Report and accounts 2001

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.

Highlights

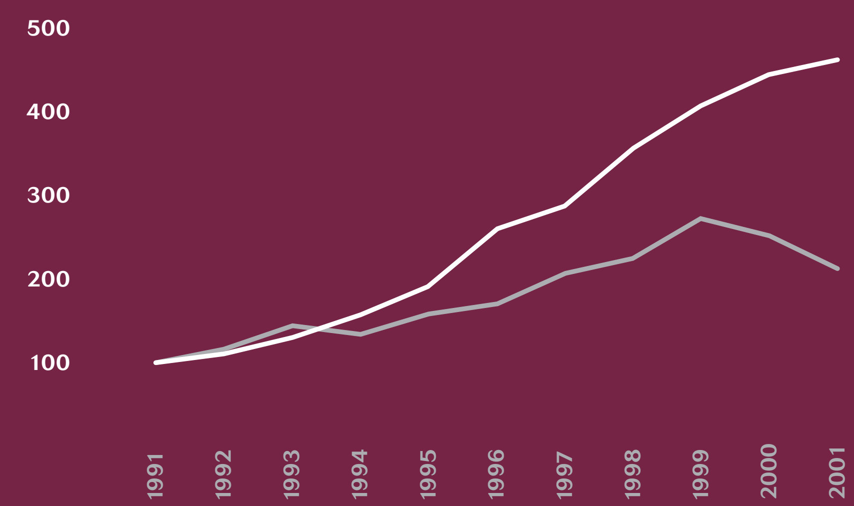
Total net assets up from £246.6m in 2000 to £250.4m in 2001 **+2%**

Net assets per share up from 1079p in 2000 to 1127p in 2001 **+4%**

Profits up from £11.7m in 2000 to £14.4m in 2001 **+23%**

Final dividend up 10% to 22p. Total dividend up from 29p in 2000 to 32p in 2001 **+10%**

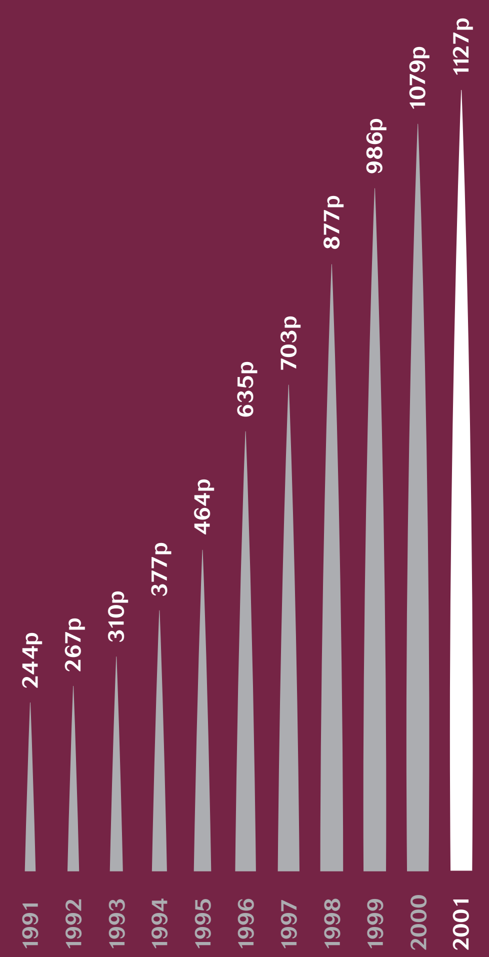
The results in pictures



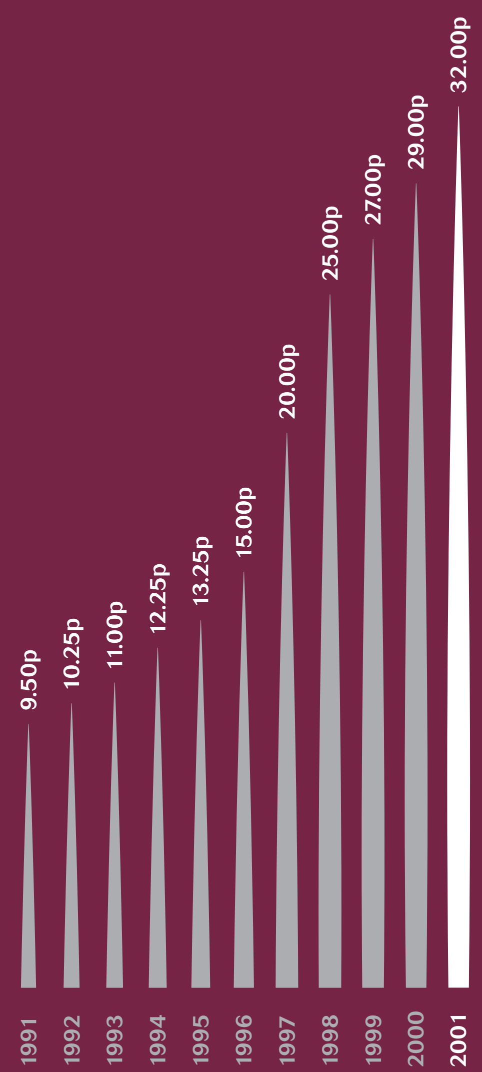
Net assets growth
compared to FTSE All-Share index

Candover net assets
(31st December, 1991 = 100.00)

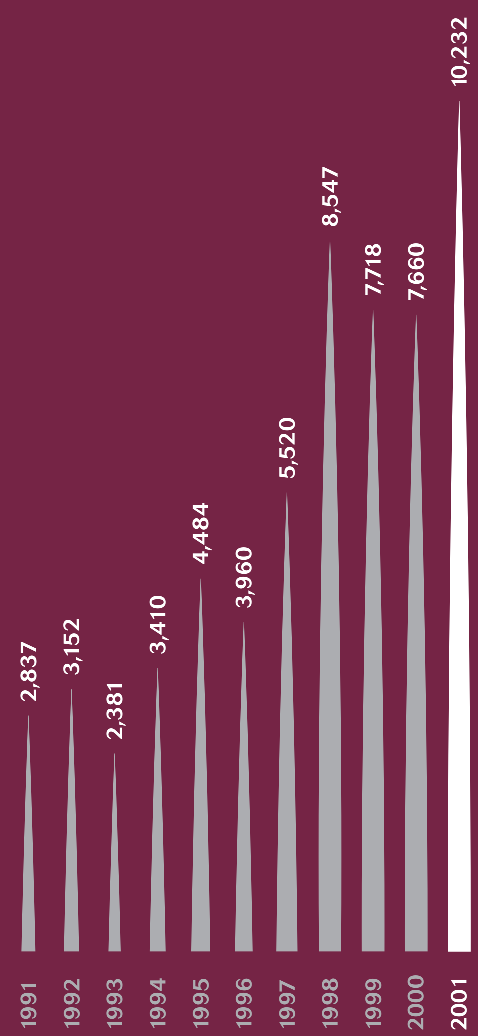
FTSE All-Share index
(31st December, 1991 = 100.00)



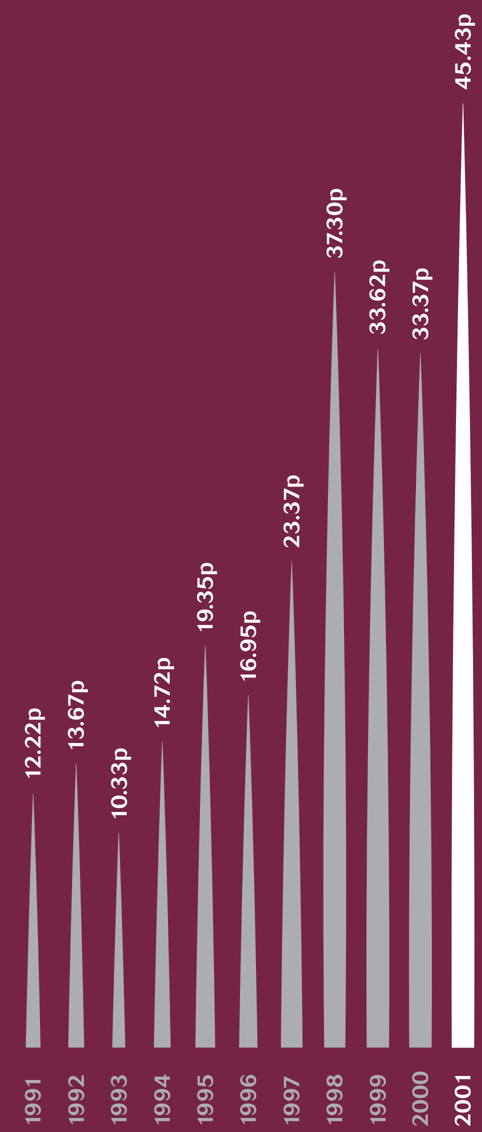
Net assets per share



Net dividend per share

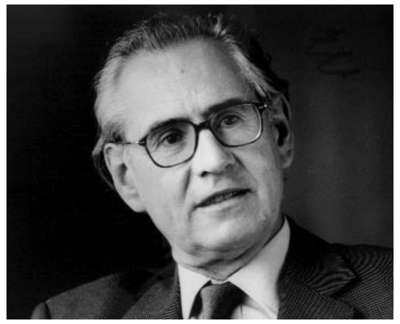


Profit after taxation in £ thousands



Earnings per share fully diluted

Chairman's statement



Introduction

Net assets per share continued to grow during 2001, increasing 4.4% on the prior year. The second half of the year was relatively quiet, both in terms of realisations and investments. Investments totalling £26.2 million were made during the year (2000: £38.3 million), with no new investments undertaken in the six months to December.

Realisation proceeds of £36.5 million during the year included Claverham, Shepperton and the residual holding in Crown Castle International Corporation. Since the year end we have sold PII and entered into an agreement to sell Regional Independent Media, both of which will generate healthy gains for Candover. In addition, since the year end the first investment by the 2001 Fund has been made, namely the buyout of Swissport, a global ground handling business acquired from Swissair Group AG on 8th February, 2002 for a total consideration of €393.0 million.

Results for 2001

As at 31st December, 2001, the net assets attributable to the ordinary shares, after including an adjustment for current asset investments at market or directors' valuation, less attributable taxation of £0.2 million (2000: £0.4 million), were £250.4 million compared to £246.6 million at 31st December, 2000. Net assets per share were 1127p compared with 1079p at 31st December, 2000 (and 1092p at 30th June, 2001). This increase in net assets per share over the 12 months to 31st December, 2001 of 4.4% compares with a decrease of 15.4% in the FTSE All-Share Index over the same period. The increase in net assets per share over the six months to 31st December, 2001 was 3.2% compared to a decrease in the FTSE All-Share Index over the same period of 7.5%.

The growth in net assets for the year of £3.8 million was after taking into account the buyback and cancellation of 645,000 shares at a cost to the Company of £6.3 million and after a net surplus of £11.0 million on the revaluation of our investments. The share buyback was undertaken because the share price was at a discount to Candover's net assets per share.

The value ascribed to Candover's share of the carried interest in the 1994 Fund was increased to £30.4 million (137p per share) from £26.9 million (120p per share) at 30th June, 2001 which was unchanged from 31st December, 2000.

Profits before tax for the year were £14.4 million compared with £11.7 million for the 12 months to 31st December, 2000. The increase in profits was mainly due to higher income from investee companies and from funds under management.

The valuation of fixed asset investments at 31st December, 2001 was £188.8 million (2000: £188.9 million).
This valuation of £188.8 million was calculated having taken into account realisations, net of new investments in the year, amounting to £11.2 million; and after a net increase of £11.0 million in the valuation of our investments referred to above. This net increase in the valuation of our investments of £11.0 million was after taking into account downward adjustments of £11.9 million. These downward adjustments were mainly due to the decline in the value of certain of our unlisted investments. At the year end, cash and liquid assets totalled £57.0 million (2000: £59.6 million). Listed shares at the year end totalled £4.9 million (2000: £12.7 million), representing 2.0% of our net assets (2000: 5.2%).

Dividends

At the half year the Board decided to increase the interim dividend by 11.1% from 9p to 10p per share. The Board has decided to pay a final dividend of 22p per share (20p per share in 2000) making a dividend total of 32p per share against 29p in the previous year, an increase of 10.3%. Payment of the dividend will be made on 23rd May, 2002 to holders on the register at 3rd May, 2002.

The Candover 2001 Fund

As was reported at the half year, the first closing of this Fund took place in June 2001. Subsequent closings have brought the total raised to date to €2.2 billion. A final close will take place by the end of June 2002.

Under a coinvestment agreement, Candover has committed €300.0 million to the Candover 2001 Fund, which is included in the €1.8 billion referred to above.

Board and staff

In October, Candover opened its Paris office, and Cyril Zivré, who was an employee of our joint venture in France, joined us as an Investment Director. Cyril previously worked for Chevrillon Associés and Générale de Santé. He is a French national and a qualified accountant.

In January 2002, Brian Mercer joined our team as a Director of Candover Partners. Brian previously worked for Broadview International, a global advisory and investment firm specialising in the technology, media and telecoms markets.

The business environment in 2001 was not easy but we have pressed forward with our fund raising, the opening of a new office in Paris, a number of realisations and the maintenance of our portfolio of investee companies.
I would like to thank the staff for their hard work during the year, the results of which we expect will become more apparent in 2002 and 2003.

Prospects

The value of European buyouts fell by 24% last year as concerns about the economy mounted and corporate confidence fell. But the decline in private equity activity was less sharp than that for M&A as a whole, which fell 55% in Europe during 2001. However, our Fund raising has gone well, with further closings expected in the next few months. This will be the largest Fund managed by Candover, and we expect that the current more uncertain climate will provide investment opportunities for the new Fund at more realistic prices than those prevailing until recently.

The performance of our investee companies in the main is satisfactory. We will continue to pursue exit opportunities as appropriate over the next 12 months. Currently, we are working on a number of disposals which, if realised, would result in further increases in net asset value per share for Candover.

S W Curran

22nd March, 2002

Operational review

In line with the general activity levels seen in the buyout markets across Europe, Candover's pace of investment slowed during 2001. In total, Candover invested £26.2 million in two new transactions and nine follow-on investments. The 1997 Fund invested £126.2 million alongside Candover in three of these transactions (Candover's investment £16.8 million). Since the year end, Candover has invested a further £15.3 million in the buyout of Swissport, a leading global ground handling agent. This was the first transaction to be undertaken by the Candover 2001 Fund which invested £77.9 million.

New investments

The most significant investment to be undertaken by Candover during the year was the buyout of Picard Surgelés. As reported in the 2000 Report and Accounts and at the half year, in February 2001 Candover and the 1997 Fund together with the management undertook the €920.0 million buyout from Carrefour of Picard Surgelés, a leading French frozen food retailer. The 1997 Fund invested £77.6 million and Candover invested £10.3 million in this transaction.

Other Investments

Two investee companies, namely Inveresk and Clondalkin, received substantial additional investments to support their continued development. As was reported at the half year, in March 2001 Candover and the 1997 Fund invested a further £10.1 million (Candover's share £1.2 million) in Clondalkin, a specialist packaging company, to enable it to acquire EPH, a manufacturer of a complementary range of flexible packaging materials and cartons. In April 2001, the 1997 Fund invested £39.7 million and Candover £5.3 million in Inveresk to enable it to complete a $112.0 million acquisition of ClinTrials Research Inc, a Nasdaq-listed clinical research group.

A number of other follow-on investments were also made, primarily further participations in specialised funds.

Swissport

In February 2002, Candover and the 2001 Fund completed the buyout of Swissport, a global ground handling business acquired from Swissair Group AG, for a total consideration of €393.0 million.

Swissport is the second largest ground handling agent in the world and operates in 23 countries at 130 airports, servicing 550 airlines worldwide. Swissport's core markets are Europe and the US, with a particularly strong presence in Switzerland where it has a significant market share. The company has recently been named by the Institute of Transport Management "Global Ground Handling Company of the Year" for the second year in succession. The company has an experienced and well regarded management team who plan to take advantage of the changing dynamics of the ground handling industry following the downturn in the airline industry.

Realisations

Net realised gains over cost achieved by Candover and its managed funds amounted to £106.9 million, of which Candover's share was £24.7 million. As was reported at the half year, the majority of the gain came from the sale of the residual shares in Crown Castle International Corporation from which Candover realised £14.8 million, with a gain on cost of £13.4 million and the 1994 Fund realised £56.0 million, with a gain on cost of £50.9 million.

The two other significant realisations to occur during the year, and which have been reported on at the half year, were Claverham, the defence and aerospace business which was sold with gains over cost for Candover of £2.7 million and £23.0 million for the 1997 Fund, and Shepperton Studios, the film and television studio facilities company, which was sold with gains over cost for Candover of £2.2 million and £8.0 million for the 1994 Fund.

Since the year end, Candover has sold PII, the global pipeline integrity services company, to GE Power Systems and entered into an agreement to sell Regional Independent Media to Johnston Press plc.

Operational review

Outlook

Whilst some investee companies in vulnerable sectors have experienced more difficult trading conditions, the overall performance of the portfolio remains satisfactory. The executive team will continue to monitor the status of all investee companies carefully and advance exit opportunities as appropriate. It is likely that there will be a significant number of realisations over the next few years as the 1997 Fund reaches maturity.

Whilst 2001 was a challenging year for the European private equity industry, the medium term opportunities for Candover and the 2001 Fund look promising as corporate restructuring and distressed sales gather pace.

C J Buffin

M S Gumienny

Joint Managing Directors

22nd March, 2002

Status of funds

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

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

The Candover 1987 Fund was constituted on 29th May, 1987 with funds of £30.0 million and was due to terminate on 29th May,1997. By resolution of the investors, the Fund has been extended on a number of occasions with the latest termination date being 29th November, 2002. However, following the sale of the sole remaining investment, Hermes Group Limited in December 2001, steps are being taken to close the Fund earlier in 2002. As at 31st December, 2001, £34.7 million had been returned to investors.

The Candover 1991 Fund had total commitments of £37.5 million including a £5.0 million co-investment from Candover at its final closing on 30th April, 1992. The investment period of this Fund terminated on 30th April, 1998 and the Fund itself was due to terminate on 30th April, 2000, but following investor consent, this was extended until 30th April, 2002. Approval will be sought from investors in 2002 for a further extension to enable the one remaining investment to be realised. The Fund drew down £26.0 million for investment and to date has returned £53.3 million.

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 has a termination date of 18th May, 2002 and approval will be sought from investors to extend the life of the Fund prior to that date. During 2001, the Fund made capital gains from the sale of Shepperton Studios to Pinewood Studios, and from the sale of the remaining Crown Castle shares. The Fund called down £176.4 million for investment in 13 transactions and had returned £326.8 million by the year end. After including earlier partial realisations, seven companies remain in the portfolio.

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. During the year, the Fund purchased Picard Surgelés from Carrefour and realised its investment in Claverham. The investment period for the Fund terminated on 13th June, 2001, although the capacity to make follow-on investments remains. At the year end there were 13 remaining investments. In March, PII Group was sold to GE Power Systems and it was agreed to sell Regional Independent Media to Johnston Press plc, subject to shareholder approval.

The Candover 2001 Fund had a first closing on 13th June, 2001. Commitments to date total €2.2 billion, including a €300.0 million commitment from Candover. The Fund will take further commitments until its final closing in June, 2002. Since the year end, the Fund completed its first investment via the acquisition of Swissport from Swissair Group AG.

Candover's investment approach

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

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

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

Review of 20 largest investments

Inveresk Research Group Limited Contract research organisation for the pharmaceutical industry

Candover's investment as at 31st December	2001	2000
Cost of investment	£8,403,000	£3,112,000
Directors' valuation	£11,657,000	£3,112,000
Effective equity interest (fully diluted)	7.9%	7.9%
% of Candover's net assets	4.6%	1.3%

Basis of valuation: Multiple of earnings

Inveresk was acquired in September 2000 from SGS of Switzerland for £57.5 million. In April 2001, Candover and the 1997 Fund invested an additional £45.0 million in Inveresk to enable it to complete a $112.0 million acquisition of ClinTrials Research Inc, a Nasdaq-listed clinical research group.

The group is trading profitably across all of its divisions in Europe, Canada and the US. The outlook for 2002 is good, with current order books at record levels. The ClinTrials acquisition has proceeded satisfactorily, with management successfully achieving the reorganisation and restructuring of the acquired businesses in line with plan.

Profit before goodwill amortisation, interest and tax for the year ended 31st December, 2000 was £4.5 million on sales of £42.4 million (no comparatives were available for the year ended 31st December, 1999).

No dividends were received by Candover for the year ended 31st December, 2001 (2000: £Nil).

SPA Limited Sub-prime consumer car finance

Candover's investment as at 31st December	2001
Cost of investment	£3,740,000
Directors' valuation	£11,539,000
Effective equity interest (fully diluted)	13.6%
% of Candover's net assets	4.6%

Basis of valuation: Multiple of earnings

SPA is a sub-prime consumer car finance business, operating under the name of Yes Car Credit and has a dedicated distribution network of 17 branches throughout the UK. SPA was founded in December 1997 as a subsidiary of Camden Motor Holdings (CMH), a motor dealership business acquired by Candover and the 1994 Fund. Following a reorganisation in December 2001, SPA was demerged from CMH, principally to facilitate an exit for each of these businesses.

SPA focuses wholly on the sub prime market, providing loans exclusively to borrowers who acquire a vehicle supplied by SPA. The company thus not only controls the quality of cars it supplies to customers, but it also profits from the sale of the vehicle and associated insurances, as well as from the credit agreement.

No audited accounts are available for the year to 31st December, 2001.

No dividends were received by Candover for the year ended 31st December, 2001 (2000: £Nil).

Regional Independent Media Holdings Limited Regional newspaper publishing

Candover's investment as at 31st December	2001	2000
Cost of investment	£6,503,000	£6,503,000
Directors' valuation	£11,263,000	£9,139,000
Effective equity interest (fully diluted)	4.9%	4.9%
% of Candover's net assets	4.5%	3.7%

Basis of valuation: Multiple of earnings

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

Candover acquired the regional newspaper division of United News & Media plc in 1998 for a total consideration of £360.0 million. Renamed Regional Independent Media (RIM), it has a total of 99 titles consisting of daily paid-for, weekly paid-for and weekly free newspapers and magazines. RIM's flagship title is the Yorkshire Post but it also publishes the main daily newspapers for the cities of Leeds, Sheffield and Preston, along with a number of other towns in the North of England. The Group has won a large number of awards in 2001 including the Press Gazette's award for UK Evening Newspaper of the Year, which was won by the Yorkshire Evening Post.

RIM added to its portfolio in 2001 through the acquisition of a number of titles in Scotland and the purchase of the Midland's leading corporate finance magazine, Finance Midlands. The Group continues to develop its internet strategy where it has grown revenues by 58% in 2001. It also retains a share in Fish4, the online classified website. On 12th March, 2002 it was announced that RIM would be acquired by Johnston Press plc in a deal valued at £560.0 million.

Profit before goodwill amortisation, interest, tax and operating exceptional items for the year ended 31st December, 2001 was £40.2 million on sales of £175.3 million (2000: profit before goodwill amortisation, interest, tax and operating exceptional items was £38.3 million on sales of £169.3 million).

No dividends were received by Candover for the year ended 31st December, 2001 (2000: £Nil).

Baxi Group Limited Construction, heating and home products

Candover's investment as at 31st December	2001	2000
Cost of investment	£10,741,000	£10,741,000
Directors' valuation	£10,741,000	£8,533,000
Effective equity interest (fully diluted)	2.7%	2.7%
% of Candover's net assets	4.3%	3.5%

Basis of valuation: Multiple of earnings

In November 2000, Newmond plc merged with Baxi Holdings Plc to create Baxi, one of Europe's leading suppliers of heating products.

Newmond was created in 1996 when Candover led the £360.0 million management buyout of 15 businesses from Williams Holdings plc. Non-core businesses were disposed of over time and Newmond focused on heating and home comfort products. During 2000, Candover invested a further £1.3 million (1994 Fund: £4.7 million) in order to enable the merger between Newmond and Baxi Holdings, a leading manufacturer in the domestic boiler field, operating under the Baxi, Potterton, Chappee, Ideal Standard and Brötje brands. The merger of Baxi Holdings with Newmond created a leading European player in the heating and home comforts markets, with potential for further expansion.

Profit before goodwill amortisation, interest and tax for the period 22nd November, 2000 to 31st December, 2000 was £9.4 million on turnover of £78.8 million (no comparable results were available for the prior period).

No dividends were received by Candover for the year ended 31st December, 2001 (2000: £Nil).

Picard Surgelés S.A. Frozen food retailer

Candover's investment as at 31st December	2001
Cost of investment	€16,155,000 (£10,325,000)*
Directors' valuation	€16,155,000 (£9,883,000)*
Effective equity interest (fully diluted)	3.6%
% of Candover's net assets	3.9%

Basis of valuation: Cost

In February 2001, Candover led one of the largest management buyouts to be undertaken in the French marketplace to invest in Picard, France's leading frozen food retailer. The buyout was a high profile auction where for a number of reasons we were quickly able to develop a competitive angle that was instrumental in our winning the deal. We knew the business well via an earlier investment in a French company, MC International, which is the main provider of installation and maintenance services to Picard.

Picard sells its high quality products through an unrivalled network of 467 stores around France. The company has a powerful and well respected brand commanding excellent customer loyalty among high and middle income bracket customers. Picard is run by an experienced and highly regarded management team who have identified substantial opportunities for growth within the French market.

There are no audited accounts since acquisition.

No dividends were received by Candover for the year ended 31st December, 2001 (2000: £Nil).

* Exchange loss since investment : £442,000.

Pandrol Limited / Airtechnology Limited Specialist engineering group

Candover's investment as at 31st December	2001	2000
Cost of investment	£8,553,000	£9,074,000
Directors' valuation	£8,553,000	£9,074,000
Effective equity interest (fully diluted)	8.8%	8.8%
% of Candover's net assets	3.4%	3.7%

Basis of valuation: Cost

Candover's involvement in the engineering sector goes back nearly 20 years, and our wealth of experience was used to good effect in this £194.0 million management buyout from Charter plc, completed in December 1999.

The deal structure involved Candover making separate investments in three specialist engineering businesses which were: Pandrol, the world leader in rail fastening systems, with manufacturing plants in 12 countries; UK Aerospace and Defence, now renamed Airtechnology, designer and manufacturer of specialist fans and environmental control systems for the aerospace, defence and rail traction markets; and Nederman, the European leader in equipment to improve workspace environments. Nederman was subsequently sold in late December 1999 for cash proceeds of £38.0 million, from which Candover and the 1997 Fund received £7.0 million in December 1999, £4.0 million in August 2000 and £4.4 million in May 2001.

In the year to 31st December, 2000, Pandrol showed a profit before goodwill amortisation, interest and tax of £15.0 million on turnover of £99.4 million. Airtechnology showed a profit before goodwill amortisation, interest, exceptional items and tax of £5.4 million on turnover of £27.5 million. There are no comparable figures for the prior year.

No dividends were received by Candover for the year ended 31st December, 2001 (2000: £Nil).

Clondalkin Group Holdings Limited Specialist packaging converter

Candover's investment as at 31st December	2001	2000
Cost of investment	€12,507,000	€10,581,000
	(£7,987,000)	(£6,796,000)
Directors' valuation	€12,507,000	€10,581,000
	(£7,651,000)*	(£6,651,000)*
Effective equity interest (fully diluted)	6.3%	6.3%
% of Candover's net assets	3.1%	2.7%

Basis of valuation: Cost

The outstanding results delivered over a ten year period, combined with the clear strategic and operational focus of the Clondalkin management team, were key reasons for backing this €530.0 million privatisation and delisting from the Dublin and London Stock Exchanges in 1999. The transaction remains the largest ever public-to-private transaction in Ireland.

Clondalkin converts specialist value added packaging products with 39 operations in Ireland, Britain, the Netherlands, Belgium, Germany, Switzerland and the US, employing more than 4,000 people. Clondalkin's delisting and privatisation in December 1999 was followed by a €125.0 million bond issue in January 2000. In April 2001, Candover and the 1997 Fund invested an additional €16.4 million in order that Clondalkin could fund the acquisition of European Packaging Holdings BV, a Netherlands based packaging and folding cartons business.

In the year to 31st December, 2000, profit before goodwill amortisation, interest, exceptional items and tax amounted to €50.5 million on turnover of €639.4 million (no comparable audited results were available for the year to 31st December, 1999)

No dividends were received by Candover for the year ended 31st December, 2001 (2000: £Nil).

*Exchange loss since investment: £336,000 (2000: £145,000).

Blue Eagle CDO investment fund

Candover's investment as at 31st December	2001	2000
Cost of investment	€12,000,000	€12,000,000
	(£7,430,000)	(£7,430,000)
Directors' valuation	€12,000,000	€12,000,000
	(£7,341,000)*	(£7,542,000)*
Effective equity interest (fully diluted)	n/a	n/a
% of Candover's net assets	2.9%	3.1%

Basis of valuation: Cost

Blue Eagle is a €500.0 million collateralised debt obligation (CDO) fund managed by Barclays Capital, in which Candover invested €12.0 million (£7.4 million) in December 2000.

CDO funds invest in a strictly diversified pool of debt assets; in the case of Blue Eagle, senior leveraged loans and high yield bonds. CDO funds provide a fully diversified way of investing in the high yield markets with leveraged equity returns, while also providing significant income to their investors. The Blue Eagle management team has a good track record in the management of high yield bond and senior debt portfolios, a depth of experience and a rigorous approach to credit decisions.

There are no audited accounts since the date of investment.

No dividends were received by Candover for the year ended 31st December, 2001 (2000: £Nil).

*Exchange loss since investment: £89,000 (2000: gain of £112,000).

Bourne Leisure Holdings Limited Leisure parks

Candover's investment as at 31st December	2001	2000
Cost of investment	£6,522,000	£8,014,000
Directors' valuation	£6,522,000	£8,014,000
Effective equity interest (fully diluted)	4.1%	4.1%
% of Candover's net assets	2.6%	3.2%

Basis of valuation: Cost

Management is a key investment criterion for Candover and the management team at Bourne Leisure worked with us on the project for over a year before we completed this investment. In Bourne's team, we identified a management style and superior business practices which we believed could be applied to the Rank Holidays Division for substantial benefit to the enlarged group.

Candover backed Bourne Leisure Limited, the largest privately owned caravan park operator in the UK, in October 2000 in its acquisition of Rank Holidays Division, the UK's largest operator of holiday centres in the UK. The deal created a £1.1 billion group which will service over 2.5 million holidaymakers a year through leading holiday brands such as Haven, Butlins and Warner. Due to the sale of Oasis in 2001, Bourne was able to make a partial repayment of their loan. Additional proceeds from this sale are expected to be returned to loan note and mezzanine holders in 2002.

Loss before goodwill amortisation, interest and tax for the period 9th June, 2000 to 31st December, 2000 was £21.7 million on turnover of £37.0 million (no comparatives are available for the prior period).

No dividends were received by Candover for the year ended 31st December, 2001 (2000: £Nil).

Diamant Boart S.A. Diamond tools and related equipment

Candover's investment as at 31st December	2001	2000
Cost of investment	€5,109,684	€5,109,684
	(£3,352,000)	(£3,352,000)
Directors' valuation	€10,121,023	€5,109,684
	(£6,192,000)	(£3,212,000)
Effective equity interest (fully diluted)	9.2%	9.2%
% of Candover's net assets	2.5%	1.3%

Basis of valuation: Multiple of earnings

In July 1999, Candover led the BEF5.5 billion (€136.0 million) buyout of Diamant Boart, a leading manufacturer and supplier of diamond tools to the construction and stone industries. Our investment rationale focused on the opportunity to acquire, in partnership with the existing management, a market-leading company with excellent prospects.

Since the buyout in July 1999 the business has performed well, despite difficult trading conditions in the US.

In the year to 31st December, 2000, profit before goodwill amortisation, interest and tax was €20.5 million on turnover of €279.1 million (no comparable audited results are available for the year ended 31st December, 1999).

No dividends were received by Candover for the year ended 31st December, 2001 (2000: £Nil).

First Leisure Limited Nightclubs and bars operator

Candover's investment as at 31st December	2001	2000
Cost of investment	£4,766,000	£6,276,000
Directors' valuation	£5,734,000	£6,276,000
Effective equity interest (fully diluted)	5.7%	5.7%
% of Candover's net assets	2.3%	2.5%

Basis of valuation: Multiple of earnings

Candover's £210.5 million acquisition of the Nightclubs and Bars division of First Leisure Limited was announced in November 2000. The high quality of the management team was a key element in our decision to invest.

The Nightclubs and Bars division then comprised 40 large capacity nightclubs and 25 themed or late-night bars, including the Brannigans chain, which was subsequently sold in June 2000 to Mustard Entertainment. The nightclubs are well placed to benefit from the changing demographics and dynamics of the sector. In July 2001, the company also completed the sale and leaseback of a number of its sites. The management team, led by Paul Kinsey, has extensive experience in operating nightclubs and bars and a focused strategy aimed at optimising First Leisure's performance and profitability. During 2001, £11.1 million has been repaid to Candover and the 1997 Fund to partially redeem loan stock.

Profit before goodwill amortisation, interest and tax for the period 1st February, 2000 to 31st October, 2000 was £15.1 million on turnover of £69.7 million.

No dividends were received by Candover for the year ended 31st December, 2001 (2000: £Nil).

HLF Insurance Holdings Limited Insurance broker

Candover's investment as at 31st December	2001	2000
Cost of investment	£5,466,000	£3,627,000
Directors' valuation	£5,466,000	£3,627,000
Effective equity interest (fully diluted)	2.6%	2.6%
% of Candover's net assets	2.2%	1.5%

Basis of valuation: Cost

HLF Insurance Holdings Limited is the world's seventh largest insurance brokerage business. It was created in early 2000 by the merger between Erycinus, which owned the business of CE Heath plc, and Lambert Fenchurch Group plc, both of which had been Candover-backed investments.

HLF Insurance Holdings Limited was formed to make an offer for both Erycinus and Lambert Fenchurch and the offer was declared unconditional in December 1999 and completed in 2000. The integration of the two businesses into a successful world-wide insurance group has continued, with retention of key staff a priority. During 2001, Candover made an additional investment of £1.8 million to fund working capital requirements.

For the 15 month period to 16th December, 1999 to 31st March, 2001, profit before goodwill amortisation, interest, exceptional items and tax was £41.1 million on turnover of £333.1 million.

No dividends were received by Candover for the year ended 31st December, 2001 (2000: £Nil).

Detica Group plc (formerly The Smith Group Holdings plc) Information technology solutions

Candover's investment as at 31st December	2001	2000
Cost of investment	£1,445,000	£1,445,000
Directors' valuation	£5,360,000	£5,360,000
Effective equity interest (fully diluted)	8.0%	8.0%
% of Candover's net assets	2.1%	2.2%

Basis of valuation: Multiple of earnings

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

Detica is a leading specialist IT consultancy business which assists its clients in implementing leading edge technology solutions and strategies principally in the customer relationship management and information security sectors. On 16th March, 2002 it was announced that Detica intended to seek a listing on the London Stock Exchange.

In the year ended 31st March, 2001, profits before goodwill amortisation, interest and tax were £4.7 million on turnover of £26.6 million (year ended 31st March, 2000: profits before goodwill amortisation, interest and tax of £3.7 million on turnover of £20.9 million).

For the year ended 31st December, 2001 Candover received dividends totalling £181,187 (2000: £90,289).

Acertec Holdings Limited Engineering group

Candover's investment as at 31st December	2001	2000
Cost of investment	£7,043,000	£7,043,000
Directors' valuation	£5,276,000	£7,043,000
Effective equity interest (fully diluted)	7.9%	7.9%
% of Candover's net assets	2.1%	2.9%

Basis of valuation: Multiple of earnings

In June 1999, Candover played the role of "white knight" when it led the £135.0 million public-to-private buyout of Hall Engineering (Holdings) plc, backing incumbent management in fighting off a hostile bid from TT Group. Now renamed Acertec Holdings Limited, it enjoys strong market positions in all of its businesses.

Acertec consists of four principal businesses: Carrington Wire which, following the acquisition of two competitors, is now the leading manufacturer of wire in the UK; BRC Reinforcement, which is a leading UK supplier of reinforcement products to the construction industry; Stadco, Acertec's automotive pressings business, which is one of the leading UK 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 listed on the Singapore stock exchange in July 2000.

Profits before goodwill amortisation, interest and tax for the year to 31st December, 2000 were £11.5 million on sales of £176.4 million (10 month period to 31st December, 1999: profits before goodwill amortisation, interest and tax were £22.0 million on sales of £115.9 million).

No dividends were received by Candover for the year ended 31st December, 2001 (2000: £Nil).

Camden Motor Group Limited Motor dealership

Candover's investment as at 31st December	2001	2000
Cost of investment	**£493,000**	£4,233,000
Directors' valuation	**£4,633,000**	£7,388,000
Effective equity interest	**13.6%**	13.6%
% of Candover's net assets	**1.8%**	3.0%

Basis of valuation: Multiple of earnings

Camden is one of the UK's top 10 motor retailers and operates a multi-franchise network covering Ford, Vauxhall, Peugeot, Rover, Renault, Nissan, Volkswagen, Audi, Fiat, Toyota and Alfa Romeo. It was a buyout from Barclays Bank in November 1996, in which Candover invested £2.3 million. Since the buyout, Candover has invested further monies to allow Camden to support the development of a company (SPA) specialising in the sub-prime auto finance market. The SPA group was demerged from Camden Motors in December 2001 and is now shown separately in this report.

Profits before goodwill amortisation, interest and tax for the year ended 31st December, 2000 were £9.0 million on turnover of £630.9 million (1999: profits before goodwill amortisation, interest and tax of £5.1 million on turnover of £550.7 million). These results include SPA which was demerged in December 2001.

Candover received dividends of £131,383 in the year ended 31st December, 2001 (2000: £112,636).

Dakota, Minnesota and Eastern Railroad Corporation Railroad operator

Candover's investment as at 31st December	2001	2000
Cost of investment	**US$1,478,000**	US$1,478,000
	(£888,000)	(£888,000)
Directors' valuation	**US$6,273,000**	US$6,273,000
	(£4,310,000)	(£4,199,000)
Effective equity interest (fully diluted)	**11.1%**	11.1%
% of Candover's net assets	**1.7%**	1.7%

Basis of valuation: Multiple of earnings

The DM&E Railroad operates 1,105 miles of track in the USA, mainly in South Dakota and Minnesota.

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

Profits before interest and tax for the year ended 31st December, 2000 were US$10.1 million on turnover of US$62.1 million (1999: US$13.2 million on turnover of US$60.9 million).

No dividends were received by Candover for the year ended 31st December, 2001 (2000: £Nil).

Evenser Group Limited (formerly Telecast Communications Limited) Media and event services

Candover's investment as at 31st December	2001	2000
Cost of investment	**£5,332,000**	£5,332,000
Directors' valuation	**£4,004,000**	£5,332,000
Effective equity interest	**6.4%**	6.4%
% of Candover's net assets	**1.6%**	2.2%

Basis of valuation: Multiple of earnings

Evenser is a leveraged buildup vehicle in which Candover first invested in May 1998. Its strategic objective is to grow by acquisition, consolidating suppliers to the events services market.

In 2000, the acquisition and integration of Melville Exhibition Services, Corporate Technical Services and Opex into the Exhibition Division was completed. Senior debt facilities were increased in December 2000 to finance the acquisition of The Sellers Group and Championship Structures, which now form the Outdoor Events Division. During 2001, Evenser experienced a difficult year. The foot and mouth epidemic caused widespread cancellation of outdoor events, and the terrorist attacks of 11th September caused the cancellation of many corporate events, an important area of revenue.

Profits before interest, goodwill amortisation, exceptional items and tax for the year ended 31st December, 2000 were £2.7 million on turnover of £60.9 million (1999: profit before interest, goodwill amortisation, exceptional items and tax £0.7 million on turnover of £26.7 million).

No dividends were received by Candover for the year ended 31st December, 2001 (2000: £Nil).

Earls Court & Olympia Holdings Limited Exhibition Services

Candover's investment as at 31st December	2001	2000
Cost of investment	**£3,970,000**	£3,970,000
Directors' valuation	**£3,970,000**	£3,970,000
Effective equity interest (fully diluted)	**5.4%**	5.4%
% of Candover's net assets	**1.6%**	1.6%

Basis of valuation: Cost

In October 1999, Candover announced its backing for Andrew and Jack Morris in the management buyin of Earls Court & Olympia (ECO) from Peninsular & Oriental (P&O) for £183.0 million. The Morrises had previously shown their ability to manage exhibition venues through their success in growing the Business Design Centre in Islington.

ECO, which incorporates two of the UK's foremost exhibition venues, was put up for sale in 1999 in order to allow P&O to focus on its core businesses. Under its new management, ECO is benefiting from an increased emphasis on sales, marketing and customer service as well as a substantial refurbishment programme. The business has been refocused to concentrate its activities on venue management and event organising and is also seeking supplementary sources of revenue.

Profit before goodwill amortisation, interest, exceptional items and tax for the year ended 31st December, 2000 was £14.1 million on turnover of £75.4 million (1999: no comparable audited accounts are available).

No dividends were received by Candover for the year ended 31st December, 2001 (2000: £Nil).

ICG Mezzanine Fund 2000 Investment Fund

Candover's investment as at 31st December	2001	2000
Cost of investment	€6,075,000 (£3,908,000)	€2,534,000 (£1,554,000)
Directors' valuation	€5,900,000	€2,534,000
	(£3,610,000)*	(£1,483,000)*
Effective equity interest (fully diluted)	n/a	n/a
% of Candover's net assets	1.4%	0.6%

Basis of valuation: Cost of underlying investments

Candover committed €15.0 million to the €475.0 million Intermediate Capital Group (ICG) plc Mezzanine Fund 2000. The Fund has been active in providing mezzanine finance throughout Europe.

Recent transactions for which the ICG Mezzanine Fund 2000 provided financing include the acquisitions of Tetley by Tata Tea and Baxi by Newmond and the buyout of Picard.

No dividends were received by Candover for the year ended 31st December, 2001 (2000: £Nil).

*Exchange loss since investment: £298,000 (2000: £71,000).

PII Group Limited Provider of oil and gas pipeline services

Candover's investment as at 31st December	2001	2000
Cost of investment	£1,931,000	£1,931,000
Directors' valuation	£3,193,000	£1,931,000
Effective equity interest (fully diluted)	1.5%	1.5%
% of Candover's net assets	1.3%	0.8%

Basis of valuation: Sale price

PII is the global market leader in the provision of oil and gas pipeline inspection services. The main business is inspection using 'intelligent pigs', high technology vehicles that are inserted into the pipeline and driven down by the pressure of the oil or gas.

In November 1999, PII had the opportunity to acquire Pipetronix, its major competitor, from Preussag. Hg Capital, who had acquired PII in February 1998, approached Candover with a view to providing additional equity for the Pipetronix transaction. Immediately upon acquiring Pipetronix, restructuring actions were announced and have been successfully implemented. In March 2002, PII was sold to GE Power Systems.

Profit before goodwill amortisation, interest and tax for the year ended 31st December, 2000 was £27.1 million on turnover of £122.5 million (1999: profit before goodwill amortisation, interest and tax £13.0 million on turnover of £65.3 million).

No dividends were received by Candover for the year ended 31st December, 2001 (2000: £Nil).

Principles of valuation of unlisted investments

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

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

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

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

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

The discount used may be lower where, for example, a realisation is planned within 12 months and higher if the timing of a realisation is long term or not currently being contemplated.

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

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

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

The board of directors

S W Curran† FCCA
Chairman

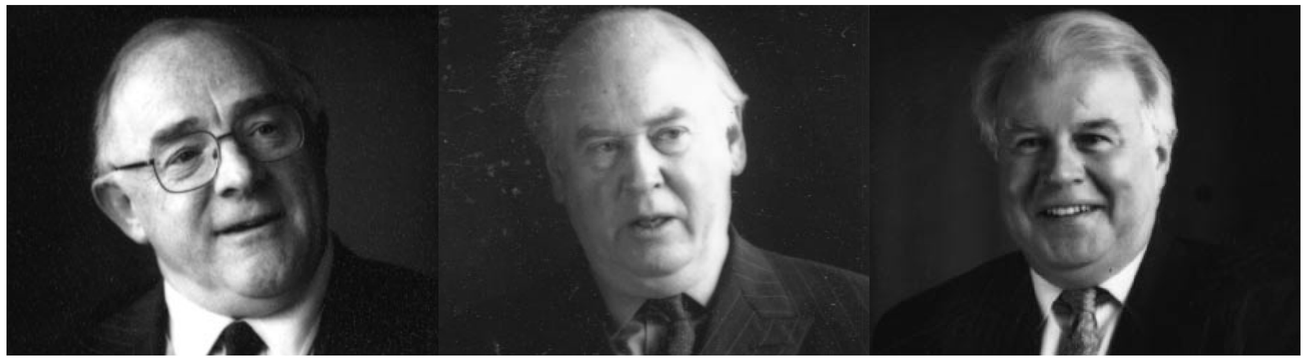
M S Gumienny ACA
Managing Director

C J Buffin MA ACA
Managing Director

G D Fairservice BSc MBA
Deputy Chairman

P J Scott Plummer*§† FCA
Non-executive

G E Grimstone*§
Non-executive



D R Wilson*§ FCA
Non-executive

A P Hichens*† MA MBA
Deputy Chairman, non-executive

J G West*§ FCA
Non-executive

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

S W Curran† FCCA

Chairman

Mr Curran was appointed Chairman in May 1999 having previously been Chief Executive since 1991 and before that Deputy Chief Executive and a director of Candover since July 1982. Prior to joining Candover in May 1981, he was a managing consultant with Coopers & Lybrand Associates and then an investment manager with what is now Cinven. He is a non-executive director of Greggs plc, Jarvis Hotels plc and a number of unquoted companies. Mr Curran is 59.

M S Gumienny ACA

Managing Director

Mr Gumienny was appointed joint Managing Director in March 1998. He is also a director of Candover Partners Limited and other Candover subsidiaries. Prior to joining Candover in January 1987 he qualified as a chartered accountant with Price Waterhouse. Recent transactions led by Mr Gumienny include the de-listing of Clondalkin Group PLC, the acquisition of Bourne Leisure Holdings Limited and the buyout of Swissport from Swissair Group AG. Mr Gumienny is a non-executive director of a number of unquoted companies in the Candover portfolio. Mr Gumienny is 43.

C J Buffin MA ACA

Managing Director

Mr Buffin was appointed joint Managing Director in March 1998. He is also a director of Candover Partners Limited and other Candover subsidiaries. He joined Candover in September 1985 from Deloitte Haskins & Sells where he spent two years in the investigations and corporate finance departments after qualifying as a chartered accountant. Mr Buffin has been responsible for a number of transactions which have led to Stock Exchange listings or trade sales. Mr Buffin led the buyout of Regional Independent Media Group plc in February 1998 and the acquisition of German-based PVC producer Vestolit in December 1999. He is a non-executive director of a number of unquoted companies in the Candover portfolio. Mr Buffin is 44.

G D Fairservice BSc MBA

Deputy Chairman

Mr Fairservice joined Candover in March 1984, was appointed to the board in July 1986, was made Deputy Chief Executive in January 1991 and then Deputy Chairman in May 1999. Before joining Candover, Mr Fairservice spent eight years with ICFC (3i) followed by two years with the British Technology Group (now BTG plc). He is a non-executive director of BTG plc. Mr Fairservice is 54.

P J Scott Plummer*§† FCA

Non-executive

Mr Scott Plummer was appointed to the Candover board in December 1985. He was appointed Chairman of Martin Currie Limited in April 1999 and is also Chairman of its subsidiary, Martin Currie Investment Management Limited. He was previously a partner of Cazenove & Co from 1974 to 1980 and has had many years of experience in the investment field. He is a non-executive director of The Merchants Trust plc. Mr Scott Plummer is 58.

G E Grimstone*§

Non-executive

Mr Grimstone was appointed to the Candover board in July 1999. Formerly an Assistant Secretary at HM Treasury responsible for the UK's privatisation policy, Mr Grimstone latterly held a number of senior appointments in the Schroders group, including Vice Chairman of worldwide investment banking activities. He is also a director of Bridgewell Limited and Wilmington Capital Limited, and a non-executive director of Dairy Crest Group plc, Aggregate Industries plc, RAF Strike Command and the Tote. Mr Grimstone is 52.

D R Wilson*§ FCA

Non-executive

Mr Wilson was appointed to the board of Candover in May 1994. He is Chief Executive of Slough Estates plc, one of the UK's largest investment property companies, where he had previously been Group Managing Director and, before that, Finance Director. Prior to joining Slough Estates in 1986 he held senior appointments at Cadbury Schweppes PLC and Wilkinson Match Limited. He is a non-executive director of Westbury plc. Mr Wilson is 57.

A P Hichens*† MA MBA

Deputy Chairman, non-executive

Mr Hichens joined the board of Candover in December 1989 and was appointed Deputy Chairman of the company with effect from 1st January, 1991. He is Chairman of D.S. Smith plc and is a member of the Takeover Panel. He is also a non-executive director of J P Morgan Fleming Income & Capital Investment Trust Plc. He was previously a Managing Director and Chief Financial Officer of Consolidated Gold Fields. Mr Hichens is 65.

J G West*§ FCA

Non-executive

Mr West who was appointed to the Candover board in December 1985 is a former Managing Director of Lazard Brothers and Chief Executive of Lazard Investors. He was previously Managing Director of Globe Investment Trust Plc. He is Chairman of Gartmore Fledgling Trust plc, Aberdeen Convertible Income Trust plc, Jupiter Financial and Income Trust plc and Intrinsic Value plc and a non-executive director of Aberdeen New Dawn Investment Trust plc, British Assets Trust plc, Middlesex Holdings plc and various unquoted companies. Mr West is 54.

Report of the directors

The directors present their report together with the audited financial statements for the year ended 31st December, 2001.

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 27.

Candover is engaged principally in the identification, implementation and monitoring of large buyouts and buyins. Candover Investments plc makes an investment either under a co-investment agreement with the third party managed funds or on its own account. The third party managed funds, established with commitments from a wide range of international institutional investors, are managed by the Candover Group subsidiaries, principally Candover Partners Limited, which is regulated by 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. Subject to the minimum return having first been achieved, Candover will participate in five per cent of any profit made in the 2001 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 £10,232,000 compared with £7,660,000 for the year ended 31st December, 2000. Revenue was £29,923,000 as against £20,905,000 for the previous year. Administrative expenses charged to revenue were £15,508,000 compared with £9,222,000 for the previous year. The changes in fixed asset investments are described together with a review of the Group's activities in the Chairman's statement and Operational review on pages 4 and 6.

Dividend and proposed transfer to reserves

The directors recommend the payment of a final dividend of £4,887,000 equal to 22p per ordinary share (2000: £4,572,000, equal to 20p per share) giving a total dividend for the year of £7,135,000 equal to 32p per ordinary share (2000: £6,629,000 equal to 29p per share). Payment of the dividend will be made on 23rd May, 2002 to holders on the register at the close of business on 3rd May, 2002. The dividend details are shown in Note 7 on page 46.

After payment of the dividend, there is a profit of £3,097,000 in respect of the year ended 31st December, 2001 which the directors propose to carry to reserves (2000: profit of £1,031,000 carried to reserves).

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*
A P Hichens*	D R Wilson*
G D Fairservice	C J Buffin
P J Scott Plummer*	M S Gumienny
	G E Grimstone*

*Non-executive

In accordance with the Articles of Association, Messrs S W Curran, A P Hichens and J G West will retire by rotation and, being eligible, will offer themselves for re-election. Of those seeking re-election, only Mr S W Curran has a service contract, which has a two-year notice period.

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

Notifiable interests in the Company's shares

The Company has been advised of the following notifiable interests in excess of 3 per cent of the issued share capital of the Company at 7th March, 2002.

	Number	%
BP Pension Trustees Limited	1,345,743	6.1
Schroder Investment Management Limited	1,297,552	5.8
The Prudential Assurance Co Ltd	1,101,814	5.0
British Airways Pension Fund	984,666	4.4
NIB Capital N.V.	966,829	4.4
Morley Fund Management Limited	932,300	4.2
Martin Currie Investment Management	827,500	3.7
Electra Investment Trust plc	750,000	3.4
Totals	**8,206,404**	**37.0**

Report of the directors

Directors' interests

The statements in respect of directors' interests in the share capital, contracts or any other matter requiring disclosure, are contained in the corporate governance report on pages 28 to 33 and in Note 3 to the financial statements on pages 43 to 45.

Political and charitable donations

During the year there were charitable donations of £4,487 (2000: £19,980). There were no political donations made during the year (2000: £Nil).

Share Buyback

During the year, in addition to the 375,000 shares acquired in late December 2000 but not cancelled until 2001, the Company bought in 270,000 shares of 25p nominal value for a total consideration of £2,475,881 pursuant to the authorities granted on 9th May, 2000 and 8th May, 2001. With the share price having dropped to below the estimated net assets per share, the directors believed that it was in shareholders' best interests to buy in these shares for cancellation. In total therefore, 645,000 shares were paid for and cancelled in 2001. The earnings per share calculations are based upon the number of shares in issue as at 31st December, 2001, after taking into account the cancelled shares.

Since the year end a further 125,000 shares of 25p nominal value have been bought in and cancelled for a total consideration of £1,343,683 thereby reducing the number of shares in issue to 22,087,685 as at the date of these accounts.

Annual General Meeting

The Annual General Meeting of the Company will be held on Tuesday 7th May, 2002 at 12 noon at The Stationers' Hall, Ave Maria Lane, London EC4M 4DD; the notice of meeting appears on page 59.

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

Under Resolution 7, it is proposed to grant your directors the power to be able to continue to allot and issue new share capital without the authority of the Company in General Meeting for a further period of five years.

Under Resolution 8, it is proposed to empower your directors to issue new shares for cash, pursuant to the authority granted by Resolution 7, without following the statutory pre-emption procedures, so long as the nominal value of the shares issued does not exceed £276,096 (being 5 per cent of the issued share capital of the Company at the date of signing the 2001 Report and Accounts) or as long as the issue is a rights issue or is pursuant to a scrip dividend offer or any pre-emptive invitation.

The Company will have regard to the Investor Protection Committee's (IPC) guidelines in relation to any exercise of the above authority. These guidelines require prior consultation with the IPC before making any issue under the 5 per cent element of the authority but which exceeds 7.5 per cent in any rolling three year period.

Resolution 9, if passed, authorises the Company to purchase up to 3,310,944 of its shares. This authority will expire at the next Annual General Meeting of the Company or on 7th August, 2003 if the next Annual General Meeting has not been held by then. This Resolution also sets out the highest and lowest price at which the shares can be bought. If the Company buys any shares under this authority, they will be cancelled. The Resolution follows the rules set down by the Companies Act 1985 and the London Stock Exchange.

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

The directors consider the passing of Resolutions 7 and 8 to be in the best interests of the Company and its shareholders as a whole.

Supplier payment policy

The Group negotiates payment terms with its suppliers on an individual basis, with the normal arrangements being within 30 to 50 days from receipt of invoice. Trade creditor days of the Company for the year ended 31st December, 2001 were ten 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

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

Auditors

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

Tax status

The Board of the Inland Revenue 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, 2000. 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.

By Order of the Board

P R Neal

Company Secretary

20 Old Bailey

London EC4M 7LN

22nd March, 2002

Corporate governance

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

Directors

The board

Corporate governance of Candover is achieved through the board which at the end of the year consisted of nine directors of whom four are executive and five are non-executive. There were no changes to the board during the year. Brief biographical details of the directors appear on pages 22 and 23 and the interests of the directors in the share capital of the Company are shown on page 44.

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

Chairman

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

Board balance

The board maintained the appropriate balance between non-executive and executive directors throughout the year. All the non-executive directors have a long and distinguished record of service on the board of more than ten years, except Mr D R Wilson who has served for eight years and Mr G E Grimstone who joined the board during 1999. In the view of the board, no non-executive director has any relationships which could materially interfere with their independent judgement and are furthermore considered to be of sufficient calibre and experience to carry significant weight in reaching independent decisions.

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

Supply of information

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

Appointments to the board

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

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

The nominations committee did not meet during 2001.

During the year the board considered the requirement of the Combined Code to provide suitable training to directors but considered such training to be inappropriate in view of the considerable experience of board members.

Re-election

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

Directors' remuneration

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

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

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

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

The main elements of the executive directors' remuneration package, which are shown in greater detail in Note 3 on pages 43 to 45, include the following:

a) Basic annual salary.

b) Annual performance related payments which include annual bonuses and proceeds arising from an employee benefit trust (EBT).

c) Share option incentives.

d) Pensions and other benefits.

e) Other incentive arrangements.

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

Salaries

Executive directors' salaries paid in 2001 were reviewed in December 2000 for implementation on 1st January, 2001. After considering the relative salary levels within the industry, the estimated increase in net assets and the profits for the year ended 31st December, 2000, the committee decided not to increase executive directors' salaries.

Annual bonuses

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

In addition, an EBT was established in order to provide benefits and to assist the company in recruiting, retaining and motivating present and future officers and employees of the Group.

During the year ended 31st December, 2001, Messrs S W Curran, G D Fairservice, C J Buffin and M S Gumienny received benefits under the annual bonus scheme and EBT arrangements, the amounts of which are shown under performance related pay in the schedule of directors' emoluments disclosed in Note 3 on page 43.

Share options

As in previous years, the share option scheme is no longer considered to be the most important element of directors' incentivisation at Candover in the light of legislation and other developments. Were any options to be issued, the Company's policy is to limit the grant of options under these schemes to appropriate executives or members of staff, within the Inland Revenue limits.

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

Corporate governance

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

In the year ended 31st December, 2001, no options were granted to directors or exercised during the year. The directors' interests in shares and share options are disclosed in the schedules under Note 3 to the accounts on pages 44 and 45.

The details of the total share options granted and remaining exercisable are shown in Note 17 on page 54.

Pensions and other benefits

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

Every three years the scheme is subject to actuarial review and a review was last completed on the executive pension scheme for the three years to 31st December, 1999, with the next actuarial review due to be carried out on the three years to 31st December, 2002. Present contribution levels which were set in 1998 are related to the age of the individual and are not expected to change. The actual contributions made during the year in respect of the directors is shown in Note 3 on page 44.

Some of the directors, with the approval of the remuneration committee, have established funded unapproved retirement benefit schemes (FURBS). During the year, £3,000 was paid into Mr S W Curran's FURB by the Company and this amount is included as part of his pension contributions as shown in Note 3 on page 44.

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

Incentive arrangements and co-investment scheme

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

Messrs S W Curran, G D Fairservice, C J Buffin and M S Gumienny together with certain other executives of the Company had, during the year, a beneficial interest in the Limited Partnerships of the 1991 Fund, the 1994 Fund, the 1997 Fund and the 2001 Fund. As previously reported, the participation of these directors and executives in such arrangements was approved by shareholders at an Extraordinary General Meeting of the Company held on 4th May, 1989.

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

During the year, £7.1 million in cash in respect of the 1994 Fund was transferred to the Candover Carried Interest Trust in which units were subscribed for in some cases by certain discretionary and life interest trusts of which these directors, a number of other executives and their respective families are the main beneficiaries. Because of the nature of these trusts, it is not possible to allocate this to specific beneficiaries.

Under a co-investment scheme Messrs S W Curran, G D Fairservice, C J Buffin and M S Gumienny together with certain other executives were permitted during the year to make an investment in the ordinary equity of companies in which Candover has also made an investment in the equity and loan capital. As in previous years the amounts invested by directors during the year are shown under Note 3 on page 45.

During the year an employee benefit trust, (the 2001 Fund EBT), was established in which Messrs S W Curran, G D Fairservice, C J Buffin and M S Gumienny, together with other executives, are potential beneficiaries. The 2001 Fund EBT co-invests alongside the 2001 Fund under a co-investment agreement dated 13th June 2001. No investments were made under this agreement by the 2001 Fund EBT in the year ended 31st December, 2001.

Directors' service contracts

In December 1997, Messrs S W Curran, G D Fairservice, C J Buffin and M S Gumienny together with certain executives, entered into new supplemental service agreements under which, subject to their continued employment with the Company, an annual loyalty bonus became payable for a period of six years unless the investment period of the 1997 Fund terminated earlier. Under the terms of these contracts a one year notice period was required on either side (two years in the case of Mr S W Curran). On 13th June, 2001, the investment period of the 1997 Fund terminated and the balance of the loyalty bonus became payable to participants. As a result of this event, each of Messrs S W Curran, G D Fairservice, C J Buffin and M S Gumienny received a total final payment of £266,667 in the year.

There are no similar contracts in respect of the 2001 Fund.

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

Directors' fees

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

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

Relations with shareholders

Dialogue with institutional shareholders

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

Constructive use of AGM

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

Accountability and audit

Financial reporting

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

The auditors review the Company's compliance with the seven provisions of the Combined Code specified by the Financial Services Authority for their review, and are also required to report on their audit of the financial statements and this report is shown on page 35.

Going concern

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

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

Corporate governance

Internal controls

Under the terms of the 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 controls 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 controls are 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. Furthermore, the long service record of most Candover executives provides a continuity of experience. New executives are recruited when appropriate in order to aid the Company's development and growth within the UK and in continental Europe. As mentioned elsewhere in these accounts, Candover opened a Paris office in the latter part of the year which has been staffed by two current executives and by the recruitment of one further executive. All of these executives, together with two other junior members of staff recruited in 2001, have excellent linguistic skills in French and English. One further new investment executive was recruited in the UK who joined the company in January 2002.

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

The management are supported by the board with more than one half being made up of non-executive directors who, in conjunction with the Company's auditors, Grant Thornton, and the auditors of the managed funds, KPMG, carry out an external review of both the Company's financial controls and also those of the Funds which the Candover group manages, only to the extent necessary to give their audit 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 for their decision as to whether or not to proceed; and in the case of other investments, a report is sent to the board of Candover Investments plc.

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

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

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

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

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

The audit committee carries out a number of duties and seeks to ensure that appropriate accounting and financial policies and procedures are implemented, that systems of internal control and external audit are in place, and that the auditors' recommendations are considered and appropriate actions are taken.

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, 2001.

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

Directors' responsibilities for the financial statements

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

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

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

By Order of the Board

P R Neal

Company Secretary

22nd March, 2002

Financial statements

Report of the auditors

To the members of Candover Investments plc

We have audited the financial statements of Candover Investments plc for the year ended 31st December, 2001 which comprise the principal accounting policies, the Group statement of total return, the balance sheets, the Group cash flow statement and Notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom auditing standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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. This other information comprises only the directors' report, the chairman's statement, the operational review, the valuation policy and other information as listed in the contents page. 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 opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31st December, 2001 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton

Registered Auditors

Chartered Accountants

London

22nd March, 2002

Accounting policies

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

Investment trust SORP

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

Basis of consolidation

The Group financial statements consolidate those of the Company and of its subsidiary undertakings (see Note 11 on page 50). The financial statements of each undertaking in the Group have been prepared to 31st December, 2001. The results of subsidiary undertakings have been included from the date of acquisition.

Associated undertakings

An associated undertaking is defined as an entity, not being a subsidiary undertaking, in which the Group has a substantial and long-term interest and over whose financial and operating policy decisions the Group exercises significant influence. Where such entities are an integral part of the Group's investment management operations, the Group's share of profits is included in the Group revenue account, and the investment is carried in the Group balance sheet at an amount equivalent to the Group's share of net assets. The Company balance sheet shows the investment in such undertakings at cost, and particulars of entities accounted for as associated undertakings are set out in Note 12 on page 51.

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

Managed funds

Where the constitution of a managed fund involves it being a subsidiary undertaking under the Companies Act 1985 (as amended) but the Group has no substantial beneficial interest in the income, assets or liabilities, the total net assets of the fund are consolidated within fixed asset investments and the third party interests deducted immediately thereafter. The income is consolidated gross in the Group revenue reserves and the third party interests deducted immediately thereafter in accordance with Regulation 7 of the Partnerships and Unlimited Companies (Accounts) Regulations 1993. The fund has not been accounted for under the method of full consolidation, since in the opinion of the directors, it would be misleading to do so and the overriding duty to give to shareholders a true and fair view of the income and state of affairs of the Group requires its exclusion. Details of these managed funds are set out in Note 11 on page 50.

Income

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

Placement Fees

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 five years from the commencement date of the fund to which the placement fees relate.

Depreciation

Depreciation is calculated to write down the cost less residual value of all tangible fixed assets by equal annual instalments over their expected useful lives. The periods generally applicable are: plant and equipment 2-5 years, motor vehicles 3-4 years, leasehold improvements 8 years.

Investments

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

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

Deferred taxation

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

Foreign currencies

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

Pension costs

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

Operating leases

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

Group statement of total return

Incorporating the revenue account for the year ended 31st December, 2001

	Notes	2001 Revenue £000	2001 Capital £000	2001 Total £000	2000 Revenue £000	2000 Capital £000	2000 Total £000
Gains/(losses) on investments							
Realised gains and losses	18	–	(881)	(881)	–	2,949	2,949
Unrealised gains and losses	18	–	11,039	11,039	–	20,594	20,594
Exchange differences	18	–	–	–	–	83	83
		–	10,158	10,158	–	23,626	23,626
Income – managed funds							
Net income	11	6,017	–	6,017	7,946	–	7,946
Less: third party interests in managed funds		(6,008)	–	(6,008)	(7,920)	–	(7,920)
Add: management fees		17,198	–	17,198	11,735	–	11,735
Net income from managed funds		17,207	–	17,207	11,761	–	11,761
Income – own funds		12,716	–	12,716	9,144	–	9,144
Total income	1	29,923	–	29,923	20,905	–	20,905
Administrative expenses	2	(15,508)	(4,206)	(19,714)	(9,222)	(4,744)	(13,966)
Net return before finance costs and taxation		14,415	5,952	20,367	11,683	18,882	30,565
Interest payable & similar charges	4	(7)	–	(7)	(4)	–	(4)
Return on ordinary activities before taxation		14,408	5,952	20,360	11,679	18,882	30,561
Tax on ordinary activities	5	(4,176)	1,262	(2,914)	(4,019)	1,423	(2,596)
Return on ordinary activities after taxation for the financial year		10,232	7,214	17,446	7,660	20,305	27,965
Dividends	7	(7,135)	–	(7,135)	(6,629)	–	(6,629)
Transfer to reserves	18	3,097	7,214	10,311	1,031	20,305	21,336
Return per ordinary share:							
Basic	8	45.64p	32.18p	77.82p	33.53p	88.89p	122.42p
Fully diluted	8	45.43p	32.03p	77.46p	33.37p	88.46p	121.83p

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

Group balance sheet

at 31st December, 2001

	Notes	2001 £000	2001 £000	2000 £000	2000 £000
Fixed assets					
Tangible	9		1,487		1,564
Investments					
Managed funds	11	788,188		712,962	
Less: third party interests in managed funds		(756,960)		(685,132)	
Net investment in managed funds	10	31,228		27,830	
Other fixed asset investments	10	157,559		161,092	
		188,787		188,922	
Associated undertakings	12	74		74	
			188,861		188,996
Current assets					
Debtors	13	20,773		10,248	
Investments	14	46,448		42,927	
Cash at bank		10,555		16,693	
		77,776		69,868	
Creditors: amounts falling due within one year	15	(16,122)		(10,631)	
Net current assets			61,654		59,237
Total assets less current liabilities			252,002		249,797
Provisions for liabilities and charges	16		(1,805)		(3,582)
			250,197		246,215
Capital and reserves					
Called up share capital	17		5,553		5,714
Share premium	18		971		971
Capital redemption reserve	18		161		–
Capital reserve – realised	18		173,206		157,766
Capital reserve – unrealised	18		54,821		69,376
Revenue reserve	18		15,485		12,388
Shareholders' funds	19		250,197		246,215

The accounting policies on pages 36 and 37 and Notes on pages 42 to 57 form part of these financial statements.
The financial statements were approved by the directors on 22nd March, 2002.

S W Curran
Chairman

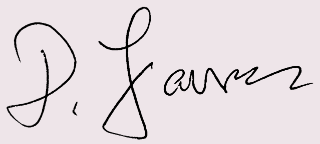
G D Fairservice
Deputy Chairman

Balance sheet

at 31st December, 2001

	Notes	£000	2001 £000	£000	2000 £000
Fixed assets					
Investments	10		**193,424**		193,799
Associated undertakings	12		**1**		1
			193,425		193,800
Current assets					
Debtors	13	**9,185**		4,595	
Investments	14	**46,341**		42,041	
Cash at bank		**5,140**		7,071	
		60,666		53,707	
Creditors: amounts falling due within one year	15	**(13,209)**		(8,634)	
Net current assets			**47,457**		45,073
Total assets less current liabilities			**240,882**		238,873
Provisions for liabilities and charges	16		**–**		–
			240,882		238,873
Capital and reserves					
Called up share capital	17		**5,553**		5,714
Share premium account	18		**971**		971
Capital redemption reserve	18		**161**		–
Capital reserve – realised	18		**174,727**		158,608
Capital reserve – unrealised	18		**54,418**		69,149
Revenue reserve	18		**5,052**		4,431
Shareholders' funds			**240,882**		238,873

The accounting policies on pages 36 and 37 and Notes on pages 42 to 57 form part of these financial statements.
The financial statements were approved by the directors on 22nd March, 2002.



S W Curran
Chairman

G D Fairservice
Deputy Chairman

Group cash flow statement

for the year ended 31st December, 2001

	Notes	£000	2001 £000	£000	2000 £000
Net cash inflow from operating activities	23		**1,019**		4,180
Returns on investments and servicing of finance					
Interest paid			**(7)**		(4)
Taxation					
UK corporation tax paid			**(507)**		(734)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(370)**		(1,576)	
Purchase of investments		**(26,178)**		(38,339)	
Sale of investments		**36,471**		29,144	
Sale of tangible fixed assets		**27**		35	
Net cash inflow/(outflow) from capital expenditure and financial investment			**9,950**		(10,736)
Equity dividends paid			**(6,743)**		(6,277)
Management of liquid resources			**(3,521)**		14,999
Financing					
Buy-back of shares			**(6,329)**		–
Issue of shares			**–**		127
(Decrease)/increase in cash	24		**(6,138)**		1,555

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

Note 1 Income

	£000	2001 £000	£000	2000 £000
Financial services		**92**		83
Investment management fees		**17,198**		11,755
		17,290		11,838
Investment income				
Income from fixed asset investments	**9,173**		4,450	
Income from Treasury bills and other fixed interest securities	**2,198**		3,268	
Other income receivable arising on cash deposits	**1,262**		1,349	
		12,633		9,067
		29,923		20,905

Of the income from fixed asset investments of £9,173,000 (2000: £4,450,000), £9,000 (2000: £26,000) arose from managed funds.

Of the income from investment management of £17,198,000 (2000: £11,755,000), £17,198,000 (2000: £11,735,000) also arose from these funds.

Of the income from fixed asset investments, £168,000 arose from listed investments (2000: £218,000). Income from financial services originating from outside the United Kingdom was £5,000 (2000: £Nil). All income arose from the single activity of originating and investing in management buyouts and buyins and providing capital to unquoted companies. All income is attributable to continuing activities.

Note 2 Administrative expenses

		2001 £000	2000 £000
Management expenses			
Revenue		**1,052**	1,186
Capital		**4,206**	4,744
Other administrative costs		**14,456**	8,036
		19,714	13,966
Staff costs		**12,501**	8,704
Depreciation		**440**	286
Auditors' remuneration	Audit work	**83**	50
	Non-audit work – tax advice	**236**	46
	FSA compliance	**24**	9
Operating lease rentals	Building	**858**	858
Staff costs during the year were			
Salaries		**6,432**	6,765
Social security costs		**709**	792
Pension, insurance and other costs		**5,360**	1,147
		12,501	8,704

The average number of employees of the Group in the UK during the year was 36 (2000: 30).

Notes to the financial statements
for the year ended 31st December, 2001

Note 3 Directors' remuneration, emoluments and interests

The remuneration policy in respect of the executive directors is set out in the corporate governance report on pages 28 to 33. Listed below is the detailed information required to be shown in respect of directors' remuneration and benefits.

Directors' emoluments

Total emoluments received by directors during the year ended 31st December, 2001 were as follows:

	Salaries/ directors' fees	Performance related pay	Loyalty bonus	Taxable benefits	Insurance costs	**Total emoluments excluding pension contributions 2001**	Total emoluments excluding pension contributions 2000
	£	£	£	£	£	**£**	£
S W Curran	345,000	342,000	266,667	16,589	7,961	**978,217**	833,135
G D Fairservice	265,000	265,000	266,667	16,210	7,946	**820,823**	670,192
C J Buffin	338,504	362,500	266,667	1,382	6,087	**975,140**	636,874
M S Gumienny	346,388	362,500	266,667	1,060	3,076	**979,691**	636,507
Management remuneration	**1,294,892**	**1,332,000**	**1,066,668**	**35,241**	**25,070**	**3,753,871**	**2,776,708**
A P Hichens*	40,000	–	–	–	–	**40,000**	40,000
P J Scott Plummer*	25,000	–	–	–	–	**25,000**	25,000
J G West*	25,000	–	–	–	–	**25,000**	25,000
D R Wilson*	25,000	–	–	–	–	**25,000**	25,000
G E Grimstone*	25,000	–	–	–	–	**25,000**	25,000
Directors' fees	**140,000**	**–**	**–**	**–**	**–**	**140,000**	**140,000**
Totals	**1,434,892**	**1,332,000**	**1,066,668**	**35,241**	**25,070**	**3,893,871**	**2,916,708**
2000 comparatives	1,273,334	1,116,287	466,668	36,547	23,872	**2,916,708**	

The non-executive directors (*) only receive fees which in some cases are paid directly to their primary employing company, and do not receive any other remuneration.

The performance related pay is comprised of a discretionary bonus and benefits received under the EBT, described under annual bonuses on page 29.

The figures shown for the loyalty bonus include the final amounts due under the supplemental service agreements referred to under the heading of directors' service contracts in the corporate governance report on page 31.

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

	2001	2000
	£	£
S W Curran	**141,000**	138,000
G D Fairservice	**106,000**	106,000
C J Buffin	**75,000**	75,000
M S Gumienny	**75,000**	75,000
	397,000	394,000

Contributions made to certain individual FURBS in 2001 have been included in the above figures.

Directors' interests in shares

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

Beneficial	Ordinary shares of 25p each 1st January, 2001	Ordinary shares acquired/(sold) during the year	**Ordinary shares of 25p each 31st December, 2001**
S W Curran	649,703	Nil	**649,703**
G D Fairservice	198,750	Nil	**198,750**
C J Buffin	65,500	20,000	**85,500**
M S Gumienny	151,100	40,000	**191,100**
A P Hichens	35,000	5,000	**40,000**
P J Scott Plummer	12,000	2,000	**14,000**
J G West	1,500	Nil	**1,500**
G E Grimstone	5,000	Nil	**5,000**
D R Wilson	Nil	Nil	**Nil**

Directors' share options

	1st January, 2001 No.	Exercised during year No.	Deemed gain on exercise £	**31st December, 2001 No.**	Exercise price	Date from which exercisable	Expiry date
C J Buffin	25,000	Nil	Nil	**25,000**	235.00p	20/10/95	20/10/02
	20,000	Nil	Nil	**20,000**	340.00p	17/06/97	17/06/04

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

The mid-market price of the ordinary shares of the Company on 31st December, 2001 was 980p per share. The high for the year was 1080p per share and the low was 834p per share.

Co–investment by directors

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

Details of these investments are as follows:

	Class of share	Equity investments in companies subscribed in year £	% (of class) held by the directors
HLF Insurance Holdings Limited	Ordinary shares	9,330	0.06%
Inveresk Research Group Limited	Preferred ordinary shares	1,613	0.23%
Picard Surgelés S.A.	Ordinary shares	11,829	0.13%

During the year a subsidiary company advanced funds under the Candover staff co-investment scheme and season ticket loan scheme to an officer of the Company. The amount of £4,674 remained payable at 31st December, 2001 (2000: £4,806).

Note 4 Interest payable and similar charges

	2001 £000	2000 £000
On bank loans, overdrafts and other loans repayable within five years otherwise than by instalments	**7**	4

Note 5 Taxation on profit on ordinary activities

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

	2001 £000	2000 £000
Revenue		
United Kingdom corporation tax at 30% (2000: 30%)	**5,978**	4,077
Deferred tax (see note 16)	**(1,742)**	(139)
Adjustment relating to prior years:		
United Kingdom corporation tax	**(25)**	81
Deferred tax (see note 16)	**(35)**	–
	4,176	4,019
Capital		
United Kingdom corporation tax at 30% (2000: 30%)	**(1,262)**	(1,423)
	2,914	2,596

The Board of the Inland Revenue has approved the Company as an investment trust, under section 842 of the Income and Corporation Taxes Act 1988, for the year ended 31st December, 2000. In the opinion of the directors, the Company's affairs since that date have been conducted so as to enable it to continue to be treated as an investment trust.

Note 6 Profit for the financial year

As permitted by section 230 of the Companies Act 1985, the Company has not included its own profit and loss account in these financial statements. The Group profit for the year includes £7,756,000 (2000: £6,731,000) which is dealt with in the financial statements of the holding company.

Note 7 Dividends

	2001 £000	2000 £000
Paid interim of 10p (2000: 9p)	**2,248**	2,057
Proposed final of 22p (2000: 20p)	**4,887**	4,572
	7,135	6,629

Note 8 Returns per share

The calculation of basic capital return per ordinary share is based on net capital gains for the financial year of £7,214,000 (2000: £20,305,000) and a weighted average number of shares of 22,416,981 (2000: 22,843,507).

The calculation of fully diluted capital return per share takes account of the share options and is based on net capital gains for the financial year of £7,214,000 (2000: £20,305,000) and a weighted average number of shares of 22,524,305 (2000: 22,954,799).

The calculation of basic revenue return per ordinary share is based on net revenue for the financial year of £10,232,000 (2000: £7,660,000) and weighted average number of shares of 22,416,981 (2000: 22,843,507). The calculation of fully diluted revenue return per share takes account of the share options and is based on net revenue for the financial year of £10,232,000 (2000: £7,660,000) and a weighted average number of shares of 22,524,305 (2000: 22,954,799).

The difference between the basic and diluted weighted average number of shares is the dilutive effect of share options.

Note 9 Tangible fixed assets

	Leasehold Improvements £000	Plant and equipment £000	Motor vehicles £000	Total £000
Group				
Cost				
At 1st January, 2001	1,220	647	309	2,176
Additions	170	144	56	370
Disposals	–	(51)	(58)	(109)
At 31st December, 2001	1,390	740	307	2,437
Depreciation				
At 1st January, 2001	79	360	173	612
Provided in the year	171	172	97	440
Disposals	–	(44)	(58)	(102)
At 31st December, 2001	250	488	212	950
Net book value at 31st December, 2001	1,140	252	95	1,487
Net book value at 31st December, 2000	1,141	287	136	1,564

Note 10 Fixed asset investments

	Managed funds £000	Investee companies £000	Total £000
Group			
Valuation at 1st January, 2001	27,830	161,092	188,922
Additions at cost	10	26,168	26,178
Disposals	(100)	(37,347)	(37,447)
Appreciation	3,488	7,646	11,134
Valuation at 31st December, 2001	31,228	157,559	188,787
Reconciliation			
Cost of investments	576	132,920	133,496
Net unrealised appreciation of investments	30,652	24,639	55,291
	31,228	157,559	188,787

Company	Shares in subsidiary undertakings £000	Managed funds £000	Investee companies £000	Total £000
Cost or valuation at 1st January, 2001	4,877	27,830	161,092	193,799
Additions at cost	37	10	26,168	26,215
Disposals	(277)	(100)	(37,347)	(37,724)
Appreciation	–	3,488	7,646	11,134
Cost or valuation at 31st December, 2001	4,637	31,228	157,559	193,424
Reconciliation				
Cost of investments	4,637	576	132,920	138,133
Net unrealised appreciation of investments	–	30,652	24,639	55,291
	4,637	31,228	157,559	193,424

At 31st December, 2001 cumulative downward adjustments of £13,525,000 (2000: £4,378,000) had been made against investments with original costs of £58,800,000 (2000: £32,520,000).

Investments at valuation include:

	2001 £000	2000 £000
Group and Company		
UK		
Listed	**4,891**	12,725
Unquoted at directors' valuation	**134,358**	125,502
Europe		
Listed	**–**	–
Unquoted at directors' valuation	**41,549**	22,177
US		
Listed	**–**	16,812
Unquoted at directors' valuation	**7,989**	11,706
	188,787	188,922
Equity shares	**93,266**	112,269
Fixed income securities	**94,233**	76,653
Convertible securities	**1,288**	–
	188,787	188,922

At 31st December, 2001, the Company held shares in excess of 10 per cent of a class of shares in a number of investee undertakings but did not have more than 20 per cent of the total allotted share capital in any of these investee undertakings. However, in the opinion of the directors, the listing of these undertakings would result in particulars of excessive length and the financial results of such undertakings do not 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) Companies Act 1985.

At 31st December, 2001, the Company had an interest of more than 20 per cent in the nominal value of the total allotted share capital of the following company:

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

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

Note 11 Subsidiary undertakings

At 31st December, 2001, 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 **	Investment dealing company	£100 ordinary
Candover (Trustees) Limited *	Nominee company	£100 ordinary
Candover Nominees Limited*	Nominee company	£100 ordinary
Candover Partners Limited ***	General Partner of the Candover 1991, 1994, 1997 and 2001 Funds	£2,050,000 ordinary
Candover France S.A.**	Identifying investment opportunities in France	€38,500 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

* Wholly owned directly by the holding company

** Wholly owned by a subsidiary undertaking

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

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

During the year the Company subscribed for 100% of the share capital of Deutsche Candover (Managing Limited Partner) GmbH and of Deutsche Candover (General Partner) GmbH and Candover Investments (Nassau) Inc was wound up.

Interests in the Candover 1991, 1994, 1997 and 2001 Funds ("managed funds")

Candover Partners Limited is the General Partner of the limited partnerships comprising the Candover 1991, 1994, 1997 and 2001 Funds. In view of the excessive length, the name and address of each partnership will be enclosed with the Company's next annual return as permitted under section 231(5) Companies Act 1985. In addition, advantage has been taken of the exemption conferred by Regulation 7 of the Partnerships and Unlimited Companies (Accounts) Regulations 1993 and accordingly accounts in accordance with the Companies Act 1985 have not been prepared for each of the limited partnerships.

The Company is a Special Limited Partner in the Candover 1991 Fund and Candover 2001 Fund and is a unit holder in the unauthorised unit trusts which are Special Limited Partners in the Candover 1994 and 1997 Funds. In each case the Special Limited Partner is entitled to participate in profits after a minimum rate of return has been achieved by the Limited Partners. This profit entitlement is referred to as the carried interest.

Candover also holds a direct interest in all the Candover 1994 limited partnerships which at 31st December, 2001 was valued at £483,000 (cost £375,000).

For the reasons set out in the accounting policies, the limited partnerships comprising the Candover 1991, 1994, 1997 and 2001 Funds have not been accounted for under the method of full consolidation. At 31st December, 2001, the net assets of the Funds were £788.1million (2000: £712.9 million) and the net income for the year ended was £6.0 million (2000: £7.9 million). The net assets and net income can be summarised as follows:

	2001	2000
	£m	£m
Investments	**776.2**	698.3
Debtors	**3.5**	0.9
Cash	**14.1**	14.6
Creditors	**(5.7)**	(0.9)
	788.1	712.9
Income from fixed asset investments	**6.7**	10.2
Interest receivable	**0.6**	0.6
	7.3	10.8
Expenses	**(0.3)**	(1.1)
Tax	**(1.0)**	(1.8)
	6.0	7.9

As at 31st December, 2001, Candover's investment as a Special Limited Partner in the Candover 1991 and 2001 Funds was valued at £206,000 and £8,000 respectively (2000: £157,000 and £Nil respectively). Candover's investment in the unauthorised unit trusts which are Special Limited Partners in the Candover 1994 and 1997 Funds was valued at £30,400,000 and £131,000 respectively (2000: £26,890,000 and £131,000 respectively).

Note 12 Associated undertakings

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

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

	Group share of net assets £000	Company share at cost £000
Cost at 1st January, 2001	74	1
Addition	–	–
Share of post–acquisition reserves at 1st January, 2001	–	–
Increase	–	–
Total	74	1

Note 13 Debtors

	Group		Company	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Amounts falling due within one year				
Trade debtors	**278**	189	**144**	24
Amounts owed by subsidiary undertakings	**–**	–	**–**	104
Amounts owed by associated undertaking	**8**	8	**–**	–
Other debtors	**3,168**	1,547	**131**	611
Prepayments and accrued income	**12,657**	7,208	**8,910**	3,856
	16,111	8,952	**9,185**	4,595
Amounts falling due after more than one year				
Prepayments and accrued income	**4,662**	1,296	**–**	–
Total debtors	**20,773**	10,248	**9,185**	4,595

Note 14 Current asset investments

	Group		Company	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Fixed interest securities	**46,448**	42,927	**46,341**	42,041

Note 15 Creditors: amounts falling due within one year

	Group		Company	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Trade creditors	**1,101**	280	**7**	9
Amounts owed to Group undertakings	**–**	–	**5,884**	2,556
Current taxation	**2,389**	2,070	**2,132**	531
Social security and other taxes	**144**	1,077	**–**	–
Proposed dividends	**4,956**	4,564	**4,956**	4,564
Other creditors	**4,501**	519	**53**	33
Accruals and deferred income	**3,031**	2,121	**177**	941
	16,122	10,631	**13,209**	8,634

Note 16 Provisions for liabilities and charges

	Group		Company	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Deferred taxation:				
At 1st January	**3,582**	3,721	**–**	–
Decrease in year	**(1,777)**	(139)	**–**	–
At 31st December	**1,805**	3,582	**–**	–
Deferred taxation provided for in the financial statements is set out below:				
Short term timing differences	**1,805**	3,582	**–**	–

There was no unprovided deferred taxation in the financial statements at 31st December, 2001 (2000: £Nil).

Note 17 Share capital

	Number	**2001 £000**	Number	2000 £000
Authorised:				
Ordinary shares of 25p each	29,000,000	**7,250**	29,000,000	7,250
Allotted, called up and fully paid:				
Ordinary shares of 25p each at 1st January	22,857,685	**5,714**	22,812,685	5,703
Issued/(cancelled) in year	(645,000)	**(161)**	45,000	11
Ordinary shares of 25p each at 31st December	22,212,685	**5,553**	22,857,685	5,714

Including 375,000 shares acquired in late December 2000 but not cancelled until 2001, 645,000 shares were bought in during the year by the Company under authorities granted on 9th May, 2000 and 8th May, 2001 and were subsequently cancelled.

Since the year end, 125,000 shares were bought in and cancelled by the Company, following which the number of shares in issue at the date of these accounts is 22,087,685.

No options were granted or exercised during the year. At 31st December, 2001 the following options remained exercisable at the following prices and dates:

No. of options	Exercise price	Exercisable between
35,000	235.00p	20th October, 1995 to 20th October, 2002
120,000	340.00p	17th June, 1997 to 17th June, 2004
3,930	762.00p	8th September, 2001 to 8th September, 2008
158,930		

As at 31st December, 2001, there remained 754,499 options available to be granted under the Candover (1994) executive share option scheme (2000: 727,999).

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

Note 18 Reserves

	Share premium account £000	Capital redemption reserve £000	Realised capital reserve £000	Unrealised capital reserve £000	Revenue reserve £000
Group					
At 1st January, 2001	971	–	157,766	69,376	12,388
Shares bought in during year	–	161	(6,329)	–	–
Surplus on investments revaluation	–	–	–	11,039	–
Investments realised in year	–	–	24,713	(25,594)	–
Net revenue for the year	–	–	–	–	3,097
Costs net of tax	–	–	(2,944)	–	–
At 31st December, 2001	971	161	173,206	54,821	15,485
Company					
At 1st January, 2001	971	–	158,608	69,149	4,431
Shares bought in during year	–	161	(6,329)	–	–
Surplus on investments revaluation	–	–	–	11,039	–
Investments realised in year	–	–	25,392	(25,770)	–
Net revenue for the year	–	–	–	–	621
Costs net of tax	–	–	(2,944)	–	–
At 31st December, 2001	971	161	174,727	54,418	5,052

Note 19 Reconciliation of movements in shareholders' funds

	2001 £000	2000 £000
Net revenue	**10,232**	7,660
Dividends	**(7,135)**	(6,629)
	3,097	1,031
Buy-back of share capital	**(6,329)**	–
Issue of share capital	**–**	127
Capital surplus for the year	**7,214**	20,305
Net addition to shareholders' funds	**3,982**	21,463
Shareholders' funds at 1st January	**246,215**	224,752
Shareholders' funds at 31st December	**250,197**	246,215

Note 20 Capital commitments

The directors have authorised commitments of €300.0 million and £100.0 million, which will be invested pro rata and in parallel with the Candover 2001 Fund and Candover 1997 Fund respectively. At 31st December, 2001 the outstanding commitments were €300.0 million (2000: €Nil) and £9.0 million (2000: £28.2 million) respectively. At 31st December, 2001 the outstanding commitments to other investment funds were £10.9 million (2000: £15.9 million).

Note 21 Pension commitments

The Group contributed towards a number of funded defined contribution pension and funded unapproved retirement benefit schemes designed to provide retirement benefits for its directors and employees. The assets of the scheme are held separately from the Group in independently administered funds. The pension cost charge represents contributions by the Group to the schemes in respect of the accounting period and amounted to £932,000 (2000: £842,000). At 31st December, 2001 there were no amounts payable to the schemes (2000: £Nil).

Note 22 Lease commitments

Operating lease payments relating to land and buildings amounting to £858,000 (2000: £858,000) are due within one year. The lease to which these amounts relate expires in more than five years.

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

	2001 £000	2000 £000
Operating income	**10,209**	6,939
Increase in debtors	**(11,990)**	(2,506)
Increase/(decrease) in creditors	**2,380**	(517)
Depreciation	**440**	286
Profit on disposal of tangible fixed assets	**(20)**	(22)
Net cash inflow from operating activities	**1,019**	4,180

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

	2001 £000	2000 £000
(Decrease)/Increase in cash in the year	**(6,138)**	1,555
Cash inflow/(outflow) from management of liquid resources	**3,521**	(14,999)
Change in net funds	**(2,617)**	(13,444)
Net funds at start of the year	**59,620**	73,064
Net funds at end of the year	**57,003**	59,620

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

Note 25 Analysis of net funds

	1st January, 2001 £000	Cash Flow £000	31st December, 2001 £000
Cash at bank	16,693	(6,138)	10,555
Current asset investments	42,927	3,521	46,448
	59,620	(2,617)	57,003

Included in cash at bank at 31st December, 2001 is restricted cash of £1,125,000 in the 2001 EBT. Subsequent to the year end £623,000 has been invested.

Note 26 Financial instruments

The Group's primary financial assets consist of listed and unquoted equity investments and unquoted fixed income securities. These primary financial assets are valued at fair value according to the investments policy included in the Group's accounting policies. The currency exposure of the financial assets is disclosed in Note 10 on page 48.

The Group does not hold any derivatives. Interest rate risk emanates from the Group's fixed income securities and interest rate exposure of the fixed income securities by currency as at 31st December, 2001 were:

	Fixed £000	Weighted average rate %	Floating £000	Nil £000	Total £000
£ sterling	60,423	11.3	3,927	–	64,350
€	18,856	8.7	10,951	–	29,807
US $	–	–	–	76	76
	79,279	10.0	14,878	76	94,233

Note 27 Related party transactions

The Company's interest in the Candover 1991, 1994, 1997 and 2001 Funds is disclosed in Notes 11 and 20 on pages 50 and 55. The co-investment by directors is disclosed in Note 3 on page 43.

Note 28 Contingent liabilities

The Company has guaranteed a €20.0 million facility made available to Mourant & Co Trustees Ltd as Trustee of Candover 2001 Employee Benefit Trust. Other than in the normal course of business, there were no further contingent liabilities at 31st December, 2001 or 31st December, 2000.

Note 29 Post balance sheet events

In February 2002, Candover entered into an agreement to invest £15.3 million in Swissport. The Company has guaranteed a further investment of £3.4 million in Swissport.

Distribution of fixed asset investments

as at 31st December, 2001

Sector	UK %	Europe %	Americas %	**2001 Total**	2000 Total
Mineral extraction					
Mining	0.1	–	–	**0.1**	0.1
	0.1	–	–	**0.1**	0.1
General industrials					
Automobiles	–	–	–	**–**	0.2
Chemicals	–	0.8	–	**0.8**	1.5
Construction and building materials	5.7	3.3	–	**9.0**	6.6
Engineering and machinery	11.9	–	–	**11.9**	15.0
Packaging	–	4.1	–	**4.1**	3.5
	17.6	8.2	–	**25.8**	26.8
Consumer goods					
Household goods and textiles	–	–	–	**–**	0.1
	–	–	–	**–**	0.1
Services					
Distributors	2.5	–	–	**2.5**	3.9
Health	6.1	0.8	–	**6.9**	1.6
Leisure, entertainment and hotels	9.6	–	–	**9.6**	11.2
Media and photography	8.6	–	–	**8.6**	10.8
Support services	1.1	–	–	**1.1**	4.5
Telecommunication services	–	–	–	**–**	8.9
Transport	–	–	2.3	**2.3**	2.2
Software and computers	–	–	0.7	**0.7**	2.7
Retailers	–	5.2	–	**5.2**	–
	27.9	6.0	3.0	**36.9**	45.8
Financials					
Insurance	2.9	–	–	**2.9**	1.9
Other financial	25.2	7.8	1.3	**34.3**	25.3
	28.1	7.8	1.3	**37.2**	27.2
Totals %	73.7	22.0	4.3	**100.0**	100.0
Totals £000	139,249	41,549	7,989	**188,787**	188,922

Notice of meeting

Notice is hereby given that the Annual General Meeting of Candover Investments plc (the Company) will be held at The Stationers' Hall, Ave Maria Lane, London EC4M 7DD on Tuesday 7th May, 2002 at noon for the following purposes:

1 To receive the report of the directors and the audited financial statements for the year ended 31st December, 2001.

2 To declare a final dividend of 22p per share on the ordinary shares in respect of the year ended 31st December, 2001.

3 To re-elect Mr S W Curran who retires by rotation.

4 To re-elect Mr A P Hichens who retires by rotation.

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

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

Special business

To consider and, if thought fit, to pass the following resolutions, of which Resolution 7 will be proposed as an ordinary resolution and Resolutions 8 and 9 will be proposed as special resolutions:

7 That

the directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £1,535,579 provided that this authority shall expire on the day preceding the fifth anniversary of the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such an expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired; and so that this resolution shall be in substitution for all previously granted but unutilised authorities to allot relevant securities.

8 That

the directors be and are hereby given power pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) pursuant to the authority conferred by resolution Number 7 as if Section 89 (1) of the said Act did not apply to any such allotment, provided that this power shall be limited:

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

(ii) to the allotment of equity securities (otherwise than pursuant to sub-paragraph (i) above) up to an aggregate nominal amount equal to £276,096; and shall expire on the day preceeding the fifth anniversary of the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

9 That

the Company be and is hereby authorised, generally and without conditions, to make market purchases (as defined in Section 163 (3) of the Companies Act 1985) of its own shares, on such terms and in such manner as the directors may from time to time determine, provided that:

(a) the Company may not buy more than 3,310,944 shares, equal to 14.99 per cent of the shares issued at the date of the 2001 Report and Accounts;

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

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

Notice of meeting

(d) this authority will last from the date of this Annual General Meeting until the next Annual General Meeting (or until 7th August, 2003 if the next Annual General Meeting has not been held by then); and

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

P R Neal

Company Secretary

22nd March, 2002

Notes

1 Every member entitled to attend and vote at the above meeting may appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company. Forms of proxy must be lodged not less than 48 hours before the meeting. Only those shareholders registered in the register of members of the Company as at close of business two working days before the meeting shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their names at that time (Regulation 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 meeting.

2 The following documents will be available for inspection at the registered office during business hours on any weekday (excluding Saturdays and public holidays) from the date of this notice until the date of the Annual General Meeting and at the venue of the meeting from 11.45am on 7th May, 2002 until the conclusion of the meeting:

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

(ii) the Company's Articles of Association; and

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

Ten year record

	1992	1993	1994	1995	1996	1997	1998	1999	2000	**2001**
Total net assets (£000)	59,795	69,380	84,347	103,798	142,453	159,970	199,474	225,040	246,606	**250,426**
Net Assets per share (p)	267	310	377	464	635	703	877	986	1,079	**1,127**
Profit on ordinary activities before taxation (£000)	4,099	3,300	4,855	6,563	5,389	7,270	12,069	10,456	11,679	**14,408**
Profit after taxation (£000)	3,152	2,381	3,410	4,484	3,960	5,520	8,457	7,718	7,660	**10,232**
Net dividend per share (p)	10.25	11.00	12.25	13.25	15.00	20.00	25.00	27.00	29.00	**32.00**
Basic earnings per share (p)	14.09	10.64	15.24	20.03	17.67	24.36	37.57	33.87	33.53	**45.64**
Fully diluted earnings per share (p)	13.67	10.33	14.72	19.35	16.95	23.37	37.30	33.62	33.37	**45.43**
Closing share price at end of December (p)	249.0	349.0	338.0	500.0	572.5	740.5	803.5	1089.0	1035.0	**980.0**

Shareholder Information

Event	Date
Preliminary announcement of results for the year ended 31.12.01	11th March, 2002
Final dividend for the year ended 31.12.01 – ex-dividend date	1st May, 2002
Final dividend for the year ended 31.12.01 – record date	3rd May, 2002
Candover Investments plc Annual General Meeting	7th May, 2002
Final dividend for the year ended 31.12.01 – payment date	23rd May, 2002
Interim announcement of results for the half year ended 30.06.02	9th September, 2002*
Interim dividend for the half year ended 30.06.02 – ex-dividend date	18th September, 2002*
Interim dividend for the half year ended 30.06.02 – record date	20th September, 2002*
Interim dividend for the half year ended 30.06.02 – payment date	19th October, 2002*

**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	1080.0p
Lowest price during the year	834.0p
Price as at 31st December, 2001	980.0p

Addresses

Candover Investments plc
Registered in England
and Wales No.1512178

Registered Office
20 Old Bailey
London EC4M 7LN
Telephone 020 7489 9848
Facsimile 020 7248 5483

e-mail info@candover.com
website www.candover.com

Solicitors
Ashurst Morris Crisp
Broadwalk House
5 Appold Street
London EC2A 2HA

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

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

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

Registrars
Capita IRG Plc
Bourne House
34 Beckenham Road
Beckenham Kent BR3 4TU

Form of proxy

For use at the Annual General Meeting of Candover Investments plc to be held on Tuesday **7th May, 2002.**

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

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

. . . . as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting to be held at **12.00 noon** on Tuesday **7th May, 2002** and at any adjournment thereof.

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

Ordinary resolutions		For	Against
Resolution 1	To receive the report of the directors and the audited financial statements for the year ended 31st December, 2001.	☐	☐
Resolution 2	To declare a final dividend of 22p per ordinary share for the year ended 31st December, 2001.	☐	☐
Resolution 3	To re-elect Mr S W Curran †	☐	☐
Resolution 4	To re-elect Mr A P Hichens *†	☐	☐
Resolution 5	To re-elect Mr J G West *§	☐	☐
Resolution 6	To re-appoint the auditors and to authorise the directors to fix their remuneration	☐	☐
Resolution 7	To approve the resolution set out in the Notice of the Meeting to grant the directors the authority pursuant to Section 80 Companies Act 1985 to allot securities.	☐	☐

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

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

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

Notes 1 If no indication is given, the proxy holder will vote or abstain from voting at his or her discretion. **2** A member may appoint a proxy or proxies other than the Chairman of the meeting by inserting the name and address of such proxy (who need not be a member) in the space provided above. The appointment of a proxy will not preclude a member from attending and voting in person should he/she subsequently decide to do so. **3** In the case of joint holders, the signature of any one holder will be sufficient. **4** In the case of a corporation, the proxy should be executed under its common seal, or signed as a deed, or under the hand of some officer, duly authorised in writing in that behalf. **5** Unless instructed otherwise, the proxy may also vote or abstain from voting as he or she sees fit on any business which may properly come before the meeting (including amendments to resolutions).

This form, to be valid, must be lodged at the office of the registrars of the Company not later than 48 hours before the time of the meeting.

Only those shareholders registered in the register of members of the Company at close of business two working days before the meeting shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their names at that time (Regulation 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 meeting.

Second fold

BUSINESS REPLY SERVICE
Licence No. MB122

2

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

Third fold

First fold

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