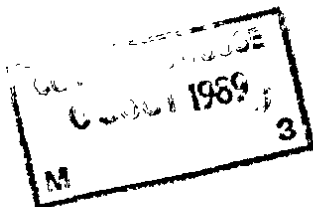


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MERCURY FUND MANAGERS LTD.

DIRECTORS' REPORT AND ACCOUNTS

31 MARCH 1989



MERCURY FUND MANAGERS LTD.

Board of directors

Chairman

C.J.P. Dawnay

Directors

R.O. Bernays

R.J.S. Clarke

F. Grant *

M.R. Granville

L.S. Licht

P.D. Orchard-Lisle

J. Parsloe

D.W.J. Price

* non-executive

MERCURY FUND MANAGERS LTD.

DIRECTORS' REPORT

The directors submit the annual report and accounts of the Company for the year ended 31st March, 1989.

ACTIVITIES AND REVIEW OF BUSINESS DEVELOPMENT

The Company acts as a manager of investment funds. The aggregate value of the unit trusts managed by the Company at 31st March, 1989 was £2,125 million. The business of the Company continues without significant change.

GROUP CHANGES

During the year, the Company disposed of its investment in Mercury Investment Services Ltd. to a fellow subsidiary.

PROFIT AND DIVIDEND

The profit of the Company for the year, after taxation, amounted to £1,529,492. During the year interim dividends totalling £1,131,000 were paid. The directors recommend that no final dividend be paid and that the balance on profit and loss account of £2,367,947 be carried forward.

DIRECTORS

Mr. C.J.P. Dawnay, Mr. R.O. Bernays, Mr. R.J.S. Clarke, Mr. F. Grant, Mr. M.R. Granville, Mr. L.S. Licht, Mr. P.D. Orchard-Lisle, Mr. J. Parsloe and Mr. D.W.J. Price served as directors of the Company throughout the year.

As at 31st March, 1989 all the directors, with the exception of Mr. Clarke, Mr. Grant, Mr. Granville and Mr. Orchard-Lisle were directors of another company of which the Company is a wholly owned subsidiary. The beneficial interests of Mr. Clarke, Mr. Grant and Mr. Granville in the shares of the Company, its holding company and other subsidiaries thereof, in accordance with the register kept by the Company, are set out below. Mr. Orchard-Lisle held no notifiable interest in the shares of these companies.

	Mercury Asset Management Group plc				S.G. Warburg Group plc	
	Ordinary shares of 5p each		Options to subscribe for ordinary shares of 5p each		Ordinary shares of 25p each	
	31 March 1989	31 March 1988	31 March 1989	31 March 1988	31 March 1989	31 March 1988
R.J.S. Clarke	851	-	12,000	12,000	-	-
F. Grant	4,884	2,884	-	-	28,096	28,096
M.R. Granville	-	-	47,500	47,500	-	-

Certain executive directors are interested as employees and potential beneficiaries under the terms of the Mercury Asset Management Employee Trust in Ordinary Shares of Mercury Asset Management Group plc held by that Trust. At 31st March, 1989 the Trust had 560,000 Ordinary Shares (1988 nil).

MERCURY FUND MANAGERS LTD.

DIRECTORS' REPORT continued

AUDITORS

The auditors, Ernst & Whinney, offer themselves for reappointment in accordance with section 384 of the Companies Act 1985, and a resolution proposing their reappointment will be submitted at the Annual General Meeting.

13th June, 1989
33 King William Street,
London, EC4R 9AS

By order of the board,

[Signature]
Secretary

REPORT OF THE AUDITORS TO THE MEMBERS OF

MERCURY FUND MANAGERS LTD.

We have audited the accounts set out on pages 5 to 10 in accordance with approved auditing standards. The accounts have been prepared under the historical cost convention.

In our opinion the accounts give a true and fair view of the state of affairs of the Company at 31st March, 1989 and of the profit and source and application of funds for the year then ended and comply with the Companies Act 1985.

Ernst & Whinney
Chartered Accountants

London

13 June , 1989

MERCURY FUND MANAGERS LTD.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 1989

	Note	1989 £	1988 £
Turnover	2	1,044,037,568	678,895,791
Cost of sales		(1,027,166,554)	(662,244,409)
Gross Profit		16,871,014	16,651,382
Administrative expenses		(15,382,479)	(15,081,563)
Interest receivable from group companies		591,813	480,198
Other interest receivable		58	486
Other income		308,052	793,316
Interest payable to group companies		(218,023)	(62,000)
Profit on ordinary activities before taxation	3	2,170,435	2,781,819
Taxation	5	(640,943)	(912,858)
Profit on ordinary activities after taxation		1,529,492	1,868,961
Balance brought forward		1,969,455	688,494
		3,498,947	2,557,455
Dividend paid		(1,131,000)	(588,000)
Balance carried forward		2,367,947	1,969,455

MERCURY FUND MANAGERS LTD.

BALANCE SHEET - 31ST MARCH, 1989

	Note	1989 £	1988 £
FIXED ASSETS			
Investments	6	-	25,000
CURRENT ASSETS			
Debtors	7	16,081,419	14,442,542
Investments	8	2,366,838	923,435
Cash at bank	9	1,657,122	14,178,692
		20,105,379	29,544,669
CREDITORS: amounts falling due within one year	10	17,637,432	27,500,214
NET CURRENT ASSETS		2,467,947	2,044,455
TOTAL ASSETS LESS CURRENT LIABILITIES		2,467,947	2,069,455
CAPITAL AND RESERVES			
Share capital	11	100,000	100,000
Profit and loss account		2,367,947	1,969,455
<i>Stuart Jones</i> <i>Chairman</i>) Directors 13th June, 1989			
		2,467,947	2,069,455

MERCURY FUND MANAGERS LTD.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED 31ST MARCH, 1989

	1989 £	1988 £
SOURCES OF FUNDS		
From Operations:		
Profit on ordinary activities before taxation	2,170,435	2,781,819
Sale of Fixed Asset Investment - Proceeds	25,000	-
	<hr/> 2,195,435	<hr/> 2,781,819
APPLICATION OF FUNDS		
Dividends paid	1,131,000	588,000
Taxation and group relief paid	1,087,427	1,008,920
	<hr/> 2,218,427	<hr/> 1,596,920
Increase in working capital	(22,992)	1,184,899
	<hr/> <hr/>	<hr/> <hr/>
Arising from movements in:		
Debtors	1,638,877	(10,798,510)
Creditors	9,416,298	3,197,904
Investments	1,443,403	(259,685)
Cash at bank	(12,521,570)	9,045,190
	<hr/> (22,992)	<hr/> 1,184,899
	<hr/> <hr/>	<hr/> <hr/>

MERCURY FUND MANAGERS LTD.

NOTES ON THE ACCOUNTS

1. Accounting policies

- (a) The accounts have been prepared under the historical cost convention.
- (b) Unlisted investments are shown at the lower of cost and directors' valuation.
- (c) Provision is made for deferred taxation to the extent that it is expected to crystallise in the foreseeable future. Deferred tax asset balances are recognised only to the extent that they are considered to be recoverable.

2. Turnover

Turnover represents management fees and proceeds on sales of units.

	1989 £	1988 £
3. Profit on ordinary activities before taxation is stated after charging		
Auditors' remuneration	11,250	13,250
	<u> </u>	<u> </u>

4. Emoluments of directors of the Company

The Company had nine directors during the year ended 31st March, 1989 (1988 ten) who are employed by an intermediate holding company which recovers its costs through service charges to group companies. No remuneration or other emoluments were paid by the Company to directors during the year ended 31st March, 1989 (1988 nil) but it is estimated that £305,000 (1988 £538,000) of the service charges borne by the Company represents directors' remuneration for services to the Company.

	1989 £	1988 £
5. Taxation		
UK corporation tax at 35%	344,172	795,213
Deferred tax	-	(87,500)
Tax on franked investment income	296,771	205,145
	<u> </u>	<u> </u>
	640,943	912,858
	<u> </u>	<u> </u>

MERCURY FUND MANAGERS LTD.

NOTES ON THE ACCOUNTS continued

	1989 £	1988 £
6. Fixed asset investments		
Cost		
At 1st April, 1988	25,000	25,000
Disposals	(25,000)	-
	<hr/>	<hr/>
At 31st March, 1989	-	25,000
	<hr/>	<hr/>
During the year the Company disposed of its investment in Mercury Investment Services Ltd. to a fellow subsidiary at book amount.		
7. Debtors	1989 £	1988 £
Trade debtors	15,127,166	13,595,568
Amount due from fellow subsidiary	96,925	-
Deferred taxation	87,500	87,500
Other debtors	769,828	759,474
	<hr/>	<hr/>
	16,081,419	14,442,542
	<hr/>	<hr/>
8. Current asset investments		
Unlisted		
Cost	2,366,838	923,435
	<hr/>	<hr/>
Directors' valuation	2,457,708	959,546
	<hr/>	<hr/>
9. Cash at bank		
Bank balance with S.G. Warburg & Co. Ltd., a fellow subsidiary	1,657,122	13,747,210
Other bank balances	-	431,482
	<hr/>	<hr/>
	1,657,122	14,178,692
	<hr/>	<hr/>

MERCURY FUND MANAGERS LTD.

NOTES ON THE ACCOUNTS continued

	1989 £	1988 £
10. Creditors: amounts falling due within one year		
Trade creditors	14,351,503	24,560,709
Amount due to fellow subsidiary	927,462	283,000
Taxation	271,586	718,070
Other creditors	2,086,881	1,938,435
	<hr/>	<hr/>
	17,637,432	27,500,214
	<hr/>	<hr/>
11. Share capital		
Authorised, allotted, called up and fully paid Shares of £1 each	100,000	100,000
	<hr/>	<hr/>
12. The Company is a wholly owned subsidiary of Mercury Asset Management Holdings Ltd. whose ultimate holding company is S.G. Warburg Group plc, Incorporated in England.		