Report and accounts
2005

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.

For the latest information
www.candover.com

Highlights

+18.5%

Total net assets increased 18.5% to £380.3 million (2004: £320.9 million*)

+18.5%

Net assets per share up 18.5% to 1740p in the 12 months to 31st December, 2005 (2004: 1468p*). This compares with an increase of 18.1% in the FTSE All-Share Index over the same period

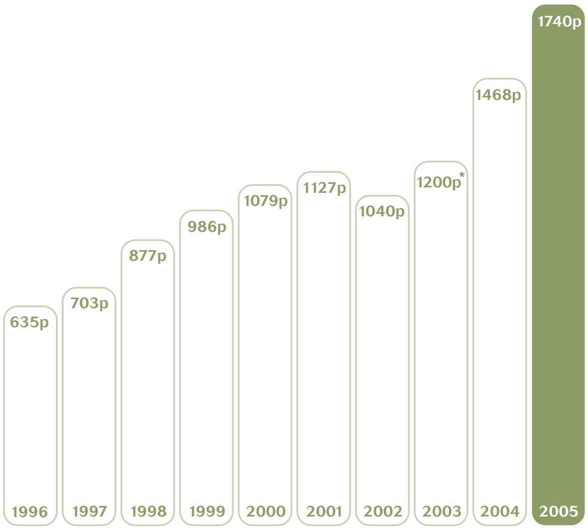
+10.2%

Total dividend per share increased by 10.2% to 48.5p (2004: 44.0p per share)

*Restated under International Financial Reporting Standards.

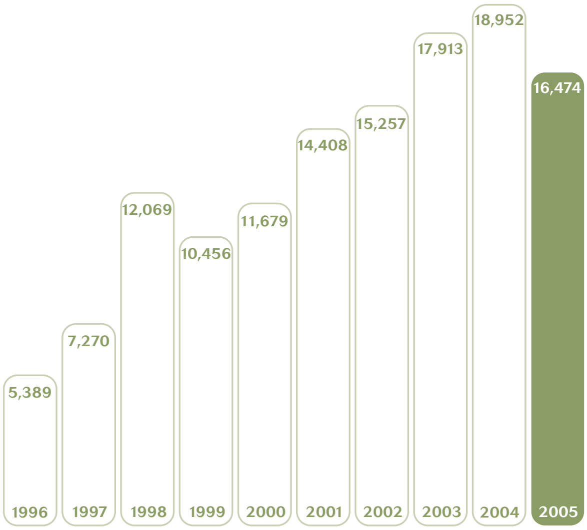
Candover at a glance

Net assets per share

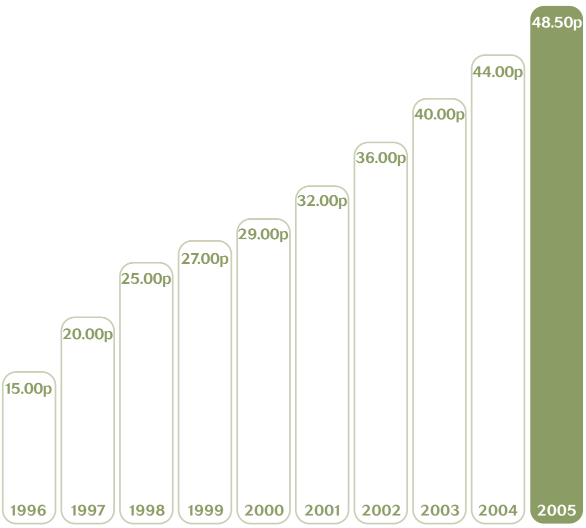


*restated to 1200p under IFRS (1165p under UK GAAP)

Pre tax profit
£000

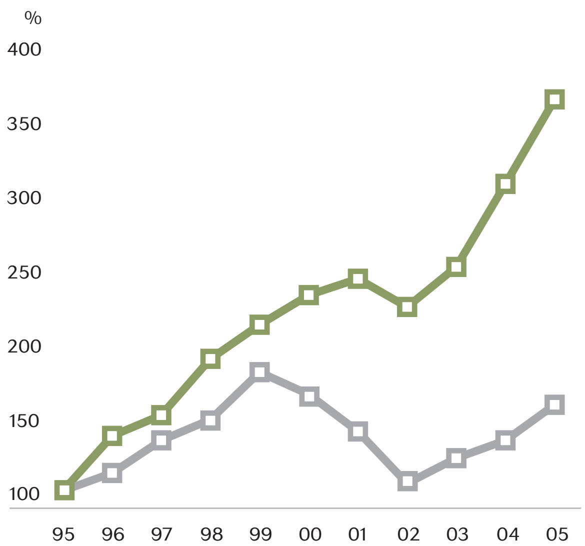


Net dividend per share*



*interim and proposed final dividend

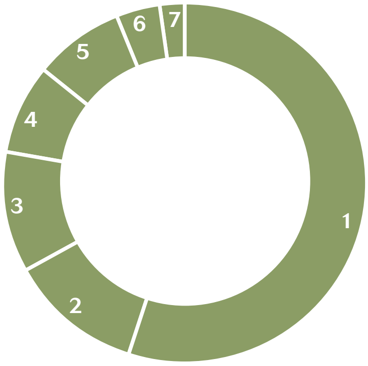
Net assets growth
Compared to FTSE All-Share Index



Candover net assets
FTSE All-Share Index

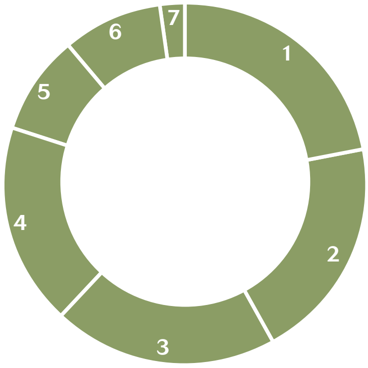
Investments – analysis by value

Investments by region



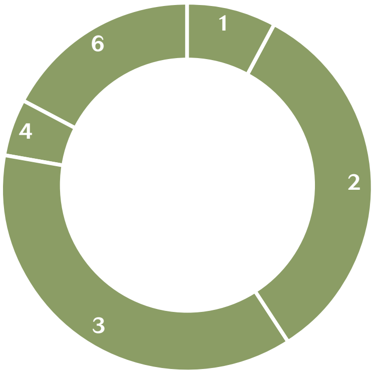
1 United Kingdom **55%**
2 Germany **12%**
3 Americas **11%**
4 Benelux **8%**
5 Scandinavia **8%**
6 France **4%**
7 Spain **2%**

Investments by sector



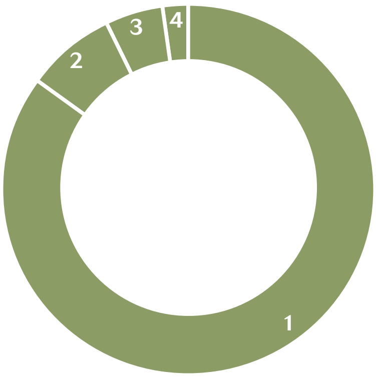
1 Industrials **22%**
2 Support services **20%**
3 Media **20%**
4 Leisure **18%**
5 External funds **9%**
6 Financials **9%**
7 Health **2%**

Investments by age



1 <1 year **8%**
2 1-2 years **33%**
3 2-3 years **37%**
4 3-4 years **5%**
5 4-5 years **0%**
6 >5 years **17%**

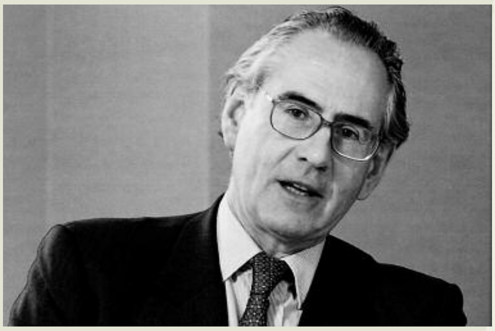
Investments by valuation method



1 Multiple of earnings **85%**
2 Cost **8%**
3 Stock market price **5%**
4 Sale price **2%**

Chairman's statement

Candover has had another successful year. We have raised a €3.5 billion fund and have achieved a number of significant realisations and refinancings.



S W Curran Chairman

The favourable market environment has allowed us to undertake a number of realisations and refinancings during 2005 and since the year end, albeit at lower levels than 2004, largely because the current portfolio consists mainly of investments less than three years old. Realisation proceeds from investee companies during the year amounted to £77.2 million, with the disposals of Swissport and the refinancing and partial disposal of Gala being the most notable. Since the year end, Candover has fully realised its investment in Kabel Deutschland.

In the second half of 2005, Candover committed £14.8 million alongside the £115.8 million invested by the 2001 Fund, in three new investments, two in a lead capacity. These were an investment in Wood Mackenzie, a leading provider of research and consulting services for the energy and life sciences industries, to finance the company's next stage of growth; and the €220.0 million buyout of the High Tech Optics division of Thales, now called Qioptiq. In addition, Candover and the 2001 Fund invested £27.3 million in the €5.3 billion acquisition of Auna by ONO, a leading Spanish cable operator. Candover also made a number of follow-on investments, the most significant of which was to support Gala's acquisition of bookmaker and internet gaming operator Coral Eurobet for £2.2 billion. Since the year end, Candover has led the €445.0 million buyout of UPC Norway, a leading Norwegian cable company.

Results for 2005

As at 31st December, 2005, the net assets attributable to the ordinary shares were £380.3 million compared to £320.9 million at 31st December, 2004. Net assets per share were 1740p compared with 1468p at 31st December, 2004 (and 1656p at 30th June, 2005). This increase in net assets per share over the 12 months to 31st December, 2005 of 18.5% compares with an increase of 18.1% in the FTSE All-Share Index over the same period. The increase in net assets per share over the six months to 31st December, 2005 was 5.1% compared to an increase in the FTSE All-Share Index over the same period of 11.2%.

The compound growth in net assets on a five and ten year basis was 9.4% and 13.8% respectively, compared to a decrease in the FTSE All-Share Index over five years of 0.9% and an increase over ten years of 4.7%. The increase in net assets for the year of £59.4 million was after taking into account net realised gains on investments of £16.0 million, a net increase of £46.0 million on the revaluation of investments, and other movements.

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Profits before tax for the year were £16.5 million compared with £19.0 million for the 12 months to 31st December, 2004. The decrease in profits was mainly due to a reduction in income from financial investments compared to the previous equivalent period, which contained certain non-recurring items of income, and an increase in administrative expenses, mainly staff costs. The valuation of financial investments at 31st December, 2005 was £187.9 million (2004: £200.5 million). This valuation of £187.9 million was calculated having taken into account realisations, net of new investments, amounting to £58.6 million, and a net increase of £46.0 million in the revaluation of our investments referred to above. The net increase in the revaluation of our investments comprised upward movements of £48.8 million and downward adjustments of £2.8 million.

Cash and liquid assets totalled £189.4 million (2004: £124.8 million) at the year end, representing 49.8% of our net assets (2004: 38.9%). Listed shares (Aspen) at the year end totalled £9.4 million (2004: £10.1 million), representing 2.5% of our net assets (2004: 3.1%).

As noted in the interim report, from 1st January, 2005, in line with other European listed companies, Candover is required to prepare its financial statements in accordance with International Financial Reporting Standards (IFRS). A reconciliation of the results and net assets under UK GAAP, as previously reported, to IFRS, is included in the notes to the financial statements. The adoption of IFRS has resulted in only two significant adjustments to the previously reported results. These two adjustments result from the requirement that the proposed dividend no longer be recorded as a liability at the balance sheet date and from the elimination of the marketability discount on quoted equities. All comparatives have been restated accordingly.

Dividends

At the half year the board increased the interim dividend by 10.0% from 15.0p per share to 16.5p per share. The board has decided to pay a final dividend of 32.0p per share (29.0p per share for 2004), making a dividend payable for the year of 48.5p per share against 44.0p for the previous year, an increase of 10.2%. Payment of the dividend will be made on 17th May, 2006 to shareholders on the register at 28th April, 2006.

With European buyouts attaining record levels of new investment in 2005 and a strong M&A market setting the tone for the current year, I expect that our new fund, our largest to date, will have an ample supply of deal flow. I am confident that the business is well placed to consolidate its position as a leading European buyout house.

Board and staff

During the year we were joined by four new investment executives – Aldo Maccari who joined as a director, and Tobias Hoffmann-Becking, Bill Rogers and Emma Wilkinson who joined as investment managers. Since the year end we have been joined by a further director, Bertrand Finet. Bertrand has over 15 years' private equity experience, gained at 3i in London and Paris and latterly CVC Capital Partners in Paris where he was Managing Director. He will be based in our Paris office.

Over the last 18 months we have had an active recruitment programme and this will continue during 2006 in order to ensure we are best placed to originate and transact buyouts across the competitive European landscape. The consequence of this will be a continued increase in staff costs, as highlighted in the interim report.

As reported in the interim statement, Richard Stone was appointed as a non-executive director on 10th May, 2005. Doug Fairservice will retire as a director of the Company (having previously been deputy Chairman) following the conclusion of the May Annual General Meeting. Doug has been with Candover for 22 years and during that time has contributed immeasurably to the success of the Company as well as being a much liked and respected colleague. On behalf of everyone at Candover I would like to thank him and wish him a happy retirement.

I will be stepping down as Chairman in May, but will be remaining on the board as a non-executive director. Gerry Grimstone, currently non-executive deputy Chairman and Senior Independent Director, will become non-executive Chairman. Jimmy West will be appointed Senior Independent Director.

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

The Candover 2005 Fund

In May it was announced that we had commenced marketing the Candover 2005 Fund with a target of €3.0 billion. The final closing of the Fund was held in November with total commitments of €3.5 billion. Candover committed €500 million to the Fund. Around 80% of total commitments to the Fund have come from existing investors, but we also received strong support from new investor groups, which allowed us to raise the Fund, our ninth and largest to date, in just over six months.

The investment period of the 2001 Fund was terminated following the funding of the Coral acquisition by Gala in October.

Return of cash

Taking into account Candover's historic and current cash balances, our commitment to the 2005 Fund, and potential investments and realisations, the board has decided to recommend a return of cash of £100.0 million, equivalent to 457p per ordinary share to shareholders. This transaction has been structured as a bonus issue of B shares and C shares to give shareholders a choice between receiving the cash in the form of income or capital, and, so far as possible, to give those who choose capital some choice as to when the return is made. There will be no share consolidation and as a result, the number of ordinary shares in issue will be unchanged. The return of cash is conditional upon, amongst other things, shareholder approval at an Extraordinary General Meeting which will be held following the Annual General Meeting on 8th May. A circular detailing the terms of the return of cash will be sent to shareholders in April.

Prospects

2005 once again saw the value of European buyouts attaining record levels of new investment. Currently, the prospects look as favourable for the year ahead with a strong M&A market and benign credit conditions providing both deal flow and exit opportunities. When I joined Candover 25 years ago, buyouts were a niche activity, but today the asset class is very much a part of mainstream business. Just as the market has evolved, so has Candover, and I firmly believe that the Company is as well placed as ever to continue to be one of Europe's leading buyout houses.

S W Curran
23rd March, 2006

Operational review

The European buyout market enjoyed another record year during 2005, with the amounts invested rising 41.2% on the prior year to €115.2 billion. This growth was driven by a number of very large transactions and also by deals in the mid-market sector, which has been on a consistent upward trend over the last five years.

During 2005, our European network generated strong deal flow, which translated into a number of both new and follow-on investment opportunities. In total, Candover invested £41.7 million in three new transactions and six follow-on investments during the year. Of that total, £38.2 million was invested alongside the 2001 Fund, which invested £115.8 million in the three new transactions and £183.8 million in three sizeable follow-on investments. Since the year end, the 2005 Fund has made its first investment in the buyout of UPC Norway. Candover invested £16.9 million in this transaction and the 2005 Fund invested £100.1 million.

New investments

Wood Mackenzie

In July, Candover invested in Wood Mackenzie, a leading provider of research and consulting services for the energy and life sciences industries, to finance the next stage of growth. Our investment provides Wood Mackenzie with a significant opportunity to extend its portfolio of products through organic development and strategic add-on acquisitions, as well as providing the means to further expand its international presence. Candover invested £4.4 million and the 2001 Fund invested £34.8 million.

ONO

In November, Candover took a syndicate position in the €5.3 billion acquisition of Auna by ONO, a leading Spanish cable operator. The acquisition has created the only national cable company in Spain which serves some 60% of Spanish homes and businesses. The combined group is expected to achieve significant merger synergies and to be well placed to benefit from the predicted growth in the Spanish market. Candover invested £3.1 million and the 2001 Fund invested £24.2 million.

Qioptiq

In December, Candover led the €220.0 million buyout of the High Tech Optics division of Thales. The company, now known as Qioptiq, is a world leader in the design and manufacture of high precision optical components and modules for military and civil applications. Qioptiq operates in fast growing markets which have high barriers to entry requiring significant process know-how. Candover invested £7.3 million and the 2001 Fund invested £56.8 million.

UPC Norway

Since the year end, the Candover 2005 Fund has made its first investment via the acquisition of UPC Norway (UPCN), a leading Norwegian cable company, from Liberty Global. UPCN provides 'triple play' services – cable television, broadband internet and telephony to 350,000 homes in Oslo and the major cities of southern Norway. Candover's investment will allow UPCN to finance the completion of the digital upgrade of its network in order to maintain its position as the leading triple play service provider in Norway. Candover invested £16.9 million and the 2005 Fund invested £100.1 million.

Other investments

Six follow-on investments totalling £26.9 million were made. The most significant of these was an investment of £21.2 million by Candover and £166.1 million by the 2001 Fund to enable Gala, the bingo and casino operator, to acquire bookmaker and internet gaming operator Coral Eurobet for £2.2 billion. The acquisition, which completed in October, has created Europe's pre-eminent integrated gaming company with an enterprise value of over £4.0 billion.

Further investments in Equity Trust and Thule were also made by Candover and the Candover 2001 Fund. In June, Equity Trust completed the acquisition of ABN Amro's global trust and fiduciary services business for €41.0 million. Candover invested £1.3 million and the 2001 Fund invested £10.1 million. In October, Thule acquired Omnistor, a Belgian manufacturer of accessories for the motor home and caravan market for €63.0 million. Candover and the 2001 Fund invested £8.5 million (Candover's share £0.9 million). Small follow-on commitments by Candover were also made to two French mid-market buyouts funds and a mezzanine fund.

Realisations

Net realised gains over cost achieved by Candover and its managed funds amounted to £188.8 million – of which Candover's share was £20.8 million – from one full realisation, one partial realisation, a number of significant refinancings and a quoted share sale.

Refinancings of Gala and Vetco took place in February and March, with Gala returning approximately half of the original investment made, and Vetco approximately one third of the original investment. Also in March, Candover and the 2001 Fund sold a small proportion of their shares in Aspen Insurance as part of a secondary offering on the New York Stock Exchange. In July, Springer completed a second refinancing, generating gains over cost of £2.3 million for Candover and £22.1 million for the 2001 Fund. In total, Springer has now returned 1.3 times the original cost of the investment. In August, Candover and the 2001 Fund sold a minority stake in Gala to Permira. The transaction also included a further refinancing. Proceeds from this transaction resulted in gains over cost of £4.0 million for Candover and £35.2 million for the 2001 Fund. Gala has now returned 1.3 times the cost of the original investment prior to the Coral acquisition. In October, Swissport was sold to Ferrovial for an enterprise value of CHF1.0 billion (€646 million), with gains over cost of £11.9 million for Candover and £100.6 million for the 2001 Fund, giving an investment multiple of 2.6 times. Finally, in December, Vetco completed its second refinancing of the year, taking its cash return to date to 1.1 times the original investment.

Since the year end, a full exit has been achieved from Kabel Deutschland (KDG) which has resulted in further gains over cost of £3.5 million for Candover and £27.8 million for the 2001 Fund. Including proceeds received from previous refinancings, KDG has generated an investment multiple of 3.2 times the original investment.

Outlook

The environment for European buyouts looks positive, and we believe our team should be well positioned to assess interesting investment opportunities over the coming year. As always, we will maintain our proven policy of careful selection, as well as closely monitoring the performance of our investee companies to ensure performance is in line with expectations.

C J Buffin
M S Gumienny
C L P Chevrillon
23rd March, 2006

Status of funds

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

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

The Candover 1994 Fund had a final closing on 28th February, 1995 with total commitments of £307.5 million including £70.0 million from Candover. The investment period of the Fund was formally terminated on 16th December, 1997. The Fund had a termination date of 18th May, 2002 and this has since been extended until 18th May, 2006 following investor consent. Deferred consideration on the earlier disposal of Yes Car Credit was received during the course of the year. The Fund called down £176.4 million for investment in 13 transactions, including deferred consideration distributed in January on BIP. It has returned £430.4 million to date.

The Candover 1997 Fund had a final closing on 22nd January, 1998 with total third party commitments amounting to £750.0 million and a further £100.0 million provided by Candover. The investment period for the Fund terminated on 13th June, 2001. During 2005, the Fund received additional proceeds on several previously realised investments. The Fund called down £686.0 million for investment in 15 transactions, 13 of which have been realised, and has returned £1,137.0 million to date.

The Candover 2001 Fund had a final closing on 13th June, 2002. Total commitments were €2.7 billion, including a €300.0 million commitment from Candover and a €18.7 million commitment from the Candover 2001 Fund Employee Benefit Trust. During the year the Fund invested in three new investments, the acquisition of Wood Mackenzie, a syndicated stake in ONO, and the acquisition of Qioptiq. In addition three follow-on investments were completed, including the funding of Gala's acquisition of Coral Eurobet. Following this transaction, the investment period of the Fund was terminated on 27th October, 2005, at which point the Fund had drawn down €2.3 billion for investment in 16 transactions, including recycled proceeds. The Fund achieved its first full exit during the year, with the disposal of Swissport to Ferrovial; in addition several refinancings, a partial disposal and a share sale were completed. Kabel Deutschland has been fully realised since the year end, following which the cumulative cash returned to investors since inception will be over €1.0 billion.

The Candover 2005 Fund had a final closing on 9th November, 2005, with total commitments of €3.5 billion, including €500.0 million from Candover and €35.0 million from the Candover 2005 Employee Benefit Trust and certain Candover executives. The Fund completed its first investment in January, 2006, with the acquisition of UPC Norway.

Candover's investment approach

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

Candover works with ambitious, entrepreneurial people whose vision matches our own. Our approach is to work in close partnership with management teams and to create an environment where they can perform at their best. To that end, managers always have an equity stake in the businesses we back, with the potential to produce substantial rewards.

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

For the latest information visit
www.candover.com

Review of 15 largest investments

Gala Group Limited

Location: UK

Date of investment: March 2003/October 2005

In March 2003, Candover invested in the buyout of Gala, the leading high volume, low stake gaming business. In October 2005 Candover backed the acquisition of Coral Eurobet, the bookmaker and internet gaming operator.

Gala is the UK's third largest bookmaker with 1,267 licensed betting offices, the UK's largest bingo operator with 167 clubs and a leading operator of casinos with 30 outlets. Coral Eurobet's established online business, matched with Gala's web based products, will also make Gala a significant online gaming operator with strong prospects for further growth.

A refinancing was completed in February 2005 which returned £8.3 million of loan notes. During September 2005, a further refinancing and partial disposal released a further £9.8 million of cost. Subsequently, in October 2005, Candover's stake of £21.2 million for the follow-on investment in Coral was funded.

Profit excluding exceptional items and before goodwill amortisation, interest and tax for the year to 24th September, 2005 was £125.5 million on turnover of £583.5 million (2004: Profit excluding exceptional items and before goodwill amortisation, interest and tax for the year to 25th September, 2004 was £115.3 million on turnover of £544.3 million). These numbers exclude Coral which was acquired in October 2005.

No dividends were received by Candover for the year ended 31st December, 2005 (2004: £nil).

Candover's investment as at 31st December	2005	2004
Cost of investment	£24,772,000	£21,728,000
Directors' valuation	£32,348,000	£21,728,000
Effective equity interest (fully diluted)	2.0%	2.8%
% of Candover's net assets	8.5%	7.0%
Basis of valuation	Multiple of earnings	Multiple of earnings

Sector: Leisure www.candover.com/gala

Springer Science + Business Media S.A.

Location: Germany

Date of investment: January/September 2003

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

Candover completed the €600.0 million acquisition of KAP from Wolters Kluwer in January 2003. The €1.1 billion buyout of BertelsmannSpringer was completed in September 2003 and the two companies have subsequently been merged. Led by a highly regarded management team, the merger has allowed Springer to play a significant role in the ongoing consolidation of the fragmented STM publishing industry. Springer publishes more than 1,450 journals and trade magazines and over 4,000 new book titles each year. Refinancings in August 2004 and July 2005 resulted in €32.7 million (£22.1 million) of loan stock being repaid.

Profit before goodwill amortisation, interest and tax for the year to 31st December, 2004, the first full year of the merged entity, was €125.1 million on turnover of €821.0 million.

No dividends were received by Candover for the year ended 31st December, 2005 (2004: £nil).

Candover's investment as at 31st December	2005	2004
Cost of investment	€1,050,000 (£710,000)	€20,823,000 (£14,303,000)
Directors' valuation	€27,832,000 (£19,123,000)	€29,317,000 (£20,737,000)
Effective equity interest (fully diluted)	4.0%	4.0%
% of Candover's net assets	5.0%	6.6%
Basis of valuation	Multiple of earnings	Multiple of earnings

Sector: Media www.candover.com/springer

Thule AB

Location: Sweden
Date of investment: December 2004

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

Thule is a consumer goods company with a strong brand which supplies products to the outdoor leisure markets. The company manufactures and distributes car racks and boxes, trailers, snow chains and OEM car rails. It is the global number one in its core activity of car racks and boxes with a 40% market share. Thule also holds either global or European market leading positions in all its other product areas. In October, 2005 Thule acquired leading European manufacturer of accessories for recreational vehicles, Omnistor Accessories NV.

Profit before goodwill amortisation, interest and tax for the year to 31st December, 2004 was SEK353.0 million on turnover of SEK2,785.0 million.

No dividends were received by Candover for the year ended 31st December, 2005 (2004: £nil).

Candover's investment as at 31st December	2005	2004
Cost of investment*	€22,635,000 (£15,579,000)	€21,181,000 (£14,620,000)
Directors' valuation	€22,169,000 (£15,232,000)	€21,098,000 (£14,923,000)
Effective equity interest (fully diluted)	6.7%	6.7%
% of Candover's net assets	4.0%	4.7%
Basis of valuation	Multiple of earnings	Cost

* This investment was made in SEK and Euros.

Sector: Industrials www.candover.com/thule

ALcontrol Group Holdings Limited

Location: UK
Date of investment: December 2004

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

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

Profit before goodwill amortisation, interest and tax for the period from 10th December, 2004 to 31st March, 2005 was £2.3 million on turnover of £28.5 million.

No dividends were received by Candover for the year ended 31st December, 2005 (2004: £nil).

Candover's investment as at 31st December	2005	2004
Cost of investment	€18,585,000 (£12,844,000)	€18,585,000 (£12,844,000)
Directors' valuation	€18,585,000 (£12,769,000)	€18,585,000 (£13,145,000)
Effective equity interest (fully diluted)	6.8%	6.8%
% of Candover's net assets	3.4%	4.2%
Basis of valuation	Multiple of earnings	Cost

Sector: Support services www.candover.com/alcontrol

Vetco International Limited

Location: UK

Date of investment: July 2004

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

Vetco is a major global participant in the oilfield services sector and supplies a portfolio of hi-tech proprietary products, systems and services. It serves major international and national oil companies as well as independent producers throughout the world. The group manufactures drilling and production equipment for rigs and production platforms, and designs and manages the installation of subsea production systems. It also undertakes modification and maintenance work on existing offshore installations and constructs new build fixed and floating production facilities. Vetco operates in 30 countries and has approximately 10,000 employees, with headquarters in the UK and key operating centres in Houston, Aberdeen, Oslo and Singapore. To date, Vetco has returned US$13.7 million (£7.4 million) to Candover as a repayment of all of the original loan notes.

Pro-forma profit before goodwill amortisation, non-recurring items, interest and tax for the year to 31st December, 2004 was US$77.5 million on turnover of US$1,858.7 million.

No dividends were received by Candover for the year ended 31st December, 2005 (2004: £nil).

Candover's investment as at 31st December	2005	2004
Cost of investment	U S$113,000 (£61,000)	US$13,870,000 (£7,454,000)
Directors' valuation	US$17,391,000 (£10,130,000)	US$16,824,000 (£8,840,000)
Effective equity interest (fully diluted)	2.5%	2.5%
% of Candover's net assets	2.7%	2.8%
Basis of valuation	Multiple of earnings	Multiple of earnings

Sector: Support services www.candover.com/vetco

Bureau van Dijk Electronic Publishing BV

Location: Belgium

Date of investment: November 2004

Candover led the buyout of Bureau van Dijk Electronic Publishing (BvDEP) in November 2004. We acquired a majority stake in the business from the existing management team, who have remained as minority shareholders.

BvDEP is a global publisher of specialised financial and company information products via the internet and on CD/DVDs on over 15 million companies worldwide. Its main databases are market leaders in the niches they target and it currently sells around 40 products. The products typically include detailed financial accounts and data such as ownership, directors, business descriptions, M&A activity, news and peer performance. Proprietary software that enables searching, analysis and presentation by the customer is a key element of the products.

Pro forma profit before goodwill amortisation, interest and tax for the year to 31st December, 2004 was €28.5 million on turnover of €79.4 million.

No dividends were received by Candover for the year ended 31st December, 2005 (2004: £nil).

Candover's investment as at 31st December	2005	2004
Cost of investment	€14,586,000 (£10,231,000)	€14,597,000 (£10,239,000)
Directors' valuation	€14,586,000 (£10,022,000)	€14,597,000 (£10,325,000)
Effective equity interest (fully diluted)	6.3%	6.3%
% of Candover's net assets	2.6%	3.3%
Basis of valuation	Multiple of earnings	Cost

Sector: Media www.candover.com/bvdep

Review of 15 largest investments
continued

Innovia Films Limited
Location: UK
Date of investment: September 2004

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

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

Operating profit before exceptional charges, interest, tax, depreciation and amortisation for the initial trading period from 1st October, 2004 to 31st December, 2004 was €8.9 million on turnover of €85.9 million.

No dividends were received by Candover for the year ended 31st December, 2005 (2004: £nil).

Candover's investment as at 31st December	2005	2004
Cost of investment	€14,448,000 (£9,913,000)	€14,448,000 (£9,913,000)
Directors' valuation	€14,448,000 (£9,927,000)	€14,448,000 (£10,219,000)
Effective equity interest (fully diluted)	8.0%	8.0%
% of Candover's net assets	2.6%	3.3%
Basis of valuation	Multiple of earnings	Cost

Sector: Industrials www.candover.com/innoviafilms

Dakota, Minnesota & Eastern Railroad Corporation
Location: US
Date of investment: September 1986

Dakota, Minnesota & Eastern Railroad Corporation (DM&E) is a regional railroad operating company on approximately 1,100 miles of track which began operations on 5th September, 1986. In July 2002, DM&E was joined by the Iowa, Chicago & Eastern, which took over operations of I&M Rail Link (IMRL) and operates on a further 1,400 miles of track.

DM&E's main line runs east-west from Winona, Minnesota to Rapid City, South Dakota and serves as the major railroad infrastructure for South Dakota and southern Minnesota. The IMRL operates in Illinois, Iowa, Minnesota, Missouri and Wisconsin and connects with all major railroads in Chicago, Kansas City and St. Paul, Minnesota. A new company, Cedar American Rail Holdings, Inc. was established to bridge the operations and administration of the two railroads.

No dividends were received by Candover for the year ended 31st December, 2005 (2004: £nil).

Candover's investment as at 31st December	2005	2004
Cost of investment	US$1,478,000 (£888,000)	US$1,478,000 (£888,000)
Directors' valuation	US$16,672,000 (£9,711,000)	US$nil (£nil)
Effective equity interest (fully diluted)	8.5%	8.5%
% of Candover's net assets	2.6%	nil%
Basis of valuation	Multiple of earnings	Multiple of earnings

Sector: Support services

Aspen Insurance Holdings Limited

Location: US

Date of investment: June 2002

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

Aspen's key business lines comprise mainly property, casualty and specialty insurance and reinsurance globally and commercial property and liability insurance in the UK and USA. On 4th December, 2003, Aspen successfully completed its listing on the New York Stock Exchange at an initial offer price of US$22.50 per share. A successful secondary offering was completed in March 2005 generating capital proceeds for Candover of £1.3 million.

Loss before income tax for the year ended 31st December, 2005 was US$160.4 million on net premiums earned of US$1,508.4 million (2004: Income before income tax was US$263.2 million on net premiums earned of US$1,232.8 million).

In the year ended 31st December, 2005 Candover received dividends of US$424,087 or £231,736 (2004: US$98,000 or £51,000), and sold shares with a cost of £1.0 million in a secondary placing.

Candover's investment as at 31st December	2005	2004
Cost of investment	£6,814,000	£7,830,000
Directors' valuation	US$16,129,000 (£9,395,000)	US$19,200,000 (£10,089,000)
Effective equity interest (fully diluted)	0.9%	1.0%
% of Candover's net assets	2.5%	3.1%
Diluted earnings per share	US$2.40	US$2.74
Basis of valuation	Market price	Market price

Sector: Financials www.candover.com/aspen

Ciclad 3

Location: France

Date of investment: April 2000

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

A successor of Ciclad 2, Ciclad 3, with €82.2 million of commitments, started its investment period in April 2000. Ciclad 3 has invested in 27 companies, four of which have been sold, resulting in the return of cost to Candover during the year. 72.0% of commitments drawn down have now been returned.

No dividends were received by Candover for the year ended 31st December, 2005 (2004: £nil).

Candover's investment as at 31st December	2005	2004
Cost of investment	€2,998,000 (£1,619,000)	€8,306,000 (£4,854,000)
Directors' valuation	€11,603,000 (£7,973,000)	€9,975,000 (£7,055,000)
Effective equity interest (fully diluted)	n/a	n/a
% of Candover's net assets	2.1%	2.3%
Basis of valuation	Multiple of earnings	Multiple of earnings

Sector: External funds

Qioptiq

Location: UK
Date of investment: December 2005

Candover acquired the High Tech Optics division of Thales (Qioptiq) for €220.0 million in December 2005.

Qioptiq is a world leader in the design and manufacture of high precision optical components and modules for military and civil applications. The group has principal operations in the UK and Singapore and various other manufacturing or commercial activities in France, Germany, Hungary and the US. The company employs approximately 1,400 people and reported revenues of €127.0 million in 2004.

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

No dividends were received by Candover for the year ended 31st December, 2005.

Candover's investment as at 31st December	2005
Cost of investment	€10,679,000 (£7,273,000)
Directors' valuation	€10,679,000 (£7,338,000)
Effective equity interest (fully diluted)	9.6%
% of Candover's net assets	1.9%
Basis of valuation	Cost

Sector: Industrials www.candover.com/qioptiq

Acertec Holdings Limited

Location: UK
Date of investment: June 1999

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

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

Profit before goodwill amortisation, interest and tax for the year ended 31st December, 2004 was £14.1 million on turnover of £333.4 million (2003: Profit before goodwill amortisation, interest and tax was £5.7 million on turnover of £242.8 million, as restated).

No dividends were received by Candover for the year ended 31st December, 2005 (2004: £nil).

Candover's investment as at 31st December	2005	2004
Cost of investment	£7,043,000	£7,043,000
Directors' valuation	£7,043,000	£7,043,000
Effective equity interest (fully diluted)	7.9%	7.9%
% of Candover's net assets	1.8%	2.3%
Basis of valuation	Multiple of earnings	Multiple of earnings

Sector: Industrials

Equity Trust Holdings S.á.r.l.

Location: UK

Date of investment: May 2003

In May 2003, Candover backed the existing management team to acquire the trust and fiduciary services business of Insinger de Beaufort for €197.5 million. In June 2005, Equity Trust acquired ABN AMRO's trust business at a cost of €46.6 million (including restructuring costs of €7.4 million).

Equity Trust provides client services, primarily based around the formation and ongoing administration of onshore and offshore trusts and companies. It has an international customer base comprising both private clients and corporate entities, providing them with solutions to business investment, wealth creation and wealth preservation issues. A follow-on investment to fund the acquisition of ABN AMRO's trust business was completed during the year with an additional investment of £1.3 million.

Profit before goodwill amortisation, interest and tax for the year to 31st December, 2004 was €19.4 million on a turnover of €62.6 million (2003: For the period 28th May to 31st December, profit before goodwill amortisation, interest and tax was €8.8 million on turnover of €35.9 million).

No dividends were received by Candover for the year ended 31st December, 2005 (2004: £nil).

Candover's investment as at 31st December	2005	2004
Cost of investment	€9,231,000 (£6,475,000)	€7,713,000 (£5,477,000)
Directors' valuation	€9,231,000 (£6,343,000)	€7,713,000 (£5,455,000)
Effective equity interest (fully diluted)	5.4%	5.2%
% of Candover's net assets	1.7%	1.7%
Basis of valuation	Multiple of earnings	Multiple of earnings

Sector: Industrials www.candover.com/equitytrust

ICG Mezzanine Fund 2000

Location: UK

Date of investment: July 2000

In July 2000, Candover committed €15.0 million to the €475.0 million ICG Mezzanine Fund 2000. The Fund has been active in providing mezzanine finance throughout Europe. The investment period for new investments has terminated and €14.7 million of Candover's commitment of €15.0 million has been drawn down.

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

No dividends were received by Candover for the year ended 31st December, 2005 (2004: £nil).

Candover's investment as at 31st December	2005	2004
Cost of investment	€8,109,000 (£4,977,000)	€8,772,000 (£5,519,000)
Directors' valuation	€7,766,000 (£5,336,000)	€8,772,000 (£6,204,000)
Effective equity interest (fully diluted)	n/a	n/a
% of Candover's net assets	1.4%	2.0%
Basis of valuation	Multiple of earnings	Multiple of earnings

Sector: External funds

Review of 15 largest investments

continued

Ontex NV
Location: Belgium
Date of investment: January 2003

Candover completed the €1.0 billion buyout and delisting of Ontex, a leading European producer of own-label hygienic disposables, from the Belgian Stock Exchange in January 2003.

Ontex is the leading European manufacturer of retailer-branded diapers and feminine hygiene products. It also has an adult health care business, which is number three in Europe. Ontex supplies supermarket private label products in Western Europe, and a combination of private label and branded products in the rapidly growing markets of Eastern Europe and Turkey.

In the year to 31st December, 2004 Ontex generated profit excluding exceptional items and before goodwill amortisation, interest and tax of €54.8 million on turnover of €877.4 million (2003: For the period 15th January to 31st December, Ontex generated profit excluding exceptional items and before goodwill amortisation, interest and tax of €75.3 million on turnover of €743.9 million).

No dividends were received by Candover for the year ended 31st December, 2005 (2004: £nil).

Candover's investment as at 31st December	2005	2004
Cost of investment	€26,411,000 (£17,163,000)	€26,411,000 (£17,163,000)
Directors' valuation	€6,610,000 (£4,542,000)	€6,610,000 (£4,675,000)
Effective equity interest (fully diluted)	4.4%	4.4%
% of Candover's net assets	1.2%	1.5%
Basis of valuation	Multiple of earnings	Multiple of earnings

Sector: Health www.candover.com/ontex

Valuation policy

Investments have been valued by the directors in compliance with the principles of the International Private Equity and Venture Capital Valuation Guidelines as recommended by the British Venture Capital Association.

Principles of valuation of unlisted investments

Investments are stated at amounts considered by the directors to be a reasonable assessment of their fair value, subject to the requirement to apply a degree of caution in making the necessary estimates. Fair value is the amount at which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

All investments are valued according to one of the following bases:
• cost (less any provision required);
• earnings multiple;
• net assets;
• price of recent investment; or
• sale price.

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

When valuing on an earnings multiple basis, profits before interest and tax of the current year will normally be used, depending on whether or not more than six months of the accounting period remain and the predictability of future profits. Such profits will be adjusted to a maintainable basis, taxed at the full corporation tax rate and multiplied by an appropriate and reasonable price/earnings multiple. This is normally related to comparable quoted companies or recent transactions, with adjustments made for points of difference between the comparator and the company being valued, in particular for risks, earnings growth prospects and surplus assets or excess liabilities. Where a company is loss-making, or the value is derived mainly from the underlying value of its assets rather than its earnings, the valuation may be calculated with regard to the underlying net asset. Where there has been a subsequent recent investment by a third party in a new financing round that is deemed to be at arm's length this may be used as the basis of valuation. In cases where an exit is actively being sought, then any offers from potential purchasers would be relevant in assessing the valuation of an investment and are taken into account in arriving at the valuation.

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

When investments have obtained an exit (either by listing or trade sale) after the valuation date but before finalisation of Candover's relevant accounts (interim or final), the valuation is based on the exit valuation.

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

Principles of valuation of listed investments

Investments are valued at bid price or the conventions of the market on which they are quoted subject, if appropriate, to marketability discounts where formal restrictions on trading exist.

Valuation review procedures

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

The board of directors

1. 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 and various unquoted companies. Mr Curran is 63.

2. G E Grimstone *§†
Non-executive Deputy Chairman, remuneration committee chairman, Senior Independent Director

Mr Grimstone was appointed to the Candover board in July 1999, and became Deputy Chairman in May 2004. Formerly an Assistant Secretary at HM Treasury, Mr Grimstone latterly held a number of senior appointments in the Schroders group, including Vice Chairman of worldwide investment banking activities. He is a non-executive director of Dairy Crest Group plc, RAF Strike Command and the Tote, and is Deputy Chaiman of Standard Life Assurance Company and Chairman of F&C Global Smaller Companies plc. Mr Grimstone assumed the role of Senior Independent Director in May 2004. Mr Grimstone is 56.

3. G D Fairservice MBA
Director

Mr Fairservice joined Candover in March 1984, was appointed to the board in July 1986, was made Deputy Chief Executive in January 1991, then Deputy Chairman in May 1999. Mr Fairservice stepped down as Deputy Chairman in May 2004. Before joining Candover, Mr Fairservice spent eight years with ICFC (now 3i) followed by two years with the British Technology Group (now BTG plc). Mr Fairservice is 58.

4. R A Stone FCA*§
Non-executive

Mr Stone was appointed to the Candover board in May 2005. Until 1998 he was Deputy Chairman of Coopers & Lybrand and Chairman of the firm's European Corporate Finance activities. From 1998 to 2000, he served as a member of the global board of PricewaterhouseCoopers. He is Chairman of Drambuie Limited and a non-executive director of Halma plc, The Property Investment Trust and Gartmore Global Trust plc. Mr Stone is 63.

5. A P Hichens MBA*§†
Non-executive, nominations committee chairman

Mr Hichens joined the board of Candover in December 1989 and became Deputy Chairman in January 1991. He stepped down as Deputy Chairman in May 2004, and remains a non-executive director. He is Chairman of D.S. Smith plc and WaterRower (UK) Limited and is a member of the Takeover Panel. He is also a non-executive director of JPMorgan Fleming Income & Capital Investment Trust Plc. He was previously a Managing Director and Chief Financial Officer of Consolidated Gold Fields. Mr Hichens is 69.

6. J G West FCA MSI*§
Non-executive

Mr West was appointed to the Candover board in December 1985 and is a former Managing Director of Lazard Brothers and Chief Executive of Lazard Investors. He was previously Managing Director of Globe Investment Trust Plc. He is Chairman of Gartmore Fledgling Trust plc, New City High Yield Trust plc, Jupiter Second Enhanced Income Trust plc and Rurelec plc and a non-executive director of Aberdeen New Dawn Investment Trust plc, JP Morgan Fleming Income & Capital Investment Trust plc, British Assets Trust plc, Global Natural Energy plc and various unquoted companies. Mr West is 58.

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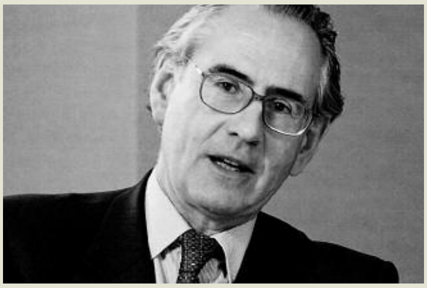

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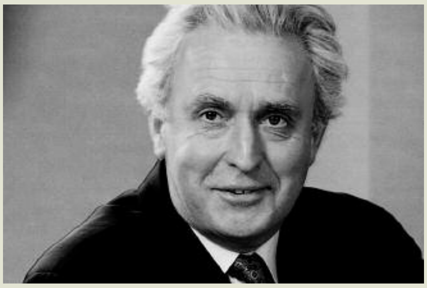

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7. N A Lethbridge *§

Non-executive

Mr Lethbridge was appointed to the Candover board in January 2003. Mr Lethbridge was previously a senior partner in London of Babcock & Brown, a global investment bank specialising in the acquisition, management and arrangement of asset and project financing worldwide. Previously Mr Lethbridge was a director of J. Henry Schroder Wagg, where he carried out numerous privatisation and project financing assignments. He also worked with the Saudi International Bank and earlier spent nine years with the World Bank in Washington DC. He is a non-executive director of Partnerships UK plc, Ekwienox Ltd, Invicta Capital Ltd and Asia Mezzanine Capital Investors Ltd. Mr Lethbridge is 56.

8. C Russell FSIP FCA*§

Non-executive, audit committee chairman

Mr Russell was appointed to the Candover board in May 2004. Mr Russell is an associate of GaveKal Research and a director of Investec High Income Trust plc, the Korea Fund Inc, Enhanced Index Funds pcc, LIM Japan Fund, British Airways Pension Investment Management Ltd and JP Morgan Chase Fleming Japanese Smaller Companies Investment Trust plc. He was formerly a director and Head of Overseas Businesses at Gartmore Investment Management plc. Prior to Gartmore, he was a Holding Board director of the Jardine Fleming Group in Asia. Mr Russell is 57.

Senior Managing Directors

C J Buffin ACA

Senior Managing Director

Mr Buffin was appointed joint Managing Director of Candover Investments plc in March 1998 and resigned in December 2002. He is a joint Senior Managing Director of Candover Services Limited, the principal operating company in the Candover Group, and of Candover Partners Limited, the manager of various investment funds. He joined Candover in September 1985 from Deloitte Haskins & Sells, where he spent two years in the investigations and corporate finance departments after qualifying as a chartered accountant. Mr Buffin has been responsible for a number of transactions which have led to Stock Exchange listings or trade sales. Mr Buffin is 48.

M S Gumienny ACA

Senior Managing Director

Mr Gumienny was appointed joint Managing Director of Candover Investments plc in March 1998 and resigned in December 2002. He is a joint Senior Managing Director of Candover Services Limited, the principal operating company in the Candover Group, and of Candover Partners Limited, the manager of various investment funds. Prior to joining Candover in January 1987, he qualified as a chartered accountant with Price Waterhouse. Transactions led by Mr Gumienny include the buyout of Swissport from Swissair Group AG, the formation of Aspen Insurance, and the buyout of Gala Group. He is a non-executive director of a number of unquoted companies in the Candover portfolio. Mr Gumienny is 47.

C L P Chevrillon MBA

Senior Managing Director

Mr Chevrillon joined Candover as joint Managing Director of Candover Partners Limited, the manager of various investment funds, in December 2002. He led the buyout of Qioptiq from Thales in December 2005. Mr Chevrillon founded Chevrillon Associés, a leading French investment company, in 1992. Prior to that he was General Manager of Investment Banking for France for Salomon Brothers SA, which he joined in 1986, and Finance Director of Gaumont. Mr Chevrillon started his career in 1976 with JP Morgan Investment Banking. Mr Chevrillon is 52.

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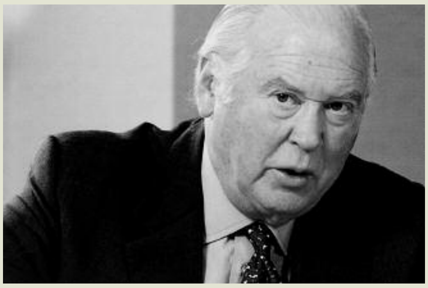

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* Member of the remuneration committee
§ Member of the audit committee
† Member of the nominations committee

Report of the directors

The directors present their report together with the audited financial statements for the year ended 31st December, 2005.

Principal activities

Candover Investments plc is an investment company within the meaning of Part VIII of the Companies Act 1985 as well as an investment trust under section 842 of the Income and Corporation Taxes Act 1988, the tax status of which is shown on page 24.

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

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

Results and review of business

The Group profit for the financial year after taxation was £11,633,000 compared to £13,239,000 for the year ended 31st December, 2004. Revenue was £44,664,000 as against £41,795,000 for the previous year. Administrative expenses charged to revenue were £28,029,000 compared to £22,832,000 for the previous year. The changes in fixed asset investments are described together with a review of the Group's activities in the Chairman's statement and operational review on pages 4 and 7 respectively.

Dividend and proposed transfer to reserves

The directors recommend the payment of a final dividend of £6,994,000, equal to 32.0p per ordinary share (2004: £6,338,000, equal to 29.0p per share) giving a total dividend for the year of £10,600,000, equal to 48.5p per ordinary share (2004: £9,584,000, equal to 44.0p per share). Payment of the dividend will be made on 17th May, 2006 to shareholders on the register at the close of business on 28th April, 2006. The dividend details are shown in note 6 on page 46.

In accordance with IFRS, proposed dividends are provided for in the period in which they are formally declared and approved. As a result, the final dividend for 2005 will be recognised in the following year.

Directors

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

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

*Non-executive

Mr Derek Wilson stepped down from the board at the Annual General Meeting on 10th May, 2005.

Mr Richard Stone was appointed a non-executive director after the Annual General Meeting on 10th May, 2005, and will stand for election at the Annual General Meeting on 8th May, 2006.

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

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

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

Notifiable interests in the Company's shares

The names of those persons who, insofar as the Company is aware, are interested directly or indirectly in 3 per cent or more of the issued share capital of the Company as at 17th March, 2006 are shown in note 16 to the accounts on page 53.

Directors' interests

The statements in respect of directors' interests in the share capital of the Company are contained in note 16 to the accounts on page 54. Other matters requiring disclosure by the directors are contained in the directors' remuneration report on pages 29 to 33.

Political and charitable donations

During the year there were charitable donations of £20,000 (2004: £30,000). There were no political donations made during the year (2004: £nil).

Share buyback

Although authority to buy back the Company's shares was granted to the directors at the Annual General Meetings on 12th May, 2004 and 10th May, 2005, there were no share buybacks during the year.

Annual General Meeting

The Annual General Meeting of the Company will be held on Monday 8th May, 2006 at 12 noon at The Stationers' Hall, Ave Maria Lane, London EC4M 7DD. The notice of Annual General Meeting appears on page 58.

Resolution 2, if passed, will approve the directors' remuneration report for the year ended 31st December, 2005.

Resolutions 4-8 concern the election and re-election of directors. Biographical details for all directors are given on pages 20 and 21. Each of the directors standing for election or re-election has demonstrated their ability to bring a wide ranging and valuable set of skills and knowledge to the Company. The board considers all its non-executive directors to be independent in character and judgement.

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

Resolution 11, if passed, concerns the adoption of new Articles of Association by the Company.

Since the Company adopted its existing Articles in 1994, there have been a number of changes in applicable law and practice. In view of this, the directors consider that it is appropriate to update the Articles, and the main changes are summarised as follows:

(i) Uncertificated shares
A number of changes have been made to reflect the fact that the Company's shares can be held in either certificated or uncertificated form, and facilitating the issue and transfer of shares in the CREST system.

(ii) Treasury shares
The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 allow the Company to re-purchase its own shares to be held in treasury rather than cancelled. Whilst the Company does not currently hold any shares in this way, several changes have been made to the Articles to distinguish the rights attaching to any shares held in treasury in the future.

(iii) General meetings
Changes have been made to Article 68 which permit arrangements to be made for attendance at satellite meetings at the same time as a General Meeting of the Company. In the interests of shareholders' safety and security, powers are also given to the directors or the Chairman of a General Meeting to control attendance, impose security restrictions and, if necessary, adjourn a meeting.

(iv) Non-executive directors' remuneration
The existing Articles contain a cap of £200,000 per annum on the aggregate remuneration of non-executive directors. This has been in place since the adoption of the Articles and Article 93 has been updated to include a revised cap of £400,000 per annum in the aggregate.

(v) Borrowing powers
Article 97, which permits the directors to exercise the Company's borrowing powers, has been updated in line with the introduction of International Financial Reporting Standards.

(vi) Retirement of directors by rotation
Article 109 has been simplified to clarify the procedure by which directors retire by rotation and are then eligible for re-appointment in accordance with the July 2003 Combined Code.

(vii) Electronic communications
The Companies Act 1985 (Electronic Communications) Order 2000 made certain electronic communications legally possible in respect of UK companies. The Articles, and in particular Article 152, have been updated to provide for the possibility of certain notices, including appointments of proxies and notices of meetings being given by electronic means.

(viii) Indemnification of directors
Article 155 has been amended to reflect new indemnities available to directors and other officers following the Companies (Audit, Investigations and Community Enterprise) Act 2004. The new indemnity allows the Company at its discretion to:

- pay defence costs (in civil or criminal cases) as they are incurred by the director rather than requiring the director to wait until he/she is acquitted;
- indemnify the directors for statutory as well as non-statutory liabilities; and
- indemnify directors in respect of damages and defence costs where proceedings are brought by third parties even if judgement is given against the director.

The indemnity will no longer extend to the Company's auditors.

Report of the directors

continued

Resolution 12, if passed, authorises the Company to purchase up to 3,276,306 of its shares. This authority will expire at the next Annual General Meeting of the Company, or on 8th August, 2007 if the next Annual General Meeting has not been held by then. This resolution also sets out the highest and lowest price at which the shares can be bought.

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

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

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

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

Supplier payment policy

The Company negotiates payment terms with its suppliers on an individual basis, with the normal arrangements being within 14 to 30 days from receipt of invoice. Trade creditor days of the Company for the year ended 31st December, 2005 were 38 days based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

ISA status

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

Auditors

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

Tax status

The board of Her Majesty's Revenue and Customs has approved the Company's status as an investment trust, under section 842 of the Income and Corporation Taxes Act 1988, for the year ended 31st December, 2004. In the opinion of the directors, the Company's affairs since that date have been conducted so as to enable it to continue to be treated as an investment trust.

Financial risk factors

The Group's investment activities expose it to a variety of financial risks: market risk (including currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not hold any derivatives.

Further information on financial risk management is contained in Note 22 on page 57.

Return of cash

Taking into account Candover's historic and current cash balances, our commitment to the 2005 Fund, and potential investments and realisations, the board has decided to recommend a return of cash of £100.0 million, equivalent to 457p per ordinary share to shareholders. This transaction has been structured as a bonus issue of B shares and C shares to give shareholders a choice between receiving the cash in the form of income or capital, and, so far as possible, to give those who choose capital some choice as to when the return is made. There will be no share consolidation and as a result, the number of ordinary shares in issue will be unchanged. The return of cash is conditional upon, amongst other things, shareholder approval at an Extraordinary General Meeting which will be held following the Annual General Meeting on 8th May. A circular detailing the terms of the return of cash will be sent to shareholders in April.

By order of the board

A C Peel
Company Secretary
20 Old Bailey
London EC4M 7LN
23rd March, 2006

Corporate governance

The following statement sets out the Company's application in the year to 31st December, 2005 of the Revised Combined Code issued in July, 2003. In the opinion of the board, the Company has complied with the principles of that Code in all respects throughout the year except where stated otherwise.

The board

Corporate governance of Candover is achieved through the board which, at the end of the year, comprised eight directors, of whom two were executive and six were non-executive. Mr R A Stone, a former Deputy Chairman of Coopers & Lybrand and member of the global board of PricewaterhouseCoopers, and a member of the Institute of Chartered Accountants in England and Wales, was appointed a director on 10th May, 2005. Brief biographical details of the directors appear on pages 20 and 21 and the interests of the directors in the share capital of the Company are shown in note 16 on page 54.

The board meets five times a year and there is a formal schedule of matters reserved for decision by the board. Matters reserved for decision by the board include, inter alia, corporate strategy, approval of the annual budget, approval of the report and accounts and the valuation of the Company's investments. All meetings during 2005 were attended by all directors, with the exception of the July meeting which Mr Stone was unable to attend, and the December meeting, which Mr Fairservice was unable to attend.

In line with the requirements of the Revised Combined Code, the board undertakes a formal annual evaluation of its own performance and that of its committees and individual directors. A review was undertaken in December 2005 and the board concluded that its performance, and that of its committees and its directors, was satisfactory. In December 2005, appraisals of the individual non-executive directors were undertaken by the Chairman, and an appraisal of the Chairman was undertaken by the Senior Independent Director on the basis of feedback received from other directors. The results of these appraisals were also satisfactory.

Chairman

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

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

Board committees

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

The audit committee

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

The audit committee carries out a number of duties, including review of the interim and annual accounts, and seeks to ensure that appropriate accounting and financial policies and procedures are implemented, that systems of internal control and external audit are in place, and that the auditor's recommendations are considered and appropriate actions are taken. Meetings of the audit committee are held at least three times a year, and are attended by the external auditor. During 2005, three audit committee meetings were held and these were fully attended.

Among the issues considered by the audit committee during 2005 were audit strategy, and the introduction of International Financial Reporting Standards.

The remuneration committee

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

The remuneration committee met twice during 2005, and these meetings were fully attended.

The nominations committee

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

The nominations committee, which is chaired by Mr Hichens, comprises three directors, the majority of whom are non-executive, and the present members of the committee are shown on pages 20 and 21. During the year, the committee approved the appointment of Mr Stone. The appointment of Mr Stone brought to the board considerable experience gained in the financial services sector, including private equity, and was part of the process of succession planning at board level. The committee also met to consider the appointment of Mr Grimstone in succession to Mr Curran as Chairman, and Mr West's appointment as Senior Independent Director. Both appointments will take effect on 8th May, 2006.

The nominations committee met twice during 2005 and both meetings were attended by all members.

Board balance

The board maintained a balance of six non-executive and two executive directors which it considered appropriate to the Company's status as an investment trust. In the view of the board, no non-executive director has any relationships that could materially interfere with their independent judgement. The non-executive directors are furthermore considered to be of sufficient calibre and experience to bring significant influence to bear on the decision-making process. It is therefore the board's view that all non-executives are independent, although two (Messrs West and Hichens) have exceeded the nine year period of service envisaged by the Revised Combined Code as being relevant to the determination of a non-executive director's independence. In this regard, the board acknowledges the Association of Investment Trust Companies' guidelines on corporate governance, which do not recommend that long-serving directors be prevented from forming part of an independent majority.

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

Mr Grimstone was the Senior Independent Director on the board during the year. Following Mr Grimstone's appointment as Chairman, which will take effect from 8th May 2006, Mr West will become Senior Independent Director.

Supply of information

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

Directors' training

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

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

Re-election of directors

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

Relations with shareholders

Dialogue with institutional shareholders

The board is willing to enter into a dialogue with institutional shareholders based on a mutual understanding of objectives, bearing in mind the duties regarding equal treatment of shareholders and the dissemination of inside information. Brokers' reports on the Company are circulated to non-executive directors.

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

Constructive use of the Annual General Meeting

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

Voting policy

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

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

Accountability and audit

Financial reporting

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

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

Going concern

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

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

Internal control

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

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

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

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

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

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

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

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

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

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

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

Audit committee and auditors

The board has delegated authority for reviewing the effectiveness of the Group's internal controls to its audit committee. The audit committee receives monitoring reports on a six monthly basis from the Company Secretariat with regard to the operational aspects of internal controls over the areas of key risk identified, which include FSA regulatory matters. The chairman of the audit committee reports on the review of internal controls and any matters arising to the full board at the following board meeting. Using the above process, the effectiveness of the Company's internal controls has been reviewed in respect of the year ended 31st December, 2005.

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

Corporate governance
continued

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

Statement of directors' responsibilities

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

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

- select suitable accounting policies and apply them consistently;

- make judgements and estimates that are reasonable and prudent;

- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

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

By order of the board

A C Peel
Company Secretary
23rd March, 2006

Directors' remuneration report

The directors' remuneration report describes Candover's remuneration policy, the role of its remuneration committee and sets out the directors' remuneration for the year ended 31st December, 2005. It has been prepared on behalf of the board and in accordance with the Companies Act 1985 and the Revised Combined Code. It will be put to shareholders for approval by ordinary resolution at the Annual General Meeting to be held on 8th May, 2006.

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

Remuneration committee

Composition and operation

The remuneration committee consists entirely of non-executive directors. At 31st December, 2005 its members were Messrs G E Grimstone (Chairman), A P Hichens, J G West, N A Lethbridge, C Russell and R A Stone. Mr Wilson retired from the remuneration committee when he left the board on 10th May, 2005 and Mr Stone joined the remuneration committee on 10th May, 2005.

The remuneration committee, which usually meets twice a year and more often if necessary, supports the board by reviewing the remuneration policy and determining the level of remuneration of the executive directors of the Company as well as the senior management of the Group. Its written terms of reference are available on the Company's website at www.candover.com or from the Company Secretary. In 2005, the remuneration committee met on three occasions with full attendance at two meetings, and Mr Stone absent from one.

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

Professional advice

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

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

Remuneration policy

The Company's policy in regard to directors' remuneration is designed to ensure that the Company maintains competitive remuneration packages in order to recruit, retain and motivate executives of exceptional quality in the overall interest of shareholders. The remuneration policy detailed below is that applied in the year ended 31st December, 2005 and is intended to remain the same for the next and subsequent financial years but it will be kept under review by the remuneration committee. The executive directors' remuneration package comprises both fixed and variable elements and is set out below under the following main headings:

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

Base salary

This is a fixed component of executive directors' compensation. Base salaries are reviewed annually by the committee after considering the relative salary levels within the industry, the estimated movement in net assets and the profits for the year. The committee did not increase executive directors' salaries for the year ended 31st December, 2005, in fact executive directors' salaries were reduced as from 1st May, 2005 pro rata to reflect a lower time commitment.

Performance related bonus

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

During the year ended 31st December, 2005, Messrs S W Curran and G D Fairservice received bonus payments. These amounts are shown under 'performance related pay' in the table of directors' emoluments below.

Total emoluments received by directors during the year ended 31st December, 2005 were as follows:

	Salaries/ directors' fees £	Performance related pay[1] £	Taxable benefits[2] £	Insurance costs[2] £	**Total emolument excluding pension contributions 2005 £**	Total emolument excluding pension contributions 2004 £
S W Curran	299,000	448,500	13,594	6,474	**767,568**	972,096
G D Fairservice	229,667	344,501	2,669	5,171	**582,008**	745,786
Executive directors	**528,667**	**793,001**	**16,263**	**11,645**	**1,349,576**	1,717,882
A P Hichens	35,000	–	–	–	**35,000**	36,712
J G West[3]	27,500	–	–	–	**27,500**	27,500
D R Wilson[4]	12,474	–	–	–	**12,474**	35,000
R A Stone[5]	17,734	–	–	–	**17,734**	–
N A Lethbridge	27,500	–	–	–	**27,500**	27,500
G E Grimstone	40,000	–	–	–	**40,000**	38,094
C Russell	27,500	–	–	–	**27,500**	17,460
Non-executive directors	187,708	–	–	–	**187,708**	182,266
Totals	**716,375**	**793,001**	**16,263**	**11,645**	**1,537,284**	
2004 comparatives	792,266	1,067,500	24,581	15,801	1,900,148	1,900,148

1 The performance related pay comprises the discretionary bonus only.
2 It is Candover's policy to provide certain other benefits which form part of the usual employment package for the recruitment of employees. These include death in service and health insurance arrangements which are complementary to the pension arrangements. Executive directors are provided with a company car or equivalent cash benefit. Other small benefits in kind may also be provided during the year to executive directors.
3 The non-executive directors receive fees (which in one case is paid directly to their primary employing company) and do not receive any other remuneration. Amounts paid to third parties on behalf of non-executive directors are shown on page 33.
4 Mr D R Wilson retired on 10th May, 2005 and therefore received his fee of £35,000 p.a. pro rated in accordance with time served on the board in 2005.
5 Mr R A Stone became a director with effect from 10th May, 2005 and therefore received his fee of £27,500pa pro rated in accordance with time served on the board in 2005.

Directors' share options

In the year ended 31st December, 2005 no share options were granted to directors and no share options were exercised. As at 31st December, 2005 none of the executive directors held any share options.

A schedule of directors' interests in shares is shown in note 16 to the accounts on page 54.

Pension

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

Every three years the scheme is subject to actuarial review and a review was last completed on the executive pension scheme for the three years to 31st December, 2002 with the next review due for the three years to 31st December, 2005. This review will be carried out during the course of 2006. The present contribution rates that were set in 1998 are related to the age of the individual. Actual contributions paid during the year in respect of the directors are shown below.

During 2005, Barnett Waddingham have provided advice on pension legislative changes that will take effect from April 2006, as well as acting as actuarial advisers to, and administrators of, the executive pension scheme.

Pension Contributions

	2005 £	2004 £
S W Curran	**110,400**	138,000
G D Fairservice	**84,800**	106,000
Total	**195,200**	244,000

Both the executive directors, with the approval of the remuneration committee, operate funded unapproved retirement benefit schemes (FURBS), although there have been no payments made into these FURBS during the year ended 31st December, 2005.

Employee Benefit Trust

The 2001 Fund Employee Benefit Trust (2001 Fund EBT), which was established as part of the arrangements constituting the 2001 Fund, co-invests alongside the Company and the 2001 Fund under a co-investment agreement dated 13th June, 2001. Messrs Curran and Fairservice together with Group executives are potential beneficiaries of the 2001 Fund EBT. During the year ended 31st December, 2005, Candover paid £3,074,633 into the 2001 Fund EBT, and the trustees of the 2001 Fund EBT have invested a total of £2,910,470 in six investments and made distributions amounting to £4,158,590. Messrs Curran and Fairservice are not potential beneficiaries of the 2005 Fund Employee Benefit Trust.

Other incentive arrangements

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

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

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

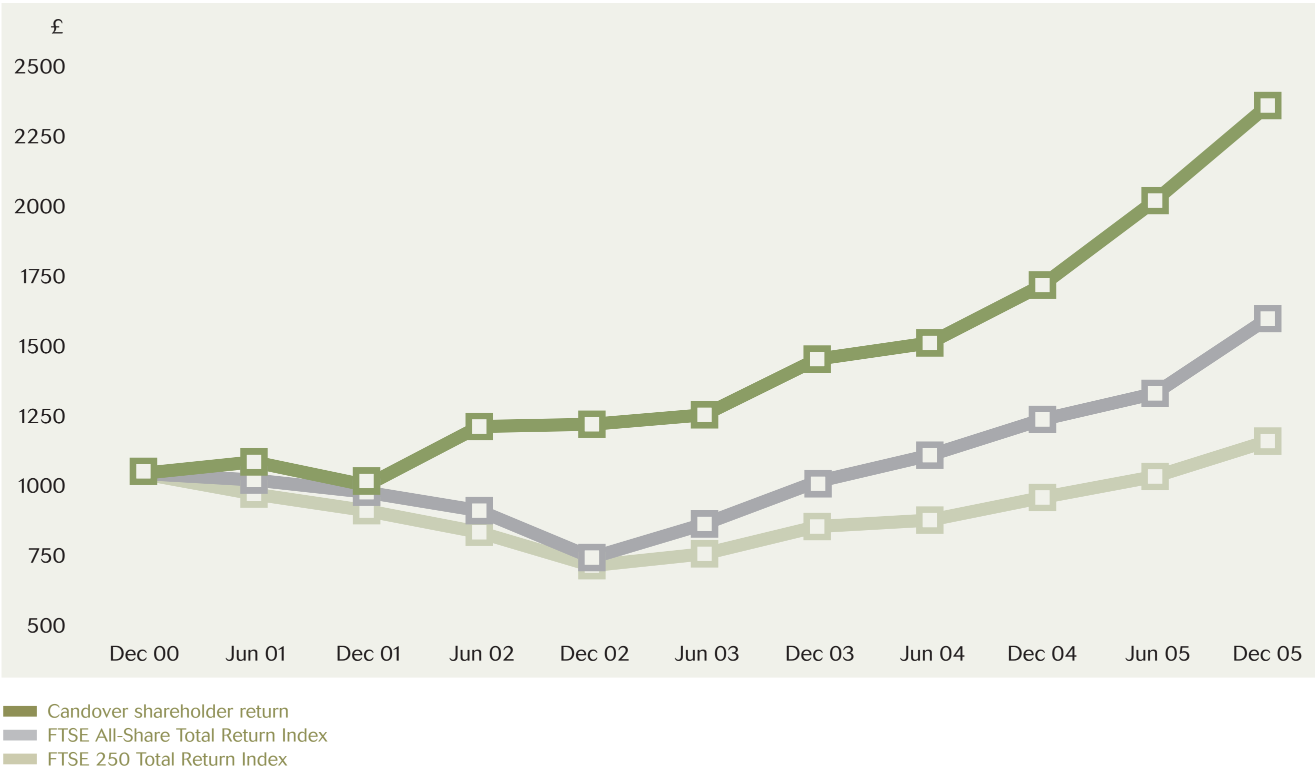
Under a co-investment scheme Messrs Curran and Fairservice were permitted during the year to make an investment in the ordinary equity of companies in which Candover has also made an investment in the equity and loan capital. Under the Listing Rules, these interests are covered by the rules governing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

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

Company name	Class of share	Equity investments in companies subscribed in year £	% of class held by the directors
ALcontrol Group Holdings Limited	A Ordinary Shares	24	0.03
	Preferred Ordinary Shares	102	0.05
Equity Trust Holdings S.á.r.l	A Shares	707	0.03
Gala Group Limited	Ordinary Shares	6,743	0.02
Wood MacKenzie Group Limited	A Ordinary Shares	1,658	0.19
Bureau Van Dijk Electronic Publishing B.V.	Ordinary Shares	1,164	0.06
Springer Science + Business Media S.A.	Convertible Bonds	4,661	0.06
	Interest Free Loan	980	0.03
	Ordinary Shares	59	0.06
Grupo Corporativo ONO S.A.	A Ordinary Shares	75	0.15
	B Ordinary Shares	75	0.15
	C Ordinary Shares	75	0.15
	D Ordinary Shares	75	0.15
	E Ordinary Shares	75	0.15
Qioptiq Group	Sub Shares	11	0.13
	Ordinary Shares	853	0.13
Thule AB	Ordinary Shares	1,343	0.06

Comparative performance

Set out below is a graph showing the Company's total shareholder return performance assuming an original investment of £1,000 and with dividends reinvested for the five years to 31st December, 2005. This is compared against the return performance achieved by the FTSE All-Share Total Return Index and the FTSE 250 Total Return Index. As changes in the Company's market capitalisation may result in Candover's inclusion in either of these indices, it has been considered appropriate to measure the Company's performance against both.



Directors' service contracts

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

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

Non-executive directors' fees

The Chairman of the Company formally recommends the level of fees to be paid to non-executive directors, based on market information, time commitment required and the level of responsibility undertaken. These recommendations are then put to a meeting of the board for approval, with non-executive directors abstaining from any vote. For the year ended 31st December, 2005, there was no increase in the level of fees paid to non-executive directors, other than to Mr Grimstone to reflect increased responsibilities.

Any 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 its managed funds, are always paid to the Company for its benefit or that of the fund investors, whichever is appropriate.

Termination payments and payments to third parties

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

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

Signed on behalf of the board

G E Grimstone
Chairman of the remuneration committee
23rd March, 2006

Report of the independent auditors

To the members of Candover Investments plc

We have audited the Group and Parent Company financial statements (the 'financial statements') of Candover Investments plc for the year ended 31 December, 2005 which comprise the principal accounting policies, the Group income statement, the Group and Parent Company balance sheets, the Group and Parent Company cash flow statements, the Group and Parent Company statements of recognised income and expenses and the Group and Parent Company reconciliation of movements in equity and notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the statement of directors' responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the Chairman's statement, the operational review, the valuation policy, the review of the 15 largest investments, the corporate governance statement and other information listed in the contents. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December, 2005 and of its profit for the year then ended;

- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 December, 2005; and

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

Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
London
23rd March, 2006

Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of preparation

The Group and Company have prepared their financial statements under IFRS as adopted by the EU. The Group and Company have adopted the Fair Value Option amendments to IAS 39 applied from the date of transition ahead of the effective date. The disclosures required by IFRS1 'First time adoption of International Financial Reporting Standards', concerning the transition from UK GAAP to IFRS are given in note 25.

The significant accounting policies are set out below.

Investment Trust SORP

Where presentational guidance set out in the Statement of Recommended Practice (SORP) for investment trusts, issued by the Association of Investment Trusts in January 2003 (revised December 2005), is consistent with the requirements of IFRS, the directors have sought to prepare the financial statements on a basis compliant with the SORP.

Management expenses

Management expenses have been allocated 80 per cent to capital and 20 per cent to revenue.

Basis of consolidation

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

Income

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

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

Placement fees

Pre-paid placement fees incurred in the establishment of managed funds are carried as current assets recoverable from future management fees receivable and are written off over the anticipated duration of the managed fund.

Property, plant and equipment

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

Depreciation is calculated to write down the cost less residual value of all property, plant and equipment by equal annual instalments over their expected useful lives. The periods generally applicable are: plant and equipment two-five years and motor vehicles three years. Leasehold improvements are depreciated over the duration of the lease.

Financial investments

The directors consider that a substantial measure of the performance of the Group is assessed through the capital gains and losses arising from the investment activity of the Group. Consequently, for measurement purposes, financial investments, including equity, loan and similar instruments, are designated at fair value through profit and loss, and are valued in compliance with the International Private Equity and Venture Capital Valuation Guidelines as recommended by the British Venture Capital Association, the principles of which are set out on page 19.

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

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

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

Cash and cash equivalents

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

Deferred tax

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

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

Accounting policies

continued

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

Foreign currencies

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

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at actual exchange rates;

(iii) all resulting exchange differences are recognised as a separate component of equity.

Pension costs

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

Leases

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

Dividends payable

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

Critical accounting estimates and judgements

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities relate to the valuation of unlisted financial investments held at fair value through profit and loss, which are valued on the basis noted above and the recognition or otherwise of accrued income on loan notes and similar instruments granted to investee companies.

Group income statement

for the year ended 31st December, 2005

	Notes	Year to 31st December, 2005 Revenue £000	Capital £000	Total £000	Year to 31st December, 2004* Revenue £000	Capital £000	Total £000
Gains on financial investments and cash equivalents at fair value through profit and loss							
Realised gains and losses		**–**	**15,220**	**15,220**	–	27,420	27,420
Unrealised gains and losses		**–**	**47,810**	**47,810**	–	31,733	31,733
		–	**63,030**	**63,030**	–	59,153	59,153
Revenue							
Management fees from managed funds		**29,964**	**–**	**29,964**	24,633	–	24,633
Investment and other income		**14,700**	**–**	**14,700**	17,162	–	17,162
Total revenue	1	**44,664**	**–**	**44,664**	41,795	–	41,795
Administrative expenses	2	**(28,029)**	**(7,681)**	**(35,710)**	(22,832)	(6,764)	(29,596)
Profit before finance costs and taxation		**16,635**	**55,349**	**71,984**	18,963	52,389	71,352
Interest payable and similar charges	3	**(161)**	**–**	**(161)**	(11)	–	(11)
Profit before taxation		**16,474**	**55,349**	**71,823**	18,952	52,389	71,341
Taxation	4	**(4,841)**	**2,304**	**(2,537)**	(5,713)	2,029	(3,684)
Profit attributable to equity shareholders		**11,633**	**57,653**	**69,286**	13,239	54,418	67,657
Earnings per ordinary share							
Basic and diluted	7	**53.2p**	**263.8p**	**317.0p**	60.6p	249.0p	309.6p

The total column represents the income statement under IFRS
*Restated under IFRS

Statement of recognised income and expenses

for the year ended 31st December, 2005

		2005		2004*	
	Notes	Company £000	Group £000	Company £000	Group £000
Profit attributable to equity shareholders	7	**66,175**	**69,286**	68,918	67,657
Exchange differences on translation of foreign operations		–	**(8)**	–	–
Total recognised income and expenses	20	**66,175**	**69,278**	68,918	67,657

*Restated under IFRS

Reconciliation of movements in equity

for the year ended 31st December, 2005

		Year to 31st December, 2005		Year to 31st December, 2004*	
	Notes	Company £000	Group £000	Company £000	Group £000
Opening total equity	20	**299,257**	**320,928**	239,419	262,351
Total recognised income and expenses		**66,175**	**69,278**	68,918	67,657
Dividends	6	**(9,945)**	**(9,945)**	(9,080)	(9,080)
Closing total equity	20	**355,487**	**380,261**	299,257	320,928

*Restated under IFRS

Group balance sheet

at 31st December, 2005

	Notes	31st December, 2005 £000	31st December, 2005 £000	31st December, 2004* £000	31st December, 2004* £000
Non-current assets					
Property, plant and equipment	8		**934**		1,091
Financial investments designated at fair value through profit and loss					
Investee companies	9	**184,048**		159,047	
Other financial investments	9	**3,827**		41,421	
			187,875		200,468
Associated undertakings	11		**–**		1
Trade and other receivables	12		**4,820**		2,125
Deferred tax asset	15		**2,289**		–
			195,918		203,685
Current assets					
Trade and other receivables	12	**20,545**		25,685	
Cash and cash equivalents	13	**189,392**		124,807	
			209,937		150,492
Current liabilities					
Trade and other payables	14	**(19,971)**		(23,484)	
Current tax liabilities		**(5,623)**		(3,683)	
			(25,594)		(27,167)
Net current assets			**184,343**		123,325
Non-current liabilities					
Deferred tax liabilities	15		**–**		(6,082)
Net assets			**380,261**		320,928
Equity attributable to equity holders					
Called up share capital	16, 20		**5,464**		5,464
Share premium account	20		**1,451**		1,451
Translation reserve	20		**(8)**		–
Capital redemption reserve	20		**290**		290
Capital reserve – realised	20		**313,214**		259,433
Capital reserve – unrealised	20		**25,170**		21,298
Revenue reserve	20		**34,680**		32,992
Total equity			**380,261**		320,928
Net asset value per share	7		**1740p**		1468p

*Restated under IFRS

Company balance sheet

at 31st December, 2005

	Notes	31st December, 2005 £000	31st December, 2005 £000	31st December, 2004* £000	31st December, 2004* £000
Non-current assets					
Financial investments designated at fair value through profit and loss					
Investee companies	9	**184,048**		159,047	
Other financial investments	9	**3,827**		41,421	
			187,875		200,468
Investment in subsidiary undertakings	9, 10		**4,707**		4,707
Associated undertakings	11		**–**		1
			192,582		205,176
Current assets					
Trade and other receivables	12	**9,698**		10,533	
Current tax asset		**3,643**		–	
Cash and cash equivalents	13	**186,367**		117,772	
			199,708		128,305
Current liabilities					
Trade and other payables	14		**(36,803)**		(34,224)
Net current assets			**162,905**		94,081
Net assets			**355,487**		299,257
Equity attributable to equity holders					
Called up share capital	16, 20		**5,464**		5,464
Share premium account	20		**1,451**		1,451
Capital redemption reserve	20		**290**		290
Capital reserve – realised	20		**314,735**		260,954
Capital reserve – unrealised	20		**24,767**		20,895
Revenue reserve	20		**8,780**		10,203
Total equity			**355,487**		299,257

*Restated under IFRS

Group cash flow statement

for the year ended 31st December, 2005

	Notes	31st December, 2005 £000	31st December, 2005 £000	31st December, 2004* £000	31st December, 2004* £000
Cash flow from operating activities					
Cash flow from operations	21		**8,165**		26,042
Interest paid			**(47)**		(11)
Tax paid			**(8,968)**		(1,194)
Net cash from operating activities			**(850)**		24,837
Cash flows from investing activities					
Purchase of property, plant and equipment		**(253)**		(322)	
Purchase of financial investments		**(41,727)**		(60,631)	
Sale of property, plant and equipment		**9**		31	
Sale of financial investments		**116,309**		131,119	
Net cash from investing activities			**74,338**		70,197
Cash flows from financing activities					
Equity dividends paid	6		**(9,945)**		(9,080)
Increase in cash and cash equivalents			**63,543**		85,954
Opening cash and cash equivalents			**124,807**		37,306
Effect of exchange rates and revaluation on cash and cash equivalents			**1,042**		1,547
Closing cash and cash equivalents	13		**189,392**		124,807

*Restated under IFRS

Company cash flow statement

for the year ended 31st December, 2005

	Notes	31st December, 2005 £000	31st December, 2005 £000	31st December, 2004* £000	31st December, 2004* £000
Cash flow from operating activities					
Cash flow from operations	21		**6,995**		38,557
Interest paid			**(38)**		(3)
Tax paid			**(4,041)**		(1,200)
Net cash from operating activities			**2,916**		37,354
Cash flows from investing activities					
Purchase of financial investments		**(41,727)**		(60,631)	
Sale of financial investments		**116,309**		131,119	
Net cash from investing activities			**74,582**		70,488
Cash flows from financing activities					
Equity dividends paid	6		**(9,945)**		(9,080)
Increase in cash and cash equivalents			**67,553**		98,762
Opening cash and cash equivalents			**117,772**		17,463
Effect of exchange rates and revaluation on cash and cash equivalents			**1,042**		1,547
Closing cash and cash equivalents	13		**186,367**		117,772

*Restated under IFRS

Note 1 Revenue

	2005 £000	2005 £000	2004 £000	2004 £000
Financial services		**13**		26
Investment dealing		**–**		1,081
Investment management fees		**29,964**		24,633
		29,977		25,740
Investment income				
Income from fixed asset investments	**9,962**		13,350	
Income from Treasury bills and other fixed interest securities	**3,885**		2,084	
Other income receivable arising on cash deposits	**840**		621	
		14,687		16,055
		44,664		41,795

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

Of the income from financial investments of £9,962,000 (2004: £13,350,000), £6,000 (2004: £161,000) arose from managed funds. Investment management fees of £29,964,000 (2004: £24,633,000) arose from these funds.

Of the income from financial investments, £232,000 arose from listed investments (2004: £51,000). No income arose from financial services originating from outside the United Kingdom (2004: £nil).

All income arose from the activities 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

		2005 £000	2004 £000
Management expenses	Revenue	**1,920**	1,691
	Capital	**7,681**	6,764
Other administrative expenses		**26,109**	21,141
Total administrative expenses		**35,710**	29,596
Staff costs		**22,426**	17,713
Depreciation		**396**	402
Auditors' remuneration	Audit work	**92**	87
	Non-audit work – tax advice	**142**	141
	FSA compliance	**12**	12
Operating lease rentals	Building	**858**	884
Profit on disposal of property, plant and equipment		**(9)**	(28)
Staff costs			
Salaries		**14,393**	11,922
Social security costs		**2,396**	1,565
Pension, insurance and other costs		**5,637**	4,226
		22,426	17,713

The average number of employees of the Group during the year was 59 (2004: 54), of whom 25 were investment executives (2004: 22). Directors' remuneration is shown on page 30 and 31, the total paid during the year was £1,537,284 (2004: £1,900,148).

The Company had no employees during the course of the year (2004: nil).

Note 3 Interest payable and similar charges

	2005 £000	2004 £000
On bank loans, overdrafts and other loans repayable within five years otherwise than by instalments	**47**	11
Other interest payable	**114**	–
	161	11

Note 4 Taxation

The relationship between the expected tax charge based on the effective tax rate of 30% (2004: 30%) and the tax charge actually recognised in the income statement can be reconciled as below. As the Company is an investment trust, no tax is payable on capital gains made during the period; consequently the profit before tax used in the reconciliation below relates solely to the revenue column of the income statement.

	2005 £000	2004 £000
Profit before tax	**16,474**	18,952
Tax rate	**30%**	30%
Expected tax charge	**4,942**	5,686
Adjustment for tax-rate differences:		
Adjustment for tax-exempt income		
– Other tax exempt income	**(12)**	–
Adjustment for non-deductible expense		
– Tax losses for which no deferred tax asset was recognised	**169**	51
– Other non-deductible expenses	**269**	60
– Adjustments to tax charge in respect of previous years	**(345)**	(1)
– Overseas taxation	**(182)**	(83)
Actual tax charge	**4,841**	5,713

Please refer to note 15 for information on the deferred tax assets and liabilities. The analysis of the charge is as follows:

	2005 £000	2004 £000
Current tax		
UK corporation tax on profits for the year	**13,403**	7,874
Adjustments in respect of previous years	**(191)**	14
Total current tax	**13,212**	7,888
Deferred tax		
Origination and reversal of temporary differences	**(8,217)**	(2,160)
Adjustment in respect of previous years	**(154)**	(15)
Total deferred tax	**(8,371)**	(2,175)
Tax on profit on ordinary activities	**4,841**	5,713
UK corporation tax at 30% (2004: 30%) charged to capital	**(2,304)**	(2,029)
	2,537	3,684

The Board of Her Majesty's Revenue and Customs has approved the Company as an investment trust, under section 842 of the Income and Corporation Taxes Act 1988, for the year ended 31st December, 2004. In the opinion of the directors, the Company's affairs since that date have been conducted so as to enable it to continue to be treated as an investment trust.

Notes to the financial statements
continued

Note 5 Profit for the financial year
As permitted by section 230 of the Companies Act 1985, the Company has not included its own profit and loss account in these financial statements. The Group profit after tax for the year includes £8,522,000 (2004: £14,500,000) which is dealt with in the financial statements of the holding company.

Note 6 Dividends
The dividends paid in 2005 and 2004 were:

	2005 £000	2004 £000
Paid 18th October, 2005 of 16.5p (18th October, 2004 of 15.0p)	**3,607**	3,278
Paid 18th May, 2005 of 29.0p (19th May, 2004 of 26.5p)	**6,338**	5,802
	9,945	9,080

A final dividend in respect of 2005 of 32.0p per share, amounting to a total dividend of £6,994,000, is to be proposed at the Annual General Meeting on 8th May, 2006. These financial statements do not reflect this dividend.

Note 7 Returns per share
The calculation of returns and net asset values per share is based on the following:

	2005 £000	2004 £000
Revenue return	**11,633**	13,239
Capital return	**57,653**	54,418
Profit attributable to equity shareholders	**69,286**	67,657
Net assets	**380,261**	320,928

	2005 000	2004 000
Weighted average number of shares – basic and diluted	**21,857**	21,857

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

Note 8 Property, plant and equipment

	Leasehold improvements £000	Plant and equipment £000	Motor vehicles £000	**Total £000**
Group				
Cost				
At 1st January, 2005	1,468	1,220	213	**2,901**
Additions	16	237	–	**253**
Disposals	–	(64)	(47)	**(111)**
At 31st December, 2005	1,484	1,393	166	**3,043**
Depreciation				
At 1st January, 2005	(813)	(888)	(109)	**(1,810)**
Provided in the year	(198)	(151)	(47)	**(396)**
Disposals	–	63	34	**97**
At 31st December, 2005	(1,011)	(976)	(122)	**(2,109)**
Net book value at 31st December, 2005	473	417	44	**934**

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

Note 9 Financial investments designated at fair value through profit and loss

	Other financial investments £000	Investee companies £000	**Total £000**
Group			
Valuation at 1st January, 2005	41,421	159,047	**200,468**
Additions at cost	26	41,701	**41,727**
Disposals	(38,067)	(62,210)	**(100,277)**
Appreciation	447	45,510	**45,957**
Valuation at 31st December, 2005	3,827	184,048	**187,875**
Reconciliation			
Cost of investments	175	164,829	**165,004**
Net unrealised appreciation of investments	3,652	19,219	**22,871**
	3,827	184,048	**187,875**

	Other financial investments £000	Investee companies £000	**Total £000**
Group			
Valuation at 1st January, 2004	47,284	165,716	**213,000**
Additions at cost	–	60,631	**60,631**
Disposals	(31,514)	(73,332)	**(104,846)**
Appreciation	25,651	6,032	**31,683**
Valuation at 31st December, 2004	41,421	159,047	**200,468**
Reconciliation			
Cost of investments	149	179,473	**179,622**
Net unrealised appreciation of investments	41,272	(20,426)	**20,846**
	41,421	159,047	**200,468**

	Shares in subsidiary undertakings* £000	Other financial investments £000	Investee companies £000	**Total £000**
Company				
Valuation at 1st January, 2005	4,707	41,421	159,047	**205,175**
Additions at cost	–	26	41,701	**41,727**
Disposals	–	(38,067)	(62,210)	**(100,277)**
Appreciation	–	447	45,510	**45,957**
Valuation at 31st December, 2005	4,707	3,827	184,048	**192,582**
Reconciliation				
Cost of investments	4,707	175	164,829	**169,711**
Net unrealised appreciation of investments	–	3,652	19,219	**22,871**
	4,707	3,827	184,048	**192,582**

	Shares in subsidiary undertakings* £000	Other financial investments £000	Investee companies £000	**Total £000**
Company				
Valuation at 1st January, 2004	4,707	47,284	165,716	**217,707**
Additions at cost	–	–	60,631	**60,631**
Disposals	–	(31,514)	(73,332)	**(104,846)**
Appreciation	–	25,651	6,032	**31,683**
Valuation at 31st December, 2004	4,707	41,421	159,047	**205,175**
Reconciliation				
Cost of investments	4,707	149	179,473	**184,329**
Net unrealised appreciation of investments	–	41,272	(20,426)	**20,846**
	4,707	41,421	159,047	**205,175**

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

At 31st December, 2005, cumulative downward adjustments of £38,792,000 (2004: £42,336,000) had been made against investments with original costs of £93,210,000 (2004: £51,995,000).

Notes to the financial statements
continued

Investments at fair value include:

	2005 £000	2004 £000
Group and Company		
UK		
Unquoted at directors' valuation	**102,070**	108,212
Europe		
Unquoted at directors' valuation	**65,811**	81,367
US		
Listed	**9,396**	10,088
Unquoted at directors' valuation	**10,598**	801
	187,875	200,468

At 31st December, 2005, the Company held shares in excess of 10 per cent of a class of shares in a number of investee undertakings but did not have more than 20 per cent of the total allotted share capital in any of these investee undertakings. However, in the opinion of the directors, the list of these undertakings would result in particulars of excessive length and the financial results of such undertakings do not materially affect the figures shown in these accounts. The list of these undertakings will therefore be enclosed with the Company's next annual return as permitted under section 231(5) of the Companies Act 1985.

Interests in the Candover 1994, 1997, 2001 and 2005 Funds (other financial investments)

Candover Partners Limited is the General Partner of the limited partnerships comprising the Candover 1994, 1997 and 2001 Funds, and is the manager of the Candover 2005 Fund. In view of the excessive length, the name and address of each partnership will be enclosed with the Company's next annual return as permitted under section 231(5) of the Companies Act 1985.

The Company is a Special Limited Partner in the Candover 2001 and 2005 Funds and is a unit holder in the unauthorised unit trusts that are Special Limited Partners in the Candover 1994 and 1997 Funds. In each case, the Special Limited Partner is entitled to participate in profits after a minimum rate of return has been achieved by the Limited Partners. This profit entitlement is referred to as the carried interest.

The Company also holds a direct interest in all the limited partnerships comprising the Candover 1994 Fund, which at 31st December, 2005 was valued at £nil.

As at 31st December, 2005, Candover's investments as a Special Limited Partner in the 2001 and 2005 Funds were valued at £21,000 and £26,000 respectively (2004: 2001 Fund £21,000). Candover's investments in the unauthorised unit trusts, which are Special Limited Partners in the Candover 1994 and 1997 Funds, were valued at £510,000 and £3,270,000 respectively (2004: £nil and £41,400,000 respectively).

Note 10 Subsidiary undertakings

At 31st December, 2005, the principal subsidiary undertakings included in the consolidation were:

	Nature of business	Issued share capital
Candover Services Limited*	Administration and management company	£4,400,000 ordinary
Candover Realisations Limited**	Dormant	£100 ordinary
Candover (Trustees) Limited*	Nominee company	£100 ordinary
Candover Nominees Limited*	Nominee company	£100 ordinary
Candover Partners Limited***	General Partner of the Candover 1994, 1997 and 2001 Funds and Manager of	
	the Candover 2005 Fund	£2,050,000 ordinary
Candover France S.A.S.**	Identifying investment opportunities in France	€37,000 ordinary
Deutsche Candover (Managing Limited Partner) GmbH*	Managing Limited Partner of Candover 2001 GmbH & Co KG	€25,000 ordinary
Deutsche Candover (General Partner) GmbH*	General Partner of Candover 2001 GmbH & Co KG	€25,000 ordinary
Candover Deutschland GmbH*	Identifying investment opportunities in Germany	€100,000 ordinary
Candover 2005 Fund (Guernsey) Limited**	General Partner of the Candover 2005 Fund	£10,000 ordinary
Candover 2005 Fund Scotland Limited**	Investment vehicle	£1 ordinary

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

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

Candover Realisations Limited was dormant during the year.

Note 11 Associated undertakings

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

Hoare Candover Limited is incorporated and operational in Great Britain and registered in England and Wales. Candover's interest in Hoare Candover Limited is owned by the holding company.

	Group share of net assets £000	Company share at cost £000
At 1st January, 2005	1	1
At 31st December, 2005	–	–

During the year the investment was written off.

Notes to the financial statements

continued

Note 12 Trade and other receivables

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Amounts falling due within one year				
Trade debtors	**409**	7,915	**23**	23
Other debtors	**4,443**	4,009	**202**	105
Amounts owed from Group undertakings	**–**	–	**3,463**	100
Prepayments and accrued income	**15,693**	13,761	**6,010**	10,305
	20,545	25,685	**9,698**	10,533
Amounts falling due after more than one year				
Prepayments and accrued income	**4,820**	2,125	**–**	–
	25,365	27,810	**9,698**	10,533

Note 13 Cash and cash equivalents

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Listed fixed interest securities and money market funds	**185,253**	111,452	**185,253**	111,452
Cash at bank and in hand	**4,139**	13,355	**1,114**	6,320
	189,392	124,807	**186,367**	117,772

Included in cash at bank at 31st December, 2005 was restricted cash of £17,000 (2004: £46,000) in the 2001 Fund Employee Benefit Trust and £5,000 for the 2005 Fund Offshore Employee Benefit Trust. Additional commentary on the holdings of cash and cash equivalents is provided in note 22.

Note 14 Trade and other payables

	Group 2005 £000	Group 2004 £000	Company 2005 £000	Company 2004 £000
Trade creditors	**5,758**	3,460	**51**	17
Amounts owed to Group undertakings	**–**	–	**36,337**	33,677
Social security and other taxes	**1,545**	867	**–**	–
Other creditors	**1,159**	2,391	**340**	434
Accruals and deferred income	**11,509**	16,766	**75**	96
	19,971	23,484	**36,803**	34,224

Note 15 Deferred tax assets and liabilities

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

Deferred taxes arising from temporary differences and unused tax losses can be summarised as follows:

Group	2005 Deferred tax asset £000	2005 Deferred tax liabilities £000	2004 Deferred tax asset £000	2004 Deferred tax liabilities £000
Non-current assets				
– Property, plant and equipment	**106**	–	128	–
Current liabilities				
– Temporary differences	**2,183**	–	–	6,210
	2,289	–	128	6,210
Offset	–	–	(128)	(128)
Total	**2,289**	–	–	6,082

The Company had no deferred tax assets or liabilities.

Note 16 Share capital

	2005 Number	2005 £000	2004 Number	2004 £000
Authorised:				
Ordinary shares of 25p each	**29,000,000**	**7,250**	29,000,000	7,250
Allotted, called up and fully paid:				
Ordinary shares of 25p each at 1st January and 31st December	**21,856,615**	**5,464**	21,856,615	5,464

No shares were bought in or issued during the year by the Company (2004: nil).

Notifiable interests in the Company's shares

Set out below are the names of those persons who, insofar as the Company is aware, are interested directly or indirectly in 3 per cent or more of the issued share capital of the Company:

	As at 17th March, 2006 Number	%
Scottish Widows Investment Partnership	1,531,822	7.01
BP Investment Management	1,345,743	6.16
Legal & General Investment Management	909,300	4.16
M&G Investment Management	833,029	3.81
Electra Partners Europe	750,000	3.43
Total	**5,369,894**	**24.57**

Notes to the financial statements
continued

Directors' interests in shares

The beneficial interests of the directors in the ordinary shares of the Company are detailed below.
There have been no changes to the directors' share interests up to 23rd March, 2006.

	Ordinary shares of 25p each 1st January, 2005 or date of appointment	Ordinary shares purchased/ (disposed) during the year	**Ordinary shares of 25p each 31st December, 2005 or date of resignation**
S W Curran	499,703	–	**499,703**
G D Fairservice	148,750	–	**148,750**
A P Hichens	40,000	–	**40,000**
J G West	1,500	–	**1,500**
G E Grimstone	5,000	–	**5,000**
D R Wilson*	–	–	–
N A Lethbridge	–	–	–
R A Stone†	–	–	–
C Russell	–	–	–
Total	**694,953**	**–**	**694,953**

* Mr Wilson resigned from the board on 10th May, 2005.
† Mr Stone was appointed to the board on 10th May, 2005.

Note 17 Capital commitments

The directors have authorised commitments of €500.0 million and €300.0 million, which will be invested pro rata and in parallel with the Candover 2005 Fund and the Candover 2001 Fund respectively. At 31st December, 2005, the outstanding commitment to the Candover 2005 Fund was €500.0 million and the outstanding commitment to the Candover 2001 Fund was €37.1 million (2004: €66.3 million).
At 31st December, 2005, the outstanding commitments to other investment funds were £9.3 million (2004: £3.1 million).

Note 18 Pension commitments

The Group contributed towards a number of funded defined contribution pension and funded unapproved retirement benefit schemes designed to provide retirement benefits for its directors and employees. The assets of the schemes are held separately from the Group in independently administered funds. The pension cost charge represents contributions by the Group to the schemes in respect of the accounting period and amounted to £1,276,000 (2004: £1,160,000). At 31st December, 2005, there was an amount of £97,000 payable to the schemes (2004: £nil).

Note 19 Operating lease commitments

Operating lease payments relating to land and buildings amounting to £858,000 (2004: £865,000) are due within one year. The leases to which these amounts relate expire in more than five years, with a tenant-only break clause in 2008 on one of the leases.

Note 20 Movement on reserves

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Translation reserve £000	Realised capital reserve £000	Unrealised capital reserve £000	Revenue reserve £000	**Total £000**
Group								
At 1st January, 2005	5,464	1,451	290	–	259,433	21,298	32,992	**320,928**
Surplus on revaluation of investments and cash equivalents	–	–	–	–	–	47,810	–	**47,810**
Realised gain on investments and cash equivalents	–	–	–	–	59,158	(43,938)	–	**15,220**
Exchange differences on translation of foreign operations	–	–	–	(8)	–	–	–	**(8)**
Net revenue	–	–	–	–	–	–	11,633	**11,633**
Dividends paid	–	–	–	–	–	–	(9,945)	**(9,945)**
Costs net of tax	–	–	–	–	(5,377)	–	–	**(5,377)**
At 31st December, 2005	5,464	1,451	290	(8)	313,214	25,170	34,680	**380,261**
At 1st January, 2004	5,464	1,451	290	–	188,668	37,645	28,833	**262,351**
Surplus on revaluation of investments and cash equivalents	–	–	–	–	–	31,733	–	**31,733**
Realised gain on investments and cash equivalents	–	–	–	–	75,500	(48,080)	–	**27,420**
Net revenue	–	–	–	–	–	–	13,239	**13,239**
Dividends paid	–	–	–	–	–	–	(9,080)	**(9,080)**
Costs net of tax	–	–	–	–	(4,735)	–	–	**(4,735)**
At 31st December, 2004	5,464	1,451	290	–	259,433	21,298	32,992	**320,928**
Company								
At 1st January, 2005	5,464	1,451	290	–	260,954	20,895	10,203	**299,257**
Surplus on revaluation of investments and cash equivalents	–	–	–	–	–	47,810	–	**47,810**
Realised gain on investments and cash equivalents	–	–	–	–	59,158	(43,938)	–	**15,220**
Net revenue	–	–	–	–	–	–	8,522	**8,522**
Dividends paid	–	–	–	–	–	–	(9,945)	**(9,945)**
Costs net of tax	–	–	–	–	(5,377)	–	–	**(5,377)**
At 31st December, 2005	5,464	1,451	290	–	314,735	24,767	8,780	**355,487**
At 1st January, 2004	5,464	1,451	290	–	190,189	37,242	4,783	**239,419**
Surplus on revaluation of investments and cash equivalents	–	–	–	–	–	31,733	–	**31,733**
Realised gain on investments and cash equivalents	–	–	–	–	75,500	(48,080)	–	**27,420**
Net revenue	–	–	–	–	–	–	14,500	**14,500**
Dividends paid	–	–	–	–	–	–	(9,080)	**(9,080)**
Costs net of tax	–	–	–	–	(4,735)	–	–	**(4,735)**
At 31st December, 2004	5,464	1,451	290	–	260,954	20,895	10,203	**299,257**

Note 21 Reconciliation of operating income to net cash inflow from operating activities

Group	2005 £000	2004 £000
Total income	**44,664**	41,795
Administrative expenses	**(35,710)**	(29,596)
Operating income	**8,954**	12,199
Decrease/(increase) in trade and other receivables	**2,445**	(1,815)
(Decrease)/increase in trade and other payables	**(3,621)**	15,284
Depreciation	**396**	402
Profit on disposal of property, plant and equipment	**(9)**	(28)
Net cash inflow from operating activities	**8,165**	26,042

Company	2005 £000	2004 £000
Total income	**14,525**	17,759
Administrative expenses	**(13,044)**	(11,691)
Operating income	**1,481**	6,068
Decrease in trade and other receivables	**835**	7,874
Increase in trade and other payables	**4,679**	24,615
Net cash inflow from operating activities	**6,995**	38,557

Note 22 Financial risk management

The Company and Group's activities expose it to a variety of financial risks; the analysis below is consistent for both the Company and Group.

Financial risk factors

The Group's investment activities expose it to a variety of financial risks: market risk (including currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not hold any derivatives, other than the convertible securities disclosed below.

Market risk – currency risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the € euro and the $ US dollar, from its investment activities. Foreign exchange risk arises when future investment transactions, and recognised assets and liabilities are denominated in currency that is not the entity's functional currency.

To reduce the foreign exchange risk arising from future investment transactions, cash and cash equivalents are split by currency according to the anticipated long-term requirements. At the year end £85.2 million was held in £ sterling (2004: £59.2 million), £84.6 million was held in € euro (2004: £47.9 million), and £19.6 million in $ US dollar (2004: £17.7 million).

The currency exposure of the financial investments is shown below. Note 9 on page 48 shows the geographical split of investments.

Market risk – price risk

Market price risk arises mainly from uncertainty about future valuations of the financial investments held by the Group and classified on the balance sheet at fair value through profit or loss, in accordance with the valuation policy as stated on page 19, cash equivalents are valued based on prevailing market prices.

Market risk – interest rate risk

The majority of the financial investments are fixed interest bearing; as a result, the Group is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents are invested at short-term market interest rates, further reducing such risks.

The financial investments by currency and weighted average interest rate as at 31st December, 2005 was:

	Fixed £000	Weighted average rate %	Nil £000	**Total £000**	Equity shares £000	Convertible securities £000	**Total £000**
£ sterling	19,073	8.53%	–	**19,073**	37,104	–	**56,177**
€ euro	59,797	10.34%	112	**59,909**	42,784	602	**103,295**
SEK	5,482	12.00%	–	**5,482**	–	–	**5,482**
US$	1,253	10.00%	–	**1,253**	21,668	–	**22,921**
	85,605	10.02%	112	**85,717**	101,556	602	**187,875**

The convertible securities shown above are valued in accordance with IAS 39 and the valuation policy as stated on page 35. In addition, the Group holds preferred equity shares, which are classified above either as fixed rate securities or equity dependent on their terms.

Credit risk

The Group has no significant concentrations of credit risk. The credit risk of financial investments, such as loan notes, held at fair value through profit or loss, is considered as part of the price risk in valuing financial investments, this would include any related accrued interest on loan notes. Cash equivalents consist of short–dated listed fixed income securities and money market instruments, with credit rating of AA- or above.

Liquidity risk

The Group's financial investments consist of listed and unquoted equity investments and unquoted fixed income securities. The Group manages its cash and cash equivalents in such a way as to ensure sufficient liquidity exists to meet requirements.

Whilst the financial investments and cash equivalents generally have fixed maturity and repayment dates, as well as interest rate re-pricing dates, due to their nature, where either such instruments are seen as a package with the related equity investment in an investee company, or as these are not relevant to the realisation of investments, which are generally much sooner than those dates, their disclosure is not provided above as it does not provide useful information.

Note 23 Related party transactions

The Company's interest in the Candover 1994, 1997, 2001 and 2005 Funds is disclosed in note 9 on page 48, and in note 17 on page 54.

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

The Company's subsidiaries are listed in note 10 on page 51, which includes a description of the nature of their business.

During the course of the year the Company undertook transactions with its subsidiaries which provided investment and administration services to the Company, for which the Company was charged £12,667,000 (2004: £9,339,000).

Note 24 Contingent liabilities

During the course of the year, the Company has guaranteed a €25.0 million facility made available to Northern Trust Fiduciary Services (Guernsey) Limited as Trustee of The Candover 2005 Offshore Employee Benefit Trust and The Candover 2005 Onshore Employee Benefit Trust. Other than in the normal course of business, there were no other contingent liabilities at 31st December, 2005 or 31st December, 2004.

Note 25 Reconciliation of net assets and profit under UK GAAP to IFRS

The analysis below shows a reconciliation of net assets and profit as reported under UK GAAP to the revised net assets and profit under IFRS as reported in these financial statements. In addition, there is a reconciliation of net assets under UK GAAP to IFRS at the transition date for the Group, being 1st January, 2004.

	Note	2004 £m Company	2004 £m Group
Reconciliation of profit attributable to equity shareholders			
Profit after tax under UK GAAP		9.6	13.2
Capital return after tax under UK GAAP	(a)	54.2	54.2
Removal of dividends accounted for on an accruals basis		4.9	–
Removal of discount on listed financial investments	(b)	0.2	0.2
Profit after tax under IFRS		**68.9**	**67.6**

	Note	2003 £m Company	2003 £m Group	2004 £m Company	2004 £m Group
Reconciliation of equity					
Total equity under UK GAAP		238.8	254.7	293.0	312.6
Removal of discount on listed financial investments	(b)	1.8	1.8	2.1	2.0
Removal of dividends accounted for on an accruals basis		(7.0)	–	(2.1)	–
Dividend recognised under UK GAAP but excluded under IFRS	(c)	5.8	5.8	6.3	6.3
Total equity under IFRS		**239.4**	**262.3**	**299.3**	**320.9**

(a) Where financial investments are designated as held at fair value through profit and loss, the profit after tax under IFRS also includes the 'Capital return on ordinary activities after tax' as previously reported.
(b) Under IFRS, it is no longer appropriate to provide for a liquidity discount on listed financial investments where formal trading restrictions do not apply.
(c) Under IFRS, dividends proposed after the period end cannot be provided for in the balance sheet as, at that date, the dividends did not represent a liability.

Explanation of material adjustments to the cash flow statement

In preparing the cash flow under IFRS, cash and cash equivalents include short-dated fixed income securities and money market instruments of £0.1 million at 1st January, 2004 (31st December, 2004: £111.5 million). Under UK GAAP the same had been included in the 'Management of liquid resources' category. In addition, under IFRS, the impact of exchange rates on cash balances and revaluation of cash equivalents is disclosed in the cash flow statement.

Notice of Annual General Meeting

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

The Directors recommend all shareholders to vote in favour of all the resolutions, and consider that they are in the best interests of the Company and the shareholders as a whole.

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 Monday 8th May, 2006 at 12 noon for the following purposes:

1 Report and accounts
To receive the audited financial statements for the year ended 31st December, 2005, together with the reports of the directors and the auditors therein.

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

3 Dividends
To declare a final dividend of 32p per share on the ordinary shares in respect of the year ended 31st December, 2005.

4 Election of directors
To elect Mr R A Stone as a director of the Company. Mr Stone's biography appears on page 20.

5-8 Re-election of directors
To re-elect the following directors who are retiring:
5 Mr S W Curran;
6 Mr G E Grimstone;
7 Mr A P Hichens;
8 Mr J G West.
The biographies of Messrs Curran, Grimstone, Hichens and West appear on pages 20 and 21.

9 Re-appointment of auditor
To re-appoint Grant Thornton UK LLP, as auditor.

10 Remuneration of auditor
To authorise the directors to agree the auditor's remuneration.

11 Adoption of new Articles of Association
To consider the following Resolution as a Special Resolution:

That the Articles of Association contained in the document produced to the Meeting and signed by the Chairman for the purposes of identification be approved and adopted as the new Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association, with effect from the close of this Annual General Meeting.

12 Purchase of own shares by the Company
To consider the following Resolution as a Special Resolution:
That the Company be and is hereby authorised, generally and without conditions, for the purposes of section 166 of the Companies Act 1985 (the Act) to make market purchases (within the meaning of section 163(3) of the Act) of its own ordinary shares, on such terms and in such manner as the directors may from time to time determine, and where such ordinary shares are held as treasury shares, the Company may use them for the purpose of its employee share schemes provided that:

(a) the Company may not buy more than 3,276,306 ordinary shares, equal to 14.99 per cent of the ordinary shares issued at the date of the 2005 audited financial statements;
(b) the minimum price that the Company may pay for each share is 25p;
(c) the maximum price (excluding expenses) that the Company may pay for each ordinary share is 5 per cent over the average of the mid-market price of the ordinary 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 ordinary shares;
(d) this authority will last from the date of this Annual General Meeting until the next Annual General Meeting (or until 8th August, 2007 if the next Annual General Meeting has not been held by then); and
(e) the Company may agree, before the authority ends, to buy ordinary shares even though the purchase is, or may be, completed after the authority ends.

By order of the board

A C Peel
Company Secretary
23rd March, 2006

Notes

1 A member entitled to attend and vote at the Annual General Meeting may appoint a proxy or proxies (who need not be a member of the Company) to attend and, on a poll, to vote on his or her behalf. In order to be valid an appointment of proxy must be returned by one of the following methods:

- in hard copy form by post, by courier or by hand to the Company's registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU; or

- in the case of CREST members or CREST Personal Members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below. In each case they must be received by the Company not less than 48 hours before the time of the Annual General Meeting.

CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. Relevant instructions through the CREST system must be received by Capita Registrars (ID: RA10) by 12 noon on 6th May, 2006. The Company may treat an instruction invalid in the circumstances set out in regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

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

3 The register of directors' interests in the share capital of the Company and a copy of the proposed new Articles of Association are available for inspection at the registered office during business hours on any weekday (excluding public holidays) from the date of this notice until the date of the Annual General Meeting and will be available for inspection at the venue of the Annual General Meeting from 11.45 am on 8th May, 2006 until the conclusion of the meeting.

Shareholder information

Event	Date
Preliminary announcement of results for the year ended 31st December, 2005	13th March, 2006
Final dividend for the year ended 31st December, 2005 – ex-dividend date	26th April, 2006
Final dividend for the year ended 31st December, 2005 – record date	28th April, 2006
Candover Investments plc Annual General Meeting	8th May, 2006
Final dividend for the year ended 31st December, 2005 – payment date	17th May, 2006
Interim announcement of results for the half year ended 30th June, 2006	11th September, 2006*
Interim dividend for the half year ended 30th June, 2006 – ex-dividend date	20th September, 2006*
Interim dividend for the half year ended 30th June, 2006 – record date	22nd September, 2006*
Interim dividend for the half year ended 30th June, 2006 – payment date	17th October, 2006*

*provisional

Share price information

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

Highest price during the year	2074.0p
Lowest price during the year	1522.0p
Price as at 31st December, 2005	2064.0p

Addresses

Candover Investments plc
Registered in England
and Wales No. 1512178

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

Solicitors
Ashurst
Broadwalk House
5 Appold Street
London EC2A 2HA

Stockbrokers
JPMorgan Cazenove Ltd
20 Moorgate
London EC2R 6GA

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

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

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

Form of proxy

For use at the Annual General Meeting of Candover Investments plc to be held on Monday 8th May, 2006.

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

I/We ______________________________ of ______________________________

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

______________________________ as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting to be held at 12 noon on Monday 8th May, 2006 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.

		For	Against	Vote withheld
Resolution 1	To receive the audited financial statements for the year ended 31st December, 2005	☐	☐	☐
Resolution 2	To approve the Directors' Remuneration Report	☐	☐	☐
Resolution 3	To declare a final dividend of 32p per ordinary share	☐	☐	☐
Resolution 4	To elect Mr R A Stone §*	☐	☐	☐
Resolution 5	To re-elect Mr S W Curran †	☐	☐	☐
Resolution 6	To re-elect Mr G E Grimstone †§*	☐	☐	☐
Resolution 7	To re-elect Mr A P Hichens †§*	☐	☐	☐
Resolution 8	To re-elect Mr J G West §*	☐	☐	☐
Resolution 9	Re-appointment of Auditor	☐	☐	☐
Resolution 10	Remuneration of Auditor	☐	☐	☐
Resolution 11	To adopt new Articles of Association	☐	☐	☐
Resolution 12	Purchase of own shares by the Company	☐	☐	☐

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

Date ____________________ Signature ______________________________ (see notes 3 & 4)

Notes

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

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

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

Second fold

BUSINESS REPLY SERVICE
Licence No. MB122

2

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

First fold

Third fold and tuck inside

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