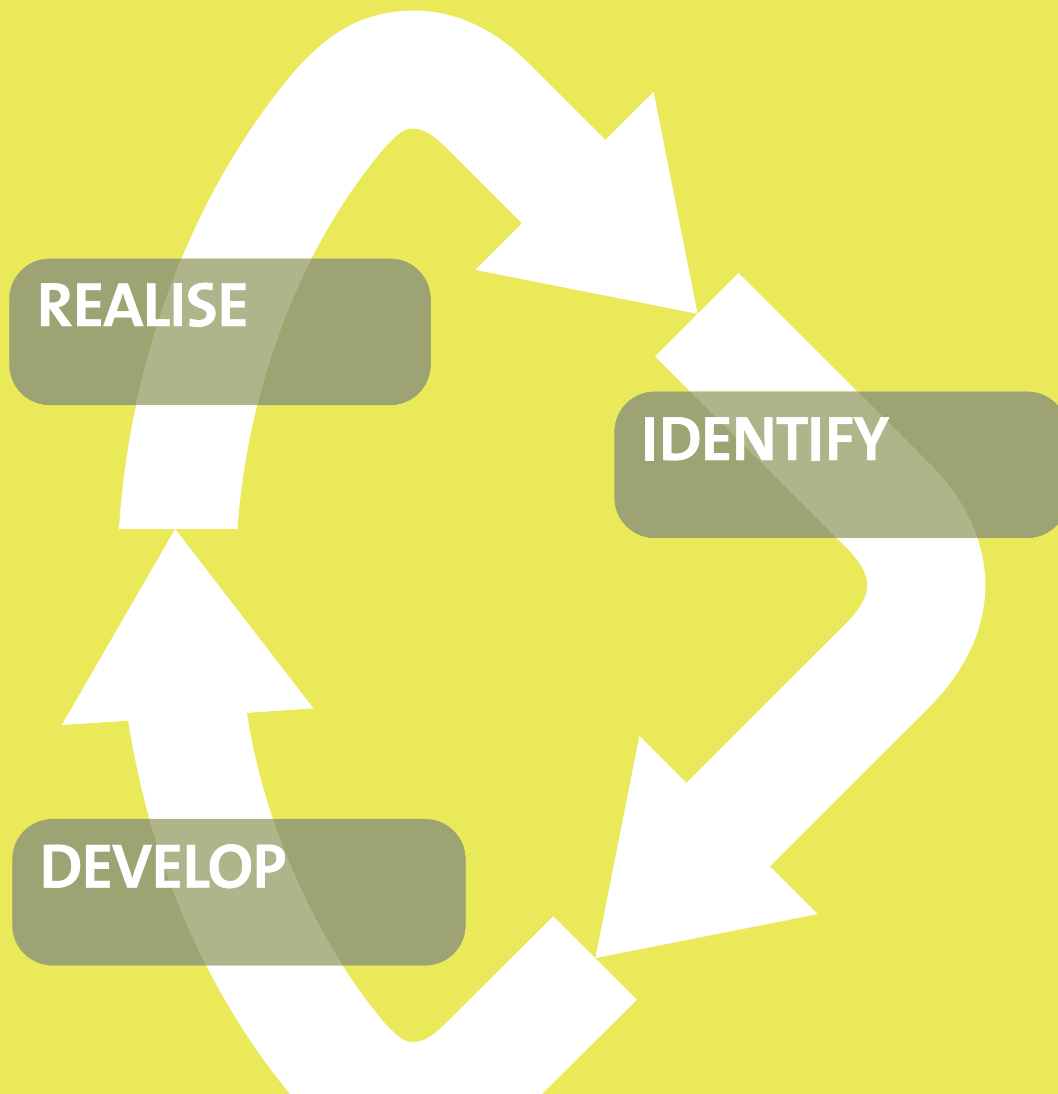
CDC Group plc
Annual review 2002



With over 55 years' experience, an on-the-ground presence in over 20 countries and with over US$1.5bn funds under management, **we are one of the leading risk capital investors in the world's poorer regions.**

CDC looks to identify and work alongside first class management teams in order to develop sustainable businesses and, by generating attractive returns in the process, aims to stimulate further third party capital flows into these developing economies.

Committed to ethical best practice, our board and shareholder roles afford us a close relationship with our underlying investments, presenting us with an opportunity to engage effectively and to improve corporate practices where necessary.

By helping to deliver individual commercial success, we believe we will promote the enlargement of a country's business base, improve the competitiveness of its economy and increase the well-being of its people.

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2002 Highlights

- Positive 13% fund performance in US$ (6% in sterling terms)
- Compares well with negative 8% performance from MSCI Emerging Markets Free Index*
- US$300m invested and a further US$100m committed towards new investments
- US$100m invested and a further US$120m committed to emerging markets power industry as international utilities withdraw
- Egypt's first management buy-out financed by CDC
- CDC's first investment in the Indian pharmaceutical sector
- Instrumental in creating Tanzania's leading packed tea producer
- Successful exit from first pre-IPO investment in China
- Aureos Capital, the SME fund manager jointly owned by CDC and Norfund, successfully closes US$33m Central America Fund
- CDC-owned palm oil group is first to achieve ISO-accreditation throughout entire supply chain
- Investment activities being arranged through a series of regional and sector specific funds

* Leading index on emerging markets' quoted equities, published by Morgan Stanley Capital International

Chairman's statement

CDC has two very clear aims, as agreed with our shareholder, the Department for International Development (DFID). The first is to maximise the creation and long-term growth of commercially viable private sector businesses in the poorer countries of the world. The second is to mobilise third party funds into these countries, essential for their economic progress, by demonstrating our ability to create successful ventures. I am confident that the team at CDC has adopted the necessary strategy to deliver on both these objectives.

A focused approach

We have concluded that we should narrow the focus of our activities to areas where our long-standing experience of certain countries and industries can add much more value than capital alone. Consequently, we are now concentrating mainly on Africa and South Asia for new investment within selected industries. We will also look for opportunities within the power sector on a global scale while, alongside our joint venture partner, Norfund, we will continue to cover the SME sector on a broad geographic basis. Additionally, we plan to grow our joint venture investment business in China, and to establish a new Malaysian venture in co-operation with the Malaysian Government. Finally, we will develop our activity in third party distressed asset management, taking advantage of our proven ability in this field.

This revised approach does not imply any immediate exit from the many businesses, in which CDC has invested, that fall outside our redefined focus. We will continue to support many excellent enterprises where we have existing commitments.

Agriculture

The need to earn a full risk-adjusted financial return on all our investments has necessarily reduced our involvement in primary agriculture. However, we retain a number of promising investments in that sector – usually when produce is not in competition with subsidised first world output and where there is a degree of integration between growing and marketing – and we continue to look for relevant new opportunities. Nonetheless, we are convinced of the benefits of a strategy which concentrates on maximising added value to the private sector, rather than providing palliative support to it. We had a good opportunity to clarify this position when we met the International Development Select Committee on two occasions during the year.

The way forward

Early last year we concluded with DFID that the traditional investment trust concept which underlaid earlier attempts to introduce private capital to CDC was inappropriate in today's markets. The Department has agreed that the separation of ownership of their funds from the management of those funds is a preferable way forward.

Thus DFID, through a wholly-owned investment company (Investco), will contract with a newly-formed management company (Manco) to have almost all of its funds managed at arm's length by the latter for the next five years. Investco will then assess whether Manco's expertise is the best available to carry out these services thereafter.

Business environment

The economies in which we work are sensitive both to international commodity prices as well as the international demand that lies behind many of our investments. Better prices for such diverse products as gold and palm oil have been helpful, while higher oil prices bear down hard on many developing countries. Progress in creating fuller access to the developed world's markets through forthcoming WTO rounds is of great importance to nearly all the economies in which we work.

Fully accountable democracy is important for us in ensuring the rights of all are recognised rather than those of a small group in power. We are encouraged by the ease with which the democratic will of Kenyans resulted in a fair and just election at the year end. In Pakistan, in difficult circumstances, the democratic system is being successfully re-introduced. The better outlook in Pakistan, reflected in a strong stock market performance, allowed us to make a number of important realisations.

Power

We have expanded our operating ability in the power sector significantly. Access to reliable supplies of electricity is fundamental to the progress of developing economies. The withdrawal by many international utilities from overseas markets, in the wake of the Enron affair, is providing us with a substantial financial opportunity to acquire some important assets and positions us to play a major role in the further development of this key sector. Acquisitions of substantial generating assets in South Africa and Tanzania, announced at the year end, take us into large scale management. We are confident that we can achieve good financial returns and play a constructive partnership role in those countries.

People

We were sad that our chief executive of the last three years, Alan Gillespie, decided to move on. He has transformed CDC into an effective, disciplined and professional team, operating to full private sector standards. He deserves great credit for accomplishing a challenging task, while maintaining the underlying development values of CDC. We were delighted to appoint Paul Fletcher to succeed him. Paul Fletcher will lead the management company when the separation of the current CDC takes place. We have also designated Richard Laing, CDC's finance director, to head the investment company. Both appointments were made following an open, competitive process and underline the strength of the team that has been assembled by Alan Gillespie.

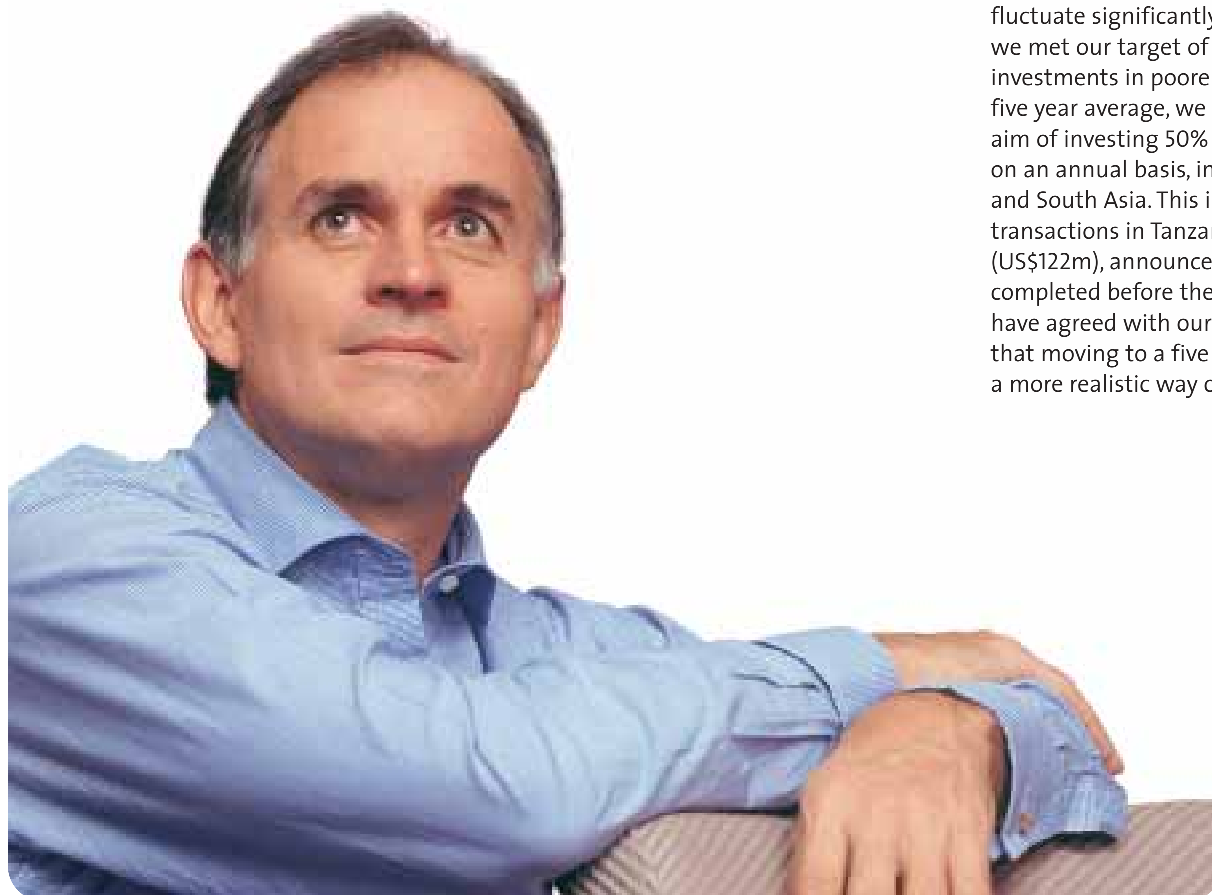
The changing of structures and personnel are the outward manifestations of the evolution taking place at CDC. However, it is the quality of the CDC team, their ability to add value through experience and creative professional skill that give the greatest ground for optimism. The signs for the coming year suggest that a shortage of capital will be a major constraint unless we are able to attract third party co-funding at a higher rate than previously.

We are crucially dependent on our relationships with the UK Government, other overseas Governments, as well as with corporate partners, financial investors and the managers of investee companies. CDC's reputation in all the countries in which we work, built up by our predecessors, gives great advantages. Much of this may derive from CDC's long term implicit commitment to what is now labelled 'responsible corporate citizenship'. This, now more explicit, emphasis on participating appropriately in the social agenda is entrenched in our values. We believe this enhances our ability to insist that all parts of the pacts between Governments, business and civil society are adhered to, since this is vital if the private sector is to play its part successfully. I have a real sense of excitement that in its evolved form CDC will play an important developmental and financially successful role in the years ahead.

Lord Cairns
Chairman

Chief executive's review

CDC emerges from 2002 with confidence. It has been five years since the organisation began the wide-ranging changes stimulated by the Government's decision to allow CDC to play a more commercial role in developing sustainable businesses in lower income countries. The business has significantly reinvented itself without at any point losing sight of its overarching mission – to make investments for the benefit of the world's poorest countries.



There are positive signs that the returns we are starting to achieve will be sufficient for us to attract additional private capital into these countries, be it directly at the level of our investee companies or at the level of one of our specialised funds.

Whilst our new investment levels were below our goals, we did succeed in identifying some exciting new investments and realising significant value from several more mature ones. Thanks to the efforts committed to developing our existing investments, the overall value in our portfolio held up robustly.

It was a difficult year for developed and developing markets. The MSCI Emerging Markets Free Index showed a loss of 8% in 2002.

Against that background, CDC's positive fund performance of 6% (2001: -10%), based on the opening portfolio, was an excellent result and compared favourably with the performance of other private equity institutions.

As we concentrate on larger deals, many of which will take many months from original identification to completion, the level of new investments in any one region will fluctuate significantly year by year. While we met our target of investing 70% of new investments in poorer countries, on a rolling five year average, we did not achieve our aim of investing 50% of new investments, on an annual basis, in sub-Saharan Africa and South Asia. This is because major transactions in Tanzania and South Africa (US$122m), announced in 2002, could not be completed before the year end. In future we have agreed with our shareholder, DFID, that moving to a five year rolling average is a more realistic way of measuring this aim.

Business strategy

As the chairman's report has outlined, we have narrowed our business focus, recognising that we should capitalise on those geographies and sectors where CDC has its best capabilities and where the objectives of our shareholder DFID are best aligned. The dominant geographical focus will continue to be on Africa and South Asia, while we also develop our local funds in China and Malaysia.

At 30% of the total portfolio, our power investments remain very significant and the evolution of the strategy in this sector has been very exciting as we continue to look for power assets which we can own, manage and operate. We will continue to prioritise this business.

The small and medium enterprise (SME) sector remains at the heart of our investment strategy. Through our 50/50 joint venture fund management business with Norfund, Aureos Capital, we will continue to launch regional SME funds which build on the experience obtained over the past ten years from the first generation of CDC-managed country funds.

There will be opportunities, particularly in Africa, where we will seek to support the development of infrastructure projects and where we will use a mix of financial instruments which will include quasi-equity or mezzanine finance. I believe that this will add to the breadth of our product offering, reduce portfolio risk and increase investment flows.

Latin America and Asia Pacific remain as important parts of our overall franchise and we will continue to look for new investment opportunities within the power, SME and infrastructure sectors, while managing our existing portfolio for value.

Business highlights

Our business significantly evolved during 2002. Our ambitions of creating the leading emerging markets power company began to be realised; we announced power investments totalling US$122m, which will result in us being the majority owner of power generating companies in Tanzania and South Africa. The provision of power is central to the development of any economy and to the creation of an acceptable standard of living for all. In order to manage these assets, we have assembled a first class team of power professionals.

We opened a new office in Egypt in 2001 and completed our first investment last year. We supported a management team who bought back their FMCG business from Unilever. This transaction was the first of its kind in Egypt and we hope not only signals the beginning of a growth business for us but also the development of a new source of capital for economic expansion within a country where private equity is still a scarce commodity.

The first new fund (US$33m) from Aureos Capital was successfully launched in Central America and has already made its first investment. Three new regional funds in Africa have been launched and we are optimistic that during 2003 they will be closed. We acknowledge with thanks the tremendous support that this joint venture receives from our partner Norfund.

We also made our first investment in the Indian pharmaceutical industry when we provided US$10m expansion capital for Glenmark Pharmaceuticals to assist them with developing their export markets in the US and Europe and with expanding their research and development resources. Glenmark is one of the fastest-growing companies in India and already exports low cost high quality medicines to Africa, Asia and Latin America.

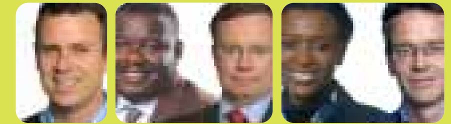
Investment strategy

Our investment strategy is unchanged. We provide risk capital to the private sector in the poorer countries of the emerging markets. We define risk capital as equity, quasi-equity and mezzanine finance. We seek to facilitate the expansion of existing businesses; to back management teams to facilitate their transition to owner/managers; to finance change of control transactions when existing business owners seek to exit; and to provide capital to support privatisations.

The emphasis varies from fund to fund and from sector to sector and is sensitive to local market conditions. We recognise that minority stakes do not always afford us the protection that we would like, so consequently we have begun to acquire more majority or control stakes, either by ourselves or alongside like-minded investors.

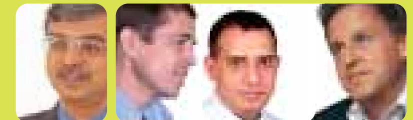
AFRICA INVESTMENT TEAM
REGIONAL DIRECTORS:

(Left to right) David Morley (South Africa), Valentine Chitalo (Zambia/Malawi), Murray Grant (London), Adiba Ighodaro (West Africa), Michael Turner (East Africa). The entire Africa investment team has over 170 years' private equity experience in Africa.



SOUTH ASIA INVESTMENT TEAM
REGIONAL DIRECTORS:

(Left to right) JM Trivedi (Mumbai), Steven Enderby (Delhi), Subba Rao (Bangalore), Donald Peck (Delhi). The 11-strong South Asia-based investment team has worked together for over five years and has positioned CDC as one of the top three private equity players in the region.



Chief executive's review (continued)

Active portfolio management is at the core of our strategy. With the evolution of our equity portfolio, which now has completed a five year investment period, we are beginning to enter the realisation phase. Some realisations are discussed later on in the business review.

During the year we have continued to emphasise the importance of socially responsible investment. Encouragingly, we find that adherence to best practice often enhances financial performance. We will intensify our efforts to ensure that we are recognised as a leader in matters of sustainable development and ethical best practice.

CDC people

Our team has been considerably strengthened during the year with the addition of several experienced executives. Chin Bay Chong, a private equity professional, joined the leadership team with responsibility for our business in Asia Pacific. Torbjorn Caesar, who has had a long career with ABB, is running our power activities in Africa and South Asia. Murray Grant, having joined us from 3i, has quickly moved to lead our London-based investment executives focused on Africa.

REALISE

CDC SOLD ITS STAKE IN AN AQUACULTURE BUSINESS TO AN MBO TEAM

Bill Marshall, Chief Executive,
Aqua Corporacion Internacional:

"During CDC's ownership the business has expanded its sales threefold and considerable investment has been made in staff development, additional processing facilities and environmental improvements. As a result the business, which has now been sold to the existing management team, has a secure future and is positioned to continue its strategy of year-on-year growth. As the market for aquaculture products grows, our customers will continue to receive the same superior products, reliable supply and services that they have come to expect."

DEVELOP

CDC INVESTED FURTHER IN THE SONGAS POWER PROJECT

Basil P. Mramba (MP), Minister for Finance,
Government of Tanzania:

"The Government is totally committed to the success of the Songas project as it forms a key part of the Government's strategy to create an efficient power sector, which will provide a reliable and adequate supply of electricity at least cost. The Government welcomes CDC taking on this long-term commitment to our country. We also welcome CDC's proposed initiative to attract local institutional investors into the Songas project as a means of broadening and deepening capital markets."

I thank Alan Gillespie, our previous chief executive, for the immense effort he put into the organisation over the past three years. Our optimism for the future rests in no small part on the changes he has led during his tenure.

We also owe a great deal to the rest of our staff who have continued to commit themselves to our goals with immense enthusiasm and professionalism. This is not an easy business but as the organisation's success rests heavily on the quality of its people, then we are well positioned for our future challenges.

Outlook

Much work was done in 2002 to lay the foundations for an eventual separation of CDC Group as the chairman has outlined. I am optimistic that we will finalise the structure during 2003 and that we will have in place a robust and enduring model that enshrines the very essence of what we do – making a positive difference to the world's poorest countries, whilst giving the organisation the appropriate structure and framework to succeed in its mission.

The business climate for 2003 is clearly not easy. We will proceed cautiously but with great energy and I am confident we will build further on the existing platform to be recognised as the leading investor in the world's poorer countries.

Paul Fletcher
Chief executive

IDENTIFY

IDENTIFY
A NEW INVESTMENT IN INDIA

Mr. M. P. Ramachandran, Managing Director, **Jyothy Laboratories:**

"Our relationship with CDC, which has developed since 1999, has culminated in CDC's investment in Jyothy in 2002. We now find CDC to be an excellent partner, with the CDC team playing a very constructive role post investment.

"We have been benefitting immensely from CDC's network and relationships and CDC's help in upgrading our Health, Safety, Environment and Social standards."

Business review – Identifying investments

Despite challenging market conditions in many developing economies, CDC committed over US$250m investment towards a number of exciting private businesses operating across a variety of different industry sectors in Latin America, Africa and Asia.

EL-RASHIDI EL-MIZAN

At a time when there is a shortage of risk capital available in Egypt, CDC invested US$9m to help local food producer El-Rashidi El-Mizan buy back the business from Unilever and provide a solid platform for future growth, inside and outside Egypt.

Jyothy Laboratories

CDC invested US$13m in this Indian manufacturer and distributor of household products, such as fabric whiteners, mosquito repellant, herbal soap and incense sticks.

Our finance will be used to support Jyothy's expansion plans, which include setting up manufacturing facilities in less developed areas of rural India and launching new product lines. The company achieved sales revenue of US$54m in 2002 and is aiming to triple that over the next few years.

CDC is currently advising Jyothy on the structure of its organisation and senior leadership team, its recruitment policy and its investor relations approach so as to ensure that the company is well positioned to manage its future growth strategy.

El-Rashidi El-Mizan

2002 marked CDC's first investment in Egypt with the financing of the country's first management buy-out. At a time when there is a shortage of risk capital available in Egypt, CDC invested US$9m to help local food producer El-Rashidi El-Mizan buy back the business from Unilever and provide a solid platform for future growth, inside and outside Egypt. El-Rashidi manufactures and distributes sweet and savoury sesame food products, halawa and tahina, with average annual sales of about US$20m. Both are branded staple food products in Egypt.

The business employs over 700 permanent and casual workers and CDC is already actively involved in ensuring that Unilever's high standards of health and safety are maintained.

The investment reiterates CDC's shift in emphasis in the food sector, away from primary production towards integrated, added-value businesses.

Southern Cone Power

The single largest new investment was made in early 2002 when CDC Globeleq, CDC's power business, acquired three power assets in South America, including a 16% interest in Edegel, the largest privately-owned power generation company in Peru with almost 1 GW of hydro capacity. CDC invested US$70m out of a total US$104m and, as the lead investor, arranged additional equity investment of US$32m from the Scudder Latin American Power Fund II. As part of this transaction, CDC successfully placed a US$50m corporate bond in the Peruvian market. The bond issue served to mobilise third party capital alongside CDC's financing.

Digicel

Telecoms is a key sector for CDC and in 2002, CDC made a US$20m commitment in El Salvador-based Digicel. The GSM operator is in the process of developing a pan-Central American telephony business and is creating a vital communications network for businesses and individuals who had previously no access. By the end of 2002, Digicel had 60,000 pre-paid subscribers and had applied for licences in Honduras, Guatemala and Nicaragua.

JYOTHY LABORATORIES

Our finance will be used to support Jyothy's expansion plans, which include setting up manufacturing facilities in less developed areas of rural India and launching new product lines.

INVESTMENT TEAM

London-based Vivan Pinto (l) and the Mumbai team, led by JM Trivedi (r), combined sector experience and local market knowledge in order to complete this transaction in India.

Business review – Developing investments

Active portfolio management is at the heart of CDC's investment strategy. CDC aims to develop commercially viable, sustainable businesses and this goes well beyond just providing risk capital. CDC always looks to add value to its underlying investments, be it through providing advice on business strategy, on management and organisational structure, on business principles, or by introducing potential new business partners.

TANZANIA TEA PACKERS (TATEPA)

As Tanzania's largest integrated tea business, with a 70% share of Tanzania's consumer market for packed tea, Tatepa is now well positioned to satisfy increased demand from the local market and to serve international markets.

Songas

Following its US$18m investment in 2001 in Tanzania's new Songas project, which will help bring indigenous gas ashore and pipe it inland, CDC confirmed its strategic commitment to the power sector in emerging markets by its decision at the end 2002 to commit a further US$95m and take a controlling stake in Songas.

This transaction reflects CDC's strategy to acquire, develop and operate power companies in the developing world. CDC Globeleq, CDC's emerging markets power business, expects to be making further large acquisitions during 2003.

Tanzania Tea Packers (Tatepa)

Following on from its disposal of a 75% stake in Wakulima Tea to Tatepa in 2001, CDC sold 100% of Fairtrade-accredited Kibena Tea to Tatepa in 2002 and in exchange took a 51% controlling stake in Tatepa. Tatepa now has access to over 3,500 hectares of outgrower tea and 700 hectares of estate tea and is a fully integrated business, involved in the growing, processing, blending, packaging, marketing and distributing of tea.

This deal was a result of CDC's ability to separate its tea assets out of an existing business into a new company, Kibena Tea, before being sold on to Tatepa. This involved a partial share swap and private placement on the Dar es Salaam stock exchange. This complex, innovative transaction was the first of its kind in Tanzania.

As Tanzania's largest integrated tea business, with a 70% share of Tanzania's consumer market for packed tea, Tatepa is now well positioned to satisfy increased demand from the local market and to serve international markets.

With 650 direct employees and the support of 14,000 smallholders, Tatepa is well on its way to becoming a world-class business.

Pacific Rim Palm Oil

CDC-owned Pacific Rim Palm Oil (PRPOL) is one of the world's leading suppliers of high quality crude palm oil (CPO). PRPOL owns and manages 73,000 hectares of palm oil plantations, employing 14,000 people across South East Asia.

To address the social and environmental issues within these businesses, such as housing and deforestation, the management team regularly seeks advice from independent specialists. All five plantations have now been recommended for ISO 9000 (management processes) and ISO 14000 (environmental management) accreditation. As the holding company received similar accreditation in 2002, this means that PRPOL is the first palm oil plantation group with these quality standards from nursery to final product delivery, at all sites.

As a direct consequence of PRPOL's efforts to build up the plantations, production of CPO rose from 193,000mt in 2000 to 222,000mt in 2002. This is projected to increase to 300,000mt in 2005 as the plantings increase their maturity profile.

Fauji Oil

CDC invested in 1993 to help develop Pakistan's first US$90m private marine oil terminal. From 1995 to 2000, Fauji Oil handled only one product, heavy fuel oil, and in 2001, a new pipeline was commissioned for handling high speed diesel.

In 2002, Fauji Oil achieved pre-tax profits of US$12m, representing a year-on-year increase of 40%.

CDC has been instrumental in assisting the company with implementing good corporate practices. The company is an ISO 9000 certified company, has maintained a zero-spill record over the past seven years and has taken action to preserve its local habitat. Such best practice has been recognised by BP Pakistan who now use Fauji Oil's facilities for exporting crude oil.

SONGAS

CDC confirmed its strategic commitment to the power sector in emerging markets by its decision at the end 2002 to increase its investment by a further US$95m and take a controlling stake in Songas.

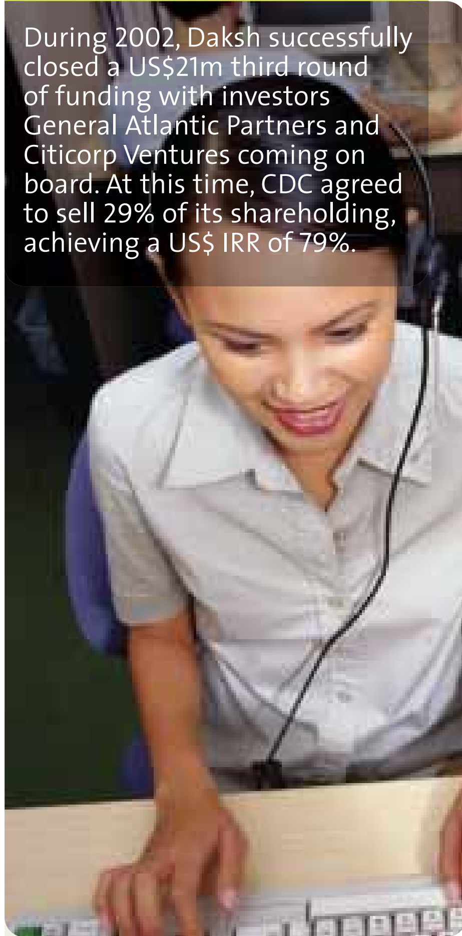
INVESTMENT TEAM

Paul Kunert (l) and Torbjorn Caesar (r), supported by a team of experienced in-house power professionals, worked closely with our Tanzanian office and the Tanzanian Government to assist in the further development of this gas pipeline.

Business review – Realising investments

While much of its private equity portfolio is relatively young, CDC made some interesting realisations during 2002. In each case, CDC's exit has positioned the business for the next stage of its development, as illustrated in the following examples.

DAKSH



Aqua Corporacion Internacional (ACI)

In 1998, CDC invested US$7m for a majority stake in ACI, a Costa Rican tilapia fish-farming business, with an integrated fish packing operation in the same country and a marketing business, selling under the 'Rainforest' brand in the US.

During CDC's ownership, over US$5m was spent on building a state-of-the-art fish processing plant, in line with EU standards. There was also continued expansion of ACI's semi-intensive fish ponds. The processing plant has provided considerable additional capacity, with scope for further expansion, and enables ACI to process and sell fish produced by third party growers. ACI is now a major employer in the region with over 600 employees.

In 2002, CDC gave the current management team an opportunity to buy the business. This yielded a double-digit return for CDC and left the management team with a successful business which is expected to grow over the next few years.

Daksh

In 2000, CDC invested in Daksh, which is now one of India's top three business process outsourcing services companies. Since Daksh's start-up three years ago, annual revenues have now reached US$30m with regular repeat business from clients such as Amazon and Citigroup reinforcing their reputation as a high-quality service provider.

During 2002, Daksh successfully closed a US$21m third round of funding with investors General Atlantic Partners and Citicorp Ventures coming on board. At this time, CDC agreed to sell 29% of its shareholding, achieving a US$ IRR of 79%.

Aside from assisting with Daksh's funding programme, CDC is now actively involved in helping the company prepare for its IPO.

Engro Chemicals

Since 1991, CDC invested US$27m in Pakistan's Engro Chemicals (Engro), a leading manufacturer of chemical fertilisers. The capital was used to finance a management buy-out and to expand a urea fertiliser plant. As well as getting involved in a number of international joint ventures, Engro has continued to diversify its product range. Adding a phosphorous-based fertiliser increased sales by 32% year-on-year in 2002, with profits rising by 54% to US$32m.

With both the company and the Karachi Stock Exchange performing strongly, CDC sold its equity stake, achieving an IRR of over 20%. Our investment manager has been asked to remain on the board as an independent director.

Lesotho Brewing Company

In 1982, alongside the Lesotho National Development Corporation and South African Breweries, CDC provided the finance to establish Lesotho Brewing Company, an integrated brewing, packaging and distribution business within Lesotho. Since then, the company has achieved 20% year-on-year growth, making it one of Lesotho's most successful commercial enterprises. The company now employs over 250 people.

The recovery of the South African Rand provided CDC with an opportunity to sell its equity stake and realise an IRR of over 30%.

AQUA CORPORACION INTERNACIONAL (ACI)

Since CDC's initial investment, remarkable growth has followed, with sales growth doubling over the last five years to US$25m. Costa Rica-based ACI is now a major player in the US fresh tilapia fillet market with a 30% market share.

INVESTMENT TEAM

Keith Alexander (l) and Richard Laing (r) worked closely with ACI's management team for many months to ensure that the business was well positioned to continue its growth after CDC's exit.

Business review – Applying business principles throughout the investment cycle

CDC undertakes a detailed assessment of a company's health & safety, environmental and social (HSES) performance alongside commercial due diligence. We will only invest in companies whose management is committed to operating in accordance with international good practice in these areas.

Managing our business principles

CDC agrees an action plan with management for any improvements needed, and reviews progress against this plan at least twice a year. When exiting, we assess the social and environmental performance of potential buyers and seek to ensure that the buyer adopts a sustainable approach.

Since July 2002, CDC's business principles unit (BPU) has received and responded to 142 queries from investment managers and other interested groups relating to issues throughout the investment cycle:

Attention to these issues is ensured through focus at several levels of the organisation (see figure 1):

– each investment manager must take responsibility for identifying, addressing and monitoring social and environmental issues.

– the BPU provides best practice advice on HSES issues to Investment Managers at every stage of the deal. The unit undertakes visits to investee companies to assess progress against any action plans and to make recommendations for further action (17 such visits were made in 2002, representing more than 15% of CDC's investments).

– CDC's compliance officer provides support and guidance to investment managers on ethical issues.

– CDC's investment committee (for new business and exits) and the investment review panel (for portfolio management) include social and environmental issues in their formal reviews to ensure that they are properly covered.

– the business principles committee, a sub-committee of the main board, meets at least three times a year to oversee the way in which business principles are implemented throughout CDC and its investee companies.

– the Ashridge Centre for Business and Society is retained to review the application of CDC's business principles throughout CDC's investment activities. They have prepared an interim statement (see opposite) reflecting their views of the progress made during 2002 against the recommendations they put forward in March 2002.

'Constructive engagement'

Where companies do not currently operate in accordance with international good practice, our approach is to work with them to help improve their performance on HSES issues. CDC's position as an equity shareholder affords us a close relationship with the company and therefore usually presents us with an opportunity to engage effectively to effect change where necessary.

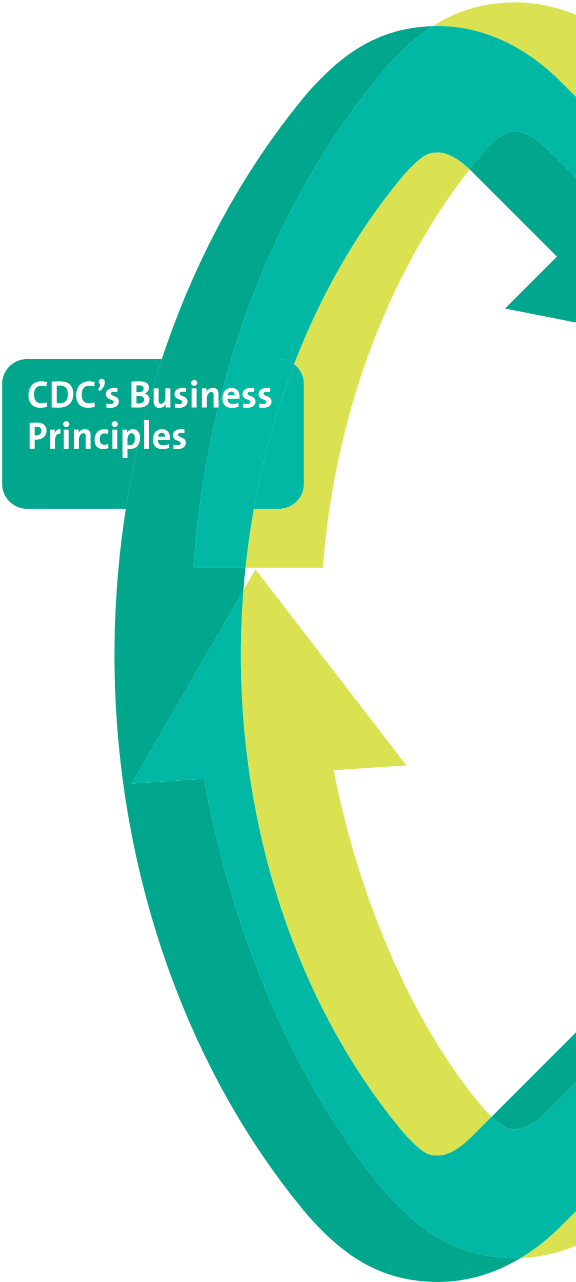
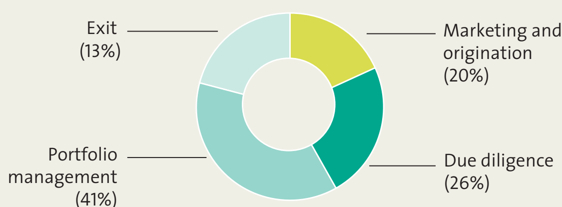


Figure 1 Sources of queries



Recent examples of this 'constructive engagement' are:

– CDC has been working with **UTI Bank** in India to help refine the Bank's anti-money-laundering procedures and to help put systems in place for assessing the social and environmental risk on its investments. CDC's compliance officer and a member of the BPU provided training sessions for the bank's staff.

– CDC has actively encouraged **Ferrocarril** (Peru Central Railways) in their efforts to reduce pollution and increase safety on this privatised railway. As a result of the work undertaken by the company, the number of derailments has fallen from a peak of 80 a month to less than three, and the amount of material spilled has reduced from over 30,000 tpa to almost zero. This has had a positive impact, not only on people and the environment, but also on the financial performance of the business.

– **Betterware**, a producer and direct seller of household goods in Mexico, has a network of supplier factories and its own warehouse. CDC recommended that the high standards of labour and environmental practice in the company's own operations be applied formally to all sub-contractor operations (in Mexico and elsewhere) by means of a supplier code of conduct. Management felt that this was an appropriate course of action and CDC has been assisting in drafting a suitable code.

Introducing performance indicators

Over the course of 2003, Ashridge will be helping us to develop a framework for establishing more comprehensive social and environmental performance indicators. We expect that this will enable us to report more fully in future years on the impact of CDC's activities and the contribution which CDC is making to the sustainability agenda.

Our approach to HSES issues can be viewed at 'How we do business' at www.cdcgroup.com.

Interim statement from the Ashridge Centre for Business and Society

Ashridge is conducting an objective review of how CDC's business principles influence the way investments are selected, monitored and managed. The review is limited to examining the effectiveness of CDC's health and safety, environmental and social (HSES) systems over 2002 – that is, the HSES performance of individual investee companies is not considered.

This year's review is in progress. Nevertheless, Ashridge's investigation to date suggests that CDC has made improvements to its management systems, although there is still work to be done in ensuring that good practice is applied consistently across its portfolio. CDC is also demonstrating its continuing commitment by developing procedures with the potential to take its HSES risk and performance assessment to the next level of sophistication.

Ashridge Centre for Business and Society (February 2003)

Ashridge's full and definitive statement will be made available by June 2003 on CDC's website: http://www.cdcgroup.com/publications/ashridge2002.pdf

Assessing the quality of management of HSES issues

Several investments were upgraded, but two investments are in the 'poor' category because lack of cash is preventing the required improvements in HSES standards. Our aim is to improve standards so that the majority of the portfolio can be measured as 'good' by the end of 2003.

Figure 2 Changes in quality of HSES management 2001 to 2002

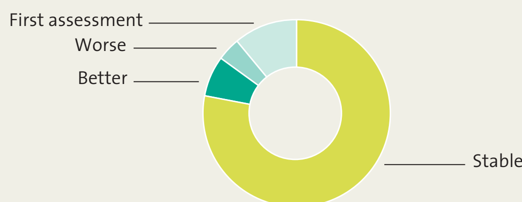
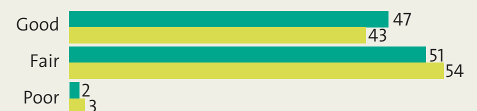


Figure 3 Quality of management of HSES issues (% of investments)



Board of directors

Lord Cairns (63) Chairman
Appointed chairman in June 1995. Chairman of the nomination committee and member of the business principles committee. Until recently 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 (45) Deputy chairman
Appointed deputy chairman in January 1999. Chairman of the remuneration committee and member of the nomination committee. Has held a number of senior roles at Lloyds TSB including managing director of European Internet Banking and group marketing director and is currently a senior adviser. Prior to this she held positions at LEK Partnership and at Royal Dutch Shell in the UK and France.

Paul Fletcher (46) Chief executive
Appointed to the board in January 2001 and made chief executive in December 2002. Member of the nomination committee. Previously was managing director for CDC's business in Africa, and global sector groups. 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 (51) Non-executive director
Appointed to the board in 1997. Chairman of the business principles committee and member of the audit and compliance committee. Professor of Agricultural Development Economics at Imperial College, London. Member of the Advisory Council of ECGD.

Richard Laing (49) 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. Appointed chief executive designate of Investco.

Lalith de Mel (65) 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 Keels Holdings Ltd, Reckitt Benckiser Lanka Ltd.

Tim Parker (47) Non-executive director
Appointed to the board in December 2001. Member of the remuneration and business principles committees. Chief executive of Kwik-fit Group Limited from 2002. Non-executive director, Legal & General Group plc. Chief executive of C & J Clark Ltd from 1996 to 2002. 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 (49) Executive director
Chief investment officer. 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.

Nicholas Selbie (57) Executive director
Appointed to the board in January 2001. Responsible for managing CDC Assets and CDC's 50% interest in Aureos, a joint venture with Norfund in SME fund management. 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 (60) Non-executive director
Appointed to the board in May 2001. Chairman of the audit and compliance committee and member of the remuneration committee. A partner and chairman of Permira Advisers (formerly Schroder Ventures) where he has been since 1985. Prior to this, he spent the majority of his career in the electronics industry.

Lord Cairns

Peter Smitham
Jayne Almond

Robert C Hart

Nicholas Selbie

Paul Fletcher

Richard Laing
Andrew Reicher

Management committee

As well as Paul Fletcher, Richard Laing, Andrew Reicher and Nicholas Selbie, the 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
Joined CDC in 1994, following over 20 years in investment banking, principally with Morgan Grenfell. He is responsible for supporting CDC with key investor relations and other key management activities. Previous positions at CDC include managing director for the Asia Pacific region, responsibility 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.

Chin Bay Chong, Managing director, Asia Pacific
Joining CDC's management committee in October 2002 and based in Singapore, Bay Chong is responsible for CDC's business activities in the Asia Pacific region. Bay Chong has over 11 years of direct private equity experience and prior to that, seven years of investment banking experience in this region. He previously headed up Morgan Stanley's private equity team in Asia and the private equity team at Deutsche Morgan Grenfell. His earlier investment banking career was spent at Deutsche Morgan Grenfell and JP Morgan.

Robert C Hart, Managing director, CDC Globeleq
Joining CDC's management committee in February 2002, and 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, more recently at Coastal Power and then at 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. Earlier he held investment banking positions at Morgan Grenfell and the Lloyds Bank Group.

Lalith de Mel
Jonathan Kydd

Donald Peck

Chin Bay Chong

Tim Parker

Jonathon Bond
Gillian Arthur

Robert Binyon

Operating and financial review

1. Results

CDC's financial results are presented in two ways. Firstly, following UK generally accepted accounting principles, we consolidate all businesses where we have a controlling interest and equity account for associate companies through which we carry on our investment business and exercise significant influence. These audited consolidated accounts can be found in full in CDC's Financial Report. Secondly, in order to explain more fully our investment 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 19 opposite. Ernst and Young LLP have examined these statements and their report is also shown opposite.

2. Highlights

- Portfolio performance, before costs, of 6% (negative 10% in 2001) in a very difficult year for emerging markets.
- Portfolio performance in US$ of 13%, was well ahead of benchmarks (eg MSCI Emerging Markets Free Index: negative 8%).
- Successful and profitable exits across the portfolio.
- £35m (2001: £218m) of unrealised losses.
- £184m of new investments during the year.
- Rolling five year 70% new investment target for poorer countries met but annual 50% aim for sub-Saharan Africa and South Asia not achieved.
- Portfolio generated £243m of cash.
- Costs under control at 2.5% as a percentage of total average assets under management.
- £256m of cash held at year-end.

3. Portfolio

3.1 Summary

We run the portfolio as a number of strategic business units (SBUs) which operate as funds and fund management companies.

These SBUs were chosen as a result of an extensive review of our business carried out with the support of McKinsey during the first half of 2002. They are:

Africa	
South Asia	
Power	
Aureos	Our 50% joint venture with Norfund for small and medium enterprises
CDC Assets	The older, predominantly loan, portfolio: also manages distressed assets for third parties
China	A 50/50 joint venture US$100m fund with Morley
Malaysia	Fund-raising underway for a fund of approximately US$50m

We also hold investments in Latin America and Asia Pacific and continue to manage these for value.

During the year, the portfolio moved as follows:

	Total £m
At start of year	816
New investments	184
Realisations and loan repayments	(160)
Unrealised losses and provisions	(35)
At end of year	805

We continued the strategy outlined last year of unwinding over time the CDC Assets portfolio, and using the cash generated to grow the new risk capital portfolio. CDC Assets generated £174m of cash during 2002 (2001: £237m).

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

	2002 Total £m	2001 As restated Total £m
Revenue account		
Revenue	**81.5**	87.7
Operating costs and other items	**(36.5)**	(44.8)
Exceptional items	**(3.4)**	–
Net interest	**6.7**	7.2
Revenue return before tax	**48.3**	50.1
Capital account		
Net realised profits over opening valuation	**13.2**	21.2
Unrealised value movements	**(34.8)**	(218.5)
Capital return before tax	**(21.6)**	(197.3)
Total return before tax	**26.7**	(147.2)
Tax	**(22.5)**	(7.8)
Total return after tax	**4.2**	(155.0)

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

	2002	2001
Equity investments	**475.6**	433.3
Loans	**329.5**	383.0
Total portfolio	**805.1**	816.3
Net cash	**256.3**	207.2
Other net liabilities	**(51.0)**	(17.3)
	1,010.4	1,006.2
Loans from government	**(755.0)**	(755.0)
Total net assets on valuation basis	**255.4**	251.2

ACCOUNTANTS' REPORT TO THE MEMBERS OF CDC GROUP PLC ON THE SUMMARY STATEMENT OF TOTAL RETURN AND SUMMARISED BALANCE SHEET ON A VALUATION BASIS

We have examined the summary statement of total return and summarised balance sheet on a valuation basis for the 12 months ended 31 December 2002 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 21.

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

Ernst & Young LLP
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH
12 March 2003

Operating and financial review (continued)

3.2 Revenue

The portfolio generated £81.5m (2001: £87.7m) of revenue from dividends, interest and fees, representing 10.1% of the average portfolio. Some of the recently invested portfolio is comparatively low-yielding, as the investments were made with the specific intention of achieving returns through capital gain rather than yield. We are now seeking to increase the number of new investments with ongoing yield, including mezzanine capital.

3.3 New investments

We made 24 new investments, including 17 follow-on investments, totalling £184m. The eight largest represented 65% of the total:

New investments	£m
Southern Cone: a power investment in South America	48
DVI: a global medical diagnostic finance leasing company	18
San Pedro de Macoris: power plant in the Dominican Republic	17
Vancouver Airport Services: an operator/ manager of airports globally	15
Digicel: GSM telecoms in Central America	7
Middle East Foods (El-Rashidi El-Mizan): a sesame food business in Egypt	5
Pacific Rim Palm Oil: an add-on investment in a 73,000 hectare plantation business	5
Jyothy Laboratories: a consumer products business in India	4

Power remains a cornerstone of CDC's activities with each investment making a beneficial impact in a CDC country. Given the current difficulties in the worldwide power sector, there are a number of opportunities to invest in power generating assets in emerging markets where the existing owners have decided to withdraw. In 2002 we made £69m of new power investments, representing 38% of the total. The largest was a £48m investment in Southern Cone, involving the purchase of some South American power assets, principally located in Peru. We also announced two power investments totalling £76m in Tanzania and South Africa, which we expect to complete in 2003.

Another major investment was in DVI, a company that provides leasing arrangements for medical diagnostic equipment. Our investment was specifically directed towards the expansion of the business into the poorest countries of the world, where the availability of finance for sorely needed medical equipment is at an embryonic stage.

The tough economic environment in Africa meant that good investment opportunities were hard to come by, although our pipeline of prospective investments has recently picked up. We were very encouraged by our first investment in Egypt, El-Rashidi El-Mizan. This was one of the first management buy-outs in the country and involved our purchase, with management, of a sesame food business from Unilever.

In South Asia, although we identified a number of exciting possibilities, the level of new investments was relatively low at £22m, including cash injected into our technology fund, Nandi. We also made a £9m commitment (£4m invested in 2002) in Jyothy Laboratories, a leading manufacturer and distributor of household consumer products. In addition we committed £6m to Glenmark Pharmaceuticals, one of India's fastest growing pharmaceutical companies, with an exciting research and development programme for new products.

A breakdown of new investments can be seen below in figures 1 and 2 respectively.

As we concentrate on larger deals, many of which will take many months from original identification to completion, the level of new investments in any one region will fluctuate significantly year by year. In contrast to 2001 when 69% of new investments were in sub-Saharan Africa and South Asia, the 2002 figure was 35%, below our annual aim of 50%. The five year rolling percentage for poorer countries was 75%, well above our target of 70%.

3.4 Realisations

We made few realisations in 2002 as our portfolio is still young. In our markets there is a relatively longer average holding time of investments compared with private equity businesses in the more developed markets. Also the economic environment in most of our markets was not conducive to good exits. Nevertheless, realisations of 13% of the opening portfolio, excluding CDC Assets, yielded £61.9m of cash. The two largest realisations, China National Offshore Oil Company (£16.4m) and Engro Chemicals Pakistan (£10.2m), produced cash-to-cash

Figure 1 New investments

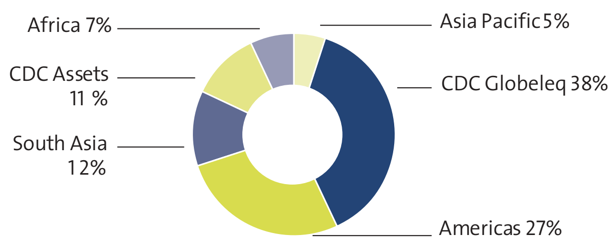
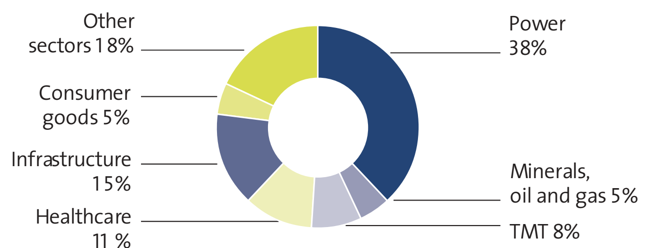


Figure 2 New investments by sector



IRRs of 39% and 21% respectively. Overall realisations gave a premium over opening valuations of £13.2m or 35%.

Repayments and realisations from the CDC Assets portfolio produced £118.2m, with loan receipts 20% up on our own internal targets, mainly as a result of acceleration of loan receipts and restructuring. We exited from 36 investments in entirety, leaving a portfolio of 328 investments.

3.5 Valuation gains and losses

We are now into the fourth 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 and the chart in figure 5 shows the proportion valued on each basis.

The drop in the portfolio valuation of £34.8m has to be set in the context of very weak commercial and economic conditions in virtually all our markets. We were particularly hit by the weaker dollar which accounted for approximately half of the valuation decline. The returns on quoted investments in many emerging markets were very poor. For example the MSCI Emerging Markets Free Index showed a loss of 8% in 2002 and the S&P/IFCG Total Return Composite for emerging markets was also down 8% in 2002. Against that background, CDC's positive fund performance of 6% in sterling terms and 13% in US dollar terms, based on the opening portfolio, was an excellent result.

For our power portfolio, we mainly apply a discounted cash flow valuation, based on expected cash flows from each project. Most of these cash flows are linked to US dollar currencies and as a result of the 10% fall in the value of the US dollar against sterling during the year, the power assets were hit by an £18m reduction in value.

Other valuation gains and losses were spread across the portfolio. Our telecommunications, media and technology (TMT) investments suffered from the weak investment climate for such activities. We made net gains on our minerals, oil and gas investments.

3.6 Portfolio

We continue to focus on our main sectors: power; financial institutions; telecommunications media and technology; infrastructure; minerals, oil and gas; and consumer goods. In addition we are developing a few regionally-focused sectors, such as healthcare and property, mainly in Africa.

CDC Assets, our older portfolio which is being used to generate cash for other areas, is still the largest element of the portfolio, at 36%. CDC Globeleq, our power investment, is the second largest, and is growing rapidly. The rest of the portfolio is fairly evenly spread across the four regions.

Figures 3 and 4 give further analysis of the portfolio.

4. Operating costs

During the year headcount reduced by 6% and operating costs before exceptional items by 13% from £41.4m to £35.9m. Costs net of fees, expressed as a percentage of total assets under management, including our own balance sheet and third party funds managed by CDC, is 2.5% (2001: 2.8%). Our intention over time is to maintain this at around 2.5%.

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.

- 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.
- 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.
- 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

Figure 3 Portfolio by sector £m

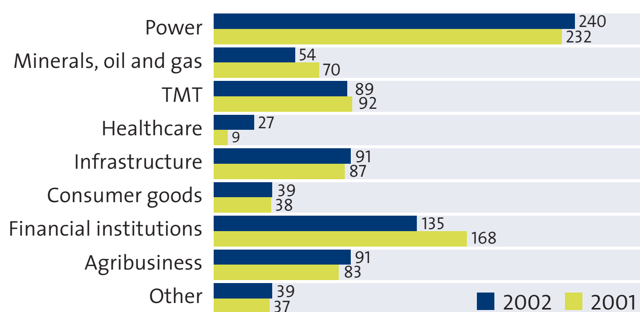
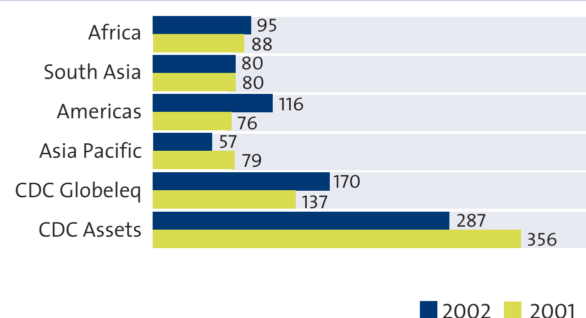


Figure 4 Portfolio £m



Operating and financial review (continued)

which are valued at more than £3m are further reviewed for factors which may materially affect their value. The reviews consider, for example:

- 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.

- Investments for which exit negotiations are at an advanced stage are valued at the prospective sales proceeds less a discount.
- Loss-making unquoted equity is valued at cost less a provision.
- Equities in the power portfolio are valued by discounting cash flows to their net present value.
- Property companies are valued at revalued net asset value.
- 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 (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 that are not primarily investment holding companies.

The main effects of this have been:
- Deconsolidating non-investment subsidiaries' turnover, 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 fully consolidated historical cost basis in accordance with UK generally accepted accounting principles.

6.2 Revenues from managed businesses
Turnover of the consolidated subsidiaries at £163.7m (2001: £228.3m) was substantially lower following the change to equity accounting for Guyana Power & Light and the sale of some subsidiaries, offset by increases in our palm oil business.

6.3 Investment income
The group's investment income of £72.2m was very slightly down on 2001 (£73.7m).

6.4 Profit/loss before tax
Profit before tax of £33.8m compares to the loss of £120.3m for 2001. The better performance mainly reflects the reduced level of investment provisions.

6.5 Exceptional items
A charge of £3.4m from costs of fundamental restructuring compares to a charge last year of £3.3m mostly from loss on disposal of tangible fixed assets.

6.6 Taxation
The tax charge was £26.4m compared with a charge of £8.2m in 2001. The provision in the Commonwealth Development Corporation Act 1999 concerning UK tax exemption for CDC has not been brought into effect.

6.7 Cash flow
Cash inflow before use of liquid resources and financing was £75.3m (2001: £74.7m). The group's net debt at year end was £595.9m (2001: £680.0m), including £755.0m of interest free loans payable to the UK Government.

Figure 5 Portfolio valuation method

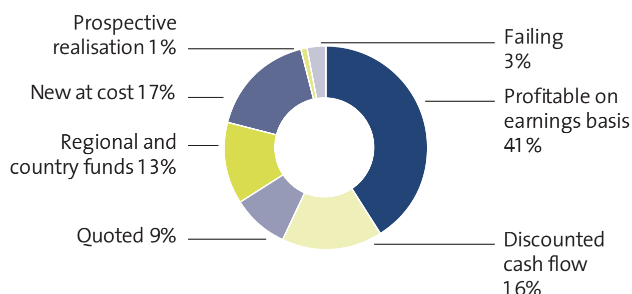
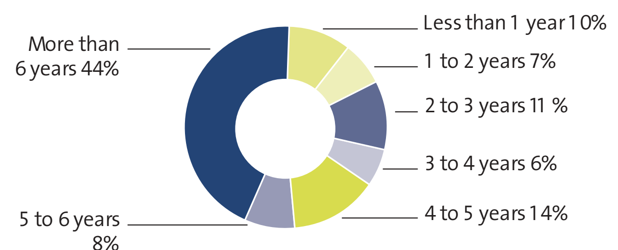


Figure 6 Portfolio by age



6.8 Balance sheet
Group net assets decreased from £275.9m to £253.0m net of loans from the UK Government of £755.0m, 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 from 1 April 2000. The scheme is adequately funded and, on the advice of the scheme actuary, CDC does not currently make contributions to the defined benefits section. Disclosures required under FRS 17 show a surplus of assets over liabilities of £2.1m (2001: £27.2m).

6.10 Prior year adjustment
The group has adopted FRS 19 'Deferred Tax' which has resulted in a change in accounting policy. This change in accounting policy has necessitated a prior year adjustment which reduces shareholders' funds by £4m.

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 will enter into derivative-type 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. Subsidiaries only sell forward a proportion of the product they expect to physically deliver. In 2002 they have used forward sales and options to hedge their sales price.

7.4 Internal control
Further comments on risk management can be found in CDC's Financial Report on page 11 in the section on internal control of the directors' report .

8. Going concern

The directors are satisfied that the 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 the CDC Group PLC

We have examined the Group's summary financial statement for the year ended 31 December 2002 which comprise the Group profit and loss account, Group balance sheet, Group cash flow statement, Group statement of total recognised gains and losses, Reconciliation of consolidated shareholders' funds and the Company balance sheet.

This report is made solely to the company's members, as a body, in accordance with section 251 of the Companies Act 1985. To the fullest extent required by the law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the summarised Annual review in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the summarised Annual review with the full annual accounts, Directors' report, and Directors' remuneration report, and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the summarised Annual review 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 use in the United Kingdom.

Opinion

In our opinion the summary financial statement is consistent with the full annual accounts, Directors' report and Directors' remuneration report of CDC Group plc for the year ended 31 December 2002 and complies with the applicable requirements of section 251 of the Companies Act 1985, and regulations made thereunder.

Ernst & Young LLP
Registered Auditor
London

Group profit and loss account

For the year ended 31 December

	2002 £m	2001 As restated £m
Turnover	**163.7**	228.3
Investment income	**72.2**	73.7
Group operating profit	**28.4**	14.2
Share of operating profit in associates and joint ventures	**4.0**	4.2
Total operating profit	**32.4**	18.4
Profit on sale of investments	**31.9**	19.0
Exceptional items	**(3.4)**	(3.3)
Interest receivable and similar income	**9.7**	9.4
Interest payable and similar charges	**(13.4)**	(13.7)
Investment and other provisions	**(21.0)**	(149.8)
Exchange gains and losses	**(2.4)**	(0.3)
Profit/(loss) before taxation	**33.8**	(120.3)
Taxation (charge)	**(26.4)**	(8.2)
Share of associates' and joint ventures' taxation	**(0.4)**	(0.4)
Profit/(loss) after taxation	**7.0**	(128.9)
Minority interest	**1.5**	10.5
Profit/(loss) for the year transferred to reserves	**8.5**	(118.4)
Profit/(loss) per share	**8.5p**	(118.4p)

Group statement of total recognised gains and losses

	2002	2001
Profit/(loss) for the year	**8.5**	(118.4)
Exchange difference on retranslation of net assets in subsidiaries	**(27.8)**	6.8
Total recognised gains and losses for the year	**(19.3)**	(111.6)
Prior year adjustment	**(4.0)**	–
Total recognised gains and losses since last annual report	**(23.3)**	(111.6)

Reconciliation of consolidated shareholders' funds

	2002	2001
Total recognised gains and losses for the year	**(19.3)**	(111.6)
Shareholders' funds at 1 January 2002 as restated	**246.3**	357.9
Shareholders' funds at 31 December 2002	**227.0**	246.3

Group balance sheet

At 31 December

	2002 £m	2001 As restated £m
Intangible assets	**18.4**	21.4
Tangible assets	**138.7**	232.6
Investments	**707.9**	677.9
Fixed assets	**865.0**	931.9
Stocks	**21.7**	33.8
Debtors	**67.5**	99.3
Cash at bank and in hand	**294.4**	227.4
Current assets	**383.6**	360.5
Creditors – amounts falling due within one year		
Short term borrowings	**(38.5)**	(188.9)
Other creditors	**(90.6)**	(77.3)
Net current assets	**254.5**	94.3
Total assets less current liabilities	**1,119.5**	1,026.2
Creditors – amounts falling due after one year		
Long term borrowings	**(851.8)**	(718.5)
Other creditors	**(6.0)**	(17.0)
Provisions for liabilities and charges	**(8.7)**	(14.8)
Net assets	**253.0**	275.9
Represented by:		
Called up share capital	**10.0**	10.0
Profit and loss account	**217.0**	236.3
Total equity shareholders' funds	**227.0**	246.3
Minority interest	**26.0**	29.6
	253.0	275.9

The accounts were approved by the members of the board on 12 March 2003 and were signed on their behalf by:

Lord Cairns
Chairman

Richard Laing
Finance director

The accounting policies and notes that form part of these financial statements are available in a separate document.

Group cash flow statement

For the year ended 31 December

	2002 £m	2001 £m
Cash inflow from operating activities	**103.4**	64.7
Dividends from associates and joint ventures	**2.1**	3.2
Returns on investments and servicing of finance	**(1.1)**	(5.8)
Corporation tax paid	**(5.2)**	(1.5)
Capital expenditure and financial investment	**21.6**	(15.0)
Acquisitions and disposals	**(45.5)**	29.1
Cash inflow before use of liquid resources and financing	**75.3**	74.7
Management of liquid resources	**(60.5)**	(112.7)
Financing	**8.6**	34.3
Increase/(decrease) in cash in the year	**23.4**	(3.7)
Reconciliation of net cash flow to movement in net debt		
Increase/(decrease) in cash in the year	**23.4**	(3.7)
Cash outflow from increase in liquid resources	**60.5**	112.7
Cash inflow from increase in net debt	**(11.4)**	(32.1)
Decrease in net debt resulting from cash flows	**72.5**	76.9
Loans and finance leases acquired with subsidiaries	**(28.8)**	(2.7)
Loans in disposed subsidiaries	**32.7**	10.4
Translation difference	**7.7**	1.6
Decrease in net debt in the year	**84.1**	86.2
Net debt at start of year	**(680.0)**	(766.2)
Net debt at end of year	**(595.9)**	(680.0)

Company balance sheet

At 31 December

	2002 £m	2001 As restated £m
Tangible assets	**23.1**	26.1
Investments	**733.5**	741.9
Fixed assets	**756.6**	768.0
Debtors	**20.0**	32.3
Cash at bank and in hand	**224.4**	143.8
Current assets	**244.4**	176.1
Creditors – amounts falling due within one year		
Short term borrowings	**(1.1)**	(125.5)
Other creditors	**(110.1)**	(82.5)
Net current assets/(liabilities)	**133.2**	(31.9)
Total assets less current liabilities	**889.8**	736.1
Creditors – amounts falling due after one year		
Long term borrowings	**(757.6)**	(632.8)
Other creditors	**(0.1)**	(0.4)
Provisions for liabilities and charges	**(2.8)**	(9.5)
Net assets	**129.3**	93.4
Represented by:		
Called up share capital	**10.0**	10.0
Profit and loss account	**119.3**	83.4
Shareholders' funds	**129.3**	93.4

Directors' emoluments

Executive directors are employed under continuing contracts of employment, which can be terminated by either party under notice provisions of one year. Executive directors' emoluments, including participation in the long-term incentive plan and bonus scheme, are determined by the remuneration committee. In determining an individual's compensation, the remuneration committee considers market salary surveys and the individual's performance in the context of the overall performance of CDC. The remuneration for non-executive directors takes the form solely of fees and is determined by the board as a whole.

The following table is a summary of the full Directors' remuneration report, published in the CDC Financial report 2002.

	2002	2001
Number of directors at 31 December	**10**	11
Emoluments	**£1,224,555**	£999,320
Company contributions to defined contribution schemes (1 director)	**£15,230**	£12,960
Company contributions to personal pension schemes	**£70,237**	£78,768

The amounts in respect of the highest paid director are as follows:

Emoluments	**£232,565**	£221,894
Company contributions to personal pension schemes	**£23,687**	£29,750

Ten largest investments (by value)

Investment	Country	Business description
Southern Cone Power	South America	The assets incorporate 24% of Peruvian hydro generator Edegel (1000MW), 25% of Chilean generator San Isidro (380MW) and 7% of Argentine thermoelectric generator Costanera (2300MW). About 85% of the investment corresponds to Edegel, the largest privately-owned power company in Peru.
Pacific Rim Palm Oil (PRPOL)	Indonesia/ Papua New Guinea	Headquartered in Singapore, PRPOL 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.
Mozal	Mozambique	The US$1bn Mozal aluminium smelter is Mozambique's largest-ever private sector investment, developed by Alusaf, a division of Billiton plc. The development, which is significantly assisting ongoing economic reform in Mozambique, has an annual production capacity of 250,000 tons of primary aluminium ingots. Phase 2 construction, which will double the production capacity, is expected to start production in April 2003.
MSI Cellular	Pan Africa	Africa's second largest GSM operator, in terms of geographic coverage. MSI is present in 13 African countries – Uganda, Zambia, Gabon, Chad, Congo Brazzaville, DRC, Malawi, Sierra Leone, Tanzania, Niger, Egypt, Sudan and Burkina Faso. MSI manages over one million customers in Africa.
Haina Investment Company	Dominican Republic	An investment company set up to invest in, manage and expand the Empresa Generadora de Electricidad Haina – a 664MW business formed by the privatisation of the thermal generation assets in the Dominican Republic.
DVI	International	DVI's main business is the provision of lease finance for medical diagnostic equipment, such as state-of-the-art MRI scans, to private out-patient facilities. DVI is the leading international player, with overseas operations focused on Latin America, Africa and South East Asia.
YVR Airport Services Ltd (YVRAS)	International	YVRAS' principal business is the operation and management of airports. It currently has equity investments and management contracts in developing economies such as Chile, Dominican Republic and Jamaica.
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.
Mirant Pagbilao	Philippines	CDC's investment in Mirant Pagbilao has helped it build and operate a 700MW coal-fired power station on the island of Pagbilao Grande, 100 miles south east of Manila.
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.

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