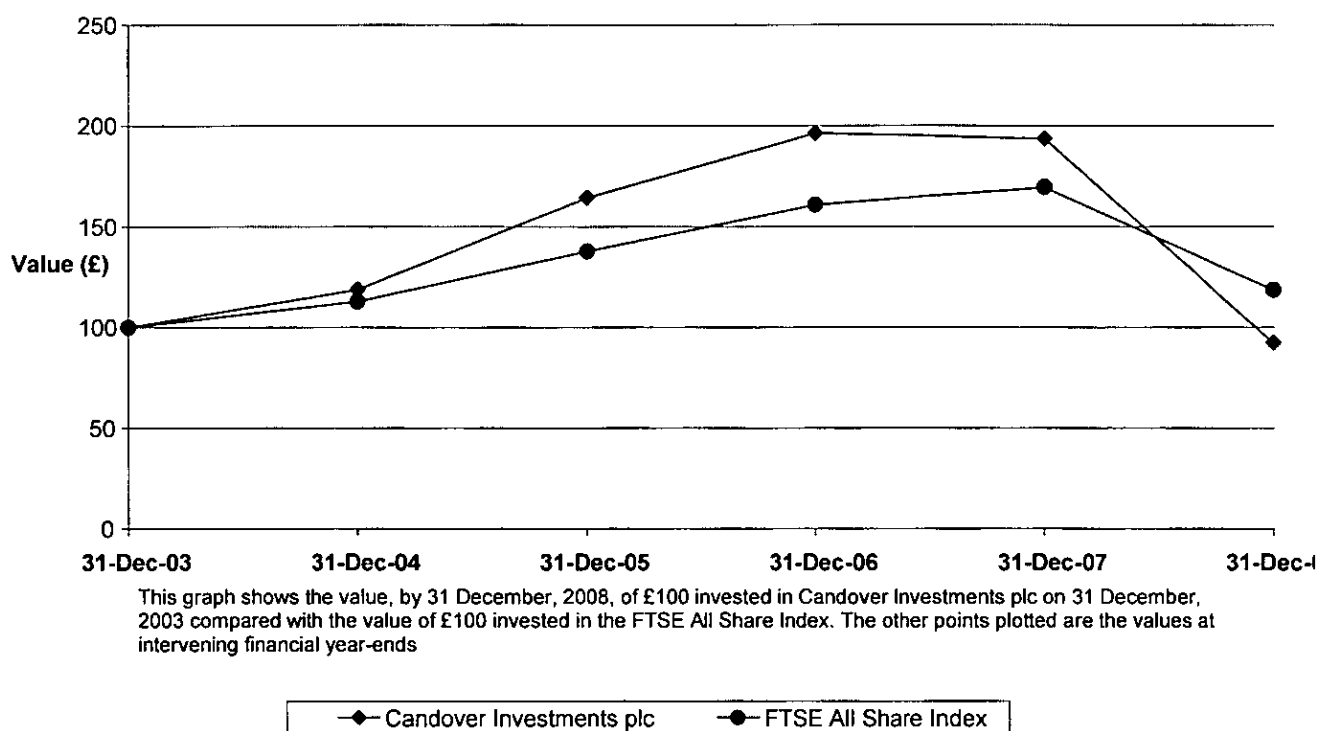
	<b>Date of contract</b>	<b>Notice period</b>	<b>Unexpired term</b>
Gerry Grimstone	28 <sup>th</sup> January, 2009	Terminable on 3 months' notice by either party	Appointment reviewed annually in December
Jimmy West	3 <sup>rd</sup> February, 2004	Terminable at the will of the parties	Terminated on his retirement on 14 <sup>th</sup> May, 2008.
Antony Hitchens	30 <sup>th</sup> March, 2008	Terminable at the will of the parties	Appointment reviewed annually in December
Michael Jay	7 <sup>th</sup> December, 2008	Terminable at the will of the parties	Appointment reviewed annually in December
Chris Russell	15 <sup>th</sup> September, 2008	Terminable at the will of the parties	Appointment reviewed annually in December
Richard Stone	19 <sup>th</sup> March, 2008	Terminable at the will of the parties	Appointment reviewed annually in December
Nicholas Jones	8 <sup>th</sup> April, 2008	Terminable at the will of the parties	Appointment reviewed annually in December
Jan Oosterveld	5 <sup>th</sup> November, 2008	Terminable at the will of the parties	Appointment reviewed annually in December

**Comparative performance**

Set out below is a graph showing the Company's total shareholder return performance assuming an original investment of £100 and with dividends reinvested for the five years to 31st December, 2008. This is compared against the return performance achieved by the FTSE All-Share Total Return Index.

## Total shareholder return

Source: Thomson Financial



On behalf of the Board

Richard Stone

Chairman of the remuneration committee

20<sup>th</sup> March, 2009

# Report of the independent auditor to the members of Candover Investments plc

We have audited the Group and parent company financial statements (the 'financial statements') of Candover Investments plc for the year ended 31<sup>st</sup> December, 2008 which comprise the principal accounting policies, the Group income statement, the Group and parent company balance sheets, the Group and parent company cash flow statements, the Group and parent company statements of changes in members' equity and notes one 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 auditor's 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 applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. The information given in the directors' report includes that specific information presented in the operational and financial reviews and the Chairman's statement that is cross-referred from the business review section of the directors' report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2006 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. The other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the Chairman's statement, the operational and financial review, the valuation policy, the 15 largest investments and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material



misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

#### **Emphasis of matter**

As discussed in the accounting policies section of the financial statements the Group faces material uncertainties over future results and cash flows. The Directors have initiated a number of discussions and strategic plans to mitigate these uncertainties and have a reasonable expectation that they will reach a successful conclusion.

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in the accounting policies in the Company and Group financial statements concerning these material uncertainties.

#### **Opinion**

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31<sup>st</sup> December, 2008 and of its loss for the year then ended
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31<sup>st</sup> December, 2008
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation
- the information given in the directors' report is consistent with the financial statements.

Grant Thornton UK LLP  
Registered Auditor  
Chartered Accountants

*Grant Thornton UK LLP*

London  
20<sup>th</sup> March, 2009

## Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, except for the presentation change noted on the face of the income statement.

### **Basis of preparation**

The Group and Company have prepared their financial statements under International Financial Reporting Standards (IFRSs) as adopted by the European Union. IFRSs comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) as adopted in the European Union as at 31<sup>st</sup> December, 2008.

The financial statements have been prepared on the historical cost basis of accounting, except for measurement at fair value of certain assets.

### **Going concern**

Under the Combined Code and applicable regulation the directors are required to satisfy themselves that it is reasonable to presume that the Company is a going concern.

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Chairman's statement and the operational review on pages two and four. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the financial review on page nine. In addition, note 25 to the financial statements on page 63 includes the Group's financial risk management objectives, its capital management policies and procedures, details of its financial instruments and hedging activities and its exposures to market risk, currency risk, interest rate risk, credit risk, liquidity risk and other price risk.

As described in the Chairman's statement on page two the current economic environment has weakened Candover's financial position. The Group has reported a significant drop in net asset value and the worsening economic background as well as volatile financial markets may lead to further declines in valuation. The directors consider that the outlook presents significant challenges in terms of realising existing investments, the valuation of investments and the availability of funding to meet the Group's commitments. Whilst the directors have initiated measures to preserve cash, reduce the cost base and secure additional finance, these circumstances create material uncertainties over future results and cash flows.

As explained in the Chairman's statement, the directors have concluded that the Company is not currently in a position to make any further commitment to invest alongside the 2008 Fund beyond its existing holding in Expro International. As referred to in the Chairman's statement, the Company is in discussions with the Limited Partners of the Candover 2008 Fund regarding a restructuring of the Fund, which is likely to include a temporary suspension of the investment period. Although the precise outcome cannot be predicted with certainty, the directors have a reasonable expectation that these discussions will result in a satisfactory agreement being reached with regard to the Candover 2008 Fund.

The Group has retained advisers to assist it in negotiations with holders of the US private placement bonds issued in 2007. These negotiations are designed to provide the Group with more flexibility in its financing arrangements. The outcome of these negotiations is uncertain.

The directors have a reasonable expectation that the Group and the Company have adequate resources to continue as a going concern for the foreseeable future, having made enquiries and after considering and taking into account the matters described above. For these reasons, they continue to adopt the going concern basis in preparing the annual Report and Accounts.

The significant accounting policies are set out below:

### **Investment trust SORP**

Where presentational guidance set out in the Statement of Recommended Practice (SORP) for investment trusts, issued by the Association of Investment Companies (AIC) in January 2003 (revised December 2005), is consistent with the requirements of IFRSs, the directors have sought to prepare the financial statements on a basis compliant with the SORP. The AIC have issued a revised SORP on financial statements of investment trust companies and venture capital trusts effective for periods

commencing 1<sup>st</sup> January, 2009 which is not anticipated to have a material impact on the financial statements.

#### **Management expenses and finance costs**

Management expenses and finance costs have been allocated 80% to capital and 20% to revenue.

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiary undertakings) made up to the balance sheet date. Control is achieved where the Company has the power to govern the financial and operating policies of an portfolio entity so as to obtain benefits directly from its activities.

#### **Revenue**

Income arises from investment management, fees relating to advisory work on investment transactions and interest income. Investment management fees are recognised under the accruals basis, other fees are recognised in full once a contractual obligation is created for the third party and the service provided.

Interest income on financial investments, and cash and cash equivalents, is recognised in the income statement using the effective interest rate applicable. A provision will be made against this income where there is uncertainty as to its future recoverability. The requirement or otherwise for a provision is considered in conjunction with the valuation of the related financial investment, the approach to which is stated below.

#### **Placement fees**

Pre-paid 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 the anticipated duration of the managed fund.

#### **Share-based payments**

The Group enters into arrangements that are equity-settled share-based payments with certain employees. These are measured at fair value at the date of grant, which is then recognised in the income statement on a straight-line basis over the vesting period, based on the estimate of shares that will eventually vest. The charge is adjusted at each balance sheet date to reflect the actual number of forfeitures, cancellations and leavers during the period. The movement in cumulative changes since the previous balance sheet is recognised in the income statement, with a corresponding entry in equity. Fair value is measured by use of the Black-Scholes model.

#### **Property, plant and equipment**

All property, plant and equipment is stated at historical cost less depreciation.

Depreciation is calculated to write down the cost less residual value of all property, plant and equipment 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. The residual value of all assets is assessed annually.

#### **Financial investments**

The directors consider that a substantial measure of the performance of the Group is assessed through the capital gains and losses arising from the investment activity of the Group. Consequently, for measurement purposes, financial investments, including equity, loan and similar instruments, are designated at fair value through profit and loss, and are valued in compliance with IAS 39 Financial Instruments: Recognition and Measurement, and the International Private Equity and Venture Capital Valuation Guidelines as recommended by the British Venture Capital Association, the principles of which are set out on page 17.

Financial investments are recognised in the balance sheet at fair value. Gains and losses on the realisation of financial investments are dealt with through the income statement, and taken to the realised capital reserve. Financial investments are not held for immediate resale and any gains on realisations are not available for distribution as a dividend. The difference between the fair value of financial investments and cost to the Group is shown as an unrealised gain or loss in the income statement, and taken to the unrealised capital reserve.

Investments in subsidiary undertakings are reflected in the Company's accounts at cost less impairment.

**Receivables and payables**

Receivables and payables are accounted for at fair value at initial recognition and thereafter at amortised cost using the effective interest rate method.

**Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-dated listed fixed income securities and money market instruments. Such assets are held-for-trading, with capital gains, losses and fair value movements accounted for in the income statement, and taken to capital reserves due to the fact that such balances are held for future investment in financial investments.

**Borrowings**

Interest-bearing loans and overdrafts are initially recognised at the fair value of the liability, net of direct issue costs. After initial recognition, these are subsequently measured at amortised cost using the effective interest method, which is the rate that exactly discounts the estimated future cash flows through the expected life of the liabilities. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. Finance costs, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the income statement using the effective interest method. Movements in value for currency fluctuations are taken to unrealised capital reserves, net of the impact of any designated hedging arrangements.

**Derivative financial instruments**

Derivative financial instruments are used by the Group to manage the risk associated with foreign currency fluctuations and changes in interest rates on its borrowings. This is achieved by the use of currency swaps and interest rate swaps. All derivative financial instruments are held at fair value. Where appropriate derivative financial instruments are designated as fair value hedges on inception with the effectiveness tested both at this date and semi-annually thereafter on a prospective and retrospective basis.

Derivative financial instruments are recognised initially at fair value on the contract date and subsequently remeasured to the fair value at each reporting date. The fair value of currency swaps and interest rate swaps is determined with reference to future cash flows and current interest and exchange rates. All changes in the fair value of financial instruments are accounted for in the income statement, and taken to the unrealised capital reserve net of any designated hedging arrangements which are offset against the movements in the instrument being hedged. The ineffective portion of any fair value hedge is assessed semi-annually and taken to the income statement.

**Financial assets and liabilities on equity commitments**

The Group's commitments to fund equity bridges and similar arrangements represent derivative financial instruments in the equity of portfolio companies and are accounted for in accordance with the Group's policy on derivative financial instruments. The fair value of these instruments is determined by reference to the Group's valuation of the underlying portfolio company, in accordance with the Group's policy on financial investments.

**Deferred tax**

Deferred tax is recognised in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

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**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Where exchange differences result from the translation into sterling of foreign currency resources that are held for future financial investments, the gain or loss is accounted for in the income statement, and taken to capital reserves.

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement are translated at actual exchange rates
- all resulting exchange differences are recognised as a separate component of equity.

The cumulative exchange gains and losses on foreign currency net investments are accounted for in the income statement when these operations are disposed.

#### **Pension costs**

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

#### **Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

#### **Dividends payable**

Final dividends are accounted for when they are ratified at the Annual General Meeting. Interim dividends are recognised when paid.

#### **Critical accounting estimates and judgements**

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities relate to:

- the valuation of unlisted financial investments held at fair value through profit and loss, which are valued on the basis noted above, the key areas of judgement being the adjustments required to normalise sustainable earnings, the appropriate comparable multiple to apply, and the assessment of control over an exit
- the recognition or otherwise of accrued income on loan notes and similar instruments granted to portfolio companies, which are assessed in conjunction with the overall valuation of unlisted financial investments as noted above
- the appropriateness of the allocation of management expenses between revenue and capital, which is based on the split of the long-term anticipated return between revenue and capital of net income
- finance costs have been allocated on the same basis as the above, whereas movements in the carrying value of borrowings and related instruments have been taken to the unrealised capital reserve as they have been raised to fund future financial investments
- the estimated future financial liability arising from future equity commitments and guarantees, which is assessed on the same basis as the valuation of unlisted financial investments as noted above
- the recognition of the deferred tax asset, which is based on reasonable expectations on the timing of distributions to beneficiaries of the employee benefit trusts and the availability of future taxable profits
- the impact of changing exchange rates

# Group income statement

for the year ended 31<sup>st</sup> December, 2008

		Year to 31 <sup>st</sup> December, 2008			Year to 31 <sup>st</sup> December, 2007		
	Notes	Revenue £000	Capital £000	Total* £000	Revenue £000	Capital** £000	Total* £000
<b>Gains/(losses) on financial instruments at fair value through profit and loss</b>							
Realised gains and losses	22	–	34,316	34,316	–	70,012	70,012
Unrealised gains and losses	23	–	(224,913)	(224,913)	–	60,194	60,194
		–	(190,597)	(190,597)	–	130,206	130,206
<b>Revenue</b>							
Management fees from managed funds		46,402	–	46,402	37,400	–	37,400
Investment and other income		(5,215)	–	(5,215)	21,888	–	21,888
	1	41,187	–	41,187	59,288	–	59,288
<b>Administrative expenses</b>	2	(33,207)	(8,950)	(42,157)	(37,920)	(9,339)	(47,259)
<b>Profit/(loss) before finance costs and taxation</b>		7,980	(199,547)	(191,567)	21,368	120,867	142,235
Finance costs	3	(2,754)	(11,075)	(13,829)	(369)	(1,984)	(2,353)
Movement in the fair value of derivatives	4	–	2,176	2,176	–	–	–
Exchange movements on borrowings		–	(11,796)	(11,796)	–	(1,458)	(1,458)
<b>Profit/(loss) before taxation</b>		5,226	(220,242)	(215,016)	20,999	117,425	138,424
Taxation	5	(1,471)	3,926	2,455	(6,880)	3,397	(3,483)
<b>Profit/(loss) attributable to equity shareholders</b>		3,755	(216,316)	(212,561)	14,119	120,822	134,941
<b>Earnings per ordinary share</b>							
Basic	8	17p	(990)p	(973)p	65p	553p	618p
Diluted		17p	(990)p	(973)p	65p	552p	617p

\* The total column represents the income statement under IFRS.

\*\* The classification of fair value gains and losses on derivatives has been revised in the year. Fair value gains and losses on derivative financial instruments which are taken out to mitigate the Group's foreign currency exposure on its financial investments are now classified within "Gains on financial instruments at fair value through profit and loss" on the income statement. Previously, gains and losses on these derivative financial instruments were classified after "finance costs" on the income statement. The change, which has no impact on profit before tax, has been made in accordance with IAS 8 as in the opinion of the Directors, it results in more relevant information about the effect of derivative transactions. Gains and losses on derivative financial instruments which have been taken out to mitigate the Group's exposures on its loans and borrowings continue to be classified after "finance costs" on the income statement.

## Statement of changes in equity

for the year ended 31<sup>st</sup> December, 2008

	Notes	Year to 31 <sup>st</sup> December, 2008		Year to 31 <sup>st</sup> December, 2007	
		Group £000	Company £000	Group £000	Company £000
<b>Opening total equity</b>		<b>451,265</b>	<b>419,344</b>	328,521	299,411
(Loss)/profit attributable to equity shareholders		(212,561)	(226,856)	134,941	132,019
Exchange differences on translation of foreign operations	22	(41)	-	(111)	-
Total recognised income and expenses		(212,602)	(226,856)	134,830	132,019
Purchase of own shares	22	(638)	(638)	-	-
Return of cash		-	-	(67)	(67)
Share based payments	2,22	(199)	(199)	271	271
Dividends	7	(13,551)	(13,551)	(12,290)	(12,290)
<b>Closing total equity</b>	22	<b>224,275</b>	<b>178,100</b>	451,265	419,344

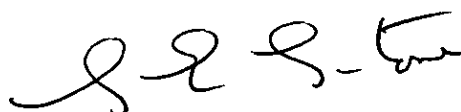
# Group balance sheet

at 31<sup>st</sup> December, 2008

	Notes	31 <sup>st</sup> December, 2008 £000	31 <sup>st</sup> December, 2007 £000
<b>Non-current assets</b>			
Property, plant and equipment	9	4,008	4,146
Financial investments designated at fair value through profit and loss			
Portfolio companies	10	290,462	323,477
Other financial investments	10	19,587	21,407
		310,049	344,884
Trade and other receivables	12	1,240	-
Deferred tax asset	17	6,451	4,894
		321,748	353,924
<b>Current assets</b>			
Trade and other receivables	12	23,864	33,574
Derivative financial instruments	16	58,650	8,374
Current tax asset		3,924	-
Cash and cash equivalents	13	133,249	240,309
		219,687	282,257
<b>Current liabilities</b>			
Trade and other payables	14	(20,342)	(49,462)
Financial liability on equity commitments	16	(31,105)	-
Derivative financial instruments	16	(48,211)	(7,731)
Current tax liabilities		-	(1,658)
		(99,658)	(58,851)
<b>Net current assets</b>		120,029	223,406
<b>Total assets less current liabilities</b>		441,777	577,330
<b>Non-current liabilities</b>			
Loans and borrowings	15	(217,502)	(126,065)
<b>Net assets</b>		224,275	451,265
<b>Equity attributable to equity holders</b>			
Called up share capital	18,22	5,464	5,464
Share premium account	22	1,232	1,232
Other reserves	22	(238)	640
Capital reserve – realised	22	369,824	326,593
Capital reserve – unrealised	22	(182,064)	77,483
Revenue reserve	22	30,057	39,853
<b>Total equity</b>		224,275	451,265
<b>Net asset value per share</b>			
Basic	8	1026p	2065p
Diluted		1026p	2048p

The financial statements were approved on behalf of the directors on 20<sup>th</sup> March, 2009.

Gerry Grimstone  
Chairman





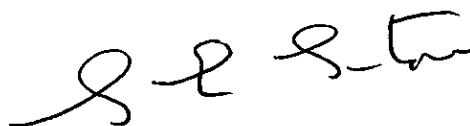
# Company balance sheet

at 31st December, 2008

	Notes	31st December, 2008 £000	31st December, 2007 £000
<b>Non-current assets</b>			
Financial investments designated at fair value through profit and loss			
Portfolio companies	10	290,462	323,477
Other financial investments	10	19,587	21,407
		<b>310,049</b>	<b>344,884</b>
Investment in subsidiary undertakings	10,11	4,779	4,978
		<b>314,828</b>	<b>349,862</b>
<b>Current assets</b>			
Trade and other receivables	12	32,375	52,721
Current tax asset		6,603	756
Derivative financial instruments	16	58,650	8,374
Cash and cash equivalents	13	78,732	230,230
		<b>176,360</b>	<b>292,081</b>
<b>Current liabilities</b>			
Trade and other payables	14	(16,270)	(88,803)
Financial liability on equity commitments	16	(31,105)	-
Derivative financial instruments	16	(48,211)	(7,731)
		<b>(95,586)</b>	<b>(96,534)</b>
<b>Net current assets</b>		<b>80,774</b>	<b>195,547</b>
<b>Total assets less current liabilities</b>		<b>395,602</b>	<b>545,409</b>
<b>Non-current liabilities</b>			
Loans and borrowings	15	(217,502)	(126,065)
<b>Net assets</b>		<b>178,100</b>	<b>419,344</b>
<b>Equity attributable to equity holders</b>			
Called up share capital	18, 22	5,464	5,464
Share premium account	22	1,232	1,232
Other reserves	22	(67)	770
Capital reserve – realised	22	371,345	328,114
Capital reserve – unrealised	22	(182,467)	77,080
Revenue reserve	22	(17,407)	6,684
<b>Total equity</b>		<b>178,100</b>	<b>419,344</b>

The financial statements were approved on behalf of the directors on 20<sup>th</sup> March, 2009.

**Gerry Grimstone**  
Chairman



## Group cash flow statement

for the year ended 31<sup>st</sup> December, 2008

	Notes	Year to 31 <sup>st</sup> December, 2008 £000	Year to 31 <sup>st</sup> December, 2007 £000
<b>Cash flows from operating activities</b>			
Cash flow from operations	24	(22,861)	33,068
Interest paid		(11,715)	(637)
Tax paid		(4,684)	(5,944)
<b>Net cash from operating activities</b>		<b>(39,260)</b>	<b>26,487</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(858)	(3,146)
Purchase of financial investments		(168,835)	(90,485)
Sale of property, plant and equipment		-	92
Sale of financial investments		47,426	162,415
<b>Net cash from investing activities</b>		<b>(122,267)</b>	<b>68,876</b>
<b>Cash flows from financing activities</b>			
Equity dividends paid	7	(13,551)	(12,315)
Purchase of own shares		(638)	-
Return of cash		-	(5,064)
Loan repayments		-	(33,735)
Advances of loans	15	33,178	119,870
<b>Net cash from financing activities</b>		<b>18,989</b>	<b>68,756</b>
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(142,538)</b>	<b>164,119</b>
<b>Opening cash and cash equivalents</b>		<b>240,309</b>	<b>63,437</b>
Effect of exchange rates and revaluation on cash and cash equivalents		35,478	12,753
<b>Closing cash and cash equivalents</b>	13	<b>133,249</b>	<b>240,309</b>

# Company cash flow statement

for the year ended 31<sup>st</sup> December, 2008

	Notes	Year to 31 <sup>st</sup> December, 2008 £000	Year to 31 <sup>st</sup> December, 2007 £000
<b>Cash flows from operating activities</b>			
Cash flow from operations	24	(75,076)	19,421
Interest paid		(11,715)	(558)
Tax received/(paid)		2,234	(1,930)
<b>Net cash from operating activities</b>		<b>(84,557)</b>	<b>16,933</b>
<b>Cash flows from investing activities</b>			
Purchase of financial investments		(168,835)	(90,485)
Sale of financial investments		47,427	162,415
<b>Net cash from investing activities</b>		<b>(121,408)</b>	<b>71,930</b>
<b>Cash flows from financing activities</b>			
Equity dividends paid	7	(13,551)	(12,315)
Purchase of own shares		(638)	-
Return of cash		-	(5,064)
Loans repayments		-	(33,735)
Advances of loans	15	33,178	119,870
<b>Net cash from financing activities</b>		<b>18,989</b>	<b>68,756</b>
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(186,976)</b>	<b>157,619</b>
<b>Opening cash and cash equivalents</b>		<b>230,230</b>	<b>59,858</b>
Effect of exchange rates and revaluation on cash and cash equivalents		35,478	12,753
<b>Closing cash and cash equivalents</b>	13	<b>78,732</b>	<b>230,230</b>

# Notes to the financial statements

for the year ended 31<sup>st</sup> December, 2008

## Note 1 Revenue

	2008		2007	
	£000	£000	£000	£000
Investment management fees		46,402		37,400
Investment income				
Income from financial investments	2,398		18,742	
Income from other fixed interest securities	7,632		980	
Other income receivable arising on cash deposits	685		1,881	
Other income receivable	285		285	
Financial services	1,038		-	
	12,038		21,888	
Reversal of investment income previously recognised	(17,253)		-	
		(5,215)		21,888
		41,187		59,288

The reversal of investment income represents a provision against previously recognised income where there is uncertainty as to its future recoverability. The provision is considered in conjunction with the valuation of the related financial investment.

Income arises from investment management and other financial services provided, and fees relating to advisory work on investment transactions undertaken. It also includes income from investments and surplus cash.

Of the income from financial investments of £2,398,000 (2007: income of £18,742,000), income of £28,000 (2007: £15,000) arose from managed funds. Investment management fees of £46,402,000 (2007: £37,400,000) arose from these funds.

Of the income from financial investments, £103,000 arose from listed investments (2007: £295,000).

All income arose from the activities of originating and investing in management buyouts and buy-ins and providing capital to unquoted companies.

All income is attributable to continuing activities.

## Note 2 Administrative expenses

		2008	2007
		£000	£000
Management expenses	Revenue	2,238	2,335
	Capital	8,950	9,339
Other administrative expenses		30,969	35,585
Total administrative expenses		42,157	47,259
Staff costs		28,406	34,922
Depreciation		996	612
Auditors' remuneration		258	253
Operating lease rentals	Building	1,876	1,750
Loss on disposal of property, plant and equipment		-	67
Staff costs			
Salaries		18,178	24,291
Social security costs		2,627	3,500
Share-based payments		(199)	271
Pension, insurance and other costs		7,800	6,860
		28,406	34,922

As at 31<sup>st</sup> December, 2008 the number of employees of the Group was 100 (2007: 79), of whom 52 were investment executives (2007: 40). The remaining employees provide support functions to the investment executives. Directors' remuneration is shown on page 34, the total paid during the year was £324,108(2007: £289,167).

The Company had no employees during the course of the year (2007: Nil).

During the year ended 31<sup>st</sup> December, 2008, the Group had two (2007: two) share-based payment arrangements, which are described below:

#### Company Share Option Plan (CSOP)

The CSOP provides for grants of share options at an exercise price equal to the mid-market quoted market price for the Company's shares on the day before the date of grant. Options can be exercised three years after grant. If the options remain unexercised after a period of 10 years from the date of grant, the options expire.

#### Share Matching Plan (SMP)

The SMP enables the individual to invest in the ordinary share capital of the Company. The investment may be matched dependent upon the net asset value per share performance relative to the performance of the FTSE All-Share index over a three year period, up to a maximum of 3:1 matching shares (on a net to gross basis).

	CSOP	SMP
<b>Number outstanding at 1<sup>st</sup> January, 2008</b>	<b>29,675</b>	<b>181,465</b>
Granted	33,075	416,025
Lapsed	(3,603)	(3,200)
Exercised	—	—
<b>Outstanding at 31<sup>st</sup> December, 2008</b>	<b>59,147</b>	<b>594,290</b>
<b>Exercisable at 31<sup>st</sup> December, 2008</b>	<b>—</b>	<b>—</b>
<b>Number outstanding at 1<sup>st</sup> January, 2007</b>	<b>—</b>	<b>—</b>
Granted	29,675	181,465
Lapsed	—	—
Exercised	—	—
<b>Outstanding at 31<sup>st</sup> December, 2007</b>	<b>29,675</b>	<b>181,465</b>
<b>Exercisable at 31<sup>st</sup> December, 2007</b>	<b>—</b>	<b>—</b>

For awards granted during the year, the weighted average share price was £20.50. The weighted average fair values are £3.46 for the CSOP awards and £20.50 for the SMP awards. The weighted average exercise price for options outstanding at 31<sup>st</sup> December, 2008 is £20.71 and the weighted average contractual life is nine and a half years.

The estimated fair values are calculated by applying a Black-Scholes option pricing model. The assumptions used in the model are as follows:

- Share price: £20.50 for the CSOP and £20.50 for the SMP, being the share price at date of grant.
- Exercise price: £20.50 for the CSOP awards and £Nil for the SMP awards.
- Expected volatility: 16.2% based on historic volatility over a period prior to grant equal to expected term.
- Expected term: 6.5 years for the CSOP awards and 3 years for the SMP awards.
- Expected dividends: 2.8%, based on historic dividend yield, zero for SMP as dividends vest to participants.
- Risk free interest rate: 4.2%.

Equity-settled share-based payments amounted to a credit of £199,000 (2007: a charge of £271,000).

**Auditors' Remuneration**

During the year Grant Thornton UK LLP earned the following fees:

	2008 £000	2007 £000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	98	84
Fees payable to the Company's auditors and its associates for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	43	57
Other services pursuant to such legislation	8	30
Other services relating to taxation	109	82
Auditors' remuneration	258	253

**Note 3 Finance costs**

	2008 £000	2007 £000
Interest on loans and borrowing	2,754	346
Other interest payable	-	23
Finance costs	2,754	369
	Revenue	
	2008 £000	2007 £000
Interest on loans and borrowing	11,075	1,984
Finance costs	11,075	1,984
	Capital	

**Note 4 Movements in the fair value of derivatives**

The movement in the fair value of derivatives represents the ineffective element of the swaps held to mitigate the Group's foreign currency exposure on its loans and borrowings amounting to £2,176,000 (2007: £nil).

Further information on currency and interest rate swaps is provided in note 16.

Further information on Candover's loans and borrowings related to these swaps is provided in note 15.

**Note 5 Taxation**

The relationship between the expected tax charge based on the effective tax rate of 28.5% (2007: 30%) and the tax charge actually recognised in the income statement can be reconciled as below. As the Company is an investment trust, no tax is payable on capital gains made during the period; consequently the profit before tax used in the reconciliation below relates solely to the revenue column of the income statement.

	2008 £000	2007 £000
Profit before tax	5,226	20,999
Tax rate	28.5%	30%
Expected tax charge	1,489	6,300
Adjustment for tax-rate differences:		
Adjustment for non-deductible expense		
- Other non-deductible expenses	38	259
- Capital allowances in excess of depreciation and other short-term timing differences	35	(85)
- Adjustments to tax charge in respect of previous years	(70)	(258)
- Adjustment in respect of change in corporation tax rate	(21)	332
- Overseas taxation	-	332
Actual tax charge	1,471	6,880

Please refer to note 17 for information on the deferred tax assets and liabilities. The analysis of the charge is as follows:

	2008 £000	2007 £000
<b>Current tax</b>		
UK corporation tax on profits for the year	2,906	7,053
Adjustments in respect of previous years	(193)	(258)
Overseas taxation	557	-
<b>Total current tax</b>	<b>3,270</b>	<b>6,795</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(1,921)	85
Adjustment in respect of previous years	122	-
<b>Total deferred tax</b>	<b>(1,799)</b>	<b>85</b>
<b>Tax on profit on ordinary activities</b>	<b>1,471</b>	<b>6,880</b>
<b>UK corporation tax at 28.5% (2007: 30%) apportioned to capital</b>	<b>(3,926)</b>	<b>(3,397)</b>
	<b>(2,455)</b>	<b>3,483</b>

The Board of Her Majesty's Revenue and Customs has approved the Company as an investment trust, under section 842 of the Income and Corporation Taxes Act 1988, for the year ended 31<sup>st</sup> December, 2007. 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.

#### Note 6 Profit for the financial year

As permitted by section 230 of the Companies Act 1985, the Company has not included its own income statement in these financial statements. The Group loss after tax for the year includes £226,856,000 (2007: profit £132,019,000) which is dealt with in the financial statements of the holding company.

#### Note 7 Dividends

The dividends paid in 2008 and 2007 were:

	2008 £000	2007 £000
Paid 15 <sup>th</sup> October, 2008 of 22.0p (17 <sup>th</sup> October, 2007 of 20.0p)	4,808	4,372
Paid 22 <sup>nd</sup> May, 2008 of 40.0p (25 <sup>th</sup> May, 2007 of 36.0p)	8,743	7,868
Dividends in respect of C Shares	-	50
	<b>13,551</b>	<b>12,290</b>

No final dividend is proposed for 2008.

#### Note 8 Returns per share

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

	2008 £000	2007 £000
Revenue return	3,755	14,119
Capital return	(216,316)	120,822
(Loss)/profit attributable to equity shareholders	(212,561)	134,941
<b>Net assets</b>	<b>224,275</b>	<b>451,265</b>

	2008 000	2007 000
Weighted average number of shares – basic	21,857	21,857
Weighted average number of shares – diluted	21,857	21,893

At the year end there were 21,856,615 ordinary shares in issue, with options granted over 59,147 shares under the CSOP and awards granted over 594,290 shares under the SMP (see note 2). The options issued under the CSOP were out-of-the-money for part of the year.

#### Note 9 Property, plant and equipment

	Leasehold improvements £000	Plant and equipment £000	Motor vehicles £000	Total £000
<b>Group</b>				
<b>Cost</b>				
At 1 <sup>st</sup> January, 2008	2,630	3,056	184	5,870
Additions	243	599	16	858
At 31 <sup>st</sup> December, 2008	2,873	3,655	200	6,728
<b>Depreciation</b>				
At 1 <sup>st</sup> January, 2008	(269)	(1,398)	(57)	(1,724)
Provided in the year	(300)	(650)	(46)	(996)
At 31 <sup>st</sup> December, 2008	(569)	(2,048)	(103)	(2,720)
Net book value at 31 <sup>st</sup> December, 2008	2,304	1,607	97	4,008

Comparatives for 2007 were:

	Leasehold improvements £000	Plant and equipment £000	Motor vehicles £000	Total £000
<b>Group</b>				
<b>Cost</b>				
At 1 <sup>st</sup> January, 2007	1,036	1,608	172	2,816
Additions	1,597	1,537	12	3,146
Disposals	(3)	(89)	–	(92)
At 31 <sup>st</sup> December, 2007	2,630	3,056	184	5,870
<b>Depreciation</b>				
At 1 <sup>st</sup> January, 2007	(8)	(1,116)	(13)	(1,137)
Provided in the year	(264)	(304)	(44)	(612)
Disposals	3	22	–	25
At 31 <sup>st</sup> December, 2007	(269)	(1,398)	(57)	(1,724)
Net book value at 31 <sup>st</sup> December, 2007	2,361	1,658	127	4,146

#### Note 10 Financial investments designated at fair value through profit and loss and investment in subsidiary undertakings

	Other financial investments £000	Portfolio companies £000	Total £000
<b>Group</b>			
Valuation at 1 <sup>st</sup> January, 2008	21,407	323,477	344,884
Additions	101	168,734	168,835
Disposals	–	(30,108)	(30,108)
Unrealised write-down	(1,921)	(171,641)	(173,562)
Valuation at 31 <sup>st</sup> December, 2008	19,587	290,462	310,049
<b>Reconciliation</b>			
Cost of investments	445	426,848	427,293
Net unrealised appreciation/(write-down) of investments	19,142	(136,386)	(117,244)
Valuation at 31 <sup>st</sup> December, 2008	19,587	290,462	310,049



Comparatives for 2007 were:

	Other financial investments £000	Portfolio companies £000	Total £000
<b>Group</b>			
Valuation at 1 <sup>st</sup> January, 2007	10,927	284,336	295,263
Additions	58	90,427	90,485
Disposals	(1,188)	(95,280)	(96,468)
Unrealised appreciation	11,610	43,994	55,604
Valuation at 31 <sup>st</sup> December, 2007	21,407	323,477	344,884
<b>Reconciliation</b>			
Cost of investments	338	270,864	271,202
Net unrealised appreciation of investments	21,069	52,613	73,682
Valuation at 31 <sup>st</sup> December, 2007	21,407	323,477	344,884

	Shares in subsidiary undertakings* £000	Other financial investments £000	Portfolio companies £000	Total £000
<b>Company</b>				
Valuation at 1 <sup>st</sup> January, 2008	4,978	21,407	323,477	349,862
Additions	-	101	168,734	168,835
Disposals	-	-	(30,108)	(30,108)
Share based payment movement	(199)	-	-	(199)
Unrealised write-down	-	(1,921)	(171,641)	(173,562)
Valuation at 31 <sup>st</sup> December, 2008	4,779	19,587	290,462	314,828
<b>Reconciliation</b>				
Cost of investments	4,779	445	426,848	432,072
Net unrealised appreciation/(write-down) of investments	-	19,142	(136,386)	(117,244)
Valuation at 31 <sup>st</sup> December, 2008	4,779	19,587	290,462	314,828

Comparatives for 2007 were:

	Shares in subsidiary undertakings* £000	Other financial investments £000	Portfolio companies £000	Total £000
<b>Company</b>				
Valuation at 1 <sup>st</sup> January, 2007	4,707	10,927	284,336	299,970
Additions	-	58	90,427	90,485
Disposals	-	(1,188)	(95,280)	(96,468)
Share based payment movement	271	-	-	271
Unrealised appreciation	-	11,610	43,994	55,604
Valuation at 31 <sup>st</sup> December, 2007	4,978	21,407	323,477	349,862
<b>Reconciliation</b>				
Cost of investments	4,978	338	270,864	276,180
Net unrealised appreciation of investments	-	21,069	52,613	73,682
Valuation at 31 <sup>st</sup> December, 2007	4,978	21,407	323,477	349,862

\* Investments in subsidiaries are reflected in the Company's accounts at cost, less any impairment in value.

At 31st December, 2008, cumulative downwards adjustments amounting to £205,709,000 (2007: £31,560,000) had been made against investments with original costs of £337,024,000 (2007: £75,921,000).

Investments at fair value include:

	2008 £000	2007 £000
<b>Group and Company</b>		
<b>UK</b>		
Listed	47	14,709
Unquoted at directors' valuation	116,016	126,608
<b>Europe</b>		
Unquoted at directors' valuation	193,986	193,433
<b>US</b>		
Listed	-	9,872
Unquoted at directors' valuation	-	262
	<b>310,049</b>	<b>344,884</b>

At 31<sup>st</sup> December, 2008, the Company held shares in excess of 10% of a class of shares in a number of portfolio undertakings but did not have more than 20% of the total allotted share capital in any of these portfolio 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.

Interests in the Candover 1997, 2001, 2005 and 2008 Funds (other financial investments)

Candover Partners Limited is the General Partner of the limited partnerships comprising the Candover 1997 and 2001 Funds, and is the manager of the Candover 2005 and 2008 Fund. In view of the excessive length, the name and address of each partnership will be enclosed with the Company's next annual return as permitted under section 231(5) of the Companies Act 1985.

The Company is a Special Limited Partner in the Candover 2001, 2005 and 2008 Funds and is a unit holder in the unauthorised unit trust that is a Special Limited Partner in the Candover 1997 Fund. In each case, the Special Limited Partner is entitled to participate in profits after a minimum rate of return has been achieved by the Limited Partners. This profit entitlement is referred to as the carried interest.

As at 31<sup>st</sup> December, 2008, Candover's investments as a Special Limited Partner in the 2001, 2005 and 2008 Funds were valued at £19,173,000, £339,000 and £54,000 respectively (2007: 2001 Fund £21,005,000 and 2005 Fund £202,000 and 2008 Fund £nil). Candover's investment in the unauthorised unit trust, which is a Special Limited Partner in the 1997 Fund, was valued at £21,000 (2007: £200,000). However, as referred to in the Chairman's Statement on page two, Candover Investments plc is not currently in a position to make any further commitment to invest alongside the 2008 Fund beyond its existing investment in Expro International and is in talks with the Limited Partners of that Fund about a restructuring of that Fund, which is likely to include a temporary suspension of the investment period.

#### Note 11 Subsidiary undertakings

	Nature of business	Country of Incorporation	Issued share capital
Candover Services Limited*	Administration and management company	England and Wales	£4,400,000 ordinary
Candover (Trustees) Limited*	Nominee company	England and Wales	£100 ordinary
Candover Nominees Limited*	Nominee company	England and Wales	£100 ordinary
Candover Partners Limited**	General Partner of the Candover 1997 and 2001 Funds and Manager of the Candover 2005 and 2008 Funds	England and Wales	£2,050,000 ordinary
Candover France S.A.S.***	Identifying investment opportunities in France	France	€37,000 ordinary
Candover Spain SL***	Identifying investment opportunities in Spain	Spain	€3,010 ordinary

Candover Italia Srl***	Identifying investment opportunities in Italy	Italy	€10,000 ordinary
Deutsche Candover (Managing Limited Partner) GmbH*	Managing Limited Partner of Candover2001 GmbH & Co KG	Germany	€25,000 ordinary
Deutsche Candover (General Partner) GmbH*	General Partner of Candover 2001 GmbH & Co KG	Germany	€25,000 ordinary
Candover 2005 Fund (Guernsey) Limited***	General Partner of the Candover 2005 Fund	Guernsey	£10,000 ordinary
Candover 2008 GP Limited***	General Partner of the Candover 2008 Fund	Guernsey	EUR 13,485
Candover Asia Limited*	Identifying investment opportunities in Asia	Hong Kong	HK\$ 1
Candover Advisors (India) Private Limited***	Identifying investment opportunities in India	India	Rs 100,000

\* Wholly owned directly by the holding company.

\*\* 90% owned directly by Candover Services Limited and 10% owned directly by Candover Investments plc.

\*\*\* Wholly owned by one or more subsidiary undertakings.

#### Note 12 Trade and other receivables

	Group		Company	
	2008	2007	2008	2007
	£000	£000	£000	£000
<b>Amounts falling due within one year</b>				
Trade receivables	1,457	1,185	-	121
Social security and other taxes	234	173	25	23
Other receivables	7,812	11,829	125	1,374
Amounts owed from Group undertakings	-	-	28,269	31,778
Prepayments and accrued income	14,361	20,387	3,956	19,425
	<b>23,864</b>	<b>33,574</b>	<b>32,375</b>	<b>52,721</b>
<b>Amounts falling due after more than one year</b>				
Prepayments and accrued income	1,240	-	-	-
	<b>25,104</b>	<b>33,574</b>	<b>32,375</b>	<b>52,721</b>

#### Note 13 Cash and cash equivalents

	Group		Company	
	2008	2007	2008	2007
	£000	£000	£000	£000
Listed fixed interest securities and money market funds	57,829	225,315	57,660	225,315
Cash at bank and in hand	75,420	14,994	21,072	4,915
	<b>133,249</b>	<b>240,309</b>	<b>78,732</b>	<b>230,230</b>

Included in cash at bank at 31<sup>st</sup> December, 2008 was restricted cash of £837,000 (2007: £990,000) in the 2001 Fund Employee Benefit Trust and £665,000 for the 2005 Fund Offshore Employee Benefit Trust (2007: £698,000). Additional commentary on the holdings of cash and cash equivalents is provided in note 25.

#### Note 14 Trade and other payables

	Group		Company	
	2008	2007	2008	2007
	£000	£000	£000	£000
Trade payables	2,370	4,191	151	20
Amounts owed to Group undertakings	-	-	5,187	73,142
Social security and other taxes	997	-	-	-
Other payables	472	17,341	260	13,802
Accruals and deferred income	16,503	27,930	10,672	1,839
	<b>20,342</b>	<b>49,462</b>	<b>16,270</b>	<b>88,803</b>

## Note 15 Loans and borrowings

	Group		Company	
	2008	2007	2008	2007
	£000	£000	£000	£000
Loans and borrowings	217,502	126,065	217,502	126,065

Loans and borrowings are repayable after five years (2007: after five years).

		Group		Company	
	Rate	2008	2007	2008	2007
		£000	£000	£000	£000
Issued under the US Private Placement					
Series A (\$200 million due 12th October, 2014)	7.02%	139,101	100,472	139,101	100,472
Series A – Fair value hedge adjustment		20,960	5,181	20,960	5,181
Series B (£30 million due 12th October, 2014)	EURIBOR + 1.40%	29,002	22,034	29,002	22,034
Series C (£30 million due 11th January, 2015)	7.45%	30,000	–	30,000	–
Deferred costs		(1,561)	(1,622)	(1,561)	(1,622)
		217,502	126,065	217,502	126,065

The series A, B and C loan notes are repayable in one instalment on the respective maturity dates, with interest payable on a six-monthly basis. None of the Group's interest-bearing loans and borrowings are secured on the assets of the Group.

## Note 16 Derivative financial instruments

	Group		Company	
	2008	2007	2008	2007
	£000	£000	£000	£000
<b>Current assets</b>				
Currency and interest rate swaps designated as fair value hedges	58,650	8,374	58,650	8,374
	58,650	8,374	58,650	8,374
<b>Current liabilities</b>				
Other currency and interest rate swaps	48,211	7,731	48,211	7,731
	48,211	7,731	48,211	7,731

### Currency swaps

The Group uses currency and interest rate swaps to minimise the effect of fluctuations in the value of the loans and borrowings from movement in foreign exchange and to swap fixed rate interest payments to floating rate payments.

The fair value of these contracts is recorded in the balance sheet and is determined by discounting future cash flows at the prevailing market rates at the balance sheet date. Contracts designated as fair value hedges are offset against movements in the underlying loans and borrowings in the income statement.

At the balance sheet date, the notional amount of outstanding derivative financial instrument contracts is as follows:

	2008	2007
	£000	£000
Currency and interest rate swaps designated as fair value hedges	86,200	86,200
Other currency and interest rate swaps	116,200	116,200

The Group does not trade in derivatives. In general, derivatives are held to hedge specific exposures and have maturities designated to match the exposures they are hedging. It is the intention to hold both the

financial instruments giving rise to the exposure and the derivative hedging them, until maturity and therefore no net gain or loss is expected to be realised.

The derivatives are held at fair value which represents the replacement costs of the instruments at the balance sheet date. Movements in the fair value of derivatives are included in the income statement.

**Note 16.1 Financial liability on equity commitments**

The fair value of the Group and Company's future equity commitments and guarantees at the year end was £31,105,000 (2007: £Nil). Total cash value of future equity commitments and guarantees at the year end was £62,000,000 (2007: £nil).

**Note 17 Deferred tax assets and liabilities**

No temporary differences resulting from investments in subsidiary undertakings qualified for recognition as deferred tax assets or liabilities. Under the current fiscal environment, disposals of these entities are exempt from capital gains taxes.

Deferred taxes arising from temporary differences can be summarised as follows:

	2008		2007	
	Deferred tax asset £000	Deferred tax liabilities £000	Deferred tax asset £000	Deferred tax liabilities £000
<b>Group</b>				
<b>Non-current assets/(liabilities)</b>				
Property, plant and equipment	129	-	-	(61)
Other temporary differences	6,322	-	4,955	-
<b>Total</b>	<b>6,451</b>	<b>-</b>	<b>4,955</b>	<b>(61)</b>

Other temporary differences arise primarily in respect of contributions into the employee benefit trust and have been assessed for recoverability against future earnings.

The Company had no deferred tax assets or liabilities.

**Note 18 Share capital**

	2008		2007	
	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 1 <sup>st</sup> January and 31 <sup>st</sup> December (including shares held in treasury)	21,856,615	5,464	21,856,615	5,464
Ordinary shares of 25p each at 1 <sup>st</sup> January and 31 <sup>st</sup> December (excluding shares held in treasury)	21,778,580	5,445	21,856,615	5,464

78,035 ordinary shares were bought back by the Company between 25<sup>th</sup> November, 2008 and 12<sup>th</sup> December, 2008 and are now held in treasury (2007: nil).

**Notifiable interests in the Company's shares**

Set out below are the names of those persons who, insofar as the Company is aware as at 19<sup>th</sup> March, 2009, are interested directly or indirectly in 3% or more of the issued share capital of the Company:

	As at 19 <sup>th</sup> March, 2009 Number of ordinary shares of 25p each	% of voting rights
Lloyds TSB Banking Group plc and subsidiaries (including Scottish Widows Investment Partnership)	2,336,602	10.7
BP Investment Management	1,345,743	6.2
Electra Partners Europe	950,000	4.4
Legal & General Investment Management	862,074	3.9
Prudential plc (including M&G Investment Management)	848,592	3.9
Rensburg Sheppards Investment Management	684,317	3.1

**Directors' interests in shares**

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

	Ordinary shares of 25p each 1st January, 2008 or date of appointment	Ordinary shares purchased/ (disposed) during the year	Ordinary shares of 25p each 31st December, 2008
Gerry Grimstone	10,000	–	10,000
Antony Hichens	40,000	–	40,000
Chris Russell	3,000	750	3,750
Richard Stone	2,000	2,000	4,000
Michael Jay	100	–	100
Nicholas Jones	–	5,500	5,500
Jan Oosterveld	–	–	–
Total	55,100	8,250	63,350

There have been no changes in the beneficial or non-beneficial interests of any director between 31<sup>st</sup> December, 2008 and 19<sup>th</sup> March, 2009.

**Note 19 Capital commitments**

Outstanding co-investment commitments are detailed in Note 25.2.

**Note 20 Pension commitments**

The Group contributed towards a number of funded defined contribution pension schemes designed to provide retirement benefits for its 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 £1,655,000 (2007: £1,424,000). At 31<sup>st</sup> December, 2008, there was an amount of £153,000 payable to the schemes (2007: £113,000).

**Note 21 Operating lease commitments**

The Group's total commitments under generally non-cancellable operating leases, all relating to office rentals, are set out below:

	2008 £000	2007 £000
Within one year	1,925	1,634
Between one and five years	6,523	7,118
More than five years	2,622	3,952
	11,070	12,704

Note 22 Movement on reserves

	Other reserves									
	Share capital £000	Share premium account £000	Share-based Payment reserve £000	Treasury Shares £000	Translation reserve £000	Capital redemption reserve £000	Realised capital reserve £000	Unrealised capital reserve £000	Revenue reserve £000	Total £000
<b>Group</b>										
At 1 <sup>st</sup> January, 2008	5,464	1,232	271	–	(130)	499	326,593	77,483	39,853	451,265
Unrealised loss on financial instruments	–	–	–	–	–	–	–	(224,913)	–	(224,913)
Realised gain on financial Instruments	–	–	–	–	–	–	59,330	(25,014)	–	34,316
Movement in fair value of derivative	–	–	–	–	–	–	–	2,176	–	2,176
Exchange movements on borrowing	–	–	–	–	–	–	–	(11,796)	–	(11,796)
Exchange differences on translation of foreign operations	–	–	–	–	(41)	–	–	–	–	(41)
Net revenue	–	–	–	–	–	–	–	–	3,755	3,755
Share-based payments	–	–	(199)	–	–	–	–	–	–	(199)
Share buy-backs	–	–	–	(638)	–	–	–	–	–	(638)
Dividends paid	–	–	–	–	–	–	–	–	(13,551)	(13,551)
Costs net of tax	–	–	–	–	–	–	(16,099)	–	–	(16,099)
<b>At 31<sup>st</sup> December, 2008</b>	<b>5,464</b>	<b>1,232</b>	<b>72</b>	<b>(638)</b>	<b>(171)</b>	<b>499</b>	<b>369,824</b>	<b>(182,064)</b>	<b>30,057</b>	<b>224,275</b>
At 1 <sup>st</sup> January, 2007	5,464	1,232	–	–	(19)	499	226,894	56,427	38,024	328,521
Unrealised loss on financial instruments	–	–	–	–	–	–	–	60,194	–	60,194
Realised gain on financial instruments	–	–	–	–	–	–	107,692	(37,680)	–	70,012
Exchange movements on borrowing	–	–	–	–	–	–	–	(1,458)	–	(1,458)
Exchange differences on translation of foreign operations	–	–	–	–	(111)	–	–	–	–	(111)
Net revenue	–	–	–	–	–	–	–	–	14,119	14,119
Share-based payments	–	–	271	–	–	–	–	–	–	271
Return of cash	–	–	–	–	–	–	(67)	–	–	(67)
Dividends paid	–	–	–	–	–	–	–	–	(12,290)	(12,290)
Costs net of tax	–	–	–	–	–	–	(7,926)	–	–	(7,926)
<b>At 31<sup>st</sup> December, 2007</b>	<b>5,464</b>	<b>1,232</b>	<b>271</b>	<b>–</b>	<b>(130)</b>	<b>499</b>	<b>326,593</b>	<b>77,483</b>	<b>39,853</b>	<b>451,265</b>

			Other reserves						
	Share capital £000	Share premium account £000	Share-based Payment reserve £000	Treasury Shares £000	Capital redemption reserve £000	Realised capital reserve £000	Unrealised capital reserve £000	Revenue reserve £000	Total £000
<b>Company</b>									
At 1 <sup>st</sup> January, 2008	5,464	1,232	271	-	499	328,114	77,080	6,684	419,344
Unrealised loss on financial instruments	-	-	-	-	-	-	(224,913)	-	(224,913)
Realised gain on financial instruments	-	-	-	-	-	59,330	(25,014)	-	34,316
Movement in fair value of derivative	-	-	-	-	-	-	2,176	-	2,176
Exchange movements on borrowings	-	-	-	-	-	-	(11,796)	-	(11,796)
Net revenue	-	-	-	-	-	-	-	(10,540)	(10,540)
Share-based payments	-	-	(199)	-	-	-	-	-	(199)
Share buy-backs	-	-	-	(638)	-	-	-	-	(638)
Dividends paid	-	-	-	-	-	-	-	(13,551)	(13,551)
Costs net of tax	-	-	-	-	-	(16,099)	-	-	(16,099)
<b>At 31<sup>st</sup> December, 2008</b>	<b>5,464</b>	<b>1,232</b>	<b>72</b>	<b>(638)</b>	<b>499</b>	<b>371,345</b>	<b>(182,467)</b>	<b>(17,407)</b>	<b>178,100</b>
<b>At 1st January, 2007</b>	<b>5,464</b>	<b>1,232</b>	<b>-</b>	<b>-</b>	<b>499</b>	<b>228,415</b>	<b>56,024</b>	<b>7,777</b>	<b>299,411</b>
Unrealised loss on financial instruments	-	-	-	-	-	-	60,194	-	60,194
Realised gain on financial instruments	-	-	-	-	-	107,692	(37,680)	-	70,012
Exchange movements on borrowings	-	-	-	-	-	-	(1,458)	-	(1,458)
Net revenue	-	-	-	-	-	-	-	11,197	11,197
Share-based payments	-	-	271	-	-	-	-	-	271
Return of cash	-	-	-	-	-	(67)	-	-	(67)
Dividends paid	-	-	-	-	-	-	-	(12,290)	(12,290)
Costs net of tax	-	-	-	-	-	(7,926)	-	-	(7,926)
<b>At 31<sup>st</sup> December, 2007</b>	<b>5,464</b>	<b>1,232</b>	<b>271</b>	<b>-</b>	<b>499</b>	<b>328,114</b>	<b>77,080</b>	<b>6,684</b>	<b>419,344</b>



**Note 23 Unrealised (losses)/gains on financial instruments at fair value through profit and loss**

	2008 £000	2007 £000
(Loss)/gain on revaluation of investments and cash equivalents	(155,080)	64,292
Fair value losses on derivatives	(38,728)	(4,098)
Fair value loss on financial liabilities on equity commitments	(31,105)	-
	(224,913)	60,194

**Note 24 Reconciliation of operating income to net cash inflow from operating activities**

	2008 £000	2007 £000
<b>Group</b>		
Total income	41,187	59,288
Administrative expenses	(42,157)	(47,259)
Operating (deficit)/income	(970)	12,029
Increase/(decrease) in trade and other receivables	8,470	(2,817)
(Decrease)/increase in trade and other payables	(31,158)	22,906
Depreciation	996	612
Share-based payments	(199)	271
Loss on disposal of property, plant and equipment	-	67
Net cash (outflow)/inflow from operating activities	(22,861)	33,068

	2008 £000	2007 £000
<b>Company</b>		
Total income	(6,885)	21,428
Administrative expenses	(13,993)	(14,483)
Operating (deficit)/income	(20,878)	6,945
Increase/(decrease) in trade and other receivables	20,346	(35,345)
(Decrease)/increase in trade and other payables	(74,544)	47,821
Net cash (outflow)/inflow from operating activities	(75,076)	19,421

**Note 25 Financial risk management**

The Company and Group's activities expose it to a variety of financial risks arising from its investment in equities and other instruments for the long-term so as to achieve its investment objectives. In pursuing its investment objectives, the Group is exposed to a variety of risks that could result in either a reduction in the Group's net assets or a reduction of the profits available for dividends.

These risks include market risk (comprising currency risk, interest rate risk, and other price risk), liquidity risk and credit risk. The directors' approach to the management of these risks is set out below. The Board oversees the Group's risk management, which is embedded in the operating committees in the business, in conjunction with senior management.

The objectives, policies and processes for managing the risks, and the methods used to measure the risks, that are set out below, have not changed from the previous accounting period.

**Note 25.1 Valuation/market price risk**

The Group's exposure to valuation risk comprises mainly movements in the value of its underlying investments. A breakdown of the Group's portfolio is given on page 50 and a detailed analysis of the 15 largest underlying investments is given on pages 11 to 16. All underlying investments are valued at fair value by the Directors in accordance with the Group's valuation policy set out on page 17. It should be noted that at 31<sup>st</sup> December, 2008, 78% of the Group's underlying investments have been valued on the multiple of earnings basis. Hence, future changes in comparable earnings multiples of publicly quoted companies which we use to value our unquoted holdings, and changes in the trading results of portfolio companies, will impact the valuations of the portfolio companies.

Market conditions for exits and the availability of well-priced debt finance all have an impact not only on the Group's valuation of its portfolio but also on the Group's ability to exit from its underlying portfolio and therefore on the management of the balance sheet and the levels of gearing of the Company.

The table below summarises the effect that any fluctuation in market multiples would have on the valuation of the Group's portfolio:

	Increase £000	Decrease £000
Fixed asset investments at fair value through profit and loss at 31 <sup>st</sup> December, 2008	310,049	310,049
20% changes in comparable multiples	130,080	(132,413)
Adjusted fair value of investments	440,129	177,636
Percentage of current fair value of investments	42%	43%

**Valuation/market price sensitivity**

The Group's sensitivity to valuation risk will be affected by changes in the Group's levels of borrowing and liquidity. Any reduction in the value of the portfolio will be amplified by our balance sheet gearing, which was 29% as at 31<sup>st</sup> December, 2008. It will also be affected by leverage in the companies in which we invest and the local currency denomination of such investments which is considered separately under currency risk.

**Management of the risk**

The Group's senior management assesses the exposure to market risk when making each investment decision, and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis. The Board monitors valuation risk by reviewing and approving the valuation of the portfolio.

**Concentration risk**

The Group invests across a range of economic sectors and geographies. Over-exposure to a particular sector or geography could increase the impact of adverse changes in macroeconomic or market conditions on the Group. An increase in the average size of investments over time could also increase the exposure of the Group to the performance of a small number of large investments, albeit in different sectors and/or geographies. The portfolio is subject to periodic reviews by senior management in order to monitor exposure to any one sector or geography and to monitor the exposure to larger investments. One of the conditions set out under section 842 of the Income and Corporation Taxes Act 1988 is that no single investment can exceed 15% of the Group's investment portfolio to maintain the Group's tax status as an Investment Trust. This also mitigates the Group's exposure to investment concentration risk.

**Note 25.2 Liquidity risk**

This is the risk that the Group will encounter difficulty in meeting obligations associated with uncalled commitments and financial liabilities. The Group invests from its own balance sheet using cash generated from its investing activities. It is anticipated that over the longer term, and in normal circumstances, commitments would be financed by distributions received on the realisation of existing investments. However, over the second half of 2008, the effects of the global economic crisis have meant not only a delay in expected realisations but a major decrease in net asset valuations caused primarily by continued falling public market comparable earnings multiples. The Board has therefore reviewed the Group's financing strategy and announced that it is not currently in a position to make any further investment in the 2008 Fund. Instead the Board's main priority is to ensure that it has the capital required to fund its commitment of £90.4 million for follow-on investments in the Candover 2005 Fund and to maintain headroom in the bond covenants.

The Group's outstanding co-investment commitments and financial liabilities at 31<sup>st</sup> December 2008 were as follows:

#### Uncalled commitments

	Initial Commitment	Outstanding Commitments	
	€m	2008 €m	2007 €m
Candover 2008 Fund	1,000	873.0*	-
Candover 2005 Fund	490	93.5	236.7
Candover 2001 Fund	300	Nil	6.0
External funds	N/A	4.7	6.0
		<u>971.2</u>	<u>248.7</u>

\* Further investment alongside the 2008 Fund has currently been suspended.

#### Financial liabilities

The remaining contractual maturities of the financial liabilities at 31<sup>st</sup> December, 2008, based on the earliest date on which payment can be required was as follows:

Group and Company	2008				2007			
	3 months or less £m	Not more than 1 year £m	More than 1 year £m	Total £m	3 months or less £m	Not more than 1 year £m	More than 1 year £m	Total £m
Borrowings under the US Private Placement loan notes	-		198.1**	198.1**			122.5	122.5
Financial liabilities on equity commitments	16.8	10.1*	35.1*	62.0	-	-	-	-
Interest payable on US private placement loan	1.3	9.0	32.0	42.3	2.9	8.8	68.2	79.9
	<u>18.1</u>	<u>19.1</u>	<u>265.2</u>	<u>302.4</u>	<u>2.9</u>	<u>8.8</u>	<u>190.7</u>	<u>202.4</u>

\*2005 Fund equity bridge obligations

\*\*The terms of issue of the US Private Placement loan notes and multi-currency revolving facility require the Group to comply with a loan to value covenant.

#### Note 25.3 Currency risk

Certain of the Group's assets, liabilities, income and expenses, are denominated in currencies other than £ sterling (the Group's functional currency, and in which it reports its results), primarily with respect to the € euro and the \$ US dollar. Foreign exchange risk arises when future investment transactions and recognised assets and liabilities are denominated in currency that is not the entity's functional currency. As a result, movements in exchange rates may affect the £ sterling value of those items.

#### Management of the risk

Senior management monitors the Group's exposure to foreign currencies, and reports to the Board on a regular basis. Senior management measures the risk to the Group of the foreign currency exposure by considering the effect on the Group's net asset value and income of a movement in the rates of exchange to which the Group's assets, liabilities, income and expenses are exposed.

Foreign currency borrowings and derivative financial instruments are used to limit the Group's exposure to anticipated future changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments. These borrowings and contracts are limited to currencies and amounts commensurate with the asset exposure to those currencies.

As the majority of the Group's future investment commitments are anticipated to be in € euro, US\$175 million of the \$ US dollar loan notes raised under the US Private Placement has been converted to € euro liabilities through use of derivative financial instruments designated as effective fair value hedges. Likewise the £30 million of funding received in January 2008 has been swapped into a € euro liability.

To reduce the foreign exchange risk arising from future investment transactions, cash and cash equivalents are split by currency according to the anticipated long-term requirements.

#### Foreign currency exposure

The fair values of the Group and Company's monetary items (including financial investments and derivative financial instruments) that have foreign currency exposure at 31<sup>st</sup> December are shown below.

	US \$ £000	Euro £000	Other £000
<b>Group</b>			
<b>2008</b>			
Receivables (accrued income)	-	3,611	-
Cash and cash equivalents	173	106,982	-
Payables (interest payable)	(264)	(3,585)	-
Borrowings under the US Private Placement loan notes	(160,062)	(29,002)	-
Derivative financial instruments	144,850	(164,411)	-
Financial liabilities on equity commitments	-	(31,105)	-
Foreign currency exposure on net monetary items	(15,303)	(117,510)	-
Investments at fair value through profit or loss	63,477	225,507	439
<b>Total net foreign currency exposure</b>	<b>48,174</b>	<b>107,997</b>	<b>439</b>
<b>2007</b>			
Receivables (accrued income)	936	10,403	3,588
Cash and cash equivalents	377	203,850	-
Payables (interest payable)	(193)	(1,542)	-
Borrowings under the US Private Placement loan notes	(105,653)	(22,034)	-
Derivative financial instruments	93,094	(122,451)	-
Foreign currency exposure on net monetary items	(11,439)	68,226	3,588
Investments at fair value through profit or loss	21,302	209,126	31,324
<b>Total net foreign currency exposure</b>	<b>9,863</b>	<b>277,352</b>	<b>34,912</b>
<b>Company</b>			
<b>2008</b>			
Receivables (accrued income)	-	3,611	-
Cash and cash equivalents	44	54,421	-
Payables (interest payable)	(264)	(3,585)	-
Borrowings under the US Private Placement loan notes	(160,062)	(29,002)	-
Derivative financial instruments	144,850	(164,411)	-
Financial liabilities on equity commitments	-	(31,105)	-
Foreign currency exposure on net monetary items	(15,432)	(170,071)	-
Investments at fair value through profit or loss	63,477	225,507	439
<b>Total net foreign currency exposure</b>	<b>48,045</b>	<b>55,436</b>	<b>439</b>
<b>2007</b>			
Receivables (accrued income)	936	10,403	3,588
Cash and cash equivalents	118	196,607	-
Payables (interest payable)	(193)	(1,542)	-
Borrowings under the US Private Placement loan notes	(105,653)	(22,034)	-
Derivative financial instruments	93,094	(122,451)	-
Foreign currency exposure on net monetary items	(11,698)	60,983	3,588
Investments at fair value through profit or loss	21,302	209,126	31,324
<b>Total net foreign currency exposure</b>	<b>9,604</b>	<b>270,109</b>	<b>34,912</b>

#### Foreign currency sensitivity

The following table illustrates the sensitivity of the equity in regard to the Group's monetary financial assets and financial liabilities and the exchange rates for £/US Dollar and £/Euro.

It assumes the following changes in exchange rates:

£/US Dollar +/- 20% (2007: 5%)

£/Euro +/- 20% (2007: 5%)

The increase in percentage used this year is to reflect the current market conditions that differ significantly compared to the year end last year.

These percentages have been determined based on a reasonable estimate of the potential volatility. The sensitivity analysis is based on the Group's monetary foreign currency financial instruments held at each balance sheet date.

If £ sterling had weakened/strengthened (amounts negative of those shown) against the currencies shown, this would have had the following effect:

	2008 (+/- 20%)		2007 (+/- 5%)	
	US \$ £000	Euro £000	US \$ £000	Euro £000
Loss attributable to equity shareholders (+20%/+5%)	8,029	18,000	470	13,207
Loss attributable to equity shareholders (-20%/-5%)	(12,044)	(26,999)	(519)	(14,597)

#### Note 25.4 Interest rate risk

Interest rate movements may affect:

- the fair value of the investments in fixed interest rate securities (including unquoted loans)
- the level of income receivable on cash and cash equivalents
- the fair value of the Company's loan notes issued under the US Private Placement (linked to fair value movement and derivatives)
- the interest payable on the Company's variable rate borrowings
- the fair value of the Company's derivative financial instruments.

#### Management of the risk

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment and funding decisions.

The majority of the financial investments that are interest bearing bear fixed interest; as a result, the Group is not subject to significant amounts of cash flow interest rate risk due to fluctuations in the prevailing levels of market interest rates.

Any excess cash and cash equivalents are invested at short-term market interest rates, further reducing such risks. The loan notes raised through the US Private Placement were partly raised at fixed interest rates; these have substantially been swapped to floating rates set on a periodic basis at the prevailing market rate plus margin.

#### Interest rate exposure

The exposure for the Group and Company, at 31<sup>st</sup> December, of financial assets and financial liabilities to interest rate risk is shown by reference to:

- floating interest rates (i.e. giving cash flow interest rate risk) when the interest rate is due to be re-set
- fixed interest rates (i.e. giving fair value interest rate risk) when the financial instrument is due for repayment.

Group	2008			2007		
	Within one year £000	More than one year £000	Total £000	Within one year £000	More than one year £000	Total £000
Exposure to floating interest rates						
Cash and cash equivalents	115,879	–	115,879	66,547	–	66,547
Borrowings under the US Private Placement loan notes	–	(29,002)	(29,002)	–	(22,034)	(22,034)
Financial liabilities on equity commitments	(16,821)	(14,284)	(31,105)	–	–	–
Derivative financial instruments	–	(39,184)	(39,184)	–	(7,731)	(7,731)
	99,058	(82,470)	16,588	66,547	(29,765)	36,782
Exposure to fixed interest rates						
Cash and cash equivalents	17,370	–	17,370	173,762	–	173,762
Investments at fair value through profit or loss	–	166,554	166,554	–	225,688	225,688
Borrowings under the US Private Placement loan notes	–	(190,061)	(190,061)	–	(105,653)	(105,653)
Derivative financial instruments	–	165,823	165,823	–	124,574	124,574
	17,370	142,316	159,686	173,762	244,609	418,371
Total exposure to interest rates	116,428	59,846	176,274	240,309	214,844	455,153

Company	2008			2007		
	Within one year £000	More than one year £000	Total £000	Within one year £000	More than one year £000	Total £000
Exposure to floating interest rates						
Cash and cash equivalents	61,362	–	61,362	56,468	–	56,468
Borrowings under the US Private Placement loan notes	–	(29,004)	(29,002)	–	(22,034)	(22,034)
Financial liabilities on equity commitments	(16,821)	(14,283)	(31,105)	–	–	–
Derivative financial instruments	–	(39,184)	(39,184)	–	(7,731)	(7,731)
	44,541	(82,470)	(37,929)	56,468	(29,765)	26,703
Exposure to fixed interest rates						
Cash and cash equivalents	17,370	–	17,370	173,762	–	173,762
Investments at fair value through profit or loss	–	166,554	166,554	–	225,688	225,688
Borrowings under the US Private Placement loan notes	–	(190,061)	(190,061)	–	(105,653)	(105,653)
Derivative financial instruments	–	165,823	165,823	–	124,574	124,574
	17,370	142,316	159,686	173,762	244,609	418,371
Total exposure to interest rates	61,911	59,846	121,759	230,230	214,844	445,074

Interest receivable and finance costs are at the following rates:

- Interest received on cash and cash equivalents is managed to achieve a margin over LIBOR or its foreign currency equivalent (2007: no change)
- Interest paid on borrowings under the multi-currency loan facility is at a margin over LIBOR or its foreign currency equivalent for the type of loan of 0.85% (2007: 0.85%)
- Interest paid on borrowings on the US Private Placement loan notes is partly fixed and partly floating rate (US\$200 million at 7.02%, €30 million EURIBOR plus 1.40%, and £30 million at 7.45%). The fixed rate exposures have mainly been swapped into floating rate exposures through the use of the derivative financial instruments, with a subsequent weighted average margin over EURIBOR of 1.40% to 1.44%.

### Interest rate sensitivity

As the Group's loan note investments are held at fair value through profit or loss and valued in conjunction with the equity investment in the portfolio company, the valuation policy to which is stated on page 17, these are not subject to changes in value arising from interest rate movements.

As cash and cash equivalents are invested at short-term market rates, for fixed short-term periods and held to maturity, they are not significantly impacted in respect of fair value by movements in interest rates. As certain of the borrowings under the US Private Placement loan notes are held at amortised cost, the movement in interest rates does not impact upon their carrying value.

A 50 bps movement in interest rates would impact upon the combined valuation of the derivatives and related hedged US private placement loan notes by: +50bps, a decrease in profit of £961,000; and –50bps, an increase in profit of £980,000.

### Note 25.5 Credit risk

The Group's exposure to credit risk principally arises from its investment in short-dated listed fixed income securities, money market instruments and its cash deposits.

### Management of the risk

This risk is managed as follows:

- where an investment is made in an unquoted loan to a private equity investment, it is made as part of the overall equity and debt investment package, and the recoverability of the debt is assessed as part of the overall investment process
- transactions involving derivatives are entered into only with investment banks, the credit rating of which is taken into account so as to minimise the risk to the Group of default
- exposure to individual financial institutions is minimised by the Group spreading its cash across a number of liquidity funds and banks
- cash equivalents consist of short-dated listed fixed income securities and money market instruments, with a credit rating of AA- or above
- cash at bank is held only with major UK banks with high quality external credit ratings or government support.

### Credit risk exposure

In summary, compared to the amounts included in the balance sheet, the maximum exposure to credit risk at 31st December was as follows:

Group	2008		2007	
	Balance sheet £000	Maximum exposure £000	Balance sheet £000	Maximum exposure £000
Derivative financial instruments	10,439	10,439	643	643
Cash and cash equivalents	133,249	133,249	240,309	240,309
	143,688	143,688	240,952	240,952

Company	2008		2007	
	Balance sheet £000	Maximum Exposure £000	Balance sheet £000	Maximum exposure £000
Derivative financial instruments	10,439	10,439	643	643
Cash and cash equivalents	78,732	78,732	230,230	230,230
	89,171	89,171	230,873	230,873

### Note 26 Related party transactions

The Company's interest in the Candover 1997, 2001, 2005 and 2008 Funds is disclosed in note 10 on page 56, and in note 19 on page 60.

The Company's subsidiary undertakings are listed in note 11 on pages 56 and 57, which includes a description of the nature of their business.

During the course of the year the Company undertook transactions with Candover Services Limited which provided investment and administration services to the Company, for which the Company was charged £13,350,000 (2007: £13,680,000).

**Note 27 Contingent liabilities**

During the course of the year, the Company has guaranteed a €4.8 million facility made available to Northern Trust Fiduciary Services (Guernsey) Limited as Trustee of The Candover 2005 Offshore Employee Benefit Trust and The Candover 2005 Onshore Employee Benefit Trust (2007: €12.9). Other than in the normal course of business, there were no other contingent liabilities at 31<sup>st</sup> December, 2008 or 31<sup>st</sup> December, 2007.



# Notice of Annual General Meeting

## **THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

If you are in any doubt as to what action to take, you should consult your stockbroker, solicitor, accountant or other appropriate independent professional adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all your shares in Candover Investments plc, please forward this document and the accompanying Form of Proxy to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

The directors consider that all the proposals to be considered at the Annual General Meeting are in the best interests of the Company and its members as a whole. The directors unanimously recommend that shareholders vote in favour of all proposed resolutions as they intend to do in respect of their own beneficial holdings.

NOTICE is hereby given that the Annual General Meeting of Candover Investments plc (the Company) will be held at Founders' Hall, 1 Cloth Fair, London EC1A 7HT on Wednesday, 13<sup>th</sup> May, 2009 at 12 noon for the purposes set out below:

It is intended to propose resolutions 11, 12 and 13 as special resolutions. All other resolutions will be proposed as ordinary resolutions.

### **Ordinary business**

#### **1 Report and accounts**

To receive the audited financial statements for the year ended 31<sup>st</sup> December, 2008, together with the reports of the directors and the auditors therein.

#### **2 Directors' remuneration report**

To approve the directors' remuneration report contained in the audited financial statements.

#### **3-6 Re-election and election of directors**

To re-elect the following directors, who are retiring:

**3** Mr Gerry Grimstone;

**4** Mr Antony Hichens;

**5** Mr Richard Stone.

**6** To elect Mr Jan Oosterveld, who was appointed since the last Annual General Meeting in May 2008.

The biographies of Gerry Grimstone, Antony Hichens, Richard Stone and Jan Oosterveld appear on page 18.

#### **7 Re-appointment of auditor**

To re-appoint Grant Thornton UK LLP as auditors of the Company.

#### **8 Remuneration of auditor**

To authorise the directors to agree the auditors' remuneration.

### **Special business**

#### **9 Increase of authorised share capital**

That the authorised share capital of the Company be increased from £7,250,000 to £9,250,000 by the creation of 8,000,000 ordinary shares of 25p each identical and ranking pari passu with the existing authorised but unissued shares of 25p each in the capital of the Company.

#### **10 Authority to allot**

That the directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of section 80 of the Companies Act 1985 (the Act)):

- (a) up to an aggregate nominal amount of £1,814,881; and
- (b) comprising equity securities (as defined in section 94 of the Act) up to an aggregate nominal amount (when added to any allotments made under (a) above) of £3,629,763 in connection with or pursuant to an offer or invitation by way of a rights issue in favour of ordinary shareholders in proportion (as nearly

as practicable) to the respective numbers of ordinary shares held by them on the record date for such allotment (and holders of any other class of equity securities entitled to participate therein or if the directors consider it necessary, as permitted by the rights of those securities) but subject to such exclusions or other arrangements as the directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of any regulatory body or stock exchange in any territory or any other matter whatsoever;

provided that the authorities contained in paragraphs (a) and (b) shall expire on the date of the next Annual General Meeting of the Company after the passing of this resolution (or, if earlier, on 30<sup>th</sup> June, 2010) save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

#### **11 Authority to disapply pre-emption rights**

That subject to the passing of the previous resolution the directors be and are hereby empowered pursuant to section 95(1) of the Companies Act 1985 (the Act):

- (a) to allot equity securities (as defined in section 94 of the Act) for cash pursuant to the authority conferred by the previous resolution; and
- (b) to sell relevant securities (as defined in section 94(5) of the Act) held by the Company as treasury shares for cash,

in either case as if sub-section (1) of section 89 of the Act did not apply to any such allotment or sale; provided that the power conferred by paragraphs (a) and (b) should be limited to the allotment of equity securities for cash and the sale of treasury shares for cash:

- (i) in connection with or pursuant to an offer or invitation (but in the case of the authority granted under resolution 10(b), by way of a rights issue only) in favour of holders of ordinary shares in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them on the record date for such allotment (and holders of any other class of equity securities entitled to participate therein or if the directors consider it necessary, as permitted by the rights of those securities) but subject to such exclusions or other arrangements as the directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of or the requirements of any regulatory body or stock exchange in any territory or any other matter whatsoever; and
- (ii) in the case of the authority granted under resolution 10(a) above, and otherwise than pursuant to paragraph (i) of this resolution, up to an aggregate nominal amount of £273,207;

and provided further that the power conferred by paragraphs (a) and (b) shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution (or, if earlier, on 30<sup>th</sup> June, 2010) save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted, or treasury shares to be sold, after such expiry and the directors may allot equity securities or sell treasury shares in pursuance of any such offer or agreement as if the power conferred hereby had not expired.

#### **12 Purchase of own shares by the Company**

That the Company be and is hereby authorised, generally and unconditionally, 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 ordinary shares, on such terms and in such manner as the directors may from time to time determine, and where such ordinary 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 3,264,609 ordinary shares, equal to 14.99% of the ordinary shares (not including shares held in treasury) issued at the date of the 2008 audited financial statements;
- (b) the minimum price that the Company may pay for each share is 25p which amount shall be exclusive of expenses, if any;
- (c) the maximum price that the Company may pay for each ordinary share is an amount equal to the higher of (i) 5% over the average of the mid-market quotations for the ordinary shares of the Company as derived from the Daily Official List of the London Stock Exchange plc for the five business days immediately before the day on which such share is contracted to be purchased, and

- (ii) that stipulated by article 5(1) of the EU Buyback and Stabilisation Regulation 2003 (No. 2273/2003);
- (d) unless previously renewed, revoked or varied, this authority will last from the date of this Annual General Meeting until the next Annual General Meeting (or, if earlier, until 30<sup>th</sup> June, 2010); and
- (e) under this authority the Company may make a contract to purchase ordinary shares which would or might be executed wholly or partly after the expiry of this authority, and may make purchases of ordinary shares pursuant to such contract as if this authority had not expired.

**13 Notice period for general meetings**

That a general meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

By order of the Board

**Philip Price**  
Company Secretary

20<sup>th</sup> March, 2009

## Notes

### 1. Entitlement to attend and vote

Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that in order to have the right to attend, speak and vote at the Meeting (and also for the purpose of determining how many votes a person entitled to attend and vote may cast), a person must be entered on the Company's register of members at 6.00 pm on 11<sup>th</sup> May, 2009; or if this Meeting is adjourned, at 6.00 pm on the date which is two days before the adjourned meeting. Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend, speak and vote at the Meeting.

### 2. Appointment of proxies

If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.

If you are not a member of the Company as described in note 1 but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in this 'Appointment of proxies' section. Please read the section 'Nominated persons' in note 10 below.

A proxy does not need to be a member of the Company but will need to attend the Meeting in order to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman of the Meeting) and give your instructions directly to them.

You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, use the procedures set out in these notes and the notes to the proxy form.

If you select the 'Discretionary' option or if no voting indication is given on the proxy form, your proxy will vote or abstain from voting at his or her discretion. A vote withheld is not a vote in law, which means that any such vote will not be counted in the calculation of votes for or against the resolution. Your proxy will vote or abstain from voting as he or she thinks fit in relation to any other matter which is put before the Meeting.

### 3. Appointment of proxy using the proxy form

The notes to the proxy form explain how to direct your proxy to vote on each resolution or to withhold their vote. To appoint a proxy using the proxy form, the form must be:

- completed and signed;
- sent or delivered to Capita Registrars at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU; and
- received by Capita Registrars no later than 12 noon on 11<sup>th</sup> May, 2009.

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company, stating their capacity (e.g. director, secretary).

Any power of attorney or other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

***Alternatively, subject to the provisions of the Company's articles of association, you may register your proxy appointment and instructions on-line by visiting the website of our registrars, Capita Registrars, at [www.capitashareportal.com](http://www.capitashareportal.com). In order to register your vote on-line you will need first to register on the Share Portal, if you have not already done so. Full instructions on how to use this service are available at [www.capitashareportal.com](http://www.capitashareportal.com). This website can be used only for the purpose stated above, and not for sending any other document or information.***

### 4. Appointment of proxies through CREST

CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) thereof by utilising the procedures

described in the CREST Manual, subject to the provisions of the Company's Articles of Association. 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.

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be made, properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications, and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instructions given to a previously appointed proxy, must be transmitted so as to be received by the issuer's agent (ID: RA10) by 12 noon on 11<sup>th</sup> May, 2009. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After 12 noon on 11<sup>th</sup> May, 2009 any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

#### **5. Appointment of proxy by joint members**

In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

#### **6. Changing proxy instructions**

To change your proxy instructions simply submit a new proxy appointment using the methods set out above and set out in the notes to the proxy form. Note that the cut-off times for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy using the proxy form contained in this document and would like to change the instruction using another proxy form, please contact Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

If you submit more than one valid proxy appointment in respect of your entire voting entitlement, the appointment received last before the latest time for the receipt of proxies will take precedence. Please also see the notes to the proxy form for further information.

#### **7. Termination of proxy appointments**

In order to revoke a proxy instruction you will need to inform the Company by sending written notice clearly stating your intention to revoke your proxy appointment to Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

The revocation notice must be received by Capita Registrars no later than 12 noon on 11<sup>th</sup> May, 2009.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

#### **8. Corporate representatives**

In order to facilitate voting by corporate representatives at the Meeting, arrangements will be put in place at the Meeting so that:

- (i) if a corporate member has appointed the Chairman of the Meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all the other corporate representatives for that member at the Meeting, then, on a poll, these corporate representatives will be requested to give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and
- (ii) if more than one corporate representative for the same corporate member attends the Meeting but the corporate member has not appointed the Chairman of the Meeting as its corporate representative, a designated corporate representative should be nominated, from those corporate representatives who attend, to vote on a poll and the other corporate representatives should give voting directions to that designated corporate representative.

Corporate members are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – <http://www.icsa.org.uk> – for further details of this procedure. The guidance includes a sample form of representation letter to appoint the Chairman of the Meeting as a corporate representative as described in (i) above.

#### **9. Issued shares and total voting rights**

As at 19<sup>th</sup> March, 2009 (being the last practicable day prior to the publication of this notice) the Company's issued share capital comprised 21,856,615 ordinary shares of 25p each of which 78,035 are held as treasury shares, leaving a balance of 21,778,580 ordinary shares with voting rights.

#### **10. Nominated persons**

If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights (a Nominated Person):

- You may have a right, under an agreement between you and the member of the Company who has nominated you to have information rights (a Relevant Member), to be appointed or to have someone else appointed as proxy for the Meeting.
- If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights.
- Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps, your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.
- The statements in notes 2 to 7 above concerning the rights of members in relation to the appointment of proxies do not apply to Nominated Persons. Those rights can only be exercised by members of the Company.

#### **11. Website publication of audit concerns**

Shareholders should note that it is possible that, pursuant to requests made by members of the Company under section 527 of the Companies Act 2006 (the 2006 Act), the Company may be required to publish on a website a statement setting out any matter relating to (i) the audit of the Company's accounts (including the Auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting for the financial year beginning 1<sup>st</sup> January 2009; or (ii) any circumstance connected with an auditor of the Company appointed for financial years beginning on or after 1<sup>st</sup> January 2009 ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006 that the members propose to raise at the Annual General Meeting. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the 2006 Act. Where the Company is required to place a statement on a website under section 527 of the 2006 Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the

Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

**12. Communication**

You may not use any electronic address (within the meaning of Section 333(4) of the Companies Act 2006 ) provided in this Notice of Meeting (or in any related document) to communicate with the Company for any purposes other than those expressly stated.

**13. Documents on display**

Copies of the letters of appointment of the non-executive directors of the Company will be available for inspection at the Company's registered office at 20 Old Bailey, London EC4M 7LN during normal business hours on any weekday (Saturdays and English public holidays excepted) from 20<sup>th</sup> March, 2009 until the close of the Annual General Meeting and at the place of that Meeting for at least 15 minutes prior to and during the Meeting:

## Shareholder information

Event	Date
Preliminary announcement of results for the year ended 31 <sup>st</sup> December, 2008	2 <sup>nd</sup> March, 2009
Candover Investments plc Annual General Meeting	13 <sup>th</sup> May, 2009
Interim announcement of results for the half year ended 30 <sup>th</sup> June, 2009	21 <sup>st</sup> August, 2009*

\* 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	2294.0p
Lowest price during the year	780.0p
Price as at 31 <sup>st</sup> December, 2008	829.5p

### Share price

The Company's shares are listed on the London Stock Exchange under share code "CDI". The share price is quoted daily in the Financial Times, The Daily Telegraph, The Times, The Independent, the Evening Standard and the Glasgow Herald and is also available on our website at <http://www.candoverinvestments.com/> and <http://www.candoverinvestments.com/investor-info/price-graph>

### Information about Candover

For the latest information about Candover Investments plc visit our website:

**Home page** - <http://www.candoverinvestments.com/>

**Latest plc news** - <http://www.candoverinvestments.com/media/latest-plc-news>

**Dividend history** - <http://www.candoverinvestments.com/financial-performance/dividend-his>

### Capita share portal

Candover's registrars, Capita, offer a share portal service which enables registered shareholders to manage their Candover shareholdings quickly and easily online. Once registered for this services, it is possible for a shareholder to view their Candover shareholding, recent share trades and dividend payments, to obtain current valuations, to update their address or amend a dividend mandate (e.g. to enable dividends to be paid directly into the shareholder's bank account) and to vote online at shareholder meetings. For further information visit <https://www.capitalshareportal.com>

### Total voting rights

As at 19<sup>th</sup> March, 2009 the Company's issued share capital consists of 21,778,580 ordinary shares with a nominal value of 25 pence each. A further 78,035 ordinary shares are held in treasury. The above figure of 21,778,580 ordinary shares is subject to change, however until otherwise announced that figure may be used by shareholders in the Company as the denominator for the calculations by which they will determine if they are required to notify their interest in, or a change in their interest in, the share capital of the Company under the Disclosure and Transparency Rules published by the Financial Services Authority.



## Candover and Advisers

### **Candover Investments plc**

20 Old Bailey  
London EC4M 7LN  
Telephone +44 (0)20 7489 9848  
Facsimile +44 (0)20 7248 5483  
email [info@candover.com](mailto:info@candover.com)  
website [www.candoverinvestments.com](http://www.candoverinvestments.com)

Registered in England and Wales No. 1512178

### **Solicitors**

Ashurst LLP  
Broadwalk House  
5 Appold Street  
London EC2A 2HA

### **Stockbrokers**

Merrill Lynch  
Merrill Lynch Financial Centre  
2 King Edward Street  
London EC1A 1HQ

### **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  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield  
West Yorkshire HD8 0LA  
Telephone 0871 664 0300 (from UK)\*  
+44 (0) 20 8639 3399 (from Overseas)  
Facsimile +44 (0)1484 600911  
email [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com)

\* Calls cost 10 pence per minute plus network extras.

## Form of Proxy

For use at the Annual General Meeting of Candover Investments plc to be held at 12 noon on Wednesday 13<sup>th</sup> May, 2009 at Founders' Hall, 1 Cloth Fair, London EC1A 7HT.

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 notes 3, 10 and 11)

as my/our proxy to exercise all or any of my/our rights to attend, speak and vote in respect of my/our voting entitlement\* on my/our behalf at the Annual General Meeting to be held at 12 noon on Wednesday 13<sup>th</sup> May, 2009 and at any adjournment thereof.

\*For the appointment of more than one proxy, please refer to notes 10 and 11.

☐ Please tick here if this proxy appointment is one of multiple appointments being made.

I/We direct my/our proxy to vote on the resolutions as I/we have indicated by marking the appropriate box with an 'X'. If no indication is given, my/our proxy will vote or abstain from voting at his or her discretion and I/we authorise my/our proxy to vote or abstain from voting as he or she thinks fit in relation to any other matter which is put before the Meeting.

		For	Against	Vote withheld	Discretionary
Resolution 1	To receive the audited financial statements for the year ended 31 <sup>st</sup> December, 2008				
Resolution 2	To approve the directors' remuneration report				
Resolution 3	To re-elect Mr Gerry Grimstone				
Resolution 4	To re-elect Mr Antony Hichens				
Resolution 5	To re-elect Mr Richard Stone				
Resolution 6	To elect Mr Jan Oosterveld				
Resolution 7	Re-appointment of Auditor				
Resolution 8	Remuneration of Auditor				
Resolution 9	Increase of authorised share capital				
Resolution 10	Authority to allot				
Resolution 11	Disapplication of pre-emption rights				
Resolution 12	Purchase of own shares by the Company				
Resolution 13	Notice period for general meetings				

Date \_\_\_\_\_ Signature \_\_\_\_\_ (see notes 6 and 9)

### Notes

1. As a member of the Company you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the Notice of Annual General Meeting.
2. Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy (or proxies) and attend the Meeting in person, your proxy appointment(s) will automatically be terminated.
3. A proxy does not need to be a member of the Company but will need to attend the Meeting to represent you. To appoint as your proxy a person other than the Chairman of the meeting, insert their full name in the space provided above. If you sign and return this proxy form with no name inserted in the space

provided above, the Chairman of the Meeting will be deemed to be your proxy. Where you appoint as your proxy someone other than the Chairman, you are responsible for ensuring that they attend the Meeting and are aware of your voting intentions. If you wish your proxy to make any comments on your behalf, you will need to appoint someone other than the Chairman and give them the relevant instructions directly.

4. To direct your proxy how to vote on the resolutions mark the appropriate box with an 'X'. To abstain from voting on a resolution, select the relevant Vote withheld box. A vote withheld is not a vote in law, which means any such vote will not be counted in the calculation of votes for or against the resolution. If you select the Discretionary option or if no voting indication is given on the proxy form, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote or abstain from voting as he or she thinks fit in relation to any other matter which is put before the Meeting.
5. To appoint a proxy using this form, the form must be:
  - completed and signed
  - sent or delivered to Capita Registrars at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU
  - received by Capita Registrars no later than 12 noon on Monday 11<sup>th</sup> May, 2009.
6. In the case of a member which is a company, this proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company, stating their capacity (e.g. director, secretary).
7. Any alteration made to this form of proxy must be initialled. Any power of attorney or any other authority under which this proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.
8. CREST members who wish to appoint a proxy or proxies using the CREST electronic appointment service may do so by using the procedures described in the CREST Manual. To be valid, the appropriate CREST message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instructions given to a previously appointed proxy, must be transmitted so as to be received by our agent (ID: RA10) by 12 noon on Monday 11<sup>th</sup> May, 2009.
9. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
10. If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. If left blank or if a number of shares greater than your actual holding is inserted in such box your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account).
11. To appoint more than one proxy (an) additional proxy form(s) may be obtained by contacting Capita Registrars or you may photocopy this form. Please indicate in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple proxy instructions being given. All forms must be signed and should be returned together in the same envelope.
12. If you submit more than one valid proxy appointment in respect of your entire voting entitlement, the appointment received last before the latest time for the receipt of proxies will take precedence.

This form, to be valid, must be returned by post, by courier or by hand (together with any power of attorney or other authority under which it is signed or a notarised copy of such power or a copy certified in accordance with the Powers of Attorney Act 1971 or in some other manner approved by the directors) to Capita Registrars at the address overleaf (if by post) or otherwise at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to be received by Capita Registrars by 12 noon on Monday 11<sup>th</sup> May, 2009.

Only those shareholders registered in the register of members of the Company 48 hours prior to the stated 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 6.00 pm on Monday 11<sup>th</sup> May, 2009 shall be disregarded in determining the right of any person to attend and vote at the Annual General Meeting.

BUSINESS REPLY  
Licence No. MB122

Capita Registrars  
(Proxies)  
PO Box 25  
Beckenham  
Kent BR3 4BR