Annual Report and Accounts
For the year to 31 January 2001

Mezzanine ranks in terms of risk and reward between bank debt and equity capital and seeks a strong cash yield and an additional return related to the success of the investee company, usually in the form of a capital gain.

Mezzanine has been principally used to help finance buyouts but is increasingly used as expansion and acquisition capital and to finance capital reorganisations.

ICG is the leading specialist provider of mezzanine in the United Kingdom and Continental Western Europe.

Highlights

- Pre-tax profits up 65% to £58.0m (2000 – £35.1m)
- Core income up 43% to £33.5m (2000 – £23.4m)
- Proposed final dividend of 17.3p net per share making 25.0p per share for the year, a 13% increase
- A record £510m of new loans
- The loan book increased by 35% to £620m (2000 – £460m)
- Funds under management reach £1bn.

	2001 £m	2000 £m	**2001 €m**	2000 €m
Net interest income	**29.8**	20.5	**47.7**	34.0
Core income	**33.5**	23.4	**53.6**	38.8
Net capital gains	**24.5**	11.7	**39.2**	19.4
Profit before tax	**58.0**	35.1	**92.8**	58.2
Loans and investments	**619.9**	460.4	**991.8**	762.7
Shareholders' funds	**185.8**	159.6	**297.3**	264.4

Chairman's Statement

It gives me great pleasure to report an outstanding performance by ICG for the financial year ended 31 January 2001. Every area of our business produced record results.

The strong growth in new lending, which was evident in our two previous financial years, continued and has resulted in our loan book nearly doubling over the last three years.

Further high growth in core income has resulted in this key element of our profits more than doubling from its level of three years ago. Pretax profits, which benefited from exceptionally strong capital gains, were over twice the amount achieved two years ago.

The year has also seen a further substantial increase in our fund management business, with funds under management, following the raising of a new CDO fund and a new mezzanine fund during the year, reaching £1bn, four times higher than two years ago.

Although any significant economic downturn in the UK and Continental Europe would in the short term impact our business, there are as yet no real signs of this happening. We remain confident of the continuing long-term growth of the two markets in which we operate in Europe, namely mezzanine finance and high yield debt fund management.

Results

I am very pleased to be able to report record pretax profits of £58.0m, which represents an increase of £22.9m (65%) over the previous year. Net interest income and core income rose by 45% and 43% to £29.8m and £33.5m respectively. We had an exceptionally strong year for capital gains, which amounted to £24.5m, after provisions and the cost of the medium-term incentive scheme, compared with £11.7m in the previous year.

Dividends

The Board is recommending a final dividend of 17.3p net per share to be paid on 25 May 2001, which, with the interim dividend of 7.7p, brings the total for the year to 25p net per share, an increase of 13% over last year's dividend.

ICG's policy is to deliver steady dividend growth, subject to core income continuing to grow at a reasonable rate.

The dividend is covered 1.6 times by core income net of tax and 2.8 times by post-tax earnings.

The loan portfolio

We have had an excellent year for new lending. We arranged or invested in a total of £510m of financings, a significant increase over the previous record level of £340m last year. £274m was invested on our balance sheet, £76m was taken by funds under our management with the remaining £160m being syndicated to third parties.

We made new loans and investments to 24 different companies of which we arranged or co-arranged 17. Of the new loans nine were in France, seven in the UK, four in Germany, two in Denmark and one each in Austria and Switzerland. It is notable that the new lending in Continental Europe represented approximately two-thirds of all new lending and the Continental proportion of our portfolio has now reached 60%.

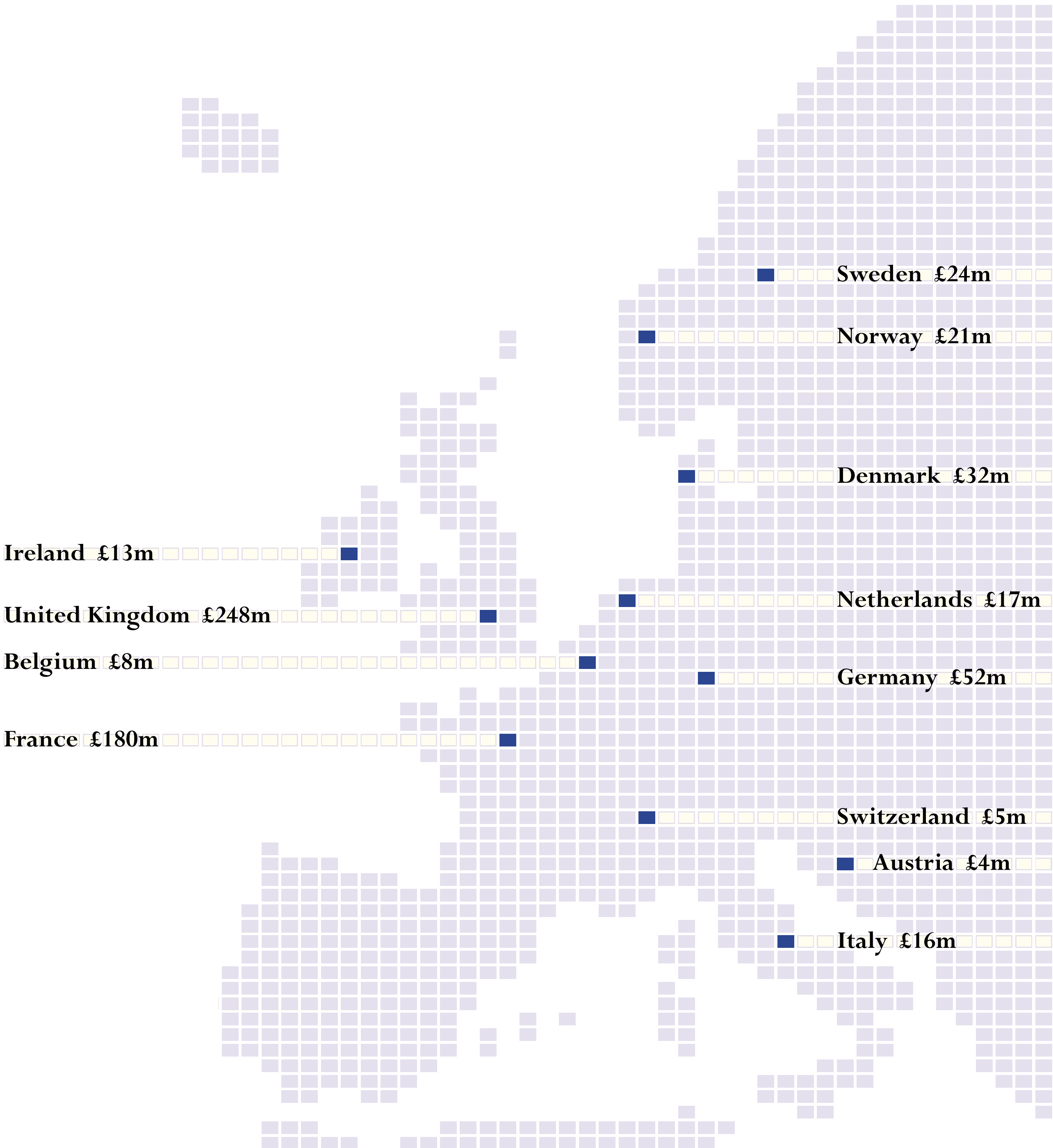
At the year end the portfolio of loans and investment net of provisions amounted to £620m, an increase of 35% over the level at the beginning of the year.

While the overall quality of the portfolio is satisfactory, there were a small number of new underperforming investments in the second half, which, where appropriate, we have provided against.

Funding

Having raised new equity in the previous financial year and boosted retained earnings this year as a result of our record profits, our balance sheet is

ICG has had yet another record year for new lending. Its portfolio has increased by 35% to £620m.



strong and relatively undergeared. Our total indebtedness at the year end amounted to £482m giving us a conservative gearing ratio of 2.6:1 (2000 – 2.0:1). Our total committed debt facilities at the year end amounted to £595m thus leaving us with substantial spare facilities. Given our low gearing, we intend to increase our available facilities during the coming year in order to continue to fund the growth in the loan book.

Fund management

The year was one of considerable growth in our fund management activity, where we serve the fast growing European markets of mezzanine finance, high yield bonds and leveraged loans.

In the last 12 months we raised a new mezzanine fund of €475m (£290m). This will enable us to continue the growth of our mezzanine funds under management in line with the growth of our mezzanine lending business. Despite the higher level of repayments to fund management clients, the amount of money invested by mezzanine fund management clients increased to £265m from £235m at the beginning of the year.

In 1999 we raised the first CDO fund in Europe, a fund of €400m (£245m), and we followed this with a new fund of €350m (£215m) last year. These funds invest primarily in Euro-denominated high yield bonds and higher yielding loans. We expect both the high yield and leverage loan markets to continue to grow in support of the active buyout market. While there has been evidence of fragility in the European high yield market, which is overburdened with volatile telecom issues, the number of quality industrial credits is gradually improving the breadth of the market. This diversity is essential to the future health of the high yield market. Overall we are confident that there is further scope to increase our fund management activity in both the high yield and leverage loan markets.

As our managed funds grow so do our revenues from these activities. Fund management fee income amounted to £5.6m, an increase of 65% over the fees of £3.4m generated the previous year.

Whereas the fees of £3.9m derived from mezzanine fund management translate almost entirely into profit, the fees of £1.7m from high yield fund management were largely absorbed by the costs of operating this new division. In future, fee income from this new activity is forecast to grow more rapidly than costs, hence it should become increasingly profitable.

ICG and the European mezzanine market

Last year saw new record levels of activity in the UK and European buyout markets. The principal features of the market were firstly the increase in the number of very large transactions and secondly the growth in Continental European activity, which last year was significantly higher than in the UK. We expect both these trends to continue. This growth continued to be driven by the strong supply of companies for sale and the strong demand for such companies from financial buyers who had large amounts of finance available in the form of both equity and debt. This active LBO market led to higher demand for mezzanine, increased deal flow for ICG and in turn record levels of new lending by ICG.

I have referred in previous statements to the increasing trend of banks and investment banks offering senior debt and mezzanine debt as a one-stop debt financing package. This trend has increased over the last year, becoming more widely practised across Europe, and represents the major competitive threat to ICG. However, while these banks' desire to arrange mezzanine loans has grown, there has been little change in the relative lack of enthusiasm of most of them for retaining significant amounts of mezzanine on their own balance sheets. Many of them are often keen to offer the mezzanine asset to ICG, and, unless a general mezzanine syndication market develops, this is expected to continue.

The high yield bond market continues to be a competitive alternative to mezzanine finance in larger transactions. However, this market has been particularly volatile in the last six months as a result of tightening debt markets worldwide and the poor performance of some telecom issues which make up much of the European market. This has made high yield bond issues more difficult for all but the larger and safer of issues. The lack of certainty in high yield issuance has resulted in some opportunities for mezzanine at the larger end of the market.

A number of new large mezzanine funds have entered the market during the year. While to date they have made little impact on the market, they must be expected in due course to provide more competition as they seek to win mezzanine business.

ICG continues to benefit from its strong reputation in the European mezzanine market, its ability to be flexible in structuring loans and to be fast and reliable in decision making. Our commitment of increasing levels of high quality human resource to the market remains greater than any of our competitors and helps us sustain our leading market position.

As a result of the tightening of the debt markets, ICG has been able on occasions to slightly increase the cash margin it obtains on its new loans. In addition, last year saw an increasing trend to structure some of mezzanine's return in the form of roll-up interest with a reduced level of warrants. This gives more certainty to our returns but less upside potential and therefore less capital gain if an investment performs particularly well. However, given the high multiples being paid for some businesses at present, this adjustment to the mezzanine return structure is often attractive. We believe this trend is likely to continue. The overall pricing we have obtained on new investments over the last year has been satisfactory.

Management and staff

As the size and scope of our business has increased significantly in recent years we have continued to steadily grow our professional and support staff. Last year saw a specific increase as a result of the need to staff up our new high yield fund management business. Further steady increases in our staffing levels can be expected.

The ability of our professional team remains our greatest strength and the biggest contributor to our success. We are pleased that we have been able to build up and retain such a high quality team. In particular, after such an outstanding year, I would like to thank them on your behalf for their efforts.

Prospects

We have had a good start to the new financial year with strong new lending activity. We have to date arranged £140m of new loans for six different companies and invested £60m on our own balance sheet. This should help us produce further growth in net interest income in the first half of the year. With the economic background being less settled than for some time, it is too early to predict levels of new lending activity for later in the year. Nevertheless we would expect to continue to grow our loan book in the current year.

Fee income from our fund management activities will further increase this year and we will seek to continue to grow our high yield fund management activities during the year.

As a consequence of the good prospects for net interest income and fee income we are confident of achieving further core income growth in the current year.

It is most unlikely that capital gains in the current year will match the very high level achieved in our last financial year and we expect them to return to less exceptional levels.

Despite the risk of a weakening in the economic environment, which might impact the performance of our loan portfolio and the levels of new lending, we believe ICG operates in attractive growth markets and we continue to look forward to the future with confidence.

The Board

I am very pleased to report that John Manser joined the Board in January 2001 as non-executive deputy chairman and will succeed me as non-executive chairman after this year's AGM. I am confident that John, with his knowledge and experience of the financial services industry from his distinguished career at Robert Fleming, will make a major contribution to ICG's future success.

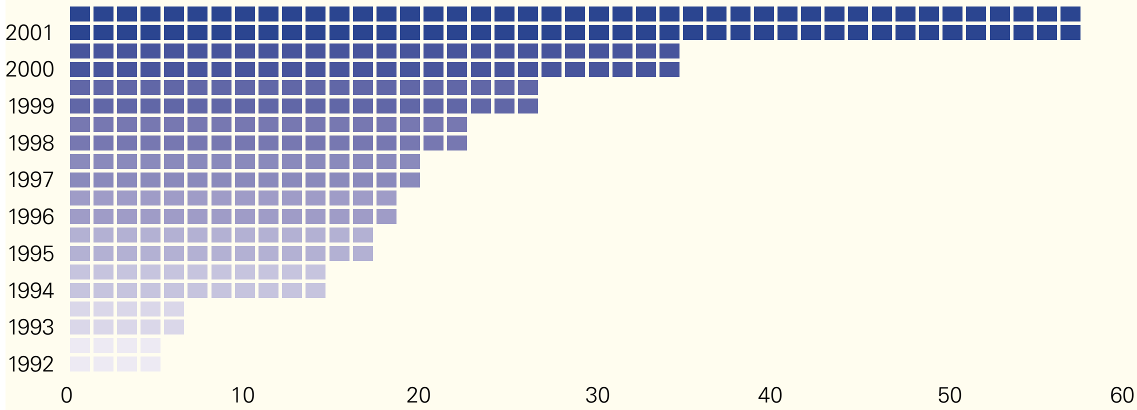
Robert Padgett who has played a valuable role as a non-executive director since 1994, retired from the Board in January this year. We thank him for his contribution.

I have been privileged to serve as chairman of ICG since September 1993. It is very pleasing to be able to retire with a very capable successor in place and the company in the hands of such a successful executive team.

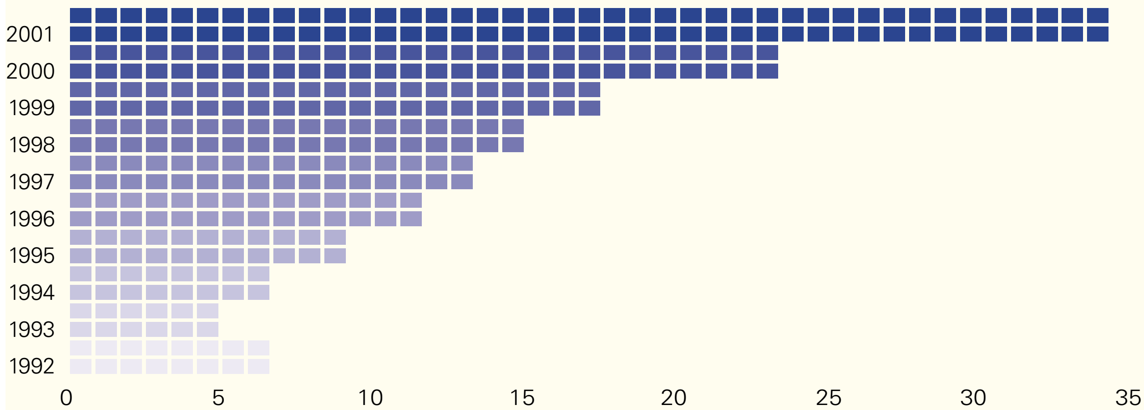
Murray Stuart
Chairman
10 April 2001

Ten-Year Record

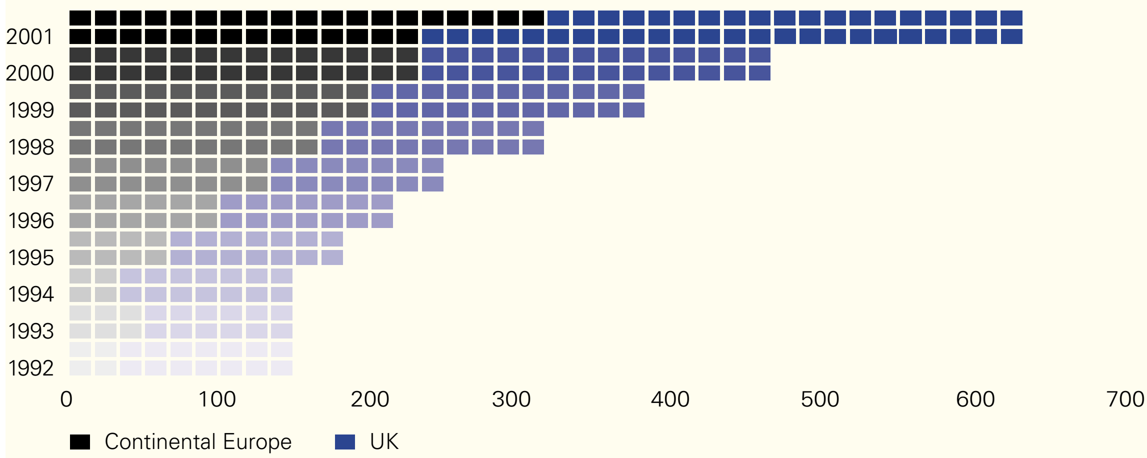
Profit before tax £m



Core income £m



Loans and investments £m



Business and Financial Review

1 The UK and Continental Europe buyout markets

A year ago we predicted a strong year of buyout activity in 2000. This proved to be correct with the total value of buyouts growing from approximately £30bn in 1999 to nearly £40bn in 2000. Such growth was achieved because once again there were a lot of substantial businesses for sale, as evidenced by the high value of mergers and acquisition activity in 2000. The ability of financial buyers to acquire very large businesses continued unabated, with further large private equity funds being raised so that there are now quite a few private equity funds in the market who can on their own arrange the acquisition of a £1bn+ company. The provision of debt to finance buyouts remained strong. There are a considerable number of both national and multinational banks competing to provide the debt for the small to medium sized buyouts of £50m – £200m. For the large deals requiring £100m+ of debt the investment banks and larger multinational banks compete hard for the business.

There has been seen in recent years a growth of Continental European buyout activity with European companies seeking to divest non-core subsidiaries in search of shareholder value and family controlled businesses being sold to solve succession problems. Last year saw a further significant increase in European activity levels with the total value rising nearly 50% to £22bn, a higher total than from the UK market – a trend which logically should continue.

The year saw particularly strong growth of large buyouts with 18 transactions of more than £½bn each in value. The competition for both large and smaller buyouts quite often led to high prices being paid. In many cases these high prices were funded by more money from the private equity houses, which, in some cases, is likely to make the achievement of good equity returns more difficult. In a few cases the debt providers extended their levels of lending beyond what ICG considered prudent in terms of leverage. At the end of the year the debt markets tightened somewhat following the trend started in North America. This reduced the availability of high yield bonds and made banks somewhat more cautious in their large underwritings.

2001 has started with good levels of activity. However, the uncertainty about the economic outlook in the short to medium-term might lead to some slowdown in activity as investors become more cautious and debt may become less freely available.

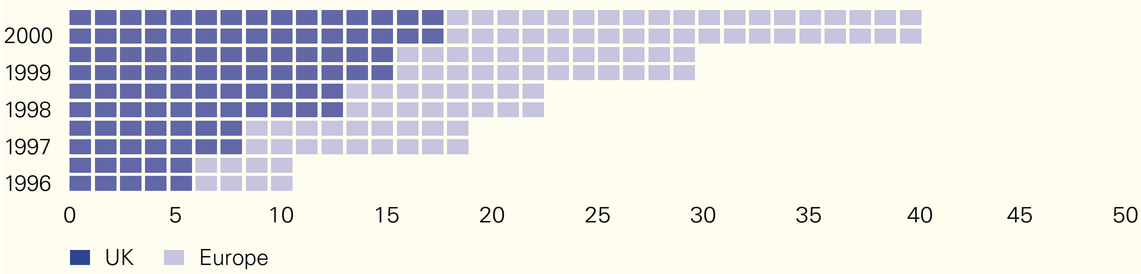
2 ICG and the European mezzanine market

The high level of activity in the European buyout market in 2000 was mirrored by the high level of mezzanine activity. ICG believes that in 2000 mezzanine was used in a greater number of transactions than ever before. This was because firstly the use of mezzanine enabled the private equity investors to maximise the price they could offer and secondly the banks providing debt finance increasingly included mezzanine in their debt financing offer.

At the very large end of the subordinated debt market where in excess of €100m (£60m) of intermediate capital funding was required, the high yield bond market was the most likely supplier of finance. However, there remained occasional mezzanine opportunities at this end of the market because sometimes high yield bonds were too inflexible for the specific transactions or the market showed some unreliability. This was particularly the case when it effectively shut for business at the end of the year because of the collapse of bond prices and the shortage of liquidity in the market.

ICG had a strong year in the middle to upper end of the market arranging six mezzanine financings of between €50m (£30m) and €100m (£60m). In both this and the smaller end of the market, where ICG did the remainder of its lending, the principal

Total value of LBOs £bn



competition came from the banks. When the mezzanine tranche is quite small – up to £10m – the banks are capable of keeping the mezzanine themselves. When it is larger than this, very few banks are interested in retaining all the mezzanine on their own balance sheet. They will typically seek to syndicate the mezzanine and ICG is often their first choice syndicatee because of our reputation. Last year seven of our loans were syndicated to us by banks. For larger underwritings where the banks do not want to take too much risk they are likely to consult ICG first and on some occasions ask ICG to co-arrange and co-underwrite the mezzanine financing. As long as the banks don't change their lending policy and no reliable general syndication market for mezzanine develops this should remain a good source of business for ICG.

Last year saw some new large American mezzanine funds enter the market. However, despite heavy marketing they were not active investors. Our greatest concern on this front is that these funds will in future become more aggressive in their pricing in order to win business.

Overall France proved to be ICG's best market last year – nine deals were done there – confirming its position as clear market leader. Germany at last showed good progress with ICG doing four deals, more than any of its competitors. The UK, which is a more mature market, was less active for ICG last year with only seven deals being completed.

In this competitive environment ICG expects good mezzanine deal flow to continue in the new financial year. However, it must be remembered that a sharp economic downturn would reduce LBO activity and therefore the level of mezzanine activity.

3 The European High Yield debt market

The European High Yield debt market had a busy year in 2000, with the total value of 51 issues amounting to £10bn compared with 58 issues amounting to £15bn in the previous year.

The market is, however, proving more volatile than might have been hoped and in the last four months of 2000 it was for the most part closed for new issuers. The fragile nature of the market has resulted from its limited diversity and liquidity. Last year approximately 60% of new high yield issues were telecom or cable which was unhelpful for funds seeking to build a broadly based portfolio.

Looking forward ICG expects the market to continue in the short term to be volatile, but believes that this market has the capacity for further substantial growth.

4 The portfolio

At 31 January 2001, ICG's portfolio consisted of loans to 72 different companies amounting to a total of £620m. This represents a 35% increase over the value of the loan book of £460m at the beginning of the year and reflects both the high level of new lending activity during the year and the fact that a greater number of larger transactions were completed during the year. The weakening of sterling against the Euro during the year also resulted in the sterling value of the portfolio increasing by £18m.

The portfolio is spread across 12 countries, with 40% by value in the UK and 60% in the remainder of Europe. France continues to be a very important business area for ICG with it now representing 29% of the portfolio. The growth of the German element of the portfolio to 8% was also pleasing. The portfolio now shows an increasing trend towards Continental Europe, which is expected to continue as ICG believes there are a larger number of attractive mezzanine opportunities on the Continent than in the UK.

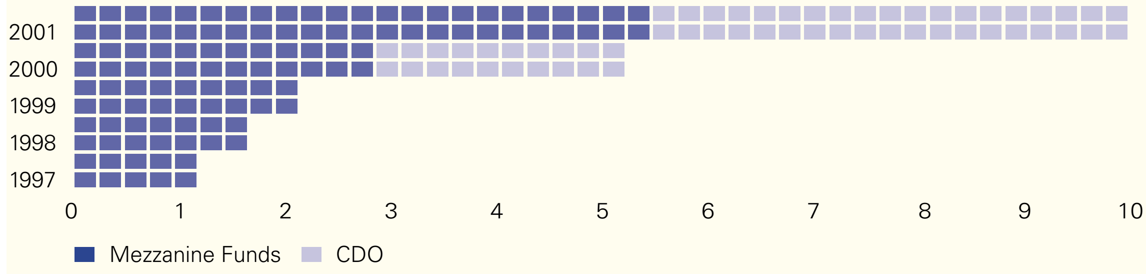
ICG also ensures that it diversifies its risk by investing in a wide range of industrial sectors and at the year-end had lent to 28 industrial sectors, with the largest exposure in any one sector being 11%. Details of the portfolio, including new loans and repayments, may be found on pages 11 to 15.

New loans and investments The total amount of mezzanine underwritten by ICG during the year amounted to £510m of which £160m was syndicated to third parties. ICG held £274m of the remainder while syndicating £76m to its fund management clients.

Repayments In the last financial year, loans of £118m in 13 companies were fully repaid or prepaid, with part repayments in another two companies. The loans repaid were as a result of either listing on a stock market or a trade sale, or the refinancing of the more mature mezzanine loans with cheaper debt.

Provisions It is ICG's policy to make specific provisions against loans where, in the opinion of ICG's management, the value of that loan has become impaired. In the last financial year, ICG made £19m of provisions. These were in respect of loans to three companies (one of which was realised at the provisioned level) and two small equity investments. A £2m provision that had been made in the previous year against another loan has been released this year upon the repayment of that loan in full. As a result, the net cost of new provisions charged for the year

Value of funds under management £m



amount to £16.9m. At the year-end, ICG's total provisions amounted to £37.9m in respect of eight companies and represented 75% of the total cost of these loans. Although the level of provisioning has been greater than in previous years, this was primarily because of two new underperforming investments. In the past ICG has on occasions been successful in making recoveries in excess of the provisioned level.

Shares and warrants The excess market value of the quoted shares in the portfolio over their cost amounted to £22.1m compared to £7.4m at the beginning of the year. This increase arose principally from one of our investments which had a successful IPO during the year and where ICG retained all its quoted shares. In addition, the directors' valuation of unquoted shares and warrants whose value is not included in the balance sheet, amounted to £37m compared to £50m at the beginning of the year. This decrease arose because of the particularly high level of capital gains achieved during the year which derived from the warrant portfolio at the beginning of the year.

5 Fund management

Mezzanine During the year, ICG invested a further £76m of mezzanine on behalf of fund management clients. The majority of this was invested on behalf of the new Mezzanine Fund 2000, which was raised during the year. This €475m (£290m) fund raised money from 13 institutional investors, of whom four were in the UK, eight in Continental Europe and one in North America. During the year £46m of fund management assets were repaid. The amount invested on behalf of clients at the year-end amounted to £265m compared with £235m at the beginning of the year.

High Yield fund management During the year, a further high yield and leveraged loan fund (Eurocredit CDO II) was established, raising €350m (£215m) from UK and European investors. CDO I, which was established in 1999 raising €400m (£245m), was fully invested throughout the majority of the year. Both these funds are cash flow CDOs which means their performance relies upon the continuing flow of income not on the capital performance of the loans when marked to market. So far the CDO I high yield portfolio has outperformed the high yield bond index, primarily because of its relatively limited exposure to telecom bonds, although it does have a small number of underperforming assets. Looking forward ICG is taking a cautious investment approach in the light of the uncertain economic outlook and anticipated volatility in high yield bonds.

6 Borrowing and loan facilities

At 31 January 2001, ICG's total borrowings amounted to £482m compared to £337m at the beginning of the year. This represents a substantial increase over the year and is the result of ICG's high levels of activity.

During the year, ICG returned to the private placement market, raising $95m from US investors and a further £25m from a UK institutional investor.

ICG also increased its banking facilities by £12m as a result of an increase in its revolving credit facility from £275m to £287m, and by £75m as a result of new bilateral medium-term facilities with three UK clearing banks, with whom ICG had no previous borrowing relationship.

As a result of the above, the available facilities at the end of the year amounted to £113m which is sufficient for immediate funding requirements. However, during the course of the new financial year ICG intends raising further new debt facilities.

7 Shareholders' funds

During the year ICG's shareholder funds rose from £160m to £186m, as a result of high profits for the year.

Including the full gross value of quoted shares plus the unquoted shares and warrants referred to earlier, ICG's equity base increased to £227m compared to £200m at the beginning of the year.

8 Results for the year

As a result of record levels of activity and capital gains, ICG produced record results for the year to 31 January 2001 which are summarised on page 1. Pre-tax profits rose to £58.0m compared to £35.1m in the previous year, an increase of 65%. The pre-tax return on shareholders' funds amounted to 34%. Profits after tax amounted to £40.5m compared with £24.8m for the previous year. Undiluted earnings per share amounted to 69.2p per share, compared to last year's EPS of 49.2p.

The constituent parts of ICG's profit are:

Core income ICG's core income, which it defines as net interest and dividend income plus fee income less related administrative expenses, increased to £33.5m, a 43% increase compared to £23.4m the previous year.

Net interest income Net interest income grew by 45% to £29.8m compared to £20.5m the previous year.

This rise was due to a number of factors including:

a) The increase in shareholders funds as a result of the Rights Issue in October 1999 and the much increased level of retained earnings.
b) The substantial growth in the loan book; and
c) The significant increase in the amount of roll-up interest which has been accrued.

Fee income Fee income increased from £9.2m in the previous year to £13.3m, an increase of 45%. It was a good year for arrangement and underwriting fees which amounted to £7.0m, an increase of 34% over the previous year. This higher level arose because ICG arranged more large mezzanine loans.

As a result of the increased levels of fund management, fees from this activity increased by 65% to £5.6m compared to £3.4m the previous year. Fees from the management of mezzanine assets amounted to £3.9m compared to £2.7m last year, including for the first time, the receipt of carried interest fees of £0.8m while the fees from the two CDO funds, amounted to £1.7m compared to £0.7m last year.

Recurring fees in the form of agency and monitoring fees for loans and investments, increased from £0.6m last year to £0.7m in the current year.

Expenses Administrative and operating expenses increased from £6.3m in the previous year to £9.6m. The majority of this increase arose from increased staff costs including increased levels of short term bonuses covering both mezzanine activity and the CDO fund management operation. For the CDO team salaries and benefits amounted to £1.2m during the year compared to £0.4m the previous year.

As a result of a move to larger premises, the costs of the French representative office also increased during the year.

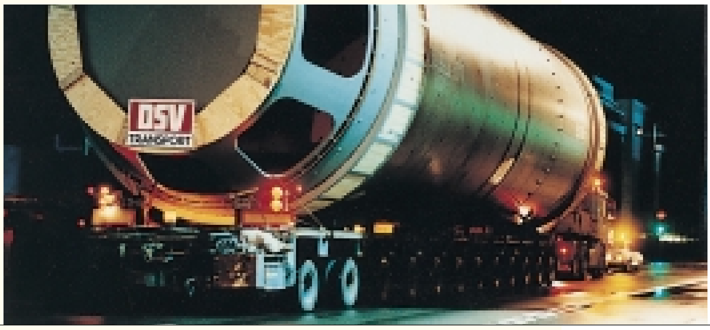
In addition there is a first time charge of £0.5m relating to National Insurance on certain share options issued by the company.

Net capital gains ICG had a record year, with total gains amounting to £56.9m, compared to £28.9m the previous year. After deducting net specific provisions of £16.9m and the cost of the medium-term incentive scheme of £15.5m, net capital gains amounted to £24.5m compared to £11.7m the previous year.

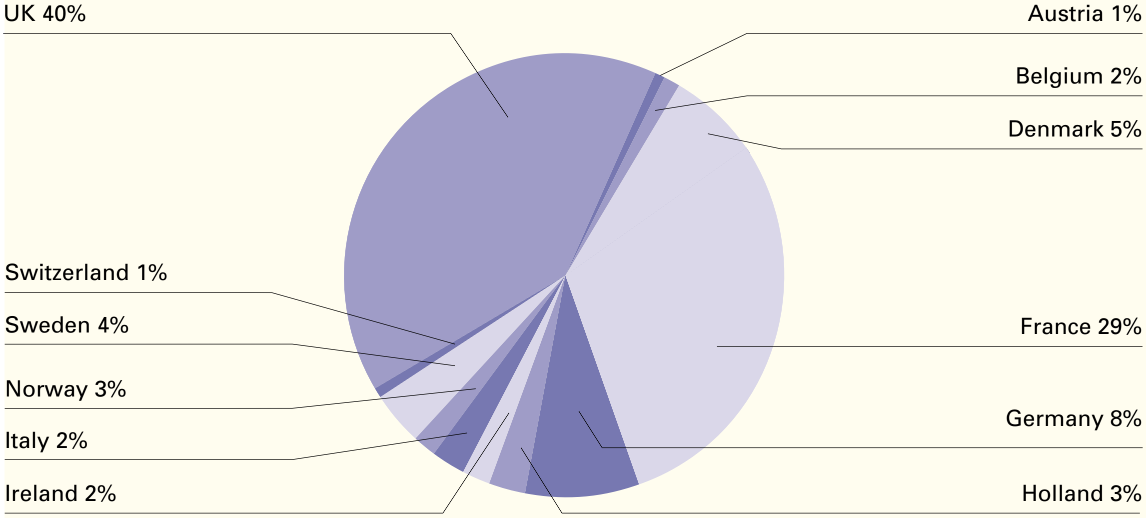
Capital gains were realised from 15 different companies of which six were in the UK and nine in continental Europe. Two of the gains were achieved as a result of stock market listings with the remainder being from trade sales or refinancings.

As a result of the high level of capital gains, the cost of the medium-term incentive scheme increased from £9.1m the previous year to £15.5m this year. The payout under the scheme was the maximum allowed under its rules, and includes the relevant proportion of National Insurance.

The Portfolio



Portfolio spread by country



New loans and investments
During the year, ICG made new loans to and investments in 24 companies, these being as follows:

Clydesdale Financial Services is a finance company providing point of sale arranged credit services for the high street retailers. ICG arranged and provided a mezzanine facility of £12.5m to assist in the buyout from Next Group.

CPL Aromas is one of the UK's leading independent designers and manufacturers of fragrances and flavours. As part of the funding for taking the company from public to private ownership ICG arranged and provided a mezzanine facility of £6.5m.

De Dietrich is a French listed conglomerate operating in heating equipment, railway equipment and process equipment for the fine chemical and pharmaceutical industry. ICG arranged a mezzanine bond of €64m to assist in the public to private buyout.

DSV is a quoted Danish company in the road transportation and logistics sector. ICG arranged a mezzanine facility of DKK750m to assist in the purchase of DFDS Dan Transport.

Elis is the leading French textile rental and cleaning business supplying hotels, restaurants, hospitals and industry. ICG took a participation of US$15m in the refinancing of the group.

Focus is a leading DIY retailer in the UK. ICG arranged a £25m facility to assist in the acquisition of Great Mills.

Frans Bonhomme is France's leading distributor of plastic pipes and couplings for the building and civil engineering industries. ICG arranged the mezzanine facility of FF400m to assist in the buyout.

HMY is the French and Spanish market leader in supermarket equipment manufacturing, such as shelving and checkouts. ICG arranged the mezzanine bond of FF220m to assist in the buyout. ICG also took an equity stake of FF57m.

Jallatte is the French market leader and number two in Europe in the manufacturing and distribution of protective shoeware. ICG took a participation of €20m in the mezzanine facility provided to assist in the acquisition of Almar, the largest European manufacturer of safety shoes.

Kiekert is a world market leader for automotive lock systems and is based in Germany. ICG co-arranged a mezzanine facility providing €30m to support taking the company from public to private ownership.

MGE is the leading European manufacturer and supplier of uninterrupted power supplies for IT and electrical installations. ICG arranged the FF600m mezzanine bond required to assist in the buyout.

Orefi, an existing borrower, is a leading French wholesaler of industrial supplies and consumables. ICG arranged and provided additional mezzanine finance of FF34m to assist in funding an acquisition.

Pinewood is the leading film studio complex in Europe. ICG arranged and provided a £10m mezzanine facility to assist in the buyout from the Rank Group.

Plastimo is a manufacturer and distributor of recreational marine equipment. ICG arranged and provided a mezzanine facility of FF61m to refinance an existing shareholder loan.

Saveurs (Societe Jarnysienne) conceives and produces a wide range of sauces, aromatic ingredients and food mixtures for the European food manufacturing industry. ICG took a participation of FF35m in the mezzanine facility to assist in the buyout.

Sound Holdings is a company formed to acquire Microtronic, a Danish company, which is the leading hearing aid component supplier in the world. ICG invested DKK125m to help finance the buyout and to acquire Kirk, a company involved in the design and manufacture of transducers and connectors in the telecoms industry.

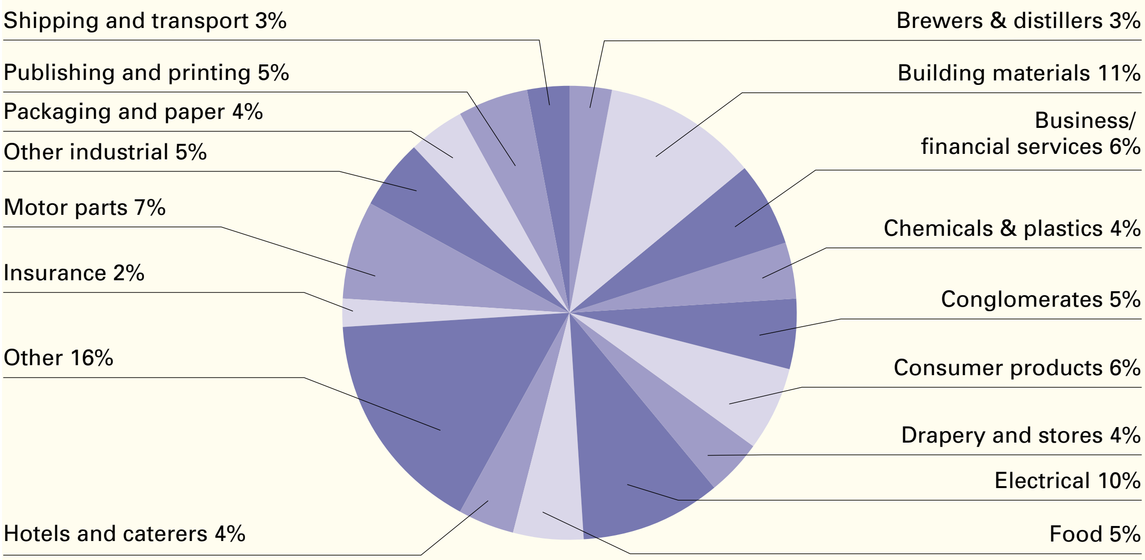
Steiner Industries produces re-usable plastic packaging and tray systems and plastic garden furniture. ICG took a participation of €7m in the mezzanine facility provided to refinance the company to allow for continued growth.

Takko is among the leading German fashion apparel retailers in the low price segment of the market. ICG arranged the mezzanine facility of DEM200m to assist in the buyout from the German retailer Tengelman.

Target is a leading operator of express delivery services in the UK. ICG took an £11m participation in the mezzanine facility provided to assist the buyout.

Tata Tea is a major Indian conglomerate. ICG arranged a mezzanine facility of £40m to assist in the acquisition of Tetley, one of the world's leading tea companies.

Portfolio spread by industry



TMD Friction is the leading European (no.2 worldwide) manufacturer of brake pads and brake linings for the automotive industry. ICG co-arranged the mezzanine facility of €90m to assist the LBO.

Tunstall is the UK's leading manufacturer of social alarm systems also providing installation and maintenance services. ICG took a participation of £7.25m in the mezzanine facility provided to assist in the buyout.

Vantico is a leading Swiss based speciality chemical manufacturer. ICG took a participation of €7m in the facility provided to assist the buyout.

Victorvox is an independent service provider for mobile and fixed telecommunication services in Germany. ICG arranged and provided a €15m mezzanine loan to provide funding prior to a proposed IPO in the next 12 months.

Repayments

During the year, loans and investments of £118m in respect of 13 companies were repaid or prepaid, with part repayments on a further two companies. The companies which repaid were:

Name	Country	Form of realisation
Centum	UK	Refinance
Crompton	UK	Refinance
Denitz Media	UK	Trade Sale
Elior (Bercy, Elico)	France	Flotation
Elis	France	Refinance
Focus	UK	Refinance
Frans Bonhomme	France	Buyout
Hermes Metal	France	Buyout
I.e. Group	UK	Trade Sale
Marie Brizard	France	Buyout
MGE	France	Buyout
Microtronic	Denmark	Buyout
Neste	Finland	Refinance

In addition to the capital gains made on many of the exits above, during the year ICG also made capital gains on shares in companies where its loan had been repaid in previous years. These companies were:

Name	Country	Form of realisation
Addum	Sweden	Trade sale
Gifi	France	Flotation
MTHL	UK	Trade sale
Nobia	Sweden	Trade sale
SLD	UK	Trade/LBO
The Stationery Office	UK	LBO

Current portfolio

At 31 January 2001, in addition to the new loans and investments listed above, ICG had loans outstanding to the following companies:

Name	Country	Business
Accord	UK	Outsourcing to local authorities
Adco and Dixi	Germany	Hirer of portable toilets
Allflex	France	Animal identification tags
Asco	UK	Provider of logistic services for oil industry
Automotive Products	UK	Automotive clutch and brake manufacturer
Best	UK	IT recruitment agency
Blagden	Belgium	Steel drum supplier
Cantrell & Cochrane	Ireland	Manufacturer, wholesaler and distributor of drinks
Cartiere del Garda	Italy	Manufacturer of coated woodfree papers
Charter	UK	Engineering and manufacturer of fastenings and components
Coal Products	UK	Producer of smokeless solid fuels
County Hotels	UK	Hotel operator
Edrasco	France	Manufacturer of educational equipment
Electrokopper	Sweden	Manufacturer of copper wire rod and winding wire
Elmville	UK	Hotel operator
Empe	Germany	Manufacturer of interior trim for automotives
Eurogestion	France	Pest control
Grand Vins de Girone	France	Wine trading company
Healthcall	UK	Deputising services for general practitioners
Helly Hansen	Norway	Producer of outdoor clothing

Name	Country	Business
HLF Insurance	UK	Insurance broking
Holding Sia	France	Designer and wholesaler of interior gifts and decorations
IBS Brocke	Germany	Manufacturer of automotive components
IPC	UK	Magazine publisher
Krings	Germany	Rental of trench shoring systems
Landal Greenparks	Netherlands	Holiday park operator
Latium Group	UK	Manufacturer & retailer of UPVC windows
Le Figaro	France	Newspaper publisher
Maccess	UK	Wholesaler and distributor of car accessories
Meneba	Netherlands	Producer of flour, bakery and animal feed products
Meyn	Netherlands	Manufacturer of poultry processing equipment
Nobia Byginterior	Sweden	Door, window and kitchen manufacturer
Norcros	UK	Manufacturer and distributor of showers and tiles
Nycomed	Norway	Pharmaceuticals
Orefi	France	Wholesaler of industrial items
Oriflame	Sweden	Direct selling of cosmetic products
Pets at Home	UK	Retailer in domestic pet market
PHS	UK	Washroom services
Porcelain & Fine China Companies	UK	Manufacturer of china and porcelain
Portman Travel	UK	Travel agent
Premier Oilfield Services	UK	Hirer of North Sea oilfield equipment
Presspart	UK	Manufacturer of anodised aluminium
Regal Hotels	UK	Hotel operator
Servicetec	UK	Computer services and maintenance
Sublistatic	France	Manufacturer of textile printing paper transfers
Tensar	UK	Manufacturer of polymer nets and mesh products
TGE Group	UK	Fluid processing technology and control instrumentation
Unipoly	UK	Manufacturer of building products and other industrial composites
William Cook	UK	Manufacturer of steel castings

The portfolio of warrants and unquoted shares

At 31 January 2001 ICG had unquoted shares and warrants in most of the unquoted companies in its loan portfolio, as well as in the following companies which have prepaid ICG's loan in full:

Name	Country	Business
Calvet	France	Wholesale wine merchant
Coal Products	UK	Producer of smokeless fuel and foundry coke
Convenience Food Systems	Netherlands	Supplier of equipment for the preparation, processing and packaging of food
Elis	France	Textile rental and cleaning business
Focus	UK	DIY stores
IPT	UK	Textile fabrics
The Stationery Office	UK	Publication, printing and business services
Wightlink	UK	Ferry operator

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 January 2001.

Principal activities and business review The principal activity of the group is that of providing intermediate capital to companies in the United Kingdom and elsewhere in Western Europe.

The group's profit before taxation was £58.0m (2000 – £35.1m). The directors consider the state of the company's affairs to be satisfactory.

Directors The present membership of the Board is as set out on page 41. With the exception of Mr P J Manser all the directors shown on page 41 served throughout the year. Mr Manser was elected to the Board as non-executive deputy chairman on 25 January 2001 and offers himself for re-election in accordance with the articles of association. On 25 January 2001, Mr R A Padgett resigned as a non-executive director. In accordance with the articles of association, Mr Licoys and Mr Stone retire by rotation and offer themselves for re-election. The interests of the directors of the company and their immediate families as defined by the Companies Act in the shares of the company as at 31 January 2001 are as follows:

	2001 Number of 20p ordinary shares	2000 Number of 20p ordinary shares
T R Attwood	**10,000**	10,000
T H Bartlam	**834,106**	834,106
J-L de Gersigny	**676,675**	676,675
A D Jackson	**834,107**	834,107
E G Licoys	**1,800**	1,800
P J Manser	**–**	–
P J Stone	**12,250**	6,250
C M Stuart	**10,000**	10,000

No changes to the directors' interests in shares at 31 January 2001 as set out above had been notified up to 2 April 2001.

The directors had no interests in the shares of any subsidiary company.

Substantial shareholdings The company has received notifications from Prudential Portfolio Management and Standard Life that each is interested in more than 3% of the ordinary share capital of the company. According to the company's share register at 30 March 2001, these, and the following investment managers (through separately managed funds), had interests in aggregate amounting to over 3%.

	Holding	Percentage holding
Morley Fund Management	4,340,045	7.41%
Standard Life Assurance Co.	3,718,625	6.35%
Prudential Portfolio Management	3,371,797	5.75%
Schroder Investment Management	3,201,769	5.46%
Perpetual Unit Trust Management	2,996,650	5.11%
Chase Fleming Asset Management	2,181,463	3.72%
Foreign & Colonial Management	2,157,201	3.68%
Martin Currie Investment Management	2,114,220	3.65%
Framlington Investment Management	2,019,950	3.45%
Legal & General Investment Management	1,949,101	3.33%
Deutsche Asset Management	1,806,478	3.08%

Dividend The directors recommend a final net dividend payment in respect of the ordinary shares of the company at a rate of 17.3p per share (2000 –15.4p), which when added to the interim net dividend of 7.7p per share (2000 –6.8p) gives a total net dividend for the year of 25.0p per share (2000 –22.2p). The amount of dividend paid out in the year was £14.6m (2000 – £12.2m). After dividends, retained profits of £25.9m (2000 – £12.6m) have been transferred to retained earnings.

Trade creditors It is group policy to agree and clearly communicate terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms, based upon the timely receipt of an accurate invoice. The group does not follow any code regarding terms of payment, and the average number of creditor days throughout the year was 35.

Auditors A resolution for the reappointment of the current auditors, Deloitte & Touche, will be proposed at the forthcoming Annual General Meeting.

New share option arrangements Resolutions 6 and 7 in the notice of Annual General Meeting, set out on pages 39 and 40 of the Report and Accounts, authorise the directors to establish the Intermediate Capital Group PLC 2001 Approved Executive Share Option Scheme and the 2001 Unapproved Executive Share Option Scheme. An explanation of both of these schemes and the reasons for their establishment can be found in the Chairman's letter to shareholders dated 23 April 2001.

Annual General Meeting A number of other resolutions will be proposed at the Annual General Meeting as special business.

Resolutions 8 and 9 will give the directors flexibility to allot unissued shares, although the directors have no present intention to issue any further shares save on the exercise of options granted under the Intermediate Capital Group Executive Share Option Scheme 1994 and the Intermediate Capital Group Unapproved Executive Share Option Scheme 1997. Resolution 8 will, if passed, authorise the directors to allot ordinary shares up to an aggregate amount of £3,366,973, representing approximately 29% of the current issued share capital of the company. Resolution 9 will, if passed, authorise the directors to disapply pre-emption rights of existing shareholders on future issues of ordinary shares for cash in respect of up to a maximum nominal amount of £585,988, being 5% of the current issued share capital. These authorities will expire at the conclusion of the Annual General Meeting of the company in 2002 and in any event no later than 15 months after the passing of the resolutions. However, the directors have no present intention of exercising these authorities, except pursuant to any exercise of share options. It is intended to renew such authorities at successive Annual General Meetings.

Resolution 10 will, if passed, authorise the company to purchase its own shares up to a maximum of 14.99% of the current issued share capital. The price payable for shares purchased will not be more than 105% of the average of the market values for the ordinary shares (as derived from the Daily Official List of the London Stock Exchange) for the five business days before the day on which the purchase is made, nor less than 20p (the nominal value of the share). The authority will expire at the conclusion of the Annual General Meeting of the company to be held in 2002 and in any event no later than 15 months after the passing of the resolution. The authority will only be exercised if to do so would be in the best interests of shareholders generally. At the date of this report, there are outstanding 2,066,310 share options under the Intermediate Capital Group Executive Share Option Scheme 1994 and the Intermediate Capital Group Unapproved Executive Share Option Scheme 1997, which represent 3.5% of the company's existing issued share capital and would represent 4.1% of the company's issued share capital if the authority to purchase the company's own shares being sought were fully utilised.

By Order of the Board
J E Curtis
Secretary

10 April 2001

Corporate Governance

A summary of the system of corporate governance adopted by the company is set out below. Throughout the year ended 31 January 2001, the company has been compliant with the Code Provisions set out in Section 1 of the Combined Code of Corporate Governance issued by the Financial Services Authority.

The auditors have confirmed that, in their opinion, with respect to the directors' statements on internal control and going concern below, the directors have provided the disclosures required by the UK Listing Authority and such statements are not inconsistent with the information of which they are aware from their audit work on the financial statements; and that the directors' other statements below appropriately reflect the company's compliance with the other paragraphs of the Combined Code specified for their review by Listing Rule 12.43(a). They were not required to perform the additional work necessary to, and did not, express any opinion on the effectiveness of either the company's system of internal control or its corporate governance procedures nor on the ability of the company to continue in operational existence.

Statement of compliance with the principles of the combined code

Board of Directors The company's board of directors meets regularly to discuss the performance of the company and to discuss matters which it has reserved to itself for decision as well as any other matters that are referred to it. It is their responsibility to present a balanced and understandable assessment of the company's position and prospects and this is done through the chairman's statement, business and financial review and the financial statements. Regular reports and presentations to the Board ensure that it is supplied with the quality information that it needs, in a timely manner.

The Board comprises four executive directors, an independent non-executive chairman, an independent non-executive deputy chairman and two further independent non-executive directors. The company has never had a designated chief executive. Each of the four executive directors has specific areas of responsibility and all collectively form the executive committee, with no one director being able to significantly affect the running of the company without consulting his colleagues. P J Stone has been identified as the senior independent director. The non-executive directors are as follows:

Murray Stuart was appointed non-executive chairman of the company in September 1993.
John Manser was appointed as non-executive deputy chairman in January 2001
Eric Licoys was appointed a non-executive director in January 1998.
Peter Stone was appointed a non-executive director in January 1998.

The Board has established a number of committees consisting of certain directors, including an Audit Committee and a Remuneration and Nomination Committee whose membership and functions are defined below.

Audit Committee The Audit Committee meets regularly to review the annual and interim accounts, the procedures and controls of the company and to ensure compliance with Accounting Standards and regulatory requirements. The committee consists of four (2000 – four) independent non-executive directors, these being Messrs Stuart, Manser, Licoys and Stone under the chairmanship of Mr Stuart. The executive directors are not members of the Audit Committee but are invited to attend along with the Financial Controller. Deloitte & Touche, the company's auditors, are also invited to attend and have direct access to committee members.

Remuneration and Nomination Committee The Committee consists of four (2000 – three) independent non-executive directors, these being Messrs Stuart, Manser, Licoys and Stone. It recommends the terms and conditions of employment of the executive directors. Levels of remuneration are considered sufficient, but not excessive to attract and retain the directors needed to run the company successfully. A significant proportion of directors' remuneration is linked to corporate performance. Although the Code recommends that executive directors have one year rolling contracts, executive directors have two year "rolling" service contracts which are judged appropriate for the investment and fund management nature of the company's business, given the level of continuity required. Further details regarding remuneration policy and payments made can be found in the report to shareholders on directors' remuneration and in the notes to the accounts.

Appointments of executive and non-executive directors are made as necessary as a result of discussions by the committee and are subject to full Board approval. One-third of the directors offer themselves for re-election every year. Any director appointed during the year must offer himself or herself for re-election at the next Annual General Meeting. Details of directors up for re-election at the forthcoming Annual General Meeting are shown on page 40.

Relationships with shareholders The company is always willing to enter into dialogue with shareholders, based on mutual understanding of objectives. Investors are encouraged to attend the Annual General Meeting.

Internal control The directors acknowledge their ultimate responsibility for ensuring that the group has in place a system of internal controls that is appropriate to the business environment in which it operates. The directors have reviewed the effectiveness of the system of internal control and believe that such a system of controls is in place to give reasonable, but not absolute, assurance that assets are safeguarded, transactions are authorised and recorded properly and that material errors and irregularities are prevented or would be detected within a timely period.

The rationale for the system of internal control is to maximise effectiveness for the commercial management of the business and to provide the Board with regular and effective reporting on the identified significant risk factors. The Board is responsible for determining strategies and policies for risk control and management is responsible for implementing such strategies and policies.

The Board confirms that an ongoing process for identifying, evaluating and managing the group's significant risks has operated throughout the year and up to the date of approval of the directors' report and accounts. This process has been subject to regular review by the Board and accords with the guidelines contained in "Internal Control: Guidance for Directors on the Combined Code" issued in September 1999 by the Institute of Chartered Accountants in England and Wales. The key elements of this process are:

- Strategic risks are considered by both the Board and the executive committee in the context of an agreed strategic framework. A strategy paper and three year plan are produced annually to address the strategic challenges of the group and these are approved by the Board. A detailed financial plan is developed for the year ahead and monthly reports covering actual and planned performance are provided to the Board by the group's finance function.
- Financial risks (primarily loan losses and associated risks) are considered on behalf of the Board by the executive committee. The minutes of the executive committee are reviewed by the Board on a regular basis. These controls concentrate on the procedures for making and monitoring loans and investments and for the safeguarding of assets against unauthorised disposition.
- Operational risks (including compliance with the Financial Services Act) are considered on behalf of the Board by the executive committee.

The Board has established practices for reviewing the system of internal controls by way of reports it receives from the executive committee. The Board has considered the need for an internal audit function, but has decided that because of the nature of the current internal control system and size of the company it cannot be justified at present. The Board will review this decision next year. The Board undertook a formal annual assessment of the risk management and control arrangements on 21 March 2001 in order to form a view on the overall effectiveness of the system of internal control.

Going concern statement Based upon the review of the group's budgets and outline business plans for the next two years, the directors believe that the company has adequate resources to continue in operational existence for the foreseeable future, and accordingly they continue to adopt the going concern basis in preparing the accounts.

Report of the Remuneration and Nomination Committee
for the year ended 31 January 2001

Remuneration and Nomination Committee The Committee consists solely of four non-executive directors, Messrs C M Stuart, P J Manser, E G Licoys and P J Stone, under the chairmanship of Mr Stuart. None of the Committee members have any personal financial interests (other than as shareholders), conflicts of interest arising from cross-directorships or day-to-day involvement in running the business. The Committee consults the executive directors about its proposals and has access to professional advice from outside the company.

Remuneration policy on executive directors' remuneration Executive remuneration packages are designed to attract, motivate and retain directors of the high calibre needed to maintain the company's position as a market leader and to reward them for enhancing value to shareholders. The performance measurement of the executive directors and the determination of their annual remuneration package is undertaken by the Committee. This policy has been formulated having given full consideration to Section B of the Best Practices Provisions annexed to the London Stock Exchange Listing Rules.

The main elements of the remuneration package for executive directors are as follows:

- basic annual salary;
- bonus payments;
- share option incentives; and
- carried interest arrangements

Executive directors are entitled to accept appointments outside the company in connection with the company's activities and otherwise, providing the Chairman's permission is sought.

Basic salary An executive director's basic salary is determined by the Committee at the beginning of each year. In deciding appropriate levels the Committee can rely on objective research which gives up to date information on a comparator group of companies (which comprises development capital companies engaged in private equity investment). Executive directors' contracts of service which include details of remuneration will be available for inspection at the Annual General Meeting.

Bonus payments In setting appropriate bonus parameters the Committee refers to the objective research on comparator groups of companies as noted above. The Committee believes that any incentive compensation awarded should be tied to the interests of the company's shareholders and that the principal measure of those interests is shareholder value. The key element of the current bonus incentive scheme is as follows:

- a medium-term incentive scheme, implemented in 1994, related to the cumulative growth in earnings per share in excess of RPI and calculated by reference to the amount of realised gains. No payment is made if the cumulative growth in EPS is less than RPI plus 5% per annum. The amounts payable rise proportionately from 4% of realised gains to a maximum of 20% of realised gains with increasing cumulative growth in earnings per share. The extension and appropriateness of the scheme is considered by the Committee on an annual basis.

Share options There is in existence a share option scheme which the company adopted on 18 May 1994 and which was approved by the Inland Revenue on 2 June 1994. The principal features of this option scheme are laid out in the Placing and Intermediaries Offer document dated 19 May 1994. This option scheme is, so far as executive directors are concerned, administered by the Committee. Details of options granted to directors are shown in note 9 to the accounts.

The company adopted a further unapproved option scheme on 19 May 1997. The principal features of this scheme are substantially the same as those of the scheme dated 18 May 1994 and the scheme is, so far as executive directors are concerned, administered by the Committee. Details of options granted to directors are shown in note 9 to the accounts.

Carried interest arrangements The company has established for its executives, including the executive directors, carried interest arrangements whereby 60% of the carried interest negotiated by the company in respect of managed funds raised since 21 January 1998 be available for allocation to its executives. Whilst these arrangements are not a long-term incentive scheme, it being the investors in such funds who bear the cost of the carried interest, the company sought, and obtained, approval from its shareholders for such arrangements at an Extraordinary General Meeting on 21 January 1998.

The Chairman of the Committee will be available to answer questions on any aspect of the remuneration policy at the Annual General Meeting.

Executive directors' pension arrangements Under their Service Agreements, each executive director is paid an additional gross annual amount to be paid into any one or more pension plans of his choice by him up to a maximum annual amount equal to 15% of basic annual salary. There have been no changes in the terms of executive directors' pension entitlement during the year and there are no other arrangements in place concerning their pensions.

Executive directors' contracts Executive directors have two year "rolling" contracts which are deemed appropriate for the nature of the company's business. The company is obliged to pay damages for wrongful termination. No other payments are made for compensation for loss of office.

Mr Licoys and Mr Stone are due to retire by rotation and offer themselves for re-election. Mr Manser was appointed to the Board on 25 January 2001 and offers himself for re-election in accordance with the articles of association.

Non-executive directors The remuneration of the non-executive directors is determined by the Board within the limits set out in the articles of association. The fee paid to the non-executive Chairman in the year was £65,000 and the annual fees paid to other non-executive directors varied between £10,000 and £25,000. Included in these amounts are fees for additional work performed for the company in respect of time spent working on the Remuneration and Nomination and Audit Committees. Non-executive directors cannot participate in any of the company's share option schemes. Non-executive directors do not have a contract of service and are not eligible to join the company's pension scheme.

Details of directors' remuneration This report should be read in conjunction with note 9 to the accounts which provides details of the remuneration of each director and which also constitutes part of this report.

The Remuneration and Nomination Committee
10 April 2001

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the group will continue in business.

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

Auditors' Report

to the Members of Intermediate Capital Group PLC

We have audited the financial statements on pages 24 to 38 which have been prepared under the accounting policies set out on pages 27 and 28.

Respective responsibilities of directors and auditors The directors are responsible for preparing the annual report, including as described on page 22, the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the UK Listing Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations required for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We review whether the corporate governance statement on pages 18 and 19 reflects the company's compliance with the seven provisions of the combined code specified for our review by the UK Listing Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control covers all risks and controls, or to form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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

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

Opinion In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 January 2001 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR

10 April 2001

Consolidated Profit and Loss Account

for the year ended 31 January 2001

	Note	2001 £m	2000 £m
Interest and dividend income		**55.8**	36.0
Capital gains		**56.9**	28.9
Fee and other operating income		**13.3**	9.2
	4	**126.0**	74.1
Interest payable and similar charges	5	**(26.0)**	(15.5)
Provisions against loans and investments	6	**(16.9)**	(8.1)
Administrative expenses	7	**(25.1)**	(15.4)
Profit on ordinary activities before taxation	3	**58.0**	35.1
Tax on profit on ordinary activities	8	**(17.5)**	(10.3)
Profit on ordinary activities after taxation		**40.5**	24.8
Dividends paid and proposed – ordinary	11	**(14.6)**	(12.2)
Retained profit transferred to reserves		**25.9**	12.6
Earnings per share	12	**69.2p**	49.2p
Diluted earnings per share	12	**68.2p**	48.8p

All activities represent continuing operations. There are no other recognised gains or losses for the current or prior year other than those shown in the profit and loss account.

The accompanying notes are an integral part of these financial statements.

Balance Sheets

31 January 2001

	Note	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Fixed assets					
Tangible assets	13	**0.3**	0.3	**0.3**	0.3
Loans	14	**539.5**	409.5	**537.5**	404.1
Investments	15	**80.4**	50.9	**31.2**	33.0
Current assets					
Debtors	16	**19.9**	24.1	**18.8**	21.2
Loans and investments	17	**46.7**	27.3	**46.7**	27.3
Cash at bank		**3.1**	0.1	**2.4**	0.1
		69.7	51.5	**67.9**	48.6
Total assets		**689.9**	512.2	**636.9**	486.0
Capital and reserves					
Called up share capital	18	**11.7**	11.7	**11.7**	11.7
Share premium account		**85.0**	84.7	**85.0**	84.7
Capital redemption reserve		**1.4**	1.4	**1.4**	1.4
Profit and loss account		**87.7**	61.8	**40.9**	29.1
Equity shareholders' funds	19	**185.8**	159.6	**139.0**	126.9
Provisions for liabilities and charges	20	**–**	0.1	**–**	–
Creditors: amounts falling due after more than one year	21	**461.2**	324.9	**461.2**	324.3
Creditors: amounts falling due within one year	22	**42.9**	27.6	**36.7**	34.8
Total capital and liabilities		**689.9**	512.2	**636.9**	486.0

These financial statements were approved by the Board of Directors on 10 April 2001.
Signed on behalf of the Board of Directors by:

C M Stuart Director

T H Bartlam Director

The accompanying notes are an integral part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 January 2001

	Note	2001 £m	2000 £m
Operating activities			
Interest and dividends received		55.4	30.5
Gain on disposals		57.4	28.9
Fee and other operating income		13.2	9.6
Administrative expenses		(19.0)	(11.5)
		107.0	57.5
Interest paid		(24.8)	(14.8)
Net cash inflow from operating activities	23	82.2	42.7
Taxation paid		(14.7)	(9.9)
Capital expenditure and financial investment			
Loans and investments made		(274.2)	(196.7)
Realisations of loans and investments		115.2	96.3
Loans for syndication		(22.8)	(7.7)
		(181.8)	(108.1)
Debtors relating to investments		–	(16.2)
Purchase of tangible fixed assets		(0.1)	(0.3)
		(181.9)	(124.6)
Equity dividends paid		(13.5)	(9.6)
Net cash outflow before financing		(127.9)	(101.4)
Financing			
Increase in share capital		0.3	54.9
Increase in debt		130.6	43.7
Increase/(decrease) in cash	25	3.0	(2.8)

The accompanying notes are an integral part of these financial statements.

1 Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

a Basis of accounting The financial statements are prepared under the historical cost convention as modified by the revaluation of certain assets as described below.

b Basis of consolidation The group financial statements incorporate the financial statements of the company and its principal subsidiaries.

c Revenues and expenses Underwriting fees and other arrangement fees are included in the profit and loss account on the date at which they are receivable. Amounts receivable at the repayment of a loan which exceed the original cost are taken to profit and loss account over the full life of the loan. Such amounts, less tax, are considered to be non-distributable until such time as repayment occurs. Recurring fees, interest income, interest expense and overheads are accounted for on the accruals basis. Gains or losses arising on the early termination of financial instruments used for hedging purposes are shown as part of interest expense.

Dividend income is accounted for in the year in which the income is received.

The gain or loss arising on the disposal of a loan or an investment is recognised at the date of disposal. Any gain or loss is stated net of associated selling expenses.

d Tangible fixed assets Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:

Furniture and Equipment – 20% per annum
Leasehold Premises – Over the term of the lease

e Loans and investments Loans and investments are shown at cost less provisions plus the accrual of amounts receivable at the repayment of a loan which exceed the original cost. The specific provisioning policy of the company is to make a provision against any loan or investment as and when the directors consider that the carrying value is wholly or partially impaired.

f Loans and investments held as current assets Listed investments which are held as current assets, due to their impending sale, are held at their market value, with any resulting gain or loss being taken to the profit and loss account and included within capital gains. Loans and non-listed investments held as current assets are carried at the lower of cost and net realisable value.

g Taxation Corporation tax is provided on the taxable profits of the company at the current rate.

h Deferred taxation Deferred taxation is provided at the expected tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

i Pension costs It is the policy of the company to provide for pension liabilities by payments to insurance companies or to individuals for employees' private pension plans. The amount charged to the profit and loss account represents a percentage of the current payroll cost paid to defined contribution schemes.

j Foreign exchange Transactions denominated in foreign currencies are recorded at actual exchange rates ruling at the dates of the transactions, or where appropriate, at the rate of exchange in related forward exchange contracts.

Monetary assets and liabilities denominated in foreign currencies at the year end are translated into sterling at the rates of exchange ruling at that date, or where appropriate, at the rate of exchange in related forward contracts. Any gain or loss arising from a change of exchange rates subsequent to the dates of the transactions is included as an exchange gain or loss in the profit and loss account and is included as part of interest expense.

1 Accounting policies continued

k Value added tax It is the company's policy to write off irrecoverable VAT on items of expenditure relating to the profit and loss account. VAT on tangible fixed assets is capitalised and written off over a similar period to the asset to which it relates.

l Financial instruments Derivative instruments utilised by the group are interest rate swaps and forward exchange contracts. The group does not enter into speculative derivative contracts. All such instruments are used for hedging purposes to alter the risk profile of an existing underlying exposure of the group in line with the group's risk management policies. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to interest expense over the period of the contracts.

Termination payments made or received are spread over the life of the underlying exposure in cases where the underlying exposure continues to exist. In other cases termination payments are taken to the profit and loss account.

2 Profit of parent company

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's retained profit for the financial year amounted to £11.8m (2000 – £10.6m).

3 Analysis of profit before tax

	Core income		Capital gains	
	2001 £m	2000 £m	2001 £m	2000 £m
Income:				
Interest and dividend income	55.8	36.0	–	–
Gain on disposals	–	–	56.9	28.9
Fee and other operating income	13.3	9.2	–	–
	69.1	45.2	56.9	28.9
Less:				
Interest payable and similar charges	(26.0)	(15.5)	–	–
Provisions against loans and investments	–	–	(16.9)	(8.1)
Administrative expenses	(9.6)	(6.3)	(15.5)	(9.1)
	33.5	23.4	24.5	11.7

The administrative expenses included under capital gains represent the costs of the medium-term incentive scheme, the amount of which is dependent on the level of capital gains for the year and cumulative earnings per share growth.

4 Analysis of gross income

	2001 £m	2000 £m
Gross income received from:		
United Kingdom	39.8	40.9
Continental Europe	86.2	33.2
	126.0	74.1

Virtually all of the company's costs and liabilities were derived from the United Kingdom and therefore no meaningful geographical split of net assets and profit before tax can be made.

Gross income includes £0.2m (2000 – £0.1m) of dividend income from listed investments.

5 Interest payable and similar charges

	2001 £m	2000 £m
Bank loans and overdrafts	17.0	9.9
US Private placement	9.0	5.6
	26.0	15.5

6 Provisions

	2001 £m	2000 £m
Provisions against loans and investments:		
Specific provision charged in year	**19.0**	9.4
Written back in respect of prior years	**(2.1)**	(1.3)
	16.9	8.1

7 Administrative expenses

	2001 £m	2000 £m
Administrative expenses include:		
Amounts due under medium-term incentive scheme	**15.5**	9.1
Directors' remuneration, of which £6.8m (2000 – £3.9m) is included under the medium-term incentive scheme above	**8.0**	5.6
Depreciation	**0.1**	0.2
Auditors' remuneration:		
Audit	**0.1**	0.1
Other services	**0.1**	0.1

8 Tax on profit on ordinary activities

	2001 £m	2000 £m
Corporation tax on the profits for the year at 30% (2000 – 30.17%)	**17.5**	10.2
Tax on franked investment income	**–**	0.1
	17.5	10.3

9 Information regarding directors and employees

	2001 £m	2000 £m
Directors' remuneration:		
Fees	**0.1**	0.1
Other emoluments and benefits	**7.9**	5.6
	8.0	5.7
Employee costs during the year, including directors:		
Wages and salaries	**18.7**	11.1
Social security costs	**2.3**	1.2
Pension costs	**0.3**	0.3
	21.3	12.6

	No	No
Average number of employees	**36**	30

The performance related element included in wages and salaries is £15.5m (2000 – £9.1m), which is derived as a result of the Management Incentive Scheme.

9 Information regarding directors and employees continued

Details of directors' remuneration for the year are as follows:

	Basic salaries £000	Medium term scheme £000	Pension scheme contributions £000	Benefits in kind £000	**Total 2001 £000**	Total 2000 £000
Executive directors:						
T R Attwood	230	1,390	35	2	**1,657**	1,059
T H Bartlam	230	1,819	35	2	**2,086**	1,309
J-L de Gersigny	230	1,819	35	2	**2,086**	1,309
A D Jackson	230	1,819	35	2	**2,086**	1,309

	Fees £000	**Total 2001 £000**	Total 2000 £000
Non-executive directors:			
C M Stuart	65	**65**	65
P J Manser	1	**1**	–
E Licoys	23	**23**	23
R A Padgett	10	**10**	10
P J Stone	25	**25**	25

Under the terms of the company's incentive scheme, J R B Odgers, a former executive director, is due an amount of £784,000 (2000 – £396,000).

At 31 January 2001, the following directors had share options in the company which had not been exercised. The number of shares over which options are held is:

		Date granted	No. of shares	Exercise price	Earliest exercise date	Expiry date
T R Attwood	Approved	April 1996	8,670	346p	31 Jan 2000	April 2006
	Approved	April 1996	221,940	347p	31 Jan 2000	April 2003
	Unapproved	April 1997	71,827	342p	31 Jan 2001	April 2004
T H Bartlam	Approved	April 1998	5,700	526.25p	31 Jan 2002	April 2005
	Unapproved	April 1998	71,259	526.25p	31 Jan 2002	April 2005
J-L de Gersigny	Approved	April 1998	5,700	526.25p	31 Jan 2002	April 2005
	Unapproved	April 1998	92,806	526.25p	31 Jan 2002	April 2005
A D Jackson	Approved	April 1998	5,700	526.25p	31 Jan 2002	April 2005
	Unapproved	April 1998	71,259	526.25p	31 Jan 2002	April 2005

The earliest exercise date is the announcement date of the results in respect of the year then ended. The market price of the shares at 31 January 2001 was 879p per share.

10 Valuation of warrants and unlisted shares

The group has warrants to subscribe for shares in a number of borrowers. These warrants are not marketable instruments and can generally be realised by the group only when the investment is realised. These warrants, along with unlisted equity shares, are held in the financial statements at nominal cost. The directors consider that a reasonable valuation of these shares and warrants, representing the group's interests in the equity value of those companies realisable over a period of time, would currently amount to £37m (2000 – £50m) before tax. This valuation is based on the borrowers' current pro forma earnings multiplied by the appropriate price/earnings ratio, to which an appropriate discount has been applied by reference to the guidelines of the British Venture Capital Association (BVCA).

11 Dividends paid and proposed

	2001 Per share pence	2001 £m	2000 Per share pence	2000 £m
Ordinary dividend:				
Interim paid	7.7	4.5	6.8	3.2
Proposed final	17.3	10.1	15.4	9.0
	25.0	14.6	22.2	12.2

12 Earnings per share

The calculation of earnings per share is based on earnings of £40.5m (2000 – £24.8m) and an average number of shares in issue throughout the period of 58,517,708 (2000 – 50,468,473). The diluted earnings per share, as adjusted for the rights issue, is calculated after taking into account options issued to executives in respect of 2,066,310 (2000 – 1,676,847) ordinary shares and is calculated on an average number of shares of 59,356,693 (2000 – 50,855,608).

13 Tangible fixed assets

	Furniture and equipment £m	Short leasehold premises £m	Total £m
Group and company			
Cost			
At 1 February 2000	0.6	0.3	0.9
Additions	–	0.1	0.1
At 31 January 2001	0.6	0.4	1.0
Depreciation			
At 1 February 2000	0.4	0.2	0.6
Charge for the year	–	0.1	0.1
At 31 January 2001	0.4	0.3	0.7
Net book value			
At 31 January 2001	0.2	0.1	0.3
At 31 January 2000	0.2	0.1	0.3

14 Loans

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Other loans:				
Loans	567.7	429.6	564.6	423.1
Less: Specific provisions	(28.2)	(20.1)	(27.1)	(19.0)
	539.5	409.5	537.5	404.1

	Group £m	Company £m
Additional information in respect of movements during the year is as follows:		
Other loans at cost:		
Balance at 1 February 2000	429.6	423.1
Net additions	229.2	229.2
Realisations	(109.1)	(105.7)
Amortised discount and capitalised interest	0.6	0.6
Currency movement on foreign loans	17.4	17.4
Balance at 31 January 2001	567.7	564.6

14 Loans continued

	Group £m	Company £m
Specific provisions:		
Balance at 1 February 2000	20.1	19.0
Provisions made during the year	13.5	13.5
Transfers from accrued interest	1.0	–
Loans realised	(5.8)	(4.8)
Currency movement on foreign loans	(0.6)	(0.6)
Balance at 31 January 2001	28.2	27.1

The group has the following substantial interest in the shares of companies to which it has provided loans:

Company	Interest	Main activity
IBG Industrie Beteiligungs GmbH	73.8%	Manufacturer of shoring equipment

IBG Industrie Beteiligungs GmbH is incorporated and registered in Germany. The results of this company have not been incorporated into these accounts on the basis that this interest was effectively acquired as a result of enforcement of security and control is intended to be temporary.

15 Investments

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Shares in group companies at cost	–	–	9.4	9.4
Other investments at cost:				
Redeemable preference shares (unlisted)	34.9	19.6	6.5	6.5
Redeemable preference shares (listed)	2.4	2.4	–	–
Equity shares (unlisted)	44.9	32.8	19.9	23.4
Equity shares (listed)	7.9	2.4	–	–
	90.1	57.2	26.4	29.9
Less: Specific provisions	(9.7)	(6.3)	(4.6)	(6.3)
	80.4	50.9	21.8	23.6
	80.4	50.9	31.2	33.0

The listed equity shares are listed on the London, Paris and Milan Stock Exchanges and at 31 January 2001 had a market value of £30m (2000 – £9.8m), compared to their cost of £7.9m (2000 – £2.4m).

	Group £m	Company £m
Additional information in respect of investments for which there have been movements during the year is as follows:		
Other investments at cost:		
Balance at 1 February 2000	57.2	29.9
Net additions	45.0	7.0
Realisations	(12.9)	(10.7)
Currency movement on foreign loans	0.8	0.2
Balance at 31 January 2001	90.1	26.4
Specific provisions:		
Balance at 1 February 2000	6.3	6.3
Provisions made during the year	5.5	–
Provisions released during the year	(2.1)	(1.7)
Balance at 31 January 2001	9.7	4.6

16 Debtors

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Other debtors	–	13.0	–	11.8
Prepayments and accrued income	**19.9**	11.1	**18.8**	9.4
	19.9	24.1	**18.8**	21.2

Prepayments and accrued income include £10.5m (2000 – £2.8m) which is receivable after more than one year.

17 Loans and investments held as current assets

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Loans held for syndication	**44.0**	27.3	**44.0**	27.3
High yield bonds	**2.7**	–	**2.7**	–
	46.7	27.3	**46.7**	27.3

18 Called up share capital

	2001 £m	2000 £m
Authorised:		
77,500,000 (2000 – 77,500,000) ordinary shares of 20p	**15.5**	15.5
Allotted, called up and fully paid:		
58,598,825 (2000 – 58,479,112) ordinary shares of 20p	**11.7**	11.7

During the year, the company allotted 119,713 shares under its Executive Share Option Scheme.

19 Reconciliation of shareholders' funds and movement on reserves

	Share capital £m	Share premium £m	Capital redemption reserve fund £m	Profit and loss account £m	Total £m
Group					
Balance at 1 February 2000	**11.7**	**84.7**	**1.4**	**61.8**	**159.6**
Exercise of option	–	**0.3**	–	–	**0.3**
Profit for the year	–	–	–	**40.5**	**40.5**
Dividends paid and proposed	–	–	–	**(14.6)**	**(14.6)**
Balance at 31 January 2001	**11.7**	**85.0**	**1.4**	**87.7**	**185.8**

£10.5m (2000 – £1.9m) of the retained earnings of the group is currently regarded as non-distributable.

	Share capital £m	Share premium £m	Capital redemption reserve fund £m	Profit and loss account £m	Total £m
Company					
Balance at 1 February 2000	**11.7**	**84.7**	**1.4**	**29.1**	**126.9**
Exercise of options	–	**0.3**	–	–	**0.3**
Profit for the year	–	–	–	**26.4**	**26.4**
Dividends paid and proposed	–	–	–	**(14.6)**	**(14.6)**
Balance at 31 January 2001	**11.7**	**85.0**	**1.4**	**40.9**	**139.0**

20 Provisions for liabilities and charges

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Deferred taxation:				
On accrued income	–	0.1	–	–
Balance at 1 February 2000	**0.1**		–	
Current year release	**(0.1)**		–	
Balance 31 January 2001	–		–	

Full provision is made for deferred tax.

21 Creditors: amounts falling due after one year

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
US private placement	**192.7**	92.5	**192.7**	92.5
Bank loans	**289.3**	240.2	**289.3**	240.2
Bank overdraft	**–**	4.4	**–**	3.8
Other	**(19.7)**	(11.2)	**(19.7)**	(11.2)
	462.3	325.9	**462.3**	325.3
Prepaid expenses	**(1.1)**	(1.0)	**(1.1)**	(1.0)
	461.2	324.9	**461.2**	324.3

The bank loans and overdraft are unsecured and are repayable within two to five years. The US$75,000,000 private placement issued in December 1995, which is denominated in US dollars and swapped into floating rate European currencies, is unsecured and is repayable in three equal instalments, all within two to five years. The US$75,000,000 private placement issued in July 1998, which is denominated in US dollars and swapped into floating rate European currencies, is unsecured and is repayable in two instalments within five to ten years.

The US$95,000,000 private placement issued in April 2000, which is denominated in US Dollars and swapped into floating rate European currencies is unsecured and is repayable in four instalments, one of US$45,000,000 within two to five years and one of US$10,000,000 and two of US$20,000,000 each within five to ten years. The £25,000,000 private placement issued in April 2000 is unsecured and repayable within five to ten years.

22 Creditors: amounts falling due within one year

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Trade creditors	**0.1**	0.1	**0.1**	0.1
Accruals	**23.6**	13.2	**23.5**	12.8
Amounts owed to group companies	**–**	–	**(1.4)**	32.0
Dividends proposed	**10.1**	9.0	**10.1**	9.0
Taxation – corporation tax	**7.2**	4.2	**2.5**	(20.2)
Taxation – social security	**1.9**	1.1	**1.9**	1.1
	42.9	27.6	**36.7**	34.8

23 Reconciliation of operating profits to operating cash flow

	2001 £m	2000 £m
Income before provisions and taxation	**74.9**	43.2
Decrease/(increase) in accrued income	**3.1**	(4.9)
Increase in accrued interest expenses	**3.7**	0.7
Increase in other net current liabilities	**0.4**	4.3
Amortisation of deep discount securities (net)	**0.1**	(0.1)
Capitalisation of interest receivable (net)	**–**	(0.5)
	82.2	42.7

24 Analysis of net debt

	As at 1 Feb 00 £m	Cash flow £m	Reclassification £m	Exchange movement £m	**As at 31 Jan 01 £m**
Cash in hand and at bank	0.1	3.0	–	–	**3.1**
Debt due between two and five years:					
Bank debt	(240.2)	(45.0)	–	(4.1)	**(289.3)**
US private placement	(15.4)	(30.8)	(32.5)	(3.4)	**(82.1)**
Overdrafts	(4.4)	4.4	–	–	**–**
	(259.9)	(68.4)	(32.5)	(7.5)	**(368.3)**
Debt due after five years:					
US private placement	(77.1)	(59.2)	32.5	(6.8)	**(110.6)**
Total	(337.0)	(127.6)	–	(14.3)	**(478.9)**

At 31 January 2001 the group has available undrawn facilities amounting to £113m under its revolving credit facilities, due between two and five years.

25 Reconciliation of net cash flow to movement in net debt

	2001 £m	2000 £m
(Increase)/decrease in cash in the period	**(3.0)**	2.8
Cash inflow from increase in debt	**130.6**	43.7
Change in net debt arising from cash flows	**127.6**	46.5
Translation difference	**14.3**	(19.8)
Movement in net debt	**141.9**	26.7
Net debt at beginning of the year	**337.0**	310.3
Net debt at end of the year	**478.9**	337.0

26 Financial commitments

At 31 January 2001, the group estimated that it had no contractual obligations to provide further funding (2000 – £nil).

The group regularly enters into forward contracts for financial instruments which are used to hedge interest rate and foreign exchange risk in the normal course of business.

27 Related party transactions

The company takes advantage of the exemption under FRS8 and does not report transactions or balances between group entities that have been eliminated on consolidation. There are no other related party transactions requiring disclosure under FRS8.

28 Principal subsidiary companies

The principal subsidiary companies are Intermediate Capital Investments Limited, a 100% owned company incorporated in the United Kingdom and registered in England and Wales, whose principal activity is that of an investment company and Intermediate Capital Managers Limited, a 100% owned company incorporated in the United Kingdom and registered in England and Wales, whose principal activity is that of an advisory company.

29 Financial assets and liabilities

Treasury and hedging policies

The group's financial instruments, other than derivatives, comprise borrowings in the form of bank debt and private placements, and various items, such as accrued interest, debtors, trade creditors etc, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the group's operations.

The group also enters into derivatives transactions (principally interest rate swaps and forward foreign currency contracts). The purpose of such transactions is to manage the interest rate and currency risks arising from the group's operations and its sources of finance.

The main risks arising from the group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. It is the group's policy to match foreign currency loans and related net interest income, wherever possible, through either borrowing in the same foreign currency or entering into equivalent forward foreign exchange contracts. The group's policy is to manage its exposure to interest rate movements present or future, actual or contingent so as to protect its net interest income over time. It is, and has been throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken.

The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the company's flotation in 1994.

Interests and currency exposures

Interest rate risk The group's main activity is to provide mezzanine finance to its borrowers at both fixed and floating rates in any freely traded European currency and US Dollars. The group finances its operations by a mixture of share capital, retained profits, bank borrowings and private placements. The group borrows in currencies at both fixed and floating rates of interest and then uses interest rate swaps in order to match the interest profile of its assets and to manage the group's exposure to interest rate fluctuations. In order to protect its future interest income as its fixed rate assets mature, the company has entered into a series of delayed interest rate swaps under which it receives a fixed rate. The average rate achieved on these swaps is 6.2%. As a result, the group does not have material financial exposure to interest rate movements.

Liquidity risk As regards liquidity, the group's policy has throughout the year been to ensure continuity of funding. Due to the long-term nature of the group's assets, the group's policy is that, wherever possible, the majority of its debt should mature in more than five years. This has been achieved by using a combination of private placements with maturities of between five and ten years and by short-term borrowings under a five year extendible, multi-currency bank facility. During the year, the group entered into a £25m private placement and $95m private placement and £75m of medium-term facilities.

The maturity profile of the group's financial liabilities, other than short-term creditors, is shown in the net debt analysis in note 24 and the analysis of creditors over one year is shown in note 21.

Foreign currency risk The group has over one-half of its book of loans and investments denominated in European currencies which gives rise to revenues in those currencies. In order to protect the group's sterling balance sheet from the movements in these currencies and the sterling exchange rate, the group finances its loans and investments by means of borrowings in the respective currency and by way of forward foreign exchange contracts. As a result, the group does not have material financial exposure to foreign exchange gains or losses.

After taking into account the various interest rate swaps entered into by the group to hedge its future income, the interest rate profile of the group's financial assets and liabilities at 31 January 2001 was as follows:

	Financial assets			Financial liabilities		
Currency	Total £m	Floating rate financial assets £m	Fixed rate financial assets £m	Total £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m
Sterling	266	114	152	75	75	–
Euro	360	339	21	360	360	–
Other currencies	71	60	11	71	71	–
	697	513	184	506	506	–

The group's financial assets consist of long-term loans and investments. These usually have a term of between five and ten years, but are often prepaid prior to their contractual maturity. The interest rate for each fixed rate asset is set at the commencement of the loan. Interest rates for both floating rate assets and liabilities are based upon LIBOR plus the relevant margin.

Hedging

Interest rates As stated in the group's accounting policies, the amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to interest expense over the period of the contracts. In respect of the year to 31 January 2001, interest expense was reduced by £4.2m (2000 – £2.5m) in order to reflect the amounts receivable for interest rate swaps. These interest rate swaps are primarily used to hedge the group's private placements, thereby lowering the higher costs of borrowing fixed rate US Dollars by converting into floating rate Sterling and Euros.

Currency exposure Forward foreign exchange contracts denominated in foreign currencies at the year end are translated into sterling at the rates of exchange ruling at that date, or where appropriate, at the rate of exchange in related forward contracts. Any gain or loss arising from a change of exchange rates subsequent to the dates of the transactions is included as an exchange gain or loss in the profit and loss account and is included as part of interest expense. In the year to 31 January 2001, interest expense increased by £8.5m (2000 – £9.9m) in order to reflect this translation of forward currency contracts. However, because the Group does not have any material financial currency exposure, this reduction in interest expense was offset by a corresponding increase arising from the translation of other monetary assets and liabilities, primarily its loans and investments, its bank borrowings and its private placements.

Fair value of financial assets and liabilities The carrying amounts and the estimated fair value of the group's outstanding financial instruments is set out below:

	2001 Net carrying amount £m	2001 Estimated fair value £m	2000 Net carrying amount £m	2000 Estimated fair value £m
Long-term loans and investments	619.9	677.8	460.3	517.7
Loans held for syndication	44.0	44.0	27.3	27.3
Cash at bank	3.1	3.1	0.1	0.1
Borrowings:				
Bank debt (including overdraft)	289.3	289.3	244.6	244.6
Private placements	192.7	192.7	92.5	92.5
Derivatives and financial instruments:				
Interest rate	–	2.1	–	(4.2)
Foreign currency	19.7	19.7	11.2	11.2

The following methods and assumptions were used to estimate the fair values shown below:

Long term loans and investments The estimate of the fair value of long-term loans and investments is based on their cost, which is shown in the balance sheet at £620m, and the value of its warrants and listed and unlisted equity shares. The fair value of the loans and investments does not include an adjustment to reflect interest rate movements since the date of the transaction as such loans are not readily marketable. The valuation of the warrants is based on the borrowers' current pro forma earnings multiplied by the appropriate price/earnings ratio, to which an appropriate discount has been applied by reference to the guidelines of the British Venture Capital Association (BVCA).

Loans held for syndication, cash at bank and bank debt The carrying values of these instruments approximate to their fair values because of their short-term nature.

Private placements These are fixed rate US Dollar liabilities whose market value may be different to the carrying value. However, because the associated interest rate swaps provide a complete hedge to, and are considered part of, the transaction, any difference between the carrying value and fair value of the private placement will be offset by the difference on the associated interest rate swaps.

Foreign exchange contracts and interest rate swaps Foreign exchange contracts are revalued into sterling and shown in the balance sheet at their revalued amount. The fair value will therefore equate to the carrying value. The fair value of interest rate swaps (with the exception of those swaps taken out as part of the private placement) was estimated by discounting the future cash flows to net present values using appropriate market interest rates prevailing at the year end.

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Intermediate Capital Group PLC will be held at 62-63 Threadneedle Street, London EC2R 8HE on 21 May 2001 at 12 noon to transact the following ordinary business:

1 To receive and adopt the financial statements for the year ended 31 January 2001 together with the reports of the directors and auditors thereon.

2 To declare a final dividend of 17.3p per ordinary share.

3 To reappoint Deloitte & Touche as auditors and determine their remuneration.

4 To re-elect as directors:
E G Licoys
P J Manser
P J Stone

5 To transact any other ordinary business of the company.

and as special business to consider and, if thought fit, pass the following resolutions, of which Resolutions 6, 7 and 8 will be proposed as Ordinary Resolutions and Resolutions 9 and 10 will be passed as Special Resolutions.

Ordinary Resolutions

6 THAT the Intermediate Capital Group PLC 2001 Approved Executive Share Option Scheme ("the Approved Scheme") (the main features of which are summarised in the Chairman's letter to shareholders dated 23 April 2001 and the rules of which are produced to the Meeting and for the purposes of identification initialled by the Chairman) be and is hereby approved and the directors be and are hereby authorised to do all such acts and things as may be necessary or expedient to carry the same into effect, including making such modifications to the rules as may be necessary to ensure compliance with such statutory, fiscal or securities regulations as may apply to the Approved Scheme or any participant therein.

7 THAT the Intermediate Capital Group PLC 2001 Unapproved Executive Share Option Scheme ("the Unapproved Scheme") (the main features of which are summarised in the Chairman's letter to shareholders dated 23 April 2001 and the rules of which are produced to the Meeting and for the purposes of identification initialled by the Chairman) be and is hereby approved and the Directors be and are hereby authorised to do all such acts and things as may be necessary or expedient to carry the same into effect, including making such modifications to the rules as may be necessary to ensure compliance with such statutory, fiscal or securities regulations as may apply to the Unapproved Scheme or any participant therein.

8 THAT the directors be and they are hereby generally and unconditionally authorised, in accordance with section 80 of the Companies Act 1985, to exercise all the powers of the company to allot relevant securities (within the meaning of the said section 80) up to an aggregate nominal amount of £3,366,973 during the period commencing on the date of the passing of this Resolution and expiring at the conclusion of the Annual General Meeting of the company in 2002 or 21 August 2002, whichever is earlier, but so that this authority shall allow the company to make before the expiry of this authority offers or agreements which would or might require relevant securities to be allotted after such expiry and notwithstanding such expiry the directors may allot relevant securities in pursuance of such offers or agreements.

Special Resolutions

9 THAT, subject to the passing of Resolution 8 set out in the Notice of this Meeting, the directors be and are hereby empowered pursuant to section 95 of the Companies Act 1985 (the "Act"), to allot equity securities (as defined by section 94 of the Act) pursuant to the authority conferred on them by the said Resolution 8 up to an aggregate nominal amount of £585,988 as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall expire at the conclusion of the Annual General

Meeting of the company in 2002 or 21 August 2002, whichever is earlier, save that this power shall enable the company before the expiry of this power to make offers or agreements which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.

10 THAT the company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163 of the Companies Act 1985) of ordinary shares of 20p each in the capital of the company ("ordinary shares"), provided that:

(a) the maximum number of ordinary shares that may be purchased is 8,789,823;
(b) the minimum price that may be paid for an ordinary share is 20p;
(c) the maximum price that may be paid for an ordinary share is an amount equal to 105%. of the average of the market values of the ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days before the day on which such ordinary share is purchased;
(d) this authority shall expire at the conclusion of the next Annual General Meeting of the company in 2002 or 21 August 2002, whichever is earlier, unless previously renewed, varied or revoked by the company in general meeting; and
(e) the company may enter into a contract to purchase its ordinary shares under this authority prior to its expiry, which contract would or might be executed wholly or partly after such expiry, and may purchase its ordinary shares in pursuance of such contract.

The draft rules of both the Approved Scheme and the Unapproved Scheme are available for inspection from today's date at the offices of Norton Rose, Kempson House, Camomile Street, London EC3A 7AN during normal business hours on any weekday (Saturdays and public holidays excepted) until the conclusion of the Annual General Meeting to be held on 21 May 2001 and on that date they will be available for inspection at the place of the Meeting from 12 noon until the conclusion of the Meeting.

By Order of the Board
J E Curtis
Secretary

10 April 2001

Notes:

1 A member entitled to attend and vote at this meeting is entitled to appoint a proxy or proxies to attend and vote instead of him. A proxy need not be a member of the company. Proxy forms must be lodged with the Secretary not later than 48 hours before the time fixed for the meeting.

2 Copies of directors' service contracts are available for inspection during business hours at the company's registered office at 62-63 Threadneedle Street, London EC2R 8HE.

Directors and Management

Non-executive Chairman

1 Murray Stuart, CBE, aged 67, is a graduate of Glasgow University and qualified both as a solicitor and a Chartered Accountant. He is a non-executive director of The Royal Bank of Scotland Group plc, National Westminster Bank plc, CMG plc and Old Mutual plc and is a member of the Supervisory Board of Vivendi Environnement, and of the European Advisory Board of Crédit Lyonnais. He was formerly Chairman of Scottish Power PLC and Chief Executive of Metal Box plc.

Non-executive deputy Chairman

2 John Manser, CBE, DL, aged 61, is a Fellow of the Institute of Chartered Accountants in England and Wales. He was formerly Chairman of Robert Fleming Holdings Limited and currently is Chairman of Delancey Estates PLC and a non-executive director of Shaftesbury PLC and Keppel Capital Holdings Ltd.

Executive directors

3 Tom Attwood, aged 48, is a graduate of the University of Manchester. Prior to joining ICG in April 1996, he was a director of James Capel & Co where he worked for eight years.

4 Tom Bartlam, aged 53, is a graduate of Cambridge University and qualified as a Chartered Accountant with Price Waterhouse. Prior to founding ICG in 1989, he worked for fourteen years for Charterhouse Bank in London.

5 Jean-Loup de Gersigny, aged 47, is a Fellow of the Chartered Insurance Institute and has an MBA from the London Business School. Prior to founding ICG in 1989, he worked for Chemical Bank in London for seven years.

6 Andrew Jackson, aged 52, is a graduate of Cambridge University and has an MBA from the London Business School. Prior to founding ICG in 1989, he worked at Chemical Bank for sixteen years in London and Switzerland.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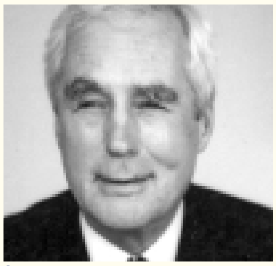
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Non-executive directors

7 Eric Licoys, aged 62, is a graduate of l'Institut d'études politiques de Paris. He is Directeur Général of Vivendi, Universal, the media and communications group, Vivendi Environnement, the water, transport, energy and environmental services group and President Directeur Général of Havas, the French media and communications group, having previously been President of the venture capital arm of Lazard Frères in France.

8 Peter Stone, aged 54, is a graduate of Cambridge University and is a qualified solicitor. He is a non-executive director of various businesses and was previously a director of Close Brothers Group plc.

Company secretary and financial controller

1 John Curtis


1

Finance executives

2 Tony Payne
3 Kim Rennie


2


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High yield executives

4 Sara Halbard
5 Claire Hatch
6 Robin Jenner
7 Andrew Phillips
8 Richard Samuel


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Mezzanine executives

9 Carola Babcock
10 Katharine Belsham
11 Martin Conder
12 James Davis
13 Hadj Djemaï
14 Christophe Evain
15 Magnus Hildingsson
16 Piers Millar
17 François de Mitry
18 Simon Morrell
19 Rolf Nuijens
20 Paul Piper
21 Matthew Robinson
22 Damien Scaillierez
23 Graeme Smith
24 Denis Viet-Jacobsen
25 Rosine Vitman
26 Thomas Warnholtz


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Magnus Hildingsson

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Matthew Robinson

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Company Information

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London EC2P 2HT

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Cazenove & Co.
12 Tokenhouse Yard
London EC2R 7AN

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Thames Exchange
10 Queen Street Place
London EC4R 1BL

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135 Bishopsgate
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Chartered Accountants and
Registered Auditors
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