Report and accounts 1999

candover

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

Contents

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

+13%

Total net assets up from £199.5m in 1998 to **£225.0m** in 1999

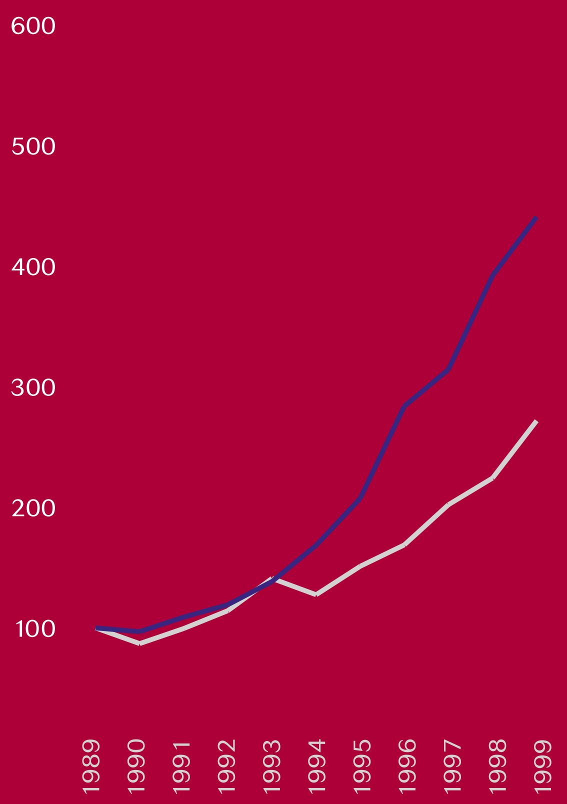
+12%

Net assets per share up from 877p in 1998 to **986p** in 1999

+8%

Final dividend up 9% to 18.5p. Total dividend up from 25p in 1998 to **27p** in 1999

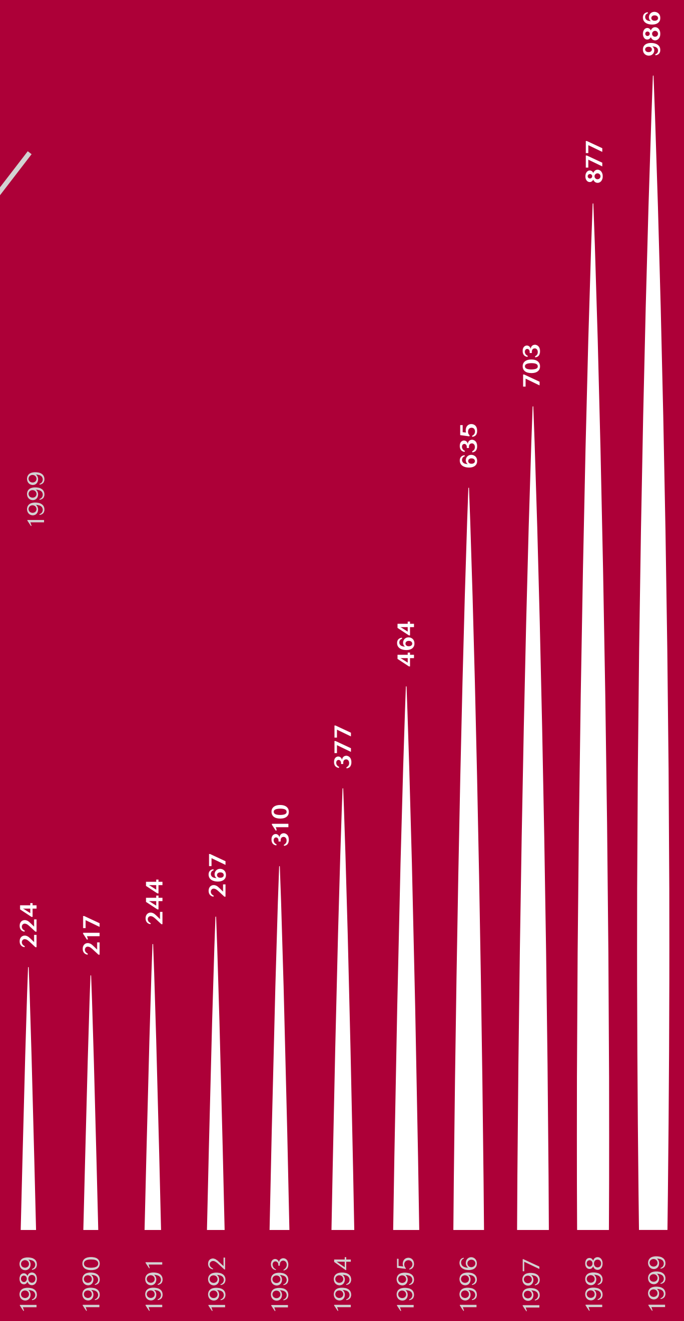
The results in pictures



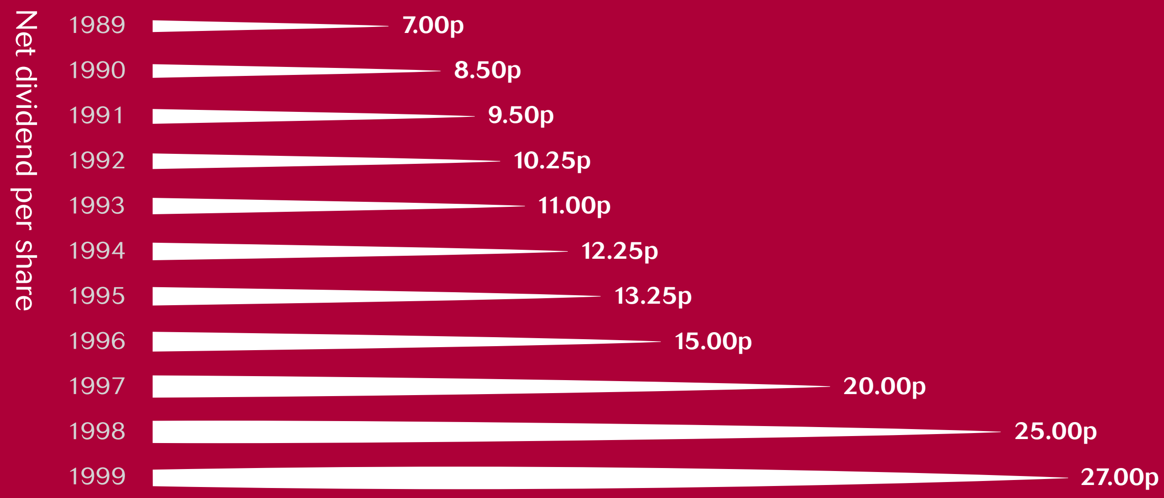
Net assets growth
compared to FTSE All-Share index

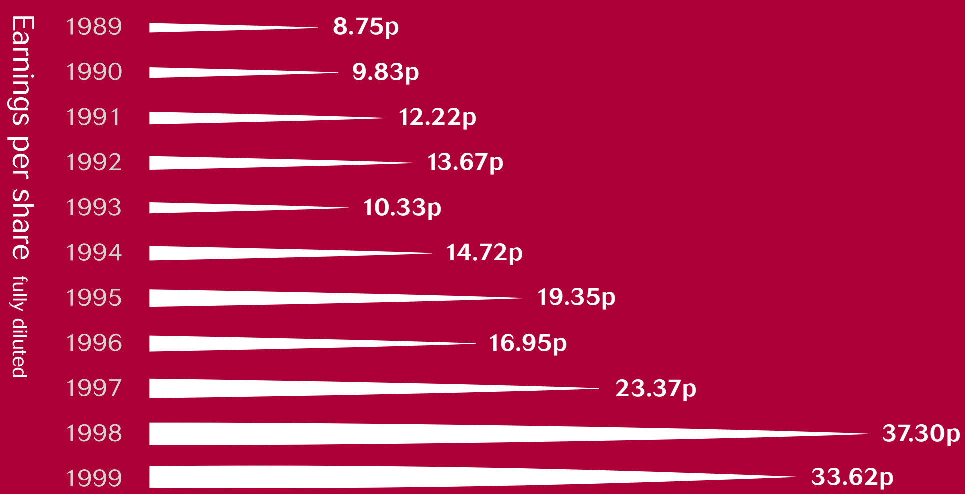
FTSE All-Share index
(31st December, 1989 = 100)

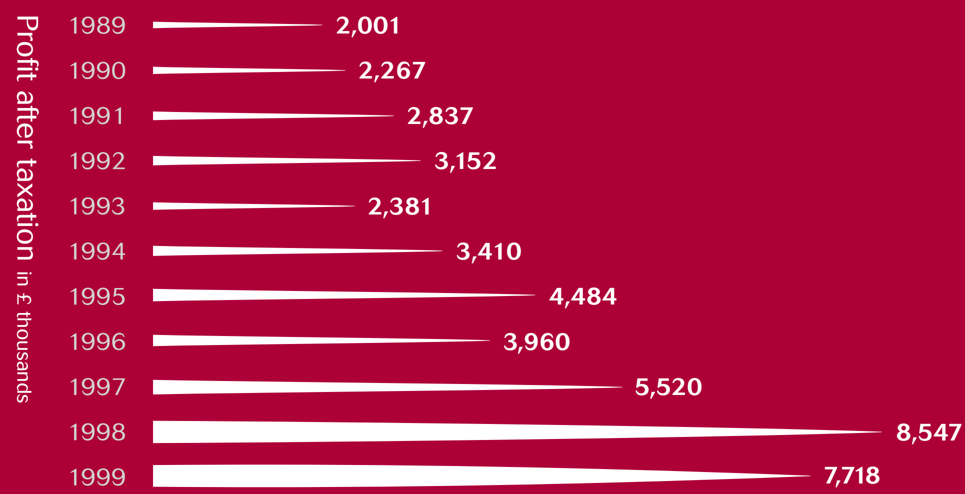
Candover net assets
(31st December, 1989 = 100)



Net assets record in £ thousands


Net dividend per share
1989 7.00p
1990 8.50p
1991 9.50p
1992 10.25p
1993 11.00p
1994 12.25p
1995 13.25p
1996 15.00p
1997 20.00p
1998 25.00p
1999 27.00p


Earnings per share fully diluted
1989 8.75p
1990 9.83p
1991 12.22p
1992 13.67p
1993 10.33p
1994 14.72p
1995 19.35p
1996 16.95p
1997 23.37p
1998 37.30p
1999 33.62p


Profit after taxation in £ thousands
1989 2,001
1990 2,267
1991 2,837
1992 3,152
1993 2,381
1994 3,410
1995 4,484
1996 3,960
1997 5,520
1998 8,547
1999 7,718

Chairman's statement

Introduction

Net assets continued to grow during 1999, although at a reduced rate compared to 1998. However, new investment activity was particularly strong, with Candover and the 1997 Fund investing £381.0 million (Candover's share £44.6 million) in nine transactions in the UK, Ireland, Benelux and Germany. One further transaction has been completed since the year end. These new investments should form the basis of further growth in net assets over the next few years. A number of realisations also occurred during 1999, with three in particular generating healthy capital gains for Candover.

Results for 1999

As at 31st December, 1999 the net assets attributable to the ordinary shares, after including current asset investments at market or directors' valuation, less attributable taxation, were £225.0 million compared to £199.5 million at 31st December, 1998, an increase of 12.8%. Net assets per share were 986p compared with 877p at 31st December, 1998. This increase in net assets per share of 12.4% compares with an increase of 21.2% in the FTSE All-Share Index. During the last ten years Candover's net assets per share have risen by 16.0% compound compared with an increase of 10.5% in the FTSE All-Share Index.

The growth in net assets was principally due to an upward revaluation of investments, the more important being Crown Castle International Corporation (CCIC) and Candover's share of the carried interest in the 1994 Fund; and to a number of successful realisations, including the sale of a significant proportion of Candover's holding in NASDAQ-listed CCIC.

As at 31st December, 1999 Candover and the 1994 Fund held 6.4 million shares in CCIC, of which Candover itself held 1.3 million. At that date, these shares were valued at $27.31 per share compared to the mid-market closing price on that day of $32.12. Candover's own shareholding in CCIC was, therefore, valued at 31st December, 1999 at $36.6 million (£22.7 million). Since that date, Candover's holding in CCIC has been reduced pari passu and pro rata with the 1994 Fund from 1.3 million shares at 31st December 1999 to 1.1 million shares at 9th March. The mid-market closing price of CCIC on 9th March was $40.81.

The value ascribed to Candover's share of the carried interest in the Candover 1994 Fund was increased to £19.7 million (or 86p per share), from £15.1 million (or 66p per share) at 30th June, 1999 and £12.1 million at 31st December, 1998.

Profits before tax for the year were £10.5 million compared with £12.1 million for the twelve months to 31st December, 1998. The main reason for the decrease in profits was the increase in staffing costs arising from the expansion of Candover's executive team. This was forecast in the 1998 Chairman's statement.

The valuation of fixed asset investments at 31st December, 1999 was £153.5 million (1998: £106.0 million) after taking into account downward adjustments of £2.5 million made to reflect the underperformance of some investee companies. At the year end, cash and liquid assets totalled £73.1 million (1998: £91.8 million). Listed shares (excluding the shareholding in CCIC) at the year end totalled £16.5 million, representing 7.3% of our net assets.

Dividends

At the half year the Board decided to increase the interim dividend by 6.3% from 8.0p to 8.5p per share. The Board has decided to pay a final dividend of 18.5p per share (17p in 1998) making a dividend total of 27p per share against 25p in the previous year, an increase of 8.0%. Payment of the dividend will be made on 25th May, 2000 to holders on the register at 2nd May, 2000.

Board and staff

At the AGM in May 1999, Roger Brooke, our founder and Chairman, retired from Candover. It was his idea, in 1980, with the support of Michael Stoddart, the Chairman of Electra, to develop the concept of management buyouts in the UK following research into the buyout market in the USA. Since those early days, Roger Brooke has been one of the main drivers behind the progress and expansion of that market which, in 1999, was worth over £15 billion per annum in the UK alone; and it was largely due to Roger's vision and enthusiasm that, from an initial capital in 1980 of just over £2 million, Candover has grown into the thriving and established company that it is today.

I shall always be grateful to Roger for his guidance and support during all my time at Candover, but especially latterly when he was Chairman and I was Chief Executive. Although he has retired from Candover, he has not retired from business where he remains active in many areas. Roger has agreed to remain as Life President of Candover and we look forward to his continuing association with and interest in the Company.

Richard King also retired from the board at the AGM in May 1999 after having served since July 1981. Richard's wise counsel over these many years will be greatly missed and we wish him well.

On 6th July, 1999 Gerry Grimstone was appointed to the Board as a non-executive director. Since 1986, Gerry has held a number of senior appointments at Schroders, the investment banking group, the most recent being Vice Chairman of Schroders' worldwide investment banking activities. He worked previously in the UK Civil Service in a number of posts, including HM Treasury, where he was an Assistant Secretary responsible for the UK's privatisation policy and the financing, reform and commercialisation of state-owned industries. He was closely involved in over 20 major privatisations.

During the second half of the year Nils Stoesser joined our executive team from Arthur Andersen where he qualified as a chartered accountant. He holds dual British and German nationality and has a Masters degree in Mechanical Engineering.

It can be deduced from the comments earlier in my report on new investment activity that 1999 was a very busy year for everyone at Candover and I would like to thank all members of staff for their hard work.

Prospects

We expect the market for buyouts in both the UK and Continental Europe to continue to be strong over the coming year as the concept of shareholder value spreads and the focus on core assets continues to drive larger companies to sell off non-strategic assets. As one of the more prominent private equity houses in Europe, Candover is well positioned to attract high quality deal flow. It will remain our policy to carefully select the transactions in which we invest in order to deliver good returns to our shareholders and to the investors in the Funds we manage. At the same time we continue to review how Candover can best participate in the growing possibilities presented by the internet, as well as assessing its impact on our existing investee companies, several of whom have already developed plans to exploit e-commerce opportunities.

The £850 million 1997 Fund is now over 60% invested and consideration is being given to raising a successor fund as and when the 1997 Fund becomes fully invested.

S W Curran
27th March, 2000

Operational review

Introduction

The UK buyout market flourished during 1999 with over £15 billion being invested. Continental European buyouts also benefited from high levels of corporate restructuring. As a result, Candover enjoyed excellent deal flow during the year and in total invested £48.9 million in 11 new and seven follow on investments. The 1997 Fund invested £336.4 million in nine transactions (Candover's investment £44.6 million) and the 1994 Fund invested £1.5 million (Candover's investment £0.4 million) in two follow on investments. Since the year end, the 1997 Fund has invested a further £42 million (Candover's investment £6.6 million) in the nightclubs and bars operation of First Leisure.

Investments

ASW Holdings plc

In January Candover invested in the listed specialist steel manufacturer, ASW Holdings plc, to enable it to acquire a major competitor and thus become the UK market leader in its field. The 1997 Fund invested £32.5 million in this transaction, with Candover investing £4.3 million.

Acertec

On 1st April, 1999 Candover announced that it was supporting the management team of quoted engineering company Hall Engineering, in its defence against a hostile bid from a rival engineer, by backing a board recommended management-led buyout. On 25th May the bid was declared unconditional, with the 1997 Fund investing £52.9 million and Candover £7.1 million. A new company called Acertec was formed to undertake the buyout. Acertec has four principal activities: in the UK it makes wire, reinforcement products and automotive pressings, whilst in East Asia it manufactures prefabricated reinforcement systems. It enjoys strong market positions in all four divisions.

Diamant Boart

In July, Candover led the €136.3 million (£97.7 million) buyout of Diamant Boart, a leading global manufacturer and supplier of diamond tools to the construction and stone industries. This was the first Continental European investment to be undertaken by the 1997 Fund which invested £25.3 million. Candover's share was £3.3 million. The company's strong niche position in a market which is predicted to grow substantially over the next few years was a major factor in Candover's decision to pursue this transaction.

Inveresk Research Group

Inveresk Research, a leading contract research organisation which provides preclinical and clinical research services to a global client base, was acquired in a £57.5 million transaction at the beginning of September. The 1997 Fund invested £24.3 million and Candover invested £3.2 million. The drug discovery market is set for significant growth as technological advances result in a dramatic increase in new drug possibilities. The cost effective outsourcing of preclinical and clinical work is a priority for pharmaceutical and biotech companies and Inveresk is well positioned to benefit from this growth.

Earls Court & Olympia

In October, Candover led the £183 million management buyin of Earls Court & Olympia (ECO), one of the UK's premier exhibition venues, best known for hosting flagship exhibitions such as The Motor Show, The Boat Show and The Daily Mail Ideal Home Show. ECO also plays host to major pop and opera events. The UK exhibitions market continues to see strong growth and the attractions of working with a buyin team with a proven track record in the industry to buy a leading international brand provided Candover with a strong investment rationale. The plans include a multi-million pound improvement programme, with an increased focus on venue management and event organising. The 1997 Fund invested £30.0 million and Candover invested £4.0 million.

Clondalkin Group PLC

In August 1999, Candover declared that it was supporting the management team of Clondalkin Group PLC in its £335 million (€550 million) bid to take the company private. Clondalkin is a specialist converter of packaging and printing products. The bid became wholly unconditional on 9th November, with the 1997 Fund investing £62 million and Candover investing £8.2 million. Clondalkin operates in niche packaging and printing product sectors and focuses on high value added products that are non-cyclical. The group has been particularly adroit in identifying and acquiring complementary businesses and currently has manufacturing and distribution activities in five countries in Western Europe, as well as in the USA.

Pipeline Integrity International

In November the 1997 Fund invested £14.8 million and Candover £1.9 million in Pipeline Integrity International Limited (PII), the global leader in pipeline inspection services for the oil and gas industry. PII was acquired by Mercury Development Capital in February 1998 from BG plc. Candover was asked to invest in PII to assist in the funding of the acquisition of its next largest competitor, Pipetronix, a German company. The acquisition has reinforced PII's strong market position – it now has over 50% global market share – in a niche market that is forecasting strong growth.

Charter plc – Specialised Engineering Businesses

In December the 1997 Fund invested £77.9 million and Candover £10.4 million in the £194 million buyout of the specialist engineering businesses of Charter plc. The division comprises three businesses; Pandrol, the world leader in resilient rail fastenings; UK Aerospace & Defence, suppliers of temperature control fans, air filtering and conditioning systems to the defence industry; and Nederman, the European number one in workspace air extraction equipment. Subsequent to the transaction completing, Nederman was sold to EQT Danmark.

Vestolit

Candover's final investment of 1999 was the acquisition of Vestolit, one of Europe's leading producers of polyvinyl chloride (PVC). Candover joined forces with chemicals leveraged build-up specialist D George Harris & Associates (DGH&A) to undertake this DM 300 million transaction, with the 1997 Fund investing £16.7 million and Candover investing £2.2 million. Based in Marl, Germany, Vestolit produces PVC, which is sold to manufacturers of high quality specialty products, primarily in the building industry. The company has an experienced management team, excellent manufacturing capabilities and a niche position in the higher margin, less commodity end of the PVC market. The PVC industry is fragmented and it is anticipated that this acquisition will be the first step in a combined Candover/DGH&A strategy to consolidate the industry and to become a leading player in the European PVC market.

Other investments

Two further new investments were made during the year by way of small commitments to specialised funds. Sussex Place Partners is an incubator fund which provides seed capital and business support to students and graduates of the London Business School focusing on the media, IT and service sectors. Geocapital Partners focuses on small European computer software and internet companies.
A number of follow on investments were also made, primarily further participations in a mezzanine fund and a mid-market French buyout fund. Two investee companies received additional monies to support their continued development, namely Camden Motors and Heath Group. Heath Group merged with a competitor, Lambert Fenchurch plc (itself a prior Candover investee company) to form a new company HLF Insurance Holdings Limited which is now the sixth largest insurance broker in the world in terms of brokerage revenue.

First Leisure Corporation

During 1999, Candover and the 1997 Fund entered into an agreement to acquire the nightclubs and bars operations of First Leisure plc, the UK leisure group, in a £210.5 million transaction. This transaction formally completed on 31st January, 2000 with the 1997 Fund investing £42.0 million and Candover £6.6 million. The nightclubs and bars division (now renamed First Leisure Corporation) comprises 40 large capacity dance venues and 25 themed or late-night bars. Candover is backing an experienced management team with a strong track record in the leisure industry. The nightclub industry is likely to benefit over the next few years from Sunday openings, favourable demographic trends (rising numbers of 18-24 year olds), increasing disposable income, and a shift from small to large capacity clubs offering a high quality leisure experience. This matches the focus of First Leisure's venues, the majority of which hold over 1,500 people.

Realisations

Net realised gains achieved by Candover and its managed funds amounted to £72.3 million, of which Candover's share was £18.1 million. The majority of the gain came from the sale of shares in Crown Castle International Corporation

Operational review

(CCIC) during the latter half of the year. Candover sold 42.5% of its shareholding in CCIC realising £12 million, and a gain on cost of £10.4 million. The 1994 Fund sold 3.7 million shares (42.5% of its shareholding) in CCIC for proceeds of £45 million, realising a profit on cost of £39.7 million. Since the year end a further 1 million shares have been sold by Candover and the 1994 Fund at a price in excess of $30 per share.

On the Continent, Candover realised its investment in its first major French investment, MC International, with gains over cost for Candover of £3.9 million and £15.2 million for the 1994 Fund.

The sale of the ducting division of Cork Industries to Senior Engineering resulted in a capital gain of £1.9 million for Candover and £7.7 million for the 1994 Fund.

Other realisations worth noting were the sale of Candover's listed shareholding in Provend as a result of the takeover by Bunzl, and the sale of Alupac, a US-based investment made alongside Lombard Investments Inc. Both of these generated useful capital gains for Candover.

Outlook

The recovery in the UK economy is now well established and economic activity in the rest of Europe is also picking up. With consumer and industrial confidence in the UK at high levels and leading indicators in Continental Europe buoyant, the outlook for 2000 remains good. The performance of the majority of investee companies in the Candover portfolio reflects this favourable environment, with most trading in line with or ahead of budget. Their progress will continue to be monitored during the year, with realisation opportunities explored as appropriate. Approximately 22% of the 1997 Fund is now invested in Euro denominated securities and it is anticipated that 2000 will see further investments in Continental Europe.

Status of funds

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

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

The Candover 1987 Fund was constituted on 29th May, 1987 with funds of £30 million. During 1999 no new disposals were made and two investments remain in the portfolio. As at 31st December, 1999, £34 million had been returned to investors.

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

The Candover 1994 Fund had a final closing on 28th February, 1995 with total commitments of £307.5 million including £70 million from Candover. The investment period of the Fund was formally terminated on 16th December, 1997 although the capacity to make follow on investments remains, and £1.5 million was invested in two follow on investments during the year. During the year, the Fund made significant capital gains on cost of £39.7 million from the sale of Crown Castle International Corporation shares and made gains over cost of £15.2 million on the disposal of MC International. The Fund has called down £172 million for investment in thirteen transactions and has returned £237 million to date. Following the sale of MC International, together with earlier realisations, there are now eight companies remaining in the portfolio, together with the remaining holding of listed shares in Crown Castle International Corporation. It is anticipated that the realisation programme for this Fund should produce further satisfactory returns over the next one to two years.

The Candover 1997 Fund had a final closing on 22nd January, 1998 with total third party commitments amounting to £750 million, and a further £100 million provided by Candover. The Fund invested £336.4 million in nine transactions during the year, bringing the total number of its investments to twelve. Since the year end, the Fund has invested a further £42 million in the nightclubs and bars operation of First Leisure.

Candover's investment approach

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

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

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

Crown Castle International Corporation Communications tower owner and operator

Candover's investment as at 31st December	1999	1998
Cost of investment	£2,084,000	£3,625,000
Directors' valuation	US$36,575,000	US$41,066,000
	(£22,689,000)	(£24,584,000)
Effective equity interest (fully diluted)	0.9%	2.8%
% of Candover's net assets	10.1%	12.3%
Loss per share	(US$0.91)	(US$1.02)

Basis of valuation: Discounted quoted market price

Candover's involvement in the acquisition of the BBC's home service transmission business extends a successful track record of investing in technology based companies.

Crown Castle is a leading provider of communications sites and wireless network services in the USA and the UK. We originally invested in the buyout of the BBC Transmitters Network for £244 million to form Castle Transmission International. This was subsequently merged into Crown Castle and at the same time listed on the NASDAQ market in August 1998 at US$13 a share. During the year Candover has sold 990,000 shares for net proceeds of US$19.4 million (£12.0 million) (cost: £1.6 million). Since the year end Candover has sold a further 206,000 shares for US$6.2 million (£3.9 million) (cost: £0.3 million). Due to the volatility of the share price, the shares have been valued at a 15% discount to the year end market price of US$32.12 per share.

In the year to 31st December, 1999 Crown Castle achieved earnings before interest, tax, depreciation and amortisation of US$139.8 million on revenues of US$345.8 million (1998: earnings before interest, tax, depreciation and amortisation of US$37.1 million on revenues of US$113.1 million).

Candover received no dividends in the year ended 31st December, 1999 (1998: £Nil).

Fountainfrost Limited/Uppergreen Limited Specialist engineering group

Candover's investment as at 31st December	1999
Cost of investment	£9,544,000
Directors' valuation	£9,544,000
Effective equity interest (fully diluted)	8.8%
% of Candover's net assets	4.2%

Basis of valuation: Cost

Candover's involvement in the engineering sector goes back nearly twenty years, and our wealth of experience in managing the growth of engineering businesses was used to good effect in this £194 million management buyout from Charter plc, completed in December 1999.

The deal structure involved Candover in making separate investments in three specialist engineering businesses which were: Pandrol, the world leader in rail support systems; UK Aerospace and Defence, designer and manufacturer of specialist fans and environmental control systems for aerospace, defence and rail traction markets; and Nederman, the European leader in equipment to improve workspace environments. Nederman was subsequently sold on in late December for cash proceeds of £38 million. The two remaining businesses reorganised into a twin tower structure under the current names of Fountainfrost Limited (Pandrol) and Uppergreen Limited (UK Aerospace & Defence).

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

No dividends were received by Candover in the year ended 31st December, 1999.

Review of twenty largest investments

Edgemead Limited Packaging and printing products

Candover's investment as at 31st December	1999
Cost of investment	€12,855,000
	(£8,258,000)
Directors' valuation	**€12,855,000**
	(£7,994,000)*
Effective equity interest (fully diluted)	6.9%
% of Candover's net assets	3.6%

Basis of valuation: Cost

Edgemead is the holding company formed to effect the public to private buyout of Clondalkin Group PLC. The outstanding results delivered over a ten year period, combined with the clear strategic and operational focus of the Clondalkin management team, were key reasons for backing the €550 million delisting, Ireland's largest to date.

Clondalkin is an international producer of specialist packaging and print products with operations in Ireland, Britain, the Netherlands, Belgium, Germany, Switzerland and the US. The group employs 3,500 people in its operating companies which produce a wide range of high value added products. Clondalkin's successful delisting was followed by a €125 million bond issue after the year end.

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

No dividends were received by Candover in the year ended 31st December, 1999.

*Exchange loss since investment: £264,000

Newmond plc Construction, heating and home products

Candover's investment as at 31st December	1999	1998
Cost of investment	£9,398,000	£9,398,000
Directors' valuation	**£7,190,000**	£7,190,000
Effective equity interest (fully diluted)	3.8%	3.8%
% of Candover's net assets	3.2%	3.6%

Basis of valuation: Multiple of earnings

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

Newmond consists of a group of businesses acquired from Williams PLC in December 1996. These included Rawlplug and Ancon CCL (fixings), Heatrae Sadia (electric showers and water heating), Aqualisa (showers) and Valor (gas fires). 1998 saw the strategic disposal of Swish Track & Pole, with part of the proceeds being used to finance the acquisitions of the waterheating division of IMI plc and Pflüger and Partner AG in Switzerland for a total investment of £23.7m. Candover originally invested £15.7 million in this transaction, but in 1997 this was reduced following syndication to third party investors.

In the year to 31st December, 1998 Newmond achieved profits before interest and tax of £36.4 million on sales of £288.5 million (1997: profits before interest and tax of £35.4 million on sales of £268.4 million).

Candover received no dividends in the year ended 31st December, 1999 (1998: £Nil).

Acertec Holdings Limited Engineering group

Candover's investment as at 31st December	1999
Cost of investment	£7,043,000
Directors' valuation	**£7,043,000**
Effective equity interest (fully diluted)	7.9%
% of Candover's net assets	3.1%

Basis of valuation: Cost

Candover played the role of "white knight" when it led the £135 million public-to-private buyout of Hall Engineering (Holdings) plc, fighting off a hostile bid from TT Group. Now renamed Acertec Holdings Limited, it enjoys strong market positions in all of its businesses.

Acertec has four principal activities. Its Carrington Wire business is the UK's largest manufacturer of steel wire to a wide range of customers; its BRC reinforcement business is the UK's leading supplier of steel reinforcement to the construction industry; its Stadco automotive pressings business is a major UK supplier of body-in-white pressings and assemblies to the car industry; and in the Far East, BRC Asia is the market leader in the supply of prefabricated steel reinforcement systems to the Singapore market, with operations also in Hong Kong and Shanghai.

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

No dividends were received by Candover in the year ended 31st December, 1999.

Regional Independent Media Holdings Limited Regional newspaper publishing

Candover's investment as at 31st December	1999	1998
Cost of investment	£6,503,000	£6,503,000
Directors' valuation	**£6,503,000**	£6,503,000
Effective equity interest (fully diluted)	4.9%	4.9%
% of Candover's net assets	2.9%	3.3%

Basis of valuation: Cost

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

Candover announced the purchase of UPN Holdings Limited for a total consideration of £360 million on 27th February, 1998. Now renamed Regional Independent Media, it has a total of 58 titles consisting of dailies, weekly paid and weekly free newspapers. It has one of the UK's best portfolios of regional newspapers, with market leadership in Yorkshire and a strong presence in North West England. Its flagship titles are the Yorkshire Post, the Yorkshire Evening Post, The Star, the Lancashire Evening Post and the Wigan Evening Post. RIM has an 11.5% shareholding in Fish4Ltd, the national classified advertising website consortium of regional newspaper publishers. It is a subscriber to "This is Britain" which is dedicated to providing local information for individual towns and cities, with its regional newspapers providing a local content.

Profit before amortisation of goodwill, operating exceptionals, interest and tax for the year ended 31st December, 1999 was £33.5 million on sales of £156.3 million (1998: profit before interest and tax of £31.5 million on sales of £147.3 million).

Candover received no dividends in the year ended 31st December, 1999 (1998: £Nil).

Review of twenty largest investments

Camden Motors Holdings Limited Motor dealership

Candover's investment as at 31st December	1999	1998
Cost of investment	£4,233,000	£3,897,000
Directors' valuation	£5,414,000	£5,078,000
Effective equity interest (fully diluted)	10.6%	10.6%
% of Candover's net assets	2.4%	2.5%

Basis of valuation: Multiple of earnings

We aim to help investee managements build substantial businesses and are willing, where appropriate, to provide additional investment in support of this aim.

Camden is one of the UK's top 20 motor retailers and operates a multi-franchise network covering Ford, Vauxhall, Peugeot, Rover, Renault, Nissan, Volkswagen, Audi, Honda, Fiat, Toyota and Alfa Romeo. It was a buyout from Barclays Bank in November 1996, in which Candover invested £2.3 million. Since the buyout, Candover has invested further monies to allow Camden to support the development of a company (SPA) specialising in the subprime auto finance market. The SPA group is now showing significant growth.

Profits before interest and tax for the year ended 31st December, 1999 were £5.0 million on sales of £501.2 million (1998: profits before interest and tax of £7.9 million on sales of £492.8 million).

Candover received gross dividends of £139,726 in the year ended 31st December, 1999 (1998: £103,828).

Shepperton Holdings Limited Film studio

Candover's investment as at 31st December	1999	1998
Cost of investment	£2,616,000	£2,616,000
Directors' valuation	£4,422,000	£4,422,000
Effective equity interest	10.1%	10.1%
% of Candover's net assets	2.0%	2.2%

Basis of valuation: Multiple of earnings

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

Shepperton, in which Candover and the Candover 1994 Fund invested in January 1995, is a major film and TV studio complex. In July 1997, Shepperton acquired a 40% interest in The Mill (Facility) Limited and its subsidiary Mill Film, a company producing the computerised digital special effects used in many modern films. Now upgraded, Shepperton is regarded as one of the finest film and TV studios in Europe. Films recently produced at the studios include "Notting Hill", "The End of the Affair", "Shakespeare in Love" and "Elizabeth". The Mill's work on "Babe, Pig in the City" was recognised as one of the six nominees chosen for a special effects Academy Award. In August 1998, The Mill acquired a long-established film effects company, the Magic Camera Company, bringing a new range of capabilities in models and miniatures to the Mill Group.

Profits before interest and tax for the year ended 31st December, 1998 were £3.8 million on sales of £13.6 million (1997: £2.9 million on sales of £12.5 million).

Candover received gross dividends of £148,106 in the year ended 31st December, 1999 (1998: £163,668).

BTG plc Technology transfer

Candover's investment as at 31st December	1999	1998
Cost of investment	£77,000	£77,000
Directors' valuation	**£4,364,000**	**£1,750,000**
Equity interest	0.6%	0.6%
% of Candover's net assets	1.9%	0.9%
Loss per share	(15.1p)	(10.0p)
Dividend cover	(1.6x)	(10.8x)

Basis of valuation: Quoted market price

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

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

BTG listed on the London Stock Exchange on 6th June, 1995. In 1998 the business of Torotrak was demerged in order to permit its continued development and Candover was granted one new share in Torotrak for every BTG share held.

On 31st December, 1999 Candover's investment in Torotrak was valued at £1,152,000.

In the six months to 30th September, 1999 BTG showed a loss before interest and tax of £1.6 million on turnover of £13.4 million as against a loss of £5.9 million on turnover of £8.6 million for the same period in the previous year. In the full year to 31st March, 1999 BTG showed a loss before interest and tax of £9.9 million on turnover of £22.6 million (1998: loss of £10.6 million on turnover of £19.8 million).

Candover received a scrip dividend of 1,666 shares in the year ended 31st December, 1999 (1998 cash dividend: £5,775).

ASW Holdings plc Specialist steel manufacturer

Candover's investment as at 31st December	1999
Cost of investment	£4,338,000
Directors' valuation	**£4,338,000**
Effective equity interest (fully diluted)	5.2%
% of Candover's net assets	1.9%

Basis of valuation: Cost

An innovative method of private equity funding, which involved the use of loan stock with conversion rights to provide funding and to underpin an open offer of shares, enabled Candover and the 1997 Fund to invest £37 million in ASW Holdings plc, the listed specialist manufacturer of steel long products.

This facilitated the acquisition by ASW of Co-Steel Sheerness Plc and the recapitalisation of ASW's French subsidiary, SAM. Following an extensive restructuring programme, the combined group, which is the UK market leader in steel reinforcement and merchant bar, is making good progress towards being one of Europe's lowest cost producers.

ASW's loss before interest, tax and exceptional items relating to redundancy and closure costs (£19.9 million), for the year to 31st December, 1999 was £5.7 million on turnover of £497.8 million.

No dividends were received by Candover in the year ended 31st December, 1999.

Review of twenty largest investments

Alpinvest Holding N.V. Investment company

Candover's investment as at 31st December	1999	1998
Cost of investment	€4,211,000	€4,211,000
	(£2,920,000)	(£2,920,000)
Directors' valuation	**€6,794,000**	€3,971,000
	(£4,226,000)	(£2,803,000)
Equity interest (fully diluted)	0.9%	0.9%
% of Candover's net assets	1.9%	1.4%
Earnings per share	€3.9	€2.5

Basis of valuation: Quoted market price

Alpinvest is not only an institutional investor in both the Candover 1994 and 1997 Funds but also a holder of 4.2% of Candover's ordinary shares.

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

In January 2000, Alpinvest received an agreed offer of €23 per share from NIB Capital NV, one of the Netherlands' largest fund management groups. At this price Candover will receive €7.6 million (£4.7 million) in cash.

Operating profits for the year ended 31st December, 1999 were €61.9 million on total dividend and interest income of €158.9 million (1998: profits of €84.6 million on total dividend and interest income of €144.7 million).

Candover received dividends of €195,543 (£129,061) in the year ended 31st December, 1999 (1998: scrip dividend of 11,429 shares).

De Facto 804 Limited Exhibition services

Candover's investment as at 31st December	1999
Cost of investment	£3,999,000
Directors' valuation	**£3,999,000**
Effective equity interest (fully diluted)	5.7%
% of Candover's net assets	1.8%

Basis of valuation: Cost

Quality of management is vital to the success of any deal. In October, Candover announced its backing for Andrew and Jack Morris in the management buyin of Earls Court & Olympia (ECO) from Peninsular & Oriental (P&O) for £183 million. The Morrises had previously shown their management ability through their success in growing the Business Design Centre in Islington.

De Facto 804 is the holding company of ECO, which incorporates two of the UK's foremost exhibition venues and which had been put up for sale by P&O earlier in the year in order to allow the company to focus on its core businesses. Under its new ownership, ECO will benefit from an increased emphasis on sales, marketing and customer service as well as a substantial refurbishment programme. The business will be refocused to concentrate its activities on venue management and event organising.

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

No dividends were received by Candover in the year ended 31st December, 1999.

Dakota, Minnesota & Eastern Railroad Corporation Railroad operations

Candover's investment as at 31st December	**1999**	1998
Cost of investment	**US$1,478,000**	US$1,478,000
	(£888,000)	(£888,000)
Directors' valuation	**US$6,273,000**	US$6,027,000
	(£3,891,000)	(£3,622,000)
Effective equity interest (fully diluted)	**11.1%**	10.5%
% of Candover's net assets	**1.7%**	1.8%

Basis of valuation: Multiple of earnings

The DM&E Railroad operates 1,105 miles of track in the USA, mainly in South Dakota and Minnesota. Our investment in the DM&E was organised by Lombard Investments, Inc.

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

Profits before interest and tax for the year ended 31st December, 1999 were US$12.7 million on sales of US$61.2 million (1998: US$11.1 million on sales of US$56.9 million).

Candover received no dividends in the year ended 31st December, 1999 (1998: US$24,307 (£14,608)).

Erycinus plc Insurance broker

Candover's investment as at 31st December	**1999**	1998
Cost of investment	**£3,627,000**	£3,552,000
Directors' valuation	**£3,627,000**	£3,552,000
Effective equity interest (fully diluted)	**2.5%**	3.6%
% of Candover's net assets	**1.6%**	1.8%

Basis of valuation: Cost

Several factors made this complex public to private buyout possible. Only four institutions needed to sell to transfer control. And, most importantly, there was an able executive team in place.

Erycinus is the holding company that owns the business of C E Heath plc, an international Lloyds broker, which was de-listed in August 1997.

During the year a successful disposals programme helped to repay the senior acquisition debt facility used to finance the Heath acquisition. 1999 saw Erycinus continue the expansion of its overseas network, and establish new operations in Russia, Germany and South America.

Since the year end, Erycinus has merged with Lambert Fenchurch group to form HLF Insurance Holdings Limited, the world's sixth largest insurance brokerage business.

The loss before interest, tax and after disposal of investments for the year ended 31st March, 1999 was £2.6 million on turnover of £106.6 million as against a restated profit for the period from 22nd July, 1997 to 31st March, 1998 of £2.5 million on turnover of £81.4 million.

Candover received no dividends in the year ended 31st December, 1999 (1998: £Nil).

Review of twenty largest investments

Jarvis Hotels plc Hotel owners and managers

Candover's investment as at 31st December	1999	1998
Cost of investment	£1,054,000	£1,054,000
Directors' valuation	£3,494,000	£3,420,000
Equity interest	1.7%	1.7%
% of Candover's net assets	1.6%	1.7%
Earnings per share (fully diluted) before exceptional items	15.4p	16.7p
Dividend cover	3.1x	3.9x

Basis of valuation: Quoted market price

In 1990 we backed John Jarvis, previously Chairman of Hilton International, in his buyout of 41 Embassy Hotels from Allied Lyons. The company has since grown to be the one of the UK's larger hotel chains with 72 hotels and some 7,000 rooms.

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

In the half year to 9th October, 1999 profits before interest, tax and exceptional items were £20.6 million on sales of £81.1 million, as against comparable restated profits of £21.4 million on sales of £77.6 million for the same period last year. In the year to 27th March, 1999 profits before interest and tax were £38.8 million on sales of £141.6 million (1998: profits before interest and tax of £36.5 million before exceptional items, on sales of £136.6 million).

Candover received gross dividends of £160,596 in the year ended 31st December, 1999 (1998: £167,287).

Inveresk Research Group Limited Contract research organisation

Candover's investment as at 31st December	1999
Cost of investment	£3,230,000
Directors' valuation	£3,230,000
Effective equity interest (fully diluted)	7.9%
% of Candover's net assets	1.4%

Basis of valuation: Cost

The £57.5 million management buyout of Inveresk Research Group from SGS of Switzerland, announced in September 1999, once again demonstrated Candover's ability to complete a deal quickly once an attractive investment opportunity has been identified.

Inveresk Research Group is acknowledged as one of the world's leading contract research organisations with a staff of over 700 providing research services to a global client base. The Group is headquartered outside Edinburgh and operates internationally with offices in the UK, the US, Japan and Europe. Its independent status will enable it to build on its leading market position and grow the business, both organically and through acquisition.

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

No dividends were received by Candover in the year ended 31st December, 1999.

Diamant Boart International SA Manufacturer and supplier of diamond tools

Candover's investment as at 31st December	1999
Cost of investment	€5,110,000
	(£3,352,000)
Directors' valuation	**€5,110,000**
	(£3,178,000)*
Effective equity interest (fully diluted)	9.2%
% of Candover's net assets	1.4%

Basis of valuation: Cost

The €136.3 million acquisition of Diamant Boart International SA from Union Minière in June 1999 was Belgium's largest-ever buyout. This was the first Continental European investment to be undertaken by the 1997 Fund.

A leading manufacturer and supplier of diamond tools, Diamant Boart is headquartered in Brussels and operates through a number of wholly-owned subsidiaries in Europe and the US. As one of only three global suppliers to the stone and construction industry, the company manufactures a complete range of diamond tools and related equipment used for drilling and sawing concrete and for working natural stone, from extraction through to finished products.

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

No dividends were received by Candover in the year ended 31st December, 1999.

*Exchange loss since date of investment: £174,000

The Smith Group Holdings plc Information technology solutions consultancy

Candover's investment as at 31st December	1999	1998
Cost of investment	£1,445,000	£1,445,000
Directors' valuation	**£2,750,000**	£2,047,000
Effective equity interest	8.0%	8.0%
% of Candover's net assets	1.2%	1.0%

Basis of valuation: Multiple of earnings

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

The Smith Group Holdings plc is a leading consultancy firm providing advice to organisations planning major investments in advanced technology, particularly in the fields of communications and information systems. Activities are focussed in three areas: customer relationship management, information mobility and defence communications and information systems.

In the year ended 31st March, 1999 profits before interest and tax were £2.4 million on turnover of £16.6 million (period ended 31st March 1998: profits before interest and tax £1.7 million on turnover of £12.1 million).

For the year ended 31st December, 1999 Candover received gross dividends totalling £81,261 (1998: £63,203).

Review of twenty largest investments

Claverham Group Limited Defence and aerospace engineering

Candover's investment as at 31st December	1999	1998
Cost of investment	£1,352,000	£2,764,000
Directors' valuation	**£2,678,000**	**£2,764,000**
Effective equity interest	7.4%	8.4%
% of Candover's net assets	1.2%	1.4%

Basis of valuation: Multiple of earnings

Candover knew the vendor well: it was Fairey Group, whose buyout from Pearson we led in 1986. Fairey was floated in 1988. Claverham continues to perform well and to actively consider acquisition opportunities and, in addition, has established joint ventures in both Italy and Germany.

Claverham, formerly Fairey Hydraulics Limited, a subsidiary of Fairey Group plc, designs, manufactures and supports actuation systems, hydraulic systems and landing gear mainly for the defence, aerospace and specialist industrial markets. The buyout of Claverham, completed in January 1998, was the first investment made by the Candover 1997 Fund. In December 1999, a releveraging exercise was completed whereby £12 million of the initial investment of £23.6 million by Candover and the 1997 Fund was repaid.

In the period from 13th October 1997 (date of incorporation) to 31st December 1998, profits before interest and tax were £6.6 million on turnover of £37.1 million.

Candover received no dividends in the year ended 31st December, 1999 (1998: £Nil).

Vestolit Holding GmbH PVC producer

Candover's investment as at 31st December	1999
Cost of investment	€3,468,000 (£2,214,000)
Directors' valuation	**€3,468,000** (£2,157,000)*
Effective equity interest (fully diluted)	3.1%
% of Candover's net assets	1.0%

Basis of valuation: Cost

In December 1999, Candover joined forces with chemical industry buyout specialists D. George Harris & Associates to back the buyout of Vestolit from Degussa-Hüls AG.

Based in Marl, Germany, Vestolit is one of Europe's leading producers of polyvinyl chloride (PVC), sold to manufacturers of high quality specialty products, primarily in the building industry. Vestolit, formed in 1995 when Hüls AG combined its PVC assets to create a separate legal entity, produces approximately 320,000 tons of PVC annually.

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

No dividends were received by Candover in the year ended 31st December, 1999.

*Exchange loss since investment: £57,000.

Valuation policy

Principles of valuation of unlisted investments

In valuing unlisted investments the directors follow a number of general principles which are based upon the British Venture Capital Association guidelines for valuing unquoted development stage investments and are set out below:

Investments are stated at amounts considered by the directors to be a fair assessment of their value, subject to overriding requirements of prudence. All investments are valued according to one of the following bases:

- cost (less any provision required);
- open market valuation;
- earnings multiple; or
- net assets.

Investments are normally valued at cost until the availability of the first set of audited accounts post completion of the investment. Provisions against cost, however, will be made as soon as appropriate in the light of adverse circumstances – for example, where an investment performs significantly below expectations. In exceptional circumstances upward adjustments to cost may be made within one year.

Investments held for more than one year are valued on one of the bases described above and generally the earnings multiple basis of valuation will be used unless this is inappropriate as in the case of certain asset-based businesses. When valuing on an earnings basis, profits before interest and tax of the current year will normally be used, depending on whether or not more than six months of the accounting period remains and the predictability of future profits. Such profits will be adjusted to a maintainable basis, taxed at the full corporation tax rate, and multiplied by a discounted price/earnings multiple. Price/earnings multiples utilised are usually related to comparable quoted companies and are normally discounted by 25 per cent. The discount used may be lower where, for example, a realisation is planned within 12 months and higher if the timing of a realisation is long term or not currently being contemplated.

Where a company has incurred losses, or if comparable quoted companies are not primarily valued on an earnings basis, then the valuation may be calculated with regard to the underlying net assets and any other relevant information, such as the pricing for subsequent investments by a third party in a new financing round which is deemed to be at arms length. In cases where an exit is actively being sought then any offers from potential purchasers would be relevant in assessing the valuation of an investment and are a factor taken into account in arriving at the valuation.

When investments have obtained an exit (either by listing or trade sale) after the valuation date but before finalisation of Candover's relevant accounts (interim or final), the valuation is based on the exit valuation subject to an appropriate discount to take account of the time period between valuation and exit dates.

In arriving at the value of an investment, the percentage ownership is calculated after taking into account any dilution through outstanding warrants, options and performance related mechanisms.

The board of directors

S W Curran† FCCA

Chairman

Mr Curran was appointed Chairman in May 1999 having previously been Chief Executive since 1991 and before that Deputy Chief Executive and a director of Candover since July 1982. Prior to joining Candover in May 1981, he was a managing consultant with Coopers & Lybrand Associates and then an investment manager with what is now Cinven. He is a non-executive director of Greggs plc, Jarvis Hotels plc and a number of unquoted companies. Mr Curran is 57.

G D Fairservice BSc MBA

Deputy Chairman

Mr Fairservice joined Candover in March 1984, was appointed to the board in July 1986, was made Deputy Chief Executive in January, 1991 and then Deputy Chairman in May 1999. Before joining Candover, Mr Fairservice spent eight years with ICFC (3i) followed by two years with the British Technology Group (now BTG plc). He is a non-executive director of BTG plc and Stoves plc. Mr Fairservice is 52.

A P Hichens*† MA MBA

Deputy Chairman, non-executive

Mr Hichens joined the Board of Candover in December 1989 and was appointed Deputy Chairman of the company with effect from 1st January, 1991. He is Chairman of David S. Smith (Holdings) plc and Deputy Chairman of Courtaulds Textiles plc and Lasmo plc. He is also a non-executive director of London Insurance Market Investment Trust Plc and The Fleming Income & Capital Investment Trust Plc. He was previously a Managing Director and Chief Financial Officer of Consolidated Gold Fields. Mr Hichens is 63.

D R Wilson§ FCA

Non-executive

Mr Wilson was appointed to the board of Candover in May 1994. He is Chief Executive of Slough Estates plc, one of the UK's largest investment property companies, where he had previously been Group Managing Director and, before that, Finance Director. Prior to joining Slough Estates in 1986 he held senior appointments at Cadbury Schweppes PLC and Wilkinson Match Limited. He is a non-executive director of Westbury plc. Mr Wilson is 55.

P J Scott Plummer*§† FCA

Non-executive

Mr Scott Plummer was appointed to the Candover board in December 1985. He was appointed Chairman of Martin Currie Limited in April 1999 and is also Chairman of its subsidiary, Martin Currie Investment Management Limited. He was previously a partner of Cazenove & Co from 1974 to 1980 and has had many years of experience in the investment field. He is a non-executive director of The Merchants Trust plc. Mr Scott Plummer is 56.

C J Buffin MA ACA
Managing Director

Mr Buffin was appointed joint Managing Director in March 1998. He is also a director of Candover Partners Limited and other Candover subsidiaries. He joined Candover in September 1985, from Deloitte Haskins & Sells where he spent two years in the investigations and corporate finance departments after qualifying as a chartered accountant. Mr Buffin has been responsible for a number of transactions which have led to Stock Exchange listings or trade sales, including the buyouts of Motor World Group PLC, Midland Independent Newspapers plc and Eversholt Leasing Limited. Mr Buffin led the buyout of Regional Independent Media Group plc in February 1998 and the acquisition of German-based PVC producer Vestolit in December 1999. He is a non-executive director of a number of unquoted companies in the Candover portfolio. Mr Buffin is 42.

J G West*§ FCA
Non-executive

Mr West who was appointed to the Candover board in December 1985 is a former managing director of Lazard Brothers and Chief Executive of Lazard Investors. He was previously Managing Director of Globe Investment Trust Plc. He is Chairman of Gartmore Fledgling Index Trust plc and Intrinsic Value plc and a non-executive director of Aberdeen New Dawn Investment Trust plc, British Assets Trust plc, Snackhouse plc, Middlesex Holdings plc and various unquoted companies. Mr West is 52.

M S Gumienny ACA
Managing Director

Mr Gumienny was appointed joint Managing Director in March 1998. He is also a director of Candover Partners Limited and other Candover subsidiaries. Prior to joining Candover in January 1987 he qualified as a chartered accountant with Price Waterhouse. Transactions led by Mr Gumienny include Lowndes Lambert Group, the de-listing of C E Heath plc (both now part of HLF Insurance Holdings Limited), Economic Insurance Company Limited, Shepperton Holdings Limited, Cork Industries Limited, Camden Motors Limited, Newmond plc, Claverham Group Limited and the de-listing of Clondalkin Group PLC. Mr Gumienny is a non-executive director of a number of unquoted companies in the Candover portfolio. Mr Gumienny is 41.

G E Grimstone*§
Non-executive

Mr Grimstone was appointed to the Candover board in July 1999. Formerly an Assistant Secretary to the Treasury responsible for the UK's privatisation policy and the financing, reform and commercialisation of state-owned industries, Mr Grimstone latterly held a number of senior appointments in the Schroders group, including Vice Chairman of worldwide investment banking activities. He is also a non-executive director of Dairy Crest Group plc and the Tote. Mr Grimstone is 50.

* 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 financial statements for the year ended 31st December, 1999.

Principal activities

Candover Investments plc is an investment company within the meaning of Part VIII of the Companies Act 1985 as well as an investment trust under section 842 of the Income and Corporation Taxes Act 1988, the tax status of which is shown on page 26.

Candover is engaged principally in the identification, implementation and monitoring of large buyouts and buyins. Candover Investments plc makes an investment either under a co-investment agreement with the third party managed Funds or on its own account. The third party managed Funds, established with commitments from a wide range of international institutional investors, are managed by the Candover Group subsidiaries, principally Candover Partners Limited, which is regulated by IMRO. Candover participates in the profit made in certain of these Funds subject to an overall minimum return having first been generated for investors in the Funds. This minimum return varies from Fund to Fund. Subject to the minimum return having first been achieved, Candover will participate in 7 per cent of any profit made in the Candover 1997 Fund.

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

Results and review of business

The Group profit for the financial year after taxation was £7,718,000 compared with £8,547,000 for the year ended 31st December, 1998. Revenue was £20,033,000 as against £20,739,000 for the previous year. Administrative expenses charged to revenue were £9,569,000 compared with £8,625,000 for the previous year. The changes in fixed asset investments are described together with a review of the Group's activities in the Chairman's statement and Operational review on pages 4 and 6.

Dividend and proposed transfer to reserves

The directors recommend the payment of a final dividend of £4,220,000 equal to 18.5p per ordinary share (1998: £3,867,000, equal to 17p per share) giving a total dividend for the year of £6,168,000 equal to 27p per ordinary share (1998: £5,687,000 equal to 25p per share). Payment of the dividend will made on 25th May, 2000 to holders on the register at the close of business on 2nd May, 2000. The dividend details are shown in Note 7 on page 47.

After payment of the dividend, there is a profit of £1,550,000 in respect of the year ended 31st December, 1999 which the directors propose to carry to reserves (1998: profit of £2,860,000 carried to reserves).

Directors

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

C R E Brooke* (retired 11th May, 1999)	R A P King* (retired 11th May, 1999)
A P Hichens*	J G West*
S W Curran	D R Wilson*
G D Fairservice	C J Buffin
P J Scott Plummer*	M S Gumienny
	G E Grimstone* (appointed 6th July, 1999)

*Non-executive

Mr G E Grimstone was appointed a non-executive director on 6th July, 1999 and will be subject to election at the forthcoming Annual General Meeting of the Company.

In accordance with the Articles of Association Messrs P J Scott Plummer, J G West and G D Fairservice will retire by rotation and, being eligible, will offer themselves for re-election. Of those seeking re-election, only Mr Fairservice has a service contract, which has a one year notice period.

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

Directors' interests

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

Notifiable interests in the Company's shares

The Company has been advised of the following notifiable interests in excess of 3 per cent of the issued share capital of the Company at 8th March, 2000.

	Number	%
Schroder Investment Management Limited	2,362,800	10.4
Electra Investment Trust plc	1,500,000	6.6
Prudential plc	1,497,086	6.6
BP Pension Trustees Limited	1,345,743	5.9
Royal Life Insurance Limited	1,237,000	5.4
British Airways Pension Fund	984,666	4.3
Alpinvest Holding N.V.	966,829	4.2
Martin Currie	881,950	3.9
Totals	10,776,074	47.3

Political and charitable donations

During the year £15,860 (1998: £46,851) was given for charitable purposes. There were no political donations made during the year (1998: Nil).

Extraordinary General Meeting

An Extraordinary General Meeting of the Company was held on 9th February, 2000 at which a Special Resolution was passed to amend the Company's Articles of Association by the insertion of "(provided that nothing in this Article 127(A) shall prohibit any part of the Capital Reserve being available for distribution by way of redemption or purchase of any of the Company's own shares in accordance with sections 160 or 162 of the Companies Act 1985 (as amended))" in Article 127 (A) after the words "in paying dividends on any shares in the Company".

The effect of this amendment to the Articles is to remove the prohibition on making distributions from capital profits to the extent that it relates to the redemption or purchase of the Company's own shares. The Board is committed to managing the Company's capital efficiently and will keep under review the desirability of buying back shares. However, it will only buy back shares if it believes it is in the Company's best interests to do so.

Annual General Meeting

The Annual General Meeting of the Company will be held on Tuesday 9th May, 2000 at 12 noon at The Stationers' Hall, Ave Maria Lane, London EC4M 4DD; the notice of meeting appears on pages 59 and 60.

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

Under Resolution 8, it is proposed to allow your directors the authority to issue new shares for cash, without following the statutory pre-emption procedures, so long as such issue does not exceed £285,159 (being 5 per cent of the issued share capital of the Company) or as long as the issue is a rights issue or is pursuant to a scrip dividend offer or any pre-emptive invitation.

The Company will have regard to the Investor Protection Committee's (IPC) guidelines in relation to any exercise of the above authority. These guidelines require prior consultation with the IPC before making any issue under the 5 per cent element of the authority but which exceeds 7.5 per cent in any rolling three year period. This authority will expire at the next Annual General Meeting or on 9th August, 2001, whichever is earlier.

Resolution 9 contained in the Notice of Annual General Meeting dated 27th March, 2000, if passed, authorises the Company to purchase up to 3,419,621 of its shares. This authority will expire at the next Annual General Meeting of the Company or on 9th November, 2001 if the next Annual General Meeting has not been held by then. This Resolution also sets out the highest and lowest price at which the shares can be bought. If the Company buys any shares under this authority, they will be cancelled. The Resolution follows the rules set down by the Companies Act 1985 and the London Stock Exchange.

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

The directors consider the passing of Resolutions 8 and 9 to be in the best interests of the Company and its shareholders as a whole.

Supplier payment policy

The Group negotiates payment terms with its suppliers on an individual basis, with the normal arrangements being within 30 to 50 days from receipt of invoice. Trade creditor days of the Group for the year ended 31st December, 1999 were 26 days based on the ratio of Group trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

ISA status

Your board have considered the ISA status of Candover's shares and for the time being consider that a decision to ensure Candover remains eligible for inclusion in an ISA will impose constraints on Candover's investment criteria which will not be in the overall interests of shareholders.

Year 2000 compliance

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

We addressed this issue in tandem with a general requirement to replace and upgrade all of the Group's computer systems. The total cost of the exercise did not significantly differ from the £170,000 disclosed in last year's financial statements.

All systems have continued to operate properly over the Year 2000 date change. It was also identified that there were potentially indirect risks to Candover arising from the Year 2000 impact upon our investee companies. Enquiries were made of all our significant investee companies as to their own Year 2000 risks and assurances received. To date no significant problems relating to investee companies have been identified.

We also requested confirmation of Year 2000 compliance from our suppliers and other trading partners with whom information is exchanged electronically. To date we have not suffered any significant problems from suppliers in relation to the Year 2000 problem.

The issue remains complex and no business can guarantee that there will be no Year 2000 problems as there remain further key dates that could affect computer systems. However, the board believe that its plan and the resources allocated are appropriate to address the issue.

Auditors

Grant Thornton offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985 and a resolution will be put to shareholders at the Annual General Meeting.

Tax status

The Board of the Inland Revenue has approved the Company as an investment trust, under section 842 of the Income and Corporation Taxes Act 1988, for the year ended 31st December, 1998.

In the opinion of the directors, the Company's affairs since that date have been conducted so as to enable it to continue to seek approval as an investment trust. In addition, they are of the opinion that the Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

By Order of the Board
P R Neal
Secretary
20 Old Bailey
London EC4M 7LN
27th March, 2000

Corporate governance

The following statement sets out the Company's application of the Combined Code. The Company has complied with the principles of good governance and the Combined Code in all respects throughout the year.

Directors

The board

Corporate governance of Candover is achieved through the board which at the end of the year consisted of nine directors of whom four are executive and five are non-executive. During the year one non-executive director together with Roger Brooke, our non-executive Chairman, retired and one new non-executive director was appointed as shown in the directors' report on page 24. Brief biographical details of the directors appear on pages 22 and 23 and the interests of the directors in the share capital of the Company are shown on page 45.

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

Chairman and CEO

The responsibilities of the Chairman, Mr S W Curran are separated from those of the joint Managing Directors Mr C J Buffin and Mr M S Gumienny who are responsible for the day to day operational management of the Company.

Board balance

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

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

Supply of information

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

Appointments to the board

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

The nominations committee, which is chaired by Mr A P Hichens, consists of three directors, a majority of whom are non-executive, and the present members of the committee are shown on pages 22 and 23.

The nominations committee met once in 1999 in respect of Mr G E Grimstone's nomination to the Board.

During the year the board considered the requirement of the Combined Code to provide suitable training to new directors following the appointment of Mr G E Grimstone to the board but considered such training to be inappropriate in view of his previous experience as a director of Dairy Crest Group plc and 20 years experience in corporate finance.

Re-election

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

Corporate governance

Directors' remuneration

The board's policy in regard to directors' remuneration is to ensure that the Company has competitive remuneration packages in place in order to recruit, retain and motivate top quality people in the overall interest of shareholders.

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

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

The committee consults the Chairman and Managing Directors about its proposals relating to the executive directors' remuneration and, if necessary, has access to professional advice from inside and outside the Company at the Company's expense.

The main elements of the executive directors' remuneration package, which are shown in greater detail on Note 3 on page 44, include the following:

a) Basic annual salary.

b) Annual performance related payments which include annual bonus and profit related pay schemes.

c) Share option incentives.

d) Pensions and other benefits.

e) Other incentive arrangements.

In considering the appropriateness of the above incentives, the performance-related elements of which form a significant proportion of executive directors remuneration, Candover participates in an annual remuneration survey of the private equity industry the results of which are reviewed by the committee in the light of Candover's relative performance.

Salaries

Salaries of the executive directors to be paid in 1999 were reviewed in December 1998 for implementation on 1st January, 1999. After considering the relative salary levels within the industry, the estimated increase in net assets and the profits for the year ended 31st December, 1998, the committee approved an overall increase in executive directors' salaries of 8.8 per cent.

Annual bonuses

The annual bonuses, which are paid in two instalments, are determined by the committee after due consideration of the profit and net asset performance of the Company at each half year stage, with adjustments as necessary for individual performance.

A profit related pay (PRP) scheme is also provided which receives 2.5 per cent of the Company's net profit into the scheme for distribution to all employees. Based on an adjusted profit in accordance with PRP Rules of £6,248,327, a total of £156,208 will be paid to staff in respect of the year ended 31st December, 1999. Following the Government's changes to the rules governing PRP schemes, the Candover PRP Scheme will be cancelled with effect from 6th April, 2000.

During the year ended 31st December, 1999 Messrs S W Curran, G D Fairservice, C J Buffin and M S Gumienny received performance related pay which in total was equal to 100 per cent of basic salary.

Share options

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

There are two share option schemes at Candover; the Candover executive share option scheme which was closed to new grants of options in July 1994, and the Candover (1994) executive share option scheme approved by shareholders on 3rd May, 1994.

Under the terms of the Candover (1994) executive share option scheme, the exercise of options issued under the scheme are subject to performance criteria which requires Candover's net asset growth over a three-year period to exceed the growth of the FTSE All-Share index over the same three-year period.

In the year ended 31st December, 1999 no options were granted to directors but C J Buffin exercised his options over 25,000 shares during the year. The directors' interests in shares and share options are disclosed in the schedule under Note 3 to the accounts on page 45.

The details of the total share options granted and remaining exercisable are shown in Note 17 on page 55.

Pensions and other benefits

Candover operates a non-contributory money purchase pension scheme and there were no changes to this arrangement. Contributions in respect of individuals are payable as a percentage of basic salary only and these are adjusted annually to reflect increases in salary. There is no pension promise under the Candover scheme.

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

Some of the directors with the approval of the remuneration committee have elected to establish a funded unapproved retirement benefit scheme (FURB). Certain amounts were paid during the year by way of bonus sacrifice into the FURBs of Messrs G D Fairservice (£20,000) and M S Gumienny (£10,000) and these amounts are included under pension contributions in Note 3 of the accounts on page 45.

The arrangement whereby Mr C R E Brooke agreed to forego a proportion of his salary, subject to this amount being paid into a FURB also continued during the year until his retirement in May 1999. This amounted to a total contribution of £16,667. In addition, following Mr C R E Brooke's retirement from the board after the Annual General Meeting in 1999, an ex-gratia sum of £150,000 was also paid into Mr C R E Brooke's FURB.

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

Incentive arrangements and co-investment scheme

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

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

Any gains achieved through the arrangements associated with these three Funds are conditional upon a certain minimum return being generated for investors in these Funds.

During the year, £5.6 million in cash in respect of the Candover 1991 Fund and the Candover 1994 Fund was transferred to the Candover 1991 Executive Trust and The Candover Carried Interest Trust respectively, in which units were subscribed for in some cases by certain discretionary and life interest trusts of which these directors, a number of other executives and their respective families are the main beneficiaries. Because of the nature of these trusts, it is not possible to allocate this to specific beneficiaries.

Under a co-investment scheme Messrs S W Curran, G D Fairservice, C J Buffin and M S Gumienny together with certain other executives were permitted during the year to make an investment in the ordinary equity of companies in which Candover has also made an investment in the equity and loan capital. As in previous years the amounts invested by directors during the year are shown under Note 3 on page 46. Mr C R E Brooke did not participate in such arrangements.

Directors' service contracts

In December 1997, Mr S W Curran, Mr G D Fairservice, Mr C J Buffin and Mr M S Gumienny together with certain executives, entered into new supplemental service agreements under which an annual loyalty bonus became payable for a period of six years subject to their continued employment with the Company. Under the terms of these contracts a one year notice period is required on either side (two years in the case of Mr S W Curran) and the individuals can be placed on gardening leave, during which time they will lose the right to such loyalty bonus. Over the full six years of the contract the loyalty bonus will total £666,666 for each of Mr S W Curran, Mr G D Fairservice, Mr C J Buffin and Mr M S Gumienny of which the second instalment of £133,333 was paid during the year. The remaining portion will be paid in each year in reducing amounts unless the investment period of the Candover 1997 Fund is terminated earlier.

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

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

Directors' fees

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

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

Relations with shareholders

Dialogue with institutional shareholders

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

Constructive use of AGM

The board uses the AGM to communicate with private investors and encourages their participation by ensuring that senior board members attend, including the Chairmen of the audit, remuneration and nominations committees (DR Wilson and A P Hichens) to answer shareholders' questions, and adequate notice is given of the meeting.

Accountability and audit

Financial reporting

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

The auditors review the Company's compliance with the provisions of the combined code and are also required to report on their audit of the financial statements and this report is shown on page 35.

Going concern

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

After making enquiries, 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 be continued in the preparation of the financial statements.

Internal controls and internal financial controls

The Combined Code also requires the board to review the effectiveness of Candover's internal controls including its financial, operational and compliance controls and risk management. Following the publication in September 1999 by the Institute of Chartered Accountants in England and Wales of its document ("Internal Control: Guidance for Directors on the Combined Code") the board has established the procedures necessary to implement the guidance for the financial year ended 31st December, 2000. However, in line with best advice and following guidance from the London Stock Exchange in its letter to listed companies dated 27th September, 1999 the board has restricted its reporting on internal controls for the financial year ended 31st December, 1999 to a review of the effectiveness of internal financial controls as required under the permitted transitional arrangements.

Although no system of internal financial control can provide absolute assurance against material misstatement or loss, the Company's system is designed to facilitate the directors in obtaining reasonable assurance that problems are identified on a timely basis and dealt with appropriately. Key procedures that have been established and are designed to provide effective internal financial control are described under the following headings:

Corporate governance

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. Furthermore, the long service record of most Candover executives provides a continuity of experience. One new executive of a high calibre and with relevant background experience was recruited during the year, in line with Candover's policy of ensuring that there is an adequate level of human resource to enable 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.

The management are supported by the board with more than one half being made up of non-executive directors who, in conjunction with the Company's auditors, Grant Thornton, and the auditors of the managed funds, KPMG, carry out an external review of both the Company's financial controls and also those of the Funds which the Candover group manages, only to the extent necessary to give their audit opinion.

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

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

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

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

- Analysis of potential investments leading, where appropriate, to the preparation of a full investment report.
- Regular monitoring of completed investments by executives who make progress reports to the appropriate board.
- A comprehensive system for reporting financial results to the board at least five, and if appropriate more, times per year giving actual results compared against budget. Towards the end of each financial year detailed budgets for the following year are prepared and are reviewed by the board.
- A review of these financial controls is subject to review by the audit committee twice a year and by Candover's external auditors to the extent necessary for expressing their audit opinion.

In line with the transitional arrangements relating to internal controls, the board has reviewed the effectiveness of the system of internal financial control for the financial year ended 31st December, 1999 and up until the date of signing these accounts, utilising the process set out above.

Audit committee and auditors

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

The audit committee carries out a number of duties and seeks to ensure that appropriate accounting and financial policies and procedures are implemented, that systems of internal financial control and external audit are in place, and that the auditors' recommendations are considered and appropriate actions are taken. Under the procedures established for compliance with the Internal Control Guidance, the audit committee has been identified as the body responsible for reviewing Candover's internal controls, and reports its findings to the board. Based upon the audit committee's reports on internal controls during the course of 2000, the board will consider and report on the effectiveness of the Company's internal controls from the end of 2000.

As required by the Combined Code the board has reviewed the need for an internal audit function and due to the size of Candover does not consider an internal audit function appropriate, although this is a matter under continuing review. However, a number of internal checks are carried out in accordance with the requirements of IMRO, the regulatory authority which regulates two of the Company's main subsidiaries, as well as those checks required to be made to enable the board to report in compliance with the Internal Controls Guidelines, the efficiency of which is continuously reviewed.

Directors' responsibilities for the financial statements

The directors are required by UK company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group as at the end of the financial year and of the profit or loss of the Group for that period.

The directors are required to confirm that suitable accounting policies have been adopted and applied consistently, and have been adequately disclosed, and reasonable and prudent judgements and estimates have been made. Applicable accounting standards have been followed with the exception of the departures which are disclosed and explained under the accounting policies.

The directors are also responsible for keeping proper accounting records, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board
P R Neal
Company Secretary
27th March, 2000

Financial statements

To the members of Candover Investments plc

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 33, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

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

We review whether the statement on pages 27 to 33 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to 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 the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31st December, 1999 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton
Registered Auditors
Chartered Accountants
London
27th March, 2000

Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards except for the policies relating to accounting for managed funds as described below. The financial statements are prepared under the historical cost convention except that investments are stated at valuation. The principal accounting policies of the Group, which have remained unchanged from the previous year are set out below:

Investment trust SORP

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

Basis of consolidation

The Group financial statements consolidate those of the Company and of its subsidiary undertakings (see note 11). The financial statements of each undertaking in the Group have been prepared to 31st December, 1999. The results of subsidiary undertakings have been included from the date of acquisition.

Associated undertakings

An associated undertaking is defined as an entity, not being a subsidiary undertaking, in which the Group has a substantial and long-term interest and over whose financial and operating policy decisions the Group exercises significant influence. Where such entities are an integral part of the Group's investment management operations, the Group's share of profits is included in the Group revenue account, and the investment is carried in the Group balance sheet at an amount equivalent to the Group's share of net assets. The Company balance sheet shows the investment in such undertakings at cost, and particulars of entities accounted for as associated undertakings are set out in Note 12.

The Group has certain other investments in companies which fall within the definition of associated undertakings contained in the Companies Act 1985 (as amended) but which are not accounted for as associated undertakings, and accordingly, the Group does not equity account its share of the net assets and results of such investments, as they are held for capital appreciation. Furthermore, the Group's share of an investee company's undistributed profits, when those profits cannot be realised as income unless distributed, has not been included in the consolidated revenue reserves.

Managed funds

Where the constitution of a managed fund involves it being a subsidiary undertaking under the Companies Act 1985 (as amended) but the Group has no substantial beneficial interest in the income, assets or liabilities, the total net assets of the fund are consolidated within fixed asset investments and the third party interests deducted immediately thereafter. The income has been consolidated gross in the Group revenue reserves and the third party interests deducted immediately thereafter in accordance with Regulation 7 of the Partnerships and Unlimited Companies (Accounts) Regulations 1993. The fund has not been accounted for under the method of full consolidation, since in the opinion of the directors, it would be misleading to do so and the overriding duty to give to shareholders a true and fair view of the income and state of affairs of the Group requires its exclusion. Details of these managed funds are set out in Note 11.

Income

Income arises from investment management and other financial services provided and investment transactions undertaken during the year. It also includes income from investments and interest receivable.

Deferred expenditure

Placement fees incurred in the establishment of the Candover 1994 Fund and the Candover 1997 Fund have been carried forward in current assets and are being written off over five years.

Depreciation

Depreciation is calculated to write down the cost less residual value of all tangible fixed assets by equal annual instalments over their expected useful lives. The periods generally applicable are: plant and equipment 2-5 years, motor vehicles 3-4 years.

Investments

Listed fixed asset investments are valued at middle market quotations derived from the London Stock Exchange Daily Official List. Unlisted fixed asset investments are included at directors' valuation, the principles of which are set out on page 21.

Gains and losses on realisation of fixed asset investments are dealt with through the realised capital reserve. Fixed asset investments are not held for immediate resale and any gains on realisations are not available for distribution as a dividend. The excess of the market value of fixed asset investments over cost to the Group is shown as an unrealised gain. Investments held as current assets are held at the lower of cost and net realisable value to the relevant Group undertaking. Gains and losses on realisations of current asset investments held by subsidiary undertakings are dealt with through the revenue reserve. Gains and losses on realisations of current asset investments held by the Company are dealt with through the realised capital reserve. Shares in subsidiary undertakings other than managed funds are held at cost less provisions.

Deferred taxation

Deferred taxation is the taxation attributable to timing differences between profits or losses computed for taxation purposes and results as stated in the financial statements. Provision for deferred taxation is made to the extent that it is probable that a liability will crystallise. Deferred tax is calculated at the rate at which it is estimated that the tax will be paid when the timing differences reverse. Unprovided deferred tax is disclosed as a contingent liability.

Foreign currencies

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

Pension costs

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

Operating leases

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

Group statement of total return

Incorporating the revenue account for the year ended 31st December, 1999

	Notes	1999 Revenue £000	1999 Capital £000	1999 Total £000	1998 Revenue £000	1998 Capital £000	1998 Total £000
Gains/(losses) on investments							
Realised gains and losses	18	–	3,763	3,763	–	7,534	7,534
Unrealised gains and losses	18	–	23,111	23,111	–	31,258	31,258
Exchange differences	18	–	4	4	–	20	20
		–	26,878	26,878	–	38,812	38,812
Income – managed funds							
Net income	11	4,996	–	4,996	785	–	785
Less: third party interests in managed funds		(4,983)	–	(4,983)	(785)	–	(785)
Add: management fees		11,940	–	11,940	12,013	–	12,013
Net income from managed funds		11,953	–	11,953	12,013	–	12,013
Income – own funds		8,080	–	8,080	8,726	–	8,726
Total income	1	20,033	–	20,033	20,739	–	20,739
Administrative expenses	2	(9,569)	(4,346)	(13,915)	(8,625)	(3,421)	(12,046)
Net return before finance costs and taxation		10,464	22,532	32,996	12,114	35,391	47,505
Interest payable & similar charges	4	(8)	–	(8)	(45)	–	(45)
Return on ordinary activities before taxation		10,456	22,532	32,988	12,069	35,391	47,460
Tax on ordinary activities	5	(2,738)	1,315	(1,423)	(3,522)	1,061	(2,461)
Return on ordinary activities after taxation for the financial year		7,718	23,847	31,565	8,547	36,452	44,999
Dividends	7	(6,168)	–	(6,168)	(5,687)	–	(5,687)
Transfer to reserves	18	1,550	23,847	25,397	2,860	36,452	39,312
Return per ordinary share:							
Basic	8	33.87p	104.64p	138.51p	37.57p	160.24p	197.81p
Fully diluted	8	33.62p	103.87p	137.49p	37.30p	159.10p	196.40p

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

Group balance sheet

at 31st December, 1999

	Notes	1999 £000	1999 £000	1998 £000	1998 £000
Fixed assets					
Tangible	9		**287**		350
Investments					
Managed funds	11	622,934		314,469	
Less: third party interests in managed funds		(602,160)		(301,076)	
Net investment in managed funds	10	20,774		13,393	
Other fixed asset investments	10	132,727		92,628	
		153,501		106,021	
Associated undertakings	12	74		66	
			153,575		106,087
Current assets					
Debtors	13	13,546		12,909	
Investments	14	57,926		73,549	
Cash at bank		15,138		18,267	
		86,610		104,725	
Creditors: amounts falling due within one year	15	(11,999)		(9,382)	
Net current assets			**74,611**		95,343
Total assets less current liabilities			**228,473**		201,780
Provisions for liabilities and charges	16		**(3,721)**		(2,591)
			224,752		199,189
Capital and reserves					
Called up share capital	17		**5,703**		5,687
Share premium	18		**855**		705
Capital reserve – realised	18		**150,337**		135,176
Capital reserve – unrealised	18		**56,500**		47,814
Revenue reserve	18		**11,357**		9,807
Shareholders' funds	19		**224,752**		199,189

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

The financial statements were approved by the directors on 27th March, 2000.

S W Curran
Chairman

G D Fairservice
Deputy Chairman

Balance sheet

at 31st December, 1999

	Notes		1999		1998
		£000	£000	£000	£000
Fixed assets					
Investments	10		158,378		110,898
Associated undertakings	12		1		1
			158,379		110,899
Current assets					
Debtors	13	6,128		4,362	
Investments	14	57,162		69,013	
Cash at bank		4,428		14,284	
		67,718		87,659	
Creditors: amounts falling due within one year	15	(7,675)		(4,727)	
Net current assets			60,043		82,932
Total assets less current liabilities			218,422		193,831
Provisions for liabilities and charges	16		–		–
			218,422		193,831
Capital and reserves					
Called up share capital	17		5,703		5,687
Share premium account	18		855		705
Capital reserve – realised	18		151,194		136,030
Capital reserve – unrealised	18		56,341		47,662
Revenue reserve	18		4,329		3,747
			218,422		193,831

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

The financial statements were approved by the directors on 27th March, 2000.

S W Curran
Chairman

G D Fairservice
Deputy Chairman

	Notes	£000	1999 £000	£000	1998 £000
Net cash inflow from operating activities	23		**9,929**		5,444
Returns on investments and servicing of finance					
Interest paid			**(8)**		(45)
Taxation					
UK corporation tax paid			**(312)**		(1,058)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(153)		(277)	
Purchase of investments		(50,056)		(13,695)	
Sale of investments		27,464		16,478	
Purchase of associated undertaking		(8)		–	
Sale of associated undertaking		–		58	
Sale of tangible fixed assets		41		36	
Net cash inflow from capital expenditure and financial investment			**(22,712)**		2,600
Equity dividends paid			**(5,815)**		(5,232)
Management of liquid resources			**15,623**		5,752
Financing					
Issue of shares			**166**		–
(Decrease)/Increase in cash	24		**(3,129)**		7,461

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

Note 1 Income

		1999		1998
	£000	£000	£000	£000
Financial services		107		119
Investment dealing		–		164
Investment management fees		11,950		12,138
		12,057		12,421
Investment income				
Income from fixed asset investments	3,450		2,265	
Income from Treasury bills and other fixed interest securities	3,354		5,057	
Other income receivable arising on cash deposits	1,172		996	
		7,976		8,318
		20,033		20,739

Of the income from fixed asset investments of £3,450,000 (1998: £2,265,000), £13,000 (1998: £Nil) arose from managed funds.

Of the income from investment management of £11,950,000 (1998: £12,138,000), £11,940,000 (1998: £12,013,000) also arose from these funds.

Of the income from fixed asset investments, £410,000 arose from listed investments (1998: £423,000). Income from financial services originating from outside the United Kingdom was £1,983,000 (1998: £Nil). All income arose from the single activity of originating and investing in management buyouts and buyins and providing capital to unquoted companies. All income is attributable to continuing activities.

Note 2 Administrative expenses

		1999 £000	1998 £000
Management expenses			
Revenue		1,086	855
Capital		4,346	3,421
Other administrative costs		8,483	7,770
		13,915	12,046
Staff costs		8,607	6,176
Depreciation		186	137
Auditors' remuneration	Audit work	51	42
	Non-audit work – tax advice	54	74
	IMRO compliance	9	9
Operating lease rentals	Building	534	534
	Other	–	2

Staff costs during the year were		
Salaries	6,721	4,653
Social security costs	754	462
Pension, insurance and other costs	1,132	1,061
	8,607	6,176

The average number of employees of the Group in the UK during the year was 29 (1998: 28).

Note 3 Directors' remuneration, emoluments and interests

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

Listed below is the detailed information required to be shown in respect of directors' remuneration and benefits.

Directors' emoluments

Total emoluments received by directors during the year ended 31st December, 1999 were as follows:

	Salaries/ directors' fees	Performance related pay	Loyalty bonus	Taxable benefits	Insurance costs	**Total emoluments excluding pension contributions 1999**	Total emoluments excluding pension contributions 1998
	£	£	£	£	£	**£**	£
S W Curran	345,000	345,942	133,333	16,320	8,813	**849,408**	670,056
G D Fairservice	265,000	245,736	133,333	8,138	7,021	**659,228**	550,101
C J Buffin	261,667	250,663	133,333	10,444	6,667	**662,774**	513,671
M S Gumienny	261,667	240,663	133,333	2,119	6,667	**644,449**	497,866
Management remuneration	**1,133,334**	**1,083,004**	**533,332**	**37,021**	**29,168**	**2,815,859**	**2,231,694**
C R E Brooke*	15,000	–	–	20,816	–	**35,816**	50,043
A P Hichens*	37,500	–	–	–	–	**37,500**	36,250
R A P King*	9,167	–	–	–	–	**9,167**	21,500
P J Scott Plummer*	22,000	–	–	–	–	**22,000**	21,500
J G West*	22,000	–	–	–	–	**22,000**	21,500
D R Wilson*	22,000	–	–	–	–	**22,000**	21,500
G E Grimstone*	11,000	–	–	–	–	**11,000**	–
Directors' fees	**138,667**	**–**	**–**	**20,816**	**–**	**159,483**	**172,293**
Totals	**1,272,001**	**1,083,004**	**533,332**	**57,837**	**29,168**	**2,975,342**	**2,403,987**
1998 comparatives	1,200,237	517,790	600,000	62,327	23,633	**2,403,987**	

The non–executive directors (*), other than Mr C R E Brooke, only receive fees which in some cases are paid directly to their primary employing company, and do not receive any other remuneration. Messrs C R E Brooke and R A P King retired as directors during the year.

Mr G E Grimstone was appointed a director during the year.

The loyalty bonus is payable over a six-year period in reducing amounts as referred to in the corporate governance report on page 30.

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

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

	1999	1998
	£	£
Mr S W Curran	138,000	99,500
Mr G D Fairservice	126,000	88,500
Mr C J Buffin	75,000	67,500
Mr M S Gummieny	82,917	55,000
	421,917	310,500

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

Mr C R E Brooke received no contributions to his pension (1998: £Nil) but received a £166,667 contribution to his FURB (1998: £50,000).

Directors' interests in shares

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

Beneficial	Ordinary shares of 25p each 1st January, 1999	Ordinary shares acquired/(sold) during the year	Ordinary shares of 25p each 31st December, 1999 *
C R E Brooke	400,000	Nil	400,000
S W Curran	649,703	Nil	649,703
G D Fairservice	201,000	(800)	200,200 †
C J Buffin	40,500	25,000	65,500
M S Gumienny	110,100	Nil	110,100
A P Hichens	29,000	6,000	35,000
P J Scott Plummer	12,000	Nil	12,000
J G West	1,500	Nil	1,500
G E Grimstone	Nil	Nil	Nil †
R A P King	Nil	Nil	Nil
D R Wilson	Nil	Nil	Nil
Non–Beneficial			
C R E Brooke	147,500	Nil	147,500

*Or date of retirement where applicable

†Since the year end, 750 shares have been sold by a connected person of Mr G D Fairservice, and 5,000 shares have been bought by Mr G E Grimstone.

Directors' share options

	1st January, 1999 No.	Exercised during year No.	Deemed gain on exercise £	**31st December, 1999 No.**	Exercise price	Date from which exercisable	Expiry date
C J Buffin	25,000	25,000	179,250	**Nil**	208.00p	13/03/93	13/03/00
	25,000	Nil	Nil	**25,000**	235.00p	20/10/95	20/10/02
	20,000	Nil	Nil	**20,000**	340.00p	17/06/97	17/06/04
M S Gumienny	25,000	Nil	Nil	**25,000**	235.00p	20/10/95	20/10/02
	20,000	Nil	Nil	**20,000**	340.00p	17/06/97	17/06/04

There were no new options granted to the directors during the year or since the balance sheet date. No other director held options over the Company's shares during the year.

Co–investment by directors

During the year, Messrs S W Curran, G D Fairservice, M S Gumienny and C J Buffin who are all directors of the Company, have invested in the ordinary equity of companies in which Candover has also made an investment in the equity and loan capital. Under the Stock Exchange Listing Rules these interests are covered under the rules governing "Transactions with Related Parties" ("the Rules"). In view of the insignificant level of these transactions by the above named directors, under the Rules, the fair and reasonable opinion of the Company's auditors is not required.

Details of these investments are as follows:

		Equity investments in companies	
	Class of share	subscribed in year £	% (of class) held by the directors
Acertec Holdings Limited	Ordinary shares	5,800	0.61
Fountainfrost Limited	Preferred ordinary shares	5,954	0.61
Uppergreen Limited	Preferred ordinary shares	1,679	0.61
Edgemead Limited	Preferred ordinary shares	3,400	0.61
Diamant Boart International SA	Ordinary shares	7,944	0.61
De Facto 804 Limited	Ordinary shares	708	0.47
HLF Insurance Holdings Limited	Ordinary shares	4,369	0.16
Inveresk Research Group Limited	Ordinary shares	2,824	0.61
Pipeline Integrity International Limited	Ordinary shares	12,422	0.08
Vestolit Holdings GmbH	Ordinary shares	796	0.24
	Premium	7,076	0.24

During the year a subsidiary company advanced funds under the Candover staff co–investment scheme and season ticket loan scheme to an officer of the Company. The amount of £4,609 remained payable at 31st December, 1999 (1998: £3,704).

Note 4 Interest payable and similar charges

	1999 £000	1998 £000
On bank loans, overdrafts and other loans repayable within 5 years otherwise than by instalments	**8**	45

Note 5 Taxation on profit on ordinary activities

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

	1999 £000	1998 £000
Revenue		
United Kingdom corporation tax at 30.25 per cent (1998: 31 per cent)	**1,288**	1,061
Deferred tax (see note 16)	**1,323**	2,381
Tax attributable to franked investment income	**85**	230
Adjustment relating to prior years:		
United Kingdom corporation tax	**180**	(3)
Deferred tax (see note 16)	**(193)**	(147)
Overseas tax	**55**	–
	2,738	3,522
Capital		
United Kingdom corporation tax at 30.15% (1998: 31%)	**(1,315)**	(1,061)
	1,423	2,461

The board of the Inland Revenue has approved the Company as an investment trust, under section 842 of the Income and Corporation Taxes Act 1988, for the year ended 31st December, 1998. In the opinion of the directors, the Company's affairs since that date have been conducted so as to enable it to continue to seek approval as an investment trust.

Note 6 Profit for the financial year

As permitted by section 230 of the Companies Act 1985, the Company has not included its own profit and loss account in these financial statements. The Group profit for the year includes £6,750,000 (1998: £6,358,000) which is dealt with in the financial statements of the holding company.

Note 7 Dividends

	1998 £000	1997 £000
Paid interim of 8.5p (1998: 8.00p)	**1,948**	1,820
Proposed final of 18.5p (1998: 17.00p)	**4,220**	3,867
	6,168	5,687

Note 8 Returns per share

The calculation of basic capital return per ordinary share is based on net capital gains for the financial year of £23,847,000 (1998: £36,452,000) and a weighted average number of shares of 22,789,480 (1998: 22,747,685).

The calculation of fully diluted capital return per share takes account of the share options and is based on net capital gains for the financial year of £23,847,000 (1998: £36,452,000) and a weighted average number of shares of 22,957,793 (1998: 22,911,273).

The calculation of basic revenue return per ordinary share is based on net revenue for the financial year of £7,718,000 (1998: £8,547,000) and weighted average number of shares of 22,789,480 (1998: 22,747,685). The calculation of fully diluted revenue return per share takes account of the share options and is based on net revenue for the financial year of £7,718,000 (1998: £8,547,000) and a weighted average number of shares of 22,957,793 (1998: 22,911,273).

Note 9 Tangible fixed assets

	Plant and equipment £000	Motor vehicles £000	Total £000
Group			
Cost			
At 1st January, 1999	430	283	713
Additions	112	41	153
Disposals	(81)	(65)	(146)
At 31st December, 1999	461	259	720
Depreciation			
At 1st January, 1999	257	106	363
Provided in the year	98	88	186
Disposals	(53)	(63)	(116)
At 31st December, 1999	302	131	433
Net book value at 31st December, 1999	159	128	287
Net book value at 31st December, 1998	173	177	350

Note 10 Fixed asset investments

	Managed funds £000	Investee companies £000	Total £000
Group			
Valuation at 1st January, 1999	13,393	92,628	106,021
Additions at cost	4	50,052	50,056
Disposals	(86)	(25,732)	(25,818)
Appreciation	7,463	15,779	23,242
Valuation at 31st December, 1999	20,774	132,727	153,501
Reconciliation			
Cost of investments	715	96,220	96,935
Net unrealised appreciation of investments	20,059	36,507	56,566
	20,774	132,727	153,501

Company	Shares in subsidiary undertakings £000	Managed funds £000	Investee companies £000	Total £000
Cost or valuation at 1st January, 1999	4,877	13,393	92,628	110,898
Additions at cost		4	50,052	50,056
Disposals		(86)	(25,732)	(25,818)
Appreciation		7,463	15,779	23,242
Cost or valuation at 31st December, 1999	4,877	20,774	132,727	158,378
Reconciliation				
Cost of investments	4,877	715	96,220	101,812
Net unrealised appreciation of investments	–	20,059	36,507	56,566
	4,877	20,774	132,727	158,378

At 31st December, 1999 cumulative downward adjustments of £6,881,000 (1998: £5,845,000) had been made against investments with original costs of £29,344,000 (1998: £15,449,000).

Investments at valuation include:

	1999 £000	1998 £000
Group and Company		
UK		
Listed	12,275	9,310
Unquoted at directors' valuation	93,847	58,284
Europe		
Listed	4,226	2,803
Unquoted at directors' valuation	15,447	5,848
US		
Listed	22,689	24,584
Unquoted at directors' valuation	5,017	5,192
	153,501	106,021
Equity shares	86,266	62,132
Fixed income securities	62,621	43,004
Convertible securities	4,614	885
	153,501	106,021

At 31st December, 1999 the Company held shares in excess of 10 per cent of a class of shares in a number of investee undertakings but did not have more than 20 per cent of the total allotted share capital in any of these investee undertakings. However, in the opinion of the directors, the listing of these undertakings would result in particulars of excessive length and the financial results of such undertakings do not principally affect the figures shown in these accounts. The list of these undertakings will therefore be enclosed with the Company's next annual return as permitted under section 231 (5) Companies Act 1985.

At 31st December, 1999, the Company had an interest of more than 20 per cent in the nominal value of the total allotted share capital of the following company:

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

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

Note 11 Subsidiary undertakings

At 31st December, 1999 the principal subsidiary undertakings included in the consolidation were:

	Nature of business	Issued share capital
Candover Services Limited*	Arrangement of investment syndications	£4,400,000 ordinary
Candover Realisations Limited **	Investment dealing company	£100 ordinary
Candover (Trustees) Limited *	Nominee company	£100 ordinary
Candover Nominees Limited*	Nominee company	£100 ordinary
Candover Partners Limited ***	General Partner of the Candover 1991, 1994 and 1997 Funds	£2,050,000 ordinary
Candover Investments (Nassau) Inc*	Investment holding company	US $500,000 common stock

* Wholly owned directly by the holding company

** Wholly owned by a subsidiary undertaking

*** 90 per cent owned by a subsidiary undertaking and 10 per cent owned directly by the holding company

All of the preceding companies are incorporated in Great Britain and are registered and operational in England and Wales with the exception of Candover Investments (Nassau) Inc which is incorporated and is operational in the Bahamas.

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

Candover Partners Limited is the General Partner of the limited partnerships comprising the Candover 1991, 1994 and 1997 Funds. In view of the excessive length, the name and address of each partnership will be enclosed with the Company's next annual return as permitted under section 231(5) Companies Act 1985. In addition advantage has been taken of the exemption conferred by Regulation 7 of the Partnerships and Unlimited Companies (Accounts) Regulations 1993 and accordingly accounts in accordance with the Companies Act 1985 have not been prepared for each of the limited partnerships.

The Company is a Special Limited Partner in the Candover 1991 Fund and is a unitholder in the unauthorised unit trusts which are Special Limited Partners in the Candover 1994 and 1997 Funds. In each case the Special Limited Partner is entitled to participate in profits after a minimum rate of return has been achieved by the Limited Partners. This profit entitlement is referred to as the carried interest.

Candover also holds a direct interest in all the Candover 1994 limited partnerships which at 31st December, 1999 was valued at £735,000 (cost £520,000).

For the reasons set out in the accounting policies, the limited partnerships comprising the Candover 1991, 1994 and 1997 Funds have not been accounted for under the method of full consolidation. At 31st December, 1999, the net assets of the Funds were £622.9 million (1998: £314.5 million) and the net income for the year ended was £5.0 million (1998: £0.8 million). The net assets and net income can be summarised as follows:

	1999	1998
	£m	£m
Investments	**587.2**	304.9
Debtors	**13.8**	0.4
Cash	**26.6**	11.8
Creditors	**(4.7)**	(2.6)
	622.9	314.5
Income from fixed asset investments	**8.5**	3.2
Interest receivable	**0.5**	0.6
	9.0	3.8
Expenses	**(2.5)**	(2.5)
Tax	**(1.5)**	(0.5)
	5.0	0.8

As at 31st December, 1999, Candover's investment as a Special Limited Partner in the Candover 1991 Fund was valued at £178,000 (1998: £178,000). Candover's investment in the unauthorised unit trusts which are Special Limited Partners in the Candover 1994 and 1997 Funds was valued at £19,861,000 (1998: £12,231,000).

Note 12 Associated undertakings

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

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

	Group share of net assets	Company share at cost
	£000	£000
Cost at 1st January, 1999	66	1
Addition	8	–
Share of post–acquisition reserves at 1st January, 1999	–	–
Increase	–	–
Total	74	1

Note 13 Debtors

		Group		Company
	1999	1998	**1999**	1998
	£000	£000	**£000**	£000
Amounts falling due within one year				
Trade debtors	**4,144**	854	**2,624**	630
Amounts owed by subsidiary undertakings	**–**	–	**611**	517
Amounts owed by associated undertaking	**8**	8	**–**	–
Other debtors	**1,425**	3,267	**657**	1,139
Prepayments and accrued income	**5,353**	4,848	**2,236**	2,076
	10,930	8,977	**6,128**	4,362
Amounts falling due after more than one year				
Prepayments and accrued income	**2,616**	3,932	**–**	–
Total debtors	**13,546**	12,909	**6,128**	4,362

Note 14 Current asset investments

		Group		Company
	1999	1998	**1999**	1998
	£000	£000	**£000**	£000
Fixed interest securities	**57,926**	73,549	**57,162**	69,013

Note 15 Creditors: amounts falling due within one year

		Group		Company
	1999	1998	**1999**	1998
	£000	£000	**£000**	£000
Trade creditors	**530**	129	**8**	17
Amounts owed to group undertakings	**–**	–	**1,915**	70
Current taxation	**–**	13	**130**	533
Social security and other taxes	**1,387**	–	**–**	–
Proposed dividends	**4,220**	3,867	**4,220**	3,867
Other creditors	**4,169**	3,856	**328**	186
Accruals and deferred income	**1,693**	1,517	**1,074**	54
	11,999	9,382	**7,675**	4,727

Note 16 Provisions for liabilities and charges

		Group		Company
	1999	1998	**1999**	1998
	£000	£000	**£000**	£000
Deferred taxation:				
At 1st January	**2,591**	357	**–**	142
Increase/(decrease) in year	**1,130**	2,234	**–**	(142)
At 31st December, 1999	**3,721**	2,591	**–**	–
Deferred taxation provided for in the financial				
statements is set out below:				
Accelerated capital allowances	**–**	–	**–**	–
Other timing differences	**3,721**	2,591	**–**	–
	3,721	2,591	**–**	–

There was no unprovided deferred taxation in the financial statements at 31st December, 1999 (1998: £Nil).

Note 17 Share capital

	1999 Number	1999 £000	1998 Number	1998 £000
Authorised:				
Ordinary shares of 25p each	29,000,000	**7,250**	29,000,000	7,250
Allotted, called up and fully paid:				
Ordinary shares of 25p each at 1st January	22,747,685	**5,687**	22,747,685	5,687
Issued in year	65,000	**16**	–	–
Ordinary shares of 25p each at 31st December	22,812,685	**5,703**	22,747,685	5,687

No options were granted but 65,000 options were exercised during the year. At 31st December, 1999 the following options remained exercisable at the following prices and dates.

No. of options	Exercise price	Exercisable between
60,000	235.00p	20th October, 1995 to 20th October, 2002
140,000	340.00p	17th June, 1997 to 17th June, 2004
3,930	762.00p	8th September, 2001 to 8th September, 2008
203,930		

As at 31st December, 1999 there remained 566,387 options available to be granted under the Candover (1994) executive share option scheme (1998: 564,763).

The performance criteria for the exercise of any options issued under the terms of Candover (1994) executive share option scheme are referred to in the corporate governance report on page 29.

Note 18 Reserves

	Share premium account £000	Realised capital reserve £000	Unrealised capital reserve £000	Revenue reserve £000
Group				
At 1st January, 1999	705	135,176	47,814	9,807
Surplus on investments revaluation	150		23,111	
Investments realised in year		18,195	(14,432)	
Exchange differences		(3)	7	
Net revenue for the year				
Costs net of tax		(3,031)		1,550
At 31st December, 1999	855	150,337	56,500	11,357
Company				
At 1st January, 1999	705	136,030	47,662	3,747
Increase in year	150			
Surplus on investments revaluation			23,111	
Investments realised in year		18,195	(14,432)	
Net revenue for the year				582
Costs net of tax		(3,031)		
At 31st December, 1999	855	151,194	56,341	4,329

Note 19 Reconciliation of movements in shareholders' funds

	1999 £000	1998 £000
Net revenue	7,718	8,547
Dividends	(6,168)	(5,687)
	1,550	2,860
Issue of share capital	166	–
Capital surplus for the year	23,847	36,452
Net addition to shareholders' funds	25,563	39,312
Shareholders' funds at 1st January, 1999	199,189	159,877
Shareholders' funds at 31st December, 1999	224,752	199,189

Note 20 Capital commitments

The directors have authorised commitments of £100 million, £70 million and £5 million, which will be invested pro rata and parallel with the Candover 1997 Fund, the Candover 1994 Fund and the Candover 1991 Fund respectively. At 31st December, 1999 the outstanding commitments were £44 million (1998: £87.9 million), £6.6 million (1998: £7 million) and £0.5 million (1998: £0.5 million) respectively.

At 31st December, 1999 the outstanding commitments to other investment funds were £5.3 million (1998: £8.8 million).

Note 21 Pension commitments

The Group contributed towards a number of funded defined contribution pension and funded unapproved retirement benefit schemes designed to provide retirement benefits for its directors and employees. The assets of the scheme are held separately from the Group in independently administered funds. The pension cost charge represents contributions by the Group to the schemes in respect of the accounting period and amounted to £922,000 (1998: £706,000). At 31st December, 1999 there were no amounts payable to the schemes (1998: £Nil).

Note 22 Lease commitments

Operating lease payments relating to land and buildings amounting to £534,000 (1998: £534,000) are due within one year. The lease to which these amounts relate expires in more than five years.

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

	1999 £000	1998 £000
Operating income	**6,118**	8,693
Decrease/(increase) in debtors	**241**	(7,307)
Increase in creditors	**3,464**	4,098
Tax on franked investment income included within income from UK companies	**(69)**	(180)
Depreciation	**186**	137
Profit on disposal of tangible fixed assets	**(11)**	(16)
Loss on disposal of associated undertaking	**–**	19
Net cash inflow from operating activities	**9,929**	5,444

Note 24 Reconciliation of net cash flow to movement in net funds

	1999 £000	1998 £000
(Decrease)/increase in cash in the year	**(3,129)**	7,461
Cash inflow from decrease in liquid resources	**(15,623)**	(5,752)
Change in net funds	**(18,752)**	(1,709)
Net funds at start of the year	**91,816**	93,525
Net funds at end of the year	**73,064**	91,816

Fixed interest securities repayable on demand are treated as liquid resources.

Note 25 Related party transactions

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

Note 26 Contingent liabilities

Other than in the normal course of business, there were no contingent liabilities at 31st December, 1999 or 31st December, 1998.

Note 27 Post balance sheet events

In January 2000 Candover invested £6.6m in the nightclubs and bars division of First Leisure Corporation plc.

Distribution of fixed asset investments

as at 31st December, 1999

Sector	UK %	Europe %	Americas %	1999 Total	1998 Total
Mineral extraction					
Mining	–	–	–	**–**	1.2
	–	–	–	**–**	1.2
General industrials					
Automobiles	0.8	–	–	**0.8**	0.4
Chemicals	1.2	1.4	–	**2.6**	1.8
Construction and building materials	5.7	2.1	–	**7.8**	7.9
Engineering and machinery	19.9	–	–	**19.9**	14.0
Packaging	–	5.2	–	**5.2**	–
	27.6	8.7	–	**36.3**	24.1
Consumer goods					
Household goods and textiles	0.2	–	–	**0.2**	0.3
	0.2	–	–	**0.2**	0.3
Services					
Distributors	3.5	–	–	**3.5**	4.8
Health	2.1	–	–	**2.1**	–
Leisure, entertainment and hotels	4.9	–	–	**4.9**	3.2
Media and photography	8.5	–	–	**8.5**	14.0
Support services	3.1	–	–	**3.1**	3.4
Telecommunication Services	–	–	14.8	**14.8**	23.2
Transport	–	–	2.6	**2.6**	3.4
	22.1	–	17.4	**39.5**	52.0
Financials					
Insurance	2.4	–	–	**2.4**	3.3
Other financial	16.8	4.1	0.7	**21.6**	19.1
	19.2	4.1	0.7	**24.0**	22.4
Totals %	69.1	12.8	18.1	**100.0**	100.0
Totals £000	106,122	19,673	27,706	**153,501**	106,021

Notice of meeting

Notice is hereby given that the Annual General Meeting of Candover Investments plc (the "Company") will be held at The Stationers' Hall, Ave Maria Lane, London EC4M 7DD on Tuesday 9th May, 2000 at noon for the following purposes:

1 To receive the report of the directors and the audited financial statements for the year ended 31st December, 1999.

2 To declare a final dividend of 18.5p per share on the ordinary shares in respect of the year ended 31st December, 1999.

3 To elect Mr G E Grimstone as a director of the Company.

4 To re-elect Mr P J Scott Plummer who retires by rotation.

5 To re-elect Mr J G West who retires by rotation.

6 To re-elect Mr G D Fairservice who retires by rotation.

7 To reappoint Messrs Grant Thornton, Chartered Accountants, as auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the directors to fix their remuneration.

Special business

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

8 That

the directors be and are hereby given power pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) pursuant to the authority conferred by resolution Number 8(a) passed at the Annual General Meeting of the Company held on 14th May, 1998 as if Section 89(1) of the said Act did not apply to any such allotment, provided that this power shall be limited:–

(i) to the allotment of equity securities for the purpose of or in connection with a rights issue or scrip dividend offer pursuant to the Articles of Association of the Company or any pre–emptive invitation in favour of the holders of ordinary shares (notwithstanding that by reason of such exclusions or other arrangements as the directors may deem necessary or desirable by virtue of overseas regulations or to deal with problems arising in any overseas territory or in connection with fractional entitlements or record dates or otherwise howsoever, the equity securities to be allotted are not offered to all of such holders in proportion to the number of ordinary shares held by each of them); and

(ii) to the allotment of equity securities (otherwise than pursuant to sub–paragraph (i) above) up to an aggregate nominal amount equal to £285,159; and shall expire at the conclusion of the next Annual General Meeting of the Company to be held after the conclusion of the meeting at which this resolution is passed or at the close of business on 9th August, 2001 (whichever is the earlier) save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

9 That

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

(a) the Company may not buy more than 3,419,621 shares, equal to 14.99 per cent of the shares issued at the date of the 1999 Report and Accounts;

(b the minimum price which the Company may pay for each share is 25p;

Notice of meeting

(c) the maximum price (excluding expenses) which the Company may pay for each share is 5 per cent over the average of the middle market price of the shares, based on the London Stock Exchange Daily Official List, for the five business days immediately before the day on which the Company buys the shares;

(d) this authority will last from the date of this Annual General Meeting until the next Annual General Meeting (or until 9th November, 2001 if the next Annual General Meeting has not been held by then); and

(e) the Company may agree, before the authority ends, to buy shares even though the purchase is, or may be, completed after the authority ends.

P R Neal

Secretary

27th March, 2000

Notes

1 Every member entitled to attend and vote at the above meeting may appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company. Forms of proxy must be lodged not less than 48 hours before the meeting. Only those shareholders registered in the register of members of the Company as at close of business on the day before the meeting shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their names at that time (Regulation 34 of the Uncertificated Securities Regulations 1995). Changes to entries in the register after this time shall be disregarded in determining the rights of any person to attend and vote at the meeting.

2 The following documents will be available for inspection at the registered office during business hours on any weekday (excluding Saturdays and public holidays) from the date of this notice until the date of the Annual General Meeting and at the venue of the meeting from 11.45 am on 9th May, 2000 until the conclusion of the meeting;

(i) copies of the service contracts of the directors;

(ii) the Company's Articles of Association;

(iii) the register of directors' interests in the share capital of the Company.

Ten year record

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	**1999**
Total net assets (£000)	49,686	48,156	54,456	59,795	69,380	84,347	103,798	142,453	159,970	199,474	**225,040**
Net Assets per share (p)	224	217	244	267	310	377	464	635	703	877	**986**
Profit on ordinary activities before taxation (£000)	2,985	3,702	3,955	4,099	3,300	4,855	6,563	5,389	7,270	12,069	**10,456**
Profit after taxation (£000)	2,001	2,267	2,837	3,152	2,381	3,410	4,484	3,960	5,520	8,457	**7,718**
Net dividend per share (p)	7.00	8.50	9.50	10.25	11.00	12.25	13.25	15.00	20.00	25.00	**27.00**
Basic earnings per share (p)	9.03	10.20	12.69	14.09	10.64	15.24	20.03	17.67	24.36	37.57	**33.87**
Fully diluted earnings per share (p)	8.75	9.83	12.22	13.67	10.33	14.72	19.35	16.95	23.37	37.30	**33.62**
Closing share price at end of December (p)	263.0	233.0	228.0	249.0	349.0	338.0	500.0	572.5	740.5	803.5	**1089.0**

Shareholder Information

Event	Date
Interim dividend for the year ended 31.12.99 – ex-dividend date	13th September, 1999
Interim dividend for the year ended 31.12.99 – record date	17th September, 1999
Interim dividend for the year ended 31.12.99 – payment date	21st October, 1999
Preliminary Announcement of results for the year ended 31.12.99	13th March, 2000
Final dividend for the year ended 31.12.99 – ex-dividend date	25th April, 2000
Final dividend for the year ended 31.12.99 – record date	2nd May, 2000
Candover Investments plc Annual General Meeting	9th May, 2000
Final dividend for the year ended 31.12.99 – payment date	25th May, 2000
Interim announcement of results for the half year ended 30.6.00	4th September, 2000*

**provisional*

Addresses

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and Wales No. 1512178

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Solicitors
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Broadwalk House
5 Appold Street
London EC2A 2HA

Stockbrokers
Cazenove & Co.
12 Tokenhouse Yard
London EC2R 7AN

Registered Auditors
Grant Thornton
Melton Street
Euston Square
London NW1 2EP

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

Registrars
IRG plc
Bourne House
34 Beckenham Road
Beckenham Kent BR3 4TU

Form of proxy

For use at the Annual General Meeting of Candover Investments plc to be held on Tuesday **9th May, 2000**.

If you wish to vote at the Annual General meeting but are unable to attend in person you may appoint a proxy to act on your behalf by completing this form.

I/We . . . . of . . . .

being (a) member(s) of Candover Investments plc, hereby appoint the Chairman of the Meeting or (see note 2)

. . . . as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting to be held at **12.00 noon** on Tuesday **9th May, 2000** and at any adjournment thereof.

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

Ordinary resolutions		For	Against
Resolution 1	To receive the report of the directors and the audited financial statements for the year ended 31st December, 1999.	☐	☐
Resolution 2	To declare a final dividend of 18.5p per ordinary share for the year ended 31st December, 1999.	☐	☐
Resolution 3	To appoint Mr G E Grimstone*§	☐	☐
Resolution 4	To re-elect Mr P J Scott Plummer*†§	☐	☐
Resolution 5	To re-elect Mr J G West*§	☐	☐
Resolution 6	To re-elect Mr G D Fairservice	☐	☐
Resolution 7	To reappoint the auditors and to authorise the directors to fix their remuneration	☐	☐

Special resolutions		For	Against
Resolution 8	To approve the resolutions set out in the Notice of the Meeting to grant the directors the power pursuant to Section 95 Companies Act 1985 to disapply the provision of Section 89(1) Companies Act 1985 with regard to the allotment of certain equity securities.	☐	☐
Resolution 9	To approve the resolution set out in the Notice of the Meeting to grant the Company the power pursuant to Section 163(3) Companies Act 1985 to make certain market purchases of its own equity securities.	☐	☐

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

Date . . . . Signature . . . . (see notes 3 & 4)

Notes 1 If no indication is given, the proxy holder will vote or abstain from voting at his or her discretion. **2** A member may appoint a proxy or proxies other than the Chairman of the meeting by inserting the name and address of such proxy (who need not be a member) in the space provided above. The appointment of a proxy will not preclude a member from attending and voting in person should he/she subsequently decide to do so. **3** In the case of joint holders, the signature of any one holder will be sufficient. **4** In the case of a corporation, the proxy should be executed under its common seal, or signed as a deed, or under the hand of some officer, duly authorised in writing in that behalf. **5** Unless instructed otherwise, the proxy may also vote or abstain from voting as he or she sees fit on any business which may properly come before the meeting (including amendments to resolutions).
This form, to be valid, must be lodged at the office of the registrars of the Company not later than 48 hours before the time of the meeting.
Only those shareholders registered in the register of members of the Company at close of business on the day before the meeting shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their names at that time (Regulation 34 of the Uncertified Securities Regulations 1995). Changes to entries on the register after this time shall be disregarded in determining the right of any person to attend and vote at the meeting.

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BUSINESS REPLY SERVICE
Licence No. MB122

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IRG plc
Registrars for Candover Investments plc
Proxy Department
P.O. Box 25
Beckenham
Kent BR3 4BR

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