ANNUAL REPORT & ACCOUNTS 2006

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

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

We also target at least 50% of our investment in sub-Saharan Africa and South Asia.

* Countries where Gross National Income (GNI) per head is less than US$1,750.
** Countries where GNI per head is less than US$9,075.

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Chairman's Statement

2006 was a year of considerable growth for most economies in the developing world.

Trends seen in 2005 continued to characterise investment in the emerging markets of Africa, Asia, South East Asia and Latin America. In only its second full year operating under the restructured form completed in 2004, CDC has again achieved strong results.

The company's net worth of £2bn represents an increase in asset value of 23%. Third party capital invested alongside CDC was £132m. These impressive figures are a vindication of the company's innovative business model. The successes of 2006 underscore the effectiveness of CDC's intermediated approach as a fund of funds and highlight the company's ability to leverage fresh capital from commercial and other institutional investors. This is good news for poor countries where the availability of capital to help companies grow and flourish is a vital precursor of economic growth.

CDC's reach was considerably expanded during the year with 19 new fund managers in 2006, bringing the total number of fund managers to 32. At the time of writing, seven further commitments have received Board approval.

CDC's cash balance is strong. This is due to favourable markets and a strong environment for realisations. Board-approved commitments to funds at 31 December 2006 represented 119% of net cash which means that all our cash is spoken for. As the older funds are realised, the team at CDC will continue to find new opportunities for capital investment.

The continuing benign markets in developing economies are a mixed blessing. Although investors have seen strong returns, optimism about the future needs to be tempered with realism. Significant levels of private equity capital have been built up in recent years across the stronger emerging markets. Investors looking for opportunities in these geographies need to be wary of poor decision making against the backdrop of this cash-rich environment. Markets are notoriously mercurial and the inevitability of economic cycles should not be forgotten. Investors need to be prepared for change, positioning themselves to withstand the lower returns that follow global economic crises.

Nonetheless, emerging markets are currently highly competitive. CDC's strong underlying investments and long track record in its focus geographies have meant that the company has been ideally placed to make the most of the positive environment.

The private sector is beginning to take root in many developing economies. Businesses and communities, as well as national exchequers, are all experiencing the benefits brought by increased economic activity. Many of these countries have not had a tradition of encouraging the private sector and CDC can certainly claim to have made a substantial contribution here. However, the task now is scaling up. Sustainable growth must be accelerated to ensure that the benefits of a thriving and responsible private sector are spread widely.

The private equity industry is not developing at the pace we would like to see. Although there are signs of gathering momentum, there is still a long way to go. Capital markets remain immature in the majority of CDC's geographies. The banking industry in China is a good example. Banking lines there remain under-developed and businesses are severely constrained in terms of available growth and expansion capital.

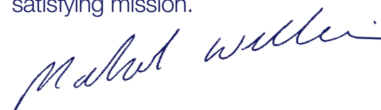
So CDC has a pioneering role across its markets. Patience and the long view are required. The private equity industry is itself a long term business with typically a ten year cycle. The business model initiated two years ago is showing encouraging signs of success. Yet, CDC remains at an early stage in its development and much has yet to be achieved.

China's interest in Africa received considerable international attention in 2006 and reactions are mixed. However, this has to be seen as a positive opportunity. Many commentators have stressed the need for governments to remain firm on corruption and governance issues, and CDC strongly supports that view. African businesses and governments now face the challenge of how best to harness the possibilities for sustainable economic growth.

The duty of the private sector to operate, and to be seen to operate, to standards of the highest ethical practice is paramount. Throughout 2006 CDC continued to put its business principles at the core of its investments and to demonstrate that good commercial returns and high standards of business ethics are complementary. The Board saw an example of this at first hand during a visit in November to the seed and produce packaging facility of Trinethra, a supermarket chain based in Hyderabad, India. The management's decision to pay salaries over the minimum wage to workers more accustomed to low wages has brought stability and commercial success for the business and a higher standard of living for employees.

Ultimate responsibility for ensuring that businesses behave ethically lies with national governments. However, international influence can be positive in this regard. Investors, whether they be commercial or with an explicitly developmental mandate, can make an effective contribution to improving standards.

CDC's strong returns for 2006 are a testament to the continued diligence and professionalism of the CEO and his team. I extend my continued thanks to all of them and look forward to seeing their unique expertise and experience put to work throughout 2007 as the company progresses in meeting CDC's challenging but satisfying mission.



Malcolm Williamson
Chairman

Chief Executive's Report

I am delighted to report a highly successful year for CDC. Net assets now stand at £2bn, an increase of 23% on 2005. Total returns after tax were £375m representing 21% on total average net assets. Return on the portfolio in US dollars was 43%.

These results are after bearing an exchange difference of £35m against the portfolio. Most of our portfolio is US dollar based and therefore suffers a reduction in pound sterling value, net of hedging, as the US dollar weakens. Profits generated in 2006 show clearly that thriving private sector businesses are operating successfully across the emerging markets of the developing world. The 2006 returns will now be reinvested to help even more companies grow.

Continued investment through Actis and Aureos

Strong commercial relationships with the best fund managers lie at the heart of our business and formed the core of our brief from government when CDC was restructured in 2004. We are extremely fortunate to have in our core manager, Actis, one of the strongest fund managers in our markets and the only one which operates across all of those markets. Similarly, Aureos is the market leader in small and medium enterprise (SME) fund management. Actis and Aureos represent 53% of outstanding commitments and in both cases CDC is their largest investor. Our success is dependent upon their strength. It was gratifying to see that over £132m was committed to their funds by other investors alongside CDC's capital in 2006, reaching a total of £433m over the last 3 years. We are grateful to Actis and Aureos for their investment skills and support.

Actis and Aureos delivered good results for CDC in 2006 and we continued to invest in new funds with both managers during the year. Particular highlights during the year were as follows:

- The Actis Africa Real Estate fund was announced in August. CDC is the sole investor with a commitment of US$100m in cash. CDC also seeded the fund with assets of US$54m. The fund will meet the growing demand for quality retail, commercial, industrial and residential property in Africa driven by GDP growth and foreign direct investment.
- We increased our commitment during the year to Actis's US$355m Africa Fund 2 to bring our total commitment to this fund to US$330m.
- The Actis managed legacy portfolio continued to produce good exits, including US$15m from TPS East Africa, a tourism company, via a sale of our holding through the Nairobi Stock Exchange.
- In Asia, Actis delivered some extremely strong exits most notably through sales of holdings in Glenmark Pharmaceuticals and IDFC in India, and South Asia Gateway Terminals in Sri Lanka. The latter is an excellent example of an investment that provided good returns and significant development impact, in this case a new world class port in Sri Lanka.
- Aureos continued to make strong headway in the SME space throughout the year. The launch of the US$16m Pacific Ocean Kula Fund II, with a CDC commitment of US$5m, also involved commitments from local and international investors. Aureos South Asia Fund had a first closing with CDC committed at US$20m.

In 2006 there was an important change in the ownership structure of Aureos. CDC acquired a 50% shareholding in the firm and at the same time sold down 26.5% to the Aureos management. We also introduced FMO, the Dutch development finance institution, as a strategic partner and major investor in Aureos funds. FMO is now represented on the Aureos board. These changes position Aureos as the leading fund manager focusing on the SME space in emerging markets and the company is now pushing forward for further growth.

Commitment to energy in emerging markets

Energy remained an important part of the portfolio in 2006 and we are looking at ways of strengthening that going forward. Our energy assets are currently held in CDC's wholly owned subsidiary Globeleq. Towards the end of 2006, Actis, CDC's investment adviser for power assets, conducted a review of Globeleq and the possible options for the future to develop value in the company. This process is ongoing.

New fund managers across geographies

As responsible investors, we need to ensure a balance between commitment to Actis and Aureos with diversification across a range of other top quality managers. We are developing a strong track record in identifying new fund managers and added a further 19 in 2006, bringing the total number of CDC fund managers to 32 with US$1,790m of outstanding commitments at the end of 2006. Key new funds and fund managers in 2006 included Helios, a first time team in Africa; Cape II focusing on Nigeria; Business Partners International investing in the SME space in Kenya; Kendall Court in Asia; AIF Capital Asia Fund III and Capital Today in China.

2006 also saw two significant initiatives with new fund managers:

- Firstly, two years of sustained work culminated in the launch of the first private equity fund in Afghanistan. CDC, together with the Asian Development Bank (ADB), worked with investment professionals to create a first time team at Acap Partners to manage the Afghanistan Renewal Fund. We committed US$5.8m and the ADB also committed US$5.3m.
- Secondly, towards the end of the year we confirmed our US$100m commitment to Citigroup's first ever dedicated African private equity fund. CDC is the sole investor in the fund which will be managed by Citigroup Venture Capital Investors (CVCI), a division of Citigroup Alternative Investments. The CVCI Africa Fund will provide growth capital for larger companies across

Africa, investing alongside CVCI's managed emerging markets private equity funds. CDC's Director of Strategy and Risk, Samir Abhyankar, has been seconded to the CVCI team for 12 to 18 months to add his own experience of emerging markets to the team. This is a strong example of the way in which CDC acts as a pioneer investor. Backing the CVCI team will benefit the private equity industry in Africa as a whole and sends a positive signal to other fund investors.

Addressing capital shortages

CDC's core objective is to provide capital for the private sector in some of the poorest countries of the developing world. Our chief instrument for delivering that is investment in private equity funds. In many markets we are taking significant strides to extend the role of private equity. In some markets, however, private equity is not the complete answer to capital shortages. In 2006 we began to look at additional ways of putting our capital to work, building on the activity already started in new areas such as microfinance. We intend to continue our intermediated approach, working through managers on the ground, and are exploring other instruments such as co-investing with fund managers, investing in secondary fund positions, debt funds and the like. We were delighted to welcome Hywel Rees-Jones to CDC during 2006, who joined us from Actis where he was Head of West Africa, to lead this initiative.

Business principles and development impact

CDC's business principles are a cornerstone of our investment strategy. Adherence to high standards of business ethics across environmental, health and safety at work, social and governance issues is not only intrinsically desirable but also builds value and competitive advantage within portfolio companies. In 2006 we strengthened our commitment to our business principles by developing a Business Principles Tool Kit for all our fund managers. It was developed in partnership with Forum for the Future, who specialise in advising businesses on sustainable development, and is a practical guide for fund managers in emerging markets. The Tool Kit is supported by tailored training programmes for managers. We also developed a new methodology and process for measuring the development impact of CDC's investments in funds. Further details on both these topics are in the section on business principles on pages 4 and 5.

Good business and good development go hand-in-hand and throughout the year we made significant effort to communicate that message in our target markets. A programme of conference attendance, speaker opportunities, meetings with a wide range of stakeholders and press coverage combined to ensure that CDC and our mission are better understood by financial and development communities alike. We also remain an active and enthusiastic member of the various regional private equity industry associations and other trade bodies such as the Emerging Markets Private Equity Association (EMPEA), the African Venture Capital Association (AVCA) and the association of European Development Finance Institutions (EDFI). During 2006 I was delighted to be appointed as Chairman of EDFI and look forward to a fruitful term of office. CDC has also played its part in sharing best practice as well as learning from others. CDC case studies of portfolio companies were included in the documentation to support the World Bank Institute's conference 'Business and the Millennium Goals'.

The CDC Pensions Scheme

One of the major financial events for CDC in 2006 concerned the CDC Pensions Scheme. In common with most companies, the 2006 Pensions Scheme valuation identified a potential shortfall. We therefore made a single payment of £10m but also created a trust to provide security to the Pensions Scheme Trustees. We paid £74m into this new trust which will become available to be drawn down into the Scheme if it is required. These arrangements together cover the closed fund shortfall.

Growing the CDC team

We expanded the CDC team this year to include not only Hywel Rees-Jones mentioned previously but also Mark Kenderdine-Davies, CDC's new General Counsel and Company Secretary who joined us from Gartmore, and Anubha Shrivastava from Performance Equity Management. Veronica John, who headed up the private equity funds team at the Asian Development Bank, joins us in April 2007. Our business is growing fast and, in the context of an ever competitive market for good investment professionals, we will need to attract and retain the best people to help us achieve our mission.

2006 was a busy, demanding and exciting year. My thanks are due to the Board for their continued guidance and support and to all the hard working and dedicated staff at CDC.

Richard Laing
Chief Executive

Business Principles and Development Impact

CDC places great emphasis on our business principles and development impact.

OF INVESTMENTS IN POORER COUNTRIES

OF INVESTMENTS IN COUNTRIES CLASSIFIED AS POOR

We are committed to high standards in environmental management, health and safety at work, social conditions and corporate governance. This is the right and ethical approach to business, but is also a commercial imperative. Companies must be able to demonstrate high standards in business practice if they are to become sustainable and compete internationally. Commercial discipline towards business principles is helped by the fact that many governments in developing countries are tending to improve enforcement of regulations around social and environmental issues. Companies need to be able to respond to and implement those regulations. Of equal importance is the fact that investors understand that releasing value from an investment in the growth of a company increasingly depends on the new owners being comfortable with its business principles. This may be because they have a brand at risk and/or operate in a more demanding regulatory framework.

A prerequisite of CDC investment

CDC requires all its fund managers to sign up to its Business Principles. This is a prerequisite of any CDC investment. If we believe that our Business Principles will not be taken seriously, we will not invest in a fund. Managers are obliged to monitor, evaluate and report to CDC on implementation at portfolio company level of all aspects of the Business Principles. Where challenges are identified, fund managers put action plans in place to improve the situation. CDC provides guidance and support in this process. This approach helps CDC's capital to play a catalysing role in raising standards of business practice across emerging markets.

Practical assistance for fund managers

In 2006 we developed and launched a new resource for our fund managers to assist them in this important aspect of managing CDC's capital. The Business Principles Tool Kit, launched in December 2006 was devised and written in partnership with Forum for the Future, a leading sustainable development charity. The Tool Kit sets out the latest research and thinking on the business case for high standards in social and environmental practice. It also helps fund managers assess risks and opportunities and provides tools for integrating this analysis into investment decisions. The Tool Kit helps managers recognise when special expertise is required and also provides support in reporting to CDC, and other investors who require such reporting, on progress throughout the life of a fund.

The Tool Kit is being rolled out to all fund managers throughout 2007. CDC is providing tailored training for fund managers on how to implement the Business Principles in practice. Support is also available on monitoring, reporting and action-plan development and implementation in cases where improvements are required.

Assessing development impact

The development impact of CDC's investments is considerable and it is important that we keep track of the added value that CDC, through its fund managers, makes within our chosen markets. To this end, during 2006 CDC focused on ways of measuring and understanding the development impact of our investments. For every investment into a fund, the key development indicators are identified. A full appraisal is then carried out typically halfway through the fund life and at the end, to assess actual performance and development impact against the original

indicators. At both stages a report is produced, usually involving an external consultant with specialist knowledge in this area, and submitted to the Business Principles and Development sub-committee of the Board for review. Lessons are learnt and then applied to future investments.

Raising standards and building value

As a fund of funds, CDC's fund managers are responsible for business principles at investee company level. Fund managers are raising standards, improving performance and building value in portfolio companies. Applying CDC's Business Principles, our managers assess needs, agree milestones and goals for improvement, monitor progress and evaluate impact. There are many examples where our fund managers add real value and a few are set out below.

CDC's Business Principles mean that we are able to provide capital to growing and successful businesses without compromising on environmental management or social and governance issues. Investors in emerging markets often face complex challenges and we believe the pioneering work we are doing in this field provides encouragement to others who are beginning to recognise the potential for making a difference in some of the poorest countries of the world.

Aureos's investment in Mount Elgon Orchards near the Kenyan/Ugandan border has delivered tangible benefits to employees and the local community. The company, which grows and distributes fruit, vegetables and flowers, employs 1,200 people in an area of 55% unemployment. Aureos has worked with the company to increase expenditure on health and safety compliance and staff training. A range of loan and credit facilities to staff has been introduced. A medical centre has been established to support staff, their families and the wider community. The centre, which includes a small in-patient facility, offers maternity services as well as HIV/AIDS testing and counselling to staff, their families and the local community. Education programmes and housing services are also available. Approximately 40,000 people in the environs now benefit from the social services provided by the company

Trinethra, an India Value Fund II investment, is a chain of retail stores located around Andhra Pradesh, India. Small and medium enterprises (SMEs) traditionally suffer from an inability to attract top talent. However, Trinethra has benefited by the additional recruitment of senior members of the management team who have strong experience of food and beverage retail. A management information system has now been rolled out across the chain of shops which, along with a review of staff remuneration policies to introduce higher wages, has allowed Trinethra management to bring about a drop in 'shrinkage' through losses and theft to well below industry standards, delivering commercial advantage to the business.

Actis's investment in Sandhar, an auto-component manufacturer in India illustrates the benefit of providing high quality training for staff. Following an extensive training programme, the majority of senior managers have been promoted from within the company. This kind of capacity building is highly developmental and flows directly from good business practice. Sandhar has trained all its staff in HIV/AIDS awareness through the use of skits in a street play format.

Aureos's investment in Brookside Dairy in Kenya has established new environmental standards, working with the National Environmental Management Authority. Improved waste management processes and a company-wide recycling programme have also been introduced. The dairy now employs a full time environmental officer and an improved health and safety at work programme has also been introduced. The company also provides education campaigns on nutrition, school and church building programmes and has constructed an access road and bridge in nearby Kinangop.

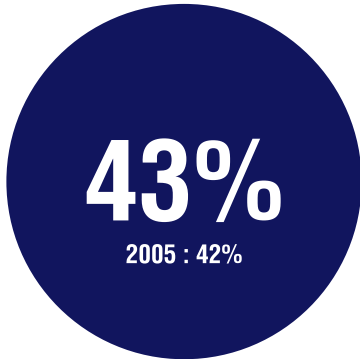
Through our fund manager Actis, CDC remained invested in forestry company Kolombangara in the Solomon Islands during the civil war. We continued to invest in the company at a time when other investors were cautious of involvement in the islands' economy. Actis's attention to business principles, which included achieving Forestry Stewardship Council certification, helped find a good exit. This ensured the future of the company with a responsible owner who will continue to build value in the business, with continued attention to environmental management, training and corporate governance.

In Rwanda, Actis's investment in Banque Commerciale de Rwanda (BCR) was the first privatised bank in the country. The privatisation was a key part of the national Poverty Reduction Strategy Programme. Actis has helped the business bring in world class best practice by implementing money laundering, credit and compliance policies and by improving systems and operational controls. It has also introduced new management and board of directors with extensive international and African banking and investment experience. In making credit decisions the developmental benefits have to be considered and a new product aimed at SMEs has been launched. New branches have opened in rural areas previously without a bank and each month staff take part in environmental projects. BCR has gone from strength to strength, and is now the country's leading commercial bank.

Performance Review

CDC, as a fund of funds, has developed relationships with 30 new fund managers since the beginning of 2004.

KEY PERFORMANCE INDICATORS



GROSS PORTFOLIO PERFORMANCE IN US$ EXCEEDED THE MSCI EMERGING MARKETS INDEX OF 29% BY 14%

TOTAL RETURN AS A FUND OF FUNDS

THIRD-PARTY FUNDS MOBILISED ALONGSIDE CDC'S CAPITAL IN ACTIS AND AUREOS FUNDS

NEW INVESTMENTS IN POORER COUNTRIES (%)

NEW INVESTMENTS IN SUB-SAHARAN AFRICA AND SOUTH ASIA (%)

Description of the business and objectives

CDC is a government-owned investment company that invests in private sector businesses in developing countries where it has been an innovative investor for nearly 60 years. CDC is part of the UK programme for promoting international development and the reduction of poverty. The Government has no involvement in, or responsibility for, CDC's day-to-day decision-making which is carried out by the CDC Board of Executive and Non-executive Directors based in London. CDC is required to operate commercially according to the highest standards of corporate governance.

CDC's mission is to generate wealth, broadly shared, in emerging markets, particularly the poorer countries, by providing capital for investment in sustainable and responsibly managed private sector businesses. CDC also plays a catalytic role, using our investments, to mobilise third party capital by demonstrating the benefits of successful investment to other capital providers. Profitable and sustainable private sector businesses are the principal drivers for creating economic growth, which is critical to reducing poverty and improving living standards. Scarcity and unequal access to long term risk capital constrains the establishment and growth of viable businesses in our target markets.

Our investment strategy is to align our activities with our shareholder's objective of reducing poverty. We have two investment targets: 50% of new investments in sub-Saharan Africa and South Asia; and 70% in the poorer countries of the world (defined as countries with an annual Gross National Income ('GNI') per capita below US$1,750 in 2001). Both tests are measured over a five-year rolling period. We do not invest in countries which have a GNI per capita of over US$9,075 or EU accession countries.

OTHER RESULTS HIGHLIGHTS

NEW INVESTMENTS IN THE YEAR

NEW COMMITMENTS DURING THE SECOND FULL YEAR OF CDC'S NEW BUSINESS MODEL

UNREALISED VALUATION GAINS

In making our investments we:

- target an appropriate commercial return, which may vary by geography, product or sector;
- require managers to invest in companies with strong business principles including environmental, health, safety and social policies; and
- aim to be catalytic and innovative in what we do.

Our core values are:

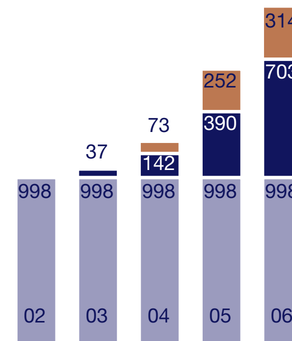
- to be open and honest in all our dealings, while respecting commercial and personal confidentiality;
- to operate professionally in a performance-orientated culture and be committed to continuous improvement;
- to be objective, consistent and fair with all our stakeholders;
- to be a good corporate citizen, demonstrating integrity in each business and community in which we operate;
- to respect the dignity and well-being, safeguard the health and safety and treat fairly all our people and those with whom we are involved;
- to work over time towards full compliance of our investments with the International Labour Organisation Fundamental Conventions and with the UN Declaration of Human Rights; and
- to protect the environment, encourage the efficient use of natural resources and promote the improvement of the environment wherever possible.

CASH AND SHORT TERM DEPOSITS HELD AT YEAR END (£m)

OUTSTANDING COMMITMENTS (£m)

REALISED PROFITS ON EXITS

CASH GENERATED FROM THE PORTFOLIO



CDC VALUE GROWTH (£m)

Unrealised profit
Realised profit
Investment

Strategies for achieving the objectives of the business

CDC, as a fund of funds, places its portfolio with skilled and experienced private equity fund managers in our target markets. CDC expects its managers to achieve returns that are appropriate to the opportunities and risks in the relevant market. Amongst the features that CDC seeks in making a decision to commit to a fund are:

- a credible thesis aimed at our preferred markets;
- a strong management team, preferably with a track record of investing successfully together for a period of years;
- prospective returns which are commensurate with the potential risk; and
- a management team which will apply high standards of business ethics and corporate governance.

CDC evaluates fund performance according to the financial performance of the funds and the development impact which the funds have had in terms of creating profitable businesses that are economically sustainable, environmentally non-distorting and have a positive impact on the private sectors in which they operate.

Presentation of results

CDC's financial results are presented in two ways. First, following International Financial Reporting Standards, CDC consolidates all businesses where it has a controlling interest. These audited consolidated accounts can be found in full from page 23 onwards. The Directors' Report gives a summary of those results. Second, in order to explain more fully CDC's investment activities as a fund of funds, CDC has valued all our investments, including subsidiaries, at fair value 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 12. Ernst & Young LLP have examined these statements and their report is also shown.

Current performance

Portfolio return

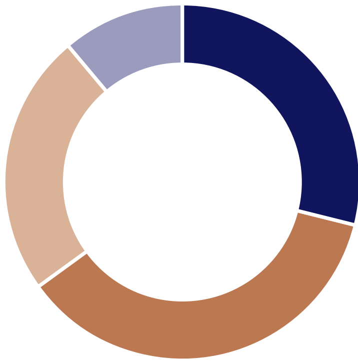
The MSCI Emerging Markets Index is designed to measure equity performance in the global emerging markets. In 2006 it rose by 29% (2005: 30%). However, index rises of individual countries varied widely in 2006 with Africa 17%, India 49% and China 78%. CDC's gross portfolio performance in US$ was 43% exceeding the MSCI index by 14% (2005: 12%).

The portfolio generated £19.9m (2005: £34.9m) of revenue from portfolio yield and interest received, net of costs and fees. Portfolio yield will decrease over time as the recently invested portfolio is intended to achieve returns through capital gain rather than yield.

Realised gains of £47.5m (2005: £173.6m) arose mainly on the legacy portfolio, particularly from Africa and Latin America.

We are now into the eighth year of valuing our portfolio according to our valuation methodology, which has been amended slightly this year to follow the recent amendment to the published International Private Equity and Venture Capital Valuation Guidelines issued jointly by the British and European Venture Capital Associations. The methodology is described on page 13.

The gain in the portfolio valuation was £270.0m (2005: £178.6m), with the largest valuation gains being from the legacy portfolio, mostly from the Actis Energy Fund at £144.5m and Actis Africa Fund 1 at £60.4m, but also from Actis Africa and China Fund 2s.

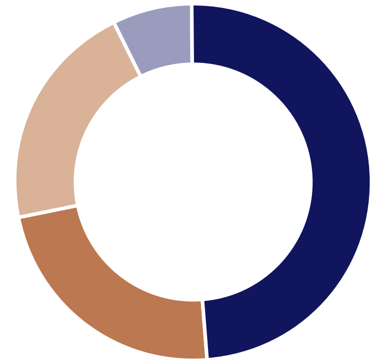


NEW INVESTMENTS BY AREA (%)

- Africa (29%)
- Americas (24%)
- South Asia (36%)
- Asia Pacific (11%)

PORTFOLIO BY SECTOR (%)

- Power (39%)
- Financial institutions (7%)
- Manufacturing (16%)
- Agribusiness (6%)
- Minerals, oil and gas (14%)
- Telecommunications (5%)
- Infrastructure (7%)
- Other (6%)



PORTFOLIO BY GEOGRAPHICAL AREA (%)

- Africa (49%)
- Americas (21%)
- South Asia (23%)
- Asia Pacific (7%)

Operating costs
Operating costs for the year of £6.7m (2005: £4.9m) have increased due to the increasing fund commitment and portfolio monitoring activity from the 26 London office employees (2005: 24). Operating costs represent 0.4% of funds under management which compares favourably with industry benchmarks.

Other net income
Other net income of £44.3m (2005: £43.6m) included a lower tax provision releases of £4.0m (2005: £17.8m) with HMRC agreement of tax due since CDC became UK corporation tax exempt in May 2003. The higher average cash balance in 2006 gave increased deposit interest.

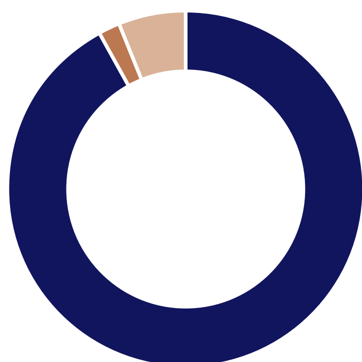
Total return
The overall result is a total return of £375.0m (2005: £425.8m). As a return on opening total net assets on a valuation basis this represents a return for CDC's shareholder of 23% (2005: 35%) this year and an average annual return of 19% since the beginning of 2003.

Third party funds mobilised
One of CDC's objectives is to mobilise third party capital investment in emerging markets by demonstrating the benefits of successful investment to other capital providers. During the year third-party investment in funds raised by Actis and Aureos amounted to US$259.1m (2005: US$489.9m).

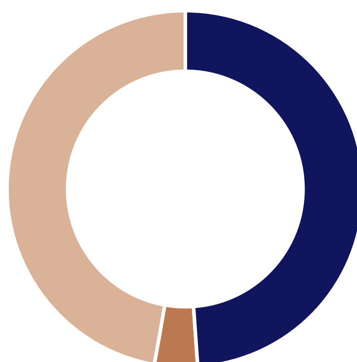
Portfolio
The portfolio consists of investments in funds managed by fund managers and the legacy portfolio which is managed by Actis as a fund under an umbrella agreement. During the year, the portfolio, rose from £937.8m to £1,125.3m, a 20% increase, as shown on page 10.

Fund drawdowns
Drawdowns by funds for new investments at £257.3m (2005: £155.5m) were higher than last year with increased investment in power and increased drawdowns from non Actis managed funds. Although CDC no longer makes direct investments, instead investing in managed funds, CDC does look through funds to the underlying new investments to measure our new investment targets over a five-year period.

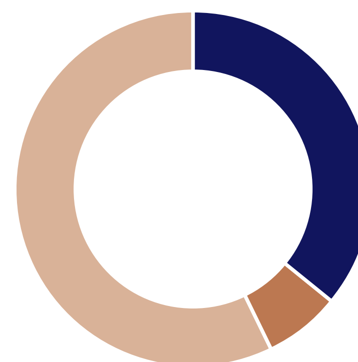
New investments
With new investments at 72% in poor countries and 61% in sub-Saharan Africa and South Asia the rolling five year targets of 70% and 50% respectively were exceeded.



PORTFOLIO BY FUND MANAGER (%)



OUTSTANDING COMMITMENTS BY FUND MANAGER (%)



NEW COMMITMENTS BY FUND MANAGER (%)

Fund cash generated

The high level of portfolio cash generation has continued at £407.3m (2005: £507.7m) driven from portfolio realisations. These arose mainly on the legacy portfolio and included some large underlying investment realisations within the funds. Trans African Concessions, a South Africa to Mozambique toll road, realised cash of £27.9m, at a 3.4 multiple to cost and a 27% IRR. Glenmark Pharmaceuticals in India generated cash of £21.7m at a 2.6 multiple and a 105% IRR. Aquarius Platinum, a platinum mine in South Africa, realised cash of £14.6m at a 2.7 multiple and a 19% IRR.

Cash and short term deposits held

The high level of legacy portfolio realisations resulted in a higher cash and short term deposits balance at £771.1m (2005: £676.5m). Most of this balance is placed on deposit with the UK Government's Debt Management Office at present but will be recycled into fund investments as current outstanding commitments for investment into 77 funds which stand at £913.7m, representing an over commitment of 19%, are drawn down.

Movement of the CDC portfolio	Actis managed funds £m	Aureos managed funds £m	Other fund managers £m	Total £m
Portfolio at the start of the year	904.5	14.9	18.4	937.8
New investments	184.0	13.9	59.4	257.3
Realisations	(333.5)	(4.9)	(1.4)	(339.8)
Unrealised gains/(losses)	273.9	(0.6)	(3.3)	270.0
Portfolio at the end of the year	**1,028.9**	**23.3**	**73.1**	**1,125.3**
Cash flow				
Fund cash generated	397.8	7.4	2.1	407.3
Fund drawdowns	(184.0)	(13.9)	(59.4)	(257.3)
Net fund flows	**213.8**	**(6.5)**	**(57.3)**	**150.0**
Other cash flows				(55.4)
Net cash inflow				**94.6**

Fund commitment and investment

	Outstanding commitment £m	CDC investment value £m
23 Actis managed funds	**448.3**	**1,028.9**
22 Aureos managed funds	**40.1**	**23.3**
Shorecap International	0.9	1.5
European Financing Partners	10.3	2.9
Navis Asia Fund IV	1.5	4.8
India Value Fund II	1.1	2.7
Barings India Fund II	4.6	2.9
EMP Africa Fund II	12.7	2.4
GroFin East Africa SME Fund	0.9	0.5
Ethos Fund V	13.8	1.5
Sphere Fund 1	1.1	0.1
Cordiant International Finance Participation Trust (2004)	25.5	26.0
Africa Lion 2	0.6	3.9
Kendall Court Mezzanine (Asia) Fund	7.1	0.4
Capital Alliance Private Equity II	4.6	2.8
IDFC Private Equity Fund II	10.6	1.8
Capital Today China Growth Fund	14.8	–
Dynamic India Fund VII	30.4	7.1
Lok Capital	1.9	–
Helios Investors	25.3	–
Business Partners International Kenya SME	0.8	–
Afghanistan Renewal Fund	2.8	–
AIF Capital Asia III	20.2	1.7
CDH China Fund III	38.3	–
CVCI Africa Fund	40.8	10.1
Lombard Asia III	10.2	–
24 Other managed funds	**280.8**	**73.1**
Total legal commitments to 69 funds at end 2006	**769.2**	
Nexxus Capital Private Equity Fund III	10.2	
India Value Fund III	12.8	
Horizon Equity III	5.1	
Asia Healthcare	12.8	
Navis Asia Fund V	51.0	
Atlantic Coast Regional Fund	7.7	
Vantage Mezzanine Fund	7.3	
Medu Capital Fund II	7.3	
Co-Investments	30.3	
Board-approved commitments (eight funds)	**144.5**	
Total (77 funds)	**913.7**	**1,125.3**

Fund managers

Before investing in a fund, extensive due diligence is undertaken to try to ensure that top quality fund managers have been chosen who will deliver above average returns in the chosen markets. Since the end of 2004 CDC has been actively reviewing fund proposals from private equity fund managers within its investment universe.

CDC made commitments to three new Actis funds totalling US$293m in 2006: Actis Umbrella Fund (US$26m); Actis Agribusiness Fund (US$93m); and Actis Africa Real Estate Fund (US$154m). CDC also increased its commitment to the Actis Africa Fund 2 by US$20m. During the year, CDC made commitments to four Aureos SME funds totalling US$52m as follows: Aureos South Asia Fund (US$20m); Aureos China Fund (US$20m); Kula Fund II (US$5m); and Central America Growth Fund (US$7m).

In 2006 CDC committed to 14 funds managed by other fund managers totalling US$465m from: Africa Lion 2 (US$5m); Kendall Court Mezzanine (Asia) Fund (US$15m); Capital Alliance Private Equity II (US$15m); IDFC Private Equity Fund II (US$25m); Capital Today China Growth Fund (US$30m); Dynamic India Fund VII (US$75m); Lok Capital (US$4m); Helios Investors (US$50m); Business Partners International Kenya SME (US$2m); Afghanistan Renewal Fund (US$6m); AIF Capital Asia III (US$43m); CDH China Fund III (US$75m); CVCI Africa Fund (US$100m); and Lombard Asia III (US$20m).

Risks and uncertainties

CDC's operations are managed within limits defined by the Board. The Board regularly reviews the overall risks inherent in CDC's business and the actions taken to mitigate those risks where appropriate. The Board reserves to itself the approval of commitments to new funds.

One of the main risks facing CDC is the loss of portfolio value due to a catastrophic event. Values have decreased as well as increased in the past. Portfolio exposure limits for each country and sector in which CDC invests help to mitigate the portfolio risk.

CDC has treasury policies to manage the Group's cash resources and Group currency exposure. To mitigate currency risks, CDC enters into derivative type currency exchange transactions to hedge currency risk in accordance with a currency hedging policy agreed by the Audit Compliance and Risk Committee. CDC does not trade in derivatives, nor does it enter into currency transactions of a speculative nature.

Subsidiaries within the Group engaged in the purchase or supply of commodities choose whether and how to hedge commodity price risk. Such hedging is not speculative.

More details on derivatives are given in note 19 to the accounts.

The financial statements

	2006 £m	2005 £m
Summary statement of total return (for year ended 31 December)		
Portfolio yield	**19.9**	34.9
Net realised profits	**47.5**	173.6
Unrealised value movements	**270.0**	178.6
Portfolio return	**337.4**	387.1
Operating costs	**(6.7)**	(4.9)
Other net income	**44.3**	43.6
Total return after tax	**375.0**	425.8
Summarised balance sheet on a valuation basis (at 31 December)		
Portfolio	**1,125.3**	937.8
Net cash and short-term deposits	**771.1**	676.5
Other net assets	**118.4**	25.5
Total net assets on a valuation basis	**2,014.8**	1,639.8

Basis of preparation

The summary statement of total return and the summarised balance sheet have been prepared in accordance with valuation guidelines to comply with the International Private Equity and Venture Capital guidelines. These guidelines are detailed on page 13 under the Valuation methodology heading. In addition, they have been compiled to include the following items for the parent company and investment holding subsidiaries:

Revenue account

Portfolio return comprises three items: first, portfolio yield, which includes dividend income from the equity portfolio and interest income on the loan portfolio net of investment deal costs and management fees. Second, net realised profits, which represent gains and losses calculated by reference to cash proceeds less valuations at the last balance sheet date. Finally, portfolio return includes net unrealised profits which represent valuation gains and losses arising since the last balance sheet date, in accordance with the guidelines set out on page 13. Realised and unrealised gains and losses on investments acquired in the year are calculated by reference to the cost of investment.

Other revenue account items include operating costs, interest and other items (which comprise bank deposit interest, net of interest payable on external borrowings and other income that is not portfolio related) and tax.

Balance sheet

This comprises the portfolio at valuation on the basis outlined on page 13, net cash (which includes all cash and cash equivalents and is net of overdrafts), short term deposits over 90 days at initiation and other net assets/liabilities. Other net assets/liabilities include property, plant and equipment, employment benefits assets/liabilities, trade receivables and payables, short and long term external borrowings and other provisions and charges.

Review report to the shareholder of CDC Group plc

We have reviewed the accompanying Summary Statement of Total Return for the year ended 31 December 2006 and the Summarised Balance Sheet as at 31 December 2006 of CDC Group plc, which are prepared on the basis of accounting set out above and in accordance with the valuation methodology set out on page 13. These statements are the responsibility of the Company's management. Our responsibility is to issue a report on these statements based on our review.

This report is made solely to the shareholder of CDC Group plc. Our review work has been undertaken so that we might state to the shareholder those matters we are required to state to them in a review 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 for our review work or for this report.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether these statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review of the statements above, nothing has come to our attention that causes us to believe that the Summary Statement of Total Return and the Summarised Balance Sheet above are not properly prepared, in all material respects, in accordance with the basis of accounting set out above and in accordance with the valuation methodology set out on page 13.

Ernst & Young LLP, Registered Auditor
London, 22 March 2007

Risks and uncertainties (continued)

The defined benefits section of the CDC Pensions Scheme ('Scheme') is very mature so the only two factors to have a material impact on the surplus or deficit in the Scheme are the discount rate and longevity. An increase in discount rate of 0.25%, decreases the Scheme liabilities by 4.9%. An increase in longevity by one year, increases the Scheme liabilities by 3.5%. With reduced interest rates, an inverted yield curve and changed assumptions on longevity coming from the actuarial profession, the Scheme valuation as at 31 March 2006 showed a deficit of £48m, on a basis which takes into account the current investment strategy of the Scheme. CDC therefore made a contribution of £10m to the CDC Pensions Scheme in 2006. The estimated deficit if the Scheme were to be wound up on 31 March 2006, the buy out basis, would be some £150m. Under new powers conferred on them by recent legislation the Trustees of the Scheme sought additional assurance from CDC that the £48m shortfall would ultimately be funded. It was agreed that CDC would fund a contingent asset up to a level which assumes no further contributions from CDC and that a low risk investment policy is adopted by the CDC Pensions Scheme to provide security to the Pensions Scheme Trustees. Accordingly in 2006 CDC paid £74m into a contingent asset trust. The terms of the Trust allow funds to be drawn by the CDC Pensions Scheme to fund any deficit, but funds can be returned to CDC if they are not required by the CDC Pensions Scheme.

Cash flow forecasting

CDC's investments in funds are long-term in nature and individual fund cash flows are difficult to predict. However, CDC models best estimates of the performance and future cash flows of the individual funds in which it has invested. These models are the basis for a business plan, including long-term cash flow forecasts, which is reviewed and approved by the Board.

Capital structure

In 2004, CDC was restructured, spinning out its fund management business, together with the majority of staff, into Actis. The CDC balance sheet was also restructured by converting the interest free government loans to equity so that CDC, as an investment company, is funded by equity with no external borrowing.

Valuation methodology

CDC equity valuation guidelines have been developed in accordance with the International Private Equity and Venture Capital Association Guidelines. Investments are valued at fair value, which is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arms length transaction. To determine the fair value of an investment the enterprise value of the investee company is determined using the CDC methodology. Higher ranking financial instruments are then deducted from this enterprise value. A marketability discount to reflect the return market participants demand to compensate for the risk arising from a lack of marketability is then deducted, where appropriate, to give a net attributable enterprise value. This net attributable enterprise value is then allocated between instruments to determine the fair value of an investment.

The CDC methodology is as follows:

- investments where the value derives mainly from the underlying assets, such as funds managed by fund managers, are valued at asset value using appropriate valuation measures for the underlying assets and liabilities;
- quoted equity in an active market is valued at the quoted bid price. However, discounts are applied for lock-ins;
- realisations in process are valued at the expected realisation proceeds although discounts are applied to reflect the certainty of transaction completion;
- if there has been a recent investment in the company the price of the recent investment is used to determine fair value; unless subsequent events have adversely impacted fair value;
- early stage companies without positive cash flow or profit are valued using an appropriate industry benchmark;
- companies with maintainable profits are valued on an appropriate earnings multiple from companies in similar sectors and markets;
- companies in industries with specific valuation metrics are valued using those metrics where they provide the most reliable estimate of fair value;
- companies with no maintainable profits or cash flows at present, but whose cash flows can be forecast with confidence, are valued using future cash flows discounted at the appropriate risk adjusted discount rate; and
- in situations where fair value cannot be reliably measured, the investment is valued at previous carrying value, unless there is evidence of value impairment, in which case the value is reduced to reflect the extent of estimated impairment.

The summary statement of total return and the summarised balance sheet, using this 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;
- including dividends and interest from subsidiaries; and
- measuring all investments, including subsidiaries, at fair value.

Godfrey Davies
Chief Financial Officer

Board of Directors

Malcolm Williamson
Chairman
Appointed in January 2004. He is Chairman of Signet Group plc, Deputy Chairman of Resolution plc, a main Board member of National Australia Bank and Chairman of National Australia Group Europe Ltd. He is also a Board member of Group 4 Securicor plc and JP Morgan Cazenove Holdings. He also chairs the Advisory Board of Youth Business International and is a Board member of the Prince of Wales International Business Leaders Forum.

Until February 2004, he was President and Chief Executive of Visa International. 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 a member of the Post Office Board and was Managing Director of Girobank. He started his career with 28 years at Barclays Bank.

Andrew Williams
Non-executive Director
Appointed in July 2003. He is a director of SVG Capital plc and Chief Executive Officer of its fund advisory business, SVG Advisers Limited and is a Visitor of the Ashmolean Museum.

He was formerly Managing Director of Schroder Ventures (London) Limited, having worked for Schroders plc since 1983. This included a period as co-head of equity capital markets and four years in Japan where he was head of corporate finance. He was also head of the Schroders Securities Asian divisions, with operations in Singapore, Hong Kong, Korea and Indonesia.

Arnab Banerji
Non-executive Director
Appointed in July 2004. He is the Partner responsible for emerging markets investments at Lansdowne Partners.

He was the Prime Minister's Senior Policy Adviser on Financial and City Affairs from October 2001 to April 2005 and was also appointed the Prime Minister's Economic Adviser in January 2004. He was previously Investment Chairman of the Foreign & Colonial Group. He served on the Advisory Council of the UK's Export Credit Guarantee Department for three and a half years from January 1997. He was also a member of the Morgan Stanley Capital International Advisory Board for four years. He is a trustee of the Ethox Foundation (The Oxford Foundation for Ethics and Communication in Health Care Practice).

Jonathan Kydd
Non-executive Director
Appointed in 1997. He is Chairman of the Business Principles and Development Committee. A development economist, he is Dean of the University of London's External System and Visiting Professor at the Centre for Environmental Policy of Imperial College, London. Up to February 2007 he was chairman of NR International Ltd., a company which manages research programmes in developing countries, and he is a member of the Advisory Council of ECGD.

Fields Wicker-Miurin
Non-executive Director
Appointed in November 2004. She is co-founder and partner of Leaders' Quest, an international organisation which connects, engages and enables leaders around the world to be more effective and responsible leaders. She is also Chair of its Advisory Board. Fields is a non-executive director of the D. Carnegie and Co, Sweden, and Savills plc. She is an Independent Member of the DTI's Executive and Strategy Boards and serves on the UK's Technology Strategy Board. She is also a Governor of King's College, London.

Previously, she was Chief Financial Officer of the London Stock Exchange and was Chief Operating Officer and Partner of Vesta Group, an international venture capital firm investing in early stage technology businesses in Europe.

Richard Laing
Chief Executive
Appointed in July 2004. He joined CDC in January 2000 as Finance Director and assumed the role of Chief Executive following the restructure of CDC in 2004. He is currently Chairman of the EDFI Board of Directors, an association of 15 bilateral institutions which provides long-term finance for private sector enterprises in developing and reforming economies. He is also a Trustee of the Overseas Development Institute, the UK's leading independent think tank on international development.

Prior to this, 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 also a non-executive Director of Camelot plc. He previously worked in agribusiness in developing countries, and at PricewaterhouseCoopers.

Directors' Report

The Directors submit their report and the audited financial statements of CDC and its subsidiaries ('the Group') for the year ended 31 December 2006. The Directors' Remuneration Report is on pages 20 to 21 giving Directors' interests during the year and incentive arrangements for Directors and employees.

Principal activities

CDC Group plc ('CDC' or 'the Company') is a leading investor in emerging markets. The principal activity of CDC is investment in the form of risk capital via a series of funds. As part of its investment mandate, CDC has in the past taken majority stakes in investee companies; the activities of these subsidiaries are wide-ranging and include power, agriculture, finance and manufacturing.

Business review

The information that fulfils the requirements of the Business Review can be found in the Performance Review on pages 6 to 13, which are incorporated into this report by reference.

Business principles

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.

Emerging markets are still characterised by poor labour standards, inadequate environmental protection and weak corporate governance. Employee representation and legislation may be weak or poorly enforced. In addition, official and public pressure to improve regulation and performance in these areas is not as strong as in more developed economies. CDC tries to reinforce efforts to apply principles of responsible investment in poorer countries and requires its managers to engage with companies to encourage them to adopt higher standards.

Financial statements

Basis of preparation

The audited financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS').

Income

Income was £529.7m (2005: £741.9m). Decrease in income was mainly due to lower profit on disposal of fair value financial assets and loss on disposal of subsidiaries (2005: £50.6m gain).

Profit from operations

Profit from operations before tax and finance costs of £329.6m compares to £464.2m for 2005. This performance mainly reflects lower profits on realisations.

Taxation

The tax charge in 2006 was £26.5m compared with a credit of £4.2m in 2005. 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 and its subsidiaries are still subject to corporate taxes outside the UK.

Changes in equity

Profit for the year attributable to equity holders of the parent was £332.7m (2005: £427.8m). Currency translation losses on retranslation of net assets of subsidiaries were £38.4m (2005: gains of £58.3m) following depreciation of the US dollar against sterling.

Cash flow

Cash inflow before financing was £329.3m (2005: £159.0m) with substantially higher proceeds from equity realisations, including significant proceeds from the disposal of subsidiaries as shown in note 12 to the accounts.

Balance sheet

Total assets increased from £2,672.2m to £2,915.8m from the strong performance in 2006.

Pensions

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. Disclosures required under IAS 19 show a surplus of assets over liabilities of £93.1m (2005: £7.8m). Further details are in note 16 to the accounts.

Dividend recommended

The Directors do not recommend payment of a dividend for the year.

Post balance sheet events

Material post balance sheet events are disclosed in note 30 to the accounts.

Corporate governance

CDC supports established best practice in corporate governance and has complied with the Combined Code on corporate governance throughout 2006, as far as is practicable for a company that is wholly owned by the UK 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.

Directors

Statement of Directors' responsibilities in relation to the financial statements

The Directors are responsible for preparing the Annual Report and the Company and Group financial statements in accordance with applicable UK law and those IFRS as adopted by the European Union.

The Directors are required to prepare Company and Group financial statements for each financial year which present fairly the financial position of the Company and of the Group and the financial performance and cash flows of the Company and of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 81 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

So far as each person currently serving as a Director of the Company at the date this report is approved is aware, there is no relevant audit information of which the Company's auditors are unaware and each Director hereby confirms that he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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.

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 the Company's shareholder 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.

Certain matters are reserved for decision/approval by the Board and there is clear delegation of authority to the Chief Executive and other senior employees within the Company for other specific matters.

Board membership

The Board structure ensures that no single individual or group dominates. There are procedures for planning, for the making of investments and for information and reporting systems for CDC's businesses and performance. CDC's Articles of Association provide for one third of the directors to retire by rotation at each annual general meeting. The Directors retiring by rotation at the forthcoming annual general meeting are Richard Laing and Fields Wicker-Miurin. Being eligible, they offer themselves for re-election.

The Board met ten times during the year. For the coming year, the Board has scheduled 12 meetings. The Chairman and the 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, which is timely and of a quality that enables it to carry out its duties. Training, where appropriate, is provided to the Board and employees. 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.

The Board has not appointed a senior independent Director from the Non-executive Directors as it is not felt to be appropriate for a company that has one beneficial shareholder.

The Non-executive Directors are regarded as independent and are from varied business and other backgrounds. The UK Department for International Development ('DFID') has appointed two Non-executive Directors who are deemed to be independent. 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.

Board Directors

The table below gives the attendance of all the Board Directors, whose biographies are on pages 14 and 15, during the year ended 31 December 2006:

Number of meetings during the year	10
Malcolm Williamson (Chairman)	10
Richard Laing (Chief Executive)	10
Jonathan Kydd	10
Andrew Williams	9
Arnab Banerji	6
Fields Wicker-Miurin	9

Performance evaluation of the Board was carried out during the year by means of an anonymous survey of Directors. The results of the survey were considered by the Board.

The Chairman, the Chief Executive and the Chief Financial Officer meet DFID quarterly to discuss shareholder issues.

None of the Directors at any time during the year ended 31 December 2006, or in the period between that date and 22 March 2007, 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 page 20. None of the Directors at any time during the aforesaid period had any material interest in any contracts with the Company or its subsidiaries.

At the end of 2006, Malcolm Williamson held eight directorships excluding CDC, one of which was assumed in 2006. Three of these eight directorships were as chairman and one as deputy chairman and senior independent director. The Board considers that Malcolm Williamson has sufficient time to undertake his duties.

Board committees

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

Audit, Compliance and Risk

The table below indicates the members and their attendance at the scheduled meetings during the year. The committee has a required quorum of two members. The Chairman, the Chief Executive and the Chief Financial Officer attend by invitation.

Number of meetings during the year	2
Arnab Banerji (Chairman)	1
Jonathan Kydd	2
Fields Wicker-Miurin	2

The committee's main duties are to oversee the affairs of CDC, in particular: review the financial statements; review the findings of the external auditors; review the continued independence 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.

The committee satisfied itself as to the continuing independence of the external auditor. In doing so, it considered the following factors, having regard to the views of management, internal audit and the external auditor:

- the auditor's procedures in place for maintaining and monitoring independence, including those to ensure that the partners and staff have no personal or business relationships with the Company, other than those in the normal course of business permitted by UK ethical guidance;
- the auditor's policies for the rotation of the lead partner and key audit personnel; and
- adherence by management and the auditor during the year to the Group's policies for the procurement of non-audit services and the employment of former audit staff.

The Audit, Compliance and Risk Committee has established policies determining the non-audit services that the external auditor can provide and the procedures required for pre-approval of any such engagement. These policies provide for the auditors to be engaged only for work that is not prohibited by professional or other regulatory requirements. This essentially limits work to tax services and assurance services that are of an audit nature, but excludes internal audit services. Even where the policy allows for the external auditor to be engaged to provide non-audit services, prior approval is required from the Chief Financial Officer.

Remuneration

The table below indicates each member's attendance during the year. Following the changes in corporate governance allowing a chairman to sit on the Remuneration Committee, Malcolm Williamson was appointed a member of the committee on 14 September 2006. The quorum is two members. The Chief Executive attends by invitation.

Number of meetings during the year	3
Andrew Williams (Chairman)	3
Arnab Banerji	3
Fields Wicker-Miurin	1
Delegate for Fields Wicker-Miurin	2

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 page 20.

Business Principles and Development

The table below indicates each member's attendance during the year. The quorum is two members, which must include those nominated by DFID, currently Jonathan Kydd and Andrew Williams. The Chief Executive attends by invitation.

Number of meetings during the year	2
Jonathan Kydd (Chairman)	2
Malcolm Williamson	2
Andrew Williams	2
Fields Wicker-Miurin	2

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

Nominations
The members of the Nominations Committee are: Malcolm Williamson (Chairman), Jonathan Kydd, Andrew Williams and Richard Laing. The committee has not met during the year. The committee meets as required, with a minimum quorum of two members who are Non-executive Directors. Its responsibilities include appointing new Board members and 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).

Co-Investment
The Co-Investment Committee was established on 14 December 2006 and met for the first time on 24 January 2007. The quorum of the meeting is any three Directors, one of whom must be the Chairman or the Chief Executive. The committee is authorised to approve direct co-investments of up to US$50m in companies alongside investee funds.

Going concern
The Directors are satisfied that CDC 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.

Internal control
The Board is ultimately responsible for the Group's internal control system and reviewing its effectiveness. The design and operation of the system is delegated to the executive management team. Its effectiveness is regularly reviewed by the Audit, Compliance and Risk Committee. 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, Compliance and Risk 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; and
- 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 13 of the Performance 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.

Ownership
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.

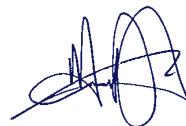
Political and charitable contributions
In 2006, CDC made a charitable donation to Manzil Welfare Society in India of £2,000, in lieu of Christmas cards. In 2005, CDC made a charitable donation to the NDB fishing boats appeal, Sri Lanka, of £3,005, matching staff donations to the tsunami appeal, and £2,000 to Ndi Moyo, a Malawi based HIV/AIDS charity, in lieu of Christmas cards. CDC makes no political contributions.

Policy for paying creditors
CDC's policy is to pay its creditors promptly, as encouraged by UK Government initiatives. At 31 December 2006 the Company had an average of 10 days' purchases outstanding in trade creditors (2005: 14 days).

Auditors
A resolution to reappoint Ernst & Young LLP as the Company's auditors will be put to the forthcoming Annual General Meeting.

The auditors were commissioned to undertake some non-audit work during the year. This was within the Group policy for non-audit work by auditors and did not affect the objectivity and independence of the auditor.

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.



Mark Kenderdine-Davies
Company Secretary
CDC Group plc
On behalf of the Board of Directors
22 March 2007

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 2006 comprised of Andrew Williams (Chairman), Arnab Banerji and Fields Wicker-Miurin.

CDC appointed MM&K Ltd and Towers Perrin to assess comparability to the marketplace. Other advisers to CDC included Simmons & Simmons for procedural and employment law matters, Watson Wyatt Ltd for retirement and other benefits, Sacker & Partners for the legal aspects of retirement benefits and Charles Russell for advice on the implementation of the Contingent Asset Arrangement between CDC and the CDC Pensions Scheme.

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

Elements of remuneration
Base salary
Individual base salaries reflect job responsibilities, market rates 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.

For each employee, including the Chief Executive, Richard Laing, a set of measurable objectives is agreed at the start of each year and monitored throughout the year. Annual bonuses are assessed against each individual's objectives as well as the overall performance of the business. In 2006 Richard Laing's objectives included items such as establishing and implementing a programme to invest CDC's non-committed resources, strengthening the management team, improving the investment process including the assessment of development impact, and establishing a strategic way forward for CDC's shareholding in Aureos.

Long term incentive plan ('LTIP')
The LTIP provides all employees, including executive directors, with the opportunity to share in the growth of the Company over the longer term. The plan was devised, after consultation with DFID, HM Treasury, Government and CDC's advisors, to match the needs of CDC after the spin-off of Actis. All awards granted under the LTIP are subject to performance targets set by the Remuneration Committee. The 2004 to 2006 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.

At their meeting held on 8 March 2007 the Remuneration Committee of CDC approved payments of bonuses to all eligible staff under the 2004 LTIP scheme, where performance targets have been exceeded. Richard Laing will receive a payment of £407,520 (2005: £326,726) as audited by Ernst & Young LLP.

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

In 2006, Peter Newhouse & Company were retained to undertake a review of the LTIP scheme for 2007 onwards.

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 can include cover for family members; and
- medical check-ups for all staff who frequently travel overseas on business.

Pension arrangements
Richard Laing is a member of CDC's non-contributory defined benefit pension scheme, and receives a contribution to a defined contribution scheme of his choice. Details of pension contributions are shown in the table on page 21.

Service agreements
Richard Laing, the only current Executive Director, has a service agreement which is terminable on both sides by 12 months' notice or on reaching retirement age. 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 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 per annum. The basic fee for the Chairman is £35,000 per annum. Non-executive Directors receive an additional £1,000 per annum for each committee membership and £2,000 per annum for each committee which they chair. The fees paid to Non-executive Directors in 2006 are set out in the table on page 21. 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
Non-executive Directors		
Malcolm Williamson	5 January 2004	n/a
Jonathan Kydd	8 December 1999	n/a
Andrew Williams	2 July 2003	n/a
Arnab Banerji	9 July 2004	n/a
Fields Wicker-Miurin	7 October 2004	n/a

Outside directorships

The Company believes that it can benefit from executive directors holding non-executive appointments; it also believes that such appointments provide a valuable opportunity for personal and professional development. Such appointments are subject to the approval of the Board. Richard Laing is a Trustee of the Overseas Development Institute and chairman of the Association of European Development Finance Institutions.

Directors' remuneration

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

	Base Salary/Fee £	Benefits £	Performance Related Bonus Award £	**Total 2006 £**	Total 2005 £
Executive Directors					
Richard Laing	200,000	3,001	250,000	**453,001**	378,409
Non-executive Directors					
Malcolm Williamson	35,000	–	–	**35,000**	35,000
Jonathan Kydd	26,000	–	–	**26,000**	26,000
Andrew Williams	26,000	–	–	**26,000**	26,000
Arnab Banerji*	25,000	–	–	**25,000**	18,750
Fields Wicker-Miurin	25,000	–	–	**25,000**	25,000

*Dr Banerji waived his fees in respect of the first quarter of 2005.

Pension entitlements (audited by Ernst & Young LLP)

The pension entitlements for the Executive Director, Richard Laing, is as follows:

	2006 £	2005 £
Contributions to defined contribution schemes:		
Richard Laing	**49,301**	28,120

Defined benefit scheme	**Accumulated total accrued pension at 31 December 2006 £**	Accumulated total accrued pension at 31 December 2005 £	Increase in accrued pension during year £	**Transfer value at 31 December 2006 £**	Transfer value at 31 December 2005 £	Increase in transfer value during year £
Richard Laing	**18,779**	15,620	3,159	**283,177**	216,724	66,453

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 Shareholder of CDC Group plc

We have audited the Group and parent company financial statements (the 'financial statements') of CDC Group plc for the year ended 31 December 2006 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statement of Changes in Equity and the related notes 1 to 31. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's shareholder, 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 shareholder 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 shareholder 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' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial information, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the Performance Review that is cross referred from the Business Review section of the Directors' report.

In addition we report to you if, in our opinion, 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 other transactions are not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Chief Executive's Report, Business Principles and Development Impact, Performance Review, Board of Directors, Directors' Report, and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and company'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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2006;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the financial statements.

Ernst & Young LLP
Registered auditor
London
22 March 2007

Consolidated Income Statement

For the 12 months to 31 December

	Notes	**2006 £m**	2005 £m
Income	3a	**529.7**	741.9
Cost of sales		**(196.1)**	(222.6)
Gross profit		**333.6**	519.3
Other income	3b	**200.6**	174.7
Selling and distribution costs		**(13.7)**	(18.5)
Administrative expenses	3c	**(140.8)**	(132.4)
Other expenses	3d	**(50.1)**	(78.9)
		(4.0)	(55.1)
Profit from operations before tax and finance costs		**329.6**	464.2
Finance costs	4	**(49.6)**	(59.5)
Finance income	4	**73.7**	36.9
Net foreign exchange differences		**11.4**	(10.1)
Profit before tax		**365.1**	431.5
Tax (charge)/credit	5	**(26.5)**	4.2
Profit for the year		**338.6**	435.7
Attributable to:			
Equity holders of the parent		**332.7**	427.8
Minority interests		**5.9**	7.9
Profit for the year		**338.6**	435.7

Consolidated Balance Sheet

At 31 December

	Notes	2006 £m	2005 restated £m
ASSETS			
Non-current assets			
Property, plant and equipment	6	**504.6**	591.3
Biological assets	7	**29.8**	26.9
Investment property	8	**6.0**	44.5
Intangible assets	9	**56.6**	43.6
Fair value financial assets	10	**679.5**	534.4
Other financial assets	14	**319.1**	316.0
Deferred tax assets	15	**5.9**	0.6
Retirement benefit assets	16	**93.1**	7.8
Derivative financial instruments	19	**34.0**	–
		1,728.6	1,565.1
Current assets			
Inventories	17	**49.9**	50.9
Trade and other receivables	18	**171.5**	208.8
Current tax assets		**1.4**	0.9
Prepayments		**18.0**	15.7
Derivative financial instruments	19	**24.6**	18.7
Treasury bills and bonds maturing after more than 90 days	20	**9.6**	5.5
Short term deposits receivable after more than 90 days	20	**2.0**	217.0
Cash and cash equivalents	20	**910.2**	589.6
		1,187.2	1,107.1
TOTAL ASSETS		**2,915.8**	2,672.2
EQUITY AND LIABILITIES			
Attributable to the equity holders of the parent			
Issued capital	21	**765.0**	765.0
Net unrealised gains and losses reserve	21	**(0.7)**	(2.4)
Currency translation reserve	21	**(31.4)**	7.0
Retained earnings	21	**1,260.0**	927.3
		1,992.9	1,696.9
Minority interests		**50.1**	40.8
Total equity		**2,043.0**	1,737.7
Non-current liabilities			
Trade and other payables	23	**9.4**	39.6
Interest bearing loans and borrowings	24	**503.5**	582.6
Provisions	25	**4.3**	5.1
Deferred tax liabilities	15	**48.2**	8.4
Derivative financial instruments	19	**21.5**	–
		586.9	635.7
Current liabilities			
Trade and other payables	22	**173.7**	156.4
Current tax liabilities	22	**8.0**	7.7
Interest bearing loans and borrowings	24	**85.5**	93.7
Derivative financial instruments	19	**18.7**	41.0
		285.9	298.8
Total liabilities		**872.8**	934.5
TOTAL EQUITY AND LIABILITIES		**2,915.8**	2,672.2

The accounts were approved by the members of the Board on 22 March 2007 and were signed on their behalf by:

Malcolm Williamson
Chairman

Richard Laing
Chief Executive

Consolidated Statement of Cash Flows

For the 12 months to 31 December

	Notes	**2006 £m**	2005 £m
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit from operations before tax and finance costs		**329.6**	464.2
Depreciation and impairment of property, plant and equipment	6	**43.7**	71.6
Impairment of goodwill and amortisation/impairment of other intangible assets	9	**2.0**	4.2
Impairment of loans and receivables	14	**(4.7)**	(26.3)
Provision charges	25	**0.7**	0.6
Defined benefits pension costs	16	**0.5**	0.6
Change in value of fair value financial assets	10	**(130.5)**	(128.3)
Change in value of biological assets	7	**(25.4)**	3.0
Change in value of investment property	8	**(1.4)**	(1.7)
Profit on disposal of fair value financial assets	3a	**(52.6)**	(137.0)
Loss/(profit) on disposal of subsidiaries	3d/3a	**2.8**	(50.6)
Loss/(profit) on disposal of property, plant and equipment	3d/3b	**1.1**	(0.1)
Exchange losses		**1.5**	6.5
Profit from operations before changes in working capital and provisions		**167.3**	206.7
Decrease/(increase) in trade and other receivables		**7.5**	(64.2)
Increase in other financial assets		**(15.5)**	(12.3)
(Increase)/decrease in derivative financial instruments		**(39.3)**	20.9
(Increase)/decrease in inventories		**(4.4)**	18.0
Increase in treasury bills and bonds maturing after more than 90 days		**(6.7)**	(1.2)
Increase in trade and other payables		**8.9**	20.7
Utilisation of provisions	25	**(0.7)**	(3.6)
Cash flows from operations		**117.1**	185.0
Defined benefit pension contributions paid	16	**(84.5)**	(15.5)
Bank interest received	4	**38.8**	25.4
Finance lease income received	4	**33.6**	–
Interest paid		**(49.7)**	(55.0)
Taxes paid		**(4.8)**	(4.6)
Cash flows from operating activities		**50.5**	135.3
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of fair value financial assets		**244.7**	299.5
Proceeds from sale of property, plant and equipment		**6.4**	3.6
Proceeds from sale of biological assets		**4.2**	1.0
Proceeds from sale of investment property		**6.9**	–
Disposal of subsidiaries, net of cash disposed	12	**8.3**	95.5
Acquisition of subsidiaries, net of cash acquired	11	**(1.6)**	(23.8)
Acquisition of fair value financial assets		**(173.6)**	(112.9)
Acquisition of intangible assets		**(0.5)**	(0.9)
Acquisition of property, plant and equipment		**(51.3)**	(67.3)
Acquisition of biological assets	7	**(1.4)**	(5.7)
Acquisition of investment property	8	**(0.2)**	(16.0)
Decrease/(increase) in short term deposits receivable after more than 90 days		**217.0**	(217.0)
Loan advances	14	**(19.2)**	(19.2)
Loan repayments	14	**39.1**	86.9
Cash flows from investing activities		**278.8**	23.7
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		**77.2**	55.0
Repayment of borrowings		**(61.5)**	(65.8)
Dividends paid to minority interests		**(4.0)**	(2.2)
Repayment of capital elements of finance leases		**(4.7)**	–
Cash flows from financing activities		**7.0**	(13.0)
Net increase in cash and cash equivalents		**336.3**	146.0
Cash and cash equivalents at 1 January		**578.5**	421.9
Effect of exchange rate fluctuations on cash held		**(13.9)**	10.6
Cash and cash equivalents at 31 December	20	**900.9**	578.5

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the parent						
	Share capital £m	Net unrealised gains and losses reserve £m	Currency translation reserve £m	Retained earnings £m	Total £m	Minority interests £m	Total equity £m
At 1 January 2005	765.0	–	(51.3)	499.9	1,213.6	67.4	1,281.0
Changes in equity for 2005							
Exchange differences on translating foreign operations	–	–	58.3	–	58.3	2.5	60.8
Cash flow hedges:							
Losses taken to equity	–	(2.8)	–	–	(2.8)	–	(2.8)
Transferred to retained earnings for the year	–	0.4	–	(0.4)	–	–	–
Net income recognised directly in equity	–	(2.4)	58.3	(0.4)	55.5	2.5	58.0
Profit for the year	–	–	–	427.8	427.8	7.9	435.7
Total recognised income and expense for the year	–	(2.4)	58.3	427.4	483.3	10.4	493.7
Arising on acquisitions in the year	–	–	–	–	–	0.6	0.6
Arising on disposals in the year	–	–	–	–	–	(35.4)	(35.4)
Dividends paid to minority shareholders	–	–	–	–	–	(2.2)	(2.2)
At 31 December 2005	765.0	(2.4)	7.0	927.3	1,696.9	40.8	1,737.7
Changes in equity for 2006							
Exchange differences on translating foreign operations	–	–	(38.4)	–	(38.4)	3.1	(35.3)
Cash flow hedges:							
Profits taken to equity	–	1.5	–	–	1.5	–	1.5
Taken to income statement in the year	–	0.2	–	–	0.2	–	0.2
Net income recognised directly in equity	**–**	**1.7**	**(38.4)**	**–**	**(36.7)**	**3.1**	**(33.6)**
Profit for the year	–	–	–	332.7	332.7	5.9	338.6
Total recognised income and expense for the year	**–**	**1.7**	**(38.4)**	**332.7**	**296.0**	**9.0**	**305.0**
Arising on acquisitions in the year	–	–	–	–	–	5.1	5.1
Arising on disposals in the year	–	–	–	–	–	(0.8)	(0.8)
Dividends paid to minority shareholders	–	–	–	–	–	(4.0)	(4.0)
At 31 December 2006	**765.0**	**(0.7)**	**(31.4)**	**1,260.0**	**1,992.9**	**50.1**	**2,043.0**

Company Statement of Changes in Equity

	Share capital £m	Net unrealised gains and losses reserve £m	Retained earnings £m	Total £m
At 1 January 2005	765.0	–	260.3	1,025.3
Cash flow hedges:				
Losses taken to equity	–	(2.8)	–	(2.8)
Transferred to retained earnings for the year	–	0.4	(0.4)	–
Net income recognised directly in equity	–	(2.4)	(0.4)	(2.8)
Profit for the year	–	–	534.1	534.1
Total recognised income and expense for the year	–	(2.4)	533.7	531.3
At 31 December 2005	765.0	(2.4)	794.0	1,556.6
Cash flow hedges:				
Profits taken to equity	–	1.5	–	1.5
Taken to income statement in the year	–	0.2	–	0.2
Net income recognised directly in equity	**–**	**1.7**	**–**	**1.7**
Profit for the year	–	–	457.2	457.2
Total recognised income and expense for the year	**–**	**1.7**	**457.2**	**458.9**
At 31 December 2006	**765.0**	**(0.7)**	**1,251.2**	**2,015.5**

Company Balance Sheet

At 31 December

	Notes	2006 £m	2005 £m
ASSETS			
Non-current assets			
Property, plant and equipment	6	**0.3**	0.5
Fair value financial assets	10	**1,049.3**	850.5
Other financial assets	14	**212.6**	403.5
Retirement benefit assets	16	**93.1**	7.8
Derivative financial instruments	19	**31.9**	–
		1,387.2	1,262.3
Current assets			
Trade and other receivables	18	**127.2**	68.9
Prepayments		**1.5**	1.4
Derivative financial instruments	19	**22.5**	15.8
Short term deposits receivable after more than 90 days	20	**–**	217.0
Cash and cash equivalents	20	**759.4**	449.8
		910.6	752.9
TOTAL ASSETS		**2,297.8**	2,015.2
EQUITY AND LIABILITIES			
Issued capital	21	**765.0**	765.0
Net unrealised gains and losses reserve	21	**(0.7)**	(2.4)
Retained earnings	21	**1,251.2**	794.0
Total equity		**2,015.5**	1,556.6
Non-current liabilities			
Interest bearing loans and borrowings	24	**0.2**	261.5
Provisions	25	**1.3**	1.3
Derivative financial instruments	19	**17.8**	–
		19.3	262.8
Current liabilities			
Trade and other payables	22	**247.2**	109.0
Current tax liabilities	22	**0.2**	5.2
Interest bearing loans and borrowings	24	**9.5**	54.2
Derivative financial instruments	19	**6.1**	27.4
		263.0	195.8
Total liabilities		**282.3**	458.6
TOTAL EQUITY AND LIABILITIES		**2,297.8**	2,015.2

The accounts were approved by the members of the Board on 22 March 2007 and were signed on their behalf by:

Malcolm Williamson
Chairman

Richard Laing
Chief Executive

Company Statement of Cash Flows

For the 12 months to 31 December

	Notes	**2006 £m**	2005 £m
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit from operations before tax and finance costs		**408.5**	521.6
Depreciation and impairment of property, plant and equipment	6	**0.1**	0.1
Impairment of loans and receivables	14	**(11.1)**	(33.3)
Provision releases	25	**–**	(1.0)
Defined benefit pension costs	16	**0.5**	0.6
Change in value of fair value financial assets	10	**(382.9)**	(247.5)
Profit on disposal of fair value financial assets		**(17.2)**	(110.3)
Profit on disposal of property, plant and equipment		**(0.6)**	(0.1)
Exchange loss/(gain)		**54.9**	(29.4)
Profit from operations before changes in working capital and provisions		**52.2**	100.7
Decrease/(increase) in trade and other receivables		**13.1**	(5.8)
Decrease in other financial assets		**0.1**	0.3
(Increase)/decrease in derivative financial instruments		**(42.1)**	30.5
Increase in trade and other payables		**137.9**	61.3
Utilisation of provisions	25	**–**	(0.3)
Cash flows from operations		**161.2**	186.7
Defined benefit pension contributions paid	16	**(84.5)**	(15.5)
Bank interest received		**34.2**	21.0
Interest paid		**(8.8)**	(17.9)
Taxes paid		**(1.2)**	(0.3)
Cash flows from operating activities		**100.9**	174.0
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of fair value financial assets		**359.0**	261.6
Proceeds from sale of property, plant and equipment		**0.7**	0.2
Acquisition of fair value financial assets	10	**(165.8)**	(110.6)
Decrease/(increase) in short term deposits receivable after more than 90 days		**217.0**	(217.0)
Loan advances	14	**(97.5)**	(20.7)
Loan repayments	14	**201.4**	77.6
Cash flows from investing activities		**514.8**	(8.9)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		**(306.1)**	–
Cash flows from financing activities		**(306.1)**	–
Net increase in cash and cash equivalents		**309.5**	165.1
Cash and cash equivalents at 1 January		**448.9**	283.8
Cash and cash equivalents at 31 December	20	**758.4**	448.9

Notes to the Accounts

1. Corporate information

The financial statements of CDC Group plc ('CDC') for the year ended 31 December 2006 were authorised for issue in accordance with a resolution of the directors on 22 March 2007. CDC Group plc, the Company, is a limited company incorporated in the United Kingdom whose shares are not publicly traded.

The Group's primary activity is investing in funds in emerging markets. Both the parent and some of the Group's subsidiaries invest in such funds. As a result of its investment activities, CDC has taken majority stakes in a wide range of operating companies in emerging markets. The activities of these operating subsidiaries are diverse and all are managed separately according to the nature of their business.

Since CDC shares are not publicly traded, and the presentation of financial information by strategic business unit would be unhelpful in assisting the user of accounts to understand CDC's business, segmental information is not presented. However, fund information is presented in the performance review.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated and Company financial statements are set out below.

(a) Statement of compliance

The financial statements of the Group and Parent company have been prepared in accordance with International Financial Reporting Standards ('IFRS') and its interpretations adopted by the International Accounting Standards Board ('IASB') and as adopted by the EU.

The Company has taken advantage of the exemption provided under section 230 of the Companies Act 1985 not to publish its individual income statement and related notes.

(b) Basis of preparation

The financial statements have been prepared on a historical cost basis, except for biological assets, investment property, derivative financial instruments and other financial instruments that have been presented and measured at fair value in accordance with relevant accounting standards. The financial statements are presented in sterling and all values are rounded to the nearest one hundred thousand except where otherwise indicated.

The preparation of financial statements under IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimate is revised.

Consolidation

Subsidiaries

The consolidated financial statements comprise the financial statements of CDC Group plc and its subsidiaries for the year ended 31 December 2006. The financial statements of subsidiaries are prepared for the same reporting year as the parent company. Consistent accounting policies are applied, with adjustments being made to bring into line any dissimilar accounting policies.

Subsidiaries are all entities over which the Group has control. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. This generally results from a shareholding of more than one half of voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are also considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control passes to the Group and consolidation ceases from the date that control ends. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated in full on consolidation.

Acquisitions are accounted for under the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued, liabilities incurred and contingent liabilities at the date of exchange plus costs directly attributable to the acquisition. Identifiable assets and liabilities acquired and contingent liabilities are measured at fair value.

Minority interests represent the portion of profit or loss and net assets in subsidiaries that is not held by the Group and is presented within equity in the consolidated balance sheet, separately from parent shareholders' equity.

Associates and Joint Ventures

Under the provisions of IAS 28, the Group has adopted the exemption for investment and venture capital companies to account for all investments where the Group has significant influence (presumed in all 20-50% holdings) under the provisions of IAS 39 'Financial Instruments: recognition and measurement'. These are designated as fair value through profit and loss assets, with changes in fair value being recognised in the income statement for the period.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in sterling, which is the parent company's functional currency.

Notes to the Accounts

continued

2. Summary of significant accounting policies (continued)

Transactions and balances
Foreign currency transactions are translated into the functional currency of the underlying reporting entity using the exchange rate prevailing at the date of the transactions. Monetary items are retranslated at spot rates at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation of monetary assets and liabilities denominated in foreign currencies at the year end exchange rate are recognised in the income statement. Translation differences on non-monetary items that are measured at fair value, such as equities held at fair value through profit and loss, are translated at the year end rate and reported as part of the change in value of the non-monetary items in the income statement.

Group companies
The results and financial position of all subsidiaries that have a functional currency different from that of the parent company are translated into the presentation currency as follows:

Assets and liabilities:
Closing rate at the date of the balance sheet
Income and expenses:
Weighted average rate
Cash flows:
Weighted average rate

Resulting exchange differences on translation of subsidiary financial statements are taken to a currency translation reserve as a separate component of equity. Exchange differences arising prior to 1 January 2004 have been taken to retained earnings as permitted by IFRS 1 on transition from UK GAAP to IFRS. Upon disposal of subsidiaries, the related exchange gains and losses are taken to the income statement.

Intangible assets
Intangible assets other than goodwill comprise separately identifiable intangible items arising from acquisitions, and certain purchased brands, licences and similar items. Except for those acquired in a business combination, intangible assets are recognised on the balance sheet at cost. Intangible assets are amortised over their estimated useful economic life, not exceeding 20 years. Intangible assets acquired as part of a business combination are separated from goodwill and measured on initial recognition at fair value. At each balance sheet date, intangible assets are reviewed for indications of impairment or changes in estimated future benefits. If such indications exist, an analysis is performed to assess whether the carrying amount is fully recoverable. An impairment provision is charged to the income statement if the carrying amount exceeds the recoverable amount.

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is taken to the income statement as incurred.

Goodwill
Goodwill on acquisition is initially measured at cost, being the excess of cost against the acquirer's interest in the net fair value of the assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill on acquisitions is not amortised. In respect of acquisitions prior to 1 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under UK GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 January 2004 was not reconsidered in preparing the Group's opening IFRS balance sheet at 1 January 2004.

Goodwill is reviewed for impairment on an annual basis or more frequently if circumstances indicate possible impairment. Once impaired, the goodwill impairment is not subsequently reversed even if the circumstances indicating the original impairment are no longer present. Goodwill is calculated in the functional currency of the acquired entity. Any excess of acquirers' interest in the net fair value of assets acquired versus cost is recognised immediately as a gain in the income statement.

At the acquisition date, any goodwill acquired is allocated to each of the cash generating units expected to benefit from the acquisition. Impairment is determined by assessing the recoverable amount of the cash generating unit, defined as each individual subsidiary to which the goodwill relates. Where the recoverable amount is less than the carrying amount, an impairment loss is recognised in the income statement.

Biological assets
Biological assets comprise agricultural produce from arable farms and tea, orange groves, rubber and forestry plantations at the point of harvest. Biological assets are recognised when the entity controls the asset as a result of past events; when it is probable that future economic benefits associated with the asset will flow to the entity and when the fair value of the assets can be measured reliably. These are carried at fair value less estimated point of sale costs from initial measurement of biological assets up to the point of harvest, except where fair value cannot be measured reliably due to unavailability of active market information and no reliable alternative estimates exist to determine fair value. Where assets are held at fair value, changes in fair value are taken to the income statement in the period. Where fair value cannot be measured reliably the assets are held at cost less provisions for depreciation or impairment.

After harvesting, consumable biological assets, or in the case of bearer biological assets the crops that are harvested from them, are taken into inventories at their deemed cost which is fair value at harvest less the estimated point of sale costs.

Investment property
Investment properties are those held to earn rentals or for capital appreciation and exclude owner-occupied and development properties. Investment properties are initially measured at cost and are held in the balance sheet at open market value. Changes

in value are recognised in the income statement in the period in which they arise. Investment properties have been valued by professionally qualified third party surveyors or in some cases, professionally qualified directors of the Group's property subsidiaries.

Property, plant and equipment

Land and buildings comprise mainly factories, power stations, processing plants and offices. Other property, plant and equipment comprises other plant items, vehicles, fixtures and fittings. These are shown at historical cost less depreciation and any impairment in value. Historical cost includes expenditure directly attributable to the acquisition of these items. Subsequent costs are only included in property, plant and equipment where it is probable that future economic benefits will flow to the Group and the amounts can be reliably measured. Repairs and maintenance are charged to the income statement in the period in which they are incurred. The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Property, plant and equipment 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. Where a company has an asset with significant parts, i.e. whose parts are significant in relation to the total cost of the asset, the parts are recognised separately and may be depreciated over different useful lives to the other parts of the asset.

The following useful lives apply:

Buildings	10 – 40 years
Power plants:	
Natural gas or fuel oil fired	20 – 40 years
Coal fired	20 – 60 years
Hydro-electric	30 – 100 years
Major overhaul parts in power plants	2 – 12 years
Other fixed assets	2 – 20 years

Investments

The Group and Company classifies its investments as financial assets at fair value through profit and loss and loans and receivables. Management determines the classification of its investments at initial recognition. Apart from loans and receivables, financial instruments are designated as fair value through profit and loss because the fair value can be measured reliably and the fair value of the investment portfolio is a key performance indicator for the Group.

Financial assets at fair value through profit and loss

These financial assets are designated at fair value through profit and loss by management at the date of inception. Derivatives are also classified as held-for-trading in this category unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

CDC Group's fair value methodology has been derived using the International Private Equity and Venture Capital Association Valuation Guidelines. This methodology is applied to direct investments and investments held within funds. The fair value is derived as follows:

- for unquoted investments the enterprise value is determined by the investee company or fund using a methodology that is appropriate in light of the nature, facts and circumstances of the investment and its materiality in the context of the total investment portfolio using reasonable assumptions and estimates;
- the enterprise value is adjusted for surplus assets or liabilities or any other relevant factor;
- higher ranking financial instruments are deducted taking into account any financial structuring that may dilute the investment holding;
- a marketability discount is applied for inactive markets (between 0% and 30%) from the perspective of market participants to derive the net attributable enterprise value;
- the net attributable enterprise value is apportioned between the financial instruments held according to their ranking; and
- the amounts derived are allocated according to the holding in each financial instrument, representing their fair value.

Valuation methodologies used are as follows:

- quoted equity is valued at the bid price, although discounts are applied for lock-ins;
- realisations in process are valued at the expected realisation proceeds, although discounts are applied to reflect the certainty of the transaction completion;
- if there has been a recent investment in the company, the price of the recent investment, less any impairment charge, is used to determine fair value;
- investments where value derives mainly from underlying assets are valued at net asset value using appropriate valuation measures for the underlying assets and liabilities;
- early stage companies without positive cash flow or profit are valued using an appropriate industry benchmark if that gives a reliable estimate of fair value;
- companies with maintainable profits or cash flows are valued on an earnings basis using an appropriate earnings multiple from companies in similar sectors and markets;
- companies in industries with specific valuation metrics are valued using those specific valuation metrics where they provide the most reliable estimate of fair value;
- companies with no maintainable profits or cash flows at present, but whose cash flows can be forecast with confidence, are valued using future cash flows discounted at the appropriate risk adjusted discount rate; and
- in exceptional cases the investment is valued at the previous carrying value, unless there is evidence of value impairment, in which case value is reduced to reflect the extent of estimated impairment.

Notes to the Accounts
continued

2. Summary of significant accounting policies (continued)

Gains and losses realised on disposal or redemption, by reference to the valuation at the previous balance sheet date, and unrealised gains and losses from changes in the fair values of the equity portfolio are taken to the income statement.

The Group uses settlement date accounting when accounting for regular way purchases or sales. When the Group becomes party to a sales contract of an equity investment it derecognises the asset on the day ownership is transferred. Any gains or losses arising on purchases between trade and settlement date are accounted for in the income statement.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise either when the Group provides money to a company in the form of loans with no intention of trading it, or, in the case of trade receivables, in the normal course of business.

Loans are recognised at amortised cost; initially, this is measured as the fair value of the cash given to originate the loan, including any transaction costs. They are subsequently measured at amortised cost using the effective interest method. Maturities greater than 12 months are included in non-current assets with the remainder in current assets. Gains or losses are recognised in the income statement when the loan is derecognised or impaired, as well as through the amortisation process. Where there is objective evidence that a loan's carrying value exceeds the present value of the discounted future cash flows expected to be generated from the asset, the loan is deemed to be impaired and the carrying value reduced accordingly, with the loss recognised in the income statement.

Derivative instruments and hedging
The Group and Company use derivative instruments as part of its asset management activities to manage exposures to foreign currency and interest rate risk. CDC does not use derivative financial instruments for speculative purposes. The Group and Company apply cash flow hedge accounting, and the Group applies hedging of net investments in foreign operations, when the specified criteria are met to obtain hedge accounting treatment.

At the time a financial instrument is designated as a hedge, the Group and Company formally documents the relationship between the hedging instrument(s) and the hedged item(s), including its risk management objectives and its strategy in undertaking the hedge transaction together with the methods that will be used to assess the effectiveness of the hedging relationship. Accordingly, the Group and Company formally assesses, both at inception of the hedge and on an ongoing basis, whether the hedging derivatives have been 'highly effective' in offsetting changes in the fair value or cash flows of the hedged items. A hedge is normally regarded as highly effective if, at inception and in subsequent periods, the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated, and that actual results are within a range of 80% to 125%. In the case of hedging a forecast transaction, the transaction must be highly probable and must present an exposure to variations in cash flows that could ultimately affect reported net profit or loss. The Group and Company discontinues hedge accounting when it is determined that a derivative is not, or has ceased to be, highly effective as a hedge; when the derivative expires; when the hedged item matures or is sold or repaid; or when a forecast transaction is no longer deemed highly probable.

'Hedge ineffectiveness' represents the amount by which the changes in the fair value of the hedging derivative differ from the changes in the fair value of the hedged item, or the amount by which the changes in cash flow of the hedging derivative differ from changes (or expected changes) in the cash flow of the hedged item.

All derivatives are held at fair value. A valuation gain or loss associated with the effective portion of a derivative designated as a cash flow hedge is recognised initially in equity. When the cash flows that the derivative is hedging (including cash flows from transactions that were only forecast when the derivative hedge was effected) materialise, resulting in an income or expense, then the associated gain or loss on the hedging derivative is simultaneously transferred from equity to the income statement.

If a cash flow hedge for a forecast transaction is deemed to be no longer highly effective, or the hedge relationship is terminated, the cumulative gain or loss on the hedging derivative previously reported in equity remains there until the committed or forecast transaction occurs, at which point it is transferred from equity to the income statement.

Hedges of a net investment in a foreign operation, where a hedge is taken out against a net investment in a subsidiary, are accounted for in the same way as cash flow hedges, with the effective portion of the hedge being recognised in equity and the ineffective portion being taken directly to the income statement.

Gains and losses on derivative instruments transacted as economic hedges but not qualifying for hedge accounting are taken to the income statement.

Cash and cash equivalents
Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments, such as short term deposits, with maturities of three months or less on initial recognition. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

Inventories
Inventories are carried at the lower of cost and net realisable value. Cost is determined either using the first in, first out (FIFO) or the weighted average cost method depending on the nature and use of the inventory. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes any borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Impairment of assets

The carrying amounts of assets, other than inventories, deferred tax assets, financial instruments, investment properties, biological assets, and retirement benefit assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated. For goodwill the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of the Group's assets is the greater of their fair value less costs to sell and value in use, calculated as the present value of expected future cash flows. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

An impairment loss in respect of all assets other than goodwill is reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised or if there has been a change in the estimates used to calculate the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Financial liabilities

Contractual obligations, excluding derivative financial instruments, to deliver cash or another financial asset to another entity are measured at amortised cost using the effective interest method.

Provisions, contingent liabilities and contingent assets

Provisions are recognised if there is a present obligation, whether legal or constructive, which has arisen as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are disclosed where the existence of an obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability.

Contingent assets are not recognised, but are disclosed where an inflow of economic benefits is probable.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and Company and the revenue can be reliably measured. Revenue comprises the fair value for the sale of goods and services, net of value added tax, rebates and discounts and after sales eliminated within the Group. 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.

Dividends

Dividend income is recognised when the right to receive payment is established. Where the right to receive a dividend is in doubt, or the time between date of entitlement and receipt is in excess of 90 days, dividends are recorded on the date of receipt.

Interest

The interest on a loan investment is recognised on a time apportioned basis so as to reflect the effective yield on the loan. Where there is objective evidence of impairment loss or uncollectibility of loan interest, for example where loan interest remains unpaid after 90 days, an impairment loss is recognised.

Fees and commission income that are an integral part of the effective interest rate of a financial instrument, such as a loan instrument, are recognised as an adjustment to the effective interest rate.

Employee benefits

The Company operates one funded pension scheme in the UK, called the CDC Pensions Scheme. Within this, there is a defined benefit section for staff who entered service prior to 1 April 2000 and a defined contribution section for subsequent entrants. There are several small defined contribution schemes in overseas subsidiaries and branches.

Membership of the CDC Pensions Scheme is voluntary and the scheme is funded by the payment of contributions to a separately administered trust fund. The cost of providing benefits under the Company's funded defined benefit plan is determined using the projected unit credit actuarial valuation method, with actuarial valuations being carried out triennially.

Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised actuarial gains or losses for the scheme exceed 10% of the higher of the defined benefit obligation and the fair value of the scheme assets. Once the 10% threshold has been exceeded, these gains or losses are amortised over the expected average remaining working lives of the employees participating in the scheme.

The costs of providing defined contribution pensions are charged to the income statement as they become payable in accordance with the rules of the scheme.

Income tax

The CDC Act 1999 provided CDC Group plc with exemption from UK Corporation Tax with effect from 1 May 2003. This does not affect overseas taxation of the Company or of its overseas subsidiaries.

Notes to the Accounts

continued

2. Summary of significant accounting policies (continued)

Current tax is recognised as income or expense and included in net profit for the year, unless it relates to a transaction or event which is recognised directly in equity, whereupon the current tax is charged or credited to equity accordingly.

Current and deferred tax assets and liabilities are offset only when they arise from the same tax reporting group and relate to the same tax authority and when the legal right to offset exists.

Current and deferred taxes are recognised as tax credit or expense in the year in which they arise except for deferred taxes recognised or disposed of upon the acquisition or disposal of a subsidiary.

Deferred tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group financial statements, except to the extent that the deferred tax liability arises on the initial recognition of goodwill or upon the initial recognition of an asset or liability in a transaction that is not a business combination and which affects neither the accounting profit nor taxable profit or loss. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantially enacted at the balance sheet date.

Deferred tax assets are recognised only to the extent that the Directors consider that it is probable that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Leases

Group as lessee

Finance leases, where substantially all the risks and rewards of ownership lie with the Group and Company, are capitalised at the present value of the minimum lease payments at the inception of the lease term. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Capitalised lease assets are depreciated on a straight line basis over the shorter term of either the useful life or the lease term.

Group as lessor

During the year, the Group adopted IFRIC 4 ‘Determining whether an arrangement contains a lease’. It was concluded that an arrangement at Sidi Krir, an electricity generating company in Egypt, in which CDC has a 100% interest, constitutes and should be reported as a finance lease in accordance with IAS 17 ‘Leases’. Consequently, IAS 17 was applied in accounting for the arrangement at Sidi Krir in 2006. The prior year’s comparatives have been restated accordingly.

Assets leased out under operating leases are included in property, plant and equipment and depreciated over their estimated useful lives. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the lease term.

Where the Group transfers substantially all the risks and benefits of ownership of the asset, the arrangement is classified as a finance lease and a receivable is recognised for the initial direct costs of the lease and the present value of the minimum lease payments. As payments fall due, finance income is recognised in the income statement so as to achieve a constant rate of return on the remaining net investment in the lease.

Where the Group does not retain the risks and rewards of ownership on a leased asset, the lease is classified as an operating lease. Payments on operating leases are recognised as an expense in the income statement on a straight line basis over the lease term.

New standards and interpretations not applied

IFRS 7 ‘Financial instruments: disclosures’ was issued in August 2005 and is required to be applied for annual periods beginning on or after 1 January 2007. It revises and enhances the disclosure required by IAS 30 ‘Disclosure in the Financial Statements of Banks and Similar Financial Institutions’ and IAS 32 ‘Financial Instruments: disclosure and presentation’.

The International Accounting Standards Boards (‘IASB’) issued an amendment to IAS 1 ‘Presentation of financial statements’ in August 2005 which requires entities to disclose information that enables readers to evaluate the entity’s objectives, policies and processes for managing capital. This amended standard which is not expected to have a material impact on the Group’s financial statement is effective for annual periods beginning on or after 1 January 2007.

During the year, the IASB issued a new accounting standard, IFRS 8 ‘Operating segments’. IFRS 8 replaces IAS 14, and is required to be applied by listed entities for annual periods beginning on or after 1 January 2009. The standard requires explanation of the basis on which the segmental information is prepared and reconciliations to the amounts recognised in the income statement and balance sheet. Since CDC’s shares are not publicly traded, and the presentation of financial information by strategic business unit would be unhelpful in assisting the user of accounts to understand CDC’s business, this standard will not be adopted.

During the year the International Financial Reporting Interpretations Committee (‘IFRIC’) issued various interpretations with effective dates after the date of these financial statements. None of these interpretations are expected to have a material impact on the Group or Company, except for IFRIC 12, containing interpretations for service concession arrangements with an effective date of 1 January 2008, after the date of the financial statements. The Group owns a 100% interest in Umeme Limited (“Umeme”), an electricity distribution business in Uganda, concessioned from the Ugandan government. CDC has concluded that the interpretative guidelines of IFRIC 12 will apply when accounting for the activities of Umeme. As at the date of this report, CDC has not yet estimated the impact of the application of these rules.

3. Income and expenses

	Notes	2006 £m	2005 £m
3a. Income			
Sale of goods		**394.6**	465.5
Investment income:			
Interest income		**33.9**	41.4
Dividend income		**39.5**	44.9
Rental income		**4.9**	2.5
Other investment income		**4.2**	–
Profit on disposal of fair value financial assets		**52.6**	137.0
Profit on disposal of subsidiaries		**–**	50.6
Total income		**529.7**	741.9
3b. Other income			
Increase in value of fair value financial assets		**130.5**	128.3
Increase in value of biological assets		**25.4**	–
Increase in value of investment property		**1.4**	1.7
Excess of acquirers' interest in the net fair value of assets acquired versus cost		**26.3**	4.3
Profit on disposal of property, plant and equipment		**–**	0.1
Impairment reversals on loans and receivables		**4.7**	26.3
Loan and guarantee fee income		**3.3**	7.9
Government grants released		**–**	0.2
Other operating income		**9.0**	5.9
Total other income		**200.6**	174.7
3c. Administrative expenses			
Wages and salaries		**(35.2)**	(34.6)
Social security costs		**(2.4)**	(2.2)
Pension costs – defined benefit		**(0.5)**	(0.6)
Pension costs – defined contribution		**(0.2)**	(0.6)
Total employee benefits expense		**(38.3)**	(38.0)
Fund management expenses		**(33.0)**	(23.9)
Power maintenance costs		**(11.9)**	(16.9)
Insurance costs		**(6.4)**	(5.4)
Staff related other expenses		**(5.6)**	(6.6)
Consultants expenses		**(11.0)**	(9.6)
Office premises expenses		**(5.2)**	(4.8)
Travel expenses		**(4.8)**	(4.1)
Deal transaction costs		**(4.1)**	(1.0)
Operating lease rentals on property		**(0.6)**	(3.5)
Operating lease rentals on plant and equipment		**(0.9)**	(2.5)
Communications costs		**(2.6)**	(2.1)
Auditors' remuneration	3e	**(2.2)**	(1.5)
Other administrative expenses		**(14.2)**	(12.5)
Total administrative expenses		**(140.8)**	(132.4)

The average monthly number of employees during the year was 9,351 (2005: 21,809).

		2006 £m	2005 £m
3d. Other expenses			
Impairment of goodwill		**(0.2)**	(2.1)
Amortisation of other intangible assets		**(1.8)**	(2.1)
Loss on disposal of property, plant and equipment		**(1.1)**	–
Depreciation and impairment of property, plant and equipment		**(43.7)**	(71.6)
Other retirement benefit (costs)/provision charges		**(0.5)**	(0.1)
Fall in value of biological assets		**–**	(3.0)
Loss on disposal of subsidiaries		**(2.8)**	–
Total other expenses		**(50.1)**	(78.9)

Notes to the Accounts

continued

3. Income and expenses (continued)

	2006 £m	2005 £m
3e. Auditors' remuneration		
Audit of the financial statements	**(0.3)**	(0.2)
Other fees to auditors:		
Local statutory audits for subsidiaries	**(1.4)**	(0.9)
Taxation services	**(0.3)**	(0.1)
Other services	**(0.2)**	(0.3)
Total auditors' remuneration	**(2.2)**	(1.5)

4. Finance costs and income

	2006 £m	2005 £m
Interest payable on bank loans and overdrafts	**(7.7)**	(16.0)
Interest payable on other loans	**(37.3)**	(39.1)
Finance charges payable under finance leases and hire purchase contracts	**(4.6)**	(4.4)
Total finance costs	**(49.6)**	(59.5)
Pension credit	**1.3**	1.7
Increase in value of interest rate swaps	**–**	9.8
Bank interest receivable	**38.8**	25.4
Finance lease income	**33.6**	–
Total finance income	**73.7**	36.9
Net finance income/(costs)	**24.1**	(22.6)

5. Tax

	2006 £m	2005 £m
The major components of the tax (charge)/credit are as follows:		
Current tax		
Current UK tax charge	**(0.2)**	(0.1)
Current overseas tax credit	**7.5**	0.7
Tax (charge)/credit in respect of current tax of previous years	**(11.8)**	11.8
Deferred tax		
Tax charge relating to origination and reversal of temporary differences	**(22.0)**	(8.2)
Tax (charge)/credit reported in consolidated income statement	**(26.5)**	4.2

The tax (charge)/credit, as above, is reconciled to the tax charge on the accounting profit at the full UK tax rate as follows:

	2006 £m	2005 £m
Accounting profit before tax	**365.1**	431.5
Tax charge on the accounting profit at the UK tax rate of 30% (2005: 30%)	**(109.5)**	(129.5)
(Increase)/decrease in charge due to:		
Effect of UK tax exemption	**–**	57.0
Effect of overseas taxation	**101.8**	54.0
Tax (under)/over provided in earlier years	**(11.7)**	11.8
Deferred tax relating to origination and reversal of temporary differences	**(22.0)**	–
Deferred tax assets not recognised	**(1.3)**	(0.9)
Deferred tax liabilities not recognised	**0.8**	–
Non-taxable income and expenses not deductible for tax purposes	**12.5**	4.1
Utilisation of previously unrecognised losses brought forward	**2.9**	7.7
Tax (charge)/credit at an effective tax rate of 7.3% (2005: 1.0%)	**(26.5)**	4.2

UK tax exemption

By virtue of the CDC Act 1999, CDC Group plc was granted exemption from UK corporation tax with effect from 1 May 2003. The exemption does not apply to the Company's subsidiaries.

6. Property, plant and equipment

	Group					
	2006 Land and buildings £m	2006 Plant and equipment £m	2006 Total £m	2005 Land and buildings restated £m	2005 Plant and equipment restated £m	2005 Total restated £m
At 1 January	**31.2**	**560.1**	**591.3**	38.5	608.1	646.6
Additions	**4.9**	**68.4**	**73.3**	6.1	121.2	127.3
Disposals	**(5.1)**	**(2.4)**	**(7.5)**	(0.1)	(3.3)	(3.4)
Acquired with subsidiaries	**2.0**	**17.7**	**19.7**	–	–	–
Disposed with subsidiaries	**(8.2)**	**(39.3)**	**(47.5)**	(2.3)	(5.2)	(7.5)
Impairment	**(0.4)**	**(0.3)**	**(0.7)**	–	(15.6)	(15.6)
Depreciation charge for the year	**(1.5)**	**(41.5)**	**(43.0)**	(3.3)	(52.7)	(56.0)
Transfers	**–**	**–**	**–**	(11.5)	11.5	–
Reclassification	**–**	**–**	**–**	–	(170.9)	(170.9)
Exchange adjustment	**(3.4)**	**(77.6)**	**(81.0)**	3.8	67.0	70.8
At 31 December	**19.5**	**485.1**	**504.6**	31.2	560.1	591.3
At 1 January						
Cost	**41.6**	**686.1**	**727.7**	62.6	727.2	789.8
Accumulated depreciation and impairment	**(10.4)**	**(126.0)**	**(136.4)**	(24.1)	(119.1)	(143.2)
Net carrying amount at 1 January	**31.2**	**560.1**	**591.3**	38.5	608.1	646.6
At 31 December						
Cost	**28.3**	**600.3**	**628.6**	41.6	686.1	727.7
Accumulated depreciation and impairment	**(8.8)**	**(115.2)**	**(124.0)**	(10.4)	(126.0)	(136.4)
Net carrying amount at 31 December	**19.5**	**485.1**	**504.6**	31.2	560.1	591.3

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2006 is £68.1m (2005: £57.0m). Additions of plant and equipment held under finance leases were £22.0m (2005: £60.1m).

Land and buildings with a carrying amount of £11.0m (2005: £19.7m) are subject to a first charge to secure loans due to the Group's lenders.

The £0.7m impairment loss in 2006 relates to Mpongwe Development Company Limited (land and buildings £0.4m) and Kelvin Power (Pty) Limited (plant and equipment £0.3m). The £15.6m impairment loss in 2005 relates solely to Kelvin Power (Pty) Limited.

Capital expenditure contracted for but not provided for in the accounts amounted to £9.8m (2005: £nil).

	Company					
	2006 Land and buildings £m	2006 Plant and equipment £m	2006 Total £m	2005 Land and buildings £m	2005 Plant and equipment £m	2005 Total £m
At 1 January	**0.1**	**0.4**	**0.5**	0.2	0.5	0.7
Disposals	**(0.1)**	**–**	**(0.1)**	(0.1)	–	(0.1)
Depreciation charge for the year	**–**	**(0.1)**	**(0.1)**	–	(0.1)	(0.1)
At 31 December	**–**	**0.3**	**0.3**	0.1	0.4	0.5
At 1 January						
Cost	**0.4**	**8.5**	**8.9**	0.4	8.6	9.0
Accumulated depreciation and impairment	**(0.3)**	**(8.1)**	**(8.4)**	(0.2)	(8.1)	(8.3)
Net carrying amount at 1 January	**0.1**	**0.4**	**0.5**	0.2	0.5	0.7
At 31 December						
Cost	**–**	**8.5**	**8.5**	0.4	8.5	8.9
Accumulated depreciation and impairment	**–**	**(8.2)**	**(8.2)**	(0.3)	(8.1)	(8.4)
Net carrying amount at 31 December	**–**	**0.3**	**0.3**	0.1	0.4	0.5

Notes to the Accounts

continued

7. Biological assets

	Group	
	2006 £m	2005 £m
At 1 January, at fair value	**26.9**	80.4
Additions	**1.4**	5.7
Harvested	**(0.7)**	–
Disposals	**(4.2)**	(1.0)
Acquired with subsidiaries	**3.1**	–
Disposed with subsidiaries	**(12.1)**	(70.5)
Increase/(decrease) in fair value for the period	**25.4**	(3.0)
Exchange adjustment	**(10.0)**	15.3
At 31 December, at fair value	**29.8**	26.9

Biological assets consist of tea plantations, forests, orange groves, rubber plantations and an arable farm. The fair values of these assets have been determined using the following methods and using the following significant assumptions:

	Valuation methodology	Significant assumptions
Tea plantations	Net present value of future cash flows	Forecast sales volume, price and discount rate
Forests	Net present value of future cash flows	Forecast sales volume, price and discount rate
Orange groves	Net present value of future cash flows	Forecast sales volume, price and discount rate
Rubber plantations	Net present value of future cash flows	Forecast sales volume, price and discount rate
Arable farm	Cost as approximation to fair value	Little biological change since planting

The split of these assets between mature and immature assets is disclosed below:

	2006 Mature £m	2006 Immature £m	2006 Total £m	2005 Mature £m	2005 Immature £m	2005 Total £m
Tea plantations	**2.6**	**0.1**	**2.7**	–	–	–
Forests	**–**	**5.5**	**5.5**	1.7	11.4	13.1
Orange groves	**5.7**	**–**	**5.7**	6.2	0.3	6.5
Rubber plantations	**4.9**	**1.8**	**6.7**	–	–	–
Arable farm	**6.8**	**–**	**6.8**	6.5	–	6.5
Other	**0.8**	**1.6**	**2.4**	0.7	0.1	0.8
	20.8	**9.0**	**29.8**	15.1	11.8	26.9

Biological assets with a carrying value of £29.8m (2005: £26.9m) were pledged as security for liabilities.

Certain subsidiaries use forward sales contracts to manage financial risks in relation to the sales price of their agricultural produce. These are held at fair value as derivative financial instruments, with fair value gains and losses being recognised in the income statement. At 31 December 2006, the fair value of such derivative financial assets was £nil (2005: £2.7m).

Output of agricultural produce in the period was as follows:

	2006 Tonnes	2005 Tonnes
Palm oil	**–**	371,797
Tea leaves	**6,776**	–
Timber	**48,212**	146,851
Oranges	**67,969**	56,653
Latex	**12,232**	10,662
Cereals	**76,004**	88,518
Other	**156,266**	158,602
	367,459	833,083

The Group held commitments for the development or acquisition of biological assets as at 31 December 2006 of £nil (2005: £1.3m).

8. Investment property

	Group	
	2006 £m	2005 £m
At 1 January, at fair value	**44.5**	23.0
Additions	**0.2**	16.0
Disposals	**(6.9)**	–
Disposed with subsidiaries	**(28.0)**	–
Increase in fair value for the period	**1.4**	1.7
Exchange adjustment	**(5.2)**	3.8
At 31 December, at fair value	**6.0**	44.5

Included within additions are £0.1m (2005: £12.7m) resulting from subsequent expenditure on investment properties initially recognised in previous years.

Investment properties are stated at fair value, which has been determined based on valuations performed by Directors of the Group's property subsidiaries as at 31 December 2006 and 31 December 2005. All officials involved in the valuation process are industry specialists in valuing these types of investment properties. The valuations undertaken were based on open market value, supported by market evidence in which assets could be exchanged by willing buyers and sellers on an arm's length basis.

9. Intangible assets

	Group					
	2006 Brands, patents and copyrights £m	**2006 Goodwill £m**	**2006 Total £m**	2005 Brands, patents and copyrights £m	2005 Goodwill £m	2005 Total £m
At 1 January	**28.2**	**15.4**	**43.6**	29.4	17.0	46.4
Additions	**0.5**	**21.1**	**21.6**	0.9	–	0.9
Acquired with subsidiaries	**–**	**0.7**	**0.7**	–	1.9	1.9
Disposals	**(0.1)**	**(2.7)**	**(2.8)**	(2.9)	(1.3)	(4.2)
Impairment	**–**	**(0.2)**	**(0.2)**	–	(2.1)	(2.1)
Amortisation charge for the year	**(1.8)**	**–**	**(1.8)**	(2.1)	–	(2.1)
Exchange adjustment	**(3.7)**	**(0.8)**	**(4.5)**	2.9	(0.1)	2.8
At 31 December	**23.1**	**33.5**	**56.6**	28.2	15.4	43.6
At 1 January						
Cost	**33.8**	**16.1**	**49.9**	32.5	17.7	50.2
Accumulated amortisation and impairment	**(5.6)**	**(0.7)**	**(6.3)**	(3.1)	(0.7)	(3.8)
Net carrying amount at 1 January	**28.2**	**15.4**	**43.6**	29.4	17.0	46.4
At 31 December						
Cost	**28.7**	**34.4**	**63.1**	33.8	16.1	49.9
Accumulated amortisation and impairment	**(5.6)**	**(0.9)**	**(6.5)**	(5.6)	(0.7)	(6.3)
Net carrying amount at 31 December	**23.1**	**33.5**	**56.6**	28.2	15.4	43.6

Notes to the Accounts

continued

10. Fair value financial assets

	Group					
	2006 Shares – listed £m	2006 Shares – unlisted £m	2006 Total £m	2005 Shares – listed £m	2005 Shares – unlisted £m	2005 Total £m
At 1 January, at fair value	**130.3**	**404.1**	**534.4**	118.1	344.1	462.2
Additions	**1.4**	**251.7**	**253.1**	1.6	111.3	112.9
Disposals	**(47.1)**	**(155.9)**	**(203.0)**	(50.6)	(138.8)	(189.4)
Disposed with subsidiaries	**–**	**(8.7)**	**(8.7)**	–	(13.8)	(13.8)
Increase in fair value for the period	**3.0**	**127.5**	**130.5**	31.8	96.5	128.3
Transfers	**–**	**(5.0)**	**(5.0)**	21.8	(2.8)	19.0
Exchange adjustment	**(8.7)**	**(13.1)**	**(21.8)**	7.6	7.6	15.2
At 31 December, at fair value	**78.9**	**600.6**	**679.5**	130.3	404.1	534.4

	Company							
	2006 Shares – listed £m	2006 Shares – unlisted £m	2006 Shares held in group companies £m	2006 Total £m	2005 Shares – listed £m	2005 Shares – unlisted £m	2005 Shares held in group companies £m	2005 Total £m
At 1 January, at fair value	**21.8**	**195.4**	**633.3**	**850.5**	14.8	116.2	470.8	601.8
Additions	**0.1**	**164.7**	**1.0**	**165.8**	–	106.9	3.7	110.6
Disposals	**(18.1)**	**(92.0)**	**(322.6)**	**(432.7)**	(16.0)	(85.2)	(50.1)	(151.3)
Increase in fair value for the period	**4.1**	**61.4**	**317.4**	**382.9**	0.8	37.2	209.5	247.5
Transfers	**–**	**(9.5)**	**92.3**	**82.8**	22.2	20.3	(0.6)	41.9
At 31 December, at fair value	**7.9**	**320.0**	**721.4**	**1,049.3**	21.8	195.4	633.3	850.5

11. Acquisitions

During 2006, the Group acquired the following companies which were accounted for as acquisitions. There were also two stepped acquisitions:

	Operations	Country	Date	Consideration £m	Percentage acquired
Acquisitions:					
Tanzania Tea Packers	Agribusiness	Tanzania	January 2006	–	53%
Compania de Electridad de Puerto Plata (CEPP)	Power	Dominican Republic	April 2006	10.6	97%
Nejapa Power Company	Power	El Salvador	December 2006	2.3	87%
Stepped acquisitions:					
Inter City Hotels	Property development	Ghana	July 2006	1.2	85%*
Umeme	Power	Uganda	December 2006	–	100%**

*51% acquired in 2004 for £0.5m; a further 17% acquired in 2005 for £1.3m

**56% acquired in 2005 for £0.8m

11. Acquisitions (continued)

The net assets acquired were as follows:

	Tanzania Tea Packers £m	CEPP £m	Nejapa Power Company £m	Total acquisitions £m	Inter City Hotels £m	Umeme £m	Total acquisitions and stepped acquisitions £m
Property, plant and equipment	3.6	5.3	10.8	**19.7**	3.4	50.0	**73.1**
Biological assets	3.1	–	–	**3.1**	–	–	**3.1**
Deferred tax assets	0.3	–	3.1	**3.4**	–	–	**3.4**
Other non-current assets	–	1.3	–	**1.3**	–	–	**1.3**
Inventories	1.4	3.4	2.9	**7.7**	–	1.9	**9.6**
Trade and other receivables	0.9	9.4	10.2	**20.5**	4.1	9.4	**34.0**
Cash and cash equivalents	0.1	2.5	9.9	**12.5**	0.6	15.2	**28.3**
Trade and other payables	(0.7)	(7.8)	(10.8)	**(19.3)**	(0.2)	(72.6)	**(92.1)**
Interest bearing loans and borrowings	(5.2)	–	–	**(5.2)**	(5.0)	(2.6)	**(12.8)**
Total net assets at fair value†	3.5	14.1	26.1	**43.7**	2.9	1.3	**47.9**
Net assets already owned by CDC	–	–	–	**–**	(2.0)	(0.7)	**(2.7)**
Net assets retained by minority interests	(1.7)	(0.5)	(2.9)	**(5.1)**	(0.4)	–	**(5.5)**
Net assets acquired at fair value†	1.8	13.6	23.2	**38.6**	0.5	0.6	**39.7**
Cash consideration	–	10.6	2.3	**12.9**	1.2	–	**14.1**
Goodwill	**(1.8)**	**(3.0)**	**(20.9)**	**(25.7)**	**0.7**	**(0.6)**	**(25.6)**
Total acquisition cost	–	10.6	2.3	**12.9**	1.2	–	**14.1**
Cash and cash equivalents acquired	(0.1)	(2.5)	(9.9)	**(12.5)**	–	–	**(12.5)**
Cash (inflow)/outflow on acquisitions	**(0.1)**	**8.1**	**(7.6)**	**0.4**	**1.2**	**–**	**1.6**

†At fair value for Tanzania Tea Packers, CEPP and Nejapa Power Company; at book value for stepped acquisitions

The discount on acquisition of Tanzania Tea Packers, CEPP, Nejapa Power Company and the remaining 44% of Umeme totalling £26.3m is included within other income in the income statement.

Goodwill of £0.7m arose on further acquisition of a 17% holding in Inter City Hotels. This goodwill reflects the value CDC places on its increased holding.

The following table sets out the book values of the identifiable assets and liabilities acquired in acquisitions and their fair value to the Group. There were no differences between the fair value and book value of the assets and liabilities of Tanzania Tea Packers.

	CEPP			Nejapa Power Company		
	Book value £m	Fair value adjustments on acquisition £m	Fair value to the Group £m	Book value £m	Fair value adjustments on acquisition £m	Fair value to the Group £m
Property, plant and equipment	6.8	(1.5)	**5.3**	23.0	(12.2)	**10.8**
Biological assets	–	–	**–**	–	–	**–**
Deferred tax assets	–	–	**–**	0.1	3.0	**3.1**
Other non-current assets	1.3	–	**1.3**	–	–	**–**
Inventories	3.4	–	**3.4**	2.9	–	**2.9**
Trade and other receivables	9.4	–	**9.4**	33.9	(23.7)	**10.2**
Cash and cash equivalents	2.5	–	**2.5**	24.6	(14.7)	**9.9**
Trade and other payables	(8.0)	0.2	**(7.8)**	(10.8)	–	**(10.8)**
Interest bearing loans and borrowings	–	–	**–**	(38.5)	38.5	**–**
Total net assets	15.4	(1.3)	**14.1**	35.2	(9.1)	**26.1**
Net assets retained by minority interests			**(0.5)**			**(2.9)**
Net assets acquired at fair value			**13.6**			**23.2**

Notes to the Accounts

continued

11. Acquisitions (continued)

The summarised profit and loss account for the period from date of acquisition to 31 December 2006 is shown below:

	Tanzania Tea Packers £m	CEPP £m	Nejapa Power Company £m
Income	8.4	19.1	6.3
Cost of sales	(4.6)	(14.0)	(3.6)
Gross profit	**3.8**	**5.1**	**2.7**
Administrative and other expenses	(2.4)	(1.8)	(1.0)
Net interest (payable)/receivable	(0.4)	0.5	(0.1)
Profit before tax	**1.0**	**3.8**	**1.6**
Tax	–	–	(0.2)
Profit after tax	**1.0**	**3.8**	**1.4**
Minority interests	–	(0.1)	(0.2)
Profit from date of acquisition to 31 December 2006	**1.0**	**3.7**	**1.2**

If the acquisitions had all taken place at the beginning of the year, the consolidated profit of the Group would have been £342.4m and consolidated income would have been £596.8m.

During 2005, the Group acquired the following company which was accounted for as an acquisition and made three stepped acquisitions:

	Operations	Country	Date	Consideration £m	Percentage acquired
Acquisition:					
Umeme	Power	Uganda	March 2005	0.8	56%
Stepped acquisitions:					
Sidi Krir	Power	Egypt	April 2005	23.9	100%*
Inter City Hotels	Property development	Ghana	September 2005	1.3	68%**
Mpongwe Development Company	Agribusiness	Zambia	October 2005	2.3	100%***

*61% acquired in 2004 for £40.1m
**51% acquired in 2004 for £0.5m
***90% acquired in stages during the period from 1987 to 1998 for a total of £14.8m

The net assets acquired were as follows:

	Umeme £m	Sidi Krir £m	Inter City Hotels £m	Mpongwe £m	Total acquisitions and stepped acquisitions £m
Property, plant and equipment	–	175.6	1.0	9.7	186.3
Biological assets	–	–	–	13.1	13.1
Other non-current assets	–	2.1	–	–	2.1
Inventories	–	4.0	–	6.7	10.7
Trade and other receivables	1.4	15.7	–	2.2	19.3
Cash and cash equivalents	–	3.1	1.2	0.2	4.5
Trade and other payables	–	(21.2)	–	(5.3)	(26.5)
Interest bearing loans and borrowings	–	(106.9)	–	(13.7)	(120.6)
Total net assets†	1.4	72.4	2.2	12.9	88.9
Net assets already owned by CDC	–	(44.2)	(1.1)	(11.6)	(56.9)
Net assets retained by minority interests	(0.6)	–	(0.7)	–	(1.3)
Net assets acquired†	0.8	28.2	0.4	1.3	30.7
Cash consideration	0.8	23.9	1.3	2.3	28.3
Goodwill	**–**	**(4.3)**	**0.9**	**1.0**	**(2.4)**

†At fair value for Umeme; at book value for stepped acquisitions

11. Acquisitions (continued)

	Umeme £m	Sidi Krir £m	Inter City Hotels £m	Mpongwe £m	Total acquisitions and stepped acquisitions £m
Total acquisition cost	0.8	23.9	1.3	2.3	28.3
Cash and cash equivalents acquired	–	(3.1)	(1.2)	(0.2)	(4.5)
Cash outflow on acquisitions	**0.8**	**20.8**	**0.1**	**2.1**	**23.8**

The discount on acquisition of the remaining 39% of Sidi Krir of £4.3m is included within other income in the income statement.

Goodwill of £0.9m arose on the acquisition of a further 17% of Inter City Hotels. This goodwill reflects the value CDC places on being the majority owner of the first shopping mall in Accra, Ghana, and the value it has placed on the property given the future rental yields expected from the asset once the construction phase of the project has been completed.

The equity injection into Mpongwe Development Company will enable the company to irrigate a large area of its arable land and enable the company to produce a more sustainable level of output. Goodwill of £1.0m arose on this acquisition. It is expected to take a number of years for the benefits of this investment to translate into improved trading and cash flows from the business. As part of CDC's impairment review of goodwill at the year end, the Directors believed that an impairment against the investment was required. Accordingly an impairment for the full £1.0m was made during 2005 and the amount written off to the income statement.

There were no differences between fair values and book values for any of the acquisitions during 2005, and no separately identifiable intangible assets were acquired.

Umeme did not trade prior to acquisition and recorded a profit after tax and minority interests for the period post acquisition of £1.9m.

12. Disposals

During 2006, the Group disposed of the following subsidiaries:

	Operations	Country/Region	Date	Consideration £m	Percentage disposed
CDC Airport Investment (Canada)	Airport services	Canada	March 2006	17.3	100%
Kelvin Power	Power	South Africa	March 2006	–	95%
Tanganyika Wattle Company	Agribusiness	Tanzania	May 2006	3.1	100%
Africa Property Group	Property development	West and East Africa	November 2006	8.1	100%
Kolombangara Forest Products	Agribusiness	Solomon Islands	December 2006	–	82%

Notes to the Accounts

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12. Disposals (continued)

The net assets disposed of were as follows:

	CDC Airport Investment (Canada) £m	Kelvin Power £m	Tanganyika Wattle Company £m	Africa Property Group £m	Kolombangara Forest Products £m	Total £m
Property, plant and equipment	–	41.3	1.9	3.4	0.9	**47.5**
Biological assets	–	–	4.7	–	7.4	**12.1**
Investment property	–	–	–	28.0	–	**28.0**
Intangible assets	–	–	0.1	–	–	**0.1**
Fair value financial assets	8.2	–	–	0.5	–	**8.7**
Inventories	–	2.1	1.3	–	0.4	**3.8**
Trade and other receivables	–	3.3	1.1	8.9	0.2	**13.5**
Cash and cash equivalents	–	5.3	0.1	2.6	0.1	**8.1**
Trade and other payables	–	(14.2)	(1.4)	(2.2)	(0.4)	**(18.2)**
Interest bearing loans and borrowings	–	(41.1)	(4.9)	(18.5)	(4.2)	**(68.7)**
Total net assets at book value	8.2	(3.3)	2.9	22.7	4.4	**34.9**
Minority interests	–	–	–	–	(0.8)	**(0.8)**
Goodwill eliminated on disposal	–	–	–	(2.7)	–	**(2.7)**
Net assets disposed	8.2	(3.3)	2.9	20.0	3.6	**31.4**
Cash proceeds	7.4	–	0.9	8.1	–	**16.4**
Deferred consideration	9.9	–	2.2	–	–	**12.1**
Profit/(loss) on disposal	**9.1**	**3.3**	**0.2**	**(11.9)**	**(3.6)**	**(2.8)**
Total disposal consideration received	7.4	–	0.9	8.1	–	**16.4**
Cash and cash equivalents disposed of	–	(5.3)	(0.1)	(2.6)	(0.1)	**(8.1)**
Cash inflow/(outflow) on disposals	**7.4**	**(5.3)**	**0.8**	**5.5**	**(0.1)**	**8.3**

The Group transferred its holdings in CDC Africa Properties Holdings which held investments in Capital Properties, Inter City Hotels, Persianas Properties and Nairobi Business Park, all collectively referred to as Africa Property Group to Actis Africa Real Estate Fund, in exchange for an investment holding in the new fund.

The summarised income statement of the disposed subsidiaries for the period from 1 January 2006 to the date of disposal is shown below:

	CDC Airport Investment (Canada) £m	Kelvin Power £m	Tanganyika Wattle Company £m	Africa Property Group £m	Kolombangara Forest Products £m	Total £m
Income	–	5.0	1.5	8.4	1.6	**16.5**
Cost of sales	–	(2.4)	(1.0)	–	(1.3)	**(4.7)**
Gross profit	**–**	**2.6**	**0.5**	**8.4**	**0.3**	**11.8**
Other income	–	0.1	1.0	3.8	0.7	**5.6**
Administrative and other expenses	–	(3.6)	(0.4)	(1.5)	(0.6)	**(6.1)**
Net interest payable	–	(0.7)	(0.2)	(7.2)	(0.2)	**(8.3)**
Profit/(loss) for the period to the date of disposal	**–**	**(1.6)**	**0.9**	**3.5**	**0.2**	**3.0**
Profit/(loss) for the prior year (to 31 December 2005)	**(3.6)**	**(13.2)**	**0.4**	**0.3**	**0.7**	**(15.4)**

12. Disposals (continued)

During 2005, the Group disposed of the following subsidiaries:

	Operations	Country	Date	Consideration £m	Percentage disposed
Betterware	Manufacturing	Mexico	March 2005	6.2	70%
Nitrex Chemicals	Manufacturing	India	August 2005	2.0	85%
Globeleq Chile	Power	Chile	August 2005	11.5	68%
Pacific Rim Palm Oil Limited (PRPOL)	Agribusiness	Indonesia, PNG	October 2005	80.2	100%

The net assets disposed of were as follows:

	Betterware £m	Nitrex Chemicals £m	Globeleq Chile £m	PRPOL £m	Total £m
Property, plant and equipment	0.5	5.2	–	1.8	**7.5**
Biological assets	–	–	–	70.5	**70.5**
Intangible assets	1.2	3.0	–	–	**4.2**
Other non-current assets	–	0.1	13.8	0.5	**14.4**
Inventories	0.7	0.8	–	5.6	**7.1**
Trade and other receivables	1.5	2.4	3.4	8.8	**16.1**
Cash and cash equivalents	1.3	1.7	–	1.4	**4.4**
Trade and other payables	(1.2)	(3.5)	–	(15.9)	**(20.6)**
Deferred tax liabilities	–	(0.6)	–	(13.5)	**(14.1)**
Interest bearing loans and borrowings	(1.3)	(6.5)	–	(26.9)	**(34.7)**
Total net assets at book value	2.7	2.6	17.2	32.3	**54.8**
Minority interests	(0.8)	(0.5)	(5.5)	1.3	**(5.5)**
Net assets disposed	1.9	2.1	11.7	33.6	**49.3**
Cash proceeds	6.2	2.0	11.5	80.2	**99.9**
Profit/(loss) on disposal	**4.3**	**(0.1)**	**(0.2)**	**46.6**	**50.6**
Total disposal consideration	6.2	2.0	11.5	80.2	**99.9**
Cash and cash equivalents disposed of	(1.3)	(1.7)	–	(1.4)	**(4.4)**
Cash inflow on disposals	**4.9**	**0.3**	**11.5**	**78.8**	**95.5**

PRPOL consisted of a wholly-owned holding company, two group service companies, two palm oil plantations in Indonesia, one in which the Group only had a 51% interest, and a palm oil plantation in Papua New Guinea in which the Group held a 75% interest. The non-wholly owned portion of PRPOL consisted of operations with cumulative losses and so at the date of disposal minority interests were negative.

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12. Disposals (continued)

The summarised income statement of the disposed subsidiaries for the period from 1 January 2005 to the date of the disposal is shown below:

	Betterware £m	Nitrex Chemicals £m	Globeleq Chile £m	PRPOL £m	Total £m
Income	2.6	10.1	1.7	47.0	61.4
Cost of sales	(0.9)	(7.3)	–	(24.0)	(32.2)
Gross profit	**1.7**	**2.8**	**1.7**	**23.0**	**29.2**
Administrative and other expenses	(1.1)	–	(0.5)	(11.4)	(13.0)
Net interest payable	(0.1)	(0.3)	–	(4.6)	(5.0)
Profit before tax	**0.5**	**2.5**	**1.2**	**7.0**	**11.2**
Tax	(0.3)	(0.8)	–	(1.5)	(2.6)
Profit after tax	**0.2**	**1.7**	**1.2**	**5.5**	**8.6**
Minority interests	(0.1)	(0.3)	(0.4)	0.1	(0.7)
Profit for the period to the date of disposal	**0.1**	**1.4**	**0.8**	**5.6**	**7.9**
Profit for the prior year (to 31 December 2004)	**1.0**	**0.5**	**3.1**	**11.8**	**16.4**

13. Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the individual companies acquired by the Group because the subsidiaries operate independently and therefore each is viewed as a cash generating unit for impairment testing.

The following table shows a split of the carrying amount of goodwill for each cash generating unit:

Cash generating unit	**2006 £m**	2005 £m
Capital Properties	**–**	0.7
Development Finance Company of Uganda (DFCU)	**–**	0.3
El Rashidi El Mizan	**1.5**	1.5
Inter City Hotels	**–**	1.2
Lenco	**0.9**	0.9
Sidi Krir	**2.0**	1.7
Southern Cone Power	**9.1**	9.1
Haripur Power/Meghnaghat Power	**20.0**	–
At 31 December	**33.5**	15.4

The fair value of each of these entities is derived from the fair value methodology used for financial instruments and stated in the accounting policies in note 2. These fair values are then compared to the net asset values consolidated in the Group accounts. Where the fair value falls below the Group's share of the net asset value of the subsidiary, the goodwill arising on the investment in that particular subsidiary is deemed to be impaired. The amount of the impairment is taken to the income statement.

At the year end, an impairment review of goodwill was conducted. Goodwill in connection with DFCU of £0.2m, net of exchange, was deemed to be impaired and an impairment charge of £0.2m was taken to the income statement and is shown within other expenses. In addition, goodwill in connection with Inter City Hotels and Capital Properties were written off on the disposal of these companies during the year.

At 31 December 2005 an impairment review was conducted, and goodwill in connection with Kelvin Power of £1.1m and Mpongwe Development Company of £1.0m were deemed to be impaired.

14. Other financial assets (non-current)

	Group		Company	
	2006 **£m**	2005 restated £m	**2006** **£m**	2005 £m
Loans and receivables due from third parties	**90.5**	91.8	**72.9**	77.2
Loans and receivables due from Group undertakings	**–**	–	**136.0**	322.6
Amounts receivable under finance leases	**163.8**	167.0	**–**	–
Advances to customers	**53.3**	48.0	**–**	–
Prepayments	**–**	1.7	**–**	–
Other receivables	**11.5**	7.5	**3.7**	3.7
At 31 December	**319.1**	316.0	**212.6**	403.5

£100.0m (2005: £105.7m) of amounts receivable under finance leases were pledged as security for liabilities.

The movement in loans and receivables was as follows:

	Group		Company			
	2006 **£m**	2005 £m	**2006** **Due from third parties** **£m**	**2006** **Due from Group undertakings** **£m**	2005 Due from third parties £m	2005 Due from Group undertakings £m
At 1 January	**127.6**	178.8	**107.1**	**323.5**	147.9	343.4
New loans advanced	**19.2**	19.2	**19.2**	**78.3**	12.6	26.5
Loan repayments	**(39.1)**	(86.9)	**(37.5)**	**(163.9)**	(77.3)	(49.4)
Loans and receivables disposed with subsidiaries	**(0.5)**	–	**–**	**–**	–	–
Provision release for the year	**4.7**	26.3	**3.9**	**7.2**	26.4	6.9
Transfers	**–**	(19.0)	**–**	**8.0**	(11.9)	(6.8)
Exchange adjustment	**(10.0)**	9.2	**(9.5)**	**(26.7)**	9.4	2.9
At 31 December	**101.9**	127.6	**83.2**	**226.4**	107.1	323.5
Less: Loans and receivables due within one year (note 18)	**(11.4)**	(35.8)	**(10.3)**	**(90.4)**	(29.9)	(0.9)
At 31 December	**90.5**	91.8	**72.9**	**136.0**	77.2	322.6

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15. Deferred tax assets and liabilities

	Group	
	2006 £m	2005 £m
Deferred tax assets		
Property, plant and equipment	**0.9**	(0.9)
Biological assets	**–**	(9.5)
Investment property	**(0.2)**	–
Intangible assets	**(0.7)**	–
Retirement benefit	**0.1**	–
Losses	**4.5**	7.5
Other assets	**1.3**	3.5
Total deferred tax assets	**5.9**	0.6
Deferred tax liabilities		
Property, plant and equipment	**(45.7)**	(7.1)
Biological assets	**(1.5)**	(0.2)
Investment property	**–**	(0.9)
Intangible assets	**(1.3)**	(1.6)
Fair value financial assets	**0.1**	0.1
Other financial assets	**–**	0.3
Losses	**1.0**	2.9
Other liabilities	**(0.8)**	(1.9)
Total deferred tax liabilities	**(48.2)**	(8.4)
Net deferred tax liabilities	**(42.3)**	(7.8)

Included within deferred tax assets is £2.9m (2005: £nil) relating to tax losses, recoverability of which is dependent on future taxable profits in excess of those arising from the reversal of deferred tax liabilities. It is anticipated that sufficient profits will be generated such that these losses can be relieved.

15. Deferred tax assets and liabilities (continued)

At 31 December 2006, the Group had carried forward losses of £0.5m (2005: £10.7m) for which no deferred tax asset was recognised due to the uncertainty of future profits. These unrecognised deferred tax assets amount to £0.1m (2005: £3.2m).

Movement in temporary differences during the year

	At 1 January 2006 £m	Acquired with subsidiaries £m	Disposed with subsidiaries £m	Utilised during the year £m	(Charge)/ credit for the year £m	Exchange during the year £m	At 31 December 2006 £m
Property, plant and equipment	**(8.0)**	**2.7**	**0.6**	**(20.7)**	**(23.1)**	**3.7**	**(44.8)**
Biological assets	**(9.7)**	**–**	**9.7**	**–**	**(1.6)**	**0.1**	**(1.5)**
Investment property	**(0.9)**	**–**	**0.1**	**–**	**0.5**	**0.1**	**(0.2)**
Intangible assets	**(1.6)**	**–**	**–**	**(0.5)**	**(0.4)**	**0.5**	**(2.0)**
Retirement benefit assets/liabilities	**–**	**0.1**	**–**	**–**	**–**	**–**	**0.1**
Fair value financial assets	**0.1**	**–**	**–**	**–**	**–**	**–**	**0.1**
Other financial assets	**0.3**	**–**	**–**	**–**	**(0.3)**	**–**	**–**
Losses	**10.4**	**0.5**	**(7.9)**	**(0.2)**	**3.9**	**(1.2)**	**5.5**
Other assets/liabilities	**1.6**	**0.1**	**(2.6)**	**1.8**	**(1.0)**	**0.6**	**0.5**
Total	**(7.8)**	**3.4**	**(0.1)**	**(19.6)**	**(22.0)**	**3.8**	**(42.3)**

	At 1 January 2005 £m	Disposed with subsidiaries £m	Utilised during the year £m	(Charge)/ credit for the year £m	Exchange during the year £m	At 31 December 2005 £m
Property, plant and equipment	(15.5)	11.7	0.2	(4.0)	(0.4)	(8.0)
Biological assets	(13.8)	5.7	–	(0.1)	(1.5)	(9.7)
Investment properties	(0.6)	–	–	(0.2)	(0.1)	(0.9)
Intangible assets	(1.4)	–	–	–	(0.2)	(1.6)
Retirement benefit assets/liabilities	–	(0.1)	–	0.1	–	–
Fair value financial assets	(0.4)	–	–	0.5	–	0.1
Other financial assets	0.3	–	–	–	–	0.3
Inventories	(0.5)	0.9	–	(0.4)	–	–
Interest bearing loans and borrowings	(0.4)	0.4	–	–	–	–
Losses	17.5	(4.4)	(0.9)	(2.1)	0.3	10.4
Other assets/liabilities	3.6	(0.1)	0.7	(2.0)	(0.6)	1.6
Total	(11.2)	14.1	–	(8.2)	(2.5)	(7.8)

A deferred tax liability of £2.3m (2005: £nil) has been recognised in respect of unremitted earnings of overseas subsidiaries.

The temporary differences associated with investments in subsidiaries for which a deferred tax liability has not been recognised amounted to £42.8m (2005: £47.5m). The Group is of the opinion that the profits of the relevant subsidiaries are not likely to be distributed in the foreseeable future.

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16. Pension commitments

The Group 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. A small number of subsidiaries also operate unfunded post retirement benefit schemes outside of the UK.

An actuarial valuation of the CDC Pensions Scheme was carried out on 31 March 2006. The valuation showed a deficit of £48m (the Technical Provisions as defined in section 222(2) of the Pensions Act 2004, on an ongoing funding basis, which takes into account the current investment strategy of the scheme, minus the value of the scheme's assets). CDC and the Trustees agreed a Statutory Funding Objective Recovery Plan whereby CDC paid an additional contribution of £10m into the CDC Pensions Scheme in 2006 and is scheduled to make payments of £11.3m per annum in the years 2007 to 2010 inclusive. The estimated deficit if the scheme was wound up on 31 March 2006, the buy out basis, was approximately £150m.

Under new powers conferred on them by recent legislation, the Trustees of the scheme, as a secondary funding objective to have sufficient assets to cover the scheme's closed fund liabilities, sought additional assurance from CDC. It was agreed that CDC would fund a contingent asset up to a level which assumes no further contributions from CDC and that a low risk investment policy is adopted by the CDC Pensions Scheme, to provide security to the Pensions Scheme Trustees. Accordingly, in 2006 CDC paid £74m into the Contingent Asset Trust 2006. The terms of the Trust allow funds to be drawn by the CDC Pensions Scheme to fund any deficit, but funds can be returned to CDC if they are not required by the CDC Pensions Scheme. The next periodic valuation of the scheme is planned for 31 March 2009.

The assets and liabilities of the scheme at 31 December are:

	2006 £m	2005 £m
Scheme assets at fair value		
Equities	**75.5**	71.5
Bonds	**160.7**	149.3
Property	**15.3**	14.2
Cash/net current assets	**0.8**	2.7
Fair value of the CDC Pensions Scheme assets	**252.3**	237.7
Contingent Asset Trust 2006	**74.0**	–
Pension assets	**326.3**	237.7
Present value of pension liabilities	**(284.0)**	(253.8)
	42.3	(16.1)
Unrecognised actuarial gain	**50.8**	23.9
Net pension asset	**93.1**	7.8

Reconciliation of net pension asset:

	2006 £m	2005 £m
At 1 January	**7.8**	(8.8)
Pension income	**0.8**	1.1
Employer contributions to the CDC Pensions Scheme	**10.5**	15.5
Employer contributions to the Contingent Asset Trust 2006	**74.0**	–
At 31 December	**93.1**	7.8

Return on assets for the year:

	2006 £m	2005 £m
Expected return on scheme assets	**13.1**	12.5
Actuarial (loss)/gain on scheme assets	**(0.7)**	16.6
Actual return on scheme assets	**12.4**	29.1

16. Pension commitments (continued)

The amounts recognised in the Group's income statement for the year are analysed below:

	2006 £m	2005 £m
Current service cost	**(0.5)**	(0.6)
Recognised in arriving at operating profit	**(0.5)**	(0.6)
Expected return on scheme assets	**13.1**	12.5
Interest cost on scheme liabilities	**(11.8)**	(10.8)
Other finance income	**1.3**	1.7

Pension contributions are determined with the advice of a firm of independent qualified actuaries, Watson Wyatt Ltd. Annual valuations are prepared using the projected unit credit method. Scheme assets are stated at their market values at the respective balance sheet dates and overall expected rates of return are established by applying brokers' forecasts to each category of scheme assets.

	2006 %	2005 %	2004 %
Main assumptions:			
Discount rate	**4.9**	4.7	5.3
Rate of salary increases	**4.5**	4.3	4.3
Rate of increase in pension payment			
Pre 1 May 1996 joiners (for pensions accrued before 1 April 2000)	**5.0**	5.0	5.0
Pre 1 May 1996 joiners (for pensions accrued after 31 March 2000) and post 30 April 1996 joiners	**3.0**	2.8	2.8
Rate of increase for deferred pensions	**3.0**	2.8	2.8
Inflation assumption	**3.0**	2.8	2.8
Expected rates of return on scheme assets			
Equities	**8.0**	8.2	8.4
Bonds	**4.9**	4.3	4.9
Property	**6.4**	6.3	6.8
Cash/net current assets	**4.0**	3.8	3.8
Contingent asset trust	**4.0**	–	–

The 2006 scheme valuation used 80% of the mortality table PA92 (as published by the Institute and Faculty of Actuaries) with medium cohort improvements to 2006. The valuation of liabilities at 31 December 2006 have used the same mortality assumptions. The table below summarises the life expectancies for pensioners reaching age 60, both for a single member and also a member and a surviving spouse. The corresponding figures from the 2005 valuation are shown in brackets.

Life expectancy of a pensioner reaching age 60	Male	Female	Male joint	Female joint
In 2016	**29.1**	**32.0**	**34.3**	**33.3**
In 2015	(25.3)	(29.0)	(31.9)	(30.7)
In 2006	**28.4**	**31.4**	**33.8**	**32.8**
In 2005	(23.7)	(27.2)	(29.9)	(28.8)

The value of scheme liabilities, as the scheme is very mature, is mostly affected by the assumptions on discount rate and life expectancy. An increase in the discount rate assumption by 0.25% decreases scheme liabilities by 4.9%. An increase in life expectancy by one year increases scheme liabilities by 3.5%.

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16. Pension commitments (continued)

Changes in the present value of the defined benefit pension obligations are analysed as follows:

	2006 £m	2005 £m
At 1 January	**(253.8)**	(208.3)
Current service cost	**(0.5)**	(0.6)
Interest cost	**(11.8)**	(10.8)
Benefits paid	**8.3**	7.9
Actuarial loss	**(26.2)**	(42.0)
At 31 December	**(284.0)**	(253.8)

Changes in the fair value of plan assets are analysed as follows:

	2006 £m	2005 £m
At 1 January	**237.7**	201.0
Expected return on scheme assets	**13.1**	12.5
Actuarial (loss)/gain on scheme assets	**(0.7)**	16.6
Employer contributions	**84.5**	15.5
Benefits paid	**(8.3)**	(7.9)
At 31 December	**326.3**	237.7

	2006 £m	2005 £m	2004 £m
History of experience gains and losses:			
Fair value of scheme assets	**326.3**	237.7	201.0
Present value of defined benefit obligation	**(284.0)**	(253.8)	(208.3)
Surplus/(deficit) in the scheme	**42.3**	(16.1)	(7.3)
Actuarial (loss)/gain on plan assets	**(0.7)**	16.6	7.7
(Loss)/gain on assets as a % of assets at end of year	**(0.2%)**	7.0%	3.8%
(Loss)/gain on defined benefit obligation due to experience	**(2.1)**	(0.1)	2.4
(Loss)/gain on defined benefit obligation due to experience as a % of defined benefit obligation at end of year	**(0.7%)**	–	1.2%

17. Inventories

	Group	
	2006 £m	2005 £m
Raw materials	**20.8**	21.7
Work in progress	**2.7**	6.8
Finished goods	**26.4**	22.4
Total inventories	**49.9**	50.9

18. Trade and other receivables

	Group		Company	
	2006 £m	2005 restated £m	2006 £m	2005 £m
Trade receivables	**82.5**	85.7	**–**	–
Loans and receivables due from third parties	**11.4**	35.8	**10.3**	29.9
Loans and receivables due from Group undertakings	**–**	–	**90.4**	0.9
Amounts receivable under finance leases	**3.9**	3.9	**–**	–
Advances to customers	**19.8**	30.0	**–**	–
Amounts owed by Group undertakings	**–**	–	**14.1**	31.7
Deferred consideration on sale of fair value financial assets	**37.7**	26.9	**6.7**	5.2
Other receivables	**16.2**	26.5	**5.7**	1.2
Total trade and other receivables	**171.5**	208.8	**127.2**	68.9

19. Financial instruments

Derivative financial instruments (current and non-current) comprise:

	Group		Company	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Futures contracts in profit	**–**	2.7	**–**	–
Foreign exchange contracts in profit	**58.6**	16.0	**54.4**	15.8
Foreign exchange contracts in loss	**(23.9)**	(27.9)	**(23.9)**	(27.4)
Interest rate swaps in loss	**(3.9)**	(13.1)	**–**	–
Other derivatives in loss	**(12.4)**	–	**–**	–
	18.4	(22.3)	**30.5**	(11.6)

Cash flow hedges

At 31 December 2006, the Company and Group held 10 (2005: 12) forward foreign exchange contracts (FFECs) designated as cash flow hedges of future interest to protect against adverse fluctuations between sterling and US dollars in connection with the scheduled receipts of interest in relation to loans advanced by the Company and the Group. These FFECs amounted to US$20.8m (2005: US$25.2m) at an average spot price of 1.728 (2005: 1.621) to sell US dollars for £12.1m (2005: £15.5m) on a range of six-monthly dates to May 2010.

At 31 December 2006, these FFECs had a fair value of £1.3m (2005: £0.2m), of which £0.5m has been included within derivative financial instruments in current assets and £0.8m has been included within derivative financial instruments in non-current assets.

These cash flow hedges were assessed to be highly effective throughout the year and unrealised gains of £1.5m (2005: loss of £2.8m) were included in equity in respect of these contracts. These contracts have no deferred tax consequences as the Company is exempt from UK corporation tax.

During the year, eight FFECs (2005: 16 FFECs) which were designated as cash flow hedges were settled when their forecast transactions occurred. Consequently, losses of £0.2m (2005: £0.4m) which were previously recognised directly in equity were transferred to the income statement.

Net investment in foreign operations

At 31 December 2006, the Group held 21 FFECs (2005: 13 FFECs) designated as hedges of the net investments in its subsidiaries operating in the power sector all of which have US dollar functional currencies. These FFECs amounted to US$420.5m (2005: US$318.4m) at an average spot price of 1.814 (2005: 1.811) to sell US dollars for £231.8m (2005: £175.8m) on a range of dates to August 2009.

At 31 December 2006, these FFECs had a fair value of £16.7m (2005: £5.6m), of which £16.7m (2005: £0.8m) are in profit. Of the £16.7m FFECs in profit, £12.7m has been included within derivative financial instruments in current assets and £4.0m has been included within derivative financial instruments in non-current assets. At 31 December 2006, no FFECs were in loss (2005: £6.4m).

Gains or losses arising from the movement in fair values of these FFECs are transferred to equity to offset any gains or losses on translation of the net investment in the subsidiaries. These net investments in foreign operations hedges were assessed to be highly effective throughout the year and unrealised gains of £23.3m (2005: losses of £7.5m) were included in equity in respect of these contracts. These contracts have no deferred tax consequences as the Company is exempt from UK corporation tax.

Derivatives not designated for hedge accounting

At 31 December 2006, the Group held 128 FFECs (2005: 155 FFECs) which were not designated for the purposes of hedge accounting, but were used to mitigate the currency effects on the Group's US dollar, South African Rand and Euro denominated loan and equity investments. These FFECs amounted to US$528.8m (2005: US$457.2m) at an average spot price of 1.846 (2005: 1.754) to sell US dollars for £286.5m (2005: £260.7m) on a range of dates to May 2012, R166.9m (2005: R407.2m) at an average spot price of 13.950 (2005: 9.980) to sell South African Rand for £12.0m (2005: £40.8m) on a range of dates to March 2009 and €26.4m (2005: €29.7m) at an average spot price of 1.358 (2005: 1.451) to sell Euros for £19.4m (2005: £20.5m) on a range of dates to January 2011.

At 31 December 2006, these FFECs had a fair value of £16.7m (2005: £6.5m), of which £40.6m (2005: £15.0m) are in profit. Of the £40.6m FFECs in profit, £9.2m has been included within derivative financial instruments in current assets and £31.4m has been included within derivative financial instruments in non-current assets. Of the £23.9m (2005: £21.5m) in loss, £6.1m has been included within derivative financial instruments in current liabilities, and £17.8m has been included within derivative financial instruments in non-current liabilities.

Gains or losses arising from the movement in fair values of these FFECs are taken to the income statement.

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continued

19. Financial instruments (continued)

A number of the Group's subsidiaries which operate in the power sector have sought to mitigate their interest rate risk by entering into interest rate swap arrangements on their US dollar denominated borrowings. These interest rate swap arrangements have been in force for the whole of the current and preceding years. Gains or losses arising from the movement in fair values of these interest rate swaps are included in finance income/costs in the income statement.

At 31 December 2006, these interest rate swaps had a fair value of £3.9m (2005: £13.1m), of which £0.2m has been included within derivative financial instruments in current liabilities and £3.7m has been included within derivative financial instruments in non-current liabilities.

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 Performance Review on page 6.

CDC's principal financial assets (as defined in IAS 32) comprise cash, short term deposits, treasury bills and bonds, advances to customers, amounts receivable under finance leases, foreign exchange contracts, trade receivables, loans receivable 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, trade and other payables, deposits due to customers, interest bearing loans and borrowings, interest rate swaps and foreign exchange contracts. The benchmark rate for floating rate assets and liabilities is based on one week to six month LIBOR rates. None of the Group's trade receivables or payables bear interest.

Interest rate exposures – Group

	Fixed rate £m	Floating 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
2006 Financial assets: Cash							
Sterling	**–**	**8.9**	**0.9**	**9.8**	**–**	**–**	*****
US dollars	**–**	**65.4**	**24.6**	**90.0**	**–**	**–**	*****
Other currencies	**–**	**22.7**	**9.1**	**31.8**	**–**	**–**	*****
Total	**–**	**97.0**	**34.6**	**131.6**	**–**	**–**	*****
2005 Financial assets: Cash							
Sterling	–	1.5	0.1	1.6	–	–	*
US dollars	–	68.0	13.2	81.2	–	–	*
Other currencies	–	19.6	7.7	27.3	–	–	*
Total	–	89.1	21.0	110.1	–	–	*
2006 Financial assets: Short term deposits receivable within 90 days							
Sterling	**–**	**749.1**	**–**	**749.1**	**–**	**–**	*****
US dollars	**12.4**	**13.6**	**–**	**26.0**	**4.7%**	**0.4**	*****
Other currencies	**0.5**	**2.3**	**–**	**2.8**	**9.7%**	**0.1**	*****
Total	**12.9**	**765.0**	**–**	**777.9**	**4.9%**	**0.4**	*****
2005 Financial assets: Short term deposits receivable within 90 days							
Sterling	–	426.6	0.7	427.3	–	–	*
US dollars	4.9	34.7	4.0	43.6	3.9%	0.2	*
Other currencies	2.2	3.6	0.3	6.1	6.5%	0.1	*
Total	7.1	464.9	5.0	477.0	4.7%	0.2	*

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

19. Financial instruments (continued)

Interest rate exposures – Group (continued)

	Fixed rate £m	Floating 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
2006 Financial assets: Short term deposits receivable after more than 90 days							
US dollars	**1.9**	**0.1**	**–**	**2.0**	**4.5%**	**1.0**	**–**
Total	**1.9**	**0.1**	**–**	**2.0**	**4.5%**	**1.0**	**–**
2005 Financial assets: Short term deposits receivable after more than 90 days							
Sterling	–	217.0	–	217.0	–	–	–
Total	–	217.0	–	217.0	–	–	–
2006 Financial assets: Treasury bills and bonds							
Other currencies	**10.3**	**–**	**–**	**10.3**	**14.8%**	**0.1**	**–**
Total	**10.3**	**–**	**–**	**10.3**	**14.8%**	**1.0**	**–**
2005 Financial assets: Treasury bills and bonds							
Other currencies	8.0	–	–	8.0	20.9%	0.8	–
Total	8.0	–	–	8.0	20.9%	0.8	–
2006 Financial assets: Advances to customers							
US dollars	**–**	**20.1**	**–**	**20.1**	**–**	**–**	**–**
Other currencies	**–**	**53.0**	**–**	**53.0**	**–**	**–**	**–**
Total	**–**	**73.1**	**–**	**73.1**	**–**	**–**	**–**
2005 Financial assets: Advances to customers							
Sterling	–	0.1	–	0.1	–	–	–
US dollars	–	22.2	–	22.2	–	–	–
Other currencies	–	55.7	–	55.7	–	–	–
Total	–	78.0	–	78.0	–	–	–
2006 Amounts receivable under finance leases							
US dollars	**167.7**	**–**	**–**	**167.7**	**13.7%**	**15.1**	**–**
Total	**167.7**	**–**	**–**	**167.7**	**13.7%**	**15.1**	**–**
2005 Amounts receivable under finance leases							
US dollars	**170.9**	–	–	**170.9**	**13.7%**	**16.1**	–
Total	**170.9**	–	–	**170.9**	**13.7%**	**16.1**	–

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continued

19. Financial instruments (continued)

Interest rate exposures – Group (continued)

	Fixed rate £m	Floating 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
2006 Financial assets: Loans and receivables							
Sterling	**–**	**5.0**	**–**	**5.0**	**–**	**–**	**–**
US dollars	**–**	**78.1**	**3.0**	**81.1**	**–**	**–**	**5.3**
Other currencies	**2.9**	**12.2**	**0.7**	**15.8**	**15.0%**	**5.5**	**2.9**
Total	**2.9**	**95.3**	**3.7**	**101.9**	**15.0%**	**5.5**	**4.9**
2005 Financial assets: Loans and receivables							
Sterling	5.3	3.1	–	8.4	8.7%	1.9	–
US dollars	64.4	24.6	0.3	89.3	8.3%	3.1	6.0
Other currencies	7.0	21.4	1.5	29.9	13.5%	1.0	5.9
Total	76.7	49.1	1.8	127.6	8.8%	2.8	5.9
2006 Financial liabilities: Overdrafts							
Sterling	**–**	**(0.9)**	**–**	**(0.9)**	**–**	**–**	**–**
US dollars	**–**	**(4.4)**	**–**	**(4.4)**	**–**	**–**	**–**
Other currencies	**(3.4)**	**(0.6)**	**–**	**(4.0)**	**12.0%**	**1.0**	**–**
Total	**(3.4)**	**(5.9)**	**–**	**(9.3)**	**12.0%**	**1.0**	**–**
2005 Financial liabilities: Overdrafts							
Sterling	–	(0.8)	–	(0.8)	–	–	–
US dollars	–	(4.8)	–	(4.8)	–	–	–
Other currencies	(1.0)	(4.5)	–	(5.5)	11.6%	1.0	–
Total	(1.0)	(10.1)	–	(11.1)	11.6%	1.0	–
2006 Financial liabilities: Deposits due to customers							
Sterling	**–**	**–**	**(0.2)**	**(0.2)**	**–**	**–**	*****
US dollars	**(1.8)**	**–**	**(9.4)**	**(11.2)**	**1.9%**	**0.1**	*****
Other currencies	**(15.9)**	**–**	**(16.7)**	**(32.6)**	**8.1%**	**0.5**	*****
Total	**(17.7)**	**–**	**(26.3)**	**(44.0)**	**7.5%**	**0.5**	*****
2005 Financial liabilities: Deposits due to customers							
Sterling	–	–	(0.3)	(0.3)	–	–	*
US dollars	(0.9)	–	(9.8)	(10.7)	2.5%	2.5	*
Other currencies	(13.7)	–	(19.7)	(33.4)	8.7%	0.3	*
Total	(14.6)	–	(29.8)	(44.4)	8.3%	0.5	*
2006 Financial liabilities: Interest bearing loans and borrowings (excluding overdrafts)							
Sterling	**(8.4)**	**–**	**(0.2)**	**(8.6)**	**6.2%**	**3.0**	**7.0**
US dollars	**(295.7)**	**(219.1)**	**(0.8)**	**(515.6)**	**9.3%**	**12.0**	**0.1**
Other currencies	**(22.7)**	**(32.8)**	**–**	**(55.5)**	**9.9%**	**6.2**	**–**
Total	**(326.8)**	**(251.9)**	**(1.0)**	**(579.7)**	**9.2%**	**10.6**	**1.3**
2005 Financial liabilities: Interest bearing loans and borrowings (excluding overdrafts)							
Sterling	(11.0)	–	(0.1)	(11.1)	6.2%	4.0	7.0
US dollars	(431.4)	(60.0)	(0.9)	(492.3)	9.2%	12.3	0.1
Other currencies	(116.4)	(43.3)	(2.1)	(161.8)	11.2%	15.8	2.0
Total	(558.8)	(103.3)	(3.1)	(665.2)	9.5%	12.8	1.0

* The Group's no interest deposits due to customers are repayable on demand.

19. Financial instruments (continued)

Interest rate exposures – Company

	Fixed rate £m	Floating 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
2006 Financial assets: Cash							
Sterling	**–**	**0.8**	**–**	**0.8**	**–**	**–**	**–**
US dollars	**–**	**0.8**	**–**	**0.8**	**–**	**–**	**–**
Other currencies	**–**	**0.8**	**–**	**0.8**	**–**	**–**	**–**
Total	**–**	**2.4**	**–**	**2.4**	**–**	**–**	**–**
2005 Financial assets: Cash							
Sterling	–	0.3	–	0.3	–	–	–
US dollars	–	0.5	–	0.5	–	–	–
Other currencies	–	0.4	–	0.4	–	–	–
Total	–	1.2	–	1.2	–	–	–
2006 Financial assets: Short term deposits receivable within 90 days							
Sterling	**–**	**748.9**	**–**	**748.9**	**–**	**–**	**–**
US dollars	**–**	**8.1**	**–**	**8.1**	**–**	**–**	**–**
Total	**–**	**757.0**	**–**	**757.0**	**–**	**–**	**–**
2005 Financial assets: Short term deposits receivable within 90 days							
Sterling	–	424.1	–	424.1	–	–	–
US dollars	–	24.5	–	24.5	–	–	–
Total	–	448.6	–	448.6	–	–	–
2006 Financial assets: Short term deposits receivable after more than 90 days							
Sterling	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2005 Financial assets: Short term deposits receivable after more than 90 days							
Sterling	–	217.0	–	217.0	–	–	–
Total	–	217.0	–	217.0	–	–	–
2006 Financial assets: Loans and receivables							
Sterling	**–**	**5.0**	**3.4**	**8.4**	**–**	**–**	**1.5**
US dollars	**–**	**108.2**	**186.4**	**294.6**	**–**	**–**	**3.1**
Other currencies	**5.9**	**–**	**0.7**	**6.6**	**14.0%**	**5.5**	**2.9**
Total	**5.9**	**113.2**	**190.5**	**309.6**	**14.0%**	**5.5**	**3.0**
2005 Financial assets: Loans and receivables							
Sterling	5.3	5.0	63.6	73.9	8.7%	1.9	5.3
US dollars	69.3	40.1	228.7	338.1	9.1%	3.1	5.9
Other currencies	7.0	10.8	0.8	18.6	13.5%	1.0	6.2
Total	81.6	55.9	293.1	430.6	9.5%	2.9	5.8

Notes to the Accounts

continued

19. Financial instruments (continued)

Interest rate exposures – Company (continued)

	Fixed rate £m	Floating 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
2006 Financial liabilities: Overdrafts							
Sterling	**–**	**(1.0)**	**–**	**(1.0)**	**–**	**–**	**–**
Total	**–**	**(1.0)**	**–**	**(1.0)**	**–**	**–**	**–**
2005 Financial liabilities: Overdrafts							
Sterling	–	(0.8)	–	(0.8)	–	–	–
Other currencies	–	(0.1)	–	(0.1)	–	–	–
Total	–	(0.9)	–	(0.9)	–	–	–
2006 Financial liabilities: Interest bearing loans and borrowings (excluding overdrafts)							
Sterling	**–**	**–**	**(8.7)**	**(8.7)**	**–**	**–**	**0.1**
Total	**–**	**–**	**(8.7)**	**(8.7)**	**–**	**–**	**0.1**
2005 Financial liabilities: Interest bearing loans and borrowings (excluding overdrafts)							
Sterling	(261.6)	–	(11.7)	(273.3)	5.8%	2.9	–
US dollars	–	–	(41.5)	(41.5)	–	–	–
Total	(261.6)	–	(53.2)	(314.8)	5.8%	2.9	–

Currency exposures – Group

The table below shows the Group's currency exposures that give rise to exchange rate gains and losses that are recognised in the income statement. Such exposures comprise those monetary assets and liabilities of Group companies that are not denominated in their functional currency.

Functional currency	**2006 Sterling £m**	**2006 US dollars £m**	**2006 Other £m**	**2006 Total £m**	2005 Sterling £m	2005 US dollars £m	2005 Other £m	2005 Total £m
Sterling	**–**	**6.0**	**0.5**	**6.5**	–	12.3	2.1	14.4
US dollars	**7.7**	**–**	**1.9**	**9.6**	–	–	9.0	9.0
Ugandan Shillings	**–**	**(31.5)**	**2.2**	**(29.3)**	0.1	12.4	0.8	13.3
Other currencies	**0.1**	**(6.2)**	**(2.4)**	**(8.5)**	1.1	(9.1)	(2.4)	(10.4)
Total	**7.8**	**(31.7)**	**2.2**	**(21.7)**	1.2	15.6	9.5	26.3

19. Financial instruments (continued)

Currency exposures – Group (continued)
The following table shows the functional currency of the Group's equity investments:

	2006 Listed equity at valuation £m	2006 Unlisted equity at valuation £m	2006 Total £m	2005 Listed equity at valuation £m	2005 Unlisted equity at valuation £m	2005 Total £m
US dollars	–	306.3	306.3	–	200.1	200.1
South African Rand	4.9	85.3	90.2	10.8	63.1	73.9
Indian Rupees	2.8	80.1	82.9	25.7	60.5	86.2
Peruvian New Soles	63.4	3.6	67.0	72.1	–	72.1
Chinese Yuan	–	26.7	26.7	–	30.0	30.0
Belize dollars	–	15.6	15.6	–	–	–
Malaysian Ringgits	–	10.2	10.2	–	–	–
Nigerian Naira	–	9.6	9.6	–	5.8	5.8
Pakistan Rupees	–	5.6	5.6	14.8	0.4	15.2
Other	7.8	57.6	65.4	6.9	44.2	51.1
Total	78.9	600.6	679.5	130.3	404.1	534.4

Currency exposures – Company
The table below shows the Company's currency exposures that give rise to exchange rate gains and losses that are recognised in the income statement. Such exposures comprise those monetary assets and liabilities that are not denominated in the Company's functional currency.

Functional currency	2006 US dollars £m	2006 Other £m	2006 Total £m	2005 US dollars £m	2005 Other £m	2005 Total £m
Sterling	5.8	0.6	6.4	1.5	–	1.5
Total	5.8	0.6	6.4	1.5	–	1.5

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

	2006 Listed equity at valuation £m	2006 Unlisted equity at valuation £m	2006 Total £m	2005 Listed equity at valuation £m	2005 Unlisted equity at valuation £m	2005 Total £m
US dollars	–	372.3	372.3	–	222.2	222.2
Sterling	–	274.5	274.5	–	450.6	450.6
Malaysian Ringgits	–	146.9	146.9	–	30.5	30.5
South African Rand	–	90.6	90.6	–	55.4	55.4
Indian Rupees	–	51.9	51.9	–	5.4	5.4
Chinese Yuan	–	27.3	27.3	–	30.0	30.0
Ugandan Shillings	–	19.0	19.0	–	9.4	9.4
Nigerian Naira	–	9.6	9.6	–	5.8	5.8
Pakistan Rupees	–	0.2	0.2	14.8	0.4	15.2
Other	7.9	49.1	57.0	7.0	19.0	26.0
Total	7.9	1,041.4	1,049.3	21.8	828.7	850.5

Notes to the Accounts

continued

19. Financial instruments (continued)

Liquidity risk – Group

The following tables show the maturity profile of the Group's financial assets and liabilities other than cash and equity investments:

2006 Financial assets: Maturity profile	**Short term deposits £m**	**Treasury bills and bonds £m**	**Advances to customers £m**	**Loans and receivables £m**	**Forward foreign exchange contracts £m**
Due on demand	**–**	**–**	**4.1**	**–**	**–**
Due within one year, but not on demand	**779.9**	**10.3**	**15.7**	**11.4**	**24.6**
Due within one to two years	**–**	**–**	**53.3**	**16.9**	**12.1**
Due within two to three years	**–**	**–**	**–**	**9.4**	**18.4**
Due within three to four years	**–**	**–**	**–**	**20.1**	**1.5**
Due within four to five years	**–**	**–**	**–**	**6.3**	**1.9**
Due after five years	**–**	**–**	**–**	**37.8**	**0.1**
Total	**779.9**	**10.3**	**73.1**	**101.9**	**58.6**

2005 Financial assets: Maturity profile	Short term deposits £m	Treasury bills and bonds £m	Advances to customers £m	Loans and receivables £m	Forward foreign exchange contracts £m
Due on demand	–	–	7.9	–	–
Due within one year, but not on demand	694.0	8.0	22.1	35.8	9.3
Due within one to two years	–	–	48.0	14.4	1.8
Due within two to three years	–	–	–	18.7	2.9
Due within three to four years	–	–	–	11.5	3.9
Due within four to five years	–	–	–	21.5	0.1
Due after five years	–	–	–	25.7	0.7
Total	694.0	8.0	78.0	127.6	18.7

2006 Financial liabilities: Maturity profile	**Overdrafts £m**	**Deposits due to customers £m**	**Interest bearing loans and borrowings £m**	**Interest rate swaps £m**	**Forward foreign exchange contracts £m**	**Other derivatives £m**
Due on demand	**9.3**	**24.6**	**–**	**–**	**–**	**12.4**
Due within one year, but not on demand	**–**	**19.2**	**76.2**	**0.2**	**6.1**	**–**
Due within one to two years	**–**	**0.2**	**51.1**	**0.2**	**6.2**	**–**
Due within two to three years	**–**	**–**	**57.8**	**0.3**	**9.2**	**–**
Due within three to four years	**–**	**–**	**34.1**	**0.3**	**1.1**	**–**
Due within four to five years	**–**	**–**	**44.7**	**0.4**	**1.2**	**–**
Due after five years	**–**	**–**	**315.8**	**2.5**	**0.1**	**–**
Total	**9.3**	**44.0**	**579.7**	**3.9**	**23.9**	**12.4**

2005 Financial liabilities: Maturity profile	Overdrafts £m	Deposits due to customers £m	Interest bearing loans and borrowings £m	Interest rate swaps £m	Forward foreign exchange contracts £m	Other derivatives £m
Due on demand	11.1	26.0	–	–	–	–
Due within one year, but not on demand	–	18.2	82.6	1.1	9.1	–
Due within one to two years	–	0.2	63.6	1.1	7.3	–
Due within two to three years	–	–	77.5	1.2	2.9	–
Due within three to four years	–	–	57.3	1.4	8.2	–
Due within four to five years	–	–	49.4	1.0	0.1	–
Due after five years	–	–	334.8	7.3	0.3	–
Total	11.1	44.4	665.2	13.1	27.9	–

19. Financial instruments (continued)

Liquidity risk – Company

The following tables show the maturity profile of the Company's financial assets and liabilities other than cash and equity investments:

2006 Financial assets: Maturity profile	**Short term deposits £m**	**Loans receivable £m**	**Forward foreign exchange contracts £m**
Due on demand	**–**	**–**	**–**
Due within one year, but not on demand	**757.0**	**100.7**	**22.5**
Due within one to two years	**–**	**22.4**	**10.8**
Due within two to three years	**–**	**13.9**	**18.1**
Due within three to four years	**–**	**8.3**	**1.4**
Due within four to five years	**–**	**8.9**	**1.5**
Due after five years	**–**	**155.4**	**0.1**
Total	**757.0**	**309.6**	**54.4**

2005 Financial assets: Maturity profile	Short term deposits £m	Loans receivable £m	Forward foreign exchange contracts £m
Due on demand	–	–	–
Due within one year, but not on demand	665.6	30.8	6.6
Due within one to two years	–	13.9	1.6
Due within two to three years	–	40.4	2.9
Due within three to four years	–	13.5	3.9
Due within four to five years	–	9.5	0.1
Due after five years	–	322.5	0.7
Total	665.6	430.6	15.8

2006 Financial liabilities: Maturity profile	**Overdrafts £m**	**Interest bearing loans and borrowings £m**	**Forward foreign exchange contracts £m**
Due on demand	**1.0**	**8.5**	**–**
Due within one year, but not on demand	**–**	**–**	**6.1**
Due within one to two years	**–**	**–**	**6.2**
Due within two to three years	**–**	**–**	**9.2**
Due within three to four years	**–**	**–**	**1.1**
Due within four to five years	**–**	**0.2**	**1.2**
Due after five years	**–**	**–**	**0.1**
Total	**1.0**	**8.7**	**23.9**

2005 Financial liabilities: Maturity profile	Overdrafts £m	Interest bearing loans and borrowings £m	Forward foreign exchange contracts £m
Due on demand	0.9	53.3	–
Due within one year, but not on demand	–	–	8.6
Due within one to two years	–	97.1	7.3
Due within two to three years	–	84.3	2.9
Due within three to four years	–	80.1	8.2
Due within four to five years	–	–	0.1
Due after five years	–	–	0.3
Total	0.9	314.8	27.4

Notes to the Accounts

continued

19. Financial instruments (continued)

Fair value of financial assets and liabilities – Group

Financial assets

Quoted and unquoted equity investments are included in the balance sheet at fair value. There is no material difference between the fair value and the book value of the Group's cash, short term deposits, loans and receivables, treasury bills and bonds, advances to customers or trade and other receivables. The Group's foreign exchange contracts are held in the balance sheet at fair value.

Financial liabilities

There is no material difference between the fair value and the book value of the Group's overdrafts, trade and other payables or deposits due to customers. The Group's foreign exchange contracts and interest rate swaps are held in the balance sheet at fair value.

A comparison of the fair values and book values of the Group's interest bearing loans and borrowings was as follows:

	2006 Book value £m	**2006 Fair value £m**	2005 Book value £m	2005 Fair value £m
Sterling	**(8.6)**	**(8.6)**	(11.1)	(11.3)
US dollars	**(515.6)**	**(548.9)**	(492.3)	(536.6)
Other currencies	**(55.5)**	**(55.4)**	(161.8)	(158.3)
Total	**(579.7)**	**(612.9)**	(665.2)	(706.2)

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

Fair value of financial assets and liabilities – Company

Financial assets

Quoted and unquoted equity investments are included in the balance sheet at fair value. There is no material difference between the fair value and the book value of the Company's cash, short term deposits, loans and receivables or trade and other receivables. The Company's foreign exchange contracts are held in the balance sheet at fair value.

Financial liabilities

There is no material difference between the fair value and the book value of the Company's overdrafts or trade and other payables. The Company's foreign exchange contracts, interest rate swaps and other derivatives are held in the balance sheet at fair value.

A comparison of the fair values and book values of the Company's interest bearing loans and borrowings was as follows:

	2006 Book value £m	**2006 Fair value £m**	2005 Book value £m	2005 Fair value £m
Sterling	**(8.7)**	**(8.7)**	(273.3)	(276.1)
US dollars	**–**	**–**	(41.5)	(41.5)
Total	**(8.7)**	**(8.7)**	(314.8)	(317.6)

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

20. Cash and cash equivalents

	Group		Company	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Cash at bank and in hand	**131.6**	110.1	**2.4**	1.2
Short term deposits receivable within 90 days	**777.9**	477.0	**757.0**	448.6
Treasury bills and bonds maturing within 90 days	**0.7**	2.5	**–**	–
Total cash and cash equivalents	**910.2**	589.6	**759.4**	449.8

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods between one day and 90 days depending on the immediate requirements of the Group, and earn interest at the respective short term deposit rates. The fair value of cash and cash equivalents is £910.2m (2005: £589.6m).

Treasury bills and bonds are debt securities held by a subsidiary which have been issued by the Government of Uganda and administered by the Bank of Uganda, for a term of three months, six months, nine months or a year. All treasury bills and bonds are carried at amortised cost. All amounts maturing after more than 90 days from the date of initiation are classified separately from cash and cash equivalents and comprise the following:

	Group		Company	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Short term deposits receivable after more than 90 days	**2.0**	217.0	**–**	217.0
Treasury bills and bonds maturing after more than 90 days	**9.6**	5.5	**–**	–
Total amounts maturing after more than 90 days	**11.6**	222.5	**–**	217.0

For the purposes of the consolidated and Company cash flow statements, cash and cash equivalents comprise the following at 31 December:

	Group		Company	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Cash at bank and in hand	**131.6**	110.1	**2.4**	1.2
Short term deposits receivable within 90 days	**777.9**	477.0	**757.0**	448.6
Treasury bills and bonds maturing within 90 days	**0.7**	2.5	**–**	–
Bank overdrafts	**(9.3)**	(11.1)	**(1.0)**	(0.9)
Total cash and cash equivalents per statement of cash flows	**900.9**	578.5	**758.4**	448.9

Notes to the Accounts

continued

21. Issued capital and reserves

Authorised	2006 £m	2005 £m
765,036,043 Ordinary shares of £1 each	**765.0**	765.0

Allotted, called up and fully paid	2006 £m	2005 £m
765,036,043 Ordinary shares of £1 each	**765.0**	765.0

Special rights redeemable preference share

One special rights redeemable preference share of £1 is authorised, issued and fully paid. The ownership of the special rights redeemable 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 the Company.

Other reserves

	Group			Company	
	Net unrealised gains and losses reserve £m	Currency translation reserve £m	Retained earnings £m	Net unrealised gains and losses reserve £m	Retained earnings £m
At 1 January 2005	**–**	**(51.3)**	**499.9**	**–**	**260.3**
Losses on cash flow hedges taken to equity	(2.8)	–	–	(2.8)	–
Currency translation differences on retranslation of net assets of subsidiaries	–	58.3	–	–	–
Cash flow hedges taken to income statement	0.4	–	(0.4)	0.4	(0.4)
Profit for the year	–	–	427.8	–	534.1
At 31 December 2005	**(2.4)**	**7.0**	**927.3**	**(2.4)**	**794.0**
Profits on cash flow hedges taken to equity	1.5	–	–	1.5	–
Currency translation differences on retranslation of net assets of subsidiaries	–	(38.4)	–	–	–
Cash flow hedges taken to income statement	0.2	–	–	0.2	–
Profit for the year	–	–	332.7	–	457.2
At 31 December 2006	**(0.7)**	**(31.4)**	**1260.0**	**(0.7)**	**1,251.2**

Nature and purpose of other reserves

Net unrealised gains and losses reserve

This reserve records the deferral of gains or losses on forward exchange contracts which are effective cash flow hedging instruments and their subsequent release to the income statement to match the hedged item or if the hedge ceases to be effective.

Currency translation reserve

The currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

22. Trade and other payables (current)

	Group		Company	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Trade payables	**67.4**	44.1	**–**	–
Deposits due to customers	**43.8**	44.2	**–**	–
Amounts owed to Group companies	**–**	–	**235.6**	100.8
Other taxes and social security	**4.0**	3.2	**0.1**	0.1
Other payables	**29.0**	26.9	**4.3**	2.6
Accruals and deferred income	**29.5**	38.0	**7.2**	5.5
Total trade and other payables excluding tax	**173.7**	156.4	**247.2**	109.0
Current tax liabilities	**8.0**	7.7	**0.2**	5.2
Total trade and other payables (current)	**181.7**	164.1	**247.4**	114.2

23. Trade and other payables (non-current)

	Group	
	2006 £m	2005 £m
Trade payables	**–**	20.3
Deposits due to customers	**0.2**	0.2
Other payables	**7.0**	12.8
Accruals and deferred income	**2.2**	6.3
Total trade and other payables (non-current)	**9.4**	39.6

Notes to the Accounts

continued

24. Interest bearing loans and borrowings

Details of interest bearing loans and borrowings are as follows:

					Group			
					Current		Non-current	
	Fixed/floating rate	Effective interest rate %	Repayment frequency	Maturity	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Bank overdrafts	Floating	Various	On demand	On demand	**9.3**	11.1	**–**	–
Obligations under finance leases	Fixed	Various	Annual	2024	**3.0**	2.5	**70.2**	59.7
					12.3	13.6	**70.2**	59.7
Interest bearing loans (US dollars)								
Loan due to a series of Egyptian banks*	Floating	Various	Bi-annual	2021	**–**	6.4	**68.2**	69.2
Government of Tanzania (on-lending arrangement from the World Bank – International Development Association)	Fixed	7.1	Monthly	2021	**2.1**	2.2	**51.5**	61.7
Infrastructure Development Company Limited loan*	Fixed	9.1	Bi-annual	2024	**–**	–	**30.6**	34.8
Government of Tanzania (on-lending arrangement from the European Investment Bank)	Fixed	6.0	Monthly	2021	**1.2**	1.3	**26.6**	31.6
Asian Development Bank loan*	Fixed by swap	8.6	Bi-annual	2015	**–**	–	**25.5**	29.0
Asian Development Bank loan*	Fixed by swap	9.8	Bi-annual	2016	**1.3**	1.4	**20.4**	24.7
Loan due to a series of international banks*	Floating	Various	Bi-annual	2021	**–**	6.8	**31.4**	23.3
International Development Association guaranteed facility loan*	Fixed by swap	7.7	Bi-annual	2015	**2.4**	2.7	**17.9**	23.1
8.8% bonds*	Fixed	8.8	Bi-annual	2012	**2.9**	3.2	**15.5**	20.3
Government of Tanzania*	Fixed	7.4	Monthly	2016	**0.6**	0.7	**9.6**	11.5
FMO and Tanzania Development Finance Company Limited preference shares (unsecured)	Fixed	18.0	Bi-annual	2014	**1.1**	1.2	**7.7**	10.0
Infrastructure Development Company Limited loan*	Fixed	8.8	Bi-annual	2016	**0.6**	0.6	**8.1**	9.9
Asian Development Bank loan*	Fixed by swap	8.1	Bi-annual	2015	**0.7**	0.7	**7.7**	9.5
European Investment Bank*	Fixed	3.0	Bi-annual	2009	**–**	2.6	**–**	8.4
Government of Tanzania	Fixed	7.7	Monthly	2016	**0.5**	0.5	**6.5**	7.9
Asian Development Bank loan*	Fixed by swap	8.9	Bi-annual	2010	**1.4**	1.5	**4.1**	6.2
Government of Tanzania	Fixed	7.4	Monthly	2016	**0.4**	0.4	**4.9**	6.1
7.0% bonds	Fixed	7.0	On maturity	2008	**–**	–	**5.1**	5.8
8.3% bonds	Fixed	8.3	On maturity	2010	**–**	–	**5.1**	5.8
9.5% bonds	Fixed	9.5	On maturity	2012	**–**	–	**5.1**	5.8
International Development Association PRI facility loan*	Fixed by swap	7.5	Bi-annual	2013	**0.6**	0.7	**3.7**	4.9
Standard Chartered Bank	Floating	6.2	Annual	2007	**25.6**	–	**–**	–
Sagri Cor Merchant Bank	Fixed	8.7	Quarterly	2008	**1.3**	–	**1.0**	–

24. Interest bearing loans and borrowings (continued)

					Group			
					Current		Non-current	
	Fixed/floating rate	Effective interest rate %	Repayment frequency	Maturity	2006 £m	2005 £m	2006 £m	2005 £m
FMO Subordinated debt loan*	Floating	8.0	Bi-annual	2018	**0.2**	0.2	**4.5**	5.3
Banco de Credito*	Floating	7.9	Bi-annual	2009	**1.1**	1.3	**2.2**	3.8
Agfri Corporation*	Fixed	6.0	Quarterly	2008	**3.9**	1.7	**–**	2.6
FMO A loan*	Fixed by swap	8.2	Bi-annual	2015	**0.3**	0.3	**1.9**	2.5
Basic Energy BVI*	Fixed	9.0	Bi-annual	2010	**–**	0.4	**–**	2.3
OPEC Fund for International Development*	Floating	7.7	Bi-annual	2013	**0.5**	0.5	**3.8**	1.8
Citibank*	Floating	4.8	Bi-annual	2010	**0.8**	0.9	**2.0**	3.1
Cuscathan and Interfin banks	Floating	11.0	Monthly	2011	**0.3**	0.4	**1.2**	2.0
					49.8	38.6	**371.8**	432.9
Interest bearing loans (other currencies)								
Investec*	Fixed	14.4	Bi-annual	2015	**–**	1.2	**–**	20.5
Investec	Fixed	12.7	Quarterly	2008	**4.3**	5.5	**4.0**	10.5
European Investment Bank*	Fixed	6.1	Annual	2015	**1.7**	1.8	**9.2**	7.2
Investec*	Fixed	13.8	Bi-annual	2013	**–**	0.7	**–**	8.0
European Investment Bank/KFW*	Fixed	9.5	Bi-annual	2011	**2.3**	3.4	**2.9**	3.6
Investec*	Fixed	12.2	Quarterly	2012	**0.2**	–	**1.6**	–
International Finance Corporation*	Floating	7.7	Bi-annual	2015	**–**	–	**5.2**	–
Investec*	Floating	14.0	Monthly	2007	**1.3**	–	**–**	–
European Investment Bank Global*	Floating/Fixed	11.1	Annual	2012	**0.6**	–	**5.2**	–
Stanbic*	Floating	13.3	Annual	2007	**2.9**	–	**–**	–
PROPARCO (part of Agence Française de Developpement)*	Floating/Fixed	7.8	Quarterly	2013	**0.6**	1.7	**5.4**	5.1
Brimstore Investment Corporation	Floating	14.5	Bi-annual	2010	**0.8**	0.8	**3.2**	3.6
National Social Security Fund*	Floating	12.5	Bi-annual	2014	**0.5**	1.0	**2.1**	2.9
FMO*	Floating	9.4	Quarterly	2012	**0.8**	0.5	**2.2**	3.3
Investec*	Floating	10.8	Quarterly	2010	**0.7**	0.6	**2.5**	2.9
Investec*	Floating	12.7	Bi-annual	2009	**–**	–	**3.3**	3.3
Investec*	Floating	12.5	Bi-annual	2009	**–**	–	**3.2**	3.2
BIAO (part of Fortis Bank)*	Fixed	8.5	Bi-annual	2010	**0.9**	0.5	**2.9**	2.3
National Societe General Bank*	Floating	12.5	Quarterly	2009	**0.7**	0.6	**1.2**	1.9
					18.3	18.3	**54.1**	78.3
Other loans (all of which are under £2.5m individually)					**5.1**	23.2	**7.4**	11.7
					85.5	93.7	**503.5**	582.6

* The loans are secured by charges on subsidiaries' land and buildings, plant and equipment, amounts receivable under finance lease and biological assets.

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continued

24. Interest bearing loans and borrowings (continued)

CDC's objective is the promotion of sustainable private sector development in its chosen geographic locations as described elsewhere in this report. Formerly it fulfilled this objective by investing equity directly in a variety of operating companies, but since the 2004 restructuring of CDC's business model, the objective has been achieved by investing in private equity funds managed by independent managers focused on our target locations.

As a result of direct investments, CDC still owns a large number of operating subsidiaries, primarily but not exclusively in the power sector. It is these subsidiaries which generate the loans detailed in the previous table. With one exception (£2.8m due to Citibank by 2010) none of these loans have any recourse to CDC Group plc. The loan from Citibank benefits from a full CDC guarantee.

The objective of supporting sustainable businesses requires CDC to encourage its subsidiaries to take on prudent levels of debt. CDC views this as assisting in the fulfilment of our development mandate. The covenants entered into by CDC's subsidiaries will be appropriate to the power sector, for example, but not particularly relevant to an investment holding company. Such non recourse debt is viewed as a normal part of liquidity management for an investment company. If such debt were to be accelerated as a result of a covenant breach then it may put the value of CDC's equity stake at risk, but this is only one of many factors which could have such an effect. Taking equity risk is fundamental to CDC's business.

The covenants within loans held across the Group do not create potentially significant exposure to liquidity risk for CDC Group plc and therefore it is considered that terms and conditions of the covenants do not warrant further disclosure.

				Company			
				Current		Non-current	
	Fixed/floating rate	Effective interest rate %	Maturity	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Bank overdrafts	Floating	Various	On demand	**1.0**	0.9	**–**	–
Interest bearing loans							
CDC Financial Services (Mauritius) Limited	Fixed	5.7	2007	**–**	–	**–**	44.5
CDC Holdings (Barbados) Limited	Fixed	Interest free	On demand	**–**	41.5	**–**	–
CDC Financial Services (Mauritius) Limited	Fixed	5.8	2007	**–**	–	**–**	43.4
CDC Financial Services (Mauritius) Limited	Fixed	5.9	2008	**–**	–	**–**	42.7
CDC Financial Services (Mauritius) Limited	Fixed	5.9	2008	**–**	–	**–**	41.6
CDC Financial Services (Mauritius) Limited	Fixed	6.0	2009	**–**	–	**–**	40.5
CDC Financial Services (Mauritius) Limited	Fixed	6.1	2009	**–**	–	**–**	39.6
CDC Holdings (Barbados) Limited	Fixed	Interest free	On demand	**8.5**	8.8	**–**	–
CDC Financial Services (Mauritius) Limited	Fixed	5.7	2007	**–**	–	**–**	9.1
CDC Holdings (Barbados) Limited	Fixed	Interest free	On demand	**–**	2.9	**–**	–
Other loans				**–**	0.1	**0.2**	0.1
				9.5	54.2	**0.2**	261.5

25. Provisions (non-current)

	Group					
	2006 Post-retirement benefits £m	**2006 Other provisions £m**	**2006 Total £m**	2005 Post-retirement benefits £m	2005 Other £m	2005 Total £m
At 1 January	**0.9**	**4.2**	**5.1**	0.8	7.1	7.9
Charge/(release) in the year	**0.3**	**0.4**	**0.7**	0.7	(0.1)	0.6
Utilised	**(0.4)**	**(0.3)**	**(0.7)**	(0.7)	(2.9)	(3.6)
Acquired with subsidiaries	**0.1**	**–**	**0.1**	–	–	–
Disposed with subsidiaries	**–**	**(0.4)**	**(0.4)**	(0.1)	–	(0.1)
Exchange adjustment	**(0.1)**	**(0.4)**	**(0.5)**	0.2	0.1	0.3
At 31 December	**0.8**	**3.5**	**4.3**	0.9	4.2	5.1

	Company					
	2006 Post-retirement benefits £m	**2006 Other provisions £m**	**2006 Total £m**	2005 Post-retirement benefits £m	2005 Other provisions £m	2005 Total £m
At 1 January	**0.3**	**1.0**	**1.3**	0.3	2.3	2.6
Charge/(release) in the year	**0.2**	**(0.2)**	**–**	–	(1.0)	(1.0)
Utilised	**–**	**–**	**–**	–	(0.3)	(0.3)
At 31 December	**0.5**	**0.8**	**1.3**	0.3	1.0	1.3

Other provisions consist mainly of legal provisions. Amounts provided reflect management's best estimate of the expenditure required to settle the obligations at the balance sheet date. It is possible that these and further contingent legal liabilities may give rise to expenditure above that provided. Further details of legal provisions are not provided to avoid the potential of seriously prejudicing the Group's stance in law.

26. Capital commitments

Amounts contracted for but not provided in the accounts amounted to £769.2m (2005: £537.7m) for subscriptions to debentures, loans and shares. Capital commitments contracted for by subsidiaries for subscriptions to debentures, loans and shares but not provided in their accounts amounted to £nil (2005: £1.6m).

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continued

27. Obligations under leases and hire purchase contracts

Finance lease and hire purchase commitments – Group as lessor
The gross investment in finance leases together with the present value of the net minimum lease payments receivable are as follows:

	Group			
	2006 Gross investment £m	**2006 Present value of payments receivable £m**	2005 Gross investment £m	2005 Present value of payments receivable £m
Within one year	**25.0**	**3.9**	28.5	3.9
After one year but not more than five years	**100.1**	**21.5**	113.8	21.5
After five years	**252.4**	**142.3**	315.3	145.5
Gross investment in finance leases	**377.5**	**167.7**	457.6	170.9
Less finance lease income allocated to future periods	**(209.8)**	**–**	(286.7)	–
Present value of minimum lease payments receivable	**167.7**	**167.7**	170.9	170.9

During the year, it was concluded that the arrangement at Sidi Krir Generating Company ("Sidi Krir"), an electricity generation and distribution company in Egypt, in which CDC has a 100% interest, constitutes and should be reported as a finance lease. Consequently, the Group applied IFRIC 4 and IAS 17 for accounting for the activities of Sidi Krir.

Finance lease and hire purchase commitments – Group as lessee
Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

	Group			
	2006 Minimum payments £m	**2006 Present value of payments £m**	2005 Minimum payments £m	2005 Present value of payments £m
Within one year	**7.6**	**3.0**	8.8	2.5
After one year but not more than five years	**43.2**	**24.3**	38.1	15.0
After five years	**64.8**	**45.9**	76.7	44.7
Total minimum lease payments	**115.6**	**73.2**	123.6	62.2
Less finance charges allocated to future periods	**(42.4)**	**–**	(61.4)	–
Present value of minimum lease payments	**73.2**	**73.2**	62.2	62.2

Operating lease commitments – Group and Company as lessee
Future minimum rentals payable under non-cancellable operating leases are as follows:

	Group		Company	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Within one year	**–**	0.3	**–**	–
After one year but not more than five years	**1.5**	10.5	**0.4**	0.6
After five years	**0.1**	54.5	**–**	–
Total	**1.6**	65.3	**0.4**	0.6

28. Contingent liabilities

The Group and the Company had contingent liabilities
- in support of the borrowings of third parties which had a principal value of £11.4m (2005: £5.2m). No provisions were made against these contingent liabilities in 2006 and 2005;
- in support of the operations of companies prorata to other shareholders with a maximum legal liability of £4.7m (2005: £8.2m);
- in respect of undertakings to power distributors and governments in connection with the operation of power generating subsidiaries with a maximum legal liability of £13.6m (2005: £13.9m);

This support may, but probably will not, require an outflow of resources.

The Company, in addition to the above, had contingent liabilities in support of the facilities of subsidiaries which had a limit value of £29.2m (2005: £16.6m). This support may, but probably will not, require an outflow of resources.

Group companies without recourse to the Company had the following obligations:

The Group owns 100% of Umeme Limited, an electricity distribution business in Uganda. Umeme Limited took over the power distribution network once operated by the Uganda Electricity Distribution Company Limited (UEDCL), whose fixed asset base was estimated to be £63.3m (US$109.0m) on 1 March 2005, with a useful life of 20 years.

Ongoing discussions continue between Umeme Limited and UEDCL with respect to the accounting and tax treatment of the assets leased under the terms of the Concession Agreement. It is UEDCL's contention that the entire fixed asset base at 1 March 2005 should remain on its balance sheet in order to strengthen its position with the Ugandan tax authorities and receive tax benefits from their associated capital allowances. It is the Globeleq Board's current understanding, from the interpretation under the Ugandan tax law, that UEDCL should benefit from the capital allowances associated with approximately half of the fixed asset base (the assets purchased or invested in between 2002 and 2004), with Umeme Limited benefiting from capital allowances associated with the remaining property, plant and equipment. The difference between the two possible tax treatments is £8.7m (US$17.1m) in deferred tax.

29. Related party transactions

During the year the Company entered into transactions with its subsidiary companies. The transactions entered into, and trading balances outstanding, at 31 December are as follows:

	2006 £m	2005 £m
Income statement		
Interest income	**6.8**	2.2
Dividend income	**2.9**	107.8
Profit on disposal of fair value financial assets	**5.3**	72.4
Loan and guarantee fee income	**0.8**	1.5
Management fee income	**5.7**	7.7
Interest payable	**(8.9)**	(17.4)
Balance sheet		
Fair value financial assets	**706.4**	633.3
Loans and receivables	**226.4**	323.5
Trade and other receivables	**14.1**	31.7
Trade and other payables	**(235.6)**	(100.8)
Loans and borrowings	**(8.5)**	(314.6)

30. Post balance sheet events

The fund manager of Actis Energy Fund, Actis Capital LLP, has been reviewing its strategy to achieve value from the underlying operating assets held by Globeleq. Some of these assets are subsidiaries of CDC Group. This process is ongoing and, as at the date of signing the accounts, the outcome of the review is unknown.

Notes to the Accounts
continued

31. Principal subsidiaries

The principal subsidiaries of CDC Group plc at 31 December 2006 and the percentage of equity capital are set out below. 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 subsidiaries 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
Africa				
Egypt	Sidi Krir group	Ordinary	100	Power generation, transmission and distribution
Mauritius	CDC Financial Services (Mauritius) Ltd*	Ordinary	100	Investment holding
		Preference	100	
Mauritius	CDC Investment Holdings Ltd*	Ordinary	100	Investment holding
Mauritius	Pan African Holdings Ltd*	Ordinary	100	Investment holding
Mauritius	Nandi Investments Ltd*	Ordinary	100	Private equity fund
South Africa	Lenco Investment Holdings Ltd*	Ordinary	56	Plastics manufacturing
Tanzania	Songas Ltd	Common shares	54	Power generation, transmission and distribution
		A shares	100	
		B shares	83	
Uganda	DFCU Ltd*	Ordinary	60	Financial institution
Zambia	Mpongwe Development Company Ltd*	Ordinary	100	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 Electricia	Ordinary	100	Power generation, transmission and distribution
Cuba	Caribbean Finance Investment Company Ltd*	Ordinary	60	Financial institution
Dominican Republic	Compania de Electricidad de Puerto Plata	Ordinary	97	Power generation, transmission and distribution
El Salvador	Nejapa Power Company	Ordinary	87	Power generation, transmission and distribution
South America	Southern Cone Power Ltd	Ordinary	68	Power generation, transmission and distribution
Asia Pacific				
Malaysia	CDC Holdings Sdn Bhd*	Ordinary	100	Investment holding
South Asia				
Bangladesh	Haripur (Pvt) Ltd	Ordinary	76	Power generation, transmission and distribution
Bangladesh	Meghnaghat (Pvt) Ltd	Ordinary	76	Power generation, transmission and distribution

* Subsidiaries held directly by the Company.

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