Investment Objective and Financial Highlights

The objective of the Company is to provide shareholders with long-term capital appreciation from investment in unquoted companies, primarily in the UK and Ireland. The Company provides investors with an exposure to management buy-outs, management buy-ins and expansion capital investments.

Financial Highlights

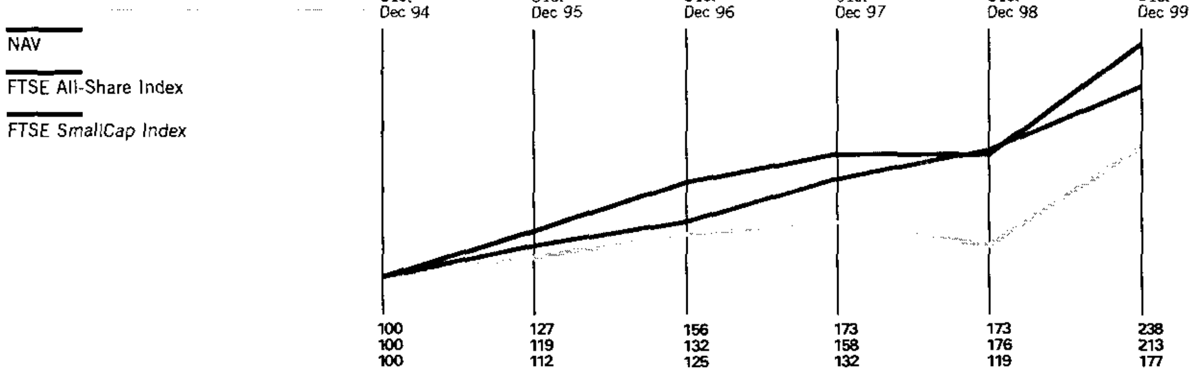
Attributable to ordinary shareholders

	31st December 1999	31st December 1998 (restated)	% change
Assets			
Net assets (£'000)	**89,863**	66,851	34.4
Net assets per share	**346.5p**	257.8p	34.4
Share price (mid-market)	**289p**	208p	38.9
Revenue			
Net revenue (£'000)	**2,481**	1,359	82.6
Earnings per share	**9.57p**	5.24p	82.6
Dividend per share	**8.00p**	4.95p	61.6

Information about the Company is available on the Mercury Asset Management web site at www.mam.com
Specific information regarding the Investment Manager is available at www.mam.com/pe

Chairman's Statement

Performance record



Performance record rebased to 100 at 31st December 1994.

I am pleased to report that the positive trend experienced in the first six months of the year has continued throughout the second half; as a result, net assets per share increased by 13.4% over the six month period. The increase in net assets over the full year ended 31st December 1999 was 34.4% compared with equivalent increases of 21.2% in the FTSE All-Share Index and 49.6% in the FTSE SmallCap Index over the same period. Net assets per share were 346.5p compared with 257.8p at the end of the previous year.

The Board is recommending a final dividend for the year ended 31st December 1999 of 8.00p per ordinary share (1998: 4.95p).

The Company committed £23.6 million to seven new investments; realisations totalled £39.6 million. Details are given in the Investment Manager's report.

As indicated in the Interim Report, the Board has been considering putting in place a revolving credit facility to take greater advantage of investment opportunities generated by the Investment Manager and to reduce the need to keep unproductive cash balances. The terms of a £25 million revolving credit facility are in the final stages of negotiation.

As also explained in the Interim Report, the Board decided that it was appropriate to change the accounting policy of the Company and to charge 75% of the management fee and interest on indebtedness to capital. The 1998 figures have been restated accordingly.

The Company has supported the Association of Investment Trust Companies' recently launched 'its' marketing campaign. As at 31st December 1999 the discount to net asset value at which the Company's shares traded was 16.6% compared with the AITC weighted sector average of 17%.

Chairman's Statement continued

Shareholder approval is being sought to authorise the buy-back of up to 14.99% of the Company's share capital. Your Board will use this power at its discretion when it is in the best interests of shareholders as a whole to do so.

Under the Company's Articles of Association, Bob Hall is due to retire by rotation at this year's Annual General Meeting. Due to commitments elsewhere, Bob has indicated that he will not seek re-election. The Board would like to express its appreciation for his contribution to our deliberations and support to the Company during his time as a director.

The year has been characterised by strong stock markets, particularly for small capitalisation companies. It would be prudent to expect some volatility in markets in the coming year; however, the Board and the Investment Manager remain confident about the overall quality of the Company's investment portfolio.

David Bucks
24th February 2000

Investment Principles of the Manager

We build partnerships with entrepreneurial management teams, investing in businesses with strong franchises in growth sectors.

The Investment Manager
The Company's portfolio of investments is managed by Mercury Private Equity, a division of Merrill Lynch Mercury Asset Management, one of the leading global investment houses with total funds under management in excess of US$557 billion.

Mercury Private Equity manages funds amounting to £675 million dedicated to unquoted investments. It was established in 1985 and has invested in more than 200 companies. It has developed into one of the leading providers of finance to the private equity market.

Our team includes sixteen investment professionals with a broad base of business and transaction management expertise. We have built a reputation for decisive action, imaginative advice and for our ability to work closely in partnership with each management team. Five members of the team form the Executive Committee, which manages the running of the business. We also have an external Advisory Committee of experienced businessmen.

Our Investment Principles
We invest in companies with competitive economics, operating in growth markets.

We support entrepreneurial management with successful track records. They may be either incumbent or introduced from our own sources.

We prefer to be the sole or lead investor so that we can act quickly and decisively.

We invest in companies with activities anywhere in the world, which have headquarters in Continental Europe.

Our Criteria
We have two distinct areas of interest:

Leveraged acquisitions – we target quality businesses with strong positions in growing markets and with enterprise values of between £25 million and £500 million.

Expansion capital – we look to make an initial investment in excess of £5 million in high-growth companies.

We focus our investment on sectors which have attractive economics and growth characteristics and which are experiencing favourable structural change. We have identified healthcare, telecoms & IT and support services as sectors that currently fit these criteria. However, we remain opportunistic and will consider potential investments within other sectors that meet our overall investment criteria. In addition, we look at special situations where we can apply vision to support aggressive business strategies or to find unusual opportunities from which value can be created. Our investment professionals work in teams specialising in each of these areas.

Executive Committee
1 Ian Armitage – CEO
2 Trevor Bayley – MD, Frankfurt office
3 Frances Jacob – MD, Investment
4 Jeremy Sharman – MD, Deal Marketing
5 Linda Wilding – MD, Client Marketing & Administration

Investment Manager's Review

1999 was a rewarding year for both new investments and realisations.

Mercury Grosvenor Trust plc invests alongside other clients of Mercury Private Equity. Typically, the Company's holding forms part of a much larger stake controlled by Mercury; we either hold significant minority positions with preferential class rights or controlling positions in portfolio companies. As the lead or sole institutional investor in over 90% of our investments, we are able to control the initial investment process, including the important due diligence and pricing exercises, to manage the investments throughout their lives and to influence the timing and method of realisation. We believe that this disciplined and active approach is advantageous over the longer term.

During 1999 the Company invested a total of £28.5 million (1998: £23.5 million), a year-on-year increase of over 20%. £23.6 million was invested in seven new companies while existing investments received the remaining £4.9 million. It was also a highly successful year for realisations with proceeds amounting to £39.6 million (1998: £8.3 million).

Earlier in the year, we took advantage of adverse market sentiment to invest in two public-to-private transactions where we believed that the prevailing share price did not reflect the true underlying value of the businesses. Greycoat Estates was established to acquire the entire issued share capital of the property company, Greycoat plc, and Match Holdings was formed by the management of Sinclair Montrose Healthcare plc in its successful bid to privatise that company.

An inventive exit mechanism was employed for the Company's investment in Luxfer following abortive flotation plans. This involved a major recapitalisation of the business and the issue of a £160 million high-yield bond. The Company received proceeds in excess of two times cost together with a stake in the releveraged business.

Favourable conditions facilitated sales of quoted stock, which made a sizeable contribution to realisation proceeds. The Company realised its holdings in Luminar and Style Holdings, yielding respective returns of eight and four times cost.

As part of a strategy to develop its operations, Mercury Private Equity opened an office in Frankfurt in order to take advantage of the rapid increase in the flow of buy-out opportunities in Europe. Indeed, several investments within the Company's portfolio have links with Germany. PII Group acquired its main competitor, Pipetronix GmbH, and a new investment, Tunstall Holdings, has a significant presence in Germany.

Representatives from specialist teams

6 Lindsay Dibden – Healthcare
7 Barclay Douglas – Special Situations
8 Michael Hehn – Frankfurt office
9 Richard Mathews – Support Services
10 Joachim Pieper – Frankfurt office
11 Nick Turner – Telecoms & IT

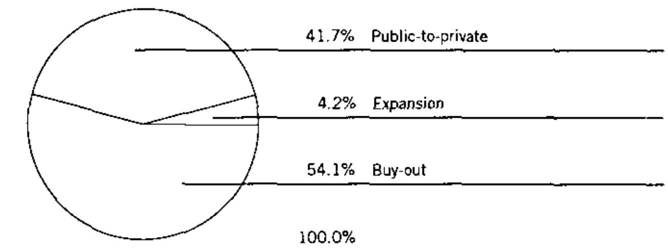
New Investments

The Company invested £23.6 million in seven new companies.

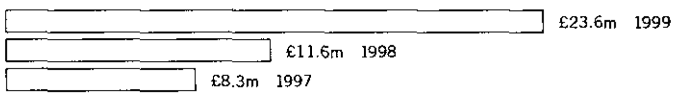
New investments

Company	Type of security	Activity	Transaction type	Cost £'000
Greycoat Estates Ltd	Equity and loan	Property development	Public-to-private	7,309
Tunstall Holdings Ltd	Equity and loan	Security alarms for the elderly and infirm	Buy-out	6,630
Match Holdings Ltd	Equity and loan	Flexible staffing services for NHS trust hospitals	Public-to-private	2,527
Unicorn Professional Services Ltd	Equity and loan	Outsourced services for the property sector	Buy-out	2,473
Bertram Group Holdings Ltd	Equity and loan	Wholesale supplier of books to retailers and libraries	Buy-out	2,446
Checkpoint Holdings Ltd	Equity and loan	Secure business-to-business electronic payments solutions	Buy-out	1,233
Profiad Ltd	Equity and preference	Recruitment for clinical trials	Expansion	986
			Total	**23,604**

Transaction type



Investment rate



Greycoat Estates

Greycoat Estates was formed in May 1999 to acquire the issued share capital of Greycoat plc. The offer was declared unconditional on 25th June 1999 and represents one of the UK's largest recommended public-to-private deals of the 1990s.
(See Review of Principal Investments.)

Tunstall Holdings

The management buy-out of Tunstall took place in November 1999 for £103.5 million. Tunstall develops, manufactures, installs, maintains and services reassurance communication systems, principally for use by the elderly and infirm.
(See Review of Principal Investments.)

Match Holdings

Match Holdings was formed with management to acquire Sinclair Montrose Healthcare plc at an enterprise value of £72.9 million. The company's core business is the supply and management of flexible staffing for NHS trust hospitals.
(See Review of Principal Investments.)

Unicorn Professional Services

In August 1999, Mercury Private Equity led the management buy-out of Unicorn Professional Services from Building & Property Group for £36.7 million. Unicorn is a leading provider of outsourced services focused on the property sector. Its principal role is property maintenance management and its clients include the Ministry of Defence and a number of local authorities.

Bertram Group Holdings

The £54 million management buy-out of Bertram Group completed in February 1999. The group comprises Bertrams, a privately-owned book wholesaler, and Cypher Group, a leading supplier of books to UK public libraries. The group's fulfilment services are critical to traditional retailers, independent retailers, chains of bookstores and internet book vendors. Since the year end Bertram Group has secured a lucrative deal with The Stationery Office Group Ltd (see Partial Realisations) to be the sole distributor to booksellers of titles such as the Highway Code and the Official Driving Series.

Checkpoint Holdings

The management buy-out of Checkpoint completed in March 1999 at a price of £17 million. Checkpoint is the only company in the UK to offer fully-integrated secure payments solutions such as BACS-based electronic funds transfer software, electronic cheque disbursement systems and secure payments outsourcing services. Its customers include 98 of the FTSE 100 companies.

Profiad

Profiad manages a network of doctors offering controlled investigator and patient recruitment services to the pharmaceuticals industry for clinical trials. More effective recruitment and better control of patient trials facilitates the speeding up of drugs trials. We believe that this area of the pharmaceuticals industry offers exciting growth potential.

Follow-on Investments

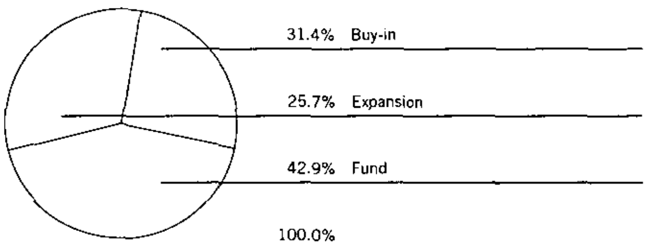
A further £4.9 million was provided to eleven portfolio companies.

Follow-on investments

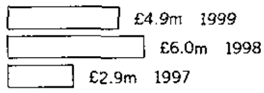
Company	Type of security	Activity	Transaction type	Cost £'000
PII Group Ltd	Equity and loan	Oil and gas pipeline inspection services	Buy-in	1,454
Weston Presidio Capital III, L.P.	LP units	US venture fund	Fund	881
Euroknights III, L.P.	LP units	European venture fund	Fund	702
Patientline Holdings Ltd	Loan	Hospital services	Expansion	605
Alizyme plc†	Equity	Biotechnology for gut disease and obesity	Expansion	477
Wand Equity Portfolio II, L.P.	LP units	US LBO fund	Fund	356
Weston Presidio Capital II, L.P.	LP units	US venture fund	Fund draw down	151
Other (4)				250
			Total	**4,876**

† Traded on the Alternative Investment Market.

Transaction type



Investment rate



PII Group
Further funding was provided in November 1999 to enable PII Group to acquire its principal competitor, Pipetronix, for some £50 million. The combined group has a world market share of around 55%.
(See Review of Principal Investments.)

Weston Presidio Capital III
Two calls of committed capital were made to finance several new investments. At 31st December 1999 the fund was 25% drawn and the capital account balance represented 94% of capital contributed. Investments are primarily in privately-held, later-stage growth companies in the US.

Euroknights III
Euroknights III invests in medium-sized companies in France, Italy, Switzerland and Portugal. It made five calls of committed capital during the year and at 31st December 1999 was 84.6% drawn. The portfolio consists of nine investments that are valued at a 59% uplift to cost.

Patientline Holdings
Patientline received several tranches of committed capital during the year to fund the further roll-out of its hospital installations. The Patientline system provides patients with personal access to a variety of satellite, TV and radio entertainment and direct-dial telephone for both outgoing and incoming calls, at no capital cost to the hospital.

Alizyme
In July 1999 Alizyme raised a further £5.2 million by way of a rights issue and an open offer in the form of units comprising two shares at 37p each plus one free warrant.
(See Review of Principal Investments.)

Wand Equity Portfolio II
Wand Equity Portfolio II is focused towards mid-size LBOs and development capital opportunities in the US. It made several new investments during the year and, at 31st December 1999, was 55.5% called.

Weston Presidio Capital II
In October 1999 a capital call was made to finance further investments within the portfolio. The fund is 72.5% drawn and comprises nineteen investments that have almost doubled in value.
(See Review of Principal Investments.)

Other
A further four investments within the portfolio received funds totalling £0.3 million. £0.1 million was provided to The Sanctuary Spa Group to meet the costs of the refurbishment of its successful Covent Garden site. We now have a controlling stake in the business. An additional investment was made in Cerebrus prior to its take over by Vanguard Medica Group plc, a biotechnology group. In addition, a further call of committed capital was made by ACT Venture Capital and a small investment was made to finance the development of NWP Communications.

Full Realisations

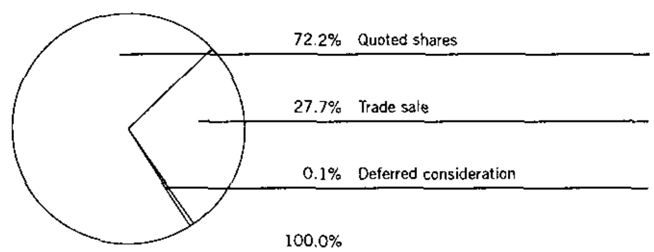
Significant value was realised, resulting in a profit over cost of £18.4 million.

Full realisations

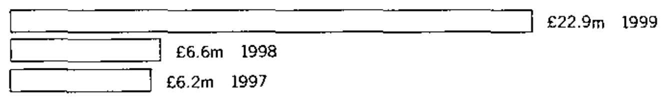
Company	Type of security	Proceeds £'000	Cost £'000	Profit/Loss over cost £'000	Valuation @ 31/12/98 £'000	Profit/Loss over valuation £'000
Luminar plc*	Equity	14,775	2,040	12,735	11,135	3,640
CityFlyer Express Ltd	Equity	4,975	44	4,931	2,693	2,282
Style Holdings plc*	Equity	1,439	251	1,188	1,627	(188)
Great Portland Hotels Ltd	Equity	721	412	309	600	121
Castle Corporation Ltd	Equity and loan	597	477	120	518	79
Other (5)		434	1,278	(844)	394	40
	Total	**22,941**	**4,502**	**18,439**	**16,967**	**5,974**

* Listed on the London Stock Exchange.

Transaction type



Realisation rate



Luminar
Luminar, the theme bar, discotheque and restaurant operator, has gone from strength to strength since the Company made its first investment in 1993 and its themed café bar concept, Chicago Rock Café, has proved highly successful. The company again delivered a strong year-on-year profit increase of 86% to £9.1 million (1998: £4.9 million). We took advantage of positive market sentiment during the year to realise our holding, the final tranche of shares being sold in December 1999. The Company's investment in Luminar has achieved overall proceeds of eight times cost.

CityFlyer Express
CityFlyer Express is another extremely successful investment having yielded proceeds of 32 times cost. The sale of CityFlyer Express to British Airways plc took place at the end of the year at a price of £75 million. The transaction was approved by the Secretary of State subject to a limit on the proportion of take-off and landing slots held by British Airways at Gatwick Airport.

Style Holdings
The remaining quoted stock in Style Holdings was sold in May 1999 at a substantial profit over cost. The company operates men's suit concessions within the Top Man chain and owns the Envy chain of men's fashion wear shops.

Great Portland Hotels
The company's main asset is The Grand Hotel, Torquay. We sold our shareholding for 1.75 times cost reflecting a disappointing performance in a difficult sector.

Castle Corporation
Castle Corporation is a distributor and stockholder of gummed paper tape, dispensers and packaging materials. We took the opportunity to sell our small holding in this business at a 25% uplift to cost in July 1999.

Other
CeNeS, a central nervous system drug development business, acquired Core Group plc in a reverse take-over at which time we realised the Company's holding at a loss. The remaining stock held in PPL Therapeutics was also realised. Early's of Witney (including its holding in John Cockcroft), an investment that had been written-off, was sold for value. In addition, deferred considerations were received for Zarina and Encon.

Partial Realisations

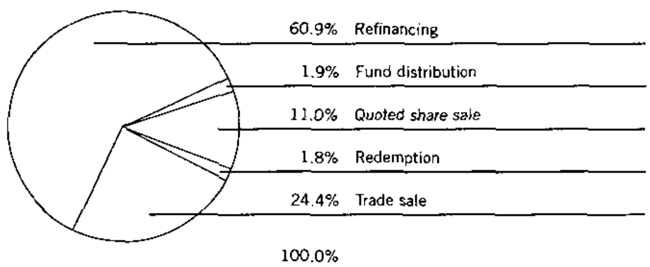
Partial realisations yielded proceeds of £16.7 million.

Partial realisations

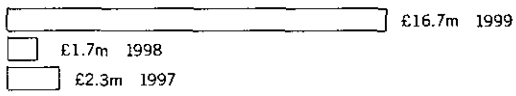
Company	Type of security	Proceeds £'000	Cost £'000	Profit over cost £'000	Valuation @ 31/12/98 £'000	Profit/Loss over valuation £'000
Luxfer Holdings plc	Equity and loan	10,170	4,619	5,551	5,324	4,846
The Stationery Office Group	Equity and loan	4,075	1,532	2,543	1,916	2,159
Biocompatibles International plc*	Equity	1,705	535	1,170	1,334	371
Kaye Holdings Ltd	Loan	209	209	–	209	–
First Choice plc*/Sunsail International plc	Equity	135	53	82	n/a	n/a
Euroknights III, L.P.	LP units	116	116	–	n/a	n/a
Sitex Group Holdings Ltd	Preference equity	57	51	6	59	(2)
Other (5)		202	183	19	n/a	n/a
	Total	**16,669**	**7,298**	**9,371**	**8,842**	**7,374**

* Listed on the London Stock Exchange.

Transaction type



Realisation rate



Luxfer Holdings
Luxfer Group was formed in 1996 to acquire the downstream businesses of British Alcan for £198 million. Following three years of strong performance, the company was sold in April 1999 for £375 million. Luxfer Holdings plc, the acquisition vehicle, was financed by a combination of senior and high-yield debt. As a result of this transaction, all shareholder loan stock was redeemed together with accrued interest and 85% of the equity cost was paid out as cash, with the balance issued as ordinary and preference shares in Luxfer Holdings. Cash proceeds amounted to some 2.6 times cost.

The Stationery Office Group
In March 1999 High Court approval was gained for a reorganisation of the group into four new companies: The Stationery Office Group Ltd, Banner Business Ltd, Document Management Services Group Ltd and Security Printing Group Ltd. As part of the restructuring, the group redeemed its loan stock and preference shares, leaving the Company with a residual equity investment in each of the four divisions. One of those divisions, The Stationery Office Group, comprising National Publishing and Parliamentary Services, was subsequently sold. The price of £40 per share represents a substantial uplift to cost. In addition, since the year end, Document Management Services was sold at a price of £19 per share, again a substantial uplift to cost.

Biocompatibles International
We took the opportunity to sell stock following favourable market sentiment in response to the announcement of two new distribution deals. Since the year-end, the remaining stock has been sold, giving an overall return of 3.6 times cost.
(See Review of Principal Investments.)

Sitex Group Holdings
In August 1999, Sitex Group Holdings was sold to Orbis plc for a consideration of £6.5 million, in the form of 46 million shares in Orbis plc plus a minimum deferred consideration of £1 million. A representative of Mercury Private Equity has taken a seat on the board and we have agreed not to sell Orbis shares for at least one year. The combined business is the clear market leader in the void property protection market.

Kaye Holdings
1999 proved a difficult year for this specialist aluminium extruder. The strength of sterling made exporting difficult whilst the home market was adversely affected by imports. Notwithstanding this a recapitalisation of Kaye completed in August 1999 and we received partial redemptions of our loan stock.

First Choice/Sunsail International
Sunsail International was sold to First Choice plc in September 1999 for a price ranging from £30 million to £40 million, depending on the pre-tax profit earned in the year to 31st October 1999. Consideration and deferred consideration is in the form of First Choice ordinary shares. A portion of these shares have now been sold.

Euroknights III
A cash distribution was received in January 1999 following the successful partial realisation of Du Pareil au Même.

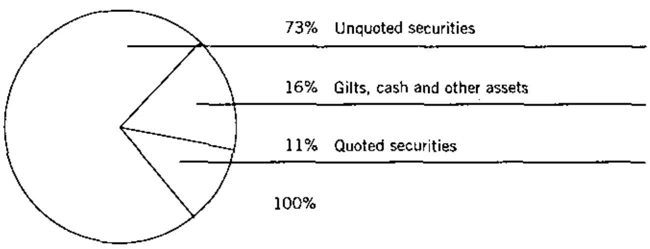
Other
Cash distributions were made by five other overseas funds.

Portfolio Analysis

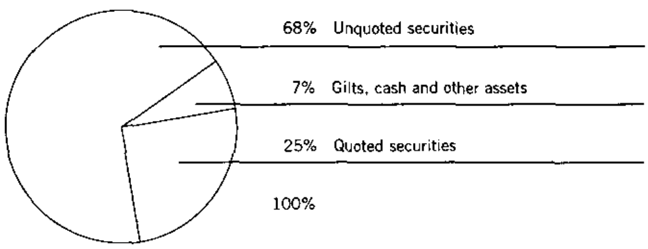
Favourable market conditions facilitated a considerable reduction in the Company's holding of quoted stock.

Analysis of asset type

1999

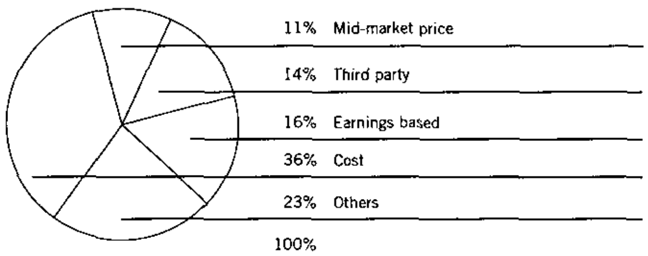


1998

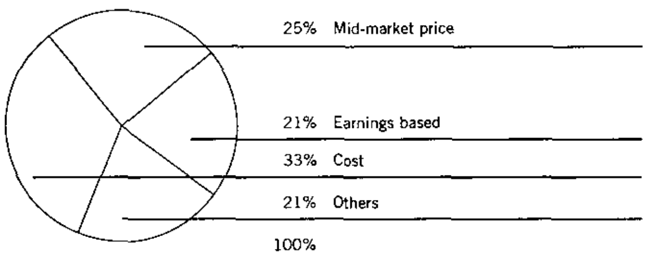


Analysis of investment valuation

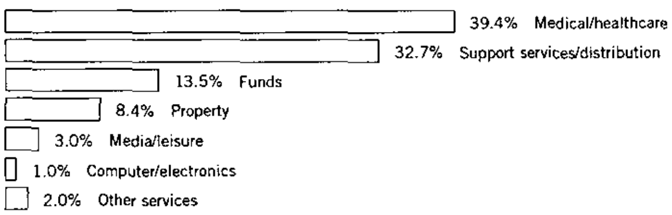
1999



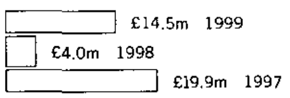
1998



Analysis of investments by sector



Liquidity levels



At the end of 1999 the Company's portfolio consisted of 47 investments (1998: 47), with the top ten continuing to represent around 70% of value excluding cash. Seven new investments were made during the year and a further three were acquired via the de-merger of The Stationery Office Group. Ten investments were fully realised by way of disposals of quoted stock and trade sales.

The portfolio valuation, excluding cash, of £74.5 million (1998: £62.2 million) compares with an aggregate book cost of £68.8 million (1998: £52.1 million). The most notable shift in the structure of the portfolio has been a reduction in the proportion of quoted stock from 25% to 11%, through a series of successful realisations.

The composition of the top ten listing has also changed significantly, mainly as a result of an active year for realisations. There were five new entries, three of which are new investments.

As a consequence of the high proportion of realisations, the level of gilts and cash balances held by the Company has increased to £14.5 million compared with £4.0 million at the end of 1998.

Since the year end the Company has committed funds of £3.1 million to two new investments: Agora Healthcare Ltd, a provider of IT solutions for the healthcare market, and Worldmark International Ltd, a supplier of product identification systems.

Portfolio Analysis continued

The ten largest investments are valued at £50.5 million.

1999 Top ten investments

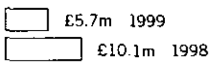
Company	Valuation £'000
PII Group Ltd	10,209
Greycoat Estates Ltd	7,309
Tunstall Holdings Ltd	6,630
Braitrim Holdings Ltd	6,128
Priory Healthcare Ltd	5,360
Dechra Holdings Ltd	3,368
Biocompatibles International plc*	3,160
Weston Presidio Capital II, L.P.	3,059
Alizyme plc†	2,730
Match Holdings Ltd	2,527
Total	**50,480**

* Listed on the London Stock Exchange.
† Traded on the Alternative Investment Market.

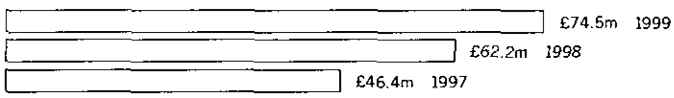
1998 Top ten investments

Company	Valuation £'000
Luminar plc*	11,135
Luxfer Group Ltd	6,493
Braitrim Holdings Ltd	4,714
Priory Healthcare Ltd	4,379
PII Group Ltd	4,204
Sitex Group Holdings Ltd	3,436
CityFlyer Express Ltd	2,693
Dechra Holdings Ltd	2,692
Weston Presidio Capital II, L.P.	2,245
Patientline Holdings Ltd	2,208
Total	**44,199**

Unrealised gain on cost



Portfolio valuations



Net assets

Prospects

Economic activity in Europe and the USA proved to be quite robust in 1999. Consensus forecasts for 2000 and beyond point to a continuation of steady growth and low inflation although short-term interest rates are clearly moving upwards. Within this generally benign environment we would note one phenomenon and one risk, both of which have implications for the profitability of businesses.

It is becoming apparent that the industries that make up the economy are experiencing differential growth rates and, more importantly, sharply different pricing conditions. We believe that few markets allow companies to exert any power in pricing and that many have zero inflation or even deflation. This problem is exacerbated in some industrial sectors by the arrival of new capacity in the form of e-commerce. Of course, at the same time, there are exciting market opportunities being created by these changes.

As for risk, we believe that a set back in US consumer spending triggered by a collapse of US share prices is perhaps the biggest threat to demand, sales and hence corporate profitability.

Our positive disposition towards investing in fast-growth companies and management buy-outs remains intact. The Company's portfolio contains a number of companies that are exploiting new technologies and new markets as well as recording significant rates of growth. We would expect a small number of these businesses to attract offers during 2000 and the remainder to make solid progress in building their businesses.

As for the deployment of capital, the market remains competitive in all segments. There are signs that the disciplines required to produce good rates of return over the long-term are being ignored by some of the newer participants in the market, particularly in the internet arena.

Our participation in this exciting market and others continues to be based on the application of proven disciplines, which we believe will continue to bear fruit in the future.

Mercury Private Equity
Investment Manager
24th February 2000

Review of Principal Investments

PII Group

PII Group was formed to acquire the oil and gas pipeline inspection business of BG plc. The primary means of inspection is via an "intelligent pig", which travels through pipelines carrying sensory and data-recording equipment. PII's market share has increased to around 55% following its recent acquisitions of a major competitor, Pipetronix, based in Germany, and a smaller Canadian company. The group now has a spread of customers, a range of products and an array of technologies second to none.

Cost: £5,658,256
Valuation: £10,209,024
Valuation basis: Third party
Percentage of portfolio: 13.7%
Investment date: February 1998

Greycoat Estates (new holding)

Greycoat Estates owns a portfolio of central London properties for development and sale. The properties are concentrated in prime locations, mainly in the City of London and the West End, and include a one-third interest in Tower 42, formerly known as the NatWest Tower. Since the company's privatisation in June 1999 four properties have been sold. The central London office market offers great potential with limited speculative development and a lack of good accommodation.

Cost: £7,309,166
Valuation: £7,309,166
Valuation basis: Cost
Percentage of portfolio: 9.8%
Investment date: May 1999

Tunstall Holdings (new holding)

Tunstall Holdings is the UK market leader in the production and installation of reassurance communications systems. It also has a large business in Germany. The alarms, either room-based or mobile, provide instant access to assistance and, if appropriate, the emergency services. They are designed to allow the elderly and vulnerable to live at home or in assisted environments. Demand for the products is accelerating, enhanced by the Government's "care in the community" programme and an ageing population.

Cost: £6,630,369
Valuation: £6,630,369
Valuation basis: Cost
Percentage of portfolio: 8.9%
Investment date: November 1999

Review of Principal Investments continued

Braitrim Holdings
Braitrim provides product presentation, design, procurement and distribution services to the retail industry. It is the UK's leading supplier of clothing hangers and frames and has rapidly expanding businesses in Germany, France and Hong Kong as well as recently established presences in Scandinavia, Spain and India. Braitrim is strategically redirecting its focus from product supply towards supply chain management and is developing an internet platform designed to link its customers and suppliers.

Cost: £4,713,935
Valuation: £6,128,395
Valuation basis: Earnings
Percentage of portfolio: 8.2%
Investment date: March 1998

Priory Healthcare
Priory Healthcare is the UK's leading group of private-sector, acute psychiatric hospitals. The company's strong performance continued during the year, attributable to a higher incidence of more complex psychoses rather than general depression and a shift towards self-pay patients. Prior to the year end, agreements were signed to sell Priory to Canterbury Healthcare (formerly Westminster Healthcare) conditional only on clearance from the Office of Fair Trading. This clearance was given in February 2000 and the sale completed.

Cost: £5,628,448
Valuation: £5,359,978
Valuation basis: 25% discount to conditional offer
Percentage of portfolio: 7.2%
Investment date: June 1996

Dechra Holdings
Dechra's main subsidiary, National Veterinary Supplies, is market leader in the wholesale distribution of pharmaceuticals, disposables and instruments to UK veterinary practices. Dechra continues to increase its earnings and is establishing a direct-to-public internet sales channel.

Cost: £2,687,389
Valuation: £3,368,090
Valuation basis: Earnings
Percentage of portfolio: 4.5%
Investment date: June 1997

Review of Principal Investments continued

Biocompatibles International

Biocompatibles is an international medical device company supplying contact lenses and coronary stents containing a proprietary polymer that improves biocompatibility. The polymer replicates the outside of a natural cell membrane thus allowing the insertion of foreign materials by fooling the body's rejection mechanism. During the year the company announced an initiative to package its contact lenses for Specsavers Opticians and also an agreement with Abbott Laboratories for exclusive distribution of its stent in the US.

Cost: £1,189,063
Valuation: £3,160,000
Valuation basis: Mid-market price
Percentage of portfolio: 4.2%
Investment date: July 1990

Weston Presidio Capital II

This is the second fund from a management company that invests in later-stage, privately-held, emerging-growth companies in the United States. As at 31st December 1999 the fund's portfolio comprised nineteen investments totalling US$221 million in value compared with a cost of US$127 million. MapQuest.com, which at 31st December 1999 represented 35% of the fund's value, has since been sold to AOL at a significant uplift to valuation and at a multiple of 40 times cost.

Cost: £1,962,197
Valuation: £3,058,913
Valuation basis: Net assets
Percentage of portfolio: 4.1%
Investment date: December 1995

Alizyme

Alizyme specialises in diseases of the gut and obesity. It currently has one product undergoing Phase II clinical trials and two undergoing Phase I. Clinical development continues in line with planned milestones and management is performing well. In conjunction with the company's successful fund-raising, a strategic decision was taken to remain on the Alternative Investment Market.

Cost: £1,576,664
Valuation: £2,730,176
Valuation basis: Mid-market price
Percentage of portfolio: 3.7%
Investment date: May 1998

Match Holdings (new holding)

Match Holdings is one of the UK's leading providers of comprehensive labour management, recruitment and deployment services in the health sector. The company's core business, Match Resource Group, is the supply and management of flexible staffing for NHS trust hospitals. It also has a substantial industrial and commercial staffing agency, and a newly-developed internet-based candidate-matching software product, called MatchNet.

Cost: £2,527,343
Valuation: £2,527,343
Valuation basis: Cost
Percentage of portfolio: 3.4%
Investment date: July 1999

Review of Principal Investments *continued*

Financial highlights of the top 20 investments.

Company	Accounting date	Turnover £'m	PBIT/(LBIT) £'m	PBT/(LBT) £'m	Net assets/ (liabilities) £'m	MGT income accrued 1999 £'000	% ordinary share capital (a)
Alizyme plc†	Dec-98	–	(4.7)	(4.4)	2.7	–	10.0
Bertram Group Holdings Ltd	Jul-00	**	**	**	**	343	9.4
Biocompatibles International plc*	Dec-98	16.2	(29.6)	(43.7)	29.4	–	1.3
Braitrim Holdings Ltd	Jun-98	54.9	8.0	6.7	1.4	–	9.2
Checkpoint Holdings Ltd	Apr-00	**	**	**	**	85	8.8
Dechra Holdings Ltd	Jun-99	145.9	5.8	0.4	(29.4)	716	11.8
Euroknights III, L.P.	Dec-98				73.9	–	3.0
Greycoat Estates Ltd	Dec-99	**	**	**	**	489	6.4
Luxfer Holdings plc	Dec-98	589.0	49.0	28.0	131.0	–	1.2
Match Holdings Ltd	Dec-98	**	**	**	**	103	7.3
Orbis plc* (Sitex)	Mar-99	49.3	4.0	2.7	38.0	–	4.4
PARC Group Ltd	Mar-99	83.1	5.1	3.2	1.9	32	5.2
Patientline Holdings Ltd	Mar-99	2.8	(1.1)	(1.5)	2.8	520	23.5
PII Group Ltd	Dec-98	46.8	8.9	(8.0)	(1.7)	640	9.0
Priory Healthcare Ltd	Nov-98	47.5	8.0	(5.0)	(24.6)	–	9.0
Profiad Ltd	Dec-99	**	**	**	**	–	6.2
Tunstall Holdings Ltd	Sep-00	**	**	**	**	80	11.6
Unicorn Professional Services Ltd	Jul-00	**	**	**	**	47	10.6
Weston Presidio Capital II, L.P.	Dec-98				231.0	–	2.2
Weston Presidio Capital III, L.P.	Dec-98				27.4	–	1.4

(a) Percentage of the total issued ordinary share capital held by the Company as at 31st December 1999.

* Listed on the London Stock Exchange.

† Traded on the Alternative Investment Market.

** No audited accounts have been produced since investment.

Earnings per share, dividends per share and dividend cover are not shown as they do not assist in understanding the performance of the portfolio.

Investment Listing

Company	Activity	Cost £'000	Valuation £'000	Year of investment	Value %
ACT Venture Capital Ltd	Irish venture fund	141	200	1998	0.3
Alizyme plc†	Biotechnology for gut disease and obesity	1,577	2,730	1998	3.7
Azinger Ltd	Importer/distributor of food	569	301	1993	0.4
Banner Business Supplies Ltd	Office stationery	12	103	1996	0.1
Bertram Group Holdings Ltd‡	Wholesale supplier of books to retailers and libraries	2,446	2,446	1999	3.3
Biocode Inc	Molecular markers	531	538	1997	0.7
Biocompatibles International plc*	Biocompatible products	1,189	3,160	1990	4.2
Biovector Therapeutics S.A.	Biopharmaceuticals	998	731	1997	1.0
Braitrim Holdings Ltd‡	Retail product design and procurement	4,714	6,128	1998	8.2
Central Industries Ltd	Engineering	189	–	1984	–
Cerebrus Ltd	Central nervous system drugs	1,071	68	1996	0.1
Checkpoint Holdings Ltd‡	Secure business-to-business e-payments solutions	1,233	1,233	1999	1.7
Cobra Therapeutics Ltd	Gene therapy	533	75	1996	0.1
Corinthian Marketing plc	Supplier of collectable toys	750	–	1995	–
Creos International plc†	Power supplies for x-rays	594	–	1995	–
Dechra Holdings Ltd‡	Veterinary supplies distributor	2,687	3,368	1997	4.5
Document Management Services Group Ltd	Contract print production	12	829	1996	1.1
Euroknights III, L.P.	European venture fund	1,661	2,226	1996	3.0
Euroknights International Ltd	European venture fund	111	27	1995	0.0
FISCL Capital Partners Ltd	UK fund	31	–	1990	–
First Choice plc* (Sunsail)	Holiday operator	330	817	1998	1.1
Greycoat Estates Ltd‡	Property development	7,309	7,309	1999	9.8
Ironpath Ltd t/a ClinPhone	Clinical research service	445	493	1996	0.7
JBS Industries Ltd‡	Building products manufacturer	54	78	1998	0.1
Kaye Holdings Ltd‡	Aluminium extruder	952	202	1996	0.3
Luxfer Holdings plc*	Aluminium products	46	1,018	1996	1.4
Match Holdings Ltd	Flexible staffing services for NHS trust hospitals	2,527	2,527	1999	3.4
MedNova Ltd	Development of medical devices	466	667	1998	0.9
Nova Homes Ltd	Housebuilder	480	–	1993	–
NWP Communications Ltd	Operator of payphones	2,035	471	1997	0.6
Orbis plc* (Sitex)	Void property management	3,378	1,443	1997	1.9
PARC Group Ltd	Manpower leasing	517	1,596	1995	2.1
Patientline Holdings Ltd‡	Hospital services	2,813	2,408	1996	3.2
PII Group Ltd‡	Oil and gas pipeline inspection services	5,658	10,209	1998	13.7
Priory Healthcare Ltd	Psychiatric hospitals	5,628	5,360	1996	7.2
Profiad Ltd	Recruitment for clinical trials	986	986	1999	1.3
Security Printing Group Ltd	*Printing services*	13	421	1996	0.6
Stoplock Holdings Ltd	Security products	812	–	1994	–
SVC Television Ltd	TV facilities	202	–	1984	–
The Sanctuary Spa Group Ltd‡	Health spa	374	413	1995	0.6
Tunstall Holdings Ltd‡	Security alarms for the elderly and infirm	6,630	6,630	1999	8.9
Unicorn Professional Services Ltd‡	Outsourced services for the property sector	2,473	2,473	1999	3.3
UPM Holdings B.V.	European venture fund	54	47	1995	0.1
Wand Equity Portfolio II, L.P.	*US LBO fund*	518	511	1998	0.7
Weston Presidio Capital I, L.P.	US venture fund	–	72	1995	0.1
Weston Presidio Capital II, L.P.	US venture fund	1,962	3,059	1995	4.1
Weston Presidio Capital III, L.P.	US venture fund	1,097	1,108	1998	1.5
	Total	**68,808**	**74,481**		**100.0**

* Listed on the London Stock Exchange.

† Traded on the Alternative Investment Market.

‡ Mercury, through its management of the Company and other funds, controls more than 50% of the voting equity shares.

Shares in many of the above companies are also held by other funds managed by Mercury.

Board of Directors

David Bucks*† (Chairman)
Aged 65, was appointed as a director and became Chairman of the Company in 1992. He is a chartered accountant with over 25 years' experience of working in the City. He is a non-executive director of Esporta plc.

Timothy John Amies*†
Aged 61, was appointed to the Board in 1991. He is a chartered accountant with over 35 years' experience of working in the City. He was a partner of Laurie Milbank & Co, stockbrokers, for 16 years prior to its acquisition by Chase Manhattan Bank, where he was a director of Chase Investment Bank involved in mergers and acquisitions. He is a trustee of World Vision (U.K.). He is chairman of the Audit and Valuation Committee of the Company.

Anthony Dudley Vincent Crook*
Aged 63, became a director in 1989. He has worked in the venture capital industry for over 20 years and was a founder of Grosvenor Venture Managers. This followed a marketing career spanning a variety of industries.

Peter Gale*†
Aged 44, was appointed to the Board in 1991 and is deputy chairman of the Company. He has worked in many of the divisions of National Westminster Bank, specialising in investment management. In 1990 he became responsible for the investment management of National Westminster Bank Group Pension Funds. In addition, he is head of the Tactical Asset Allocation and Portfolio Strategy Group within Gartmore, responsible for the management of some £21 billion of assets.

Michael John Glover
Aged 61, was appointed to the Board in 1991. Prior to becoming involved in private equity fund management in 1984, he was an executive with electronics companies operating in the UK, Far East and North America. His experience encompasses more than 10 years at chief executive level.

Robert Constable Ayler Hall
Aged 65, was appointed to the Board in 1992. He was the group managing director of London International Group until his retirement in 1994 after 10 years on the board. He has held various sales, marketing and general management roles during his career.

* Member of the Audit and Valuation Committee.

† Member of the Management Engagement Committee.

All the directors are non-executive.

Directors' Report

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

Principal activity and business review
The principal activity of the Company is to operate as an investment trust providing development capital for unquoted companies.

A review of the business for the year is given in the Chairman's Statement on pages 2 and 3 and in the Investment Manager's report which begins on page 5.

Status of the Company
The Inland Revenue has approved the Company as an investment trust for the purposes of section 842 of the Income and Corporation Taxes Act ("ICTA") 1988 for the year ended 31st December 1998 and its affairs have since been directed so as to enable it to continue to seek such approval. The Company is an investment company within the meaning of section 266 of the Companies Act 1985.

The Company is not a close company within the meaning of the provisions of ICTA 1988.

Results and dividend
The revenue for the Company is set out in the Statement of Total Return on page 24. Revenue for the year, after taxation, was £2,481,000.

The directors recommend the payment of a net final dividend of 8.00p per ordinary share for the year ended 31st December 1999. Subject to the approval of this dividend at the forthcoming Annual General Meeting, it will be paid on 28th April 2000 to shareholders on the register on 7th April 2000.

The proposed dividend will absorb £2,075,000 and will result in a transfer to the revenue reserve of £406,000.

Derivative transactions
The Company has not entered into any derivative transactions during the year.

Directors
The directors of the Company are listed on page 17.

In accordance with the Articles of Association, Mr T J Amies and Mr R C A Hall retire by rotation and, being eligible, Mr Amies offers himself for re-election. Due to commitments elsewhere, Mr Hall will not seek re-election. None of the directors has a service contract with the Company.

The interests of those persons who were directors at the end of the year in the ordinary shares of the Company were as follows:

	1st January 1999	31st December 1999
T J Amies	25,000	25,000
D Bucks	6,400	6,400
A D V Crook		
beneficial	10,848	7,848
non-beneficial	200,000	200,000
P Gale	4,000	4,000
M J Glover		
beneficial	2,121	2,121
non-beneficial	52,001	52,001
R C A Hall	15,000	16,900

No notification of any change in the above interests has been received from 31st December 1999 to the date of this report.

Directors' Report continued

Substantial interests
The Company has been notified under sections 198 to 202 of the Companies Act 1985 that the following shareholders have an interest in 3% or more of the issued share capital:

	Ordinary shares	% of issued share capital
Mercury Asset Management Ltd*	6,872,744	26.50
NatWest Pension Fund	3,050,659	11.76
Halifax Group plc	2,983,179	11.50
Wolverhampton Borough Council SF	2,481,788	9.57
The Prudential Corporation group of companies	2,208,865	8.51
The Scottish Investment Trust PLC	1,600,000	6.17
The Co-operative Insurance Society Limited	1,350,000	5.21
Merchant Investors Assurance Company Ltd	1,150,000	4.43

* including 1,750,000 ordinary shares (6.74%) beneficially owned by Mercury Keystone Investment Trust plc and 1,086,957 ordinary shares (4.19%) beneficially owned by the BBC Pension Trust Ltd Fund RW.

No other shareholder had notified an interest of 3% or more in the Company's ordinary share capital as at 24th February 2000.

Investment management and administration
The Company has an investment management agreement dated 30th March 1995 with Mercury which sets out the terms under which Mercury Private Equity acts as Investment Manager to the Company.

The agreement may be terminated without penalty on two years' notice by either party. The management fee is based on the value of the Company as at the end of each quarter and is set at 2.25% per annum on the value of unquoted investments and 0.75% per annum on the value of the Company's gross assets after deducting the value of unquoted investments and short-term liabilities.

Mercury Asset Management Group Services Ltd ("MAMGS") acts as the secretary and administrator of the Company and The Bank of New York Europe Limited ("BNYE") (formerly RBS Trust Bank Ltd) is the custodian. The Bank of New York completed the acquisition of RBS Trust Bank Ltd from The Royal Bank of Scotland plc on 31st October 1999. The annual administration and custodian fee is 0.1% of the Company's gross assets.

In addition, Mercury is reimbursed certain expenses incurred in the performance of its duties. At 31st December 1999, Mercury and its subsidiaries beneficially held 581,306 ordinary shares or 2.24% of the issued share capital of the Company (1998: 484,466 or 1.86%).

Both Mercury and MAMGS are subsidiaries of Merrill Lynch & Co., Inc.

Voting policy
The exercise of voting rights attached to the Company's portfolio has been delegated to the Investment Manager.

The Investment Manager's voting policy states:

> "We will vote in favour of proposals which we expect to enhance shareholder value; and
>
> we will vote against proposals which we believe may damage shareholders' rights or economic interests; in these situations we would normally have raised our concerns with management in advance."

Year 2000
None of the systems which the Company uses in the operation of its business experienced any date-related problems over the millennium weekend or since.

None of the companies in which the Company was invested at 31st December 1999 appears to have experienced any serious operational problems over the same weekend or since.

Donations
The Company made no political or charitable donations during the period.

Payment of suppliers
It is the general policy of the Company to pay for the supply of goods and services within 30 days of the date of any invoice.

The Company has no trade creditors.

Annual General Meeting and Extraordinary General Meeting
The Annual General Meeting ("AGM") of the Company will be held at 33 King William Street, London EC4R 9AS on Tuesday, 18th April 2000 at 12.00 noon to be immediately followed by an Extraordinary General Meeting ("EGM"). Notice of the AGM is given on page 40 of this Report. Notice of the EGM is given in the Circular to shareholders dated 10th March 2000.

Directors' Report continued

Authority of directors to allot shares
Resolutions 6 and 7 to be proposed at the AGM are similar to the authorities given to the directors at last year's AGM. By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders. In addition, the directors require specific authority from shareholders before allotting new shares (or granting rights over shares) for cash without first offering them to existing shareholders in proportion to their holdings. Resolution 6 gives the directors, for the period until the conclusion of the AGM in 2001, the necessary authority to allot securities up to an aggregate nominal amount of £2,161,000, which is equivalent to 8,644,000 ordinary shares of 25p each and approximately one third of the issued ordinary share capital.

Resolution 7 empowers the directors until the conclusion of the AGM in 2001, or if earlier, the expiry of 15 months from the date on which resolution 7 is passed, to allot securities for cash, otherwise than to existing shareholders on a pro rata basis, up to an aggregate nominal amount of £324,164, which is equivalent to 1,296,656 ordinary shares and approximately 5% of the issued share capital. Under no circumstances would the directors use this authority to dilute the interests of existing shareholders by issuing shares at a price which is less than the net asset value attributable to the shares at the time of issue.

Changes to Articles of Association
The Company's Articles of Association have been reviewed to ensure that they are up-to-date and comply with current legislation and Stock Exchange practice. Accordingly, your Board is seeking approval to amend the Articles of Association at the EGM. The amendments include a provision for directors to retire and offer themselves for re-election at every third AGM and at each AGM at age 70 and over and to allow the buy-back of shares specifically using capital reserves.

A copy of the proposed new Articles of Association is available for inspection at the registered office of the Company from the date of this document until the close of the EGM.

Special Resolution 1 seeking shareholders' approval is set out in the Notice of the EGM in the Circular to shareholders referred to below.

Authority to buy-back shares
The Company's Articles of Association permit the purchase of the Company's own shares for cancellation, subject to obtaining shareholders' approval. The directors intend that the authority to purchase the Company's shares will only be exercised when such a purchase would result in a material increase in net asset value and is in the best interests of shareholders generally.

The directors are proposing that authority be given to purchase in the market, for cancellation, up to 3,880,000 ordinary shares (being approximately 14.9% of the issued ordinary share capital as at 24th February 2000). This authority, if granted, will expire on 17th October 2001, unless renewed.

Purchases of ordinary shares will only be made through the market for cash at prices below the prevailing net asset value per ordinary share. Under the rules of the London Stock Exchange the maximum price which can be paid is 5% above the average of the middle market values of the ordinary shares for the five business days before the purchase is made. The minimum price which may be paid will be 25p per share (being the nominal value of a share). In making purchases, the Company will deal only with member firms of the London Stock Exchange.

Special Resolution 2 seeking shareholders' authority is set out in the Notice of the EGM in the Circular to shareholders referred to below.

An explanation of the effect of the proposed amendments to the Articles of Association and the proposed buy-back programme is set out in the Circular to shareholders dated 10th March 2000 convening the EGM.

Auditors
KPMG Audit plc resigned from the Company on 7th December 1999. They confirmed that, in accordance with section 394 of the Companies Act 1985, there were no circumstances connected with ceasing to hold office which should be brought to the attention of the Company's members or creditors.

Ernst & Young were appointed by the directors as auditors to the Company on 14th December 1999. Following receipt of a special notice, a resolution proposing their appointment and a separate resolution authorising the directors to determine their remuneration will be submitted at the AGM.

T.A. Barrett
By order of the Board
Mercury Asset Management Group Services Ltd
Secretary
24th February 2000

Corporate Governance and Directors' Responsibilities

The Company is committed to high standards of corporate governance. The Board has put in place a framework for corporate governance which it believes is suitable for an investment trust and which enables the Company to comply with the Principles of Good Governance and Code of Best Practice ("the Combined Code") prepared by the Committee on Corporate Governance, published in June 1998.

The Board considers that the Company has complied with the provisions contained within the Combined Code throughout this accounting period, except where indicated, and this statement describes how the relevant principles of governance are applied to the Company.

The Board

The Board currently consists of six non-executive directors, the majority of whom are independent of the Company's Investment Manager. Their biographies, on page 17, highlight their wide range of business experience. The structure of the Board is such that it is considered unnecessary to identify a senior non-executive director other than the Chairman. No formal training is given to the directors as they consider it unnecessary.

In accordance with the Articles of Association, Tim Amies will retire by rotation and offer himself for re-election at the forthcoming Annual General Meeting. Bob Hall will also retire by rotation and, due to commitments elsewhere, has indicated he will not seek re-election.

The Board meets at least five times a year and between these meetings there is regular contact with Mercury Private Equity, a division of Mercury Asset Management Ltd ("the Investment Manager"). The directors also have access to the advice and services of the company secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. Any question of removal of the company secretary is a matter for the Board as a whole. Where necessary, in the furtherance of their duties, the directors may seek independent professional advice at the expense of the Company.

The Board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

The Board has responsibility for ensuring that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable it to ensure that the accounts comply with the Companies Act 1985. The Board is also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities. It is the Board's responsibility to present a balanced and understandable assessment which extends to interim and other price-sensitive public reports. The Board has delegated the following areas of responsibility:

Management and Administration

The management of the investment portfolio and the administration of the Company has been delegated to the Investment Manager and its subsidiary companies. Custody and settlement services are undertaken by The Bank of New York Europe Limited ("BNYE"), a subsidiary of The Bank of New York Co. Inc.

The Board has delegated the exercise of voting rights attaching to the securities held in the portfolio to the Investment Manager, who exercise these rights by following agreed principles, which can be found on page 19.

All other matters are reserved for the approval of the Board.

Board Committees

As all the directors of the Company are non-executive, the Board as a whole fulfils the function of the Nomination Committee which meets when necessary to select and propose suitable candidates for appointment.

Separate Audit and Valuation and Management Engagement Committees have been established. These committees consist of at least three directors, the majority of whom are not employed by and are not former employees of, the Investment Manager or any of its associates or subsidiaries.

The Audit and Valuation Committee which has written terms of reference detailing its scope and duties, examines the effectiveness of the control systems through the internal control report and verbal reports to each meeting, ensuring the risks measured are appropriate, the measurement of the risk and level of control are accurate and sufficient, and any changes since the previous report are identified. The Committee also receives information from the Investment Manager's internal audit and compliance departments. The Committee reviews the scope, results, cost effectiveness, independence and objectivity of the external auditors. The Committee also reviews the valuation of the investments within the portfolio in detail, semi-annually, at each balance sheet date.

The Management Engagement Committee regularly reviews the terms of the investment management and administration contract.

Internal Controls

The Board is responsible for the internal controls of the Company and for reviewing their effectiveness, for ensuring that financial information published or used within the business is reliable, and for regularly monitoring compliance with regulations governing the operation of investment trusts. The Board continually reviews the effectiveness of the internal control system. The processes indicated below have been put in place to ensure that the Company complies with the Combined Code fully for the year ending 31st December 2000.

Corporate Governance and Directors' Responsibilities continued

Internal Controls continued
As part of the Board's responsibility for the internal control system, in conjunction with the Investment Manager, an ongoing process has been established for identifying, evaluating and managing the Company's significant risks. The risks identified, covering financial, operational, compliance and risk management, are embedded in the operations of the Investment Manager and BNYE. There is a monitoring and reporting process to review controls put in place to track risks identified, carried out by the Investment Manager's internal audit department. The Investment Manager, encompassing the custodian risks, reports to the Company its review of internal controls formally on a semi-annual basis and verbally at each Audit/Board meeting.

The Investment Manager prepares revenue forecasts and management accounts which allow the Board to assess the Company's activities and review its performance. The Board and the Investment Manager have agreed clearly defined investment criteria, specified levels of authority and exposure limits. Reports on these issues, including performance statistics and investment valuations, are submitted to the Board on a regular basis. The Investment Manager's evaluation procedure and financial analysis of the companies within the portfolio includes a review of environmental performance and detailed research and appraisal.

The controls and procedures of the Investment Manager are monitored by its internal auditors and compliance department, who report to the Audit Committee. The Audit Committee also receives a report from BNYE on the internal controls of its custodial operations.

To support these controls the Investment Manager has developed a comprehensive framework for recruiting and training staff, which first achieved the Investor in People award in 1995 and has since been re-accredited. The Investment Manager's policies to ensure good practice and integrity are detailed in its compliance manual.

The Board recognises that these control systems can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss and rely on the operating controls established by the Investment Manager and BNYE.

Financial Statements
The Board is also required to ensure that the financial statements give a true and fair view of the affairs of the Company as at the end of each financial year and of the profit of the Company for that period.

The Board considers that in preparing the financial statements on pages 24 to 35, the Company has used appropriate accounting policies, consistently applied (except where disclosed) and supported by reasonable and prudent judgements and estimates and that all accounting standards that it considers to be applicable have been followed.

The Board believes it is appropriate to adopt the going concern basis in preparing the financial statements.

Relations with Shareholders
All shareholders have the opportunity to attend and vote at the AGM. The Company seeks to provide 20 working days' notice of the AGM, and the notice sets out the business of the Meeting and any item not of an entirely routine nature is explained in the Directors' Report. Separate resolutions are proposed for substantive issues. In addition, both the Board and representatives of the Investment Manager are available to answer shareholders' questions at the AGM. Proxy figures are announced at the AGM.

The Investment Manager holds regular discussions with shareholders, the feedback from which is greatly valued by the Board. In addition, the Chairman and directors are available to enter into dialogue and correspondence with shareholders regarding the progress and performance of the Company. The section within the Company's annual report entitled "Shareholder Information" provides an overview of useful information available to shareholders.

Membership of the Board Committees

Audit and Valuation Committee
Timothy Amies (Chairman)
David Bucks
Anthony Crook
Peter Gale

Management Engagement Committee
David Bucks (Chairman)
Timothy Amies
Peter Gale

Report of the Auditors to the Members of Mercury Grosvenor Trust plc

We have audited the financial statements on pages 24 to 35, which have been prepared under the historical cost convention, as modified by the revaluation of investments, and on the basis of the accounting policies set out on page 27.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the annual report. As described on page 22, this includes reponsibility for preparing the financial statements in accordance with the applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements *give a true and fair view and are properly prepared in accordance with* the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on pages 21 to 22 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to consider whether the Board's Statement on internal controls covers all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit 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 31st December 1999 and of the revenue of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Ernst & Young
Registered Auditor
London
24th February 2000

Statement of Total Return (incorporating the revenue account)

for the year ended 31st December 1999

		Revenue		Capital		Total	
		1999	1998 (restated)	1999	1998 (restated)	1999	1998 (restated)
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Gains on investments	9	–	–	23,359	659	23,359	659
Income	2	3,941	2,495	–	–	3,941	2,495
Investment management and administration fees	3	(360)	(327)	(1,080)	(981)	(1,440)	(1,308)
Other expenses	4	(236)	(234)	–	–	(236)	(234)
Return on ordinary activities before taxation		3,345	1,934	22,279	(322)	25,624	1,612
Taxation on ordinary activities	6	(864)	(575)	327	302	(537)	(273)
Return on ordinary activities after taxation		2,481	1,359	22,606	(20)	25,087	1,339
Dividends in respect of equity shares	7	(2,075)	(1,284)	–	–	(2,075)	(1,284)
Transfer to/(from) reserves		406	75	22,606	(20)	23,012	55
Return per ordinary share	8	9.57p	5.24p	87.17p	(0.08p)	96.74p	5.16p
Dividend per ordinary share	7	8.00p	4.95p	–	–	8.00p	4.95p

The revenue column of this statement is the profit and loss account of the Company.
The movements in reserves are set out in note 16 to the financial statements.
All revenue and capital items in the above statement derive from continuing operations.
No operations were acquired or discontinued during the year.

The notes on pages 27 to 35 form part of these financial statements.

Balance Sheet

as at 31st December 1999

	Note	1999 £'000	1998 (restated) £'000
Fixed assets			
Investments	9		
Listed in Great Britain		**7,990**	15,371
Unlisted at directors' valuation		**66,491**	46,878
		74,481	62,249
Current assets			
Debtors	10	**3,458**	2,519
Government securities	11	**14,363**	3,975
Cash at bank	12	**163**	–
		17,984	6,494
Creditors – amounts falling due within one year	13	**2,602**	1,892
Net current assets		**15,382**	4,602
Net assets		**89,863**	66,851
Capital and reserves			
Called up share capital	15	**6,483**	6,483
Share premium account	16	**14,123**	14,123
Capital reserves			
Capital redemption reserve	16	**1,061**	1,061
Capital reserve – realised	16	**60,882**	33,819
Capital reserve – unrealised	16	**5,673**	10,130
Revenue reserve	16	**1,641**	1,235
Total equity shareholders' funds	17	**89,863**	66,851
Net asset value per ordinary share	8	**346.5p**	257.8p

The financial statements on pages 24 to 35 were approved by the Board of Directors on 24th February 2000 and were signed on its behalf by:

David Bucks *Chairman*

Tim Amies Director

The notes on pages 27 to 35 form part of these financial statements.

Cash Flow Statement

for the year ended 31st December 1999

	Note	1999 £'000	1998 £'000
Net cash inflow from operating activities	4 (b)	**828**	273
Returns on investments and servicing of finance			
Interest received		**52**	519
Taxation		**(38)**	(243)
Capital expenditure and financial investment			
Purchase of fixed asset investments		**(29,360)**	(23,539)
Proceeds from the sale of fixed asset investments		**40,487**	8,355
Net cash inflow/(outflow) for capital expenditure and financial investment		**11,127**	(15,184)
Equity dividends paid		**(1,284)**	(1,284)
Net cash inflow/(outflow) before management of liquid resources		**10,685**	(15,919)
Management of liquid resources			
Purchase of Government securities		**(55,968)**	(3,954)
Sale/redemption of Government securities		**45,463**	4,000
Net cash (outflow)/inflow from management of liquid resources		**(10,505)**	46
Increase/(decrease) in cash	12	**180**	(15,873)

The notes on pages 27 to 35 form part of these financial statements.

Notes to the Financial Statements

1. Accounting policies

Basis of accounting

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments. The financial statements have been prepared in accordance with applicable Accounting Standards and with the Statement of Recommended Practice "Financial *Statements of Investment Trust Companies*".

Associated undertakings

Certain venture capital investments deemed to be associated undertakings are carried at cost or valuation in accordance with the Company's normal accounting policy and Financial Reporting Standard 9.

Investment income and interest receivable

Dividends receivable on quoted equity shares are accounted for on the ex-dividend date. Dividends receivable on equity shares where there is no ex-dividend date and on non-equity shares, are brought into account when the Company's right to receive payment is established.

The return on deep discounted loan stock and Government securities is recognised by allocating the net receipts which the holder is entitled to receive over the term of the debt security at a constant rate on the carrying amount.

Interest on other loans and short-term deposits is accounted for on an accruals basis.

Management fee

The annual investment management fee is charged 75% to capital reserve – realised and 25% to the revenue account. This is in line with the Board's expected split of long-term returns, in the form of capital gains and income respectively, from the investment portfolio of the Company. This represents a change in policy from previous years, when the whole of the fee was charged to revenue and results from a review by the Board of expected future returns. The comparative figures for the year ended 31st December 1998 have been adjusted accordingly.

Expenses

All expenses are accounted for on an accruals basis. All administrative expenses, excluding the management fee, are charged wholly to the revenue account.

Expenses which are incidental to the purchase or sale of an investment are included within the cost or deducted from the proceeds of the investment.

Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as at the date of the transaction. Assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in capital reserve or in the revenue account, depending on whether the gain or loss is of a capital or revenue nature respectively.

Taxation

The charge for taxation is based on the profit for the year. Taxation deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise in the foreseeable future. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Provision is made at the rate which is expected to be applied when the liability or asset is expected to crystallise.

Investments

Listed:

Investments listed on recognised stock exchanges are valued at mid-market prices ruling at the close of business at each balance sheet date subject to provisions for illiquidity or trading restrictions made at the Board's discretion.

Unlisted:

The directors' valuation of unlisted investments is based upon the British Venture Capital Association guidelines using the following criteria:

- (i) initially, investments are valued at cost, including fees and transaction costs;
- (ii) after the receipt of the first audited financial statements following initial investment, companies are valued by applying a discount of between 25%-50% to the equivalent quoted earnings multiple;
- (iii) where more appropriate, investments are valued with reference to their net assets rather than earnings; and
- (iv) appropriate provisions are made against all individual valuations where necessary to reflect unsatisfactory financial performance leading to diminution in value.

Both realised and unrealised gains and losses arising on investments are taken to capital reserves.

Capital reserves

Capital reserve – realised

The following are accounted for in this reserve:

- (i) gains and losses on the realisation of investments;
- (ii) losses on investments within the portfolio where there is little prospect of realisation or recovering any value; and
- (iii) realised exchange differences of a capital nature.

Capital reserve – unrealised

The following are accounted for in this reserve:

- (i) increases and decreases in the valuation of investments held at the year end; and
- (ii) unrealised exchange differences of a capital nature.

Notes to the Financial Statements continued

2. Income

	1999 £'000	1998 £'000
Income from investments		
Franked investment income	**390**	537
UK unfranked investment income	**3,108**	1,137
Stock dividends	**–**	74
Overseas dividends	**–**	23
	3,498	1,771
Other income		
Gilt interest	**375**	132
Deposit interest	**50**	520
Other fees	**18**	72
	443	724
Total income	**3,941**	2,495
Total income comprises:		
Dividends	**390**	634
Interest	**3,533**	1,789
Other income	**18**	72
	3,941	2,495
Income from investments comprises:		
Listed UK	**135**	238
Overseas	**–**	23
Unlisted	**3,363**	1,510
	3,498	1,771

3. Investment management and administration fees

	1999 Revenue	1998 (restated) Revenue	1999 Capital	1998 (restated) Capital	1999 Total	1998 Total
Investment management fee	**306**	278	**919**	835	**1,225**	1,113
Irrecoverable VAT thereon	**54**	49	**161**	146	**215**	195
	360	327	**1,080**	981	**1,440**	1,308

Details of the investment management, custodian and administration agreements are disclosed in the Directors' Report on page 19.

Notes to the Financial Statements continued

4. Other expenses

(a) Operating expenses

	1999 £'000	1998 £'000
Custodian and administration fees	**97**	77
Directors' remuneration (note 5)	**55**	55
Auditors' remuneration – audit	**18**	18
– taxation	**8**	8
Other	**58**	76
	236	234

The Company's total expense ratio ("TER") calculated as a percentage of average net assets and including expenses, after relief for taxation, was:	**1.34%**	1.57%

(b) Reconciliation of operating profit to net cash inflow from operating activities

	1999 £'000	1998 (restated) £'000
Income before interest payable and taxation	**3,345**	1,934
Fees capitalised	**(1,080)**	(981)
Interest receivable	**(50)**	(520)
Increase in accrued income	**(939)**	(213)
(Decrease)/increase in creditors	**(12)**	371
Effective yield adjustment	**(117)**	16
Tax on investment income included within gross income	**(319)**	(334)
Net cash inflow from operating activities	**828**	273

5. Directors' remuneration

The aggregate emoluments of the directors, excluding VAT where applicable, for the year to 31st December 1999 were £55,000 (1998: £55,000).
The emoluments of the Chairman, who was also the highest paid director, were £10,000 (1998: £10,000). The Company does not have a share option scheme or any incentive scheme. No pension contributions were made in respect of the directors. There were no employees other than the directors.

Notes to the Financial Statements continued

6. Taxation on ordinary activities

	Revenue		Capital		Total	
	1999 £'000	1998 £'000	**1999 £'000**	1998 £'000	**1999 £'000**	1998 £'000
The charge based on the profit for the year comprises:						
UK corporation tax	**924**	396	**(327)**	(302)	**597**	94
Tax credits on franked investment income	**40**	108	**–**	–	**40**	108
Advance corporation tax written off/(recoverable)	**(88)**	155	**–**	–	**(88)**	155
Overseas tax written off	**–**	5	**–**	–	**–**	5
Overseas tax refunds	**–**	(23)	**–**	–	**–**	(23)
Prior year adjustments	**(12)**	(66)	**–**	–	**(12)**	(66)
	864	575	**(327)**	(302)	**537**	273

7. Dividends in respect of equity shares

	1999 £'000	1998 £'000
Final proposed of 8.00p (1998: 4.95p) payable on 28th April 2000	**2,075**	1,284

8. Return and net asset value per ordinary share

Revenue and capital returns per share are shown below and have been calculated using the following:

	1999	1998
Net revenue attributable to equity shareholders after taxation	**£2,481,000**	£1,359,000
Net capital gains/(losses) for the year	**£22,606,000**	£(20,000)
Weighted average number of shares in issue during the year	**25,933,170**	25,933,170

	1999			1998		
	Revenue	**Capital**	**Total**	Revenue (restated)	Capital (restated)	Total
	p	p	p	p	p	p
Return per ordinary share	**9.57**	**87.17**	**96.74**	5.24	(0.08)	5.16

The net asset value per share of 346.5p (1998: 257.8p) was calculated by dividing equity shareholders' funds of £89,863,000 (1998: £66,851,000) by the number of shares in issue at the year end of 25,933,170 (1998: 25,933,170).

Notes to the Financial Statements continued

9. Investments

	1999 £'000	1998 £'000
Investments listed on the London Stock Exchange	**5,260**	14,546
Investments traded on the Alternative Investment Market	**2,730**	825
Unlisted investments	**66,491**	46,878
	74,481	62,249
Equity shares	**35,148**	33,409
Convertible securities	**1,709**	559
Fixed income securities	**37,624**	28,281
	74,481	62,249

	Listed in Great Britain £'000	Unlisted £'000	Total £'000
Opening book cost	7,733	44,386	52,119
Opening unrealised appreciation	7,638	2,492	10,130
Opening valuation	15,371	46,878	62,249
Movements in the year:			
Additions at cost	4,538	24,822	29,360
Disposals – proceeds	(18,759)	(21,728)	(40,487)
– realised gains on sales	14,395	13,421	27,816
(Decrease)/increase in unrealised appreciation	(7,555)	3,098	(4,457)
Closing valuation of investments	7,990	66,491	74,481
Closing book cost of investments	7,819	60,989	68,808
Closing unrealised appreciation	171	5,502	5,673

	1999 £'000	1998 £'000
Gains on sales of investments	**27,816**	1,136
Change in unrealised appreciation	**(4,457)**	(477)
	23,359	659

At 31st December 1999 the listed investments of the Company had a mid-market value of £7,990,000 (1998: £15,646,000).

Details of significant investments:

The Company holds more than 20% of the total issued share capital (including preference shares) of certain companies.

The net assets and profit after tax for the most recent accounting period of these companies are as follows:

	Net assets/(liabilities) £'000	Profit/(Loss) after tax £'000
Central Industries Ltd	536	(73)
Corinthian Marketing plc	(32)	183
Kaye Holdings Ltd	3,173	186
Patientline Holdings Ltd	2,783	(1,462)

Notes to the Financial Statements continued

9. Investments – continued

The Company has equity holdings of 10% or more of the following classes of share in the investee companies listed below, which are registered and operate in England and Wales except where stated.

Company	Shareholding	% of class*
Biocode Inc (USA)	"E" Pref.	11.1
Central Industries Ltd	Ord.	49.9
Corinthian Marketing plc	"A" Ord.	47.5
Corinthian Marketing plc	"A" Pref.	31.6
Creos International plc	Pref.	11.3
Dechra Holdings Ltd	"A" Pref.	16.0
Ironpath Ltd t/a ClinPhone	"B" Ord.	13.1
Kaye Holdings Ltd	Pref. Ord.	29.9
Kaye Holdings Ltd	"A" Ord.	10.7
Kaye Holdings Ltd	First Def.	10.7
Nova Homes Ltd	"A" Ord.	10.4
PARC Group Ltd	"B" Ord.	11.0
Patientline Holdings Ltd	"A" Ord.	23.5
PII Group Ltd	"B" Ord.	11.6
Priory Healthcare Ltd	"B" Ord.	13.4
Priory Healthcare Ltd	Ord. Def.	12.3
Profiad Ltd	"B" Ord.	13.9
Profiad Ltd	"C" Ord.	13.9
SVC Television Ltd	"B" Ord.	24.1
The Sanctuary Spa Group Ltd	"A" Ord.	12.6
Tunstall Holdings Ltd	"B" Ord.	13.8
Unicorn Professional Services Ltd	"A" Ord.	14.5

* Investee companies may issue a number of different classes of share. The percentage of the total issued ordinary share capital of the twenty largest investments held by the Company is shown in the table on page 15.

Further information on those investments which, in the opinion of the directors, have a significant effect on the Company's financial statements, is contained in the Review of Principal Investments on pages 12 to 15.

10. Debtors

	1999 £'000	1998 £'000
Taxation recoverable	**181**	329
Prepayments and accrued income	**3,277**	2,190
	3,458	2,519

Notes to the Financial Statements continued

11. Government securities

	1999 £'000	1998 £'000
Opening valuation	**3,975**	4,001
Add: Purchases at cost	**55,968**	3,958
Less: Sales and redemptions	**(45,463)**	(4,000)
Unrealised capital profits treated as revenue	**–**	17
Realised capital losses treated as revenue	**(117)**	(1)
Closing valuation	**14,363**	3,975

12. Movement in net funds

(a) Reconciliation of net cash flow to movement in net funds

	1999 £'000	1998 £'000
Change in net funds	**180**	(15,873)
Net funds at 1st January 1999	**(17)**	15,856
Net funds at 31st December 1999	**163**	(17)

(b) Analysis of changes in net funds

	At 1st January 1999 £'000	Cash flows £'000	At 31st December 1999 £'000
Cash at bank	(17)	180	**163**
Total	(17)	180	**163**

13. Creditors – amounts falling due within one year

	1999 £'000	1998 £'000
Proposed dividend	**2,075**	1,284
Bank overdraft	**–**	17
Corporation tax payable	**18**	94
Sundry creditors	**509**	497
	2,602	1,892

Notes to the Financial Statements continued

14. Risk

The following disclosures relating to the risks faced by the Company are provided in accordance with Financial Reporting Standard 13, "Derivatives and other financial instruments disclosures".

Financial Instruments and Risk Profile

The Company's primary investment objective is to achieve long-term capital appreciation by investing in unquoted companies, mostly in the UK and Ireland. Additionally, the Company holds gilts, cash and short-term deposits and items such as debtors and creditors arising directly from its operations. The numerical disclosures below exclude short-term debtors and creditors. By their very nature, investment activities undertaken to achieve the Company's objective involve certain inherent risks, primarily valuation risk. These are considered further below.

Valuation Risk

The Company's exposure to valuation risk comprises mainly movements in the value of its underlying investments. A breakdown of the venture fund portfolio is given on page 16 and a detailed analysis of the ten largest underlying companies is given on pages 11 to 14. In accordance with the Company's accounting policies, set out on page 27, all underlying investments are valued by the directors in accordance with the current guidelines issued by the British Venture Capital Association. The Company does not hedge against movements in the value of these investments. Uncertainty arises as a result of future changes in the valuation of the Company's underlying investments, the majority of which are unquoted. Changes in exchange rates may also affect the sterling value of these investments. In the opinion of the directors, the diversified nature of the Company's portfolio significantly reduces the risks of investing in unquoted companies.

Currency Risk

The Company is exposed to currency risk as a result of investing in funds and companies in foreign currencies. The sterling value of these assets can be significantly influenced by movements in foreign exchange rates. The Company does not normally hedge against foreign currency movements affecting the value of its investments, but takes account of this risk when making investment decisions.

Interest Rate Risk

In general, the Company has relatively little direct exposure to interest rate movements, although the income from funds awaiting investment will be affected by these movements.

Financial assets of the Company

	Fixed rate £'000	Floating rate £'000	Non interest bearing £'000	Total £'000
Sterling	39,381	12,543	26,364	78,288
Euro	–	226	5,206	5,432
US dollar	–	–	5,287	5,287
Total	39,381	12,769	36,857	89,007

The fixed rate assets comprise gilts and fixed rate lendings to investee companies and bear a weighted average interest rate of 10.4% per annum and have a weighted average life to maturity of 3.7 years.

The floating rate assets consist of cash and variable rate lendings to investee companies.

The non interest bearing assets represent the equity content of the investment portfolio.

The Company did not have any outstanding borrowings at the year end.

Currency Exposure

The currency denomination of the Company's financial assets is shown above. Short-term debtors, which are excluded, are predominantly in sterling, the functional currency of the Company. Short-term creditors are primarily denominated in sterling.

Notes to the Financial Statements continued

15. Share capital

	1999 £'000	1998 £'000
Authorised:		
40,000,000 ordinary shares of 25p each	**10,000**	10,000
One 5% cumulative preference share of £1	**–**	–
	10,000	10,000
Allotted, called up and fully paid:		
25,933,170 (1998: 25,933,170) ordinary shares of 25p each	**6,483**	6,483

16. Share premium account and reserves

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
Opening reserves as at 1st January 1999 (restated)	14,123	1,061	33,819	10,130	1,235
Transfer on disposal of investments	–	–	13,271	(13,271)	–
Net gain on sale of investments	–	–	14,545	–	–
Increase in unrealised appreciation	–	–	–	8,814	–
Retained net revenue for the year	–	–	–	–	406
Management fee charged to capital after taxation	–	–	(753)	–	–
Closing reserves as at 31st December 1999	14,123	1,061	60,882	5,673	1,641

17. Reconciliation of movements in shareholders' funds

	1999 £'000	1998 £'000
Opening shareholders' funds	**66,851**	66,796
Profit attributable to shareholders	**2,481**	1,359
Ordinary dividend	**(2,075)**	(1,284)
Surplus for the year (restated)	**406**	75
Recognised gains on investment portfolio	**23,359**	683
Valuation fee on secondary acquisition	**–**	(24)
Management fee charged to capital after taxation	**(753)**	(679)
Movement in shareholders' funds	**23,012**	55
Closing shareholders' funds	**89,863**	66,851

18. Contingent liabilities

At 31st December 1999 investment purchases of £3,894,000 (1998: £7,550,000) had been authorised and contractually committed.

Analysis of Shareholders

at 31st December 1999

By type of holder

	No. of shares	% of total 1999	% of total 1998	No. of holders	% of total 1999	% of total 1998
Assurance and insurance companies	5,470,224	21.1	5.2	9	3.8	0.9
Banks and nominee companies	16,709,686	64.4	73.8	89	37.9	40.2
Direct private investors	1,164,472	4.5	4.4	109	46.4	46.1
Others	2,588,788	10.0	16.6	28	11.9	12.8
	25,933,170	100.0	100.0	235	100.0	100.0

By size of holding

	No. of shares	% of total 1999	% of total 1998	No. of holders	% of total 1999	% of total 1998
1 – 5,000	301,125	1.2	1.0	137	58.3	56.6
5,001 – 50,000	1,306,266	5.0	4.5	70	29.8	29.7
50,001 – 100,000	640,470	2.5	1.9	8	3.4	2.7
Over 100,000	23,685,309	91.3	92.6	20	8.5	11.0
	25,933,170	100.0	100.0	235	100.0	100.0

Shareholder Information

Financial calendar
The timing of the announcement and publication of the Company's results may normally be expected in the months shown below:

March	Preliminary results and final dividend for year announced Annual report and accounts published
April	Annual General Meeting Final dividend paid
August	Interim results announced

Dividend – 1999
The amount of the dividend recommended for the year ended 31st December 1999 is 8.00p per share.

Ex-dividend date (shares transferred without dividend)	3rd April 2000
Record date (last date for registering transfers to receive the dividend)	7th April 2000
Dividend payment date	28th April 2000

Payment of dividends
Cash dividends will be sent by cheque to the first-named shareholder at their registered address, together with a tax voucher. Alternatively, dividends may be paid direct into a shareholder's bank account via BACS (Bankers' Automated Clearing Service). This may be arranged by contacting the Company's registrars, Computershare Services PLC, on 0870 702 0010. Tax vouchers will be sent on the payment date to shareholders at their registered address, unless other instructions have been given.

Dividend reinvestment scheme
Shareholders may request that their dividends be used to purchase further shares in the Company. Dividend reinvestment forms may be obtained from Computershare Services PLC on 0870 702 0010. Shareholders who have already opted for dividend reinvestment do not need to re-apply.

Share price
The Company's mid-market ordinary share price is quoted daily in the Financial Times under the section "Investment Trusts". The share price is also available on the Mercury website at www.mam.com

Share dealing
Investors wishing to purchase or sell shares in the Company may do so through a stockbroker. Most banks also offer this service.

Uncertificated Securities Regulations 1995 – CREST
The Company's ordinary shares have joined CREST, an electronic system for uncertificated securities trading.

Private investors can continue to retain their share certificates and remain outside the CREST system. Private investors will be able to buy and sell their holdings in the same way as they did prior to the introduction of CREST, although there may be differences in dealing charges.

Duration of the Company
The Company, as currently constituted, was established in 1989. The Articles of Association provide for an ordinary resolution to be put to shareholders at the Annual General Meeting in the year 2004, to call for an Extraordinary General Meeting in the year 2005 to wind up the Company voluntarily. If the convening of the EGM is not approved in 2004, a similar resolution will be put to shareholders in the year 2009 and every fifth year thereafter.

Nominee Code
Where shares are held in a nominee company name, the Company undertakes:

- to provide the nominee company with multiple copies of shareholder communications, so long as an indication of quantities has been provided in advance;
- to allow investors holding shares through a nominee company to attend general meetings, provided the correct authority from the nominee company is available;
- that investors in the Mercury Investment Trusts Savings Plan are automatically sent shareholder communications, including details of general meetings, together with a form of direction to facilitate voting and to seek authority to attend; and
- that investors through the Mercury ISA are able to receive the annual and interim reports, including details of annual general meetings, by request.

Shareholder Information continued

Publication of net asset value
The net asset value ("NAV") per share of the Company is calculated monthly with respect to cash, cash equivalents and quoted investments in the portfolio. Unquoted investments are revalued biannually. The NAV is released to the public by the Association of Investment Trust Companies and through the Company Announcements Office of the London Stock Exchange and is available through the Reuters News Service, under the code 'MAMINDEX' and on page 8800 on Topic 3 (ICV) and under "MAMI" on Bloomberg.

Internet
Details about the Company are also available on the Mercury Asset Management website at www.mam.com and shareholders can check details of their holdings on Computershare's website at www.cshare.co.uk

Savings Plan
The Company participates in the Mercury Investment Trust Savings Plan which facilitates both regular monthly investments and occasional lump sum investments in the Company's shares. Investors who would like a brochure giving details of the Savings Plan should call Mercury Asset Management Ltd free on 0800 882884.

Personal Equity Plan ("PEP")
The Company does not qualify and does not undertake to qualify for the purposes of investment in a PEP.

Individual Savings Accounts ("ISAs")
The Company is a qualifying investment in the stocks and shares component of either a mini or maxi ISA. In the tax year 1999/2000 investors may invest up to £7,000 in the stocks and shares component of a maxi ISA, reducing to £5,000 in subsequent tax years, or up to £3,000 in the stocks and shares component of a mini ISA.

The Company's shares are eligible investments within the Mercury Investment Trust ISA, details of which are available from Mercury Asset Management Ltd by calling free on 0800 882884.

Shareholder enquiries
The Company's registrars are Computershare Services PLC and they maintain the share register. In the event of queries regarding your holding of shares, please contact the registrars on 0870 702 0010. Changes of name or address must be notified in writing to the registrars at:

Computershare Services PLC
PO Box 435, Owen House, 8 Bankhead Crossway North
Edinburgh EH11 4BR

Certain details relating to your holding can also be checked through the Computershare website. As a security check, certain details need to be input accurately to gain access to an individual's account. These include your folio number available from either your share certificate or tax voucher. The address of the Computershare website is: www.cshare.co.uk

General enquiries, savings plan or ISA enquiries
Enquiries about the Company or the Company's Savings Plan or ISA should be directed to:

The Secretary
Mercury Grosvenor Trust plc
33 King William Street, London EC4R 9AS
Telephone: 0800 445522

Glossary

Investment Trusts

Net Asset Value per share ("NAV")
This is the value of the Company's assets attributable to one ordinary share. It is calculated by dividing "shareholders' funds" by the total number of shares in issue. For example, as at 31st December 1999, shareholders' funds were £89,863,000 and there were 25,933,170 ordinary shares in issue; the NAV was therefore 346.5p per share.

Shareholders' funds are calculated by deducting from the Company's total assets its current and long-term liabilities and any provision for liabilities and charges.

Discount
Investment trust shares can trade at a discount to NAV. This occurs when the share price is less than the NAV and investors may therefore buy shares at less than the value attributable to them by reference to the underlying assets. The discount is the difference between the share price and the NAV, expressed as a percentage of the NAV. For example, if the NAV was 100p and the share price was 87p, the discount would be 13%.

Premium
A premium occurs when the share price is higher than the NAV and investors would therefore be paying more than the value attributable to the shares by reference to the underlying assets. For example, if the share price was 104p and the NAV was 100p, the premium would be 4%.

Discounts and premiums are mainly the consequence of supply and demand for the shares on the stock market.

Private Equity

Expansion capital
The provision of capital to an existing, established business, to finance organic growth or acquisitions – sometimes known as venture or expansion capital.

MBI (management buy-in)
A change of ownership, where an incoming management team raises financial backing, normally a mix of equity and debt, to acquire a business.

MBO (management buy-out)
A change of ownership, where the incumbent management team raises financial backing, normally a mix of equity and debt, to acquire a business it manages.

Unquoted company
Any company whose shares are not quoted on a recognised stock exchange.

LBO (leveraged buy-out)
The purchase of all or most of a company's share capital, usually by its managers, funded mainly by borrowings often secured on the company's assets, resulting in a post-financing capital structure of the company which is heavily geared.

IPO (initial public offering)
An offering by a company of its share capital to the public with a view to seeking an admission of its shares to a recognised stock exchange.

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Mercury Grosvenor Trust plc will be held at 33 King William Street, London EC4R 9AS, on Tuesday, 18th April 2000 at 12.00 noon to transact the following business:

Ordinary business

1. To receive the report of the directors and the financial statements for the year ended 31st December 1999, together with the report of the auditors thereon.

2. To declare a dividend of 8.00p per share.

3. To re-elect Mr T J Amies as a director.

4. To appoint Ernst & Young as auditors to the Company.

5. To authorise the directors to determine the auditors' remuneration.

Special business

6. To consider and, if thought fit, pass the following resolution as an ordinary resolution:
THAT the Board be and is hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80 of the Companies Act 1985) up to an aggregate nominal amount of £2,161,000 provided that this authority shall expire on the date of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

7. To consider and, if thought fit, pass the following resolution as a special resolution:
THAT, subject to the passing of resolution 6 above, the Board be and is hereby empowered, pursuant to section 95 of the Companies Act 1985, to allot equity securities (as defined in section 94 of the said Act) for cash pursuant to the authority conferred by the previous resolution as if sub-section (1) of section 89 of the said Act did not apply to any such allotment, provided that this power be limited to:

   (i) the allotment (other than pursuant to sub-paragraph (ii) below) of equity securities up to an aggregate nominal amount of £324,164;

   (ii) the allotment of equity securities in connection with a rights issue in favour of all holders of relevant equity securities where the equity securities respectively attributable to the interests of all holders of relevant equity securities are proportionate (as nearly as may be) to the respective numbers of relevant equity securities held by them (but subject to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise howsoever);

   and shall expire on the earlier of the date which is 15 months after the date on which this resolution is passed and the date of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

TA Tomott

By order of the Board
Mercury Asset Management Group Services Ltd
Secretary
24th February 2000

Notice of Meeting continued

Notes:

1. A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. The instrument appointing a proxy together, if appropriate, with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such authority (if any) under which it is signed, or a notarially certified copy of such authority, must be deposited at the office of the Company's registrars not later than 48 hours before the time appointed for holding the meeting. A form of proxy is provided to ordinary shareholders with the annual report. Completion and return of the form of proxy will not prevent a member from attending the meeting and voting in person.
3. The Company, pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only holders of ordinary shares entered on the Register of Members of the Company as at 12.00 noon on Sunday 16th April 2000 or, in the event that this meeting is adjourned, as at the time 48 hours before the adjourned meeting, shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the Register of Members after 12.00 noon on 16th April 2000 or, in the event that this meeting is adjourned, after the time 48 hours before the adjourned meeting, shall be disregarded in determining the right of any person to attend or vote at the meeting.
4. No service contracts exist between the Company and any of the directors, who hold office in accordance with letters of appointment and the Articles of Association.
5. Only holders of ordinary shares are entitled to attend and vote at the meeting.

Management and Administration

Registered Office
(Registered in England No.1525583)
33 King William Street
London EC4R 9AS

Investment Manager
Mercury Private Equity
33 King William Street
London EC4R 9AS
Regulated by IMRO
Telephone: 020 7280 2800
Website: www.mam.com/pe
Mercury Private Equity is a division of Mercury Asset Management Ltd. Mercury Asset Management Ltd is regulated by IMRO and is a subsidiary of Merrill Lynch & Co., Inc.

Secretary and Administrator
Mercury Asset Management Group Services Ltd
33 King William Street
London EC4R 9AS
Telephone: 020 7280 2800

Stockbrokers
Credit Lyonnais Laing
Broadwalk House
4 Appold Street
London EC2A 2DA

Custodian
The Bank of New York Europe Limited
67 Lombard Street
London EC3P 3DL

Registrars
Computershare Services PLC
PO Box 435, Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR
Regulated by IMRO
Telephone: 0870 702 0010

Auditors
Ernst & Young
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

Savings Plan/ISA Administrator
The Mercury Investment Trust Administrator
c/o RBS Trust Bank Ltd
33 King William Street
London EC4R 9AS
Telephone: 0800 445522

The Company is a member of the Association of Investment Trust Companies.