CDC Group plc
Annual Report and Accounts 2004

Our aim is to attack poverty by generating wealth.

Our target is to make 70% of our investments in the poorest countries* in the world and the remaining 30% in countries which are classified as poor♦.

We also aim for at least 50% of our managed funds to be in sub-Saharan Africa and South Asia. We do not invest in funds which focus on Eastern Europe or Central Asia.

1 Africa
US$770m invested in 16 countries through six funds.

2 South Asia
US$461m invested in India, Pakistan, Bangladesh and Sri Lanka through four funds.

3 Asia Pacific
US$223m invested in eight countries through four funds.

4 Latin America
US$391m invested in 13 countries through four funds.

* Countries where annual income per head is less than US$1,750.
♦ Countries where annual income per head is less than US$9,075.

The Development Process

CDC capital

CDC has assets of £1.2bn (US$2.3bn). Its purpose is to stimulate economic growth by investing successfully in the private sector.

Fund managers

CDC places its capital with fund managers who invest in the emerging markets.

CDC has committed funds to three managers: Actis, Aureos and ShoreCap. It is actively seeking others.

Actis is a global emerging markets private equity investor.

Aureos focuses on SME investment in emerging markets.

ShoreCap invests in microfinance institutions in poor countries.

Investee companies

Fund managers deploy CDC's capital in profitable private sector companies.

Economic growth

Successful companies stimulate economic growth.

Our mission is to generate wealth in emerging markets, particularly in poorer countries, by providing capital for investment in sustainable and responsibly managed private sector businesses.

2004 Highlights

- Increase of 19% in value of assets
- Investments of £200m, of which 70% were in Africa
- Successful realisations in India
- Formal separation of Actis and Aureos from CDC successfully achieved
- First investment in Rwanda
- New commitments, with other investors, to two Actis and one Aureos fund in Asia Pacific

Total return after tax

£200m

(2003: £37m)

Net assets

£1.2bn

(2003: £1.0bn)

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Chairman's Statement

2004 saw the fruition of many years work on the reorganisation of CDC. Actis and Aureos were established as major private equity fund managers in emerging markets and we set CDC up as a specialist investor in emerging markets funds. The new structure, though well tried in the private equity industry in Europe and North America, is a bold departure in development finance and represents a continuation of CDC's long tradition of pioneering innovation. The results will be followed with interest by our peers in the field.

Our mandate remains unaffected. We continue to provide risk capital to private sector businesses in the developing world, particularly the poorest countries. What is different is that we now operate through the medium of fund managers who are local, focused and incentivised. We believe that this is a formula which will lead to successful investment and thereby to the development and growth of the economies where that investment takes place. Actis and Aureos are for the time being the managers of the bulk of our funds, but our aim is to develop the industry as a whole in our area of operation and we are now actively seeking to identify and support other fund managers with the skills to put capital constructively to work.

Although we believe that commercial viability is the ultimate test of good investment, we will continue to require our managers to place high priority on sustainability and good business practices. This is not always easy in countries where enforcement of legislation is unpredictable and standards of corporate governance are low. Nevertheless, we are determined that our managers should rigorously enforce our requirements in this area.

I am pleased with the overall performance of the portfolio in 2004. An increase in our net worth of £200m in the year is very creditable. We are grateful for the skills and hard work of our fund managers, Actis and Aureos, who contributed to this excellent result.

The commercial climate overall in Africa is improving, with deregulation and increased regional business activity. The major beneficiary of these trends has been the telecommunications industry, to which CDC has exposure, so far very positive, through Celtel across Africa and Starcomms in Nigeria. There are also interesting prospects for cross-border consolidation in the financial sector. Several economies are benefiting from higher commodity prices. Nevertheless, overall growth rates remain disappointingly low. East Africa has been affected by drought and the increase in the price of oil. Globeleq's impressive gas-powered Songas facility in Dar es Salaam, which the board visited in November, will do much both to offset the impact

Even within the context of a 57 year history, 2004 was a significant year for CDC.

CDC timeline (key dates and illustrative investments)

1948

Colonial Development Corporation (CDC) set up to develop the resources of Britain's colonies.

1949

CDC acquires Borneo Abaca Ltd (BAL) in Malaysia, which eventually becomes a major producer of palm oil. It also makes its first industrial investment, the construction of a cement plant at Chilanga, in Northern Rhodesia (now Zambia).

1955

CDC generates profit for the first time. It has been profitable in all but three years since.

1963

With most colonies now independent, the organisation is renamed the Commonwealth Development Corporation. Chilanga Cement is nationalised by the Zambian Government.

1969

CDC is given authority to invest outside the Commonwealth.

1992

Establishment of Ghana Venture Capital Fund, the first CDC-sponsored private equity fund to attract third party investors.

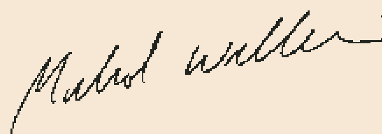
of oil prices on the cost of power in Tanzania and to increase the availability of power in a country where there is undercapacity. South Africa remains a competitive market for private equity but expectations have been dampened by the continued appreciation of the Rand. In West Africa, Nigeria has benefited from the rise in the price of oil and continues to hold huge potential, though governance remains an issue.

Investor interest in Asia picked up in 2004, with upwards of US$5bn being raised. China was a particular magnet, though investment continues to call for a cool nerve and some skill. India, like China, has had another year of good growth, with GDP increasing by 6.9%, but the consequence has been that entry prices have become inflated and sensible deals have been difficult to complete. The focus has therefore been on exits. The same has also applied to Latin America, where there have been some signs of an upturn, but where investor sentiment remains fragile.

With the restructuring of CDC, there have been consequential changes in the membership of the board. The most significant of these is the retirement of Simon Cairns, who resigned as chairman of CDC in July to become chairman of Actis. Simon was the midwife of the new structure and deserves great credit for its successful birth. He was chairman in the tumultuous period from 1995 which saw the announcement by the Prime Minister in 1997 that CDC would become a public private partnership and the careful, difficult and innovative implementation of that pledge.

He has performed an outstanding public service. Richard Laing, previously finance director of CDC, took up the post of chief executive in 2004. He has been a protagonist in the restructuring and has done an excellent job of driving through change in CDC and leading the company during this new and exciting phase. Thanks are also due to Peter Smitham, who has left the CDC board to become chairman of Actis on Simon Cairns's retirement, and Lalith de Mel who served diligently on the board for four years. I would like to welcome Dr Arnab Banerji and Fields Wicker-Miurin to the reconstituted board. Dr Banerji has had a distinguished career in banking and fund management and Ms Wicker-Miurin has extensive experience of private equity and the financial services industry. They will add great value to our deliberations.

Finally, I would like to pay tribute to the patience and dedication of the Secretary of State, Hilary Benn, and his officials in seeing through the tortuous and sometimes tortured process of restructuring our company. It was not easy, but it has been worth it.



Malcolm Williamson
Chairman

1994
The Zambian Government re-privatises Chilanga Cement and CDC purchases a majority stake, the first step in a regional consolidation strategy leading to the formation of Pan African Cement.

1996
BAL is sold to a Malaysian company. The annualised internal rate of return on CDC's investments is 13% over 47 years.

1997
The Prime Minister, Tony Blair, announces that CDC is to become a Public Private Partnership (PPP).

1999
CDC transforms from a statutory corporation to a plc.

2001
CDC sells Pan African Cement, the holding company which includes Chilanga Cement, to an international cement company.

2004
Actis is spun off as a privately controlled fund manager in the emerging markets. CDC begins operating as a fund of funds manager.

Chief Executive's Report

70% of CDC's US$367m new investments were in Africa.

The results of the business this year are good and reflect excellent performance by our fund managers over the last three or four years to improve the quality of our investments.

Asset values have increased by19%. Some of this increase reflects rising markets in Asia, but by no means all of it. Problem areas in the portfolio have been identified and for the most part tackled. Some important and profitable realisations have been achieved, such as the sale of UTI Bank in India, Favorita in Ecuador and Soboce in Bolivia.

A consequence of success in achieving exits has been that our cash has increased. We are working closely with our fund managers, particularly Actis, to find ways of making sure that our resources are deployed when we have reached the right point in the cycle.

US$367m of CDC's assets were deployed by our managers in new investments in 2004, of which 70% were in Africa.

Commitments to Actis

Investments in the regions in which CDC has been active over the last ten years have been grouped in appropriate fund structures, including Actis funds for Africa, South Asia and Latin America. The Actis Energy Fund holds CDC's power investments, the largest of which is Globeleq.

In succession to these funds, we have set up with Actis a series of second generation funds. Most of these had a first closing in July. CDC made US$250m commitments to Actis Africa Fund 2, US$150m to India Fund 2 and US$100m to South Asia Fund 2. There is serious interest in all three funds from other investors.

Around the end of the year, Actis China Fund 2 achieved an initial closing at US$116m, with participation from the Asian Development Bank and the China National Offshore Oil Company, as well as CDC. A new Malaysia Fund was closed in August at US$60m, with participation from the Employees Provident Fund of Malaysia and CDC as a cornerstone investor.

In total we have commitments of US$1,016m to funds managed by Actis.

Commitments to Aureos

Aureos, like Actis, is an offshoot of CDC and CDC is the largest investor in Aureos funds. CDC has commitments to Aureos funds in Central America, West, East and Southern Africa as well as 12 single country funds now in their realisation stage. During the course of 2004, CDC made commitments of US$20m to a new fund in South East Asia and US$5m to its projected South Asia Fund. CDC's total commitments to Aureos funds are currently US$119m.

New fund managers

One measure of our success in promoting growth in the emerging markets will be the impact that we can have on encouraging third party investors to invest alongside us. To that end we are keen to encourage third party investors to participate in funds managed by Actis and Aureos and to promote both existing and new fund managers in our territory. We have therefore set aside a proportion of our capital, relatively small in the first instance, to support fund managers outside the two which we have incubated.

The criteria which we will apply to these managers are that they should either be best of breed in their geography or sector

or should be pioneer managers promoting investment in an innovative way. In the search for best of breed we are in the process of sifting through candidates in Africa and Asia. As far as pioneer managers are concerned, we made a US$4m commitment to ShoreCap in December. This is a fund that specialises in providing equity investment to institutions which make finance available to microfinance businesses in the emerging markets. We are the biggest investor in this fund. We have also made a commitment in principle to a US$20m Afghanistan Reconstruction Fund. This is not an easy proposition, but the requirement for long term funding is urgent and the thesis and presentation is well thought out.

Fund performance

Performance has been good in different ways in our focus markets of Africa and South Asia.

In Africa, the main holding of Actis Africa Fund 1 is in Celtel, where CDC was a very early investor, in 1994, in the company's operations in Uganda. The company has continued to grow and is currently the subject of a bid. We expect this to have a dramatic impact on the performance of the fund. Actis Africa Fund 2 had a good year in Nigeria where it committed US$34m to two large and exciting investments. The three Aureos regional funds each made their first investments.

In South Asia, the Actis team has concentrated on exits. The sale of UTI Bank has proved profitable and demonstrated that first world private equity returns can be made in solid businesses in the emerging markets. We injected three deals into the Actis China Fund 2 at its first closing. These are all doing well and the fund looks promising. The Actis Malaysia Fund has also completed its first deal. The Actis Latin America Fund has successfully exited from three investments and is beginning to build a strong track record. Aureos Central America Fund continues to build a deal pipeline; its portfolio is performing broadly according to plan.

We are fortunate indeed to have in Actis and Aureos the leading fund managers in the countries where our capital is put to work. Staff in both organisations have remained focused on their investment activities – with excellent results. We thank them.

Other development finance institutions

We played an active part in building co-operation with sister institutions in developing the case and methodology for supporting the private sector in the emerging markets. We hosted a conference with the European Bank for Reconstruction and Development in November which addressed the practical and technical issues involved in private equity investment in our markets. We also participated in December in the first transaction undertaken by European Financing Partners, a ground-breaking co-investment vehicle put together with the European Investment Bank and other European development finance institutions.

Funding

As part of the restructuring of CDC, our shareholders agreed to the conversion of £755m of long term loan into equity. This represents a welcome simplification of our balance sheet and an important statement of confidence by the Government in CDC and its future.

Team

CDC's management team has been strengthened by the appointment of two new directors, Anne-Maree Byworth, who joined us from Morley Fund Management and is responsible for our Asian portfolio and Samir Abhyankar, who has taken the role of Risk Management and Strategy Director. Samir was with Marakon Associates, a firm of strategic consultants. Finally, I would like to thank all the staff of CDC, and our colleagues now with Actis, who have shown remarkable resilience and flexibility in adapting to a change of role and location and for their contribution in a busy and pivotal year.

Richard Laing
Chief executive

Our people

Our senior management team (see below) has a broad range of experience. Richard Laing, chief executive, was finance director of De La Rue plc before joining CDC. His career has been significantly associated with the emerging markets. He has held posts in Brazil and Sri Lanka. Godfrey Davies, Rod Evison and Innes Meek have all worked at CDC for 12 years and had prior experience in City institutions in London. Anne-Maree Byworth has worked in the fund of funds segment of the private equity industry for over 10 years. Samir Abhyankar is a graduate of INSEAD and has worked with the World Bank.

Africa

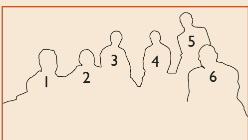
Development in Africa received widespread attention in 2004, though much of it was directed at easing constraints in the public sector rather than generating wealth through the private sector.

CDC has US$770m invested in Africa, managed by Actis and Aureos. Our portfolio increased by US$110m during the year, mainly led by investments in West Africa. Performance in terms of yield, exits, valuation gain and new investments was good. Globeleq, the power company formed by CDC in 2003, had a particularly strong year in Africa, with the acquisition of Sidi Krir in Egypt, the completion of Songas in Tanzania and substantial progress with Umeme in Uganda.

CDC's US$250m commitment to Actis Africa Fund 2 (AAF2) was the largest single commitment by any investor to an African private equity fund in 2004. AAF2 will be investing across the continent, and in 2004 it completed transactions in sectors covering financial services, consumer goods, telecommunications and mining. An exciting investment was the acquisition of a controlling stake in Banque Commerciale du Rwanda, our first exposure in this country. In Nigeria, Actis backed a successful capital raising for the indigenous management team at United Africa Company. The larger transactions were either later-stage expansions or change of control, but two notable early stage mining transactions,in Burkina Faso and Senegal, were also concluded.

The Canadian Government has given clear backing to private equity as an instrument of development in Africa through its US$65m support for the Canada Investment Fund for Africa, which

CDC Management Team



1. Godfrey Davies, chief financial officer
2. Anne-Maree Byworth, portfolio director
3. Richard Laing, chief executive
4. Roderick Evison, portfolio director
5. Samir Abhyankar, strategy and risk director
6. Innes Meek, corporate relations director

will be managed by Actis and Cordiant. CDC is expecting to be an investor in the fund, which will be co-investing alongside AAF2.

CDC increased its commitment to the Aureos West Africa Fund (AWAF) and the Aureos Southern Africa Fund in 2004. Both funds reached their target size of US$50m at final close. Standard Chartered Bank Nigeria, Leadbank Plc and Nordic Development Fund joined AWAF during 2004. Interesting investments were completed by each of the three Aureos African regional funds in 2004, in Kenya, Uganda, Ghana, Nigeria and South Africa, including Fruitpack, a biscuit manufacturer in Ghana, and Tofo, a payphone company in South Africa.

CDC's portfolio of investments in Africa is now managed by Actis. There were follow-on investments in three unique companies during 2004 – Celtel, a pan-African mobile business, The Palms shopping mall in Nigeria and the Accra Mall in Ghana. The remainder of the portfolio continues to perform well, despite the adverse impact of high oil prices.

A priority for 2005 will be to expand our relationships with private equity fund managers in Africa. We aim to invest in up to three new funds in Africa in 2005. Whilst we would like to back a selection of funds targeting a range of transactions (both early stage and later stage), we are faced with the challenge of the high costs inherent in early stage funds in Africa.

South Asia

Regional economies grew strongly in 2004, with stock markets posting record highs. CDC has US$684m invested in South and South East Asia, managed by existing fund managers Actis and Aureos, and new fund manager ShoreCap. Against the backdrop of buoyant equity markets, six Indian portfolio investments were sold for a combined value of three times cost and a gross internal rate of return of 34%. These include the highly successful trade sale of Daksh, a 2000 investment, to IBM, and the strategic acquisition by HSBC of the shareholding in UTI Bank.

There was encouraging news in the remaining portfolio, headlined by the licensing agreement signed between Glenmark Pharmaceuticals of Mumbai and Forest Laboratories of the United States. The fund manager, Actis, has effected a partial exit via the share market, returning the total cost of this investment, whilst retaining most of its shareholding, which is currently valued at many times the acquisition cost. Investment during the year was limited to a follow-on acquisition of shares in Swaraj Mazda Ltd. Nevertheless, Actis reports a full pipeline of potential new deals for 2005. In Sri Lanka, Aureos completed its first investment in its South Asia Fund, namely Dipped Products, a rubber glove manufacturer, early in 2005.

Actis is currently in the process of raising a US$250m country fund dedicated to India and a US$150m regional fund targeting South Asia, including Pakistan, Bangladesh and Sri Lanka. CDC has made commitments of US$150m and US$100m respectively to the India and South Asia Funds and it is expected that sizeable subscriptions will be received from a number of large institutions in 2005. CDC and Norfund also contributed US$5m each to the South Asia Fund managed by Aureos.

In November, Aureos announced the first closing of its inaugural fund for South East Asia, with a total of US$40m provided by Norfund and CDC. A further US$20m will be put to the board of a multilateral agency for ratification, whilst domestic investors GSB of Thailand (US$10m), Planters Bank of the Philippines (US$5m) and Gunung Sewu Kencana of Indonesia (US$5m) have either signed or are expected to

Africa
CDC holds significant agricultural assets in Africa, including forestry, tea, sugar and rubber plantations. This photograph shows a CDC-owned teak plantation in the Southern Highlands of Tanzania.

South Asia
Market conditions in India favoured exits rather than new investment in 2004. But Actis made a series of follow-on acquisitions of shares in Swaraj Mazda, the country's second largest manufacturer of tractors.

do so during the first half of 2005. This leaves Aureos only US$20m short of its target of US$100m (US$70m from international investors and US$30m from domestic investors). It is hopeful of raising the outstanding commitments prior to the end of 2005.

2005 is shaping up to be a busy and exciting year in terms of new fund raisings. Aureos has announced its intention to raise second funds for investment in South Asia and the Pacific respectively, and an inaugural fund for China is also under discussion. Actis is expected to complete fund raisings for India and South Asia. We are also currently reviewing fund managers in India and South East Asia and are confident of completing up to three new fund commitments during 2005.

Asia Pacific

The CGU – CDC China Fund has now reached the end of its investment period. The portfolio consists of investments in North Pole, an outdoor equipment manufacturer, and Meng Niu, a dairy business. North Pole continues to experience difficulties in its operations, but management changes have been effected and the position is under control. Meng Niu has performed very well and is partially exited.

Actis China Fund 2, which had its first closing at US$116m with commitments from CDC, the Asian Development Bank and the China National Offshore Oil Company, has already made three investments. They are all performing to plan.

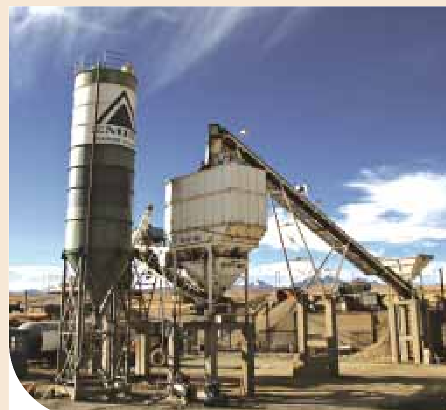
The Actis Malaysia Fund had a closing in July at US$60m, with CDC at US$40m and the Malaysian Employees Provident Fund at US$20m. It made its first investment almost immediately. This is performing well.

The assets of Actis Asia Pacific Fund I consist mainly of a substantial investment in Pacific Rim Palm Oil Limited. The company has performed well with both sales and profits significantly ahead of 2003.

Latin America

The Actis Latin America Fund is in divestment mode. Three successful exits were achieved, from Favorita, a banana producer in Ecuador, Soboce, a cement manufacturer in Bolivia, and Banco Sol, a microfinance bank, also in Bolivia.

Asia Pacific
The Actis China Fund 2 invested in Yu Hua, a leading mobile phone designer based near Beijing, in November. Mobile phone usage in China is growing rapidly and manufacturers have to adapt to an increasingly fashion-conscious market.



Latin America
CDC achieved several successful exits in Latin America, including from Soboce, a cement company in Bolivia. The company has consolidated its position in the market and has made good progress in improving its governance and safety procedures.

Assets

The Actis Assets Fund 1, which holds investments in both debt and equity made by CDC before 2000, had a good year with collections well ahead of target. The main drivers were:

- prepayments, encouraged by the weak dollar and low interest rate environment
- significant equity exits, some of which were made attractive by buoyant stock markets
- US$9m from an insurance settlement for Gold Ridge in the Solomon Islands

Power

CDC's power sector investments are managed by Actis. They are held in Globeleq, an operating power company focused on the emerging markets of Asia, Africa and Latin America. The Globeleq board is chaired by John Baker, the former chief executive of National Power. The management team was strengthened in 2004 by the appointment of Kirk Michael as chief finance officer. Globeleq continues to pursue a strategy of building scale by acquiring controlling stakes in independent power projects. This year it made total investments of approximately US$200m. Key acquisitions included Sidi Krir in Egypt and COBEE in Bolivia, bringing to six the number of businesses in which Globeleq has a controlling interest. Globeleq continues to seek further opportunities and CDC has committed over US$100m of new capital for 2005. Reliable power is a key ingredient for development in emerging economies.

Financial performance has been strong, bolstered by gains on disposals, but adversely affected by a disappointing performance at Kelvin in South Africa. Earnings are expected to improve significantly, driven both by the company's acquisition programme and by improved operational efficiency.

Power

Globeleq, CDC's wholly owned power company, accounts for approximately a third of CDC's balance sheet. One of Globeleq's acquisitions is COBEE which supplies power to La Paz, Bolivia. 90% of its production capacity is dedicated to hydro.

Development Review

On the following pages we showcase five investments made by funds to which CDC has committed capital. They are all investments which we expect to have a significant development impact.

DFCU
Invested US$7m
Date of first investment 1964
Fund Actis Africa Fund 1

DFCU is a financial institution established by CDC and the Government of Uganda in 1964 to provide long term finance to business and retail customers. Since then its product range has expanded to include commercial banking, leasing and mortgage finance. It offers this wide range of banking services, mainly to small and medium-sized enterprises (SMEs). It is headquartered in Kampala, has branches or offices in six towns outside the capital and employs over 200 staff.

In a country where only 5% of the population has access to banking services, DFCU has been an important conduit of finance from development finance institutions to small businesses. Assets have grown on average over 40% annually in the past three years.

Management has been strengthened over the last year. 40% of the company was successfully floated on the Ugandan Securities Exchange in October 2004.

Songas
Invested US$125m
Date of first investment 2001
Fund Actis Energy Fund

Songas is a private power generation company in Tanzania, in which CDC's wholly-owned emerging markets power business, Globeleq, has a 54% interest. Songas operates a power facility at Ubungo, in the suburbs of Dar es Salaam, which was formally inaugurated by the president of Tanzania in October 2004. The facility is supplied by gas from the Songo Songo offshore field through a 225 kilometre pipeline. Songas will generate power to supply the needs of Dar es Salaam for the next 20 years. It will provide the Tanzanian economy with power that is cheap, clean and reliable. In a country which would otherwise have been crippled by the recent rises in the price of oil, power at less than 7 US cents per kw hour, the cheapest rate for thermal power in East Africa, is a boon. The government estimates that Songas will save Tanzania at least US$50m a year in foreign exchange.

CDC made Songas happen. The project took over 20 years from inception to realisation and many organisations played vital parts, including Trans-Canada Pipelines, AES and perhaps most of all the World Bank and the Government of Tanzania and its agencies. But the project was not finally realised until CDC, through Globeleq, bought AES's stake in Songas, completed construction and then put the plant into operation. This is an excellent example of co-operation between publicly funded and private sector entities.

DFCU Bank
DFCU provides finance to private schools in Uganda for projects ranging from new school buildings and equipment to school buses. In 2004, it provided funding to Hilton High School, whose headmaster is pictured below, to build laboratories, dormitories and classrooms. Hilton is a mixed day and boarding school in Kampala.

CDC's funds are invested in some 250 companies in 60 countries.

Songas
Songas procures its gas supplies from a large gasfield, some 200 kilometres south of Dar es Salaam. The gasfield is near Songo Songo island off the coast of Tanzania.

Development Review
continued

Avance
Invested US$4m
Date of first investment 2004
Fund Aureos Central America Fund

Avance is the leading builder of middle-income housing developments in El Salvador. Over the past 22 years, Avance has developed 31 estates and sold 3,850 single-family homes. It is in the process of developing five new estates in San Salvador and one in Santa Ana. It has ambitions to develop a regional franchise in Central America, building on its reputation for quality and efficient project development.

There is a housing shortage in El Salvador – some 350,000 new houses will be needed over the next 10 years. The authorities are keen that this shortage should be addressed in a planned and orderly way, an objective which Avance's programme will help meet. The Avance projects offer attractive, affordable, safe housing, with plenty of green areas throughout. The company created 670 new jobs in 2004.

Aureos has assisted Avance in improving its corporate governance, lowering its financial costs and strengthening its balance sheet. Information management and reporting has been a particular area of focus.

Wolfberry Wines
Invested US$10m
Date of first investment 2004
Fund Actis China Fund 2

China Wolfberry manufactures and markets wolfberry wine under the Ning Xia Hong brand. It is the leader in this niche market and is one of China's fastest growing beverage companies, with sales increasing by 52% in 2004. Products are sold mainly to supermarkets in China, such as Wal-Mart, Carrefour, Lianhua and Home World.

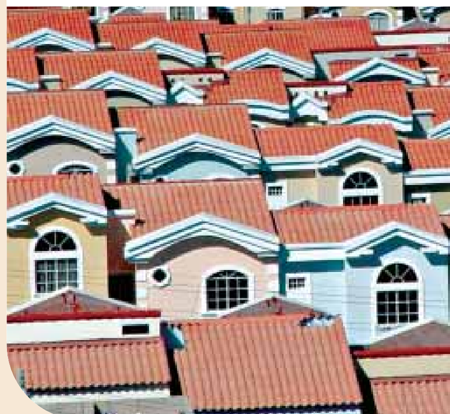
The company's base is in remote north west China. Wolfberry is a plant which the Chinese associate with health benefits – it contains more beta-carotine than carrots and as much vitamin C as oranges. The company has created over 1,000 new jobs directly over the last three years and 100,000 indirectly – management estimates that the company's business has raised annual income levels by more than US$100 in over 50,000 households in the region.

Actis has worked with the company to clarify its business strategy and restructure and strengthen its management team. It has also initiated improvements in management practice, corporate governance and financial discipline, which have brought the company in line with international best practice. This investment was warehoused by CDC on behalf of Actis's China Fund 2.

South Asia Gateway Terminal (SAGT)
Invested US$13m
Date of first investment 1999
Fund Actis South Asia Fund 1

SAGT is a modern container handling facility in Colombo, Sri Lanka. The terminal operates round the clock and has a capacity of 1 million tonne

Avance
Avance Inginieros builds estates for middle income earners in El Salvador. Corinto is a housing estate in San Salvador. House prices average US$55,000.



Wolfberry Wines
Wolfberries grow in Ning Xia province in China's north west. Fruit is picked manually before being processed at the company's plant in Zhong Ning. Wolfberry Wines is an important income generator in a poor region of China.

South Asia Gateway Terminals (SAGT)
SAGT uses state-of-the-art technology and employs a highly trained workforce, which together provide rapid, reliable and efficient port terminal services. The Terminal was closed for 24 hours after the catastrophic tsunami struck Sri Lanka on 26 December, but was back in operation by 27 December.

The Palms Shopping Centre, Lagos
The Palms shopping mall is under construction on Victoria Island in the heart of Lagos. The mall will provide modern retail facilities for a catchment area of half a million people.

equivalent units (teus). SAGT has transformed the performance of Colombo port. Waiting times have been reduced from three days in 1999 to approximately two and a half hours and productivity is now on a par with Singapore. Total throughput has increased by 28% from 1.7m to 2.2m teus and Colombo has become a key transhipment hub.

CDC was an early stage investor in the upgrading of the terminal's facilities when SAGT took over the management and operation of the Queen Elizabeth Quay of the Port of Colombo, which was privatised in a 30 year concession in 1999.

The Palms Shopping Centre, Lagos

Invested US$40m
Date of first investment 2004
Fund Actis Africa Fund 1

The Palms is a 20,000 square metre retail development on Victoria Island, in the centre of Lagos. It is the largest development of its kind in West Africa and the first in Nigeria. When complete (scheduled for Christmas 2005) it will provide space for over 60 retail outlets and parking for more than 600 cars. The facilities will also include a 5 screen multiplex cinema.

The Palms is being built in joint venture with a Nigerian developer, Mr Tayo Amusan. Mr Amusan has undertaken other projects in Lagos, though none as large as The Palms. CDC, through Actis Africa Fund 1, has provided a significant portion of the equity and has underwritten debt in the project in order to provide a more attractive platform for bank finance. By virtue of CDC's track record in other retail developments in Soweto, Lusaka and Nairobi, Actis has been able to attract a number of high quality tenants to The Palms, including Shoprite and Massmart (Game), two of South Africa's leading retail chains, and Nu Metro Theatres, a multiplex cinema operator, again from South Africa.

Formal retail facilities provide a much needed amenity in urban Africa. They also deliver an important development impact in professionalising the supply chain by stimulating demand and raising quality standards. The Palms is a landmark project in Nigeria and received a foreign direct investment award from fDI magazine – part of the FT Group of companies.

Business Principles

Tanwat
Tanwat, which has been a CDC investment since 1948, has instituted an extensive programme of education on AIDS for its workers and local families. Here, a group of actors perform an educational role-playing exercise in a village near Tanwat.

All CDC's investments are underpinned by its commitment to a set of business principles. These include 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. We require our fund managers to ensure that any business in which CDC funds are invested is committed to international good practice in these areas and that any shortfalls are addressed through an action plan.

The emerging markets are still 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. In addition, official and public pressure to improve regulation and performance in these areas are not as strong as in more developed economies. CDC has reinforced efforts to apply principles of responsible investment in poor countries, and requires its managers to engage with companies to encourage them to adopt higher standards.

Two examples, both taken from Tanzania, illustrate the way CDC seeks to combine social, environmental and economic sustainability.

The CDC-owned and Actis-managed Tanganyika Wattle Company (Tanwat), which owns and operates a 15,000 hectare forestry estate in the Southern Highlands of Tanzania, has over the last four years developed a programme which focuses on AIDS prevention for its employees and the population of the 17 villages surrounding the estate. The programme seeks to educate staff, their families and friends about AIDS, through the dissemination of free magazines, role-playing exercises and classes.

The programme has trained over 120 Peer Health Educators, operating within the company and surrounding villages, who undertake the task of disseminating information on AIDS and implementing programmes to limit its spread. Voluntary counselling and testing is available on a confidential basis for all employees and families and for non-Tanwat employees from the villages and associated companies. The number of people tested for HIV from 2000 to 2003 was 401 with a positive rate of 46%. Tanwat has established an AIDS Prevention Planning Committee (APPC), which monitors all preventative activities and regularly evaluates the impact of the programme. APPC includes key people of both sexes representing all facets of the company, including union representatives.

In the same area of Tanzania, another company which is 77% owned by CDC and 23% by Finnfund and managed by Actis, the Kilombero Valley Teak Company (KVTC) has developed an environmental management system designed to protect the unique ecosystem within the 28,000 hectares which it manages. It has undertaken base line studies on a number of areas relating to the flora, fauna, hydrology and social make-up of the region. It has worked with research organisations in Freiberg University of Germany and the Sokoine University in Morogoro, Tanzania.

Management identified the need to maintain biodiversity and protect all areas of high forest. Accordingly teak was planted in a mosaic form within the environment of miombo woodland and care was taken to protect all evergreen forests and a set of management criteria adopted to maintain the bio-diversity of the area. These included restrictions on the size of plantings, use of buffer zones for biodiversity conservation and animal

CDC has reinforced efforts to apply principles of responsible investment in poor countries, and requires its managers to engage with companies to encourage them to adopt higher standards.

Kilombero Valley Teak Company
The presence of amphibians is a good indicator of water quality and therefore of a healthy environment. The grey tree frog (Chiromantis xerampelina) is abundant in forest plantations of the Kilombero Valley Teak Company in southern Tanzania, which is managed by Actis on behalf of CDC.

refuge, preservation of high forest area and refraining from planting on steep slopes. KVTC's planting programme protects a set-aside area of 50% of its total area for miombo woodland.

The company achieved ISO 14001 accreditation in 2004, the first forestry company in East Africa to do so. It hopes to obtain Forest Stewardship Council accreditation within the next two years.

KVTC is developing a management system, in conjunction with Sokoine University, which will allow sustainable off-take from the miombo woodlands. This system is being designed so that it can be rolled out to neighbouring villages, thereby stimulating the local economy and addressing poverty alleviation. It has also funded a land use plan for five villages in the Kilombero Valley and instituted a series of workshops to promote best practice in environmental management amongst the local population. This has been buttressed by an economic empowerment programme set up in 2000. The programme assisted company employees to establish and manage their own businesses to service KVTC. This was one of the initiatives which the company undertook to develop the local economy in an area where very little had previously been done to stimulate activity. The programme has produced several successful businessmen who have personally invested in forest-related businesses and other service companies.

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 Report. Secondly, in order to explain more fully our investment activities, we have valued all our investments, including subsidiaries and associates, and used the results of this valuation in a statement of total return and a summarised balance sheet. These valuation results are shown on page 17. Ernst and Young LLP have examined these statements and their report is also shown.

Highlights

Highlights of 2004 included:

- portfolio return, before costs, of 21% (2003: 11%)
- portfolio return in US$ was 22% which matches the MSCI Emerging Markets index
- realised profit on exits of £35m (2003: £13m)
- £99m of unrealised valuation gains (2003: £4m loss)
- total return after tax of £200m or 19% (2003: £37m)
- new investments during the year of £200m (2003: £261m)
- rolling 5 year 70% new investment target for poorer countries exceeded at 77%
- rolling 5 year 50% target for sub Saharan Africa and South Asia exceeded at 54%
- portfolio generated £323m of cash (2003: £195m)
- £317m of net cash held at year-end (2003: £198m)

During the year, the CDC portfolio moved as below:

	Actis managed funds	Aureos managed funds	Total £m
At start of year	875.7	12.9	888.6
New investments	194.1	6.1	200.2
Realisations	(223.9)	(1.5)	(225.4)
Unrealised gains/(losses)	100.6	(2.0)	98.6
At end of year	**946.5**	**15.5**	**962.0**

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

	2004 £m	2003 £m
Revenue account		
Portfolio yield	**52.0**	68.5
Fees paid and operating costs	**(30.8)**	(37.0)
Exceptional items	**(3.3)**	(7.6)
Interest and other items	**25.8**	12.2
Revenue before tax	**43.7**	36.1
Capital account		
Net realised profits over opening valuation	**34.5**	13.3
Unrealised value movements	**98.6**	(4.3)
Capital return before tax	**133.1**	9.0
Total return before tax	**176.8**	45.1
Tax	**23.4**	(8.3)
Total return after tax	**200.2**	36.8
Summarised balance sheet on a valuation basis (at 31 December)		
Portfolio	**962.0**	888.6
Net cash	**317.2**	198.3
Other net liabilities	**(31.8)**	(39.7)
	1,247.4	1,047.2
Loans from Government	**–**	(755.0)
Total net assets on a valuation basis	**1,247.4**	292.2

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

We have examined the summary statement of total return for the year ended 31 December 2004 and the summarised balance sheet on a valuation basis as at 31 December 2004 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 page 19.

Our opinion is based on examination, on a test basis, of the fair value of investments held by the company as at 31 December 2004 and the movements in these fair values for the year then ended.

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
22 March 2005

Financial Review
continued

Performance

Portfolio

The portfolio which grew by a net 8.3% from £888.6m to £962.0m operates as a number of funds:

- funds in Africa, South Asia, Power, China, Malaysia, Assets (mainly investments made by CDC before 2000), Latin America and Asia Pacific managed by Actis
- funds for small and medium enterprises managed by Aureos

New investments

Although CDC no longer makes direct investments, instead investing in managed funds, we do look through the funds to the underlying fund new investments to measure our new investment targets. New investments at £200.2m (2003: £260.6m) were lower than last year from Power and South Asia funds. With 77% in poor countries and 54% in sub Saharan Africa and South Asia the rolling five year targets were exceeded.

Realisations

For the second year running there was a high level of cash generation from realisations at £261.7m (2003: £195.2m) particularly in South Asia (£101.0m) where market movements favoured exits. Normally in our markets there is a relatively longer average holding time of investments compared with private equity businesses in the more developed markets. The three largest realisations by our funds were UTI Bank India, St Lucia Electricity and Mirant Sual power in the Philippines.

Valuation gains and losses

We are now into the sixth year of valuing our portfolio according to our valuation methodology, which follows the European Venture Capital Association (EVCA) guidelines. The methodology is described on page 19. The unrealised gains in the portfolio valuation was £98.6m (2003: loss of £4.3m) almost all of which is from Actis managed funds, with the three largest gains being £42.6m from Assets, £20.5m from Africa and £18.4m from South Asia.

Yield

The portfolio generated £52.0m (2003: £68.5m) of yield from dividends, interest and fees, representing 6% (2003: 8%) of the average portfolio. Some of the recently invested portfolio is low-yielding, as the investments were made with the specific intention of achieving returns through capital gain rather than yield. However, we encourage fund managers to make investments with ongoing yield, including mezzanine capital.

Fees paid and operating costs

The charge for the year of £30.8m is reduced from last years £37.0m due to the revised cost and fee structure following the formation of Actis and the new funds that Actis have raised.

Exceptional items

Exceptional charges of £3.3m represent costs of fundamental restructuring partly offset by a profit of £4.2m on the sale of a building (2003: charge £7.6m).

Interest and other items

The higher than average cash balance in 2004 gave increased deposit interest, which together with exchange gains and the release of some provisions no longer required gave income of £25.8m (2003: £12.2m).

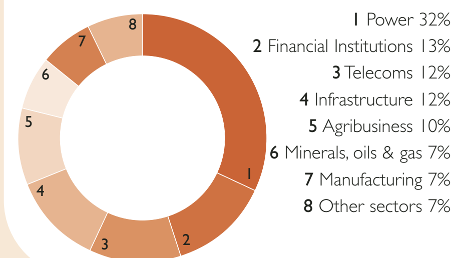
Tax

CDC became UK corporation tax exempt on 1 May 2003. During the year certain tax provisions were released and a tax repayment of £15.4m was received. These resulted in a tax credit of £23.4m (2003: charge £8.3m).

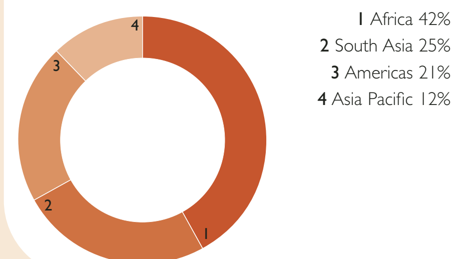
Restructuring

During the year CDC restructured, spinning out its fund management business, together with the majority of staff, into Actis, which is majority owned by its staff with a minority holding by Department for International Development (DFID). The CDC balance sheet was also restructured by converting the interest free government loans to equity.

Portfolio by sector



Portfolio by geographical area



Valuation methodology

CDC equity valuation guidelines have been developed in accordance with the guidance given by the European Venture Capital Association (EVCA). The CDC methodology is:

- funds managed by Actis, Aureos and other fund managers, are valued by using a methodology consistent with that stated below to value their investment portfolio
- quoted equity that is liquid is valued at the quoted market price less a discount. The level of discount reflects the marketability of CDC's larger holdings 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 arms length and are recent
- new unquoted investments are normally valued at cost for one year after acquisition. However, 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. They 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

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

- loss making unquoted equity is valued at cost less a provision
- equities in the power portfolio are valued by discounting cash flows to their net present value
- property companies are valued at revalued net asset value
- provisions are made on loans where problems have emerged

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

- deconsolidating non-investment subsidiaries' turnover, costs, assets and liabilities
- excluding the share of profits of associated companies
- including dividends and interest from subsidiaries and associated companies
- including realised and unrealised valuation gains on all investments
- including investments in subsidiaries and associated companies, arising from the valuation procedures described above

Fund value and commitment At 31 December 2004

	Fund value £m	Outstanding commitment £m
Actis managed funds		
Africa	220.7	150.4
South Asia	72.9	125.2
Power	282.3	–
China	34.5	27.2
Malaysia	4.1	16.6
Assets	210.8	25.3
Latin America	77.6	–
Asia Pacific	43.6	–
	946.5	344.7
Aureos managed funds		
South Asia	0.8	1.7
Central America	1.8	3.2
East Africa	1.0	3.1
South Africa	0.6	7.0
West Africa	2.6	5.3
South East Asia	–	10.4
Pre 2002 country funds	8.7	–
	15.5	30.7
ShoreCap	–	2.1

Financial statements

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

Turnover
Turnover by the consolidated subsidiaries at £327.5m (2003: £171.4m) was higher following the Globeleq power acquisitions.

Investment income
The Group's investment income of £68.4m was slightly up on last year (2003: £65.8m).

Operating profit
Operating profit of £109.3m compares to £60.0m for 2003. The much improved performance mainly reflects good results from 2003 power acquisitions and higher profits in the palm oil business and other operating subsidiaries.

Exceptional items
A charge of £3.3m from costs of fundamental restructuring compares to a charge last year of £7.6m. However, costs have been offset by a £4.2m profit on the sale of property in 2004. Fundamental restructuring costs from the reorganisation of CDC and the spin-off of Actis ceased at the end of 2004.

Taxation
The tax credit in 2004 was £16.9m compared with a charge of £12.2m in 2003. The provision in the Commonwealth Development Corporation Act 1999 concerning UK corporation tax exemption for CDC was brought into effect on 1 May 2003. However, CDC is still subject to corporate taxes outside the UK.

Total recognised gains and losses
Total recognised gains and losses since the last Annual Report were £168.6m compared to a loss of £31.4m for 2003.

The increased level of performance mainly reflects investment provision releases this year compared with charges last year, coupled with successful realisations and better performance by operating subsidiaries.

Cashflow
Cash inflow before use of liquid resources and financing was £142.8m (2003: £60.9m outflow) with higher proceeds from equity realisations, a lower level of investments in new subsidiaries and a tax repayment. The Group's net debt at year end was £158.6m (2003: £910.6m). £755.0m of interest free loans payable to the UK Government were converted to equity on 30 June 2004.

Balance sheet
Group net assets increased from £227.6m to £1,179.4m from the strong performance in 2004 and the conversion of all of the £755.0m UK Government debt to equity.

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 in 2003. A funding review was carried out in August 2004 and £4.4m (2003: £4.2m) was contributed to the scheme giving rise to a prepayment of £2.1m as at the end of 2004 (2003: £nil). Disclosures required under FRS 17 show a deficit of assets over liabilities of £0.6m (2003: £6.9m). Further details are in note 25 to the accounts.

Risk management
CDC's operations are managed within limits defined by the board. There are formal exposure limits for each country and sector in which we invest. The board reserves to itself the approval of commitments to new funds.

Treasury risk management
The main function of CDC's treasury unit is to manage the Group's funds and group 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.

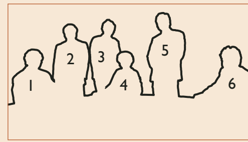
Commodity risk management
Certain subsidiaries within the Group are engaged in the supply of commodities. These subsidiaries choose whether and how to hedge future cash receipts from sales of these commodities following guidelines set out by the parent company. Such hedging is not speculative, and the subsidiaries only sell forward a proportion of the product they expect to physically deliver. In 2004 they have used forward sales and options 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.

International financial reporting standards (IFRS)
CDC intends to report next year's results under IFRS rather than UK GAAP. Audited results for 2004 including opening balance sheet have been collected under IFRS so that IFRS comparatives can be produced in the 2005 accounts.

Godfrey Davies
Chief financial officer

Board of Directors



1. Richard Laing, chief executive
2. Arnab Banerji, non-executive director
3. Jonathan Kydd, non-executive director
4. Fields Wicker-Miurin, non-executive director
5. Malcolm Williamson, chairman
6. Andrew Williams, non-executive director

Richard Laing (51)
Chief executive
Joined CDC in January 2000 as finance director, becoming chief executive in 2004. Previously, he spent 15 years at De La Rue where he held a number of positions both in the UK and overseas, latterly as group finance director. He was a non-executive director of Camelot plc. Prior to this he worked in agribusiness in developing countries and at PricewaterhouseCoopers.

Arnab Banerji (49)
Non-executive director*
Appointed in July 2004. He is the Prime Minister's Economic Adviser having joined 10 Downing Street as a Senior Policy Adviser in October 2001. Prior to this he was investment chairman of the Foreign & Colonial Group, with ultimate responsibility for all investment decisions throughout both developed and emerging markets. In January 1997 he was appointed by the Minister for Trade and Industry to the ECGD Advisory Council, where he served for three and a half years.

Jonathan Kydd (53)
Non-executive director*
Appointed to the board in 1997. Chairman of the business principles and development committee. He is professor of Agricultural Development Economics at Imperial College London and a member of the Advisory Council of ECGD.

Fields Wicker-Miurin (46)
Non-executive director*
Appointed in November 2004. She is a co-founder of Leaders' Quest, an international not-for-profit organisation dedicated to connecting and developing leaders round the world. She is also a non-executive director of the Royal London Group, Carnegie Group and Savills plc. Currently she is on the executive board of the Department of Trade and Industry and chairs its investment committee. She was chief financial officer of the London Stock Exchange from 1994-7.

Malcolm Williamson (66)
Chairman, non-executive director
Appointed chairman in January 2004. Until March 2004, president and chief executive of Visa International. Chairman of Britannic Assurance, main board member National Australia Bank and chairman of their European operation, and board member Group 4 Securicor. 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.

Andrew Williams (53)
Non-executive director
Appointed in July 2003. He is chief executive of SVG Advisers Limited, and an executive director of SVG Capital plc – one of the UK's leading private equity investment companies. He has held a variety of senior posts with Schroders since 1983 and has worked at length in America and Asia.

* Denotes member of audit, compliance and risk committee.

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.

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 fund managers. Pursuant to the investment policy, over any five consecutive financial periods at least 70% of CDC's investments (by cost) are to be made in poorer countries (as defined in the policy); also at least 50% of its new investments are to be in sub-Saharan Africa and South Asia. CDC's record of compliance with the policy is set out in the highlights in the Financial Review on page 16. In pursuit of this mandate, CDC applies certain business principles in the conduct of its business; the Report of the Business Principles and Development Committee can be found on page 14.

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. In July 2004, CDC separated the fund management and the investment functions, with the fund management being looked after by Actis, a newly formed Limited Liability Partnership.

Business review

The Financial Review on pages 16 to 20 reports on the performance of the business for the year and the position as at 31 December 2004.

Results

Total income, consisting of turnover plus investment income, in the Group accounts for 2004 was £395.9m (2003: £237.2m). There was a profit of £213.4m (2003: £8.7m) transferred to reserves. The directors submit their Annual Report together with the audited financial statements for the year ended 31 December 2004, which were approved by the board on 22 March 2005. 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 765,036,042 ordinary shares of £1 and one special rights preference share of £1 in the capital of the company. The remaining one issued ordinary share of £1 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 page 21. Arnab Banerji and Fields Wicker-Miurin were appointed as non-executive directors in July 2004 and November 2004 respectively. Lord Cairns, Peter Smitham, Lalith de Mel, Paul Fletcher, Andrew Reicher and Nicholas Selbie resigned as directors in July 2004. None of the directors at any time during the year ended 31 December 2004, or in the period between that date and 22 March 2005, was interested in any shares or debentures of the company or its subsidiaries. The chief executive is, however, entitled to participate in the long term incentive plan, details of which are set out in the Directors' Remuneration Report on pages 25 to 27.

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 pages 25 to 27.

Corporate governance

CDC supports established best practice in corporate governance and has complied with the Combined Code on corporate governance throughout 2004, so far as is practicable for an unquoted company that 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 and those of its fund managers.

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 that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts
- prepare the financial statements on the going concern basis unless they consider that to be inappropriate

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 four 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 chief executive supplies the board with information that enables it to carry out its duties. Training, where appropriate, is provided to all CDC directors.

All directors have access to the advice and services of the company 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 senior 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 members within the company for other specified matters.

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 Andrew Williams). The directors retiring by rotation at the forthcoming Annual General Meeting are Malcolm Williamson and Arnab Banerji. 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.

Board committees

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

Audit, compliance and risk committee

Comprises three non-executive directors Arnab Banerji (chair), Fields Wicker-Miurin and Jonathan Kydd. The chief executive, chairman and chief financial officer attend by invitation. The committee meets no less than twice 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 and development committee

Comprises four non-executive directors (including the directors nominated by the Secretary of State): Jonathan Kydd (chair), Andrew Williams, Fields Wicker-Miurin and Malcolm Williamson. The chief executive attends by invitation. The committee meets no less than twice a year and additionally as required.

The committee ensures that CDC's business principles are embedded in its operations and those of its fund managers. It also reviews and reports to the board on the continued appropriateness of or change to the business principles.

Remuneration committee

Comprises three non-executive directors: Andrew Williams (chair), Arnab Banerji and Fields Wicker-Miurin. The chairman and chief executive attend by invitation. The committee meets no less than twice a year and additionally as required.

The committee's remit includes determining remuneration packages for the chief executive and senior management and making recommendations to the board on the company's policy on executive remuneration. Details are set out in the Directors' Remuneration Report on pages 25 to 27.

Nomination committee
Comprises four directors, three of whom are non-executives: Malcolm Williamson (chair), Jonathan Kydd, Andrew Williams and Richard Laing. 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).

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 chief executive. Its effectiveness is regularly reviewed by the audit, compliance and risk 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, compliance and risk 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 misstatement 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 page 19 of the Financial Review, is rigorous and effective.

CDC has an outsourced internal audit function, which operates to a programme approved by the audit, compliance and risk 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 management team operates a continuous process, agreed with the audit compliance and risk 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, compliance and risk committee.

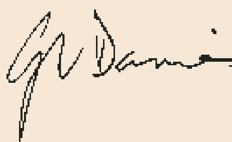
Employees
CDC's policy on employment is one of equal opportunity in the recruitment, training, career development and promotion of employees, whether disabled or otherwise.

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 2004 the company had an average of 10 days' purchases outstanding in trade creditors (2003: 11 days).

Political and charitable contributions
CDC makes no political contributions. CDC made a charitable donation to the Mango Tree Orphan Support Programme in Tanzania of £2,000, in lieu of Christmas cards and US$5,500 to the Ethox Foundation, a UK medical charity.

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



Godfrey Davies
Company secretary
CDC Group plc
On behalf of the board of directors
22 March 2005

Directors' Remuneration Report

Remuneration committee and advisers

The company's remuneration committee makes recommendations to the board on the overall remuneration package for executive directors and other senior executives. The remuneration committee during 2004 comprised:

Period	Members
January to July 2004	Peter Smitham (Chair), Andrew Williams, Malcolm Williamson
July to November 2004	Andrew Williams (Chair), Jonathan Kydd, Malcolm Williamson
November to December 2004	Andrew Williams (Chair), Arnab Banerji, Fields Wicker-Miurin

CDC appointed MM&K Limited 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 that 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 market data derived from appropriate salary surveys, especially those covering the private equity industry, and aims to pay around the median. 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 bonus 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. In addition to this, in 2004, all employees, including those who transferred to Actis, were paid a completion bonus of 20% of their basic salaries. This was in recognition of the additional work involved in bringing the separation of the business to a successful conclusion.

Long term incentive plan (LTIP)

The LTIP provides all employees with the opportunity to share in the growth of the company over the longer term. A new plan was introduced in 2004, backdated to 1 January 2003. The plan was devised, after consultation with DFID, HM Treasury, Government's and CDC's advisers, to match the needs of CDC after the spin-off of Actis. All awards granted under the new LTIP are subject to performance targets set by the remuneration committee. The 2003 and 2004 LTIP awards give the right to receive a cash bonus in the future subject to the rules of the plan and the satisfaction of certain performance targets. The amount of any cash payment depends on the extent to which the performance targets relating to the participant's award have been satisfied at the end of a 36 month performance period which runs from January to December. If performance meets or exceeds the target level set by the remuneration committee for all the performance targets, participants would be entitled to a cash bonus that is capped at a maximum of between 25% and 240% of their basic annual salary at the end of the performance period, depending on seniority.

Payments under the old 2002 LTIP, which was closed at the end of 2002 and which is described in last year's remuneration report, will be made to all participating employees of CDC in March 2005. Richard Laing received £19,504. The second and final instalment of an equal amount due under this plan will be payable in March 2006.

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

Benefits in kind

Benefits in kind are offered to all staff, including executive directors. These are:

- life assurance cover, which will pay a lump sum equivalent to four times salary in the event of death
- permanent health insurance, which provides cover in the event that they are unable, through ill-health, to continue to work for the company
- private medical insurance, which is made available through AXA PPP Healthcare and which can include cover for family members

Directors' Remuneration Report
continued

Pension arrangements
Paul Fletcher received a contribution equal to 17.5% of his base salary to his personal pension plan, while Andrew Reicher received a contribution of 15% of his base salary. Richard Laing and Nicholas Selbie are members of CDC's non-contributory pension scheme (final salary section). Richard Laing also receives a contribution to a funded unapproved retirement benefit scheme (FURBS). Details of pension contributions are shown in the table on page 27.

Service agreements
Richard Laing, currently the only executive director, has a service agreement which is terminable on both sides by 12 months' notice or on reaching age 60. It contains no specific termination provision. However, any compensation claim from a departing director would be scrutinised by the remuneration committee.

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) 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 level of fees was reviewed in November 2004 and agreed with DFID. The basic fee for all non-executive directors (except for the chairman) is £22,000. Non-executive directors receive an additional £1,000 per annum for each committee membership and £2,000 for each committee that they chair. The fee for the chairman is £35,000 per annum.The fees paid to non-executive directors in 2004 are set out in the table on page 27. The non-executive directors do not participate in any of the incentive or benefit schemes of the company.

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

	Date of contract	Notice period (months)
Executive directors		
Richard Laing	24 January 2000	12
Paul Fletcher (to 8 July 2004)	17 January 2001	12
Andrew Reicher (to 8 July 2004)	17 January 2001	12
Nicholas Selbie (to 8 July 2004)	17 January 2001	12

	Date of contract	Date of last re-election or initial election
Non-executive directors		
Malcolm Williamson	5 January 2004	8 September 2004
Jonathan Kydd	8 December 1999	8 December 1999
Andrew Williams	2 July 2003	2 July 2003
Arnab Banerji	9 July 2004	8 September 2004
Fields Wicker-Miurin	7 October 2004	7 October 2004
Lord Cairns (to 8 July 2004)	8 December 1999	2 May 2001
Lalith de Mel (to 8 July 2004)	13 April 2000	2 June 2000
Peter Smitham (to 8 July 2004)	15 March 2001	2 May 2001

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. Richard Laing and Nicholas Selbie did not hold any external non-executive appointments. While they were directors of CDC, Paul Fletcher was also a director of The Eastern Africa Association and Andrew Reicher a director of Tree Court Advisers Ltd.

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 £	Completion bonuses £	**Total 2004 £**	Total 2003 £
Non-executive directors						
Malcolm Williamson (from 5 January 2004)	25,433			–	**25,433**	–
Jonathan Kydd	21,833			10,000	**31,833**	17,000
Andrew Williams	21,333			–	**21,333**	6,785
Fields Wicker-Miurin (from 7 October 2004)	3,814			–	**3,814**	–
Arnab Banerji* (from 9 July 2004)	–			–	**–**	–
Lord Cairns (to 8 July 2004)	24,903			30,000	**54,903**	48,000
Lalith de Mel (to 8 July 2004)	8,820			5,000	**13,820**	17,000
Peter Smitham (to 8 July 2004)	8,820			–	**8,820**	17,000
Executive directors						
Richard Laing	170,000	3,833	175,000	34,000	**382,833**	259,136
Paul Fletcher (to 8 July 2004)	98,575	2,755	65,450	38,000	**204,780**	301,752
Andrew Reicher (to 8 July 2004)	80,417	2,917	42,750	31,000	**157,084**	232,151
Nicholas Selbie (to 8 July 2004)	80,417	2,417	42,750	31,000	**156,584**	231,260

* Dr Banerji has waived his fees.

Pension entitlements

The pension entitlements for the executive directors are as follows:

	2004 £	2003 £
Contribution to personal pension plan:		
Paul Fletcher	**17,251**	31,500
Andrew Reicher	**12,063**	22,500
Contribution to FURBS:		
Richard Laing	**26,980**	19,800

Defined benefit scheme

	Accumulated total accrued pension at 31 December 2004 £	Accumulated total accrued pension at 31 December 2003 £	Increase in accrued pension during the year £	Transfer value at 31 December 2004 £	Transfer value at 31 December 2003 £	Increase in transfer value during the year £
Richard Laing	12,538	9,694	2,844	158,546	114,714	43,832
Nicholas Selbie	73,798	72,917	881	1,947,643	1,589,633	358,010

The transfer value represents a liability of the pension fund, not a sum paid or due to the individual.

Auditor's Report

Independent auditor's report to the members of CDC Group plc
We have audited the Group's financial statements for the year ended 31 December 2004 which comprise Group Profit and Loss Account, Group and Company Balance Sheet, Group Cashflow Statement, Group Statement of Total Recognised Gains and Losses, Reconciliation of Group Shareholders' Funds, accounting policies, and the related notes 1 to 27. These financial statements have been prepared on the basis of the accounting policies set out therein.

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 formed.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises The Development Process, the 2004 Highlights summary, Chairman's Statement, Chief Executive's Report, Business Review, Development Review, Business Principles Report, Financial Review, Directors' Report, the unaudited part of the Director's Remuneration Report, and the Ten Largest Investments summary. 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 of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit of the Group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London
22 March 2005

Group Profit and Loss Account

for the year ended 31 December 2004

	Note	**2004 £m**	2003 £m
Turnover	2	**327.5**	171.4
Investment income	2	**68.4**	65.8
Group operating profit	2	**102.9**	59.9
Share of operating profit in associates and joint ventures		**6.4**	0.1
Total operating profit		**109.3**	60.0
Profit on sale of investments		**80.1**	34.3
Loss on sale of subsidiaries	11d	**(4.8)**	–
Exceptional items	3	**(3.3)**	(7.6)
Interest receivable and similar income	5	**21.1**	12.2
Interest payable and similar charges	6	**(40.1)**	(17.8)
Investment and other provisions		**34.4**	(58.5)
Exchange gains and losses		**5.5**	(2.4)
Profit on ordinary activities before taxation		**202.2**	20.2
Taxation	7	**16.9**	(12.0)
Share of associates' and joint ventures' taxation	7	**–**	(0.2)
Profit on ordinary activities after taxation		**219.1**	8.0
Equity minority interest		**(5.7)**	0.7
Profit for the year transferred to reserves		**213.4**	8.7

Group Statement of Total Recognised Gains and Losses

	2004 £m	2003 £m
Profit for the year transferred to reserves	**213.4**	8.7
Exchange difference on retranslation of net assets in subsidiaries	**(44.8)**	(40.1)
Total recognised gains and losses for the year	**168.6**	(31.4)

Reconciliation of Consolidated Shareholders' Funds

		2004 £m	2003 £m
Total recognised gains and losses for the year		**168.6**	(31.4)
Shares issued in the year		**755.0**	–
Shareholders' funds at 1 January 2004		**195.6**	227.0
Shareholders' funds at 31 December 2004	21	**1,119.2**	195.6

Group Balance Sheet
for the year ended 31 December 2004

	Note	2004 £m	2003 £m
Intangible assets			
Goodwill	9	**14.3**	15.9
Negative goodwill	9	**(18.0)**	(17.1)
Net goodwill		**(3.7)**	(1.2)
Licences and other intangibles	9	**24.4**	27.8
Tangible assets	10	**764.0**	564.9
Investments	11a	**550.2**	576.8
Fixed assets		**1,334.9**	1,168.3
Stocks	12	**68.0**	37.0
Debtors	13	**174.9**	106.8
Current asset investments		**17.7**	–
Cash at bank and in hand		**459.1**	282.7
Current assets		**719.7**	426.5
Creditors – amounts falling due within one year			
Short term borrowings	14	**(77.1)**	(76.3)
Other creditors	14	**(203.6)**	(135.3)
Net current assets		**439.0**	214.9
Total assets less current liabilities		**1,773.9**	1,383.2
Creditors – amounts falling due after one year			
Long term borrowings	15	**(540.6)**	(1,117.0)
Other creditors	15	**(39.3)**	(26.2)
Provisions for liabilities and charges	18	**(14.6)**	(12.4)
Net assets		**1,179.4**	227.6
Represented by:			
Called up share capital	20	**765.0**	10.0
Profit and loss account	21	**354.2**	185.6
Total equity shareholders' funds		**1,119.2**	195.6
Equity minority interest		**60.2**	32.0
Shareholders' funds		**1,179.4**	227.6

The accounts were approved by the members of the board on 22 March 2005 and were signed on their behalf by:

Malcolm Williamson
Chairman

Richard Laing
Chief executive

The accounting policies and notes on pages 33 to 63 form part of the accounts.

Group Cashflow Statement

At 31 December 2004

	Note	**2004 £m**	2003 £m
Cash inflow from operating activities	22a	**79.6**	86.0
Dividends from associates and joint ventures		**0.5**	1.3
Returns on investments and servicing of finance	22b	**(20.3)**	(10.9)
Corporation tax received/(paid)		**18.1**	(26.7)
Capital expenditure and financial investment	22c	**97.7**	11.5
Acquisitions and disposals	22d	**(32.8)**	(122.1)
Cash inflow/(outflow) before use of liquid resources and financing		**142.8**	(60.9)
Management of liquid resources		**(169.5)**	70.1
Financing	22e	**46.4**	55.5
Increase in cash in the year		**19.7**	64.7

	Note	**2004 £m**	2003 £m
Reconciliation of net cashflow to movement in net debt			
Increase in cash in the year		**19.7**	64.7
Cash outflow/(inflow) from management of liquid resources		**169.5**	(70.1)
Cash inflow from increase in net debt		**(46.4)**	(55.5)
Decrease/(increase) in net debt resulting from cashflows		**142.8**	(60.9)
Liquid resources acquired with subsidiaries		**11.5**	5.2
Loans and finance leases acquired with subsidiaries		**(159.3)**	(275.5)
Liquid resources and loans in disposed subsidiaries		**11.3**	–
Translation difference		**(9.3)**	16.5
Conversion of UK Government loan to equity		**755.0**	–
Decrease/(increase) in net debt in the year		**752.0**	(314.7)
Net debt at start of year	22f	**(910.6)**	(595.9)
Net debt at end of year	22f	**(158.6)**	(910.6)

Company Balance Sheet
At 31 December 2004

	Note	2004 £m	2003 £m
Tangible assets	10	**0.7**	25.8
Investments	11e	**1,078.4**	807.3
Fixed assets		**1,079.1**	833.1
Debtors	13	**37.9**	22.0
Cash at bank and in hand		**283.8**	162.7
Current assets		**321.7**	184.7
Creditors – amounts falling due within one year			
Short term borrowings	14	**(74.7)**	–
Other creditors	14	**(79.6)**	(120.4)
Net current assets		**167.4**	64.3
Total assets less current liabilities		**1,246.5**	897.4
Creditors – amounts falling due after one year			
Long term borrowings	15	**(247.3)**	(756.5)
Provisions for liabilities and charges	18	**(2.6)**	(2.8)
Net assets		**996.6**	138.1
Represented by:			
Called up share capital	20	**765.0**	10.0
Profit and loss account	21	**231.6**	128.1
Shareholders' funds		**996.6**	138.1

The accounts were approved by the members of the board on 22 March 2005 and were signed on their behalf by:

Malcolm Williamson
Chairman

Richard Laing
Chief executive

The accounting policies and notes on pages 33 to 63 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 £17.0m (2003: £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 that 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 page 19. 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 cashflow 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 (FFECs) 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 FFEC 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. Positive goodwill is capitalised and amortised over the estimated useful economic lives, which is limited to the lower of the expected life of the investment or 20 years. Negative goodwill is capitalised and amortised over the period in which the non-monetary assets are recovered. In the case of fixed assets, this is the period over which they are depreciated and in the case of current assets, the period over which they are otherwise realised. 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.

Accounting Policies
continued

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 financial fixed 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 £1.1m (2003: £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 stated at the lower of cost and net realisable value.

Current asset investments
Current asset investments are stated 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.

1. Segmental analysis

	CDC £m	Globeleq £m	Total 2004 £m	Total 2003 £m
Turnover				
Africa	**90.8**	**57.9**	**148.7**	64.9
Americas	**29.8**	**12.8**	**42.6**	43.5
Asia Pacific	**45.2**	**–**	**45.2**	46.7
South Asia	**21.9**	**69.1**	**91.0**	16.3
	187.7	**139.8**	**327.5**	171.4
Investment income				
Africa	**18.9**	**1.0**	**19.9**	24.2
Americas	**9.4**	**8.4**	**17.8**	20.0
Asia Pacific	**14.2**	**–**	**14.2**	6.2
South Asia	**16.0**	**0.5**	**16.5**	15.4
	58.5	**9.9**	**68.4**	65.8
Total income				
Africa	**109.7**	**58.9**	**168.6**	89.1
Americas	**39.2**	**21.2**	**60.4**	63.5
Asia Pacific	**59.4**	**–**	**59.4**	52.9
South Asia	**37.9**	**69.6**	**107.5**	31.7
	246.2	**149.7**	**395.9**	237.2
Profit/(loss) before interest and taxation				
Africa	**44.7**	**9.2**	**53.9**	21.6
Americas	**30.9**	**11.4**	**42.3**	(29.1)
Asia Pacific	**42.3**	**–**	**42.3**	8.3
South Asia	**65.2**	**17.5**	**82.7**	25.0
	183.1	**38.1**	**221.2**	25.8
Interest receivable			**21.1**	12.2
Interest payable			**(40.1)**	(17.8)
Profit before taxation			**202.2**	20.2
Net assets				
Africa	**241.5**	**374.1**	**615.6**	380.7
Americas	**169.9**	**99.7**	**269.6**	326.1
Asia Pacific	**125.3**	**–**	**125.3**	87.5
South Asia	**133.9**	**227.6**	**361.5**	377.2
	670.6	**701.4**	**1,372.0**	1,171.5
Net debt			**(158.6)**	(910.6)
Taxation and provisions for liabilities and charges			**(34.0)**	(33.3)
Net assets			**1,179.4**	227.6

2. Group operating profit

	2004 £m	2003 £m
Turnover	**327.5**	171.4
Investment income	**68.4**	65.8
Total income	**395.9**	237.2
Cost of sales	**(173.2)**	(98.2)
Gross profit	**222.7**	139.0
Administrative expenses:		
Auditor's remuneration – UK	**(0.3)**	(0.2)
Auditor's remuneration – overseas	**(0.3)**	(0.2)
Non-audit services – UK	**(0.1)**	(0.2)
Non-audit services – overseas	**(0.1)**	–
Depreciation of owned assets	**(13.3)**	(8.6)
Write off and amortisation of goodwill and brands	**(1.8)**	(2.0)
Other operating expenses	**(113.3)**	(80.1)
Other operating income	**9.4**	12.2
Group operating profit	**102.9**	59.9

3. Exceptional items

	2004 £m	2003 £m
Costs of fundamental restructuring	**(7.5)**	(7.6)
Profit on disposal of fixed assets	**4.2**	–
Exceptional items	**(3.3)**	(7.6)

The effect of the exceptional items on the tax charge for the year is £nil (2003: £0.7m).

Fundamental restructuring costs incorporate costs of restructuring CDC Group plc including the spin-off of the fund management company, Actis. For 2004, these costs included pension buyout costs, professional advisers' costs and redundancy costs. Of the payments to advisers, £nil (2003: £nil) was paid to the CDC Group plc auditors for non-audit services.

4. Staff costs

	2004 £m	2003 £m
Wages and salaries	**30.5**	41.0
Social security costs	**2.0**	1.9
Other pension costs – defined contribution section	**0.4**	1.1
– defined benefit section	**2.3**	1.8
	35.2	45.8

The average monthly number of employees during the year was made up as follows:

	2004	2003
London office	**72**	123
Overseas offices	**39**	76
Subsidiaries	**17,539**	16,541
	17,650	16,740

Details for each director of remuneration and pension entitlements are set out on pages 25 to 27.

5. Interest receivable and similar income

	2004 £m	2003 £m
Bank and short term deposits	**14.5**	12.2
Reduction in fair value of interest rate swaps	**6.6**	–
Interest receivable and similar income	**21.1**	12.2

6. Interest payable and similar charges

	2004 £m	2003 £m
Bank loans and overdrafts	**17.3**	4.0
Interest payable on other loans	**22.8**	13.8
Interest payable and similar charges	**40.1**	17.8

7. Taxation

(a) Tax credit/(charge) on profit on ordinary activities

The tax credit/(charge) is made up as follows:

	2004 £m	2003 £m
United Kingdom corporation tax at 30% on profit on ordinary activities before 1 May 2003	**–**	(7.5)
Tax overprovided in previous years	**23.8**	–
	23.8	(7.5)
Double taxation relief	**–**	0.2
	23.8	(7.3)
Overseas tax	**(4.0)**	(3.1)
Group current tax	**19.8**	(10.4)
Share of associates' current tax	**–**	(0.2)
Total current tax	**19.8**	(10.6)
Deferred tax	**(2.9)**	(1.6)
Tax credit/(charge) on profit on ordinary activities	**16.9**	(12.2)

(b) Total current tax credit/(charge)

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2003: 30%). The differences are reconciled below:

	2004 £m	2003 £m
Profit on ordinary activities before tax	**202.2**	20.2
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%)	**(60.7)**	(6.0)
Decrease/(increase) in charge due to:		
Effect of UK tax exemption	**24.2**	12.8
Expenses not deductible for tax purposes	**–**	(1.7)
Losses arising in year not relievable against current tax	**–**	(17.2)
Effect of overseas taxation	**52.2**	(1.6)
Tax overprovided in previous years	**23.8**	–
Consolidation adjustments with no tax effect	**(19.7)**	3.1
Total current tax credit/(charge)	**19.8**	(10.6)

7. Taxation (continued)

(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.

8. Profit attributable to members of the parent company

The profit attributable to the members of the parent company was £103.7m (2003: £8.6m).
No profit and loss account is presented for the parent company as permitted by section 230 of the Companies Act 1985.

9. Intangible fixed assets	Goodwill £m	Negative goodwill £m	Licences and other intangibles £m	Total £m
Cost				
At 1 January 2004	19.1	(18.0)	31.6	32.7
Amendments on final consideration payable on completion of prior year acquisitions	0.8	(1.0)	–	(0.2)
Acquisition of subsidiary undertakings (see note 11c)	2.0	(0.4)	3.5	5.1
Disposals	(4.2)	–	(6.9)	(11.1)
Exchange differences	–	–	(1.5)	(1.5)
At 31 December 2004	**17.7**	**(19.4)**	**26.7**	**25.0**
Amortisation				
At 1 January 2004	3.2	(0.9)	3.8	6.1
Transfers	(0.2)	0.2	–	–
Provided/(released) during the year	0.8	(0.7)	1.7	1.8
Disposals	(0.4)	–	(3.3)	(3.7)
Exchange differences	–	–	0.1	0.1
At 31 December 2004	**3.4**	**(1.4)**	**2.3**	**4.3**
Net book value at 31 December 2004	**14.3**	**(18.0)**	**24.4**	**20.7**
Net book value at 1 January 2004	15.9	(17.1)	27.8	26.6

10. Tangible fixed assets

	Land and buildings £m	Plant and machinery £m	Other fixed assets £m	Group Total £m
Cost				
At 1 January 2004	111.2	502.5	127.4	741.1
Additions	21.1	34.9	15.3	71.3
Acquisition of subsidiary undertakings	5.1	220.2	4.3	229.6
Disposals	(32.3)	(6.6)	(7.5)	(46.4)
Transfers and write offs	–	(0.2)	0.2	–
Disposal of subsidiary undertakings	(14.7)	(19.1)	(1.3)	(35.1)
Exchange differences	(5.6)	(21.7)	(10.3)	(37.6)
At 31 December 2004	**84.8**	**710.0**	**128.1**	**922.9**
Depreciation				
At 1 January 2004	30.9	58.8	86.5	176.2
Provided during the year	3.0	25.4	8.5	36.9
Impairment/(reversal of impairment) adjustment	0.1	1.1	(24.8)	(23.6)
Disposals	(2.6)	(1.9)	(3.2)	(7.7)
Depreciation in disposed subsidiaries	(3.9)	(9.9)	(0.7)	(14.5)
Exchange differences	(1.8)	(3.6)	(3.0)	(8.4)
At 31 December 2004	**25.7**	**69.9**	**63.3**	**158.9**
Net book value at 31 December 2004	**59.1**	**640.1**	**64.8**	**764.0**
Net book value at 1 January 2004	80.3	443.7	40.9	564.9

Included within plant and machinery fixed assets in acquisitions is £nil (2003: £17.7m) of capitalised interest.

Included in other fixed assets of the Group were £52.4m (2003: £33.4m) of capitalised plantation establishment costs and £0.2m (2003: £0.2m) of assets held under finance leases and hire purchase contracts.

The net book value of land and buildings comprises	2004 £m	2003 £m
Freehold	**46.7**	43.4
Long leasehold	**12.4**	36.9
Total	**59.1**	80.3

10. Tangible fixed assets (continued)

	Land and buildings £m	Other fixed assets £m	**Company** Total £m
Cost			
At 1 January 2004	27.4	11.1	38.5
Additions	–	0.6	0.6
Disposals	(27.0)	(3.0)	(30.0)
Exchange differences	–	(0.1)	(0.1)
At 31 December 2004	**0.4**	**8.6**	**9.0**
Depreciation			
At 1 January 2004	2.7	10.0	12.7
Provided during the year	–	0.4	0.4
Disposals	(2.5)	(2.3)	(4.8)
At 31 December 2004	**0.2**	**8.1**	**8.3**
Net book value at 31 December 2004	**0.2**	**0.5**	**0.7**
Net book value at 1 January 2004	24.7	1.1	25.8

The net book value of land and buildings comprises:	**2004 £m**	2003 £m
Freehold	**0.2**	0.2
Long leasehold	**–**	24.5
Total	**0.2**	24.7

11. Investments

(a) Group fixed asset investments

	2004 £m	2003 £m
Associated undertakings and joint ventures	**7.0**	3.6
Other fixed asset investments	**543.2**	573.2
At 31 December 2004	**550.2**	576.8

Associated undertakings and joint ventures	Share of net assets £m	Loans £m	Total £m
At 1 January 2004	3.5	0.1	3.6
Additions	0.5	–	0.5
Disposals and loan repayments	(2.6)	(0.1)	(2.7)
(Released)/provided during the year	(0.6)	0.3	(0.3)
Share of profits net of tax and dividends	5.6	–	5.6
Exchange differences	0.3	–	0.3
At 31 December 2004	**6.7**	**0.3**	**7.0**

11. Investments (continued)

Other fixed asset investments	Listed equity £m	Unlisted equity £m	Loans £m	Total £m
Cost				
At 1 January 2004	137.3	474.7	389.2	1,001.2
Additions	2.2	53.8	20.3	76.3
Realisations and repayments	(33.7)	(56.6)	(64.0)	(154.3)
Investments in acquired subsidiaries	–	0.1	–	0.1
Investments in disposed subsidiaries	–	(2.2)	–	(2.2)
Conversions and transfers in from subsidiary undertakings	22.7	(18.3)	0.4	4.8
Write downs	–	(3.4)	(9.3)	(12.7)
Exchange differences	(4.9)	(8.7)	(12.2)	(25.8)
At 31 December 2004	**123.6**	**439.4**	**324.4**	**887.4**
Provisions				
At 1 January 2004	27.3	236.4	164.3	428.0
Released during the year	(3.3)	(8.8)	(21.6)	(33.7)
Realisations	(5.4)	(23.0)	–	(28.4)
Conversions	–	(2.9)	3.7	0.8
Write downs	–	(3.4)	(9.3)	(12.7)
Exchange differences	(0.2)	(3.1)	(6.5)	(9.8)
At 31 December 2004	**18.4**	**195.2**	**130.6**	**344.2**
Net book value at 31 December 2004	**105.2**	**244.2**	**193.8**	**543.2**
Net book value at 1 January 2004	110.0	238.3	224.9	573.2

The market value of listed investments at 31 December 2004 was £223.9m (2003: £215.5m).

(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		Aureos		Joint ventures CGU – CDC China Capital Partners		Actis China Investment Company	
	2004 £m	2003 £m	**2004 £m**	2003 £m	**2004 £m**	2003 £m	**2004 £m**	2003 £m
CDC share of turnover	**4.4**	9.5	**1.1**	2.5	**0.4**	0.8	**0.3**	0.2
CDC share of operating (loss)/profit			**(0.3)**	(0.3)	**–**	0.3	**5.6**	(0.6)
Gross assets			**–**	2.2	**–**	1.4	**13.8**	7.2
Liabilities			**–**	(1.6)	**–**	(0.2)	**–**	–
Net assets			**–**	0.6	**–**	1.2	**13.8**	7.2
CDC share of net assets			**–**	0.3	**–**	0.6	**6.9**	3.6

CDC disposed of its holdings in Aureos and CGU – CDC China Capital Partners on 7 July 2004.

11. Investments (continued)

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 2004 was as follows:

	2004 £m	2003 £m
Share of turnover	**3.8**	3.8
Share of operating profit	**0.4**	0.4
Share of net assets	**1.3**	1.0

(c) Acquisitions

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

	Country	Date	Consideration £m	Percentage acquired
Nanga Farms	Zambia	January 2004	0.5	76%
Nitrex Chemicals	India	March 2004	1.0	85%
COBEE	Bolivia	April 2004	27.5	100%
Persianas Properties	Nigeria	June 2004	0.1	100%
Sidi Krir	Egypt	September 2004	40.1	61%*
Banque Commerciale du Rwanda	Rwanda	November 2004	2.6	80%
Inter City Hotels	Ghana	November 2004	0.5	51%

	Nanga Farms £m	Nitrex Chemicals £m	COBEE £m	Persianas Properties £m	Sidi Krir £m	Banque Commerciale du Rwanda £m	Inter City Hotels £m	**Total £m**
The net assets acquired were as follows:								
Intangible fixed assets	–	3.5	–	–	–	–	–	**3.5**
Tangible fixed assets	0.5	4.6	38.4	1.5	182.8	1.3	0.5	**229.6**
Fixed asset investments	–	–	–	–	–	0.1	–	**0.1**
Other current assets	1.3	2.8	4.6	–	11.0	11.2	0.4	**31.3**
Cash at bank and in hand	0.3	0.4	3.5	–	15.4	20.1	–	**39.7**
Current liabilities	(0.7)	(10.1)	(8.0)	(0.5)	(21.0)	(28.9)	(0.1)	**(69.3)**
Long term liabilities	(0.2)	–	(11.0)	(0.9)	(128.9)	(0.6)	–	**(141.6)**
Total net assets	1.2	1.2	27.5	0.1	59.3	3.2	0.8	**93.3**
Minority interest	(0.3)	(0.2)	–	–	(21.1)	(0.6)	(0.4)	**(22.6)**
Net assets acquired	0.9	1.0	27.5	0.1	38.2	2.6	0.4	**70.7**
Cash consideration	0.5	1.0	27.5	0.1	40.1	2.6	0.5	**72.3**
(Negative goodwill)/goodwill	**(0.4)**	**–**	**–**	**–**	**1.9**	**–**	**0.1**	**1.6**

* Sidi Krir group comprises six wholly-owned investment holding companies with net assets of £5.0m and two operating subsidiaries with net assets of £54.3m in which CDC has acquired a 61% holding.

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:

	Sidi Krir Book value £m	Sidi Krir Mark swaps to market £m	Sidi Krir Fair value to Group £m	COBEE Book value £m	COBEE Plant impairment £m	COBEE Fair value to Group £m
Fixed assets:						
Tangible	182.8	–	182.8	70.8	(32.4)	38.4
Current assets:						
Stock	4.2	–	4.2	0.5	–	0.5
Debtors	6.8	–	6.8	4.1	–	4.1
Cash at bank and in hand	15.4	–	15.4	3.5	–	3.5
Total assets	209.2	–	209.2	78.9	(32.4)	46.5
Liabilities:						
Loans	(123.8)	(12.3)	(136.1)	(14.4)	–	(14.4)
Trade creditors	(3.5)	–	(3.5)	(0.8)	–	(0.8)
Other creditors	(10.3)	–	(10.3)	(3.8)	–	(3.8)
Total liabilities	(137.6)	(12.3)	(149.9)	(19.0)	–	(19.0)
Net assets	71.6	(12.3)	59.3	59.9	(32.4)	27.5
Minority interest			(21.1)			–
Goodwill			1.9			–
			40.1			27.5
Satisfied by:						
Cash			40.1			27.5

The Sidi Krir fair value adjustment is the marking 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 COBEE relates to a plant impairment charge to bring the asset carrying value in line with future cashflow that the plant is expected to generate.

Sidi Krir recorded a profit after taxation and minority interests of £4.2m in the year ended 31 December 2004 (2003: £2.8m), of which £2.9m arose in the period from 1 January 2004 to the date of acquisition.

COBEE recorded a profit after taxation and minority interests of £3.5m in the year ended 31 December 2004 (2003: £3.6m), of which £1.6m arose in the period from 1 January 2004 to the date of acquisition.

The summarised profit and loss account for the period from 1 January 2004 to the date of acquisition, shown on the basis of Sidi Krir/COBEE's accounting policies prior to acquisition, is shown on page 44.

11. Investments (continued)

	Sidi Krir £m	COBEE £m
Profit and loss account		
Generation income	39.3	5.7
Cost of sales	(23.4)	(0.9)
Gross profit	15.9	4.8
Administrative expenses	(2.6)	(2.4)
Net interest payable	(8.4)	(0.2)
Profit before tax	4.9	2.2
Tax	(0.2)	(0.6)
Profit after tax	4.7	1.6
Minority interest	(1.8)	–
Profit for the financial period	2.9	1.6

(d) Disposals

During the year, the Group disposed of the following subsidiaries:

	Medikredit £m	Southern Cone Argentina £m	Dominica Electricity Services £m	International Venture Capital Management £m	Total £m
Cash consideration	–	1.9	2.7	–	4.6
Share of net liabilities/(assets) disposed	0.5	(1.2)	(4.6)	0.1	(5.2)
Unamortised goodwill written off	(4.2)	–	–	–	(4.2)
(Loss)/profit on disposal of subsidiaries	**(3.7)**	**0.7**	**(1.9)**	**0.1**	**(4.8)**

Apart from the cash consideration received for these sales, the only material effect on the cashflow statement of these transactions was the disposal of £0.3m of cash and £11.6m of loans.

(e) Company fixed asset investments	Subsidiary undertakings £m	Associated undertakings £m	Listed equity £m	Unlisted equity £m	Loans £m	Total £m
Cost						
At 1 January 2004	823.9	9.2	26.8	147.7	301.0	1,308.6
Additions	494.5	–	–	13.7	17.1	525.3
Realisations and repayments	(179.0)	(1.5)	(5.5)	(38.0)	(63.4)	(287.4)
Transfers from debtors and conversions	4.3	–	0.9	(15.3)	13.4	3.3
Write downs	(8.8)	–	–	(3.4)	(13.6)	(25.8)
Exchange differences	(3.5)	0.1	–	(1.6)	(6.2)	(11.2)
At 31 December 2004	**1,131.4**	**7.8**	**22.2**	**103.1**	**248.3**	**1,512.8**
Provisions						
At 1 January 2004	281.8	5.5	21.1	74.6	118.3	501.3
Provided/(released) during the year	22.2	0.7	(1.9)	(13.1)	(14.9)	(7.0)
Realisations	(8.6)	(1.4)	(2.4)	(13.2)	–	(25.6)
Transfers to provisions for liabilities and charges	–	(0.5)	–	(1.0)	(2.3)	(3.8)
Write downs	(8.8)	–	–	(3.4)	(13.6)	(25.8)
Exchange differences	–	–	–	(0.1)	(4.6)	(4.7)
At 31 December 2004	**286.6**	**4.3**	**16.8**	**43.8**	**82.9**	**434.4**
Net book value at 31 December 2004	**844.8**	**3.5**	**5.4**	**59.3**	**165.4**	**1,078.4**
Net book value at 1 January 2004	542.1	3.7	5.7	73.1	182.7	807.3

Details of principal subsidiaries and associates are disclosed on page 63.

12. Stocks

	Group 2004 £m	2003 £m
Raw materials	**20.9**	11.6
Work in progress	**26.7**	4.7
Finished goods	**20.4**	20.7
	68.0	37.0

13. Debtors

	Group 2004 £m	2003 £m	Company 2004 £m	2003 £m
Trade debtors	**70.1**	51.1	**–**	–
Advances to customers	**60.8**	30.4	**–**	–
Amounts owed by Group undertakings	**–**	–	**24.6**	17.7
Amounts owed by associated undertakings	**–**	0.5	**–**	0.5
Other debtors	**20.9**	13.2	**5.0**	3.8
Prepayments and accrued income	**12.6**	5.3	**4.3**	–
Taxation recoverable	**0.7**	0.5	**–**	–
Finance lease debtor	**4.0**	–	**4.0**	–
Deferred tax assets (see note 18)	**5.8**	5.8	**–**	–
	174.9	106.8	**37.9**	22.0
Amounts falling due after one year included above are:				
Advances to customers	**37.9**	14.5	**–**	–
Other debtors	**6.7**	0.9	**4.0**	0.2
Prepayments and accrued income	**1.6**	1.8	**–**	–
	46.2	17.2	**4.0**	0.2

14. Creditors – amounts due within one year

	Group 2004 £m	2003 £m	Company 2004 £m	2003 £m
Short term borrowings				
Other loans	**69.1**	65.7	**–**	–
Loans from Group companies	**–**	–	**74.7**	–
Bank overdrafts	**8.0**	10.6	**–**	–
	77.1	76.3	**74.7**	–
Other creditors				
Trade creditors	**34.6**	31.5	**–**	0.1
Deposits due to customers	**75.9**	22.1	**–**	–
Amounts owed to Group companies	**–**	–	**37.8**	77.5
Corporation tax	**26.2**	27.1	**24.3**	26.3
Other taxes and social security	**2.3**	1.8	**0.1**	0.4
Other creditors	**30.0**	14.6	**7.7**	1.5
Accruals and deferred income	**34.6**	38.2	**9.7**	14.6
	203.6	135.3	**79.6**	120.4

15. Creditors – amounts falling due after more than one year	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Long term borrowings				
Loans from UK Government	**–**	755.0	**–**	755.0
Loans from Group companies	**–**	–	**247.0**	–
Other loans	**540.6**	362.0	**0.3**	1.5
Total loans due after one year (see note 16)	**540.6**	1,117.0	**247.3**	756.5
Other creditors				
Accruals and deferred income	**33.6**	17.6	**–**	–
Deposits due to customers	**0.3**	0.2	**–**	–
Other creditors	**5.4**	8.4	**–**	–
	39.3	26.2	**–**	–

16. Loans	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Amounts falling due:				
In one year or less on demand	**69.1**	65.7	**74.7**	–
Between one and two years	**65.0**	293.6	**–**	259.1
Between two and five years	**154.4**	226.2	**247.3**	135.0
In more than five years	**321.2**	597.2	**–**	362.4
	609.7	1,182.7	**322.0**	756.5
Less: included in creditors: amounts falling due within one year	**(69.1)**	(65.7)	**(74.7)**	–
Total loans due after one year	**540.6**	1,117.0	**247.3**	756.5

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £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	**–**	360.9
European Investment Bank 0% unsecured debt with repayment linked to realisation of the underlying equity	**–**	1.5	**–**	1.5
	–	362.4	**–**	362.4
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 July 2021	**55.2**	39.6		
US$ loan due to a series of Egyptian banks. Variable interest rate set at US$ 6 month LIBOR plus 2% until April 2007. Thereafter the rate applied is US$ 6 month LIBOR plus 2.3%. Debt is secured against the company's assets. Repayments are made on a half-yearly basis, with final repayment date expected to be April 2014	**41.6**	–		
IDCOL loan at 9.1% secured*, payable in half-yearly instalments over 15 years beginning in 2009	**29.2**	33.6		
Asian Development Bank loan fixed at 8.6% by interest rate swap, secured*, payable in half-yearly instalments over 4 years beginning in 2011	**26.1**	28.0		

16. Loans (continued)

	Group		Company	
	2004 £m	2003 £m	**2004 £m**	2003 £m
Details of loans not wholly repayable within five years are as follows:				
US dollars				
Government of Tanzania (on-lending arrangement from the European Investment Bank), 6% secured, payable in monthly instalments beginning in January 2006 and ending in July 2021	**25.2**	11.0		
Asian Development Bank loan at 9.8% secured*, payable in half-yearly instalments beginning in 2003 and ending in 2016	**17.7**	20.8		
IDA Guaranteed Facility loan fixed at 7.7% by interest rate swap, secured*, payable in half-yearly instalments ending in 2015	**13.5**	17.1		
8.8% bonds of US$50m repayable in half-yearly instalments with final payment due August 2012	**10.3**	14.3		
Government of Tanzania, 7.7% secured, payable in monthly instalments beginning in September 2004 and ending in December 2016	**9.5**	–		
FMO & TDFL, 18% preference shares (unsecured), payable in half-yearly instalments beginning in January 2005 and ending in July 2014	**7.7**	–		
IDCOL loan fixed at 8.8% by interest rate swap, secured*, payable in half-yearly instalments beginning in 2003 and ending in 2016	**7.1**	8.1		
Government of Tanzania, 7.8% secured, payable in monthly instalments beginning in September 2004 and ending in December 2016	**6.6**	–		
Asian Development Bank loan fixed at 8.1% by interest rate swap, secured*, payable in half-yearly instalments beginning in 2003 and ending in 2015	**6.4**	7.7		
US$ loan due to a series of international banks. Variable interest rate set at US$ 6 month LIBOR plus 2% until April 2007. Thereafter the rate applied is US$ 6 month LIBOR plus 2.5%. Debt is secured against the company's assets. Repayments are made on a half-yearly basis, with final repayment date expected to be October 2010	**6.4**	–		
Government of Tanzania, 7.4% secured, payable in monthly instalments beginning in November 2004 and ending in December 2016	**5.1**	–		
FMO Subordinate debt loan at 2.9% plus performance margin 2.2%, secured*, payable in half-yearly instalments beginning in 2009 and ending in 2018	**4.3**	4.8		
FMO A loan at 8.2% secured*, payable in half-yearly instalments ending in 2013	**2.5**	3.4		
PRI Facility Loan fixed at 7.5% by interest rate swap secured*, payable in half-yearly instalments beginning in 2009 and ending in 2015	**1.4**	1.8		
Asian Development Bank loan fixed at 8.9% by interest rate swap, secured*, payable in half-yearly instalments beginning in 2003 and ending in 2010	**1.4**	3.0		
FMO B loan fixed at 8.2% by interest rate swap, secured*, payable in half-yearly instalments ending in 2013	**1.0**	1.4		
Basic Energy BVI 9% secured, payable in half-yearly instalments beginning in 2002 and ending in 2010	**0.8**	1.3		
Independent State of Papua New Guinea, debenture secured by property over project company payable in half-yearly instalments with final repayment due 2011	**0.2**	0.5		
European Investment Bank 3% secured by guarantee payable in half-yearly instalments with final payment due 2009	**–**	2.9		
	279.2	199.3		

16. Loans (continued)

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
South African Rand				
Investec Bank (South Africa) 14.4% 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	**26.6**	22.4		
	26.6	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	**1.1**	2.2		
National Commercial Bank 10% secured, repayable monthly ending 2012, denominated in East Caribbean dollars	**–**	1.7		
Others	**2.4**	3.7		
	3.5	7.6		
Total loans not wholly repayable within five years before financial derivatives	**309.3**	591.7	**–**	362.4
Interest rate swap derivatives	**11.9**	5.5	**–**	–
Total loans not wholly repayable within five years after financial derivatives	**321.2**	597.2	**–**	362.4

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

17. Obligations under operating leases

	Group 2004 £m	Group 2003 £m
Annual commitments under non-cancellable operating leases are as follows:		
Land and buildings operating leases that expire:		
Within one year	**0.5**	0.4
Within one to two years	**0.1**	0.6
In two to five years	**0.3**	2.2
In more than five years	**–**	0.6
	0.9	3.8
Other operating leases that expire:		
Within one year	**0.4**	0.4
Within one to two years	**–**	0.3
In two to five years	**0.2**	0.3
In more than five years	**3.4**	0.1
	4.0	1.1

18. Provisions for liabilities and charges

	Pensions £m	Deferred taxation £m	Other £m	Group Total £m
At 1 January 2004	0.7	8.1	3.6	12.4
Provided/(released) during the year	2.7	2.0	(0.6)	4.1
Acquisition of subsidiary undertakings	0.2	0.1	2.5	2.8
Utilised	(2.7)	(0.2)	(1.9)	(4.8)
Transfers in from investment provisions	–	–	3.8	3.8
Disposal of subsidiary undertakings	–	(3.0)	–	(3.0)
Exchange differences	–	(1.0)	0.3	(0.7)
At 31 December 2004	**0.9**	**6.0**	**7.7**	**14.6**

	Pensions £m	Deferred taxation £m	Other £m	Company Total £m
At 1 January 2004	0.3	–	2.5	2.8
Provided/(released) during the year	2.5	–	(4.1)	(1.6)
Utilised	(2.5)	–	0.1	(2.4)
Transfers in from investment provisions	–	–	3.8	3.8
At 31 December 2004	**0.3**	**–**	**2.3**	**2.6**

Other provisions primarily relate to guarantees given by CDC Group plc against subsidiaries.

The company pension provision relates to two small overseas schemes.

The deferred tax balance in the Group is made up of:	Group 2004 £m	2003 £m
Accelerated capital allowances	**10.0**	3.8
Other timing differences	**(9.8)**	(1.5)
	0.2	2.3

This is represented by:	2004 £m	2003 £m
Deferred tax assets (see note 13)	**(5.8)**	(5.8)
Deferred tax liabilities	**6.0**	8.1
	0.2	2.3

The company has no deferred tax asset or liability because it is exempt from UK corporation tax (see note 7c).

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 pages 16-20. 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, advances to customers, current asset investments 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, deposits due to customers 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
2004 Financial assets – cash and short term deposits			
Sterling	300.1	0.5	300.6
US dollars	114.0	11.8	125.8
Other currencies	21.1	11.6	32.7
	435.2	23.9	459.1
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
	277.2	5.5	282.7

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

	Floating rate £m	Fixed rate £m	Total £m	Fixed rate weighted average interest rate %	Fixed rate weighted period to full maturity Years
2004 Financial assets – advances to customers					
US dollars	3.4	6.1	9.5	7.0	6.0
Ugandan shillings	17.9	24.5	42.4	15.8	6.0
Rwandan francs	–	7.7	7.7	16.5	1.0
Other currencies	0.4	0.8	1.2	12.4	6.0
	21.7	39.1	60.8	14.5	5.0
2003 Financial assets – advances to customers					
US dollars	–	2.5	2.5	6.9	6.0
Ugandan shillings	–	26.2	26.2	15.8	6.0
Other currencies	–	1.7	1.7	12.2	6.0
	–	30.4	30.4	14.9	6.0

19. Financial instruments (continued)

	Floating rate £m	Fixed rate £m	Total £m	Fixed rate weighted average interest rate %	Fixed rate weighted period to full maturity Years
2004 Financial assets – current asset investments					
Ugandan shillings	–	9.0	9.0	9.8	4.1
Rwandan francs	3.6	5.1	8.7	10.9	4.6
	3.6	14.1	17.7	10.2	4.3

At 31 December 2003 the Group did not hold any current asset investments

	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
2004 Financial assets – loan portfolio							
Sterling	5.2	40.7	–	45.9	9.9	1.5	–
US dollars	20.2	176.2	41.0	237.4	7.9	3.0	3.7
Other currencies	8.4	25.4	7.3	41.1	9.0	4.2	2.4
	33.8	242.3	48.3	324.4	8.4	2.9	3.5
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
	31.2	316.9	41.1	389.2	9.1	2.9	2.6

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
2004 Financial liabilities*							
Sterling	–	13.4	0.2	13.6	3.4	5.0	7.0
US dollars	77.4	428.8	1.0	507.2	7.6	12.0	0.4
SA Rand	25.5	32.0	0.9	58.4	14.4	12.0	2.0
Other currencies	5.7	28.3	4.5	38.5	8.0	9.2	15.2
	108.6	502.5	6.6	617.7	8.0	11.7	10.9
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
SA Rand	16.3	29.5	2.2	48.0	14.4	12.0	1.5
Other currencies	8.7	25.2	4.6	38.5	9.6	4.4	10.0
	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	No interest £m	Total £m
2004 Financial liabilities – deposits due to customers			
US dollars	14.6	12.7	27.3
Ugandan shillings	18.5	12.0	30.5
Rwandan francs	1.7	11.1	12.8
Other currencies	2.3	3.3	5.6
	37.1	39.1	76.2
2003 Financial liabilities – deposits due to customers			
US dollars	0.2	2.8	3.0
Ugandan shillings	–	8.2	8.2
Other currencies	11.0	0.1	11.1
	11.2	11.1	22.3

19. Financial instruments (continued)

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 FFECs.

	Net foreign currency monetary assets/(liabilities)				Net foreign currency monetary assets/(liabilities)			
Functional currency	**2004 Sterling £m**	**2004 Dollar £m**	**2004 Other £m**	**2004 Total £m**	2003 Sterling £m	2003 Dollar £m	2003 Other £m	2003 Total £m
Sterling	**–**	**3.7**	**(0.3)**	**3.4**	–	(28.4)	(0.2)	(28.6)
US dollars	**0.3**	**–**	**(10.3)**	**(10.0)**	(0.6)	–	(15.8)	(16.4)
Peruvian nuevo soles	**–**	**(22.4)**	**–**	**(22.4)**	–	(25.7)	–	(25.7)
Singapore dollars	**–**	**(4.5)**	**–**	**(4.5)**	–	(10.5)	–	(10.5)
Malaysian ringgits	**21.1**	**–**	**–**	**21.1**	20.3	–	–	20.3
Ugandan shillings	**0.1**	**10.8**	**–**	**10.9**	0.5	9.3	–	9.8
Other currencies	**(0.1)**	**(0.9)**	**(4.4)**	**(5.4)**	0.9	(4.7)	5.9	2.1
	21.4	**(13.3)**	**(15.0)**	**(6.9)**	21.1	(60.0)	(10.1)	(49.0)

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

	2004 Listed equity at cost £m	**2004 Unlisted equity at cost £m**	**2004 Investments in associates at cost £m**	**2004 Total £m**	2003 Listed equity at cost £m	2003 Unlisted equity at cost £m	2003 Investments in associates at cost £m	2003 Total £m
US dollars	**–**	**271.4**	**3.6**	**275.0**	–	315.7	5.8	321.5
SA rand	**14.2**	**35.1**	**–**	**49.3**	14.2	29.5	–	43.7
Peruvian nuevo soles	**61.6**	**–**	**–**	**61.6**	65.6	–	–	65.6
Indian rupees	**20.9**	**62.0**	**–**	**82.9**	23.3	70.8	–	94.1
Pakistani rupees	**9.3**	**1.7**	**–**	**11.0**	11.6	4.1	–	15.7
Thai baht	**5.8**	**–**	**–**	**5.8**	5.8	–	–	5.8
Nigerian naira	**–**	**13.0**	**–**	**13.0**	–	–	–	–
Chinese yuan	**–**	**6.6**	**–**	**6.6**	–	–	–	–
Swaziland emalangeni	**3.2**	**1.3**	**–**	**4.5**	3.2	–	–	3.2
Other	**8.6**	**48.3**	**9.5**	**66.4**	13.6	54.6	9.0	77.2
	123.6	**439.4**	**13.1**	**576.1**	137.3	474.7	14.8	626.8

19. Financial instruments (continued)

	2004 Total loan investments £m	2003 Total loan investments £m
Maturity profile of financial assets – loan portfolio at cost		
Due within one year	**118.3**	176.5
Due within one to two years	**51.5**	46.4
Due within two to five years	**92.9**	72.3
Due after five years	**61.7**	94.0
	324.4	389.2

Total loan investments consist of loans to associates at cost of £0.3m (2003: £0.5m) and other loans at cost of £324.1m (2003: £388.7m).

	2004 UK Government loan £m	**2004 Other financial liabilities £m**	**2004 Overdrafts £m**	**2004 Total financial liabilities £m**	2003 UK Government loan £m	2003 Other financial liabilities £m	2003 Overdrafts £m	2003 Total financial liabilities £m
Maturity profile of financial liabilities								
Due within one year	**–**	**69.1**	**8.0**	**77.1**	–	65.7	10.6	76.3
Due within one to two years	**–**	**65.0**	**–**	**65.0**	259.0	34.6	–	293.6
Due within two to five years	**–**	**154.4**	**–**	**154.4**	135.0	91.2	–	226.2
Due after five years	**–**	**321.2**	**–**	**321.2**	361.0	236.2	–	597.2
	–	**609.7**	**8.0**	**617.7**	755.0	427.7	10.6	1,193.3

Borrowing facilities

The Group's borrowing limit at 31 December 2004 in accordance with the Articles of Association was £2,000m.

	2004 £m	2003 £m
Committed but undrawn borrowing facilities		
Expiring within one year	**41.4**	95.0
Expiring within one to two years	**–**	4.9
Expiring after two years	**1.7**	1.1
	43.1	101.0

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 17. 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.

19. Financial instruments (continued)

Financial liabilities

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 2004 £m	**Fair value 2004 £m**	Book value 2003 £m	Fair value 2003 £m
Sterling	**(13.6)**	**(13.2)**	(776.6)	(610.6)
US dollars	**(507.2)**	**(510.7)**	(330.2)	(339.6)
Other currencies	**(96.9)**	**(89.5)**	(86.5)	(92.7)
	(617.7)	**(613.4)**	(1,193.3)	(1,042.9)

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

Derivative financial instruments held to manage foreign currency exposure

The activities of the Group are limited to holding 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 that 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.

	2004 £m	**Total unrecognised gains/(losses) £m**	2003 £m	Total unrecognised gains/(losses) £m
Recognised profit on revaluation of FFECs	**28.4**		26.3	
Recognised discounts on FFECs	**(7.1)**		(3.4)	
Recognised profits relating to FFECs	**21.3**		22.9	
Unrecognised profit on revaluation of FFECs at year end exchange rates	**4.6**	**4.6**	6.2	6.2
Unrecognised discounts on FFECs	**(4.5)**	**(4.5)**	(2.6)	(2.6)
Total value to business of FFECs	**21.4**	**0.1**	26.5	3.6
Fair value of FFECs	**20.8**		22.7	
Loss on calculation of fair value of FFECs	**(0.6)**	**(0.6)**	(3.8)	(3.8)
Total unrecognised losses		**(0.5)**		(0.2)

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 FFECs £m	Gain/(loss) on calculation of fair value £m	Total £m
Unrecognised losses at 1 January 2004	6.2	(2.6)	(3.8)	(0.2)
Previously unrecognised gains/(losses) relating to hedges recognised in the year	3.3	(3.4)	–	(0.1)
Revaluation of (loss)/gain	(4.9)	–	3.2	(1.7)
Profits in new contracts	–	1.5	–	1.5
Gains/(losses) at 31 December 2004	**4.6**	**(4.5)**	**(0.6)**	**(0.5)**
of which				
Gains/(losses) expected to be included in 2005 income	1.9	(0.8)	(0.1)	1.0
Gains/(losses) expected to be included in 2006 income or later	2.7	(3.7)	(0.5)	(1.5)
	4.6	**(4.5)**	**(0.6)**	**(0.5)**

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 2004 £m	**Fair value 2004 £m**	Book value 2003 £m	Fair value 2003 £m
Forwards and options	**–**	**0.5**	–	(4.8)

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

	2004 £m	2003 £m
Authorised ordinary shares		
765,036,042 (2003: nil) shares of £1 each	**765.0**	–
Nil (2003: 100,000,000) shares of 10p each	**–**	10.0
	765.0	10.0
Allotted, issued and fully paid		
765,036,042 (2003: nil) shares of £1 each	**765.0**	–
Nil (2003: 100,000,000) shares of 10p each	**–**	10.0
	765.0	10.0

On 30 June 2004 the company increased its authorised share capital from £10.0m to £765.0m and DFID converted its loan to the company of £755.0m into 7,550m ordinary shares of 10p each.

On 17 September 2004 the company consolidated its share capital by issuing 1 ordinary share of £1 each for every 10 existing shares of 10p each.

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	Share capital £m	P&L reserves £m	Group Total reserves £m	Share capital £m	P&L reserves £m	Company Total reserves £m
At 1 January 2004	10.0	185.6	195.6	10.0	128.1	138.1
Shares issued in the year	755.0	–	755.0	755.0	–	755.0
Profit for the year	–	213.4	213.4	–	103.7	103.7
Exchange losses	–	(44.8)	(44.8)	–	(0.2)	(0.2)
At 31 December 2004	**765.0**	**354.2**	**1,119.2**	**765.0**	**231.6**	**996.6**

22. Notes to the statement of cashflows	2004 £m	2003 £m
(a) Reconciliation of operating profit to net cash inflow from operating activities		
Group operating profit	**102.9**	59.9
Depreciation	**13.3**	8.6
Less: dividends from associates	**(0.5)**	(1.3)
Amortisation and write off of goodwill and other intangibles	**1.8**	2.0
(Increase)/decrease in stocks	**(28.6)**	0.4
(Increase)/decrease in debtors	**(41.5)**	21.7
Increase in creditors and provisions	**44.1**	10.7
Fundamental restructuring	**(6.7)**	(7.7)
Exchange and other movements	**(5.2)**	(8.3)
Net cash inflow from operating activities	**79.6**	86.0
(b) Returns on investments and servicing of finance		
Interest received	**14.6**	11.7
Interest paid	**(31.2)**	(19.8)
Dividends paid to minority interests	**(3.7)**	(2.8)
Net cash outflow from returns on investments and servicing of finance	**(20.3)**	(10.9)
(c) Capital expenditure and financial investment		
Loan redemptions	**64.0**	102.5
Proceeds from equity realisations	**138.5**	66.8
Payments to acquire fixed assets	**(71.3)**	(81.3)
Payments to acquire intangible fixed assets	**–**	(1.3)
Proceeds from disposal of fixed assets	**42.8**	5.8
New loan and equity investments	**(76.3)**	(81.0)
Net cash inflow from capital expenditure and financial investment	**97.7**	11.5

22. Notes to the statement of cashflows (continued)

	2004 £m	2003 £m
(d) Acquisitions and disposals		
Purchase of subsidiary undertakings	**(72.3)**	(172.4)
Cash acquired in subsidiaries	**28.2**	55.8
Overdrafts acquired in subsidiaries	**–**	(4.6)
Purchase of interest in joint venture	**(0.5)**	(2.4)
Sale of subsidiary undertakings	**4.6**	–
Liquidation of subsidiary undertakings	**7.2**	–
Sale of interest in associated undertakings	**–**	1.5
Net cash outflow from acquisitions and disposals	**(32.8)**	(122.1)
(e) Financing		
Capital element of finance lease payments	**–**	(0.1)
Debt due within one year:		
Increase in short term borrowings	**13.6**	13.0
Repayment of short term borrowings	**(34.8)**	(8.8)
Debt due after one year:		
Increase in long term borrowings	**108.1**	80.0
Repayment of long term borrowings	**(40.5)**	(28.6)
Net cash inflow from financing	**46.4**	55.5

	At 1 January 2004 £m	Cashflow £m	Acquisitions £m	Disposals £m	Other movements £m	Exchange differences £m	At 31December 2004 £m
(f) Analysis of net debt							
Cash at bank and in hand	282.7	186.6	11.5	(0.3)	–	(21.4)	**459.1**
Less liquid resources	(194.9)	(169.5)	(11.5)	0.3	–	20.3	**(355.3)**
Overdrafts	(10.6)	2.6	–	–	–	–	**(8.0)**
Cash per Group cashflow statement	77.2	19.7	–	–	–	(1.1)	**95.8**
Liquid resources	194.9	169.5	11.5	(0.3)	–	(20.3)	**355.3**
Debt due within one year excluding overdrafts	(65.7)	21.2	(25.0)	1.5	(3.7)	2.6	**(69.1)**
Debt due after one year	(1,117.0)	(67.6)	(134.3)	10.1	758.7	9.5	**(540.6)**
Net debt	(910.6)	142.8	(147.8)	11.3	755.0	(9.3)	**(158.6)**

Included within cash per the Group cashflow statement are balances of £33.4m in the books of three subsidiaries, Haripur, Meghnaghat and Sidi Krir 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 £414.3m (2003: £142.8m) for subscriptions to debentures, loans and shares.

Subsidiaries had capital commitments of £2.5m (2003: £1.6m).

24. Contingent liabilities

(a) The company has guaranteed the performance of contracts by certain subsidiaries to the extent of £12.7m (2003: £12.7m) and of other companies to the extent of £72.7m (2003: £102.8m).

(b) Haripur and Meghnaghat plants, located in Bangladesh, purchase natural gas from Titas, a Government owned company, at a price specified in the Gas Sales Agreement (GSA) – the Published Gas Price (PGP). Power is then sold to the Bangladesh Power Development Board (BPDB), also a Government owned company, under a Power Purchase Agreement (PPA) on a cost reimbursement basis.

Since the completion of the commissioning period of the plants, Titas has invoiced a gas price higher than the PGP. Titas have taken the position that the gas price for the Independent Power Producers (IPPs) is different from the PGP for the power sector and as such has not yet been determined by the Government. After a careful review, it is the considered opinion of the Globeleq board that the PGP should be used for IPPs and has communicated that position to Titas. Accordingly, payments have been made to Titas on this basis and Titas has accepted these payments without exception.

The difference between the total gas price invoiced by Titas and the related payments made by Globeleq total £55.8m (US$107.0m).

Written confirmation has been received from Titas that they will accept the lower payment until such time as they believe the gas price for IPPs has been set, with retrospective adjustments made if it is determined that the IPP gas price has not been established in the manner contemplated by Globeleq. The Globeleq board do not believe that any retrospective charge will be necessary under the PPA as the whole of the £55.8m (US$107.0m) price increase would be recharged to BPDB in accordance with the provisions of the PPA. Consequently, the Globeleq board considers the ultimate economic effect upon Globeleq would be nil.

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 and a funding review was subsequently carried out as at 31 August 2004 by independent consulting actuaries, following the completion of CDC's restructuring. The funding review used the attained age method. Under the attained age 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 August 2004 funding review are as follows:

Main assumptions	% per annum
Rate of return of investments:	
Before retirement	8.0
After retirement (including pensions currently in payment)	4.9
Salary increases	4.9
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	2.9
Rate of price inflation	2.9
	£m
Market value of scheme's assets	187

The value of the scheme's assets was calculated to be 93% 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 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.

25. Pension commitments (continued)

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 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 until 31 August 2004 and the attained age method thereafter. 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 £2.2m (2003: £4.7m). Contributions of £4.4m (2003: £4.2m) were paid to the scheme in respect of the members of the defined benefit section of the scheme during 2004. The contributions paid to the scheme, net of total pension cost, gave rise to a prepayment of £2.1m as at the end of 2004 (2003: nil).

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 and a subsequent funding review as at 31 August 2004. The financial assumptions used were:

	As at 31 December 2004 % per annum	As at 31 December 2003 % per annum	As at 31 December 2002 % per annum
Discount rate	**5.30**	5.40	5.50
Salary increases	**4.25**	4.25	4.00
Rate of increase for pensions in payment:			
Pre 1 May 1996 joiners (for pension accrued before 1 April 2000)	**5.00**	5.00	5.00
Pre 1 May 1996 joiners (for pension accrued after 31 March 2000) and post 30 April 1996 joiners	**2.75**	2.75	2.50
Rate of increase for deferred pensions	**2.75**	2.75	2.50
Rate of price inflation	**2.75**	2.75	2.50

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

	Long-term rate of return expected on 31 December 2004 % pa	**Value at 31 December 2004 £m**	Long-term rate of return expected on 31 December 2003 % pa	Value at 31 December 2003 £m	Long-term rate of return expected on 31 December 2002 % pa	Value at 31 December 2002 £m
Equities	**8.40**	**62.1**	8.40	56.1	8.65	49.9
Bonds	**4.89**	**125.9**	5.07	118.9	5.10	109.7
Other	**6.38**	**13.6**	6.54	11.7	6.27	13.5
Total (excluding money purchase assets)		**201.6**		186.7		173.1

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

	As at 31 December 2004 £m	As at 31 December 2003 £m	As at 31 December 2002 £m
Total market value of the scheme's assets	**201.6**	186.7	173.1
Present value of the scheme's liabilities	**(202.2)**	(193.6)	(171.0)
(Deficit)/surplus in the scheme	**(0.6)**	(6.9)	2.1
Related deferred tax liability	**–**	–	(0.6)
Net pension (liability)/asset	**(0.6)**	(6.9)	1.5

25. Pension commitments (continued)

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 2004 £m	As at 31 December 2003 £m	As at 31 December 2002 £m
Net assets as shown in Group balance sheet	**1,179.4**	227.6	253.0
Pension asset on SSAP 24 basis	**(2.1)**	–	–
Pension (liability)/asset on FRS 17 basis	**(0.6)**	(6.9)	1.5
Net assets including pension (liability)/asset	**1,176.7**	220.7	254.5
Profit and loss account reserve excluding pension (liability)/asset	**354.2**	185.6	217.0
Pension assets on SSAP 24 basis	**(2.1)**	–	–
Pension (liability)/asset on FRS 17 basis	**(0.6)**	(6.9)	1.5
Profit and loss account reserve including pension (liability)/asset	**351.5**	178.7	218.5

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	**2004 £m**	2003 £m
Current service cost – defined benefit section	**(1.5)**	(2.6)
– defined contribution section	**(0.3)**	(0.5)
Past services cost	**(1.2)**	–

Analysis of other amounts charged to profit and loss account		
Curtailment gain	**2.1**	–

Analysis of the amount credited to other finance income		
Expected return on scheme assets	**11.3**	10.5
Interest on scheme liabilities	**(10.2)**	(9.2)
Net credit to other finance income	**1.1**	1.3
Net credit/(charge) for period	**0.5**	(1.3)

Analysis of the amount recognised in statement of total recognised gains and losses		
Expected return less actual return on scheme assets	**(7.3)**	(6.3)
Experience losses arising on scheme liabilities	**2.7**	2.7
Changes in assumptions underlying the present value of scheme liabilities	**3.2**	15.5
Actuarial (gain)/loss recognised in statement of recognised gains and losses	**(1.4)**	11.9

Experience gains and losses	**2004 £m**	2003 £m	2002 £m
Difference between the expected and actual return on scheme assets	**(7.3)**	(6.3)	25.5
Percentage of scheme assets at 31 December	**3.6%**	3.3%	14.7%
Experience losses/(gains) on scheme liabilities	**2.7**	2.7	(2.5)
Percentage of scheme liabilities at 31 December	**1.3%**	1.4%	(1.5)%
Total actuarial (gain)/loss recognised in statement of total recognised gains and losses	**(1.4)**	11.9	26.3
Percentage of scheme liabilities at 31 December	**0.7%**	6.1%	15.4%

25. Pension commitments (continued)

Movement in (deficit)/surplus during the year	**2004 £m**	2003 £m
(Deficit)/surplus in scheme at beginning of the year	**(6.9)**	2.1
Movement in year:		
Current service cost	**(1.5)**	(2.6)
Past services cost	**(1.2)**	–
Curtailment gain	**2.1**	–
Contributions paid	**4.4**	4.2
Other finance income	**1.1**	1.3
Actuarial gain/(loss)	**1.4**	(11.9)
Deficit in scheme at end of the year	**(0.6)**	(6.9)

26. Related party transactions

(a) DFID is the company's sponsoring Government department and provides funding in the form of interest free loans. These were converted into equity during 2004. DFID is the ultimate controlling party. Details of the loans and the amounts due for 2003 are disclosed in note16.

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 £2.1m was received during 2004 (2003: £3.1m).

(b) 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). Prior to Mr Hart's appointment to CDC, CDC Group plc and other members of the Group entered into agreements with HEH in connection with 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 became repayable on 31 December 2004 as per the terms of the agreement. As the loan remains unpaid CDCHM will exercise its security. In 2004, HEH received nil (2003: US$0.6m) 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$5.3m of interest has been provided against (2003: US$3.6m) and US$7.4m has been provided against the loan (2003: US$6.8m).

(c) The following amounts were outstanding from associated undertakings and joint ventures at 31 December 2004:

	2004		2003	
	Loan £m	**Debtors £m**	Loan £m	Debtors £m
Ayojana Fund Pvt Ltd	**0.3**	**–**	0.5	–

27. Principal subsidiaries and joint ventures

The principal subsidiaries and joint ventures of the Group at 31 December 2004 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 1985 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				
Egypt	Sidi Krir	Ordinary	61	Power generation, transmission and distribution
Mauritius	CDC Financial Services (Mauritius) Ltd*	Ordinary	100	Investment holding
		Preference	100	
Mauritus	CDC Investment Holdings Ltd	Ordinary	100	Investment holding
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
Rwanda	Banque Commerciale du Rwanda	Ordinary	80	Financial institution
South Africa	Lenco Investment Holdings Ltd*	Ordinary	58	Plastics manufacturing
Tanzania	Songas Ltd	Common shares	54	Power generation, transmission and distribution
		A shares	100	
		B shares	83	
Uganda	DFCU*	Ordinary	60	Financial institution
Zambia	Mpongwe Development Company Ltd*	Ordinary	89	Milling and farming
Americas				
Barbados	CDC (Euro) Ltd*	Ordinary	100	Investment holding
Barbados	CDC Holdings (Barbados) Ltd*	Ordinary	100	Investment holding
		Preference	100	
Bolivia	Compania Boliviana de Energia Electrica (COBEE)	Ordinary	100	Power generation, transmission and distribution
British Virgin Islands	CDC Haina Ltd	Ordinary	100	Investment holding
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	68	Power generation, transmission and distribution
Asia Pacific				
Malaysia	CDC Holdings Sdn Bhd*	Ordinary	100	Investment holding
Papua New Guinea	Pacific Rim Plantations Ltd	Ordinary	76	Oil palm and cocoa cultivation and processing
Solomon Islands	Kolombangara Forest Products Ltd*	Ordinary	82	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
Joint Ventures				
Asia Pacific				
China	Actis 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 has over one million customers in Africa.
COBEE	Bolivia	COBEE is one of the largest generation companies in Bolivia, serving the capital La Paz and surrounding area with 204 MW of generation capacity, 186 MW of which are hydroelectric. COBEE has been a privately owned company since its founding nearly 80 years ago.
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 600 MW 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 tonnes 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.
Sidi Krir	Egypt	Sidi Krir is a 685 MW natural gas-fired power station located near Alexandria, Egypt. Fuel is supplied by GASCO, a government-owned gas distribution company, and the plant provides power for the national grid to the Egyptian Electricity Holding Company.
Songas	Tanzania	The Songas project comprises the construction of a gas processing plant on Songo Songo Island, the laying of a 225km pipeline from the island to Dar es Salaam and the acquisition and conversion, from oil to gas, of Ubongo power station, a 110 MW power plant in Dar es Salaam.
Southern Cone Power	South America	This investment incorporates 24% of Peruvian hydro generator Edegel (1,000 MW) and 25% of Chilean generator San Isidro (380 MW).

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