CANDOVER

Report and accounts 2006

Contents

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

2006 shareholder highlights

Return of cash

£100m

457p per ordinary share returned to shareholders.

Net assets per share

+17.8%*

Net assets per share up 17.8% to 1503p in the 12 months to 31st December, 2006. This compares with an increase of 13.2% in the FTSE All-Share Index over the same period.

Total dividend

+11.3%

Total dividend per share increased by 11.3% to 54.0p (2005: 48.5p per share).

Pre tax profit

+24.8%

Pre tax profit increased by 24.8% to £20.6 million (2005: £16.5 million).

*Adjusted for the return of cash.

Company structure

Candover Investments plc

Candover Partners Limited
A wholly owned subsidiary

Responsible for investment decisions and management of the funds

Funds

Candover 1997 Fund	Candover 2001 Fund	Candover 2005 Fund
£850 million fund of which Candover committed £100 million	€2.7 billion fund of which Candover committed €300 million	€3.5 billion fund of which Candover committed €500 million

Candover as an investment trust

Key performance measures:
– Net asset value growth
– Profit and dividend growth

Candover Investments plc is an investment trust listed on the London Stock Exchange, and is the entity through which the Candover Group co-invests in the funds managed by Candover Partners Limited.

Candover as a fund manager

Key performance measures:
– Return on investments
– Fundraising

Candover Partners Limited is a wholly owned subsidiary of Candover Investments plc. It invests money on behalf of Candover and third party investors, including pension funds, insurance companies, endowments, foundations and other professional investors.

Candover invests alongside the funds that it manages pro rata and in parallel under various co-investment agreements relating to each fund. The significant investment made by Candover to each of its own funds ensures a commonality of interests among Candover and the other investors in the fund.

9
Number of funds raised 1980-2006

€8.5bn
Total value of funds raised 1980-2006

130
Number of investments made 1980-2006

Status of funds

Candover Partners Limited raises a fund every three to four years. Each fund invests in approximately 15 European buyout transactions.

1997 Fund
The Fund closed in January 1998 with £750 million in third party commitments and a further £100 million provided by Candover. From then until June 2001, the Fund invested £750 million in 15 businesses. Full exits have now been achieved from all but one of these, and the Fund has realised £1.5 billion to date.

2001 Fund
The Fund closed in June 2002 having raised €2.7 billion, including a €300 million commitment from Candover. The investment period ended in October 2005. The Fund invested €2.5 billion and has achieved two full exits and six partial exits to date, realising €1.5 billion.

2005 Fund
The 2005 Fund closed in November 2005 with €3.5 billion committed, including €500 million from Candover. The Fund had invested €1.3 billion in the five transactions committed to at 31st December, 2006.

European market overview

The buyout market continued to grow strongly in 2006, with large-scale deals contributing to another record year, where almost €170 billion was invested in 701 buyouts. The total invested was up 43% on 2005 and this upward trend shows no sign of abating. The escalation in market size has mainly been due to the increase in deals over €1 billion.

The UK remains Europe's largest single buyout market, but many of the larger deals are happening in mainland Europe. Markets such as Spain, Scandinavia and Benelux have seen a lot of development over the last year.

Market analysis

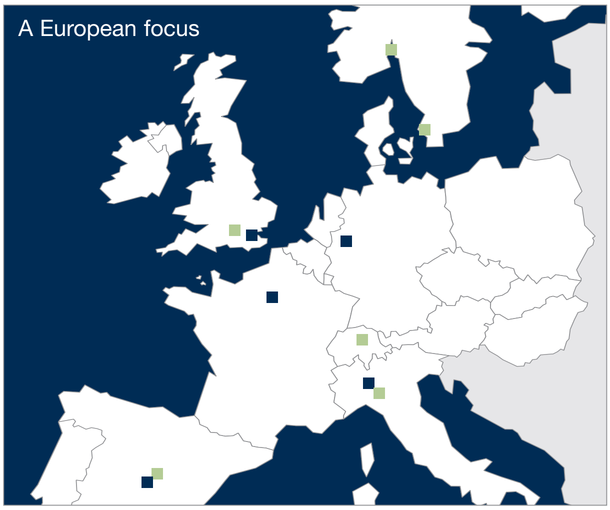
Competition for deals from European and US funds remained intense in 2006. This, combined with the ready availability of debt finance, is pushing prices up to levels that may be unsustainable.

Meanwhile fund raising has also been booming. Most funds aimed at the European market reached their targets with ease.

Market positioning

Given the fiercely competitive environment, we are careful to maintain our investment discipline. We are experienced in identifying the key drivers of success in businesses we back, with 80% of our value creation over time coming from three fundamental drivers: sales growth, improvements in operating margins and cash generation to pay down debt. Over the last 26 years we have invested through a number of market cycles and have a strong track record of delivering returns that outperform the market.

Our challenges over the year ahead are to ensure that the 2005 Fund is invested wisely, and to manage exits from our 2001 Fund so as to continue to maximise returns for our investors.

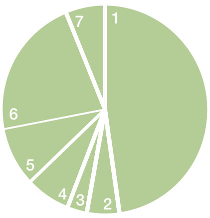


New investee companies
- Get, Norway
- EurotaxGlass's, Switzerland
- DX Group, UK
- Hilding Anders, Sweden
- Ferretti, Italy
- Parques Reunidos, Spain

Candover offices
- UK
- France
- Germany
- Italy
- Spain

For the latest information on our investments, go to www.candover.com

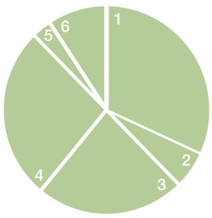
Investments – analysis by value as at 31st December, 2006



1. UK 48%
2. Benelux 5%
3. France 2%
4. Germany 8%
5. Americas 9%
6. Scandinavia 22%
7. Switzerland 6%

52%

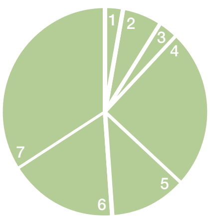
Non-UK investments



1. <1 year 32%
2. 1-2 years 6%
3. 2-3 years 23%
4. 3-4 years 27%
5. 4-5 years 3%
6. 5+ years 9%

32%

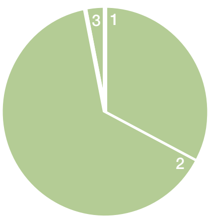
Portfolio acquired during 2006



1. External funds 3%
2. Financials 6%
3. Health 2%
4. Industrials 26%
5. Leisure 12%
6. Media 17%
7. Support services 34%

34%

Investments made in the support services sector



1. Cost 33%
2. Multiple of earnings 64%
3. Share price 3%

33%

Portfolio valued at cost

Introduction to Candover

Candover organises and invests principally in large European buyouts. We identify and acquire outstanding companies. We work in close partnership with skilled management teams to build substantial businesses with excellent prospects.

Talented management is all-important. We back ambitious, entrepreneurial teams in companies with dynamic growth profiles. We look for cash-generative businesses, which have strong competitive positions in expanding markets.

Within our investee companies we see our role as helping top managers perform at their best. We contribute financial expertise and can support growth plans with follow-on funds as needed. We act as partners to build long-term value for these businesses.

When the time comes to realise investments we seek exits that reward all participants fully for their time, capital and risk.

Our business objectives

– to achieve above average capital gains from our investments
– to maintain a progressive dividend policy for our shareholders

Chairman's statement

Candover has continued to make excellent progress in a highly competitive market. We have further consolidated our position as one of the leading European buyout houses.

At the conclusion of my first year as Chairman, I am pleased to report that Candover enters 2007 in a strong position with a solid foundation for future development. Our European network has been extended and we have significantly increased our skill base.

This year's report has a new look, and we have deliberately tried to make it more readable and informative. It is one of the results of a wide-ranging communications review that we have conducted over the past few months intended to make our business more accessible to our shareholders, the investors in our funds, and other interested parties.

Our performance

Successful realisations and our desire to move towards a more efficient balance sheet allowed us to return £100 million of cash to shareholders during the year. Our year-end cash balance net of borrowings was £29.7 million as against £189.4 million at the end of the previous year. The more active use of our balance sheet that we have already signalled might, depending on market conditions, lead us to be geared from time to time, but we do not expect any net gearing to exceed 20% of our net assets over the investment cycle.

Details of our financial performance are set out in the financial review but I am pleased to report that our net assets per share increased by 17.8%, after adjusting for the return of cash to shareholders, compared to a 13.2% increase in the FTSE All-Share Index over the same period. Profits before tax increased to £20.6 million compared to £16.5 million last year.

We invested £96.1 million in the year of which £89.0 million was invested alongside the 2005 Fund in four new investments, namely the buyouts of the Norwegian cable company Get; the Swiss based automotive data intelligence group EurotaxGlass's; the UK postal service DX Services together with Secure Mail Services; and the Swedish business Hilding Anders, which manufactures beds and mattresses throughout Europe. We sold our investments in Kabel Deutschland and Vestolit, and Acertec was listed on AIM.

Realisations and refinancings generated £48.9 million of proceeds during the year.

Since the year-end, we have purchased the Italian yacht manufacturer Ferretti, and we have announced the buyout of Parques Reunidos, a Spanish theme park operator. A partial exit from Vetco International has also been completed, generating a cash return of 3.4 times our original investment.

Full details of our investment and realisation activity can be found in the operational review.

Our environment

Unusually, private equity has been much in the public eye of late and the industry is experiencing a far greater degree of scrutiny than ever before. The House of Commons Treasury Select Committee has launched an inquiry into private equity funds. In addition, The British Venture Capital Association (BVCA) has recently announced a wide-ranging consultation process with a view to producing a voluntary code addressing the transparency of the industry and levels of disclosure. We welcome these initiatives and intend to play a full part in the debate. Candover, because of its listed status, already makes much greater public disclosure regarding its investments than most private equity firms. We will review this disclosure in the context of the BVCA's recommendations when they become available.

Although market conditions have been buoyant in the private equity world, it remains a very competitive environment. As usual, therefore, it has been important to maintain investment discipline. However, Candover has a long track record of investing through market cycles and over the past 26 years our returns have been remarkably consistent.

Our people

I noted in my interim statement that Stephen Curran had retired as Chairman of Candover, and that Doug Fairservice had stepped down from the Board. I would like to repeat my thanks to them both for the dedicated service that they gave Candover over 25 and 22 years respectively. Our Board is well-resourced, but in the period ahead, the passage of time will lead to some natural refreshing.

Various specialist roles have been created in Candover Partners during 2006, and we have been fortunate in recruiting some very high quality people to carry them out. Deal-sourcing, and ensuring that Candover-backed management teams get the right support in the post-deal phase, have both been given an enhanced priority. We have also strengthened our pan-European deal team: eight executives joined at director and investment manager level in 2006. We now have 38 professionals based in our five European offices, which equates to a 50% increase since 2004. New offices have been opened in Milan and Madrid.

There will be more additions to the team going forward, but we feel we are now broadly at the right staffing level to support the next phase in our development.

Dividends

The Board is recommending a final dividend of 36.0p per share (32.0p in 2005), making a dividend payable for the year of 54.0p per share (48.5p in 2005), an increase of 11.3%. We expect to maintain a progressive dividend policy but this will depend, of course, on the underlying revenue that is generated by our investments.

Outlook

Being one of the very few major quoted European pure buyout firms gives Candover particular advantages in terms of status, continuity, governance, and financial flexibility. We intend to maintain our position as one of the leading pan-European private equity houses, and we will continue as a cornerstone investor in any future funds raised by Candover. We strongly believe that this is the best way to continue to deliver superior returns to our shareholders.

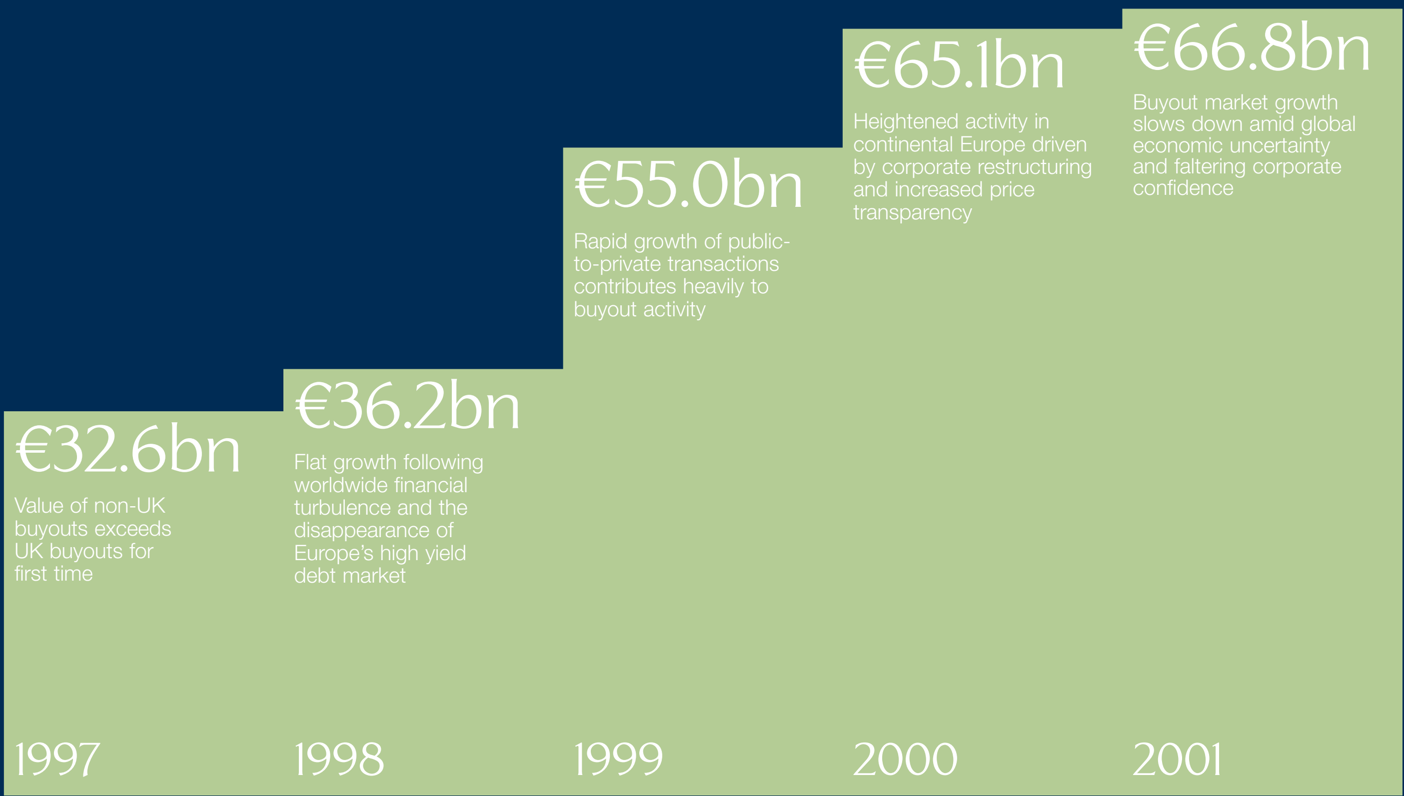
The performance of the Candover portfolio continues to be satisfactory, and we expect this to allow us to maintain competitive and consistent returns for the foreseeable future.

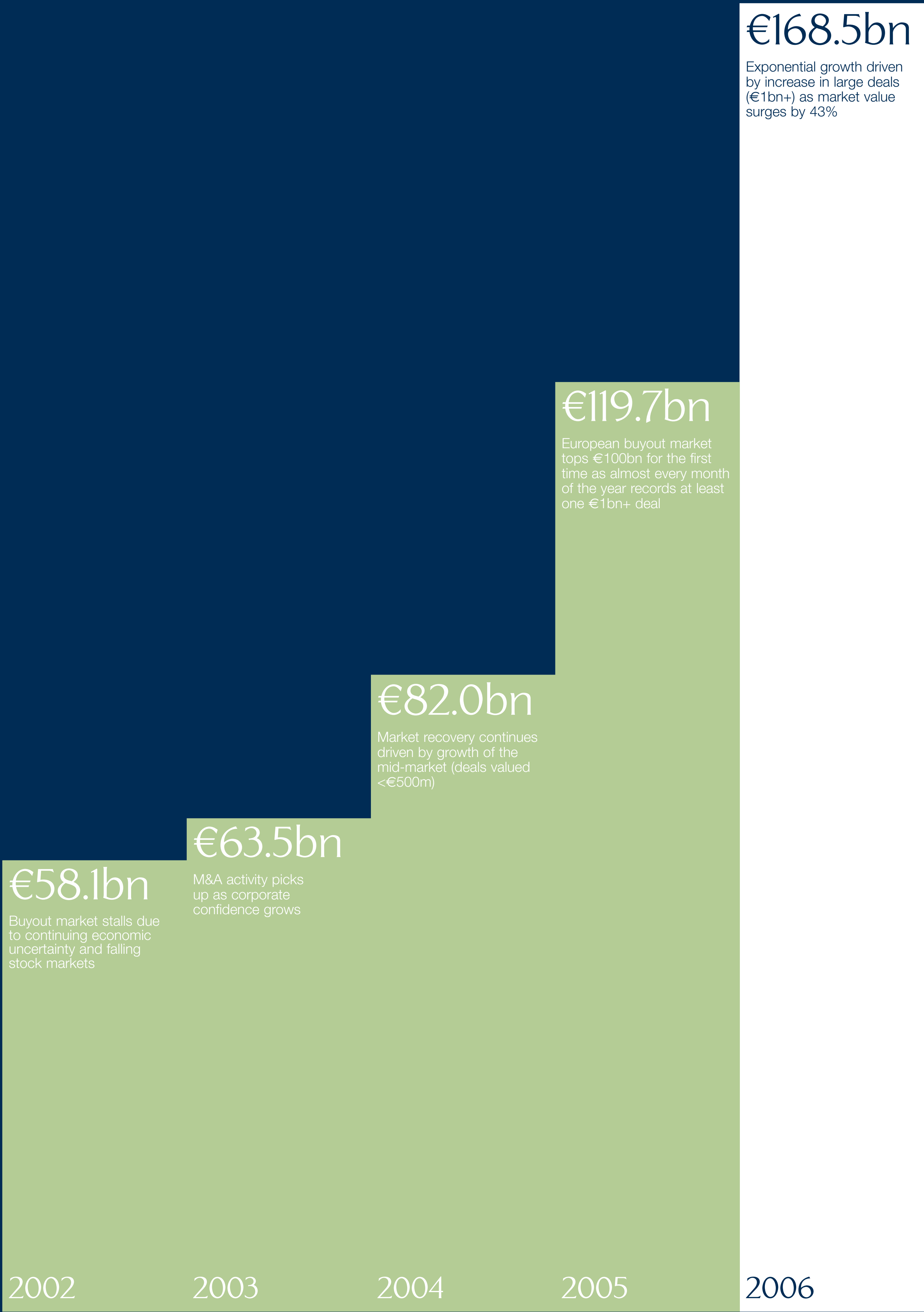
G E Grimstone
Chairman
30th March, 2007

"Candover has continued to make excellent progress in a highly competitive market."

A growing European buyout marketplace

The European buyout market has grown fivefold in the last ten years. The average deal size has increased and €1 billion plus transactions are now commonplace.




€168.5bn
Exponential growth driven by increase in large deals (€1bn+) as market value surges by 43%
€119.7bn
European buyout market tops €100bn for the first time as almost every month of the year records at least one €1bn+ deal
€82.0bn
Market recovery continues driven by growth of the mid-market (deals valued <€500m)
€63.5bn
M&A activity picks up as corporate confidence grows
€58.1bn
Buyout market stalls due to continuing economic uncertainty and falling stock markets
2002
2003
2004
2005
2006

Increasing the size of our investments

As the average deal size has grown, the amount we invest in each transaction has grown as well, as can be seen by the examples below. The core investment focus for the 2005 Fund is on deals valued between €500 million and €1.5 billion where Candover and the Fund can invest between €150 million and €500 million.

£19m
Invested

Company name:
Camden Motors (car dealership)

Deal size: £45m
Investment: £19m
Fund: 1994
Country: UK
Status: Sold to management in 2003

£34m
Invested

Company name:
Earls Court (exhibition space)

Deal size: £183m
Investment: £34m
Fund: 1997
Country: UK
Status: Sold to St James Capital and Nomura for £245m in 2004

€290m
Invested

Company name:
Hilding Anders (bed manufacturer)

Deal size: €1bn
Investment: €290m
Fund: 2005
Country: Sweden
Status: Unrealised

€142m
Invested

Company name:
Swissport (ground handling services)

Deal size: €393m
Investment: €142m
Fund: 2001
Country: Switzerland
Status: Sold to Ferrovial for
€646m in 2005

Raising larger funds to take advantage of market opportunity

Each new fund aims to raise sufficient resources to create a diversified portfolio of pan-European deals. The size of the funds we have raised reflects the upward trend in average deal size and consequently the amounts invested by Candover.

£308m

Candover's commitment to the 1994 Fund was £70m. 90% of the Fund's 12 investments were UK-based. All investments have now been realised.

1994 Fund

£850m

Candover committed £100m to the 1997 Fund. 70% of its 15 investments were UK-based. Fourteen investments have been realised.

1997 Fund

€3.5bn

Candover's commitment to the 2005 Fund was €500m. So far, six investments have been made, in the UK, Italy, Norway, Spain, Sweden and Switzerland.

€2.7bn

Candover committed €300m to the 2001 Fund. 50% of its 16 investments were continental European. Two investments have so far been fully realised with a further six being partially realised.

2001 Fund

2005 Fund

“Our policy is to select high quality investments and to work closely with investee companies.”

Operational review

European buyouts for the full year reached €170 billion, 43% up on 2005. The market has more than doubled in size in the past two years. Larger deals have driven much of this growth.

During 2006 our European network generated a number of interesting opportunities. Candover participated in four new investments and made a number of follow-on investments. Our total investments for the year amounted to £96.1 million.

New investments

The 2005 Fund focuses on European buyouts in the €500 million to €1.5 billion range. The Fund's first investment, Get (formerly known as UPC Norway) was acquired from Liberty Global in January 2006. Candover invested £16.0 million and the 2005 Fund invested £96.6 million. This triple play cable operator (broadband, television and telephony) has a loyal customer base and a dominant share of its local market.

In June, Candover invested £17.4 million, alongside a commitment of £105.5 million from the 2005 Fund, to acquire EurotaxGlass's, a pan-European supplier of automotive intelligence.

In September, Candover invested £28.1 million alongside a 2005 Fund investment of £168.9 million, to secure the merged business of DX Services and SMS. Both companies are long-term licence holders in the UK's liberalised postal services market. The combined business is now the UK's leading private mail company.

The year ended with the purchase of Swedish bed and mattress manufacturer Hilding Anders, which owns popular brand names in twelve European countries. Its management team plans to expand organically and through acquisition. Candover invested £27.4 million and the 2005 Fund invested £165.2 million to acquire this business.

Since the year-end there have been two further transactions. Candover invested £32.8 million, alongside the 2005 Fund, in the luxury yacht manufacturer Ferretti and committed a further £18.8 million for European theme park operator Parques Reunidos. The 2005 Fund is now 45% committed.

Other investments

Candover invested an additional £2.5 million in Qioptiq, alongside £19.2 million provided by the 2001 Fund, to part-fund its €120 million acquisition of German photonics specialist Linos.

Candover and the 2001 Fund made smaller follow-on investments of £1.7 million in Equity Trust and £0.5 million in ALcontrol. Candover also made minor follow-on commitments to a French mid-market buyout fund and two mezzanine funds totalling £4.4 million.

Realisations

Candover and its managed funds achieved realisation proceeds totalling £289.7 million during the year; Candover's share was £48.9 million.

In February, we disposed of our holding in Kabel Deutschland (KDG). This generated proceeds of £3.7 million for Candover and £29.1 million for the 2001 Fund, bringing KDG's overall investment multiple to 3.3 times the original investment. Vestolit was sold to SVP Partners in November. In addition, Acertec listed on AIM in May, achieving a partial exit for Candover and the 1997 Fund.

There were some significant refinancings during the year. Bureau van Dijk returned a third of its original investment. The Wood Mackenzie refinancing returned the entire original investment. Springer completed its third refinancing, which led to proceeds of £7.6 million for Candover and £64.8 million for the 2001 Fund. The academic publisher has achieved strong earnings growth since its acquisition in 2003; it has already returned cash equivalent to 1.6 times the original investment.

Since the year-end, a partial exit has been achieved from Vetco International through the sale of its subsidiary, Vetco Gray. The sale resulted in proceeds of £14.3 million for Candover and £131.5 million for the 2001 Fund. Including proceeds from previous refinancings, Vetco has returned cash equivalent to 3.4 times the original investment.

The 1997 Fund has one remaining investment (Acertec) while the 2001 Fund has fully realised two out of its 16 investments and partially realised a further six.

Outlook

With our enhanced team, we have built a strong European deal pipeline. The market environment remains active but the current high level of leverage does impact the pricing of deals. As a result, our team will continue its successful policy of selecting high quality investments and working closely with investee companies. This should enable us to ensure that performance is in line with expectations.

C J Buffin
Managing Director
Candover Partners Limited
30th March, 2007

M S Gumienny
Managing Director
Candover Partners Limited
30th March, 2007

New investments in 2006

Name: Get
Sector: Media
Location: Norway
Date of investment: January 2006
Deal size: €445m

There has been a recent wave of corporate activity in European cable. When Liberty Global decided to divest its Scandinavian cable assets, Candover saw an opportunity overlooked by other investors – to focus on just one of Liberty's operations, its Norwegian cable business.

Get serves 350,000 homes in Oslo and Southern Norway with 'triple play' television, telephony and broadband services. The company has upgraded some of its network to an advanced fibre infrastructure – but there is more to do. Norwegians are technologically savvy with an appetite for sophisticated digital entertainment. Get is a cash-generative business with real growth potential in one of the world's wealthiest countries.

Familiarity with the region – we've done deals in Sweden, Norway and Finland – helped support our analysis of the market. Because growth is dependent on the network's upgrade, we looked closely at multiple scenarios for capital expenditure and payback schedules.

This was the first investment to be made from the €3.5 billion Candover 2005 Fund.

Candover's investment
as at 31st December, 2006

Cost of investment
£16.0m

% of Candover's net assets
4.8%

Directors' valuation
£15.7m*

Basis of valuation
Cost

To find out more go to candover.com

* Movement in exchange rate since date of investment

Name: EurotaxGlass's
Sector: Media
Location: Switzerland
Date of investment: June 2006
Deal size: €480m

EurotaxGlass's (ETG) is the leading pan-European provider of data and intelligence on cars. A unique position in the market, a strong management team and a recent restructuring made ETG an attractive target for a number of trade and private equity buyers. Candover's relationship with the management and understanding of the business helped us put together a successful bid for the company.

ETG's products cover pricing and valuations, technical specification, repairs and reference data for the auto industry. The business includes well-known brands such as Glass's Guide, Eurotax, SchwackeListe and PKWListe. The majority of ETG's sales now come through higher value digital data for customers including car dealers, insurance companies and fleet operators.

ETG's database covers more than 500,000 types of vehicle and 1,000 manufacturers, stretching back over 70 years. Demand for ETG's products is growing – there are now more than 150,000 customers. This is a highly cash-generative business with renewal rates on its subscriptions products of around 90%. After a restructuring programme, ETG is now focused on delivering sales growth.

Previous experience in the data solutions and business intelligence market (investments in Springer, Bureau van Dijk and Wood Mackenzie) combined with our understanding of the automotive sector created an important understanding of the dynamics and the opportunities in this market.

Candover's investment
as at 31st December, 2006

Cost of investment
£17.4m

% of Candover's net assets
5.2%

Directors' valuation
£17.0m*

Basis of valuation
Cost

To find out more go to candover.com

* Movement in exchange rate since date of investment

Name: DX Group
Sector: Support services
Location: UK
Date of investment: September 2006
Deal size: €692m

Continuing deregulation in the UK postal sector plus high barriers to entry are presenting real opportunities for mail delivery companies. When Candover was first introduced to SMS we liked the company but felt the deal was, by itself, too small for our fund. Rather than pass up the opportunity, we identified a potential merger partner in DX Services. DX, however, was listed on the London Stock Exchange, which added another layer of complexity: the merger depended on achieving a successful delisting.

DX and SMS both operate in the £6.5 billion UK postal market – but in different areas. DX is a leading provider of B2B mail services, specialising in secure document exchange for business customers such as lawyers. SMS is the largest private sector player in secure mail, delivering items such as credit cards and passports to consumers. Between them they deliver 290 million letters and parcels each year.

Candover's previous experience of delistings, combined with our belief that together these businesses could become more than the sum of their parts, enabled us to get the deal done. The successful merger has created the UK's largest private mail operator.

Candover's investment
as at 31st December, 2006

Cost of investment
£28.1m

% of Candover's net assets
8.5%

Directors' valuation
£28.1m

Basis of valuation
Cost

To find out more go to candover.com

Name: Hilding Anders
Sector: Industrials
Location: Sweden
Date of investment: December 2006
Deal size: €1bn

The global market for bedding is growing and Hilding Anders, the European market leader, is well placed to benefit. A compelling investment case attracted multiple potential buyers, but the management's preference for working with Candover was decisive in a deal hotly contested by trade and financial buyers.

Hilding Anders manufactures mattresses and beds, producing both branded goods and own-label mattresses. Brands include Bico, Hilding, Slumberland and Jensen, and the company also makes mattresses for retailers including IKEA and Jysk. Headquartered in Sweden, Hilding Anders includes 20 operating companies and 18 factories across Europe. In addition to its well established market share in Europe, it is developing a meaningful presence in Asia, and is looking to expand operations into the US.

Hilding Anders serves a growing market, particularly in the own-label sector, where influential retailers like IKEA are making significant gains. The health benefits of good sleep are increasingly well understood by consumers, who are spending more money more often on high-quality mattresses and beds. Hilding Anders, run by a highly successful management team, with a track record of growing profits and making astute acquisitions, is leading the development of the market.

Candover's investment
as at 31st December, 2006

Cost of investment
£27.4m

% of Candover's net assets
8.4%

Directors' valuation
£27.7m*

Basis of valuation
Cost

To find out more go to candover.com

* Movement in exchange rate since date of investment

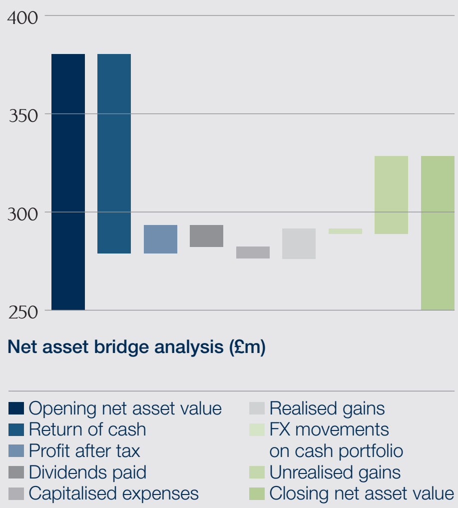
Net asset value

As at 31st December, 2006 the net assets attributable to the ordinary shares were £328.5 million, compared to adjusted net assets of £278.9 million at 31st December, 2005.

Net asset value (£m)
1996-2006

* Restated under IFRS – UK GAAP figure was £312.6m
** Adjusted for return of cash of £101.4m

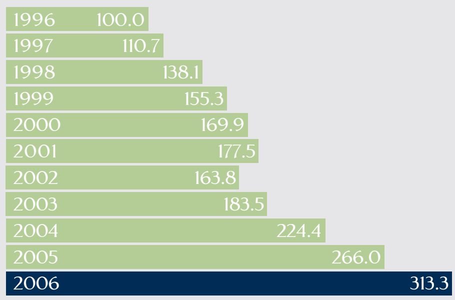
The movement in net assets over the period is mainly due to the return of cash of £101.4 million (inclusive of costs) to shareholders, net realised gains over prior valuation of £15.3 million, a net increase of £39.6 million on the revaluation of investments, reflecting the maturing of our investments alongside the Candover 2001 Fund, plus other movements.



Net asset bridge analysis (£m)

Net asset value per share

As at 31st December, 2006 net assets per share were 1503p compared to adjusted net assets per share of 1276p at 31st December, 2005 and 1372p at 30th June, 2006. The increase in adjusted net assets over the 12 months to 31st December, 2006 of 17.8% compares with an increase of 13.2% in the FTSE All-Share Index over the same period. The increase in adjusted net assets per share over the six months to 31st December, 2006 was 9.5% compared to an increase in the FTSE All-Share Index over the same period of 8.6%.



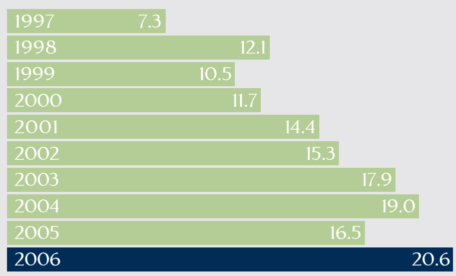
Net asset value per share (p)*
1996-2006

* Indexed to 31st December, 1996 and adjusting for the return of cash of £101.4m

The compound growth in net assets on a five and ten year basis was 12.0% and 12.1% respectively, compared to increases in the FTSE All-Share Index of 5.0% and 4.8% respectively over the same period.

Profits before tax

Profits before tax for the year were £20.6 million, compared with £16.5 million for the 12 months to 31st December, 2005. The increase in profit was mainly due to increased income from investments alongside the Candover funds, with the growth in management fees having been offset by the growth in the investment team to enhance our investment approach and returns.

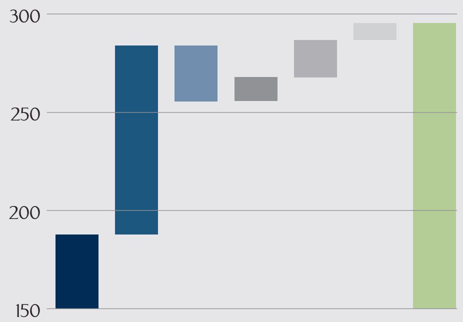


Profit before tax (£m)
1997-2006

Valuation of investments

The valuation of financial investments at 31st December, 2006 was £295.3 million (2005: £187.9 million). This valuation of £295.3 million was calculated having taken into account new investments, net of realisations, amounting to £67.8 million, and a net increase of £39.6 million in the valuation of our investments.

The net increase in the valuation of our investments comprised upward movements of £42.0 million and downward adjustments of £2.4 million, mainly due to currency movements. The increase in valuations reflects the maturing of the investments alongside the Candover 2001 Fund, which have shown growth in profitability since acquisition, with the average age of investments alongside that fund now 38 months. Due to the increased value of the investments in the Candover 2001 Fund, we have made an initial recognition of the value of the carried interest in that fund of £8.5 million.



Investment bridge analysis (£m)

- Opening balance
- Additions
- Realisations
- Revaluations (interim)
- Revaluations (final)
- Candover 2001 Fund carried interest
- Closing balance

Return of cash

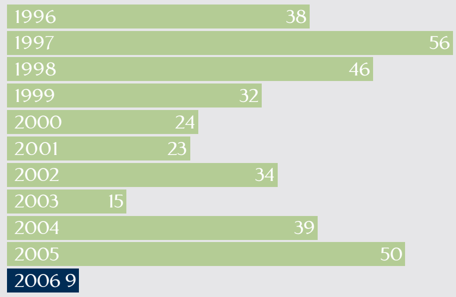
On 8th May, 2006 shareholders voted to return £100 million, and an issue of B and C preference shares took place on 9th May, 2006. The subsequent redemption or repurchase of these shares resulted in the return of 457p per ordinary share to shareholders. As a result of the return of cash, Candover's net asset value and share price were reduced proportionally.

Cash position

Cash and liquid assets, net of loans of £33.7 million, totalled £29.7 million (2005: £189.4 million) at the year-end, representing 9.0% of our net assets (2005: 49.8%). This decrease was mainly due to the return of cash to shareholders, combined with net investment outflows arising from our commitment to the Candover 2005 Fund, offset by Candover 2001 Fund investments maturing for realisation.

Listed shares at the year-end totalled £11.3 million (2005: £9.4 million), representing 3.4% of our net assets (2005: 2.5%).

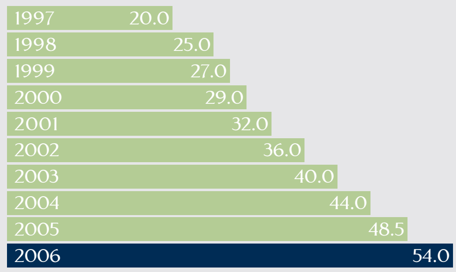
Following the return of cash during the year, we have significantly reduced our cash balances below historical levels, thus reducing the impact of the cash drag.



Cash as % of net assets
1996-2006

Dividends

At the half year the Board increased the interim dividend by 9.1% from 16.5p per share to 18.0p per share. The Board is recommending a final dividend of 36.0p per share (32.0p per share for 2005), making a dividend payable for the year of 54.0p per share against 48.5p for the previous year, an increase of 11.3%. Payment of the dividend will be made on 25th May, 2007 to shareholders on the register at 27th April, 2007.



Total dividend per share (p)
1997-2006

20 largest investments as at 31st December, 2006

Investment	Geography	Date of investment	Residual cost of investment £000	Directors' valuation £000
Gala Coral Retail gaming	UK	March 2003/ October 2005	24,775	31,977
DX Group Mail services	UK	September 2006	28,073	28,073
Hilding Anders Bed manufacturer	Sweden	December 2006	27,418	27,656
Springer Science + Business Media Academic publisher	Germany	January/ September 2003	573	21,383
EurotaxGlass's Automotive data intelligence	Switzerland	June 2006	17,397	17,039
Vetco International Oil & gas services	UK	July 2004	61	15,917
Get Cable TV	Norway	January 2006	15,997	15,666
Dakota, Minnesota & Eastern Railroad Corporation Railroads	US	September 1986	888	15,464
Thule AB Sports utility transportation	Sweden	December 2004	15,579	15,155
ALcontrol Group Holdings Laboratory testing	UK	December 2004	12,902	12,579
Qioptiq Optical engineering	UK	December 2005	9,729	10,535
Innovia Films Speciality film	UK	September 2004	9,913	10,038
Bureau van Dijk Electronic Publishing Electronic publishing	Netherlands	November 2004	7,788	9,234
Aspen Insurance Reinsurance	US	June 2002	6,814	9,177
Wellstream Oil & gas pipeline	UK	March 2003	5,496	8,459
Equity Trust Holdings Trust services	UK	May 2003	6,673	6,418
Ciclad 3 French buyouts	France	April 2000	£nil	5,609
Ontex Hygienic disposables	Belgium	January 2003	17,163	4,453
Wood Mackenzie Energy research	UK	July 2005	82	4,377
ICG Mezzanine Fund 2000 Mezzanine fund	UK	July 2000	3,682	3,738

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 British Venture Capital Association.

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

Investments are only valued at cost for a limited period after the date of acquisition, otherwise investments are valued on one of the other bases described above, and generally the earnings multiple basis of valuation will be used unless this is inappropriate, as in the case of certain asset-based businesses.

When valuing on an earnings multiple basis, profits before interest and tax of the current year will normally be used, depending on whether or not more than six months of the accounting period remain and the predictability of future profits. Such profits will be adjusted to a maintainable basis, taxed at the full corporation tax rate and multiplied by an appropriate and reasonable price/earnings multiple. This is normally related to comparable quoted companies or recent transactions, with adjustments made

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 year.
2 Audited accounts for the period since acquisition are not yet available.
3 Statutory audited accounts not prepared in accordance with local regulations.
4 Investment in a fund, sales and earnings figures not relevant.

Effective equity interest (fully diluted)	% of Candover's net assets	Basis of valuation	Dividends received £m	Year end	Sales	Earnings[1]
1.8%	9.7%	Multiple of earnings	–	September 06	£1,226.7m	£394.5m
9.4%	8.5%	Cost	–	See note 2	See note 2	See note 2
7.8%	8.4%	Cost	–	See note 2	See note 2	See note 2
4.0%	6.5%	Multiple of earnings	–	December 05	€837.7m	€231.2m
9.1%	5.2%	Cost	–	See note 2	See note 2	See note 2
2.5%	4.8%	Sale proceeds and multiple of earnings	–	December 05	$2,491.2m	€156.1m
9.4%	4.8%	Cost	–	See note 2	See note 2	See note 2
8.5%	4.7%	Multiple of earnings	–	See note 3	See note 3	See note 3
6.7%	4.6%	Multiple of earnings	–	December 05	SEK 3,160.0m	SEK 461.1m
6.8%	3.8%	Multiple of earnings	–	March 06	£101.2m	£17.6m
9.6%	3.2%	Multiple of earnings	–	December 05	$171.5m	$33.9m
8.0%	3.1%	Multiple of earnings	–	December 05	£374.0m	£44.6m
6.3%	2.8%	Multiple of earnings	–	December 05	€93.4m	€35.2m
0.9%	2.8%	Market price	0.2	December 05	$1,676.2m	$487.3m
7.5%	2.6%	Multiple of earnings	–	December 05	£90.1m	£9.8m
5.4%	2.0%	Multiple of earnings	–	December 05	€80.0m	€18.1m
NA	1.7%	Multiple of earnings	–	See note 4	See note 4	See note 4
4.4%	1.4%	Multiple of earnings	–	December 05	€924.5m	€105.9m
4.1%	1.3%	Multiple of earnings	–	December 05	£49.3m	£14.1m
NA	1.1%	Multiple of earnings	–	See note 4	See note 4	See note 4

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.

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.

1. G E Grimstone*†
Chairman
Mr Grimstone was appointed to the Candover Board in July 1999, became Deputy Chairman in May 2004 and Chairman in May 2006. Formerly an Assistant Secretary at HM Treasury, Mr Grimstone latterly held a number of senior appointments in the Schroders group, including Vice Chairman of worldwide investment banking activities. He is a non-executive director of Dairy Crest Group plc and RAF Strike Command, Deputy Chairman and Chairman-elect of Standard Life PLC and Chairman of F&C Global Smaller Companies plc. Mr Grimstone is 57.

2. S W Curran FCCA
Non-executive
Mr Curran became a non-executive director on his resignation as Chairman in May 2006 (appointed May 1999). He was formerly Chief Executive and Deputy Chief Executive, having been appointed a director of Candover in July 1982. Prior to joining Candover in May 1981, he was a managing consultant with Coopers & Lybrand Associates and then an investment manager with what is now Cinven. He is a non-executive director of Greggs plc and various unquoted companies. Mr Curran is 64.

3. A P Hichens MBA§*†
Non-executive, nominations committee chairman
Mr Hichens joined the Board of Candover in December 1989 and became Deputy Chairman in January 1991. He stepped down as Deputy Chairman in May 2004, and remains a non-executive director. He is a director of WaterRower Holdings Limited and Chase Equipment Limited and is a member of the Takeover Panel. He is also a non-executive director of JPMorgan Income & Capital Investment Trust plc. He was previously a Managing Director and Chief Financial Officer of Consolidated Gold Fields. Mr Hichens is 70.

4. N A Lethbridge §*†
Non-executive
Mr Lethbridge was appointed to the Candover Board in January 2003. He was previously a senior partner in London of Babcock & Brown, a global investment bank specialising in the acquisition, management and arrangement of asset and project financing worldwide. Previously Mr Lethbridge was a director of J. Henry Schroder Wagg, where he carried out numerous privatisation and project financing assignments. He also worked with the Saudi International Bank and earlier spent nine years with the World Bank in Washington DC. He is a non-executive director of Partnerships UK plc, Ekwienox Ltd, Invicta Capital Ltd, Asia Mezzanine Capital Investors Ltd and Silverjet PLC. Mr Lethbridge is 57.

5. C Russell FSIP FCA§*
Non-executive, audit committee chairman
Mr Russell was appointed to the Candover Board in May 2004. Mr Russell is an associate of GaveKal Research and a director of Investec High Income Trust plc, the Korea Fund Inc, Enhanced Index Funds pcc, LIM Japan Fund, British Airways Pension Investment Management Ltd and JPMorgan Fleming Japanese Smaller Companies Investment Trust plc. He was formerly a director and Head of Overseas Businesses at Gartmore Investment Management plc. Prior to Gartmore, he was a Holding Board director of the Jardine Fleming Group in Asia. Mr Russell is 58.

6. R A Stone FCA§*
Non-executive, remuneration committee chairman
Mr Stone was appointed to the Candover Board in May 2005. 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. 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. Mr Stone is 64.

7. J G West FCA MSI§*†
Non-executive, Senior Independent Director
Mr West was appointed to the Candover Board in December 1985 and is a former Managing Director of Lazard Brothers and Chief Executive of Lazard Investors. He was previously Managing Director of Globe Investment Trust Plc. He is Chairman of Gartmore Fledgling Trust plc, New City High Yield Fund Ltd, Jupiter Second Enhanced Income Trust plc and Rurelec plc and a non-executive director of JPMorgan Income & Capital Investment Trust plc, British Assets Trust plc, Global Natural Energy plc and various unquoted companies. Mr West is 59.

Senior Managing Directors

C J Buffin ACA
Senior Managing Director
Mr Buffin was appointed joint Managing Director of Candover Investments plc in March 1998 and resigned in December 2002. He is a joint Senior Managing Director of Candover Services Limited, the principal operating company in the Candover Group, and of Candover Partners Limited, the manager of various investment funds. He joined Candover in September 1985 from Deloitte Haskins & Sells, where he spent two years in the investigations and corporate finance departments after qualifying as a chartered accountant. Mr Buffin has been responsible for a number of transactions which have led to Stock Exchange listings or trade sales. Mr Buffin is 49.

M S Gumienny ACA
Senior Managing Director
Mr Gumienny was appointed joint Managing Director of Candover Investments plc in March 1998 and resigned in December 2002. He is a joint Senior Managing Director of Candover Services Limited, the principal operating company in the Candover Group, and of Candover Partners Limited, the manager of various investment funds. Prior to joining Candover in January 1987, he qualified as a chartered accountant with Price Waterhouse. Transactions led by Mr Gumienny include the buyout of Swissport from Swissair Group AG, the formation of Aspen Insurance, and the buyout of Gala Group. He is a non-executive director of a number of unquoted companies in the Candover portfolio. Mr Gumienny is 48.

C L P Chevrillon MBA
Senior Managing Director
Mr Chevrillon joined Candover as joint Managing Director of Candover Partners Limited, the manager of various investment funds, in December 2002. He led the buyout of Qioptiq from Thales in December 2005. Mr Chevrillon founded Chevrillon Associés, a leading French investment company, in 1992. Prior to that he was General Manager of Investment Banking for France for Salomon Brothers SA, which he joined in 1986, and Finance Director of Gaumont. Mr Chevrillon started his career in 1976 with JP Morgan Investment Banking. Mr Chevrillon is 53.

1.

2.

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

Report of the directors

The directors present their report together with the audited financial statements for the year ended 31st December, 2006.

Principal activities

Candover Investments plc is an investment company within the meaning of Part VIII of the Companies Act 1985 as well as an investment trust under section 842 of the Income and Corporation Taxes Act 1988, the tax status of which is shown on page 21.

Candover is engaged principally in the identification, implementation and monitoring of large buyouts and buyins. Candover Investments plc makes an investment either under a co-investment agreement with third party managed funds or on its own account. The third party managed funds, established with commitments from a wide range of international institutional investors, are managed by Candover Partners Limited, which is regulated by the Financial Services Authority. Candover participates in the profit made in certain of these funds subject to an overall minimum return having first been generated for investors in the funds. Candover will be entitled to between 2% and 5% of any profit made by the 2005 Fund. The exact percentage received by Candover will be determined by a ratchet based on the investment multiple achieved by the Fund.

These funds and their investment activities are set out on the inside front cover.

Results and review of business

The Group profit for the financial year after taxation was £14,377,000 (2005: £11,633,000). Revenue was £60,461,000 (2005: £44,664,000). Administrative expenses charged to revenue were £39,841,000 (2005: £28,029,000). 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 2 to 15.

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 KPIs are shown in the financial review on page 14.

Return of cash

On 8th May, 2006 shareholders voted to return £100 million cash to those on the register on 5th May, 2006, and an issue of B and C preference shares took place on 9th May, 2006. The subsequent redemption or repurchase of 10,491,231 B shares and 10,271,924 C shares resulted in the return of 457p per B share redeemed and C share repurchased. Further details are contained in note 25 to the accounts on page 55.

Dividend and proposed transfer to reserves

The directors recommend the payment of a final dividend of £7,868,000, equal to 36.0p per ordinary share (2005: £6,994,000, equal to 32.0p per share) giving a total dividend for the year of £11,874,000, equal to 54.0p per ordinary share (2005: £10,600,000, equal to 48.5p per share). Payment of the dividend will be made on 25th May, 2007 to shareholders on the register at the close of business on 27th April, 2007. The dividend details are shown in note 6 on page 43.

In accordance with IFRS, proposed dividends are provided for in the period in which they are formally declared and approved. As a result, the final dividend for 2006 will be recognised in the following year.

Directors

The directors listed below, all of whom are non-executive, served on the Board throughout the year and were in office at the end of the year.

G E Grimstone
S W Curran
A P Hichens
N A Lethbridge
C Russell
R A Stone
J G West

Mr G D Fairservice stepped down from the Board at the Annual General Meeting on 8th May, 2006.

On the same date Mr S W Curran stepped down as executive Chairman of the Company, but remains a non-executive director, and Mr G E Grimstone became non-executive Chairman.

In accordance with the Articles of Association and in compliance with the Revised Combined Code, Messrs S W Curran, A P Hichens, N A Lethbridge and J G West will retire and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting.

All of those seeking election and re-election have letters of appointment, the terms of which are described in the directors' remuneration report on page 26.

The biographical details of the serving directors and those seeking re-election appear on page 18.

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 18th March, 2007 are shown in note 16 to the accounts on page 50.

Directors' interests

The statements in respect of directors' interests in the share capital of the Company are contained in note 16 to the accounts on page 50. Other matters requiring disclosure by the directors are contained in the directors' remuneration report on page 26.

Political and charitable donations

During the year there were charitable donations of £5,800 (2005: £20,000). There were no political donations made during the year (2005: £nil).

Share buyback

Although authority to buy back the Company's shares was granted to the directors at the Annual General Meetings in 2005 and 2006, there were no buybacks of ordinary shares during the year.

The redemption and purchase of B and C preference shares is described under 'Return of cash' above.

Annual General Meeting

The Annual General Meeting of the Company will be held on Wednesday 16th May, 2007 at 12 noon at Founders' Hall, 1 Cloth Fair, London, EC1A 7HT. The notice of Annual General Meeting appears on page 56.

Resolution 2, if passed, will approve the directors' remuneration report for the year ended 31st December, 2006.

Resolutions 4-7 concern the re-election of directors. Biographical details for all directors are given on page 18. Each of the directors standing for re-election has demonstrated his ability to bring a wide ranging and valuable set of skills and knowledge to the Company and 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 10, if passed, authorises the Company to purchase up to 3,276,306 of its ordinary shares. This authority will expire at the next Annual General Meeting of the Company, or on 16th August, 2008 if the next Annual General Meeting has not been held by then. This resolution also sets out the highest and lowest price at which the shares can be bought.

In the event that 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.

Resolutions 11 and 12 seek shareholders' approval of two new share schemes, the Candover Company Share Option Plan (the 'CSOP') and the Candover Share Matching Plan (the 'SMP') (together the 'Plans'). The principal terms of these Plans are summarised in the appendix to the notice of Annual General Meeting, on page 57.

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

Supplier payment policy

The Company negotiates payment terms with its suppliers on an individual basis, with the normal arrangements being within 14 to 30 days from receipt of invoice. Trade creditor days of the Company for the year ended 31st December, 2006 were 34 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 385 of the Companies Act 1985 and an appropriate resolution will be put to the shareholders at the Annual General Meeting.

Tax status

The board of 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 31st December, 2005. 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.

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. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not hold any derivatives.

Further information on financial risk management is contained in note 22 on page 54.

By order of the Board

Andrew Moberly
Company Secretary
20 Old Bailey
London EC4M 7LN
30th March, 2007

Corporate governance

The following statement sets out the Company's application in the year to 31st December, 2006 of the Revised Combined Code issued in July 2003. In the opinion of the Board, the Company has complied with the principles and the relevant provisions in section 1 of that 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. At the AGM in May 2006 Mr S W Curran stepped down as executive Chairman, although he remains a non-executive director. In addition, Mr G D Fairservice retired as a director of the Company. Brief biographical details of the directors appear on page 18 and the interests of the directors in the share capital of the Company are shown in note 16 on page 50.

The Board typically meets five times a year and there is a formal schedule of matters reserved for decision by the Board. These include, inter alia, corporate strategy, review of the Company's management agreement with Candover Partners Limited (together with monitoring performance thereunder), approval of the annual budget, approval of the report and accounts and the valuation of the Company's investments. All meetings during 2006 were attended by all directors, with the exception of the March meeting which Mr R A Stone was unable to attend.

In line with the requirements of the Revised 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 a similar review of the effectiveness of the Board committees is also carried out. 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 similarly reviews with the Chairman his performance. The Board considers the results of the performance evaluation when making its recommendations regarding election and re-election of directors. 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 was undertaken in December 2006 and the Board concluded that its performance, and that of its committees and its Chairman and directors, was satisfactory.

Chairman

At the AGM in May 2006, Mr S W Curran stepped down as executive Chairman and Mr G E Grimstone became non-executive Chairman.

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

Board committees

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

The audit committee

The audit committee, chaired by Mr C Russell, comprises five directors and the members of this committee are shown on page 18. Mr G E Grimstone was a member of the audit committee until his appointment as Chairman of the Board on 8th May, 2006. The Board is satisfied that the chairman of the audit committee has recent and relevant financial experience.

The audit committee carries out a number of duties, including review of the interim and annual accounts, and seeks to ensure that appropriate accounting and financial policies and procedures are implemented, that systems of internal control and external audit are in place, that the auditor's recommendations are considered and appropriate actions are taken and 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. Meetings of the audit committee are held at least three times a year, and are attended by the external auditor. During 2006, three audit committee meetings were held and these were fully attended, with the exception of the March meeting which Mr R A Stone was unable to attend.

The remuneration committee

The remuneration committee, chaired by Mr R A Stone, comprises six directors. Its members are shown on page 18. This committee supports the Board in determining the level of the remuneration of the Chairman and the senior management and other related matters. The full report of the committee is set out in the directors' remuneration report on page 26.

The remuneration committee met three times during 2006 and these meetings were fully attended.

The nominations committee

In considering Board appointments, the Board is supported by a nominations committee whose remit is to review annually the structure, size and composition of the Board, to satisfy itself that plans are in place for orderly succession for appointments to the Board and to identify appropriate candidates. A job specification for the non-executive director role has been approved by the nominations committee. The nominations committee will generally use an appropriate external search consultancy to identify suitable candidates. All Board appointments are subject to final approval of the Board before ratification at a general meeting of shareholders.

The nominations committee, which is chaired by Mr A P Hichens, comprises four directors and the present members of the committee are shown on page 18.

The nominations committee met once during 2006 when all members were present.

Board balance

The Board comprised seven non-executive directors as at the year-end which it considered 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.

As a former executive director (first appointed in 1982) Mr S W Curran is not regarded as independent. In the view of the Board, no other non-executive director has any relationships that could materially interfere with their independent judgement. It is therefore the Board's view that, apart from Mr S W Curran, all other non-executives are independent, although two of them (Messrs J G West and A P Hichens) have exceeded the nine year period of service envisaged by the Revised Combined Code as being relevant to the determination of a non-executive director's independence. In this regard, the Board acknowledges the Association of Investment Companies' guidelines on corporate governance, which do not recommend that long-serving directors be prevented from forming part of an independent majority.

Following Mr G E Grimstone's appointment as Chairman, which took effect from 8th May, 2006, Mr J G West became Senior Independent Director.

Supply of information
The Chairman ensures that all directors are properly briefed on issues arising at Board meetings. The Candover management provides the Board with appropriate and timely information in order that the Board may reach proper decisions. Its members can, if necessary, obtain independent professional advice at the Company's expense.

Directors' training
During the year, the Board reviewed the requirement of the Revised Combined Code to provide suitable training for new directors and a formal training process for new non-executive directors exists.

Re-election of directors
The principle set out in the Revised Combined Code is that all directors should be required to submit themselves for re-election at regular intervals and at least every three years, and in any case as soon as practicable after their initial appointment to the Board. The Revised Combined Code further requires that the non-executive directors are appointed for specific terms. At Candover, directors are re-elected, subject to retirement by rotation, in accordance with the Company's Articles of Association, with all directors being required to submit themselves for re-election at least every three years. The details of non-executive directors' letters of appointment are set out in the directors' remuneration report on page 26.

Relations with shareholders
Dialogue with institutional shareholders
The Board is willing to enter into a dialogue with institutional shareholders based on a mutual understanding of objectives, bearing in mind the duties regarding equal treatment of shareholders and the dissemination of inside information. 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 (Messrs C Russell, R A Stone and A P Hichens respectively), to answer shareholders' questions.

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

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

Accountability and audit
Financial reporting
The directors are required to explain their responsibility for the financial statements and this statement is given on page 25. The auditors review the Company's compliance with the provisions of the Revised Combined Code and compliance with the rules of the Financial Services Authority (FSA), the regulatory authority that regulates Candover Partners Limited, and are also required to report on their audit of the financial statements and this report is shown on page 31.

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.

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

After making enquiries, and on the basis of the strength of its balance sheet, the directors are of the opinion that the Company has adequate resources to continue in operational existence for the foreseeable future. The Board is therefore of the opinion that the going concern basis should continue to be adopted in the preparation of the financial statements.

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

Candover's system of internal control includes, inter alia, the overall control environment, the procedures for identification and evaluation of business risk, the 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 accountable for collectively operating the system of internal 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 carry out their review only to the extent necessary to give their UK LLP audit opinions.

Identification and evaluation of business risk – The key business risk at Candover remains the identification and evaluation of our investments and this is achieved by a comprehensive study of potential investments by executives in co-operation with outside resources provided by market research specialists, lawyers and accountants. An investment report is then prepared and, in the case of an investment by one of the managed funds, is sent to the Board of Candover Partners Limited or an appropriate committee for their decision as to whether or not to proceed; and in the case of other investments, a report is sent to the Board of Candover Investments plc or an appropriate sub-committee of the Board.

The responsibility for identification of other business risks is delegated to 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, and if appropriate more, times per year giving actual results compared to budget. Towards the end of each financial year detailed budgets for the following year are prepared and are reviewed by the Board; and
- a review of these financial controls is carried out by the audit committee twice a year and by Candover's external auditors to the extent necessary for expressing their audit opinion.

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

Audit committee and auditors

The Board has delegated authority for reviewing the effectiveness of the Group's internal controls to its audit committee. The audit committee receives monitoring reports on a six monthly basis from the Company Secretariat with regard to the operational aspects of internal controls over the areas of key risk identified, which include FSA regulatory matters. The chairman of the audit committee reports on the review of internal controls and any matters arising to the full Board at the following Board meeting. Using the above process, the effectiveness of the Company's internal controls has been reviewed in respect of the year ended 31st December, 2006.

As required by the Revised Combined Code, the Board has reviewed the need for an internal audit function. Due to the size of Candover, it does not consider an internal audit function appropriate, although this is a matter under continual 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. 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

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union.

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.

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. 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

Andrew Moberly
Company Secretary
30th March, 2007

Directors' remuneration report

The directors' remuneration report describes Candover's remuneration policy, the role of its remuneration committee and sets out the directors' remuneration for the year ended 31st December, 2006. It has been prepared on behalf of the Board in accordance with the Companies Act and the Revised Combined Code. It will be put to shareholders for approval by ordinary resolution at the Annual General Meeting to be held on 16th May, 2007.

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

Remuneration committee

Composition and operation

The remuneration committee supports the Board by determining the level of remuneration of the chairman and executive directors of the Company, as well as reviewing the remuneration policy attributable to the senior management of Candover Partners Limited. Since Messrs S W Curran and G D Fairservice retired as executive directors of the Company on 8th May 2006, the Board of the Company is now comprised solely of non-executive directors and references in this report to executive directors' remuneration are applicable to part of the year only, and are now historic.

At 31st December, 2006 the members of the remuneration committee were Messrs R A Stone (chairman), G E Grimstone, A P Hichens, J G West, N A Lethbridge and C Russell. Mr R A Stone replaced Mr G E Grimstone as chairman of the remuneration committee on 8th May 2006, following Mr G E Grimstone's appointment as Chairman of the Board. Although not fully compliant with the Revised Combined Code Mr G E Grimstone's continuing membership of the remuneration committee is permitted under the revisions to that Code published in June 2006. Mr S W Curran attends meetings of the remuneration committee at the committee's invitation. Written terms of reference are available on the Company's website at candoverinvestments.com or from the Company Secretary.

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

Professional advice

During the year the remuneration committee received, at the Company's expense, professional advice from Grant Thornton UK LLP, the Company's auditors and tax advisers, Ashurst, the Company's lawyers, and New Bridge Street Consultants, specialists in employee share schemes. New Bridge Street Consultants were appointed by the committee and provide no other services to the Company.

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.

Remuneration policy

The Company'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. The remuneration policy detailed below is that applied in the year ended 31st December, 2006 and is intended to remain the same for the next and subsequent financial years, but it will be kept under review by the remuneration committee. The executive directors' remuneration package comprised both fixed and variable elements and is set out below under the following main headings:

- Base salary
- Performance related bonuses
- Pension
- Employee benefit trust.

Base salary

This was a fixed component of executive directors' compensation. Base salaries were reviewed annually by the committee after considering the relative salary levels within the industry, the estimated movement in net assets and the profits for the year.

Performance related bonus

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

During the year ended 31st December, 2006, Messrs S W Curran and G D Fairservice did not receive any bonus payments due, as stated earlier, to their retirement as executive directors of the Company on 8th May, 2006. Total emoluments received by directors during the year ended 31st December, 2006 were as follows:

	Salaries/ directors' fees £	Performance related pay[1] £	Taxable benefits[2] £	Insurance costs[2] £	Total emoluments excluding pension contributions 2006 £	Total emoluments excluding pension contributions 2005 £
Executive directors						
S W Curran[3]	98,369	–	14,134	2,335	**114,838**	767,568
G D Fairservice[4]	76,374	–	10,004	2,459	**88,837**	582,008
	174,743	**–**	**24,138**	**4,794**	**203,675**	1,349,576
Non-executive directors						
A P Hichens	35,000	–	–	–	**35,000**	35,000
J G West[5]	29,106	–	–	–	**29,106**	27,500
D R Wilson	–	–	–	–	**–**	12,474
R A Stone[6]	32,506	–	–	–	**32,506**	17,734
N A Lethbridge	27,500	–	–	–	**27,500**	27,500
G E Grimstone[7]	66,154	–	–	–	**66,154**	40,000
C Russell[8]	39,773	–	–	–	**39,773**	27,500
S W Curran[9]	17,840	–	–	–	**17,840**	–
	247,879	**–**	**–**	**–**	**247,879**	187,708
Total	**422,622**	**–**	**24,138**	**4,794**	**451,554**	–
2005 comparatives	716,375	793,001	16,263	11,645	1,537,284	1,537,284

1 Performance related pay comprises the discretionary bonus only.
2 It is Candover's policy to provide certain other benefits which form part of the usual employment package for the recruitment of employees. These include death in service and health insurance arrangements which are complementary to the pension arrangements. Executive directors were provided with a company car or equivalent cash benefit.
3 Mr S W Curran retired as an executive director on 8th May, 2006. His salary of £276,000 p.a. has been pro-rated in accordance with time served during the year as an executive director.
4 Mr G D Fairservice retired as an executive director on 8th May, 2006. His salary of £212,000 p.a. has been pro-rated in accordance with time served during the year as an executive director.
5 Mr J G West was appointed as senior independent director on 8th May, 2006. He received an increase in fees of £2,500 p.a. to reflect the additional responsibility. The increased fee has been pro-rated in accordance with time served during the year as senior independent director. Part of his fee was paid to a third party as shown on page 30.
6 Mr R A Stone was appointed as chairman of the remuneration committee with effect from 8th May, 2006. He received an increase in fees to £35,000 p.a. to reflect the additional responsibility. The increased fee has been pro-rated in accordance with time served during the year as chairman of the remuneration committee.
7 Mr G E Grimstone was appointed as chairman of the Company with effect from 8th May, 2006. He received an increase in fees to £80,000 p.a. to reflect the additional responsibility. The increased fee has been pro-rated in accordance with time served during the year as Chairman of the Company.
8 Mr C Russell received an increase in fee to £35,000 p.a. with effect from 8th May, 2005, when he was appointed as chairman of the audit committee.
9 Mr S W Curran was appointed as a non-executive director with effect from 8th May, 2006. His fee of £27,500 p.a. has been pro-rated in accordance with time served during the year as a non-executive director.

A schedule of directors' interests in shares is shown in note 16 to the accounts on page 50.

Pension

Candover operates a non-contributory money purchase pension scheme for its executives and there were no changes to this arrangement during the year. Contributions in respect of members are payable as a percentage of base salary only and these are adjusted at the appropriate time to reflect increases in salary. There is no pension promise under the Candover scheme.

The present contribution rates that were set in 1998 are related to the age of the individual. Actual contributions paid during the year in respect of the directors are shown overleaf.

During 2006, Barnett Waddingham provided advice on pension legislative changes, as well as acting as actuarial advisers to, and administrators of, the executive pension scheme. They have confirmed that no actuarial review of the executive pension scheme was required during the year.

Pension contributions

	2006 £	2005 £
S W Curran	46,000	110,400
G D Fairservice	35,333	84,800
Total	81,333	195,200

Both Messrs S W Curran and G D Fairservice, with the approval of the remuneration committee, operate funded unapproved retirement benefit schemes (FURBS), although there have been no payments made into these FURBS during the year ended 31st December, 2006.

Employee Benefit Trust

Established as part of the arrangements constituting the 2001 Fund, the 2001 Fund Employee Benefit Trust (2001 Fund EBT) co-invests alongside the Company under a co-investment agreement dated 13th June, 2001. Messrs S W Curran and G D Fairservice together with Group executives are potential beneficiaries of the 2001 Fund EBT. On behalf of Messrs S W Curran and G D Fairservice during the year ended 31st December, 2006, Candover paid £167,904 into the 2001 Fund EBT, and the trustees of the 2001 Fund EBT invested a total of £163,675 in five investments and made distributions amounting to £478,375. Messrs S W Curran and G D Fairservice are not potential beneficiaries of the 2005 Fund Employee Benefit Trust.

Proposed Employee Share Schemes

The Board has decided to seek shareholder approval at this year's AGM to a company share option plan (CSOP) and a share matching plan (SMP). The Board believes that the introduction of the CSOP will enable it to grant options to the Group's non-investment executives, who provide an important support role that adds to shareholder value, but who do not participate in incentive schemes linked to the funds managed by Candover Partners Limited. The SMP will be available to the Group's investment executives to encourage them to own shares in Candover, promoting a better alignment of interests and a focus on group performance. Demanding performance criteria will attach to the receipt of any matching shares. It is not intended to grant awards under both plans to any individual employee in a given year.

A summary of the terms of these two schemes is contained in the Notice of AGM. Non-executive directors will not be eligible to participate in the schemes.

Other incentive arrangements

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

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

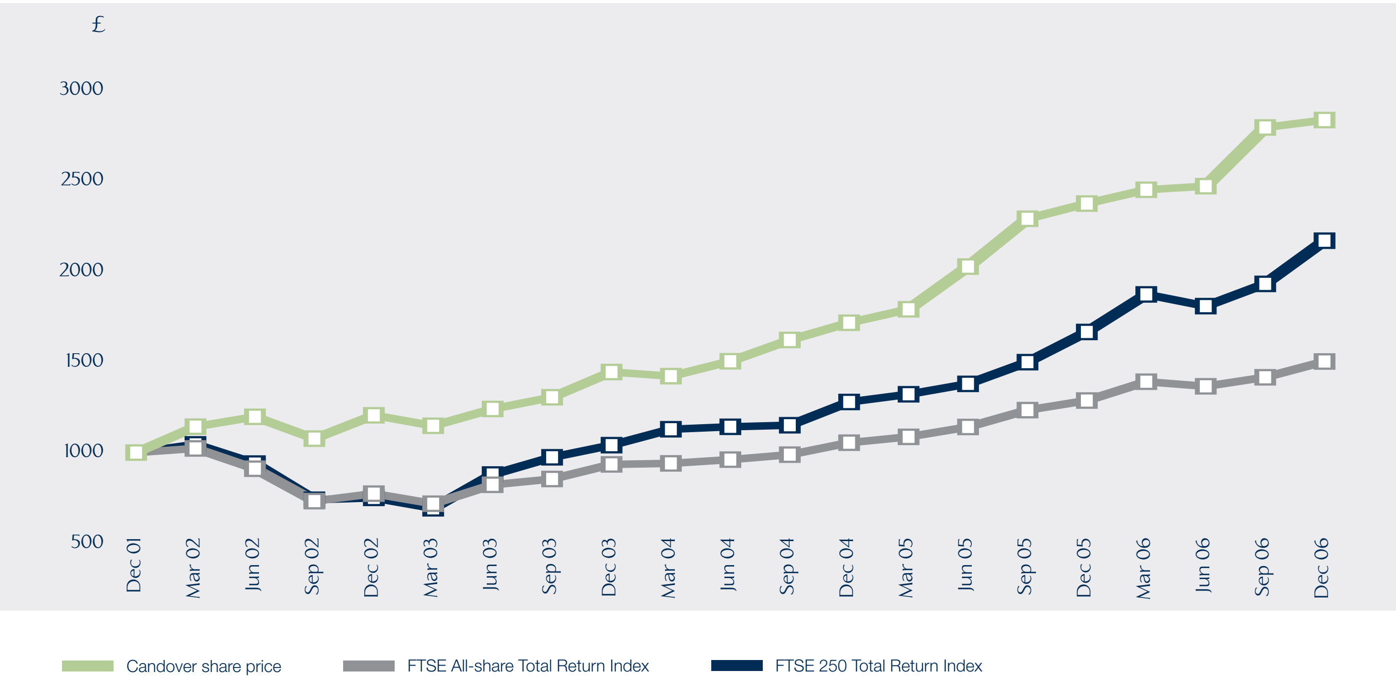
Under a co-investment scheme Messrs S W Curran and G D Fairservice were permitted during the year to make an investment in the ordinary equity of companies in which Candover has also made an investment in the equity and loan capital. Under the Listing Rules, these interests are covered by the rules governing 'Transactions with Related Parties' (the Rules). In view of the insignificant level of these transactions by the above named directors, the fair and reasonable opinion of the Company's auditors is not required.

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

Company name	Class of share	Equity investments in companies subscribed in year £	% of class held by the directors
Equity Trust Holdings S.à.r.l	A Shares	33	0.00
Luxono S.à.r.l	A Ordinary Shares	31	0.06
	B Ordinary Shares	31	0.06
	C Ordinary Shares	31	0.06
	D Ordinary Shares	31	0.06
	E Ordinary Shares	31	0.06
Eye1 S.à.r.l	Sub Shares	5	0.00
	Ordinary Shares	723	0.11

Comparative performance

Set out below is a graph showing the Company's total shareholder return performance assuming an original investment of £1,000 and with dividends reinvested for the five years to 31st December, 2006. This is compared against the return performance achieved by the FTSE All-Share Total Return Index and the FTSE 250 Total Return Index. As changes in the Company's market capitalisation may result in Candover's inclusion in either of these indices, it has been considered appropriate to measure the Company's performance against both.



Directors’ service contracts

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

	Date of contract	Notice period	Unexpired term
S W Curran (as executive director)	6th December, 1984	One year’s notice required from Mr S W Curran – six months’ notice required from the Company	Executive director contract terminated on 8th May, 2006
S W Curran (as non-executive director)	8th May, 2006	Terminable at the will of the parties	Appointment reviewed annually on 1st December
G D Fairservice	22nd January, 1985	One year’s notice required from Mr G D Fairservice – six months’ notice required from the Company	Executive director contract terminated on 8th May, 2006
G E Grimstone	1st July, 1999	Terminable at the will of the parties	Appointment reviewed annually on 1st June
N A Lethbridge	1st January, 2003	Terminable at the will of the parties	Appointment reviewed annually on 1st December
J G West	3rd February, 2004	Terminable at the will of the parties	Appointment reviewed annually on 1st December
A P Hichens	3rd February, 2004	Terminable at the will of the parties	Appointment reviewed annually on 1st December
C Russell	12th May, 2004	Terminable at the will of the parties	Appointment reviewed annually on 1st December
R A Stone	10th May, 2005	Terminable at the will of the parties	Appointment reviewed annually on 1st December

Non-executive directors’ fees

The Chairman of the Company formally recommends the level of fees to be paid to non-executive directors, based on market information, time commitment required and the level of responsibility undertaken. These recommendations are then put to a meeting of the executive committee of the Company for approval. For the year ended 31st December, 2006, there was no increase in the level of fees paid to non-executive directors, other than to Messrs G E Grimstone, R A Stone and J G West to reflect increased responsibilities.

Non-executive directors’ fees payable by investee companies of Candover for the services of Candover directors and executives who sit on their boards are paid to the Company for its benefit or that of the fund investors, whichever is appropriate, except in one instance. Since ceasing to be an executive director of the Company, Board fees of $40,000 p.a. paid by DM&E in respect of the services of Mr S W Curran have been paid to him.

Termination payments and payments to third parties

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

A payment to a third party for directors’ services during the year was made in the case of Mr J G West, for whom £22,856 was paid to Jimmy West Associates Limited. This amount is included in the directors’ fees shown in the directors’ emoluments schedule on page 27.

Signed on behalf of the Board

R A Stone
Chairman of the remuneration committee
30th March, 2007

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 31st December, 2006 which comprise the 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 statement of recognised income and expenses and the Group and parent company reconciliation of movements in equity and notes 1 to 25. 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 for use in 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.

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 2003 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 reviews, the valuation policy, the 20 largest investments, the corporate governance statement and other information listed in the contents. 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

Opinion

In our opinion:

- the 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 31st December, 2006 and of its profit 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 31st December, 2006;

- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and

- the information given in the directors' report is consistent with the financial statements.

Grant Thornton UK LLP
Registered Auditor
Chartered Accountants

London
30th March, 2007

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, unless otherwise stated.

Basis of preparation

The Group and Company have prepared their financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union. IFRS comprises standards and interpretations approved by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) as adopted in the European Union as at 31st December, 2006.

The Group and the Company will be required to comply with IFRS 7 'Financial Instruments: Disclosures' and IFRS 8 'Operating Segments' in its financial statements next year.

The financial statements have been prepared on the historical cost basis of accounting, modified to include the revaluation of certain assets.

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 in January 2003 (revised December 2005), is consistent with the requirements of IFRS, the directors have sought to prepare the financial statements on a basis compliant with the SORP.

Management expenses

Management expenses 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 subsidiaries) 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 investee entity so as to obtain benefits directly from its activities.

Income

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.

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.

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.

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 16.

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 market 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 subsidiaries are reflected in the Company's accounts at cost less any provisions for diminution in value.

Trade debtors and creditors are accounted for at fair value when the asset or liability is incurred.

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 bank loans and overdrafts are recorded at fair value, net of direct issue costs. Finance charges, 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 and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. The effective interest method allocates the interest expense over the life of the instrument so as to reflect constant return on the carrying amount of the liability. Costs of borrowing are taken to capital reserves to the extent that the borrowing has been incurred to fund 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 or from borrowings incurred to fund 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; and
- all resulting exchange differences are recognised as a separate component of equity.

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 and the recognition or otherwise of accrued income on loan notes and similar instruments granted to investee companies.

Group income statement
for the year ended 31st December, 2006

	Notes	Year to 31st December, 2006 Revenue £000	Capital £000	Total* £000	Year to 31st December, 2005 Revenue £000	Capital £000	Total* £000
Gains on financial investments and cash equivalents at fair value through profit and loss							
Realised gains and losses		–	14,249	14,249	–	15,220	15,220
Unrealised gains and losses		–	38,029	38,029	–	47,810	47,810
		–	52,278	52,278	–	63,030	63,030
Revenue							
Management fees from managed funds		39,454	–	39,454	29,964	–	29,964
Investment and other income		21,007	–	21,007	14,700	–	14,700
	1	60,461	–	60,461	44,664	–	44,664
Administrative expenses	2	(39,841)	(8,315)	(48,156)	(28,029)	(7,681)	(35,710)
Profit before finance costs and taxation		20,620	43,963	64,583	16,635	55,349	71,984
Interest payable and similar charges	3	(12)	(222)	(234)	(161)	–	(161)
Profit before taxation		20,608	43,741	64,349	16,474	55,349	71,823
Taxation	4	(6,231)	2,560	(3,671)	(4,841)	2,304	(2,537)
Profit attributable to equity shareholders		14,377	46,301	60,678	11,633	57,653	69,286
Earnings per ordinary share							
Basic and diluted	7	65.8p	211.8p	277.6p	53.2p	263.8p	317.0p

* The total column represents the income statement under IFRS.

Statement of recognised income and expenses
for the year ended 31st December, 2006

	2006 Group £000	2006 Company £000	2005 Group £000	2005 Company £000
Profit attributable to equity shareholders	60,678	56,331	69,286	66,175
Exchange differences on translation of foreign operations	(11)	–	(8)	–
Total recognised income and expenses	60,667	56,331	69,278	66,175

Reconciliation of movements in equity
for the year ended 31st December, 2006

	Notes	Year to 31st December, 2006 Group £000	Year to 31st December, 2006 Company £000	Year to 31st December, 2005 Group £000	Year to 31st December, 2005 Company £000
Opening total equity	20	380,261	355,487	320,928	299,257
Total recognised income and expenses		60,667	56,331	69,278	66,175
Return of cash	25	(101,374)	(101,374)	–	–
Dividends	6	(11,033)	(11,033)	(9,945)	(9,945)
Closing total equity	20	328,521	299,411	380,261	355,487

Group balance sheet
at 31st December, 2006

	Notes	31st December, 2006 £000	31st December, 2006 £000	31st December, 2005 £000	31st December, 2005 £000
Non-current assets					
Property, plant and equipment	8		1,679		934
Financial investments designated at fair value through profit and loss					
Investee companies	9	284,336		184,048	
Other financial investments	9	10,927		3,827	
			295,263		187,875
Trade and other receivables	11		1,141		4,820
Deferred tax asset	15		4,737		2,289
			302,820		195,918
Current assets					
Trade and other receivables	11	29,616		20,545	
Cash and cash equivalents	12	63,437		189,392	
			93,053		209,937
Current liabilities					
Trade and other payables	13	(29,655)		(19,971)	
Loans and borrowings	14	(33,735)		–	
Current tax liabilities		(3,962)		(5,623)	
			(67,352)		(25,594)
Net current assets			25,701		184,343
Net assets			328,521		380,261
Equity attributable to equity holders					
Called up share capital	16, 20		5,464		5,464
Share premium account	20		1,232		1,451
Translation reserve	20		(19)		(8)
Capital redemption reserve	20		499		290
Capital reserve – realised	20		226,894		313,214
Capital reserve – unrealised	20		56,427		25,170
Revenue reserve	20		38,024		34,680
Total equity			328,521		380,261
Net asset value per share	7		1503p		1740p
Net asset value per share (adjusted for return of cash)	25		1503p		1276p

The financial statements were approved on behalf of the directors on 30th March, 2007.

G E Grimstone
Chairman

Company balance sheet
at 31st December, 2006

	Notes	31st December, 2006 £000	31st December, 2006 £000	31st December, 2005 £000	31st December, 2005 £000
Non-current assets					
Financial investments designated at fair value through profit and loss					
Investee companies	9	284,336		184,048	
Other financial investments	9	10,927		3,827	
			295,263		187,875
Investment in subsidiary undertakings	9, 10		4,707		4,707
			299,970		192,582
Current assets					
Trade and other receivables	11	17,376		9,698	
Current tax asset		170		3,643	
Cash and cash equivalents	12	59,858		186,367	
			77,404		199,708
Current liabilities					
Trade and other payables	13	(44,228)		(36,803)	
Loans and borrowings	14	(33,735)		–	
			(77,963)		(36,803)
Net current (liabilities)/assets			(559)		162,905
Net assets			299,411		355,487
Equity attributable to equity holders					
Called up share capital	16, 20		5,464		5,464
Share premium account	20		1,232		1,451
Capital redemption reserve	20		499		290
Capital reserve – realised	20		228,415		314,735
Capital reserve – unrealised	20		56,024		24,767
Revenue reserve	20		7,777		8,780
Total equity			299,411		355,487

The financial statements were approved on behalf of the directors on 30th March, 2007.

G E Grimstone
Chairman

Group cash flow statement
for the year ended 31st December, 2006

	Notes	31st December, 2006 £000	31st December, 2006 £000	31st December, 2005 £000	31st December, 2005 £000
Cash flows from operating activities					
Cash flow from operations	21		12,261		8,165
Interest paid			(293)		(47)
Tax paid			(7,780)		(8,968)
Net cash from operating activities			4,188		(850)
Cash flows from investing activities					
Purchase of property, plant and equipment		(1,405)		(253)	
Purchase of financial investments		(96,144)		(41,727)	
Sale of property, plant and equipment		12		9	
Sale of financial investments		43,756		116,309	
Net cash from investing activities			(53,781)		74,338
Cash flows from financing activities					
Equity dividends paid	6	(11,008)		(9,945)	
Return of cash	25	(96,367)		–	
Loans and borrowings	14	33,735		–	
Net cash from financing activities			(73,640)		(9,945)
(Decrease)/increase in cash and cash equivalents			(123,233)		63,543
Opening cash and cash equivalents			189,392		124,807
Effect of exchange rates and revaluation on cash and cash equivalents			(2,722)		1,042
Closing cash and cash equivalents	12		63,437		189,392