CDC CAPITAL PARTNERS

Risk capital investors in emerging markets

CDC Group plc Annual Review 2001

CONTENTS

2001 HIGHLIGHTS

- 70% NEW INVESTMENT TARGET FOR POORER COUNTRIES AND ANNUAL 50% AIM FOR SUB SAHARAN AFRICA AND SOUTH ASIA BOTH ACHIEVED AND EXCEEDED
- HALF NEW INVESTMENTS MADE IN SUB SAHARAN AFRICA:
  – TWO SIGNIFICANT POWER INVESTMENTS IN EAST AFRICA
  – ONGOING INVESTMENTS INTO SOUTH AFRICAN PRIMARY HEALTHCARE INDUSTRY
- FIRST INVESTMENT IN MANUFACTURING IN CHINA
- EXPANSION CAPITAL FOR UTI BANK, A PIONEER WITHIN THE INDIAN RETAIL BANKING INDUSTRY
- COMPLETED REVIEW OF AFRICAN AGRIBUSINESS INTERESTS, RESULTING IN THE SALE OF SOME TO RECOGNISED INDUSTRY PLAYERS, WHILE OTHERS HAVE BEEN RETAINED
- PORTFOLIO PERFORMANCE A NEGATIVE 10% OWING TO DIFFICULT INVESTMENT CLIMATE
- CDC ASSETS PORTFOLIO GENERATED £237M OF CASH
- THIRD PARTY FUNDS SUCCESSFULLY RAISED FOR THE SME SECTOR THROUGH AUREOS CAPITAL – A JOINT VENTURE WITH NORFUND

CHAIRMAN'S STATEMENT

THE TRANSFORMATION OF CDC INTO AN ORGANISATION CAPABLE OF GALVANISING NON-GOVERNMENT CAPITAL TO WORK ALONGSIDE IT IN THE POOREST COUNTRIES OF THE WORLD HAS BEEN GIVEN AN INCREASED SENSE OF URGENCY BY THE EVENTS OF SEPTEMBER 11TH. THERE IS A GREATER REALISATION OF THE VITAL NEED TO FIND WAYS TO INCREASE THE LOW LEVELS OF INCOME OF THOSE LIVING IN THE PARTS OF THE WORLD IN WHICH CDC CONCENTRATES ITS ACTIVITIES.

Much of any improvement must come through the efforts of private sector disciplines to promote in-country value creating enterprises. At the same time, the current uncertainties reduce the willingness of private sector capital to take risks in the more remote regions of the world. This provides us with a considerable challenge.

The heavy emphasis by CDC on making investment in equity is enabling some of the most promising prospects in the CDC universe to access permanent capital. While these investments have a higher risk/reward profile, through an increasingly active interface with local managements, we are able to influence companies more directly in terms of higher standards of corporate governance and to provide them with a broader perspective as regards to how they can best compete in the international markets. The potential development impact of this type of approach is both substantial and long lasting.

The conditions for growing value in the CDC universe were significantly unfavourable throughout the year. The wider effect of the US recession on global demand and trade; the collapse in value of technology and telecommunications companies; the slide in hard and soft commodity prices; the slowdown in privatisations, mergers and acquisitions activity and equity issuance; and acute currency devaluation in certain emerging markets, have all taken their toll. The problems of Enron and Argentina in the second half of 2001 compounded what was already a difficult environment. CDC is attempting to provide risk capital in many of the most fragile economies of the world. Thus taking into account the conservative nature of the BVCA valuation guidelines, it is no surprise that we have suffered a decline in reported asset values.

I believe under Alan Gillespie's leadership, we have developed a high level of experience and skills which compares well with any in the private or public sector, dealing with the difficult environment of equity capital in developing countries. Our Indian team has established itself as an acknowledged 'first call' for venture capital discussions in the South Asian sub-continent. Our African team has been integrated to provide an outstanding perspective for the potential opportunities across that continent and we are making good progress both in Central and Latin America and in Asia Pacific.

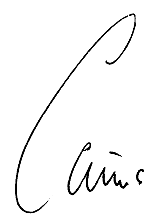
We also have sector-specific teams with the specialist skills and imagination to take advantage of opportunities in our chosen business sectors – namely, power, telecommunications and IT, consumer goods, transport, financial institutions, and minerals, oil and gas. We also seek to cover other sectors which have both commercial and developmental relevance to certain geographic regions, including private healthcare, agribusiness and African property.

At board level, we recently said goodbye to Pen Kent from our non-executive cadre. Pen Kent has given us invaluable guidance as Chairman of our audit committee as we introduce private sector best practice systems in areas of good governance and compliance. We have been joined by Tim Parker, the CEO of Clarks, in his place. His knowledge, inter alia, of manufacturing for export in many developing countries will give us further insight into the global possibilities of supporting industries in such places as China, where we have made useful progress in collaboration with our partners, CGNU.

Success for CDC is to create significant sustainable, profitable enterprises in the poorest countries of the world and, in due course, to show financial returns commensurate with the risks we take. To achieve this goal, we depend not only on our skills, but also on the goodwill of our shareholder DFID, on professional advisors and intermediaries, as well as others who work in our field. All these relationships have become more intense and more demanding both on us and our counterparties. We are grateful for the support and guidance we received from all of them.

At this juncture, I would also like to take the opportunity to pay tribute to the professionalism and dedication of all those working within CDC. This continues to be both an exciting and challenging time for the company and we appreciate the ongoing enthusiasm of our people.

We have accumulated quite substantial cash resources. We are currently examining an interesting range of possible transactions. We are budgeting for a higher level of investment while maintaining a tight control on our cost structure. CDC is committed to work with and support commercially viable businesses within the universe of countries in which we operate. Recent signs of general economic recovery give some grounds for optimism that the current year will be a satisfactory one.



Lord Cairns

CHIEF EXECUTIVE'S REVIEW

IN THIS ANNUAL REVIEW, IT IS IMPORTANT TO REAFFIRM THE PART CDC PLAYS AMONG MANY OTHER UK-SPONSORED PROGRAMMES IN SEEKING TO FULFIL THE CHALLENGING ROLE OF HALVING WORLD POVERTY BY 2015. IN THIS TASK, CDC IS NOT AN 'AID AGENCY' OR A 'DEVELOPMENT BANK', BUT IT PLAYS AN IMPORTANT PART IN HARNESSING AND DIRECTING CAPITAL FLOWS TOWARDS THE PRIVATE SECTOR IN THE WORLD'S POORER COUNTRIES.

CDC's objectives

CDC operates under two broad directives from DFID which are central to its investment policy: to make investments for the benefit of the poor countries and to make acceptable returns on these investments, so as to attract additional private capital flows from developed markets to poor countries. All this is in the context of a defined set of business principles. Decades of aid and subsidy, while offering some short-term alleviation, have not resulted in significant sustainable economic development, so the UK Government is calling for substantial investment of private capital alongside Government-funded programmes. The aim of CDC becoming a Public Private Partnership embodies the desire that CDC might invest not just public sector funds but also, increasingly, raise and manage private capital as well.

Under any circumstances, this is a difficult challenge. Even in times of stable and strong financial markets, private capital is not naturally attracted to invest in poorer countries. While certain corporations may take a long-term view as inward investors, financial investors, in general, tend to have a low level of interest in emerging markets, particularly Africa, – given the risk/reward relationship – when compared to opportunities in the mature economies. In times of global economic uncertainty and market decline, as experienced in 2001, investors become more risk averse and not only are reluctant to invest new capital in emerging markets, but actively seek to withdraw capital already committed.

2001 – A difficult investment environment

2001 was characterised by a combination of hostile economic factors, as already discussed in the Chairman's statement. Not surprisingly, this economic backdrop, both in the countries in which CDC operates and in the capital markets, has resulted in a highly adverse investment climate.

Accordingly, 2001, for CDC, as for most investment institutions, was an extremely difficult year. Broadly, the two spheres in which CDC operates – emerging markets and private equity – faced sharp declines. As our Review shows, new investment levels were low, exits were few and value was eroded from our portfolio.

The difficult prevailing economic and business conditions caused us to invest very selectively during 2001. Indeed, some significant investments which had been worked on throughout the year were not completed or were abandoned due to uncertainty in asset prices or business prospects.

Progress in Africa

Despite this, it was an important year for CDC's investments in Africa. We made the following investments: a large follow-on investment in MSI Cellular, a cellular telecommunications company operating in 12 African countries; an important greenfield investment in the power sector in Tanzania; a completed power plant in Kenya; a joint venture to build Uganda's largest shopping mall complex; and, ongoing investment in the healthcare sector in South Africa. Each of these will bring considerable social and economic benefit to Africa.

With low liquidity in the stock markets and few trade buyers in evidence, exits from existing investments were few. Notable, though, was the sale of our regional African cement business in Zambia, Malawi and Tanzania to Lafarge. CDC has owned and improved these operations for over five years. In selling this investment to an international cement major such as Lafarge, the company is now in the hands of a more capable industry operator, better placed to develop the business further. The sale has mobilised additional inward investment to these African countries and has released CDC's capital for reinvestment within the region.

Review of African agricultural portfolio completed

We have now completed a review of our agricultural portfolio and have sold certain agribusinesses to recognised industry players, better placed to develop these businesses further. We remain a significant investor in African agriculture – such as rubber (Cote d'Ivoire), teak (Tanzania), sugar (Swaziland), arable farming (Zambia) and tea (Tanzania) – and will continue to manage these businesses for value.

One disposal was Rwenzori Highlands Tea in Uganda to tea specialist James Finlay. This follows CDC's nurturing of this investment over many years, before selling it on to an industry player who has the necessary distribution and marketing resources to take the business to the next

CHIEF EXECUTIVE'S REVIEW CONTINUED

stage in its development. CDC's former senior management team continues to manage the business.

Comment has recently been made about CDC 'selling off' investments, particularly in Africa. This is a central feature of any private equity company and CDC is no different in this respect; investments are not held indefinitely and we continue to look for disinvestment opportunities, the proceeds of which can be reinvested.

CDC IN THE REST OF THE WORLD

In Latin America, South Asia and Asia Pacific, good quality investment opportunities were generally hard to come by. We worked hard on maintaining and enhancing the value of our existing portfolio. In India, CDC invested in a modern financial institution, UTI Bank, and we also made our first investment in manufacturing in China. In 2001, we also disposed of a holding in HDFC in India. A major hydro-power investment in Peru was worked on throughout 2001 and is expected to close early in 2002.

RAISING ADDITIONAL THIRD PARTY FUNDS FOR THE SME SECTOR

Establishing a relationship in 2001 with Norfund, the Norwegian investment fund for developing economies, led to the creation of Aureos Capital, a joint venture encompassing 14 of CDC's existing private equity funds which invest in small and medium sized enterprises in the emerging markets. Importantly, our partner has committed US$50 million of new capital to this venture and Aureos is already exploring the creation of follow-on and new funds, building on CDC's reputation and experience in this sector.

Currently, Aureos Capital works in 11 smaller poor countries: Costa Rica, El Salvador, Ghana, Kenya, Mauritius, Mozambique, Papua New Guinea, Sri Lanka, Tanzania, Zambia and Zimbabwe. Through its future regional funds, Aureos is likely to extend its coverage to other poorer countries.

FUND RAISING EFFORTS FOR THE POWER SECTOR

The enormous need for the provision of uninterrupted electricity throughout the world's poor countries has caused CDC to continue to focus on investment in power generation. The World Bank has recently indicated that 2.5 billion of the world's poor lack adequate access to modern energy supplies. Regular electricity is not only a key requirement for industry and commerce, but also is a core component for civil society, allowing for the provision of basic services such as health and education.

CDC already has 20 power investments and considerable accumulated experience within this sector. Investment in power is at the heart of CDC's purpose to make beneficial investments and to generate acceptable financial returns. The financing requirement for both new and existing power projects is so significant that in 2001 we decided to raise third party private capital to enable CDC to 'do more'. We have assembled an experienced team of executives with a strong track record in the power industry in emerging markets to give us better private sector skills; and in mid-2001 launched an equity capital-raising.

This approach has been recognised both by our shareholder and by the investment community as a highly credible investment initiative. Unfortunately though, the events surrounding 11th September, Enron and the Argentina crisis have caused us to pull back from the market for the time being, given the unsettled investor sentiment. We are pressing ahead to structure our power portfolio in corporate form, under the name Globeleq, and we believe it should be possible to raise capital from the private sector when market sentiment improves. This will be a further step towards CDC becoming a manager-investor of both public and private capital, in line with the objective of PPP.

CDC WELL POSITIONED FOR UPTURN

CDC Assets continued to manage very successfully the recovery of CDC's historic portfolio of assets, mainly loans, resulting in cash generated of £237 million and asset realisations at a premium over opening valuation of 36%.

With just £134 million of new investments made in 2001, cash has built up to £207 million at year end, which gives CDC considerable resources for investment as market conditions recover.

Three important process improvements implemented during 2001 were the introduction of new investment guidelines for screening and appraisal of new investment proposals; a comprehensive investment review process; and the appointment of a single individual accountable for each portfolio investment. Our approach to business principles was further strengthened and informed by independent recommendations arising out of the external review by Ashridge.

FINANCIAL PERFORMANCE REFLECTS MARKET CONDITIONS

Given the investment environment of 2001, not surprisingly, CDC's overall portfolio result was a negative 10%, mainly as a result of increased mark-to-market valuation adjustments. This is a consequence of many of our underlying investments suffering business difficulties – be they in agriculture, mining, transport, manufacturing, power and technology – and also the effect of reduced financial valuations worldwide. While there is no single benchmark against which CDC's portfolio can be measured, comparisons can be made with the return on emerging market stock exchanges and the returns across the private equity industry. CDC's result compares favourably with the declines experienced in public equity markets across CDC's geography (South Africa -19%; India -26%; China -21%; Argentina -29%). Negative performance was also a common feature across stock market indices in developed economies (S&P -12%; Nasdaq -21%; FTSE 100 -16%; DAX -25%). Returns from the private equity industry, most of which reflect investment in mature economies, show that significant portfolio declines were not uncommon in 2001.

INVESTMENT TARGETS ACHIEVED

The investment policy requirement that CDC makes 70% of its investments in the poorest countries on a rolling five year base was achieved, while the 50% annual aim for new investment in sub Saharan Africa and South Asia was exceeded at 69%.

SECTORS AND GEOGRAPHIES

Overall, CDC is placing its emphasis on nine major 'geographies': South Africa; East Africa; West Africa; Egypt; South Asia; China; South East Asia comprising Malaysia, Thailand and Indonesia; Central America and Mexico; and the Andean region. This reflects our commitment to invest in the poorer countries, as classified by the World Bank (1998). The business sectors in which CDC operates comprise: power; financial institutions; minerals, oil and gas; telecommunications; infrastructure; consumer goods; agribusiness; healthcare; and property in Africa.

MOBILISING PRIVATE CAPITAL

CDC's mission, to fill the equity gap for sustainable businesses in poor countries, is not easy, especially in years like 2001. The organisation is recognised as one of the few, globally, which specialise in providing equity capital across the emerging markets. The experiences of the past year have strengthened the organisation in competence and professionalism. It is resolved to play a part in the war on poverty as a financial investor. By supporting viable businesses with equity investment, we aim to achieve adequate risk-adjusted returns over the investment cycle, which should enable CDC to mobilise additional third party private capital. The marriage of public and private capital is a goal well worth pursuing, given the financial scale of the task of bringing social and economic uplift to the world's poor countries and communities.

Alan Gillespie

⇦ Alan Gillespie

Nicholas Selbie Jayne Almond ⇨

Peter Smitham ⇨

Tim Parker ⇨

⇩ Paul Fletcher

⇧ Robert C Hart

⇦ Jim Romanos

⇩ Lalith de Mel Jonathan Kydd ⇩

Donald Peck ⇨

⇦ Richard Laing Andrew Reicher

⇦⇦ Robert Binyon

Lord Cairns ⇨

⇦ Gillian Arthur Jonathon Bond

BOARD OF DIRECTORS

Lord Cairns (62)
Chairman
Appointed Chairman in June 1995. Chairman of the nomination committee and member of the business principles committee. Chairman of the Commonwealth Business Council and of the Overseas Development Institute. Formerly Chairman of Allied Zurich plc after a career with SG Warburg Group, where he was Chief Executive and Deputy Chairman.

Jayne Almond (44)
Deputy Chairman
Appointed Deputy Chairman in January 1999. Chairman of the remuneration and the audit and compliance committees, and member of the nomination committee. Currently Director, UK RB Strategy, Group Marketing and European Internet Banking at Lloyds TSB. Prior to this Ms Almond held positions at LEK Partnership and at Royal Dutch Shell in the UK and France.

Alan Gillespie (51)
Chief Executive
Joined CDC in December 1999 from Goldman, Sachs & Co. Member of the nomination committee. He is outgoing Chairman of the Northern Ireland Industrial Development Board and has recently been appointed Chairman of Ulster Bank. Currently Non-Executive Director of Elan Corporation plc, and on the advisory board of the Judge Institute of Management Studies, University of Cambridge. He is currently President of the European Development Finance Institutions (EDFI).

Paul Fletcher (45)
Executive Director
Appointed to the board in January 2001. Managing Director for CDC's business in Africa, and coordinator of the 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.

Jonathan Kydd (50)
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, University of London. He is also Non-Executive Director, NR International Limited, and a member of the Advisory Council of ECGD.

Richard Laing (47)
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.

Lalith de Mel (64)
Non-Executive Director
Appointed to the board in April 2000. Member of the business principles and the audit and compliance committees. Group Director of Reckitt & Colman plc from 1991 to 1999. Non-Executive Director of a number of international companies, including John Keells Holdings Ltd, and Reckitt Benckiser Sri Lanka Limited.

Tim Parker (46)
Non-Executive Director
Appointed to the board in December 2001. Member of the remuneration and the business principles committees. Chief Executive of Clarks Shoes since 1996. Started his career as an economist at HM Treasury and went on to lead a management buy-out of Kenwood from Thorn EMI, which was subsequently floated in 1992.

Andrew Reicher (47)
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 (CSFB). Began his career with Citicorp and, between spells at CSFB, spent five years with Botts & Co, a privately owned private equity firm.

Nicholas Selbie (56)
Executive Director
Appointed to the board in January 2001. Responsible for managing CDC Assets (CDC's loan and historical equity portfolio) and Aureos (a CDC/Norfund joint venture managing US$185m of SME funds based in ten countries). Previously CDC's Director of Finance and Managing Director, CDC Investments. Prior to joining CDC in 1989 he was Director, international corporate finance at Kleinwort Benson, following 14 years with BZW/Barclays Merchant Bank in London and New York.

Peter Smitham (59)
Non-Executive Director
Appointed to the board in March 2001. Member of both the audit and compliance and the remuneration committees. Chairman of Permira Advisers Limited (formerly Schroder Ventures Europe) which he joined in 1985. Prior to this, he spent the majority of his career working with high growth electronics companies.

MANAGEMENT COMMITTEE

As well as Alan Gillespie, Paul Fletcher, Richard Laing, Andrew Reicher and Nicholas Selbie, CDC Capital Partners' management committee consists of:

Gillian Arthur
Managing Director, Operations
CDC's Head of Operations, Gillian joined at the beginning of 2001. She had spent the previous 21 years at Citibank, becoming Head of Human Resources for the commercial and investment banks in the developed world. Gillian's responsibilities at CDC include human resources, IT, corporate communications and business principles.

Robert Binyon
Managing Director, Asia Pacific
Robert has been with CDC for eight years, following over 20 years in investment banking, principally with Morgan Grenfell. At CDC, prior to becoming Managing Director for the Asia Pacific region, he was responsible for third party fund raising on a number of CDC's managed regional and country funds, and also debt and equity syndication and corporate finance.

Jonathon Bond
Managing Director,
Investor Development
Joining CDC in February 2001, Jonathon was previously founder and head of HSBC's private equity business in India, where he spent seven years. Prior to that he was European Director of HRH The Prince of Wales Business Leaders Forum, and also worked for Electra Private Equity Partners in London and Paris for five years.

Robert C Hart
Managing Director, CDC Globeleq
Based in Houston, Texas, Robert (Bob) Hart is responsible for the CDC Globeleq portfolio of power investments. Bob has over 25 years' experience in the energy sector, including senior positions at Coastal Power and also Hart Energy International, of which he was founding principal and President.

Donald Peck
Managing Director, South Asia
Since joining CDC in 1991, Donald has been at the heart of CDC's transformation into a private equity investor. Based in Delhi since 1998, he is responsible for CDC's South Asia Regional Fund as well as for the growing South Asia portfolio. Before joining CDC in 1991, Donald was with IFC in Washington, working on the first South American privatisation fund and the first private sector investment fund to invest in Eastern Europe. He earlier held investment banking positions at Morgan Grenfell and the Lloyds Bank Group.

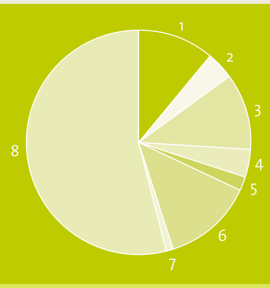
Jim Romanos
Managing Director, Latin America
Jim has responsibility for CDC's Latin America operations, which he carries out from the Miami 'hub' office. He was previously head of CDC's global power portfolio, directed the expansion of CDC's investments in infrastructure, and also worked as a director in Africa. Jim joined CDC in 1988 from Coopers & Lybrand, where he was a managing consultant in the energy and utility industries.

LATIN AMERICA

'IN CHALLENGING CONDITIONS, WE SPENT TIME ON ENHANCING OUR PORTFOLIO AND BUILDING UP A PIPELINE OF ATTRACTIVE POTENTIAL DEALS.'

JIM ROMANOS, MANAGING DIRECTOR

1.	Consumer goods	11%
2.	Agribusiness	4%
3.	Financial institutions	11%
4.	SME Funds	4%
5.	Minerals, oil and gas	2%
6.	Infrastructure	13%
7.	Telecoms, media & technology (TMT)	1%
8.	Power	54%



A slowing global economy, US recession and Argentina's collapse are well documented, and together in 2001 these had a major impact on Latin America's economic growth, foreign direct investment (FDI), private equity and M&A activity. Good quality deal opportunities were unusually hard to come by, and we also had to mark down the value of some of our existing investments.

ENHANCING THE PORTFOLIO AND BUILDING UP THE DEAL 'PIPELINE'

We worked on maintaining and enhancing the value of our portfolio (CDC's activities in the power sector in 2001 are discussed on page 14). Regal Forest Holdings made good progress, as it continued to expand its sales of white and brown goods and electronics across Central America. Peru Central Railways, which is responsible for a crucial section of the country's railway infrastructure, performed strongly as revenues and margins increased. Colquiri Mines in Bolivia, which went into commissioning in June, withstood the drop in zinc prices and is looking forward to earnings growth in 2002.

In terms of the 'pipeline' of potential deals, we are working on particularly interesting opportunities in the TMT, consumer goods, and financial institutions sectors, where we are well positioned to select investments that have weathered the macroeconomic downturn and are realistically valued.

A GOOD DEAL IN EMERGING MARKETS AIRPORTS

In May, we completed a US$33m equity deal in Vancouver Airport Services (YVRAS), the investment and management subsidiary of Canada's Vancouver Airport. Like CDC, YVRAS owns and is looking to acquire emerging markets assets, and is negotiating new projects in Egypt and Jamaica, to complement existing assets in Chile and the Dominican Republic, amongst others. YVRAS is making a major contribution to international airport development, which is essential for improving emerging markets' economic growth, trade and investment in today's global economy.

Looking ahead, economic prospects are favourable in the medium term as Latin America's competitiveness, and the openness of its economies, benefit from a global upturn.

CDC added to its investment in **Peru Central Railways** in 2001. The company manages and maintains a crucial section of the country's railway infrastructure. At the core of its business is a freight service for Peru's mining sector.

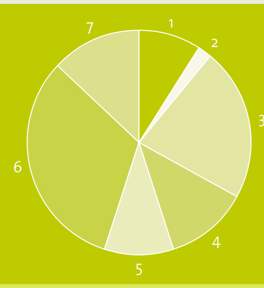
Regal Forest is an important and profitable regional retail chain in Central America, selling essential household goods such as fridges, sewing machines and kettles.

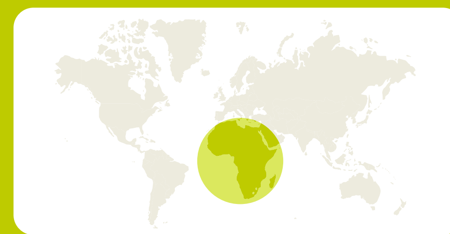
AFRICA

‘OUR AFRICAN STRATEGY DELIVERED POSITIVE RESULTS, IN TERMS OF BOTH EXISTING AND NEW INVESTMENTS.’

PAUL FLETCHER, MANAGING DIRECTOR

1. Consumer goods 9%
2. Financial institutions 2%
3. SME Funds 22%
4. Minerals, oil and gas 12%
5. Infrastructure 10%
6. Telecoms, media & technology (TMT) 32%
7. Power 13%





PROGRESS WITH NEW AND EXISTING INVESTMENTS

CDC’s African activity in 2001 was very encouraging, particularly in terms of new investments and the continued development of our existing portfolio. Our sector focus served us well, together with an emphasis on supporting companies with growth strategies across Africa.

We invested a further US$40m to assist the continued expansion of MSI Cellular, the pan-African mobile phone business. Our initiatives to add value include helping it seek out and evaluate potential new GSM licences, as well as brokering relationships with potential acquisition targets, acquirers, investment advisers and other CDC portfolio companies.

SIGNIFICANT DEALS COMPLETED IN POWER AND HEALTHCARE

In 2001, in the power sector, independent power producer (IPP) Tsavo Power became operational, which is providing Kenya with a much-needed boost to its power generation and reducing its dependency on hydro-electric power. US$18m was invested in an IPP in neighbouring Tanzania, the new Songas gas project, which will help bring gas ashore and pipe it inland. Songas will reduce Tanzania’s need for expensive imported fuel oil for thermal power generation, allowing it to move towards cheap indigenous gas instead.

In healthcare, we backed the management of South Africa’s Medikredit, with US$7m to buy out its health technology business from Eli Lilley and Glaxo Wellcome (SA). Also in South Africa, Prime Cure Clinics, a provider of affordable primary healthcare, continues to progress well. Prime Cure serves lower income families in rural areas and around townships, offering them a high quality, low cost alternative to the public health system.

We are, on the other hand, both for commercial and social reasons, deeply disappointed that Konkola Copper Mines of Zambia, in which CDC has a 7.5% minority stake, is not progressing as originally envisaged.

Looking ahead to 2002 for CDC, we expect the substantial African deal pipeline we have developed in 2001 to yield some attractive investment opportunities, particularly in our new countries, Egypt and Nigeria.

CDC was the first backer of **MSI Cellular** in 1998, and since then has been an active investment partner, completing two further deals as the company has grown to become Africa’s second largest GSM operator, in terms of operating countries.

Prime Cure has established 50 clinics across South Africa, providing quality, affordable primary healthcare and a viable alternative to those people who used to have to rely on the public service.

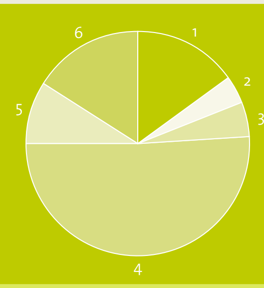
The new **Songas** power project is the biggest foreign investment in Tanzania and the first step to developing a low cost power sector within the country.

SOUTH ASIA

'OUR FOCUS ON THE BANKING SECTOR, AMIDST DIFFICULT CONDITIONS IN OTHER SECTORS SUCH AS INFORMATION TECHNOLOGY, ENABLED US TO COMPLETE AN EXCITING US$33M DEAL.'

DONALD PECK, MANAGING DIRECTOR

1.	Financial institutions	15%
2.	SME Funds	4%
3.	Infrastructure	5%
4.	Telecoms, media & technology (TMT)	51%
5.	Other funds	9%
6.	Power	16%



A CHANGE OF STRATEGY IN DIFFICULT MARKETS

Economic conditions in South Asia became difficult and general business confidence declined during 2001. The technology sector, which buoyed India up until the middle of the year, also declined sharply in the second half of the year. This led to exceedingly volatile deal pricing conditions. As a result, the region's private equity market was very quiet during the year.

We partly switched our strategy away from the technology sector and began to focus on financial institutions and other parts of the services sector, such as business process outsourcing, as well as the nascent management buy-out (MBO) market. CDC assembled a highly competitive, but ultimately unsuccessful privatisation proposal for an MBO of CMC, an Indian government-owned services company. Despite this, CDC is becoming recognised as a significant player in the MBO segment, which has yet to see any significant non-technology deals.

We also worked hard on our existing portfolio. We completed a significant exit worth US$39m in the Indian financial services sector, and consolidated our position in several IT deals, achieving a successful second-round private equity placement for Daksh eServices. Daksh is one of India's largest remote services companies, providing voice and e-care services to US- and UK-based clients, with revenues in excess of US$18m in its second full year of operations ending March 2002.

A MAJOR DEAL IN THE INDIAN BANKING SECTOR

At the end of the year, CDC completed a US$33m purchase of a 26% equity stake in UTI Bank, a fast-growing, listed, pan-Indian private sector bank incorporated in Ahmedabad and headquartered in Bombay. With CDC helping to provide strategic guidance, UTI Bank is developing new strategies for addressing the untapped demand for retail banking services, thus more efficiently recycling savings into loans and also providing much-needed finance to medium, small and micro businesses.

Daksh eServices has flourished since CDC first invested in March 2000. Two years on, it is generating revenues in excess of US$18m a year.

With the help of CDC's investment, **UTI Bank** is developing an attractive range of services to private savers, and also to medium, small and micro businesses.

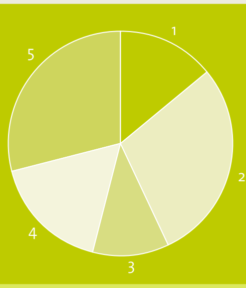
UTI BANK
Solutions for a lifetime

ASIA PACIFIC

'WE ARE PLEASED WITH THE PROGRESS OF OUR CHINESE JOINT VENTURE FUND, AND THE DEAL TRACK RECORD WE ARE ESTABLISHING IN WHAT IS THE MOST RAPIDLY GROWING ECONOMY IN ASIA PACIFIC.'

ROBERT BINYON, MANAGING DIRECTOR

1.	Consumer goods	14%
2.	Agribusiness	29%
3.	SME Funds	11%
4.	Minerals, oil and gas	17%
5.	Power	29%



China stood out in 2001 as the Asia Pacific country with the most favourable economic and investment conditions, encouraged by its accession to the WTO and increasing volumes of direct inward investment. Elsewhere in the region, owing mainly to slow progress in implementing economic restructuring, there were few attractive investment opportunities.

AN APPETITE FOR MBOS

We concentrated our activities over the year on portfolio management, and on sourcing potential opportunities for expansion capital and management buy-outs (MBOs). We are concentrating on MBOs as a risk category, both as a way of empowering local management and meeting the restructuring needs of corporations in the region.

With our palm oil investments, we increased new plantings and made considerable progress in improving the estates, including the mills, housing, health, schooling and other facilities.

Through China Capital Partners (CCP), our joint venture with the CGNU Group, we are an investor in the oil exploration and development company CNOOC Ltd, which subsequently listed in February 2001.

A US$30M INVESTMENT IN A CHINESE LEISURE PRODUCT BUSINESS.

Later in the year, both through CCP and CDC, we invested US$30m in NorthPole, a Chinese manufacturer, mainly of tents and mobile furniture, principally for export to the USA. Although the aftermath of 11 September inevitably hit sales, NorthPole's appeal as a world class exporter with a professional management team remains.

The investment climate for 2002 and for deal flow prospects looks somewhat brighter. In Thailand and Malaysia, for example, bad debts in the banking systems are being tackled and corporate restructuring is being implemented more rigorously. The lack of alternative sources of capital for expansion and MBOs, and the ongoing need for restructuring, should make risk capital more attractive.

CDC is looking for **MBO** opportunities in the Asia Pacific region, both as a way of empowering local management and meeting the restructuring needs of companies.

NorthPole manufactures and markets outdoor recreation equipment, including tents, and is particularly strong in the areas of innovation, high product quality and efficient delivery.

CDC GLOBELEQ

'WE ARE CONTINUING TO IMPROVE THE PERFORMANCE OF OUR UNDERLYING POWER ASSETS AND SEEK OUT PROFITABLE NEW INVESTMENT OPPORTUNITIES, AND WILL LOOK TO RAISE PRIVATE CAPITAL TO AUGMENT OUR OWN RESOURCES.'

ROBERT C HART, MANAGING DIRECTOR*

CDC GLOBELEQ – A NEW INITIATIVE IN INTERNATIONAL POWER

CDC has been involved in power investment for a number of years, and we have developed a good quality portfolio covering the Caribbean, Central America, Africa and Asia.

In May 2001, following an in-depth review and market testing, we came to the decision that, in order to remain at the forefront of power investment in the emerging markets, we would be assembling CDC's power portfolio into one international power company. Work on this initiative, called CDC Globeleq, continued throughout the year. Its central aims are to:

– enable CDC to manage its power assets more actively, in order to continue to improve their performance;
– continue to grow CDC's power portfolio by taking advantage of new investment opportunities;
– continue to attract other investors into individual projects;
– attract third party capital into a new international power company, called Globeleq.

In spite of the difficult conditions that we are currently seeing in emerging markets, we were able to conclude one new power transaction during 2001 – the Tanzanian gas power deal described on page 11. We also made excellent progress on developing our existing portfolio. Three new power plants were commissioned in 2001 – the 75MW Tsavo facility in Kenya, and in the Dominican Republic, the 150MW Sultana plant and the first 200MW of the Cogentrix project.

A BUYERS' MARKET

The global economic problems have created opportunities to acquire power assets at attractive prices. Accordingly, we have been working on several potential transactions, including acquisitions in Latin America and Africa. We expect to see increased secondary market activity in 2002 and 2003.

*In March 2002, Bob Hart took over as Managing Director of CDC's power portfolio, previously the responsibility of Jim Romanos.

In 2001, the 355MW **Lanco Kondapalli** power plant in India successfully converted from naphtha fuel to the cheaper and more environmentally-friendly natural gas. CDC has a 25% stake in the business.

CDC has a stake in Dominican Republic utility **Empresa Generadora de Electricidad Haina SA**, which boosted the country's electricity supply in 2001 through the commissioning of a new power barge.

AUREOS

'WE WANT AUREOS CAPITAL TO BE THE PREFERRED PROVIDER OF PRIVATE EQUITY TO SME BUSINESSES IN EMERGING MARKETS, AND THE FIRST CHOICE FOR INVESTORS IN ITS SEGMENT.'

THORBJORN GAARDER, MANAGING DIRECTOR

AUREOS CAPITAL IS LAUNCHED

Aureos Capital is a joint venture between CDC and Norfund (Norwegian Investment Fund for Developing Countries). We set it up in 2001 to manage, on a commercial basis, CDC's existing private equity funds, targeted at small and medium sized enterprises (SMEs). These invest in some of the emerging markets that CDC itself operates in, but focus on smaller deal sizes – typically US$0.5m to US$5m.

Aureos now manages 14 existing SME emerging markets funds with US$185m under management. Norfund has committed, in principle, US$50m of fresh capital for investment in new funds. Our central mission is to be the preferred provider of private equity to SME businesses in emerging markets, and the first choice for investors in our segment.

A CLEAR STRATEGY FOR AN EXCITING FUTURE

From inception, Aureos has been focusing on maximising value for fund investors in the existing portfolio. Work has also started on the launches, in 2002, of new funds for Central America, the Pacific, West Africa and East Africa. Following a detailed review, a global strategic plan is in place, based around:

- a clear definition of the Aureos product – including financial potential, and how we add value;
- developing Aureos people – including personal commitment to performance and management 'ownership';
- larger, regional funds in partnership structures, with a strong local presence and decision-making capability;
- an enhanced investment process – rigorous, with exit routes clearly identified.

The Aureos funds are looking forward to the exciting challenge of continued partnerships with such businesses as:

- CETA of Mozambique – a profitable construction business which is building roads, clinics and schools. Aureos' Mozambique Investment Company (MINCO) provided US$1.3m in 1999 to assist CETA management and workers to buy the business from the government.

- Polymer Group of Costa Rica – which is achieving annual sales of US$40m from a combination of consumer and specialised agricultural products, food and packaging. Polymer is a major employer in the country and has a reputation for quality, innovation and responsiveness to client needs. The investment is held by Aureos' Central America Investment Facility (CAIF).

Aureos is focusing on maximising the value of its existing portfolio, and work is under way on the launch of new funds for Central America, the Pacific, West Africa and East Africa.

Polymer Group has taken the initiative on a number of health, safety and environmental issues, including collecting and recycling plastic material that was previously buried on farms.

The construction company **CETA**, a major employer in Mozambique, was assisted by Aureos' Mozambique Investment Company (MINCO) in a buy-out from the government.

CDC ASSETS

'WE SUCCESSFULLY RESOLVED A NUMBER OF LOANS ON OUR BOOKS, MADE SOME EXCELLENT MINORITY EQUITY REALISATIONS, REMAINED PROFITABLE AND EXCEEDED OUR CASH TARGETS.'

NICHOLAS SELBIE, MANAGING DIRECTOR

GOOD PERFORMANCE AGAINST TARGETS

We are continuing the strategy of dedicating ourselves to maximising the value of, and generating cash on, the £337m 'historical' CDC Assets portfolio of mainly loan investments (the portfolio's value at the start of 2001 was £543m).

Considering the difficult investment conditions in some regions and sectors, performance across the CDC Assets portfolio in 2001 was again good. The results were, however, adversely affected by the need to make additional provisions, predominantly against our managed agribusiness investments (see opposite). The overall pre-tax return on investments was positive after costs and provisions, at £11m. The cash generated, at £237m (excluding costs and net of £12m of new investments), exceeded our target.

SOME VERY SATISFACTORY REALISATIONS

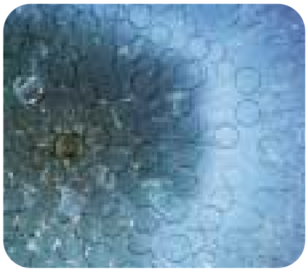
A number of successful loan resolutions were achieved in 2001, including loan pre-payments, corporate restructurings, one-time settlements and completed receiverships and liquidations. These included the financial reconstruction of fertiliser business KAFCO in Bangladesh, the sale of CG Glass in India to Philips and the sale of African Cargo Handling in Kenya to Kenya Airways. Successful realisations of 15 minority equity investments were achieved during the year, including holdings in Housing Development Finance Corporation, India and Zambia Sugar.

CASH OUTPERFORMANCE ON THE DFID PORTFOLIO

We are also responsible for monitoring and administering the Department for International Development (DFID) portfolio of public sector loans. The cash generated for DFID on this portfolio was significantly above budget in 2001. We also made good progress with loan reschedulings in Kenya and Indonesia, on similar terms to those agreed under the Paris Club.

FUTURE STRATEGY OF CDC ASSETS

Going forward, we will continue to manage the CDC Assets portfolio primarily for value, with particular emphasis on extracting value from investments that have historically underperformed the market.



Having previously facilitated vital repair work and a restructuring of the business, in 2001 CDC successfully sold its investment in **CG Glass** of India to Philips of Holland.

KAFCO, the fertiliser business in Bangladesh in which CDC has an investment, continued to perform strongly in 2001.

CDC ASSETS – MANAGED BUSINESSES

‘WE CONTINUE TO MANAGE CAREFULLY OUR PORTFOLIO FOR VALUE, AND IN 2001 ACHIEVED SEVEN REALISATIONS TO COMPANIES WELL PLACED TO DEVELOP THOSE BUSINESSES FURTHER.’

NICHOLAS SELBIE, MANAGING DIRECTOR

‘MANAGE FOR VALUE/RESPONSIBLE DISPOSALS’ STRATEGY PROGRESSING WELL

Our managed businesses have been, and remain principally in, agribusiness, which is a difficult sector in which to invest. This is above all because we are so often exposed to volatile commodity prices which, for the most part, remained weak in 2001. As a result, we had to make significant further provisions against these investments.

We have completed a review of our African agribusiness interests, resulting in the sale of some. Our plan is to retain the remaining businesses and to manage them actively for value. We will seek to realise that value at the appropriate time, in common with all CDC’s investments. Where we dispose of any business, our strategy continues to be to do so, to an appropriate buyer, in a responsible manner, at fair value.

SIGNIFICANT SUGAR MERGER COMPLETED

In 2001, alongside our partners Tibiyo, we merged our two substantial sugar businesses in Swaziland, to create one of the largest, low cost producers in Southern Africa. Elsewhere, Mpongwe performed creditably, while Cavally was adversely affected by weak rubber prices.

Our oil palm businesses, located in the Asia Pacific region, continued to perform satisfactorily.

SALES TO SECTOR SPECIALISTS

Seven significant realisations were completed in 2001 – all of them to companies who we considered were better placed to assist with the continued growth of each business. The largest was the sale of CDC’s cement businesses in Zambia, Tanzania and Malawi to Lafarge. Another transaction was the sale, to tea specialist James Finlay, of CDC’s tea interests in Rwenzori in Uganda. Finlays, previously our partner in the investment, has an excellent packaging, distribution and customer network, which should continue to be of great benefit to the business.

In 2001 CDC helped to bring about the successful merger of two sugar businesses in north east Swaziland – **Royal Swaziland Sugar Company** and **Mhlume.**

Having created a regional business from individual cement businesses in Zambia, Tanzania and Malawi, in 2001 we were able to move them on as a regional operation to cement specialist Lafarge, in order to develop them further.

After privatising Uganda’s **Rwenzori Highlands Tea Company**, CDC successfully rehabilitated the business, as well as improving training and introducing effective health, safety and environmental policies.

CDC'S BUSINESS PRINCIPLES

AT CDC WE BELIEVE THAT A PROPER UNDERSTANDING OF HEALTH & SAFETY, ENVIRONMENTAL AND SOCIAL (HSES) ISSUES IS CENTRAL TO GOOD INVESTMENT DECISIONS. IN 2001, WE CONTINUED TO MAKE GOOD PROGRESS IN INCORPORATING THE ASSESSMENT OF THESE ISSUES INTO OUR APPROVAL AND MONITORING PROCESS, WHILE ALSO ENSURING THAT OUR INVESTMENTS OPERATE IN LINE WITH INTERNATIONAL BEST PRACTICE. AMONG OUR 2001 ACTIVITIES, THE MOST NOTABLE WERE:

- ASSESSING THE HSES PERFORMANCE OF ALL THE COMPANIES IN THE CDC CAPITAL PARTNERS PORTFOLIO, AND ANALYSING ANY CHANGES APPARENT BETWEEN 2000 AND 2001;
- DEVELOPING A FRAMEWORK FOR ASSESSING COUNTRIES' HUMAN RIGHTS RECORDS;
- VISITING 31 INVESTMENTS FOR DUE DILIGENCE AND MONITORING;
- SELECTING THE ASHRIDGE CENTRE FOR BUSINESS AND SOCIETY TO PROVIDE AN INDEPENDENT REVIEW OF THE EFFECTIVENESS OF CDC'S HSES PROCESSES.

CASE STUDY – PALM OIL INVESTMENTS, PAPUA NEW GUINEA

CDC, as an investor in palm oil in Papua New Guinea, is mindful of the environmental impact of the palm oil industry. Our subsidiary in the country uses independent environmental and social specialists to advise on the selection of appropriate degraded land for planting, as opposed to primary rainforest, and on land clearance techniques which promote biodiversity. We are also continuing to work with others in the supply chain, including Unilever, on the designation of ethically-labelled palm oil, produced with proper regard for people and the environment.

Some of the practical challenges involved in assisting the industry, which is Papua New Guinea's biggest employer, were highlighted in a 2001 report from Friends of the Earth which criticised CDC's social and environmental performance. We challenge the factual basis of the report, but welcome the contribution of such reports to keeping potential environmental and social issues on the agenda.

NORTHPOLE®
INNOVATION BEGINS HERE

CASE STUDY – NORTHPOLE, CHINA

During 2001, as part of the due diligence work being carried out on potential investment NorthPole in China, which makes tents and mobile furniture, we conducted a social audit of labour practices at the company and among its sub-contractors. The aim was to ensure that acceptable practices were in place, and to identify any areas of possible improvement. As a result of the social audit, we agreed with NorthPole's management a corrective action plan and we are continually monitoring its implementation.

INDEPENDENT ASSESSMENT BY THE ASHRIDGE CENTRE FOR BUSINESS AND SOCIETY

'There is clear evidence that potential and existing investments are being assessed and managed with regard to health, safety, environmental and social performance. To ensure that good practice is applied consistently across CDC, we recommend the continued development of their HSES training programmes and a more systematic approach to assessing HSES issues,' – said Andrew Wilson of Ashridge Centre for Business and Society (www.ashridge.org.uk), which was commissioned in 2001 to examine the systems by which CDC applies its business principles. The details of the analysis undertaken by Ashridge, together with their recommendations, are on the CDC website (www.cdcgroup.com).

MONITORING AND IMPROVING

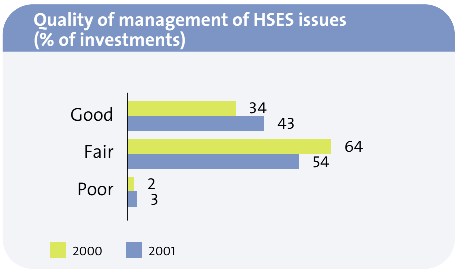
During 2001, CDC's business principles unit visited a total of 31 investments, selected primarily on the basis of HSES risk, and also according to the perceived quality of the company's management of HSES issues. Following each visit, recommendations for improvements were made to the company's management, and progress on their implementation is being monitored both by the CDC manager responsible, and by CDC's business principles unit.

SOCIAL ISSUES AND HUMAN RIGHTS

CDC's social issues policy outlines the basic labour standards which must apply in businesses in which we invest. However, it is very difficult to isolate a business from the environment in which it operates (for example, in some countries free trade unions are illegal). In 2001, we continued to develop a framework which helps us to also assess the social impact of a country's human rights on a business. This framework guides us on (a) whether or not CDC should make investments in a certain country; and (b) the human rights issues to look out for during the due diligence work. For more information on our approach, visit our website (www.cdcgroup.com).

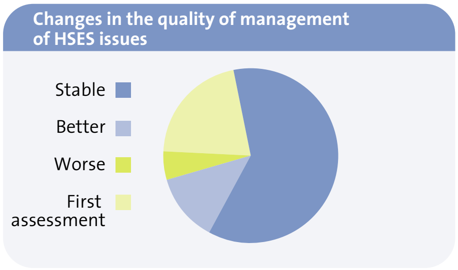
THE QUALITY OF MANAGEMENT OF HSES ISSUES

The two charts on the right summarise the main findings from our analysis of investments in the CDC Capital Partners portfolio, in 2000 and 2001, which assessed the quality of management of HSES issues.



OVERALL QUALITY OF MANAGEMENT OF HSES ISSUES

2001 saw an increase in the proportion of investments rated 'good'. All investments rated 'poor' in 2000 were upgraded in 2001 as a result of positive action taken. However, the overall number of investments in the 'poor' category increased marginally, and will be a focus of attention in 2002.



CHANGES IN THE QUALITY OF MANAGEMENT OF HSES ISSUES

Several investments were new CDC deals, so we were assessing the quality of management of HSES issues for the first time. For the majority of companies, between 2000 and 2001 there was no change in our assessment of the quality of management. Overall, the ratings for 12 companies improved, while ratings for five others were downgraded.

FINANCIAL REVIEW

1. Results

CDC's financial results are presented in two ways. First, following UK generally accepted accounting principles, we consolidate all businesses where we have a controlling interest and equity account for our associate companies where we exercise significant influence. These consolidated accounts are shown in the CDC Financial Report 2001, which is available separately. Secondly, in order to explain more fully our activities, we have valued all our investments, including subsidiaries and associates, and used the results of this valuation in a statement of total return and a summarised balance sheet. These valuation results are shown on page 21 opposite. Ernst & Young LLP have examined these statements and their report is also shown opposite.

2. Summary

- Portfolio performance, before costs, was a negative 10.3% in a difficult year for emerging economies
- £215m of unrealised losses as a result of a weak investment environment in virtually all our markets
- £134m of new investments made during the year
- Rolling five year 70% new investment target for poorer countries and annual 50% aim for sub Saharan Africa and South Asia both achieved
- CDC Assets portfolio generated £237m of cash
- Costs well under control and, as a percentage of total average funds under management, decreasing from 3.7% to 2.8%
- £207m of cash held at year end
- Small and medium enterprise funds transferred to Aureos, a joint venture with Norfund.

3. Portfolio

3.1 SUMMARY

We continue to run the portfolio in two parts. 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. We are realising the CDC Assets portfolio over time and using the resulting cash proceeds to build up the CDC Capital Partners portfolio. CDC Assets generated £237m of cash in 2001 and we expect it to generate over £160m next year.

During the year, the portfolio moved as shown in Table 1 below:

	CDC Capital Partners £m	CDC Assets £m	Total £m
Portfolio at start of year	521	543	1,064
New investments	122	12	134
Realisations and loan repayments	(3)	(174)	(177)
Unrealised losses and provisions	(162)	(53)	(215)
Other (inc exchange movements)	1	9	10
Portfolio at end of year	479	337	816

Table 1

SUMMARY STATEMENT OF TOTAL RETURN (FOR YEAR ENDED 31 DECEMBER)

	2001 CDC Capital Partners £m	2001 CDC Assets £m	2001 Total £m	2000 Total £m
Revenue account				
Revenue	40.0	47.7	87.7	131.6
Operating costs and other items			(44.8)	(49.4)
Exceptional items			–	(12.8)
Net interest			7.2	2.9
Revenue return before tax			50.1	72.3
Capital account				
Net realised profits over opening valuation	0.1	21.1	21.2	11.0
Unrealised value movement	(162.8)	(52.3)	(215.1)	(147.3)
Exchange movements	(0.9)	(2.5)	(3.4)	2.9
Capital return before tax	(163.6)	(33.7)	(197.3)	(133.4)
Total return before tax			(147.2)	(61.1)
Tax			(8.4)	9.6
Total return after tax			(155.6)	(51.5)

SUMMARISED BALANCE SHEET ON A VALUATION BASIS (AT 31 DECEMBER)

Equity investments	359.7	73.6	433.3	534.2
Loans	119.9	263.1	383.0	529.7
Total portfolio	479.6	336.7	816.3	1,063.9
Net cash			207.2	97.8
Other net liabilities			(17.9)	(0.5)
			1,005.6	1,161.2
Loans from government			(755.0)	(755.0)
Total net assets on valuation basis			250.6	406.2

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 2001 and summarised balance sheet on a valuation basis as at 31 December 2001 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 valuation basis are fairly stated on the basis of the valuation methodology set out in section 5 on page 24.

Ernst & Young LLP
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH
13 March 2002

CDC Capital Partners new investments by region in 2001

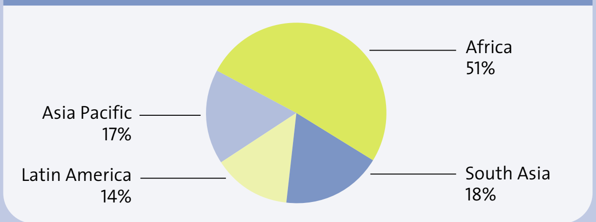


Fig 1

CDC Capital Partners new investments by sector 2001

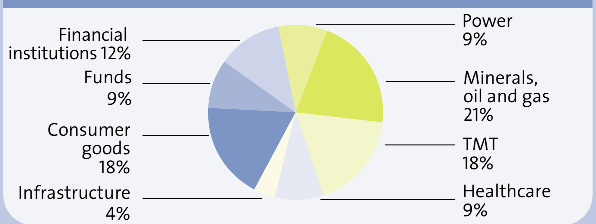


Fig 2

CDC Capital Partners portfolio by sector £m

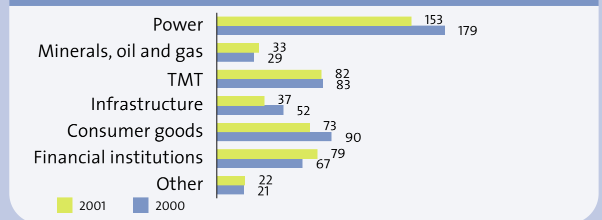


Fig 3

CDC Capital Partners portfolio by region £m

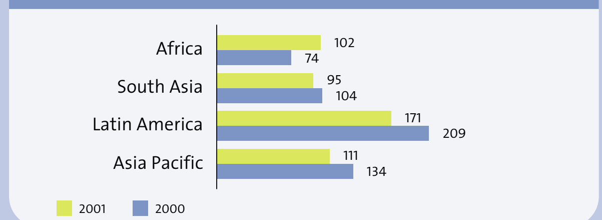


Fig 4

The unrealised valuation loss of £215m has to be set in the context of very weak commercial and economic conditions in virtually all our markets. We were particularly hit by falls in commodity prices, which are estimated to account for £91m of the total. Consequently, our majority owned agricultural businesses suffered a significant valuation decline of £69m, representing 50% of their opening value.

The performance of the two portfolios is discussed below.

3.2 CDC CAPITAL PARTNERS

Revenue

The portfolio generated £40m of revenue mainly from dividends, interest and fees, representing 8.0% of the average portfolio. With the exception of power investments, the portfolio is low yielding as many of the older investments were made with the intention of achieving returns through capital gain rather than yield. We are now seeking to increase the number of new investments with ongoing yield.

New investments

We made 41 new investments totalling £122m, the largest being as follows:

New Investments	£m
• A follow-on investment in MSI Cellular, the pan-African mobile telecoms business	14
• UTI Bank in India	14
• NorthPole, a manufacturer of outdoor leisure products in China	14
• Power projects in Africa, including Tsavo Power in Kenya and the Songas offshore gas project in Tanzania	11
• Two healthcare businesses in South Africa	10
• A platinum mine in South Africa	9

Regionally we invested £62m (51%) in Africa, more than in any other area of the world. 18% was in South Asia, 14% in Latin America and 17% in Asia Pacific. The investment environment in Asia Pacific was particularly difficult and, apart from China, we deliberately avoided new investments in the region. We easily met our aim of having 50% of our new investments in sub Saharan Africa and South Asia: the figure for 2001 was 69% for Capital Partners.

Power remains a cornerstone of CDC's activities, with each investment making a beneficial impact in a CDC country as well as demonstrating to private capital that adequate returns can be obtained in emerging markets. In 2001 we made over £10m of new power investments.

Realisations

We made very few realisations in 2001 for two reasons. First, our portfolio is still young and in our markets there is a relatively longer average holding time of investments compared with private equity businesses in the more developed markets. Secondly, the economic environment in most of our markets was not conducive to good exits. We therefore made only five realisations totalling just £3m, four of which were funds returning capital.

Valuation gains and losses

We are now into the third year of valuing our portfolio according to our valuation methodology, which follows the British Venture Capital Association (BVCA) guidelines. The methodology is described in section 5 on page 23.

The economic environment in virtually all our markets was extremely tough. In many countries this was overlaid with a difficult political situation. As a result, the returns on quoted investments in many emerging markets were very poor. For example, the index for quoted stocks in US$ terms for 2001 in Argentina fell by 29%, India by 26%, China by 21% and South Africa by 21%. Against that background, the fund performance of the Capital Partners portfolio of negative 24%, taking into account investment income and based on the opening portfolio, was disappointing but not surprising.

The total fall in value from the valuations exercise was £162m. The largest effects were felt in our commodity businesses, specifically the palm oil operations in Indonesia and Papua New Guinea and a copper business in Zambia. Palm oil prices, which averaged US$310 per tonne in 2000, fell to a low of US$234 per tonne during 2001 with inevitable consequences on the value of our business. Copper prices also fell which, combined with increasing capital costs, led Anglo American, the operators of the Konkola copper mine in Zambia, to announce their intention to withdraw from the project. These two investments alone account for almost 30% of the valuation losses.

Portfolio

We continue to focus on our six main sectors: power; telecommunications, media and technology; infrastructure; minerals, oil and gas; financial institutions; and consumer goods. In addition we are developing a few regionally focused sectors such as healthcare and property, mainly in Africa. Figure 3 shows the closing portfolio by sector. Latin America is still the largest region as a result of a high proportion of the power assets being in that area. Excluding power, the portfolio is evenly spread across the four regions. Figure 4 shows the split by region.

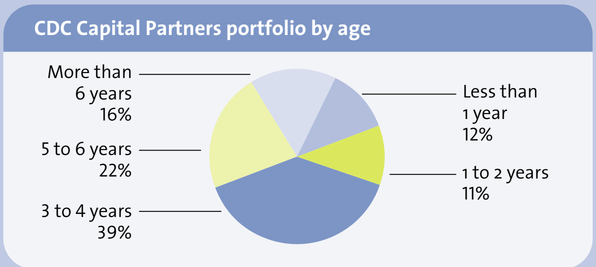


Fig 5

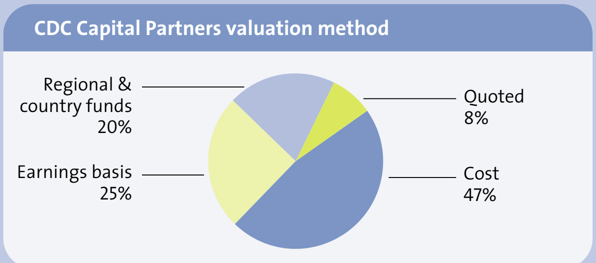


Fig 6

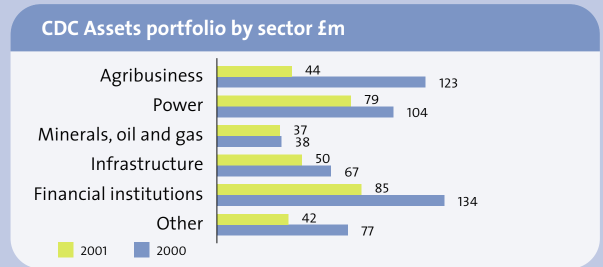


Fig 7

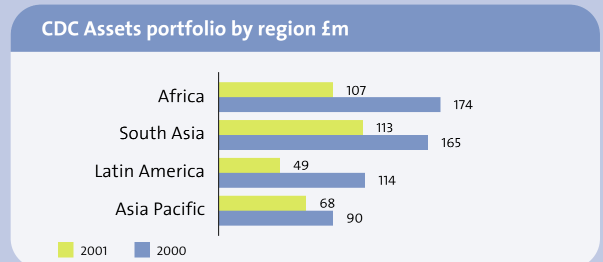


Fig 8

3.3 CDC ASSETS

Income

The CDC Assets portfolio generated £48m (2000 £95m) of income, representing 10.9% on the average portfolio. The reduction in income is a direct consequence of the fall in the value of the portfolio as it is unwound.

New investments

No new investee companies were added to the portfolio, but we did invest £12m mainly to honour historic commitments to existing holdings.

Realisations

Realisations from the portfolio generated £200m – £120m from loans and £80m from equities. Combined with income and the small outgoings on new investments, the portfolio generated a net £237m (2000 £237m) of cash.

Loan receipts from 14 investee companies, were ahead of plan. We also exited from 21 equity investments at a premium over opening valuation of 36%. Eight accounted for over 90% of the total, and two generated proceeds of over £25m each.

The largest exit was the sale of our cement businesses in Africa. The investment history in cement is a good example of what CDC sets out to do. We bought the three operations in Zambia, Malawi and Tanzania separately over a number of years, invested in new equipment, improved operational performance and then sold them to an international operator, Lafarge, which has the expertise to develop them further. This has provided good financial returns to CDC whilst at the same time ensuring that the cement industry in these countries continues to progress. The other major exit was HDFC, India's leading mortgage company. CDC invested fresh capital in HDFC in 1995 at a time when the capital markets were weak, to assist the company in expanding its geographical reach. HDFC has grown rapidly and now has full access to the capital markets, so the decision was taken to exit and lock in a very satisfactory return.

Valuation gains and losses

The CDC Assets portfolio recorded an unrealised valuation loss of £53m. All but £12m of this loss arose in our managed agribusiness investments which were subject to severe price pressures, mainly on their commodity products. The largest valuation loss was on our orange juice businesses in Central America. Orange juice prices fell by over 40% between 1999 and mid 2001 and the businesses suffered as a consequence. We also suffered a significant loss in the value of our investment in Satellite Goldfields in Ghana.

Portfolio

The CDC Assets portfolio generated a return before costs of £14m. Mainly as a result of the unwinding of the portfolio, the value fell from £543m to £337m.

At the end of the year, Africa and South Asia represented 65% of the portfolio, followed by Asia Pacific at 20% and Latin America at 15%. Financial institutions is now the largest sector, closely followed by power. Our largest single investment is debt funding for the Mozal aluminium project in Mozambique. Figures 7 and 8 show the portfolio split by sector and region respectively. Debt instruments still form the largest element of the portfolio at 78% (2000 73%), yielding approximately 12%. The level of non-performing loans increased during the year following difficulties in the agribusiness loans and Satellite Goldfields, as discussed above; and a loan outstanding from a mining project in the Solomon Islands, where economic conditions still remain very depressed following the political turmoil in 2000.

CDC Assets is also responsible for monitoring and administering a portfolio of public sector loans on behalf of our shareholder, the Department for International Development (DFID). Over the course of the year, we have been actively engaged in extracting value from the porfolio, consistent with DFID's objectives. Through a combination of loan collections, reschedulings and debt relief initiatives, the net asset value of the portfolio was reduced from £147m to £67m.

4. Operating costs

Following the major rationalisation exercise in late 2000, during which headcount was reduced by 25%, operating costs in 2001 fell from £48m to £41m. Costs net of fees, expressed as a percentage of total funds under management, including our own balance sheet and third party funds managed by CDC, fell from 3.7% to 2.8%. Our intention over time is to reduce this to around 2.5% by controlling costs, increasing fees and increasing the level of funds managed.

5. Valuation Methodology

CDC equity valuation guidelines have been developed in accordance with the guidance given by the British Venture Capital Association.

FINANCIAL REVIEW CONTINUED

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 £3m 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 and amortisation)
   - 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 provision.

5. Equities in the power portfolio are valued by discounting cash flows to their net present value.

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

7. Regional and country funds managed by CDC, and other venture capital funds managed by third parties, are valued using a methodology consistent with that used for individual investments.

Provisions are made against non-performing loans (those with interest or capital in arrears exceeding 90 days) and against loans where problems have emerged.

The summary statement of total return and the summarised balance sheet on a valuation basis have been prepared based on the financial statements, before the consolidation of any subsidiaries and associates that are not primarily investment holding companies. The main effects of this have been:

- deconsolidating non-investment subsidiaries' turnover and costs, assets and liabilities
- 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, arising from the valuation procedures described above.

6. Financial statements

6.1 BASIS OF PREPARATION

The financial statements 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 £228m (2000 £249m) was lower following the sale of agricultural and cement subsidiaries.

6.3 INVESTMENT INCOME

The group's investment income of £74m was down on 2000 (£101m). 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 reduction in the CDC Assets portfolio.

6.4 LOSS BEFORE TAX

Loss before tax of £120m compares to a loss of £41m for 2000. The weak performance mainly reflects the adverse economic climate of 2001 that led to more investment provisions and a lower result from our agricultural managed businesses, which suffered from a fall in commodity prices.

6.5 EXCEPTIONAL ITEMS

A charge of £3m in 2001, mainly from loss on disposal of fixed assets compares with a charge of £12m in 2000, mainly from costs of fundamental restructuring and a staff redundancy programme to enable CDC to compete among other emerging market private equity funds and similar companies following the changed status of CDC.

6.6 TAXATION

The tax charge was £9m compared with a charge of nil in 2000. 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
Cash inflow before use of liquid resources and financing was £75m (2000 £41m). The group's net debt at year end was £680m (2000 £766m), including £755m of interest-free loans payable to the UK Government.

6.8 BALANCE SHEET
Group net assets decreased from £406m to £280m net of loans from the Government of £755m, which are unchanged from 1999.

6.9 PENSIONS AND FRS 17
CDC operates one pension scheme in the UK. The defined benefits section of this scheme was closed to new entrants as from 1 April 2000. The scheme is well funded and, on the advice of the scheme actuary, CDC no longer makes contributions to the defined benefits section. Disclosures required under FRS 17 show a surplus of assets over liabilities of £27m. Further details are contained in the CDC Financial Report 2001, which is available separately.

7. Risk management

7.1 INTRODUCTION
CDC's operations are managed within limits defined by the board. There are 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 CDC's Treasury unit is to manage the group's funds and to minimise group currency exposure. To optimise this function CDC enters into derivative transactions. We do not, however, trade in derivatives, nor do we enter into transactions of a speculative nature.

7.3 COMMODITY RISK MANAGEMENT
Certain subsidiaries within the group are engaged in the supply of commodities. These subsidiaries choose whether and how to hedge future cash receipts from sales of these commodities following guidelines set out by the parent company. Such hedging is not speculative, and the subsidiaries only sell forward a proportion of the products that they expect to physically deliver. In 2001 they have used forward sales and options to hedge their sales price. More details on both commodity and treasury-related derivatives are given in the CDC Financial Report 2001.

8. Going concern
The directors are satisfied that CDC Group plc 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.

Richard Laing
Finance Director

Independent auditors' statement to the members of CDC Group plc

We have examined the group's summary financial statement.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the CDC Annual Review 2001 in accordance with applicable law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the CDC Annual Review 2001 with the full annual accounts and Directors' report, and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made there under. We also read the other information contained in the CDC Annual Review 2001 and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

BASIS OF OPINION
We conducted our examination in accordance with Bulletin 1999/6 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board for the use in the United Kingdom.

OPINION
In our opinion the summary financial statement is consistent with the full annual accounts and the Directors' report of CDC Group plc for the year ended 31 December 2001 and complies with the applicable requirements of section 251 of the Companies Act 1985, and regulations made there under.

Ernst & Young LLP
Registered Auditor
London
13 March 2002

GROUP PROFIT AND LOSS ACCOUNT (FOR THE YEAR ENDED 31 DECEMBER)

	2001 £m	2000 £m
Turnover	228.3	248.8
Investment income	73.7	101.0
Group operating profit	14.2	38.0
Share of operating profit in associates	4.2	8.4
Total operating profit	18.4	46.4
Profit on sale of investments	19.0	19.4
Exceptional items	(3.3)	(11.7)
Interest receivable and similar income	9.4	5.9
Interest payable and similar charges	(13.7)	(14.7)
Investment provisions	(149.8)	(91.8)
Exchange gains and losses	(0.3)	5.4
Loss before taxation	(120.3)	(41.1)
Taxation (charge)/credit	(8.8)	1.3
Share of associates' taxation	(0.4)	(1.3)
Loss after taxation	(129.5)	(41.1)
Minority interest	10.5	(1.5)
Loss for the year	(119.0)	(42.6)
Transfer to shareholder	–	(159.6)
Transferred to reserves	(119.0)	(202.2)
Loss per share	(119.0p)	(42.6p)

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Loss for the year	(119.0)	(42.6)
Exchange difference on retranslation of net assets in subsidiaries	6.8	7.2
Total recognised gains and losses for the year	(112.2)	(35.4)

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.

RECONCILIATION OF CONSOLIDATED SHAREHOLDERS' FUNDS

Total recognised gains and losses	(112.2)	(35.4)
Transfer to shareholder	-	(159.6)
Total movements during the year	(112.2)	(195.0)
Shareholders' funds at 1 January	362.5	557.5
Shareholders' funds at 31 December	250.3	362.5

GROUP BALANCE SHEET (AT 31 DECEMBER)

Intangible assets	21.4	15.8
Tangible assets	232.6	282.7
Investments	677.9	814.2
Fixed assets	931.9	1,112.7
Stocks	33.8	41.8
Debtors	100.7	126.9
Cash at bank and in hand	227.4	120.1
Current assets	361.9	288.8
Creditors – amounts falling due within one year		
Short term borrowings	(188.9)	(137.5)
Other creditors	(54.3)	(62.1)
Net current assets	118.7	89.2
Total assets less current liabilities	1,050.6	1,201.9
Creditors – amounts falling due after one year		
Long term borrowings	(718.5)	(748.8)
Other creditors	(17.0)	(24.2)
Provisions for liabilities and charges	(35.2)	(23.0)
Net assets	279.9	405.9
Represented by:		
Called up share capital	10.0	10.0
Profit and loss account	240.3	352.5
Total equity shareholders' funds	250.3	362.5
Minority interest	29.6	43.4
	279.9	405.9

GROUP CASH FLOW STATEMENT (FOR THE YEAR ENDED 31 DECEMBER)

	2001 £m	2000 £m
Cash inflow from operating activities	64.7	98.9
Dividends from associates and joint ventures	3.2	2.8
Returns on investments and servicing of finance	(5.8)	(14.3)
Corporation taxation paid	(1.5)	(19.3)
Capital expenditure and financial investment	(15.0)	(21.4)
Acquisitions and disposals	29.1	(6.2)
Cash inflow before use of liquid resources and financing	74.7	40.5
Management of liquid resources	(112.7)	(53.9)
Financing	34.3	4.1
(Decrease) in cash in the year	(3.7)	(9.3)
Reconciliation of net cash flow to movement in net debt		
(Decrease) in cash in the year	(3.7)	(9.3)
Cash outflow from increase in liquid resources	112.7	53.9
Cash inflow from increase in net debt	(32.1)	(4.1)
Change in net debt resulting from cash flows	76.9	40.5
Loans and finance leases acquired with subsidiaries	(2.7)	(12.1)
Loans in disposed subsidiaries	10.4	5.9
Translation difference	1.6	(2.2)
Movement in net debt in the year	86.2	32.1
Net debt at start of year	(766.2)	(798.3)
Net debt at end of year	(680.0)	(766.2)

COMPANY BALANCE SHEET (AT 31 DECEMBER)

	2001	2000
Tangible assets	26.1	27.3
Investments	741.9	898.9
Fixed assets	768.0	926.2
Debtors	33.7	51.4
Cash at bank and in hand	143.8	83.4
Current assets	177.5	134.8
Creditors – amounts falling due within one year		
Short term borrowings	(125.5)	(82.5)
Other creditors	(59.5)	(29.1)
Net current (liabilities)/assets	(7.5)	23.2
Total assets less current liabilities	760.5	949.4
Creditors – amounts falling due after one year		
Long term borrowings	(632.8)	(675.7)
Other creditors	(0.4)	(0.6)
Provisions for liabilities and charges	(34.5)	(22.5)
Net assets	92.8	250.6
Represented by:		
Called up share capital	10.0	10.0
Profit and loss account	82.8	240.6
Shareholders' funds	92.8	250.6

The accounts were approved by the members of the Board on 13 March 2002 and were signed on their behalf by:

Lord Cairns
Chairman

Richard Laing
Finance Director

DIRECTORS' EMOLUMENTS

The following is a summary; full details are contained in the Board report on remuneration, which is published in the CDC Financial Report 2001.

	2001	2000
Number of Directors at 31 December	11	8
Emoluments	£999,320	£465,448
Company contributions to defined contribution schemes	£12,960	£9,745
Company contributions to personal pension schemes	£78,768	£28,000
Number of Directors in defined contribution schemes	1	1

During 2001 three new Executive Directors were appointed. The amounts in respect of the highest paid Director are as follows:

Emoluments	£221,894	£225,868
Company contributions to personal pension schemes	£29,750	£28,000

TEN LARGEST INVESTMENTS – CDC CAPITAL PARTNERS

Investment	Country	Business description
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.
MSI Cellular	**Pan Africa**	Africa's second largest GSM operator in terms of operating countries. MSI currently operates in 12 African countries – Uganda, Zambia, Gabon, Chad, Congo Brazzaville, DRC, Malawi, Sierra Leone, Tanzania, Niger, Sudan and Burkina Faso. MSI has so far attracted over 500,000 customers in Africa.
Pacific Rim Plantation Services	**Indonesia/ Papua New Guinea**	Headquartered in Singapore, Pacific Rim Plantation Services (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.
Mirant Pagbilao Corporation	**Philippines**	CDC's investment in Mirant Pagbilao Corporation has helped it build and operate a 700MW coal-fired power station on the island of Pagbilao Grande, 100 miles south east of Manila.
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.
Nandi	**India**	A 100% owned US$30m fund that has been investing in early stage companies since 1996. It concentrates on deals below US$2m. Investments include Melrose, the pharmaceutical retailer, and Daksh, the remote e-services business.
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.
UTI Bank	**India**	UTI Bank, a listed company, was among the first of a new breed of private sector banks to begin operations in India in 1994. It has since developed an impressive portfolio of corporate and retail banking operations and continues to form alliances which extend the reach and quality of its services to customers.
NorthPole Ltd	**China**	NorthPole manufactures and markets outdoor recreation equipment. It is a world market leader for sales in tents, mobile furniture and soft luggage. Production is carried out in China, Sri Lanka and Bangladesh.

KEY CONTACTS

Country	Contact name	Contact details	Email address
LONDON			
CDC Corporate Communications	Ben Morton	T +44 20 7963 3864 F +44 20 7963 3819	bmorton@cdcgroup.com
CDC Globeleq	Rod Evison	T +44 20 7963 3871 F +44 20 7963 3956	revison@cdcgroup.com
Aureos Capital	Thorbjorn Gaarder Michael Ellen	T +44 20 7963 3700 F +44 20 7963 3733	t.gaarder@aureos.com m.ellen@aureos.com
USA			
Houston (CDC Globeleq rep office)	Bob Hart	T +1 713 355 3450	rhart@cdcgroup.com
Miami (Latin America rep office)	Jim Romanos Ralph Patino	T +1 305 415 0000 F +1 305 415 0010	jromanos@cdcgroup.com rpatino@cdcgroup.com
Washington (India rep office)	Subba Rao Ramesh Ramani	T +1 703 7495004 F +1 703 7495011	stelidevara@cdcgroup.com rramani@cdcgroup.com
LATIN AMERICA AND CARIBBEAN			
Bolivia	Michael Till	T +591 3 333 3133 F +591 3 333 1980	mtill@cdcgroup.com
Caribbean	Gabriel Murillo	T +1 305 415 0000 F +1 305 415 0010	gmurillo@cdcgroup.com
Central America	Ian Weetman	T +506 211 1515 F +506 211 1525	iweetman@cdcgroup.com
Cuba	Paul Nabavi	T +537 204 4468 F +537 204 4460/4140/5950	pnabavi@cdcgroup.com
Mexico	Stephen West	T +52 55 5 284 2385 F +52 55 5 284 2223	swest@cdcgroup.com
AFRICA			
Egypt	Hywel Rees Jones	T +20 2 736 1628/68/98 F +20 2 736 1634	hrjones@cdcgroup.com
French-speaking Africa and Maghreb	Xavier Lecacheur	T +44 20 7963 3963 F +44 20 7828 6505	xlecacheur@cdcgroup.com
Ghana	Jacob Kholi	T +233 21 770212 F +233 21 7010234	offgh2001@yahoo.com
Kenya	Michael Turner	T +254 2 219952/3/4 F +254 2 219 744	mturner@cdcgroup.com
London regional office	Paul Fletcher Patrick Helson	T +44 20 7963 3677 F +44 20 7828 6505	pfletcher@cdcgroup.com phelson@cdcgroup.com
Nigeria	Adiba Ighodaro	T +234 1 262 6475/6/7 F +234 1 262 6479	aighodaro@cdcgroup.com
South Africa	David Morley	T +27 11 778 5900 F +27 11 327 7407	dmorley@cdcgroup.com
Tanzania	Charles Groom	T +255 22 2112926 F +255 22 2113645	charles@fcp.co.tz
Zambia	Valentine Chitalu	T +260 1 25 4285/3657/3659 F +260 1 25 0306	vchitalu@cdcgroup.com
SOUTH ASIA			
India	In India CDC is advised by CDC Advisors Private Ltd		
Delhi	Donald Peck	T +91 11 469 1691/2/5/6/7 F +91 11 469 1693/2240	dpeck@cdcgroup.com
Bangalore	Steven Enderby	T +91 80 5550651/52/47/48/49 F +91 80 555 0592	senderby@cdcgroup.com
Mumbai	J M Trivedi	T +91 22 281 6430 F +91 22 282 0737	jtrivedi@cdcgroup.com
Pakistan	Shabbir Hashmi	T +92 21 561 0091/1894 F +92 21 561 1891	shashmi@cdcgroup.com
ASIA PACIFIC			
China	Richard Hughes	T +86 10 6505 6655 F +86 10 6505 8111	rhughes@cdcgroup.com
Indonesia	Mark Edwards	T +62 21 525 4993 F +62 21 525 4902	medwards@cdcgroup.com
Malaysia	Loh Chye Lin	T +60 3 2031 4088 F +60 3 2032 1162	clloh@cdcgroup.com
Singapore	Alex Hambly	T +65 6227 8676 F +65 6227 1004	ahambly@cdcgroup.com
Thailand	Robert Binyon Daniel Ling	T +66 2654 3770 F +66 2654 3776	rbinyon@cdcgroup.com dling@cdcgroup.com

CDC Group plc One Bessborough Gardens London SW1V 2JQ
T +44 (0) 20 7828 4488 F +44 (0) 20 7828 6505
Email info@cdcgroup.com Web www.cdcgroup.com

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