

Annual Report & Accounts
For the year to 31 January 1997

INTERMEDIATE CAPITAL GROUP PLC



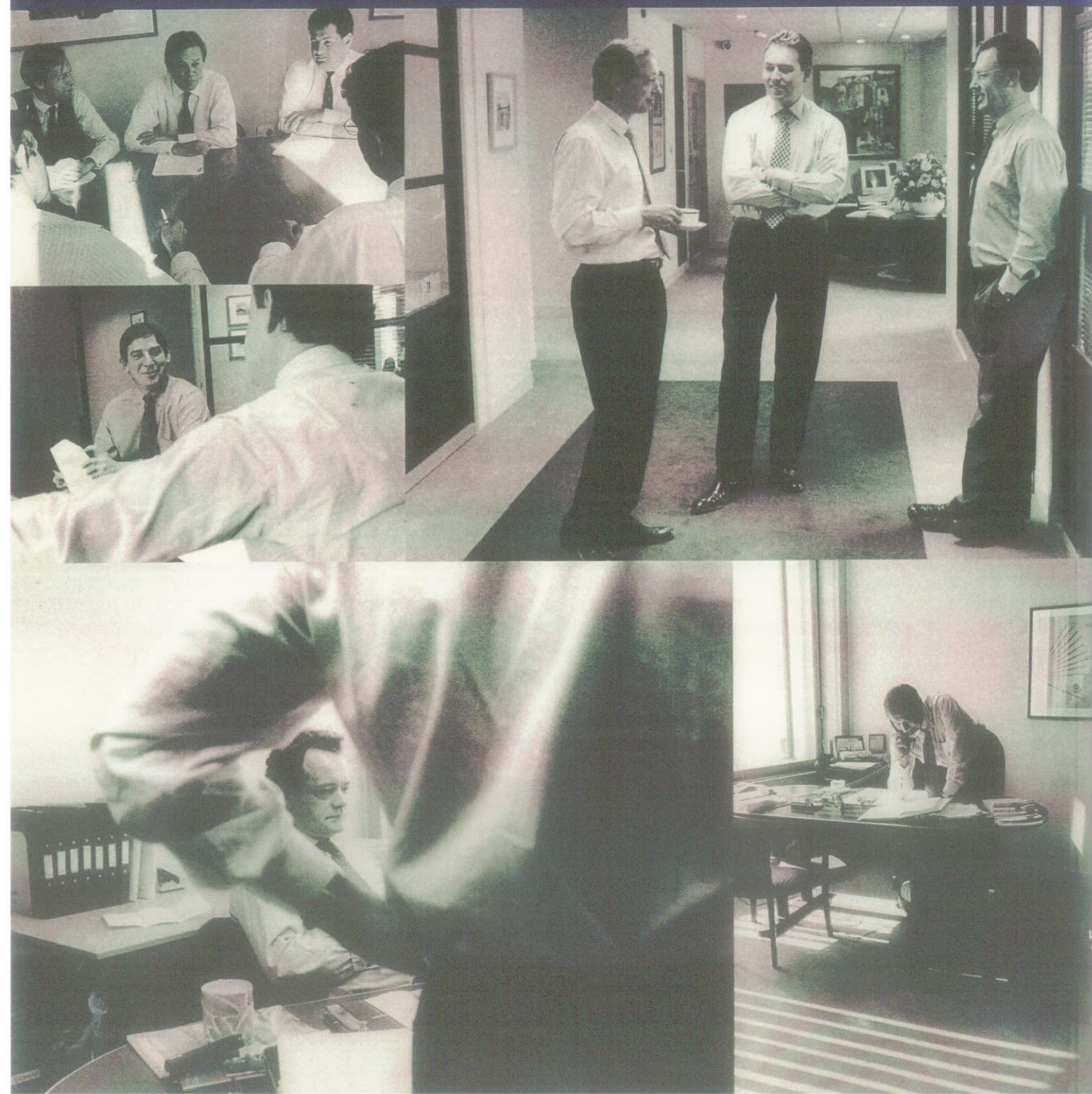
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The business of Intermediate Capital Group ('ICG') is to arrange and provide intermediate, or mezzanine, capital for companies in the United Kingdom and Continental Western Europe. ICG lends both its own resources and also funds under its management.

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 buy-outs 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 15% to £13.1m (1996 – £11.4m)

Pre-tax profits up 6% to £20.2m (1996 – £19.1m)

A record year for new lending

The loan book increased to £250m (1996 – £210m)

Borrowing facilities increased to £297m

Funds under management increased by £35m

Proposed final dividend of 10.6p net per share making 15.4p per share for the year, a 15% increase

United
Kingdom
£262m

Sweden
£29m

Denmark
£4m

Netherlands
£12m

Germany
£37m

France
£116m

Switzerland
£5m

Portugal
£6m

Spain
£6m

Italy
£11m

Right ICG has invested £488m in 82 transactions in the UK and continental Europe since the company started in 1989

Left, clockwise from top left Thomas Warnholtz, Tom Bartlam, Simon Morrell; Andrew Jackson, Marcus Wood, John Curtis; Andrew Jackson; Tom Attwood; Jean-Loup de Gersigny

Chairman's Statement

Overview

It has been another satisfactory year. We have continued to grow our profits and earnings per share, both up by 6% at £20.2m and 29.1p per share respectively.

It was a successful period for new lending activity with a net increase of 19% in the portfolio to £250m. This provides a good basis for further core income growth. Core income, which ICG defines as net interest and dividend income and fee income less operating expenses, rose 15% to £13.1m. Capital gains at £12.1m were similar to last year although provisions for the year increased from £4.5m to £5m.

The pre-tax return on shareholders' funds was 28%.

Dividends

The Board is recommending a final dividend of 10.6p net per share to be paid on 23 May 1997 which, with the interim dividend of 4.8p, brings the total for the year to 15.4p net per share. This dividend represents an increase of 15% over last year's dividend of 13.4p net per share.

It continues to be ICG's policy to increase the dividend in line with the increase in core income and to pay the bulk of core income, net of tax, by way of dividend. In respect of the year just ended, the dividend has been increased accordingly by 15% and represents 82% of core income net of tax.

The European mezzanine market

The principal use of mezzanine in our last financial year continued to be in the UK and continental European buy-out market. The trend by public companies to divest of non-core subsidiaries, which has been the prime cause of the growth in the UK buy-out market over the last two years, continued in the UK and is now

increasing materially on the continent. Last year also saw a further increase in the amounts of bank debt and venture capital devoted to these markets.

The coincidence of these two factors led to strong activity in both the UK and the continental European markets with the value of buy-outs being the highest for some years.

Some banks' enthusiasm to increase their lending, particularly in the UK market, again represented the principal competition to mezzanine last year. As in our previous financial year, banks often were lending and pricing as senior debt what was formerly provided as mezzanine finance.

Another development during the year was US investment banks offering high yield debt for very large transactions which required intermediate capital of in excess of £50m. While their entry into the market provides competition to ICG it has also increased the usage of intermediate capital, thereby presenting potential opportunities for us.

There was some increase in competition from banks providing mezzanine in the UK market, but to a lesser extent in continental Europe.

Against this market background, ICG was shown a larger number of quality mezzanine opportunities in the UK and continental Europe than ever before and retained its position as the leading provider of mezzanine in Europe.

In terms of the pricing of mezzanine, despite increased competition in some parts of its market, ICG maintained the interest margin it receives on its loans at the same level as in the past. In some of the larger transactions there has been a small decline in the level of expected total return to mezzanine investors in line with the reduced returns sought by private equity

investors, caused in part by some increase in acquisition prices. In general, the level of gearing in buy-outs showed little change from the previous year, while the levels of interest cover remained satisfactory. Overall ICG believes that the return it was seeking to receive on the investments made last year was commensurate with the risk being taken.

Lending activity

Our last financial year saw yet another record year for new lending. ICG arranged or invested a total of £192m of mezzanine finance and made loans and investments on its own balance sheet amounting to £109m compared to £86m in the previous year. In addition, we invested a further £26m on behalf of managed funds, bringing the total amount committed by ICG and managed funds to £135m compared to £117m in the previous year.

In the year ICG made loans totalling £46m to six new UK companies, four of which were buy-outs, one being acquisition finance and the other being an increase in financing to an existing client.

Last year saw a particularly strong performance from our French operation with ICG making loans totalling £43m to five companies, all of which were buy-outs. In addition, we made loans and investments totalling £14m to companies in Sweden, the Netherlands and Switzerland.

Overall it is satisfying that the marketing efforts which we have been making in continental Europe over the last few years have been justified and resulted in another year of strong lending activity.

As a result of these new loans and £50m being repaid in respect of eight loans during the year, the loan book has grown from £210m to £250m at the year end.

Funding

Borrowings increased by £40m to £181m at the year end. During the year ICG replaced its old £187m revolving credit facility with a new facility for £250m on improved terms. At the year end, ICG had total debt facilities of £297m, thus leaving us with sufficient unutilised facilities in place to fund the planned growth of the loan portfolio.

Last year saw our funds under management increase by a further £35m. We continue to believe that it is attractive for ICG to have funds under management not only for the management fees which it produces but also because it gives us greater ability to underwrite larger transactions. In the light of this ICG intends to further increase funds under management in our next financial year.

Management and Staff

Our management and operational team is a compact and focused group. We are adding skills and resources for our growing European business. The combined efforts of our team have produced another satisfactory year and on your behalf I would like to express sincere thanks.

Prospects

Since flotation in 1994 the scale of ICG's activity has continued to increase as a result of our focused concentration on our niche market of European mezzanine – a market which continues to grow. By adapting our products and actively marketing them to a wide range of potential users, both in the buy-out and other markets, we expect further growth.

Turning to our new financial year we have seen a strong flow of potential mezzanine opportunities in both the UK and continental Europe. We have started the year particularly actively in terms of new lending, having to date made five

new loans – four in the UK and one in the Netherlands. It is possible that activity in the UK will slacken somewhat, while on the continent strong activity is likely to continue. Overall we expect further growth in our loan book during the year.

The recent strength of sterling relative to other major European currencies, while not impacting our balance sheet net assets since we hedge our foreign currency exposure, is likely to have some adverse impact when our foreign currency net interest income is translated into sterling. However, this should be more than outweighed by the prospect of increased net interest income arising from the increased size of our loan book. The prospects for core income are therefore satisfactory.

While a number of our portfolio companies are actively pursuing flotation or trade sale, it is not yet possible confidently to predict the level or timing of the gains. Future provisioning requirements are also difficult to predict. Therefore, it remains possible that there will be volatility in the profits derived from capital gains net of provisions.

The continuing strong increase in the loan book, however, provides the prospect of sustained profit growth in the longer term and we look forward to the future with confidence.



Murray Stuart

Murray Stuart
Chairman
4 April 1997

FFr250m

The French company MGE is the joint world number one manufacturer and supplier of Uninterrupted Power Supplies for IT and electrical installations. ICG arranged the FFr250m mezzanine loan

The Western European Market for Intermediate Capital

1. The UK buy-out market

1996 saw large companies continuing to divest non-core subsidiaries, the Government continuing its privatisation process and a number of substantial privately owned companies being sold by their existing proprietors. This resulted in a large number of acquisition opportunities for financial buyers. As there continued to be available large and increasing amounts of both unquoted equity and bank debt, dedicated to the buy-out market, financial buyers were able to successfully purchase a material proportion of the available businesses.

As a result, 1996 was another year of exceptional activity within the UK buy-out market place. The value of UK buy-outs of over £10m was approximately £6bn, the highest level of activity ever, just exceeding the £5.9bn value of buy-outs in 1995.

As ICG anticipated at the beginning of the year, an increasing number of asset-hungry banks continued to seek to expand their lending to buy-outs, which has led to their providing a greater proportion of total financing than in the past. This trend for banks to provide what a couple of years ago was mezzanine debt at bank debt pricing has again often resulted in the requirement for mezzanine finance being reduced or eliminated.

In very large transactions where mezzanine in excess of £50m is required, we have seen competition from US investment banks offering high yield debt in substitution for mezzanine, which is then sold to their clients in North America. In the market for mezzanine financings of up to £50m which make up the vast majority of transactions where ICG has principally operated, we have seen some increase in

competition from one or two banks. Nevertheless ICG remains 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 at least twice as many more mezzanine transactions both by number and value than any of its competitors.

ICG believes that the competition in the mezzanine market place seen in 1996 will continue. However, ICG is placing increased emphasis on actively marketing differentiated and flexible intermediate capital financing products in order to meet the demands of the market place and thereby is confident it will continue to derive good levels of business from this market.

2. The continental European buy-out market place

ICG saw an increase in levels of activity in the continental European buy-out markets last year. While levels of activity relative to their economic size are still a long way away from what they are in the United Kingdom, there are increasing signs of large continental European corporates divesting of non-core subsidiaries and the sale of private companies by their proprietors, thus giving rise to an increasing number of potential buy-out targets being put up for sale.

ICG has been devoting increasing resources to marketing itself and its intermediate capital products in the continental markets over the last few years and consequently is benefiting from the increased level of activity within these markets.

As in the UK, US investment banks are offering high yield debt for the large transactions. Where the requirement is for mezzanine of less than £50m the competitive pressures generally are not as great as in the UK market.

Consequently, ICG has been shown a large number of mezzanine financing opportunities from which it has completed eight, making it by some way the leading provider of mezzanine finance in continental Europe.

ICG is continuing to increase its marketing efforts and the number of executives devoted to the main continental markets and now offers more differentiated, flexible mezzanine financing products to meet the specific market demands. In light of this, ICG is confident it will continue to build its business in continental Europe.

France remains the most active country for buy-outs in continental Europe and last year saw an increased level of buy-out activity. ICG was a provider of mezzanine to the largest buy-out in France and arranged the mezzanine for the second largest. In addition, ICG has provided mezzanine for three further French buy-outs during the year.

Elsewhere in Western Europe, Germany saw signs of increased activity in the buy-out market. Sweden also saw a considerable amount of buy-out activity as did the Netherlands. During the year ICG actively investigated mezzanine opportunities in Austria, Belgium, Germany, Italy, the Netherlands, Portugal, Spain, Sweden and Switzerland and actually made mezzanine investments in companies located in Sweden, the Netherlands and Switzerland.

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

ICG continues to believe that the market for mezzanine financing outside the buy-out market is a sizeable one. Certain types of financings such as acquisition finance for public companies and replacement capital for existing buy-outs are likely to be more in demand in a later stage in the cycle. At the present time opportunities exist for

In the Netherlands, ICG provided the mezzanine finance for Landal Greenparks in its buy-out from Aegon

NLG 10m

using mezzanine for acquisition finance for private companies and for refinancings. ICG continues to market its mezzanine products for these applications and last year investigated an increased number of opportunities in this area and successfully arranged £20m of mezzanine to refinance a UK based private company.

The Loan Portfolio

At 31 January 1997, ICG's portfolio consisted of loans and investments to 51 different companies, amounting to a total of £250m. This represented a 19% increase over the loans and investments of £210m at the beginning of the year. The sterling value of the loan portfolio would have been £15m higher if sterling had not appreciated substantially against other European currencies in the latter part of the year.

ICG's portfolio was spread across nine countries, namely, the UK, France, Germany, Sweden, Italy, Denmark, the Netherlands, Spain and Switzerland. Since its flotation in 1994, ICG has invested increasingly large amounts in continental Europe and at the end of the year the proportion of loans by value made in continental Europe had increased from 48% at the beginning of the year to 53%. This geographic spread of the portfolio ensures that ICG's exposure to European economic cycles is well distributed.

ICG has continued during the year to ensure that, as well as diversifying its risks on a geographical basis, it also diversifies its risks by investing in a wide variety of industrial sectors, and at the year end had lent to 22 industrial sectors, with the largest sector contributing only 11% of its portfolio.

ICG continues to have a policy of normally lending from its own balance sheet between £2m and £15m to any one individual company so as to reduce the risk of being over exposed to one

particular company. The average size of loans in ICG's portfolio at 31 January 1997 was £5.7m.

1. New Loans and Investments

In the financial year ended 31 January 1997, ICG made loans and investments amounting to £109m, by some way the highest amount invested by ICG in any one year since it was founded. Additionally, £26m was invested on behalf of fund management clients. The total amount of mezzanine provided by ICG and its fund management clients during the year was £135m compared with £117m in the previous year.

The 13 new loans made by ICG on behalf of itself and its funds under management were as follows:

Centum Investments Limited is the principal investment holding vehicle for the majority shareholdings in Derby International Corporation SA, the holding company of the Raleigh and Gazelle bicycles businesses, the world's largest manufacturer of bicycles, and Exeter International Corporation S.A., the holding company of the Royal Worcester and Spode porcelain and fine china businesses. As part of a refinancing, ICG arranged £20m of subordinated loan stock of which it provided £10m.

Elis is the leading French textile rental and cleaning business. In France, the group is the dominant competitor in all major segments of the market, supplying linen to hotels, restaurants and hospitals; workwear to commerce, industry and hospitals; and hand towels to washrooms throughout the commercial, industrial and public sector. Elis was the subject of a buy-out in January and ICG provided FFr187m of the mezzanine financing.

Groupe Philippe Ginestet ('Giff') operates the largest integrated discount retailer of household accessories in France through 64 stores. The business was acquired in

September 1996 from its owner and founder, who will be staying with the company and retaining a 40% stake. ICG provided FFr44m of the mezzanine bond.

Great Western Holdings is the Franchisee of the Intercity Passenger Rail services between London and Reading, Bristol, Cardiff, South Wales and South West England which was awarded in February 1996. The total financing was £35m, of which ICG arranged and provided the mezzanine loan of £6.5m and arranged the performance bond of £16.5m, providing £8.25m.

Hermès Metal is the French market leader in supermarket and hypermarket equipment manufacturing, such as shelving and checkouts. The company was acquired for FFr626m in a buy-out in July 1996 from Fonds Partenaires, who had acquired the company in 1991. ICG arranged and provided mezzanine of FFr87m.

Landal Greenparks owns 15 bungalow parks (10 in Holland and five in Germany) used for holidays and recreational purposes. It was purchased in a buy-out from Aegon in November 1996. ICG provided mezzanine of NLG10m.

MGE is the leading European and joint world number one manufacturer and supplier of Uninterrupted Power Supplies for IT and electrical installations. The company was sold by the Schneider Group as an LBO in September 1996 for FFr1.4bn. ICG arranged the mezzanine bonds of FFr250m, providing FFr130m.

Nobia Byginterior based in Sweden, is the largest manufacturer of doors, windows and kitchen furniture in Scandinavia. The company was bought in a buy-out from the Stora Group in September 1996 for SEK850m. ICG arranged the mezzanine loan of SEK150m, providing SEK120m.

£40m

In the UK, ICG underwrote and arranged the mezzanine financing of £40m for The Stationery Office (formerly HMSO)

Plastimo is the leading French, and in some segments European, manufacturer and distributor of marine equipment to the leisure boat industry. It was purchased as a buy-out from its American parent group Johnson Worldwide Associates in January 1997 for an undisclosed sum. ICG arranged and provided the FF27m mezzanine bond.

Portman Travel Limited is the fourth largest business travel agency in the UK and has 25 business travel offices and four leisure travel shops. It was purchased from Motherwell Bridge Holdings Limited, in December 1996. ICG arranged the mezzanine loan of £10m, providing £5m.

Premier Oilfield Services is the UK's largest independent oilfield services rental company. It hires out drillpipe, downhole tubing and handling equipment to the offshore oil and gas industries in the North Sea from a base in Aberdeen. The company was acquired as an MBO from P&O for £41m in September 1996. ICG arranged and provided the mezzanine loan of £6m.

SBE designs and manufactures electromechanical microswitches, small electromechanical motors and small electronic controllers such as programmable logic controllers (PLCs), timers and counters. SBE was the subject of a buy-out from Williams Holdings in July 1996. ICG took a participation of DEM4m in the mezzanine loan.

The Stationery Office (formerly HMSO) provides publications, printing and business services to Parliament and the public sector. The company was acquired as an MBO in September 1996 from the British Government and ICG underwrote and arranged the mezzanine financing of £40m, providing £19m.

The two new investments made by ICG were as follows:

Addum Industry AB is a diverse Swedish company operating in construction materials, construction equipment rental, contract manufacturing, mechanical engineering and other industries which was acquired from Securum for SEK1.7bn in March 1996. ICG made a small equity investment of SEK5 million, having investigated the company with a view to providing mezzanine finance which was ultimately not required.

Regal Hotels owned and operated 21 three star provincial hotels prior to May 1996, when it acquired 60 White Hart Hotels from Granada Group for £121m. ICG participated in the issue of quoted Convertible Preference Shares used to help finance the acquisition, investing £2.4m.

2. Realisations

In the last financial year £50m in respect of eight different companies was repaid. These companies were:

Brunner Mond is the sole manufacturer of soda ash in the UK with a 90% market share. In September 1996, the company was listed on the London Stock Exchange, enabling it to repay the balance of the loan to ICG.

Gerposa is a leading Spanish logistics company which specialises in the automotive sector. The loan was prepaid in December 1996 and ICG continues to hold warrants in the company.

Hygiene Diffusion manufactures and distributes diapers for adults and for babies. It is the leader in France in the adult incontinence product market with a 20% market share. The company prepaid its loan in October 1996. ICG continues to hold warrants in the company.

ICS provides a specialist overnight courier and distribution service in the UK, primarily to the insurance, optical and travel industries. The company was purchased by Hays Plc in August 1996, and the mezzanine loan was repaid in full.

IPT is a UK company which produces and distributes a wide range of textile fabrics for a diverse number of end uses. The company prepaid the mezzanine loan out of excess cash flow. ICG continues to hold warrants in the company.

Portfolio Foods is a collection of snacks and confectionery businesses. In May 1996, the company was purchased by Cadbury Schweppes Plc, resulting in the repayment of ICG's loan.

Sicli is the leading French manufacturer and distributor of fire extinguishers. It also assembles fire engines and other specialist heavy duty vehicles and has operations in fire and crime detection and prevention. The company was purchased in May 1996 by Williams Holdings Plc, enabling the company to repay its loan to ICG.

Thorn Security is one of the world's leading providers of commercial fire detection, security and building management systems. In May 1996, the company was purchased by Tyco, enabling the company to repay its loan to ICG.

3. Current Portfolio

At 31 January 1997, in addition to the 15 new loans and investments made in the last financial year referred to above, ICG had loans outstanding to 30 companies shown on page 9. ICG also held shares in listed companies which are also shown. In addition to holding unquoted shares or warrants in most of the companies to which ICG had made loans, there were also shares or warrants in companies which have prepaid their loan from ICG in full, and these are shown on page 9.

In Sweden, ICG arranged the mezzanine loan of SEK150m for Nobia Byggnad, a buy-out from the Stora Group

SEK 150m

4. Provisions

It is ICG's provisioning policy to make specific provisions against loans where, in the opinion of management, the value of the loan is presently impaired. There are currently provisions totalling £12m made against loans to three companies where, in all cases, the loans were made over four years ago. This figure has increased by £5m since last year as a result of continuing difficult trading conditions for two of the companies. The provisions made against the three loans now represent over 50% of the total of ICG's exposure to these companies.

Funding and Loan Facilities

1. Fund management

At the beginning of the year, ICG had funds under management of £80m and during the year this was increased by £35m through the addition of three new fund management clients.

At 31 January 1996, ICG had invested £59m on behalf of its fund management clients and by the end of the year this had increased to £80m. £26m of new funds were invested during the year and £5m of loans were repaid to fund management clients.

Fund management contracts continue to be important to ICG as they not only provide an additional quality income stream to the company but also provide extra underwriting capability on larger transactions. Financial institutions are interested in providing ICG with funds to manage because they are attracted by the risk reward characteristics of the mezzanine asset class and because it enables them to quickly build up a diversified mezzanine portfolio.

In 1997 ICG intends to increase its funds under management.

2. Borrowing and loan facilities

At 31 January 1997 ICG's total borrowing amounted to £181m compared to £140m at the beginning of the year, reflecting a corresponding growth in the loan portfolio. This figure was made up of £47m of money raised in 1995 from a US Private Placement and £134m under its multicurrency revolving credit facility.

Just as the sterling value of the loan book was £15m lower than it otherwise would have been if exchange rates had not moved during the year, so would the borrowings have been higher by a similar amount on translation into sterling on a similar basis.

At the year end, the ratio of debt to shareholders' funds stood at 240%, which represents in banking terms a capital ratio of 29%. These ratios remain conservative and leave ICG relatively lowly geared.

During the year, the company raised a new multicurrency revolving credit facility which was arranged by National Westminster Bank and co-arranged by Bank of Scotland, Royal Bank of Scotland, The Industrial Bank of Japan and WestLB. Having had an initial oversubscription, a scaled back facility of £250m was signed in December 1996 and this was used to replace the existing facility of £187m and provide additional funds for further expansion of the loan book. The terms of the new facility are more attractive to ICG than the previous facility and will lead to useful savings in interest costs in the future.

As a result of the new facility, ICG had unutilised debt facilities of £116m at the end of the year, leaving it with substantial funding to finance the future growth in its loan book.

3. Shareholders' funds

Shareholders' funds increased from £69m at the beginning of the year to £75m at the end of the year, after taking into account the dividend of £7m.

The balance sheet of ICG does not take into account the value of ICG's portfolio of quoted and unquoted shares and warrants in excess of cost amounting to £24m (1996 - £22m).

Within the portfolio the excess market value of the quoted shares reduced to £3.9m as a result of sales of a number of our quoted shares, while the value of unquoted shares and warrants increased to £20m.

Results for the year

In the financial year to 31 January 1997, ICG's pre-tax profits rose to £20.2m from £19.1m in the previous year, an increase of 6%. The pre-tax return on shareholders' funds amounts to 28%, which the directors consider to be attractive.

The net profit amounts to £13.6m compared to £12.9m for last year and Earnings Per Share have risen from 27.6p per share in 1996 to 29.1p per share. A final dividend of 10.6p per share is recommended by the Board, which, when added to the interim dividend, represents an increase of 15% over last year.

The constituent parts of ICG's profit are:

1. Core income

Core income, which ICG defines as net interest income plus fees less administrative expenses, is the most important element of ICG's income being recurrent, more reliable and of better quality than capital gains. ICG is managed with a view to producing steady growth in core income which in turn is used to fund increased

dividends. The increase in core income of 15% to £13.1m from £11.4m for the previous year represented a satisfactory performance.

Net interest income Net interest and dividend income grew by 12% to £13.1m for the year, compared to £11.7m for the previous year. It benefited from the increase in shareholder funds, the significant increase in the loan book over the year and the receipt of special dividends on investments repaid in the year. On the other hand it suffered as a result of the repayment earlier in the year of some high yielding fixed rate loans made in earlier years which were replaced with loans at lower rates in the current lower interest rate environment.

Fee income Fee income rose by 59% from £3.0m in the previous year to £4.8m in the year to 31 January 1997. The increase in fee income was particularly strong this year from both underwriting and transaction fees and fees from fund management.

Underwriting and transaction fees increased from £1.7m to £3.0m as a result of ICG arranging and underwriting more large transactions in the current year and the increased level of lending activity.

Fund management fees increased from £0.9m in the previous year to £1.4m in the current year as a result of ICG increasing the amounts invested on behalf of its fund management clients, on which management fees are earned, from £59m at the beginning of the year to £80m at the end of the year.

Agency fees, which are recurring fees from monitoring loans, remained at £0.4m for the year.

Expenses Operating expenses of £4.8m represented an increase of 43% over last year's figure of £3.3m. This increase

arose primarily from increased staff costs, caused partly by this being the first year of payments to staff under the medium term incentive scheme. Increased marketing efforts in Europe and having the Paris office open for the entire year also contributed to the increase.

The ratio of expenses to total revenue of 11% compares to 9% last year, but is still low by the standards of financial services companies.

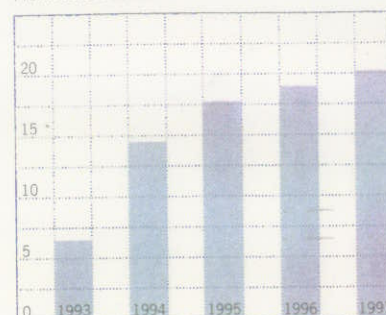
2. Capital Gains (net of provisions)

Capital gains for the year amounted to £12.1m, which, after provisions of £5m, gave net capital gains of £7.1m compared to net capital gains of £7.7m in the previous year.

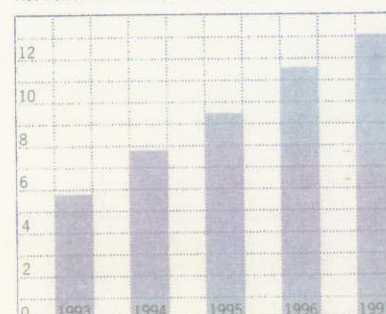
Gross capital gains of £12.1m compared to £12.2m in the previous year. Gains were achieved from the flotation of Brunner Mond, the trade sale of Thorn Security and the sale of our warrant in Porcelain and Fine China. The remaining gain arose from the sale of shares from our listed share portfolio.

Specific provisions for the year amounted to £5.0m, compared to £4.5m for the previous year.

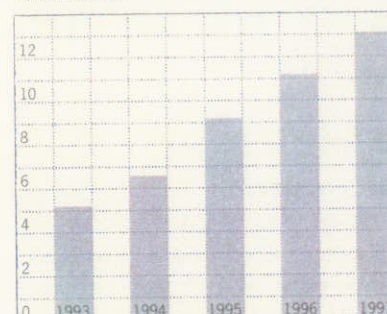
Profits before tax £m



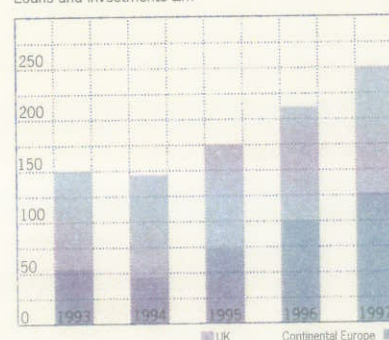
Net interest and dividend income £m



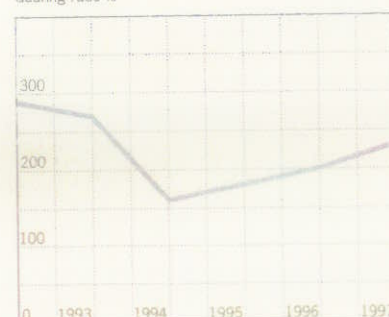
Core income £m



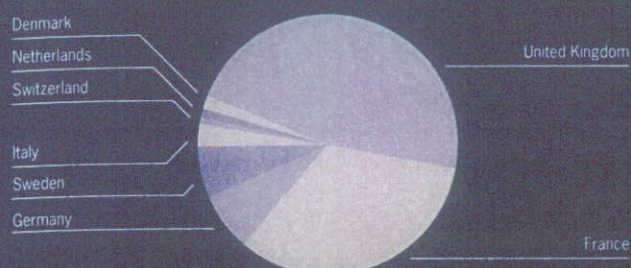
Loans and investments £m



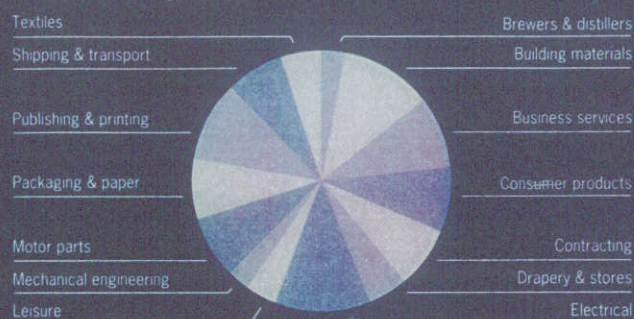
Gearing ratio %



Portfolio spread by country



Portfolio spread by industry



The Portfolio

At 31 January 1997, in addition to the 15 new loans made in the last financial year referred to above, ICG had loans outstanding to the following companies:

Name	Country	Business
Adco and Dixi	Germany	Hirer of construction site accommodation
Addison Design	UK	Corporate literature and identity
Automotive Products	UK	Automotive clutch and brake manufacturer
Buffetti	Italy	Office stationery distributor
Coal Products	UK	Producer of smokeless fuel and foundry coke
Crompton	UK	Specialist paper manufacturer
Edrasco	France	Manufacturer of educational equipment
Empe	Germany	Manufacturer of automotive door panels
Entrelec	France	Manufacturer of electrical connectors
Flying Colours	UK	Tour operator
Frans Bonhomme	France	Distributor of pipes and couplings
Krings	Germany	Manufacturer of trench shoring systems
LLP	UK	Publisher of specialist insurance/marine journals
Marie Brizard	France	Producer and distributor of wines and spirits
MCD	UK	Carpet wholesale distributor
Meccano	France	Manufacturer of construction toys
Microtronic	Denmark	Hearing aid component manufacturer
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
Piston Bully	Germany	Manufacturer of snow grooming equipment
Porcelain & Fine China Companies	UK	Manufacturer of china and porcelain
Presspart	UK	Manufacturer of anodised aluminium
Servicetec	UK	Computer maintenance
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
USM Texon	UK	Shoe machinery manufacturer
Wightlink	UK	Ferry operator

The Portfolio of quoted shares

At 31 January 1997 ICG held quoted shares in the following listed companies:

Name	Country	Business
Brunner Mond	UK	Soda ash manufacturer
Lowndes Fenchurch	UK	Insurance broking

The Portfolio of warrants and unquoted shares

At 31 January 1997 ICG had unquoted shares and warrants in most of the unquoted companies in its loan portfolio, as well as in the following companies which had prepaid ICG's loan in full:

Name	Country	Business
Gerposa	Spain	Transportation of car parts
Gerflor	France	Floor covering manufacturer
Hygiène Diffusion	France	Diaper manufacturer
IPT	UK	Textile fabrics
Nutreco	Netherlands	Animal and fish feeds
Sifex	UK	Security systems

Directors and Management

Non-Executive Chairman

Murray Stuart, CBE, aged 63, is Chairman of Scottish Power PLC and the Hammersmith Hospitals NHS Trust. He is a non-executive director of The Royal Bank of Scotland Group PLC and Willis Corroon Group PLC.

Executive Directors

Tom Attwood, aged 44, 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.

Jean-Loup de Gersigny, aged 43, 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.

Tom Bartlam, aged 49, 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.

Andrew Jackson, aged 48, 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.

Non-Executive Directors

Eric Kinder, aged 69, is Chairman of Smith & Nephew PLC, and Brunner Mond PLC.

Robert Padgett, aged 53, is the Head of Corporate Finance at Hermes Investment Management Limited.

James Odgers, aged 42, was a co-founder of ICG in 1989, formerly working for Chemical Bank and Linklaters and Paines.

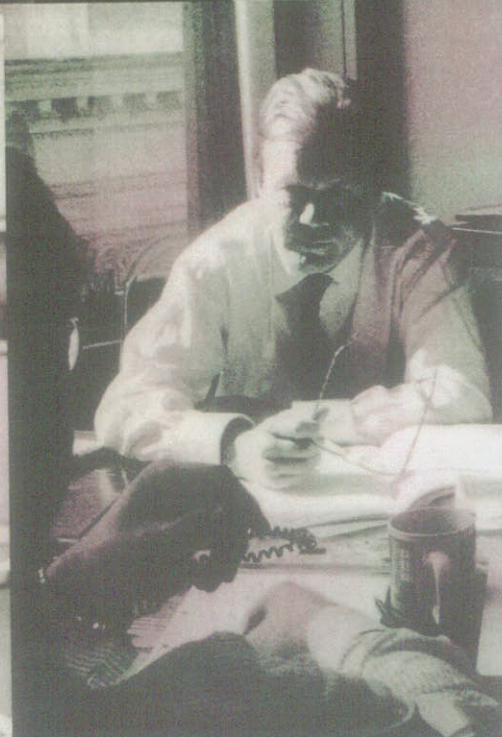
Executives

Martin Conder
Christophe Evain
Simon Morrell
Andrew Phillips
Paul Piper (member of investment committee)
Denis Viet-Jacobsen
Thomas Warnholtz
Marcus Wood

Secretary and Financial Controller

John Curtis

Clockwise from top left Paul Piper and Thomas Warnholtz;
Marcus Wood, John Curtis and Andrew Jackson;
Tom Bartlam; Andrew Phillips; Simon Morrell and
Marcus Wood; Andrew Jackson and Tom Attwood



Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 January 1997.

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 £20,160,000 (1996 – £19,070,000). At 31 January 1997, the group held in its balance sheet a portfolio of listed shares at nominal cost, but with a market value of £3,820,000 (1996 – £7,173,000). 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 10. All of the directors shown on page 10 served throughout the year. In accordance with the Articles of Association, Mr Stuart and Mr Attwood retire by rotation and offer themselves for re-election. Mr Attwood has a service contract under which the company is obliged to give 24 months' notice of termination of employment to him. 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 1997 were as follows:

	1997 Number of 20p ordinary shares	1996 Number of 20p ordinary shares
T R Attwood	5,000	5,000
T H Bartlam	974,921	1,099,921
J-L de Gersigny	885,672	1,000,672
A D Jackson	964,922	1,099,922
C M Stuart	5,000	5,000
E Kinder	5,000	5,000
J R B Odgers	499,922	1,099,922

On 18 April 1996, Mr Attwood was granted options over 8,450 shares of the company at an exercise price of 355p per share.
On 19 April 1996, Mr Attwood was granted further options over 216,292 shares at an exercise price of 356p per share.

No changes to the directors' interests in shares at 31 January 1997 as set out above had been notified up to 4 April 1997.

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

Mr Odgers resigned as a Managing Director on 31 July 1996 but remained on the Board as a non-executive director.
On 18 April 1996, Mr Attwood became a Managing 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 10.6p per share (1996 – 9.1p), which when added to the interim net dividend of 4.8p per share (1996 – 4.3p) gives a total net dividend for the year of 15.4p per share (1996 – 13.4p). After dividends, retained profits of £6,409,000 (1996 – £6,617,000) have been transferred to retained earnings.

Substantial shareholdings As at 4 April 1997, 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
Standard Life Assurance Company	2,892,853	6.2
The Post Office Staff Superannuation Fund	2,666,660	5.7
Scottish Amicable Life Assurance Society	1,745,514	3.7
The Industrial Bank of Japan, Limited	1,680,071	3.6
F&C Nominees Limited	1,450,000	3.1

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
Schroder Investment Management Limited	2,276,000	4.9
Perpetual Investment Management Limited	2,109,521	4.5
Barclays Global Investors Limited	1,460,397	3.1

Fixed assets Movement 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 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

4 April 1997

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.

The company's auditors have reported to the Board of Directors that they have reviewed the statement on compliance with the code in accordance with Auditing Practices Board guidelines. They have confirmed that the directors' comments on going concern and internal financial control provide the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance) and are not inconsistent with the information of which they are aware based on their normal audit work. They have also reported to the company that the statement appropriately reflects the company's compliance with the other paragraphs of the Code specified by the London Stock Exchange for the review.

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.

Eric Kinder was appointed a non-executive director in May 1994.

James Odgers was appointed a non-executive director in July 1996, having been an executive director and a founder of the company.

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 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. 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 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 Committee

for the year ended 31 January 1997

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 1997 are set out in Note 8;
- a medium term incentive scheme, implemented in 1994, related to the cumulative growth in earnings per share in excess of RPI and funded by a share of realised gains. The first amounts are payable in respect of 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. 224,742 options under this scheme have to date been granted to one executive director, Mr Attwood.

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 Attwood is due to retire by rotation and offers himself 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.

Mr Stuart is due to retire by rotation and offers himself for re-election.

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 constitutes part of this report.

By Order of the Remuneration Committee

4 April 1997

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 30 which have been prepared under the accounting policies set out on page 22.

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 1997 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

4 April 1997

Consolidated Profit and Loss Account

for the year ended 31 January 1997

	Note	1997 £000	1996 £000
Interest and dividend income		25,205	21,765
Gain on disposals		12,071	12,155
Fee and other operating income		4,786	3,007
	3	42,062	36,927
Interest payable and similar charges	5	(12,117)	(10,049)
Provisions against loans and investments	6	(5,000)	(4,467)
Administrative expenses	4	(4,785)	(3,341)
Profit on ordinary activities before taxation		20,160	19,070
Tax on profit on ordinary activities	7	(6,564)	(6,199)
Profit on ordinary activities after taxation		13,596	12,871
Dividends paid and proposed – ordinary	10	(7,187)	(6,254)
Retained profit transferred to reserves		6,409	6,617
Earnings per share	11	29.1p	27.6p

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.

Consolidated Balance Sheet

31 January 1997

	Note	1997 £000	1996 £000
Fixed assets			
Tangible assets	12	267	314
Loans	13	237,359	198,338
Investments	14	12,318	11,714
Current assets			
Debtors	15	8,456	7,607
Loans and investments	16	4,615	—
Cash at bank		564	1,220
		13,635	8,827
Total assets		263,579	219,193
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	32,557	26,148
Equity shareholders' funds		75,500	69,091
Provisions for liabilities and charges	21	318	790
Creditors: amounts falling due after more than one year	20	175,739	139,622
Creditors: amounts falling due within one year	19	12,022	9,690
Total capital and liabilities		263,579	219,193

These financial statements were approved by the Board of Directors on 4 April 1997.

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.

Balance Sheet

31 January 1997

	Note	1997 £000	1996 £000
Fixed assets			
Tangible assets	12	267	314
	13	225,302	180,009
Loans			
	14	20,666	20,264
Investments			
Current assets			
Debtors	15	8,089	7,402
Loans and investments	16	4,615	—
Cash at bank		566	60
		13,270	7,462
Total assets		259,505	208,049
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	16,482	15,609
		59,425	58,552
Equity shareholders' funds			
	20	176,173	140,078
Creditors: amounts falling due after more than one year			
	19	23,907	9,419
Creditors: amounts falling due within one year			
Total capital and liabilities		259,505	208,049

These financial statements were approved by the Board of Directors on 4 April 1997.

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 1997

	Note	1997 £000	1996 £000
Operating activities			
Interest and dividends received		28,899	18,712
Gain on disposals		11,738	11,477
Fee and other operating income		4,790	2,924
Administrative expenses		(3,966)	(3,896)
Interest paid		41,461	29,217
		(12,581)	(9,361)
Net cash inflow from operating activities	22	28,880	19,856
Returns on investments and servicing of finance			
Dividends paid		(6,486)	(5,624)
Taxation paid		(6,361)	(4,850)
Investing activities			
Loans and investments made		(109,956)	(85,960)
Realisations of loans and investments		45,865	59,399
Loans for syndication		(6,184)	4,015
		(70,275)	(22,546)
Purchase of tangible fixed assets		(29)	(181)
		(70,304)	(22,727)
Net cash outflow before financing		(54,271)	(13,345)
Financing			
Redemption of preference shares		—	—
Increase in borrowings	24	53,615	14,481
(Decrease)/increase in cash and cash equivalents	23	(656)	1,136

Notes to the Accounts

for the year ended 31 January 1997

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 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.

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 £873,000 (1996 – £2,439,000).

3. Analysis of gross income

	1997 £000	1996 £000
Gross income was received from:		
United Kingdom	28,139	21,380
Continental Europe	13,923	15,547
	42,062	36,927

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 £427,000 (1996 – £504,000) of dividend income from listed investments.

4. Administrative expenses

	1997 £000	1996 £000
Administrative expenses include:		
Directors' remuneration	1,728	1,101
Depreciation	76	65
Auditors' remuneration:		
Audit	70	57
Other services	50	50

5. Interest payable and similar charges

	1997 £000	1996 £000
Bank loans and overdrafts repayable within five years	8,603	9,451
US private placement within 5 to 10 years	3,514	598
	12,117	10,049

6. Provisions

	1997 £000	1996 £000
Provisions against loans and investments:		
Specific provision charged in year	5,000	4,500
Written back in respect of past years	—	(33)
	5,000	4,467

7. Tax on profit on ordinary activities

	1997 £000	1996 £000
Corporation tax on the profits of the year at 33% (1996 – 33%)	6,755	6,380
Tax on franked investment income	281	185
Deferred taxation	(472)	(366)
	6,564	6,199

8. Information regarding directors and employees

	1997 £000	1996 £000
Directors' emoluments:		
Fees	103	103
Other emoluments	1,625	998
	1,728	1,101
Remuneration of Chairman:	50	50
Remuneration of highest paid director	301	201
Scale of directors' remuneration (excluding Chairman and highest paid director)	No.	No.
£5,001 – £10,000	1	2
£30,001 – £35,000	1	1
£180,001 – £185,000	1	—
£200,001 – £205,000	—	3
£255,001 – £260,000	1	—
£300,001 – £305,000	2	—
Employee costs during the year, including directors:		
Wages and salaries	2,706	1,898
Social security costs	276	197
Pension costs	195	163
	3,177	2,258
	No.	No.
Average number of employees	19	18

The performance related element included in wages and salaries is £890,000 (1996 – £280,000), which is derived as a result of the Management Incentive Scheme.

	Basic salaries £000	Annual bonuses £000	Medium term scheme £000	Pension scheme contributions £000	Benefits in kind £000	Total 1997 £000	Total 1996 £000
Executive directors:							
T R Attwood	158	100	—	24	1	283	—
T H Bartlam	200	34	66	30	1	331	227
J-L de Gersigny	200	34	66	30	1	331	227
A D Jackson	200	34	66	30	1	331	227
J R B Odgers	100	17	66	15	1	199	227
	Fees £000					Total 1997 £000	Total 1996 £000
Non-executive directors:							
C M Stuart	50					50	50
T R Attwood	—					—	10
E Kinder	33					33	33
J R B Odgers	10					10	—
R A Padgett (paid to Hermes Investment Management Limited)	10					10	10

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 £20,000,000 (1996 – £15,000,000) 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	1997 £000	Per share pence	1996 £000
Ordinary dividend				
Interim paid	4.80	2,240	4.30	2,007
Proposed final	10.60	4,947	9.10	4,247
	15.40	7,187	13.40	6,254

11. Earnings per share

The calculation of earnings per share is based on earnings of £13,596,000 (1996 – £12,871,000) and an average number of shares in issue throughout the period of 46,666,680 (1996 – 46,666,680).

12. Tangible fixed assets	Furniture & equipment £000	Short leasehold premises £000	Total £000
Group and company			
Cost			
At 1 February 1996	371	204	575
Additions	29	—	29
At 31 January 1997	400	204	604
Depreciation			
At 1 February 1996	178	83	261
Charge for the year	46	30	76
At 31 January 1997	224	113	337
Net book value			
At 31 January 1997	176	91	267
At 31 January 1996	193	121	314

13. Loans	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
Loans	243,938	202,370	231,581	183,854
Less: Specific provisions	(6,579)	(4,032)	(6,279)	(3,845)
	237,359	198,338	225,302	180,009

Additional information in respect of movements during the year is as follows:

	Group £000	Company £000
Other loans at cost		
Balance at 1 February 1996	202,370	183,854
Net additions	106,314	106,314
Realisations	(50,174)	(43,909)
Amortised discount and capitalised interest	977	—
Currency movement on foreign loans	(15,549)	(14,678)
Balance at 31 January 1997	243,938	231,581
	Group £000	Company £000
Specific provisions		
Balance at 1 February 1996	4,032	3,845
Provisions made during the year	3,000	3,000
Transfers from accrued interest	137	—
Currency movement	(590)	(566)
Balance at 31 January 1997	6,579	6,279

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 of loans, investments and guarantees made to these companies is £15,338,000 against which provisions totalling £8,580,000 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		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
Shares in group companies at cost	—	—	9,014	9,014
Other investments				
Redeemable Preference Shares (unlisted)	10,950	11,950	10,950	13,400
Redeemable Preference Shares (listed)	2,375	—	2,375	—
Equity Shares (unlisted)	4,440	3,062	3,777	1,300
Equity Shares (listed)	3	152	—	—
	17,768	15,164	17,102	14,700
Less: Specific provisions	(5,450)	(3,450)	(5,450)	(3,450)
	12,318	11,714	11,652	11,250
Total	12,318	11,714	20,666	20,264

The listed Equity Shares are listed on the London Stock Exchange and at 31 January 1997 had a market value of £3,820,000 (1996 – £7,173,000).

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 1996	15,164	14,700
Net additions	2,897	2,406
Realisations	(217)	—
Currency movement on foreign investments	(76)	(4)
Balance at 31 January 1997	17,768	17,102

	Group £000	Company £000
Specific provisions		
Balance at 1 February 1996	3,450	3,450
Provisions made during the year	2,000	2,000
Balance at 31 January 1997	5,450	5,450

15. Debtors	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
Advance corporation tax recoverable	—	—	1,237	1,062
Other debtors	1,710	1,515	581	525
Prepayments and accrued income	6,746	6,092	6,271	5,815
	8,456	7,607	8,089	7,402

Other debtors include £1,128,000 (1996 – £795,000) in respect of realisations completed in the year, but for which proceeds were not received until the following year. Prepayments and accrued income include £1,711,000 (1996 – £912,000) 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		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
Loans held for syndication	4,615	—	4,615	—

	1997 £000	1996 £000
17. Called-up share capital		
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

	Share capital £000	Share premium £000	Capital redemption reserve fund £000	Profit and loss account £000	Total £000
18. Reconciliation of shareholders' funds and movements on reserves					
Group					
Balance at 1 February 1996	9,333	32,221	1,389	26,148	69,091
Profit retained for the year	—	—	—	13,596	13,596
Dividends paid and proposed	—	—	—	(7,187)	(7,187)
Balance at 31 January 1997	9,333	32,221	1,389	32,557	75,500

£2,230,000 (1996 – £2,324,000) of the retained earnings of the group is currently regarded as non-distributable.

Company					
Balance at 1 February 1996	9,333	32,221	1,389	15,609	58,552
Profit retained for the year	—	—	—	8,060	8,060
Dividends paid and proposed	—	—	—	(7,187)	(7,187)
Balance at 31 January 1997	9,333	32,221	1,389	16,482	59,425

	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
19. Creditors: amounts falling due within one year				
Trade creditors	24	7	24	7
Accruals	3,428	2,548	3,030	2,444
Amounts owed to group companies	—	—	18,040	4,333
Dividends proposed	4,947	4,247	4,947	4,247
Taxation – corporation tax	3,543	2,824	(2,214)	(1,676)
Taxation – social security	80	64	80	64
	12,022	9,690	23,907	9,419

	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
20. Creditors: amounts falling due after one year				
US private placement	46,802	49,636	46,802	49,636
Bank loans	131,145	91,960	131,145	91,960
Bank overdraft	3,132	—	3,566	456
Other	(4,019)	(778)	(4,019)	(778)
	177,060	140,818	177,494	141,274
Prepaid expenses	(1,321)	(1,196)	(1,321)	(1,196)
	175,739	139,622	176,173	140,078

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 5 and 10 years.

	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
21. Provisions for liabilities and charges				
Deferred taxation:				
on accrued income	318	790	—	—
Balance at 1 February 1996	790		—	
Current year charge	(472)		—	
Balance at 31 January 1997	318		—	

Full provision is made for deferred tax.

	1997 £000	1996 £000
22. Net cash inflow from operating activities		
Income before provisions and taxation	25,160	23,537
Increase/(decrease) in accrued income	(1,226)	997
(Decrease)/increase in accrued interest expenses	(423)	676
Increase/(decrease) in other debtors/creditors	448	(1,280)
Amortisation of deep discount securities (net)	792	(586)
Capitalisation of interest receivable (net)	4,129	(3,488)
Net cash inflow from operating activities	28,880	19,856

	1997 £000	1996 £000
23. Analysis of changes in cash and cash equivalents during the year		
Balance at 1 February 1996	1,220	84
Net cash (outflow)/inflow	(656)	1,136
Balance at 31 January 1997	564	1,220

24. Analysis of changes in financing during the year

	Bank loans and overdraft £000	US private placement £000
Balance at 1 February 1996	91,960	49,636
Cash outflow from financing	53,615	—
Currency adjustment on foreign currency financings	(11,298)	(2,834)
Balance at 31 January 1997	134,277	46,802

25. Contingent liabilities

The company has guaranteed a total of £3,148,000 (1996 – £1,940,000) in respect of liabilities incurred by its investee companies.

26. Financial commitments

At 31 January 1997, the group estimated that it had contractual obligations to provide further funding of £3,185,000 (1996 – £2,556,000).

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 Investment Management Limited, is a non-executive director of the company. No other director has any material interests or contracts of significance.

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 on Monday, 19 May 1997 at 12 noon for the following purposes:

1. To receive and adopt the financial statements for the year ended 31 January 1997 together with the reports of the directors and auditors thereon.
2. To declare a final dividend of 10.6p per ordinary share.
3. To reappoint Deloitte & Touche as auditors and determine their remuneration.
4. To re-elect as directors:
C M Stuart
T R Attwood.
5. Special business
 - (a) To approve the Intermediate Capital Group Unapproved Share Option Scheme 1997, a summary of the principal terms of which is set out in the appendix to a letter dated 21 April 1997 from the Chairman to the members, to be constituted by the Rules set out in the document to be produced to the Meeting (a copy of which will be signed by the Chairman of the Meeting for the purpose of identification) and to authorise the directors to cause such Rules to be adopted and to give effect thereto and to do all acts and things which they may consider necessary or expedient for implementing and giving effect to the same; and
 - (b) To authorise the directors to vote at any meeting on any matter concerned with the Scheme and to be counted in the quorum for the purpose of any resolution regarding the Scheme at any meeting notwithstanding that they may be interested in the same and that the provisions of the Articles of Association of the company be and the same are hereby relaxed accordingly. Provided that no director may vote or be counted in the quorum on any matter solely concerning his own participation in the Scheme.
6. To transact any other ordinary business of the company.

By Order of the Board

J E Curtis

Secretary

4 April 1997

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.

Company Information

Financial advisers

Lazard Brothers & Co., Limited
21 Moorfields
London EC2P 2HT

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
1 Princes Street
London EC2R 8PH

Registered office

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
Caxton House
Redcliffe Way
Bristol BS99 7NH

Clockwise from top left Martin Conder; Tony Payne and Vanessa Green; Christophe Evain and Denis Viet-Jacobsen; Jean-Loup de Gersigny; Andrew Jackson and Thomas Warnholtz; John Curtis and Christophe Evain.



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