CDC Capital Partners provides equity capital to businesses in the emerging markets, especially poorer countries. We aim to generate fully commercial returns on these investments. By seeking to identify and invest in commercially viable, sustainable and socially responsible businesses, we aim to promote the enlargement of the business base in these countries; improve the competitiveness of their economies; and increase the well-being of their people.

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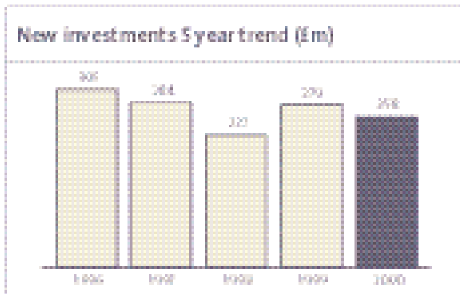
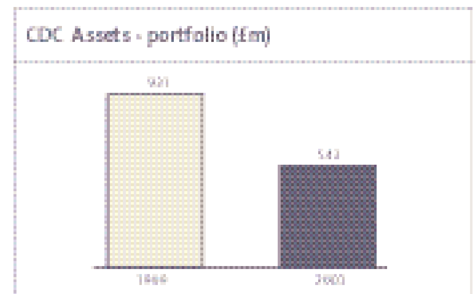
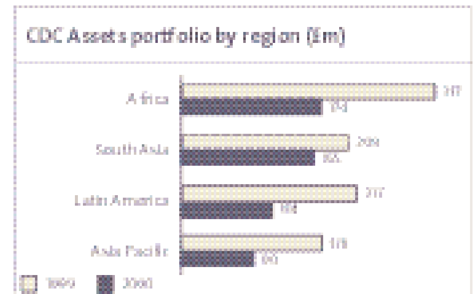
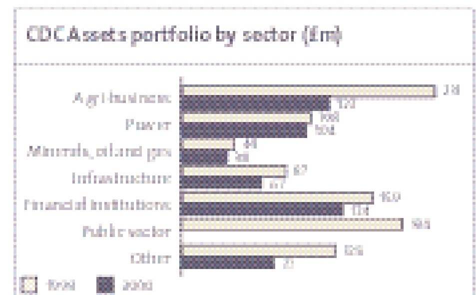
Year 2000 highlights

- £258m new investments – 12 deals representing 72% of the total
- Portfolio split into two and managed separately
  - CDC Capital Partners: ongoing private equity portfolio
  - CDC Assets: historic portfolio, mainly consisting of loans
- Comprehensive review and restructuring of the business
- Opening of new offices in Beijing, Cairo, Mexico City, and Lagos. Representative offices established in Miami, Singapore and Washington
- £160m of public sector debt transferred to 100% shareholder, Department for International Development (DFID)
- Total portfolio value fell by £147m – £75m of this in agribusiness investments earmarked for disposal. This sector fell by 35%; the balance of the portfolio fell by 7%

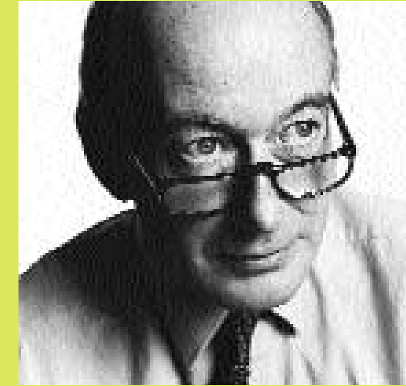








Whereas in 1999 CDC was transformed, in a legal sense, into a public limited company, in 2000 this change has been evidenced in a more practical sense, as we put in place a focused framework across our operating activities.



Chairman's statement

CDC is fully committed to the prospect of working with non-government capital in identifying and growing private sector enterprises in many developing economies around the world. This exercise has involved a radical restructuring of many aspects of our organisation.

Under the new executive leadership of Alan Gillespie, there has been a fundamental review and revaluation of CDC's existing portfolio and a comprehensive examination of its operating systems. This has been carried out in light of the fact that we need to achieve higher financial returns demanded by the private markets, and act as a value-added partner, helping to identify and grow sustainable businesses in the poorer countries of the world. All this has to be accomplished operating within our defined ethical standards.

Following this review, CDC's portfolio has been divided into two categories. The first is a largely historical debt portfolio, with some equity, which has had considerable developmental value, but is unlikely to meet the financial hurdles that CDC now requires; the second contains those investments we expect to be capable of earning a full risk-adjusted return. Our strategy is to dispose of the investments in the historical debt portfolio systematically over the next few years. Indeed, this process has already begun, including the transfer to Her Majesty's Government of £160m of public sector loans that CDC had on its balance sheet. The cash flow from other loan redemptions and disposals of old investments will provide CDC capital to invest, from our own resources, over the next few years.

Going forward, it is likely we will make fewer, but larger investments and that we will provide more intensive ongoing support, as we work hard to maximise the returns of each enterprise in which we invest.

It was with considerable reluctance that the board concluded that many of our agribusiness investments, with which CDC has been proudly associated throughout its history, are unlikely to meet our minimum financial return requirements. We have therefore, substantially written down the values attributed to them, to reflect a 'for sale' rather than 'going concern' status. The reasons why prospective returns in this sector appear relatively poor, even when operations have the benefit of economies of scale, are wide ranging. However, by pursuing our strategy of investing in a socially responsible manner in non-agribusiness sectors in many of the poorer countries of the world, CDC believes that, if it is able to achieve its mission of realising attractive returns to shareholders, this will have the effect also of assisting social development. But we also recognise that our decision adds to the global challenge, which remains to be met, regarding who should deal with rural poverty in those countries.

Against this background, a radical reorganisation of the executive team has taken place. Senior management has been strengthened and I am greatly encouraged that a number of qualified individuals, with a record of high achievement in successful private sector companies, have chosen to join us at this stage. At the same time, a number of colleagues, whose skills were more appropriate to CDC's previous role, have left and, in total, our employee numbers are reducing by some 35%. This has been a difficult process, introducing a degree of uncertainty as these changes take place, and we have had to say goodbye to many fine contributors to CDC. However, I believe this has been accomplished in a sensitive and sympathetic manner and that we now have a management team and a structure in place which has been successfully adapted to our future requirements.

We have also made changes to our board structure as we seek to put in place a more conventional balance between executive and non-executive representation. We welcome four new faces to our board: executive directors Paul Fletcher, Andrew Reicher and Nicholas Selbie; and non-executive director Lalith de Mel, a former group director of Reckitt & Colman plc. Additionally, Russell Seal, who has been a valued non-executive colleague at CDC through these years of change, steps down at our AGM. At that time we shall welcome Peter Smitham, chairman of Schroder Ventures Europe, to our board and look forward to his contribution. These appointments, together with other additions to the senior management team, are made in the confidence that each is well qualified to help us, both individually and collectively, as CDC meets the challenges of its new role.

From our senior management team, Justin Braithwaite left CDC in order to continue working in the agribusiness sector, while Paul Jobson is retiring. They deserve our heartfelt thanks for their contribution in creating CDC's reputation for integrity and as a constructive partner in enterprises.

CDC is now moving to a position to play a different, but more focused, role appropriate to today's world. As the inevitable forces of globalisation increasingly affect the economies of countries in CDC's expanding universe, so the importance of growing and developing businesses that can compete and thrive on world terms becomes more urgent. We shall act as responsible private equity providers within the range of countries laid down in our investment guidelines. We shall find it increasingly difficult to invest in those countries yet to develop the environment that allows private capital to work well. We shall primarily focus on six sectors that will be critical to the successful development in most of the countries in which we currently operate. We shall, however, not ignore attractive opportunities within other industry sectors, of particular promise to either individual countries or regions. This greater specialisation increases our ability to add in-depth global industry experience to each venture in which we have invested.

It has been a difficult year in emerging markets. Stock market values during 2000 declined more sharply for emerging economies than elsewhere (the MSCI Emerging Market index fell by 32%). Lower commodities prices and a downward re-evaluation of the TMT sector, from which some emerging markets had previously benefited, have reduced some values. We have, in the course of the year, made a number of investments with considerable promise - most markedly in the power sector.

We continue to benefit from an excellent working relationship with our sole shareholder, the Department for International Development (DFID). We also benefit from an expanding set of constructive relationships, whether they be with host governments, business partners or advisors, as well as with the companies in which we have invested. Our reputation, these relationships and our management team are the important assets that don't appear on our balance sheet. I sense these are all stronger than a year ago.

The significant tasks of changing our business from development lending to an emerging market risk capital investor, at the same time as preparing CDC to become dependent on private sector funding, together represent a substantial, but exciting, challenge. I believe we have made great strides towards fulfilling both of these objectives. Our advisers are currently carrying out a review to establish a potential timetable for the next stage in the process towards inviting the private sector into our business as majority shareholders. During 2001, we expect to continue to review, in collaboration with our shareholder, DFID, the best way to fulfil the vision of transferring, in due course, CDC into a public private partnership.

Cairns

Lord Cairns
Chairman

During 2000, we have been continuing to restructure CDC, to transform and prepare our business for the requirements of a private equity investor operating in emerging markets.

Chief executive's review

1997-1999

To set the year 2000 under review in context, it should be recalled that in October 1997 the Prime Minister announced a new agenda for CDC that set us on the path towards becoming a Public Private Partnership (PPP). Over the two years, 1998-99, much was accomplished in addressing the dual challenges of changing both our business and, in due course, our ownership status:

- the CDC Act was passed, providing CDC with a formal investment policy and business principles, setting out the way we do business
- the necessary legal work was completed so that we could register ourselves as a public limited company, CDC Group plc
- we redefined our business, shifting from being primarily a debt financier to becoming a private equity investor, operating on a fully commercial basis
- we developed an integrated programme to train our people to become successful equity investors.

2000 - transition and preparation

During 2000, we have been continuing to restructure CDC, to transform and prepare our business for the requirements of a private equity investor operating in emerging markets. The changes to the organisation discussed in this report reflect a further stage in the establishment of our new business.

Early in 2000 we introduced a new trading name - CDC Capital Partners - to highlight our new equity business focus and our new status. This was launched simultaneously across all our markets and is a brand which is gaining market recognition and one that we believe will serve us well in the future.

Unbundling the balance sheet - CDC Assets and CDC Capital Partners

An important achievement during the year was the splitting up of our investment portfolio into two distinct blocks of assets - we now have a historical portfolio, largely debt, and the more youthful private equity portfolio, which has been building up over the past three years.

CDC Assets

To manage our discontinued business more effectively, we set up CDC Assets - a team brought together to focus exclusively on this 'legacy' portfolio. CDC Assets' aim is to manage these investments actively and realise them for an optimal value and in such a way that they provide cashflow to finance the private equity investments made by CDC Capital Partners over the coming years. This legacy portfolio also contains a number of managed businesses, mainly within the primary agricultural sector, which we own and manage. These assets, some of which were acquired many years ago, are not performing, or capable of performing, in line with the financial targets we have now set ourselves. Consequently, we are planning to dispose of many of them in a responsible manner, as and when the time is right.

The CDC Assets team, headed up by Nicholas Selbie, comprises 16 in-house professionals, based in London and overseas. Many successful realisations were completed during the year, among them the early repayment of a US$22m loan from Bolivia's Banco Santa Cruz and a US$13.5m loan from Vietnamese sugar business - Sucrerie de Bourbon.

During the year, CDC Assets' portfolio was reduced from £921m to £543m as a result of repayments and realisations. The portfolio was marked down by £86m from the 1999 year end valuation. £64m of which was accounted for by agribusiness assets, which are up for sale. In line with our capital restructuring efforts and the HIPC initiative, the economic interest in £160m of public sector debt was also transferred to the Department for International Development (DFID). We continue to manage these loans on behalf of DFID.

CDC Capital Partners

Having decoupled the CDC Assets' portfolio, the CDC Capital Partners' portfolio consists of our new private equity investments, primarily accumulated over three years. At the beginning of the year this stood at £406m, and during 2000 a further £217m of new investments were made. At year end, this portfolio was valued at £521m, having been revalued downwards by £61m, of which £11m was in agribusiness assets.

During 2000, we identified six priority sectors for investment, where we are building expertise and considerable competitive advantage - namely power; transport; minerals, oil and gas; TMT; consumer goods and retail; and financial institutions. We also continued to improve our investment approval process to ensure that new investment opportunities are screened in a manner which is rigorous, effective and efficient.

The creation of the Private Equity Coverage Group affords us the opportunity to build up an effective network of relationships with other leading private equity firms working in the emerging markets, and we are already seeing the benefits from this co-operation.

Restructuring CDC

After a thorough mid-year review of our organisation worldwide, we took measures to reduce our headcount by approximately 35%. These changes, which have been fully reviewed and endorsed by our board and supported by our shareholder, DFID, will result in CDC being a stronger, fitter and much more streamlined organisation, better positioned to achieve the goals set for us by our shareholder.

This restructuring of our organisation enables a realignment of our office network to where we believe we can add value as an equity provider and originate quality investments which fit our investment policy. It also allows a more focused approach to the chosen industry sectors in which we are looking to invest and provides us with a resource base capable of doing fewer, but larger, transactions across our operating markets.

New offices, new markets

In 2000, four new country initiatives were launched, to build our presence in large emerging economies, which we believe offer CDC significant potential.

In June, we officially opened our office in Beijing, alongside our 50/50 partner, British insurance company CGNU plc. The joint venture, CGU-CDC Capital Partners, completed its first investment later in the year in CNOOC Ltd, a subsidiary of China National Offshore Oil Company, which has subsequently listed.

Also this year, we have re-established CDC in Nigeria and are opening an office in Egypt. Both of these are engine economies in Africa and offer investment prospects worthy of investigation. Nigeria has a large economy, an entrepreneurial workforce and is developing an environment and infrastructure more conducive to inward investment. Egypt is another large

Chief executive's review continued

economy which, as well as offering potential in its own right, sits comfortably with our strategy of doing more pan-regional deals and allows us to provide a unique 'Cape to Cairo' business reach.

We are currently establishing a presence in Mexico and are reviewing a variety of options in terms of how we progress this initiative. The decision has been made in light of the fact that Mexico is a founding member of NAFTA; its economy is recovering impressively from the peso crisis; and that there is a limited supply of equity capital available.

Recognising that many private equity transactions, destined for our markets, originate elsewhere, we have now opened representative offices in Singapore and Miami and are busy establishing relationships in those centres. We have also set up an office in Virginia, US, specifically to deal with the burgeoning Indian IT industry which often has its origins in the US before it develops in India.

Business performance

While not new to emerging markets, we are still relatively new to private equity investment. It is therefore heartening that in 2000 we completed a significant number of attractive new investments across a variety of sectors in our markets, which we expect to deliver the type of equity returns demanded by private sector investors.

2000 saw us make new investments totalling £258m. These included several large power investments in Latin America; a major telecoms investment in Africa; the privatisation and refinancing of the Zambian copper mining industry; and the restructuring and financing of a leading Central American retail chain (see Business review). These businesses all offer good growth opportunities and are well positioned to make important contributions to their underlying economies.

As we strive to make fewer and bigger investments, our top 12 deals in 2000 represented 72% of the total.

Given that our equity investment activities only started in 1999, the average life of an investment within the CDC Capital Partners' portfolio is under two years. Consequently, there is still some way to go before we are able to complete many meaningful exits, which will significantly impact on our bottom line. Also, the relative youthfulness of these assets means that, under the customary BVCA private equity valuation guidelines, we are not yet recognising unrealised gains.
In terms of our investment policy, we comfortably achieved our target of having at least 70% of our funds, over a rolling five year average, invested in poor countries. On the other hand, in 2000 we did not achieve our second aim of having 50% of our new investments, year on year, invested in sub Saharan Africa and South Asia.

Financial results

As detailed in this annual report, the revenue account, with a pre-tax return before restructuring costs of £85m, was broadly in line with 1999. As is normal practice in the private equity industry, the capital account was adjusted for unrealised gains and losses. This resulted in a net reduction in value of £147m, of which £75m was attributable to agribusiness. The remaining £72m unrealised net loss equates to a 7% fall in the value of the rest of the portfolio. This means that the overall financial result for the year was an after tax loss of £52m.

A strengthened leadership team

Following the recruitment of Richard Laing as finance director at the beginning of 2000, we made two further senior external appointments during the year. Paul Fletcher, recently an emerging market strategist and previously East Africa General Manager with Citibank, joined as managing director of Africa; while Andrew Reicher, previously a managing director with CSFB Private Equity, joined us to develop relationships with other private equity houses, Andrew has since been appointed as our chief investment officer.

Several senior internal appointments were also made, with Donald Peck, already based in New Delhi, promoted to managing director, South Asia; and Jim Romanos, head of CDC's power team, moving from London to Miami as managing director, Latin America. Robert Binyon, formerly in charge of our SME managed funds, moved to Bangkok to be managing director of our Asia Pacific operations; and Nicholas Selbie was appointed managing director of CDC Assets.

At the beginning of 2001, Jonathon Bond, formerly in charge of HSBC Private Equity (India) joined to head up our fund raising and investor development unit; and Gillian Arthur was appointed as head of operations, looking after human resources, IT, communications and business principles. Gillian had spent the last 20 years with Citibank, ending up as a Group Head of Human Resources.

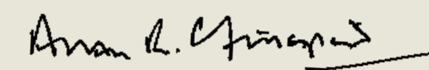
I am confident that we now have in place an experienced senior management team, well equipped to take the business forward.

Looking ahead

There is no doubt that emerging markets remain a challenging place to invest and during 2000, the world's poorest countries, which are at the core of our investment policy, were exposed to considerable political and social volatility.

Nonetheless, we believe CDC is growing in stature as a private equity provider of choice in emerging markets and I am confident that we are in good shape to maximise future investment opportunities. We look forward to building up an attractive equity portfolio in the coming year as we continue to prepare ourselves to open CDC's capital to private sector shareholders in becoming, eventually, a public private partnership.

2000 was another year of far-reaching change at CDC Capital Partners. None of this could have been achieved without the ongoing commitment, professionalism and adaptability of our people. The fact that much has been achieved since CDC's new agenda and objectives were defined gives me great confidence for the future.



Alan R Gillespie
Chief executive

Progress in Latin America

'We expect the steady upward trend of foreign direct investment, accompanied by an inflow of technology and management skills, to continue to underpin the region's economies.'

Jim Romanos
Regional managing director

In 2000, the general economic picture was of a slow, but perceptible recovery from the impact of the 1999 Brazilian currency crisis. Overall GDP growth averaged 4%, driven primarily by continued recovery in Brazil and strong growth in Mexico, which is becoming more integrated with the US economy.

Within the region, economic performance was mixed. The Andean region, for example, struggled to achieve political and economic stability. Argentina's recovery has been slower than expected, while the outlook in Peru became more uncertain following the fall of President Fujimori in October. There was also economic recession and social unrest in Bolivia. Against the backdrop of instability, and also high borrowing costs, some countries - such as El Salvador and Ecuador - are phasing out their local currencies in favour of the US dollar.

During the year, CDC's local presence and focus on certain core sectors - like power and fmcg - proved successful. Of the US$162m that we invested in the region in 2000, 57% was in power, where our commitments in 2000 totalled US$153m in three businesses.

In the Dominican Republic's power industry, we raised our stake in Haina Investment Company, a 50% owner and managing company of **Empresa Generadora de Electricidad Haina (Haina).** We also committed US$43m to the island's largest power plant, **San Pedro de Macoris**, where we partner Cogentrix. In Guatemala, we took a 25% stake in **Puerto Quetzal Power** alongside Centrans Energy and Enron.

In Bolivia, CDC backed **Simex**, a manufacturer and distributor of furniture to the US, and formed a joint venture with **Comsur**, Bolivia's largest mining company, to develop the previously state-run Colquiri tin/zinc mining concession. Early in the year, CDC made its first two investments in Argentina, namely **CCI** and **CollectiveMind**. During the year we made our third investment in Peru: US$7m to fund the expansion of a local cinema chain, **Cine Planet**.

Towards the end of the year, CDC took a 30% equity stake in **Regal Forest**, a new consumer durables chain in Central America. We also established a presence in the retail healthcare sector in Central America with an investment in the region's largest pharmaceutical chain, **Fischel Pharmacies**.

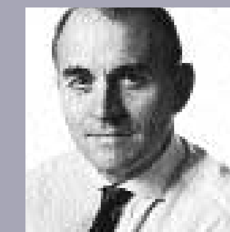
In markets like Latin America, which are relatively young and illiquid, exiting from private equity investments can prove a significant challenge. CDC's primary focus in the region in 2000, therefore, was on businesses that are likely to be attractive targets for strategic buyers. This approach paid off with **Tip Top**, a chicken producer in Central America, which we successfully sold in September. CDC also received over US$40m cash back from investments in Bolivia.

In order to bring CDC even closer to its Latin American markets, and also to the many US corporations with which we have or are seeking relationships, we opened our new regional headquarters in Miami in 2000. We also opened an office in Mexico which, as a member of NAFTA, is becoming an increasingly important regional economy with a growing number of private equity opportunities.

Despite signs of a slowdown in some of Latin America's economies in 2001, we remain very positive about the medium to long term. We expect the steady upward trend of foreign direct investment, accompanied by an inflow of technology and management skills, to continue to underpin the region's economies. We look forward to continuing to seek out attractive private equity opportunities in the region, by leveraging our local presence, core sector experience and worldwide network.

Equity capital for Africa

'We will focus on companies which are looking to us to provide capital, expertise and assistance in the roll out of their businesses.'



Paul Fletcher
Regional managing director

Most of Africa's economies continued to endure difficulties in 2000: domestic conflicts, extreme weather conditions, the slow pace of political reforms, and infrastructural frailties pressurised the pace of progress. On the positive side, there was the increasing democratisation of governments, further support and attention from developed countries - particularly the US and the UK - and an increasing pool of dedicated capital available for deployment in sound investments.

South Africa enjoyed relative political stability, but real economic growth remains elusive. We believe it has a critical role in the mobilisation of human and financial capital northwards, into the rest of the continent. Our investment strategy reflects this flow.

Political and economic stability were under threat in Zimbabwe, in contrast to the much more buoyant environment in Zambia following the successful (re)privatisation of the copper mines. Tanzania continues to be a growth economy, building on sound economic policies and substantial donor assistance. Kenya, however, suffered at the hands of an acute drought, plus concerns from investors over the pace and scope of its political and economic reforms. Nigeria enjoyed a windfall from high oil prices, and demonstrated a strong will to tackle its corruption and has begun to implement economic liberalisation policies.

CDC made a further investment of US$25m in the pan-African telecoms business, **MSI Cellular**. We are particularly encouraged by the success of its strategy of continuing to invest in the provision of basic telecommunications - both fixed line and mobile - in a number of African countries. We participated in the rehabilitation of Zambia's copper belt with a US$30m investment in **Konkola Copper Mines**. We invested US$2.8m in a Nairobi shopping mall, **The Junction**, and US$5.6m in a modern edge of town business park, **Ngong Racecourse Properties**, in partnership with the Jockey Club of Kenya. In Zimbabwe's largest ever management buy-out, CDC invested US$2.2m in **PG Industries**, a window and glass manufacturer. In South Africa, we invested US$6.1m in healthcare company **Prime Cure Clinics**, which we anticipate will be a model for roll out into other African countries, and US$4.8m in technology fund, **Horizon TechVenture.**

We expanded our African coverage to include a new office in Egypt and a return to Nigeria. Both are substantial economies with major opportunities and, additionally, act as focal points for capital flows within their regions. We anticipate that they will, in due course, have appropriate weightings in our Africa portfolio.

Looking ahead, we will focus our investments towards companies that are actively pursuing expansion within Africa, and which are looking to us not only to provide capital, but expertise and assistance in the roll out of their businesses. We see attractive opportunities presenting themselves in our core sectors but, additionally in Africa, we will focus on healthcare and property.

Growth prospects for Africa will necessarily be affected by a slowdown in developed economies, led by the US. Against this likely background, there will remain interesting opportunities for CDC in our favoured sectors and regions. These include pan-African telecoms and technology; the South African healthcare sector as it expands northwards; modern commercial and retail property in East Africa; both large and small minerals, oil and gas investments; financial institutions - especially second-tier retail banks; privatisation opportunities in transport; logistics companies operating out of South Africa; and finally, the power sector, through greenfield independent power producers, distribution and transmission companies in both sub Saharan Africa and North Africa.

South Asia opportunities

'As well as making some exciting new acquisitions over the year, we achieved some very rewarding and timely exits.'

Donald Peck
Regional managing director

South Asia in 2000 displayed greater economic stability than most emerging markets regions, but the rate of economic growth stagnated at 5 - 6% overall, and there was an overall fall in business confidence. The region was hit by a combination of higher oil prices, inadequate rainfall for farming, as well as by the shake-out in the US stock market. As a result, rates of growth slowed in all sectors with the exception of consumer products.

In South Asia's dominant economy, India, the growth of investment from overseas - including private equity investment - slowed. As the year progressed, even the technology sector did not escape. The investment picture was distorted by the very pronounced spike in technology company valuations and local stock markets, and the subsequent declines in both after March 2000, in line with Nasdaq. However, the very strong performance of software services companies continued unabated. Our South Asia portfolio was weighted towards the IT sector through 2000, while also embracing other selected technology companies and related services sectors. Old economy company valuations remained unattractive in India and new investment in India and the rest of the region was very slow.

As well as making some exciting new acquisitions over the year, we achieved some very rewarding and timely exits. We took full advantage of Indian market liquidity for technology stocks. For example, we realised US$4.9m for part of our holding in **MRO-tek**, a networking technology company from Bangalore. Also in the IT sector, our partial exit from online financial services company **Indiainfoline** netted us US$1.8m - 1.8 times the total investment cost. Finally, in packaging, we realised US$2m from our investment in **Shree Rama Multi-Tech**, the Indian multi-product packaging company, representing a sterling return of 55%.

We added to our portfolio in Indian technology by investing US$7m across five companies. As well as being good businesses, they provide an excellent fit with other parts of CDC's software portfolio. They are: **Daksh**, a fast-growing major provider of remote support services; **Infozech**, a global telecom billing solutions company; **Alumnus Software**, which offers highly original network software products and services; **Aquila Technologies**, an image processing software company; and **Netkraft**, a Bangalore-based web-services company with an expanding client base in the US and the UK.

CDC also made its first investment in India's healthcare sector in 2000, investing US$1m to help launch the pharmaceutical retailing company **Melrose**. We believe Melrose is well positioned to be able to successfully market pharmaceutical products across India. The company is also rapidly leveraging the power of the 'Medicine Shoppe' retail brand from the US, for which it owns the franchise.

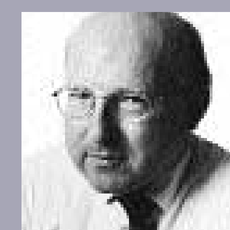
Looking ahead, as India's technology companies continue to raise their profiles globally, our worldwide office network and experience, plus our well-developed portfolio in that sector in India, will continue to be of significant benefit. With an increasing proportion of South Asia's technology talent now operating in the US and Europe, CDC has opened a new office in North Virginia's technology corridor, while our London office provides a base from which to make the right connections in Europe. Sri Lanka is also a growing force in IT services and we are already well represented there.

We are detecting an increasing awareness across South Asia of the role of private equity in mergers and acquisitions and other types of change-of-control transactions. Moreover, such activity, in the shape of consolidation strategies, restructurings and other major corporate changes, is becoming more widespread.

We expect CDC to have a significant impact on this new trend of private equity investment activity, thus helping further to increase flows of direct investment into the region.

Expanding in Asia Pacific

'We are positioning CDC Capital Partners to become the partner of choice for many regional and international strategic investors.'



Robert Binyon
Regional managing director

With the exception of China, the economic and investment climate in the Asia Pacific region was poor. Stock market performances were generally weak, while local currencies continued to devalue against the US dollar. Clearly, the effects of the 1997 economic crisis were still being felt. Also, in some countries, there remained the added uncertainty of political change. China bucked the regional trend in 2000. Its economic growth continued, partly as a result of the opening of its economy to foreign investment. This process should be accelerated with China's likely accession to the World Trade Organisation.

It has become increasingly clear that a growing disparity exists between the markets of North and South East Asia. In 2000, South Korea, Hong Kong, Taiwan and China grew much faster than Indonesia, Malaysia, Thailand and the Philippines, where real GDP growth has been decelerating. The divergence was reflected by the greater weight of investment in North Asia, a reversal of the position before the Asian crisis, when South East Asia was the more favoured destination for both portfolio and direct investors. There was also a greater commitment to economic reform and financial restructurings in North Asia, leaving South Asia with relatively few competitive advantages.

In June, our US$100m private equity joint venture, **CGU-CDC China Partners**, opened its new headquarters in Beijing. CGU-CDC China Partners (CCP) refers to the partnership between CDC Capital Partners and the UK's CGU (renamed CGNU in May 2000). The objective is to harness our collective resources and experience to make successful private equity investments in China.

Having established itself in China, CDC was quick to seize its first investment opportunity in participating in a private equity consortium to assist the **China National Offshore Oil Company Limited (CNOOC)**.

Against the generally difficult background elsewhere in the region, it was more important then ever for CDC to stay close to existing and potential investments, and to continue to cultivate relations with the region's other investors. In 2000, we opened a new office in Singapore - in addition to the joint venture in Beijing - to add to our existing office network.

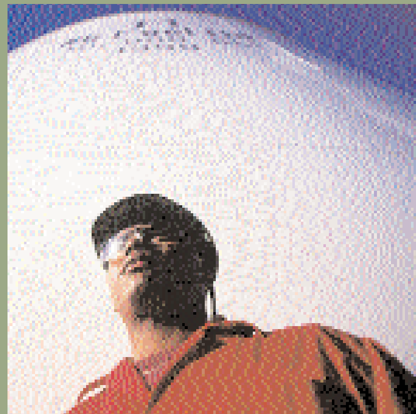
Towards the end of 2000, CDC successfully arranged new credit facilities for **PT Harapan Sawit Lestari (Harapan)**, the Indonesian oil palm producer in which we took a 65% interest in 1999. The financing is structured to provide Harapan with loan facilities, working capital and a standby credit facility. Harapan is expected to be able to draw on the facilities from late March 2001. With significant assets in palm oil estates in Papua New Guinea and Indonesia, CDC has established the basis of a growing business in the sector. In 2001, we will be looking to expand the business to bring it to a scale that is meaningful in the region and which would permit an IPO in due course. We will be looking to work with other investors in the region as we realise this strategy for growth.

Gateway Container International was the target for US$24.7m expansion equity in December 2000. The new equity enables Gateway to leverage additional debt financing as part of its strategy to double its container fleet to over 500,000 teu (twenty foot equivalent units) by the end of 2003.

Despite the slowdown in the US and the aftermath of the 1997 crisis, the Asia Pacific region has lost very little of its longer term investment potential. While we are exercising caution in the short term, the medium term prospects for the region are excellent. We are positioning CDC Capital Partners to become the partner of choice for many regional and international strategic investors building or expanding their operations in the Asia Pacific area.

Power

Power has always been one of the largest sectors in CDC's portfolio and now accounts for US$500m, invested in over 20 power businesses



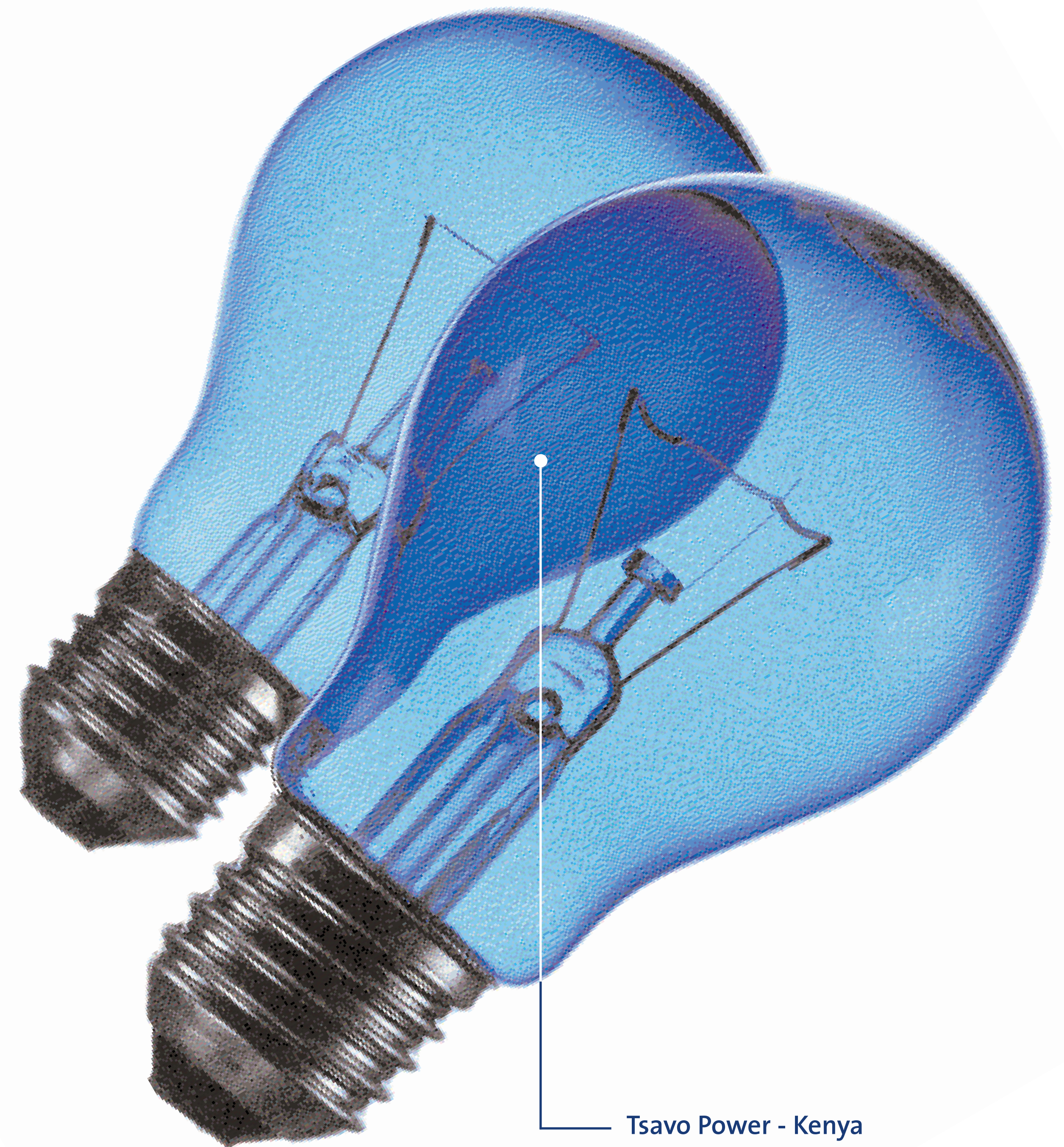
Puerto Quetzal – Guatemala
In October 2000, we reinforced our position as a leading private equity investor in the Central American electricity market by taking a 25% equity stake in the Puerto Quetzal Power Project. The largest active generation project in Guatemala at the time, producing 234MW, Puerto Quetzal took the value of CDC's portfolio of power investments in Latin America to over US$200m. In Guatemala alone, we have US$44m invested, including two other power plants. CDC's co-investors in Puerto Quetzal are Enron and Centrans Energy Services.

Guatemala has one of the most open electricity markets in Central America, and neighbouring El Salvador is close behind. This means that Puerto Quetzal, which already sells power to both countries, can build its future distribution on a solid base.

Empresa Generadora de Electricidad Haina – Dominican Republic
Haina was originally privatised from a state-run thermal power generation company. CDC Capital Partners are part of a consortium of investors which owns 50% of Haina and also manages the business. Ahead of schedule, in 2000 we helped the company add 100MW of new generating capacity. And in 2001 we hope to add 225MW more. CDC's further investment of US$74m in 2000, when one of our partners agreed to sell out, made us the largest shareholder in the consortium with 13% of the total equity. This stake also provides us with greater influence to help shape Haina's exciting future.

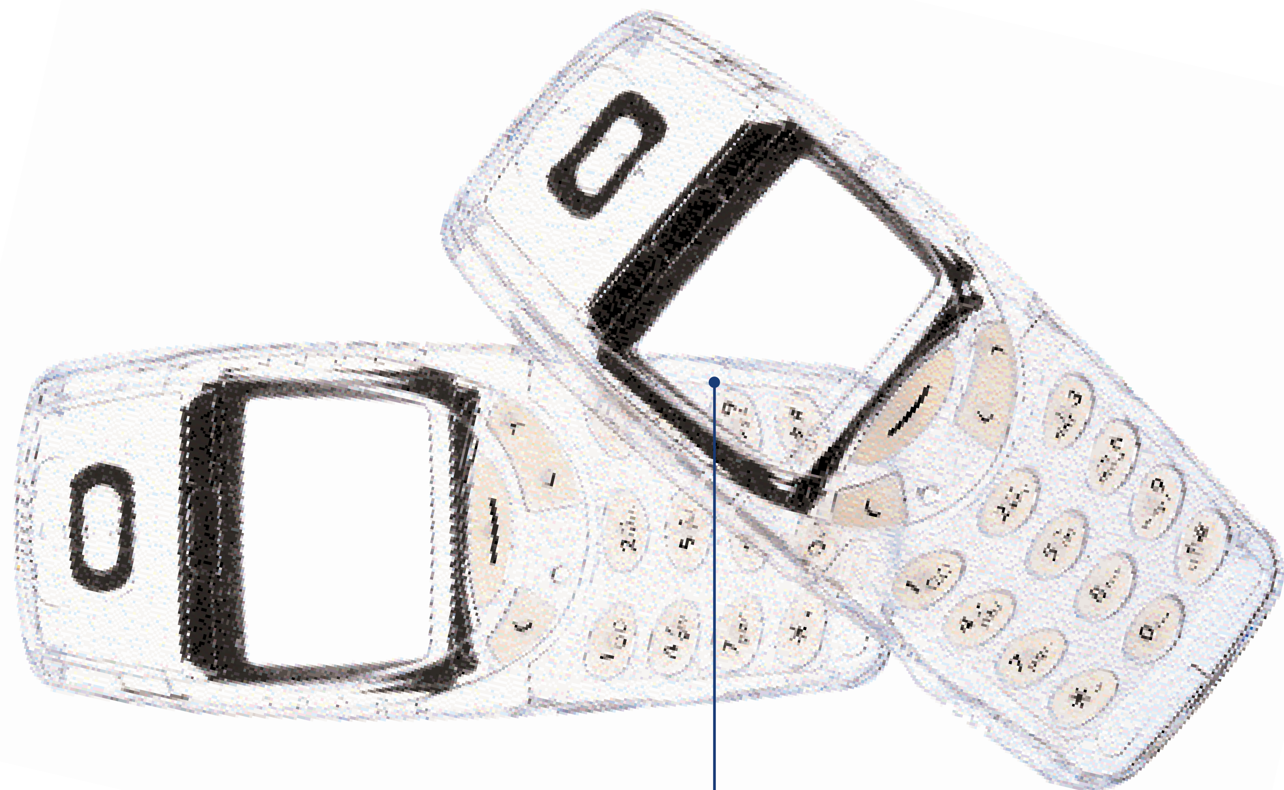
In recent years, CDC has been helping the Dominican Republic by becoming a major investor in the country's electricity industry. It is an industry which, historically, has been dogged by shortages, high prices and unreliable service. In addition to Haina, we have built up stakes in private electricity companies La Compania de Electricidad de San Pedro de Macoris, and La Compania de Electricidad de Puerto Plata.

The Dominican Republic has been enjoying unprecedented economic growth, and all three companies have growth ambitions that should deliver significant efficiencies.



Tsavo Power - Kenya
Alongside Cinergy, Wartsila and Industrial Promotion Services (Kenya), CDC committed US$19m to the 74MW Kipevu II power plant at Mombasa, Kenya's first openly-bid project-financed independent power producer. Tsavo Power will provide the country with a much needed boost to its generation capacity, will reduce its dependence on hydro-electric generation, and will play a significant role in revitalising the Kenyan economy.

Modern communications will liberate emerging market economies. Effective voice and data networks are essential requirements for the competitiveness of any business, and a pre-requisite to an economy's commercial and social development



Telecommunications
MSI Cellular's voice and mobile data services business is proving a triumph of business acumen and timing in Africa. CDC Capital Partners have been working with MSI since first investing US$22.5m in 1998.

MSI – Africa
CDC Capital Partners have been working with MSI since first investing US$22.5m in 1998. Since then, we have helped MSI connect Africa, thanks not only to the provision of investment capital but also thanks to our experience in Africa's telecoms sector. MSI's mobile communications effectively leapfrog the often non-existent fixed networks in terms of reach, efficiency and flexibility.

During a period of ups and downs in the global telecoms sector, MSI has been looking to expand intelligently, while being careful not to over-stretch. CDC's offices and contacts in Africa have helped MSI obtain licences to operate twelve telecoms networks across Africa. The company's subscriber base has increased from 6,000, when CDC initially invested, to over 200,000. We made a further investment of US$25m in June 2000, which will be used to finance the businesses in the Democratic Republic of Congo, Burkino Faso and the Congo Brazzaville. It will also be used to make an acquisition in the Sudan and to upgrade the network to accommodate the internet and other high-speed data capabilities.

An efficient telecoms network is fundamental to a region's sustainable economic development. Historically, businesses, institutions and individuals in Africa have been stifled by under-investment in telecoms. Through our partnership with MSI, we are thus playing our part.

MRO-tek – India
MRO-tek, based in Bangalore, where CDC has one of its three Indian offices, makes and distributes data communication and networking products in a country which is experiencing rapid growth in IT connectivity. It also has collaborations outside India, with RAD of Israel, Extreme Networks of the US and Zyxel of Taiwan. The company has grown very quickly to become the market leader in internet access and telecoms products, such as ISDN.

We worked closely with MRO-tek to prepare the ground for the IPO, providing guidance on overall strategy and corporate governance, and helping arrange second round venture capital investment and banking support. By the time of listing, MRO-tek's turnover had grown by a staggering 20 times and its profitability by 35 times. CDC's stake had grown to a value of US$13m - a gain of over 1000% - of which 35% was realised.

With the continuing deregulation in the Indian telecoms sector, and increasing numbers of internet service providers appearing all the time, MRO-tek and CDC Capital Partners can both look forward to an exciting future.

Minerals, oil and gas

CDC's portfolio ranges from offshore oil exploration in China to copper mining in Zambia to zinc mining in Bolivia

Konkola – Zambia
CDC has a long and successful history in Zambia and as its largest private equity investor, we were a natural choice to partner Zambia's Konkola Copper Mines plc (KCM) in sub Saharan Africa's largest privatisation to date. We committed a total of US$30m to give us a 7.5% equity interest in KCM.

KCM owns the bulk of Zambia's producing copper mines and, as such, is the country's largest earner of foreign exchange. Although the mines are currently operating at a relatively high cost, they are situated in a rich mineralogical region, offering huge potential. CDC, along with co-investors Anglo American and IFC, will be helping KCM rejuvenate its assets, lower its production costs and further develop new resources in the Konkola Deep Mining Project.

Since the Konkola deal was signed in late March 2000, the prospects for the copper industry have continued to improve, supported by strong consumption, especially from China.

CNOOC – China
2000 saw CDC complete its first investment in China, taking a US$25m equity stake in CNOOC Ltd, a subsidiary of the China National Offshore Oil Company - one of the world's largest exploration and production companies.

The investment has been used to assist in the financing of CNOOC Ltd's exploration and development operations and to accelerate the company's transformation into a public company. CNOOC Ltd has now been successfully listed on the Hong Kong and New York stock exchanges.

Transport

Gateway Containers – International
CDC Capital Partners can point to extensive resources and experience in the container port business, with a portfolio straddling Africa, Latin America and South Asia. In 2000, as the growth of container traffic continued to outstrip world GDP growth, we enlarged our stake in the sector by investing US$24.7m equity, by way of expansion capital, in Gateway Container International (Gateway). CDC's partners in the deal are Prudential Asset Management Asia, Itochu and Global Maritime Finance.

Gateway is currently the world's eighth largest shipping container leasing company. Its reputation for innovation and commitment to customer relationships set it apart from the competition. Gateway's management team is impressive - they have invested personally in the business. They will use CDC's investment to leverage debt finance to add to Gateway's container fleet. Although very much a global business, Gateway is driven by trade volumes moving out of Asia. It purchases almost all of its containers from China.

Financial institutions

DFCU – Uganda
CDC Capital Partners are encouraging Uganda's young financial sector by helping reshape DFCU bank (formally the Development Finance Company of Uganda). We have been actively involved in the transformation of DFCU from a development finance institution into the country's fourth largest financial group, offering high quality services in banking, leasing and term lending.

In 1999, DFCU merged with Uganda Leasing - the first leasing company in the country. A year later, CDC raised its stake in DFCU to 35%, and was instrumental in DFCU's acquisition of Gold Trust Bank, a small Ugandan retail bank. This purchase gave DFCU a new partner with a banking licence and access to local deposit funding.

We have been working hard within DFCU: strengthening the local management team; rebranding the business; and introducing a new employee incentive scheme - one of the first of its kind in Africa.

Uganda's financial sector is set for rapid growth and this bodes extremely well for DFCU and CDC. Bank assets in the country, as a percentage of GDP, are currently just 14%, compared with 34% in Kenya and 128% in South Africa. We expect DFCU to grow its assets by more than 30% over the next year - significantly more than Uganda's expected GDP growth of 5%.

Regal Forest – Central America
In the second half of 2000, CDC Capital Partners helped structure a major deal in Central American retailing, by supporting the creation of the Regal Forest consumer durables chain. This involved us joining forces with two established retailers, Prisma Hogar of El Salvador and Jet Stereo of Honduras, to acquire Ceteco, the regional market leader. With an investment of US$15.7m of equity, CDC secured a 30% stake in the business. Regal Forest, which will continue to be run by local management, is now the leading regional retailer of white and brown goods and electronics (such as fridges, cookers and stereos) and has a market share of around 30%.

A strong regional business with an excellent management team, Regal Forest boasts well-established brands, well-located stores and a healthy cashflow. The external factors, too, are compelling, in the shape of rising personal incomes in the region, favourable demographics and the increasing electrification of households.

Corporacion Fischel SA – Central America
Fischel currently operates 42 retail outlets in Costa Rica and is the largest pharmacy chain in Central America. In October 2000, CDC Capital Partners invested common and preferred equity in the company. With this financing in place, Fischel is ideally positioned to consolidate its leadership position in Costa Rica and embark on a regional expansion strategy.

Fischel's business includes pharmaceutical wholesale distribution, retail sales and sales of medical and dental equipment. The company is well placed to manage expansion as it has at its disposal up-to-date technology, advanced store design and layout and an experienced and professional management team. A potential regional market of over 35 million consumers will ultimately benefit from the improved customer service, multiple product lines and competitive prices that Fischel will now be able to offer.

Tip Top – Nicaragua
December 1997 saw our first involvement with Nicaragua's Tip Top Industrial, a leader in the Central American fmcg market for processed and frozen chickens. In a buoyant sector and region, we spotted a business with good management, a proven track record and strong demand prospects.

With the help of CDC's US$5.7m capital investment, Tip Top was able to refinance immediately its existing debt and was also able to invest in new chicken rearing technology and modernise its processing plant. CDC's involvement, which included board representation, gave the company access to an extensive network of possible acquisitions and investment partnerships. Tip Top was able to maintain its market leadership, while cutting costs and maximising profits at the same time. In summer 2000, CDC worked with the family owners and shareholders of Tip Top in selling its stake - at a significant premium to investment - to Sun Valley Foods, a division of Cargill Inc.

Consumer goods and retail

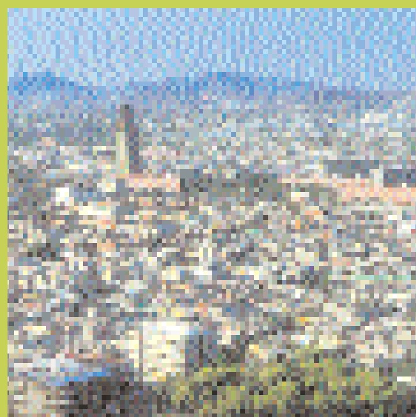
As emerging markets develop a distributive and retail infrastructure, investment in fast moving consumer goods businesses will accelerate transition to modern economic life

In 2000, we secured a 30% stake in Regal Forest, Central America's leading retailer of white and brown goods and electronics.

New markets, new offices, new investments

China, Egypt, Mexico, Nigeria

CGU-CDC China Partners opened an office in Beijing...



CDC opened a new office in Mexico City...

...and also a new representative office in Singapore.

2000 saw CDC continue to expand its geographic coverage in terms of its office network and its investment portfolio.

Following on from last year's signing of a Memorandum of Understanding with the Chinese Government, CDC and its joint venture partner CGNU plc, opened its office in Beijing in June 2000.

Aside from the opening of the office in Beijing, we have re-established ourselves in Lagos and invested US$5m in **Nigeria's** first true private equity fund, **Capital Alliance Private Equity**. This was CDC's first investment in the country since 1993 and was prompted by the positive changes taking place, economically and politically, and the continued recognition of the size and importance of Nigeria within Africa. Through Capital Alliance, CDC will be able to increase its participation in the smaller end of the market and to invest in sectors of interest – such as oil and gas, service industries and recently deregulated sectors, such as telecommunications.

We are in the process of opening offices in **Mexico City** and **Cairo** and are also looking at investment opportunities in French-speaking North Africa. This latter decision will help to rebalance our African portfolio, currently overweight in some of Africa's smaller economies.

During 2000 we made our first two investments in **Argentina** - **Concesiones y Construcciones de Infraestructure (CCI)** and **CollectiveMind (CMI)**.

Recognising that some emerging market investment opportunities originate in the more developed regional financial centres, we have established representative offices in **Miami** and **Singapore** in order to market ourselves more effectively in Latin America and Asia respectively. We have also set up an office in Virginia, US so as to keep close to the dynamic Indian IT services industry which continues to grow around the Washington area.

CDC Assets team created to manage £500m portfolio

CDC Assets was set up to maximise the value of the historical portfolio, provide cash flow for CDC Capital Partners, and enable them to focus on new business

As CDC continues the transition to becoming a mainstream private equity investor, the sound management of our historical portfolio remains as important as ever. While this older portfolio is substantially composed of senior debt that contrasts with our newer private equity focus, the income flows from these investments will continue to be our lifeblood for several years and will fund the bulk of our new business.

In recognition of the specialist skills and focus required, we set up a dedicated team, called CDC Assets, with responsibility for the management of this part of our portfolio. CDC Assets, which came into being in April 2000, comprises experienced CDC people based primarily in London, but with important support in a number of our overseas offices. Its aim is to extract the maximum value for CDC from the portfolio under its control.

During 2000, the investments managed by CDC Assets provided CDC Capital Partners with a net cash inflow of £226.9m. As at 31 December 2000, the portfolio was comprised of £145.6m equity and £397.1m of loans, totalling £542.7m.

One of the first achievements of CDC Assets was to complete the transfer to our shareholder, the Department for International Development (DFID), of the economic interest in 51 public sector loans with a net book value of £159.6m. Many of these loans were expected to be subject either to debt forgiveness under the HIPC (Highly Indebted Poor Countries) initiative or major rescheduling through the Paris Club. For CDC, it was commercially unacceptable to retain loans on our books, where the possibility of a significant downgrade in value was outside our control. The transferred portfolio will continue to be monitored and administered by the CDC Assets team and a seven year contract to this effect has been agreed with DFID.

Operating and financial review

'In this review, we focus on CDC's portfolio performance, the significant trends in the business, and how we value our assets. We also look at risk – what risks CDC faces, and how we manage those risks.'

Richard Laing
Finance director

1. Results

CDC's business is to manage a portfolio of investments in businesses in certain lower income countries. We may decide to take a small minority stake, a stake which allows us to exercise significant influence over the investee company or, occasionally, we may have a controlling interest. Under UK accounting standards, we are required to equity account for our associates (investments where we exercise significant influence) and to consolidate all those businesses where we have a controlling interest. This we have done and the consolidated accounts are set out on pages 39 to 61.

In most other respects, other than accounting treatment, our associates and subsidiaries are identical to the rest of the portfolio, and their performance from an investment perspective can be measured in the same way. They are required to meet the same investment criteria and form an integral part of our core business of managing a portfolio of investments.

In order to explain more fully the investment activities of CDC, we have prepared a statement of total return and a portfolio valuation statement in which we have valued all our investments, including our associate and subsidiary companies. These statements are shown opposite. Ernst & Young have examined these statements and their report is also opposite.

2. Highlights

- Portfolio split into two:
  - CDC Capital Partners: ongoing private equity portfolio
  - CDC Assets: historical portfolio, mainly consisting of loan investments
- £258m invested during the year
- Economic interest in £160m of public sector loan assets transferred to shareholder
- Revenue account shows pre-tax return of £85.1m (before costs of fundamental restructuring), broadly level with 1999
- Capital account shows pre-tax deficit of £133.4m as a result of unrealised valuation losses and loan provisions
- Net cash of £97.8m held at year-end.

3. Portfolio

3.1 Summary
During the year, we split the portfolio into two parts. The first, CDC Capital Partners, consists of all investments made after 1 January 1998, unless they are in sectors we no longer wish to expand, and some earlier investments if they are in areas on which we have decided to focus. Associated debt investments which are separable from an equity investment are not included. The second part, known as CDC Assets, consists of our older investments and separable debt. Our intention is to realise the CDC Assets' portfolio over time and use the resulting cash proceeds to build up the CDC Capital Partners' portfolio. We expect the CDC Assets' portfolio to generate over £200m of cash per annum for the next two years.

The portfolio, at valuation, is shown opposite in the summarised balance sheet. During the year, the portfolio moved as follows:

	CDC Capital Partners £m	CDC Assets £m	Total £m
At start of year	406	921	1,327
New investments	217	41	258
Realisations and loan repayments	(48)	(176)	(224)
Transfer to DFID (see section 3.3)	-	(160)	(160)
Unrealised losses and provisions	(61)	(86)	(147)
Other (inc exchange movements)	7	3	10
At end of year	521	543	1,064

Summary statement of total return for year ended 31 December

	2000 CDC Capital Partners £m	2000 CDC Assets £m	2000 Total £m	1999 Total £m
Revenue account				
Revenue	**36.4**	**95.2**	**131.6**	132.1
Operating costs and other items			**(49.4)**	(42.3)
Exceptional items			**(12.8)**	(3.6)
Net interest			**2.9**	(0.7)
Revenue return before tax			**72.3**	85.5
Capital account				
Realised equity valuation gains and losses	**3.2**	**7.8**	**11.0**	11.3
Unrealised equity valuation gains and losses	**(41.2)**	**(53.8)**	**(95.0)**	(17.9)
Loan provisions	**(20.0)**	**(32.3)**	**(52.3)**	(23.0)
Exchange movements	**-**	**2.9**	**2.9**	(0.4)
Capital return before tax	**(58.0)**	**(75.4)**	**(133.4)**	(30.0)
Total return before tax			**(61.1)**	55.5
Tax			**9.6**	(20.0)
Minority interest			-	0.1
Total return after tax			**(51.5)**	35.6

Summarised balance sheet on a valuation basis at 31 December

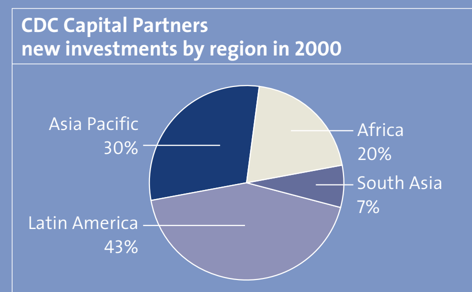
	2000 CDC Capital Partners £m	2000 CDC Assets £m	2000 Total £m	1999 Total £m
Equity investments	**388.6**	**145.6**	**534.2**	532.5
Loans	**132.6**	**397.1**	**529.7**	794.8
Total portfolio	**521.2**	**542.7**	**1,063.9**	1,327.3
Net cash			**97.8**	50.5
Other net assets			**(0.5)**	(5.4)
			1,161.2	1,372.4
Loans from government			**(755.0)**	(755.0)
Total net assets on valuation basis			**406.2**	617.4

Accountants' report on the summary statement of total return and summarised balance sheet on a valuation basis

We have examined the summary statement of total return for the year ended 31 December 2000 and summarised balance sheet on a valuation basis as at 31 December 2000 set out on this page, which is the responsibility of, and has been approved by, the directors. In our opinion, the summary statement of total return and summarised balance sheet on a valuation basis are fairly stated on the basis of the valuation methodology set out in section 5 on page 26.

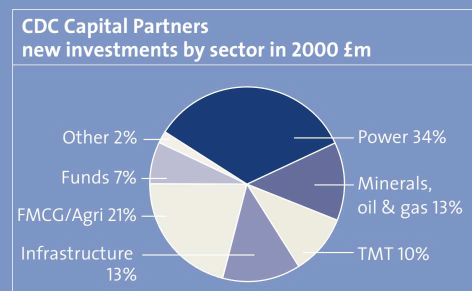
Ernst & Young

Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH
14 March 2001



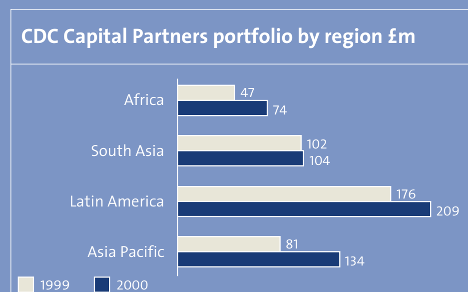
CDC Capital Partners new investments by region in 2000

Fig 1



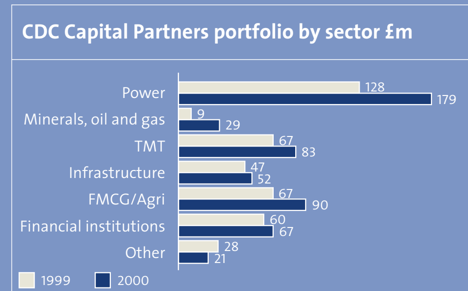
CDC Capital Partners new investments by sector in 2000 £m

Fig 2



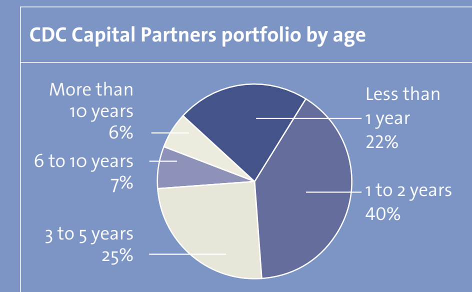
CDC Capital Partners portfolio by region £m

Fig 3



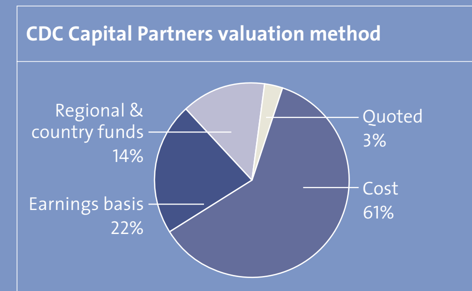
CDC Capital Partners portfolio by sector £m

Fig 4



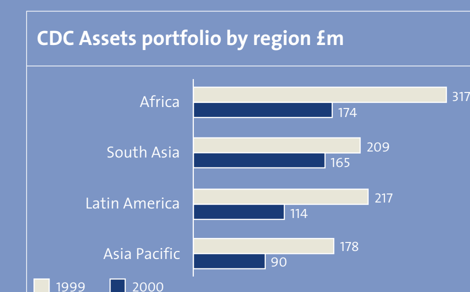
CDC Capital Partners portfolio by age

Fig 5



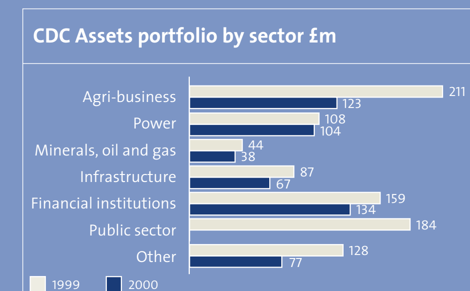
CDC Capital Partners valuation method

Fig 6



CDC Assets portfolio by region £m

Fig 7



CDC Assets portfolio by sector £m

Fig 8

3.2 CDC Capital Partners

Revenue

Total revenue, consisting of dividends, interest on loans and fee income, was £36.4m, which represents 7.9% of the average portfolio during the year.

New investments

We invested a total of £217m during the year. Our largest investments were as follows:

	£m
• Puerto Quetzal Power in Guatemala	31
• Palm oil businesses in Indonesia	29
• Haina power project in the Dominican Republic	22
• A pre-IPO investment in China National Offshore Oil Company Ltd (CNOOC)	17
• MSI, a pan-African mobile telephone business	13
• A toll road project in Argentina	10

Regionally, 43% of our new investments were in the Americas, mainly as a result of the two large power investments and the toll road project mentioned above. 30% was in Asia Pacific and 20% in Africa. In South Asia, the investment climate was difficult, with prices for investments generally well above those we considered to be good value. We therefore held back on new investments so that the region only represented 7% of the total.

On a sectoral basis, power was the largest sector at 34% of new investments.

Realisations

With a relatively young portfolio, we only sold ten investments, representing 4% of our opening portfolio. These sales included the transfer of a portion of our investment in CNOOC Ltd to our China fund that we have set up with CGNU. Ignoring this transfer, the average premium over opening valuation was 27%.

Valuation gains and losses

All our investments are revalued twice a year following our valuation methodology described in section 5 on page 26. The results of the year-end valuation showed a net £61.2m decrease in the portfolio. This represents 13.2% of the average portfolio. The total return on the portfolio, including capital movements and income received, was a £21.6m deficit, representing 4.7% of the average portfolio. There are no direct comparators for our private equity business, although there are indices for quoted equity investments. These indices reflect the liquidity and broad sectoral and geographical spread of quoted equities. For example, the MSCI Emerging Markets index for quoted equities fell by 32% during 2000, significantly more than our 4.7% decline. It should also be noted that well over half of our investments are still held at cost, as shown in figure 6.

Markets in many of the countries in which we operate continued to be tough. Our portfolio was also affected by the fall in valuations across the world in the telecommunications and technology sectors. For example, we hold an investment in Satyam Infoway, the highly successful Indian internet services company, through the South Asia Regional Fund (SARF), a fund which is managed by CDC and in which we have a 46.2% share. SARF owns 3.6m shares which were valued at $18 per share at the beginning of the year. The shares have an American Depository Receipt (ADR) listing on Nasdaq and the ADR price rose in line with Nasdaq during the early part of 2000 and then fell sharply. We reduced the valuation at the end of the year to $10 per share. This is still well above SARF's average cost of $3.38 per share.

Closing portfolio

Regionally we are strong in the Americas at 40% of the portfolio, reflecting the large holding of power investments in the region. Asia Pacific represents 26%, South Asia 20% and Africa 14%. We are endeavouring to increase the African proportion, although it is a challenge to find large investments yielding the required rate of return. We have recently opened new offices in Nigeria and Egypt in order to increase deal flow in the continent. Figure 3 shows the portfolio split by region.

The CDC Capital Partners portfolio is focused on a few sectors where we have particular experience and expertise. The largest of these is power where we have investments in both independent power producers and integrated power companies. At the year-end, power represented 34% of the portfolio, up from 32% at the start of the year. Figure 4 shows the portfolio split by sector.

3.3 CDC Assets

Revenue

Total revenue, consisting mainly of interest on loans, was £95.2m, which represents 13.0% of the average portfolio during the year.

New investments

As the portfolio is being realised, the only new investments were residual commitments totalling £40.6m during the year. We do not expect to make any material new investments in future.

Transfer to DFID

On 20 September 2000, we passed across to our shareholder, the Department for International Development (DFID), the economic interest in all of CDC's public sector loans. The book value of these loans was £159.6m. CDC now only invests in private sector businesses and seeks equity type returns. We and our shareholder both felt that loans to governments and other public sector institutions no longer fitted within our portfolio. We will continue to administer the loans on behalf of DFID, passing across to them all cash receipts of interest and principal from the loans. Any write-off, write-back or provision against the loans is to the account of DFID. Accordingly, the loans are no longer included in our balance sheet and the income from the date of transfer is no longer included in our revenue statement.

Realisations

CDC Assets is the cash generator for CDC. During 2000 we realised £159.4m of cash from loan repayments, at an average premium of 5% over book value. We also realised £24.5m from equity investments at an average premium over opening valuation of 46%.

Valuation gains and losses

As with CDC Capital Partners, all our investments are revalued twice a year following our valuation methodology described in section 5 on page 26. The results of the year-end valuation showed a net £86.1m decrease in the portfolio, representing 11.8% of the average portfolio.

The economic and political environment in many of the countries in which we operate were tough. For example, during 2000 there was political unrest in Fiji, the Solomon Islands, Peru, Cote d'Ivoire and Zimbabwe – all countries where we have investments. Many of our investments in CDC Assets are involved in the production and sale of commodities, such as sugar, orange juice and palm oil which have all suffered price decline or volatility with the consequential impact on the value of our investments.

We also experienced an increase in the level of non-performing loans (NPLs) in the first eight months of the year, mainly as result of the weak economic climate in many developing economies. It is however encouraging that since then many loans have either been successfully rescheduled and are now performing or have recovered. As a result, NPLs as a percentage of the loan portfolio have since fallen.

Closing portfolio

The CDC Assets portfolio consists of £397.1m of debt (73% of the portfolio) and £145.6m of equity (27%). The debt element yields well - an average of 15% is expected for 2001 – and the average length of repayment from 1 January 2001 is 44 months. The resultant cash spinning off from this portfolio will be used to fund CDC Capital Partners.

Figure 7 shows the portfolio split by region, with the largest proportion in Africa at 32% of the portfolio, where many of our agribusiness and infrastructure investments are based.

Sectorally, the CDC Assets portfolio is well balanced although, as would be expected with a historical portfolio, there is very little in the 'new economies' of telecommunications and information technology. Figure 8 shows the portfolio split by sector.

4. Operating costs and exceptional items

Operating costs increased from £42.3m to £49.4m during the year, mainly as a result of increased expenditure on costs incurred in reviewing potential deals. Costs on actual completed deals are capitalised only when the deal completes.

During the year, a large rationalisation exercise was carried out as described in the chief executive's statement. This resulted in 261 employees leaving CDC. The cost of this exercise was £8.0m and is shown within exceptional items.

5. Valuation methodology

CDC equity valuation guidelines have been developed in accordance with the guidance given by the British Venture Capital Association. The methodology is set out below.

1. Quoted equity that is liquid is valued at the quoted market price less a discount. The level of discount reflects the realisability of CDC's larger holdings and the degree of liquidity of the investment's equity. If liquidity is high, no discount is applied.

2. New unquoted investments are valued at cost for two years after acquisition. Should the investment fall below expectations within the two year period, a discount against the cost is applied.

3. Profitable unquoted equity, or illiquid quoted equity, is valued on an earnings basis using comparative price earnings multiples of quoted companies in similar sectors and emerging markets. Earnings are based on the latest set of audited accounts and are before exceptional items. All unquoted equity investments which are valued at more than £2m are further reviewed for factors which may materially affect their value.

The reviews consider, for example;

- the use of other earnings multiples such as EV/EBITDA (enterprise value to earnings before interest, tax and depreciation)
- more recent (and reliable) financial information
- recent third party transactions, and
- the value of put options held by CDC under which the investments have to be purchased by a third party, at CDC's option, at pre-determined values.

Individual valuations may then be adjusted to reflect the outcome of the reviews and discounts are applied to reflect the illiquidity of unquoted investments.

4. Loss making unquoted equity is valued at cost less a discount.

5. Property companies are valued at revalued net asset value.

6. Regional and country funds managed by CDC, and other venture capital funds managed by third parties, are valued at net asset value.

7. Provisions are made against non-performing loans (interest or capital in arrears) and against loans where problems have emerged.

The summary statement of total return has been prepared on the basis of the profit and loss account in the financial statements on page 39, with the exception of:

- deconsolidating subsidiaries' turnover and costs
- excluding the share of profits of associated companies
- including dividends and interest from subsidiaries and associated companies
- including realised and unrealised valuation gains on all investments, including investments in subsidiaries and associated companies, on a valuation basis.

6. Financial statements

6.1 Basis of preparation
The financial statements on pages 39 to 61 are prepared on a historic cost basis in accordance with generally accepted accounting principles.

6.2 Revenues from managed businesses
Turnover of the consolidated subsidiaries at £248.8m (1999 £178.4m) was substantially higher following Indonesian palm oil acquisitions in late 1999.

6.3 Investment income
The group's investment income of £101.0m was slightly down on 1999 (£115.4m). This is due to the move from debt to equity investments, where the returns are from gains on realisation rather than investment income and the transfer of the economic interest in public sector loans to DFID.

6.4 Loss/profit before tax
Loss before tax of £41.1m compares to profit of £79.9m for 1999. The weak performance mainly reflects the adverse economic climate of 2000 leading to more investment provisions and a lower result from our managed businesses, particularly palm oil and citrus.

6.5 Exceptional items
The changing status of CDC has necessitated major restructuring of the organisation and a staff redundancy programme to enable CDC to compete among other emerging market private equity funds and similar companies. Costs of £12.8m have been incurred in the year.

6.6 Taxation
The tax charge was nil compared with a charge of £23.1m in 1999. An analysis is set out in note 6 to the accounts. The provision in the Commonwealth Development Corporation Act 1999 concerning UK tax exemption for CDC had not been brought into effect by the year end.

6.7 Cash flow
The group's net debt at year end was £766.2m (1999 £798.3m). This includes £755.0m of interest free loans from the Government.

6.8 Balance sheet
Group net assets decreased from £601.4m to £405.9m net of loans from the Government of £755.0m, which are unchanged from 1999.

7. Risk management

7.1 Introduction
CDC adopts best practice, as reflected in the listing rules of the UK Financial Services Authority. This requires CDC to conform with the Combined Code, including principle D.2.1 on risk management. Further details on this and its application by CDC are included in the corporate governance report on pages 35 to 37.

CDC's risk operations are managed within limits defined by the board. We have formal maximum exposure limits for each country and sector in which we invest, and also for single investments and single sponsor exposures. Currently, all investments above £10m are reviewed and approved by the board; investments below £10m are approved by the investment committee, chaired by the chief investment officer.

7.2 Treasury risk management
The main function of treasury is to manage the group's funds and to minimise group currency exposure. To optimise this function CDC does enter into derivative type transactions, as described below. We do not however trade in derivatives, nor do we enter into transactions of a speculative nature.

The group conforms with Financial Reporting Standard 13, 'Derivatives and other Financial Instruments'. More detailed numerical and written disclosures are set out in note 19 on page 53.

7.3 Foreign currency risk
CDC invests in a wide range of low to middle income countries across the world. At the end of 2000, 68% of the loan portfolio was denominated in US dollars with 30% denominated in sterling. Anticipated US dollar loan receipts are sold forward into sterling at the time of disbursement. At 31 December 2000, we had sold forward US$938m of expected receipts at an average rate of US$1.604/£1. The group also faces transactional exposure, arising from transactions in the managed businesses that are in currencies other than the subsidiaries' functional currency (mainly US dollars). The subsidiaries seek, where possible, to match monetary assets and liabilities in currencies other than the functional currency.

8. Going concern

The directors are satisfied that the CDC Group has adequate resources to continue in existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

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Board of directors

1 Lord Cairns (61)
Chairman
Appointed chairman in June 1995. Chairman of the nominations committee and member of the business principles committee. Chairman of the Commonwealth Business Council and chairman of the Overseas Development Institute. Lord Cairns was formerly Chairman of Allied Zurich plc after a career with SG Warburg Group, where he was chief executive and deputy chairman.

2 Jayne Almond (43)
Deputy chairman
Appointed deputy chairman in January 1999. Chairman of the remuneration committee and member of the audit and compliance, and nomination committees. Ms Almond is currently managing director, European Internet Banking at Lloyds TSB. Prior to this she held positions at LEK Partnership, and Royal Dutch Shell in the UK and France.

3 Alan Gillespie (50)
Chief executive
Joined CDC in December 1999 from Goldman, Sachs & Co. Member of the nominations committee. He chairs the Northern Ireland Industrial Development Board, is a director of Elan Corporation plc and on the advisory board of the Judge Institute of Management Studies, Cambridge University. 7

4 Richard Laing (46)
Finance director
Joined CDC in January 2000 after 15 years at De La Rue where he held a number of positions both in the UK and overseas, latterly as group finance director. He was a non-executive director of Camelot plc. Prior to this he worked in agribusiness in developing countries and at PricewaterhouseCoopers.

5 Paul Fletcher (44)
Executive director
Appointed to the board in January 2001. Managing director for CDC's business in Africa, and co-ordinator of the six industry groups CDC has identified as offering high growth potential. Joined CDC in May 2000 from Citibank in London where he was latterly responsible for global emerging markets strategy and planning. Previous employers include Cargill, Bankers Trust and Swiss Bank Corporation International.

6 Andrew Reicher (46)
Executive director
Chief investment officer and responsible for building CDC's relationships with other private equity firms worldwide. Appointed to the board in January 2001. Previously managing director, private equity, at Credit Suisse First Boston. Began his career with Citicorp and, between spells at CSFB, spent five years with Botts & Co, a privately owned private equity firm.

7 Nicholas Selbie (55)
Executive director
Appointed to the board in January 2001. Responsible for managing CDC Assets – CDC's £570m loan and old equity portfolio. Previously CDC's director of finance, and managing director, CDC Investments. Prior to joining CDC in 1989 he was Director International Corporate Finance, Kleinwort Benson, following 14 years with BZW/Barclays Merchant Bank in London and New York.

8 Pen Kent CBE (63)
Non-executive director
Appointed to the board in 1995. Chairman of the audit and compliance committee and member of the remuneration committee. Executive chairman of European Securities Forum and non-executive director of the Strategic Rail Authority. Previous positions include non-executive director NatWest Group, executive director of the Bank of England, member of Private Finance Panel and alternate executive director at the International Monetary Fund (IMF).

9 Jonathan Kydd (49)
Non-executive director
Appointed to the board in 1997. Chairman of the business principles committee. Professor of Agricultural Development Economics at Imperial College of Science, Technology and Medicine. Member of the Advisory Council of ECGD.

10 Lalith de Mel (63)
Non-executive director
Appointed to the board in April 2000. Member of the business principles committee. Group director of Reckitt & Colman plc from 1991 to 1999. Non-executive director of a number of international companies, including Sri Lanka Telecoms Ltd, John Keels Holdings Ltd, Reckitt & Colman of Ceylon Ltd and Peoples Bank (Sri Lanka).

11 Russell Seal (58)
Non-executive director
Appointed to the board in 1996. Member of the remuneration, audit and compliance and business principles committees. Russell Seal was chief executive, BP Oil from 1988 to 1995 and Managing Director from 1991 until retirement in 1997. Non-executive director of Blue Circle Industries.

Directors' report

Statutory background

CDC was established as the Colonial Development Corporation in 1948. In 1963 it was renamed the Commonwealth Development Corporation and, since 1969, it has been able to operate in developing countries outside the Commonwealth. On 8 December 1999 CDC was transformed from a statutory corporation, governed by its own legislation, into a public company, limited by shares and governed primarily by the Companies Act 1985. The purpose of the transformation is to make CDC a suitable vehicle for a public private partnership.

Directors of CDC Group plc

The directors of CDC Group plc are: Lord Cairns (chairman), Jayne Almond (deputy chair), Paul Fletcher, Alan Gillespie, Pen Kent, Jonathan Kydd, Richard Laing, Lalith de Mel, Andrew Reicher, Russell Seal and Nicholas Selbie. Further details are shown opposite.

In addition, Peter Smitham was appointed to the board with effect from 15 March 2001.

Paul Fletcher, Andrew Reicher and Nicholas Selbie were appointed directors on 17 January 2001.

Russell Seal proposes to retire at the forthcoming annual general meeting.

The articles of association of the company provide for one third of the directors to retire by rotation at each annual general meeting, excluding the non-executive directors appointed by the Secretary of State for International Development. The directors retiring by rotation at the forthcoming annual general meeting are Lord Cairns and Jayne Almond. Being eligible, they offer themselves for re-election.

The articles also provide that any director appointed by the board should retire at the first annual general meeting after his or her appointment. Paul Fletcher, Andrew Reicher, Nicholas Selbie and Peter Smitham will therefore retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2000, which were approved by the board on 14 March 2001.

Principal activities

CDC is a leading investor in emerging markets. The principal activities of the group include investment in the form of risk capital, management of funds for third party investors and provision of corporate management expertise.

CDC's mandate is to maximise the creation and long term growth of viable businesses in developing countries, especially poorer countries, achieve attractive returns for shareholders and implement social, environmental, health and safety and ethical best practice in the conduct of CDC's and its subsidiary undertakings' businesses. In pursuit of this mandate, CDC applies a set of business principles, more details of which can be found on pages 33 and 34.

Business review

The chairman's statement on pages 2 and 3, the chief executive's review on pages 4 to 7, and the operating and financial review on pages 22 to 27 report on the performance of the business for the year, the position as at 31 December 2000 and the future development of the business.

The company has 30 overseas branches which are responsible for identifying business opportunities and monitoring existing investments.

Results

Gross income, consisting of turnover plus investment income, in the group accounts for 2000, was £349.8m (1999 £293.8m). Including the £159.6m transfer to DFID of the economic interest in public sector loans, there was a loss of £202.2m transferred to reserves.

Responsibilities of directors

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

- select suitable accounting policies and then apply them consistently
- make judgements and estimates which are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

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

Investment management and voting

In making investments, CDC aims to add value to the business. The basis for assessing added value has included augmenting capital flows, improving project structure, initiating and developing new enterprises and, sometimes, providing technical and professional support.

CDC nominates third parties, as well as its own employees, to serve on the boards of investee companies and managed funds. CDC's policy is full corporate participation, including voting on all resolutions raised at company meetings.

Interests of the directors

None of the directors at any time during the year ended 31 December 2000 or subsequent to 31 December 2000 was interested in any shares or debentures of the company. The executive directors are, however, entitled to participate in the long term incentive plan, details of which are set out in the board report on remuneration on page 31.

None of the directors at any time during the year ended 31 December 2000 had any material interest in any contracts with the company or its subsidiaries.

Political and charitable contributions

No political or charitable donations were made by the company during the period.

Employees

CDC's policy on employment is one of equal opportunity in the recruitment, training, career development and promotion of employees, whether disabled or otherwise. The company treats applicants and employees with disabilities fairly and provides facilities, equipment and training to assist disabled employees in carrying out their duties.

Formal employee appraisals and informal discussions are the group's principal means of keeping up to date with the views and opinions of its employees. In addition, managers throughout CDC are responsible for keeping their employees up to date with developments and performance of the business, which is achieved via regular feedback meetings. Communication is also facilitated through the regular forums between management and employees, which allow a free flow of information and ideas.

Major interests in shares

The Secretary of State for International Development holds 99,999,999 ordinary shares of 10p and one special rights preference share of £1 in the capital of the company. The remaining one issued ordinary share of 10p is held by the solicitor for the affairs of HM Treasury.

Policy for paying creditors

CDC's policy is to pay its creditors promptly, as encouraged by UK Government initiatives. At 31 December 2000 the company had an average of 26 days' purchases outstanding in trade creditors.

Auditor

Ernst & Young has signified its willingness to continue in office, and a resolution re-appointing it as auditor and authorising the directors to determine the auditors' remuneration will be proposed at the annual general meeting.

Ernst & Young has stated that, subject to the approval of the partners, it is intending to transfer its business to a Limited Liability Partnership during the year. If this happens, it is the current intention of the directors to use their statutory powers to treat the appointment of Ernst & Young as extending to Ernst & Young LLP.

Joseph Whitfield
Secretary, CDC Group plc
On behalf of the board of directors
14 March 2001

Board report on remuneration

Remuneration policy for executive directors and senior executives

The company has complied throughout the year with section A of the best practice provisions annexed to the Financial Services Authority listing rules and has paid full consideration to section B when determining remuneration policy.

Elements of remuneration

Base salary

Individual base salaries reflect job responsibilities, market rate and the sustained level of individual performance. CDC sets base salaries taking account of the mid-market data derived from appropriate surveys of financial service organisations in general, and private equity providers in particular. External independent advice through recognised salary surveys as to salary levels appropriate to individual responsibilities is undertaken annually. Executive director and senior executive salaries are reviewed annually.

Annual bonus

In addition to salary, all employees are eligible for an annual performance related bonus, which is non-pensionable. The board believes that it is important that executives have an element of their annual remuneration 'at risk' and based on performance. The plan is a short term reward which reflects the individual's performance in the context of the overall performance of CDC. The maximum bonus executive directors may receive for the year to 31 December 2001 is a sum equivalent to 40% of their respective base salary.

Long term incentive plan

This plan provides employees with the opportunity to share in the growth of the company over the longer term. The plan incorporates two award types, **formula** and **discretionary**.

The formula based award is made to all eligible employees. Awards are based on a percentage of salary by seniority group. Alan Gillespie and Richard Laing were granted notional investments of £96,000 and £75,000 respectively under the formula based award for the year 2000 plan.

The discretionary award is open to a limited number of individuals. Awards are determined annually with the quantum of awards and the recipients changing from year to year. Alan Gillespie and Richard Laing were granted notional investments of £464,000 and £362,500 respectively under the discretionary based award for the year 2000 plan.

Notional investments, ie the **awards**, are held within the plan for a period of three years. Payments are based on the 'gain' generated on the award, calculated on the net asset value (NAV) growth of the company over the plan period, subject to a minimum average growth hurdle of 5%.

Payments are made in equal instalments over the two years following the plan term and are subject to an annual payment limit.

Benefits in kind

Benefits in kind include medical and life insurance. Each executive director is provided with life assurance cover which will pay a lump sum equivalent to four times the executive director's salary in the event of the death of the executive director. In addition, permanent health insurance is provided to each executive director in the event that they are unable, through ill-health, to continue to work for the company, and private medical insurance is made available through private patients plan (PPP) to executive directors and their families. A limited number of other benefits are provided.

Pension arrangements

In respect of Alan Gillespie, the company pays a contribution equal to 17.5% of his base salary (subject to Inland Revenue limits on contribution) to a personal pension plan. Richard Laing is a member of the CDC Pensions Scheme under which he accrues defined benefits in respect of his salary up to the earnings cap. In addition, the company pays a contribution, equal to 30% of the amount by which his base salary exceeds the earnings cap, to a funded unapproved retirement benefits scheme (FURBS) in respect of him.

Service agreements

Alan Gillespie and Richard Laing have service agreements terminable on both sides by twelve months' notice. The non-executive directors do not have service agreements.

The appointments of non-executive directors have no contractual termination date, but each non-executive director (excluding the non-executive directors appointed by the Secretary of State for International Development) will be subject to re-election at an annual general meeting in accordance with the provisions for retirement of directors by rotation contained in the company's articles of association.

Compensation for early termination

Service agreements with executive directors contain no specific termination provisions; however, any compensation claims from departing directors would be scrutinised by the remuneration committee.

Payment to past director

A discretionary terminal bonus of £10,000 was made to Dr Roy Reynolds, previous chief executive, in April 2000.

Outside directorships

The company believes that it can benefit from executive directors holding non-executive appointments; it also believes that such appointments provide a valuable opportunity for personal and professional development. Such appointments are subject to the approval of the board and it is CDC's practice that fees derived from such appointments are normally returned to CDC. Alan Gillespie has two non-executive appointments (Northern Ireland Industrial Development Board and Elan Corporation plc). Andrew Reicher has one non-executive appointment (Treecourt Advisers Limited).

Non-executive directors' remuneration

The executive directors make recommendations to the chairman of the board in respect of non-executive directors' fees for all the services normally expected of them as members of the board and its committees. The remuneration of the non-executive directors was last reviewed in December 1999 and the basic fee for all non-executive directors (except for the chairman and deputy chairman) is £7,500 per annum. The basic fee for the chairman is £30,000 per annum and for the deputy chairman is £10,000 per annum. The fees paid to non-executive directors in 2000 are set out in the table below. The non-executive directors do not participate in any of the incentive or benefit schemes of the company.

APPENDIX

Directors' remuneration

During the year ended 31 December 2000 the remuneration of the directors was as follows:

	Base salary and fees £	Benefits £	Performance related bonuses £	Total 2000 £	Total 1999 £
Non-executive directors:					
Chairman					
Lord Cairns	32,250			32,250	30,813
Deputy chairman					
Jayne Almond	13,146			13,146	11,625
Pen Kent	9,000			9,000	9,000
Jonathan Kydd	8,250			8,250	8,250
Russell Seal	10,620			10,620	8,953
Lalith de Mel (from 13 April 2000)	5,909			5,909	-
Executive directors:					
Chief executive					
Alan Gillespie	160,000	8,268	57,600	225,868	13,333
Finance director					
Richard Laing (from 24 January 2000)	114,583	822	45,000	160,405	-

Pension entitlements

The pension entitlement for the executive directors are as follows:

	2000 £	1999 £
Chief executive		
Alan Gillespie, contributions to personal pension plan	28,000	2,333
Finance director		
Richard Laing, contributions to FURBS	9,745	-

	Increase, excluding inflation, in accrued pension during the year £	Transfer value of increase* £	Accumulated total accrued pension at 31 December 2000 £	Accumulated total accrued pension at 31 December 1999 £
Richard Laing	2,104	26,877	2,104	-

*Transfer values represent a liability of the company, not a sum paid or due to the individual.

At CDC Capital Partners we are committed to implementing social, environmental and ethical good practice in our investment activities. Following the development of formal policies and procedures in 1998 and 1999, in 2000 we focused on embedding these in our day-to-day business, to ensure they form an integral part of CDC's assessment of the attractiveness of an investment proposition and our ongoing monitoring. This process not only provides us with a measure of compliance with our HSES policies but also contributes in the longer run to the financial performance of our portfolio. As public attention on corporate social responsibility continues to increase, we are confident that our proactive stance will serve us well.

Business principles report

This report outlines the progress made in 2000 and states our plans for 2001 and beyond.

Policies and procedures

During the year, we revised our health & safety, environmental and social issues (HSES) policies, primarily to improve their clarity, but also to reflect CDC's move away from majority ownership and control of businesses and our increased focus on equity investment and portfolio management. The revised policies are available in hard copy and on our website.

We updated and re-issued our business integrity manual. This continues to provide direction to employees worldwide on our standards for operating with the highest levels of business integrity and ethical best practice. In addition, during the course of the year, we extended the requirement for business integrity procedures to our associated fund management companies and they have introduced their own appropriate standards.

CDC allocates a risk rating in each of the HSES areas to each investment proposal. CDC's business principles unit reviews the rating and discusses any concerns with the investment executive. The risk rating indicates the extent and focus of the due diligence required.

All submissions to CDC's investment committee include an assessment of HSES and business integrity issues. All potential investee companies are required to commit to a minimum undertaking in these areas. CDC will only invest if we are satisfied that the company can comply with our stated principles and policies.

Monitoring of investments

During the year, we gathered information on the HSES issues arising on each of the active investments in our portfolio. The survey focused on our investments in operational companies in which we have influence, whether through the size of our equity involvement, through loan covenants or through representation on the board.

From this study, the business principles unit has put together a programme of monitoring visits and in 2001, will investigate between 30 and 40 investments. We will prioritise two types of investment - those with the greatest potential for adverse social or environmental impact; and those which require improved management of the HSES risks. Investment executives will continue to monitor and report on HSES issues on all investments in their area of responsibility as an integral part of their portfolio management.

During 2000, we identified, both through our own investigations and through matters being brought to our attention by other stakeholders, a number of companies requiring an urgent review. Each of these "trouble-shooting" visits resulted in recommendations, and the business principles unit will monitor progress on these.

Training

During 2000, the business principles unit and the CDC compliance officer conducted training/awareness sessions on HSES and business integrity issues around all of CDC's regions. Training has also been provided on specific areas, such as anti-money laundering, to all appropriate employees.

Business principles report continued

Wherever possible, overseas investment executives will receive practical training through accompanying the business principles unit on monitoring visits taking place in 2001. In addition, sector-specific workshops will be held. A detailed programme of modular training on our business integrity procedures will be delivered to all staff during 2001.

The training not only raises the awareness of employees but also provides an opportunity to get feedback on the effect of the procedures in different locations and sectors and to explore the practical difficulties.

Summary of the results of the HSES survey

We undertook an extensive survey in 2000 to identify the HSES risks in the portfolio; to review the action being taken; and to establish a benchmark against which we can measure progress on the development of HSES policies, training and reporting by investee companies. This survey took the place of the evaluation of performance against mandate (EPAM) programme which we had carried out in 1997, 1998 and 1999, but which was no longer appropriate for CDC given the substantial change in the nature of our business.

The results can be summarised as follows –

Quality of management of HSES issues by the investee company	% of CDC Capital Partners investments	% of CDC Assets investments (excluding those which are inactive)	% of total investments
Good	34%	30%	30%
Fair	64%	66%	66%
Poor	2%	4%	4%

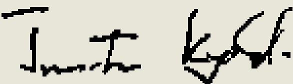
The HSES information gathered by the survey provides us with a comprehensive benchmark from which we can analyse the current and future performance of our investments in terms of compliance with our business principles. We will focus in 2001 on all investments with "poor" management of the HSES issues and on investments with significant HSES risks, where management of the issues is only "fair". We aim to demonstrate improvements in next year's annual report.

External verification

During 2000, Impactt Consultants provided us with advice on our preparation for external verification of our performance against the business principles. We have already enacted most of their recommendations. During 2001, we will identify an appropriate independent body to review and report on the implementation of our procedures and their effectiveness. We expect the conclusions to be presented in next year's annual report.

Business principles committee

The business principles committee met four times during 2000, reviewing progress on implementation of the HSES procedures and offering advice and guidance on specific investments. On matters relating to business integrity, the audit and compliance committee receives reports from the compliance officer and recommends the adoption of these reports to the business principles committee. The business principles committee is chaired by Jonathan Kydd and the members are Lord Cairns, Lalith de Mel and Russell Seal.



Jonathan Kydd
On behalf of the business principles committee

Corporate governance report

Compliance with the Combined Code

The board of directors support best practice in corporate governance. CDC has established a system of corporate governance that complies fully with the Combined Code on corporate governance contained in the listing rules of the Financial Services Authority so far as appropriate for a company which is wholly owned by the Government.

Directors and board

The board comprises a non-executive chairman, Lord Cairns; deputy chair, Jayne Almond; chief executive, Alan Gillespie; finance director, Richard Laing; executive directors, Paul Fletcher, Andrew Reicher and Nicholas Selbie; and non-executive directors, Pen Kent, Jonathan Kydd, Lalith de Mel and Russell Seal. All the non-executive directors are regarded as independent. Jonathan Kydd and Russell Seal are the non-executive directors appointed by the Secretary of State for International Development pursuant to article 92 of the CDC's articles of association under the rights of the special shareholder.

The non-executive directors are from varied business and other backgrounds, and their experience enables them to exercise independent judgement on the board with the result that their views carry substantial weight in board decisions. They contribute to the company's strategy and policy formation, in addition to monitoring its performance and its executive management.

The biographies of all members of the board are given on page 28.

The chairman and chief executive agree the agenda for board meetings, but all board members are entitled to raise other issues. The chairman ensures that all board members are properly briefed on all issues arising at board meetings. It is the responsibility of the executive directors to ensure that the board is supplied with information in a timely manner in a form and of a quality appropriate to enable it to carry out its duties.

The role of the board is to determine the company's direction and strategy; monitor the achievement of business objectives; and ensure that the company meets its responsibilities to its shareholders. The board also needs to ensure that the control environment adequately protects the company's assets against the major risks it faces. The board meets ten times per annum and additionally as required. There is a well established division of authority and responsibility at the most senior level within the company through the separation of the roles of chairman and chief executive. There is a commitment to competence and integrity and to the communication of ethical values and control responsibilities to managers and employees. Ethical standards are communicated through the business principles statement (adopted pursuant to article 52 of CDC's articles of association). Details of progress made in 2000 are contained in the report of the business principles committee on page 33.

The board structure ensures that no one individual or group dominates the decision making process. There is a schedule of matters reserved to the full board for decision/approval and clear delegation of authority to the chief executive and other senior executives within the company for other specified matters. A procedure exists for the determination of matters arising between scheduled meetings. There are established procedures for planning and capital expenditure, for the making of investments, and for information and reporting systems for monitoring the group's businesses and performance.

Newly appointed directors are subject to election by shareholders at the annual general meeting following appointment. Excluding any newly appointed directors, the company's articles of association ensure that, on a rotational basis, one third of the directors (excluding the non-executive directors appointed by the Secretary of State for International Development) resign every year and, being eligible, offer themselves for re-election. Lord Cairns and Jayne Almond will therefore be offering themselves for re-election at the next annual general meeting.

All directors have access to the advice and services of the general counsel and group secretary. Any director can take independent professional advice at the company's expense, if considered necessary.

All non-executive directors receive an induction into CDC and regular training is provided to all directors. Directors regularly attend presentations from senior employees on different aspects of CDC's business.

Committees

The board has four principal standing committees, each governed by written terms of reference, defining their frequency of meetings, powers and duties, reporting obligations and chairman.

– Audit and compliance committee
  The audit and compliance committee comprises three independent non-executive directors: Pen Kent (chair), Jayne Almond and Russell Seal. The chief executive and finance director attend by invitation.

The committee meets no fewer than three times per annum and additionally as required. The committee met five times in 2000. The committee's main duties are: to oversee the affairs of the company; to review the financial statements and preliminary and interim results; to review the findings of the external auditors; to direct the internal audit function; to monitor the management accounting procedures and policies; to investigate any irregularities; to oversee the company's regulated activities and compliance function; to meet with internal and external auditors and management; to monitor the company's risk management function; and to make recommendations to the board on the remuneration for the external auditors. The committee also reviews the company's system of internal control. Further details about the company's system of internal control are set out in the section on internal control below.

– Business principles committee
The business principles committee comprises four independent non-executive directors: Jonathan Kydd (chair), Lalith de Mel, Lord Cairns and Russell Seal. The chief executive attends by invitation.

The committee meets no fewer than three times a year and additionally as required. The committee met four times in 2000.

The committee is required to satisfy itself that adherence to the CDC's business principles (as referred to in articles 52 and 120(E) of the company's articles of association) are embedded in its operations. Further, it reviews and reports to the board on the continued appropriateness or change to the company's business principles. An executive working group is assigned to operate in support of the committee. The report of the business principles committee is contained on page 33.

– Remuneration committee
The remuneration committee comprises three independent non-executive directors: Jayne Almond (chair); Russell Seal; and Pen Kent. The chairman and chief executive attend by invitation. The committee meets no fewer than twice a year and additionally as required. The committee met six times in 2000.

Further details of the remuneration committee's remit are set out in the board report on remuneration on page 31, which includes details of directors' remuneration and service contracts.

– Nomination committee
The nomination committee comprises three directors, two of whom are independent non-executives: Lord Cairns (chair); Jayne Almond; and Alan Gillespie. It meets on an ad hoc basis, as required.

The committee's responsibilities include reviewing the board structure, size and composition, and succession planning (having regard to the rights of the Secretary of State for International Development as holder of the special share).

In addition, there are two committees comprising the executive directors and senior management.

– Investments committee
The chief executive (or his alternate, the chief investment officer) chairs a committee comprising members of the management committee which meets weekly to consider investment and divestment proposals. The committee operates within strict delegated authorities from the board and can, under such delegated authorities, make certain investment and divestment decisions. All major investment decisions are referred to the board for approval. Further details are provided under the section on internal control below.

– Management committee
The chief executive chairs a committee comprising the executive directors and certain other senior executives, which meets weekly and has as its purpose to deal with operational issues and to improve communication and co-ordination throughout the company.

There are a number of additional executive working groups which support both the operational and investment selection functions.

Legal matters
Litigation and other legal matters are controlled by the general counsel's office.

Internal control
The company is compliant with all aspects of the Combined Code appropriate for a company that is wholly owned by the Government; such compliance includes an appropriate system for internal control. The board acknowledges that it has ultimate

Corporate governance report continued

responsibility for the group's system of internal control and for reviewing its effectiveness. It has delegated the detailed design and operation of the system of internal control to the executive directors. Additionally, the responsibility for reviewing the effectiveness of the system of internal controls rests with the audit and compliance committee. The system described below has not been applied to CDC Group plc associates.

CDC's internal control systems are designed to meet CDC's particular needs and the risks to which it is exposed. No system of internal control can provide absolute assurance against material mis-statement or loss. The company's system is intended to provide the board with reasonable assurance that potential problems will normally be prevented or will be detected in a timely manner for appropriate action. The board is satisfied that this intent was fulfilled in the 2000 financial year. Material breaches of these control systems are reported to the audit and compliance committee and are properly actioned.

The key processes used by the board to review the effectiveness of the system of internal controls include the following:

– The board has detailed business planning and control systems, including annual budgets, business plans and monthly reporting against financial and business targets. A regular review by the chief executive approves corporate strategies, business principles and commercial objectives. Detailed management authorisation, approval and control levels, including those for the chief executive, have been approved by the board. The board must specifically approve transactions above these levels. The greatest single risk faced by CDC is that of a significant reduction in the value of its portfolio. This can be considerably affected by external factors beyond CDC's control. The board is, however, satisfied that the valuation process, described in section 5 on page 26, is rigorous and effective.

– There is a group internal audit function, which operates to a programme approved by the audit and compliance committee concentrating on areas of higher risk. In addition, the external auditors review the system of internal controls and the information contained in the annual report and accounts to the extent necessary for expressing their opinion. As indicated on page 36, the audit and compliance committee receives reports concerning accounting policies, internal financial controls and financial reporting from internal and external auditors.

– The company established a 'risk management' function in 1999. As a result, there is now a continuous process, agreed with the audit and compliance committee, for identifying, evaluating and managing the significant risks faced by the company. This process also ensures that appropriate internal control mechanisms are in place. In 2000, this risk management function provided regular reports to the audit and compliance committee, covering all areas of major financial and non-financial risk and the associated internal controls.

Auditors' report

We have audited the accounts on pages 39 to 61 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 43.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report. As described on pages 29 and 30, this includes responsibility for preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, 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 the information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the corporate governance statement on pages 35 to 37 reflects the group's compliance with the seven provisions of the Combined Code, as set out in the Listing Rules of the Financial Service Authority, and we report if it does not.

We are not required to consider whether the board's statements on internal controls cover all risks and controls, to form an opinion on the effectiveness of either the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amount and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 31 December 2000 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Registered Auditor
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH
14 March 2001

Group profit and loss account

	Note	2000 £m	1999 £m
Turnover	1	**248.8**	178.4
Investment income	1	**101.0**	115.4
Group operating profit	2	**57.4**	98.9
Share of operating profit in associates		**8.4**	7.8
Total operating profit		**65.8**	106.7
Exceptional items	3	**(11.7)**	(4.1)
Interest receivable and similar income		**5.9**	4.1
Interest payable and similar charges	5	**(14.7)**	(8.4)
Investment provisions		**(91.8)**	(22.2)
Exchange gains and losses		**5.4**	3.8
(Loss)/profit before taxation		**(41.1)**	79.9
Taxation	6	**1.3**	(20.7)
Share of associates' taxation	6	**(1.3)**	(2.4)
(Loss)/profit after taxation		**(41.1)**	56.8
Minority interest		**(1.5)**	(0.1)
(Loss)/profit for the year		**(42.6)**	56.7
Transfer to shareholder	11	**(159.6)**	–
Transferred to reserves		**(202.2)**	56.7

Statement of total recognised gains and losses

	Note	2000 £m	1999 £m
(Loss)/profit for the year		**(42.6)**	56.7
Transfer to shareholder		**(159.6)**	–
Exchange difference on retranslation of net assets in subsidiaries		**7.2**	11.3
Total recognised gains and losses for the year		**(195.0)**	68.0
Prior year adjustment	27	**(31.2)**	–
Total gains and losses recognised since last annual report		**(226.2)**	68.0

There is no difference between the loss on ordinary activities before taxation and the retained loss for the year stated above and their historical cost equivalents.

Group balance sheet

at 31 December 2000

	Note	2000 £m	1999 as restated £m
Intangible assets	9	**15.8**	22.2
Tangible assets	10	**282.7**	268.0
Investments	11	**814.2**	1,051.0
Fixed assets		**1,112.7**	1,341.2
Stocks	12	**41.8**	33.6
Debtors	13	**126.9**	120.1
Cash at bank and in hand		**120.1**	75.3
Current assets		**288.8**	229.0
Creditors – amounts falling due within one year			
Short term borrowings	14	**(137.5)**	(86.7)
Other creditors	14	**(62.1)**	(58.0)
Net current assets		**89.2**	84.3
Total assets less current liabilities		**1,201.9**	1,425.5
Creditors – amounts falling due after more than one year			
Long term borrowings	15	**(748.8)**	(786.9)
Other creditors	15	**(24.2)**	(12.0)
Provisions for liabilities and charges	18	**(23.0)**	(25.2)
Net assets		**405.9**	601.4
Represented by:			
Called up share capital	20	**10.0**	10.0
Profit and loss account	21	**352.5**	547.5
Shareholders' funds		**362.5**	557.5
Minority interest		**43.4**	43.9
		405.9	601.4

The accounts were approved by the members of the Board on 14 March 2001 and were signed on their behalf by:

Lord Cairns
Chairman

Richard Laing
Finance director

The accounting policies and notes on pages 43 to 61 form part of the accounts.

Group cash flow statement

for the year ended 31 December 2000

	Note	2000 £m	1999 £m
Cash inflow from operating activities	22a	**98.9**	77.3
Returns on investments and servicing of finance	22b	**(11.5)**	(1.4)
Taxation paid		**(19.3)**	(3.1)
Capital expenditure and financial investment	22c	**(21.4)**	(22.7)
Acquisitions and disposals	22d	**(6.2)**	(37.8)
Cash inflow before use of liquid resources and financing		**40.5**	12.3
Management of liquid resources		**(53.9)**	(35.0)
Financing	22e	**4.1**	12.6
(Decrease) in cash in the year		**(9.3)**	(10.1)

Reconciliation of net cash flow to movement in net debt

	2000 £m	1999 £m
(Decrease) in cash in the year	**(9.3)**	(10.1)
Cash outflow from increase in liquid resources	**53.9**	35.0
Cash inflow from increase in net debt	**(4.1)**	(12.6)
Change in net debt resulting from cash flows	**40.5**	12.3
Loans and finance leases acquired with subsidiaries	**(12.1)**	(13.1)
Loans in disposed subsidiaries	**5.9**	–
Translation difference	**(2.2)**	(2.1)
Movement in net debt in the year	**32.1**	(2.9)
Net debt at start of year	**(798.3)**	(795.4)
Net debt at end of year	**(766.2)**	(798.3)

Company balance sheet

at 31 December 2000

	Note	2000 £m	1999 £m
Tangible assets	10	**27.3**	27.5
Investments	11	**898.9**	1,152.5
Fixed assets		**926.2**	1,180.0
Debtors	13	**51.4**	69.4
Cash at bank and in hand		**83.4**	44.9
Current assets		**134.8**	114.3
Creditors – amounts falling due within one year			
Short term borrowings	14	**(82.5)**	(43.1)
Other creditors	14	**(29.1)**	(33.6)
Net current assets		**23.2**	37.6
Total assets less current liabilities		**949.4**	1,217.6
Creditors – amounts falling due after more than one year			
Long term borrowings	15	**(675.7)**	(716.8)
Other creditors	15	**(0.6)**	(0.1)
Provisions for liabilities and charges	18	**(22.5)**	(24.0)
Net assets		**250.6**	476.7
Represented by:			
Called up share capital	20	**10.0**	10.0
Profit and loss account	21	**240.6**	466.7
Shareholders' funds		**250.6**	476.7

The accounts were approved by the members of the Board on 14 March 2001 and were signed on their behalf by:

Lord Cairns
Chairman

Richard Laing
Finance director

The accounting policies and notes on pages 43 to 61 form part of the accounts.

Accounting policies

Accounting convention
These accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of accounting
The group accounts consolidate the accounts of CDC Group plc and its subsidiary undertakings drawn up to 31 December each year. The result of susidiaries acquired or sold are consolidated from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

Those investments where CDC holds between 20% and 50% and has active management involvement have been treated as associates and accounted for under the equity method of accounting. Where CDC owns below 50% and acts purely as a passive investor, the interests are accounted for as investments.

Income recognition
Dividend income is recognised on a received basis. Interest income is recognised on an accruals basis. Where interest on loans is more than ninety days overdue, all interest is excluded.

Fees and commission income are either recognised as income when received or are apportioned over the life of the related transactions as they are deemed to be earned.

Provisions
Investment provisions are set in conjunction with investment valuations. Specific provisions are maintained against those investments and current assets that, in the opinion of the Board, currently have an impairment in value.

Foreign currencies
On consolidation, assets and liabilities of subsidiary undertakings are translated into sterling at closing exchange rates. The profit and loss account and the cash flow statement are translated at average exchange rates.

Exchange differences arising from the retranslation of net investments in subsidiary and associated undertakings and differences between profit and loss accounts translated at average rates and at closing rates are dealt with in reserves. Other equity investments are shown at original sterling cost. Exchange gains and losses arising in the normal course of trade are included in the profit and loss account.

Derivative financial instruments
CDC is a party to forward foreign exchange contracts in order to manage currency exposure on some foreign currency loans by determining the sterling value of future receipts of loan repayments and interest income. Discounts or premia on these contracts are included in income over the life of the contract. Foreign currency loans and the corresponding forward foreign exchange cover are included in the balance sheet at the year end rate.

Tangible fixed assets
The group has implemented financial reporting standard No 15 (FRS 15) for the year ended 31 December 2000. Details of the impact are disclosed in Note 27 of the accounts. Finance costs are capitalised as permitted by FRS 15. The impact of FRS 15 in the current year is immaterial.

Freehold land is not depreciated. Leasehold land and buildings are depreciated on a straight line basis in accordance with the tenure of the lease. Other buildings are amortised over their estimated useful economic lives, which vary from 10 to 40 years. Other tangible assets are depreciated on the straight line method over their estimated useful lives, which range from 5 to 50% according to their type.

Goodwill
Goodwill is the excess of purchase consideration over the fair value of net assets acquired. It is capitalised and amortised over its estimated useful economic life, which is limited to the lower of the expected life of the investment or twenty years.

Intangible assets
Intangible assets acquired seperately from a business or as part of an acquisition of a business, are capitalised at cost. Intangible assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred. Intangible assets are amortised on a straight line basis over their estimated useful lives up to a maximum of 20 years

Stocks
Stocks and stores are valued at the lower of cost and net realisable value.

Pensions
The cost of providing pensions is charged to the profit and loss account on a systematic basis over the expected average remaining service lives of current employees.

Deferred taxation
Deferred taxation is calculated under the liability method on the timing differences arising from the difference between the accounting and tax treatment of depreciation and other items. Provision is made or recovery anticipated where timing differences are expected to reverse in the foreseeable future.

Deferred tax is provided in full on the overseas earnings of susidiaries.

Notes to the accounts

1 Segmental analysis

	CDC Assets £m	CDC Capital Partners £m	Total 2000 £m	1999 £m
Income				
Africa	119.7	7.3	127.0	118.7
Americas	49.4	81.7	131.1	83.0
East Asia and Pacific	20.5	45.8	66.3	69.8
South Asia	22.2	3.2	25.4	22.3
	211.8	138.0	349.8	293.8
Profit before interest and taxation				
Africa	4.1	(10.2)	(6.1)	1.7
Americas	1.8	(24.6)	(22.8)	34.2
East Asia and Pacific	(14.9)	(9.9)	(24.8)	17.5
South Asia	25.1	(3.7)	21.4	30.8
	16.1	(48.4)	(32.3)	84.2
Interest receivable			5.9	4.1
Interest payable			(14.7)	(8.4)
(Loss)/profit before taxation			(41.1)	79.9
Net assets				
Africa	217.2	70.1	287.3	494.8
Americas	182.3	247.2	429.5	478.3
East Asia and Pacific	84.8	122.8	207.6	260.1
South Asia	171.3	93.6	264.9	203.6
	655.6	533.7	1,189.3	1,436.8
Net debt			(766.2)	(798.3)
Taxation and provisions for liabilities and charges			(17.2)	(37.1)
Net assets per balance sheet			405.9	601.4

2 Group operating profit

	2000 £m	2000 £m	1999 £m	1999 £m
Turnover		248.8		178.4
Investment income		101.0		115.4
Income		349.8		293.8
Cost of sales		(162.3)		(118.5)
Gross profit		187.5		175.3
Administration and distribution expenses				
Auditors' remuneration – UK	(0.2)		(0.2)	
Auditors' remuneration – overseas	(0.6)		(0.4)	
Non-audit services – UK	(0.1)		(0.1)	
Non-audit services – overseas	(0.1)		(0.1)	
Depreciation of owned assets	(56.4)		(33.8)	
Depreciation of leased assets	(1.4)		–	
Write off and amortisation of goodwill and brands	(15.5)		(2.8)	
Other operating expenses	(87.5)		(63.8)	
		(161.8)		(101.2)
Profit or loss on sale of investments		19.4		19.9
Other operating income		12.3		4.9
Group operating profit		57.4		98.9

3 Exceptional items

	2000 £m	1999 £m
Profit/(loss) on disposal of tangible fixed assets	1.7	(0.5)
Costs of fundamental restructuring	(12.8)	(3.6)
Loss on closure of operation	(0.6)	–
	(11.7)	(4.1)

The effect on the tax credit for the year of the exceptional items is £3.4m (1999: £1.0m).

Fundamental restructuring costs incorporate costs of change on the repositioning of CDC Group plc within the market place, including the move from a debt to an equity based portfolio, staff redundancy costs and professional advisors' costs on the conversion from Corporation to a plc. Of the payments to advisors, £0.1m (1999: £0.1m) was paid to CDC Group plc auditors for non-audit services.
The loss on closure of operation relates to the termination of vegetable cultivation at Sulmac in Kenya.

4 Staff costs

	2000 £m	1999 £m
Wages and salaries	37.8	38.4
Social security costs	2.4	4.1
Other pension costs etc.	3.4	2.7
Total	43.6	45.2

The average monthly number of employees during the year was made up as follows:		
London office	240	235
Overseas offices	190	205
Subsidiaries	39,422	33,531
	39,852	33,971

Details for each director of remuneration, compensation for loss of office and pension entitlements are set out on pages 31 and 32.

5 Interest payable and similar charges

	2000 £m	1999 £m
Bank loans and overdrafts	10.1	5.4
Interest payable on other loans	3.4	2.6
Finance charges payable under finance leases	1.2	0.4
Group interest payable and similar charges	14.7	8.4

Notes to the accounts continued

6 Tax on profit on ordinary activities

The taxation charge is made up as follows:

	2000 £m	1999 £m
United Kingdom corporation tax at 30.00% (1999: 30.25%)	(1.3)	(22.3)
Double taxation relief	0.4	7.3
	(0.9)	(15.0)
Overseas taxation	(2.1)	(4.9)
Adjustments relating to previous years	3.2	(2.2)
	0.2	(22.1)
Deferred taxation	1.1	1.4
	1.3	(20.7)
Associated undertakings' taxation	(1.3)	(2.4)
Tax charge for year	–	(23.1)

If full provision had been made for deferred tax for the year, the tax charge would have reduced by £0.8m (1999: £12.1m increase) as follows:

	2000	1999
Capital allowances in advance of depreciation	(2.3)	(3.7)
Other timing differences	3.1	(8.4)
	0.8	(12.1)

7 Profit or loss attributable to members of the parent company

The loss attributable to the members of the parent company was £66.5m (1999: profit of £45.5m).

No profit and loss account is presented for the parent company as permitted by section 230 of the Companies Act 1985.

8 Earnings per share

	2000	1999
(Loss)/earnings per share	(42.6p)	56.7p

The calculation of basic earnings per share is based on a loss of £42.6m, being the loss for the year, and on 100,000,000 ordinary shares.

9 Intangible fixed assets

	Goodwill £m	Brands £m	Total £m
Cost			
At 1 January 2000	25.0	–	25.0
Acquisition of subsidiary undertakings (note 11)	4.1	–	4.1
Deferred consideration on PT Harapan and Guyana Power and Light acquisitions	4.6	–	4.6
Additions	–	2.1	2.1
Write off	(13.8)	–	(13.8)
Disposals	(1.7)	–	(1.7)
At 31 December 2000	**18.2**	**2.1**	**20.3**
Amortisation			
At 1 January 2000	2.8	–	2.8
Provided during the year	15.2	0.3	15.5
Write off	(13.8)	–	(13.8)
At 31 December 2000	**4.2**	**0.3**	**4.5**
Net book value at 31 December 2000	**14.0**	**1.8**	**15.8**
Net book value at 1 January 2000	**22.2**	**–**	**22.2**

10 Tangible fixed assets

	Group Land and buildings £m	Group Other fixed assets £m	Group Total £m	Company Land and buildings £m	Company Other fixed assets £m	Company Total £m
Cost						
At 1 January 2000 as restated	130.5	299.4	429.9	25.4	9.6	35.0
Additions	7.4	32.2	39.6	–	2.0	2.0
Acquisition of subsidiary undertakings	3.3	15.4	18.7	–	–	–
Disposal of subsidiary undertakings	(1.0)	(4.0)	(5.0)	–	–	–
Disposals	(2.2)	(4.9)	(7.1)	–	(0.7)	(0.7)
Transfers	(8.1)	8.1	–	(0.1)	0.1	–
Exchange differences	6.3	19.9	26.2	–	(0.2)	(0.2)
At 31 December 2000	**136.2**	**366.1**	**502.3**	**25.3**	**10.8**	**36.1**
Depreciation						
At 1 January 2000 as restated	29.3	132.6	161.9	1.9	5.6	7.5
Provided in the year	3.9	53.9	57.8	0.2	1.6	1.8
Disposals	(0.4)	(2.9)	(3.3)	–	(0.5)	(0.5)
Disposal of subsidiary undertaking	(0.2)	(1.7)	(1.9)	–	–	–
Transfers	0.9	(0.9)	–	–	–	–
Exchange differences	1.8	3.3	5.1	–	–	–
At 31 December 2000	**35.3**	**184.3**	**219.6**	**2.1**	**6.7**	**8.8**
Net book value 31 December 2000	**100.9**	**181.8**	**282.7**	**23.2**	**4.1**	**27.3**
Net book value 1 January 2000 as restated	101.2	166.8	268.0	23.5	4.0	27.5

The net book value of land and buildings comprises:	Group 2000 £m	Group 1999 as restated £m	Company 2000 £m	Company 1999 £m
Freehold	40.6	39.0	2.5	2.2
Long leasehold	60.3	62.2	20.7	21.3
Total	100.9	101.2	23.2	23.5

Included under other fixed assets were £17.2m (1999 – £0.3) of assets held under finance leases and hire purchase contracts.

11 Investments

	Group 2000 £m	Group 1999 £m
Associated undertakings	**34.6**	34.9
Other fixed asset investments	**779.6**	1,016.1
At 31 December 2000	**814.2**	1,051.0

Associated undertakings	Share of net assets £m	Loans £m	Total £m
At 1 January 2000	27.9	7.0	34.9
Additions	–	1.1	1.1
Disposals and repayments	–	(1.1)	(1.1)
Share of profits net of tax	7.1	–	7.1
Dividends receivable	(2.8)	–	(2.8)
Exchange and other movements	(2.3)	(2.3)	(4.6)
At 31 December 2000	**29.9**	**4.7**	**34.6**

Other fixed asset investments	Listed £m	Unlisted £m	Loans £m	Total £m
Cost				
At 1 January 2000	95.5	275.5	889.6	1,260.6
Additions	0.8	113.5	93.7	208.0
Realisations	(4.4)	(29.0)	(176.3)	(209.7)
Transfer to shareholder	–	–	(223.1)	(223.1)
Conversions	0.2	0.1	(0.3)	–
Exchange and other movements	(1.0)	8.1	29.8	36.9
At 31 December 2000	**91.1**	**368.2**	**613.4**	**1,072.7**
Provisions				
At 1 January 2000	34.0	54.8	155.7	244.5
Provided during the year	14.7	28.4	45.0	88.1
Transfer to shareholder	–	–	(63.5)	(63.5)
Realisations	(1.9)	(4.7)	–	(6.6)
Exchange and other movements	(4.9)	5.7	29.8	30.6
At 31 December 2000	**41.9**	**84.2**	**167.0**	**293.1**
Net book value 1 January 2000	61.5	220.7	733.9	1,016.1
Net book value 31 December 2000	**49.2**	**284.0**	**446.4**	**779.6**

The market value of listed investments at 31 December 2000 was £75.0m (1999: £84.1m).

Acquisitions

During the year, the group acquired the following company which was accounted for as an acquisition:

	Country	Date	Consideration £m	Percentage acquired
PT Asiatic Persada	Indonesia	12 May 2000	4.0	51%

11 Investments continued

	£m
The fair values of net assets acquired, which were not materially different from book values, were as follows:	
Fixed assets	17.3
Stocks	0.1
Cash	0.1
Current liabilities	(17.7)
Total net assets	(0.2)
Minority interest	0.1
Net assets acquired	(0.1)
Cash consideration including deferred consideration	4.0
Goodwill	4.1

Other fixed asset investments	Subsidiary undertakings £m	Associated undertakings £m	Listed £m	Unlisted £m	Loans £m	Company Total £m
Cost						
At 1 January 2000	389.5	20.8	60.7	141.3	817.7	1,430.0
Additions	180.6	1.1	–	19.6	53.3	254.6
Realisations	(29.9)	(1.1)	(4.5)	(13.6)	(170.8)	(219.9)
Transfer to shareholder	–	–	–	–	(223.1)	(223.1)
Tranfers and conversions	(8.1)	–	–	8.1	–	–
Write offs	(5.6)	–	–	1.4	25.0	20.8
Exchange	1.1	(0.3)	–	–	10.5	11.3
At 31 December 2000	**527.6**	**20.5**	**56.2**	**156.8**	**512.6**	**1,273.7**
Provisions						
At 1 January 2000	77.1	2.9	22.3	29.0	146.2	277.5
Provided during the year	85.3	3.8	10.0	14.9	30.0	144.0
Realisations	(1.5)	–	(2.0)	(2.9)	–	(6.4)
Transfer to shareholder	–	–	–	–	(63.5)	(63.5)
Transfers and conversions	(9.5)	–	–	14.9	(5.4)	–
Write offs	(5.6)	–	–	1.4	25.0	20.8
Exchange	–	–	–	–	2.4	2.4
At 31 December 2000	**145.8**	**6.7**	**30.3**	**57.3**	**134.7**	**374.8**
Net book value 1 January 2000	312.4	17.9	38.4	112.3	671.5	1,152.5
Net book value 31 December 2000	**381.8**	**13.8**	**25.9**	**99.5**	**377.9**	**898.9**

Details of principal subsidiaries and associates are disclosed on page 61.

CDC Group issued a 0% £159.6m special debenture on 20 September 2000 effective from 31 August. This special debenture was issued in accordance with Section 16(2) of the Commonwealth Development Corporation Act 1999. Under the terms of section 16(2) no consideration was received for the special debenture. The debenture was redeemed by the transfer of the economic interest in £159.6m of public sector loan assets.

Joint ventures

In October 2000, CDC Financial Services (Mauritius) Ltd, a wholly owned subsidiary of CDC Group, set up a joint venture in two companies, CGU-CDC China Capital Partners Ltd, and CGU-CDC China Investment Company Ltd in which they held 50% of the shares. At the year end these two companies were immaterial to the group in all aspects except for a capital commitment disclosed in note 23.

12 Stocks

	Group 2000 £m	Group 1999 £m
Raw materials	**12.6**	9.8
Work in progress	**7.5**	6.1
Finished goods	**21.7**	17.7
	41.8	33.6

13 Debtors

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Trade debtors	**68.7**	62.7	**–**	–
Amounts owed by group undertakings	**–**	–	**14.4**	30.3
Amounts owed by associated undertakings	**0.3**	0.8	**0.2**	0.8
Other debtors	**19.4**	20.0	**7.5**	7.6
Prepayments and accrued income	**31.1**	36.3	**22.3**	30.7
Taxation recoverable	**7.4**	0.3	**7.0**	–
	126.9	120.1	**51.4**	69.4
Amounts falling due after one year included above are:				
Other debtors	**0.2**	4.4	**0.1**	–
Prepayments and accrued income	**5.2**	8.4	**5.0**	8.4
	5.4	12.8	**5.1**	8.4

14 Creditors: amounts due within one year

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Short term borrowings				
Loans from UK Government	**81.9**	39.8	**81.9**	39.8
Other loans	**28.3**	21.7	**–**	3.3
Total loans	**110.2**	61.5	**81.9**	43.1
Bank overdrafts	**25.1**	24.9	**0.6**	–
Obligations under finance leases and hire purchase contracts	**2.2**	0.3	**–**	–
	137.5	86.7	**82.5**	43.1
Other creditors				
Trade creditors	**18.2**	16.6	**–**	–
Amounts owed to group companies	**–**	–	**10.2**	9.9
Amount owed to associated undertakings	**5.8**	–	**–**	0.2
Corporation tax	**1.9**	14.6	**0.9**	13.9
Other taxes and social security	**1.6**	2.5	**0.6**	0.5
Other creditors	**16.4**	18.7	**2.7**	6.1
Accruals and deferred income	**18.2**	5.6	**14.7**	3.0
	62.1	58.0	**29.1**	33.6

15 Creditors: amounts falling due after more than one year

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Long term borrowings				
Loans from UK Government	**673.1**	715.2	**673.1**	715.2
Other loans	**72.3**	71.4	**2.6**	1.6
Total loans due after one year (note 16)	**745.4**	786.6	**675.7**	716.8
Obligations under finance leases and hire purchase contracts	**3.4**	0.3	**–**	–
Total long term borrowings	**748.8**	786.9	**675.7**	716.8
Other creditors				
Accruals and deferred income	**6.3**	1.6	**–**	0.1
Other creditors	**17.9**	10.4	**0.6**	–
	24.2	12.0	**0.6**	0.1

16 Loans

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Amounts falling due:				
In one year or less on demand	**110.2**	61.5	**81.9**	43.1
Between one and two years	**56.8**	57.9	**43.0**	42.1
Between two and five years	**164.6**	159.4	**134.2**	132.5
In more than five years (see below)	**524.0**	569.3	**498.5**	542.2
	855.6	848.1	**757.6**	759.9
Less: included in creditors amounts falling due within one year	**(110.2)**	(61.5)	**(81.9)**	(43.1)
	745.4	786.6	**675.7**	716.8

Details of loans not wholly repayable within five years are as follows:	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Department for International Development (UK Government) 0%, payable in half-yearly instalments with final payment due 2023	**495.9**	540.6	**495.9**	540.6
European Investment Bank 0% unsecured debt with repayment linked to realisation of the underlying equity	**2.6**	1.6	**2.6**	1.6
European Investment Bank 3% secured by guarantee payable in half-yearly instalments with final payment due 2009	**11.0**	10.3	**–**	–
Enron Caribe 9% secured payable in half yearly instalments beginning in 2002 and ending in 2010	**3.1**	–	**–**	–
European Investment Bank 7.3% unsecured payable in half-yearly instalments with final payment due 2007	**1.2**	2.2	**–**	–
Solomon Islands Tree Debenture, secured by floating charge over trees with repayment dependent on dates of harvesting	**2.2**	3.0	**–**	–
Citibank 5.92% payable in half-yearly instalments with final payment due 2007	**1.5**	2.4	**–**	–
Independent state of Papua New Guinea, debenture secured by property over company and group payable in half-yearly instalments with final repayment due 2011	**1.9**	2.0	**–**	–
Barclays Bank plc 8% unsecured debt payable by monthly instalments final payment due by 2008	**–**	2.1	**–**	–
Others	**4.6**	5.1	**–**	–
	524.0	569.3	**498.5**	542.2
Total loan due to Department for International Development				
Included in note 14 creditors due within one year	**81.9**	39.8	**81.9**	39.8
Included in note 15 creditors due after one year	**673.1**	715.2	**673.1**	715.2
	755.0	755.0	**755.0**	755.0

17 Obligations under finance leases and hire purchase contracts

	2000 £m	1999 £m
Obligations under finance leases and hire purchase contracts		
Amounts due under finance leases and hire purchase contracts (net of finance charges):		
Within one year	2.2	0.3
Within one to two years	3.4	–
Within two to five years	–	0.3
	5.6	0.6
Annual commitments under non-cancellable operating leases are as follows:		
Land and buildings operating leases which expire:		
Within one year	0.3	0.1
Within one to two years	0.1	–
In two to five years	–	0.1
In more than five years	0.1	0.1
	0.5	0.3
Other operating leases which expire:		
Within one year	0.2	0.3
Within one to two years	–	–
In two to five years	–	0.5
	0.2	0.8

18 Provisions for liabilities and charges

	Pensions £m	Deferred taxation £m	Other £m	Group Total £m	Pensions £m	Deferred taxation £m	Company Total £m
At 1 January	0.8	23.8	0.6	25.2	0.8	23.2	24.0
Arising in the year	1.8	(1.1)	–	0.7	1.7	(1.0)	0.7
Utilised	(1.8)	–	(0.6)	(2.4)	(1.9)	–	(1.9)
Disposed subsidiary	–	(0.2)	–	(0.2)	–	–	–
Exchange	(0.2)	(0.1)	–	(0.3)	(0.3)	–	(0.3)
At 31 December	**0.6**	**22.4**	**0.0**	**23.0**	**0.3**	**22.2**	**22.5**

Deferred taxation

Deferred taxation provided in the accounts and the amounts not provided are as follows:

Group	Provided 2000 £m	Provided 1999 £m	Not provided 2000 £m	Not provided 1999 £m
Capital allowances in advance of depreciation	(0.1)	0.2	6.0	3.7
Other timing differences	22.5	23.6	5.3	8.4
	22.4	23.8	11.3	12.1

19 Derivatives and other financial instruments

An explanation of the group's objectives, policies and strategies for the role of derivatives and other financial instruments in managing the risks of the group can be found in the operating and financial review on page 27. The following information is provided in accordance with FRS 13 'Derivatives and Other Financial Instruments: Disclosures'. The disclosures below exclude short term debtors and creditors, except for the currency exposure table.

CDC's financial assets (as defined in FRS13) comprise cash, short term deposits and loan investments. For the purposes of this note, the disclosure on financial assets has been split between cash and short term deposits, and the loan portfolio in order to give more meaningful information. Financial liabilities are defined as overdrafts and loans. The benchmark rate for floating rate assets and liabilities is based on one week to six month LIBOR rates.

	Total £m	Floating rate £m	No interest £m	No interest weighted average period to maturity Months
2000 Financial assets: Cash and short term deposits				
Sterling	71.7	71.6	0.1	indefinite
US dollars	37.9	36.1	1.8	indefinite
Other currencies	10.5	6.0	4.5	indefinite
Total	120.1	113.7	6.4	
1999 Financial assets: Cash and short term deposits				
Sterling	35.5	35.5	–	n/a
US dollars	32.4	30.7	1.7	indefinite
Other currencies	7.4	5.6	1.8	indefinite
Total	75.3	71.8	3.5	

	Total £m	Floating rate £m	Fixed rate £m	No interest £m	Fixed rate assets weighted average rate %
2000 Financial assets: Loan portfolio					
Sterling	157.0	1.9	152.4	2.7	10.6
US dollars	432.6	11.8	405.7	15.1	11.0
Other currencies	33.9	4.6	11.1	18.2	10.5
Total	623.5	18.3	569.2	36.0	
1999 Financial assets: Loan portfolio					
Sterling	396.9	1.9	392.6	2.4	9.9
US dollars	468.3	14.1	430.7	23.5	10.1
Other currencies	31.4	2.6	14.1	14.7	10.6
Total	896.6	18.6	837.4	40.6	

19 Derivatives and other financial instruments continued

	Total £m	Floating rate £m	Fixed rate £m	No interest £m	Fixed rate liabilities weighted average rate %	Fixed rate weighted period to full maturity Years	No interest maximum period to full maturity Years
2000 Financial liabilities							
Sterling	**(784.7)**	**–**	**(26.6)**	**(758.1)**	**3.6**	**8.9**	**24.0**
US dollars	**(56.6)**	**(36.7)**	**(17.8)**	**(2.1)**	**8.0**	**2.4**	**indefinite**
Other currencies	**(45.0)**	**(23.1)**	**(16.9)**	**(5.0)**	**7.5**	**1.4**	**indefinite**
Total	**(886.3)**	**(59.8)**	**(61.3)**	**(765.2)**	**5.9**		
1999 Financial liabilities							
Sterling	(781.0)	(0.3)	(22.4)	(758.3)	3.7	9.8	24.0
US dollars	(41.3)	(26.1)	(15.0)	(0.2)	9.3	2.5	indefinite
Other currencies	(50.7)	(28.3)	(15.5)	(6.9)	10.0	4.2	indefinite
Total	(873.0)	(54.7)	(52.9)	(765.4)			

Currency exposures

The table below shows the group's currency exposures that give rise to exchange gains and losses that are recognised in the profit and loss account. Such exposures comprise those monetary assets and liabilities of group companies that are not denominated in their functional currency, after taking into account the effect of forward foreign exchange contracts.

	Net foreign currency monetary assets/(liabilities)				Net foreign currency monetary assets/(liabilities)			
	2000 Sterling	2000 Dollar	2000 Other	2000 Total	1999 Sterling	1999 Dollar	1999 Other	1999 Total
Functional Currency	£m	£m	£m	£m	£m	£m	£m	£m
Sterling	**–**	**(41.8)**	**(3.0)**	**(44.8)**	–	40.8	(7.0)	33.8
US dollars	**(0.1)**	**–**	**(50.2)**	**(50.3)**	(0.1)	–	(40.7)	(40.8)
	(0.1)	**(41.8)**	**(53.2)**	**(95.1)**	(0.1)	40.8	(47.7)	(7.0)

	2000 Total loan investments £m	1999 Total loan investments £m
Maturity profile of financial assets – loan portfolio		
Due within one year	**155.4**	202.6
Due within one to two years	**102.1**	140.5
Due within three to five years	**229.9**	315.4
Due after five years	**136.1**	238.1
	623.5	896.6

19 Derivatives and other financial instruments continued

	2000 Government loan £m	2000 Other financial liabilities £m	2000 Total financial liabilities £m	1999 Government loan £m	1999 Other financial liabilities £m	1999 Total financial liabilities £m
Maturity profile of financial liabilities excluding overdrafts						
Due within one year	**(81.9)**	**(28.3)**	**(110.2)**	(39.8)	(22.0)	(61.8)
Due within one to two years	**(43.0)**	**(13.9)**	**(56.9)**	(42.1)	(15.5)	(57.6)
Due within three to five years	**(134.2)**	**(30.3)**	**(164.5)**	(132.5)	(26.9)	(159.4)
Due after five years	**(495.9)**	**(28.1)**	**(524.0)**	(540.6)	(28.7)	(569.3)
	(755.0)	**(100.6)**	**(855.6)**	(755.0)	(93.1)	(848.1)

Borrowing facilities

The group's borrowing limit at 31 December 2000 in accordance with the Articles of Association was £2,000,000,000.

Committed but undrawn borrowing facilities

	2000 £m	1999 £m
Expiring within one year	**105.4**	91.8
Expiring within one to two years	**8.0**	1.8
Expiring after two years	**4.6**	0.0
	118.0	93.6

Fair value of financial assets and liabilities

Financial assets

Quoted and unquoted equity investments are included in the balance sheet at net book value. The market value of quoted investments is disclosed in Note 11. Since no liquid market exists for the group's unquoted loans and investments, it has not been possible to estimate a reliable fair value for them.

There is no material difference between the fair value and book value of the group's cash and short term deposits.

Financial liabilities

The group's borrowings consist primarily of a Government loan repayable in instalments, with the final instalment falling due in 2023.

A comparison by category of the fair values and book values of the group's financial liabilities at 31 December was as follows:

	Book value 2000 £m	Fair value 2000 £m	Book value 1999 £m	Fair value 1999 £m
Sterling	**(784.7)**	**(500.1)**	(781.0)	(442.9)
US dollars	**(56.6)**	**(56.8)**	(41.3)	(41.6)
Other currencies	**(45.0)**	**(42.0)**	(50.7)	(45.9)
Total	**(886.3)**	**(598.9)**	(873.0)	(530.4)

The fair value of the fixed rate borrowings has been calculated by discounting cash flows at prevailing market rates of interest.

19 Derivatives and other financial instruments continued

Derivatives

CDC Group plc does not trade in derivatives. The activities of the group are currently limited to holding forward foreign exchange contracts ("FFECs") to hedge exposures. These FFECs have maturities designed to match the exposures they are hedging and the group holds them to maturity. Exchange gains and losses on the non-sterling loans are offset where appropriate with opposing gains or losses on applicable FFECs. As stated in the accounting policies, discounts and premia on the FFECs are included in income over the life of the contract with the amortised balance included within debtors or creditors. Unrealised gains and losses on FFECs which are attributed to future interest receivable are not recognised in the accounts.

The table below shows the fair value of unrealised FFECs when marked to market. This is split between the profits and losses relating to FFEC hedging activities that are recognised and unrecognised in the accounts.

	2000 £m	Total unrecognised gains £m	1999 £m	Total unrecognised gains £m
Recognised profit/(loss) on revaluation of FFECs	(28.5)		2.4	
Recognised premia/(discounts) on all FFEC contracts	10.6		13.6	
Recognised profits/(losses) relating to FFECs	(17.9)		16.0	
Unrecognised profit/(loss) on revaluation of FFECs at year end exchange rate	(6.3)	(6.3)	3.4	3.4
Unrecognised premia/(discounts) on all FFEC contracts	(3.1)	(3.1)	2.0	2.0
Total value to business of FFECs	(27.3)	(9.4)	21.4	5.4
Fair value to business at year end market rates	(21.7)		25.3	
Gain on calculation of fair value attributable to interest rate differentials	5.6	5.6	3.9	3.9
Total unrecognised gains/(losses)		(3.8)		9.3

An analysis of unrecognised gains and losses on the FFECs is as follows:

	Unrecognised profit/(loss) on revaluation of FFECs at year end exchange rate £m	Unrecognised premia/(discounts) on all FFEC contracts £m	Gain on calculation of fair value arttributable to interest rate differentials £m	Total £m
Gains and (losses) at 1 January 2000	3.4	2.0	3.9	9.3
Gains and (losses) recognised in 2000	2.5	(2.0)	–	0.5
Revaluation of gain/(loss)	(12.2)	–	1.7	(10.5)
New contracts	–	(3.1)	–	(3.1)
Gains/(losses) at 31 December 2000	**(6.3)**	**(3.1)**	**5.6**	**(3.8)**
of which				
Profits/(losses) expected to be included in 2001 income	(1.0)	(1.5)	0.2	(2.3)
Profits/(losses) expected to be included in 2002 income or later	(5.3)	(1.6)	5.4	(1.5)
	(6.3)	(3.1)	5.6	(3.8)

20 Share capital

	2000 £m	1999 £m
Authorised ordinary shares		
100,000,000 ordinary shares of 10p each	10.0	10.0
Allotted, called up and fully paid ordinary shares		
100,000,000 ordinary shares of 10p each	10.0	10.0

Special preference share

One special preference share of £1 is authorised, issued and fully paid. The ownership of the special preference share is restricted to the agents of the Crown. It has special rights to restrict changes to the company's memorandum and articles of association, and changes to the company's capital structure. The share otherwise carries no voting rights and no rights to share in the capital or profits of CDC.

21 Reconciliation of movements in shareholders' funds

	Revaluation reserve £m	P&L reserve £m	Group Total reserves £m	Company P&L reserve £m
At 1 January 2000	12.4	566.3	578.7	466.7
Prior year adjustment (see note 27)	(12.4)	(18.8)	(31.2)	–
As restated	–	547.5	547.5	466.7
Loss for the year	–	(42.6)	(42.6)	(66.5)
Transfer to shareholder	–	(159.6)	(159.6)	(159.6)
Exchange gains	–	7.2	7.2	–
At 31 December 2000	–	**352.5**	**352.5**	**240.6**

22 Notes to the statement of cash flows

	2000 £m	1999 £m
(a) Reconciliation of operating profit to net cash inflow from operating activities		
Group operating profit	57.4	98.9
Profit on sale of investments	(19.4)	(19.9)
Depreciation	57.8	33.8
Amortisation and write off of goodwill and other intangibles	15.5	2.8
(Increase)/decrease in stocks	(8.7)	3.3
(Decrease) in debtors	(5.6)	(12.6)
Decrease/(increase) in creditors and provisions	19.8	(17.0)
Fundamental restructuring	(5.3)	(3.6)
Closure of business segment	(0.6)	–
Exchange and other movements	(12.0)	(8.4)
Net cash inflow from operating activities	**98.9**	77.3

	2000 £m	1999 £m
(b) Returns on investments and servicing of finance		
Interest received	4.6	4.1
Interest paid	(17.4)	(7.5)
Dividends from associates	2.8	2.8
Dividends paid to minority interests	(1.5)	(0.8)
Net cash outflow from returns on investments and servicing of finance	**(11.5)**	(1.4)

22 Notes to the statement of cash flows continued

	2000 £m	1999 £m
(c) Capital expenditure and financial investment		
Loan redemptions	**177.4**	203.0
Proceeds from equity realisations	**44.3**	37.1
Payments to acquire fixed assets	**(39.6)**	(44.8)
Proceeds from disposal of fixed assets	**5.6**	1.1
New loan and equity investments	**(209.1)**	(219.1)
Net cash outflow from capital expenditure and financial investment	**(21.4)**	(22.7)
(d) Acquisitions and disposals		
Purchase of subsidiary undertakings	**(4.0)**	(31.4)
Cash acquired in subsidiaries	**0.1**	1.0
Overdrafts acquired in subsidiaries	**–**	(7.4)
Purchase of interest in joint venture	**(3.9)**	–
Sale of subsidiary undertakings	**6.2**	–
Deferred consideration on PT Harapan acquisition	**(0.6)**	–
Deferred consideration on Guyana Power & Light	**(4.0)**	–
Net cash outflow from acquisitions and disposals	**(6.2)**	(37.8)
(e) Financing		
Debt due within one year:		
Increase in short term borrowings	**14.3**	8.0
Repayment of short term borrowings	**(20.4)**	(42.7)
Debt due after one year:		
Increase in long term borrowings	**19.1**	51.7
Repayment of long term borrowings	**(8.9)**	(4.4)
Net cash inflow from financing	**4.1**	12.6

	At 31 Dec 1999 £m	Cash flow £m	Acquisitions £m	Disposals £m	Other movements £m	Exchange £m	At 31 Dec 2000 £m
(f) Analysis of net debt							
Cash at bank and in hand	75.3	44.8					**120.1**
Less liquid resources	(42.7)	(53.9)					**(96.6)**
Overdrafts	(24.9)	(0.2)					**(25.1)**
Cash per group cash flow statement	7.7	(9.3)					**(1.6)**
Liquid resources	42.7	53.9					**96.6**
Debt due within one year excluding overdrafts	(61.8)	6.1	(12.1)	3.3	(45.7)	(2.2)	**(112.4)**
Debt due after one year	(786.9)	(10.2)	–	2.6	45.7	–	**(748.8)**
Net debt	(798.3)	40.5	(12.1)	5.9	–	(2.2)	**(766.2)**

23 Capital commitments

Amounts contracted for but not provided in the accounts amounted to £221.3m (1999: £174.8m) for subscriptions to debentures, loans and shares, including commitments of £30.3m (1999: £14.6m) to subsidiaries, and £29.6m (1999: nil) to joint ventures.

Subsidiaries had capital commitments of £0.3m (1999: £4.3m).

24 Contingent liabilities

The company has guaranteed the performance of contracts by certain subsidiaries to the extent of £40.1m (1999: £25.4m) and of other companies to the extent of £73.0m (1999: £18.1m).

25 Pension commitments

The company operates one pension scheme in the UK, called the CDC Pensions Scheme. This provides pensions on a defined benefit basis for staff who entered service prior to 1 April 2000. Subsequent entrants are eligible for membership of a separate, defined contribution section of the Scheme. In accordance with statutory requirements, membership of the scheme is voluntary. The pension scheme is funded by the payment of contributions to a separately administered trust fund.

An actuarial valuation of the scheme was carried out as at 31 August 1998 by independent consulting actuaries, using the projected unit method. The valuation had been due as at 31 March 1999, but was brought forward to quantify the impact of various changes affecting the scheme. The next periodical valuation is due as at 31 March 2001.

The results of the most recent valuation were as follows:

Main assumptions	**% per annum**
Rate of return of investments	7.0
Salary increases	5.0
Pension increases - pre 1 May 1996 joiners	5.0
Pension increases - post 30 April 1996 joiners	3.0
Growth of dividends	3.5
Market value of scheme's assets	£174.5m

The actuarial value of the scheme's assets was calculated to be 125% of the amount needed to cover the benefits that had accrued to scheme members, after allowing for expected future increases in earnings and increases to pensions in payment.

Acting on the advice of the actuary, the company made no contribution or accrual up to 31 August 1998 but commenced accruing pension costs from 1 September 1998. After allowing for the amortisation of the surplus over the average remaining service lives of current staff, the pension cost charged in the company's accounts for 2000 was £1.6m (1999 £1.6m). All amounts due to the scheme were paid before 31 December 2000.

The group has 13 overseas defined contribution pension schemes. The cost of these schemes was £0.3m (1999: £0.7m). Accrued costs in the balance sheet are £0.3m (1999: £0.7m).

26 Related party transactions

The Department for International Development (DFID) is the company's sponsoring Government department and provides funding in the form of interest free loans. It is the ultimate controlling party. Details of the loans and the amounts due are disclosed in notes 14, 15 and 16.

In August 2000, the company issued a special debenture of £159.6m to DFID, which was repaid in September. The details of this transaction are shown in note 11. CDC continues to monitor and administer the assets applied in redemption of the special debenture, for which it will receive a reimbursement of costs. Cost reimbursement of £2.1m was received during 2000.

Notes to the accounts continued

27 Change in accounting policy

The Group has adopted Financial Reporting Standard No. 15 (FRS15) 'Tangible Fixed Assets' with effect from 1 January 2000. This standard changes the criteria for the recognition and measurement of tangible fixed assets, restricting the type of costs that may be capitalised. This impacts certain subsidiaries which are now required to write off some costs capitalised during plantation establishment. In accordance with the transitional rules of the standard, the items have been adjusted through a prior year adjustment. In addition, CDC Group has chosen to adopt a policy of not revaluing tangible fixed assets. The assets have been restated at depreciated historical cost in the comparatives

Balance sheet	1999 £m	1999 as restated £m
Fixed assets	1,378.3	1,341.2
Net current assets	84.3	84.3
Long term liabilities	(824.1)	(824.1)
Total net assets	638.5	601.4
Share capital	10.0	10.0
Revaluation reserve	12.4	–
Profit and loss account	566.3	547.5
Shareholders' funds	588.7	557.5
Minority interest	49.8	43.9
	638.5	601.4

Reserves note	Revaluation reserve £m	Profit and loss account £m	Total reserves £m
At 1 January 2000 – as previously reported	12.4	566.3	578.7
Prior year adjustment	(12.4)	(18.8)	(31.2)
As restated	–	547.5	547.5

Principal subsidiaries and associates

The principal subsidiary and associated undertakings of the group at 31 December 2000 and the group percentage of equity capital are set out below. Those held directly by the company are marked with an asterisk. A complete list of investments in subsidiary and associated undertakings and joint ventures will be attached to the parent company's annual return made to the Registrar of Companies.

Country of incorporation and operation	Region/company	Class of share	Percentage held by CDC	Principal activities
SUBSIDIARIES				
AFRICA				
Malawi	Portland Cement Company (1974) Ltd	Ordinary	75	Cement production
Mauritius	CDC Financial Services (Mauritius) Ltd*	Ordinary Preference	100 100	Investment holding
Mauritius	Pacific Rim Palm Oil Limited*	Ordinary	100	Investment holding
Zambia	Chilanga Cement Ltd	Ordinary†	50	Cement production
AMERICAS				
Barbados	CDC (Euro) Ltd*	Ordinary	100	Investment holding
Barbados	CDC Holdings (Barbados) Ltd*	Ordinary	100	Investment holding
Dominica	Dominica Electricity Services Ltd*	Ordinary	72	Electricity generation, transmission and distribution
EAST ASIA & PACIFIC				
Indonesia	PT Harapan Sawit Lestari	Ordinary	65	Oil palm cultivation and processing
Malaysia	CDC Holdings Sdn Bhd*	Ordinary	100	Investment holding
Papua New Guinea	Pacific Rim Plantations Ltd	Ordinary	76	Oil palm and cocoa cultivation and processing
SOUTH ASIA				
Mauritius and India	Nandi Investments Ltd	Ordinary Preference	100 100	Private equity fund

Country of incorporation and operation	Region/company	Class of share	Percentage held by CDC	Principal activities
ASSOCIATES				
AFRICA				
Swaziland	Inyoni Yami Swaziland Irrigation Scheme*	Ordinary	50	Irrigated sugar cane and citrus, ranching
Swaziland	Mhlume (Swaziland) Sugar Company Ltd*	Ordinary	50	Irrigated sugar cane cultivation and mill
AMERICAS				
Costa Rica	Aquacorporacion Internacional SA*	Ordinary	20	Fish farming and processing
St Lucia	St Lucia Electricity Services Ltd*	Ordinary	45	Electricity generation, transmission and distribution

†denotes equity investment listed overseas

Ten largest investments

CDC Capital Partners

Investment	Country	Business description
BPL Cellular Holdings	India	BPL, India's number one mobile phone service, manages two cellular operating companies, BPL Mobile Communications and BPL USWest. BPL has a million subscribers and offers its customers the very latest in mobile technology.
Haina Investment Company	Dominican Republic	An investment company set up to invest in, manage and expand the assets of Empresa Generadora de Electricidad Haina - a 664MW business formed by the privatisation of the thermal generation assets in the Dominican Republic.
Southern Energy Quezon Inc	Philippines	CDC's investment in Southern Energy Quezon Inc has helped it build and operate a 700MW coal-fired power station on the island of Pagbilao Grande, 100 miles south east of Manila.
Hub Power Company Ltd	Pakistan	With a capacity of 1292MW, Hub Power generates electricity for Pakistan's national power utility, WAPDA. Based in the province of Balochistan, the company is traded on the Karachi Stock Exchange.
Pacific Rim Plantation Services	Papua New Guinea	Headquartered in Singapore, PacRim is responsible for the management and operation of a number of oil palm plantations, built up by CDC over a number of years, located across Indonesia and Papua New Guinea.
Sociedad Boliviana de Cemento	Bolivia	With the help of CDC's initial investment, Bolivia's leading cement business was able to install a new clinker production line at its Viacha plant. CDC's second round of financing helped the company to acquire a 33% stake in FANCESA, Bolivia's second largest cement company.
South Asia Regional Fund	India	Launched by CDC and the Commonwealth Secretariat under the Commonwealth Private Investment initiative, this regional equity fund invests in larger size private equity deals across a variety of industry sectors. CDC manages the fund and holds 46%.
St Lucia Electricity Services	St Lucia	Operating and management company, providing electricity to the Caribbean Island of St Lucia. It serves a total of 46,000 customers, with a current peak demand of 43.3MW.

CDC Assets

Investment		Business description
Housing Development Finance Corporation	India	HDFC is the leading provider of mortgage finance in India, with a market share of 60% and total assets of US$2.7bn. Through its network of 49 offices, HDFC has helped finance 1.5 million homes in India.
National Development Bank Sri Lanka	Sri Lanka	National Development Bank's main business is medium and long term lending to corporate clients in Sri Lanka. The bigger of the two development banks in the country, it has recently started offering retail banking products such as leasing and housing finance.

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