CAPITAL for DEVELOPMENT

Annual report and accounts 2003

CDC's mission is to create wealth in emerging markets, particularly poorer countries, by investing and attracting others to invest in sustainable private sector businesses.

Our investment is aimed at the private sector, as the engine of growth and as an efficient provider of services in our markets. We seek to address the scarcity of long term risk capital, which is an important constraint on the private sector in the developing world.

CDC requires companies in which it invests to adhere to a set of core values relating to corporate governance, respect for the environment and observance of minimum standards in relation to health, safety and social issues. We believe that this is not only good in itself, but makes for better investment.

With over half a century's experience of investing in the developing world and with over US$1.6bn of funds under management, we are one of the leading investors in the emerging markets.

RESTRUCTURING

CDC is restructuring itself into two companies in order to sharpen its investment focus. The restructuring separates the asset holding and the investment management functions of CDC.

The asset holding company will own all CDC's existing investments. It will retain the CDC name and will be wholly owned by the Department for International Development (DfID) of the UK Government.

The new management company will be called Actis and will be majority controlled by its management and staff. Under the terms of an agreement currently being finalised, it will manage most of CDC's assets in return for a fee and performance related incentives.

Paul Fletcher, who is currently Chief Executive of CDC, will move over to be Chief Executive of Actis. He will be succeeded as Chief Executive of CDC by Richard Laing.

"CDC already has a groundbreaking track record of assisting in the financing and development of private sector businesses in poor countries. This new approach aims to significantly increase this effect, benefiting regions such as Africa and South Asia."

Hilary Benn
Secretary of State for
International Development

CDC
CAPITAL *for* DEVELOPMENT

CDC inherits the assets built up over the last 56 years. In future, it will place these funds with expert fund managers who will manage them on its behalf. In the near term, most of its funds will be managed by Actis.

Actis
The positive power of capital

Actis will be an independent private equity investor focused on the emerging markets. It will take on the majority of CDC's current staff and its international network of offices.

CDC

2003 HIGHLIGHTS

- **Positive fund performance measured in US$ of 20% (11% in sterling)**
- **Investments of £261m (US$429m)**
- **Successful realisations in Ghana, Tanzania, India and the Philippines**
- **Aureos Capital raises US$107m for three regional African funds focused on small and medium sized enterprises**
- **Purchase of minority stake in a major horticultural business in Kenya**
- **Completion of a management buy-in transaction in a quoted manufacturing company in India**
- **Purchase by CDC Globeleq of controlling stakes in two power generating businesses in Bangladesh**
- **Restructuring of CDC into two companies, CDC and Actis**

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CHAIRMAN'S STATEMENT

"I am confident that the new structures will take the proud record of CDC to new levels of achievement."

Lord Cairns
Chairman

The announcement on 8 January by the Secretary of State, Hilary Benn, heralded that this will be the last Annual report of CDC in its present form. The majority of current CDC staff will form the new private equity investment company, of which they will have management control, called Actis. CDC will continue as an emerging markets investor, wholly owned by the UK government, with responsibility for monitoring the management of its funds, the bulk of which will be mandated to Actis to manage on an arm's length basis for the next few years.

This announcement successfully concludes a process of finding a new corporate structure which will best enable the expertise and experience, developed within CDC over the past 56 years, to be offered to the UK Government and third party investors on a tailored basis. The new structures allow a demonstration that management of funds will be independent of the Government and guided purely by the requirements of each client. Separate funds for Africa, South Asia and our emerging markets power generation company (CDC Globeleq) will form the principal funds. Alongside these will be a fund for the management of the residual assets of the existing CDC, a range of funds specialising in the small and medium sized enterprises (SME) sector under the Aureos label, as well as specialist funds in China and Malaysia. Plans are also in progress to build on existing expertise in managing 'distressed asset pools' within areas of our geographic experience.

CDC's record in 2003 gives me considerable comfort that the management of Actis is well equipped to become the manager of choice for both public and private sector investors wishing to participate in its areas of geographic and sector specialisation within the poorer emerging markets. At the same time, an experienced team of professionals at the new CDC will continue to service DfID's interface with the private sector.

CDC will continue to provide capital for development. Actis is well equipped to become the fund manager of choice in the emerging markets.

CDC

In the past year, over £261m of new capital has been invested in 13 ventures and £195m was realised from our existing portfolio to provide further funds for fresh investment. These are large sums and speak of a year of high activity and success.

The statement of total return, which shows pre-tax returns after expenses of £45m, in some ways understates the achievements of an outstanding year. Sterling has risen substantially against the currencies of virtually all the countries in which we invest. Measured on a US$ basis, our positive fund performance amounted to 20%, versus 11% in sterling. Over the past two years the US$ based appreciations amounted to 35%.

The poor returns from many emerging markets in recent years led many investors to conclude that returns in the so called developing world were unlikely to match those available in London, New York or the Eurozone, despite the faster GDP growth of many poorer countries and much higher valuation ratios of G8 stock markets. The past year reminds us that there is nothing inevitable or indeed logical about that.

Better markets in many of the countries in which we invest, combined with increases in some of the commodity prices on which many of our investee companies depend, have been helpful. Increased liquidity, optimism of greater political stability and wider acceptance of the benefits of a healthy private sector have helped to provide fresh opportunities for investment. Several good companies based in less developed countries have shown themselves well able to thrive in the increasingly global economy.

On another front, the problems of the electricity generating industry in the United States and Europe have provided the opportunity to develop the CDC Globeleq portfolio with timely acquisitions. The acquisition of some 25% of the generating capacity of Bangladesh (£85m) and a major gas pipeline and generating complex in Tanzania (£56m) have been particular highlights of the year. These take us well on the way to the formation of a world class company in the emerging market power sector, which will enable us to provide and enhance growing sources of reliable and efficient energy, a critical bedrock for development.

Much of the strength of the CDC approach involves assisting growing businesses in developing economies, supporting good management that can be increasingly recognised by the broader financial community. CDC's contribution has been much more than financial; we have always sought to be a constructive and value-adding participant, whether in bringing international opportunities and technology to local business, helping to identify new forms of finance or by instilling best practice corporate governance. The results of this past year seem to me to offer clear evidence that we have played an important part in creating a strong private sector in each country in which we operate. This is a vital role in itself, but it is also a demonstration

2003 IN REVIEW

JANUARY
STAKE IN EAST AFRICAN GOLD MINE (EAGM) SOLD

MARCH
SOLD STAKE IN SSB BANK, GHANA

APRIL
CDC TAKES CONTROLLING STAKE IN DFCU – UGANDA'S LARGEST LOCAL FINANCIAL GROUP

MAY
CDC GLOBELEQ COMPLETES ITS ACQUISITION OF A CONTROLLING STAKE IN THE SONGAS PROJECT, TANZANIA

MAY
CDC BUYS A 14% STAKE IN FLAMINGO HOLDINGS, A FULLY INTEGRATED HORTICULTURAL BUSINESS, KENYA

MAY
SALE OF STAKE IN MIRANT PAGBILAO, A POWER BUSINESS IN THE PHILIPPINES

JULY
AUREOS RAISES US$107m FOR THREE AFRICAN FUNDS

JULY
STAKE PURCHASED IN PUNJAB TRACTORS, INDIA

DECEMBER
CDC GLOBELEQ INVESTS US$144m IN POWER ASSETS IN BANGLADESH

DECEMBER
CDC ANNOUNCES SALE OF STAKE IN UTI BANK

Collaboration between CDC and Actis will lie at the heart of the activity of each.

CHAIRMAN'S STATEMENT CONTINUED

"I believe emerging market investors will find the private equity route to investment an efficient one."

to encourage others, whether they are purely looking for appropriate risk-adjusted returns or their interest is more motivated by development considerations. Only a vibrant and competitive private sector can use scarce resources with maximum efficiency and create wealth on a sustainable basis.

I believe emerging market investors will find the private equity route to investment an efficient one. It overcomes the problem of illiquidity in many developing economies' stock markets for large scale equity investment. The participative nature of private equity also allows greater control on aspects of corporate governance which can often be a matter of concern. Our intimate knowledge and on the ground presence, which will be carried forward by Actis, is also a vital ingredient for future success.

It has taken perhaps longer than any of us would have wished to find a structure that makes the greatest use of CDC's potential. Time, however, has enabled us to assemble and develop a team of managers who can give confidence to all potential investors in what we term the 'CDC universe'. It is pleasing to record that this is already recognised. Through international competition we have been recognised as the preferred manager of third party funds, while CDC Globeleq has good prospects of commitments of third party capital in the coming months. A bright economic future for Actis depends on further success in this area.

Collaboration between CDC and Actis will lie at the heart of the activity of each. However, I should record an appreciation of the patience and imagination of our shareholder DfID in agreeing to create exciting and challenging futures for both businesses, which in time should lead to a greater contribution to development in many of the poorer countries of the world.

We have collaborated with Norfund through our joint ownership of Aureos, which specialises in the management of SME sector funds, and during the year have added new funds for specific areas of Africa, with investment support from a range of institutional investors. Plans are in place to grow our joint contribution to this area yet further.

The UK Government has appointed Malcolm Williamson as the Chairman designate of the Board of CDC where he will join other experienced Board members, Professor Kydd and Andrew Williams. The Supervisory Board of Actis will include Peter Smitham and myself who will, at completion of the restructuring, resign from the existing CDC Board. We will be joined by Paul Collins, much of whose distinguished career at Citicorp is relevant to our future, and in due course by others. Because of pressure of other commitments, Jayne Almond and Tim Parker retired from the CDC Board during the past year and Lalith de Mel will do so when the new structures are finalised. They have all played an invaluable role through a challenging time and deserve our great thanks.

Through the past year both Richard Laing and Paul Fletcher have proved their ability to lead their respective teams of new CDC and Actis during a period of great day-to-day business activity, while at the same time taking the strain of radical reorganisation. Now that certainty of structure is in place, I am confident that they and their teams will take the proud record of CDC to new levels of achievement in the interest of both investors and the development of the private sector in the countries in which we operate.

CHIEF EXECUTIVE'S REVIEW

"We can face our investors with confidence."

Paul Fletcher
Chief Executive

These encouraging results mark a good year for CDC. We demonstrated that we can make successful exits, even in difficult markets. We also made some very exciting new investments. We can face our investors with confidence.

Organisation

Significant management time was spent restructuring our business in advance of the split of the company into CDC and Actis. We have now established a fund structure within Actis which mirrors the needs of our business. This has involved reshaping our existing businesses in Africa, India and Latin America into funds and seeking investment commitments from CDC for them. The task is now largely complete and the respective fund managers have already embarked upon the process of raising third party funds to go alongside CDC's.

People

We have appointed Nkosana Moyo, who has had a distinguished career in government, commerce and the IFC, to be Managing Partner of the Africa Fund. I am convinced that he will give our team in Africa added drive and momentum. Donald Peck will continue to manage our India Fund. He will be based in Delhi and will be supported by the very able team that he has built up, including JM Trivedi in Mumbai, Subba Rao in Bangalore and Steven Enderby in Delhi. Finally, Michael Till has been appointed Managing Partner in Latin America and will be responsible for nurturing our portfolio there.

Fund raising

Aureos, our joint venture company with Norfund, focusing on SMEs, raised over US$100m for its three Africa funds from a variety of investors. In the difficult market circumstances, this is a significant achievement. We are also in the final stages of negotiating with a significant third party investor for an investment into the Actis Africa Fund.

CDC was a founder member of European Financing Partners, an initiative taken by the European development finance institutions and the European Investment Bank to co-ordinate activities and co-invest in the African, Caribbean and Pacific regions. We are proud of having played a formative part in making this happen.

Developments during the year

Investment flows into the emerging markets in 2003 were some 50% up on the very low figures of 2002. This trend is reflected in our results. The overall return in US$ of 20% is very creditable. Supporting this number are three very healthy trends:

- **We are starting to build a record of successful exits**. In South Asia and Africa we were able to take advantage of increased interest on behalf of strategic investors in the banking sector to make successful exits at encouraging multiples from both UTI Bank in India and SSB Bank in Ghana. In both cases we invested, added value and helped transform institutions which then became more attractive to major international banks. The macro analysis was sound, the investment thesis was spot on and the management of the exit strategy skilful. Also in Africa, we were able to benefit from the upswing in commodity prices to sell our stake in East African Gold Mines in Tanzania, an early stage mining business in whose gestation we played a crucial part. Again, the buyer was a major and respected multinational.

- **We are adding value to the businesses we own**. A good example is Celtel, which operates a mobile telephone network

CHIEF EXECUTIVE'S REVIEW
CONTINUED

Flamingo
Flamingo is an integrated horticultural business in Kenya, involved in the growing, processing, packaging, marketing and distribution of cut flowers and vegetables, in which we have acquired a 14% stake. It is the largest African exporter in its sector. It supplies major supermarkets in the UK, including Marks & Spencer, Tesco, Sainsbury and Safeway. The company meets our benchmarks in terms of its social, environmental, health and safety policies.

across Africa. Not only were we early investors – we were shrewd enough to see the potential for mobile phones in markets where fixed lines were scarce and no one else was interested – but we have continued to support the company through successive rounds of financing, directly by providing funds ourselves and, probably as important, indirectly by helping the company to identify other sources of finance. DFCU in Uganda is another instance, a business where we have been an investor since 1964 and where we bought out a minority shareholder during the course of 2003 with the intention of driving the company forward so that it can become a major player in the Ugandan banking market.

- **We continue to make exciting new investments.** Our pioneering investment in Punjab Tractors is an example. As a leveraged management buy-in, it was an innovative private equity transaction in India. Another interesting investment was the purchase of a controlling stake in Lenco, a packaging company in South Africa. Through CDC Globeleq, we also acquired major power generating businesses in Tanzania, South Africa and Bangladesh.

So last year was not only a good year for us, but provides a sound platform for both CDC and Actis. I am confident that we have a structure that will allow the respective businesses to grow and prosper. We are proud of our heritage and look forward to the next phase of our evolution with great optimism.

CDC

Achieving exits has been a major challenge in our markets in recent years. We look for buyers who are better positioned to take investee businesses to the next stage.

BUSINESS REVIEW

SSB

SSB Bank is a West African success story. Our priority as an investor was to strengthen management and improve corporate governance. After three years as a shareholder, we were able to sell our stake to an international bank wishing to establish a strategic position in the region, at a multiple number of 1.6 times our investment in US$ terms.

REALISATIONS
CAPTURING VALUE

In 2003, as in 2002, we had some notable successes in finding good buyers for our investments.

SSB Bank

We invested US$3.9m in SSB Bank in 1999. It is now Ghana's fourth largest bank, with 38 branches and 650 employees serving some 220,000 individual customers and 26,000 business customers.

We have played an active role on the Board of SSB, developing the bank's strategy, strengthening corporate governance and improving operations within the bank. A new IT system has been installed and a branch refurbishment programme is underway. We have also been instrumental in encouraging the adoption of our business principles into the code of conduct of staff and compliance policies at the bank.

SSB has built up its market share in both deposits and loans, particularly in the SME sector. In 2003, the bank reached the point where a strategic investor was better placed to meet the challenges of the next stage of the bank's development. So we decided to sell our stake to an international bank, Société Générale. This successful sale demonstrates that investors can achieve attractive returns in the African financial services sector, even in periods of great currency volatility.

East African Gold Mines (EAGM)

In 1999 we invested US$7.1m for a 10.6% equity stake in this exploration and early stage mine development fund in the prolific North Mara greenstone belt in Tanzania. Other investors included African Lion Fund, in which CDC was a cornerstone investor.

EAGM was backed by a committed sponsor who was able to pull together a world-class exploration and development team. The first mine came into production ahead of schedule and budget in 2002. EAGM now consists of two open pit mining operations, a processing plant, a third undeveloped deposit, and additional prospective exploration lands within the region.

We assisted the company by leading negotiations with the Tanzanian Government for prospect and mining leases and providing support through six follow-on investments, even when gold prices hit a 30-year low. Last year, we sold our stake to Placer Dome, the world's sixth largest gold mining company which is well placed to take the business forward.

EAGM has instituted first world standards with respect to the environment and has taken an active role in promoting welfare in the local community, including contributing to a number of schools and clinics in the area.

Our technical expertise in the mining sector, network of contacts and understanding of Tanzania were crucial to the development of EAGM.

GrameenPhone

Bangladesh has one of the lowest telephone densities in the world. Many homes have no connection and there are long waiting lists for fixed-line telephones. GrameenPhone believed that cellular technology was commercially viable and would confer great benefits on the people of Bangladesh. CDC took the decision to support this thesis with expansion funding in 1999. Our investment of US$16.7m enabled GrameenPhone to use its exclusive rights over the country's railway fibre optic facility to extend cellular coverage to both urban and

BUSINESS REVIEW CONTINUED

Mengniu, which translates in English as Cows of Mongolia, procures its milk supplies from producers who farm the extensive grasslands of Inner Mongolia. Milk from the region has a well-deserved reputation for quality. The company has built its major, state-of-the-art processing facility outside Huhhot in the Inner Mongolia Autonomous Region, to serve the rapidly growing market for dairy products throughout China. Mengniu's advertising has been highly effective and the company has succeeded in building widespread brand recognition – its products were recently designated 'exclusive dairy products for Chinese cosmonauts' following the successful launch of Shenzhou No 5, China's first manned space flight.

rural areas. As predicted, cellular technology in Bangladesh has helped remedy the inadequacy of fixed-line telephony. GrameenPhone has achieved spectacular growth since our initial investment, almost doubling its subscriber base every year. GrameenPhone now has a market share of over 68% and its subscriber base exceeded the one million mark in August 2003. Grameen Telecom, a wholly owned subsidiary of Grameen Bank and second largest shareholder of GrameenPhone, is leading the installation of payphones in villages.

In late 2003, we completed the exit from GrameenPhone by selling our shares to the promoter shareholders, including Telenor, Grameen Telecom, Marubeni Corporation and Gonofone, United States.

EXISTING INVESTMENTS ADDING VALUE

We are long term investors and our aim is to help our investee companies grow. We do this not only by applying financial resources, our own and others', but by helping with strategic direction and providing management support.

Celtel International (formerly MSI International)

Celtel provides GSM network services across sub-Saharan Africa. The company manages 13 telecoms operations in 12 countries and has interests in internet and long-distance services. The company is now managing over 2 million subscribers on its networks.

We committed US$14.4m in 1998 to fund Celtel's development and we have since participated in two further funding rounds in 2000 and 2001. We are currently the largest institutional shareholder in the company and have invested US$50.8m. Celtel has achieved remarkable growth over the last five years. Revenue has grown at a rate in excess of 90% per annum since our initial investment in 1998.

Our on-the-ground experience in Africa, our knowledge of the sector and our network of contacts have provided valuable support to Celtel's pan-African growth strategy. We have supported a number of Celtel's licence bids across Africa, assisted the company in finding local partners for its operations, introduced new investment opportunities and helped with its fund-raising programmes.

DFCU

We first invested in this business in 1964, when we helped co-found DFCU together with the Ugandan Government. DFCU has developed into a diversified financial business, with operations ranging from commercial banking to long-term lending and mortgage finance. It has also pioneered the leasing markets, where it is the market leader with an 80% market share.

In 2003, we took control of DFCU Group following the purchase of DEG's 25% shareholding, resulting in CDC holding a 60% stake in the business. The remaining shareholders are the IFC and the Government of Uganda.

We have put significant effort into the corporate governance of DFCU. This has included strengthening the Board, training on anti-money-laundering and reinforcing social and environmental risk assessment in the investment and banking activities.

We are long-term investors and our aim is to help our investee companies grow.

We continue to be an active investor, providing strategic leadership and management support. DFCU has focused on the SME segment, and its assets have grown on average over 40% annually in the past three years. Strongly capitalised and profitable, DFCU is well positioned to continue growing.

Mengniu Dairy

Mengniu is a dairy products manufacturer based in the Chinese province of Inner Mongolia. Products include milk (UHT, milk beverages and yoghurt), ice cream and other dairy products, such as milk powder and milk tablets. Since it started business in 1999, the company has quickly become a household brand and one of the leading milk producers in China, with a 15% market share of the national liquid milk market by sales volume. Sales have more than doubled every year for the last three years and Mengniu is recognised as one of the fastest growing private companies in China. It has achieved these outstanding rates of growth on the basis of its experienced management team, secure supplies of high quality milk, world class production facilities, stringent quality control and a series of bold and successful marketing campaigns.

Mengniu was founded by its senior management team, which retains a significant stake in the company. Management is proficient and highly experienced, but recognised the need to attract long term investors to assist it in professionalising its processes and to help with preparations for a public listing.

CDC invested US$7.5m, alongside other investors, in two rounds of investments in 2002 and 2003. These capital raisings enabled Mengniu to fund its expansion and position itself in its market. We are working closely with the management team to ensure that Mengniu maintains its exceptional performance and continues to be attractive to investors after its public listing. We have helped management improve the structure of the company and put in place procedures to ensure that Mengniu is a leader in its market in respect of corporate governance as well as business performance.

NEW INVESTMENTS
FINDING VALUE

Our presence on the ground in our markets helps us generate proprietary dealflow. We made some large and innovative investments in 2003.

Punjab Tractors

CDC and the South Asian Regional Fund invested US$25m as part of a US$50m financing package put together with third party investors in India's most profitable tractor manufacturer. This deal marked the first Indian privatisation backed by private equity. The Punjab State Government, which promoted the company in 1970, decided in 2002 to sell its 23.5% block in the company by tender. The bid invited interest from both trade buyers and from private equity investors.

We had already established a relationship with the business and its management team, which meant we were in an excellent position to submit a winning bid. We were able to back a superior management team as opposed to partnering with trade buyers. We were successful in our bid in July 2003. The share prices of all the companies in the group have subsequently outperformed the market, with Punjab Tractors itself now trading above our acquisition price.

We are working closely with the management team to increase Punjab Tractors' market share in India and to expand its business globally.

Orascom Telecom Algeria
Orascom Telecom Algeria started commercial operations under the brand name DJEZZY in February 2002 and is already Algeria's leading telecommunications services provider. The company has more than 1.2 million subscribers, representing almost 90% of the country's mobile market, and a network coverage area which serves more than 70% of Algeria's 32 million population.

BUSINESS REVIEW CONTINUED

Haripur and Meghnaghat

In December 2003, CDC Globeleq completed the purchase of two substantial power assets, Haripur and Meghnaghat, in Bangladesh. The two plants, with a combined total of 810mw, account for 25% of Bangladesh's generating capacity and have improved the reliability of power supply for the 129 million citizens of Bangladesh, who previously suffered severe and frequent power shortages. The power provided by these plants is amongst the most affordable in the world.

Lenco

We invested US$17.6m of debt and equity in this innovative South African packaging company, which was looking to expand its customer base. Lenco manufactures rigid plastic packaging and sells mainly to blue chip FMCG companies involved in the manufacturing and distribution of liquids, cordials, cosmetics, detergents and foods. Amongst its impressive list of customers are Nestlé, Unilever, Reckitt and Bromor (Cadbury). It boasts an excellent track record for innovation, product quality, efficient delivery, value for money and reliability of supply.

We also introduced Brimstone, a Black Economic Empowerment (BEE) group, as a shareholder. Many South African companies are adopting procurement policies favouring suppliers with BEE ownership. Lenco is the first with such a shareholding within the industry, which should open up new business opportunities. Brimstone has a 25% stake and the executive management of Lenco holds the remaining 16%.

Orascom Telecom Algeria

2003 marked our first investment in Algeria with the financing of Orascom Telecom Algeria (OTA). We committed US$26m to the business, as part of a fundraising package of €545m, making this the largest single private sector investment in Algeria outside the oil and gas sectors.

Our investment was part of a debt and equity financing deal to enable OTA to complete its licence payment and fund the expansion of its network. OTA is Algeria's leading telecommunications provider, operating under the DJEZZY brand name. It has more than 1.2 million subscribers, which represents 88% of Algeria's mobile market. It is a subsidiary of Orascom Telecoms Holdings S.A.E.,a diversified GSM operator with operations in the Middle East, Pakistan and Africa.

Effective telecommunications is an important factor in developing a modern economy and we believe that the expansion of Orascom will bring real benefits to Algeria.

Haripur and Meghnaghat

CDC's largest investment in 2003 was made by our power business, CDC Globeleq, when it invested US$144m for the acquisition of two power assets in Bangladesh. With a total of 810mw, the two plants account for 25% of Bangladesh's generating capacity and produce some of the most efficient and economic power in the world.

The two plants, Haripur and Meghnaghat, are both located near Dhaka. Haripur is a 360mw combined cycle gas turbine (CCGT) plant and started generating power in 2001. Meghnaghat is a 450mw CCGT plant which became operational in November 2002. Both have improved the reliability of power supply for the entire population, which previously suffered severe and frequent power shortages. According to the Bangladesh Ministry of Power, Energy and Mineral Resources, the country will need to double its electric generation capacity in the next seven years to meet rising demand. CDC Globeleq's investment will help to meet the needs of Bangladesh's economy and society.

The Ashridge Centre for Business and Society reported in June 2003 on CDC's application of business principles to its investments in 2002. CDC accepted Ashridge's recommendations and has made good progress in implementing them.

BUSINESS PRINCIPLES REPORT

CDC's activities are underpinned by our business principles, including clear policies and procedures to ensure that business integrity, environmental, health and safety and social issues are assessed as a key part of the investment and monitoring process. Our aim is to ensure that the businesses in which we invest are committed to international good practice in these areas and that any shortfalls are addressed through an action plan.

CDC's markets are often characterised by poor labour standards, inadequate environmental protection and weak corporate governance. Ordinary people may not be properly represented, and legislation may be weak or poorly enforced. Often, the drive to improve is less strong than in developed economies. CDC has been innovative in applying the principles of responsible investment, engaging closely with companies to encourage them to adopt higher standards.

The importance and relevance of our activities was acknowledged in 2003 by the Royal Awards for Sustainability and the United Nations Environment Programme Finance Initiatives, which presented CDC with an award in recognition of our contribution in the field of sustainability and socially responsible investment.

The social and environmental challenges posed by some of our businesses necessitate an innovative approach. Two examples illustrate the way CDC seeks to combine social, environmental and economic sustainability.

The first example is in Swaziland. CDC has a 26% stake in the Royal Swazi Sugar Corporation (RSSC) and provides management. RSSC is one of the first agricultural companies in Africa to have a policy in place to provide anti-retroviral treatment (ART) to employees. During 2003, RSSC established through voluntary testing that (despite an HIV/AIDS work place programme) the infection rates in its own work force were similar to the national average, at 39%. RSSC commissioned an actuarial assessment of the relative cost of providing ART as against the cost (in sick leave, widows' benefits, retraining, recruitment and other costs) of continuing to focus on prevention and care. Apart from the social benefits of taking action, this assessment revealed a clear cost advantage to the company of providing ART.

As a second example, one of the CDC-controlled palm oil companies in Indonesia, PT Asiatic Persada, has entered into a partnership with the Zoological Society of London to study the Sumatran tigers on the plantation. The aim is to assess the relationships between oil palm production patterns and tiger density and to determine how to establish an effective wildlife corridor through oil palm plantations to connect two areas of forest. In the longer term, the partnership hopes to develop a network of land-use zones in the region to enable both wildlife and people to benefit from the landscape. PT Asiatic Persada has contributed to policy development and to infrastructural and logistical support for fieldwork.

Photo: Dawn Scott – ZSL

Slamet, a mature male Sumatran tiger photographed by night on the CDC-managed PT Asiatic Persada palm oil plantation in Jambi, Indonesia. Shortly after the photograph was taken Slamet was sedated and tagged by a team from the Zoological Society of London (ZSL) before being released back into the wild.

ZSL was called in by PT Asiatic Persada to help manage its tiger population, which consists of at least seven males and three breeding females. This initiative resulted in the Jambi Tiger Project, which has received support from a number of tiger charities and is operated in partnership with the Indonesian Institute of Sciences and the Indonesian Ministry of Forestry. Tagging has allowed ZSL to track tiger movements and has enabled PT Asiatic Persada to make provision for wildlife corridors through its estates.

BOARD OF DIRECTORS

1


3


5


2


4


1 Lord Cairns (64)
Chairman
Appointed chairman in June 1995. Chairman of the nomination committee and member of the business principles committee. Chairman of Trustees of the Charities Aid Foundation and chairman of the Board of Look Ahead Housing and Care. Until recently chairman of the Commonwealth Business Council, of which he remains a board member 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.

2 Paul Fletcher (47)
Chief executive
Appointed to the board in January 2001 and made chief executive in December 2002. Member of the nomination committee. Joined CDC as managing director for CDC's business in Africa, and coordinator of the six industry groups CDC has identified as offering high growth potential. Joined CDC in May 2000 from Citibank in London where he was latterly responsible for global emerging markets strategy and planning. Previous employers include Cargill, Bankers Trust and Swiss Bank Corporation International. Appointed chief executive designate of Actis.

3 Richard Laing (50)
Finance director and chief executive designate
Joined CDC in January 2000 after 15 years at De La Rue plc 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 CDC.

4 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.

5 Nicholas Selbie (58)
Executive director
Appointed to the Board of CDC Group plc in January 2001. Responsible for managing CDC Assets (CDC's legacy portfolio and distressed assets business) and CDC's investment in Aureos. 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.

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Member of VSO's Council and Chairman of VSO's Fundraising Advisory Board; Honorary Treasurer of Royal African Society.

6 **Jonathan Kydd (52)**
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.

7 **Lalith de Mel (66)**
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 Hemas Holdings Ltd, Serendip Hotels Ltd.

8 **Peter Smitham (61)**
Non-executive director
Appointed to the board in May 2001. Chairman of the audit and compliance committee and the remuneration committee. A partner 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.

9 **Malcolm Williamson (65)**
Non-executive director
Appointed in January 2004. Until March 2004, president and chief executive of Visa International. Deputy chairman of Britannic Assurance. He held various positions with Standard Chartered Bank in the 1990s, including that of group chief executive from 1993 to 1998. He also served as managing director of Girobank. He started his banking career with Barclays.

10 **Andrew Williams (52)**
Non-executive director
Appointed July 2003. Director of Schroder Ventures International Investment Trust and chief executive of Schroder Ventures (London) Limited. He has held a variety of senior posts with Schroders since 1983 and has worked at length in America and Asia, including four years in Japan.

FINANCIAL REVIEW

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 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 statements. Secondly, in order to explain more fully our investment activities, we have valued all our equity 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 opposite. Ernst and Young LLP have examined these statements and their report is also shown opposite.

Highlights

- Portfolio performance, in £ Sterling before costs, of 11% and 20% in US$
- Portfolio performance measured in US$ over the last two years was 35% compared to the MSCI Emerging Markets free index of 39%
- New investments during the year of £261m
- Annual 50% aim for sub-Saharan Africa and South Asia greatly exceeded at 82%
- Rolling 5 year 70% new investment target for poorer countries met at 75%
- Successful and profitable exits across the portfolio with £13m of realised gains
- £4m of unrealised gains
- Portfolio generated £195m of cash
- Costs under control at 2.8% of total average assets under management
- £198m of cash held at year end
- CDC Group plc became exempt from UK corporation tax on 1 May 2003

Portfolio

Summary

We operate the portfolio as a number of funds.

These portfolio fund splits, which are the focus of future activity, were chosen as a result of an extensive review of our business. They are:

- Africa
- South Asia
- CDC Globeleq
- Aureos
- CDC Assets
- China
- Malaysia

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	805.1
New investments	260.6
Realisations and loan repayments	(181.4)
Unrealised gains and provisions	4.3
At end of year	888.6

We continued the strategy outlined previously of unwinding over time the old CDC Assets portfolio and using the cash generated to grow the new risk capital portfolio. CDC Assets generated £119m of cash during 2003 (2002: £174m).

Summary statement of total return (for year ended 31 December)

	2003 £m	2002 £m
Revenue account		
Revenue	68.5	81.5
Operating costs and other items	(34.5)	(36.5)
Exceptional items	(7.6)	(3.4)
Net interest	9.7	6.7
Revenue before tax	36.1	48.3
Capital account		
Net realised profits over opening valuation	13.3	13.2
Unrealised value movements	4.3	(34.8)
Exchange movements	(8.6)	–
Capital return before tax	9.0	(21.6)
Total return before tax	45.1	26.7
Tax	(8.3)	(22.5)
Total return after tax	36.8	4.2

Summarised balance sheet on a valuation basis (at 31 December)

	2003 £m	2002 £m
Equity investments	551.7	475.6
Loans	336.9	329.5
Total portfolio	888.6	805.1
Net cash	198.3	256.3
Other net liabilities	(39.7)	(51.0)
	1,047.2	1,010.4
Loans from Government	(755.0)	(755.0)
Total net assets on a valuation basis	292.2	255.4

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

We have examined the summary statement of total return for the year ended 31 December 2003 and the summarised balance sheet on a valuation basis as at 31 December 2003 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 the summarised balance sheet on a valuation basis are fairly stated on the basis of the valuation methodology set out on pages 17 and 18.

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 permitted 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
London
10 March 2004

FINANCIAL REVIEW CONTINUED

Revenue

The portfolio generated £69m (2002: £82m) of revenue from dividends, interest and fees, representing 8% (2002: 10%) 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 seeking to increase the number of new investments with ongoing yield, including mezzanine capital.

New investments

We made 13 new investments, including three follow-on investments, totalling £261m. The ten largest represented 90% of the total (below).

Power remains a cornerstone of CDC's activities with each investment making a beneficial impact in a CDC country. In 2003 we made £160m of new power investments, representing 61% of the total. Investments were: £85m invested in two Bangladesh power stations, £56m in a Tanzanian gas pipeline and power station, and £19m in a South African power station.

In India the largest investment of £19m was in Punjab Tractors following a privatisation by the Indian Government. 41% of new investments were in South Asia.

Total new investments in Africa were £134m or 51% of investments. In addition to the investments above we invested £16m in an Algerian GSM telecoms operator, £10m in a Kenyan flower and vegetable supplier to UK supermarkets, £10m in a management buy-in of a plastics packaging business with a Black Economic Empowerment partner and a follow-on investment of £5m in a toll road company.

Realisations

We made few realisations from the private equity funds in 2003 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 many of our markets was not conducive to good exits. Nevertheless, realisations of 8% of the opening portfolio yielded £77m of cash. The two largest realisations, Mirant Pagbilao, a power project in the Philippines (£18m) and East African Gold Mines (£16m), gave cash-to-cash IRRs of 23% and 33% respectively.

Repayments and realisations from the CDC Assets loan portfolio produced £119m, 58% up on our own internal targets, as a result of acceleration of loan receipts and restructuring.

Valuation gains and losses

We are now into the fifth year of valuing our portfolio according to our valuation methodology, which now follows the European Venture Capital Association (EVCA) guidance. The methodology is described on the page opposite and the chart on page 18 shows the proportion valued on each basis.

The net gain in the portfolio valuation was £4m (2002: net loss £35m). The largest upward unrealised movements were as follows. UTI Bank in India delivered an unrealised value of £14m above the previous valuation. Our investment in mobile telephone operator Celtel in Africa rose in value by £15m, following a round of new capital injection by third parties; there were also valuation gains from a fertiliser company in Pakistan of £11m and from palm oil in the Pacific of £6m. Two investments dominated the downward movement: first, the value of our investment in power generation in the Dominican Republic fell by £32m because of the political and economic turmoil; secondly, the loss of a £17m investment in a medical equipment leasing company following loss of confidence by the market.

Ten largest new investments	Country	Sector	£m
Haripur and Meghnaghat	Bangladesh	Power	85
Songas	Tanzania	Power	56
Punjab Tractors	India	Manufacturing	19
Kelvin	South Africa	Power	19
Orascom	Algeria	Telecoms	16
Flamingo	Kenya	Agribusiness	10
Lenco	South Africa	Manufacturing	10
Powercom	China	Manufacturing	7
Caribbean Basin Power Fund	Caribbean	Power Fund	7
TRAC	South Africa /Mozambique	Toll Road	5

Portfolio

We continue to focus on our main sectors: power; financial institutions; telecommunications, media and technology; agribusiness; 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. The figure on page 18 shows the closing portfolio by sector.

CDC Assets, our older portfolio which is being used to generate cash for other areas, is reducing as expected. CDC Globeleq, our power fund, has grown rapidly to become the largest fund at 35% (2002: 30%) in the overall portfolio. Africa and South Asia have also grown during the year. Otherwise the portfolio is fairly evenly spread across the other funds. The graph on page 18 shows the split by fund.

Africa and South Asia now represent 65% (2002: 47%) of the overall portfolio.

Operating costs

During the year headcount reduced by 4% and operating costs and other items in 2003 fell from £37m to £35m. 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 has risen slightly to 2.8%. Exceptional items of £8m relate to the restructuring of CDC.

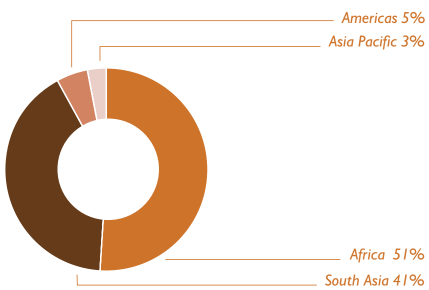
Valuation methodology

CDC's equity valuation guidelines have been developed in accordance with the guidance given by the European Venture Capital Association (EVCA). CDC has moved from British Venture Capital Association to EVCA valuation principles as they currently have wider international acceptance, particularly for the valuation of emerging market private equity investments.

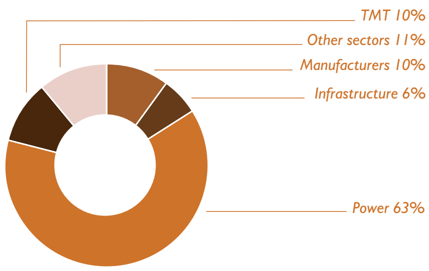
The methodology is as follows:

- 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 holding and the degree of liquidity of the investment's equity. If liquidity is high, no discount is applied
- Third party transactions are used to value equity if they occur at arm's length and are recent
- New unquoted investments are valued at cost for one year after acquisition. Should the investment fall below expectations within the one year period, a provision against the cost is applied
- Profitable unquoted equity, or illiquid quoted equity, is valued on an earnings basis using comparative 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
- 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

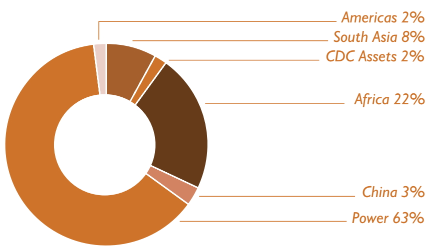
New investments by area



New investments by sector



New investments by fund



FINANCIAL REVIEW
CONTINUED

- 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 on loans where problems have emerged

Unquoted equity investments are further reviewed for factors which may materially affect their value. The reviews consider, for example:

- the use of other earnings multiples
- more recent (and reliable) financial information
- recent third party transactions
- 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

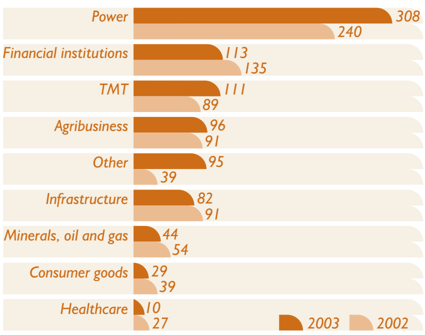
Individual valuations may then be adjusted to reflect the outcome of the reviews and discounts are applied to reflect the illiquidity of unquoted investments.

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.

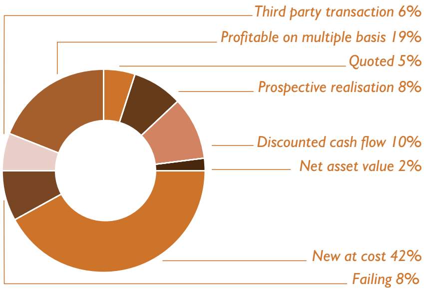
The main effects of this have been:

- 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

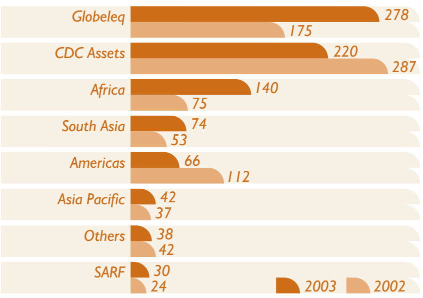
CDC Portfolio by sector £m



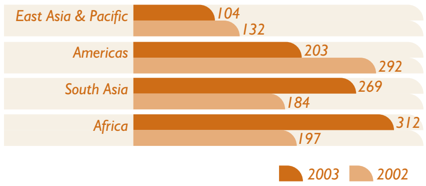
Portfolio valuation method



CDC Portfolio by fund £m



CDC Portfolio by area £m



Financial statements

Basis of preparation
The financial statements are prepared on a fully consolidated historic cost basis in accordance with UK generally accepted accounting principles.

Revenues from managed businesses
Group turnover at £171.4m (2002: £163.7m) was higher following the acquisitions in the year. These contributed £47m to turnover which was offset by significant disposals in 2002.

Investment income
The Group's investment income of £65.8m was slightly down on last year (2002: £72.2m).

Profit before tax
Profit before tax of £20.2m compares to the profit before tax of £33.8m for 2002. The fall in profitability mainly reflects an increase in investment provisions.

Exceptional items
A charge of £7.6m from costs of fundamental restructuring compares to a charge last year of £3.4m.

Taxation
The tax charge was £12.2m compared with a charge of £26.8m in 2002. The provision in the Commonwealth Development Corporation Act 1999 concerning UK corporation tax exemption for CDC Group plc was brought into effect on 1 May 2003.

Cashflow
Cash outflow before use of liquid resources and financing was £60.9m (2002: £75.3m inflow). The Group's net debt at year end was £910.6m (2002: £595.9m), including £755.0m of interest free loans payable to the UK Government.

Balance sheet
Group net assets decreased from £253.0m to £227.6m net of loans from the UK Government of £755.0m, which are unchanged since 1999.

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. On the advice of the scheme actuary, CDC resumed contributions to the defined benefits section following the results of the actuarial valuation at 31 March 2003. In 2003 £4.7m was contributed to the scheme (2002: nil). Disclosures required under FRS 17 shows a deficit of assets over liabilities of £6.9m (2002: surplus £1.5m). Further details are in note 25 to the accounts.

International financial reporting standards
All European Union listed groups are required to adopt International Financial Reporting Standards (IFRS) by 2005. The Group has decided to adopt voluntarily IFRS and consequently is undertaking a robust assessment of the impact to the Group financial statements of these changes in accounting rules. A preliminary review has been completed and has shown that there will be a significant change in relation to the mark-to-market value of financial instruments and in particular an uplift in the value of the Group's equity investment portfolio. The first financial statements for the Group to be prepared under IFRS will be for the year ended 31 December 2005.

Risk management

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.

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

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 product they expect to physically deliver. In 2003 they have used forward sales to hedge their sales price.

More details on both commodity and treasury-related derivatives are given in note 19.

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

DIRECTORS' REPORT

Principal activities
CDC Group plc ('CDC' or 'the company') is a leading investor in the emerging markets. The principal activities of CDC and its subsidiaries ('the Group') include investment in the form of risk capital, management of funds for third party investors and provision of corporate management expertise.

CDC's mandate (as set out in its investment policy) is to maximise the creation and long term growth of viable businesses in developing countries, especially poorer countries; to achieve attractive returns for shareholders; and to implement social, environmental, health and safety and ethical best practice in the conduct of CDC's business and that of its subsidiary undertakings. Pursuant to the investment policy, at least 70% of CDC's investments (by cost) over any five consecutive financial periods are to be made in poorer countries (as defined in the policy) and CDC aims to ensure that at least 50% of its new investments (by cost) in any financial period are in sub-Saharan Africa and South Asia. CDC's record of compliance with the policy is set out in the Financial review on page 14.

In pursuit of this mandate, CDC applies certain business principles in the conduct of its business; the report of the business principles committee can be found on page 11.

Company status
CDC was incorporated as a statutory corporation, the Colonial Development Corporation, in 1948. It was renamed the Commonwealth Development Corporation in 1963 and was authorised to operate in developing countries outside the Commonwealth in 1969. On 8 December 1999 CDC transformed from a statutory corporation into a public company limited by shares under the name CDC Group plc.

Business review
The financial review on pages 14 to 19 reports on the performance of the business for the year, and the position as at 31 December 2003. The chairman's statement discusses the plans for the restructuring of CDC.

Results
Total income, consisting of turnover plus investment income, in the Group accounts for 2003 was £237.2m (2002: £235.9m). There was a profit of £8.7m (2002: £8.5m) transferred to reserves. The directors submit their annual report together with the audited financial statements for the year ended 31 December 2003, which were approved by the board on 10 March 2004.The directors do not recommend payment of a dividend for the year.

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

Directors and their interests
The names of the present directors of CDC are set out on pages 12 and 13. Andrew Williams and Malcolm Williamson were appointed as non-executive directors in July 2003 and January 2004 respectively and Jayne Almond and Tim Parker resigned as non-executive directors in July and December 2003 respectively.

None of the directors at any time during the year ended 31 December 2003, or in the period between that date and 10 March 2004, was interested in any shares or debentures of the company or its subsidiaries. The executive directors are, however, entitled to participate in the long term incentive plan, details of which are set out in the directors' remuneration report on page 24.

None of the directors at any time during the aforesaid period had any material interest in any contracts with the company or its subsidiaries.

Directors' service agreements
Details of directors' service agreements are set out in the directors' remuneration report on page 24.

Corporate governance
CDC supports established best practice in corporate governance and has complied fully with the Combined Code on corporate governance throughout 2003, as far as is practicable for a company which is wholly owned by HM Government. In addition, there is a commitment to competence and integrity. In pursuit of its mandate CDC aspires to apply the highest ethical standards in the conduct of its business (see the report of the business principles committee on page 11).

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

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

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

Role of the board and processes

The role of the board is to determine the direction and strategy of CDC in accordance with its investment policy; monitor the achievement of business objectives; ensure responsibilities to shareholders are met; ensure that the company is adequately protected against the risks it faces; and ensure that employees apply appropriate ethical standards in the performance of their duties, in accordance with CDC's business principles.

The board meets eight times a year and additionally as required. The chairman and chief executive agree the agenda for board meetings, but all board members are entitled to raise other issues. The chairman ensures that the board is properly briefed on all issues arising at board meetings. The executive directors supply the board with information, timely and of a quality which enables it to carry out its duties.

Training, where appropriate, is provided to all CDC directors and periodically they attend presentations from senior employees on different aspects of CDC's business.

All directors have access to the advice and services of the Group secretary, and they can take independent professional advice at CDC's expense, if necessary.

Board membership

The non-executive directors are regarded as independent. From varied business and other backgrounds, they exercise judgement and carry substantial weight in board decisions. They contribute to strategy and policy formation, and monitor CDC's performance and executive management.

The board structure ensures that no single individual or group dominates. Certain matters are reserved for decision/approval by the board, and there is clear delegation of authority to the chief executive and other senior executives within the company for other specified matters. A procedure exists for dealing with matters arising between scheduled board meetings. There are procedures for planning and capital expenditure, for the making of investments and for information and reporting systems for CDC's businesses and performance. The articles of association provide for one third of the directors to retire by rotation at each annual general meeting (excluding the two non-executive directors nominated by the Secretary of State – currently Jonathan Kydd and Lalith de Mel). The directors retiring by rotation at the forthcoming annual general meeting are Lord Cairns and Peter Smitham. Being eligible, they offer themselves for re-election.

Role of chairman and chief executive

There is a clear division of responsibility and authority between the chairman and the chief executive. The chairman is responsible for leading the board in determining its strategy and objectives, but he does not participate in the day-to-day business of the company. The chief executive is responsible for the management of the company on a day-to-day basis and is accountable to the board as such.

The chief executive is supported in his role by two committees comprising the executive directors and certain other senior executives:

Management committee

Chaired by the chief executive, it meets weekly to deal with operational issues and to improve communication and co-ordination throughout CDC.

Investment committee

Chaired by the chief investment officer, it meets weekly to consider investment and divestment proposals, with strict delegated authorities from the board which allow it to make certain decisions. All major investment decisions are, however, referred to board for approval.

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

DIRECTORS' REPORT CONTINUED

Board committees
The board has five principal committees to assist it in fulfilling its responsibilities:

Audit and compliance committee
Comprises three non-executive directors: Peter Smitham (chair), Lalith de Mel and Jonathan Kydd. The chief executive and finance director attend by invitation. The committee meets no fewer than three times a year and additionally as required.

The committee's main duties are to oversee the affairs of CDC; review the financial statements; review the findings of the external auditors; direct the internal audit function; monitor the management accounting and valuations procedures and policies; investigate any irregularities; oversee the company's regulated activities and compliance function; and monitor the company's risk management function. The committee also reviews CDC's system of internal control, further details of which are set out below.

Business principles committee
Comprises four non-executive directors (including the directors nominated by the Secretary of State): Jonathan Kydd (chair), Lalith de Mel, Lord Cairns and Malcolm Williamson. The chief executive attends by invitation. The committee meets no fewer than three times a year and additionally as required.

The committee ensures that CDC's business principles are embedded in its operations. It also reviews and reports to the board on the continued appropriateness of or change to the business principles. An executive business principles team supports the committee. The report of the business principles committee is on page 11.

Remuneration committee
Comprises three non-executive directors: Peter Smitham (chair), Andrew Williams and Malcolm Williamson. The chairman and chief executive attend by invitation. The committee meets no fewer than twice a year and additionally as required. The committee's remit includes determining remuneration packages for the executive directors and making recommendations to the board on the company's policy on executive remuneration. Details are set out in the directors' remuneration report on page 24.

Nomination committee
Comprises three directors, two of whom are non-executives: Lord Cairns (chair), Malcolm Williamson and Paul Fletcher. It meets on an ad hoc basis, as required. Its responsibilities include reviewing the board's structure, size and composition, and succession planning (having regard to the rights of the Secretary of State as holder of the special share).

Standing committee
Operates with a quorum of any two non-executive directors and any two executive directors who meet on an ad hoc basis to consider investments, divestments and portfolio management matters and to make decisions which are required prior to the next scheduled board meeting. The board also constituted an Independent Committee comprising certain non-executive directors whose role and function is to consider and make decisions, as appropriate, in respect of the restructuring of the Group.

Litigation/legal affairs
Litigation and other legal affairs are managed by the general counsel's office.

Internal control
The board is ultimately responsible for CDC's internal control system and reviewing its effectiveness. The design and operation of the system is delegated to the executive directors. Its effectiveness is regularly reviewed by the audit and compliance committee. The system described below has not been applied to CDC Group plc's associates and joint ventures.

CDC's internal control system provides the board with reasonable assurance that potential problems will normally be prevented, or will be detected early and appropriate action taken. Material breaches are reported to the audit and compliance committee and are properly actioned. As with any system of internal control, CDC's system is designed to manage, rather than eliminate, the risk of failure and therefore cannot provide absolute assurance against material mis-statement or loss. The audit committee has conducted, in accordance with the Turnbull guidance, a review of effectiveness of the Group's internal controls.

The key elements of the system include:
- detailed business planning and control systems, including annual budgeting, business planning and quarterly reporting against financial and business targets
- regular reviews by the chief executive of corporate strategies, business principles and commercial objectives
- appropriate management authorisation, approval and control levels, from the chief executive down. The board must specifically approve transactions above these levels
- a regular portfolio valuation process. The greatest single risk to CDC is a significant reduction in the value of its

portfolio. This can be considerably affected by external factors beyond CDC's control. The board is, however, satisfied that the valuation process, described on pages 17 and 18 of the financial review, is rigorous and effective

CDC has an executive internal audit function, which operates to a programme approved by the audit and compliance committee, concentrating on areas of higher risk. In addition, CDC's external auditors review the system of internal controls and the information on them contained in CDC's annual report and accounts to the extent necessary in forming their opinion.

CDC's executive risk management team operates a continuous process, agreed with the audit and compliance committee, of identifying, evaluating and managing any significant risk, financial or non-financial, faced by the company. This process also ensures that appropriate internal control mechanisms are in place. The team provides regular reports to the audit and compliance committee.

Investment management and voting

In making investments, CDC aims to add value to investee businesses. This principally comes in two ways. First, intensive analysis and discussion of management teams' plans helps ensure these are realistic. Secondly, our teams form a framework for post-investment governance, risk control and management systems which maximise the probability of portfolio companies achieving their objectives. CDC nominates third parties, as well as its own employees, to serve on the boards of investee companies and managed funds. CDC's policy is full corporate participation, including voting on all resolutions raised at investee company meetings.

Employees

CDC's policy on employment is one of equal opportunity in the recruitment, training, career development and promotion of employees, whether disabled or otherwise.

Formal employee appraisals and informal discussions are the Group's principal means of keeping up to date with the views and opinions of its employees. In addition, managers throughout CDC are responsible for keeping their employees up to date with developments and performance of the business, which is achieved via regular feedback meetings.

Policy for paying creditors

CDC's policy is to pay its creditors promptly, as encouraged by UK Government initiatives. At 31 December 2003 the company had an average of 11 days' purchases outstanding in trade creditors (2002: 14 days).

Political and charitable contributions

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

Auditors

A resolution to re-appoint Ernst & Young LLP as the company's auditors will be put to the forthcoming Annual General Meeting.

Paul Owers
Secretary, CDC Group plc
On behalf of the board of directors
10 March 2004

DIRECTORS' REMUNERATION REPORT

Remuneration committee and advisers

The Company's remuneration committee is chaired by Peter Smitham and its other members are Andrew Williams and Malcolm Williamson. The committee makes recommendations to the board on the overall remuneration package for executive directors and other senior executives.

CDC appointed McKinsey & Company to advise on remuneration structures within private equity and Towers Perrin to assess comparability to the marketplace. Other advisers to CDC included Clifford Chance for general legal matters, KPMG on financial matters, Simmons & Simmons for procedural and employment law matters, Watson Wyatt LLP for retirement and other benefits and Sacker & Partners for the legal aspects of retirement benefits.

Remuneration policy for executive directors and senior executives

CDC needs to be able to attract, develop and retain high quality staff at all levels. Remuneration policy has an important part to play in achieving this objective. CDC aims to offer staff remuneration packages which are competitive in the relevant marketplaces and which reflect individual performance and experience.

Elements of remuneration

Base salary

Individual base salaries reflect job responsibilities, market rate and the sustained level of individual performance. CDC sets base salaries taking account of median market data derived from appropriate surveys of private equity providers. All salaries are reviewed annually.

Annual bonus

In addition to salary, all employees are eligible for an annual performance related bonus, which is non-pensionable. The board believes that it is important that executives have an element of their annual remuneration 'at risk' and based on individual contribution. The plan is a short term reward which reflects the individual's performance in the context of the overall performance of CDC, taking account of the adherence to the investment policy and statement of business principles.

Long term incentive plan

This plan provides all employees with the opportunity to share in the growth of the company over the longer term. The plan incorporates two award types, formula and discretionary. For the latter, awards are determined annually with the quantum of awards and the recipients changing from year to year. Notional investments (i.e. the awards) are held within the plan for a period of three years. Payments are based on the "gain" generated on the award, calculated on the Net Asset Value (NAV) growth of the company over the plan period, subject to a minimum average growth hurdle of 5% and adherence to the investment policy and statement of business principles. Payments are made in equal instalments over the two years following the plan term and are subject to an annual payment limit. This plan was closed at the end of 2002 and no awards were made for 2003. Any commitments under existing plans will be honoured. Details of a replacement plan are under discussion.

Since the establishment of the plan, NAV growth has been -3.8% (2000), -13.4% (2001), +0.4% (2002) and +1.9% (2003). There was, therefore, no financial benefit for the participants in respect of either the 2000 or the 2001 plans.

A performance graph has not been provided as the shares of CDC are not traded.

Benefits in kind

Each executive director is provided with life assurance cover which will pay a lump sum equivalent to four times the executive director's salary in the event of the death of the executive director. In addition, permanent health insurance is provided to each executive director in the event that they are unable, through ill-health, to continue to work for the company. Private medical insurance is made available through Private Patients Plan to executive directors and their families.

Pension arrangements

Paul Fletcher received a contribution equal to 17.5% of his base pay towards a personal pension plan while Andrew Reicher received a contribution of 15% of his base pay. Richard Laing and Nicholas Selbie are members of CDC's non-contributory Pensions Scheme (final salary section). Richard Laing also receives a contribution to a funded unapproved retirement benefit scheme. Details of pension contributions are shown in the table on page 26.

Service agreements

The executive directors have service agreements terminable on both sides by twelve months' notice or on reaching age 60.

The non-executive directors do not have service agreements. The appointments of non-executive directors have no contractual termination date, but each non-executive director (excluding the non-executive directors appointed by the Secretary of State for International

Development) will be subject to re-election at an annual general meeting in accordance with the provisions for retirement of directors by rotation contained in the company's articles of association.

The remuneration of the non-executive directors takes the form solely of fees. The executive directors make recommendations to the chairman of the board in respect of non-executive directors' fees for all the services normally expected of them as members of the board and its committees. The remuneration of the non-executive directors was reviewed in August 2001 and the basic fee for all non-executive directors (except for the chairman and deputy chairman) is £15,000 per annum. The basic fee for the chairman is £45,000 per annum and for the deputy chairman is £20,000 per annum. Non-executive directors receive an additional £1,000 per annum for each committee membership. The fees paid to non-executive directors in 2003 are set out in the table on page 26. The non-executive directors do not participate in any of the incentive or benefit schemes of the company.

Service agreements with executive directors contain no specific termination provisions; however, any compensation claims from departing directors would be scrutinised by the remuneration committee. An additional bonus of £50,000, awarded to Alan Gillespie in respect of his contribution in 2002, was donated to a charitable initiative at Alan Gillespie's request.

The service agreements and letters of appointment of the directors include the following terms:

	Date of Contract	Notice period (months)
Executive directors:		
Paul Fletcher	17 January 2001	12
Richard Laing	24 January 2000	12
Andrew Reicher	17 January 2001	12
Nicholas Selbie	17 January 2001	12
Non-executive directors:		
Lord Cairns	8 December 1999	n/a
Jonathan Kydd	8 December 1999	n/a
Lalith de Mel	13 April 2000	n/a
Peter Smitham	15 March 2001	n/a
Andrew Williams	2 July 2003	n/a
Malcolm Williamson	10 December 2003	n/a

Outside directorships

The company believes that it can benefit from executive directors holding non-executive appointments; it also believes that such appointments provide a valuable opportunity for personal and professional development. Such appointments are subject to the approval of the board and it is CDC's practice that fees derived from such appointments are returned to CDC. Paul Fletcher is a director of The Eastern Africa Association and Andrew Reicher is a director of Tree Court Advisers Ltd. Richard Laing and Nicholas Selbie did not hold any external non-executive appointments.

DIRECTORS' REMUNERATION REPORT CONTINUED

Directors' remuneration

The remuneration of the directors is shown in the table below, which has been audited by Ernst & Young LLP:

	Base salary and fees £	Benefits £	Performance related bonuses £	Total 2003 £	Total 2002 £
Non-executive directors:					
Chairman – Lord Cairns	48,000	–	–	48,000	48,000
Jayne Almond (to 2 July 2003)	11,169	–	–	11,169	22,432
Jonathan Kydd	17,000	–	–	17,000	16,568
Lalith de Mel	17,000	–	–	17,000	17,000
Peter Smitham	17,000	–	–	17,000	17,000
Tim Parker (to 10 December 2003)	17,000	–	–	17,000	17,000
Andrew Williams (from 2 July 2003)	6,785	–	–	6,785	–
Executive Directors:					
Paul Fletcher	180,000	1,752	120,000	301,752	232,565
Richard Laing	157,500	1,636	100,000	259,136	215,831
Andrew Reicher	150,000	2,151	80,000	232,151	229,474
Nicholas Selbie	150,000	1,260	80,000	231,260	216,457

Pension entitlements

The pension entitlements for the executive directors are as follows:

	2003 £	2002 £
Contribution to personal pension plan:		
Paul Fletcher	31,500	23,687
Andrew Reicher	22,500	21,515
Contribution to FURBS:		
Richard Laing	19,800	15,230

Defined benefit scheme	Accumulated total accrued pension at 31 December 2003 £	Accumulated total accrued pension at 31 December 2002 £	Increase in accrued pension during the year £	Transfer value at 31 December 2003 £	Transfer value at 31 December 2002 £	Increase in transfer value during the year* £
Nicholas Selbie	72,917	66,966	5,951	1,589,633	1,173,344	416,289
Richard Laing	9,694	7,088	2,606	114,714	63,856	50,858

* Transfer value represents a liability of the pension fund, not a sum paid or due to the individual

AUDITOR'S REPORT

Independent auditors' report to the members of CDC Group plc

We have audited the Group's financial statements for the year ended 31 December 2003 which comprise the Group profit and loss account, the Group and Company balance sheets, the Group cash flow statement and associated notes, the Group statement of total recognised gains and losses, accounting policies and general notes and the related notes 1 to 27. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as being audited.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the accounts, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the statement of directors' responsibilities in respect of the accounts.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and, United Kingdom Auditing Standards.

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

We read other information contained in the accounts and consider whether it is consistent with the audited financial statements. This other information comprises the Chairman's statement, Chief executive's review, Business review, Business principles report, Financial review, Directors' report and the unaudited part of the Directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 of the profit of the Group for the year then ended; and the financial statements have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London
10 March 2004

GROUP PROFIT AND LOSS ACCOUNT

For the year ended 31 December

	Note	2003 £m	2002 £m
Turnover	2	171.4	163.7
Investment income	2	65.8	72.2
Group operating profit	2	59.9	28.4
Share of operating profit in associates and joint ventures		0.1	4.0
Total operating profit		60.0	32.4
Profit on sale of investments		34.3	31.9
Exceptional items	3	(7.6)	(3.4)
Interest receivable and similar income		12.2	9.7
Interest payable and similar charges	5	(17.8)	(13.4)
Investment and other provisions		(58.5)	(21.0)
Exchange gains and losses		(2.4)	(2.4)
Profit on ordinary activities before taxation		20.2	33.8
Taxation	6	(12.0)	(26.4)
Share of associates' and joint ventures' taxation	6	(0.2)	(0.4)
Profit on ordinary activities after taxation		8.0	7.0
Equity minority interest		0.7	1.5
Profit for the year transferred to reserves		8.7	8.5
Earnings per share	8	8.7p	8.5p

Group statement of total recognised gains and losses

		2003 £m	2002 £m
Profit for the year transferred to reserves		8.7	8.5
Exchange difference on retranslation of net assets in subsidiaries		(40.1)	(27.8)
Total recognised gains and losses for the year		(31.4)	(19.3)
Prior year adjustment		–	(4.0)
Total recognised gains and losses since last annual report		(31.4)	(23.3)

Reconciliation of consolidated shareholders' funds

	Note	2003 £m	2002 £m
Total recognised gains and losses for the year		(31.4)	(19.3)
Shareholders' funds at 1 January 2003		227.0	246.3
Shareholders' funds at 31 December 2003	21	195.6	227.0

GROUP BALANCE SHEET

At 31 December

	Note	2003 £m	2002 £m
Intangible assets			
Goodwill	9	**15.9**	13.4
Negative goodwill	9	**(17.1)**	–
Net goodwill		**(1.2)**	13.4
Concessions, patents, licences, trademarks and similar rights and assets	9	**27.8**	5.0
Tangible assets	10	**564.9**	138.7
Investments	11a	**576.8**	707.9
Fixed assets		**1,168.3**	865.0
Stocks	12	**37.0**	21.7
Debtors	13	**106.8**	67.5
Cash at bank and in hand		**282.7**	294.4
Current assets		**426.5**	383.6
Creditors – amounts falling due within one year			
Short term borrowings	14	**(76.3)**	(38.5)
Other creditors	14	**(135.3)**	(90.6)
Net current assets		**214.9**	254.5
Total assets less current liabilities		**1,383.2**	1,119.5
Creditors – amounts falling due after one year			
Long term borrowings	15	**(1,117.0)**	(851.8)
Other creditors	15	**(26.2)**	(6.0)
Provisions for liabilities and charges	18	**(12.4)**	(8.7)
Net assets		**227.6**	253.0
Represented by:			
Called up share capital	20	**10.0**	10.0
Profit and loss account	21	**185.6**	217.0
Total equity shareholders' funds		**195.6**	227.0
Equity minority interest		**32.0**	26.0
		227.6	253.0

The accounts were approved by the members of the Board on 10 March 2004 and were signed on their behalf by:

Lord Cairns
Chairman

Richard Laing
Finance director

The accounting policies and notes on pages 32 to 55 form part of the accounts.

GROUP CASH FLOW STATEMENT

For the year ended 31 December

	Note	2003 £m	2002 £m
Cash inflow from operating activities	22a	**86.0**	103.4
Dividends from associates and joint ventures		**1.3**	2.1
Returns on investments and servicing of finance	22b	**(10.9)**	(1.1)
Corporation tax paid		**(26.7)**	(5.2)
Capital expenditure and financial investment	22c	**11.5**	21.6
Acquisitions and disposals	22d	**(122.1)**	(45.5)
Cash (outflow)/inflow before use of liquid resources and financing		**(60.9)**	75.3
Management of liquid resources		**70.1**	(60.5)
Financing	22e	**55.5**	8.6
Increase in cash in the year		**64.7**	23.4

Reconciliation of net cash flow to movement in net debt

	Note	2003 £m	2002 £m
Increase in cash in the year		**64.7**	23.4
Cash (inflow)/outflow from management of liquid resources		**(70.1)**	60.5
Cash inflow from increase in net debt		**(55.5)**	(11.4)
(Increase)/decrease in net debt resulting from cash flows		**(60.9)**	72.5
Liquid resources acquired with subsidiaries		**5.2**	–
Loans and finance leases acquired with subsidiaries		**(275.5)**	(28.8)
Loans in disposed subsidiaries		**–**	32.7
Translation difference		**16.5**	7.7
(Increase)/decrease in net debt in the year		**(314.7)**	84.1
Net debt at start of year	22f	**(595.9)**	(680.0)
Net debt at end of year	22f	**(910.6)**	(595.9)

CDC

COMPANY BALANCE SHEET

At 31 December

	Note	2003 £m	2002 £m
Tangible assets	10	**25.8**	23.1
Investments	11d	**807.3**	733.5
Fixed assets		**833.1**	756.6
Debtors	13	**22.0**	20.0
Cash at bank and in hand		**162.7**	224.4
Current assets		**184.7**	244.4
Creditors – amounts falling due within one year			
Short term borrowings	14	**–**	(1.1)
Other creditors	14	**(120.4)**	(110.1)
Net current assets		**64.3**	133.2
Total assets less current liabilities		**897.4**	889.8
Creditors – amounts falling due after one year			
Long term borrowings	15	**(756.5)**	(757.6)
Other creditors	15	**–**	(0.1)
Provisions for liabilities and charges	18	**(2.8)**	(2.8)
Net assets		**138.1**	129.3
Represented by:			
Called up share capital	20	**10.0**	10.0
Profit and loss account	21	**128.1**	119.3
Shareholders' funds		**138.1**	129.3

The accounts were approved by the members of the Board on 10 March 2004 and were signed on their behalf by:

Lord Cairns
Chairman

Richard Laing
Finance director

The accounting policies and notes on pages 32 to 55 form part of the accounts.

ACCOUNTING POLICIES

Basis of preparation
The financial statements are prepared under the historical cost convention and are prepared in accordance with UK generally applicable accounting standards.

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

CDC treats most of its investments as part of an investment portfolio, even where it owns between 20% and 50% in such an investment. It therefore accounts for these at cost less any provisions, rather than equity accounting them, even though it may exercise significant influence over them. Whilst this treatment is in accordance with FRS 9 (Associates and Joint Ventures), certain of these companies fall within the definition of associated undertakings under the Companies Act 1985. In the opinion of the directors, to equity account these investments would fail to reflect the nature of these portfolio investments and would therefore fail to give a true and fair view. The effect of equity accounting these companies would be an increase in Group net assets of £34.1m. It is impracticable to quantify the effect on the results for the year.

Those investments where CDC holds between 20% and 50% and are used to carry out CDC's investment management business are treated as associates and accounted for under the equity method of accounting.

Joint ventures
Entities which are jointly controlled under a contractual agreement by the Group and one or more third parties are treated as joint ventures. These joint ventures are accounted for using the gross equity method of accounting.

Income recognition
Income is recognised to the extent that it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods
Revenue is recognised when the significant risks and rewards of ownership of the goods have been passed to the buyer which is deemed to be the day of delivery and is stated net of value added tax.

Dividends
Dividend income is accounted for on an accruals basis unless collectibility is in doubt.

Interest
Interest income is recognised on an accruals basis. Where interest on loans is more than 90 days overdue, all interest unpaid is excluded.

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

Provisions
Investment provisions are set in conjunction with review of investment valuations, as detailed on pages 17 and 18. Specific provisions are maintained against those investments and current assets that, in the opinion of the board, have an impairment in value.

Provisions for country risk are held against loan investments and are established on the portfolio based on a methodology that considers the business and economic conditions in a particular country, past credit losses and other relevant factors.

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

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

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

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

Goodwill
Goodwill is the excess of purchase consideration over the fair value of net assets acquired. Negative goodwill arises when the net assets acquired exceed purchase consideration. Both positive and negative goodwill are capitalised and amortised over their estimated useful economic lives, which is limited to the lower of the expected life of the investment or 20 years. All intangible assets are also reviewed for impairment on an annual basis and written down if circumstances indicate that the carrying value may not be recoverable.

Financial fixed assets
Loan and equity investments, together with interests in joint ventures and associated undertakings, are regarded as financial fixed assets as they are held for medium to long-term investment purposes. Loans due for repayment in the next financial year are also classified as fixed financial assets. The net book value of these is disclosed in note 19.

Tangible fixed assets
Tangible fixed assets in use by the Group are depreciated on a straight line basis over their estimated useful lives, with the exception of freehold land, which is not depreciated. The following useful lives apply:

Leasehold land and buildings	Tenure of lease
Other buildings	10-40 years
Other fixed assets	2-20 years

Finance costs are capitalised as permitted by FRS 15. The amount of interest capitalised in the year was £nil (2002: £nil). The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

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

Pensions
The cost of providing defined benefit pensions is charged to the profit and loss account on a systematic basis over the expected average remaining service lives of current employees. The costs of providing defined contribution pensions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. The Group has implemented FRS 17, in so far as the standard requires disclosures in accordance with the transitional rules. These disclosures can be seen in note 25 to the accounts.

Deferred tax
Deferred tax is recognised as a liability or asset if the transactions or events that give rise to an obligation to pay more, or a right to pay less, tax in the future have occurred by the balance sheet date.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

NOTES TO THE ACCOUNTS

1. Segmental analysis	CDC £m	CDC Globeleq £m	Total 2003 £m	Total 2002 £m
Turnover				
Africa	42.7	22.2	64.9	34.8
Americas	31.7	11.8	43.5	66.3
Asia Pacific	46.7	–	46.7	60.8
South Asia	11.9	4.4	16.3	1.8
	133.0	38.4	171.4	163.7
Investment income				
Africa	24.2	–	24.2	18.6
Americas	14.8	5.2	20.0	16.9
Asia Pacific	6.2	–	6.2	12.4
South Asia	15.4	–	15.4	24.3
	60.6	5.2	65.8	72.2
Total income				
Africa	66.9	22.2	89.1	53.4
Americas	46.5	17.0	63.5	83.2
Asia Pacific	52.9	–	52.9	73.2
South Asia	27.3	4.4	31.7	26.1
	193.6	43.6	237.2	235.9
Profit/(loss) before interest and taxation				
Africa	21.3	0.3	21.6	15.6
Americas	(29.6)	0.5	(29.1)	5.3
Asia Pacific	8.3	–	8.3	(17.4)
South Asia	24.8	0.2	25.0	34.0
	24.8	1.0	25.8	37.5
Interest receivable			12.2	9.7
Interest payable			(17.8)	(13.4)
Profit before taxation			20.2	33.8
Net assets				
Africa	217.5	163.2	380.7	188.9
Americas	237.2	88.9	326.1	391.2
Asia Pacific	87.5	–	87.5	148.9
South Asia	135.9	241.3	377.2	170.7
	678.1	493.4	1,171.5	899.7
Net debt			(910.6)	(595.9)
Taxation and provisions for liabilities and charges			(33.3)	(50.8)
Net assets per balance sheet			227.6	253.0

NOTES TO THE ACCOUNTS CONTINUED

2. Group operating profit	2003 £m	2002 £m
Turnover	171.4	163.7
Investment income	65.8	72.2
Total income	237.2	235.9
Cost of sales	(98.2)	(102.4)
Gross profit	139.0	133.5
Administrative expenses:		
Auditors' remuneration – UK	(0.2)	(0.2)
Auditors' remuneration – overseas	(0.2)	(0.1)
Non-audit services – UK	(0.2)	(0.3)
Non-audit services – overseas	–	(0.1)
Depreciation of owned assets	(8.6)	(28.3)
Write off and amortisation of goodwill and brands	(2.0)	(19.0)
Other operating expenses	(80.1)	(61.7)
Other operating income	12.2	4.6
Group operating profit	59.9	28.4

3. Exceptional items	2003 £m	2002 £m
Costs of fundamental restructuring	(7.6)	(3.4)

The effect of the exceptional items on the tax charge for the year is £0.7m (2002: £1.0m).

Fundamental restructuring costs incorporate costs of repositioning CDC Group plc within the market place. For 2003, these costs included pension buyout costs, professional advisors' costs and redundancy costs and for 2002 the charge relates to professional advisors' costs and redundancy costs. Of the payments to advisors, £nil (2002: £nil) was paid to the CDC Group plc auditors for non-audit services.

4. Staff costs	2003 £m	2002 £m
Wages and salaries	41.0	30.9
Social security costs	1.9	1.7
Other pension costs (defined contribution section)	2.9	0.3
	45.8	32.9

The average monthly number of employees during the year was made up as follows:		
London office	123	139
Overseas offices	76	92
Subsidiaries	16,541	20,809
	16,740	21,040

Details for each director of remuneration and pension entitlements are set out on pages 24 to 26.

5. Interest payable and similar charges	2003 £m	2002 £m
Bank loans and overdrafts	4.0	6.6
Interest payable on other loans	13.8	6.6
Finance charges payable under finance leases	–	0.2
Interest payable and similar charges	17.8	13.4

6. Taxation

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:	**2003 £m**	2002 £m
United Kingdom corporation tax at 30% on profit on ordinary activities before 1 May 2003 (2002: 30%)	**(7.5)**	(28.2)
Tax overprovided in previous years	**–**	1.9
	(7.5)	(26.3)
Double taxation relief	**0.2**	4.2
	(7.3)	(22.1)
Overseas tax	**(3.1)**	(1.3)
Group current tax	**(10.4)**	(23.4)
Share of associates' current tax	**(0.2)**	(0.4)
Total current tax	**(10.6)**	(23.8)
Deferred tax	**(1.6)**	(3.0)
Tax on profit on ordinary activities	**(12.2)**	(26.8)

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2002: 30%). The differences are reconciled below:

	2003 £m	2002 £m
Profit on ordinary activities before tax	**20.2**	33.8
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	**(6.0)**	(10.1)
(Increase)/decrease in charge due to:		
Effect of UK tax exemption	**12.8**	–
Provisions not deductible for tax purposes	**–**	(10.9)
Expenses not deductible for tax purposes (2002: principally goodwill amortisation)	**(1.7)**	(7.3)
Losses arising in year not relievable against current tax	**(17.2)**	(3.0)
Effect of overseas taxation	**(1.6)**	1.5
Tax overprovided in previous years	**–**	1.9
Consolidation adjustments with no tax effect	**3.1**	6.3
Other	**–**	(2.2)
Total current tax charge	**(10.6)**	(23.8)

(c) Factors that may affect future tax charges

The CDC Act 1999 provided that CDC Group plc would be exempt from UK taxation at a future date. This date was announced as 1 May 2003. This will not affect overseas taxation of the company or of its overseas subsidiaries and associates.

7. Profit attributable to members of the parent company

The profit attributable to the members of the parent company was £8.6m (2002: £34.9m).
No profit and loss account is presented for the parent company as permitted by section 230 of the Companies Act 1985.

8. Earnings per share

	2003	2002
Earnings per share	**8.7p**	8.5p

The calculation of basic and diluted earnings per share is based on a profit of £8.7m for the year and on 100,000,000 ordinary shares.

NOTES TO THE ACCOUNTS CONTINUED

9. Intangible fixed assets	Positive goodwill £m	Negative goodwill £m	Licences and other intangibles £m	Total £m
Cost				
At 1 January 2003	21.6	–	6.7	28.3
Acquisition of subsidiary undertakings (see note 11c)	3.4	(18.0)	24.0	9.4
Additions	–	–	1.3	1.3
Disposals	(5.9)	–	–	(5.9)
Exchange differences	–	–	(0.4)	(0.4)
At 31 December 2003	**19.1**	**(18.0)**	**31.6**	**32.7**
Amortisation				
At 1 January 2003	8.2	–	1.7	9.9
Provided during the year	0.9	(0.9)	2.0	2.0
Disposals	(5.9)	–	–	(5.9)
Exchange differences	–	–	0.1	0.1
At 31 December 2003	**3.2**	**(0.9)**	**3.8**	**6.1**
Net book value at 31 December 2003	**15.9**	**(17.1)**	**27.8**	**26.6**
Net book value at 1 January 2003	13.4	–	5.0	18.4

10. Tangible fixed assets	Land and buildings £m	Plant and machinery £m	Other fixed assets £m	**Group** Total £m
Cost				
At 1 January 2003	91.7	96.5	133.8	322.0
Additions	8.9	62.7	9.8	81.4
Acquisition of subsidiary undertakings (see note 11c)	21.4	380.6*	1.8	403.8
Disposals	(1.6)	(3.5)	(2.3)	(7.4)
Transfers and write offs	(1.1)	0.1	(0.5)	(1.5)
Exchange differences	(8.1)	(33.9)	(15.2)	(57.2)
At 31 December 2003	**111.2**	**502.5**	**127.4**	**741.1**
Depreciation				
At 1 January 2003	30.0	57.4	95.9	183.3
Provided in the year	4.1	9.2	6.2	19.5
Reversal of impairment adjustment	–	–	(10.9)	(10.9)
Disposals	(0.1)	(1.6)	(0.7)	(2.4)
Transfers and write offs	–	0.1	(0.1)	–
Exchange differences	(3.1)	(6.3)	(3.9)	(13.3)
At 31 December 2003	**30.9**	**58.8**	**86.5**	**176.2**
Net book value at 31 December 2003	**80.3**	**443.7**	**40.9**	**564.9**
Net book value at 1 January 2003	61.7	39.1	37.9	138.7

* Included within plant and machinery fixed assets in acquisitions is £17.7m of capitalised interest.

Included in other fixed assets of the Group were £33.4m (2002: £31.7m) of capitalised plantation establishment costs and £0.2m (2002: £0.2m) of assets held under finance leases and hire purchase contracts.

The net book value of land and buildings comprises:	**Group** **2003** £m	2002 £m
Freehold	**43.4**	28.3
Long leasehold	**36.9**	33.4
Total	**80.3**	61.7

10. Tangible fixed assets continued	Land and buildings £m	Other fixed assets £m	Company Total £m
Cost			
At 1 January 2003	23.5	11.3	34.8
Additions	4.4	0.2	4.6
Disposals	(0.5)	(0.3)	(0.8)
Exchange differences	–	(0.1)	(0.1)
At 31 December 2003	**27.4**	**11.1**	**38.5**
Depreciation			
At 1 January 2003	2.5	9.2	11.7
Provided in the year	0.2	1.1	1.3
Disposals	–	(0.3)	(0.3)
At 31 December 2003	**2.7**	**10.0**	**12.7**
Net book value at 31 December 2003	**24.7**	**1.1**	**25.8**
Net book value at 1 January 2003	21.0	2.1	23.1

The net book value of land and buildings comprises:	2003 £m	Company 2002 £m
Freehold	**0.2**	0.7
Long leasehold	**24.5**	20.3
Total	**24.7**	21.0

11. Investments

(a) Group fixed asset investments	2003 £m	2002 £m
Associated undertakings and joint ventures	**3.6**	11.1
Other fixed asset investments	**573.2**	696.8
At 31 December 2003	**576.8**	707.9

Associated undertakings and joint ventures	Share of net assets £m	Loans £m	Total £m
At 1 January 2003	10.1	1.0	11.1
Additions	2.4	–	2.4
Disposals, repayments and transfers to investments	(6.3)	(1.0)	(7.3)
Provisions (charge)/release	(0.7)	0.1	(0.6)
Share of profits net of tax and dividends	(1.4)	–	(1.4)
Exchange differences	(0.6)	–	(0.6)
At 31 December 2003	**3.5**	**0.1**	**3.6**

NOTES TO THE ACCOUNTS CONTINUED

11. Investments continued

Other fixed asset investments	Listed equity £m	Unlisted equity £m	Loans £m	Total £m
Cost				
At 1 January 2003	158.8	466.3	495.6	1,120.7
Additions	2.6	32.5	45.9	81.0
Realisations and repayments	(24.8)	(26.1)	(101.6)	(152.5)
Investments acquired in subsidiaries	–	4.3	–	4.3
Investments made by disposed subsidiaries	–	(0.5)	–	(0.5)
Conversions and transfers to subsidiary undertakings	14.2	2.6	(24.7)	(7.9)
Write downs	–	–	(20.9)	(20.9)
Exchange differences	(13.5)	(4.4)	(5.1)	(23.0)
At 31 December 2003	**137.3**	**474.7**	**389.2**	**1,001.2**
Provisions				
At 1 January 2003	36.1	189.6	198.2	423.9
Provisions charge/(release)	4.7	62.6	(9.5)	57.8
Realisations and repayments	(13.1)	(10.0)	3.0	(20.1)
Conversions	0.1	(3.6)	3.5	–
Write downs	–	–	(20.9)	(20.9)
Exchange differences	(0.5)	(2.2)	(10.0)	(12.7)
At 31 December 2003	**27.3**	**236.4**	**164.3**	**428.0**
Net book value at 31 December 2003	**110.0**	**238.3**	**224.9**	**573.2**
Net book value at 1 January 2003	122.7	276.7	297.4	696.8

The market value of listed investments at 31 December 2003 was £215.5m (2002: £148.2m).

(b) Joint ventures and associated undertakings

CDC's share of other joint ventures and associated undertakings' turnover, and other relevant disclosures were as follows:

	Associated undertakings				**Joint ventures**			
			Aureos		**CGU – CDC China Capital Partners**		**CGU – CDC China Investment company**	
	2003 £m	2002 £m	**2003 £m**	2002 £m	**2003 £m**	2002 £m	**2003 £m**	2002 £m
CDC share of turnover	**9.5**	22.4	**2.5**	1.7	**0.8**	0.8	**0.2**	0.2
CDC share of operating profit			**(0.3)**	(0.4)	**0.3**	0.2	**(0.6)**	(0.6)
Gross assets			**2.2**	6.2	**1.4**	1.5	**7.2**	12.9
Liabilities			**(1.6)**	(4.8)	**(0.2)**	(0.4)	**–**	(0.8)
Net assets			**0.6**	1.4	**1.2**	1.1	**7.2**	12.1
CDC share of net assets			**0.3**	0.7	**0.6**	0.5	**3.6**	6.0

CDC acquired a 51% stake in Tatepa Tea in June 2002. CDC holds two out of nine board seats and does not exercise dominant influence; the investment has therefore been equity accounted as an associated undertaking. CDC's share of operating results and net assets of this company for 2003 was as follows:

	2003 £m	2002 £m
Share of turnover	**3.8**	1.8
Share of operating profit	**0.4**	0.2
Share of net assets	**1.0**	1.2

11. Investments continued

(c) Acquisitions

During the year, the Group acquired the following companies which were accounted for as acquisitions:

	Country	Date	Consideration £m	Percentage acquired
El Rashidi El Mizan	Egypt	January 2003	4.4	65%
Kelvin Power	South Africa	March 2003	18.8	95%
DFCU	Uganda	April 2003	3.6	60%*
Songas Group	Tanzania	April 2003	55.8	54%
Capital Properties	Tanzania	April 2003	2.5	60%
Lenco	South Africa	December 2003	2.4	58%
Haripur/Meghnaghat	Bangladesh	December 2003	84.9	100%

	El Rashidi El Mizan £m	Kelvin Power £m	DFCU £m	Songas Group £m	Capital Properties £m	Lenco £m	Haripur/ Meghnaghat £m	**Total £m**
The net assets acquired were as follows:								
Intangible fixed assets	–	–	0.5	–	–	–	23.5	**24.0**
Tangible fixed assets	5.5	43.5	6.6	103.4	7.0	19.1	218.7	**403.8**
Fixed asset investments	–	–	0.5	–	–	3.8	–	**4.3**
Other current assets	1.0	19.5	39.1	71.7	1.6	15.6	24.1	**172.6**
Cash at bank and in hand	2.5	4.6	17.7	0.2	0.1	6.2	29.7	**61.0**
Current liabilities	(4.4)	(3.9)	(31.2)	(77.0)	(3.2)	(27.8)	(21.9)	**(169.4)**
Long term liabilities	(0.3)	(45.9)	(21.5)	(34.8)	(2.5)	(5.8)	(183.7)	**(294.5)**
Total net assets	4.3	17.8	11.7	63.5	3.0	11.1	90.4	**201.8**
Minority interest	1.5	0.1	4.7	2.7**	1.2	4.6	–	**14.8**
Net assets acquired	2.8	17.7	7.0	60.8	1.8	6.5	90.4	**187.0**
Cash consideration	4.4	18.8	3.6	55.8	2.5	2.4	84.9	**172.4**
Goodwill	**1.6**	**1.1**	**(3.4)**	**(5.0)**	**0.7**	**(4.1)**	**(5.5)**	**(14.6)**

* 35% acquired in prior years for £1.7m; 25% acquired in 2003 for £1.9m
** 46% of a net asset base of £5.8m of Songas Ltd

NOTES TO THE ACCOUNTS CONTINUED

11. Investments continued

The following table sets out the book values of the identifiable assets and liabilities acquired in substantial acquisitions and their fair value to the Group:

	Songas Group			Haripur/Meghnaghat		
	Book value £m	Expense plant commissioning costs £m	Fair value to Group £m	Book value £m	Mark swaps to market £m	Fair value to Group £m
Fixed assets:						
Intangible	–	–	–	23.5	–	23.5
Tangible	103.5	(0.1)	103.4	218.7	–	218.7
Current assets:						
Stock	–	–	–	9.6	–	9.6
Debtors	71.7	–	71.7	14.5	–	14.5
Cash at bank and in hand	0.2	–	0.2	29.7	–	29.7
Total assets	**175.4**	**(0.1)**	**175.3**	**296.0**	**–**	**296.0**
Liabilities:						
Loans	(20.5)	–	(20.5)	(165.2)	(26.4)	(191.6)
Trade creditors	(0.5)	–	(0.5)	(7.8)	–	(7.8)
Other creditors	(90.8)	–	(90.8)	(6.2)	–	(6.2)
Total liabilities	(111.8)	–	(111.8)	(179.2)	(26.4)	(205.6)
Net assets	**63.6**	**(0.1)**	**63.5**	**116.8**	**(26.4)**	**90.4**
Minority interest			(2.7)			–
Negative goodwill			(5.0)			(5.5)
			55.8			**84.9**
Satisfied by:						
Cash			**55.8**			**84.9**

The fair value adjustment regarding Haripur/Meghnaghat consists of mark to market of loan swaps. These fair values are provisional owing to the valuation exercise at the date of acquisition being ongoing. The fair value adjustment regarding Songas relates to plant commissioning costs which were capitalised before the contract date.

Haripur/Meghnaghat recorded a loss after taxation and minority interests of £9.6m in the year ended 31 December 2003 (2002: £6.4m), of which £5.2m arose in the period from 1 January 2003 to the date of acquisition. The summarised profit and loss account for the period from 1 January 2003 to the date of acquisition, shown on the basis of Haripur/Meghnaghat's accounting policies prior to the acquisition, is shown below.

Songas Group profit after taxation and minority interest was earned once the first part of the plant became operational which was post-acquisition by the Group.

	Haripur/ Meghnaghat £m
Profit and loss account	
Power generation income	66.7
Cost of sales	(39.1)
Gross profit	**27.6**
Administrative expenses	(8.9)
Net interest payable	(23.9)
Loss before tax	**(5.2)**
Tax	–
Loss after tax	**(5.2)**
Minority interest	–
Loss for the financial period	**(5.2)**

11. Investments continued

(d) Company fixed asset investments

	Subsidiary undertakings £m	Associated undertakings £m	Listed equity £m	Unlisted equity £m	Loans £m	Total £m
Cost						
At 1 January 2003	648.5	10.4	36.8	148.2	390.3	1,234.2
Additions	195.6	0.4	–	12.6	25.4	234.0
Realisations and repayments	(18.3)	(1.6)	(10.0)	(18.9)	(92.7)	(141.5)
Transfers and conversions	1.7	–	–	5.8	(7.5)	–
Write downs	–	–	–	–	(11.3)	(11.3)
Exchange differences	(3.6)	–	–	–	(3.2)	(6.8)
At 31 December 2003	**823.9**	**9.2**	**26.8**	**147.7**	**301.0**	**1,308.6**
Provisions						
At 1 January 2003	242.9	5.3	24.4	72.8	155.3	500.7
Provisions charge/(release)	42.5	0.4	1.6	9.1	(25.2)	28.4
Realisations	(3.6)	(0.2)	(4.9)	(3.8)	3.1	(9.4)
Transfers and conversions	–	–	–	(3.5)	3.5	–
Write downs	–	–	–	–	(11.3)	(11.3)
Exchange differences	–	–	–	–	(7.1)	(7.1)
At 31 December 2003	**281.8**	**5.5**	**21.1**	**74.6**	**118.3**	**501.3**
Net book value at 31 December 2003	**542.1**	**3.7**	**5.7**	**73.1**	**182.7**	**807.3**
Net book value at 1 January 2003	405.6	5.1	12.4	75.4	235.0	733.5

Details of principal subsidiaries and associates are disclosed on page 55.

12. Stocks

	Group 2003 £m	Group 2002 £m
Raw materials	**11.6**	8.1
Work in progress	**4.7**	4.3
Finished goods	**20.7**	9.3
	37.0	21.7

13. Debtors

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Trade debtors	**51.1**	41.4	**–**	–
Advances to customers	**30.4**	–	**–**	–
Amounts owed by Group undertakings	**–**	–	**17.7**	15.8
Amounts owed by associated undertakings	**0.5**	0.5	**0.5**	0.5
Other debtors	**13.2**	14.6	**3.8**	1.3
Prepayments and accrued income	**5.3**	10.1	**–**	2.4
Taxation recoverable	**0.5**	0.9	**–**	–
Deferred tax assets (see note 18)	**5.8**	–	**–**	–
	106.8	67.5	**22.0**	20.0
Amounts falling due after one year included above are:				
Advances to customers	**14.5**	–	**–**	–
Other debtors	**0.9**	6.9	**0.2**	0.1
Prepayments and accrued income	**1.8**	0.7	**–**	–
	17.2	7.6	**0.2**	0.1

NOTES TO THE ACCOUNTS CONTINUED

14. Creditors: amounts due within one year	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Short term borrowings				
Other loans	**65.7**	26.5	**–**	–
Bank overdrafts	**10.6**	11.9	**–**	1.1
Obligations under finance leases and hire purchase contracts	**–**	0.1	**–**	–
	76.3	38.5	**–**	1.1
Other creditors				
Trade creditors	**31.5**	10.8	**0.1**	0.1
Deposits due to customers	**22.1**	–	**–**	–
Amounts owed to Group companies	**–**	–	**77.5**	53.9
Amounts owed to associated undertakings	**–**	0.3	**–**	–
Corporation tax	**27.1**	43.0	**26.3**	42.6
Other taxes and social security	**1.8**	1.1	**0.4**	0.3
Other creditors	**14.6**	16.4	**1.5**	2.3
Accruals and deferred income	**38.2**	19.0	**14.6**	10.9
	135.3	90.6	**120.4**	110.1

15. Creditors: amounts falling due after more than one year	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Long term borrowings				
Loans from UK Government	**755.0**	755.0	**755.0**	755.0
Other loans	**362.0**	96.8	**1.5**	2.6
Total loans due after one year (see note 16)	**1,117.0**	851.8	**756.5**	757.6
Other creditors				
Accruals and deferred income	**17.6**	0.8	**–**	–
Deposits due from customers	**0.2**	–	**–**	–
Other creditors	**8.4**	5.2	**–**	0.1
	26.2	6.0	**–**	0.1

16. Loans	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Amounts falling due:				
In one year or less on demand	**65.7**	26.5	**–**	–
Between one and two years	**293.6**	239.0	**259.1**	214.4
Between two and five years	**226.2**	173.1	**135.0**	136.3
In more than five years	**597.2**	439.7	**362.4**	406.9
	1,182.7	878.3	**756.5**	757.6
Less: included in creditors: amounts falling due within one year	**(65.7)**	(26.5)	**–**	–
Total loans due after one year	**1,117.0**	851.8	**756.5**	757.6

16. Loans continued	Group **2003 £m**	Group 2002 £m	Company **2003 £m**	Company 2002 £m
Details of loans not wholly repayable within five years are as follows:				
Sterling				
Department for International Development (UK Government) 0%, payable in half-yearly instalments with final payment due 2023	**360.9**	404.3	**360.9**	404.3
European Investment Bank 0% unsecured debt with repayment linked to realisation of the underlying equity	**1.5**	2.6	**1.5**	2.6
	362.4	406.9	**362.4**	406.9
US dollars				
Government of Tanzania (on-lending arrangement from the World Bank - International Development Association), 7.1% secured, payable in monthly instalments beginning in July 2005 and ending in December 2022	**39.6**	–		
IDCOL loan at 9.0725% secured*, payable in half-yearly instalments over 15 years beginning in 2009	**33.6**	–		
Asian Development Bank loan* fixed at 8.58% by interest rate swap, secured, payable in half-yearly instalments over four years beginning in 2011	**28.0**	–		
Asian Development Bank loan* at 9.83%, secured, payable in half-yearly instalments beginning in 2003 and ending in 2016	**20.8**	–		
IDA Guaranteed Facility loan* fixed at 7.685% by interest rate swap, secured, payable in half-yearly instalments ending in 2015	**17.1**	–		
8.75% bonds of US$50m repayable in half-yearly instalments with final payment due August 2012	**14.3**	14.6		
Government of Tanzania (on-lending arrangement from the European Investment Bank), 6% secured, payable in monthly instalments beginning in January 2006 and ending in December 2022	**11.0**	–		
IDCOL loan fixed at 8.8% by interest rate swap, secured*, payable in half-yearly instalments beginning in 2003 and ending in 2016	**8.1**	–		
Asian Development Bank loan* fixed at 8.13% by interest rate swap, secured, payable in half-yearly instalments beginning in 2003 and ending in 2015	**7.7**	–		
FMO subordinate debt loan at 2.88% plus performance margin 2.153%, secured*, payable in half-yearly instalments beginning in 2009 and ending in 2018	**4.8**	–		
FMO A loan at 8.21% secured*, payable in half yearly instalments ending in 2013	**3.4**	–		
Asian Development Bank loan* fixed at 8.93% by interest rate swap, secured, payable in half-yearly instalments beginning in 2003 and ending in 2010	**3.0**	–		
European Investment Bank 3% secured by guarantee payable in half-yearly instalments with final payment due 2009	**2.9**	5.7		
PRI Facility loan fixed at 7.49% by interest rate swap, secured*, payable in half-yearly instalments beginning in 2009 and ending in 2015	**1.8**	–		
FMO B loan fixed at 8.21% by interest rate swap, secured*, payable in half-yearly instalments ending in 2013	**1.4**	–		
Basic Energy BVI 9%, secured, payable in half-yearly instalments beginning in 2002 and ending in 2010	**1.3**	2.4		
Independent State of Papua New Guinea, debenture secured by property over project company payable in half-yearly instalments with final repayment due 2011	**0.5**	0.6		
Primary Corporate Holdings Ltd, 0% unsecured	**–**	1.8		
	199.3	25.1		
South African Rand				
Investec Bank (South Africa) 14.37% fixed, secured by a first collateral mortgage bond of ZAR 375m over project company property and a general notarial bond of ZAR 375m over movable assets, payable in half-yearly instalments beginning in 2004 and ending in 2015	**22.4**	–		
	22.4	–		
Other currencies				
National Social Security Fund 12.5%, payable in half-yearly instalments beginning in 2005 and ending in 2012, denominated in Ugandan shillings	**2.2**	–		
National Commercial Bank 10% secured, repayable monthly ending 2012, denominated in East Caribbean dollars	**1.7**	3.5		
DEG, unsecured variable rate, payable half-yearly from 2004 to 2010, denominated in Euros	**–**	3.1		
Others (all of which are under £0.9m individually)	**3.7**	1.1		
	7.6	7.7		
Total loans not wholly repayable within five years before financial derivatives	**591.7**	439.7		
Interest rate swap derivatives	**5.5**	–		
Total loans not wholly repayable within five years after financial derivatives	**597.2**	439.7	**362.4**	406.9

* The loans are secured by project companies' tangible and intangible assets including leasehold and freehold lands, plant and machinery, company's bank accounts and any benefit arising out of existing and future projects.

NOTES TO THE ACCOUNTS CONTINUED

17. Obligations under operating leases	2003 £m	Group 2002 £m
Annual commitments under non-cancellable operating leases are as follows:		
Land and buildings operating leases which expire:		
Within one year	**0.4**	0.9
Within one to two years	**0.6**	0.2
In two to five years	**2.2**	0.8
In more than five years	**0.6**	1.0
	3.8	2.9
Other operating leases which expire:		
Within one year	**0.4**	0.3
Within one to two years	**0.3**	0.1
In two to five years	**0.3**	0.2
In more than five years	**0.1**	–
	1.1	0.6

18. Provisions for liabilities and charges	Pensions £m	Deferred taxation £m	Other £m	Group Total £m
At 1 January 2003	0.3	5.9	2.5	8.7
Arising in the year	2.9	1.6	0.1	4.6
Utilised	(2.7)	–	(0.1)	(2.8)
Acquired subsidiary	0.2	–	1.1	1.3
Exchange differences	–	0.6	–	0.6
At 31 December 2003	**0.7**	**8.1**	**3.6**	**12.4**

	Pensions £m	Deferred taxation £m	Other £m	Company Total £m
At 1 January 2003	0.3	–	2.5	2.8
Arising in the year	2.7	–	–	2.7
Utilised	(2.7)	–	–	(2.7)
At 31 December 2003	**0.3**	**–**	**2.5**	**2.8**

Other provisions primarily relate to guarantees given by CDC Group plc against subsidiaries and warranties given on disposals in prior years.

The pension provision relates to two small overseas schemes.

18. Provisions for liabilities and charges continued

The deferred tax balance in the Group is made up of:	Group 2003 £m	Group 2002 £m
Accelerated capital allowances	**3.8**	2.6
Other timing differences	**(1.5)**	3.3
	2.3	5.9

This is represented by:	2003 £m	2002 £m
Deferred tax assets (see note 13)	**(5.8)**	–
Deferred tax liabilities	**8.1**	5.9
	2.3	5.9

The company had in 2002 an unrecognised deferred tax asset made up of:	Company 2003 £m	Company 2002 £m
Accelerated capital allowances	**–**	(0.5)
Other timing differences	**–**	(2.6)
	–	(3.1)

No deferred tax asset or liability arises because of the Company's exemption from UK corporation tax (see note 6(c)).

19. Financial instruments

An explanation of the Group's objectives, policies and strategies for the role of derivatives and other financial instruments in managing the risks of the Group can be found in the Financial review on page 19. The following information is provided in accordance with FRS 13 'Derivatives and Other Financial Instruments: Disclosures'. The disclosures below exclude short term debtors and creditors, except for the currency exposure table.

CDC's principal financial assets (as defined in FRS 13) comprise cash, short term deposits and loan and equity investments. For the purposes of this note, the disclosure on financial assets has been split between these asset classes in order to give more meaningful information. Financial liabilities comprise overdrafts and loans. The benchmark rate for floating rate assets and liabilities is based on one week to six month LIBOR rates.

Interest rate exposures	Floating rate £m	No interest* £m	Total £m
2003 Financial assets: Cash and short term deposits			
Sterling	163.9	0.6	164.5
US dollars	73.6	3.0	76.6
Other currencies	39.7	1.9	41.6
Total	277.2	5.5	282.7
2002 Financial assets: Cash and short term deposits			
Sterling	242.6	0.1	242.7
US dollars	36.9	0.4	37.3
Other currencies	11.5	2.9	14.4
Total	291.0	3.4	294.4

* The Group's no interest cash and short term deposits are repayable on demand.

NOTES TO THE ACCOUNTS CONTINUED

19. Financial instruments continued

	Floating rate £m	Fixed rate £m	No interest £m	Total £m	Fixed rate weighted average interest rate %	Fixed rate weighted period to full maturity Years	No interest maximum period to full maturity Years
2003 Financial assets: Loan portfolio							
Sterling	1.9	62.2	–	64.1	10.8	1.6	–
US dollars	26.0	226.4	35.0	287.4	8.8	3.1	2.6
Other currencies	3.3	28.3	6.1	37.7	7.9	4.4	2.3
Total	31.2	316.9	41.1	389.2	9.1	2.9	2.6
2002 Financial assets: Loan portfolio							
Sterling	1.9	94.5	–	96.4	10.8	2.5	–
US dollars	34.3	307.0	23.3	364.6	9.9	3.8	3.9
Other currencies	2.8	13.1	20.2	36.1	6.0	4.0	3.7
Total	39.0	414.6	43.5	497.1	10.1	3.0	3.8
2003 Financial liabilities*							
Sterling	3.8	16.3	756.5	776.6	3.5	5.9	7.0
US dollars	70.3	258.6	1.3	330.2	8.2	13.1	3.0
Euros	–	2.6	1.0	3.6	6.0	5.0	5.0
Rand	16.3	29.5	2.2	48.0	14.4	12.0	1.5
Other currencies	8.7	22.6	3.6	34.9	10.0	4.4	10.0
Total	99.1	329.6	764.6	1,193.3	8.6	12.0	7.0

* All interest rate swaps have been included in the table.

	Floating rate £m	Fixed rate £m	No interest £m	Total £m	Fixed rate weighted average interest rate %	Fixed rate weighted period to full maturity Years	No interest maximum period to full maturity Years
2002 Financial liabilities							
Sterling	3.3	18.8	757.7	779.8	3.6	7.0	7.0
US dollars	41.3	42.3	1.8	85.4	8.1	8.7	24.9
Euros	7.8	2.0	–	9.8	6.7	7.9	–
Rand	2.7	–	–	2.7	–	–	–
Other currencies	1.3	9.2	2.1	12.6	9.3	9.3	6.0
Total	56.4	72.3	761.6	890.3	7.0	8.3	7.0

Currency exposures

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

	Net foreign currency monetary assets/(liabilities)				Net foreign currency monetary assets/(liabilities)			
Functional currency	**2003 Sterling £m**	**2003 Dollar £m**	**2003 Other £m**	**2003 Total £m**	2002 Sterling £m	2002 Dollar £m	2002 Other £m	2002 Total £m
Sterling	**–**	**(28.4)**	**(0.2)**	**(28.6)**	–	(9.4)	(0.4)	(9.8)
US dollars	**(0.6)**	**–**	**(15.8)**	**(16.4)**	(0.3)	–	(10.3)	(10.6)
Peruvian new soles	–	**(25.7)**	**–**	**(25.7)**	–	(31.5)	–	(31.5)
Singapore dollars	**–**	**(10.5)**	**–**	**(10.5)**	–	6.8	–	6.8
Malaysian ringgit	**20.3**	**–**	**–**	**20.3**	17.9	0.4	–	18.3
Other currencies	**1.4**	**4.6**	**5.9**	**11.9**	0.9	(1.5)	(1.5)	(2.1)
	21.1	**(60.0)**	**(10.1)**	**(49.0)**	18.5	(35.2)	(12.2)	(28.9)

19. Financial instruments continued

The following table shows the functional currency of the Group's equity investments:

	2003 Listed equity at cost £m	**2003 Unlisted equity at cost £m**	**2003 Investments in associates at cost £m**	**2003 Total £m**	2002 Listed equity at cost £m	2002 Unlisted equity at cost £m	2002 Investments in associates at cost £m	2002 Total £m
US dollars	**–**	**315.7**	**5.8**	**321.5**	–	301.6	19.0	320.6
Indian rupees	**23.3**	**70.8**	**–**	**94.1**	10.1	86.1	–	96.2
Peruvian new soles	**65.6**	**–**	**–**	**65.6**	77.3	–	–	77.3
SA rand	**14.2**	**29.5**	**–**	**43.7**	14.3	25.6	–	39.9
Pakistan rupees	**11.6**	**4.1**	**–**	**15.7**	18.5	4.1	–	22.6
Thai baht	**5.8**	**–**	**–**	**5.8**	16.6	4.6	–	21.2
Swaziland emalangeni	**3.2**	**–**	**–**	**3.2**	3.2	–	–	3.2
Other	**13.6**	**54.6**	**9.0**	**77.2**	18.8	44.3	9.0	72.1
	137.3	**474.7**	**14.8**	**626.8**	158.8	466.3	28.0	653.1

	2003 Total loan investments £m	2002 Total loan investments £m
Maturity profile of financial assets – loan portfolio at cost		
Due within one year	**176.5**	185.4
Due within one to two years	**46.4**	74.1
Due within two to five years	**72.3**	106.0
Due after five years	**94.0**	131.6
	389.2	497.1

Total loan investments consist of loans to associates at cost of £0.5m (2002: £1.5m) and other loans at cost of £388.7m (2002: £495.6m).

	2003 UK Government loan £m	**2003 Other financial liabilities £m**	**2003 Total financial liabilities £m**	2002 UK Government loan £m	2002 Other financial liabilities £m	2002 Total financial liabilities £m
Maturity profile of financial liabilities						
Due within one year	**–**	**76.3**	**76.3**	–	38.5	38.5
Due within one to two years	**259.0**	**34.6**	**293.6**	214.4	24.6	239.0
Due within two to five years	**135.0**	**91.2**	**226.2**	136.3	36.8	173.1
Due after five years	**361.0**	**236.2**	**597.2**	404.3	35.4	439.7
	755.0	**438.3**	**1,193.3**	755.0	135.3	890.3

NOTES TO THE ACCOUNTS CONTINUED

19. Financial instruments continued

Borrowing facilities

The Group's borrowing limit at 31 December 2003 in accordance with the Articles of Association was £2,000m.

Committed but undrawn borrowing facilities	2003 £m	2002 £m
Expiring within one year	95.0	95.9
Expiring within one to two years	4.9	–
Expiring after two years	1.1	4.8
	101.0	100.7

Fair value of financial assets and liabilities

Financial assets

Quoted and unquoted equity investments are included in the balance sheet at cost less provisions. The market value of quoted investments is disclosed in Note 11 and the fair value of equity on a portfolio basis is included in the summary statement of total return on page 15. Due to the nature of the Group's loans and since no liquid market exists for these loans, it has not been possible to estimate a reliable fair value for them. There is no material difference between the fair value and book value of the Group's cash and short term deposits.

Financial liabilities

The majority of the Group's borrowings consist of a Government loan repayable in instalments, with the final instalment falling due in 2023.
A comparison by category of the fair values and book values of the Group's financial liabilities at 31 December was as follows:

	Book value 2003 £m	Fair value 2003 £m	Book value 2002 £m	Fair value 2002 £m
Sterling	(776.6)	(610.6)	(779.8)	(605.1)
US dollars	(330.2)	(339.6)	(85.4)	(91.9)
Other currencies	(86.5)	(92.7)	(25.1)	(23.7)
Total	(1,193.3)	(1,042.9)	(890.3)	(720.7)

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

Derivative financial instruments held to manage foreign currency exposure

The activities of the Group are limited to holding forward foreign exchange contracts (FFECs) to hedge currency exposures. These FFECs have maturities designed to match the exposures they are hedging and the Group holds them to maturity. Exchange gains and losses on the non-sterling loans are offset where appropriate with opposing gains or losses on applicable FFECs. As stated in the accounting policies, discounts and premia on the FFECs are included in income over the life of the contract with the amortised balance included within debtors or creditors. Unrealised gains and losses on FFECs which are attributed to future interest receivable are unrecognised, being deferred until the transaction occurs.

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

	2003 £m	Total unrecognised gains/(losses) £m	2002 £m	Total unrecognised gains/(losses) £m
Recognised profit on revaluation of FFECs	26.3		–	
Recognised (discount)/premia on FFECs	(3.4)		1.1	
Recognised profits relating to FFECs	22.9		1.1	
Unrecognised profit on revaluation of FFECs at year end exchange rates	6.2	6.2	2.3	2.3
Unrecognised discounts on FFECs	(2.6)	(2.6)	(4.4)	(4.4)
Total value to business of FFECs	26.5	3.6	(1.0)	(2.1)
Fair value of FFECs	22.7		(9.9)	
Loss on calculation of fair value of FFECs	(3.8)	(3.8)	(8.9)	(8.9)
Total unrecognised loss		(0.2)		(11.0)

19. Financial instruments continued

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

	Unrecognised profit/(loss) on revaluation of FFECs at year end exchange rate £m	Unrecognised premia/ (discounts) on all FFEC contracts £m	Gain/(loss) on calculation of fair value £m	Total £m
Unrecognised gains/(losses) at 1 January 2003	2.3	(4.4)	(8.9)	(11.0)
Previously unrecognised (gains)/losses relating to hedges recognised in the year	(0.1)	0.9	–	0.8
Revaluation of gain/(loss)	4.0	–	5.1	9.1
Profits in new contracts	–	0.9	–	0.9
Gains/(losses) at 31 December 2003	**6.2**	**(2.6)**	**(3.8)**	**(0.2)**
of which				
Gains/(losses) expected to be included in 2004 income	2.7	(0.7)	(0.8)	1.2
Gains/(losses) expected to be included in 2005 income or later	3.5	(1.9)	(3.0)	(1.4)
	6.2	**(2.6)**	**(3.8)**	**(0.2)**

Fair values of FFECs have been calculated by comparing contracted forward rates to market forward rates taken as at the year end.

Derivative financial instruments held to manage commodity sales price risk

	Book value 2003 £m	**Fair value 2003 £m**	Book value 2002 £m	Fair value 2002 £m
Forwards and options	**–**	**(4.8)**	–	(0.8)

The fair value of the commodity derivatives is calculated based on the market price available for the same contracts at the balance sheet date.

20. Share capital

	2003 £m	2002 £m
Authorised ordinary shares		
100,000,000 ordinary shares of 10p each	**10.0**	10.0
Allotted, called up and fully paid ordinary shares		
100,000,000 ordinary shares of 10p each	**10.0**	10.0

Special preference share

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

21. Reconciliation of movements in shareholders' funds

			Group			**Company**
	Share capital £m	P&L reserves £m	Total reserves £m	Share capital £m	P&L reserves £m	Total reserves £m
At 1 January 2003	10.0	217.0	227.0	10.0	119.3	129.3
Profit for the year	–	8.7	8.7	–	8.6	8.6
Exchange gains and losses	–	(40.1)	(40.1)	–	0.2	0.2
At 31 December 2003	**10.0**	**185.6**	**195.6**	**10.0**	**128.1**	**138.1**

NOTES TO THE ACCOUNTS CONTINUED

22. Notes to the statement of cash flows	2003 £m	2002 £m
(a) Reconciliation of operating profit to net cash inflow from operating activities		
Group operating profit	**59.9**	28.4
Depreciation	**8.6**	28.3
Less: dividends from associates	**(1.3)**	–
Amortisation and write off of goodwill and other intangibles	**2.0**	19.0
Decrease/(increase) in stocks	**0.4**	(5.5)
Decrease in debtors	**21.7**	46.4
Increase in creditors and provisions	**10.7**	4.6
Fundamental restructuring	**(7.7)**	(1.3)
Exchange and other movements	**(8.3)**	(16.5)
Net cash inflow from operating activities	**86.0**	103.4
(b) Returns on investments and servicing of finance		
Interest received	**11.7**	9.6
Interest paid	**(19.8)**	(9.1)
Dividends paid to minority interests	**(2.8)**	(1.6)
Net cash outflow from returns on investments and servicing of finance	**(10.9)**	(1.1)
(c) Capital expenditure and financial investment		
Loan redemptions	**102.5**	119.0
Proceeds from equity realisations	**66.8**	27.1
Payments to acquire fixed assets	**(81.3)**	(25.9)
Payments to acquire intangible fixed assets	**(1.3)**	(2.7)
Proceeds from disposal of fixed assets	**5.8**	5.3
New loan and equity investments	**(81.0)**	(101.2)
Net cash inflow from capital expenditure and financial investment	**11.5**	21.6
(d) Acquisitions and disposals		
Purchase of subsidiary undertakings	**(172.4)**	(56.8)
Cash acquired in subsidiaries	**55.8**	0.5
Overdrafts acquired in subsidiaries	**(4.6)**	–
Purchase of interest in joint venture	**(2.4)**	(4.7)
Sale of subsidiary undertakings	**–**	15.5
Sale of interest in associated undertakings	**1.5**	–
Net cash outflow from acquisitions and disposals	**(122.1)**	(45.5)
(e) Financing		
Issue of share capital to minority interest	**–**	2.3
Redemption of shares by minority interest	**–**	(5.0)
Capital element of finance lease payments	**(0.1)**	(0.1)
Debt due within one year:		
Increase in short term borrowings	**13.0**	2.1
Repayment of short term borrowings	**(8.8)**	(40.5)
Debt due after one year:		
Increase in long term borrowings	**80.0**	59.9
Repayment of long term borrowings	**(28.6)**	(10.1)
Net cash inflow from financing	**55.5**	8.6

22. Notes to the statement of cash flows continued

	At 1 January 2003 £m	Cash flow £m	Acquisitions £m	Other movements £m	Exchange differences £m	**At 31 December 2003 £m**
(f) Analysis of net debt						
Cash at bank and in hand	294.4	(6.7)	5.2	–	(10.2)	**282.7**
Less liquid resources	(263.8)	70.1	(5.2)	–	4.0	**(194.9)**
Overdrafts	(11.9)	1.3	–	–	–	**(10.6)**
Cash per Group cash flow statement	18.7	64.7	–	–	(6.2)	**77.2**
Liquid resources	263.8	(70.1)	5.2	–	(4.0)	**194.9**
Debt due within one year excluding overdrafts	(26.6)	(4.1)	(22.6)	(15.5)	3.1	**(65.7)**
Debt due after one year	(851.8)	(51.4)	(252.9)	15.5	23.6	**(1,117.0)**
Net debt	(595.9)	(60.9)	(270.3)	–	16.5	**(910.6)**

Included within cash per the Group cash flow statement are balances of £26.2m in the books of two subsidiaries, Haripur and Meghnaghat, for which use of monies is restricted under the terms of agreements with their external financiers.

23. Capital commitments

Amounts contracted for but not provided in the accounts amounted to £142.8m (2002: £231.7m) for subscriptions to debentures, loans and shares, including commitments of £19.1m (2002: £98.9m) to subsidiaries.

Subsidiaries had capital commitments of £1.6m (2002: £5.5m).

24. Contingent liabilities

The company has guaranteed the performance of contracts by certain subsidiaries to the extent of £12.7m (2002: £26.3m) and of other companies to the extent of £102.8m (2002: £116.0m).

25. Pension commitments

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

An actuarial valuation of the scheme was carried out at 31 March 2003 by independent consulting actuaries, using the projected unit method. Under the projected unit method, the current service cost will increase as the members of the scheme approach retirement. The next periodic valuation of the scheme is planned for 31 March 2006.

The results of the 31 March 2003 valuation are as follows:

Main assumptions	% per annum
Rate of return of investments	5.8
Salary increases	4.5
Pension increases	
Pre 1 May 1996 joiners (for pension accrued before 1 April 2000)	5.0
Pre 1 May 1996 joiners (for pension accrued after 31 March 2000) and post 30 April 1996 joiners	2.5
Rate of price inflation	2.5

	£m
Market value of scheme's assets	171.4

The value of the scheme's assets was calculated to be 94% of the amount needed to cover the benefits that had accrued to scheme members, after allowing for expected future salary increases and expected future pension increases. Acting on the advice of the actuary, the company has re-started contributing to the scheme in respect of the members of the defined benefit section of the scheme, with effect from 1 April 2003.

Statement of Standard Accounting Practice Number 24 'Accounting for Pension Costs' requires that the costs of providing pensions are recognised over the period benefiting from the employees' services, with any difference between the charge to the profit and loss account and the contributions paid to the scheme being shown as an asset or liability in the balance sheet. The pension cost has been assessed in accordance with the advice of qualified independent actuaries using the projected unit method. Variations in cost have been spread over the estimated average remaining working lifetime of the members of the defined benefit section of the scheme. The total pension cost in respect of the scheme, including the contributions paid in respect of the defined contribution section, was £4.7m (2002: £0.3m). Contributions of £4.2m (2002: nil) were paid to the scheme in respect of the members of the defined benefit section of the scheme during 2003.

NOTES TO THE ACCOUNTS CONTINUED

25. Pension commitments continued

The disclosures required under the transitional arrangements within FRS17 'Retirement Benefits' have been calculated by qualified independent actuaries based on the most recent full actuarial valuation at 31 March 2003 updated to 31 December 2003. The financial assumptions used were:

	As at 31 December 2003 % per annum	As at 31 December 2002 % per annum
Discount rate	**5.40**	5.5
Salary increases	**4.25**	4.0
Pension increases:		
Pre 1 May 1996 joiners (for pension accrued before 1 April 2000)	**5.00**	5.0
Pre 1 May 1996 joiners (for pension accrued after 31 March 2000) and post 30 April 1996 joiners	**2.75**	2.5
Rate of price inflation	**2.75**	2.5

The scheme's assets and the expected rates of return were:

	As at 31 December 2003		As at 31 December 2002	
	Expected rate of return % per annum	**Market value £m**	Expected rate of return % per annum	Market value £m
Equities	**8.40**	**56.1**	8.65	49.9
Bonds	**5.07**	**118.9**	5.10	109.7
Other	**6.54**	**11.7**	6.27	13.5
Total (excluding money purchase assets)		**186.7**		173.1

The following amounts were measured in accordance with the requirements of FRS 17:

	As at 31 December 2003 £m	As at 31 December 2002 £m	As at 31 December 2001 £m
Total market value of the scheme's assets	**186.7**	173.1	192.4
Present value of the scheme's liabilities	**(193.6)**	(171.0)	(165.2)
(Deficit)/surplus in the scheme	**(6.9)**	2.1	27.2
Related deferred tax liability	**–**	(0.6)	(8.2)
Net pension (liability)/asset	**(6.9)**	1.5	19.0

If the above amounts had been recognised in the accounts, the Group's net assets and profit and loss account reserve, would be as follows:

	As at 31 December 2003 £m	As at 31 December 2002 £m	As at 31 December 2001 £m
Net assets as shown in Group balance sheet	**227.6**	253.0	275.9
Pension (liability)/asset	**(6.9)**	1.5	19.0
Net assets including pension (liability)/asset	**220.7**	254.5	294.9
Profit and loss account reserve excluding pension (liability)/asset	**185.6**	217.0	236.3
Pension reserve	**(6.9)**	1.5	19.0
Profit and loss account reserve	**178.7**	218.5	255.3

25. Pension commitments continued

Had FRS 17 been adopted in full, the following amounts would have been included in the financial statements:

Analysis of the amount charged to operating profit	2003 £m	2002 £m
Current service cost – defined benefit section	(2.6)	(2.9)
– defined contribution section	(0.5)	(0.3)

Analysis of the amount credited to other finance income		
Expected return on scheme assets	10.5	13.4
Interest on scheme liabilities	(9.2)	(9.3)
Net credit to other finance income	1.3	4.1
Net (charge)/credit for period	(1.3)	1.2

Analysis of the amount recognised in statement of total recognised gains and losses	£m	£m
Expected return less actual return on scheme assets	(6.3)	25.5
Experience losses/(gains) arising on scheme liabilities	2.7	(2.5)
Changes in assumptions underlying the present value of scheme liabilities	15.5	3.3
Actuarial loss recognised in statement of recognised gains and losses	11.9	26.3

Experience gains and losses	£m	£m
Difference between the expected and actual return on scheme assets	(6.3)	25.5
Percentage of scheme assets at 31 December	3.3%	14.7%
Experience losses/(gains) on scheme liabilities	2.7	(2.5)
Percentage of scheme liabilities at 31 December	1.4%	(1.5)%
Total actuarial loss recognised in statement of total recognised gains and losses	11.9	26.3
Percentage of scheme liabilities at 31 December	6.1%	15.4%

Movement in (deficit)/surplus during the year	£m	£m
Surplus in scheme at beginning of the year	2.1	27.2
Movement in year:		
Current service cost	(2.6)	(2.9)
Contributions paid	4.2	–
Other finance income	1.3	4.1
Actuarial loss	(11.9)	(26.3)
(Deficit)/surplus in scheme at end of the year	(6.9)	2.1

26. Related party transactions

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

In August 2000, the company issued a special debenture of £159.6m to DfID, which was repaid in September 2000 by the transfer of economic interest in £159.6m of public sector loan assets. CDC continues to monitor and administer the assets applied in redemption of the special debenture, for which it receives reimbursement of costs. Cost reimbursement of £3.1m was received during 2003 (2002: £3.9m).

NOTES TO THE ACCOUNTS CONTINUED

26. Related party transactions continued

Robert Hart, managing director of CDC Globeleq, was a member of the CDC Management Committee during part of 2003. He owns a 60% interest in Hart Energy Haina (HEH) and Hart Energy International (HEI). Prior to Mr Hart's appointment to CDC, CDC Group plc and other members of the Group entered into agreements with HEH and HEI in connection with two transactions, Haina and Southern Cone.

Haina

In April 1999, a consortium including CDC retained HEH to manage the acquisition of the Haina power generating assets in the Dominican Republic. As part of its compensation, HEH was granted an option to acquire an interest in the project at par. In support of that option, CDC Haina Mauritius (CDCHM), a wholly owned subsidiary of CDC Group plc, made a loan of US$9.1m to HEH on 28 June 2000. The loan is secured by a 6.7% shareholding in Haina Group Holdings, in which CDC has a holding of 44.7%. Interest is charged at 18% pa but need only be paid once dividends have been received by HEH. Interest continues to accrue, if not paid, until the earlier of having sufficient dividend receipts to cover the interest or 31 December 2004, when CDCHM can call on the security. The loan was due to be repaid on 31 December 2003; no repayment was made on this date and the loan therefore becomes repayable on 31 December 2004 as per the terms of the agreement. Should the loan remain unpaid at 31 December 2004, CDCHM will exercise its security. In 2003, HEH received $US0.6m (2002:US$0.2m) as dividends from Haina Group Holdings and paid 65% of those dividends to CDCHM as required under the loan agreement. HEH is also required to vote its shares as directed by CDCHM. In the books of CDCHM, US$3.6m of interest has been provided against (2002: US$2.6m) and US$6.8m has been provided against the loan (2002: nil).

Southern Cone

In July 2000, CDC Group plc entered into an agreement with HEI to pursue the acquisition of power assets in Latin America. The acquisition, completed in March 2002, was an investment by CDC Group plc in Southern Cone Power (SCP). CDC Group plc acquired 67.9% of SCP for US$69.0m. Under the terms of the July 2000 and subsequent agreements, HEI acquired 1.9% of SCP for a nominal sum of US$100 in consideration for assigning exclusivity rights on the transaction to CDC and for management services surrounding the acquisition.

Transactions with associated undertakings

The following amounts were outstanding from associated undertakings and joint ventures at 31 December 2003:

	2003		2002	
	Loan £m	**Debtors £m**	Loan £m	Debtors £m
Ayojana Fund Pvt Ltd	**0.5**	**–**	1.0	–
Aureos Advisers Limited	**–**	**0.3**	–	0.3
CGU-CDC China Capital Partners Ltd	**–**	**–**	–	0.1
CGU-CDC China Investment Company	**–**	**–**	–	0.1

27. Principal subsidiaries and joint ventures

The principal subsidiaries and joint ventures of the Group at 31 December 2003 and the Group percentage of equity capital are set out below. Those held directly by the company are marked with an asterisk. The company has taken advantage of section 231(5) of the Companies Act in not detailing all subsidiaries due to the length of the disclosure. A complete list of investments in subsidiary and associated undertakings and joint ventures will be attached to the parent company's annual return made to the Registrar of Companies.

Region/Country of incorporation	Company	Class of share	Percentage held by CDC	Principal activities
SUBSIDIARIES				
Africa				
Mauritius	CDC Financial Services (Mauritius) Ltd*	Ordinary	100	Investment holding
		Preference	100	
Mauritius	Pacific Rim Palm Oil Ltd	Ordinary	100	Investment holding
		Preference	100	
Mauritius	Pan Africa Holdings Ltd*	Ordinary	100	Investment holding
Mauritius	Nandi Investments Ltd	Ordinary	100	Private equity fund
South Africa	Lenco Holdings Ltd*	Ordinary	58.4	Plastics manufacturing
Tanzania	Songas Ltd	Common shares	54	Power generation, transmission and distribution
		A shares	100	
		B shares	82.9	
Uganda	DFCU*	Ordinary	60	Financial institution
Zambia	Mpongwe Development Company Ltd*	Ordinary	89.5	Milling and farming
Americas				
Barbados	CDC (Euro) Ltd*	Ordinary	100	Investment holding
Barbados	CDC Holdings (Barbados) Ltd*	Ordinary	100	Investment holding
		Preference	100	
British Virgin Islands	CDC Haina Ltd*	Ordinary	100	Investment holding
Dominica	Dominica Electricity Services Ltd	Ordinary	71.9	Electricity generation, transmission and distribution
Cuba	Caribbean Finance Investment Company Ltd	Ordinary	60	Financial institution
Netherlands Antilles	CDC Capital Partners Netherlands Antilles NV*	Ordinary	100	Investment holding
South America	Southern Cone Power Ltd	Ordinary	67.9	Power generation, transmission and distribution
Asia Pacific				
Malaysia	CDC Holdings Sdn Bhd*	Ordinary	100	Investment holding
Papua New Guinea	Pacific Rim Plantations Ltd	Ordinary	75.7	Oil palm and cocoa cultivation and processing
Solomon Islands	Kolombangara Forest Products Ltd*	Ordinary	82.2	Timber production/processing
South Asia				
Bangladesh	Haripur (Pvt) Ltd	Ordinary	100	Power generation, transmission and distribution
Bangladesh	Meghnaghat (Pvt) Ltd	Ordinary	100	Power generation, transmission and distribution

Region/Country of incorporation	Company	Class of share	Percentage held by CDC	Principal activities
JOINT VENTURES				
Africa				
Mauritius	Aureos Capital Ltd*	Ordinary	50	Private equity fund manager
Asia Pacific				
China	CGU – CDC China Investment Company Ltd	Ordinary	50	Investment holding

TEN LARGEST INVESTMENTS

Investment	Country	Business description
Celtel International (formerly MSI Cellular)	Pan Africa	Africa's second largest GSM operator, in terms of geographic coverage. Celtel is present in 13 African countries – Uganda, Zambia, Gabon, Chad, Congo Brazzaville, DRC, Malawi, Sierra Leone, Tanzania, Niger, Egypt, Sudan and Burkina Faso. Celtel manages over one million customers in Africa.
Haripur and Meghnaghat	Bangladesh	The assets incorporate two combined cycle gas turbine plants, Haripur and Meghnaghat, both located near Dhaka.
Kelvin	South Africa	Kelvin is a 600mw coal-fired power station serving Johannesburg. CDC's investment completes the US$25m refurbishment of the plant, significantly improving environmental performance and enhancing the supply of low price electricity to Johannesburg.
Mozal	Mozambique	The US$1bn Mozal aluminium smelter is Mozambique's largest-ever private sector investment, developed by Alusaf, a division of BHP Billiton plc. The smelter has an annual production capacity of 250,000 tons of primary aluminium ingots. Phase 2 construction, was completed in October 2003.
Pacific Rim Palm Oil (PRPOL)	Indonesia	PRPOL is responsible for the management and operation of oil palm plantations, built up by CDC over a number of years in Indonesia and Papua New Guinea.
Punjab Tractors	India	Punjab Tractors was started by the Punjab State Government in 1970. It is India's most profitable tractor manufacturing company. The company is quoted on the Bombay Stock Exchange.
Songas	Tanzania	The Songas project comprises the construction of a gas processing plant on Songo Songo Island, the laying of a 225 km pipeline from the island to Dar es Salaam and the acquisition and conversion, from oil to gas, of Ubongo power station, a 110mw power plant in Dar es Salaam.
Southern Cone Power	South America	This investment incorporates 24% of Peruvian hydro generator Edegel (1000mw), 25% of Chilean generator San Isidro (380mw) and 7% of Argentine thermoelectric generator Costanera (2300mw).
Trans African Concessions (Pty) Ltd	South Africa	TRAC is a South African business which holds a 30 year concession for the operation and maintenance of the N4 Maputo Corridor Toll Road, which runs 500 km from Witbank (west of Pretoria) in South Africa to Maputo in Mozambique. The corridor is a key driver for the development of the economies of both South Africa and Mozambique.
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 developed an impressive portfolio of corporate and retail banking operations.

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