ANNUAL REPORT 31 DECEMBER 2000

1525583

Mercury Grosvenor Trust plc

Contents

Investment Objective and Financial Highlights

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

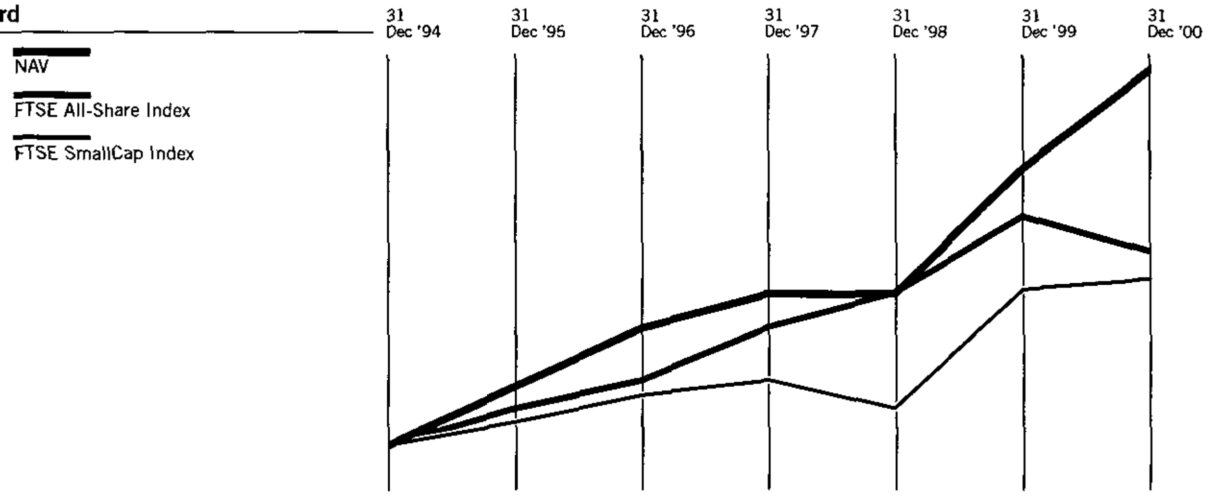
Financial Highlights

Attributable to ordinary shareholders	31 December 2000	31 December 1999	% change
Assets			
Net assets (£'000)	**103,521**	89,863	15.2
Net assets per share	**411.0p**	346.5p	18.6
Share price (mid-market)	**356.5p**	289.0p	23.4
Revenue			
Net revenue (£'000)	**4,623**	2,481	86.3
Earnings per share	**17.89p**	9.57p	86.9
Dividend per share	**14.50p**	8.00p	81.3

Information about the Company is available on the Merrill Lynch Investment Managers website at www.mlim.co.uk/its
Specific information regarding the Investment Manager is available at www.mercuryprivateequity.com

Chairman's Statement

Performance record



31 Dec '94	31 Dec '95	31 Dec '96	31 Dec '97	31 Dec '98	31 Dec '99	31 Dec '00
100	129	158	175	175	236	284
100	118	132	158	176	213	196
100	112	125	132	118	177	182

Performance record rebased to 100 at 31 December 1994.*

I am pleased to report another satisfactory year for your Company. Over the period the net asset value per share increased by 18.6%. This performance compares with a fall of 8.0% in the FTSE All-Share Index and a rise of 2.8% in the FTSE SmallCap Index over the period. Net assets per share were 411.0p, compared with 346.5p at the end of the previous year.*

The Board is recommending a final dividend for the year ended 31 December 2000 of 14.50p per ordinary share (1999: 8.00p). This rise in dividend reflects an increase in revenue in the year which resulted in the main from the release of a provision against interest of £1.9 million on the loan stock of Priory Healthcare, which was received on the sale of that investment in February 2000.

The Company committed £14.4 million to eight new investments and realisations totalled £24.6 million. Details are given in the Investment Manager's report.

In November 2000, the Company bought back and cancelled 746,415 ordinary shares, these being the balance not placed with other investors of a holding arising from a change in investment strategy of a major shareholder. Continuation of the power to buy-back shares will be sought at the forthcoming Annual General Meeting.

Change in status of Mercury Private Equity, foreshadowed in the interim report, took effect in December 2000, when it became an independent management company owned by its managers and staff. Under a delegation agreement with Merrill Lynch Investment Managers, Mercury Private Equity will continue to manage the investments of the Company.

The year has been characterised by volatile equity markets, and we are likely to continue to see such volatility, at least in the short term. It is therefore reasonable to assume that conditions for realising investments may well be more challenging than in the past. Conversely, pricing for new investments should improve. At the year end, your Company had liquid resources of £24.5 million and a borrowing facility amounting to £25 million and is therefore well placed to take advantage of opportunities as they arise.

David Bucks
27 February 2001

* All figures capital only.

Investment Principles of the Manager

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

Private equity investing

The proven ability of private equity to provide substantially higher long-term returns has stimulated growing interest in this area of investment. Yet despite superior returns over other asset classes, European investor commitments to private equity still lag those of the USA. Nonetheless, we believe that it is only a matter of time before private equity attracts a larger investor audience.

On the other side of the equation, the demand from companies for private equity capital continues to grow, driven by two factors:

- an acceleration in restructuring by corporations across Europe, producing buy-out opportunities; and
- technological developments driving massive change to business models.

Although there are risks associated with investing in private equity, these can be significantly reduced by investing in well-managed, diversified funds. Indeed, the volatility of returns of many trusts that specialise in private equity, including Mercury Grosvenor Trust, is low relative to the volatility of listed equities.

We believe that private equity is the best form of equity capital for companies wanting to finance change, whether it is to restructure their businesses or to cope with rapid growth. As we believe the pace of change in business will accelerate, we would suggest that private equity will continue to outperform more conventional asset classes over the longer term.

The Investment Manager

The Company's portfolio of investments is managed by MPE Investment Managers Limited, trading as Mercury Private Equity* ("the Investment Manager" or "Mercury Private Equity"), which manages funds amounting to £700 million dedicated to unquoted investments. It comprises the former private equity division of Merrill Lynch Investment Managers which has invested in more than 200 companies, developing into one of the leading providers of finance to the private equity market.

In December 2000, Mercury Private Equity became an independent private equity house, owned by its managers and staff. Staff participation in ownership of the company assists in maintaining team continuity and stability, while independence affords the freedom to attract and develop new talent. Mercury Private Equity continues to manage funds for Merrill Lynch Investment Managers under a delegation agreement and will manage the Company's portfolio under the terms of that agreement.

Our team of 31 professionals includes 14 investment executives 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. Seven members of the team form the Executive Committee, which manages the running of the business.

Our criteria

We have two distinct areas of interest:

Leveraged acquisitions – we target quality businesses with strong positions in growing markets, with enterprise values of between £25 million and £250 million.

Expansion capital – we invest a minimum of £3 million in high-growth companies.

Our strategy

We have developed a strategy that clearly defines the future direction of our business. Our strategy is founded on three key platforms: sector specialisation, value addition and geographic expansion.

Sector specialisation

The investment professionals work in specialist industry sector teams, representing Healthcare, Information & Communications Technology ("ICT") and Business Services. These industry sectors have been selected after extensive analysis of the opportunities across Europe in terms of market size, growth and number of potentially available target companies. Sector specialisation allows each of the teams to have an in-depth knowledge of their markets and of the key players in their markets. This investment approach has proved extremely successful, enhancing our ability to source potential deals, convert deals into investments and manage those investments through to realisation. The success of these teams has prompted the creation of a new sector team, concentrating on Media, which will start investing within the next few months. In addition to these specialist teams, a separate LBO team handles leveraged buy-outs in areas outside our preferred industry sectors.

* Mercury Private Equity is a trade mark of Merrill Lynch Investment Managers Limited and has been licensed for use by MPE Investment Managers Limited.

Investment Principles of the Manager
continued

Across all our sectors we have clear 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 western Europe.

Value addition

The second key element of our strategy is value addition. We have recently created a team of experienced strategy analysts to undertake a wide variety of tasks, working closely with the investment teams. The role of the strategy team is to identify attractive market segments and specific target companies and then to assist in the analysis of these opportunities. Following investment, the strategy team works with a company to implement business-planning processes that capture and measure the company's strategy to maximise value. A new business plan would normally be developed within six months of investment.

Geographic expansion

The demand for private equity in Continental Europe is increasing as companies focus on generation of shareholder value. We are well-placed to take advantage of the relatively immature Continental European private equity markets via our offices in London and Frankfurt. Our executives work along sector lines and are not limited by their geographic location, with staff in our two offices working in partnership on investments across western Europe. We now have plans to open a further office, in Paris, in the near future.

Frankfurt office

2000 was the first full year of operation for our Frankfurt office. Since opening it has been involved in three transactions, covering each of our specialist industry sectors of Business Services, ICT and Healthcare. Two of those transactions were completed in the last year: Trados, which develops software for the translation industry, and VTSI, a tissue repair technology company. Full details are given in New Investments and Review of Principal Investments, later in this report. We continue to enjoy strong deal flow in Germany, particularly within the ICT sector, and are expanding our team so that we can take full advantage of these opportunities. Within the next couple of months the Frankfurt office will comprise six professional staff. Recent recruits include Dr Walter Berger, David Runge, Stefan Winterling and Martin Block.

Executive Committee

1 Ian Armitage – CEO
2 Trevor Bayley – Frankfurt office
3 Stephen Bough – Finance & Administration
4 Craig Donaldson – Client Services
5 Frances Jacob – Investment
6 Jeremy Sharman – Business Services
7 Lisa Stone – Strategy & Operations

Investment Manager's Review

2000 was a rewarding year for both new investments and realisations.

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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 Private Equity; 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 approach is advantageous over the longer term.

During 2000 the Company committed a total of £17.1 million (1999: £28.5 million). Investments were made in eight new companies, totalling £14.4 million, and existing investments received a further £2.7 million. Proceeds from realisations amounted to £24.6 million (1999: £39.6 million).

The high number of growth companies within our industry sectors has led to an increase in expansion capital transactions. These, by their very nature, require less funding than LBOs so that, while the number of new investments remains consistent with last year, the overall capital employed is less.

In spite of difficult market conditions, two companies within the portfolio were floated. Dechra Pharmaceuticals floated on the London Stock Exchange, yielding a return of three times cost, and Power Leisure was floated on the London and Dublin Stock Exchanges just six months after our investment. We have retained stakes in both companies.

Representatives from specialist teams

1 Dr Walter Berger – ICT
2 Lindsay Dibden – Healthcare
3 Nick Martin – Media
4 Richard Mathews – Business Services
5 Philippe Pollet – Strategy
6 Nick Turner – LBO

New Investments

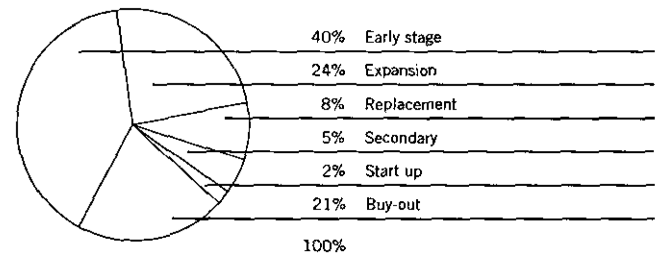
The Company committed £14.4 million to eight new companies.

New investments

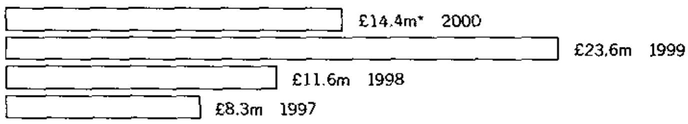
Company	Type of security	Activity	Transaction type	Cost £'000
VTSI AG	Equity	Tissue repair technology	Expansion	2,473
Trados Inc	Preferred equity	Software for the translation industry	Early stage	2,178
Worldmark International Ltd	Equity and loan	Product identification systems	Buy-out	2,144
Newchurch Ltd	Equity and loan	IT services for the healthcare industry	Early stage	1,194
Travelsphere Holdings Ltd‡	Equity and loan	Overseas coach tour holiday operator	Replacement capital	801
Ascot Drummond Ltd	Equity	On-line accountancy services	Early stage	640
Power Leisure plc*	Equity	Bookmaker	Secondary purchase	618
Global People Network Ltd	Convertible loan	On-line temporary staffing	Start up	223
			Total	**10,271**

‡ Total commitment £4.9 million. £0.8 million drawn down on completion.
* Listed on the London and Dublin Stock Exchanges.

Transaction type



Investment rate



* Includes Travelsphere commitment.

VTSI
VTSI is a German medical devices company that has developed a novel technique for repairing cartilage in damaged joints. We invested €13.5 million for a 44% stake, as part of a €23.7 million fund raising exercise. The funding will enable VTSI to commercialise its technologies, prior to an IPO.
(See Review of Principal Investments)

Trados
Trados is the market leader in translation memory software, boosting the efficiency and quality of multilingual communications. We invested US$12.9 million in March 2000, followed by a further US$2 million, alongside other investors, which was at a 26% premium to the original entry price.
(See Review of Principal Investments)

Worldmark International
Worldmark International is a leading global supplier of product identification systems to the electronics and mobile telecommunications industries. Its products include intelligent bar code labels and security labels. The £72 million management buy-out completed in January 2000.

Newchurch
Newchurch, formerly Agora Healthcare, develops business-focused applications and provides consultancy to support the management of care delivery. These include services to the healthcare market, such as primary care trust support, patient management programmes, electronic health records, telemedicine and clinical marketing services. We invested £5 million in Agora Healthcare at the beginning of the year, followed by an additional £4.5 million, partly to fund the acquisition of Newchurch, a leading healthcare management consultancy.

Travelsphere Holdings
Travelsphere is a leading coach tour holiday operator, offering overseas escorted holidays throughout the world. It markets direct to the 45+ age group and is well-placed to benefit from an ageing population, which has higher levels of disposable income and increasingly adventurous tastes for travel. Our £20.6 million commitment, in return for a 40% share, will allow Travelsphere to expand its holiday destinations and to develop other products, using its sophisticated database.

Ascot Drummond
Ascot Drummond delivers on-line accountancy services to small businesses, including company formation, secretariat, bookkeeping, payroll and taxation. It has an established customer base of IT contractors and our £6.3 million commitment will allow the company to access other market segments, as well as to increase its range of services.

Power Leisure
Power Leisure is Ireland's largest chain of bookmakers with a 30% share of the market. It trades from 116 locations, as well as having an on-course presence and a successful telephone betting operation. We purchased a 10% stake in the company in May 2000 to help it prepare for a flotation. Six months later, the company floated on the London and Dublin Stock Exchanges. The issue was three times over-subscribed and we sold 15% of our holding on the first day of trading.

Global People Network
Global People Network was spun out from an existing investment, Match Holdings, a supplier of flexible staffing to NHS trust hospitals, in order to exploit the internet applications of Match's software products.

Follow-on Investments

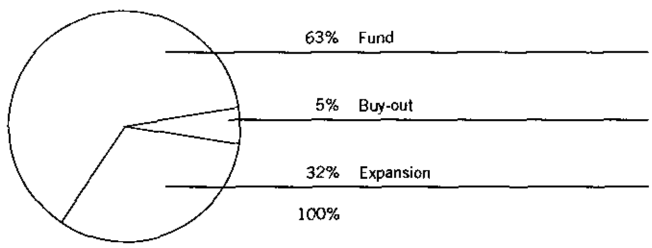
A further £2.7 million was provided to five existing investments.

Follow-on investments

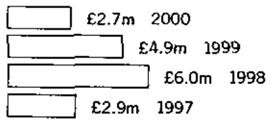
Company	Type of security	Activity	Transaction type	Cost £'000
Weston Presidio Capital III, L.P.	LP units	US venture fund	Fund	1,373
Alizyme plc*	Equity	Biotechnology for gut disease and obesity	Rights issue	957
Wand Equity Portfolio II, L.P.	LP units	US LBO fund	Fund	267
Bertram Group Holdings Ltd	Cash guarantee units	Wholesale supplier of books to retailers and libraries	Buy-out	133
PARC Group International plc	Equity	Manpower leasing	Buy-out	7
			Total	**2,737**

* Listed on the London Stock Exchange.

Transaction type



Investment rate



Weston Presidio Capital III
Six calls of capital were made during the year to fund new and follow-on investments. As at 31 December 2000, the fund was 55% called. Investments are primarily in privately-held, later-stage growth companies in the USA.

Alizyme
In August 2000, we exercised our rights to purchase further shares in Alizyme, a biotechnology company, at £1 each. (See Review of Principal Investments)

Wand Equity Portfolio II
Wand Equity Portfolio II focuses on mid-size LBOs and development capital opportunities in the USA. During the year, it called capital to fund several new investments and also made a small cash distribution. At 31 December 2000, the fund was 81% called.

Bertram Group Holdings
Bertram Group is the joint UK market leader in book wholesaling and fulfilment, supplying on-line retailers, high-street stores and public libraries, with a next-day delivery service. It received a small further funding to allow for an increase in its working capital facility.

PARC Group International
A stock dividend increased the cost of our investment in PARC Group International.

Full Realisations

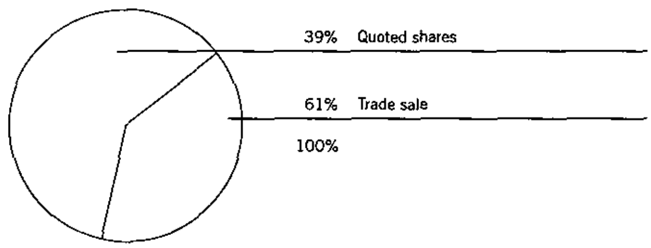
Proceeds from realised investments totalled £10.8 million, a profit of £2.3 million.

Full realisations

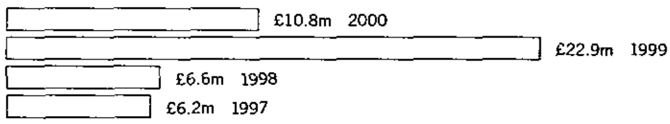
Company	Type of security	Proceeds £'000	Cost £'000	Profit/Loss over cost £'000	Valuation @ 31/12/99 £'000	Profit/Loss over valuation £'000
Priory Healthcare Ltd	Equity and loan	4,844	5,628	(784)	5,360	(516)
Biocompatibles International plc*	Equity	3,248	1,189	2,059	3,160	88
Document Management Services Group Ltd	Equity	992	12	980	829	163
First Choice plc*	Equity	960	330	630	817	143
SVC Television Ltd	Equity	433	202	231	–	433
Other (6)		327	1,097	(770)	103	224
	Total	**10,804**	**8,458**	**2,346**	**10,269**	**535**

* Listed on the London Stock Exchange.

Transaction type



Realisation rate



Priory Healthcare

Priory Healthcare, the UK's leading group of private-sector, acute psychiatric hospitals, was sold to Canterbury Healthcare in February 2000 following clearance from the Office of Fair Trading. Although the sale resulted in a capital loss of £0.8 million, income of £1.9 million was received, producing an overall cash profit of £1.1 million.

Biocompatibles International

Biocompatibles is an international medical device company supplying contact lenses and coronary stents that contain a proprietary polymer to improve biocompatibility. We sold our remaining holding at the beginning of the year, yielding an overall return of 3.6 times cost.

Document Management Services

Following its demerger from The Stationery Office Group in 1999, Document Management Services was sold at a substantial profit over cost. We retain a residual holding in Security Printing, another demerged division of The Stationery Office Group.

First Choice

Sunsail International, a sailing holiday operator, was sold to First Choice plc in 1999. We have been realising our holding as market conditions permit and the final tranche of shares was sold during November 2000.

SVC Television

SVC Television, which provides post-production television facilities, was sold in March 2000. Overall, this investment has produced a return of 2.5 times cost.

Other

Central Industries, a manufacturer of handcuffs and other equipment used by military and police forces, was sold to management. Banner Business Supplies, following its demerger from The Stationery Office Group in 1999, was sold at a substantial profit over cost. A final cash distribution was received from FISCL Capital Partners prior to it being wound up. In addition, final liquidation payments were received in respect of Lignotock and European Special Situations Investments. These two companies and Stoplock, which was fully liquidated during the year, had previously been removed from the portfolio listing.

Partial Realisations

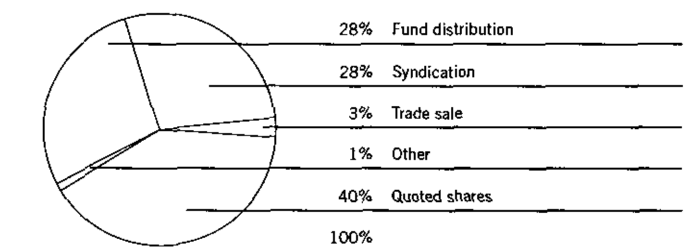
Partial realisations yielded proceeds of £13.8 million, a profit of £4.3 million.

Partial realisations

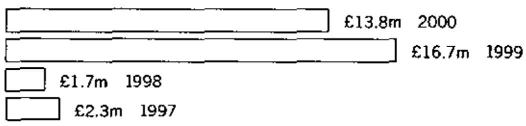
Company	Type of security	Proceeds £'000	Cost £'000	Profit over cost £'000	Valuation @ 31/12/99 £'000	Profit/Loss over valuation £'000
Dechra Pharmaceuticals plc*	Equity and loan	5,315	2,667	2,648	3,171	2,144
Greycoat Estates Ltd	Equity and loan	3,196	3,196	–	3,196	–
Weston Presidio Capital II, L.P.	LP units	3,309	1,962	1,347	n/a	n/a
Tunstall Holdings Ltd	Equity and loan	733	733	–	733	–
Bottomline Technologies Inc† (Checkpoint)	Equity and loan	273	273	–	272	1
Azinger Ltd	Equity and loan	236	236	–	n/a	n/a
MedNova Ltd	Equity	161	70	91	100	61
Power Leisure plc*§	Equity	151	92	59	–	–
Other (11)		467	333	134	n/a	n/a
	Total	**13,841**	**9,562**	**4,279**	**7,472**	**2,206**

* Listed on the London Stock Exchange. † Traded on NASDAQ. § Listed on the Dublin Stock Exchange.

Transaction type



Realisation rate



Dechra Pharmaceuticals
Dechra is the UK's leading wholesale distributor of pharmaceuticals and related products to veterinary practices. In September 2000, it floated on the London Stock Exchange. The issue price valued the company at £75 million, representing a multiple of 2.8 times cost. We have retained a 10% stake in the business.

Greycoat Estates
Greycoat Estates owns a portfolio of central London properties for development and sale. We supported the incumbent management team in a public-to-private transaction in 1999. We subsequently sold 40% of our investment. (See Review of Principal Investments)

Weston Presidio Capital II
Cash distributions were received in respect of the sale of this fund's holdings in Vitria Technology and MapQuest.com. There were also two capital calls to finance follow-on investments. As at 31 December 2000, the fund was 80% drawn and had achieved a return on capital of 238% and a net IRR of 34%.

Tunstall Holdings
Tunstall Holdings produces reassurance communications systems for the elderly and vulnerable. Part of our original holding was syndicated following the management buy-out in 1999. (See Review of Principal Investments)

Bottomline Technologies
Checkpoint, the only company in the UK to offer fully-integrated secure payments solutions, was sold to Bottomline Technologies Inc in September 2000, only eighteen months after our investment. The majority of the consideration was in the form of Bottomline securities, which were valued at an equivalent of four times our original cost. (See Review of Principal Investments)

Azinger
The rapid pace of change in the Irish grocery distribution trade forced Azinger into a controlled liquidation. A final distribution is expected during the first quarter of 2001.

MedNova
MedNova specialises in the development of vascular stents and filters used in minimally-invasive surgical procedures. In October 2000, a 15% equity interest in MedNova was sold to Abbott Laboratories for a value of more than two times cost. The sale of the remaining 85% will follow on receipt of "CE Mark" approval for a derivative of MedNova's filter device, indicating that the manufacturer has conformed with all obligations required by European legislation.

Power Leisure
See New Investments on page 6.

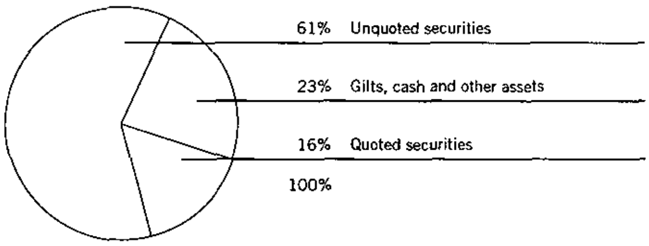
Other
Cash distributions were received from a further five overseas funds. In addition, funds were received from a syndication of PII Group and from sales of shares to incoming management of Unicorn Professional Services, Profiad and The Sanctuary. JBS Industries was sold to management, with considerations payable until 2004, and a loan stock redemption was received from PARC Group International.

Portfolio Analysis

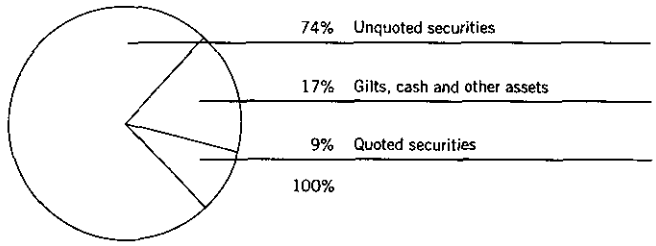
Successful flotations of several companies contributed to an increase in the Company's holding of quoted stocks.

Analysis of asset type

2000

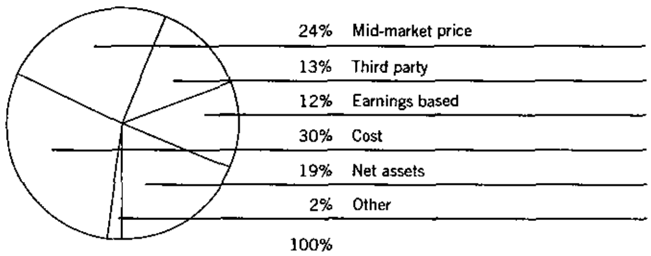


1999

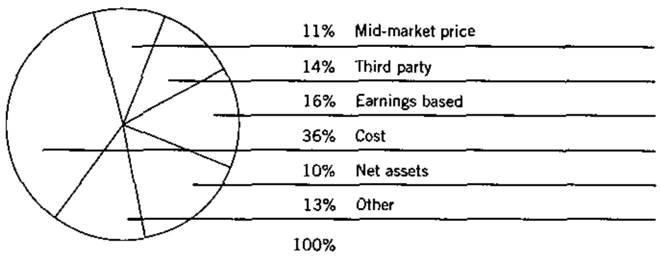


Analysis of investment valuation

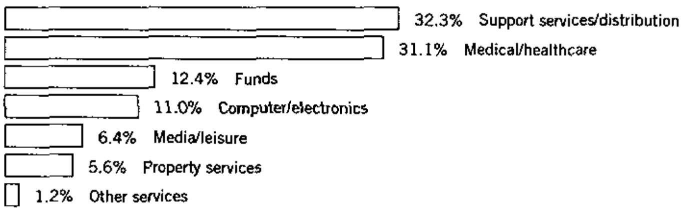
2000



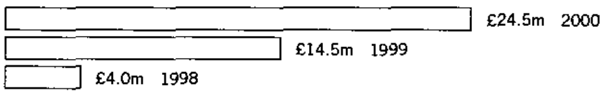
1999



Analysis of investments by sector



Liquidity levels



At the end of 2000, the Company's portfolio consisted of 47 investments (1999: 47). The top ten investments represent around 63% of value excluding cash. Eight new investments were made during the year, encompassing all our specialist industry sectors. In addition, shares in Vernalis Group were acquired as a result of its acquisition of Cerebrus. Eight investments were fully realised by way of disposals of quoted stock and trade sales, and a further three investments, previously removed from the portfolio listing, were fully liquidated.

The portfolio valuation, excluding cash, of £79.1 million (1999: £74.5 million) compares with an aggregate book cost of £63.8 million (1999: £68.8 million). Following a significant reduction last year, the Company's holding of quoted stock has increased, with a corresponding decrease in unquoted holdings, following the successful flotation of businesses in which we retained stakes.

The top ten listing has gained five new entrants, two of which are new investments. The aggregate valuation represented by the top ten investments has changed relatively little from last year.

Portfolio Analysis continued

The ten largest investments are valued at £49.8 million.

2000 Top ten investments

Company	Valuation £'000
PII Group Ltd	10,186
Alizyme plc*	8,283
Tunstall Holdings Ltd	5,897
Braitrim Holdings Ltd	5,053
Greycoat Estates Ltd	4,935
Orbis plc*	3,996
Bottomline Technologies Inc†	3,363
Patientline Holdings Ltd	2,820
Trados Inc	2,712
VTSI AG	2,552
Total	49,797

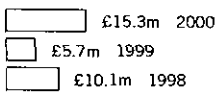
* Listed on the London Stock Exchange.

† Traded on NASDAQ.

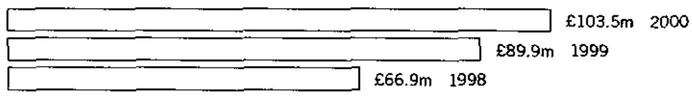
1999 Top ten investments

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

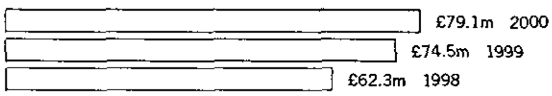
Unrealised gain on cost



Net assets



Portfolio valuations



Prospects

Predicting the future course of any economy can be a hazardous exercise, no more so than at the current time. Economic forecasts are beginning to show a wider spread of outcomes for GDP growth than has been the case for some years. The cause of this divergence is a need to factor in the effect of falling equity prices on consumer spending in the USA, Europe and the UK.

At the same time, deflation, i.e. falling prices, remains a feature or threat to most parts of the "old economy". Few companies have pricing power and hence they find it harder to increase profits and cash flow. The risks to growth that we identified in our last report appear to be turning into reality and, accordingly, we are more bearish about the economy.

Against this economic backdrop, we believe that the Company's portfolio of investments provides a balanced exposure to several growth markets and interesting restructuring opportunities. A portfolio of companies that has a combination of good market positions and strong management, as is the case for Mercury Grosvenor Trust, should offer some protection against a deterioration in the economic environment, although we would expect some companies to be tested by the challenges that lie ahead. A number of companies will capitalise on these conditions by making bolt-on acquisitions, whereas others will require our patience in the pursuit of realisations, reflecting the softer capital markets.

Conditions for making new investments should improve as some of the more ill-disciplined investors in both the private and public markets pull out. There is already some evidence that investors are either biding their time or actively pushing prices down in buy-outs and, more particularly, in technology investments. It is too early to state that the market as a whole has entered the realm of rational valuation, but it is certainly the case that in public markets the technology bubble has burst.

We continue to build our investment team so that we may cover our chosen market segments with an increased degree of intensity. We remain confident that our disciplined approach to investment will continue to produce attractive returns from the portfolio.

Mercury Private Equity
Investment Manager
27 February 2001

Review of Principal Investments

2

Photograph courtesy of the Science Photo Library

1 PII Group Ltd
2 Alizyme plc
3 Tunstall Holdings Ltd

1

Photograph courtesy of PII Group

3

Photograph courtesy of Tunstall Holdings

PII Group

PII Group is the world leader in oil and gas pipeline inspection services. The primary means of inspection is via an "intelligent pig", which travels through pipelines carrying sensory and data-recording equipment. In 1999, PII acquired a major competitor, Pipetronix, based in Germany, and a smaller Canadian company. The enlarged group operates in over 45 countries world-wide, with a market share of around 55% and a product and technology range second to none.

Cost: £5,635,040
Valuation: £10,185,809
Valuation basis: Third party
Percentage of portfolio: 12.9%
Investment date: February 1998

Alizyme

Alizyme is a biotechnology company specialising in diseases of the gut and obesity. It is developing product candidates for four conditions and currently has one product undergoing Phase II clinical trials and two undergoing Phase I. These products are now nearing their next phases of development, in line with planned milestones, and have contributed to a significant uplift in the company's valuation.

Cost: £2,534,207
Valuation: £8,283,152
Valuation basis: Mid-market price
Percentage of portfolio: 10.5%
Investment date: May 1998

Tunstall Holdings

Tunstall Holdings is the UK market leader in the production and installation of reassurance communications systems and has a significant presence in Germany. The alarms, either room-based with a warden-controlled monitoring system or mobile linked via a telephone unit to a call centre, provide instant and easy 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 for as long as possible. Government initiatives regarding intermediate care and the support it is showing for domiciliary care are positive for Tunstall's business.

Cost: £5,897,262
Valuation: £5,897,262
Valuation basis: Cost
Percentage of portfolio: 7.5%
Investment date: November 1999

Review of Principal Investments continued

4 Braitrim Holdings Ltd
5 Greycoat Estates Ltd
6 Orbis plc

5

Photograph courtesy of Greycoat Estates

4

Photograph courtesy of Braitrim Holdings

6

Photograph courtesy of Orbis

Braitrim Holdings

Braitrim provides product presentation, design, procurement and distribution services to clothing retailers in the UK, Germany and France. It also has a network of manufacturing partners in the Far East and the Mediterranean rim. Braitrim has strategically redirected its focus to a supply chain management service and has developed an internet platform, designed to link its customers and suppliers. The company has maintained profitability and growth in sales in the face of a severe downturn in garment retailing in the UK.

Cost: £4,713,935
Valuation: £5,053,247
Valuation basis: Earnings
Percentage of portfolio: 6.4%
Investment date: March 1998

Greycoat Estates

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 NatWest Tower. The central London office market has considerable unserviced demand due to limited speculative development and a lack of grade A accommodation. The company is capitalising on marketing opportunities presented by the internet; one of its properties has been exclusively marketed via this channel.

Cost: £4,113,538
Valuation: £4,935,325
Valuation basis: Net assets
Percentage of portfolio: 6.2%
Investment date: May 1999

Orbis

The original investment was in Sitex whose principal business was the protection of void properties. After making a small acquisition, Sitex merged with Orbis, a quoted company. The merged group is a leading security and telecommunications provider to local authorities. Strong growth is expected, fuelled by the trend of local authorities to outsource their security arrangements. The company also has operations in France, Germany, the Netherlands and Ireland. New areas for potential growth are now a priority. One such initiative is an alliance with Vodafone and Benefon to provide monitoring services for the next generation of mobile phones.

Cost: £3,378,444
Valuation: £3,996,073
Valuation basis: Mid-market price
Percentage of portfolio: 5.1%
Investment date: July 1997

Review of Principal Investments continued

8

Photograph courtesy of Patientline Holdings

9

Photograph courtesy of Trados

7

Photograph courtesy of Bottomline Technologies

7 Bottomline Technologies
8 Patientline Holdings
9 Trados
10 VTSI

10

Photograph courtesy of VTSI

Bottomline Technologies

We originally invested in Checkpoint in 1999, which was sold to Bottomline Technologies, one of the leading players in the burgeoning electronic billing presentation and payments market for business-to-business applications. It also has internet-based cash management products. The acquisition of Checkpoint gave the company a dominant UK presence in electronic payments and a large blue-chip customer base for its billing and cash management products.

Cost: £960,086
Valuation: £3,362,832
Valuation basis: Mid-market price
Percentage of portfolio: 4.3%
Investment date: March 1999

Patientline Holdings

Patientline designs and installs bedside televisions and telephones within NHS trust hospitals, which are rented to patients via smartcards. The company has made progress on a number of fronts. In particular, it has been awarded a "preferred supplier" licence by the NHS and has completed the acquisition of a competitor, the leading provider of comparable services in Holland. A next-generation terminal should prove attractive for the provision of incremental, revenue-generating services to hospitals. Since the year-end, the company received a small, further investment to see it through to an anticipated flotation.

Cost: £2,812,944
Valuation: £2,820,321
Valuation basis: Cost
Percentage of portfolio: 3.6%
Investment date: November 1996

Trados

Trados is the global market leader in translation memory software. Its intelligent software tool enhances the efficiency of translators and improves the quality and consistency of their work. The company offers a wide range of complementary applications that can translate into all major western European languages as well as into Russian, Japanese, Chinese and Korean. Its customers include Microsoft, Compaq, SAP and the European Commission.

Cost: £2,177,906
Valuation: £2,711,953
Valuation basis: Third party
Percentage of portfolio: 3.4%
Investment date: March 2000

VTSI

VTSI, a German company, is engaged in tissue engineering technology, and has developed a novel technique for repairing cartilage in damaged joints, especially knees. The technology represents a significant advance in the treatment of trauma-induced damage to articular cartilage and involves the cultivation of harvested cartilage cells in specialised laboratory facilities. Orthopaedic surgeons now have access to procedures that are faster, less invasive and more cost effective.

Cost: £2,473,453
Valuation: £2,551,610
Valuation basis: Cost
Percentage of portfolio: 3.2%
Investment date: December 2000

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 2000 £'000	% ordinary share capital (a)
Alizyme plc*	Dec-99	0.0	(2.7)	(2.6)	3.9	–	3.2
Bertram Group Holdings Ltd	Jul-00	90.1	2.5	(1.8)	2.4	343	9.4
Bottomline Technologies, Inc†	Jun-00	49.1	(17.5)	(14.3)	57.1	–	0.5
Braitrim Holdings Ltd	Jun-00	83.0	7.9	0.0	(0.5)	–	9.2
Dechra Pharmaceuticals plc*	Jun-00	145.5	7.5	2.1	(27.9)	716	1.6
Euroknights III, L.P.	Dec-99	n/a	n/a	n/a	134.7	–	3.0
Greycoat Estates Ltd	Dec-99	n/a	n/a	n/a	104.0	489	3.6
Match Holdings Ltd	Dec-99	100.0	5.5	1.9	(6.2)	103	6.6
Newchurch Ltd	Dec-99	5.1	(0.4)	(0.4)	0.4	–	3.1
Orbis plc*	Mar-00	55.6	(0.6)‡	(31.2)	23.1	–	4.4
PARC Group International plc	Mar-00	83.1	5.1	3.2	1.9	32	5.2
Patientline Holdings Ltd	Mar-00	5.6	(0.4)	(2.7)	3.3	520	11.1
PII Group Ltd	Dec-99	61.2	13.1	(3.6)	(3.3)	640	9.0
Trados Inc	Dec-00	**	**	**	**	–	3.6
Tunstall Holdings Ltd	Sep-00	52.9	8.4	5.2	13.2	80	10.3
Unicorn Professional Services Ltd	Jul-00	**	**	**	**	47	10.6
VTSI AG	Dec-00	**	**	**	**	–	6.7
Weston Presidio Capital II, L.P.	Dec-99	n/a	n/a	n/a	456.0	–	2.2
Weston Presidio Capital III, L.P.	Dec-99	n/a	n/a	n/a	132.2	–	1.3
Worldmark International Ltd	Dec-00	**	**	**	**	–	5.0

(a) Percentage of the total issued ordinary share capital held by the Company as at 31 December 2000.

* Listed on the London Stock Exchange.

† Traded on NASDAQ.

‡ PBIT stated before the exceptional item of £27 million, arising on the loss on the disposal of Orbis Security Systems.

** 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	62	202	1998	0.3
Alizyme plc*	Biotechnology for gut disease and obesity	2,534	8,283	1998	10.5
Ascot Drummond Ltd	On-line accountancy services	640	640	2000	0.8
Azinger Ltd (in controlled liquidation)	Grocery importer and distributor	333	62	1993	0.1
Bertram Group Holdings Ltd‡	Wholesale supplier of books to retailers and libraries	2,579	1,302	1999	1.7
Biocode Inc	Molecular markers	531	580	1997	0.7
Biovector Therapeutics S.A.	Biopharmaceuticals	998	–	1997	–
Bottomline Technologies, Inc† (Checkpoint)	Electronic business-to-business banking solutions	960	3,363	1999	4.3
Braitrim Holdings Ltd‡	Retail product design and procurement	4,714	5,053	1998	6.4
Cerebrus Ltd	Central nervous system drugs	1,004	–	1996	–
Corinthian Marketing plc	Supplier of plastic collectable toys	750	166	1995	0.2
Creos International plc* (in liquidation)	Power supplies for x-ray machines	594	–	1995	–
Dechra Pharmaceuticals plc*	Supplier of veterinary pharmaceuticals	20	1,508	1997	1.9
Euroknights III, L.P.	European venture fund	1,573	2,142	1996	2.7
Euroknights International Ltd	European venture fund	83	–	1995	–
Global People Network Ltd	On-line temporary staffing	223	223	2000	0.3
Greycoat Estates Ltd‡	Property development	4,114	4,935	1999	6.2
Ironpath Ltd t/a ClinPhone	Pharmaceutical and clinical research services	445	915	1996	1.2
JBS Industries Ltd	Building products	12	12	1998	–
Kaye Holdings Ltd‡	Aluminium extruder	952	–	1996	–
Luxfer Holdings Ltd	Aluminium products	46	1,018	1996	1.3
ML Laboratories plc*	Biotechnology pharmaceuticals	533	54	1996	0.1
Match Holdings Ltd	Flexible staffing to NHS trust hospitals	2,527	2,527	1999	3.2
MedNova Ltd	Medical devices	396	744	1998	0.9
Newchurch Ltd	IT services for the healthcare industry	1,194	1,194	2000	1.5
Nova Homes Ltd	Housebuilder	480	–	1993	–
NWP Communications Ltd	Payphones operator	2,035	–	1997	–
Orbis plc*	Void property management	3,378	3,996	1997	5.1
PARC Group International plc	Manpower leasing	446	1,993	1995	2.5
Patientline Holdings Ltd‡	Hospital services	2,813	2,820	1996	3.6
PII Group Ltd‡	Oil and gas pipeline inspection services	5,635	10,186	1998	12.9
Power Leisure plc*§	Irish bookmaker	526	924	2000	1.2
Profiad Ltd	Patient recruitment for clinical trials	979	979	1999	1.2
Security Printing Ltd	Security printing services	12	1,037	1996	1.3
The Sanctuary Spa Group Ltd‡	Day spa	357	394	1995	0.5
Trados Inc	Software for the translation industry	2,178	2,712	2000	3.4
Travelsphere Holdings Ltd	Overseas coach tour holiday operator	801	801	2000	1.0
Tunstall Holdings Ltd‡	Security alarms for the elderly and infirm	5,897	5,897	1999	7.5
Unicorn Professional Services Ltd‡	Outsourced services for the property sector	2,463	2,463	1999	3.1
UPM Holdings B.V.	European venture fund	39	52	1995	0.1
Vernalis plc*	Biotechnology pharmaceuticals	68	460	1996	0.6
VTSI AG	Tissue repair technology	2,473	2,552	2000	3.2
Wand Equity Portfolio II, L.P.	US LBO fund	785	865	1998	1.1
Weston Presidio Capital I, L.P.	US venture fund	–	32	1995	–
Weston Presidio Capital II, L.P.	US venture fund	–	1,368	1995	1.7
Weston Presidio Capital III, L.P.	US venture fund	2,470	2,526	1998	3.1
Worldmark International Ltd	Product identification systems	2,144	2,144	2000	2.6
	Total	**63,796**	**79,124**		**100.0**

* Listed on the London Stock Exchange.

§ Listed on the Dublin Stock Exchange.

† Traded on NASDAQ.

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

Board of Directors

David Bucks* † (Chairman)
Aged 66, was appointed as a director and became Chairman of the Company in 1992. He is a chartered accountant with over 30 years' experience of working in the City. He is a non-executive director of Esporta plc.

Timothy John Amies* †
Aged 62, was appointed to the Board in 1991. He is a chartered accountant with over 32 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 64, became a director in 1989. He entered the venture capital industry in 1973 and was a founder of Grosvenor Venture Managers. His earlier career was in marketing in the computer, packaging and automotive industries.

Peter Gale* †
Aged 45, 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 62, 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 15 years at chief executive and board level.

* 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 31 December 2000.

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 page 2 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 1988 for the year ended 31 December 1998.

In the opinion of the Directors, the Company has conducted its affairs so as to enable it to maintain approval as an investment trust for the years ended 31 December 1999 and 2000. However, under Corporation Tax Self Assessment, the Inland Revenue is no longer obliged to give written notices of approval; instead, it has 12 months after the return filing date in which to give notice that it intends to enquire into the return. If no such notice is given, approval can be assumed to have been obtained.

The Company is an investment company within the meaning of section 266 of the Companies Act 1985.

Results and dividend
The revenue for the Company is set out in the Statement of Total Return on page 23. Revenue for the year, after taxation, was £4,623,000 (1999: £2,481,000).

The directors recommend the payment of a net final dividend of 14.50p per ordinary share for the year ended 31 December 2000. Subject to the approval of this dividend at the forthcoming Annual General Meeting, it will be paid on 23 April 2001 to shareholders on the register of members at the close of business on 9 March 2001.

The proposed dividend will absorb £3,652,000 and will result in a transfer to the revenue reserve of £971,000.

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.

Mr R C A Hall retired as a director of the Company on 18 April 2000.

In accordance with the Articles of Association, Mr D Bucks and Mr P Gale retire by rotation and, being eligible, offer themselves for 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 (all holdings are beneficial unless stated otherwise):

	1 January 2000	31 December 2000
T J Amies	25,000	30,000
D Bucks	6,400	6,400
A D V Crook		
– beneficial	7,848	14,835
– 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

No notification of any change in the above interests has been received from 31 December 2000 to the date of this report.

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
Merrill Lynch Investment Managers*	6,897,713	27.39
NatWest Pension Trustees Ltd	3,030,659	12.03
Halifax Group plc	2,981,344	11.84
Wolverhampton Borough Council S/F	2,481,788	9.85
The Scottish Investment Trust PLC	1,600,000	6.35
The Co-operative Insurance Society Limited	1,350,000	5.36
Clients of Exeter Asset Management Limited	925,000	3.67

* On behalf of discretionary and non-discretionary clients and staff, including 1,500,000 ordinary shares (5.96%) beneficially owned by Merrill Lynch UK Investment Trust plc and 1,019,619 ordinary shares (4.05%) beneficially owned by BBC Pension Trust Limited Fund RW.

No other shareholder had notified an interest of 3% or more in the Company's ordinary share capital as at 27 February 2001.

Investment management and administration
The Company has an investment management agreement dated 30 March 1995 with Merrill Lynch Investment Managers Limited ("MLIM"), which sets out the terms under which MLIM is appointed 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.

Directors' Report continued

Under the terms of the delegation agreement between MLIM and Mercury Private Equity, as outlined in the Investment Manager's Review, MLIM's duties as investment manager have been delegated to Mercury Private Equity.

Merrill Lynch Investment Managers Group Services Limited ("MLIMGS") acts as the secretary and administrator of the Company and The Bank of New York Europe Limited ("BNYE") is the custodian of the Company's assets. The annual administration and custodian fee is 0.1% of the Company's gross assets.

In addition, MLIM is reimbursed certain expenses incurred in the performance of its duties. At 31 December 2000, MLIM and its subsidiaries beneficially held 581,306 ordinary shares or 2.31% of the issued share capital of the Company (1999: 581,306 or 2.24%).

Both MLIM and MLIMGS are subsidiaries of Merrill Lynch & Co., Inc.

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

MLIM's voting policy, by which Mercury Private Equity is bound, is:

"to vote in favour of proposals which it expects to enhance shareholder value; and

to vote against proposals which it believes may damage shareholders' rights or economic interests; in these situations it would normally have raised its concerns with management in advance."

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
The Annual General Meeting ("AGM") of the Company will be held at 33 King William Street, London EC4R 9AS on Tuesday, 10 April 2001 at 12.00 noon. Notice of the AGM is given on page 39 of this Report.

Authority to buy back shares
Under the buy-back programme, which was approved on 18 April 2000, a total of 746,415 ordinary shares had been purchased and cancelled up to 27 February 2001. The existing authority will expire on 17 October 2001.

The directors are proposing that their authority to buy back ordinary shares for cancellation be renewed, and are seeking authority to purchase up to 3,775,000 ordinary shares (being 14.99% of the issued share capital). This authority, unless renewed, will expire on 9 October 2002.

Purchases of ordinary shares will only be made through the market for cash at prices below the prevailing net asset value ("NAV") per ordinary share. Under the Listing Rules of the Financial Services Authority, the maximum price which can be paid is 5% above the average of the 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). Ordinary shares which are purchased will be cancelled. In making purchases, the Company will deal only with member firms of the London Stock Exchange.

Authority of directors to allot shares
Resolutions 8 and 9 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 8 gives the directors, for the period until the conclusion of the AGM in 2002, the necessary authority to allot securities up to an aggregate nominal amount of £2,098,000, which is equivalent to 8,392,000 ordinary shares of 25p each and approximately one third of the issued ordinary share capital.

Resolution 9 empowers the directors until the conclusion of the AGM in 2002, or if earlier, the expiry of 15 months from the date on which resolution 9 is passed, to allot securities for cash, otherwise than to existing shareholders on a pro rata basis, up to an aggregate nominal amount of £314,834, which is equivalent to 1,259,336 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.

Auditors
The auditors, Ernst & Young, have indicated their willingness to continue in office and resolutions proposing their re-appointment and authorising the directors to determine their remuneration will be submitted at the AGM.

Ernst & Young has advised that, subject to the approval of its partners, it is intending to transfer its business to a limited liability partnership during the year. If this happens, it is the current intention of the directors to use their statutory powers to treat the appointment of Ernst & Young as extending to Ernst & Young LLP.

By order of the Board
Merrill Lynch Investment Managers Group Services Limited
Secretary
27 February 2001

Corporate Governance and Directors' Responsibilities in respect of the Financial Statements

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, and this statement describes how the relevant principles of governance are applied to the Company.

The Board

The Board currently consists of five non-executive directors, the majority of whom are independent of MLIM and the 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. All new directors are given a briefing on the Company and training is arranged as necessary.

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. Strategic issues and all operational matters of a material nature are determined by the Board.

In accordance with the Articles of Association, David Bucks and Peter Gale will retire by rotation and offer themselves for re-election at the forthcoming Annual General Meeting.

The Board meets at least five times a year and between these meetings there is regular contact with Mercury Private Equity, to which the investment management of the Company has been delegated. 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. Where necessary, in the furtherance of their duties, the directors may seek independent professional advice at the expense of the Company.

The Board has responsibility for ensuring that the Company keeps proper accounting records that 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. Finally, it is the Board's responsibility to present a balanced and understandable assessment which extends to the 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 has been delegated to the Investment Manager and certain other functions have been delegated to MLIM and its subsidiary companies. Company secretarial functions are carried out by Merrill Lynch Investment Managers Group Services Limited. Custody and settlement services are undertaken by The Bank of New York Europe Limited ("BNYE"), a subsidiary of The Bank of New York.

The Board has delegated the exercise of voting rights attaching to the securities held in the portfolio to MLIM. Details of MLIM's voting policy are set out 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 MLIM, the Investment Manager or any of their 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. The Committee also receives information from MLIM's corporate 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 complied with the Combined Code fully for the year ended 31 December 2000 and will continue to do so for the year ended 31 December 2001.

As part of the Board's responsibility for the internal control system, an ongoing process has been established in conjunction with MLIM and the Investment Manager, for identifying, evaluating and managing the Company's significant risks. Control of the risks identified, covering financial, operational, compliance and risk management, are embedded in the operations of MLIM, 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 MLIM's corporate audit department. MLIM, encompassing the custodian risks, reports to the Company its review of internal controls formally on a semi-annual basis and verbally at each Board meeting.

Corporate Governance and Directors' Responsibilities in respect of the Financial Statements continued

Internal controls – continued
MLIM, in conjunction with the Investment Manager, prepares revenue forecasts and management accounts, which allow the Board to assess the Company's activities and to 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 at each meeting. 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 MLIM and the Investment Manager are monitored by MLIM's corporate 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.

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 relies on the operating controls established by MLIM, 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 23 to 34, 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 Annual General Meeting ("AGM"). The notice of the AGM sets out the business of the Meeting and any item not of an entirely routine nature is explained in the Directors' Report on pages 18 and 19. 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 voting figures are announced to the shareholders at the AGM.

The Investment Manager holds regular discussions with major 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 entitled "Shareholder Information", on pages 36 and 37, 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 Shareholders of Mercury Grosvenor Trust plc

We have audited the financial statements on pages 23 to 34, 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 26.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report. As described on page 21, 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 Financial Services Authority 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 20 to 21 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 to form an opinion on the effectiveness of either 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 31 December 2000 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
27 February 2001

Statement of Total Return (incorporating the revenue account)

for the year ended 31 December 2000

		Revenue		Capital		Total	
	Note	**2000 £'000**	1999 £'000 (restated)	**2000 £'000**	1999 £'000	**2000 £'000**	1999 £'000 (restated)
Gains on investments	10	–	–	**16,280**	23,359	**16,280**	23,359
Income	2	**7,332**	3,901	**–**	–	**7,332**	3,901
Investment management fees	3	**(453)**	(360)	**(1,359)**	(1,080)	**(1,812)**	(1,440)
Other expenses	4	**(368)**	(236)	**–**	–	**(368)**	(236)
Net return before finance costs and taxation		**6,511**	3,305	**14,921**	22,279	**21,432**	25,584
Interest payable and similar charges	6	**(32)**	–	**(96)**	–	**(128)**	–
Return on ordinary activities before taxation		**6,479**	3,305	**14,825**	22,279	**21,304**	25,584
Taxation on ordinary activities	7	**(1,856)**	(824)	**437**	327	**(1,419)**	(497)
Return on ordinary activities after taxation		**4,623**	2,481	**15,262**	22,606	**19,885**	25,087
Dividends in respect of equity shares	8	**(3,652)**	(2,075)	**–**	–	**(3,652)**	(2,075)
Transfer to reserves		**971**	406	**15,262**	22,606	**16,233**	23,012
Return per ordinary share	9						
– calculated on weighted average shares		**17.89p**	9.57p	**59.07p**	87.17p	**76.96p**	96.74p
– calculated on actual shares		**18.35p**	9.57p	**60.60p**	87.17p	**78.95p**	96.74p
Dividend per ordinary share	8	**14.50p**	8.00p	**–**	–	**14.50p**	8.00p

The revenue column of this statement is the profit and loss account of the Company.
The movements in reserves are set out in note 17 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 26 to 34 form part of these financial statements.

Balance Sheet

as at 31 December 2000

	Note	2000 £'000	1999 £'000
Fixed assets			
Investments	10		
Listed		**16,452**	7,990
Unlisted at directors' valuation		**62,672**	66,491
		79,124	74,481
Current assets			
Debtors	11	**4,555**	3,458
Government securities	12	**15,508**	14,363
Cash at bank	13	**9,039**	163
		29,102	17,984
Creditors – amounts falling due within one year	14	**4,705**	2,602
Net current assets		**24,397**	15,382
Net assets		**103,521**	89,863
Capital and reserves			
Called up share capital	16	**6,296**	6,483
Share premium account	17	**14,123**	14,123
Capital reserves			
Capital redemption reserve	17	**1,248**	1,061
Capital reserve – realised	17	**63,914**	60,882
Capital reserve – unrealised	17	**15,328**	5,673
Revenue reserve	17	**2,612**	1,641
Total equity shareholders' funds	18	**103,521**	89,863
Net asset value per ordinary share	9	**411.0p**	346.5p

The financial statements on pages 23 to 34 were approved by the Board of Directors on 27 February 2001 and were signed on its behalf by:

David Bucks Chairman

Tim Amies Director

The notes on pages 26 to 34 form part of these financial statements.

Cash Flow Statement

for the year ended 31 December 2000

	Note	2000 £'000	1999 £'000
Net cash inflow from operating activities	4 (b)	**3,517**	828
Returns on investments and servicing of finance			
Interest received		**51**	52
Taxation		**(163)**	(38)
Capital expenditure and financial investment			
Purchase of fixed asset investments		**(13,008)**	(29,360)
Proceeds from the sale of fixed asset investments		**24,645**	40,487
Net cash inflow for capital expenditure and financial investment		**11,637**	11,127
Equity dividends paid		**(2,075)**	(1,284)
Financing			
Purchase of ordinary shares		**(2,575)**	–
Net cash outflow from financing		**(2,575)**	–
Net cash inflow before management of liquid resources		**10,392**	10,685
Management of liquid resources			
Purchase of Government securities		**(48,994)**	(55,968)
Sale/redemption of Government securities		**47,478**	45,463
Net cash outflow from management of liquid resources		**(1,516)**	(10,505)
Increase in cash	13	**8,876**	180

The notes on pages 26 to 34 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.

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 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 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
These accounts follow the requirements of Financial Reporting Standard 16 "Current Tax" to show franked investment income net of the related tax credits. The figures for income and taxation in respect of the year to 31 December 1999 have been restated accordingly. This change has no effect on the net income or net asset values previously reported for that period, although franked investment income and the tax charge have both decreased by £40,000.

Deferred taxation
Deferred taxation is provided using the liability method on all timing differences to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

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;
- (iii) expenses, together with the related taxation effect, charged to this reserve in accordance with the above policies;
- (iv) costs of purchasing and cancelling the Company's ordinary shares; and
- (v) 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

	2000 £'000	1999 £'000 (restated)
Income from investments		
Franked investment income	19	350
UK unfranked investment income	5,570	3,108
Stock dividends	22	–
Overseas dividends	43	–
	5,654	3,458
Other income		
Gilt interest	1,534	375
Deposit interest	51	50
Other fees	93	18
	1,678	443
Total income	7,332	3,901
Total income comprises:		
Dividends	84	350
Interest	7,155	3,533
Other income	93	18
	7,332	3,901
Income from investments		
Listed UK	19	134
Overseas dividends	43	–
Unlisted	5,592	3,324
	5,654	3,458

3. Investment management fees

	Revenue 2000	Revenue 1999	Capital 2000	Capital 1999	Total 2000	Total 1999
Investment management fee	386	306	1,158	919	1,544	1,225
Irrecoverable VAT thereon	67	54	201	161	268	215
	453	360	1,359	1,080	1,812	1,440

Details of the investment management, custodian and administration agreements are disclosed in the Directors' Report on pages 18 and 19.

Notes to the Financial Statements continued

4. Other expenses

(a) Operating expenses

	2000 £'000	1999 £'000
Custodian and administration fees	127	97
Directors' remuneration (note 5)	66	55
Auditors' remuneration – audit	20	18
– taxation	14	8
Other expenses	141	58
	368	236
The Company's total expense ratio ("TER") calculated as a percentage of average net assets and including expenses, after relief for taxation, was:	1.48%	1.34%

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

	2000 £'000	1999 £'000 (restated)
Income before interest payable and taxation	6,511	3,305
Fees capitalised	(1,455)	(1,080)
Interest receivable	(51)	(50)
Increase in accrued income	(1,198)	(939)
Increase/(decrease) in creditors	188	(12)
Effective yield adjustment	371	117
Tax on investment income included within gross income	(849)	(513)
Net cash inflow from operating activities	3,517	828

5. Directors' remuneration

The aggregate emoluments of the directors, excluding VAT where applicable, for the year to 31 December 2000 were £66,000 (1999: £55,000).
The emoluments of the Chairman, who was also the highest paid director, were £17,500 (1999: £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. Interest payable and similar charges

	Revenue 2000 £'000	Revenue 1999 £'000	Capital 2000 £'000	Capital 1999 £'000	Total 2000 £'000	Total 1999 £'000
Finance charges	32	–	96	–	128	–

7. Taxation on ordinary activities

	Revenue 2000 £'000	Revenue 1999 £'000 (restated)	Capital 2000 £'000	Capital 1999 £'000	Total 2000 £'000	Total 1999 £'000 (restated)
The charge based on the profit for the year comprises:						
UK corporation tax	1,939	924	(437)	(327)	1,502	597
Advance corporation tax recoverable	–	(88)	–	–	–	(88)
Prior year adjustments	(83)	(12)	–	–	(83)	(12)
	1,856	824	(437)	(327)	1,419	497

8. Dividends in respect of equity shares

	2000 £'000	1999 £'000
Final proposed of 14.50p (1999: 8.00p) payable on 23 April 2001	3,652	2,075

9. Return and net asset value per ordinary share

	2000	1999
Revenue and capital returns per share are shown below and have been calculated using the following:		
Net revenue attributable to equity shareholders after taxation	£4,623,000	£2,481,000
Net capital gains for the year	£15,262,000	£22,606,000
Weighted average number of shares in issue during the year	25,837,319	25,933,170
Actual number of shares in issue at the year end	25,186,755	25,933,170

	2000 Revenue p	2000 Capital p	2000 Total p	1999 Revenue p	1999 Capital p	1999 Total p
Return per ordinary share						
Basic	17.89	59.07	76.96	9.57	87.17	96.74
Actual (based on number of shares in issue at year end)	18.35	60.60	78.95	9.57	87.17	96.74

The net asset value per share of 411.0p (1999: 346.5p) was calculated by dividing equity shareholders' funds of £103,521,000 (1999: £89,863,000) by the number of shares in issue at the year end of 25,186,755 (1999: 25,933,170).

Notes to the Financial Statements continued

10. Investments

	2000 £'000	1999 £'000
Investments listed on the London Stock Exchange	14,237	5,260
Investments traded on NASDAQ	2,215	–
Investments traded on the Alternative Investment Market	–	2,730
Unlisted investments	62,672	66,491
	79,124	74,481
Equity shares	40,122	35,148
Convertible securities	4,489	1,709
Fixed income securities	34,513	37,624
	79,124	74,481

	Listed £'000	Unlisted £'000	Total £'000
Opening valuation	7,990	66,491	74,481
Opening unrealised appreciation	(171)	(5,502)	(5,673)
Opening book cost	7,819	60,989	68,808
Movements in the year:			
Additions at cost	1,578	11,430	13,008
Disposals – proceeds	(4,957)	(19,688)	(24,645)
– realised gains on sales	2,691	3,934	6,625
Closing book cost of investments	7,131	56,665	63,796
Closing unrealised appreciation	9,321	6,007	15,328
Closing valuation of investments	16,452	62,672	79,124

	2000 £'000	1999 £'000
Gains on sales of investments	6,625	27,816
Change in unrealised appreciation	9,655	(4,457)
	16,280	23,359

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
Corinthian Marketing plc	(471)	102
Kaye Holdings Ltd	2,442	(631)
Patientline Holdings Ltd	3,284	(2,704)

Notes to the Financial Statements continued

10. Investments – continued

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

Company	Shareholding	% of class*
Bertram Group Holdings Ltd	"A" Ord.	11.7
Biocode Inc	"E" Pref.	11.1
Corinthian Marketing plc	"A" Ord.	31.7
Corinthian Marketing plc	"A" Pref.	32.2
Ironpath Ltd t/a ClinPhone	"B" Ord.	13.1
Kaye Holdings Ltd	Pref. Ord.	10.7
Kaye Holdings Ltd	"A" Ord.	10.7
Kaye Holdings Ltd	First Def.	29.9
Newchurch Ltd	Pref. Ord.	12.5
Nova Homes Ltd	"A" Ord.	10.4
PARC Group International plc	"B" Ord.	11.0
Patientline Holdings Ltd	"A" Ord.	20.3
PII Group Ltd	"B" Ord.	11.6
Profiad Ltd	"B" Ord.	13.8
Profiad Ltd	"C" Ord.	13.8
The Sanctuary Spa Group Ltd	"A" Ord.	14.7
Trados Inc	Conv. Pref.	23.1
Tunstall Holdings Ltd	"B" Ord.	12.3
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.

11. Debtors

	2000 £'000	1999 £'000
Taxation recoverable	80	181
Prepayments and accrued income	4,475	3,277
	4,555	3,458

Notes to the Financial Statements continued

12. Government securities

	2000 £'000	1999 £'000
Opening valuation	14,363	3,975
Add: Purchases at cost	48,994	55,968
Less: Sales and redemptions	(47,478)	(45,463)
Unrealised capital profits treated as revenue	5	–
Realised capital losses treated as revenue	(376)	(117)
Closing valuation	15,508	14,363

13. Movement in net funds

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

	2000 £'000	1999 £'000
Change in net funds	8,876	180
Net funds at 1 January 2000	163	(17)
Net funds at 31 December 2000	9,039	163

(b) Analysis of changes in net funds

	At 1 January 2000 £'000	Cash flows £'000	At 31 December 2000 £'000
Cash at bank	163	8,876	9,039
Total	163	8,876	9,039

14. Creditors – amounts falling due within one year

	2000 £'000	1999 £'000
Proposed dividend	3,652	2,075
Corporation tax payable	356	18
Sundry creditors	697	509
	4,705	2,602

Notes to the Financial Statements continued

15. 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. Additionally, the Company holds gilts, cash and short-term deposits and items such as debtors and creditors arising directly for 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 Company's portfolio is given on page 16 and a detailed analysis of the ten largest investments is given on pages 12 to 14. In accordance with the Company's accounting policies, set out on page 26, 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

	2000				1999			
	Fixed rate £'000	Floating rate £'000	Non interest bearing £'000	Total £'000	Fixed rate £'000	Floating rate £'000	Non interest bearing £'000	Total £'000
Sterling	46,250	9,039	28,265	83,554	39,381	12,543	26,364	78,288
Euro	2,623	–	6,048	8,671	–	226	5,206	5,432
US dollar	1,148	–	10,298	11,446	–	–	5,287	5,287
Total	50,021	9,039	44,611	103,671	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 12.8% per annum and have a weighted average life to maturity of 6.3 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

16. Share capital

	2000 Nominal No.'000	2000 £'000	1999 Nominal No.'000	1999 £'000
Authorised:				
40,000,000 ordinary shares of 25p each	40,000	10,000	40,000	10,000
Allotted, called up and fully paid:				
Ordinary shares				
At 1 January	25,932	6,483	25,932	6,483
Shares purchased and cancelled	(747)	(187)	–	–
At 31 December	25,185	6,296	25,932	6,483

17. 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 1 January 2000	14,123	1,061	60,882	5,673	1,641
Transfer on disposal of investments	–	–	(570)	570	–
Purchase and cancellation of ordinary shares	–	187	(2,575)	–	–
Net gain on sale of investments	–	–	7,195	–	–
Increase in unrealised appreciation	–	–	–	9,085	–
Retained net revenue for the year	–	–	–	–	971
Interest and management fee charged to capital, after taxation	–	–	(1,018)	–	–
Closing reserves as at 31 December 2000	14,123	1,248	63,914	15,328	2,612

18. Reconciliation of movements in shareholders' funds

	2000 £'000	1999 £'000
Opening shareholders' funds	89,863	66,851
Revenue profits available for distribution	4,623	2,481
Ordinary dividend	(3,652)	(2,075)
Surplus for the year	971	406
Recognised gains on investment portfolio	16,280	23,359
Purchase and cancellation of ordinary shares	(2,575)	–
Management fee charged to capital after taxation	(1,018)	(753)
Movement in shareholders' funds	13,658	23,012
Closing shareholders' funds	103,521	89,863

19. Contingent liabilities

At 31 December 2000, investment purchases of £8,055,000 (1999: £3,894,000) had been authorised and contractually committed.

Analysis of Shareholders

at 31 December 2000

By type of holder

	No. of shares	% of total 2000	% of total 1999	No. of holders	% of total 2000	% of total 1999
Assurance and insurance companies	1,503,850	6.0	21.1	6	2.2	3.8
Banks and nominee companies	16,091,549	63.9	64.4	110	40.8	37.9
Direct private investors	1,419,709	5.6	4.5	117	43.3	46.4
Others	6,171,647	24.5	10.0	37	13.7	11.9
	25,186,755	100.0	100.0	270	100.0	100.0

By size of holding

	No. of shares	% of total 2000	% of total 1999	No. of holders	% of total 2000	% of total 1999
1 – 5,000	345,349	1.4	1.2	160	59.3	58.3
5,001 – 50,000	1,370,746	5.4	5.0	74	27.4	29.8
50,001 – 100,000	756,644	3.0	2.5	10	3.7	3.4
Over 100,000	22,714,016	90.2	91.3	26	9.6	8.5
	25,186,755	100.0	100.0	270	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:

February/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 – 2000
The amount of the dividend recommended for the year ended 31 December 2000 is 14.50p per share.

Ex-dividend date (shares transferred without dividend)	7 March 2001
Record date (last date for registering transfers to receive the dividend)	9 March 2001
Dividend payment date	23 April 2001

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 0131. 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 calling 0870 702 0131. 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 Merrill Lynch Investment Managers ("MLIM") website at www.mlim.co.uk/its

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 ("EGM") 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 Merrill Lynch 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 Merrill Lynch Investment Trusts ISA are able to receive the annual and interim reports, including details of annual general meetings, by request.

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 "MLIMINDEX" and on page 8800 on Topic 3 (ICV) and under "MLIM" on Bloomberg.

Internet
Details about the Company are also available on the MLIM website at www.mlim.co.uk/its and shareholders can check details of their holdings on Computershare's website at www.computershare.com

Shareholder Information continued

Savings Plan
The Company participates in the Merrill Lynch Investment Trusts 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 MLIM free on 0800 445522.

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 2000/2001 investors may invest up to £7,000 in the stocks and shares component of a maxi ISA, or up to £3,000 in the stocks and shares component of a mini ISA.

The Company's shares are eligible investments within the Merrill Lynch Investment Trusts ISA, details of which are available from MLIM by calling free on 0800 445522.

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 0131. 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.computershare.com

General enquiries, savings plan or ISA enquiries
Enquiries about the Company or the Company's Savings Plan and 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 31 December 2000, shareholders' funds were £103,521,000 and there were 25,186,755 ordinary shares in issue; the NAV was therefore 411.0p 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 400p and the share price was 360p, the discount would be 10%.

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 450p and the NAV was 400p, the premium would be 12.5%.

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.

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.

IRR (internal rate of return)
The annual internal rate of return received by an investor in a fund. It is calculated from cash drawn from and returned to the investor together with the residual value of the fund unit.

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.

LP (Limited Partnership)
An organisation made up of a managing general partner and limited partners, who invest money but have limited liability, are not involved in day-to-day management, and usually cannot lose more than their capital contribution. Usually limited partners receive income, capital gains and tax benefits; the general partner usually receives a fee and a percentage of capital gains and income.

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.

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, 10 April 2001 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 31 December 2000, together with the report of the auditors thereon.

2. To declare a dividend of 14.50p per share.

3. To re-elect Mr D Bucks as a director.

4. To re-elect Mr P Gale as a director.

5. To re-appoint Ernst & Young as auditors to the Company.

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

Special business

7. To consider and, if thought fit, pass the following resolution as a special resolution:
THAT in substitution for the Company's existing authority to make market purchases of ordinary shares of 25p in the Company ("ordinary shares"), the Company be and it is hereby authorised in accordance with section 166 of the Companies Act 1985 ("the Act") to make market purchases of ordinary shares (within the meaning of section 163 of the Act) provided that:

   (i) the maximum number of ordinary shares hereby authorised to be purchased is 3,775,000;

   (ii) the minimum price which may be paid for an ordinary share shall be 25p;

   (iii) the maximum price (exclusive of expenses) which may be paid for an ordinary share shall be the lower of 5% above the average of the market values of the ordinary shares for the five business days immediately preceding the date of the purchase and the net asset value per ordinary share on the date of purchase; and

   (iv) unless renewed, the authority hereby conferred shall expire on 9 October 2002 save that the Company may, prior to such expiry, enter into a contract to purchase ordinary shares which will or may be completed or executed wholly or partly after such expiry.

8. To consider and, if thought fit, pass the following resolution as an ordinary resolution:
THAT the Board be and it 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 £2,098,000 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.

9. To consider and, if thought fit, pass the following resolution as a special resolution:
THAT, subject to the passing of resolution 8 above, the Board be and it 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 £314,834;

   (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.

By order of the Board
Merrill Lynch Investment Managers Group Services Limited
Secretary
27 February 2001

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 in Edinburgh 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 8 April 2001 or, in the event that this meeting is adjourned, as at the time which is 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 8 April 2001 or, in the event that this meeting is adjourned, after the time which is 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
Telephone: 020 7743 3000
Website: www.mercuryprivateequity.com

Regulated by IMRO

MPE Investment Managers Limited (trading as "Mercury Private Equity") was formed as an independent company in December 2000, until which time it had been a division of Merrill Lynch Investment Managers Limited ("MLIM"). The Company has an investment management agreement dated 30 March 1995 with MLIM, which has delegated its investment management duties thereunder to Mercury Private Equity.

Merrill Lynch Investment Managers Limited is regulated by IMRO and is a subsidiary of Merrill Lynch & Co., Inc.

Secretary and Administrator
Merrill Lynch Investment Managers
Group Services Limited
33 King William Street
London EC4R 9AS
Telephone: 020 7743 3000

Stockbroker
Credit Lyonnais Securities Europe
Broadwalk House
5 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
Telephone: 0870 702 0131

Regulated by IMRO

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

Savings Plan and ISA Administrator
The Merrill Lynch Investment Trusts
Administrator
c/o The Bank of New York Europe Limited
33 King William Street
London EC4R 9AS
Telephone: 0800 445522