

Company No. 951043

**Mercury Asset Management
Group Ltd**

Report and Financial Statements

31 December 1998



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Company No. 951043

DIRECTORS

I C S Barby (Chairman)

S J Baxter

J Parsloe

J T Stratford

T Jones

SECRETARY

D A Searle

AUDITORS

Deloitte & Touche

Chartered Accountants

Stonecutter Court,

1 Stonecutter Street,

London

EC4A 4TR

REGISTERED OFFICE

33 King William Street

London EC4R 9AS

DIRECTORS' REPORT

The directors submit the annual report and financial statements of the Company for the nine months ended 31 December 1998.

RESULTS AND DIVIDEND

The loss of the Company for the period ended 31 December 1998, after taxation, amounted to £7,797,000 (year to 31 March 1998 - profit £38,561,000).

The directors do not recommend the payment of any dividend for the period ended 31 December 1998 (year to 31 March 1998: £22,464,000)

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The Company is the holding company of a group engaged in the provision of investment management and advisory services. This is expected to continue for the foreseeable future.

DIRECTORS AND THEIR INTERESTS

The directors who served during the period are as follows :

P G Bosonnet	(resigned 18 May 1998)
H J Foulds	(resigned 18 May 1998)
J C G Stanciliffe	(resigned 18 May 1998)
P Stormonth Darling	(resigned 18 May 1998)
I C S Barby	(appointed 18 May 1998)
S J Baxter	(appointed 18 May 1998)
J Parsloe	(appointed 18 May 1998)
J T Stratford	(appointed 18 May 1998)

Mr I C S Barby, Mr S J Baxter, Mr J Parsloe and Mr J T Stratford retired at the Annual General Meeting, held on 21st September 1998, in accordance with the Articles of Association, and were duly re-appointed.

Subsequent to the period end, T Jones was appointed director on 10 June 1999 and J Parsloe resigned on 14th October 1999.

No director held any interests in the shares of the Company or any parent company incorporated in Great Britain at 31 December 1998.

YEAR 2000

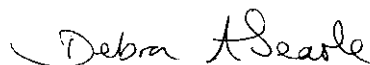
The Company is participating in a group-wide assessment of the business risks which could result from problems arising from the change of date to the Year 2000 and the development of action plans. This includes seeking assurances from service providers that appropriate strategies have been formulated to deal with these problems.

It is not possible to provide a guarantee that no Year 2000 problems will remain. However, the Board believes that an acceptable state of readiness will be achieved. The cost of implementing the action plans is recognised as incurred in the operating activities of group companies, and has not been separately identified.

AUDITORS

The Company has adopted the elective regime. Following the resignation of Ernst & Young as auditors of the Company on 29 January 1999, Deloitte & Touche were appointed.

By order of the Board



D A Searle
Secretary

Date: 19 October 1999

33 King William Street
London EC4R 9AS

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to ensure that financial statements are prepared for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the financial period, and of the profit or loss of the Company 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, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

REPORT OF THE AUDITORS

to the members of Mercury Asset Management Group Ltd

We have audited the financial statements on pages 6 to 11, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 4 the Company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

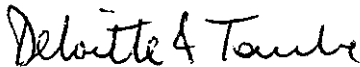
Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts 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 accounts.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 1998 and of its loss for the nine months ended 31 December 1998 and have been properly prepared in accordance with the Companies Act 1985.



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

19 October 1999

PROFIT AND LOSS ACCOUNT
for the period ended 31st December 1998

		<i>For the nine months ended 31 December 1998</i>	<i>For the year ended 31 March 1998</i>
	<i>Note</i>	<i>£'000</i>	<i>£'000</i>
Administrative expenses		(99)	(122)
Other operating income		87	469
OPERATING (LOSS)/PROFIT	2	(12)	347
Income from shares in group undertakings		-	39,300
Interest receivable and similar income		1,714	2,747
Amounts written off investments		(4,300)	-
Interest payable and similar charges		(3,285)	(4,758)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(5,883)	37,636
Taxation (charge)/credit	4	(1,914)	925
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	11	(7,797)	38,561
Dividend		-	(22,464)
RETAINED (LOSS)/PROFIT FOR THE YEAR		(7,797)	16,097

RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than the loss attributable to shareholders of the Company of £7,797,000 for the period ended 31 December 1998 and the profit of £38,561,000 for the year ended 31 March 1998. Accordingly, a statement of total recognised gains and losses has not been given.

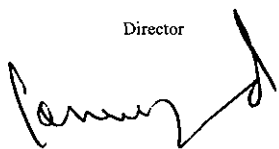
All profits and losses are in respect of continuing operations.

BALANCE SHEET
as at 31 December 1998

		31 December 1998	31 March 1998
	Note	£'000	£'000
FIXED ASSETS			
Investments	5	123,436	111,483
		<u>123,436</u>	<u>111,483</u>
CURRENT ASSETS			
Debtors falling due within one year	6	50,648	38,963
Debtors falling due after more than one year	6	17,053	25,053
Investments	7	889	986
Cash and short term deposits		5,032	4,730
		<u>73,622</u>	<u>69,732</u>
CREDITORS : amounts falling due within one year			
Loan notes	8	(29,513)	(31,856)
Other creditors	9	(95,647)	(69,664)
		<u>(125,160)</u>	<u>(101,520)</u>
NET CURRENT LIABILITIES		<u>(51,538)</u>	<u>(31,788)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>71,898</u>	<u>79,695</u>
CAPITAL AND RESERVES			
Share capital	10	9,166	9,166
Share premium	11	47,073	47,073
Capital redemption reserve		7,029	7,029
Profit and loss account	11	8,630	16,427
		<u>71,898</u>	<u>79,695</u>

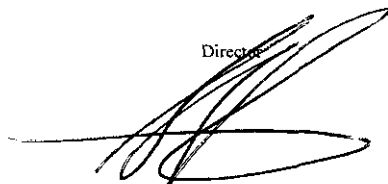
The financial statements were approved by the board of directors on 19.10.1999 and signed on its behalf by:

Director



J.T. STRATFORD

Director



S.J. BAXTER

NOTES TO THE ACCOUNTS at 31 December 1998

1 ACCOUNTING POLICIES

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The Company is exempt from the requirement to prepare group financial statements as it is itself a wholly owned subsidiary undertaking of an undertaking incorporated in the EC. These financial statements present information about the Company and not its group.

Comparative figures

Certain comparative figures in the Balance Sheet have been reclassified to reflect this periods presentation.

Investments

Investments are held at the lower of cost or directors' valuation.

2 OPERATING PROFIT

The audit fee for the period ended 31 December 1998 and the year ended 31 March 1998 was borne by a fellow subsidiary undertaking.

3 DIRECTORS AND EMPLOYEES

Directors

The Company had eight directors during the period ended 31 December 1998 (year to 31 March 1998 : thirteen). No amounts were paid in respect of the directors' services to the Company in the year. The directors are remunerated by other group companies for their services to the group as a whole.

Loans

Under the rules of a car scheme participants, including directors, are provided with loans by an overseas subsidiary of the Company to enable them to purchase a car. The loans attract interest at a market rate. At 31 December 1998, amounts due from directors in respect of these loans were as follows :

S J Baxter	£500	The maximum amount outstanding during the year was £7,000.
I C S Barby	£0	The maximum amount outstanding during the year was £500.
J Parsloe	£20,250	The maximum amount outstanding during the year was £27,000.
J T Stratford	£850	The maximum amount outstanding during the year was £3,800.

4 TAXATION

	9 months to 31 December 1998 £'000	12 months to 31 March 1998 £'000
UK corporation tax at 31% (year to 31 March 1998: 31%) based on the profit for the year	(464)	(925)
	(464)	(925)
Adjustment in respect of prior years	2,378	-
	2,378	-
Taxation charge/(credit)	1,914	(925)

The effective tax rate is higher than the statutory rate of corporation tax as no deduction against taxable profit may be taken for provisions for permanent diminution in value, and there is a charge arising on an adjustment to the provisions in respect of prior years.

NOTES TO THE ACCOUNTS

at 31 December 1998

5 FIXED ASSETS - INVESTMENT IN SUBSIDIARIES

	<i>£'000</i>
Cost :	
At 31 March 1998	111,483
Additions	16,253
Disposals	-
At 31 December 1998	<u>127,736</u>
Permanent diminution in value:	
At 31 March 1998	-
Charge for the period	4,300
Disposals	-
At 31 December 1998	<u>4,300</u>
Net book amounts:	
At 31 December 1998	<u><u>123,436</u></u>
At 31 March 1998	<u><u>111,483</u></u>

The investment in subsidiaries at 31 December 1998 of £123,436,000 represents the Company's 100 per cent holding of the issued share capital of Grosvenor Ventures Limited, Mercury Asset Management Ltd, Mercury (Finance) Ltd, Mercury Life Assurance Company Ltd, Mercury Private Equity Holdings Ltd, Mercury Private Equity MUST 3 Limited, Mercury Asset Management No. 1 Limited and 33 King William Street Ltd; and convertible loan stock of £27,345,000 in 33 King William Street Ltd.

The Company also owns 95 per cent of the issued ordinary share capital of Mercury Asset Management Holdings Ltd. The remaining 5 per cent of the issued ordinary share capital of Mercury Asset Management Holdings Ltd is held by Forum House Limited, a related party of the group.

The Company invested a further £15,000,000 in Mercury Life Assurance Company Ltd during the period in consideration for 15,000,000 £1 non-cumulative redeemable shares. These shares are redeemable on any redemption date, being 31st January, 30th April, 31st July and 31st October in each year, save that the first redemption date shall be 31st October 1998. Any redeemable shares still outstanding will be redeemed on 31st July 2003.

A permanent diminution in value of £4,300,000 has been charged to the profit and loss account in respect of a reduced directors' valuation for the subsidiary undertakings. This is due to the forthcoming termination of the Grosvenor Technology Fund, Grosvenor International Investors Fund and Third Grosvenor Fund.

The convertible loan stock was issued to the Company on 6 May 1997 by 33 King William Street Ltd. The loan stock was redeemed on 6 May 1999 for £27,940,000.

In the opinion of the directors the value of the investment is not less than the amount at which it is included in the financial statements.

NOTES TO THE ACCOUNTS
at 31 December 1998
6 DEBTORS

31 December 1998 31 March 1998
£'000 £'000

Amounts falling due within one year:

Amounts owed from subsidiary undertakings	44,588	33,620
Corporation tax recoverable	6,060	3,133
Other debtors	-	2,210
	<u>50,648</u>	<u>38,963</u>

Amounts falling due after more than one year:

Amounts owed from subsidiary undertakings	17,053	25,053
	<u>17,053</u>	<u>25,053</u>
	<u>67,701</u>	<u>64,016</u>

Prior year figures have been reclassified (see accounting policy note).

7 CURRENT ASSET INVESTMENTS

31 December 1998 31 March 1998
£'000 £'000

Listed	889	864
Unlisted	-	122
	<u>889</u>	<u>986</u>

At 31 December 1998

The market value of listed investments held by the Company at 31 December 1998 was £1,005,000 (31 March 1998: £1,063,000)

8 LOAN NOTES

31 December 1998 31 March 1998
£'000 £'000

Loan notes (2005)	29,513	31,856
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The loan notes (2005) were issued in 1995 as part of the Scheme of Arrangement of S.G. Warburg Group plc. The loan notes are unsecured and bear interest at LIBOR minus 0.5 per cent which is payable in arrears on 31st March and 30th September in each year. The loan notes are repayable on demand, in whole or in part, on any interest payment date up to and including 30th September 2005. Loan notes to the value of £2,343,000 were redeemed during the year.

9 OTHER CREDITORS : Amounts falling due within one year

31 December 1998 31 March 1998
£'000 £'000

Bank loans and overdrafts	30,000	30,000
Amounts owed to subsidiary undertakings	64,930	39,327
Accruals	717	337
	<u>95,647</u>	<u>69,664</u>

NOTES TO THE ACCOUNTS
at 31 December 1998

10 CALLED UP SHARE CAPITAL

	<i>Authorised</i>		<i>Allotted, called up and fully paid</i>	
	<i>31 December 1998</i>	<i>31 March 1998</i>	<i>31 December 1998</i>	<i>31 March 1998</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
183,327,938 Ordinary shares of 5p each (31 March 1998: 183,327,938)	12,580	12,580	9,166	9,166

11 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	<i>Share capital</i>	<i>Share premium account</i>	<i>Capital redemption reserve</i>	<i>Profit and loss account</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
At 31 March 1998	9,166	47,073	7,029	16,427	79,695
Loss for the period	-	-	-	(7,797)	(7,797)
At 31 December 1998	9,166	47,073	7,029	8,630	71,898

12 RELATED PARTIES AND ULTIMATE PARENT COMPANY

The Company is a subsidiary of ML Invest Holdings Limited, whose ultimate parent company at 31 December 1998 was Merrill Lynch & Co., Inc., registered in Delaware, USA.

The parent undertakings of the smallest and largest groups of undertakings for which group financial statements are prepared and of which the Company is a member are ML Invest Holdings Limited, a Company registered in England and Wales, and Merrill Lynch & Co., Inc., incorporated in Delaware, USA, respectively. Financial statements for ML Invest Holdings Limited may be obtained from the Company Secretary at Ropemaker Place, 25 Ropemaker Street, London EC2Y 9LY and those for Merrill Lynch & Co., Inc. from the Corporate Secretary's Office, Merrill Lynch & Co., Inc., World Financial Center, North Tower, New York, NY 10281 - 1332.

13 RELATED PARTIES

Advantage has been taken of the exemption under Financial Reporting Standard No. 8 not to disclose transactions between entities, 90% or more of whose voting rights are controlled within the Merrill Lynch & Co., Inc. group.