# Interim financial statement 2002

candover

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# Chairman's statement
For the half year ended 30th June, 2002

**S W Curran**
9th September, 2002

Candover has had a successful half year, with the final closing of its 2001 Fund with commitments of €2.7 billion, and five significant realisations. However, despite these realisations, two of which were anticipated in the December accounts, Candover's net assets per share have decreased by 4.9% in the first half of the year. The valuation of our investee companies is principally related to comparable listed company multiples and, with the continued decline in the financial markets in the six months to 30th June, a decrease in the value of our net assets has been unavoidable: but I am pleased to report that this decrease is significantly less than the decline in relevant market indices over the same period. The lower multiples produced by the further decline in the markets since 30th June have, where appropriate, been factored into our valuations as at 30th June.

The unaudited net assets attributable to the ordinary shares at 30th June, 2002 were £237.6 million (1072p per share). This represents a decrease of 1.8% over the net assets per share of 1092p at 30th June, 2001 and a decrease of 4.9% from the net assets per share of 1127p per share at 31st December, 2001. This compares with a decline in the FTSE-All Share Index of 17.1% over the full year and a decline of 10.3% over the last six months.

The reduction in net assets of £12.6 million since 31st December, 2001 was mainly due to a net decrease in the valuation of fixed asset investments of £13.6 million which comprised downward adjustments of £24.8 million and upward movements of £11.2 million. The upward movement was principally accounted for by Inveresk, while the most significant downward adjustment was a prudent provision of £7.3 million against Candover's investment in an externally managed fund.

The value ascribed to Candover's share of the carried interest in the 1994 Fund was reduced from £30.4 million (137p per share) at 31st December, 2001 to £29.5 million (133p per share), taking into account a reduction in the value of the residual portfolio of that fund.

Pre-tax profits for the six months were £8.4 million, compared with £6.4 million for the first half of 2001, an increase of 31.2%. This increase in profits was due primarily to an uplift in management fee income resulting from the formation of the 2001 Fund, which is almost double the size of the 1997 Fund.

The Board has decided to raise the interim dividend by 20% from 10.00p per share to 12.00p per share. The dividend will be paid on 18th October, 2002 to shareholders on the register at 20th September, 2002.

## Investments

In total, Candover invested £17.5 million during the six months to 30th June, 2002 in two new investments and three follow on financings.

As reported at the year end, in February 2002, Candover and the 2001 Fund completed the buyout of Swissport, a global ground handling business, acquired from Swissair Group AG for a total consideration of €393 million. The 2001 Fund invested €108.9 million (£66.9 million), and Candover invested €13.9 million (£8.5 million) in this transaction.

In June, Candover co-led an equity syndicate which committed £448 million to the formation of Wellington Re, a new London-based insurance company and one of the largest independent reinsurance vehicles in the UK market. Wellington Re's key business lines of property and casualty reinsurance and UK commercial insurance have all experienced significant rate increases in recent months. The 2001 Fund invested £34.1 million (€52.7 million) and Candover invested £4.3 million (€6.6 million).

## Realisations

Despite the uncertain trading environment and stock market unease during the first half of the year, Candover was successful in achieving a number of profitable exits. Net realised gains over cost achieved by Candover and its managed funds in the period amounted to £95.8 million, of which Candover's share was £15 million. In calculating these gains residual, unrealised shareholdings in listed companies (see below) have not been included.

In March, PII, the global pipeline integrity services company, was sold to GE Power Systems with gains over cost for Candover of £1.2 million and £10.0 million for the 1997 Fund. In April, Regional Independent Media, the regional newspaper group, was sold to Johnston Press plc with gains over cost for Candover of £5.2 million and £39.9 million for the 1997 Fund, while in June, Diamant Boart, a global leading manufacturer and supplier of diamond tools and related equipment for the construction and stone market, was sold to Electrolux AB. This resulted in gains over cost of £2.5 million for Candover and £20.3 million for the 1997 Fund.

In addition to these sales, two stock market listings occurred during the period. In April, Detica Group plc, one of the UK's leading customer relationship management consultancies, listed on the London Stock Exchange at £4.00 per share. Candover and the 1994 Fund sold 50% of their stake in the company with realised gains over cost of £2.7 million for Candover and £10.6 million for the 1994 Fund. Candover's residual shareholding of 725,350 shares is valued at £1.8 million and the 1994 Fund's shareholding at £6.9 million (compared to a cost of £25,000 and £97,000 respectively) after applying a discount of 25% to the 30th June market price of £3.31 per share to reflect selling restrictions. The mid-market price at the close of business on 5th September was £2.83½.

In June, Inveresk, the global contract research organisation, listed on NASDAQ at $13.00 per share. At the listing Inveresk repaid the loan stock representing a significant proportion of the cost of the original investment and this resulted in £70.8 million being realised in cash, £8.3 million for Candover and £62.5 million for the 1997 Fund. Candover's residual shareholding of 1,959,425 shares is valued at £12.5 million and the 1997 Fund's shareholding at £104.4 million (compared to a cost of £75,000 and £624,000 respectively), after applying a discount of 25% to the 30th June market price of $13.01 per share, to reflect selling restrictions. The mid-market price at the close of business on 5th September was $15.18.

As indicated earlier, the favourable impact of these realisations has been offset by the downward revaluation of a number of investee companies in line with quoted company comparables.

## The 2001 Fund

The final closing of the 2001 Fund occurred in June with commitments from 110 investor groups aggregating €2.7 billion. Approximately two-thirds of our existing investors committed to the new Fund and, whilst nearly 50% of third-party commitments continue to originate from North America, increased Continental European interest in the asset class resulted in the participation of significantly more investors from that region than was the case in prior funds.

## Board and staff

During the half year we were joined by three new investment executives. As reported at the year end, Brian Mercer joined our team as a Director of Candover Partners, having previously worked for Broadview International, a global advisory and investment firm specialising in the technology, media and telecoms markets. In May, Dr Kurt Kinzius joined us with a brief to establish a Candover German office in Düsseldorf and to originate and transact deals in German speaking European countries alongside Jens Tonn. Kurt is a senior manager with extensive industrial experience in engineering, automotive and telecommunications gained during the 12 years he spent with the Mannesmann Group, latterly as a main board director responsible for corporate development and M&A.

Also in May we were joined by Sébastien Canderlé, a French national. Sébastien, a chartered accountant who also holds an MBA from Wharton, joined us from a strategy consulting firm based in New York.

Elizabeth Hatfield joined Candover in July as the Group Compliance Officer. She is a solicitor and was previously an assistant director of an investment management firm in Edinburgh.

## Prospects

The buyout markets during the first half of the year both in the UK and on the Continent were depressed, in line with merger and acquisition activity globally. However, a number of very large deals have been announced during July and there are signs of a pick up in activity, particularly in the Continental European buyout markets. Candover has a team of experienced investment executives and a sizeable fund to put to work and we continue to believe that the medium term opportunities remain attractive as corporate restructuring and distressed sales gather pace across Europe. We are in the process of establishing an office in Germany as part of our commitment to timely European expansion.

Whilst trading conditions are difficult for a number of our investee companies in light of the current economic climate, most are performing in line with expectations. We continue to monitor the progress of the portfolio carefully and to pursue realisations where appropriate.

## Independent review report
### To the members of Candover Investments plc

### Introduction

We have been instructed by the company to review the financial information for the six months ended 30th June, 2002, which comprises the group statement of total return, group balance sheet, group cash flow statement and the related notes 1 to 4. We have read the other information contained in the interim report which comprises only the chairman's statement and considered whether it contains any apparent misstatements or material inconsistencies with the financial information. Our responsibilities do not extend to any other information.

### Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority, which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

### Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of Interim Financial Information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom auditing standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

### Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30th June, 2002.

**Grant Thornton**
Chartered Accountants
London
9th September, 2002



## Group statement of total return
### Incorporating the revenue account for the half year ended 30th June, 2002

| Unaudited | **6 months to 30th June, 2002** | | | 6 months to 30th June, 2001 | | | 12 months to 31st December, 2001 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Revenue £'000** | **Capital £'000** | **Total £'000** | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Gains/(losses) on investments | | | | | | | | | |
| Realised gains and losses | **–** | **522** | **522** | – | (810) | (810) | – | (881) | (881) |
| Unrealised gains and losses | **–** | **(13,585)** | **(13,585)** | – | 3,312 | 3,312 | – | 11,039 | 11,039 |
| | **–** | **(13,063)** | **(13,063)** | – | 2,502 | 2,502 | – | 10,158 | 10,158 |
| Income – managed funds | | | | | | | | | |
| Net income | **29,439** | **–** | **29,439** | 3,726 | – | 3,726 | 6,017 | – | 6,017 |
| Less: third party interests in managed funds | **(29,439)** | **–** | **(29,439)** | (3,726) | – | (3,726) | (6,008) | – | (6,008) |
| Add: management fees | **11,306** | **–** | **11,306** | 6,021 | – | 6,021 | 17,198 | – | 17,198 |
| Net income from managed funds | **11,306** | **–** | **11,306** | 6,021 | – | 6,021 | 17,207 | – | 17,207 |
| Income – own funds | **6,819** | **–** | **6,819** | 5,341 | – | 5,341 | 12,716 | – | 12,716 |
| | **18,125** | **–** | **18,125** | 11,362 | – | 11,362 | 29,923 | – | 29,923 |
| Administrative expenses | **(9,700)** | **(2,019)** | **(11,719)** | (4,997) | (2,874) | (7,871) | (15,508) | (4,206) | (19,714) |
| Net return before finance costs and taxation | **8,425** | **(15,082)** | **(6,657)** | 6,365 | (372) | 5,993 | 14,415 | 5,952 | 20,367 |
| Interest payable & similar charges | **(2)** | **–** | **(2)** | (5) | – | (5) | (7) | – | (7) |
| **Return on ordinary activities before taxation** | **8,423** | **(15,082)** | **(6,659)** | 6,360 | (372) | 5,988 | 14,408 | 5,952 | 20,360 |
| Tax on ordinary activities | **(2,528)** | **606** | **(1,922)** | (1,908) | 862 | (1,046) | (4,176) | 1,262 | (2,914) |
| **Return on ordinary activities after taxation for the financial year** | **5,895** | **(14,476)** | **(8,581)** | 4,452 | 490 | 4,942 | 10,232 | 7,214 | 17,446 |
| Interim dividend at 12.0p per share (2001:10.0p) | **(2,659)** | **–** | **(2,659)** | (2,248) | – | (2,248) | (7,135) | – | (7,135) |
| Transfer to reserves | **3,236** | **(14,476)** | **(11,240)** | 2,204 | 490 | 2,694 | 3,097 | 7,214 | 10,311 |
| Return per ordinary share | | | | | | | | | |
| Basic | **26.55p** | **(65.21p)** | **(38.66p)** | 19.79p | 2.18p | 21.97p | 45.64p | 32.18p | 77.82p |
| Fully diluted | **26.46p** | **(64.99p)** | **(38.53p)** | 19.66p | 2.16p | 21.82p | 45.43p | 32.03p | 77.46p |

# Group balance sheet
at 30th June, 2002

Unaudited

| | 30th June, 2002 | 30th June, 2001 | 31st December, 2001 |
|---|---|---|---|
| | **£'000** | £'000 | £'000 |
| **Fixed assets** | | | |
| Tangible assets | **1,381** | 1,625 | 1,487 |
| **Investments:** | | | |
| Managed funds | **835,518** | 759,083 | 788,188 |
| Less: third party interests in managed funds | **(805,510)** | (731,438) | (756,960) |
| Net investment in managed funds | **30,008** | 27,645 | 31,228 |
| Other fixed asset investments | **120,531** | 158,031 | 157,559 |
| | **150,539** | 185,676 | 188,787 |
| Associated undertakings | **74** | 74 | 74 |
| | **150,613** | 185,750 | 188,861 |
| **Current assets** | | | |
| Debtors | **42,720** | 10,555 | 20,773 |
| Investments | **47,030** | 47,307 | 46,448 |
| Cash at bank | **16,933** | 11,534 | 10,555 |
| | **106,683** | 69,396 | 77,776 |
| **Creditors: amounts falling due within one year** | **(19,248)** | (8,119) | (16,122) |
| **Net current assets** | **87,435** | 61,277 | 61,654 |
| **Total assets less current liabilities** | **239,429** | 248,652 | 252,002 |
| **Provisions for liabilities and charges** | **(1,805)** | (3,582) | (1,805) |
| | **237,624** | 245,070 | 250,197 |
| **Capital and reserves** | | | |
| Called up share capital | **5,539** | 5,621 | 5,553 |
| Share premium account | **1,243** | 971 | 971 |
| Capital redemption reserve | **200** | 94 | 161 |
| Capital reserve – realised | **185,195** | 174,987 | 173,206 |
| Capital reserve – unrealised | **26,726** | 48,805 | 54,821 |
| Revenue reserve | **18,721** | 14,592 | 15,485 |
| **Shareholders' funds** | **237,624** | 245,070 | 250,197 |



# Group cash flow statement
at 30th June, 2002

Unaudited

| | **6 months to 30th June, 2002** | | 6 months to 30th June, 2001 | | 12 months to 31st December, 2001 | |
|---|---|---|---|---|---|---|
| | **£'000** | **£'000** | £'000 | £'000 | £'000 | £'000 |
| **Net cash inflow from operating activities** | | **8,845** | | 1,024 | | 1,019 |
| **Returns on investments and servicing of finance** | | | | | | |
| Interest paid | | **(2)** | | (5) | | (7) |
| **Taxation** | | | | | | |
| UK corporation tax (paid)/received | | **(461)** | | 1,068 | | (507) |
| **Capital expenditure and financial investment** | | | | | | |
| Purchase of tangible fixed assets | **(107)** | | (285) | | (370) | |
| Purchase of investments | **(17,495)** | | (24,460) | | (26,178) | |
| Sale of investments | **22,554** | | 30,207 | | 36,471 | |
| Sale of tangible fixed assets | **26** | | 10 | | 27 | |
| **Net cash inflow from capital expenditure and financial investment** | | **4,978** | | 5,472 | | 9,950 |
| **Equity dividends paid** | | **(4,880)** | | (4,497) | | (6,743) |
| **Management of liquid resources** | | **(769)** | | (4,380) | | (3,521) |
| **Financing** | | | | | | |
| Issue of shares | | **297** | | – | | – |
| Share buy back | | **(1,630)** | | (3,841) | | (6,329) |
| **Increase/(decrease) in cash** | | **6,378** | | (5,159) | | (6,138) |

# Notes

1 The interim statement is the responsibility of, and has been approved by, the directors.

2 Comparative figures for 31st December, 2001 are taken from the full accounts, which have been delivered to the Registrar of Companies and contain an unqualified audit report.

3 A copy of this statement is being sent to all shareholders and further copies can be obtained from the registered office of the Company, 20 Old Bailey, London EC4M 7LN.

4 Current asset investments comprise holdings in fixed income securities.



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