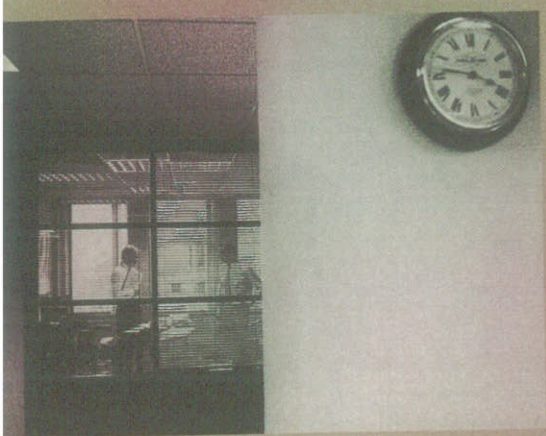
Annual Report & Accounts

For the year to 31 January 1996

INTERMEDIATE CAPITAL GROUP PLC



The business of Intermediate Capital Group ("ICG") is to arrange and provide intermediate, or mezzanine, capital for companies in the United Kingdom and Continental Western Europe. ICG lends both its own resources and also funds under its management.

Intermediate capital 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.

Intermediate capital has been principally used to help finance buyouts but is increasingly used as expansion and acquisition capital, as project and bridge finance and to finance capital reorganisations.

ICG is the market leader in the provision of intermediate capital in the United Kingdom and Continental Western Europe.

Highlights

- Core income up 20% to £11.4m (1995 pro forma* £9.5m)
- Pre-tax profits up 5% to £19.1m (1995 pro forma* £18.1m)
- A record year for new lending
- The loan book increased to £210m (1995 £177m)
- Borrowing facilities increased by £62m to £234m
- Funds under management increased by £20m
- Final dividend of 9.1p net per share making 13.4p per share for the year, a 16.5% increase

* The 1995 figures are pro forma figures which have been adjusted from the actual figures to take into account the effect of ICG's listing on the Stock Exchange that year.

Chairman's Statement

I am pleased to announce another satisfactory performance by ICG in a year which showed record activity and continuing solid growth in its business.

The results

Core income, which ICG defines as net interest and dividend income and fee income less operating expenses, showed a very satisfactory increase of 20% to £11.4m. Capital gains net of provisions were £7.7m compared with £8.7m in the previous year.

Consequently pre-tax profits rose by 5% to £19.1m and earnings per share increased by a similar percentage to 27.6p. The pre-tax return on shareholders' funds was 29%.

Dividends

The Board is recommending a final ordinary share dividend of 9.1p net per share to be paid on 24 May 1996 which, with the interim dividend of 4.3p, brings the total for the year to 13.4p net per share. This dividend represents an increase of 16.5% over last year's dividend of 11.5p net per share.

It is ICG's policy to pay out the bulk of core income by way of dividend. Dividends will therefore increase in relation to core income. In respect of the year just ended the dividend payment represented 82% of core income net of tax, while the increase in dividend of 16.5% related to an increase of 20% in core income. The dividend was covered two times by post-tax profits.

Lending activity

Last year represented the most active year for ICG in terms of new lending. It made new loans from its own resources and that of its funds under management totalling £117m to 16 new companies of which half are in the UK and half are in Continental Europe. ICG's original market, UK MBOs, showed particularly high levels of activity in the year, not least because of the availability of increased levels of both unquoted equity and bank debt.

This very active market provided ICG with a good number of lending opportunities, from which was derived a high level of completed loans.

During the year ICG devoted increasing effort and resource to marketing the use of mezzanine both in Continental Europe and in non buy-out related financings in the UK. This led to ICG being shown more lending opportunities in these areas than ever before. It was particularly pleasing to increase the overall lending level in Continental Europe, making three loans in Germany, for the first time making loans to companies in Spain and Denmark and providing finance to a quoted company in France.

Funding

ICG's shareholders' funds rose by £6.6m to £69.1m at the year end as a result of retained profits. Borrowings increased by £21m to £140m at the year end. Gearing at 205% remains conservative and the capital ratio is 33%.

During the year ICG further increased its revolving credit facility by £15m to £187m. In addition, in the latter part of the year ICG raised $75m from an issue of 8–10 year senior unsecured notes by way of a US Private Placement. This issue enabled ICG both to diversify the sources and to lengthen the average maturity of its funding. As a result ICG had available debt funding at the year end amounting to £234m, compared with borrowing levels of £140m, thus leaving it with substantial facilities available to fund the future planned growth in the loan portfolio.

I reported in my statement a year ago that at the beginning of the financial year we had increased the funds under management to £80m and I am now pleased to report that we have, since the last year end, taken on a further £20m from two more financial institutions. As a result, shareholders can expect a further increase in fund management fee income in the future. ICG is in discussions with other financial institutions with a view to taking on additional third party funds.

Expansion of the Company

During the year ICG opened an office in Paris which we believe will further strengthen our market position in France and lead to an increase in lending opportunities within that market.

Directors and management

James Odgers, one of ICG's founder Managing Directors, has recently announced his intention to resign from his executive role with ICG during the summer of this year in order to research, and seek to establish, a Christian financing institution. We wish him well in his endeavours. As one of ICG's founders, James played a key role in establishing and building the business and we are very glad that he has agreed to remain on the Board as a non-executive director, where the company will continue to benefit from his drive and intimate knowledge of the business.

As recently announced, Tom Attwood has agreed to join ICG as a Managing

Director. Tom has been closely involved with ICG since its foundation in 1989 and has been on the ICG Board as a non-executive director since June 1993. He joins us from HSBC James Capel, one of ICG's original shareholders, where he was a director. Tom brings with him a wealth of experience and contacts in the company's core marketplace of UK management buy-outs and will have particular responsibility for widening and deepening the markets for the use of intermediate capital in the future.

John Curtis, our Financial Controller, has been appointed Company Secretary.

ICG recruited two new members to the executive team during the year, one British and one Danish, and expects to continue this gradual recruitment process to match the growth and spread of the business.

Prospects

As ICG and its mezzanine financing product become better and more widely known both in the UK and Continental Europe, ICG believes that it will see a large and broader spread of financing opportunities. It is possible that within the UK MBO market the increasingly competitive lending attitudes of some banks may in the short term constrain ICG's lending activity. However ICG is confident that, in the light of deal flow from all other areas, it will continue to increase the loan book during the year.

ICG is confident of its ability to continue to generate reliable core income. The incidence of capital gains and provisions by comparison is inevitably less predictable. ICG will make further capital gains from realisations during the current year, although the outlook for exits during the next 12 months is not quite as strong as it has been over the last two years. This is a result of ICG's portfolio being relatively young and its Continental European portfolio, which has increased materially over the last two years, potentially taking a little longer to mature and be realised than UK investments.

Overall the portfolio is well diversified and performing satisfactorily.

ICG benefits from its position as the clear market leader in the European mezzanine market place as it does from being a fast moving, reliable and flexible provider of specialist finance. ICG believes that, because of these attributes and its ability to adapt its product to meet changing demands there will continue to be significant opportunities open to it in the UK and Continental Europe. ICG therefore looks forward to the future with confidence.

On your behalf, I would like to thank all the directors and staff for their efforts in achieving another year of growth and success.

Murray Stuart
Chairman
15 April 1996

Murray Stuart Chairman

Tom Bartlam Executive Director

The Western European Market for Intermediate Capital

1. The UK buy-out market

1995 was a year of exceptional activity within this marketplace with the highest value of buy-outs taking place in any year since 1989. The value of UK buy-outs of over £10m amounted to £5.6bn compared with £2.8bn in 1994.

This growth in the market was in part spurred by the continuing enthusiasm of large companies to divest of non-core subsidiaries and to a lesser extent by the many buy-out opportunities arising from the privatisation of British Rail. The growth in the market was also caused by the large amounts of unquoted equity and, in particular, of bank debt available for financing UK buy-outs. A number of large banks became materially more active. Overall this led to a significantly greater amount of senior debt being available to finance buy-outs and therefore greater competition between the leading banks. One of the consequences of this increased competitiveness was for banks to provide a greater proportion of the total financing than in the past which on some occasions eliminated the requirement for mezzanine finance.

While senior lenders were therefore the major competitive threat, during the year we saw some increase in the competition from providers of mezzanine finance, particularly from one or two banks coming into the market for the first time. Despite these competitive threats, ICG remained the clear market leader in the UK buy-out market for the provision of mezzanine finance and was shown by market statistics to have arranged over 50% more mezzanine loans by value than its nearest competitor. During the year, ICG committed £63m of its own and funds' money to eight UK buy-outs which was the largest amount which it has ever committed to this market in one year. In the current year ICG does not believe that competition will decrease.

2. The Continental European market

Reliable statistics for this market are not available, but, in ICG's opinion, there were mixed levels of activity across Western Europe during the last financial year.

France, which has hitherto been the most active country for buy-outs in Continental Europe, was less active in 1995 than in the previous couple of years. The principal reasons for this reduced activity were two fold: firstly the weak economic situation made it difficult to reconcile the price expectations of corporate sellers and financial buyers and, secondly, the French banks were relatively nervous to lend money on account of their recent bad debt experiences, primarily in property lending.

Elsewhere in Western Europe, Germany saw more activity in the MBO market than in previous years, although the huge potential of that marketplace continues to remain largely unrealised. Scandinavia showed some activity as did other countries in Western Europe on a somewhat sporadic basis. Within this marketplace, ICG helped finance three of the major buy-outs in Germany during the year and for the first time, a major buy-out in Spain. In addition, we investigated a considerable number of opportunities in France, Sweden, Italy and Belgium.

ICG's wider marketing of the use of mezzanine in non-buy-out financings in Continental Europe started to bear fruit in the last financial year. In France ICG made three loans outside the buy-out market, one of which was to provide acquisition finance to a public company to avoid an equity issue which would have diluted the family ownership. We also provided finance to a Danish company to help it acquire a Dutch company.

ICG believes that the increasing flow of opportunities will lead to continuing active lending in the Continental European marketplace.

3. The use of mezzanine in the UK in non-buy-out transactions

During its last financial year ICG continued to market strongly the use of mezzanine in financings outside the buy-out market. During the year it looked at a considerable number of lending opportunities relating to acquisition finance for private companies and public companies, replacement capital for existing buy-outs, recapitalisation finance and bridge finance. ICG believe these efforts will lead to a better understanding of mezzanine finance in a variety of situations and that these areas will represent a significant market for ICG in the future.

4. New loans

In the financial year ended 31 January 1996, ICG made 16 new loans, which was the highest number of new loans made in any one year since it was founded. The total amount of these loans made by ICG and funds under its management amounted to £117m of which £81m was taken on ICG's balance sheet and £36m invested on behalf of fund clients.

The new loans made by ICG on behalf of itself and its funds under management were as follows:

Jean-Loup Brousse de Gersigny Executive Director

Andrew Jackson Executive Director

James Odgers Executive Director

Adco and Dixi is the largest hirer of portable toilets and construction site accommodation in Germany. The business was acquired from a public company as an MBO with a total funding of DM100m in June 1995. ICG arranged and provided the DM20m mezzanine facility.

Automotive Products is an international company, headquartered in the UK, involved in the manufacture, sale and distribution of clutches and brakes to the automotive industry. The business was acquired from BBA plc as an MBO with a total funding of £206m in April 1995. ICG co-arranged the £20m mezzanine loan, and provided £15m.

Coal Products is the largest UK producer of smokeless fuel and foundry coke. The business was acquired from British Coal as an MBO with a total funding of £82.5m in February 1995. ICG took a participation in the mezzanine loan of £2.0m. In October 1995, Coal Products acquired Anglo Coal, a solid fuel distribution business from Anglo United plc. ICG participated in the additional funding required and invested a further £0.7m.

Crompton is the leading UK based manufacturer of long fibred paper for use in a number of specialist applications including tea bag paper. The business was acquired from De La Rue plc as an MBO with a total funding of £100m in September 1995. ICG arranged and provided the £12.0 mezzanine loan.

Edrasco is a leading French manufacturer and distributor of educational material for schools and kindergarten. Edrasco acquired the shares of Nienhuis Groep, the world-leading manufacturer of Montessori educational material for FF85m in May 1995. ICG took a FF20.5m participation in the FF39.4m mezzanine bonds issued by Edrasco.

Empe is a leading German automotive components supplier of interior door panels, headliners and wood trim. It was acquired from private shareholders in April 1995 for an undisclosed sum. ICG took a participation of DM15m in the DM45m mezzanine loan.

Flying Colours is a medium sized UK tour operator which was formed by the acquisition of Sunset Holidays from its founders and Club 18-30, from a syndicate of venture capital investors in November 1995. Total finance raised was £40m, including £10m of mezzanine preference shares, co-arranged by ICG of which it provided £5m.

Gerposa is a leading Spanish logistics company which specialises in the automotive sector. The business was acquired as an MBO in November 1995 from a large number of private shareholders for Ptas 3,000m. ICG arranged and provided the Ptas 1,180m mezzanine loan. Gerposa is ICG's first Spanish investment

IPT is a UK company and produces and distributes a wide range of textile fabrics for a diverse number of end uses. The company was acquired as an MBO in March 1995 from Coats Viyella plc for £86.5m. ICG took a participation of £2.8m in the £7.0m mezzanine loan in November 1995.

LLP is a UK company which publishes specialist newspapers, journals and directories for the maritime, insurance and freight markets as well as legal journals, books and law reports. Its titles include Lloyd's List and Lloyd's Loading List. The business was acquired from The Corporation of Lloyd's as an MBO with a total funding of £84.3m in December 1995. ICG arranged and provided the £12.4m mezzanine loan.

Marie Brizard et Roger International ("MBRI") is a major French producer and distributor of wines, spirits and soft drinks. MBRI, a quoted company on the Paris stock exchange, acquired, through a public offer, the Berger Group, involved in the same industry, for a total consideration of FF635m. ICG arranged the FF125m subordinated bonds issued by MBRI and provided FF105m.

Meccano is a leading manufacturer of construction toys under the Meccano and Erector brands, headquartered in France. The shareholding structure of Meccano was reorganised in September 1995. ICG arranged and provided the FF45m mezzanine bonds.

Microtronic is a world-leading hearing aid component manufacturer based in Denmark. In June 1995 the company acquired a division of Siemens which manufactures a complementary range of hearing aid components. As part of the acquisition finance ICG arranged and provided a DKK52.5m mezzanine loan.

Pisten Bully is a German company and is the world's leading manufacturer of snow grooming vehicles used in the preparation of ski slopes for skiing. The company was acquired in an MBO from the Kässbohrer Group in May 1995. ICG took a participation of DM7.5m in the mezzanine loan.

USM-Texon is a UK company and is the world's leading shoe machinery manufacturer and a leading manufacturer of a wide range of shoe materials. The company was acquired from a group of financial institutions in an MBI with a total funding of £120m in March 1995. ICG arranged and provided the £6m mezzanine loan.

Wightlink is a UK company which operates a cross Solent passenger and vehicle ferry service with three routes between the South coast of England and the Isle of Wight. The business was acquired from Sea Containers plc as an MBI with a total funding of £107.5m in June 1995. ICG co-arranged the £14.0m mezzanine loan and provided £7.0m.

5. Realisations

In the last financial year £59m in respect of 10 different companies was repaid. These companies were:

Apcoa, a leading European car park operator. ICG's loan was repaid when the company floated on the Frankfurt Stock Exchange in July 1995.

Brunner Mond, the leading manufacturer of soda ash in the UK. Part of ICG's loan was prepaid in October 1995 as a result of a successful refinancing. ICG continues to hold warrants in the company.

Enterprise Inns, a UK company which owns a portfolio of approximately 470 pubs. ICG's loan was repaid when the company floated on the Stock Exchange in November 1995.

McBride, the largest manufacturer of own label household and personal care products in the UK and Europe. ICG's loan was repaid when the company floated on the Stock Exchange in May 1995.

MCD, a leading UK carpet wholesaler. Most of ICG's loan was prepaid as a result of a successful refinancing in July 1995.

Multipart, the UK parts distribution company for Leyland-Daf vans and trucks. In April 1995 ICG's preference shares were redeemed from the cash flow generated by the company, prior to the company being sold to Lex Service plc in August 1995.

Nutreco, a leading international animal and fish feed business also involved in pig and poultry processing. In January 1996 the company prepaid ICG's loan and replaced it with a successful refinancing. ICG continues to hold warrants in the company.

Pavilion Services, a UK company which operates eight motorway and three trunk road service areas. ICG's loan was repaid when the business was sold to Granada Plc in April 1995.

USM-Texon, the world's leading shoe machinery company and a leading manufacturer of high range shoe materials. ICG's loan was repaid in March 1995 when the business was sold to an MBI.

Video Arts, the leading provider of video-based business training programmes. In January 1995 the company was sold to MediaKey plc which was simultaneously floated on the London Stock Exchange. ICG's loan, net of previous year's provision, was repaid and ICG received, for a nominal consideration, warrants to subscribe for ordinary shares in MediaKey.

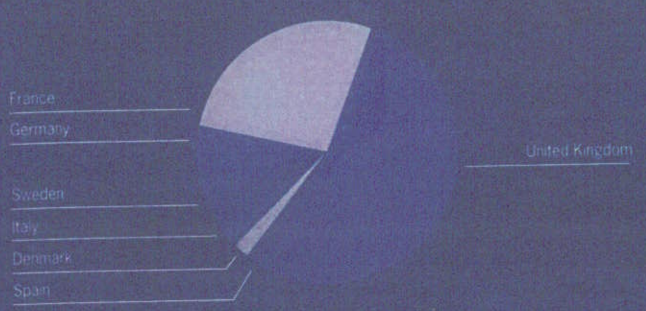
6. The loan portfolio

At 31 January 1996, ICG's loan portfolio consisted of loans to 38 different companies, amounting to a total of £210m. This portfolio was spread across seven countries, namely, the UK, France,, Germany, Sweden, Italy, Denmark and Spain. Over the last few years ICG has been making efforts to increase the level of its Continental European lending and is pleased that by the year end the proportion of loans made in Continental Europe had increased from 41% at the beginning of the year to 48%. This geographic spread of the portfolio limits the risk from a down-turn in any one country's economy.

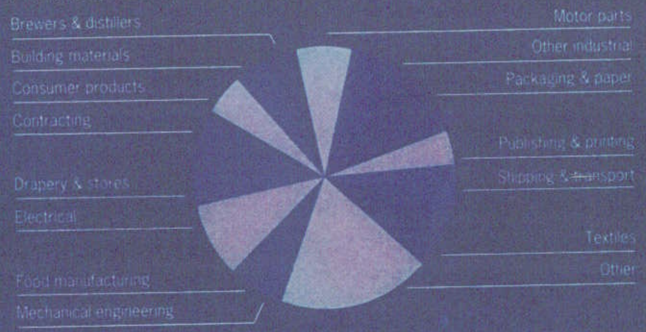
ICG has also continued during the year to ensure that its portfolio is spread across a wide variety of industrial sectors, once again to avoid the risk which attaches to excessive exposure to one particular sector.

ICG continues to have a policy of normally lending from its own balance sheet between £2m and £12m to any one individual company so as to reduce the risk of being overexposed to one particular company. The average size of loans in ICG's portfolio at 31 January 1996 was £5.7m.

Portfolio spread by country



Portfolio spread by industry



The Portfolio

At 31 January 1996, in addition to the sixteen new loans made in the last financial year referred to above, ICG had loans outstanding to the following companies:

Name	Country	Business
Addison Design	UK	Corporate literature and identity
Brunner Mond	UK	Soda ash manufacturer
Buffetti	Italy	Office stationery distributor
Entrelec	France	Manufacturer of electrical connectors
Frans Bonhomme	France	Distributor of pipes and couplings
Hygiene Diffusion	France	Diaper manufacturer
ICS	UK	Provider of courier services
Krings	Germany	Manufacture of trench shoring systems
MCD	UK	Carpet wholesale distributor
MTL Trust	UK	Bus operator
Neopost	France	Manufacturer of mailroom products
Norden Pac	Sweden	Manufacturer of tube filling machines and packaging
Northern Feather	UK	Manufacturer of pillows and duvets
Porcelain Fine China Companies	UK	Manufacturer of china and porcelain
Portfolio Foods	UK	Manufacturer of chocolates and confectionery
Presspart	UK	Manufacturer of anodised aluminium
Servicetec	UK	Computer maintenance
Sicli	France	Manufacturer of fire fighting equipment
SLD	UK	Pump hire and other industrial companies
Sublistatic	France	Manufacturer of textile printing paper transfers
Tensar	UK	Manufacturer of polymer nets and mesh products
Thorn Security	UK	Manufacturer of fire protection and security systems

The Portfolio of quoted shares

At 31 January 1996 ICG held quoted shares in the following listed companies:

Name	Country	Business
Apcoa	Germany	Car parks
Enterprise Inns	UK	Public House freeholder
Fenchurch	UK	Insurance broking
Healthcall	UK	Doctors' deputisation services
McDonnell Information Systems	UK	Software systems
Midland Independent Newspapers	UK	Regional newspapers
McBride	UK	Household and personal care products
United Pressings and Fabrications	UK	Vehicle chassis manufacturer

The shares in the above companies were held in ICG's balance sheet at 31 January 1996 at a cost of £0.2m and had a market value of £7.2m.

The Portfolio of warrants and unquoted shares

At 31 January 1996 ICG had unquoted shares or warrants in most of those unquoted companies mentioned above, as well as in the following companies which had prepaid ICG's loan in full:

Name	Country	Business
Gerflor	France	Floor covering manufacturer
Nutreco	Holland	Animal and fish feeds
Sitex	UK	Security systems

As set out in note 9 to the Accounts, the directors consider the aggregate value of the unquoted shares and warrants would currently amount to £15.0m.

Financial Review

Profits before tax

In the financial year ended 31 January 1996 ICG's pre-tax profits rose by 5% to £19.1m from £18.1m in the previous year. The results for the previous year are on a pro forma basis, having been adjusted to assume that the new capital raised from ICG's listing had been in place for the whole of that financial year.

Net interest and dividend income

Net interest and dividend income grew by 20% to £11.7m for the year to 31 January 1996 from £9.8m in the previous year on a pro forma basis. Interest and dividend income benefited from the higher level of loans outstanding during the year compared with the previous year and from increased shareholders' funds.

Fee income

Fee income rose by 12% from £2.7m in the previous year to £3.0m in the year to 31 January 1996. The increase in fee income was not as great as might have been expected because underwriting and transaction fees at £1.7m were less than the £2.1m earned in the previous year. The reason for this decline was that, during the year, ICG did not arrange or underwrite as many large transactions as in the previous year and invested in a greater proportion of participations in financings arranged by other institutions where the fees are lower.

On the other hand fund management fee income increased from £0.3m in the previous year to £0.9m in the year to 31 January 1996. This increase was as a result of ICG investing a further £36m of the funds which it had under management from which it earns management fees.

Agency fees which are recurring fees from monitoring loans increased from £0.3m to £0.4m in line with the growth in the loan portfolio.

Expenses

Operating expenses of £3.3m represented an increase of 12% over the £3.0m in the previous year. This increase arose primarily as a result of costs incurred in the new Paris office which opened during the year and increased staff costs. The ratio of expenses to total revenue of 9% remains at satisfactory levels which are low by the standards of most other financial service companies.

Core income

Core income showed a very satisfactory increase of 20% to £11.4m from £9.5m on a pro forma basis in the previous year.

Capital gains

Capital gains for the year amounted to £12.2m, which represents an increase of 23% over the capital gains of £9.9m made in the previous year. £2.6m of these capital gains arose from the sale of shares in three companies which floated during the year, namely Apcoa, Enterprise Inns and McBride. £4.2m arose from the trade sale of Multipart and Pavillion Group Services and £0.8m arose from the sale of ICG's investment in Instrumentation Laboratories. £2.6m arose from our accepting a takeover offer in respect of our shares in Arjo AB (of Sweden), which were already in our quoted portfolio. Almost all the remaining £2.0m of capital gains arose from further sales of shares in our quoted share portfolio.

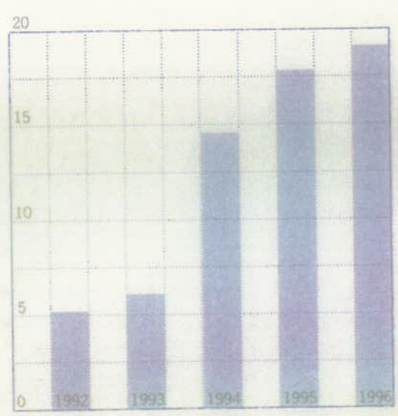
Provisions

ICG's provisioning policy is to make specific provisions against loans where, in management's judgement, the value of the loan principal is presently impaired. The specific provisions made in respect of the year to 31 January 1996 at £4.5m were higher than the £1.2m of provisions made in the previous year. While the specific provisions for the year related to three loans, the main reason for the increased provisions related to one particular company which suffered from difficult trading conditions, leading to a significant reduction in profitability and a consequent financial restructuring.

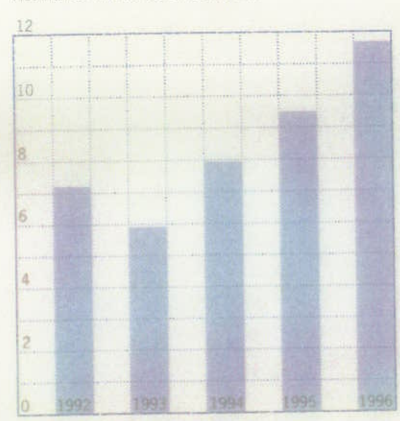
Loans and investments

The loan portfolio at 31 January 1996

Profits before tax £m



Net interest and dividend income £m



amounted to £210m, which represented an increase of £33m over the previous year end figure of £177m. In addition, ICG had holdings of quoted and unquoted shares and warrants which are held on the balance sheet at a cost of £0.4m. The quoted shares had a market value at 31 January 1996 of £7.2m (1995 – £9.5 m). The directors consider the aggregate value of the unquoted shares and warrants held by ICG currently amount to approximately £15m (1995 – £14m).

The reduction in the value of the quoted share portfolio is principally because quoted shares were sold in order to realise more capital gains to compensate for the higher level of specific provisions.

The combined value of ICG's portfolio of quoted shares and unquoted shares and warrants amounted to £22m, which was similar to the level of £23m at the beginning of the year.

Fund management

At the beginning of the financial year ICG had £60m of funds under management and during the year this was increased to £80m. Since 31 January 1996 ICG has further increased funds under management by £20m as a result of the commitment of two new investors. In addition, it expects to sign on new fund management clients in the near future.

At the beginning of the year ICG had invested £27m on behalf of funds under management and during the year invested a further £36m. Taking into account loans which had been repaid to fund investors the total amount of funds invested at 31 January 1996 amounted to £59m.

Borrowings and loan facilities

At 31 January 1996 ICG's total borrowings amounted to £140m compared with £119m at the beginning of the year. This increase in borrowings was used to help fund the increase in the loan portfolio. At the year end the ratio of debt to shareholders' funds stood at 205% which represents, in banking terms, a capital ratio of 33% which is considered to be conservative and well below the levels allowed under ICG's borrowing facilities. During the year ICG increased the amounts available under its multicurrency revolving credit facility from £172m to £187m. In the latter part of the year, ICG raised a further $75m (£47m) from an issue of 8–10 year senior unsecured notes by way of a US Private Placement. The proceeds of the issue were swapped into European currencies. Although at a slightly higher interest rate than the bank facility this financing is attractive because it diversifies the sources and increases the maturity of ICG's debt funding.

ICG had at the year end total unutilised debt facilities of £94m, thus leaving it with substantial funding to finance the future growth in the loan book.

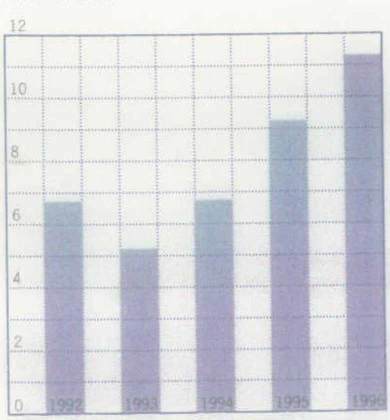
Shareholders' funds

Shareholders' funds increased from £62m in the year to £69m at the year end, the increase being the retained profit for the year. The balance sheet does not include the real value of ICG's portfolio of quoted and unquoted shares and warrants, referred to above, of £22m which are held in the balance sheet at nominal cost.

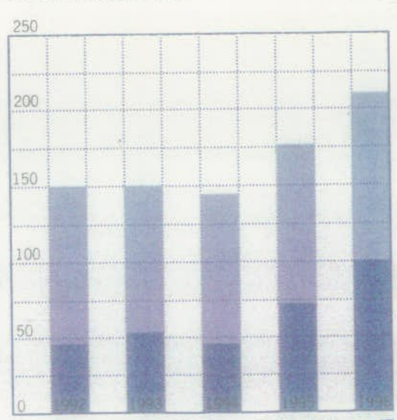
Return on capital

ICG's pre-tax return on shareholders' funds for the year amounts to 29% which is, in the opinion of the directors, an attractive return.

Core income £m

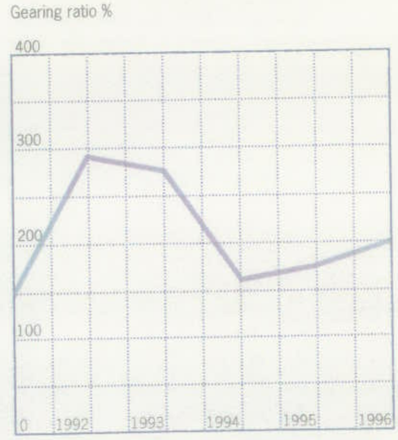


Loans and investments £m



UK Continental Europe

Gearing ratio %



Directors and Management

Non-Executive Chairman

Murray Stuart, CBE, aged 62, is Chairman of Scottish Power PLC and a non-executive director of Clerical Medical & General Life Assurance Society and the Royal Bank of Scotland PLC.

Executive Directors

Tom Bartlam, aged 48, 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.

Jean-Loup Brousse de Gersigny, aged 42, 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.

Andrew Jackson, aged 47, 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.

James Odgers, aged 41, is a graduate of Oxford University and subsequently qualified as a solicitor with Linklaters & Paines, for whom he worked for eight years. Prior to founding ICG in 1989, he worked for Chemical Bank in London for one year.

Non-Executive Directors

Thomas Attwood, aged 43, was a director of James Capel & Co Limited until March 1996.

Eric Kinder, aged 68, is Chairman of Smith & Nephew PLC, and Brunner Mond Holdings Limited.

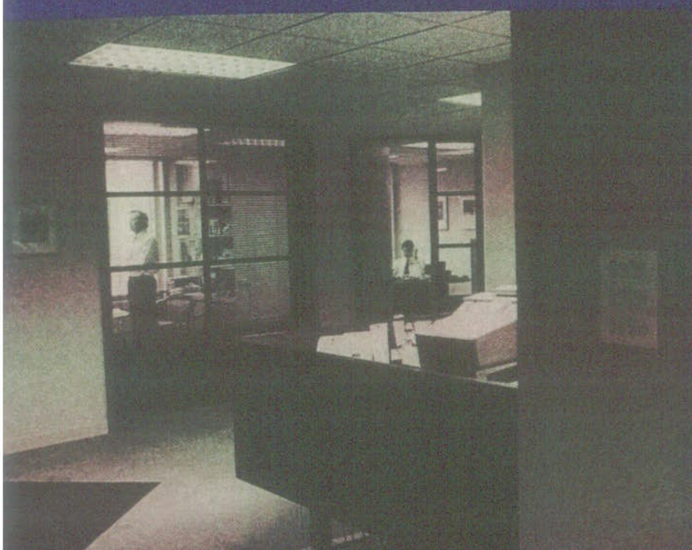
Robert Padgett, aged 52, is the Head of Corporate Finance at Hermes Investment Management Limited.

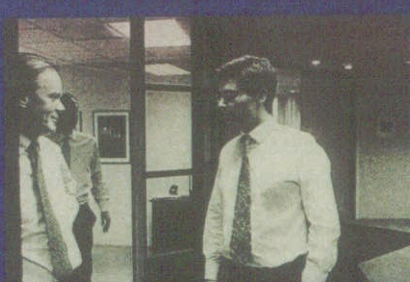
Investment Director
Paul Piper

Assistant Directors
Martin Conder
Christophe Evain
Simon Morrell
Andrew Phillips

Secretary and Financial Controller
John Curtis

Managers
Christopher Stacey
Denis Viet-Jacobsen
Marcus Wood





Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 January 1996.

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 £19,070,000 (1995 – £17,885,000). At 31 January 1996, the group held in its balance sheet a portfolio of listed shares at nominal cost, but with a market value of £7,173,000 (1995 – £9,534,000). The directors consider the state of the company's affairs to be satisfactory.

On 7 December 1995, the group completed a $75,000,000 US Private Placement, maturing in equal instalments in 8, 9 and 10 years' time, the proceeds of which were swapped into European currencies.

Directors The present membership of the Board is as set out on page 10. All of the directors shown on page 10 served throughout the year. In accordance with the Articles of Association, Mr Brousse de Gersigny and Mr Odgers retire by rotation and offer themselves for re-election. Mr Brousse de Gersigny and Mr Odgers have service contracts under which the company is obliged to give 24 months' notice of termination of employment to them. The interests of the directors of the company and their immediate families, as defined by the Companies Act, in the shares of the company at 31 January 1996 were as follows:

	1996 Number of 20p Ordinary Shares	1995 Number of 20p Ordinary Shares
T H Bartlam	1,099,921	972,000
J-L Brousse de Gersigny	1,000,672	1,032,751
A D Jackson	1,099,922	972,001
J R B Odgers	1,099,922	972,001
C M Stuart	5,000	5,000
T R Attwood	5,000	5,000
E Kinder	5,000	5,000

On 1 December 1995, Messrs Bartlam, Brousse de Gersigny, Jackson and Odgers and their respective trustees each exercised options to acquire 223,384 ordinary shares of the company from Royal Bank Development Capital Limited at a price of 138.7p. This transaction was settled on a net share basis and, as a result, the holdings of each director increased by 127,921 shares.

No changes to the directors' interests in shares at 31 January 1996 as set out above had been notified up to 15 April 1996.

The directors had no interests in the shares of Intermediate Capital Investments Limited or any other subsidiary company.

On 1 March 1996, Mr Odgers notified the company of his intention to resign as a Managing Director in the summer of 1996. With effect from 18 April 1996, Mr Attwood will become an Executive Director of the company.

Directors' and officers' liability Insurance cover is held by the group to indemnify directors and officers against liability as permitted by Section 310 of the Companies Act 1985.

Dividend The directors recommend a final net dividend payment in respect of the ordinary shares of the company at a rate of 9.1 pence per share (1995 – 7.75 pence), which when added to the interim net dividend of 4.3 pence per share (1995 – 3.75 pence) gives a total net dividend for the year of 13.4 pence per share (1995 – 11.5 pence). After dividends, retained profits of £6,617,000 (1995 – £6,128,000) have been transferred to retained earnings.

Substantial shareholdings As at 15 April 1996, the following interests in 3% or more of the issued ordinary share capital had been notified to the company

	Number of Ordinary Shares	Percentage of issued share capital
The BT Pension Scheme	4,000,012	8.6
The Post Office Staff Superannuation Fund	2,666,660	5.7
The Edinburgh Investment Trust plc	1,765,791	3.8
F&C Nominees Limited	1,765,791	3.8
The Industrial Bank of Japan, Limited	1,680,071	3.6
Clerical Medical & General Life Assurance Society	1,564,786	3.4

In addition, according to the company's share register, the following companies managed funds whose interests in aggregate amounted to 3% or more of the issued ordinary share capital

	Number of Ordinary Shares	Percentage of issued share capital
M&G Investment Management Limited	3,200,000	6.9
Perpetual Investment Management Limited	2,235,321	4.8
Schroder Investment Management Limited	2,050,000	4.4

Fixed assets Movements in fixed assets are shown in Note 12 to the accounts.

Close company status The company is not a close company nor a close investment holding company for taxation purposes.

Auditors On 1 February 1996, our auditors changed the name under which they practice to Deloitte & Touche and, accordingly, have signed the report in their new name. A resolution for the reappointment of the current auditors, Deloitte & Touche, will be proposed at the forthcoming Annual General Meeting.

By Order of the Board
J E Curtis
Secretary

15 April 1996

Corporate Governance

A summary of the system of Corporate Governance adopted by the company is set out below. Prior to the company's flotation on 1 June 1994, the company took the necessary steps to conform with the recommendations of the Code of Best Practice recommended by the Cadbury Committee and has complied with all of its current provisions throughout the accounting period.

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. The Board comprises four executive directors, a non-executive chairman and three further non-executive directors.

The non-executive directors are as follows:

Murray Stuart was appointed non-executive chairman of the company in September 1993.
Thomas Attwood was appointed a non-executive director in June 1993.
Eric Kinder was appointed a non-executive director in May 1994.
Robert Padgett was appointed a non-executive director in January 1994.

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

Audit Committee The Audit Committee meets regularly to oversee the production of the Annual and Interim Accounts, compliance with Accounting Standards and regulatory requirements and to keep the procedures and controls of the company continually under review. The committee consists of three non-executive directors. 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 Committee The Remuneration Committee, which consists of two non-executive directors, decides the terms and conditions of employment of the executive directors.

Internal financial control The directors acknowledge their ultimate responsibility for ensuring that the group has in place a system of internal financial controls that is appropriate to the business environment in which it operates. The directors have reviewed the system of internal financial controls 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. These controls concentrate on the procedures for making and monitoring loans and investments and for the safeguarding of assets against unauthorised disposition.

Going concern statement 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 Committee

for the year ended 31 January 1996

Remuneration Committee The Committee consists solely of two non-executives: Messrs C. M. Stuart and E. Kinder, under the chairmanship of Mr Stuart. Neither of the Committee members has 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 Remuneration Committee.

There are three main elements of the remuneration package for executive directors

- basic annual salary
- annual bonus payments; and
- share option incentives

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 Remuneration 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.

Annual 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 elements of the current bonus incentive scheme are as follows:

- an annual cash bonus scheme for executive directors and executives related to growth in core income. The Remuneration Committee will determine bonus allocations for the executive directors. Bonus payments for each of the executive directors for the year to 31 January 1996 were £27,500;

- a medium-term incentive scheme related to the cumulative growth in earnings per share in excess of RPI and funded by a share of realised gains. No amounts will be payable before the accounts are approved for the financial year ending 31 January 1997. The amounts payable rise proportionately with increasing growth in earnings per share. The extension and appropriateness of the scheme is considered by the Remuneration 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 Remuneration Committee. No options under this scheme have to date been granted to the executive directors.

The Committee has minuted a decision that, given the company's circumstances, the members in Annual General Meeting need not approve aspects of the remuneration policy set out in this report. The Chairman of the Committee will, however, 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 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.

Messrs Brousse de Gersigny and Odgers are due to retire by rotation and offer themselves for re-election.

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 £50,000 and the fees paid to other non-executive directors varied between £10,000 and £33,000. The non-executive directors receive no further fees for additional work performed for the company in respect of time spent working on Remuneration 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 8 to the accounts which provides details of the remuneration of each director and which also constitute part of this report.

By Order of the Remuneration Committee

15 April 1996

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 18 to 31 which have been prepared under the accounting policies set out on pages 22 and 23.

Respective responsibilities of directors and auditors As described above, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion We conducted our audit in accordance with 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 1996 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 EC4

15 April 1996

Consolidated Profit and Loss Account

for the year ended 31 January 1996

	Note	1996 £000	1995 £000	1995 Pro forma £000 (unaudited)
Interest and dividend income		21,765	18,753	18,753
Gain on disposals		12,155	9,889	9,889
Fee and other operating income		3,007	2,677	2,677
	3	36,927	31,319	31,319
Interest payable and similar charges	5	(10,049)	(9,221)	(8,968)
Provisions against loans and investments	6	(4,467)	(1,227)	(1,227)
Administrative expenses	4	(3,341)	(2,986)	(2,986)
Profit on ordinary activities before taxation		19,070	17,885	18,138
Tax on profit on ordinary activities	7	(6,199)	(5,793)	(5,876)
Profit on ordinary activities after taxation		12,871	12,092	12,262
Dividends paid and proposed – preference	10	–	(597)	–
– ordinary	10	(6,254)	(5,367)	(5,367)
Retained profit transferred to reserves		6,617	6,128	6,895
Earnings per share	11	27.6p	27.2p	26.3p

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

Comparative pro forma figures have been included on the basis of the listing particulars dated 19 May 1994. These are as shown in last year's accounts, which were adjusted to assume that the new capital raised from ICG's listing had been in place for the whole of that financial year.

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

Consolidated Balance Sheet

31 January 1996

	Note	1996 £000	1995 £000
Fixed assets			
Tangible assets	12	314	198
Loans	13	198,338	170,215
Investments	14	11,714	7,237
Current assets			
Debtors	15	7,607	7,055
Loans and investments	16	–	3,834
Cash at bank		1,220	84
		8,827	10,973
Total assets		219,193	188,623
Capital and reserves			
Called up share capital	17	9,333	9,333
Share premium account	18	32,221	32,221
Capital redemption reserve	18	1,389	1,389
Profit and loss account	18	26,148	19,531
Equity shareholders' funds		69,091	62,474
Provisions for liabilities and charges	21	790	1,156
Creditors: amounts falling due after more than one year	20	139,622	118,456
Creditors: amounts falling due within one year	19	9,690	6,537
Total capital and liabilities		219,193	188,623

These financial statements were approved by the Board of Directors on 15 April 1996.

Signed on behalf of the Board of Directors by:

C M Stuart

Directors

T H Bartlam

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

Balance Sheet

31 January 1996

	Note	1996 £000	1995 £000
Fixed assets			
Tangible assets	12	314	198
Loans	13	180,009	143,778
Investments	14	20,264	12,023
Current assets			
Debtors	15	7,402	5,469
Loans and investments	16	–	3,834
Cash at bank		60	63
		7,462	9,366
Total assets		208,049	165,365
Capital and reserves			
Called up share capital	17	9,333	9,333
Share premium account	18	32,221	32,221
Capital redemption reserve	18	1,389	1,389
Profit and loss account	18	15,609	13,170
Equity shareholders' funds		58,552	56,113
Creditors: amounts falling due after more than one year	20	140,078	105,456
Creditors: amounts falling due within one year	19	9,419	3,796
Total capital and liabilities		208,049	165,365

These financial statements were approved by the Board of Directors on 15 April 1996.

Signed on behalf of the Board of Directors by:

C M Stuart

Directors

T H Bartlam

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

Consolidated Cash Flow Statement

for the year ended 31 January 1996

	Note	1996 £000	1995 £000
Operating activities			
Interest and dividends received		18,712	15,500
Gain on disposals		11,477	10,828
Fee and other operating income		2,924	2,770
Administrative expenses		(3,896)	(3,867)
		29,217	25,231
Interest paid		(9,361)	(9,872)
Net cash inflow from operating activities	22	19,856	15,359
Returns on investments and servicing of finance			
Dividends paid		(5,624)	(4,147)
Taxation paid		(4,850)	(3,245)
Investing activities			
Loans and investments made		(85,960)	(74,631)
Realisations of loans and investments		59,399	45,558
Loans for syndication		4,015	(3,781)
		(22,546)	(32,854)
Purchase of tangible fixed assets		(181)	(56)
		(22,727)	(32,910)
Net cash outflow before financing		(13,345)	(24,943)
Financing			
Issue of shares (net of expenses)		–	28,393
Redemption of Preference Shares		–	(18,000)
Increase in borrowings	24	14,481	12,988
Increase/(decrease) in cash and cash equivalents	23	1,136	(1,562)

Notes to the Accounts
for the year ended 31 January 1996

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 subsidiary.

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 payable.

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 & 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 Other loans and investments held as current assets are held 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 anticipated 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.

1 **Accounting policies** continued

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.

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.

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 £2,439,000 (1995 – £730,000).

3 **Analysis of gross income**	1996 £000	1995 £000
Gross income was received from:		
United Kingdom	21,380	20,991
Western Europe	15,547	10,328
	36,927	31,319

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 £504,000 (1995 – £188,000) of dividend income from listed investments.

4 **Administrative expenses**	1996 £000	1995 £000
Administrative expenses include:		
Directors' remuneration	1,101	1,071
Depreciation	65	51
Auditors' remuneration:		
Audit	57	40
Other services	50	66

5 **Interest payable and similar charges**	1996 £000	1995 £000
Bank loans and overdrafts repayable within five years	9,451	9,221
US private placement within 5 to 10 years	598	–
	10,049	9,221

6 Provisions

	1996 £000	1995 £000
Provisions against loans and investments:		
Specific provision charged in year	4,500	1,227
Written back in respect of past years	(33)	–
	4,467	1,227

7 Tax on profit on ordinary activities

	1996 £000	1995 £000
Corporation tax on the profits of the year at 33% (1995 – 33%)	6,380	4,987
Tax on franked investment income	185	120
Deferred taxation	(366)	686
	6,199	5,793

8 Information regarding directors and employees

	1996 £000	1995 £000
Directors' emoluments:		
Fees	103	106
Other emoluments	998	965
	1,101	1,071
Remuneration of chairman:	50	46
Remuneration of highest paid director	201	205
Scale of directors' remuneration (excluding chairman and highest paid director)	No.	No.
£0 – £5,000	–	6
£5,001 – £10,000	2	2
£20,001 – £25,000	–	1
£30,001 – £35,000	1	–
£185,001 – £190,000	–	3
£200,001 – £205,000	3	–
Employee costs during the year, including directors:		
Wages and salaries	1,898	1,658
Social security costs	197	166
Pension costs	163	148
	2,258	1,972
	No.	No.
Average number of employees	18	16

The performance related element included in wages and salaries is £280,000 (1995 – £310,000), which is derived as a result of the annual cash bonus element of the Management Incentive Scheme.

8 **Information regarding directors and employees** continued

	Basic salaries £000	Annual bonuses £000	Pension scheme contributions £000	Benefits in kind £000	Total 1996 £000	Total 1995 £000
Executive directors:						
T H Bartlam	173	27	26	1	227	216
J-L Brousse de Gersigny	173	27	26	1	227	231
A D Jackson	173	27	26	1	227	216
J R B Odgers	173	27	26	1	227	216

	Fees £000	Total 1996 £000	Total 1995 £000
Non-executive directors:			
C M Stuart	50	50	46
T R Attwood	10	10	8
E Kinder	33	33	24
R A Padgett	10	10	8

9 **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 only be realised by the group 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 £15,000,000 (1995 – £14,000,000) 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).

10 **Dividends paid and proposed**

	Per share pence	1996 £000	Per share pence	1995 £000
Preference dividend	–	–	–	597
Ordinary dividend				
Interim paid	4.30	2,007	3.75	1,750
Proposed final	9.10	4,247	7.75	3,617
	13.40	6,254	11.50	5,367

11 **Earnings per share**

The calculation of earnings per share is based on earnings (after preference dividends) of £12,871,000 (1995 – £11,495,000) and an average number of shares in issue throughout the period of 46,666,680 (1995 – 42,222,236).

The pro forma earnings per share in 1995 is based on earnings of £12,262,000 and an average number of shares in issue throughout the period of 46,666,680.

12 Tangible fixed assets

	Furniture & equipment £000	Short leasehold premises £000	Total £000
Group and company			
Cost			
At 1 February 1995	226	168	394
Additions	145	36	181
At 31 January 1996	371	204	575
Depreciation			
At 1 February 1995	142	54	196
Charge for the year	36	29	65
At 31 January 1996	178	83	261
Net book value			
At 31 January 1996	193	121	314
At 31 January 1995	84	114	198

13 Loans

	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
Loans to group companies	–	–	–	1,566
Other loans				
Loans	202,370	174,240	183,854	144,278
Less : Specific provisions	(4,032)	(4,025)	(3,845)	(2,066)
	198,338	170,215	180,009	142,212
Total	198,338	170,215	180,009	143,778

13 Loans continued

Additional information in respect of loans for which there have been movements during the year is as follows:

	Group £000	Company £000
Loans to group companies		
Balance at 1 February 1995	–	1,566
Repayments	–	(1,566)
Balance at 31 January 1996	–	–
Other loans at cost		
Balance at 1 February 1995	174,240	144,278
Net additions	83,402	85,594
Realisations	(57,116)	(45,500)
Transfer to investments	(10,439)	(10,439)
Amortised discount and capitalised interest	5,910	3,652
Currency movement on foreign loans	6,373	6,269
Balance at 31 January 1996	202,370	183,854

	Group £000	Company £000
Specific provisions		
Balance at 1 February 1995	4,025	2,066
Provisions made during the year	4,500	4,500
Amounts written back during the year	(33)	–
Transfers from accrued interest	1,132	945
Transfer to investments	(3,450)	(3,450)
Disposals	(2,142)	(216)
Balance at 31 January 1996	4,032	3,845

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

Company	Interest	Main activity
Northern Feather (Home Furnishings) Limited	100%	Manufacture of natural and synthetic duvets, pillows and other bed linen
IBG Industrie Beteiligungs GmbH	73.8%	Manufacturer of shoring equipment

Northern Feather (Home Furnishings) Limited is incorporated in the United Kingdom and registered in England and Wales. IBG Industrie Beteiligungs GmbH is incorporated and registered in Germany.

The total amounts provided to these companies in the form of loans, investments and guarantees is £14,918,000 of which provisions totalling £6,295,000 have been made. The results of these companies have not been incorporated into these accounts on the basis that these interests were effectively acquired as a result of enforcement of security and control is intended to be temporary.

14 Investments	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
Shares in group companies at cost	–	–	9,014	9,014
Other investments				
Redeemable Preference Shares (unlisted)	11,950	6,886	13,400	3,009
Equity Shares (unlisted)	3,062	287	1,300	–
Equity Shares (listed)	152	159	–	–
	15,164	7,332	14,700	3,009
Less : Specific provisions	(3,450)	(95)	(3,450)	–
	11,714	7,237	11,250	3,009
Total	11,714	7,237	20,264	12,023

The listed Equity Shares are listed on the London Stock Exchange and at 31 January 1996 had a market value of £7,173,000 (1995 – £9,534,000).

Additional information in respect of investments for which there have been movements during the year is as follows:

	Group £000	Company £000
Other investments at cost		
Balance at 1 February 1995	7,332	3,009
Net additions	3,700	3,550
Realisations	(6,315)	(2,298)
Transfer from loans	10,439	10,439
Currency movement on foreign investments	8	–
Balance at 31 January 1996	15,164	14,700

15 Debtors	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
Advance corporation tax recoverable	–	–	1,062	–
Other debtors	1,515	124	525	85
Prepayments and accrued income	6,092	6,931	5,815	5,384
	7,607	7,055	7,402	5,469

Other debtors include £795,000 (1995 – £nil) in respect of realisations completed in the year, but for which proceeds were not received until the following year. Prepayments and accrued income include £912,000 (1995 – £1,240,000) which is receivable after more than one year. Advance corporation tax is recoverable after one year.

16 Loans and investments held as current assets	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
Loans held for syndication	–	3,834	–	3,834

17 Called-up share capital	1996 £000	1995 £000
Authorised		
62,000,000 ordinary shares of 20p	12,400	12,400
Allotted, called-up and fully paid		
46,666,680 ordinary shares of 20p	9,333	9,333

18 Reconciliation of shareholders' funds and movements on reserves	Share capital £000	Share premium £000	Capital redemption reserve fund £000	Profit & loss account £000	Total £000
Group					
Balance at 1 February 1995	9,333	32,221	1,389	19,531	62,474
Profit retained for the year	–	–	–	12,871	12,871
Dividends paid and proposed	–	–	–	(6,254)	(6,254)
	9,333	32,221	1,389	26,148	69,091

£2,324,000 (1995 – £3,001,000) of the retained earnings of the group is currently regarded as non-distributable.

	Share capital £000	Share premium £000	Capital redemption reserve fund £000	Profit & loss account £000	Total £000
Company					
Balance at 1 February 1995	9,333	32,221	1,389	13,170	56,113
Profit retained for the year	–	–	–	8,693	8,693
Dividends paid and proposed	–	–	–	(6,254)	(6,254)
	9,333	32,221	1,389	15,609	58,552

19 Creditors: amounts falling due within one year	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
Trade creditors	7	12	7	12
Accruals	2,548	1,745	2,444	1,619
Amounts owed to group companies	–	–	4,333	120
Dividends proposed	4,247	3,617	4,247	3,617
Taxation – corporation tax	2,824	1,106	(1,676)	(1,629)
Taxation – social security	64	57	64	57
	9,690	6,537	9,419	3,796

20 Creditors: amounts falling due after one year	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
US private placement	49,636	–	49,636	–
Bank loans	91,960	114,016	91,960	101,016
Bank overdraft	–	5,352	456	5,352
Other	(778)	112	(778)	112
	140,818	119,480	141,274	106,480
Prepaid expenses	(1,196)	(1,024)	(1,196)	(1,024)
	139,622	118,456	140,078	105,456

The bank loans and overdraft are unsecured and are repayable in between two and five years. The US private placement, which is denominated in US Dollars and swapped into floating rate European currencies, is unsecured and is repayable in three equal instalments in between five and ten years.

21 Provisions for liabilities and charges	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
Deferred taxation:				
on accrued income	790	1,660	–	–
on specific provision	–	(504)	–	–
	790	1,156	–	–
Balance at 1 February 1995	1,156		–	
Current year charge	(366)		–	
Balance at 31 January 1996	790		–	

Full provision is made for deferred tax.

22 Net cash inflow from operating activities	1996 £000	1995 £000
Income before provisions and taxation	23,537	19,112
Decrease/(increase) in accrued income	997	(1,193)
Increase/(decrease) in accrued interest expenses	676	(267)
Decrease in other debtors/creditors	(1,280)	(285)
Amortisation of deep discount securities	(586)	(550)
Capitalisation of interest receivable	(3,488)	(1,458)
Net cash inflow from operating activities	19,856	15,359

23 Analysis of changes in cash and cash equivalents during the year

	1996 £000	1995 £000
Balance at 1 February 1995	84	1,646
Net cash inflow/(outflow)	1,136	(1,562)
Balance at 31 January 1996	1,220	84

24 Analysis of changes in financing during the year

	Bank loans and overdraft £000	US private placement £000
Balance at 1 February 1995	119,368	–
Cash (outflow)/inflow from financing	(32,987)	47,468
Currency adjustment on foreign currency financings	5,579	2,168
Balance at 31 January 1996	91,960	49,636

25 Contingent liabilities

The company has guaranteed a total of £1,940,000 (1995 – £2,645,000) in respect of liabilities incurred by its investee companies.

26 Financial commitments

At 31 January 1996, the group estimated that it had contractual obligations to provide further funding of £2,556,000 (1995 – £1,428,000).

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 Contracts with substantial shareholders

The company has intermediate capital fund management contracts to manage funds totalling £50m provided by the BT Pension Scheme and the Post Office Staff Superannuation Scheme, whose investments are managed by Hermes Investment Management Limited. Mr R A Padgett, the Director of Corporate Finance of Hermes Invesment Management Limited, is a non-executive director of the company. No other director has any material interests in significant contracts.

28 Principal subsidiary company

The principal subsidiary company is 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.

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 at 12 noon on Monday 20 May 1996 for the following purposes:

1 To receive and adopt the financial statements for the year ended 31 January 1996 together with the reports of the directors and auditors thereon.

2 To declare a final dividend of 9.1p per ordinary share.

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

4 To re-elect as directors:
J-L Brousse de Gersigny
J R B Odgers.

5 To transact any other ordinary business of the company.

By Order of the Board
J E Curtis
Secretary

15 April 1996

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.

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Stockbrokers
Cazenove & Co
12 Tokenhouse Yard
London EC2R 7AN

HSBC James Capel
Thames Exchange
10 Queen Street Place
London EC4R 1BL

Bankers
National Westminster Bank Plc
21 Lombard Street
London EC3P 3AR

Registered offices
62-63 Threadneedle Street
London EC2R 8HE

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

Solicitors
Norton Rose
Blackfriars House
19 New Bridge Street
London EC4V 6DH

Registrars
The Royal Bank of Scotland plc
Securities Services
PO Box 82
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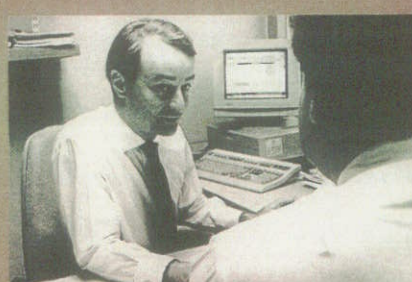
Redcliffe Way
Bristol BS99 7NH



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