

**Company No. 951043**

**Mercury Asset Management  
Group Ltd**

**Report and Financial Statements**

**31 December 1999**



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**CONTENTS**

**Page**

Directors and Advisors	2
Directors' Report	3
Statement of Directors' Responsibilities	4
Report of the Auditors	5
Profit and Loss Account	6
Balance Sheet	7
Notes to the Accounts	8 - 12

Company No. 951043

**DIRECTORS**

I C S Barby (Chairman)

S J Baxter

J T Stratford

N T Jones

**SECRETARY**

D A Searle

**AUDITORS**

Deloitte & Touche

Chartered Accountants

Stonecutter Court

1 Stonecutter Street

London EC4A 4TR

**REGISTERED OFFICE**

33 King William Street

London EC4R 9AS

**DIRECTORS' REPORT**

The directors present their annual report and audited financial statements of the Company for the year ended 31 December 1999.

**PRINCIPAL ACTIVITY**

The Company is the holding company of a group engaged in the provision of investment management and advisory services.

**RESULTS AND DIVIDEND**

The profit of the Company for the year to 31 December 1999, after taxation, amounted to £34,304,366 (nine months to 31 December 1998: loss of £7,796,770).

An interim dividend of 20.73p per ordinary share was paid during the year (1998: £nil). The directors do not recommend the payment of a final dividend (1998: £nil).

**REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS**

The Company's operations continue without significant change.

**DIRECTORS AND THEIR INTERESTS**

The directors who served during the year are as follows :

I C S Barby  
S J Baxter  
J T Stratford  
N T Jones (appointed 10/06/99)  
J Parsloe (resigned 14/10/99)

The interests of the directors in the loan notes of a group company, ML Invest Holdings Limited, were as follows :

	Beneficial Interest	
	1999	1998
S J Baxter **	49,524	86,938
N T Jones *	7,939	3,994 (On date of appointment)
JT Stratford **	23,751	81,430

\* Floating Rate Guaranteed Unsecured Loan Notes 2003 - No. 1 Series

\*\* Floating Rate Guaranteed Unsecured Loan Notes 2003 - No. 2 Series

**YEAR 2000**

Following their initial review, the directors continue to be alert to the potential risks and uncertainties surrounding the year 2000 issue. As at the date of this report, the directors are not aware of any significant factors which have arisen, or that may arise, which will affect the activities of the business; however, the situation is still being monitored. Any future costs associated with this issue cannot be quantified but are not expected to be significant.

**AUDITORS**

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board and signed on behalf of the Board



D A Searle  
Secretary

11 May 2000

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**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

**REPORT OF THE AUDITORS**  
**to the members of Mercury Asset Management Group Ltd**

We have audited the financial statements on pages 6 to 12, which have been prepared on the basis of the accounting policies set out on page 8.

**Respective responsibilities of directors and auditors**

As described on page 4, the Company's directors are responsible for the preparation of the 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.

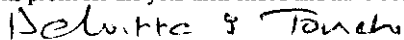
**Basis of opinion**

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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 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 as at 31 December 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

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

\ | May 2000

**PROFIT AND LOSS ACCOUNT**  
**for the year ended 31 December 1999**

	Note	12 months to 31 December 1999 £	9 months to 31 December 1998 £
Administrative expenses	2	1,561	(98,094)
<b>OPERATING PROFIT/(LOSS)</b>		<b>1,561</b>	<b>(98,094)</b>
Income from shares in group undertakings		35,000,000	-
Amounts written off investments		(24,500)	(4,299,970)
Other income		535,285	86,611
<b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE INTEREST</b>		<b>35,512,346</b>	<b>(4,311,453)</b>
Other interest receivable and similar income		1,049,558	1,713,525
Interest payable and similar charges	4	(2,066,008)	(3,284,778)
<b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>34,495,896</b>	<b>(5,882,706)</b>
Taxation on profit/(loss) on ordinary activities	5	(191,530)	(1,914,064)
<b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION</b>		<b>34,304,366</b>	<b>(7,796,770)</b>
Dividends paid	6	(38,000,000)	-
<b>RETAINED LOSS FOR THE YEAR</b>	13	<b>(3,695,634)</b>	<b>(7,796,770)</b>

**RECOGNISED GAINS AND LOSSES**

There are no recognised gains or losses other than the profit attributable to shareholders of the Company of £34,304,366 in the year ended 31 December 1999 (nine months to 31 December 1998 :loss of £7,796,770). Accordingly, a statement of total recognised gains and losses has not been given.

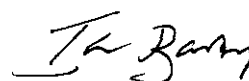
All profits and losses are in respect of continuing activities.

**BALANCE SHEET**  
**as at 31 December 1999**

	Note	31 December 1999 £	31 December 1998 £
<b>FIXED ASSETS</b>			
Investments	7	96,040,981	123,436,706
		<u>96,040,981</u>	<u>123,436,706</u>
<b>CURRENT ASSETS</b>			
Debtors falling due within one year	8	34,796,281	25,409,263
Debtors falling due after more than one year	8	-	17,053,000
Investments	9	8,988,297	888,698
Cash and short term deposits		440,645	5,031,736
		<u>44,225,223</u>	<u>48,382,697</u>
<b>CREDITORS : amounts falling due within one year</b>			
Loan notes	10	(19,868,394)	(29,513,413)
Other creditors	11	(52,195,653)	(70,408,199)
		<u>(27,838,824)</u>	<u>(51,538,915)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(27,838,824)</u>	<u>(51,538,915)</u>
<b>TOTAL NET ASSETS</b>		<u>68,202,157</u>	<u>71,897,791</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	12	9,166,397	9,166,397
Share premium	13	47,072,691	47,072,691
Capital redemption reserve	13	7,029,289	7,029,289
Profit and loss account	13	4,933,780	8,629,414
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<u>68,202,157</u>	<u>71,897,791</u>

The financial statements on pages 6 to 12 were approved by the Board of Directors on 11 ~~MAY~~ 2000 and signed on its behalf by:

Director



Director





## NOTES TO THE ACCOUNTS at 31 December 1999

### 1. ACCOUNTING POLICIES

#### *Accounting convention*

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

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

#### *Investments*

Investments in subsidiaries are carried at cost, except where provision is made for an impairment 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.

#### *Cashflow statement*

The Company is exempt from the requirement to prepare a cashflow statement as the ultimate parent company prepares a cashflow statement.

### 2. ADMINISTRATIVE EXPENSES

The audit fee for the periods ended 31 December 1999 and 1998 was borne by a fellow subsidiary undertaking.

### 3. DIRECTORS AND EMPLOYEES

#### *Directors*

The Company had five directors during the year ended 31 December 1999 (nine months to 31 December 1998 : eight). No amounts were paid in respect of the directors' services to the Company in the year. The directors are remunerated by other group companies for their services to the group as a whole.

Deferred shares in Merrill Lynch & Co., Inc. are receivable by four directors under long term incentive arrangements.

#### *Employees*

There were no employees during the year.

### 4. INTEREST PAYABLE AND SIMILAR CHARGES

	12 months to 31 December 1999 £	9 months to 31 December 1998 £
Loan notes	1,389,410	1,604,476
Bank overdraft and other borrowings	676,598	1,680,302
	<u>2,066,008</u>	<u>3,284,778</u>

**NOTES TO THE ACCOUNTS**  
**at 31 December 1999**

**5. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES**

	<b>12 months to 31 December 1999 £</b>	<b>9 months to 31 December 1998 £</b>
UK corporation tax at 30.25% (1998: 31%)	191,530	(463,968)
	<u>191,530</u>	<u>(463,968)</u>
Adjustment in respect of prior years	-	2,378,032
	<u>191,530</u>	<u>1,914,064</u>
Taxation on profit/(loss) on ordinary activities		

The effective tax rate is higher than the statutory rate of corporation tax due to the realisation of a chargeable gain on redemption of the convertible loan note issued by 33 King William Street Ltd.

**6. DIVIDENDS**

	<b>12 months to 31 December 1999 £</b>	<b>9 months to 31 December 1998 £</b>
Interim paid (20.73p per ordinary share)	38,000,000	-

**7. FIXED ASSETS - INVESTMENTS**

	<b>31 December 1999 £</b>	<b>31 December 1998 £</b>
Investments in subsidiaries	96,003,481	123,436,706
Investments in associates	37,500	-
	<u>96,040,981</u>	<u>123,436,706</u>

**Investments in Subsidiaries**

	<b>£</b>
Cost :	
At 1 January 1999	127,736,676
Additions	594,091
Disposals	(28,027,316)
At 31 December 1999	<u>100,303,451</u>
Permanent diminution in value:	
At 1 January 1999	4,299,970
Charge for the period	-
Disposals	-
At 31 December 1999	<u>4,299,970</u>

**NOTES TO THE ACCOUNTS**  
**at 31 December 1999**

**7. FIXED ASSETS - INVESTMENTS (continued)**

Net book amounts:

At 31 December 1999	96,003,481
At 31 December 1998	123,436,706

Convertible loan stock of £25,050,000 was issued to the Company on 6 May 1997 by 33 King William Street Ltd. The loan stock was redeemed on 6 May 1999 for £27,939,555.

The company redeemed 87,761 preference shares in Grosvenor Ventures Limited during the year.

In the opinion of the directors the value of the investments are not less than the amount included in the financial statements.

**Investments in Associated Undertakings**

The Company's investment in associated undertakings is as follows;

Share of net assets	£
At 1 January 1999	-
Additions	37,500
Disposals	-
At 31 December 1999	37,500

The Company's subsidiary and associated undertakings are set out in Note 14.

**8. CURRENT ASSETS - DEBTORS**

	<b>31 December 1999 £</b>	<b>31 December 1998 £</b>
<b>Amounts falling due within one year:</b>		
Amounts owed by subsidiary undertakings	27,395,440	19,349,729
Amounts owed by associated undertakings	1,522,566	-
Corporation tax recoverable	5,878,275	6,059,534
	<u>34,796,281</u>	<u>25,409,263</u>
<b>Amounts falling due after more than one year:</b>		
Amounts owed by subsidiary undertakings	-	17,053,000
	<u>-</u>	<u>17,053,000</u>
	<u>34,796,281</u>	<u>42,462,263</u>

The amounts owed by associated undertakings relates to a loan of £1,500,000 plus interest of £22,566 to E-Crossnet, an equal joint venture with Barclays plc. The loan bears interest at the rate of Barclays overnight Libor rate plus one per cent. The loan was fully repaid subsequent to the year end.

**NOTES TO THE ACCOUNTS**  
**at 31 December 1999**

**9. CURRENT ASSET - INVESTMENTS**

	<b>31 December 1999 £</b>	<b>31 December 1998 £</b>
Listed	8,988,297	888,698

The market value of listed investments held by the Company at 31 December 1999 was £9,920,998 (31 December 1998: £1,005,000)

**10. LOAN NOTES**

	<b>31 December 1999 £</b>	<b>31 December 1998 £</b>
Loan notes (2005)	19,868,394	29,513,413

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 31 March and 30 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 30 September 2005. Loan notes to the value of £9,645,019 were redeemed during the year.

**11. CREDITORS : Amounts falling due within one year**

	<b>31 December 1999 £</b>	<b>31 December 1998 £</b>
Bank loans and overdrafts	-	30,000,000
Amounts owed to subsidiary undertakings	51,949,979	39,691,382
Accruals	245,674	716,817
	<b>52,195,653</b>	<b>70,408,199</b>

**12. CALLED UP SHARE CAPITAL**

	<b>31 December 1999 £</b>	<b>31 December 1998 £</b>
Authorised: 251,598,687 Ordinary shares of 5p each	12,579,934	12,579,934
Allotted and fully paid: 183,327,938 Ordinary shares of 5p each	9,166,397	9,166,397

**13. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES**

	<b>Share capital £</b>	<b>Share premium account £</b>	<b>Capital redemption reserve £</b>	<b>Profit and loss account £</b>	<b>Total £</b>
At 1 January 1999	9,166,397	47,072,691	7,029,289	8,629,414	71,897,791
Loss for the period	-	-	-	(3,695,634)	(3,695,634)
At 31 December 1999	<b>9,166,397</b>	<b>47,072,691</b>	<b>7,029,289</b>	<b>4,933,780</b>	<b>68,202,157</b>

**NOTES TO THE ACCOUNTS**  
**at 31 December 1999**
**14. SUBSIDIARIES AND ASSOCIATED UNDERTAKINGS**

The subsidiaries and associated undertakings at 31 December 1999 are shown below. Unless otherwise stated, all these subsidiaries are incorporated in England and Wales.

<u>Subsidiary</u>	<u>Place of Incorporation</u>	<u>Class of Shares</u>	<u>% of Shares held and voting rights</u>	<u>Nature of Business</u>
Grosvenor Ventures Limited	UK	Ordinary Redeemable preference	100% 100%	Investment holding company
Mercury Asset Management Ltd	UK	Ordinary	100%	Investment management and holding company
33 King William Street Ltd	UK	Ordinary	100%	Investment management
Mercury (Finance) Ltd	UK	Ordinary	100%	Holding company
Mercury Life Assurance Company Ltd	UK	Ordinary Redeemable	100% 100%	Life assurance and pensions
Mercury Private Equity Holdings Ltd	UK	Ordinary	100%	Holding company
Mercury Private Equity MUST 3 Limited	UK	Ordinary	100%	General partner of limited partnership
Mercury Asset Management No. 1 Limited	UK	Ordinary	100%	General partner of property limited partnership
Mercury Asset Management No. 2 Limited	UK	Ordinary	100%	General partner of property limited partnership
Mercury Asset Management Holdings Ltd*	UK	'A' Ordinary 'B' Ordinary	100% 0%	Provider of employee services

\* 'A' Ordinary shares represent 95% of total share capital.

Associated undertaking

E-Crossnet Joint Venture	UK	Ordinary	50%	Institutional brokerage
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Redeemable shares in Mercury Life Assurance Company Ltd are non-cumulative and are redeemable on any redemption date, being 31 January, 30th April, 31st July and 31st October in each year, save that the first redemption date shall be 31 October 1998. Any redeemable shares still outstanding will be redeemed on 31st July 2003.

Redeemable preference shares in Grosvenor Ventures Limited carry no voting rights and take priority over ordinary shares in the event of winding up.

**15. RELATED PARTIES**

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

**16. ULTIMATE PARENT UNDERTAKING**

The parent undertakings of the smallest and largest groups of undertakings for which group financial statements are prepared and of which the Company is a member are ML Invest Holdings Limited, a Company registered in England and Wales, and Merrill Lynch & Co., incorporated in Delaware, USA, respectively. Financial statements for ML Invest Holdings Limited may be obtained from the Company Secretary, Ropemaker Place, 25 Ropemaker Street, London EC2Y 9LY. Financial statements for Merrill Lynch & Co. Inc. may be obtained from the Corporate Secretary's Office, Merrill Lynch & Co., Inc., 222 Broadway, 17th Floor, New York, NY 10038 U.S.A.