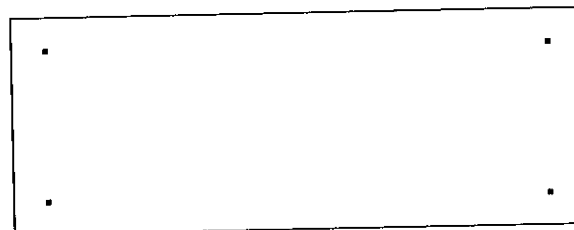


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MERCURY ASSET MANAGEMENT GROUP plc
Annual Report 31st March 1997

MERCURY ASSET MANAGEMENT GROUP plc
Annual Report 31st March 1997



MERCURY ASSET MANAGEMENT

OUR OBJECTIVE

is to be one of the most successful international investment management groups serving pension funds, other institutions and private investors.

WE SEEK

to achieve our objective by the active management of clients' portfolios, by observing the most rigorous professional standards, by maintaining the excellence of our systems and by attracting and retaining people of the highest quality.

WE MEASURE

our success by the extent to which we satisfy the changing requirements of our clients while providing increasing value to our shareholders.

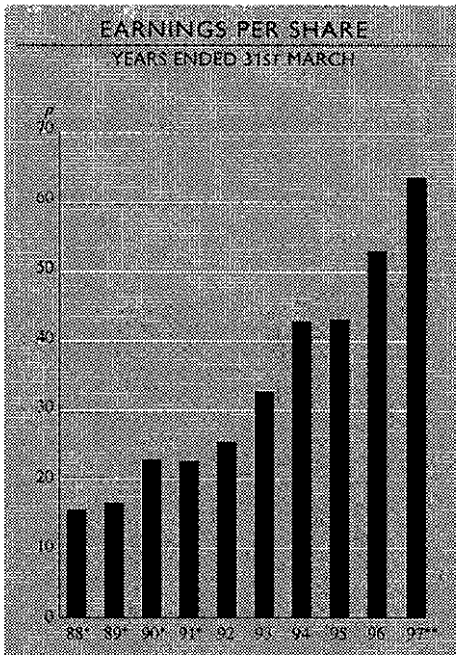
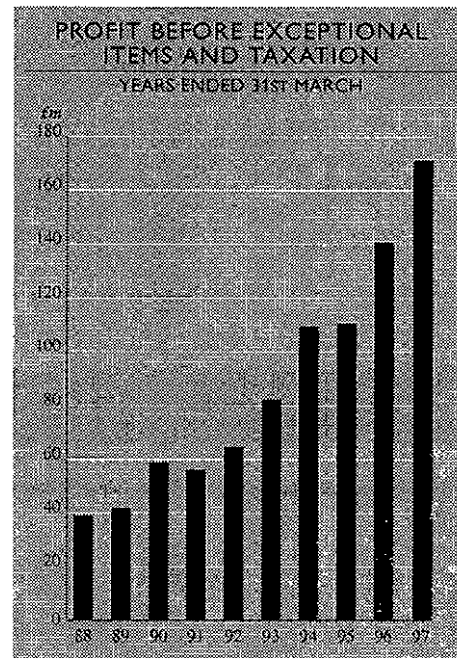
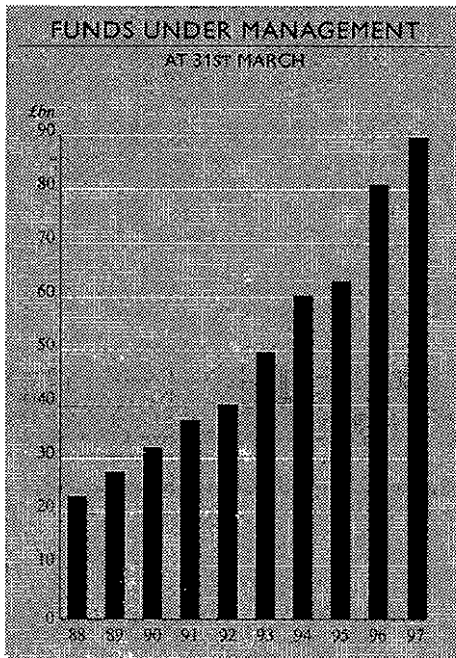
FINANCIAL HIGHLIGHTS

<i>Years ended 31st March</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>
Profit before exceptional items and taxation	£82.3m	£109.5m	£111.5m	£140.4m	£171.3m
Earnings per share	32.6p	42.9p	43.1p	53.0p	63.8p*
Ordinary dividends per share	15.0p	22.5p	26.0p	35.0p	45.0p
Equity shareholders' funds	£174.3m	£211.6m	£231.8m	£237.3m	£284.0m
Total funds under management	£49.7bn	£60.4bn	£63.5bn	£81.0bn	£89.7bn

*Adjusted to exclude exceptional items

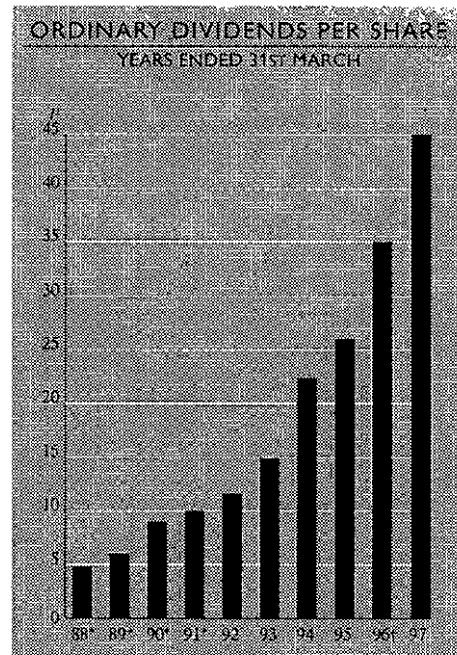
MERCURY ASSET MANAGEMENT GROUP plc
AMSTERDAM BAHRAIN BRISBANE FRANKFURT HONG KONG ISLE OF MAN
JERSEY LONDON LUXEMBOURG MADRID MELBOURNE MONTREAL NEW YORK
SEOUL SINGAPORE SYDNEY TAIPEI TOKYO ZURICH

FINANCIAL HIGHLIGHTS



*Restated for capitalisation issue in December 1991

**Adjusted to exclude exceptional items

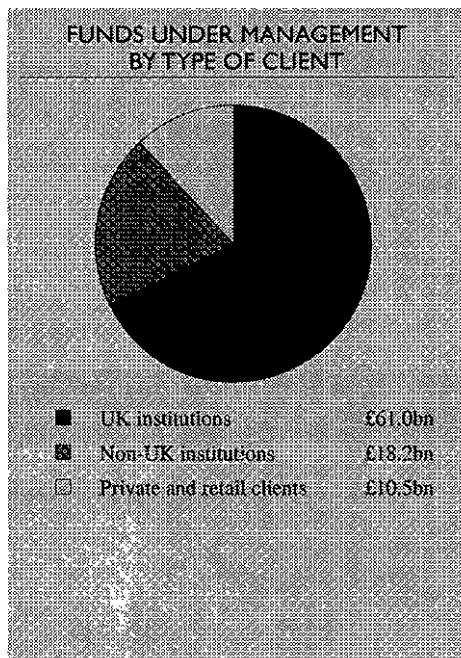


*Restated for capitalisation issue in December 1991

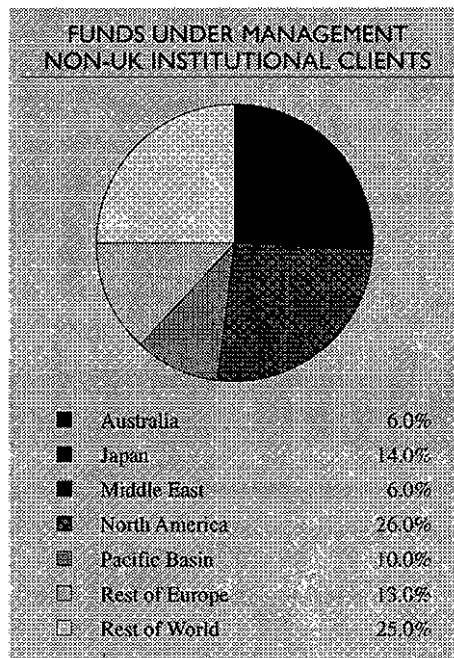
*Excluding special dividend paid in August 1995

ANALYSIS OF FUNDS UNDER MANAGEMENT

AT 31ST MARCH 1997

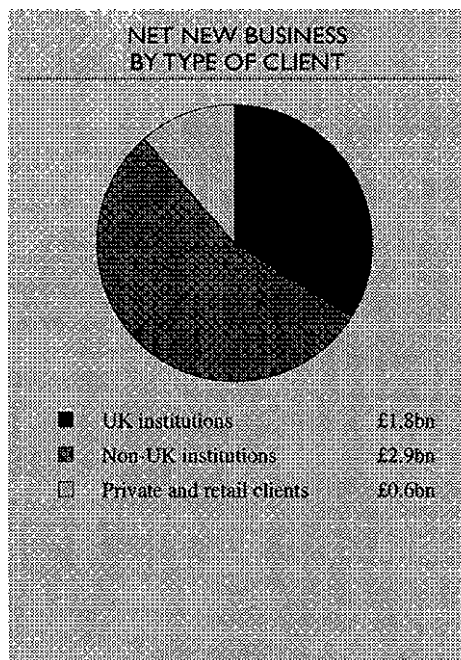


- ◆ Non-UK institutions represent over 20 per cent. of funds under management
- ◆ Mercury manages funds for over 50 of the companies in the FT-SE 100 Index

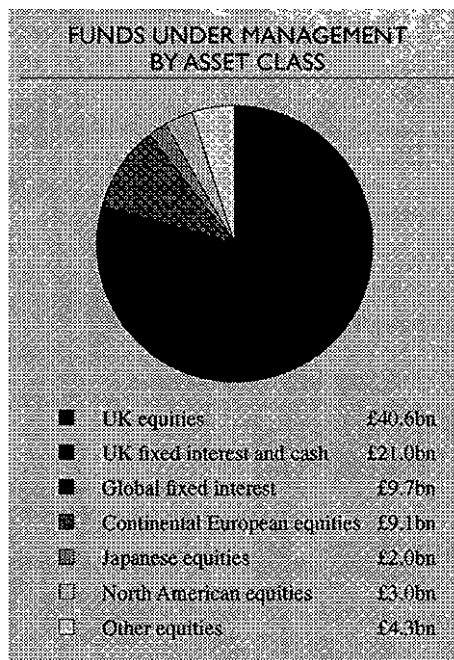


Mercury's clients include

- ◆ 5 of the 10 largest pension funds in the world
- ◆ 25 of the largest 50 Japanese corporate pension funds



- ◆ Record net new business of £5.3 billion
- ◆ Non-UK institutional business has grown at a compound annual growth rate of over 20 per cent. in the last five years



- ◆ 34 per cent. of funds under management invested in cash and fixed interest securities
- ◆ Over 20 per cent. invested in non-UK equities

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CHAIRMAN'S STATEMENT

GROUP RESULTS

This has been another eventful year, during which Mercury was able to maintain its record of profitable growth.

- Profit before exceptional items and taxation increased from £140.4 million to £171.3 million.
- Adjusted earnings per share rose from 53.0p to 63.8p.
- Equity shareholders' funds increased from £237.3 million to £284.0 million.
- Net new business amounted to £5.3 billion.
- Funds under management increased from £81.0 billion to £89.7 billion.

Turnover from continuing activities amounted to £344.6 million, an increase of 27.3 per cent. over the comparable figure for the previous year. In addition to the net new business referred to above, we received a number of portfolio reorganisation fees and significantly higher performance fees as a result of good investment performance achieved for clients. Stock market levels were also favourable.

Increased operating costs reflect greater expenditure on systems and infrastructure, the consolidation of our subsidiary in Australia for a full year and higher variable remuneration.

Other income includes profits of £9.9 million realised on the disposal of certain private equity investments to which we had committed funds alongside our clients.

The rise in funds under management was due to the increase in value of clients' assets, to net new business from both new and existing clients and to the net effect of inflows and outflows from clients' portfolios. Funds under management at the year end were reduced by £1.8 billion of funds managed by our subsidiary in Switzerland, which was sold on 28th February 1997.

DIVIDENDS

The Board is recommending a final dividend of 35.0p per share which, combined with the interim dividend declared in November 1996, results in ordinary dividends for the year of 45.0p per share, an increase of 28.6 per cent. over the ordinary dividends paid in respect of the previous year.

CHAIRMAN'S STATEMENT

continued

The total dividends will be covered 1.44 times by the profit attributable to members of the Company before exceptional items. The Board considers this level of cover to be appropriate, given our cash flow and the liquidity of our balance sheet.

EXCEPTIONAL ITEMS

The accompanying accounts include two exceptional items, the net effect of which is to create an exceptional credit of £7.8 million. Details are given in the Financial Review on page 12.

In accordance with our strategy of concentration on our core expertise of investment management, we sold our Swiss banking subsidiary, Mercury Bank, to RNB Republic National Bank of New York (Suisse) SA. The final proceeds of sale are dependent on the outcome of Mercury Bank's business during 1997. In these accounts we have taken credit for the minimum proceeds of £97.8 million and for the minimum profit arising from this transaction of £17.9 million, which has been treated as an exceptional credit.

An exceptional charge of £10.1 million has been made in this year's accounts to take account of a change in the rules regarding employers' National Insurance contributions which took effect on 5th December 1996. In the past, the distribution of shares in a company to its employees was exempt from National Insurance contributions. We are advised that, whether we continue to follow this practice or whether we make cash payments to our employees instead, we will be liable to account for National Insurance contributions not only in respect of annual remuneration but also in respect of compensation deferred from earlier years.

TRANSFER OF THE CUSTODY OF CLIENTS' ASSETS

For many years, S.G.Warburg was the custodian of most of the assets which we manage for clients. We also co-operated with S.G.Warburg to offer fund administration services. Following the acquisition of S.G.Warburg's investment banking business, Swiss Bank Corporation gave notice that they wished to terminate these arrangements. The custody and fund administration business of S.G.Warburg has now been acquired by a new banking subsidiary of The Royal Bank of Scotland, RBS Trust Bank, to which The Royal Bank of Scotland is transferring its own custody and fund administration business. We will have a continuing financial interest in the new bank in the form of £30 million of convertible loan stock issued by the bank's immediate holding company.

CHAIRMAN'S STATEMENT

continued

Our clients will continue to receive high quality custody, administration and banking services under arrangements governed by the terms of a Services Agreement between RBS Trust Bank and Mercury. The transfer of our clients' assets to the new bank was successfully completed shortly before the end of our financial year.

BALANCE SHEET

Recent events have caused us to review the level of our capital resources. Our clients expect us to have a strong balance sheet and a prudent level of liquidity. It has therefore been our practice to keep our share capital and reserves at a level well in excess of that required by our regulators and by the day-to-day needs of the business. We have also arranged a standby loan facility in an amount of £250 million from a syndicate of banks. We have no present intention of drawing down this loan, but it will give us immediate access to a substantial source of liquidity should the need for it ever arise.

We consider that our shareholders' funds (which stood at £284.0 million at the year end), together with the £250 million loan facility, represent an appropriate level of capital and liquidity for our current business. It follows that the Board does not believe that it would be in the interests of shareholders to reduce the capital of the Company at this time by a repayment to shareholders. Subject to the Company's future results, however, it remains our intention to maintain a relatively high level of distribution by way of dividend.

BUSINESS

We have conducted an extensive review of all aspects of our business including fund management, research, client service, business controls and management information. We have also analysed the markets in which we operate. This has led us to make changes both to the manner in which we carry out our business and to our organisation and management.

Our strategy is simple and clear. We seek to grow our business profitably by concentrating on fund management – the activity on which our reputation is based and through which we can create the greatest value for our shareholders. We do not, however, seek growth for its own sake. We do not have the resources to pursue every market and every possibility for new business. We therefore judge the opportunities open to us above all against the yardstick of profitability and we focus on the products and markets where we see particular opportunities.

CHAIRMAN'S STATEMENT

continued

In order to sustain our record of profitable growth, we must not only build on our achievements in the United Kingdom, but we must also grow our international business. We must offer our clients products backed by internationally competitive investment performance and by internationally competitive standards of client service. In recent years our international activities have grown faster than our business in the United Kingdom.

Against this background, we have again made good progress, both in terms of the performance achieved for clients and new business gained. By way of example:

- In Australia, we had a successful year; we are beginning to benefit from the fact that our Australian company is now a wholly-owned member of the group. We have an attractive retail business and government legislation relating to compulsory funding of pension schemes has increased the demand for international investment services in this market.
- Funds managed by our subsidiary in Germany doubled to nearly DM2 billion. The majority of opportunities in Germany to date have been in the insurance sector. This year we won our first corporate mandate.
- In Japan, further liberalisation of the pension fund industry, combined with a greater emphasis by clients on performance, led to encouraging inflows of funds. We won 20 new pension fund accounts and received significant additional inflows from existing clients. We now manage the equivalent of over £1.7 billion on behalf of 62 pension fund clients in the private and public sectors. This represents the largest number of such mandates managed by a foreign fund manager.
- In the United Kingdom, we further increased our share of the market for the management of defined benefit pension schemes. It is now three years since we established six separate teams to concentrate more closely on the particular needs of different client groups. We have seen new business gains across all of these teams. Funds under management for our defined contribution product exceeded £1 billion for the first time and we now manage part or all of the assets for over 200 defined contribution schemes. The prospect of regular inflows from this type of scheme provides a strong foundation for the future. Our Integrated Service offers a combination of investment management provided by Mercury and member administration undertaken by The Equitable Life Assurance Society.

CHAIRMAN'S STATEMENT

continued

The private equity division increased its funds under management from £400 million to £600 million following the successful launch of a third investment fund. On behalf of clients the division made new investments of over £75 million and realised over £200 million from trade sales and flotations.

We have been particularly active this year in transition management, implementing the reorganisation of clients' portfolios, a business which has grown significantly in recent years.

■ In the United States we added over \$1 billion in new assets with major plan sponsors; the new money reflected our success in obtaining international specialist mandates. We have expanded the range of products which we offer and now manage \$6.5 billion from this market.

■ Following the review of the investment management of our retail funds to which I referred last year, improved performance figures have resulted in Mercury becoming the third largest manager of unit trusts in the United Kingdom. Mercury Selected Trust, our flagship offshore fund, has reached US\$2 billion.

■ Mercury's private client and charity businesses had strong inflows during the year and funds under management now total £6.0 billion.

PEOPLE

I am sincerely grateful to all the members of the firm who have produced these results.

It is a cliché – but no less true for that – that our people are the firm's greatest asset. This is true of all the activities which go towards our total effort. As an independent fund management company with a large international business, we must be excellent in all areas if we are to succeed. We compete for the best people, just as we compete for our clients' mandates, and we go to great lengths to recruit and retain them. We use the Investors in People framework in communicating openly within the firm and in providing the highest standards of training and development.

We also foster a culture in which people can make their best contribution as part of a team and within the framework of a strong control environment – through clear accountability and reporting lines, documented operating procedures and controls, and the segregation of tasks so that no one individual is in a position to control a transaction from beginning to end.

CHAIRMAN'S STATEMENT

continued

If we are to create wealth for our shareholders, we must also reward those who create that wealth in such a way as to retain and motivate them. Since 1989 we have deferred significant amounts of employee compensation, on the basis that any payment is conditional on continued employment and that the amount receivable is normally dependent on the level of the Company's share price. The price of the shares has risen during this period from £1.92 per share at 31st March 1989 to £12.71 at 31st March 1997 and the market capitalisation of the Company has increased from £338 million to over £2 billion. This success in achieving returns for shareholders has increased the value of the deferred compensation, in which over 190 employees participate. During the year the estimated net present value of the liability for remuneration deferred in this way rose to over £100 million. By the year end the liability was £74.4 million, principally as a result of disposals by employees of rights to deferred compensation which had accrued over a number of years.

At the forthcoming Annual General Meeting, we will be seeking the approval of shareholders for the introduction of a new share option plan. This will replace the executive share option scheme, established in 1987, under which no further grants may be made.

David Price, one of our Deputy Chairmen, has decided to retire at the end of this year's Annual General Meeting. He joined Mercury in 1969, the year in which the Company was incorporated, and his career with the firm therefore spans the whole of the growth and development of its business during this time. We are very grateful to him for the exceptional contribution which he has made.

OUTLOOK

It is now ten years since the flotation of Mercury as a public company. During that time funds under management have risen from £21.4 billion to £89.7 billion (a compound annual growth rate of 15.4 per cent.) and earnings per share have increased from 9.8p to 63.8p (a compound annual growth rate of 20.6 per cent.). We now manage money for over half the companies which are members of the FT-SE 100 Index and for 25 of the largest 50 Japanese corporate pension funds. Our clients include 5 of the 10 largest pension funds in the world. Over the ten years, the total return to shareholders has exceeded their investment by over 22 times; £1,000 invested in the Company's shares at the time of flotation, together with reinvested dividends, would currently be worth over £22,000.

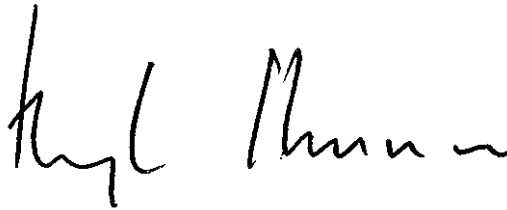
CHAIRMAN'S STATEMENT

continued

Shareholders cannot necessarily expect these rates of growth to be sustainable in the future. For most of the past ten years there has been an extremely favourable climate for portfolio investment. Our revenues vary with the levels of the stock and bond markets in which our clients' funds are invested and more than ever it is impossible to predict the outcome for the coming year.

We are, however, fortunate to operate in a growth industry which offers us many opportunities. Throughout the world, greater emphasis is being placed on funded retirement schemes, on cross border flows of capital and on high quality active fund management.

Provided that we can continue to add value for our clients by offering products which are internationally competitive both in terms of performance and client service, and provided that we can attract, retain and motivate the best people, I have no doubt that we can build on the profitable growth of our business.

A handwritten signature in black ink, appearing to read 'Nigel Munro', with a stylized flourish at the end.

FINANCIAL REVIEW

ACCOUNTING DISCLOSURES

The financial statements include additional disclosures for related party transactions in accordance with FRS 8 and the cash flow statement has been modified in line with the revisions to FRS 1.

RESULTS

The group's results for the year ended 31st March 1997 are summarised below:

	1997 £000	1996 £000	% change
Profit before exceptional items and taxation			
– continuing activities	163,026	129,690	25.7
– discontinued activities	8,314	10,767	(22.8)
Profit before exceptional items	171,340	140,457	22.0
Exceptional items	7,830	–	–
Profit before taxation	179,170	140,457	27.6

DISCONTINUED ACTIVITIES

With effect from 1st March 1997 the group's wholly owned subsidiary, Mercury Bank, was sold to RNB Republic National Bank of New York (Suisse) SA. The results of Mercury Bank to the date of disposal are shown under the heading of discontinued activities in the profit and loss account.

EXCEPTIONAL ITEMS

The profit of £17.9 million arising on the sale of Mercury Bank is the principal exceptional item. The sale contract provides that part of the consideration will be repayable to RNB Republic National Bank of New York (Suisse) SA if funds under management from existing clients are reduced significantly at 1st December 1997. The minimum proceeds and the minimum profit arising from this transaction have been recognised in these accounts.

Certain of the group's long term incentive schemes allow for payments to be satisfied by the distribution of Mercury shares. Recent changes in legislation brought such distributions within the scope of employers' National Insurance and accordingly an exceptional charge of £10.1 million has been made for the liability to employers' National Insurance contributions based on the net present value of deferred compensation outstanding at 5th December 1996.

Last year the group received £35.0 million from S.G.Warburg Group plc ("SGW") in connection with the Company's separation from SGW which, together with the related costs of the same amount, was shown as an exceptional item.

FINANCIAL REVIEW

continued

TURNOVER

Turnover from continuing activities increased by 27.3 per cent. during the year. Turnover comprises fees (89.7 per cent.), initial charges for unit dealing (2.4 per cent.) and commissions (7.9 per cent.). Good investment performance resulted in a significant increase in performance fees. The disposal of unquoted securities held on behalf of clients gave rise to substantial gains, in which the group participates by way of additional management fees. The group also received a significant level of fees for portfolio reorganisations during the year. The aggregate level of these three categories of income increased from 4.0 per cent. to 10.9 per cent. of turnover.

OPERATING COSTS

Operating costs from continuing activities, which include for the first time the consolidation of Mercury Asset Management Limited in Australia for a full year, rose by 29.3 per cent. Variable remuneration and the provision for deferred compensation increased as a result of the higher level of profits. The recruitment of additional staff both to support the existing business and to broaden the range of skills within the group, together with IT expenditure and other infrastructure costs, all contributed to the increase in operating expenses.

OTHER INCOME

Other income from continuing activities increased by 39.1 per cent. to £20.2 million in the year. Other income includes realised gains of £15.0 million and dividends from the group's own account investments. A significant proportion of the realised gains arose from the disposal of unlisted investments to which the group had committed funds alongside its clients.

ASSOCIATED UNDERTAKINGS

Amounts reported under this heading relate to the group's share of profit before taxation earned from investments in Munich London Investment Management and NBK Investment Management for the year ended 31st March 1997.

NET INTEREST RECEIVABLE

The increase in net interest income from continuing activities arose as a result of higher levels of cash balances and fixed interest investments held for the group's own account and is shown after deducting interest payable both on loan notes issued by the group and on bank overdrafts.

FINANCIAL REVIEW

continued

TAXATION

Taxation on the group's profit increased from £43.6 million to £57.3 million. The charge represents an effective tax rate of 32.0 per cent. (1996 31.0 per cent.) and is below the standard UK corporation tax rate of 33 per cent., principally as a result of the lower levels of taxation applicable to the profits of certain of the group's operating subsidiaries overseas. An analysis of the tax charge is provided in Note 7 on the accounts.

DIVIDENDS

The directors have recommended a final dividend of 35.0p per share, bringing total ordinary dividends for the year to 45.0p per share, an increase of 28.6 per cent. on the previous year. The group's intention is to maintain a relatively high level of distribution by way of dividend, subject to future profits.

CASH FLOW

The group continued to enjoy strong cash flow. Operating cash flow and cash flow from investment income earned on the group's own account investments, after payment of taxation, amounted to £112.1 million during the year. This was used to pay ordinary dividends of £69.9 million, to acquire certain of the minority interests in Mercury Investment Trust Management Co. Ltd in Japan, to purchase tangible fixed assets and to invest in £30 million of convertible loan stock issued by RBSTB (Holdings) Limited. As a result of the sale of Mercury Bank the group realised £102.6 million of cash and disposed of cash balances of £30.1 million. The net cash flow of £72.5 million was added to the group's net funds.

CAPITAL

Equity shareholders' funds at 31st March 1997, including £224.1 million of distributable reserves, amounted to £284.0 million. Approximately 50 per cent. of this sum is required to meet the regulatory capital requirements of the Investment Management Regulatory Organisation (IMRO) and other authorities in the UK and overseas and for other capital purposes.

Clients expect the group to have a strong balance sheet and a prudent level of liquidity. Accordingly, share capital and reserves have been kept at a level well in excess of that required for regulatory purposes and day-to-day business needs. The net capital resources of the group are invested mainly in cash and fixed interest securities in order to maintain liquidity.

FINANCIAL REVIEW

continued

A standby loan facility of £250 million was established after the end of the financial year to provide immediate liquidity, should the need arise. Amounts may be drawn down under the facility during an initial three year period. The facility expires in April 2002.

RISK MANAGEMENT

The system of internal financial control which is in operation within the group is described on pages 31 and 32. The investment of the group's capital is managed by a committee comprising members of the Board and senior fund managers. Portfolio limits for different asset classes are authorised by the Board which also sets monetary limits for individual investments and foreign exchange exposures. The group deals only with highly rated banking counterparties as determined by independent credit agencies.

The group does not hedge its exposure to exchange risks arising from investments in, or dividends receivable from, overseas subsidiaries. Exchange gains or losses arising on the translation of the balance sheets of overseas subsidiaries are shown as movements on reserves. Other reserve movements include the effect of the depreciation of the Swiss Franc on the group's investment in Mercury Bank until 1st December 1996, when agreement was reached for the sale of the bank.

DIRECTORS

EXECUTIVE DIRECTORS

H A Stevenson *Chairman*

Hugh Stevenson has been a director of the Company since 1986 and was appointed Chairman in 1992. He is also Deputy Chairman of the Institutional Fund Managers' Association and a director of the Investment Management Regulatory Organisation Limited (IMRO) and the Securities Institute. Aged 54.

D W J Price *Deputy Chairman*

David Price joined the group in 1969. He was appointed a director of the Company in 1978 and a Deputy Chairman in 1987. He will retire from the Board at the close of this year's Annual General Meeting. He is also a director of Mercury European Privatisation Trust plc, Govett Oriental Investment Trust plc and The Equitable Life Assurance Society. Aged 49.

S A Zimmerman *Deputy Chairman†*

Stephen Zimmerman joined the group in 1971. He was appointed a director of the Company in 1979 and a Deputy Chairman in 1990. He chairs the Major Projects Group and is also responsible for the private equity and property divisions and for the group's Treasury function. Aged 48.

C Galley *Vice Chairman**

Carol Galley joined the group in 1971. She was appointed a director of the Company in 1982 and Vice Chairman in 1995. She chairs the Business Review Group and is also responsible for the UK Institutional division. Aged 48.

D J Causer*†

David Causer joined the group in 1988 and was appointed a director of the Company in 1995. He is the group's finance director. Aged 47.

A S Dalton

Andrew Dalton joined the group in 1972 and was appointed a director of the Company in 1983. He oversees a number of international mandates and takes a particular interest in the Company's operations in the Far East. Aged 48.

C N Hurst-Brown†

Nigel Hurst-Brown joined the group and was appointed a director of the Company in 1990. He is a member of the Major Projects Group, focusing on the group's business strategy and development. Aged 45.

C V Jackson*

Charles Jackson joined the group in 1985 and was appointed a director of the Company in 1993. He is responsible for the group's fixed interest business. Aged 43.

F D S Rosier*

David Rosier joined the group in 1978 and was appointed a director of the Company in 1982. He is responsible for the group's retail funds and private client business. Aged 46.

DIRECTORS

continued

NON-EXECUTIVE DIRECTORS

P G Bosonnet CBE

Paul Bosonnet was appointed a director of the Company in 1991. He is a former director of British Telecommunications plc and LucasVarity PLC. Aged 64.

H J Foulds

Jon Foulds was appointed a director of the Company in 1989. He is Chairman of the Halifax Building Society and a director of Pan-Holding SA. Aged 65.

J C G Stancliffe

John Stancliffe was appointed a director of the Company in 1996. He is a former director of S.G.Warburg Group plc and has been Chairman of Mercury Keystone Investment Trust plc since 1979. He is a non-executive director of David S. Smith (Holdings) plc. Aged 65.

P Stormonth Darling

Peter Stormonth Darling has been a director of the Company since 1969 and was Chairman from 1979 until 1992. He is Chairman of Mercury European Privatisation Trust plc, a director of Scottish Equitable plc, Scottish Hydro Electric plc and a number of investment trusts and is a member of the United Nations Pension Fund Investments Committee. Aged 64.

All the non-executive directors are members of the Audit Committee and the Senior Appointments and Remuneration Committee.

SECRETARY AND REGISTERED OFFICE

C B Farquharson

33 King William Street
London EC4R 9AS

* member of the Business Review Group

† member of the Major Projects Group

DIRECTORS' REPORT

The directors submit the annual report and financial statements of the Company and its subsidiaries for the year ended 31st March 1997.

ACTIVITIES

The Company is the holding company, listed on the London Stock Exchange, of a group engaged in the provision of investment management and advisory services.

A review of the group's activities and operations during the year and of events which have occurred since the year end, together with an indication of future developments, is given in the Chairman's Statement on pages 5 to 11.

RESULTS AND DIVIDENDS

The results of the group are set out in the consolidated profit and loss account on page 36. Profit before exceptional items and taxation for the year was £171.3 million. Profit before taxation but after exceptional items for the year was £179.2 million. The group profit for the year, after taxation and minority interests, was £121.8 million.

An interim dividend of 10.0p per share was paid on 3rd January 1997 to shareholders on the register on 26th November 1996. The directors recommend the payment on 2nd July 1997 to shareholders on the register at the close of business on 6th June 1997 of a final dividend of 35.0p per share, bringing total ordinary dividends for the year to 45.0p per share, compared with 35.0p for the previous year.

The cost of the dividends paid and proposed for the year ended 31st March 1997 amounts to £81.0 million.

DIRECTORS

The names of the directors of the Company are set out on pages 16 and 17. Mr P W Urquhart and Sir Alfred Shepperd retired from the Board on 26th June 1996. In accordance with the Articles of Association, Mr Bosonnet, Mr Foulds and Mr Hurst-Brown retire by rotation and, being eligible, offer themselves for reappointment. Mr Price, who also retires by rotation, will not be seeking reappointment and will retire from the Board at the end of the Annual General Meeting.

No director has a contract or an interest in any contract (other than a contract of service which is determinable within one year) with the Company or any of its subsidiaries.

The interests of the directors in shares in the Company and details of directors' remuneration are set out in the Report of the Senior Appointments and Remuneration Committee on pages 21 to 30.

SUBSTANTIAL INTERESTS

At 21st May 1997, the Munich Reinsurance Company had a beneficial interest in 7,614,786 shares in the Company, representing 4.17 per cent. of the issued share capital. So far as the directors are aware, no other person has a notifiable interest in the share capital of the Company.

DIRECTORS' REPORT

continued

GROUP CHANGES

Significant changes in the group structure are detailed below. A full list of subsidiary and associated companies will be attached to the Company's annual return and filed with the Registrar of Companies.

On 28th February 1997, Mercury Holdings BV, an indirectly wholly owned subsidiary of the Company, sold its entire beneficial holding of ordinary shares in the capital of Mercury Bank AG to RNB Republic National Bank of New York (Suisse) SA. Details of the consideration received are given in Note 13 on the accounts on page 49.

On 22nd March 1997, the sale was completed of the Custody and Investor Services Division of S.G.Warburg & Co. Ltd, its related banking business and its Luxembourg branch to RBS Trust Bank Ltd, a newly incorporated subsidiary of The Royal Bank of Scotland plc. The transaction included the sale of certain assets used in the custody business owned by Mercury and its Luxembourg subsidiary and the acquisition by a subsidiary of Mercury of £30 million convertible loan stock issued by RBSTB (Holdings) Limited, the immediate parent company of RBS Trust Bank Ltd. Subject to various conditions, the loan stock will be convertible into ordinary shares between 2003 and 2011. Mercury also has a right, under a Put and Call Option Agreement, to require The Royal Bank of Scotland plc to purchase £15 million of convertible loan stock in 2002. In 2007, Mercury has a further put option, and The Royal Bank of Scotland plc has a call option, over £15 million of convertible loan stock or any lesser amount of such loan stock held by Mercury at that time. Subsidiaries of Mercury and of The Royal Bank of Scotland plc in Jersey have entered into separate agreements designed to replicate these arrangements in Jersey.

On 19th March 1997, the group purchased from certain minority shareholders a further 2,490 shares in Mercury Investment Trust Management Co. Ltd in Japan, increasing the group's holding in that company to 80 per cent. The cost was equivalent to £2.3 million.

EMPLOYMENT POLICIES

The Company achieved accreditation as an Investor in People in 1995. It is the policy of the group to provide employees with information on matters of concern to them as employees and to consult with them on a regular basis. Subject to the constraints of confidentiality of clients' affairs, employees are kept informed of developments within the group through newsletters and by the distribution of announcements released to the press. Information provided to shareholders is also made readily available to staff. Measures are taken to foster a common awareness on the part of all employees of the financial and economic factors affecting the performance of the group.

The involvement of employees in the group's performance is encouraged through participation in profit related pay and profit sharing schemes. In addition, certain senior employees, including directors, have been granted options under the group's executive share option scheme and participate in deferred compensation schemes. It is the policy of the group to give full and fair consideration to applications for employment from disabled people having regard to their particular aptitudes and abilities. Should employees become

DIRECTORS' REPORT

continued

disabled, every effort is made to retain them in their employment or to consider them for other positions. For the purposes of training, career development and promotion, disabled employees are treated in the same way as other employees.

POLICY ON PAYMENT OF SUPPLIERS

It is the general policy of the Company and its subsidiaries to pay for the supply of goods and services within 30 days of the date of any invoice. In addition, for certain suppliers, the arrangements for payment are settled when agreeing the terms of each transaction.

The number of days outstanding between receipt of invoices and date of payment, calculated by reference to the amount owed to trade creditors at the year end as a proportion of the amounts invoiced by suppliers during the year, was 29 days.

CHARITABLE CONTRIBUTIONS

The total sum donated during the year by the Company and its subsidiaries to charitable organisations in the UK was £300,000. The group matches contributions made by all UK employees under a Give As You Earn scheme and donations made by employees to certain specified charities.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company is to be held at 12 noon on Wednesday, 25th June 1997 at Painters' Hall, 9 Little Trinity Lane, London EC4V 2AD. Details of the resolutions to be proposed at the Annual General Meeting are given in the Notice of Meeting and Explanatory Notes on pages 60 to 62. Additional information about the proposal to introduce a new share option plan, which will also be put forward for approval at the Annual General Meeting, is given in a separate letter to shareholders included with the Annual Report.


The directors believe that all the resolutions are in the best interests of the Company and its shareholders as a whole and accordingly recommend shareholders to vote in favour of the resolutions. The directors intend to vote in favour of these resolutions in respect of their own beneficial shareholdings amounting to 2,281,708 shares, being 1.25 per cent. of the Company's issued share capital.

CORPORATE GOVERNANCE

A summary of the Company's compliance with The Code of Best Practice established by the Cadbury Committee is set out on pages 31 and 32.

AUDITORS

A resolution proposing the reappointment of Ernst & Young as auditors will be submitted to the Annual General Meeting.


By order of the Board
C B Farquharson
Secretary

33 King William Street
London EC4R 9AS
21st May 1997

REPORT OF THE SENIOR APPOINTMENTS AND REMUNERATION COMMITTEE

1 THE SENIOR APPOINTMENTS AND REMUNERATION COMMITTEE

The Senior Appointments and Remuneration Committee ("the Committee") determines the Company's policy on executive remuneration and the individual remuneration of each of the executive directors. The Committee consists of Mr Bosonnet (Chairman), Mr Foulds, Mr Stancliffe and Mr Stormonth Darling. The members of the Committee have no personal financial interest in the matters to be decided other than as shareholders, no potential conflicts of interest arising from cross-directorships, and no day-to-day involvement in running the business. The Committee consults the Chairman of the Company about its proposals, other than in relation to his own remuneration, and has access to professional advice from both inside and outside the Company.

The Committee considers that, throughout the year ended 31st March 1997, the Company complied with the principles of Section A of the best practice provisions derived from The Report of the Study Group on Directors' Remuneration chaired by Sir Richard Greenbury and annexed to the London Stock Exchange Listing Rules. In framing its remuneration policy, the Committee has given full consideration to Section B of those provisions.

2 REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

General The creation of long term value for shareholders depends on the talents, contribution and commitment of those who work in the business. The Company's success has been due to its ability to attract and retain people of the highest quality. The Company competes internationally and it is essential that the remuneration structure should be competitive with that of other fund management groups and investment banks with which comparisons are made. The Company's remuneration policy seeks to limit the fixed cost element of executive remuneration, whilst providing the opportunity for significant variable remuneration in the form of bonuses and participation in deferred equity schemes.

Contracts of employment In common with the policy for all senior employees of the group, the contract of employment for each executive director is terminable within six months. The contracts do not provide for the payment of compensation other than as determined by statute.

REPORT OF THE SENIOR APPOINTMENTS AND REMUNERATION COMMITTEE

continued

Salary and bonus Salaries are set at a level so as to comprise a relatively small proportion of total compensation in order to restrict the fixed cost base of the business. Only two executive directors have received increases in salary since 1st April 1993.

Over 600 employees, including executive directors of the Company, are eligible to receive discretionary bonuses. These payments are not taken into account in calculating pension entitlements. The Committee evaluates the contribution of each executive director by reference to individual management and professional performance, the overall profitability of the group and to competitive market conditions. Part of the bonus may be deferred for five years and is only payable if the director remains in employment with the group. Directors may relinquish part of their bonus and the Company may subsequently agree to augment the director's pension fund by an equivalent amount.

All employees, including executive directors, participate in the profitability of the group through approved profit sharing and profit related pay schemes. Amounts paid under these schemes depend on the performance of the group and are subject to the statutory limits applicable to such schemes from time to time.

Deferred equity A fundamental element in the remuneration structure has been the creation of a deferred interest in the Company's share price. Over 190 executives, including executive directors, participate in these arrangements. Any payment is normally conditional on the continued employment of the participant for at least five years and the amount receivable is normally dependent on the future level of the Company's share price, so as to align more closely the interests of directors and executives with those of shareholders.

The liability under these arrangements is partly offset by investments held by the Mercury Asset Management Group Employee Trust, including holdings of the Company's shares purchased in the market.

Executive directors have also participated, along with over 290 other employees, in the Company's executive share option scheme. No further grants may now be made under this scheme, which was introduced over ten years ago. Details of proposals to establish a replacement share option plan are included in a separate letter to shareholders.

REPORT OF THE SENIOR APPOINTMENTS AND REMUNERATION COMMITTEE

continued

Pensions All the executive directors and other eligible employees participate in the non-contributory Mercury Asset Management Group plc Pension and Life Assurance Scheme ("the Scheme"). This is a 1/50th final salary scheme accruing over a maximum of 33 years. For the purposes of the Scheme, salary does not include discretionary bonuses or payments under deferred equity arrangements. Additionally, a number of senior employees, including Mr Hurst-Brown, have unfunded, unapproved pension arrangements providing identical pension benefits in respect of salary in excess of the earnings cap (currently £84,000 per annum).

Regulations concerning the disclosure of directors' pension entitlements have not yet been incorporated in the London Stock Exchange Listing Rules. The Company has complied with the recommendations made by the Institute of Actuaries and the Faculty of Actuaries on 30th April 1996 that directors' entitlements should be disclosed using methods based on accrued benefits and transfer values.

Under the accrued benefit method, the amounts disclosed represent the change in the annual pension to which each director is entitled as a result of changes in pensionable earnings and increases in pensionable service during the year. For this purpose, changes in pensionable earnings to compensate for general price inflation are excluded. Under the transfer value method, the amounts disclosed represent the present capital values of the changes in directors' pension entitlements disclosed under the accrued benefits method.

External appointments The executive directors are not normally permitted to hold positions as non-executive directors of listed companies unconnected with the group. Any fees paid to executive directors in respect of other directorships are normally surrendered to the group.

3 REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS

The remuneration of non-executive directors is determined by the Board in accordance with the Articles of Association by reference to the time commitment expected from them and to information regarding the level of such remuneration in comparable companies.

In addition to remuneration received by the non-executive directors in that capacity, certain non-executive directors receive compensation for consultancy services provided to the group. Mr Stancliffe is the chairman of the Private Equity Division Advisory Committee, of which Mr Foulds is also a member. Mr Stormonth Darling is a director of a number of offshore funds and investment trusts connected with the group.

REPORT OF THE SENIOR APPOINTMENTS AND REMUNERATION COMMITTEE

continued

4 DIRECTORS' REMUNERATION

The remuneration before taxation received by the directors is set out below:

	1997 Salary and directors' fees £000	1997 Other fees Note 1 £000	1997 Taxable benefits Note 2 £000	1997 Annual bonus Note 3 £000	1997 Total £000	1996 Total £000
EXECUTIVE						
H A Stevenson	225	—	5	750	980	686
D W J Price	200	—	9	13	222	358
S A Zimmerman	225	—	11	1,400	1,636	935
C Galley	210	—	1	1,400	1,611	717
D J Causer	100	—	12	175	287	230
A S Dalton	125	—	9	325	459	414
C N Hurst-Brown	150	—	5	400	555	509
C V Jackson	120	—	8	360	488	438
F D S Rosier	150	—	14	450	614	514
P W Urquhart*	31	—	1	—	32	263
	1,536	—	75	5,273	6,884	5,064
NON-EXECUTIVE						
P G Bosonnet	26	—	—	—	26	15
H J Foulds	19	10	—	—	29	25
Sir Alfred Shepperd*	4	4	—	—	8	30
J C G Stancliffe	25	25	—	—	50	—
P Stormonth Darling	19	37	—	—	56	53
	93	76	—	—	169	123
	1,629	76	75	5,273	7,053	5,187

*until date of resignation

Note 1: Other fees were paid during the year to Mr Foulds, Sir Alfred Shepperd, Mr Stancliffe and Mr Stormonth Darling in respect of particular services provided to operating divisions of the group, which fell outside the scope of their activities as non-executive directors.

Note 2: Taxable benefits include such items as car allowance, life assurance, medical cover, mortgage subsidy, permanent health insurance and personal accident insurance.

REPORT OF THE SENIOR APPOINTMENTS AND REMUNERATION COMMITTEE

continued

	1997 Pensions (Accrued Benefit) £000	1997 Pensions (Transfer Value) £000	1996 Pensions (Accrued Benefit) £000	1996 Pensions (Transfer Value) £000
EXECUTIVE				
H A Stevenson (<i>Note 4</i>)	2	28	—	—
D W J Price	2	17	—	—
S A Zimmerman	2	19	—	3
C Galley	2	19	5	47
D J Causer (<i>Note 4</i>)	3	28	1	11
A S Dalton	1	11	—	3
C N Hurst-Brown	3	21	2	19
C V Jackson	2	14	2	12
F D S Rosier	2	18	1	5
P W Urquhart*	1	7	2	17
	20	182	13	117

*resigned 26th June 1996

Note 3: In addition to the amounts shown in respect of annual bonuses, the following amounts have been awarded to executive directors by way of a deferred bonus which is dependent upon remaining in continued employment within the group for five years from the date of the award:

	1997 £000	1996 £000
H A Stevenson	600	200
S A Zimmerman	600	400
C Galley	600	400
D J Causer	150	—
C N Hurst-Brown	150	—
C V Jackson	250	—
F D S Rosier	250	—

Note 4: In addition to the amounts shown in respect of pensions, Mr Stevenson and Mr Causer elected to relinquish certain bonuses during the year amounting to £250,000 (1996 £150,000) and £25,000 (1996 £25,000) respectively and the Company subsequently agreed to augment their pension funds by an equivalent amount.

REPORT OF THE SENIOR APPOINTMENTS AND REMUNERATION COMMITTEE

continued

5 DIRECTORS' INTERESTS IN SHARES

The market price of shares in the Company at 31st March 1997 was 1271p (1996 880p). The market price of shares during the year ended 31st March 1997 ranged from 880p to 1425p.

BENEFICIAL AND NON-BENEFICIAL INTERESTS IN SHARES

The interests of the directors in shares in the Company at the beginning and end of the year are set out below:

	Mercury Asset Management Group plc Ordinary Shares of 5p each	
	31st March 1997	1st April 1996
Beneficial interests in shares		
H A Stevenson	173,316	172,455
D W J Price	467,016	502,038
S A Zimmerman	417,416	416,488
C Galley	145,498	144,427
D J Causer	2,981	2,511
A S Dalton	469,874	426,603
H J Foulds	3,610	3,239
C N Hurst-Brown	9,648	8,866
C V Jackson	153,949	163,089
F D S Rosier	123,970	123,119
J C G Stancliffe	43,636	43,636
P Stormonth Darling	345,794	385,787
Non-beneficial interests in shares		
H A Stevenson	545,136	563,620
D W J Price	8,094	8,094
F D S Rosier	21,500	–
P Stormonth Darling	69,000	50,000

During the year Mr Bosonnet held no notifiable interests in shares in the Company.

Executive directors, together with other employees, are interested as potential beneficiaries under the terms of the Mercury Asset Management Group Employee Trust in shares in the Company held by that Trust. At 31st March 1997 the Employee Trust held 2,639,280 shares in the Company (1996 3,355,924).

Mr Price sold 75,000 shares on 15th May 1997, reducing his beneficial holding to 392,016 shares. No other changes in the interests of directors had been notified up to 21st May 1997.

REPORT OF THE SENIOR APPOINTMENTS AND REMUNERATION COMMITTEE

continued

THE EXECUTIVE SHARE OPTION SCHEME

The executive share option scheme was established on 16th February 1987 and no further grants of options may now be made. Options granted under this scheme are exercisable as to one half after three years from the date of grant. The balance is exercisable after five years only if the growth in earnings per share of the Company over a five year period has been at least equivalent to that of the upper quartile of companies within the FT-SE 100 Index. Options are not granted at a discount to the market price.

Options are granted at the discretion of the Share Option Regulating Committee, which is made up of Mr Stevenson and the non-executive directors, with the aim of retaining and motivating key employees.

The interests of the directors in options to subscribe for shares in the Company under the executive share option scheme at the beginning and end of the year are set out below:

	1st April 1996	Granted during year	Exercised during year	31st March 1997	Exercise price	Exercise period
H A Stevenson	250,000	—	—	250,000	320p	1995-2002
D J Causer	10,000	—	—	10,000	562p	1997-2004
	12,000	—	—	12,000	863p	1998-2005
	—	12,000	—	12,000	957p	1999-2006

On 12th June 1996 Mr Causer was granted an option to subscribe for 12,000 shares in the Company at an exercise price of 957p per share. The market price of shares on the date of grant was 957p.

It is proposed that a new share option plan should be introduced to replace the executive share option scheme. Full details are given in an accompanying letter to shareholders.

REPORT OF THE SENIOR APPOINTMENTS AND REMUNERATION COMMITTEE

continued

6 DIRECTORS' INTERESTS IN DEFERRED EQUITY

From 1989 to 1994, the executive directors, together with other senior employees, participated in a deferred stock appreciation rights scheme and, since 1994, in a deferred phantom share scheme.

Deferred stock appreciation rights scheme A deferred rights scheme was established in 1989 which entitles participants to benefit from upward movements in the market price of the Company's shares over an extended period. Deferred rights granted under this scheme normally vest at any time between five years and twenty years from the date of grant, subject to continued employment with the group. The price used on the date of exercise is the average of the closing mid-market prices of shares on the three dealing days immediately prior to the date of exercise.

The rules of the scheme were changed on 17th March 1994, 24th July 1995 and 20th December 1996 in respect of certain grants of deferred rights. On 17th March 1994, certain grants were varied such that the amounts receivable would no longer be dependent on the Company's share price but on market returns as applied to an initial value of 700p each at the date of variation ("700p rights"). On 24th July 1995, following the Scheme of Arrangement of S.G. Warburg Group plc, certain grants were similarly varied by reference to an initial value of 900p each ("900p rights"). On 20th December 1996, certain grants were similarly varied by reference to an initial value of 1200p each ("1200p rights"). In consideration for these variations, the vesting period in each case was re-set and, for a proportion of the varied rights, was accelerated.

The interests of the executive directors in deferred rights at the beginning and end of the year are set out below:

	1st April 1996				31st March 1997				Weighted average base price (p)
	700p basis	900p basis	Market price basis	Disposed during year	700p basis	900p basis	1200p basis	Market price basis	
H A Stevenson (i)	–	105,000	105,000	–	–	105,000	52,500	52,500	350
D W J Price (i)	362,500	76,250	76,250	(31,250)	362,500	76,250	–	45,000	224
S A Zimmerman (i)	362,500	76,250	76,250	(362,500)	–	76,250	22,500	53,750	361
C Galley (i)	300,000	57,500	132,500	(108,125)	300,000	57,500	8,125	16,250	215
D J Causer (ii)	25,000	8,875	17,750	(33,875)	–	–	–	17,750	390
A S Dalton (ii)	100,000	19,375	38,750	(143,125)	–	–	–	15,000	413
C N Hurst-Brown (i)	300,000	43,750	43,750	(198,750)	120,000	43,750	12,500	12,500	247
C V Jackson (ii)	8,333	20,625	41,250	(53,333)	–	–	2,813	14,062	425
F D S Rosier (ii)	300,000	51,250	51,250	(70,000)	300,000	–	16,250	16,250	195
P W Urquhart*	125,000	41,250	41,250	(207,500)	–	–	–	–	–

*Resigned from the Board on 26th June 1996; retired on 10th July 1996.

(i) Vesting period until 2015. (ii) Vesting period until 2013.

The weighted average base price is calculated in accordance with the recommendations set out in the Urgent Issues Task Force Abstract Number 10.

REPORT OF THE SENIOR APPOINTMENTS AND REMUNERATION COMMITTEE

continued

During the year, directors disposed of the following rights:

Director	Number of rights	Year of grant	Date of disposal	1997 Gain £000	1996 Gain £000
D W J Price	31,250	1991	1st April 1996	184	536
S A Zimmerman	362,500	1990	24th March 1997	2,245	536
C Galley	75,000	1989	6th December 1996	776	--
	25,000	1991	6th December 1996	234	
	8,125	1992	24th March 1997	65	
D J Causer	25,000	1990	1st April 1996	152	174
	8,875	1991	1st April 1996	48	
A S Dalton	100,000	1990	16th May 1996	666	109
	19,375	1991	16th May 1996	140	
	18,750	1991	3rd June 1996	130	
	5,000	1992	20th December 1996	39	
C N Hurst-Brown	180,000	1990	1st April 1996	1,014	--
	18,750	1991	12th February 1997	203	
C V Jackson	8,333	1990	1st April 1996	50	562
	20,625	1991	1st April 1996	115	
	18,750	1991	1st April 1996	110	
	5,625	1992	23rd January 1997	44	
F D S Rosier	18,750	1991	7th January 1997	178	536
	51,250	1991	24th March 1997	309	
P W Urquhart*	18,750	1991	30th May 1996	128	--
	125,000	1990	5th July 1996	756	
	41,250	1991	5th July 1996	250	

*Resigned from the Board on 26th June 1996; 22,500 deferred rights held by Mr Urquhart lapsed upon his retirement on 10th July 1996.

Deferred phantom share scheme A deferred phantom share scheme was established in 1994. Grants under the scheme are in the form of deferred rights to receive a bonus of an amount equivalent to the value of a specified number of shares in the Company. The deferred rights may vest at any time between five years and twenty years from the date of grant, subject to continued employment with the group.

The rules of the scheme were changed on 24th July 1995 and 20th December 1996 in respect of certain grants of deferred rights. Certain grants were varied such that the amounts receivable would no longer be dependent on the Company's share price but on market returns as applied to an initial value of 900p and 1200p respectively at the date of variation. In consideration for these variations, the vesting period was re-set and, for a proportion of such deferred rights, was accelerated.

REPORT OF THE SENIOR APPOINTMENTS AND REMUNERATION COMMITTEE

continued

The interests of the directors in deferred phantom shares at the beginning and end of the year are set out below:

	1st April 1996		Disposed during year	31st March 1997		
	900p basis	Market price basis		900p basis	1200p basis	Market price basis
H A Stevenson	150,000	300,000	–	150,000	112,500	187,500
D W J Price	75,000	75,000	–	75,000	–	75,000
S A Zimmerman	250,000	475,000	(118,750)	250,000	118,750	237,500
C Galley	200,000	425,000	(263,750)	–	148,750	212,500
D J Causer	–	25,000	–	–	12,500	12,500
A S Dalton (i)	17,500	60,000	(32,500)	–	–	45,000
C N Hurst-Brown	62,500	112,500	–	62,500	56,250	56,250
C V Jackson (i)	17,500	75,000	(36,248)	–	9,377	46,875
F D S Rosier	87,500	162,500	(58,100)	29,400	81,250	81,250
P W Urquhart	35,000	35,000	(35,000)	35,000	–	–

(see Note)

All vesting periods until 2015. (i) Vesting periods on outstanding deferred phantom shares do not commence until 1999.

Note: 35,000 deferred phantom shares held by Mr Urquhart lapsed upon his retirement on 10th July 1996. The outstanding 900p deferred phantom shares remain outstanding for a period of 12 months from the date of retirement. They vested as to 50 per cent. on 1st September 1995 and 50 per cent. on 1st April 1996, and are not dependent on the Company's share price.

During the year, directors disposed of the following rights:

Director	Number of rights	Year of grant	Date of disposal	1997 Amount realised £000	1996 Amount realised £000
S A Zimmerman	118,750	1994	24th March 1997	1,446	–
C Galley	200,000	1994	24th March 1997	1,977	–
	63,750	1994	24th March 1997	776	–
A S Dalton	17,500	1994	16th May 1996	208	157
	15,000	1994	20th December 1996	180	–
C V Jackson	17,500	1994	1st April 1996	164	160
	18,748	1994	23rd January 1997	226	–
F D S Rosier	58,100	1994	24th March 1997	649	–

CORPORATE GOVERNANCE

The Board, which currently comprises nine executive directors and four non-executive directors (including the former Chairman of the Company), is responsible to shareholders for the proper management of the group.

Throughout the year ended 31st March 1997, the Company complied with The Code of Best Practice incorporated in the report of the Cadbury Committee.

The Board is responsible for the group's system of internal financial control, which has been designed to provide reasonable, but not absolute, assurance against material misstatement or loss. The Board has reviewed the effectiveness of the system of internal financial control which was in operation within the group throughout the year ended 31st March 1997. After making enquiries, the Board has a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future.

The Board meets at least six times a year and has adopted a schedule of matters reserved for its decision. Such matters include approval of the annual and interim reports sent to shareholders, consideration of major capital projects, significant acquisitions and disposals, changes in the management and commercial strategy of the group and approval of the annual budget and business plan. Within the group, a comprehensive budgeting and accounting system provides management information on a regular basis to assess actual performance against the budget approved by the Board.

Executive responsibility for the management of the business of the group rests with Group Management, a committee comprising Mr Stevenson, Mr Zimmerman and Miss Galley. The committee is also responsible for all senior personnel issues and for the firm's external relationships. It receives reports from the two principal management committees – the Major Projects Group, chaired by Mr Zimmerman and the Business Review Group, chaired by Miss Galley.

The Major Projects Group reviews major issues affecting Mercury, including the assessment of opportunities for acquisitions, disposals, joint ventures and distribution alliances and discussions with external contacts.

The Business Review Group supervises the ongoing management of the business divisions and shared services teams, such as Human Resources, Finance, IT and Research. Its work includes the agreement of business plans and budgets, the analysis of progress against these targets and the review of specific operational issues.

CORPORATE GOVERNANCE

continued

The Audit Committee of the Board is chaired by Mr Stancliffe. The other members of the Committee are Mr Bosonnet, Mr Foulds and Mr Stormonth Darling. The Committee meets not less than four times a year to review the scope and findings of the internal and external auditors' work, the interim and annual reports prior to their publication, the application of the group's accounting policies and any changes to financial reporting requirements and to receive reports on regulatory compliance. The Audit Committee also plays an important part in reviewing the group's system of internal financial control.

The Senior Appointments and Remuneration Committee is chaired by Mr Bosonnet. The other members of the Committee are Mr Foulds, Mr Stancliffe and Mr Stormonth Darling. The Committee reviews matters of remuneration policy for senior executives and considers nominations to the Board. The Report of the Senior Appointments and Remuneration Committee is set out on pages 21 to 30.

The controls over key risk areas such as credit and control procedures, investment performance, business development and treasury operations are reviewed by management committees which report to the Board on a regular basis. In addition, the Audit Committee receives reports from both the internal and external auditors on their reviews of financial controls and operating procedures.

A framework has been established for principal business units to report to the internal audit department on operational control procedures. The internal auditors monitor these returns and reassess business risks on a regular basis, reporting to the Audit Committee on the effectiveness of current control procedures and highlighting any areas of concern.

The business of the group and the activities of its employees are also subject to the regulations and controls of external authorities both in the UK and overseas and the group has an established compliance function which monitors adherence with legal and regulatory requirements and internal procedures.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- select suitable accounting policies and apply them consistently;
- make judgments 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 the going concern basis unless it is inappropriate to presume that the company 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 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 ON CORPORATE GOVERNANCE MATTERS

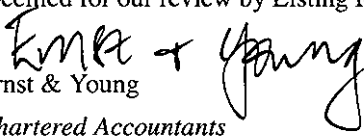
In addition to our audit of the accounts, we have reviewed the directors' statements on pages 31 and 32 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the accounts. The objective of our review is to draw attention to any non-compliance with Listing Rules 12.43 (j) and 12.43 (v).

We carried out our review in accordance with guidance issued by the Auditing Practices Board and assessed whether the directors' statements on going concern and internal financial control are consistent with the information of which we are aware from our audit. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures nor on the ability of the Company to continue in operational existence.

OPINION

With respect to the directors' statements on internal financial control and going concern on pages 31 and 32, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are consistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain directors and officers of the Company and examination of relevant documents, in our opinion the directors' statements on pages 31 and 32 appropriately reflect the Company's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43 (j).


Ernst & Young
Chartered Accountants

London

21st May 1997

REPORT OF THE AUDITORS

To the members of Mercury Asset Management Group plc

We have audited the financial statements on pages 36 to 59 which have been prepared under the historical cost convention, as modified by the revaluation of investments included in life assurance assets, and on the basis of the accounting policies set out on pages 41 and 42. We have also examined the amounts disclosed relating to the emoluments, share options and interests in deferred equity schemes of the directors which form part of the report to shareholders by the Senior Appointments and Remuneration Committee on pages 21 to 30.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 33, 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 financial statements and to report our opinion to you.

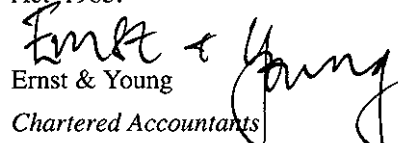
BASIS OF OPINION

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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group'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 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 of the group at 31st March 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.


Ernst & Young
Chartered Accountants
Registered Auditor

London

21st May 1997

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st March	Note	Before exceptional items		Including exceptional items	
		1997 £000	1996 £000	1997 £000	1996 £000
TURNOVER	2				
Continuing activities		344,573	270,579	344,573	270,579
Discontinued activities		11,923	15,770	11,923	15,770
		356,496	286,349	356,496	286,349
OPERATING COSTS	3				
Continuing activities		(219,877)	(170,057)	(229,977)	(205,057)
Discontinued activities		(10,848)	(13,740)	(10,848)	(13,740)
		(230,725)	(183,797)	(240,825)	(218,797)
OPERATING PROFIT					
Continuing activities		124,696	100,522	114,596	65,522
Discontinued activities		1,075	2,030	1,075	2,030
		125,771	102,552	115,671	67,552
OTHER INCOME					
Continuing activities		20,151	14,482	20,151	49,482
Discontinued activities		3,722	4,763	3,722	4,763
Profit on sale of Mercury Bank AG	13	–	–	17,930	–
Share of profits of associated undertakings		2,156	1,804	2,156	1,804
NET INTEREST RECEIVABLE	4				
Continuing activities		16,023	12,882	16,023	12,882
Discontinued activities		3,517	3,974	3,517	3,974
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5				
Continuing activities		163,026	129,690	152,926	129,690
Discontinued activities		8,314	10,767	26,244	10,767
		171,340	140,457	179,170	140,457
Taxation	7	(54,829)	(43,576)	(57,334)	(43,576)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		116,511	96,881	121,836	96,881
Minority interests		(41)	(218)	(41)	(218)
Profit attributable to members of the Company	8	116,470	96,663	121,795	96,663
DIVIDEND					
Ordinary	9			(80,983)	(62,728)
Special	9			–	(18,226)
RETAINED PROFIT FOR THE YEAR				40,812	15,709
EARNINGS PER SHARE	10	63.8p	53.0p	66.7p	53.0p

Movements in reserves are set out in Note 22 on page 55.

CONSOLIDATED BALANCE SHEET

At 31st March	Note	1997 £000	1996 £000
FIXED ASSETS			
Tangible assets	11	15,497	21,638
Investments	12	50,425	24,390
		65,922	46,028
CURRENT ASSETS			
Life assurance assets	14	1,043,772	667,340
Debtors	15	175,667	134,781
Investments	16	287,132	242,147
Loans and advances		—	71,662
Cash and short term deposits		149,319	189,940
		1,655,890	1,305,870
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Amounts due to policyholders	14	(1,043,772)	(667,340)
Deposits by banks		—	(55,629)
Customer accounts		—	(55,505)
Loan notes	17	(37,576)	(51,319)
Other creditors	18	(302,093)	(228,626)
NET CURRENT ASSETS		272,449	247,451
TOTAL ASSETS LESS CURRENT LIABILITIES		338,371	293,479
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
PROVISIONS FOR LIABILITIES AND CHARGES	19	(30,360)	(41,870)
	20	(22,495)	(9,923)
		285,516	241,686
CAPITAL AND RESERVES			
Called up share capital	21	9,132	9,127
Share premium account	22	43,711	43,122
Capital redemption reserve	22	7,029	7,029
Profit and loss account	22	224,128	178,042
EQUITY SHAREHOLDERS' FUNDS		284,000	237,320
Minority interests		1,516	4,366
		285,516	241,686

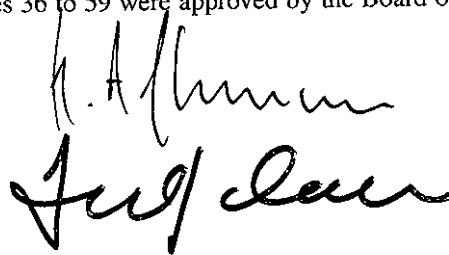
COMPANY BALANCE SHEET

At 31st March	Note	1997 £000	1996 £000
FIXED ASSETS			
Investments	12	110,441	80,441
CURRENT ASSETS			
Debtors	15	123,572	119,042
Investments	16	1,384	7,661
Cash and short term deposits		2,422	3,616
		127,378	130,319
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Loan notes	17	(36,121)	(48,998)
Other creditors	18	(140,773)	(102,001)
NET CURRENT LIABILITIES		(49,516)	(20,680)
TOTAL ASSETS LESS CURRENT LIABILITIES		60,925	59,761
CAPITAL AND RESERVES			
Called up share capital	21	9,132	9,127
Share premium account	22	43,711	43,122
Capital redemption reserve	22	7,029	7,029
Profit and loss account	22	1,053	483
EQUITY SHAREHOLDERS' FUNDS		60,925	59,761

The financial statements on pages 36 to 59 were approved by the Board on 21st May 1997 and signed on its behalf by:

H A Stevenson

D J Causer



CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March	Note	1997 £000	1996 £000
CASH FLOW FROM OPERATING ACTIVITIES AND EXCEPTIONAL ITEMS	23		
Continuing activities		108,901	155,983
Discontinued activities		15,479	20,590
		124,380	176,573
Returns on investments and servicing of finance	24	23,567	25,924
Taxation	24	(35,820)	(41,093)
Capital expenditure and financial investment	24	(32,817)	(10,417)
Acquisitions and disposals	24	70,160	(8,085)
Dividends paid		(69,949)	(66,573)
CASH FLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING		79,521	76,329
Management of liquid resources	24	(56,222)	(69,176)
FINANCING			
Issue of ordinary share capital	24	594	625
Share issue costs	24	--	(950)
(Decrease)/increase in debt	24	(5,743)	48,307
INCREASE IN CASH	24	18,150	55,135

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

For the year ended 31st March	Note	1997 £000	1996 £000
INCREASE IN CASH		18,150	55,135
Cash flow from decrease/(increase) in debt	24	5,743	(48,307)
Cash flow from increase in liquid resources		56,222	69,176
Other non cash movements		7,568	6,043
Movement in liquid resources in the period		87,683	82,047
Brought forward:			
Net funds		250,807	174,352
Mercury Bank AG cash balances		30,385	24,793
		281,192	199,145
NET FUNDS AT THE END OF THE PERIOD	25	368,875	281,192

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31st March	1997 £000	1996 £000
Profit for the financial year	121,795	96,663
Exchange adjustments	(15,252)	(428)
TOTAL RECOGNISED GAINS AND LOSSES	106,543	96,235

RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

For the year ended 31st March	1997 £000	1996 £000
OPENING EQUITY SHAREHOLDERS' FUNDS	237,320	231,823
Profit for the financial year	121,795	96,663
Dividends	(80,983)	(80,954)
Share issue costs	—	(950)
Exchange adjustments	(15,252)	(428)
New share capital subscribed	594	625
Goodwill reinstated on disposal of Mercury Bank AG	21,255	—
Goodwill written off	(729)	(9,459)
CLOSING EQUITY SHAREHOLDERS' FUNDS	284,000	237,320

NOTES ON THE ACCOUNTS

1 ACCOUNTING POLICIES

Accounting convention The financial statements have been prepared under the historical cost convention, except for the revaluation of investments included in life assurance assets, and in accordance with applicable accounting standards.

Basis of consolidation The consolidated financial statements are based on the financial statements of the Company and its subsidiaries for the year ended 31st March 1997. In cases where subsidiaries have year ends other than 31st March, the most recent audited statutory accounts and management accounts to 31st March 1997 have been used. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the date of acquisition to the date of sale respectively.

Turnover Turnover represents fees receivable for investment management services, together with commissions received on certain securities transactions and initial charges earned on the sale of collective investment schemes. Performance fees, which are based on the investment performance achieved for certain client portfolios, are recognised only when the amounts have been determined.

Translation of foreign currencies Monetary assets and liabilities in foreign currencies have been translated at exchange rates ruling at the balance sheet date. The results of overseas subsidiaries and associated undertakings have been translated at average rates for the year.

Exchange differences arising on the translation of net assets of overseas subsidiaries and associated undertakings are taken to reserves and all other differences are dealt with through the profit and loss account.

Depreciation of tangible fixed assets Tangible fixed assets are capitalised and are written down to their estimated residual value by equal monthly instalments over their expected useful lives, as follows:

Leasehold property and improvements	Fifteen years or term of lease if shorter
Motor vehicles	Four years
Office fixtures and furniture	Five years

Investments Investments in subsidiaries are carried at cost, except where provision is made for a permanent diminution in value. Investments in associated undertakings are carried at the attributable share of their net tangible assets. Money market instruments and listed investments are shown at the lower of cost and market value and unlisted investments at the lower of cost and directors' valuation.

NOTES ON THE ACCOUNTS

continued

1 ACCOUNTING POLICIES *continued*

Stocks Holdings in unitised funds managed by the group are valued at the lower of cost and market value and are included in current asset investments in the consolidated balance sheet.

Pension fund contributions Funded defined benefit pension schemes cover the majority of the group's permanent employees. Contributions made to the pension funds operated by the group are charged to the profit and loss account so as to spread the cost over the expected service life of employees, based on advice from external actuaries. The costs of discretionary pension increases and valuation differences arising from actuarial valuations of the group's pension funds are spread over the estimated average remaining service life of employees in the funds. Differences between the amounts funded and the amounts charged to the profit and loss account are treated either as provisions or as prepayments in the balance sheet.

Post retirement benefits other than pensions The cost of providing post retirement benefits other than pensions is charged to the profit and loss account so as to spread the cost over the estimated average remaining expected service life of employees, based on advice from external actuaries.

Deferred taxation Provision for deferred taxation is made on a full provision basis in respect of post retirement benefits. Deferred taxation balances are recognised for other timing differences to the extent that they are expected to reverse in the future without being replaced. Provision is made for additional taxation on the retained profits of overseas subsidiaries or associated undertakings to the extent that the retained profits are expected to be remitted to the UK.

Goodwill Any excess of consideration over the fair value of net assets acquired or arising on the consolidation of subsidiaries or investments in associated undertakings is written off against reserves in the year of acquisition.

Leases Payments under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

Brokers' and clients' balances Purchases and sales of securities for clients other than unit trusts are undertaken by the group, acting as agent. Balances with brokers and clients arising from these transactions are not included in the group's balance sheet.

NOTES ON THE ACCOUNTS

continued

2 SEGMENTAL INFORMATION

The group has one principal activity which is the provision of investment management and advisory services; as a consequence no analysis by business type is provided.

Because many of the group's overseas clients are serviced from the UK the directors do not consider that the following analysis, which has been provided in order to comply with Statement of Standard Accounting Practice 25, gives a fair reflection of the importance of the group's international business. Turnover, profit on ordinary activities before taxation and net assets by geographical segment are analysed as follows:

	1997 Continuing activities £000	1997 Discontinued activities £000	1997 Total £000	1996 Continuing activities £000	1996 Discontinued activities £000	1996 Total £000
<i>Turnover by location of client</i>						
UK (including Channel Islands)	284,197	–	284,197	227,572	–	227,572
Other Europe	12,826	11,923	24,749	10,552	15,770	26,322
Rest of World	47,550	–	47,550	32,455	–	32,455
	344,573	11,923	356,496	270,579	15,770	286,349
<i>Turnover by location of operating company</i>						
UK (including Channel Islands)	316,181	–	316,181	254,502	–	254,502
Other Europe	6,635	11,923	18,558	4,579	15,770	20,349
Rest of World	21,757	–	21,757	11,498	–	11,498
	344,573	11,923	356,496	270,579	15,770	286,349
<i>Profit before taxation by location of operating company excluding exceptional items</i>						
UK (including Channel Islands)	153,365	–	153,365	124,745	–	124,745
Other Europe	2,800	8,314	11,114	(52)	10,767	10,715
Rest of World	6,861	–	6,861	4,997	–	4,997
	163,026	8,314	171,340	129,690	10,767	140,457
			1997 £000			1996 £000
<i>Net assets by location of operating company</i>						
UK (including Channel Islands)			182,257			151,598
Other Europe			81,813			69,027
Rest of World			21,446			21,061
			285,516			241,686

NOTES ON THE ACCOUNTS

continued

3 OPERATING COSTS – EXCEPTIONAL ITEMS

The group operates unapproved deferred stock appreciation rights and other schemes under which payments may be made in the form of shares in the Company.

Following changes to the legislation governing payment of employers' National Insurance contributions on such compensation, an exceptional charge of £10,100,000 has been made to cover the estimated liability for National Insurance contributions arising on such schemes up to the date on which the legislation became effective. The charge for National Insurance contributions from that date to 31st March 1997 is included in operating costs.

Last year the group received £35,000,000 from S.G.Warburg Group plc ("SGW") in connection with the Company's separation from SGW which was shown as an exceptional item within other income. The related separation costs of £35,000,000 were shown as an exceptional item within operating expenses.

4 NET INTEREST RECEIVABLE

	1997 Continuing activities £000	1997 Discontinued activities £000	1996 Continuing activities £000	1996 Discontinued activities £000
Interest receivable	19,744	3,517	20,183	3,974
Interest payable – on bank loans and overdrafts repayable in less than five years	(1,423)	–	(5,277)	–
– other	(2,298)	–	(2,024)	–
	16,023	3,517	12,882	3,974

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1997 £000	1996 £000
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration for audit services	444	407
Auditors' remuneration for non-audit services in the UK	1,100	1,100
Depreciation	5,577	5,782
Net payments under operating leases	10,442	8,450

Auditors' remuneration for non-audit services principally comprises advice on taxation issues, the provision of certain internal audit services and other assurance services.

NOTES ON THE ACCOUNTS

continued

6 DIRECTORS AND EMPLOYEES

Directors

	1997 £000	1996 £000
<i>Emoluments including pension contributions</i>		
Emoluments excluding annual performance related payments	1,780	1,857
Annual performance related payments	5,273	3,330
Deferred bonuses	2,600	1,000
Pension contributions	275	175
	9,928	6,362

In addition, the directors of the Company received £13,462,000 (1996: £2,770,000) in respect of the realisation of entitlements under deferred compensation arrangements which have accrued since 1989. In 1996, two directors relinquished certain rights to deferred compensation totalling £651,000 and the Company subsequently agreed to augment their pension funds by an equivalent amount.

Details of the emoluments of each of the directors of the Company are set out in the Report of the Senior Appointments and Remuneration Committee on pages 21 to 30.

The emoluments, deferred bonus and amounts realised under deferred compensation arrangements of the highest paid director were £1,611,000 (1996 £935,000), £600,000 (1996 £400,000) and £3,828,000 (1996 £536,000) respectively. The accrued annual pension of the highest paid director at 31st March 1997 was £107,800.

Employees The average number of employees of the group, including directors, during the year ended 31st March 1997 was 1,165 (1996 1,038). This includes an average of 99 employees of Mercury Bank AG which was sold on 28th February 1997 and 89 employees who transferred to RBS Trust Bank Ltd on 22nd March 1997. Employment costs include total compensation (including variable compensation) of £98,757,000 (1996 £70,430,000) together with profit sharing and profit related pay of £3,313,000 (1996 £2,488,000), social security charges of £7,559,000 (1996 £3,026,000) and other pension costs of £6,329,000 (1996 £4,600,000). Contributions of £1,656,000 (1996 £1,438,000) and £509,000 (1996 £546,000) were made to the Mercury Asset Management UK profit sharing scheme and the SGW Custody profit sharing scheme during the year.

Post retirement benefits Total pension costs for the group were £6,329,000 (1996 £4,600,000) of which £1,781,000 (1996 £1,978,000) relates to overseas schemes.

Actuarial valuations of the main scheme are undertaken at least triennially, the most recent being at 1st October 1996. The actuarial method used was the projected unit method and the principal annual rate assumptions applied in the valuation were that the return on investment would exceed the general rate of increase in pensionable salaries by 2 per cent. and the rate of increase in pensions by 4 per cent.

NOTES ON THE ACCOUNTS

continued

6 DIRECTORS AND EMPLOYEES *continued*

The market value of the scheme's assets at 1st October 1996 was £71,650,000 and the valuation disclosed a level of funding of 104 per cent. The actuarial surplus has arisen principally as a result of an increase in value of the scheme's assets. On advice from external actuaries, contributions to the main scheme recommenced with effect from 1st April 1997. At 31st March 1997 the provision for future contributions to the scheme was £11,352,000 (1996 £5,023,000).

Group companies manage the assets of the main scheme. Fees charged to the scheme during the year amounted to £388,000 (1996 £258,000).

An actuarial valuation of post retirement benefits other than pensions was carried out during the year and disclosed a surplus at 31st March 1996 of £176,000. This is being amortised over the estimated average remaining service life of employees. The provision at 31st March 1997 was £5,643,000 (1996 £4,900,000). The charge to the profit and loss account for the year ended 31st March 1997 was £743,000 (1996 £693,000).

Loans Participants in the car scheme, including executive 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 31st March 1997, amounts due from directors in respect of these loans were as follows:

Mr Stevenson: £29,000 (1996 £33,000); Mr Hurst-Brown: £28,000 (1996 £30,000); Mr Dalton: £33,000 (1996 £nil); Mr Price: £24,000 (1996 £nil); Mr Causer: £26,000 (1996 £nil); Mr Jackson: £22,000 (1996 £nil); and the maximum amounts outstanding during the year were as follows: Mr Stevenson: £33,000; Mr Hurst-Brown: £30,000; Mr Dalton: £37,000; Mr Price: £25,000; Mr Causer: £27,000; Mr Jackson: £25,000.

7 TAXATION

	1997 £000	1996 £000
UK corporation tax at 33 per cent.	34,925	37,310
Overseas taxation	12,251	12,643
Taxation on associated undertakings' profits	471	739
Tax on franked investment income	1,106	786
Deferred taxation (Notes 15 and 20)	9,184	(4,130)
Adjustment relating to prior years	(603)	(3,772)
	57,334	43,576

The charge for taxation includes £2,505,000 in respect of taxation on exceptional items.

NOTES ON THE ACCOUNTS

continued

8 PROFIT ATTRIBUTABLE TO MEMBERS OF THE COMPANY

In accordance with the exemption allowed by Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account. The profit dealt with in the financial statements of the Company was £81,553,000 (1996 £87,550,000).

9 DIVIDEND

	1997 Pence per share	1996 Pence per share	1997 £000	1996 £000
Interim dividend paid	10.0	6.0	17,980	10,759
Final dividend proposed	35.0	29.0	63,003	51,969
Total ordinary dividends	45.0	35.0	80,983	62,728

Special dividend paid to minority shareholders	–	40.0	–	18,226
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The trustees of the Mercury Asset Management Group Employee Trust have waived substantially all of their entitlement to the interim and proposed final dividends in respect of the year ended 31st March 1997. Consequently the cost of the interim and proposed final dividends has been reduced by £275,000 (1996 £211,000) and £920,000 (1996 £970,000) respectively.

10 EARNINGS PER SHARE

The average number of shares in issue during the year ended 31st March 1997 was 182,556,924 (1996 182,309,635). Earnings per share and adjusted earnings per share before exceptional items are calculated as follows:

	1997 £000	1996 £000
Profit for the year attributable to members of the Company	121,795	96,663
Exceptional items		
Provision for employers' National Insurance contributions	10,100	–
Profit on sale of Mercury Bank AG	(17,930)	–
Taxation on exceptional items	2,505	–
Profit for the year attributable to members of the Company before exceptional items	116,470	96,663
Earnings per share	66.7p	53.0p
Adjusted earnings per share before exceptional items	63.8p	53.0p

Adjusted earnings per share before exceptional items is shown as an alternative figure as the directors consider it to be a more meaningful indication of the group's underlying performance.

NOTES ON THE ACCOUNTS

continued

11 FIXED ASSETS — TANGIBLE ASSETS

	Leasehold property and improvements £000	Motor vehicles £000	Office fixtures and furniture £000	Total £000
<i>Cost</i>				
At 1st April 1996	8,057	7,002	25,018	40,077
Exchange adjustment	(240)	(126)	(604)	(970)
Additions	149	346	4,613	5,108
Disposals	(14)	(1,654)	(9,092)	(10,760)
At 31st March 1997	7,952	5,568	19,935	33,455
<i>Depreciation</i>				
At 1st April 1996	1,254	3,114	14,071	18,439
Exchange adjustment	(74)	(60)	(369)	(503)
Charge for year	842	1,168	3,567	5,577
Disposals	(9)	(1,211)	(4,335)	(5,555)
At 31st March 1997	2,013	3,011	12,934	17,958
<i>Net book amounts</i>				
At 31st March 1997	5,939	2,557	7,001	15,497
At 1st April 1996	6,803	3,888	10,947	21,638

12 FIXED ASSETS — INVESTMENTS

Group

	1997 £000	1996 £000
Associated undertakings	2,695	2,945
Unlisted	33,911	3,872
Own shares	13,819	17,573
	50,425	24,390

The group's investment in associated undertakings is as follows:

	£000
Share of net tangible assets at 1st April 1996	2,945
Exchange adjustment	(239)
Share of profits for the year	1,685
Disposals	(1,321)
Dividends receivable	(375)
Share of net tangible assets at 31st March 1997	2,695

The movement in the group's holding of unlisted investments was as follows:

	£000
At 1st April 1996	3,872
Additions	30,270
Disposals	(231)
At 31st March 1997	33,911

NOTES ON THE ACCOUNTS

continued

Own shares represent the cost of a holding by the Mercury Asset Management Group Employee Trust of 2,639,280 shares in the Company (1996 3,355,924). The trustees purchase shares in the market with funds provided by the group and, at the discretion of the trustees, the shares are distributed to employees. The nominal and market values of the shares held at 31st March 1997 were £132,000 (1996 £168,000) and £33,545,000 (1996 £29,532,000) respectively.

Company

The investment in subsidiaries at 31st March 1997 of £110,441,000 represents the Company's 100 per cent. holding of the issued share capital of Grosvenor Ventures Limited, Mercury Asset Management plc, Mercury (Finance) Ltd, Mercury Life Assurance Company Ltd, Mercury Private Equity Holdings Ltd, Mercury Private Equity MUST 3 Limited and 33 King William Street Ltd and a loan of £30,000,000 to 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. During the year, Forum House Limited made loans to group companies of which the maximum outstanding during the year was £18,710,000 (1996 £11,353,000). The amount due at 31st March 1997 was £4,351,000 (1996 £1,807,000) and the total interest payable by the group in respect of the loans was £689,000 (1996 £212,000).

The Company's principal subsidiary and associated undertakings are set out in Note 31 on page 59 and a full list of subsidiary and associated undertakings will be attached to the Company's annual return.

13 ACQUISITIONS AND DISPOSALS

MERCURY BANK AG

On 28th February 1997 the group disposed of all of its interest in Mercury Bank AG to RNB Republic National Bank of New York (Suisse) SA for a consideration of £104,528,000. The sale contract provides that up to £6,690,000 of the consideration will be repayable if funds under management from existing clients are reduced significantly at 1st December 1997. This amount has been deducted in the calculation of the profit on sale, which has been treated as an exceptional item in the profit and loss account after deducting transaction costs of £2,704,000 and other costs of £3,867,000.

The net asset value of Mercury Bank AG at the date of disposal was £52,082,000, giving rise to an exceptional profit of £17,930,000 after reinstating goodwill of £21,255,000 written off to reserves at the time of acquisition.

The profit before taxation of Mercury Bank AG to the date of disposal included in these accounts was £8,314,000.

NOTES ON THE ACCOUNTS

continued

13 ACQUISITIONS AND DISPOSALS *continued*

RBS TRUST BANK LTD

On 22nd March 1997, the group entered into an agreement with RBS Trust Bank Ltd ('the bank'), a wholly owned subsidiary of The Royal Bank of Scotland plc, for the bank to supply custody and other services to the group (which had previously been provided by the Custody and Investor Services Division of S.G.Warburg & Co. Ltd) for an initial period to 30th September 2003. This initial period may be extended, on the same terms, to 30th September 2006 at Mercury's option.

A subsidiary of Mercury subscribed for £30 million of convertible loan stock issued by RBSTB (Holdings) Limited, the immediate holding company of the bank. The group has a right to convert the loan stock into a substantial minority interest in the issued share capital of RBSTB (Holdings) Limited. This right is exercisable, subject to certain conditions, between 2003 and 2011. Mercury also has a right, under the terms of a Put and Call Option Agreement, to require The Royal Bank of Scotland plc to purchase £15 million of convertible loan stock in 2002. In 2007, Mercury has a further put option, and The Royal Bank of Scotland plc has a call option, over £15 million of convertible loan stock or any lesser amount of such loan stock held by Mercury at that time. Subsidiaries of Mercury and The Royal Bank of Scotland plc in Jersey have entered into separate agreements designed to replicate these arrangements in Jersey.

MERCURY INVESTMENT TRUST MANAGEMENT CO. LTD

On 19th March 1997 the group acquired a further 19.92 per cent. interest in Mercury Investment Trust Management Co. Ltd from certain minority shareholders, bringing the group's interest in that company to 80 per cent. The consideration was £2,290,000 and was satisfied in full by cash. The group has applied acquisition accounting principles and goodwill arising on the acquisition has been written off to reserves. The profit after taxation of Mercury Investment Trust Management Co. Ltd for the year ended 31st March 1996 was £546,000 of which £218,000 was attributable to the minority interests at that date.

Goodwill arising on the acquisition is shown below. No fair value adjustments were made to the net assets acquired.

	£000
Total value of assets	7,578
Share of assets previously owned	(4,501)
Total value of assets retained by minority interests	(1,516)
Fair value of assets acquired at 19th March 1997	1,561
Cash consideration	(2,290)
Acquisition expenses	—
Goodwill	729

NOTES ON THE ACCOUNTS

continued

14 LIFE ASSURANCE ASSETS

The assets and liabilities of Mercury Life Assurance Company Ltd, a wholly owned subsidiary of the Company engaged in the provision of pension products, are as follows:

	1997 £000	1996 £000
Investments – listed in the UK	10,216	9,549
Investments – unit trusts	967,402	642,544
Current assets	68,354	27,713
Current liabilities	(2,200)	(12,466)
Life assurance assets	1,043,772	667,340
Amounts due to policyholders	1,043,772	667,340

Movements in the value of life assurance assets are reflected in amounts due to policyholders.

15 DEBTORS

	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Trade debtors	117,741	72,999	–	–
Other debtors*	53,168	53,340	–	–
Amounts due from group undertakings	–	–	123,572	119,042
Deferred taxation*	4,758	8,442	–	–
	175,667	134,781	123,572	119,042

Deferred taxation is made up as follows:

Depreciation in advance of capital allowances	303	2,176	–	–
Other short term timing differences	206	2,522	–	–
Pension and other post retirement benefits	4,249	3,744	–	–
	4,758	8,442	–	–
At 1st April	8,442	4,994	–	–
Acquisition of subsidiaries	–	(682)	–	–
Profit and loss account	(3,684)	4,130	–	–
At 31st March	4,758	8,442	–	–

*Other debtors include advance corporation tax recoverable of £15,751,000 (1996 £12,992,000) falling due after more than one year. Deferred taxation includes £4,249,000 (1996 £3,744,000) falling due after more than one year.

NOTES ON THE ACCOUNTS

continued

16 CURRENT ASSETS — INVESTMENTS

	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Money market instruments	227,700	165,314	—	6,850
Listed	31,241	46,224	398	439
Unlisted	28,191	30,609	986	372
	287,132	242,147	1,384	7,661

The market value of money market instruments held by the group and the Company at 31st March 1997 was £228,741,000 (1996 £167,681,000) and £nil (1996 £6,850,000) respectively. The market value of listed investments held by the group and the Company at 31st March 1997 was £35,166,000 (1996 £54,802,000) and £614,000 (1996 £650,000) respectively. The directors consider that the value of unlisted investments at that date was not less than their carrying value.

17 LOAN NOTES

	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Loan notes (2004)	1,455	2,321	—	—
Loan notes (2005)	36,121	48,998	36,121	48,998
	37,576	51,319	36,121	48,998

The loan notes (2004) are unsecured and bear interest at LIBOR minus 0.5 per cent. which is payable in arrears on 30th June and 31st December 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 June 2004. Loan notes to the value of £866,000 were redeemed during the year.

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 £12,877,000 were redeemed during the year.

NOTES ON THE ACCOUNTS

continued

18 OTHER CREDITORS

	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Bank loans and overdrafts	30,000	24,081	30,000	22,000
Amounts due to group undertakings	—	—	27,456	14,754
Trade creditors and accruals	141,304	104,893	—	286
Taxation	62,522	45,855	20,314	12,992
Other taxes and social security costs	5,264	1,828	—	—
Proposed ordinary dividend	63,003	51,969	63,003	51,969
	302,093	228,626	140,773	102,001

19 CREDITORS — AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Trade creditors and accruals*	25,786	35,247	—	—
Taxation	4,574	6,623	—	—
	30,360	41,870	—	—

*Trade creditors and accruals represent the capital fund of the Mercury Asset Management Group Employee Trust.

20 PROVISIONS FOR LIABILITIES AND CHARGES

	1997 £000	1996 £000
Deferred taxation	5,500	—
Pension and other post retirement benefits	16,995	9,923
	22,495	9,923

Deferred taxation represents a provision for additional taxation on the retained profits of overseas subsidiaries which are expected to be remitted to the UK.

The movements in the provisions for deferred taxation and pension and other post retirement benefits were as follows:

	Deferred taxation £000	Pension and other post retirement benefits £000	Total £000
At 1st April 1996	—	9,923	9,923
Profit and loss account	5,500	7,072	12,572
At 31st March 1997	5,500	16,995	22,495

NOTES ON THE ACCOUNTS

continued

21 CALLED UP SHARE CAPITAL

The authorised share capital of the Company at 31st March 1997 was £12,579,934 divided into 251,598,687 ordinary shares of 5p each.

	Allotted, called up and fully paid	Nominal value £
At 1st April 1996	182,547,708	9,127,385
Exercise of share options during the year	91,580	4,579
At 31st March 1997	182,639,288	9,131,964

At 31st March 1997, certain executives of the group held options to subscribe for shares in the Company as follows:

1997	Number of shares 1996	Option prices	Exercisable not later than
11,250	11,250	99.6p	11th December 1997
8,250	14,705	120.0p	7th July 1998
54,375	54,375	142.8p	6th December 1998
87,500	101,250	186.0p	22nd June 1999
37,025	47,900	171.2p	23rd November 2000
250,000	250,000	320.0p	13th November 2002
890,000	1,010,000	562.0p	9th June 2004
25,000	25,000	624.0p	28th November 2004
1,469,900	1,685,350	863.0p	27th November 2005
113,000	153,500	866.0p	22nd December 2005
1,618,640	—	957.0p	12th June 2006
483,250	—	1224.0p	18th December 2006

In each case the options were granted ten years before the expiry dates shown above and at the time of grant were exercisable as to one half after three years from the date of grant, the balance being exercisable only if certain conditions relating to the performance of the group are satisfied. On the posting of these accounts to shareholders, such conditions will have been satisfied in respect of all options exercisable not later than 13th November 2002. During the year, options over 2,276,210 shares were granted and options over 489,770 shares lapsed.

NOTES ON THE ACCOUNTS

continued

22 RESERVES

	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
<i>Group</i>				
At 1st April 1996	43,122	7,029	178,042	228,193
Arising on issue of ordinary shares	589	—	—	589
Retained profit for the year	—	—	40,812	40,812
Goodwill reinstated on disposal of Mercury Bank AG	—	—	21,255	21,255
Goodwill written off	—	—	(729)	(729)
Other reserve movements	—	—	(15,252)	(15,252)
At 31st March 1997	43,711	7,029	224,128	274,868
<i>Company</i>				
At 1st April 1996	43,122	7,029	483	50,634
Arising on issue of ordinary shares	589	—	—	589
Retained profit for the year	—	—	570	570
At 31st March 1997	43,711	7,029	1,053	51,793

The group profit and loss account at 31st March 1997 includes profit after taxation of £1,685,000 (1996 £1,065,000) relating to associated undertakings.

The cumulative amount of goodwill written off to 31st March 1997 was £22,295,000 (1996 £42,821,000).

23 CASH FLOW FROM OPERATING ACTIVITIES AND EXCEPTIONAL ITEMS

	Continuing activities £000	Discontinued activities £000	1997 Total £000	Continuing activities £000	Discontinued activities £000	1996 Total £000
Operating profit from continuing activities	124,696	1,075	125,771	100,522	2,030	102,552
Exceptional inflow	—	—	—	35,000	—	35,000
Exceptional outflow	—	—	—	(22,793)	—	(22,793)
Depreciation	5,577	—	5,577	5,782	—	5,782
(Increase)/decrease in debtors	(46,804)	(2,279)	(49,083)	(5,709)	2,328	(3,381)
(Increase)/decrease in loans and advances	—	(32,374)	(32,374)	—	4,775	4,775
(Increase)/decrease in short term deposits	—	(8,609)	(8,609)	—	5,083	5,083
Increase/(decrease) in deposits by banks	—	7,155	7,155	—	(7,219)	(7,219)
Increase in other creditors	16,846	5,222	22,068	38,227	(3,290)	34,937
Increase in customer accounts	—	31,510	31,510	—	10,271	10,271
Sale of securities	—	12,043	12,043	—	1,594	1,594
Other deferrals and accruals	8,586	1,736	10,322	4,954	5,018	9,972
	108,901	15,479	124,380	155,983	20,590	176,573

NOTES ON THE ACCOUNTS

continued

24 ANALYSIS OF CASH FLOW HEADINGS NETTED IN THE CASH FLOW STATEMENT

	1997 £000	1996 £000
<i>Returns on investments and servicing of finance</i>		
Interest received	25,608	23,549
Interest paid	(4,396)	(7,410)
Dividends received	2,355	9,785
Net cash inflow	23,567	25,924
<i>Taxation</i>		
UK corporation tax paid	(25,162)	(28,464)
Overseas tax paid	(10,658)	(12,629)
Net cash outflow	(35,820)	(41,093)
<i>Capital expenditure</i>		
Purchase of fixed asset investment	(30,039)	--
Purchase of tangible fixed assets	(5,108)	(11,295)
Sale of tangible fixed assets	2,330	878
Net cash outflow	(32,817)	(10,417)
<i>Acquisitions and disposals</i>		
Disposal of Mercury Bank AG	102,581	--
Disposal of cash balances on sale of Mercury Bank AG	(30,131)	--
Purchase of subsidiary undertakings	(2,290)	(13,084)
Cash balances acquired with subsidiary	--	4,999
Net cash inflow/(outflow)	70,160	(8,085)
<i>Management of liquid resources</i>		
Purchase of money market instruments	(238,956)	(155,559)
Purchase of investments	(29,999)	(37,001)
Sale of money market instruments	151,967	101,159
Sale of investments	60,766	22,225
Net cash outflow	(56,222)	(69,176)
<i>Financing</i>		
Issue of ordinary share capital	594	625
Share issue costs	--	(950)
Repayment of unsecured loan	(22,000)	--
Subscription for convertible loan stock	30,000	--
Issue of loan notes	--	48,998
Redemption of loan notes	(13,743)	(691)
	(5,743)	48,307
Net cash (outflow)/inflow	(5,149)	47,982

NOTES ON THE ACCOUNTS

continued

25 ANALYSIS OF NET FUNDS

	At 1st April 1996 £000	Cash flow £000	Exchange movements £000	Other non-cash movements £000	At 31st March 1997 £000
Cash at bank	141,896	16,069	(8,646)	–	149,319
Overdrafts	(2,081)	2,081	–	–	–
Debts due within one year	(22,000)	(8,000)	–	–	(30,000)
Loan notes	(51,319)	13,743	–	–	(37,576)
Current asset investments	214,696	56,222	–	16,214	287,132
Total	281,192	80,115	(8,646)	16,214	368,875

Liquid resources include money market instruments, government securities, listed investments and marketable unlisted investments.

The 1996 figures include cash and short term deposits of £48,044,000 and current asset investments of £27,451,000 that fall outside the definitions of cash and liquid resources, respectively, as set out in FRS 1 (Revised 1996).

Cash held by Mercury Bank AG of £30,385,000 at 1st April 1996 does not form part of net funds as defined under FRS 1 (Revised 1996) as this definition does not apply to banking institutions. This figure has been disclosed separately in the reconciliation of net cash flow to movement in net funds.

26 DISPOSAL OF MERCURY BANK AG

	£000
<i>Net assets disposed of</i>	
Fixed assets	1,321
Cash	32,977
Time deposits	47,775
Loans and advances	89,570
Debtors	4,419
Investments	12,986
Current liabilities	(8,877)
Customer deposits	(75,407)
Deposits due to banks	(52,682)
	52,082
Profit on disposal	17,930
Goodwill reinstated	21,255
	91,267

NOTES ON THE ACCOUNTS

continued

26 DISPOSAL OF MERCURY BANK AG *continued*

£000

<i>Satisfied by:</i>	
Cash consideration	103,961
Other costs	(1,380)
Net cash received	102,581
Cash consideration receivable	567
Maximum consideration repayable	(6,690)
Transaction costs payable	(2,704)
Termination costs payable	(2,487)
	91,267

During the year Mercury Bank AG contributed £15,479,000 to the group's net operating cash flows, paid £7,239,000 in respect of net returns on investments and servicing of finance and paid £3,925,000 in respect of taxation.

27 PURCHASE OF MINORITY INTEREST

The net outflow of cash in respect of the purchase of a further 19.92 per cent. interest in Mercury Investment Trust Management Co. Ltd is analysed below:

£000

Cash consideration	(2,290)
Cash acquired	—
Net outflow of cash	(2,290)

The company had a net operating cash outflow of £96,000, paid £54,000 in respect of net returns on investments and servicing of finance and paid £5,000 in respect of taxation.

28 FINANCIAL COMMITMENTS

At 31st March 1997 contracted capital expenditure amounted to £1,120,000 (1996 £4,600,000).

At 31st March 1997 the group had annual commitments under non-cancellable operating leases in respect of land and buildings as set out below:

	1997 £000	1996 £000
<i>Operating leases which expire:</i>		
Within one year	564	275
Between one and five years	1,812	1,578
In over five years	8,902	8,002
	11,278	9,855

29 CONTINGENT LIABILITIES

At 31st March 1997, the group had contingent liabilities in respect of guarantees and other similar arrangements undertaken in the normal course of business, none of which are expected to give rise to a liability. At 31st March 1996, the group had contingent liabilities arising from acceptances, guarantees and letters of credit of £46,331,000, relating to the business of Mercury Bank AG.

NOTES ON THE ACCOUNTS

continued

30 POST BALANCE SHEET EVENT

The group arranged a standby loan facility for £250 million on 28th April 1997. The facility expires in April 2002.

31 PRINCIPAL SUBSIDIARIES AND ASSOCIATED UNDERTAKINGS

The principal subsidiaries and associated undertakings at 31st March 1997, all of which are engaged in investment management, advisory and related services, are shown below. Unless otherwise stated, all these subsidiaries are incorporated in England and Wales, are wholly owned and, with the exception of Mercury Asset Management Holdings Ltd, Mercury Asset Management plc and Mercury Life Assurance Company Ltd, are indirectly held.

Subsidiaries	Place of incorporation
Mercury Asset Management plc	
Mercury Asset Management Asia Ltd	Hong Kong
Mercury Asset Management Canada Ltd	Canada
Mercury Asset Management Channel Islands Ltd	Jersey
Mercury Asset Management Group Services Ltd	
Mercury Asset Management Holdings Ltd (95% owned)	
Mercury Asset Management International Ltd	
Mercury Asset Management Isle of Man Holdings Ltd	Isle of Man
Mercury Asset Management Japan Ltd	Japan
Mercury Asset Management Kapitalanlagegesellschaft mbH	Germany
Mercury Asset Management Limited	Australia
Mercury Asset Management Pte. Ltd	Singapore
Mercury Asset Management Vertriebsgesellschaft mbH	Germany
Mercury Fund Managers Limited	
Mercury Holdings BV	The Netherlands
Mercury Investment Services Ltd	
Mercury Investment Trust Management Co. Ltd (80% held)	Japan
Mercury Life Assurance Company Ltd	

Associated undertakings	Issued share capital	% held	Accounts prepared to
Munich London Investment Management Ltd (registered in England)	75,000 shares of £1	50	31st March
NBK Investment Management Limited (registered in England)	3,100,000 shares of 39p	40	31st December*

*Results based on audited accounts to 31st December 1996 and unaudited management accounts to 31st March 1997.

Munich London Investment Management Ltd The group provides investment management services and advice to this company. The group's share of the company's profits after taxation for the year ended 31st March 1997 was £620,000 (1996 £634,000). A dividend of £375,000 was received during the year (1996 £700,000).

NBK Investment Management Limited The group provides investment management services to this company. The group received £1,962,000 of investment management related fees from the company during the year. The group's share of the profit after taxation for the year ended 31st March 1997 was £337,000 (1996 £417,000). Amounts owed by NBK Investment Management Limited at 31st March 1997 were £449,000 (1996 £562,000).

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of the members of Mercury Asset Management Group plc will be held at Painters' Hall, 9 Little Trinity Lane, London EC4V 2AD at 12 noon on Wednesday, 25th June 1997 for the following purposes:

- 1 To receive the accounts for the year ended 31st March 1997, together with the reports of the directors and auditors thereon.
- 2 To declare a final dividend of 35.0p per share for the year ended 31st March 1997.
- 3 To reappoint directors. The following directors of the Company retire at the Annual General Meeting and will be proposed for reappointment:
 - (a) Mr P G Bosonnet
 - (b) Mr H J Foulds
 - (c) Mr C N Hurst-Brown
- 4 To reappoint Ernst & Young as auditors of the Company and to authorise the directors to determine their remuneration.
- 5 To consider and, if thought fit, pass the following resolution as an Ordinary Resolution:

That, in accordance with Article 10 of the Company's Articles of Association, the Board be authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to a maximum nominal amount of £3,296,397, provided that this authority shall expire on the date of the next Annual General Meeting after the passing of this resolution, and that all previous authorities under Section 80 of the Companies Act 1985 be revoked.

- 6 To consider and, if thought fit, pass the following resolution as a Special Resolution:

That, subject to the passing of resolution 5 above and in accordance with Article 11 of the Company's Articles of Association, the Board be and it is hereby empowered to allot equity securities for cash, provided that, for the purposes of Article 11(c), the nominal amount of share capital to which this power is limited shall be £456,598.

- 7 To consider and, if thought fit, pass the following resolution as a Special Resolution:

That, in accordance with Article 49 of its Articles of Association and the Companies Act 1985, the Company is generally and unconditionally authorised to make market purchases (within the meaning of Section 163 of the Companies Act 1985) of ordinary shares of 5p each in the capital of the Company ("Ordinary Shares") on such terms and in such manner as the Board may from time to time determine, provided that:

- (i) the maximum number of Ordinary Shares that may be purchased pursuant to this authority is 9,131,964;

NOTICE OF MEETING

continued

- (ii) the maximum price which may be paid for an Ordinary Share purchased pursuant to this authority is an amount equal to 105 per cent. of the average of the middle market prices shown in the quotations for the Ordinary Shares in The Stock Exchange Daily Official List for the five business days immediately preceding the day on which such Ordinary Share is purchased and the minimum price which may be paid is 5p per Ordinary Share (in each case exclusive of expenses and advance corporation tax (if any) payable by the Company); and
 - (iii) this authority will expire at the conclusion of the next Annual General Meeting of the Company, unless renewed before that time, but the Company may make a contract to purchase its Ordinary Shares under this authority before its expiry which will or may be executed wholly or partly after its expiry, and may make a purchase of Ordinary Shares in pursuance of any such contract.
- 8 To consider and, if thought fit, pass the following resolution as an Ordinary Resolution:

That

- (i) the Mercury Asset Management Share Option Plan, a summary of the rules of which is set out in the Appendix to the letter to shareholders posted with this Notice, be and is hereby approved and the directors be and they are hereby authorised to do all acts and things necessary to establish and carry it into effect; and
- (ii) the directors be and they are hereby authorised to vote at any meeting on any matter connected with the Plan and to be counted for the purpose of any resolution regarding the Plan in the quorum at the meeting notwithstanding that they may be interested in it and the provisions of the Articles of Association of the Company shall accordingly be relaxed to that extent, provided that no director may vote or be counted in the quorum on any matter solely concerning his own participation in the Plan.

By order of the Board

C B Farquharson

Secretary



33 King William Street

London EC4R 9AS

21st May 1997

Notes

- 1 A member entitled to attend and vote at the above Meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. To be valid, the instrument appointing a proxy, and the power of attorney or other authority (if any) under which it has been executed, or a certified copy of such power or authority, must be received at the office of the Company's registrars, Independent Registrars Group Limited, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not less than 48 hours before the time appointed for holding the Meeting.
- 2 Only those members whose names appear on the register of members at 12 noon on Monday 23rd June 1997 shall be entitled to attend and vote at the Meeting and the number of ordinary shares then registered in their respective names shall determine the number of votes which may be cast by those members in the event of a poll.
- 3 A copy of the full text of the Mercury Asset Management Share Option Plan may be inspected at the registered office of the Company during normal business hours on weekdays (Saturdays and public holidays excepted) from the date of this Notice until the close of the Annual General Meeting, and at the Meeting itself.
- 4 No service contracts exist between the Company and any director of the Company which are not determinable within one year without payment of compensation (other than statutory compensation).
- 5 Holders of Variable Rate Unsecured Loan Notes 2005 are not entitled to attend or vote at the Meeting.

NOTICE OF MEETING

continued

EXPLANATORY NOTES

Resolution 1 The directors of the Company have a duty to present to shareholders in general meeting the annual accounts of the Company, together with the directors' report and the report of the auditors. The auditors' report can be found on page 35 of this Annual Report.

Resolution 2 The directors recommend that a final dividend of 35.0p per share be paid to shareholders on the register at the close of business on 6th June 1997. If approved by shareholders, the final dividend will be paid on 2nd July 1997.

An interim dividend of 10.0p per share was paid on 3rd January 1997.

Resolution 3 The Company's Articles of Association require a proportion of the directors to retire at each Annual General Meeting. In accordance with this provision, Mr Bosonnet, Mr Foulds, Mr Hurst-Brown and Mr Price will retire by rotation and, with the exception of Mr Price, will seek reappointment as directors.

Resolutions relating to the reappointment of directors will be voted upon separately, unless it is agreed otherwise by the meeting.

Resolution 4 This resolution proposes the reappointment of Ernst & Young as the Company's auditors until the next Annual General Meeting of the Company and authorises the directors to determine the remuneration to be paid to the auditors.

Resolution 5 Resolution 5 renews the authority of the directors to allot relevant securities. The nominal amount of relevant securities to which the authority relates (after taking into account shares required in connection with the exercise of outstanding options) represents approximately one third of the Company's current issued share capital. This authority will expire at the Annual General Meeting of the Company to be held in 1998. Except pursuant to the exercise of options, the directors have no present intention of exercising this authority.

Resolution 6 This resolution renews the authority of the directors to allot equity securities for cash. The nominal amount of equity securities which may be issued without such securities first being required to be offered to existing shareholders represents approximately 5 per cent. of the nominal amount of the Company's issued share capital. This authority will expire at the Annual General Meeting of the Company to be held in 1998. There is no present intention to make any such issue of shares for cash, but the directors consider it desirable to maintain the flexibility afforded by this power.

Resolution 7 The current authority of the Company to make purchases of up to approximately 5 per cent. of its issued share capital expires at the Annual General Meeting and Resolution 7 seeks renewal of such authority until the Annual General Meeting in 1998. The price paid for shares will not be less than the nominal value of 5p per share nor more than 5 per cent. above the average of the middle market quotation of Ordinary Shares of 5p each in the Company as derived from the London Stock Exchange Daily Official List for the five business days preceding the day on which the shares are purchased. This power will be exercised only if, in the opinion of the directors, a repurchase would result in an increase in earnings per share and would be in the best interests of shareholders as a whole. Any shares repurchased pursuant to this authority would be cancelled.

Resolution 8 Further details of the proposal to introduce a new share option plan, to replace the executive share option scheme which was established over ten years ago, are included in a separate letter to shareholders included with this Annual Report.

The directors believe that the resolutions are in the best interests of the Company and its shareholders as a whole and accordingly recommend shareholders to vote in favour of the resolutions.

DIRECTORS OF PRINCIPAL OPERATING COMPANY

MERCURY ASSET MANAGEMENT plc

Joint Chairmen

D W J Price S A Zimmerman

Deputy Chairmen

C Galley C N Hurst-Brown F D S Rosier

Vice Chairmen

I C S Barby R J Bunce A S Dalton C V Jackson

I Armitage
N M Bachop
S J Baxter
C C Brooke
J L Callahan
E Cameron Watt
D J Causer
T W G Charlton
N J Charrington
C M Clark
N J Coats
S B Cohen
J N Cotton
G R Dixon
C B Farquharson
C N H Foster
S Fukuyama (*alternate to
M J O' Shannassy*)

P J Gibbs
P J W Harrison
P Harwood
T J Haston
A M Hunter Johnston
M F M O Jodrell*
A C J Lehmann
G Lowe
R J MacLeod
J E Macpherson
P R C Marshall
K R Mullins
M Nishizawa
T A Oates
P V Olsberg
M J O' Shannassy
R L Paris

J Parsloe
A P Pickard
R W Pullen
J L M Pursaill
J W Richards
N K Ritchie
A F J Roe
R G Royds
L C Ruddick
C J Shaw
I M Slack
P W Stanyer
R Steel
H A Stevenson
S J Thompson
B W Woolf
K Yoshida

* non-executive

GROUP OFFICES

UNITED KINGDOM

33 King William Street
London EC4R 9AS
Telephone (0171) 280 2800
Facsimile (0171) 280 2820

AUSTRALIA

Level 25, 101 Collins Street
Melbourne, VIC 3000
Telephone (3) 9277 8100
Facsimile (3) 9277 8280

Level 28, The Chifley Tower
2 Chifley Square, Sydney, NSW 2000
Telephone (2) 234 0500
Facsimile (2) 234 0555

Level 24, AMP Place
Eagle Street, Brisbane, QLD 4000
Telephone (7) 3221 2468
Facsimile (7) 3303 8623

BAHRAIN

PO Box 15645
Bahrain Commercial Complex
Manama 316
Telephone (973) 534848
Facsimile (973) 536736

CANADA

Suite 603, 1080 Beaver Hall Hill
Montreal, Quebec H2Z 1S8
Telephone (514) 874 0180
Facsimile (514) 874 1982

GERMANY

Taunusanlage 11
D-60329 Frankfurt am Main
Telephone (69) 272100 (KAG)
Facsimile (69) 27210410 (KAG)

Telephone (69) 272100 (MAMVG)
Facsimile (69) 27210430 (MAMVG)

HONG KONG

Unit 3603-3605, Citibank Tower
Citibank Plaza, 3 Garden Road, Central
Telephone 2868 6808
Facsimile 2846 7760

ISLE OF MAN

12-13 Hill Street, Douglas IM1 1EF
Telephone (01624) 662255
Facsimile (01624) 662850

JAPAN

Hibiya Kokusai Building, 19th Floor
2-2-3 Uchisaiwaicho, Chiyoda-ku
Tokyo 100
Telephone (3) 3595 3300 (MAM)
Facsimile (3) 3595 3310 (MAM)

Telephone (3) 3592 8911 (MITMCO)
Facsimile (3) 3592 8910 (MITMCO)

JERSEY

Forum House, Grenville Street
St. Helier JE4 8RL
Telephone (01534) 600600
Facsimile (01534) 600687

KOREA

23rd Floor, Young Poong Building
33 Seorin-dong
Chongro-ku, Seoul 110-752
Telephone (822) 399 5969
Facsimile (822) 399 5968

LUXEMBOURG

B.P. 1058, L-1010 Luxembourg
Telephone (352) 34 20 101
Facsimile (352) 34 20 102

THE NETHERLANDS

Strawinskylaan 3021
1077 ZX Amsterdam
Telephone (31) 20 549 5200
Facsimile (31) 20 642 3835

SINGAPORE

24 Raffles Place, #11-01
Clifford Centre
Singapore 048621
Telephone 538 9488
Facsimile 538 9622

SPAIN

Serrano, 32-2ºD
28001 Madrid
Telephone (34) 1 5751586
Facsimile (34) 1 5762688

SWITZERLAND

Gartenstrasse 26
CH-8039 Zurich
Telephone (1) 206 2666
Facsimile (1) 206 2667

TAIWAN

Suite A, 8th Floor
Hung Kuo Building
No 167 Tun Hua North Road, Taipei
Telephone (886-2) 717 6082
Facsimile (886-2) 712 9524

UNITED STATES OF AMERICA

780 Third Avenue, 34th Floor
New York NY 10017
Telephone (212) 751 8340
Facsimile (212) 751 8553