

SECURITIES AND EXCHANGE COMMISSION

**FORM 485APOS**

Post-effective amendments [Rule 485(a)]

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**FILER**

**MERRILL LYNCH DEVELOPING CAPITAL MARKETS FUND INC**

CIK: **849402** | State of Incorpor.: **NJ** | Fiscal Year End: **0630**  
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Business Address  
*P O BOX 9011*  
*PRINCETON NJ 08543*  
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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM N-1A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 [X]  
PRE-EFFECTIVE AMENDMENT NO. [ ]  
POST-EFFECTIVE AMENDMENT NO. 7 [X]  
AND/OR  
REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940 [X]  
AMENDMENT NO. 9 [X]  
(CHECK APPROPRIATE BOX OR BOXES)

MERRILL LYNCH  
DEVELOPING CAPITAL MARKETS FUND, INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN CHARTER)

800 SCUDDERS MILL ROAD

PLAINSBORO, NEW JERSEY 08536  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (609) 282-2800  
ARTHUR ZEIKEL  
MERRILL LYNCH DEVELOPING CAPITAL MARKETS FUND, INC.  
800 SCUDDERS MILL ROAD, PLAINSBORO, NEW JERSEY  
MAILING ADDRESS: BOX 9011, PRINCETON, NEW JERSEY 08543-9011  
(NAME AND ADDRESS OF AGENT FOR SERVICE)

COPIES TO:

COUNSEL FOR THE FUND: BROWN & WOOD  
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NEW YORK, NEW YORK 10048-0557  
ATTENTION: THOMAS R. SMITH, JR., ESQ.  
FRANK P. BRUNO, ESQ.

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MERRILL LYNCH ASSET  
MANAGEMENT  
BOX 9011  
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IT IS PROPOSED THAT THIS FILING WILL BECOME EFFECTIVE (CHECK APPROPRIATE BOX)

[ ] immediately upon filing pursuant to paragraph (b)  
[ ] on (date) pursuant to paragraph (b)  
[X] 60 days after filing pursuant to paragraph (a)\*  
[ ] on (date) pursuant to paragraph (a) of Rule 485

THE REGISTRANT HAS REGISTERED AN INDEFINITE NUMBER OF ITS SHARES OF COMMON STOCK UNDER THE SECURITIES ACT OF 1933 PURSUANT TO RULE 24F-2 UNDER THE INVESTMENT COMPANY ACT OF 1940. THE NOTICE REQUIRED BY SUCH RULE FOR THE REGISTRANT'S MOST RECENT FISCAL YEAR WAS FILED ON AUGUST 27, 1993.

\* The Registrant has requested that the Securities and Exchange Commission's staff consider accelerating the effectiveness of this Amendment to July 1, 1994.

MERRILL LYNCH DEVELOPING CAPITAL MARKETS FUND, INC.

REGISTRATION STATEMENT ON FORM N-1A

CROSS REFERENCE SHEET

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<CAPTION>

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Item 2.	Synopsis.....	Fee Table
Item 3.	Condensed Financial Information.....	Consolidated Financial Highlights; Performance Data
Item 4.	General Description of Registrant.....	Special and Risk Considerations; Investment Objective and Policies; Additional Information
Item 5.	Management of the Fund.....	Fee Table; Investment Objective and Policies; Management of the Fund; Inside Back Cover Page
Item 5A.	Management's Discussion of Fund Performance.....	Not Applicable
Item 6.	Capital Stock and Other Securities.....	Cover Page; Additional Information
Item 7.	Purchase of Securities Being Offered.....	Cover Page; Fee Table; Alternative Sales Arrangements; Purchase of Shares; Shareholder Services; Additional Information; Inside Back Cover Page
Item 8.	Redemption or Repurchase.....	Fee Table; Alternative Sales Arrangements; Shareholder Services; Purchase of Shares; Redemption of Shares
Item 9.	Pending Legal Proceedings.....	Not Applicable
PART B		
Item 10.	Cover Page.....	Cover Page
Item 11.	Table of Contents.....	Back Cover Page
Item 12.	General Information and History.....	Not Applicable
Item 13.	Investment Objectives and Policies.....	Investment Objective and Policies
Item 14.	Management of the Fund.....	Management of the Fund
Item 15.	Control Persons and Principal Holders of Securities.....	Management of the Fund
Item 16.	Investment Advisory and Other Services.....	Management of the Fund; Purchase of Shares; General Information
Item 17.	Brokerage Allocation and Other Practices.....	Portfolio Transactions and Brokerage
Item 18.	Capital Stock and Other Securities.....	General Information--Description of Shares
Item 19.	Purchase, Redemption and Pricing of Securities Being Offered.....	Determination of Net Asset Value; Purchase of Shares; Redemption of Shares; Shareholder Services; General Information
Item 20.	Tax Status.....	Taxes
Item 21.	Underwriters.....	Purchase of Shares
Item 22.	Calculation of Performance Data.....	Performance Data
Item 23.	Financial Statements.....	Financial Statements

</TABLE>

PART C

Information required to be included in Part C is set forth under the appropriate Item, so numbered, in Part C to this Registration Statement.

PROSPECTUS

JULY 1, 1994

MERRILL LYNCH DEVELOPING CAPITAL MARKETS FUND, INC.  
 BOX 9011, PRINCETON, NEW JERSEY 08543-9011 . PHONE NO. (609) 282-2800

-----  
 Merrill Lynch Developing Capital Markets Fund, Inc. (the "Fund") is a non-diversified mutual fund seeking long-term capital appreciation by investing in securities, principally equities, of issuers in countries having smaller capital markets. This objective of the Fund reflects the belief that investment opportunities may result from an evolving long-term international trend favoring more market-oriented economies, a trend that may especially benefit certain countries having smaller capital markets. The Fund may employ a variety of instruments and techniques to hedge against market and currency risk. There can be no assurance that the Fund's investment objective will be achieved. Investments on an international basis involve certain risk factors. See "Special and Risk Considerations".

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The Fund offers two classes of shares which may be purchased at a price equal to the next determined net asset value per share, plus a sales charge which, at the election of the purchaser, may be imposed (i) at the time of purchase (the "Class A shares") or (ii) on a deferred basis (the "Class B shares"). Prior to the date of this Prospectus, the Fund had not offered any of its Class B shares to the public; shares of the Fund sold to the public before such date are Class A shares. The original charges to which the Class B shares are subject shall consist of a contingent deferred sales charge which may be imposed on redemptions made within four years of purchase and an ongoing account maintenance fee and distribution fee. These alternatives permit an investor to choose the method of purchasing shares that is most beneficial given the amount of the purchase, the length of time the investor expects to hold the shares and other circumstances. Investors should understand that the purpose and function of the deferred sales charges with respect to the Class B shares are the same as those of the initial sales charge with respect to the Class A shares. Investors should also understand that over time the deferred sales charges related to Class B shares may exceed the initial sales charge with respect to Class A shares. See "Alternative Sales Arrangements" on page 3.

Each Class A and Class B share represents identical interests in the investment portfolio of the Fund and has the same rights, except that Class B shares bear the expenses of the account maintenance fee and distribution fee and certain other costs resulting from the deferred sales charge arrangement, which will cause Class B shares to have a higher expense ratio and to pay lower dividends than Class A shares and that Class B shares have exclusive voting rights with respect to the account maintenance fee and distribution fee. The two classes also have different exchange privileges.

Shares may be purchased directly from Merrill Lynch Funds Distributor, Inc. (the "Distributor"), Box 9011, Princeton, New Jersey 08543-9011 [(609) 282-2800], and other securities dealers which have entered into selected dealers agreements with the Distributor, including Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"). To permit the Fund to invest the net proceeds from the sale of its shares in an orderly manner, the Fund may, from time to time, suspend the sale of its shares, except for dividend reinvestments. The minimum initial purchase is \$1,000, and the minimum subsequent purchase is \$50, except that for retirement plans, the minimum initial purchase is \$100, and the minimum subsequent purchase is \$1. Merrill Lynch may charge its customers a processing fee (presently \$4.85) for confirming purchases and repurchases. Purchases and redemptions directly through the Fund's transfer agent are not subject to the processing fee charge. See "Purchase of Shares" and "Redemption of Shares".

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THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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This Prospectus is a concise statement of information about the Fund that is relevant to making an investment in the Fund. This Prospectus should be retained for future reference. A statement containing additional information about the Fund, dated July 1, 1994 (the "Statement of Additional Information"), has been filed with the Securities and Exchange Commission and is available, without charge, by calling or by writing the Fund at the above telephone number or address. The Statement of Additional Information is hereby incorporated by reference into this Prospectus.

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MERRILL LYNCH ASSET MANAGEMENT--MANAGER

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.--DISTRIBUTOR

FEE TABLE

A general comparison of the sales arrangements and other nonrecurring and recurring expenses applicable to Class A and Class B shares follows:

<TABLE>  
<CAPTION>

	CLASS A SHARES	CLASS B SHARES
	INITIAL SALES CHARGE	DEFERRED SALES CHARGE ALTERNATIVE
	ALTERNATIVE	ALTERNATIVE
	-----	-----
<S>	<C> <C>	<C> <C>

SHAREHOLDER TRANSACTION EXPENSES:

Maximum Sales Charge Imposed on Purchases (as a percentage of offering price).....	6.50% (a)	None
Sales Charge Imposed on Dividend Reinvestments.....	None	None
Deferred Sales Charge (as a percentage of original purchase price or redemption proceeds, whichever is lower).....	None (f)	4.0% during the first year, decreasing 1.0% annually to 0.0% after the fourth year(b)
Exchange Fee.....	None	None
ANNUAL FUND OPERATING EXPENSES (AS A PERCENTAGE OF AVERAGE NET ASSETS, FOR THE FISCAL YEAR ENDED JUNE 30, 1993):+		
Management Fees (c).....	1.00%	1.00%
12b-1 Fees.....	None	1.00% (d)
Other Expenses		
Custodial Fees.....	0.30%	0.30%
Shareholder Servicing Costs (e).....	0.10%	0.10%
Other.....	0.31%	0.31%
	----	----
Total Other Expenses....	0.71%	0.71%
	----	----
TOTAL FUND OPERATING EXPENSES...	1.71%	2.71%
	====	====

</TABLE>  
- - - - -

- (a) Reduced for purchases of \$10,000 and over, decreasing to 0.75% for purchases of \$1,000,000 and over. Certain investors making purchases of \$1,000,000 and over may, however, pay a contingent deferred sales charge ranging from a high of 1.00% to a low of 0.25% of amounts redeemed within the first year after purchase in lieu of the 0.75% initial sales charge. See "Purchase of Shares--Initial Sales Charge Alternative--Class A Shares"--page 22.
  - (b) See "Purchase of Shares--Deferred Sales Charge Alternative--Class B Shares"--page 24.
  - (c) See "Management of the Fund--Management and Advisory Arrangements"--page 19.
  - (d) See "Purchase of Shares--Deferred Sales Charge Alternative--Class B Shares--Distribution Plan"--page 25. This amount represents the 0.25% account maintenance fee and the 0.75% distribution fee applicable to Class B shares of the Fund.
  - (e) See "Management of the Fund--Transfer Agency Services"--page 20.
  - (f) Certain investors making purchases of \$1,000,000 and over may, however, pay a contingent deferred sales charge ranging from a high of 1.00% to a low of 0.25% of amounts redeemed within the first year after purchase in lieu of the 0.75% initial sales charge. See "Purchase of Shares--Initial Sales Charge Alternative--Class A Shares"--page 22.
- + Prior to the date of this Prospectus, the Fund had not offered any of its Class B shares to the public; therefore, the expenses for Class B shares set forth under "Other Expenses" are based on estimated amounts through the end of the Fund's first fiscal year during which it has Class B shares outstanding, on an annualized basis.

EXAMPLE:

<TABLE>  
<CAPTION>

	CUMULATIVE EXPENSES PAID FOR THE PERIOD OF:			
	-----			
	1 YEAR	3 YEARS	5 YEARS	10 YEARS
	-----			
<S>	<C>	<C>	<C>	<C>

An investor would pay the following expenses on a \$1,000 investment including, for Class A shares, the maximum \$65 front-end sales charge and

assuming (1) an operating expense ratio of 1.71% for Class A shares and 2.71% for Class B shares, (2) a 5% annual return throughout the periods and (3) redemption at the end of the period:

Class A.....	\$ 81.25	\$ 115.38	\$ 151.78	\$ 253.81
Class B.....	\$ 67.41	\$ 104.13	\$ 143.47	\$ 304.15

An investor would pay the following expenses on the same \$1,000 investment assuming no redemption at the end of the period:

Class A.....	\$ 81.25	\$ 115.38	\$ 151.78	\$ 253.81
Class B.....	\$ 27.41	\$ 84.13	\$ 143.47	\$ 304.15

</TABLE>

The foregoing Fee Table is intended to assist investors in understanding the costs and expenses that a shareholder in the Fund will bear directly or indirectly. As noted above, the expenses for Class B shares set forth under "Other Expenses" are based on estimated amounts through the end of the Fund's first fiscal year during which it has Class B shares outstanding, on an annualized basis. The Example set forth above assumes reinvestment of all dividends and distributions and utilizes a 5% annual rate of return as mandated by Securities and Exchange Commission regulations. THE EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES OR ANNUAL RATES OF RETURN, AND ACTUAL EXPENSES OR ANNUAL RATES OF RETURN MAY BE MORE OR LESS THAN THOSE ASSUMED FOR PURPOSES OF THE EXAMPLE. Class B shareholders who hold their shares for an extended period of time may pay more in Rule 12b-1 distribution fees than the economic equivalent of the maximum front-end sales charges permitted under the Rules of Fair Practice of the National Association of Securities Dealers, Inc. Merrill Lynch may charge its customers a processing fee (presently \$4.85) for confirming purchases and repurchases. Purchases and redemptions directly through the Fund's transfer agent are not subject to the processing fee. See "Purchase of Shares" and "Redemption of Shares".

#### ALTERNATIVE SALES ARRANGEMENTS

Shares of the Fund may be purchased at a price equal to the next determined net asset value per share, plus a sales charge which, at the election of the purchaser, may be imposed either (i) at the time of the purchase (the "initial sales charge alternative") or (ii) on a deferred basis (the "deferred sales charge alternative").

**Class A Shares.** An investor who elects the initial sales charge alternative acquires Class A shares. Although Class A shares incur a sales charge when they are purchased, they enjoy the benefit of not being subject to any ongoing account maintenance fee or distribution fee or any sales charge when they are redeemed. Certain purchases of Class A shares qualify for reduced initial sales charges. See "Purchase of Shares--Initial Sales Charge Alternative--Class A Shares".

**Class B Shares.** An investor who elects the deferred sales charge alternative acquires Class B shares. Class B shares do not incur a sales charge when they are purchased, but they are subject to ongoing account maintenance and distribution fees and a sales charge if they are redeemed within four years of purchase. Class B shares provide the benefit of permitting all of the investor's dollars to work from the time the investment is made. The ongoing account maintenance and distribution fees paid by Class B shares will cause such shares to have a higher expense ratio and to pay lower dividends than Class A shares. Payment of the distribution fee is subject to certain limits as set forth under "Purchase of Shares--Deferred Sales Charge Alternative--Class B Shares".

As an illustration, investors who qualify for significantly reduced sales charges might elect the initial sales charge alternative because similar sales charge reductions are not available for purchases under the deferred sales charge alternative. Moreover, shares acquired under the initial sales charge alternative would not be subject to ongoing account maintenance and distribution fees. However, because initial sales charges are deducted at the time of purchase, such investors would not have all their funds invested initially. Investors not qualifying for reduced initial sales charges who expect to maintain their investment for an extended period of time might also elect the initial sales charge alternative because over time the accumulated continuing account maintenance and distribution fees may exceed the initial sales charge. Again, however, such investors must weigh this consideration against the fact that not all their funds will be invested initially. Furthermore, the ongoing account maintenance and distribution fees will be offset to the extent any return is realized on the additional funds initially invested under the deferred sales charge alternative. However, there can be no

assurance as to the return, if any, which will be realized on such additional funds. Certain other investors might determine it to be more advantageous to have all their funds invested initially, although remaining subject to continued account maintenance and distribution fees and, for a four-year period of time, a contingent deferred sales charge.

The distribution expenses incurred by the Distributor and dealers (primarily Merrill Lynch) in connection with the sale of the shares will be paid, in the case of the Class A shares, from the proceeds of the initial sales charge and, in the case of the Class B shares, from the proceeds of the ongoing account maintenance and distribution fees and the contingent deferred sales charge incurred upon redemption within four years of purchase. Sales personnel may receive different compensation for selling Class A or Class B shares. Investors should understand that the purpose and function of the deferred sales charges with respect to the Class B shares are the same as those of the initial sales charge with respect to the Class A shares.

Dividends paid by the Fund with respect to Class A and Class B shares, to the extent any dividends are paid, will be calculated in the same manner at the same time on the same day and will be in the same amount, except that account maintenance and distribution fees and any incremental transfer agency costs relating to Class B shares will be borne exclusively by that class. See "Additional Information--Determination of Net Asset Value". Class A and Class B shareholders of the Fund each have an exchange privilege for Class A and Class B shares, respectively, of certain other mutual funds sponsored by Merrill Lynch. Class A and Class B shareholders of the Fund also may exchange their shares for shares of certain money market funds sponsored by Merrill Lynch. See "Shareholder Services--Exchange Privilege."

THE ALTERNATIVE SALES ARRANGEMENTS PERMIT AN INVESTOR TO CHOOSE THE METHOD OF PURCHASING SHARES THAT IS MOST BENEFICIAL GIVEN THE AMOUNT OF THE PURCHASE, THE LENGTH OF TIME THE INVESTOR EXPECTS TO HOLD THE SHARES AND OTHER CIRCUMSTANCES. INVESTORS SHOULD DETERMINE WHETHER UNDER THEIR PARTICULAR CIRCUMSTANCES IT IS MORE ADVANTAGEOUS TO INCUR AN INITIAL SALES CHARGE AND NOT BE SUBJECT TO ONGOING ACCOUNT MAINTENANCE AND DISTRIBUTION FEES OR TO HAVE THE ENTIRE INITIAL PURCHASE PRICE INVESTED IN THE FUND WITH THE INVESTMENT THEREAFTER BEING SUBJECT TO ONGOING ACCOUNT MAINTENANCE AND DISTRIBUTION FEES. TO ASSIST INVESTORS IN MAKING THIS DETERMINATION, THE FEE TABLE ON PAGE 2 SETS FORTH THE CHARGES APPLICABLE TO EACH CLASS OF SHARES, AND A DISCUSSION OF FACTORS RELEVANT TO MAKING SUCH DETERMINATION IS SET FORTH UNDER "PURCHASE OF SHARES--ALTERNATIVE SALES ARRANGEMENTS" ON PAGE 3.

CONSOLIDATED FINANCIAL HIGHLIGHTS

The financial information in the table below, other than that for the six month period ended December 31, 1993, which is unaudited, has been audited in conjunction with the annual audits of the consolidated financial statements of the Fund by Deloitte & Touche, independent auditors. Consolidated financial statements and the independent auditors' report thereon for the fiscal year ended June 30, 1993, are included in the Statement of Additional Information; unaudited consolidated financial statements for the six months ended December 31, 1993, are also included in the Statement of Additional Information. Further information about the performance of the Fund is contained in the Fund's most recent annual report to shareholders which may be obtained, without charge, by calling or by writing the Fund at the telephone number or address on the front cover of this Prospectus.

Prior to the date of this Prospectus, the Fund had not offered any of its Class B shares to the public; therefore, the financial information below relates solely to Class A shares of the Fund.

The following per share data and ratios have been derived from information provided in the financial statements.

<TABLE>  
<CAPTION>

	CLASS A SHARES				
	FOR THE SIX MONTHS ENDED DECEMBER 31, 1993	FOR THE YEAR ENDED JUNE 30, 1993*	FOR THE YEAR ENDED JUNE 30, 1992	FOR THE YEAR ENDED JUNE 30, 1991	FOR THE PERIOD SEPTEMBER 1, 1989+ TO JUNE 30, 1990
	(UNAUDITED)				
<S>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE:					
Net Asset Value, Beginning of Period....	\$ 11.62	\$ 11.92	\$ 10.43	\$ 11.58	\$ 9.60
Investment income --net (1).....	.05	.12	.15	.24	.24
Realized and unrealized					

gain (loss) on investments and foreign currency transactions--net (1).....	5.48	.42	1.59	(.75)	1.88
Total from investment operations.....	5.53	.54	1.74	(.51)	2.12
LESS DIVIDENDS AND DISTRIBUTIONS:					
Investment income--net..	(.07)	(.14)	(.17)	(.15)	(.13)
Realized gain on investments--net.....	(.28)	(.70)	(.08)	(.49)	(.01)
Total dividends and distributions.....	(.35)	(.84)	(.25)	(.64)	(.14)
Net asset value, end of period.....	\$ 16.80	\$ 11.62	\$ 11.92	\$ 10.43	\$ 11.58
TOTAL INVESTMENT RETURN:++					
Based on net asset value per share.....	68.96%++	5.17%	17.02%	(4.45)%	22.29%++
RATIOS TO AVERAGE NET ASSETS:					
Expenses.....	1.47%**	1.71%	1.64%	1.77%	1.71%**
Investment income (loss)--net.....	.22%**	(.04)%	1.73%	1.98%	2.69%**
SUPPLEMENTAL DATA:					
Net assets, end of period (in thousands)..	\$320,654	\$142,285	\$126,417	\$111,947	\$104,033
Portfolio turnover.....	37.27%	91.72%	71.05%	84.74%	64.53%

</TABLE>

+ Commencement of Operations.

++ Total investment returns exclude the effects of sales loads.

\* Based on average number of shares outstanding.

\*\* Annualized.

++Aggregate total investment return.

(1) Foreign currency transaction amounts have been reclassified to conform to the 1993 presentation.

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#### SPECIAL AND RISK CONSIDERATIONS

Restrictions on Foreign Investment. Some countries prohibit or impose substantial restrictions on investments in their capital markets, particularly their equity markets, by foreign entities such as the Fund. As illustrations, certain countries require governmental approval prior to investments by foreign persons, or limit the amount of investment by foreign persons in a particular company, or limit the investment by foreign persons to only a specific class of securities of a company which may have less advantageous terms than securities of the company available for purchase by nationals.

A number of countries, such as South Korea, Taiwan and Thailand, have authorized the formation of closed-end investment companies to facilitate indirect foreign investment in their capital markets. In accordance with the Investment Company Act, the Fund may invest up to 10% of its total assets in securities of closed-end investment companies. This restriction on investments in securities of closed-end investment companies may limit opportunities for the Fund to invest indirectly in certain smaller capital markets. Shares of certain closed-end investment companies may at times be acquired only at market prices representing premiums to their net asset values. If the Fund acquires shares in closed-end investment companies, shareholders would bear both their proportionate share of expenses in the Fund and, indirectly, the expenses of such closed-end investment companies. (Under the laws of a certain state, the Fund currently may not pay the Manager a management fee with respect to the Fund's assets invested in the shares of another investment company on which such other investment company is charging a management fee. The Manager has agreed to waive its management fee to the extent necessary to comply with this current state law requirement.) The Fund also may seek, at its own cost, to create its own investment entities under the laws of certain countries.



In some countries, banks or other financial institutions may constitute a substantial number of the leading companies or the companies with the most actively traded securities. Also, the Investment Company Act restricts the Fund's investments in any equity security of an issuer which, in its most recent fiscal year, derived more than 15% of its revenues from "securities related activities", as defined by the rules thereunder. These provisions may also restrict the Fund's investments in certain foreign banks and other financial institutions.

International Investing in Countries with Smaller Capital Markets. Foreign investments in smaller capital markets involve risks not involved in domestic investment, including fluctuations in foreign exchange rates, future political and economic developments, different legal systems and the existence or possible imposition of exchange controls or other foreign or U.S. governmental laws or restrictions applicable to such investments. These risks are often heightened for investments in small capital markets. Because the Fund will invest in securities denominated or quoted in currencies other than the U.S. dollar, changes in foreign currency exchange rates may affect the value of securities in the portfolio and the unrealized appreciation or depreciation of investments insofar as U.S. investors are concerned. Foreign currency exchange rates are determined by forces of supply and demand in the foreign exchange markets. These forces are, in turn, affected by international balance of payments and other economic and financial conditions, government intervention, speculation and other factors. With respect to certain countries, there may be the possibility of expropriation of assets, confiscatory taxation, high rates of inflation, political or social instability or diplomatic developments which could affect investment in those countries. In addition, certain foreign investments may be subject to foreign withholding taxes.

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There may be less publicly available information about an issuer in a smaller capital market than would be available about a U.S. company, and it may not be subject to accounting, auditing and financial reporting standards and requirements comparable to those to which U.S. companies are subject. As a result, traditional investment measurements, such as price/earnings ratios, as used in the United States, may not be applicable in certain capital markets.

Smaller capital markets, while often growing in trading volume, typically have substantially less volume than U.S. markets, and securities in many smaller capital markets are less liquid and their prices may be more volatile than securities of comparable U.S. companies. Brokerage commissions, custodial services, and other costs relating to investment in smaller capital markets are generally more expensive than in the United States. Such markets have different clearance and settlement procedures, and in certain markets there have been times when settlements have been unable to keep pace with the volume of securities transactions, making it difficult to conduct such transactions. Further, satisfactory custodial services for investment securities may not be available in some countries having smaller capital markets, which may result in the Fund incurring additional costs and delays in transporting and custodizing such securities outside such countries. Delays in settlement could result in temporary periods when assets of the Fund are uninvested and no return is earned thereon. The inability of the Fund to make intended security purchases due to settlement problems could cause the Fund to miss attractive investment opportunities. Inability to dispose of a portfolio security due to settlement problems could result either in losses to the Fund due to subsequent declines in value of the portfolio security or, if the Fund has entered into a contract to sell the security, could result in possible liability to the purchaser. There is generally less government supervision and regulation of exchanges, brokers and issuers in countries having smaller capital markets than there is in the United States.

As a result, management of the Fund may determine that, notwithstanding otherwise favorable investment criteria, it may not be practicable or appropriate to invest in a particular country. The Fund may invest in countries in which foreign investors, including management of the Fund, have had no or limited prior experience. Due to its emphasis on securities of issuers located in smaller capital markets and the potential for substantial volatility in many of those countries' markets, the Fund should be considered as a vehicle for diversification and not as a balanced investment program.

Hedging Strategies. The Fund may engage in various portfolio strategies to seek to hedge its portfolio against movements in the equity markets, interest rates and exchange rates between currencies by the use of options, futures and options on futures. Utilization of options and futures transactions involves the risk of imperfect correlation in movements in the price of options and futures and movements in the price of the securities, interest rates or currencies which are the subject of the hedge. Options and futures transactions in foreign markets are also subject to the risk factors associated with foreign investments generally, as discussed above. There can be no assurance that a liquid secondary market for options and futures contracts will exist at any specific time.

No Rating Criteria for Debt Securities. The Fund has established no rating criteria for the debt securities in which it may invest, and such securities may not be rated at all for creditworthiness. Securities rated in the medium to lower rating categories of nationally recognized statistical rating organizations and unrated securities of comparable quality are predominately speculative with respect to the capacity to pay interest and repay principal in accordance with the terms of the security and generally involve a greater volatility of price than securities in higher rating categories. The Fund does not intend to purchase debt securities that are in default or which Merrill Lynch Asset Management, L.P., doing business as Merrill Lynch Asset Management (the "Manager"), believes will be in default.

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Borrowing. The Fund may borrow up to 20% of its total assets, taken at market value, but only from banks as a temporary measure for extraordinary or emergency purposes, including to meet redemptions or to settle securities transactions. The Fund will not purchase securities while borrowings exceed 5% of its total assets, except (a) to honor prior commitments or (b) to exercise subscription rights when outstanding borrowings have been obtained exclusively for settlements of other securities transactions. The purchase of securities while borrowings are outstanding will have the effect of leveraging the Fund. Such leveraging increases the Fund's exposure to capital risk, and borrowed funds are subject to interest costs which will reduce net income.

Non-Diversified Status. As a non-diversified investment company, the Fund may invest a larger percentage of its assets in individual issuers than a diversified investment company. In this regard, the Fund is not subject to the general limitation that it not invest more than 5% of its total assets in the securities of any one issuer. To the extent the Fund makes investments in excess of 5% of its assets in a particular issuer, its exposure to credit and market risks associated with that issuer is increased.

Limitations on Share Transactions. The Fund is designed for long-term investors. To permit the Fund to invest the net proceeds from the sale of its shares in an orderly manner, the Fund may, from time to time, suspend the sale of its shares, except for dividend reinvestments. The Fund also reserves the right to limit the number of its shares that may be purchased by a person during a specified period of time or in the aggregate.

Fees and Expenses. The management fee (at the annual rate of 1.00% of the Fund's average daily net assets) and other operating expenses of the Fund may be higher than the management fees and operating expenses of other mutual funds managed by the Manager and other investment advisers. Limitations on the growth of the Fund could adversely affect its operating expense ratio.

#### INVESTMENT OBJECTIVE AND POLICIES

The Fund is a non-diversified, open-end management investment company. The investment objective of the Fund is to seek long-term capital appreciation by investing in securities, principally equities, of issuers in countries having smaller capital markets. Except for Temporary Investments as discussed and defined below, all of the Fund's assets will consist of direct or indirect investments in countries having smaller capital markets. The investment objective of the Fund described above is a fundamental policy of the Fund and may not be changed without the approval of the holders of a majority of the Fund's outstanding voting securities, as defined in the Investment Company Act. It is currently expected that under normal conditions at least 65% of the Fund's net assets will be invested in equity securities. The Fund may employ a variety of investments and techniques to hedge against market and currency risk. There can be no assurance that the Fund's investment objective will be achieved.

For purposes of its investment objective, the Fund considers countries having smaller capital markets to be all countries other than the four countries having the largest equity market capitalizations. Currently, these four countries are Japan, the United Kingdom, the United States and Germany. On June 30, 1993, those countries' equity market capitalizations totalled approximately 79.5% of the world's equity market capitalization according to data provided by Morgan Stanley Capital International. The Fund will at all times, except during defensive periods, maintain investments in at least three countries having smaller capital markets.

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The Fund seeks to benefit from economic and other developments in smaller capital markets. The investment objective of the Fund reflects the belief that investment opportunities may result from an evolving long-term international trend favoring more market-oriented economies, a trend that may especially benefit certain countries having smaller capital markets. This trend may be

facilitated by local or international political, economic or financial developments that could benefit the capital markets of such countries. Certain such countries, particularly so-called "emerging" countries (such as Malaysia, Mexico and Thailand) which may be in the process of developing more market-oriented economies, may experience relatively high rates of economic growth. Other countries (such as France, the Netherlands and Spain), although having relatively mature smaller capital markets, may also be in a position to benefit from local or international developments encouraging greater market orientation and diminishing governmental intervention in economic affairs.

Many investors, particularly individuals, lack the information, capability or inclination to invest in countries having smaller capital markets. It also may not be permissible for such investors to invest directly in certain such markets. Unlike many intermediary investment vehicles, such as closed-end investment companies that invest in a single country, the Fund intends to diversify investment risk among the capital markets of a number of countries. The Fund will not necessarily seek to diversify investments on a geographical basis or on the basis of the level of economic development of any particular country.

In its investment decision-making, the Manager will emphasize the allocation of assets among certain countries' capital markets, rather than the selection of particular industries or issuers. Because of the general illiquidity of the capital markets in some countries, the Fund may invest in a relatively small number of leading or actively traded companies in a country's capital markets in the expectation that the investment experience of the securities of such companies will substantially represent the investment experience of the country's capital markets as a whole.

The Fund also may invest in debt securities of issuers in countries having smaller capital markets. Capital appreciation in debt securities may arise as a result of a favorable change in relative foreign exchange rates, in relative interest rate levels, or in the creditworthiness of issuers. In accordance with its investment objective, the Fund will not seek to benefit from anticipated short-term fluctuations in currency exchange rates. The Fund may, from time to time, invest in debt securities with relatively high yields (as compared to other debt securities meeting the Fund's investment criteria), notwithstanding that the Fund may not anticipate that such securities will experience substantial capital appreciation. Such income can be used, however, to offset the operating expenses of the Fund.

The Fund may invest in debt securities issued or guaranteed by foreign governments (including foreign states, provinces and municipalities) or their agencies and instrumentalities ("governmental entities"), issued or guaranteed by international organizations designated or supported by multiple foreign governmental entities (which are not obligations of foreign governments) to promote economic reconstruction or development ("supranational entities"), or issued by foreign corporations or financial institutions.

Supranational entities include international organizations designated or supported by governmental entities to promote economic reconstruction or development and international banking institutions and related government agencies. Examples include the International Bank for Reconstruction and Development (the "World Bank"), the European Steel and Coal Community, the Asian Development Bank and the Inter-American Development Bank. The governmental members, or "stockholders", usually make initial capital contributions to the supranational entity and in many cases are committed to make additional capital contributions if the supranational entity is unable to repay its borrowings.

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The Fund has established no rating criteria for the debt securities in which it may invest, and such securities may not be rated at all for creditworthiness. Securities rated in the medium to lower rating categories of nationally recognized statistical rating organizations and unrated securities of comparable quality are predominantly speculative with respect to the capacity to pay interest and repay principal in accordance with the terms of the security and generally involve a greater volatility of price than securities in higher rating categories. See "Investment Objective and Policies" in the Statement of Additional Information for additional information regarding ratings of debt securities. In purchasing such securities, the Fund will rely on the Manager's judgment, analysis and experience in evaluating the creditworthiness of an issuer of such securities. The Manager will take into consideration, among other things, the issuer's financial resources, its sensitivity to economic conditions and trends, its operating history, the quality of the issuer's management and regulatory matters. The Fund does not intend to purchase debt securities that are in default or which the Manager believes will be in default.

For purposes of the Fund's investment objective, an issuer ordinarily will be considered to be located in the country where the primary trading market of its securities is located. The Fund, however, may consider a company to be located in countries having smaller capital markets, without reference to its domicile

or to the primary trading market of its securities, when at least 50% of its non-current assets, capitalization, gross revenues or profits in any one of the two most recent fiscal years represents (directly or indirectly through subsidiaries) assets or activities located in such countries. The Fund also may consider closed-end investment companies to be located in the country or countries in which they primarily make their portfolio investments.

The Fund reserves the right, as a temporary defensive measure or to provide for redemptions or in anticipation of investment in countries having smaller capital markets, to hold cash or cash equivalents (in U.S. dollars or foreign currencies) and short-term securities, including money market securities ("Temporary Investments"). The Fund may invest in the securities of foreign issuers in the form of American Depositary Receipts (ADRs), European Depositary Receipts (EDRs), Global Depositary Receipts (GDRs) or other securities convertible into securities of foreign issuers. The Fund may invest in unsponsored ADRs. The issuers of unsponsored ADRs are not obligated to disclose material information in the United States, and therefore, there may not be a correlation between such information and the market value of such ADRs.

#### PORTFOLIO STRATEGIES INVOLVING OPTIONS AND FUTURES

The Fund may engage in various portfolio strategies to hedge its portfolio against adverse movements in equity, debt and currency markets. The Fund has authority to purchase and write (i.e., sell) covered put and call options on its portfolio securities, purchase put and call options on securities and engage in transactions in stock index options, stock index futures and financial futures, and related options on such futures. The Fund may also deal in forward foreign exchange transactions and foreign currency options and futures, and related options on such futures. Each of these portfolio strategies is described below. Although certain risks are involved in options and futures transactions (as discussed below and in "Risk Factors in Options and Futures Transactions" below), the Manager believes that, because the Fund will engage in options and futures transactions only for hedging purposes, the options and futures portfolio strategies of the Fund will not subject the Fund to the risks frequently associated with the speculative use of options and futures transactions. While the Fund's use of hedging strategies is intended to reduce the volatility of the net asset value of its shares, the net asset value of the Fund's shares will fluctuate. There can be no assurance that the Fund's hedging transactions will be effective. Furthermore, the Fund will only engage in hedging activities from time to time and will not necessarily engage in hedging transactions in all the smaller capital markets in which the Fund is invested at any given time. Also, the Fund may not necessarily be engaging in hedging activities

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when movements in any particular equity, debt and currency markets occur. Reference is made to the Statement of Additional Information for further information concerning these strategies.

**Writing Covered Options.** The Fund is authorized to write (i.e., sell) covered call options on the securities in which it may invest and to enter into closing purchase transactions with respect to certain of such options. A covered call option is an option where the Fund, in return for a premium, gives another party a right to buy specified securities owned by the Fund at a specified future date and price set at the time of the contract. The principal reason for writing call options is to attempt to realize, through the receipt of premiums, a greater return than would be realized on the securities alone. By writing covered call options, the Fund gives up the opportunity, while the option is in effect, to profit from any price increase in the underlying security above the option exercise price. In addition, the Fund's ability to sell the underlying security will be limited while the option is in effect unless the Fund effects a closing purchase transaction. A closing purchase transaction cancels out the Fund's position as the writer of an option by means of an offsetting purchase of an identical option prior to the expiration of the option it has written. Covered call options serve as a partial hedge against the price of the underlying security declining.

The Fund also may write put options which give the holder of the option the right to sell the underlying security to the Fund at the stated exercise price. The Fund will receive a premium for writing a put option which increases the Fund's return. The Fund writes only covered put options, which means that so long as the Fund is obligated as the writer of the option, it will, through its custodian, have deposited and maintained cash, cash equivalents, U.S. Government securities or other high grade liquid debt or equity securities denominated in U.S. dollars or non-U.S. currencies with a securities depository with a value equal to or greater than the exercise price of the underlying securities. By writing a put, the Fund will be obligated to purchase the underlying security at a price that may be higher than the market value of that security at the time of exercise for as long as the option is outstanding. The Fund may engage in closing transactions in order to terminate put options that it has written. The Fund will not write put options if the aggregate value of the obligations underlying puts shall exceed 50% of the Fund's net assets.

Purchasing Options. The Fund is authorized to purchase put options to hedge against a decline in the market value of its securities. By buying a put option the Fund has a right to sell the underlying security at the stated exercise price, thus limiting the Fund's risk of loss through a decline in the market value of the security until the put option expires. The amount of any appreciation in the value of the underlying security will be partially offset by the amount of the premium paid for the put option and any related transaction costs. Prior to its expiration, a put option may be sold in a closing sale transaction and profit or loss from the sale will depend on whether the amount received is more or less than the premium paid for the put option plus the related transaction costs. A closing sale transaction cancels out the Fund's position as the purchaser of an option by means of an offsetting sale of an identical option prior to the expiration of the option it has purchased. In certain circumstances, the Fund may purchase call options on securities held in its portfolio on which it has written call options or on securities which it intends to purchase. The Fund will not purchase options on securities (including stock index options discussed below) if as a result of such purchase, the aggregate cost of all outstanding options on securities held by the Fund would exceed 5% of the market value of the Fund's total assets.

Stock Index Options and Futures and Financial Futures. The Fund is authorized to engage in transactions in stock index options and futures and financial futures, and related options on such futures. The Fund may purchase or write put and call options on stock indices to hedge against the risks of market-wide stock price movements in the securities in which the Fund invests. Options on indices are similar to

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options on securities except that on exercise or assignment, the parties to the contract pay or receive an amount of cash equal to the difference between the closing value of the index and the exercise price of the option times a specified multiple. The Fund may invest in stock index options based on a broad market index or based on a narrow index representing an industry or market segment.

The Fund may also purchase and sell stock index futures contracts and financial futures contracts ("futures contracts") as a hedge against adverse changes in the market value of its portfolio securities as described below. A futures contract is an agreement between two parties which obligates the purchaser of the futures contract to buy and the seller of a futures contract to sell a security for a set price on a future date. Unlike most other futures contracts, a stock index futures contract does not require actual delivery of securities but results in cash settlement based upon the difference in value of the index between the time the contract was entered into and the time of its settlement. The Fund may effect transactions in stock index futures contracts in connection with the equity securities in which it invests and in financial futures contracts in connection with the debt securities in which it invests. Transactions by the Fund in stock index futures and financial futures are subject to limitation as described below under "Restrictions on the Use of Futures Transactions".

The Fund may sell futures contracts in anticipation of or during a market decline to attempt to offset the decrease in market value of the Fund's securities portfolio that might otherwise result. When the Fund is not fully invested in the securities markets and anticipates a significant market advance, it may purchase futures in order to gain rapid market exposure that may in part or entirely offset increases in the cost of securities that the Fund intends to purchase. As such purchases are made, an equivalent amount of futures contracts will be terminated by offsetting sales. The Manager does not consider purchases of futures contracts to be a speculative practice under those circumstances. It is anticipated that, in a substantial majority of these transactions, the Fund will purchase such securities upon termination of the long futures position, whether the long position is the purchase of a futures contract or the purchase of a call option or the writing of a put option on a future, but under unusual circumstances (e.g., the Fund experiences a significant amount of redemptions), a long futures position may be terminated without the corresponding purchase of securities.

The Fund also has authority to purchase and write call and put options on futures contracts and stock indices in connection with its hedging activities. Generally, these strategies are utilized under the same market and market sector conditions (i.e., conditions relating to specific types of investments) in which the Fund enters into futures transactions. The Fund may purchase put options or write call options on futures contracts and stock indices rather than selling the underlying futures contract in anticipation of a decrease in the market value of its securities. Similarly, the Fund may purchase call options, or write put options on futures contracts and stock indices, as a substitute for the purchase of such futures to hedge against the increased cost resulting from an increase in the market value of securities which the Fund intends to purchase.

The Fund may engage in options and futures transactions on U.S. and foreign exchanges and in options in the over-the-counter markets ("OTC options").

Exchange-traded contracts are third-party contracts (i.e., performance of the parties' obligations is guaranteed by an exchange or clearing corporation) which, in general, have standardized strike prices and expiration dates. OTC options transactions are two-party contracts with prices and terms negotiated by the buyer and seller. See "Restrictions on OTC Options" below for information as to restrictions on the use of OTC options.

Foreign Currency Hedging. The Fund has authority to deal in forward foreign exchange among currencies of the different countries in which it will invest and multinational currency units as a hedge against

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possible variations in the foreign exchange rates among these currencies. This is accomplished through contractual agreements to purchase or sell a specified currency at a specified future date and price set at the time of the contract. The Fund's dealings in forward foreign exchange will be limited to hedging involving either specific transactions or portfolio positions. Transaction hedging is the purchase or sale of forward foreign currency with respect to specific receivables or payables of the Fund accruing in connection with the purchase and sale of its portfolio securities, the sale and redemption of shares of the Fund or the payment of dividends and distributions by the Fund. Position hedging is the sale of forward foreign currency with respect to portfolio security positions denominated or quoted in such foreign currency. The Fund has no limitation on transaction hedging. The Fund will not speculate in foreign forward exchange. The Fund may not commit more than 15% of its assets to position hedging contracts. If the Fund enters into a position hedging transaction, the Fund's custodian will place cash or liquid debt securities in a separate account of the Fund in an amount equal to the value of the Fund's total assets committed to the consummation of such forward contract. If the value of the securities placed in the separate account declines, additional cash or securities will be placed in the account so that the value of the account will equal the amount of the Fund's commitment with respect to such contracts. Hedging against a decline in the value of a currency does not eliminate fluctuations in the prices of portfolio securities or prevent losses if the prices of such securities decline. Such transactions also preclude the opportunity for gain if the value of the hedged currency should rise. Moreover, it may not be possible for the Fund to hedge against a devaluation that is so generally anticipated that the Fund is not able to contract to sell the currency at a price above the devaluation level it anticipates.

The Fund is also authorized to purchase or sell listed or over-the-counter foreign currency options, foreign currency futures and related options on foreign currency futures as a short or long hedge against possible variations in foreign exchange rates. Such transactions may be effected with respect to hedges on non-U.S. dollar denominated securities owned by the Fund, sold by the Fund but not yet delivered, or committed or anticipated to be purchased by the Fund. As an illustration, the Fund may use such techniques to hedge the stated value in U.S. dollars of an investment in a franc denominated security. In such circumstances, for example, the Fund may purchase a foreign currency put option enabling it to sell a specified amount of francs for dollars at a specified price by a future date. To the extent the hedge is successful, a loss in the value of the franc relative to the dollar will tend to be offset by an increase in the value of the put option. To offset, in whole or in part, the cost of acquiring such a put option, the Fund may also sell a call option which, if exercised, requires it to sell a specified amount of francs for dollars at a specified price by a future date (a technique called a "straddle"). By selling such a call option in this illustration, the Fund gives up the opportunity to profit without limit from increases in the relative value of the franc to the dollar. The Manager believes that "straddles" of the type which may be utilized by the Fund constitute hedging transactions and are consistent with the policies described above.

Certain differences exist between these foreign currency hedging instruments. Foreign currency options provide the holder thereof the right to buy or sell a currency at a fixed price on a future date. A futures contract on a foreign currency is an agreement between two parties to buy and sell a specified amount of a currency for a set price on a future date. Futures contracts and options on futures contracts are traded on boards of trade or futures exchanges. The Fund will not speculate in foreign currency options, futures or related options. Accordingly, the Fund will not hedge a currency substantially in excess of the market value of securities which it has committed or anticipates to purchase which are denominated in such currency and, in the case of securities which have been sold by the Fund but not yet delivered, the proceeds thereof in its denominated currency. The Fund may not incur potential net liabilities of more than 20% of its total assets from foreign currency options, futures or related options.

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Restrictions on the Use of Futures Transactions. Regulations of the Commodity Futures Trading Commission ("CFTC") applicable to the Fund provide that the



futures trading activities described herein will not result in the Fund being deemed a "commodity pool", as defined under such regulations if the Fund adheres to certain restrictions. In particular, the Fund may purchase and sell futures contracts and options thereon (i) for bona fide hedging purposes and (ii) for non-hedging purposes, if the aggregate initial margin and premiums required to establish positions in such contracts and options does not exceed 5% of the liquidation value of the Fund's portfolio, after taking into account unrealized profits and unrealized losses on any such contracts and options.

When the Fund purchases a futures contract, or writes a put option or purchases a call option thereon, an amount of cash and cash equivalents will be deposited in a segregated account with the Fund's custodian so that the amount so segregated, plus the amount of initial and variation margin held in the account of its broker, equals the market value of the futures contract, thereby ensuring that the use of such futures contract is unleveraged.

Restrictions on OTC Options. The Fund will engage in OTC options, including over-the-counter stock index options, over-the-counter foreign currency options and options on foreign currency futures, only with member banks of the Federal Reserve System and primary dealers in U.S. Government securities or with affiliates of such banks or dealers that have capital of at least \$50 million or whose obligations are guaranteed by an entity having capital of at least \$50 million or any other bank or dealer having capital of at least \$150 million or whose obligations are guaranteed by an entity having capital of at least \$150 million. The Fund will acquire only those OTC options for which the Manager believes the Fund can receive on each business day at least two independent bids or offers (one of which will be from an entity other than a party to the option) or which can be sold at a formula price provided for in the OTC option agreement.

The staff of the Securities and Exchange Commission (the "Commission") has taken the position that purchased OTC options and the assets used as cover for written OTC options are illiquid securities. Therefore, the Fund has adopted an investment policy pursuant to which it will not purchase or sell OTC options (including OTC options on futures contracts) if, as a result of such transaction, the sum of the market value of OTC options currently outstanding which are held by the Fund, the market value of the underlying securities covered by OTC call options currently outstanding which were sold by the Fund and margin deposits on the Fund's existing OTC options on futures contracts exceeds 10% of the total assets of the Fund, taken at market value, together with all other assets of the Fund which are illiquid or are not otherwise readily marketable. However, if the OTC option is sold by the Fund to a primary U.S. Government securities dealer recognized by the Federal Reserve Bank of New York and if the Fund has the unconditional contractual right to repurchase such OTC option from the dealer at a predetermined price, then the Fund will treat as illiquid such amount of the underlying securities as is equal to the repurchase price less the amount by which the option is "in-the-money" (i.e., current market value of the underlying security minus the option's strike price). The repurchase price with the primary dealers is typically a formula price which is generally based on a multiple of the premium received for the option, plus the amount by which the option is "in-the-money". This policy as to OTC options is not a fundamental policy of the Fund and may be amended by the Directors of the Fund without the approval of the Fund's shareholders. However, the Fund will not change or modify this policy prior to the change or modification by the Commission staff of its position.

Risk Factors in Options and Futures Transactions. Utilization of options and futures transactions to hedge the portfolio involves the risk of imperfect correlation in movements in the price of options and futures

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and movements in the price of the securities or currencies which are the subject of the hedge. If the price of the options or futures moves more or less than the price of the hedged securities or currencies, the Fund will experience a gain or loss which will not be completely offset by movements in the price of the subject of the hedge. The successful use of options and futures also depends on the Manager's ability to predict correctly price movements in the market involved in a particular options or futures transaction. In addition, options and futures transactions in foreign markets are subject to the risk factors associated with foreign investments generally. See "Special and Risk Considerations" above.

The Fund intends to enter into options and futures transactions, on an exchange or in the over-the-counter market, only if there appears to be a liquid secondary market for such options or futures, or in the case of over-the-counter transactions, the Manager believes the Fund can receive on each business day at least two independent bids or offers (one of which will be from an entity other than a party to the option) or which can be sold at a formula price provided for in the OTC option agreement. As a result, it is expected that the Fund will enter into exchange traded options and futures transactions only in the relatively mature smaller capital markets such as Australia, Hong Kong or Sweden, which have liquid secondary markets for such instruments. There can be no assurance, however, that a liquid secondary market will exist at any

specific time. Thus, it may not be possible to close an options or futures position. The inability to close options and futures positions also could have an adverse impact on the Fund's ability to hedge effectively its portfolio. There is also the risk of loss by the Fund of margin deposits or collateral in the event of bankruptcy of a broker with whom the Fund has an open position in an option, a futures contract or related option.

The exchanges on which the Fund intends to conduct options transactions generally have established limitations governing the maximum number of call or put options on the same underlying security or currency (whether or not covered) that may be written by a single investor, whether acting alone or in concert with others (regardless of whether such options are written on the same or different exchanges or are held or written on one or more accounts or through one or more brokers). "Trading limits" are imposed on the maximum number of contracts that any person may trade on a particular trading day. The Manager does not believe that these trading and position limits will have any adverse impact on the portfolio strategies for hedging the Fund's portfolio.

#### OTHER INVESTMENT POLICIES AND PRACTICES

**Non-Diversified Status.** The Fund is classified as non-diversified within the meaning of the Investment Company Act, which means that the Fund is not limited by such Act in the proportion of its assets that it may invest in securities of a single issuer. The Fund's investments will be limited, however, in order to qualify as a "regulated investment company" for purposes of the Internal Revenue Code of 1986, as amended. See "Additional Information--Taxes". To qualify, the Fund must comply with certain requirements, including limiting its investments so that at the close of each quarter of the taxable year (i) not more than 25% of the market value of the Fund's total assets will be invested in the securities of a single issuer, and (ii) with respect to 50% of the market value of its total assets, not more than 5% of the market value of its total assets will be invested in the securities of a single issuer, and the Fund will not own more than 10% of the outstanding voting securities of a single issuer. A fund which elects to be classified as "diversified" under the Investment Company Act must satisfy the foregoing 5% and 10% requirements with respect to 75% of its total assets. To the extent the Fund invests a relatively high percentage of its assets in obligations of a limited number of issuers, the Fund may be more susceptible than a more widely diversified fund to any single economic, political or regulatory occurrence or to changes in an issuer's financial condition or in the market's assessment of the issuers.

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**Portfolio Transactions.** Since portfolio transactions may be effected on foreign securities exchanges, the Fund may incur settlement delays on certain of such exchanges. See "Special and Risk Considerations" above. Where possible, the Fund will deal directly with the dealers who make a market in the securities involved except in those circumstances where better prices and execution are available elsewhere. Such dealers usually are acting as principal for their own account. On occasion, securities may be purchased directly from the issuer. Such portfolio securities are generally traded on a net basis and do not normally involve either brokerage commissions or transfer taxes. Securities firms may receive brokerage commissions on certain portfolio transactions, including options, futures and options on futures transactions and the purchase and sale of underlying securities upon exercise of options. The Fund has no obligation to deal with any broker in the execution of transactions in portfolio securities. Under the Investment Company Act, persons affiliated with the Fund, including Merrill Lynch, are prohibited from dealing with the Fund as a principal in the purchase and sale of securities unless a permissive order allowing such transactions is obtained from the Commission. Affiliated persons of the Fund may serve as its broker in transactions conducted on an exchange and in over-the-counter transactions conducted on an agency basis. In addition, consistent with the Rules of Fair Practice of the National Association of Securities Dealers, Inc., the Fund may consider sales of shares of the Fund as a factor in the selection of brokers or dealers to execute portfolio transactions for the Fund. It is expected that the majority of the shares of the Fund will be sold by Merrill Lynch. Costs associated with transactions in foreign securities are generally higher than with transactions in U.S. securities, although the Fund will endeavor to achieve the best net results in effecting such transactions.

**Portfolio Turnover.** The Manager will effect portfolio transactions without regard to holding period, if, in its judgment, such transactions are advisable in light of a change in circumstance in general market, economic or financial conditions. As a result of its investment policies, the Fund may engage in a substantial number of portfolio transactions. Accordingly, while the Fund anticipates that its annual portfolio turnover rate should not exceed 100% under normal conditions, it is impossible to predict portfolio turnover rates. The portfolio turnover rate is calculated by dividing the lesser of the Fund's annual sales or purchases of portfolio securities (exclusive of purchases or sales of securities whose maturities at the time of acquisition were one year or less) by the monthly average value of the securities in the portfolio during the year.



When-Issued Securities and Delayed Delivery Transactions. The Fund may purchase securities on a when-issued basis, and it may purchase or sell securities for delayed delivery. These transactions occur when securities are purchased or sold by the Fund with payment and delivery taking place in the future to secure what is considered an advantageous yield and price to the Fund at the time of entering into the transaction. Although the Fund has not established any limit on the percentage of its assets that may be committed in connection with such transactions, the Fund will maintain a segregated account with its custodian of cash, cash equivalents, U.S. Government securities or other high grade liquid debt or equity securities denominated in U.S. dollars or non-U.S. currencies in an aggregate amount equal to the amount of its commitment in connection with such purchase transactions.

Standby Commitment Agreements. The Fund may from time to time enter into standby commitment agreements. Such agreements commit the Fund, for a stated period of time, to purchase a stated amount of a fixed income security which may be issued and sold to the Fund at the option of the issuer. The price and coupon of the security is fixed at the time of the commitment. At the time of entering into the agreement the Fund is paid a commitment fee, regardless of whether or not the security is ultimately issued, which is typically approximately 0.5% of the aggregate purchase price of the security which the Fund has committed to purchase. The Fund will enter into such agreements only for the purpose of investing in the security

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underlying the commitment at a yield and price which is considered advantageous to the Fund. The Fund will not enter into a standby commitment with a remaining term in excess of 45 days and will limit its investment in such commitments so that the aggregate purchase price of the securities subject to such commitments, together with the value of portfolio securities subject to legal restrictions on resale, will not exceed 10% of its assets taken at the time of acquisition of such commitment of security. The Fund will at all times maintain a segregated account with its custodian of cash, cash equivalents, U.S. Government securities or other high grade liquid debt securities denominated in U.S. dollars or non-U.S. currencies in an aggregate amount equal to the purchase price of the securities underlying the commitment.

There can be no assurance that the securities subject to a standby commitment will be issued, and the value of the security, if issued, on the delivery date may be more or less than its purchase price. Since the issuance of the security underlying the commitment is at the option of the issuer, the Fund may bear the risk of a decline in the value of such security and may not benefit from an appreciation in the value of the security during the commitment period.

The purchase of a security subject to a standby commitment agreement and the related commitment fee will be recorded on the date on which the security can reasonably be expected to be issued, and the value of the security will thereafter be reflected in the calculation of the Fund's net asset value. The cost basis of the security will be adjusted by the amount of the commitment fee. In the event the security is not issued, the commitment fee will be recorded as income on the expiration date of the standby commitment.

Repurchase Agreements and Purchase and Sale Contracts. The Fund may invest in securities pursuant to repurchase agreements or purchase and sale contracts. Repurchase agreements and purchase and sale contracts may be entered into only with a member bank of the Federal Reserve System or primary dealer in U.S. Government securities. Under such agreements, the bank or primary dealer agrees, upon entering into the contract, to repurchase the security at a mutually agreed upon time and price in a specified currency, thereby determining the yield during the term of the agreement. This results in a fixed rate of return insulated from market fluctuations during such period although it may be affected by currency fluctuations. In the case of repurchase agreements, the prices at which the trades are conducted do not reflect accrued interest on the underlying obligation; whereas, in the case of purchase and sale contracts, the prices take into account accrued interest. Such agreements usually cover short periods, such as under one week. Repurchase agreements may be construed to be collateralized loans by the purchaser to the seller secured by the securities transferred to the purchaser. In the case of a repurchase agreement, as a purchaser, the Fund will require the seller to provide additional collateral if the market value of the securities falls below the repurchase price at any time during the term of the repurchase agreement; the Fund does not have the right to seek additional collateral in the case of purchase and sale contracts. In the event of default by the seller under a repurchase agreement construed to be a collateralized loan, the underlying securities are not owned by the Fund but only constitute collateral for the seller's obligation to pay the repurchase price. Therefore, the Fund may suffer time delays and incur costs or possible losses in connection with disposition of the collateral. A purchase and sale contract differs from a repurchase agreement in that the contract arrangements stipulate that the securities are owned by the Fund. In the event of a default under such a repurchase agreement or under a purchase and sale contract, instead of the contractual fixed rate, the rate of return to the Fund shall be dependent upon intervening fluctuations of the market value of such securities and the accrued interest on the

securities. In such event, the Fund would have rights against the seller for breach of contract with respect to any losses arising from market fluctuations following the failure of the seller to perform. Repurchase

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agreements and purchase and sale contracts maturing in more than seven days are deemed illiquid by the Commission and are therefore subject to the Fund's investment restriction limiting investments in securities that are not readily marketable to 10% of the Fund's net assets. See "Investment Restrictions" below.

**Lending of Portfolio Securities.** The Fund may from time to time lend securities from its portfolio, with a value not exceeding 33 1/3% of its total assets, to banks, brokers and other financial institutions and receive collateral in cash or securities issued or guaranteed by the U.S. Government. Such collateral will be maintained at all times in an amount equal to at least 100% of the current market value of the loaned securities. This limitation is a fundamental policy, and it may not be changed without the approval of the holders of a majority of the Fund's outstanding voting securities, as defined in the Investment Company Act. During the period of such a loan, the Fund receives the income on the loaned securities and receives either the income on the collateral or other compensation, i.e., negotiated loan premium or fee, for entering into the loan and thereby increases its yield. Such loans are terminable at any time, and the borrower, after notice, will be required to return borrowed securities within five business days. In the event that the borrower defaults on its obligation to return borrowed securities, because of insolvency or otherwise, the Fund could experience delays and costs in gaining access to the collateral and could suffer a loss to the extent that the value of the collateral falls below the market value of the borrowed securities.

#### INVESTMENT RESTRICTIONS

The Fund's investment activities are subject to further restrictions that are described in the Statement of Additional Information. Investment restrictions and policies which are fundamental policies may not be changed without the approval of the holders of a majority of the Fund's outstanding voting securities (which for this purpose and under the Investment Company Act means the lesser of (a) 67% of the shares represented at a meeting at which more than 50% of the outstanding shares are represented or (b) more than 50% of the outstanding shares). Among its fundamental policies, the Fund may not invest more than 25% of its total assets, taken at market value at the time of each investment, in the securities of issuers of any particular industry (excluding the U.S. Government and its agencies or instrumentalities). Other fundamental policies include policies which (i) limit investments in securities which cannot be readily resold because of legal or contractual restrictions or which are not otherwise readily marketable, including repurchase agreements and purchase and sale contracts maturing in more than seven days, if, regarding all such securities, more than 10% of its net assets, taken at market value, would be invested in such securities, (ii) limit investments in securities of other investment companies, except in connection with certain specified transactions and with respect to investments of up to 10% of the Fund's assets in securities of closed-end investment companies and (iii) restrict the issuance of senior securities and limit bank borrowings except that the Fund may borrow amounts of up to 10% of its assets for extraordinary purposes or to meet redemptions. The Fund will not purchase securities while borrowings exceed 5% of its total assets, except (a) to honor prior commitments, or (b) to exercise subscription rights where outstanding borrowings have been obtained exclusively for settlements of other securities transactions. The purchase of securities while borrowings are outstanding will have the effect of leveraging the Fund. Such leveraging or borrowing increases the Fund's exposure to capital risk, and borrowed funds are subject to interest costs which will reduce net income. Although not a fundamental policy, the Fund will include OTC options and the securities underlying such options in calculating the amount of its total assets subject to the limitation set forth in clause (i) above. However, as discussed above, the Fund may treat the securities it uses as cover for written OTC options as liquid and, therefore, will exclude such securities from this restriction, provided it follows a specified procedure. The

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Fund will not change or modify this policy prior to the change or modification by the Commission staff of its position regarding OTC options, as discussed above.

#### MANAGEMENT OF THE FUND

##### BOARD OF DIRECTORS

The Board of Directors of the Fund consists of five individuals, four of whom are not "interested persons" of the Fund as defined in the Investment Company Act. The Board of Directors of the Fund is responsible for the overall supervision of the operations of the Fund and performs the various duties

imposed on the directors of investment companies by the Investment Company Act.

The Directors of the Fund are:

Arthur Zeikel\*--President and Chief Investment Officer of the Manager; President and Director of Princeton Services, Inc.; Executive Vice President of Merrill Lynch & Co., Inc.; Executive Vice President of Merrill Lynch; Director of the Distributor.

Donald Cecil--Special Limited Partner of Cumberland Partners (an investment partnership).

Edward H. Meyer--Chairman of the Board, President and Chief Executive Officer of Grey Advertising Inc.

Charles C. Reilly--Self-employed financial consultant; former President and Chief Investment Officer of Verus Capital, Inc.; former Senior Vice President of Arnhold and S. Bleichroeder, Inc.; Adjunct Professor, Columbia University Graduate School of Business.

Richard R. West--Professor of Finance, and Dean from 1984 to 1993, New York University Leonard N. Stern School of Business Administration.

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\* Interested person, as defined in the Investment Company Act, of the Fund.

#### MANAGEMENT AND ADVISORY ARRANGEMENTS

The Fund's investment adviser is Merrill Lynch Asset Management, L. P., which does business as Merrill Lynch Asset Management (the "Manager"). The Manager is owned and controlled by Merrill Lynch & Co., Inc., a financial services holding company and the parent of Merrill Lynch. The Manager provides the Fund with management and investment advisory services. The Manager or an affiliate, Fund Asset Management, L. P. ("FAM"), acts as the manager for more than 90 other registered investment companies and offers portfolio management and portfolio analysis services to individuals and institutions. As of January 31, 1994, the Manager and FAM had a total of approximately \$167.1 billion in investment company and other portfolio assets under management, including accounts of certain affiliates of the Manager.

The management agreement with the Manager (the "Management Agreement") provides that, subject to the direction of the Board of Directors of the Fund, the Manager is responsible for the actual management

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of the Fund's portfolio. The responsibility for making decisions to buy, sell or hold a particular security rests with the Manager, subject to review by the Board of Directors.

The Manager provides the portfolio manager for the Fund who considers analyses from various sources (including brokerage firms with which the Fund does business), makes the necessary decisions, and places transactions accordingly. The Manager is also obligated to perform certain administrative and management services for the Fund and is obligated to provide all of the office space, facilities, equipment and personnel necessary to perform its duties under the Management Agreement.

The Fund pays the Manager a monthly fee at the annual rate of 1.00% of the average daily net assets of the Fund. This fee is higher than that of most mutual funds, including most other mutual funds managed by the Manager, but management of the Fund believes this fee is justified by the additional investment research and analysis required in connection with investing in smaller capital markets. For the fiscal year ended June 30, 1993, the fee paid by the Fund to the Manager was \$1,303,056 (based upon average net assets of approximately \$130.3 million). At April 30, 1994, the net assets of the Fund aggregated approximately \$410.0 million. At this asset level, the annual management fee would aggregate approximately \$4.1 million.

Grace Pineda, Vice President of the Fund, is the Fund's Portfolio Manager. Ms. Pineda has been a Vice President and Senior Portfolio Manager of the Manager and its predecessor since 1989. Ms. Pineda has been primarily responsible for the management of the Fund's portfolio since September 1989. Ms. Pineda was an analyst and portfolio manager at Clemente Capital, Inc. from 1982 to 1989.

The Management Agreement obligates the Fund to pay certain expenses incurred in its operations including, among other things, the management fee; legal and audit fees; registration fees; unaffiliated Directors' fees and expenses; custodian and transfer agency fees; accounting costs; the costs of issuing and redeeming shares; and certain of the costs of printing proxies, shareholder reports, prospectuses and statements of additional information. Accounting services are provided to the Fund by the Manager, and the Fund reimburses the Manager for its costs in connection with such services. For the fiscal year

ended June 30, 1993, the Fund reimbursed the Manager \$127,749 for accounting services. For the fiscal year ended June 30, 1993, the ratio of total expenses to average net assets for Class A shares was 1.71%.

#### TRANSFER AGENCY SERVICES

Financial Data Services, Inc. (the "Transfer Agent"), which is a wholly-owned subsidiary of Merrill Lynch & Co., Inc., acts as the Fund's transfer agent pursuant to a transfer agency, dividend disbursing agency and shareholder servicing agency agreement (the "Transfer Agency Agreement"). Pursuant to the Transfer Agency Agreement, the Transfer Agent is responsible for the issuance, transfer and redemption of shares and the opening and maintenance of shareholder accounts. Pursuant to the Transfer Agency Agreement, the Transfer Agent receives a fee of \$7.00 per Class A shareholder account and \$9.00 per Class B shareholder account, nominal miscellaneous fees (e.g., account closing fees) and is entitled to reimbursement for out-of-pocket expenses incurred by it under the Transfer Agency Agreement. (Before September 15, 1993, such fee was \$8.00 per Class A shareholder account, not \$7.00.) For the fiscal year ended June 30, 1993, the Fund paid the Transfer Agent \$124,719 pursuant to the Transfer Agency Agreement for providing transfer agency services. At April 30, 1994, the Fund had 33,999 Class A shareholder accounts. At this level of Class A shareholder accounts, the annual fee payable to the Transfer Agent would aggregate approximately \$237,993 for Class A shares, plus miscellaneous and out-of-pocket expenses. The Fund had not yet commenced the public offering of its Class B shares on the date of the Prospectus.

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#### PURCHASE OF SHARES

The Distributor, a subsidiary of the Manager, acts as the distributor of the shares of the Fund. Shares of the Fund are offered continuously for sale by the Distributor and other eligible securities dealers (including Merrill Lynch). Shares of the Fund may be purchased from securities dealers or by mailing a purchase order directly to the Transfer Agent. The minimum initial purchase is \$1,000, and the minimum subsequent purchase is \$50, except that for retirement plans, the minimum initial purchase is \$100, and the minimum subsequent purchase is \$1.

The Fund is offering its shares at a public offering price equal to the next determined net asset value per share plus sales charges which, at the option of the purchaser, may be imposed either at the time of purchase (the "initial sales charge alternative") or on a deferred basis (the "deferred sales charge alternative"), as described below. As to purchase orders received by securities dealers prior to 4:15 p.m., New York time, which includes orders received after the determination of the net asset value on the previous day, the applicable offering price will be based on the net value determined as of 4:15 p.m., New York time, on the day the orders are placed with the Distributor, provided the orders are received by the Distributor prior to 4:30 p.m., New York time, on that day. The applicable offering price for purchase orders is based on the net asset value of the Fund next determined after receipt of the purchase orders by the Distributor. If the purchase orders are not received by the Distributor prior to 4:30 p.m., New York time, such orders shall be deemed received on the next business day. Any order may be rejected by the Distributor or the Fund. The Fund or the Distributor may suspend the continuous offering of the Fund's shares at any time in response to conditions in the securities markets or otherwise and may thereafter resume such offering from time to time. Neither the Distributor nor the dealers are permitted to withhold placing orders to benefit themselves by a price change. Merrill Lynch may charge its customers a processing fee (presently \$4.85) to confirm a sale of shares to such customers. Purchases directly through the Transfer Agent are not subject to the processing fee.

The Fund issues two classes of shares: Class A shares are sold to investors choosing the initial sales charge alternative, and Class B shares are sold to investors choosing the deferred sales charge alternative. The two classes of shares each represent interests in the same portfolio of investments of the Fund, have the same rights and are identical in all respects, except that Class B shares bear the expenses of the deferred sales arrangements, any expenses (including incremental transfer agency costs) resulting from such sales arrangements and the expenses paid by the account maintenance fee and have exclusive voting rights with respect to the Rule 12b-1 distribution plan pursuant to which the account maintenance and distribution fees are paid. The two classes also have different exchange privileges. See "Shareholder Services -- Exchange Privilege". The net income attributable to Class B shares and the dividends payable on Class B shares will be reduced by the amount of the account maintenance and distribution fees and incremental transfer agency costs relating to Class B shares; accordingly, the net asset value of the Class B shares will be reduced by such amount to the extent the Fund has undistributed net income. Sales personnel may receive different compensation for selling Class A or Class B shares. Investors are advised that only Class A shares may be available for purchase through securities dealers, other than

Merrill Lynch, which are eligible to sell shares.

ALTERNATIVE SALES ARRANGEMENTS

The alternative sales arrangements of the Fund permit investors to choose the method of purchasing shares that is most beneficial given the amount of the purchase, the length of time the investor expects to hold the shares and other relevant circumstances. Investors should determine whether under their particular circumstances it is more advantageous to incur an initial sales charge and not be subject to ongoing charges, as discussed below, or to have the entire initial purchase price invested in the Fund with the investment thereafter being subject to ongoing charges.

As an illustration, investors who qualify for significantly reduced sales charges, as described below, might elect the initial sales charge alternative because similar sales charge reductions are not available for purchases under the deferred sales charge alternative. Moreover, shares acquired under the initial sales charge alternative would not be subject to an ongoing account maintenance fee and distribution fee as described below. However, because initial sales charges are deducted at the time of purchase, such investors would not have all their funds invested initially.

Investors not qualifying for reduced initial sales charges who expect to maintain their investment for an extended period of time might also elect the initial sales charge alternative because over time the accumulated continuing account maintenance and distribution fees may exceed the initial sales charge. Again, however, such investors must weigh this consideration against the fact that not all their funds will be invested initially. Furthermore, the ongoing account maintenance and distribution fees will be offset to the extent any return is realized on the additional funds initially invested under the deferred alternative. Another factor that may be applicable under certain circumstances is that the payment of the Class B distribution fee and contingent deferred sales charge is subject to certain limits as set forth below under "Purchase of Shares -- Deferred Sales Charge Alternative -- Class B Shares".

Certain other investors might determine it to be more advantageous to have all their funds invested initially, although remaining subject to continuing account maintenance and distribution fees and, for a four-year period of time, a contingent deferred sales charge as described below. For example, an investor subject to the 6.50% initial sales charge will have to hold his investment at least 6 1/2 years for the ongoing 0.25% account maintenance fee and 0.75% distribution fee to exceed the initial sales charge. This example does not take into account the time value of money, which further reduces the impact of the ongoing account maintenance and distribution fees on the investment, fluctuations in net asset value, the effect of the return on the investment over this period of time or the effect of any limits that may be imposed upon the payment of the distribution fee and the contingent deferred sales charge.

The Directors of the Fund have determined that currently no conflict of interest exists between the Class A and Class B shares. On an ongoing basis, the Directors of the Fund, pursuant to their fiduciary duties under the Investment Company Act of 1940, as amended (the "Investment Company Act"), and state laws, will seek to assure that no such conflict arises.

INITIAL SALES CHARGE ALTERNATIVE -- CLASS A SHARES

The public offering price of Class A shares for purchasers choosing the initial sales charge alternative is the next determined net asset value plus varying sales charges (i.e., sales loads), as set forth below.

<TABLE>  
<CAPTION>

AMOUNT OF PURCHASE	SALES CHARGE AS PERCENTAGE OF OFFERING PRICE	SALES CHARGE AS PERCENTAGE* OF THE NET AMOUNT INVESTED	DISCOUNT TO SELECTED DEALERS AS PERCENTAGE OF THE OFFERING PRICE
<S>	<C>	<C>	<C>
Less than \$10,000.....	6.50%	6.95%	6.25%
\$10,000 but less than \$25,000.....	6.00	6.38	5.75
\$25,000 but less than \$50,000.....	5.00	5.26	4.75
\$50,000 but less than \$100,000.....	4.00	4.17	3.75
\$100,000 but less than \$250,000.....	3.00	3.09	2.75
\$250,000 but less than \$1,000,000.....	2.00	2.04	1.80
\$1,000,000 and over.....	.75	.76	.65

</TABLE>  
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\* Rounded to the nearest one-hundredth percent.

Initial sales charges may be waived for shareholders purchasing \$1 million or more in a single transaction (other than an employer sponsored retirement or savings plan, such as a tax qualified retirement plan under Section 401 of the Internal Revenue Code of 1986, as amended (the "Code"), a deferred compensation plan under Section 403(b) and Section 457 of the Code, other deferred compensation arrangements, VEBA plans and non-qualified After Tax Savings and Investment programs maintained on the Merrill Lynch Group Employee Services system, herein referred to as "Employer Sponsored Retirement or Savings Plans"), or a purchase by a TMSM Managed Trust, of Class A shares of the Fund. In addition, purchases of Class A shares of the Fund made in connection with a single investment of \$1 million or more under the Merrill Lynch Mutual Fund Adviser Program will not be subject to an initial sales charge. Purchases described in this paragraph will be subject to a contingent deferred sales charge if the shares are redeemed within one year after purchase at the following rates:

<TABLE>  
<CAPTION>

AMOUNT OF PURCHASE -----	CONTINGENT DEFERRED SALES CHARGE AS A PERCENTAGE OF DOLLAR AMOUNT SUBJECT TO CHARGE -----
<S>	<C>
\$1 million up to \$2.5 million.....	1.00%
Over \$2.5 million up to \$3.5 million.....	0.60%
Over \$3.5 million up to \$5 million.....	0.40%
Over \$5 million.....	0.25%

</TABLE>

The Distributor may reallocate discounts to selected dealers and retain the balance over such discounts. At times the Distributor may reallocate the entire sales charge to such dealers. Since securities dealers selling Class A shares of the Fund will receive a concession equal to most of the sales charge, they may be deemed to be underwriters under the Securities Act. During the fiscal year ended June 30, 1993, the Fund sold 2,825,803 Class A shares for aggregate net proceeds to the Fund of \$31,697,736. The gross sales charges for the sale of Class A shares for that period were \$393,637, of which \$366,472 was received by Merrill Lynch and \$27,165 was received by the Distributor.

Reduced Initial Sales Charges. Sales charges are reduced under a Right of Accumulation and a Letter of Intention. Class A shares of the Fund are offered at net asset value to Directors of the Fund, to directors of Merrill Lynch & Co., Inc., to directors and trustees of certain other Merrill Lynch sponsored investment companies, to participants in certain benefit plans, to an investor who has a business relationship with a financial consultant who joined Merrill Lynch from another investment firm within six months prior to the date of purchase if certain conditions set forth in the Statement of Additional Information are met and to employees of Merrill Lynch & Co., Inc. and its subsidiaries. Class A shares may be offered at net asset value in connection with the acquisition of assets of other investment companies. No initial sales charges are imposed upon Class A shares issued as a result of the automatic reinvestment of dividends or capital gains distributions. Class A shares of the Fund are also offered at net asset value, without sales charge, to an investor who has a business relationship with a Merrill Lynch financial consultant and who has invested in a mutual fund sponsored by a non-Merrill Lynch company for which Merrill Lynch has served as a selected dealer and where Merrill Lynch has either received or given notice that such arrangement will be terminated if the following conditions are satisfied: first, the investor must purchase Class A shares of the Fund with proceeds from a redemption of shares of such other mutual fund and such fund imposed a sales charge either at the time of purchase or on a deferred basis; second, such purchase of Class A shares must be made within 90 days after such notice of termination. Class A shares are offered with reduced sales charges and, in certain circumstances, at net asset value, to participants in the Merrill Lynch Blueprint SM Program. Class A shares are offered at net asset value to (i) certain retirement plans, including eligible 401(k) plans, provided such

plans meet the required minimum number of eligible employees or required amount of assets advised by the Manager or any of its affiliates and (ii) certain Employer Sponsored Retirement or Savings Plans, provided such plans meet the required minimum number of eligible employees or required amount of assets advised by the Manager or any of its affiliates. Class A shares of the Fund are

also offered at net asset value to shareholders of certain closed-end funds advised by the Manager or FAM who wish to reinvest the net proceeds from a sale of their closed-end fund shares of common stock in shares of the Fund, provided certain conditions are met. For example, Class A shares of the Fund and certain other mutual funds advised by the Manager or FAM are offered at net asset value to shareholders of Merrill Lynch Senior Floating Rate Fund, Inc. (formerly known as Merrill Lynch Prime Fund, Inc.) who wish to reinvest the net proceeds from a sale of certain of their shares of common stock of Merrill Lynch Senior Floating Rate Fund, Inc. in shares of such funds.

Additional information concerning these reduced initial sales charges is set forth in the Statement of Additional Information.

DEFERRED SALES CHARGE ALTERNATIVE--CLASS B SHARES

Investors choosing the deferred sales charge alternative purchase Class B shares at net asset value per share without the imposition of a sales charge at the time of purchase. The Class B shares are being sold without an initial sales charge so that the Fund will receive the full amount of the investor's purchase payment. Merrill Lynch compensates its financial consultants for selling Class B shares at the time of purchase from its own funds. The proceeds of the contingent deferred sales charge and the ongoing distribution fee discussed below are used to defray Merrill Lynch's expenses, including compensating its financial consultants. The proceeds from the ongoing account maintenance fee are used to compensate Merrill Lynch for providing continuing account maintenance activities.

Proceeds from the contingent deferred sales charge are paid to the Distributor and are used in whole or in part by the Distributor to defray the expenses of dealers (including Merrill Lynch) related to providing distribution-related services to the Fund in connection with the sale of the Class B shares, such as the payment of compensation to financial consultants for selling Class B shares. Payments by the Fund to the Distributor of the distribution fee under the distribution plan described below also may be used in whole or in part by the Distributor for the purpose. The combination of the contingent deferred sales charge and the ongoing distribution fee facilitates the ability of the Fund to sell the Class B shares without a sales charge being deducted at the time of purchase. Class B shareholders of the Fund exercising the exchange privilege described under "Shareholder Services--Exchange Privilege" will continue to be subject to the Fund's contingent deferred sales charge schedule if such schedule is higher than the deferred sales charge schedule relating to the Class B shares acquired as a result of the exchange.

Contingent Deferred Sales Charge. Class B shares which are redeemed within four years of purchase may be subject to a contingent deferred sales charge at the rates set forth below charged as a percentage of the dollar amount subject thereto. The charge will be assessed on an amount equal to the lesser of the current market value or the cost of the shares being redeemed. Accordingly, no sales charge will be imposed on increases in net asset value above the initial purchase price. In addition, no charge will be assessed on shares derived from reinvestment of dividends or capital gains distributions.

The following table sets forth the rates of the contingent deferred sales charge:

<TABLE>  
<CAPTION>

YEAR SINCE PURCHASE PAYMENT MADE	CONTINGENT DEFERRED SALES CHARGE AS A PERCENTAGE OF DOLLAR AMOUNT SUBJECT TO CHARGE
0-1.....	4.0%
1-2.....	3.0%
2-3.....	2.0%
3-4.....	1.0%
4 and thereafter.....	None

</TABLE>

In determining whether a contingent deferred sales charge is applicable to a redemption, the calculation will be determined in the manner that results in the lowest possible rate being charged. Therefore, it will be assumed that the redemption is first of shares held for over four years or shares acquired pursuant to reinvestment of dividends or distributions and then of shares held longest during the four-year period. The charge will not be applied to dollar amounts representing an increase in the net asset value since the time of purchase. A transfer of shares from a shareholder's account to another account will be assumed to be made in the same order as a redemption.



To provide an example, assume an investor purchased 100 shares at \$10 per share (at a cost of \$1,000) and in the third year after purchase, the net asset value per share is \$12, and during such time, the investor has acquired 10 additional shares through dividend reinvestment. If at such time the investor makes his first redemption of 50 shares (proceeds of \$600), 10 shares will not be subject to the charge because of dividend reinvestment. With respect to the remaining 40 shares, the charge is applied only to the original cost of \$10 per share and not to the increase in net asset value of \$2 per share. Therefore, \$400 of the \$600 redemption proceeds will be charged at a rate of 2.0% (the applicable rate in the third year after purchase).

The contingent deferred sales charge is waived on redemptions of shares in connection with certain post-retirement withdrawals from an Individual Retirement Account ("IRA") or other retirement plan or following the death or disability (as defined in the Internal Revenue Code of 1986, as amended) of a shareholder. The contingent deferred sales charge also is waived on redemptions of shares by certain eligible 401(a) and eligible 401(k) plans and in connection with certain group plans placing orders through the Merrill Lynch Blueprint SM Program. The contingent deferred sales charge also is waived for any Class B shares which are purchased by eligible 401(k) or eligible 401(a) plans which are rolled over into a Merrill Lynch or Merrill Lynch Trust Company custodied IRA and held in such account at the time of redemption. Additional information concerning the waiver of the contingent deferred sales charge is set forth in the Statement of Additional Information.

Distribution Plan. Pursuant to a distribution plan (the "Distribution Plan") adopted by the Fund pursuant to Rule 12b-1 under the Investment Company Act, the Fund pays the Distributor an ongoing account maintenance fee and a distribution fee, which are accrued daily and paid monthly, at the annual rates of 0.25% and 0.75%, respectively, of the average daily net assets of the Class B shares of the Fund. Pursuant to a sub-agreement with the Distributor, Merrill Lynch also provides account maintenance and distribution services to the Fund. The ongoing account maintenance fee compensates the Distributor and Merrill Lynch for providing account maintenance services to Class B shareholders. The ongoing distribution fee compensates the Distributor and Merrill Lynch for providing shareholder and distribution services and bearing certain distribution-related expenses of the Fund, including payments to financial consultants for selling Class B shares of the Fund.

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The Distribution Plan was designed to permit an investor to purchase Class B shares through dealers without the assessment of a front-end sales charge and at the same time permit the dealer to compensate its financial consultants in connection with the sale of the Class B shares. In this regard, the purpose and function of the distribution fee under the Distribution Plan and the contingent deferred sales charge are the same as those of the initial sales charge with respect to the Class A shares of the Fund in that the deferred sales charges provide for the financing of the distribution of the Fund's Class B shares.

The payments under the Distribution Plan are based on a percentage of average daily net assets regardless of the amount of expenses incurred, and accordingly, distribution-related revenues may be more or less than distribution-related expenses. Information with respect to the distribution-related revenues and expenses is presented to the Directors for their consideration in connection with their deliberations as to the continuance of the Distribution Plan. This information is presented annually as of December 31 of each year on a "fully allocated accrual" basis and quarterly on a "Direct expense and revenue/cash" basis. On the fully allocated accrual basis, revenues consist of the account maintenance fees, the distribution fees, the contingent deferred sales charges and certain other related revenues, and expenses consist of financial consultant compensation, branch office and regional operation center selling and transaction processing expenses, advertising, sales promotion and marketing expenses, corporate overhead and interest expense. On the direct expense and revenue/cash basis, revenues consist of the account maintenance fees, the distribution fees and contingent deferred sales charges, and the expenses consist of financial consultant compensation.

The Fund has no obligation with respect to the distribution-related expenses incurred by the Distributor and Merrill Lynch in connection with the Class B shares, and there is no assurance that the Board of Directors of the Fund will approve the continuance of the Distribution Plan from year to year. However, the Distributor intends to seek annual continuation of the Distribution Plan. In their review of the Distribution Plan, the Directors will not be asked to take into consideration expenses incurred in connection with the distribution of Class A shares or shares of other funds for which the Distributor acts as distributor. The account maintenance fee, the distribution fee and the contingent deferred sales charge in the case of Class B shares will not be used to subsidize the sale of Class A shares.

Limitations on the Payment of Deferred Sales Charges. The maximum sales charge rule in the Rules of Fair Practice of the National Association of Securities Dealers, Inc. ("NASD") imposes a limitation on certain asset-based



sales charges such as the Fund's distribution fee and the contingent deferred sales charge but not the account maintenance fee. As applicable to the Fund, the maximum sales charge rule limits the aggregate of distribution fee payments and contingent deferred sales charges payable by the Fund to (1) 6 1/4% of eligible gross sales of Class B shares (defined to exclude shares issued pursuant to dividend reinvestments and exchanges) plus (2) interest on the unpaid balance at the prime rate plus 1% (the unpaid balance being the maximum amount payable minus amounts received from the payment of the distribution fee and the contingent deferred sales charge). The Distributor has voluntarily agreed to waive interest charges on the unpaid balance in excess of 0.50% of eligible gross sales. Consequently, the maximum amount payable to the Distributor (referred to as the "voluntary maximum") is 6.75% of eligible gross sales. The Distributor retains the right to stop waiving interest charges at any time. To the extent payments would exceed the voluntary maximum, the Fund will not make further payments of the distribution fee, and any contingent deferred sales charges will be paid to the Fund rather than to the Distributor; however, the Fund will continue to make payments of the account maintenance fee. In certain circumstances the amount payable pursuant to the voluntary maximum may exceed the amount payable under the NASD formula. In such circumstances payment in excess of the amount payable under the NASD formula will not be made.

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#### REDEMPTION OF SHARES

The Fund is required to redeem for cash all full and fractional shares of the Fund upon receipt of a written request in proper form. The redemption price is the net asset value per share next determined after the initial receipt of proper notice of redemption. Except for any contingent deferred sales charge which may be applicable to Class B shares, there will be no charge for redemption if the redemption request is sent directly to the Transfer Agent. Shareholders liquidating their holdings will receive upon redemption all dividends reinvested through the date of redemption. The value of shares at the time of redemption may be more or less than the shareholders' cost, depending on the market value of the securities held by the Fund at such time.

#### REDEMPTION

A shareholder wishing to redeem shares may do so without charge by tendering the shares directly to the Transfer Agent, Financial Data Services, Inc., Transfer Agency Mutual Fund Operations, P.O. Box 45289, Jacksonville, Florida 32232-5289. Redemption requests delivered other than by mail should be delivered to Financial Data Services, Inc., Transfer Agency Mutual Fund Operations, 4800 Deer Lake Drive East, Jacksonville, Florida 32246-6484. Proper notice of redemption in the case of shares deposited with the Transfer Agent may be accomplished by a written letter requesting redemption. Proper notice of redemption in the case of shares for which certificates have been issued may be accomplished by a written letter as noted above accompanied by certificates for the shares to be redeemed. The notice in either event requires the signatures of all persons in whose names the shares are registered, signed exactly as their names appear on the Transfer Agent's register or on the certificates, as the case may be. The signatures on the notice must be guaranteed by an "eligible guarantor institution" (including, for example, Merrill Lynch branch offices and certain other financial institutions) as such term is defined in Rule 17Ad-15 under the Securities Exchange Act of 1934, as amended, the existence and validity of which may be verified by the Transfer Agent through the use of industry publications. Notarized signatures are not sufficient. In certain instances, the Transfer Agent may require additional documents, such as, but not limited to, trust instruments, death certificates, appointments as executor or administrator or certificates of corporate authority. For shareholders redeeming directly with the Transfer Agent, payment will be mailed within seven days of receipt of a proper notice of redemption.

At various times the Fund may be requested to redeem shares for which it has not yet received good payment. The Fund may delay or cause to be delayed the mailing of a redemption check until such time as it has assured itself that good payment (e.g., cash or certified check drawn on a U.S. bank) has been collected for the purchase of such shares. Normally, this delay will not exceed 10 days.

#### REPURCHASE

The Fund also will repurchase shares through a shareholder's listed securities dealer. The Fund normally will accept orders to repurchase shares by wire or telephone from dealers for their customers at the net asset value next computed after receipt of the order by the dealer, provided that the request for repurchase is received by the dealer prior to the close of business on the New York Stock Exchange on the day received and that such request is received by the Fund from such dealer not later than 4:30 p.m., New York time, on the same day. Dealers have the responsibility of submitting such repurchase requests to the Fund not later than 4:30 p.m., New York time, in order to obtain that day's closing price.

The foregoing repurchase arrangements are for the convenience of shareholders and do not involve a charge by the Fund (other than any applicable contingent deferred sales charge in the case of Class B shares). Securities firms which do not have selected dealer agreements with the Distributor, however, may impose a transaction charge on the shareholder for transmitting the notice of repurchase to the Fund. Merrill Lynch may charge its customers a processing fee (presently \$4.85) to confirm a repurchase of shares to such customers. Redemptions directly through the Transfer Agent are not subject to the processing fee. The Fund reserves the right to reject any order for repurchase, which right of rejection might adversely affect shareholders seeking redemption through the repurchase procedure. A shareholder whose order for repurchase is rejected by the Fund may redeem shares as set forth above.

#### REINSTATEMENT PRIVILEGE--CLASS A SHARES

Shareholders who have redeemed their Class A shares have a one-time privilege to reinstate their accounts by purchasing Class A shares of the Fund at net asset value without a sales charge up to the dollar amount redeemed. The reinstatement privilege may be exercised by sending a notice of exercise along with a check for the amount to be reinstated to the Transfer Agent within 30 days after the date the request for redemption was accepted by the Transfer Agent or the Distributor. The reinstatement will be made at the net asset value per share next determined after the notice of reinstatement is received and cannot exceed the amount of the redemption proceeds. The reinstatement privilege is a one-time privilege and may be exercised by the Class A shareholder only the first time such shareholder makes a redemption.

#### SHAREHOLDER SERVICES

The Fund offers a number of shareholder services and investment plans described below which are designed to facilitate investment in its shares. Full details as to each of such services, copies of the various plans described below and instructions as to how to participate in the various services or plans, or how to change options with respect thereto, can be obtained from the Fund by calling the telephone number on the cover page hereof or from the Distributor or Merrill Lynch. Certain of these services are available only to U.S. investors.

Investment Account. Each shareholder whose account is maintained at the Transfer Agent has an Investment Account and will receive quarterly statements from the Transfer Agent. These quarterly statements will serve as transaction confirmations for automatic investment purchases and the reinvestment of ordinary income dividends and long-term capital gain distributions. The quarterly statements will also show any other activity in the account since the preceding statement. Shareholders will receive separate transaction confirmations for each purchase or sale transaction other than automatic investment purchases and the reinvestment of ordinary income dividends and long-term capital gain distributions. A shareholder may make additions to his Investment Account at any time by mailing a check directly to the Transfer Agent. Shareholders may also maintain their accounts through Merrill Lynch. Upon the transfer of shares out of a Merrill Lynch brokerage account, an Investment Account in the transferring shareholder's name will be opened automatically, without charge, at the Transfer Agent. Shareholders considering transferring their Class A shares from Merrill Lynch to another brokerage firm or financial institution should be aware that, if the firm to which the Class A shares are to be transferred will not take delivery of shares of the Fund, a shareholder either must redeem the Class A shares so that the cash proceeds can be transferred to the account at the new firm, or such shareholder must continue to maintain an Investment Account at the Transfer Agent for those Class A shares.

Shareholders interested in transferring their Class B shares from Merrill Lynch and who do not wish to have an Investment Account maintained for such shares at the Transfer Agent may request their new brokerage firm to maintain such shares in an account registered in the name of the brokerage firm for the benefit of the shareholder. If the new brokerage firm is willing to accommodate the shareholder in this manner, the shareholder must request that he be issued certificates for his shares and then must turn the certificates over to the new firm for re-registration as described in the preceding sentence. Shareholders considering transferring a tax-deferred retirement account such as an individual retirement account from Merrill Lynch to another brokerage firm or financial institution should be aware that, if the firm to which the retirement account is to be transferred will not take delivery of shares of the Fund, a shareholder must either redeem the shares (paying any applicable contingent deferred sales charge) so that the cash proceeds can be transferred to the account at the new firm, or such shareholder must continue to maintain a

retirement account at Merrill Lynch for those shares.

Exchange Privilege. U.S. Class A and Class B shareholders of the Fund each have an exchange privilege with certain other mutual funds sponsored by Merrill Lynch. There is currently no limitation on the number of times a shareholder may exercise the exchange privilege. The exchange privilege may be modified or terminated in accordance with the rules of the Securities and Exchange Commission. Class A shareholders of the Fund may exchange their shares ("outstanding Class A shares") for Class A shares of another fund ("new Class A shares") on the basis of relative net asset value per Class A share, plus an amount equal to the difference, if any, between the sales charge previously paid on the outstanding Class A shares and the sales charge payable at the time of the exchange on the new Class A shares. The Fund's exchange privilege is modified with respect to purchases of Class A shares under the Merrill Lynch Mutual Fund Adviser program. First, the initial allocation of assets is made under the program. Then, any subsequent exchange under the program of Class A shares of a fund for Class A shares of the Fund will be made solely on the basis of the relative net asset values of the shares being exchanged. Therefore, there will not be a charge for any difference between the sales charge previously paid on the shares of the other fund and the sales charge payable on the shares of the Fund being acquired in the exchange under this program.

Class B shareholders of the Fund may exchange their shares ("outstanding Class B shares") for Class B shares of another fund ("new Class B shares") on the basis of relative net asset value per share without the payment of any contingent deferred sales charge that might otherwise be due upon redemption of the outstanding Class B shares. Class B shareholders of the Fund exercising the exchange privilege will continue to be subject to the Fund's contingent deferred sales charge schedule if such schedule is higher than the deferred sales charge schedule relating to the new Class B shares. In addition, Class B shares of the Fund acquired through use of the exchange privilege will be subject to the Fund's contingent deferred sales charge schedule if such schedule is higher than the deferred sales charge schedule relating to the Class B shares of the fund from which the exchange has been made. For purposes of computing the contingent deferred sales charge that may be payable upon a disposition of the new Class B shares, the holding period for the outstanding Class B shares is "tacked" to the holding period of the new Class B shares. Class A and Class B shareholders of the Fund may also exchange their shares for shares of certain money market funds, but in the case of an exchange from Class B shares, the period of time that shares are held in a money market fund will not count toward satisfaction of the holding period requirement for purposes of reducing the contingent deferred sales charge. Exercise of the exchange privilege is treated as a sale for Federal income tax purposes. For further information, see "Shareholder Services--Exchange Privilege" in the Statement of Additional Information.

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Automatic Reinvestment of Dividends and Distributions. All dividends and capital gains distributions are automatically reinvested in full and fractional shares of the Fund, without sales charge, at the net asset value per share next determined on the ex-dividend date of such dividend or distribution. A shareholder may at any time, by written notification to Merrill Lynch if the shareholder's account is maintained with Merrill Lynch or by written notification or telephone call (1-800-MER-FUND) to the Transfer Agent if the shareholder's account is maintained with the Transfer Agent, elect to have subsequent dividends, or both dividends and capital gains distributions, paid in cash, rather than reinvested, in which event payment will be mailed on the payment date. No contingent deferred sales charge will be imposed on redemption of shares issued as a result of the automatic reinvestment of dividends or capital gains distributions. The Automatic Investment Program is not available to shareholders whose shares are held in a brokerage account with Merrill Lynch other than a CMA (R) account.

Systematic Withdrawals and Automatic Investment Plans. A Class A shareholder may elect to receive systematic withdrawal payments from his Investment Account in the form of payments by check or through automatic payment by direct deposit to his bank account on either a monthly or quarterly basis. A Class A shareholder whose shares are held within a CMA (R), CBA (R) or Retirement Account may elect to have shares redeemed on a monthly, bimonthly, quarterly, semiannual or annual basis through the Systematic Redemption Program, subject to certain conditions. Regular additions of Class A shares may be made to an investor's Investment Account by prearranged charges of \$50 or more to his regular bank account. Investors who maintain CMA (R) accounts may arrange to have periodic investments made in the Fund in their CMA accounts or in certain related accounts in amounts of \$250 or more through the CMA Automatic Investment Program. The Automatic Investment Program is not available to shareholders whose shares are held in a brokerage account with Merrill Lynch (other than a CMA (R) account).

## PERFORMANCE DATA

From time to time the Fund may include its average annual total return for various specified time periods in advertisements or information furnished to present or prospective shareholders. Average annual total return is computed separately for Class A and Class B shares in accordance with a formula specified by the Securities and Exchange Commission.

Average annual total return quotations for the specified periods will be computed by finding the average annual compounded rates of return (based on net investment income and any capital gains or losses on portfolio investments over such periods) that would equate the initial amount invested to the redeemable value of such investment at the end of each period. Average annual total return will be computed assuming all dividends and distributions are reinvested and taking into account all applicable recurring and nonrecurring expenses, including the maximum sales charge in the case of Class A shares and the contingent deferred sales charge that would be applicable to a complete redemption of the investment at the end of the specified period in the case of Class B shares. Dividends paid by the Fund with respect to Class A and Class B shares, to the extent any dividends are paid, will be calculated in the same manner at the same time on the same day and will be in the same amount, except that account maintenance and distribution fees and any incremental transfer agency costs relating to Class B shares will be borne exclusively by that class. The Fund will include performance data for both Class A and Class B shares of the Fund in any advertisement or information including performance data of the Fund.

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The Fund also may quote total return and aggregate total return performance data for various specified time periods. Such data will be calculated substantially as described above, except that (1) the rates of return calculated will not be average annual rates, but rather, actual annual, annualized or aggregate rates of return, and (2) the maximum applicable sales charges will not be included with respect to annual or annualized rates of return calculations. Aside from the impact on the performance data calculations of including or excluding the maximum applicable sales charges, actual annual or annualized total return data generally will be lower than average annual total return data since the average annual rates of return reflect compounding; aggregate total return data generally will be higher than average annual total return data since the aggregate rates of return reflect compounding over longer periods of time. In advertisements directed to investors whose purchases are subject to reduced sales charges in the case of Class A shares or waiver of the contingent deferred sales charge in the case of Class B shares (such as investors in certain retirement plans), performance data may take into account the reduced, and not the maximum, sales charge or may not take into account the contingent deferred sales charge and therefore may reflect greater total return since, due to the reduced sales charges or waiver of the contingent deferred sales charge, a lower amount of expenses may be deducted. See "Purchase of Shares". The Fund's total return may be expressed either as a percentage or as a dollar amount in order to illustrate the effect of such total return on a hypothetical \$1,000 investment in the Fund at the beginning of each specified period.

Total return figures are based on the Fund's historical performance and are not intended to indicate future performance. The Fund's total return will vary depending on market conditions, the securities comprising the Fund's portfolio, the Fund's operating expenses and the amount of realized and unrealized net capital gains or losses during the period. The value of an investment in the Fund will fluctuate, and an investor's shares, when redeemed, may be worth more or less than their original cost.

On occasion, the Fund may compare its performance to the Standard & Poor's 500 Composite Stock Price Index, the Dow Jones Industrial Average, or performance data published by Lipper Analytical Services, Inc., Morningstar Publications, Inc., Money Magazine, U.S. News & World Report, Business Week, CDA Investment Technology, Inc., Forbes Magazine, Fortune Magazine or other industry publications. In addition, from time to time the Fund may include the Fund's risk-adjusted performance ratings assigned by Morningstar Publications, Inc. in advertising or supplemental sales literature. As with other performance data, performance comparisons should not be considered representative of the Fund's relative performance for any future period.

## ADDITIONAL INFORMATION

### DIVIDENDS AND DISTRIBUTIONS

It is the Fund's intention to distribute all of its net investment income, if any. Dividends from such net investment income are paid at least annually. All net realized long- or short-term capital gains, if any, are distributed to the Fund's shareholders at least annually. The per share dividends and

distributions on Class B shares will be lower than the per share dividends and distributions on Class A shares as a result of the account maintenance, distribution and higher transfer agency fees applicable to the Class B shares. See "Additional Information--Determination of Net Asset Value". Dividends and distributions may be reinvested automatically in shares of the Fund, at net asset value without sales load. A shareholder whose account is maintained at the Transfer Agent may elect in writing to receive any such dividends or distributions or both, in cash. A shareholder whose account is maintained through Merrill Lynch may elect

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either to have both dividends and distributions reinvested or both paid in cash. Dividends and distributions are taxable to shareholders as described below whether they are reinvested in shares of the Fund or received in cash. From time to time, the Fund may declare a special distribution at or about the end of the calendar year in order to comply with a Federal income tax requirement that certain percentages of its ordinary income and capital gains be distributed during the calendar year.

Certain gains or losses attributable to foreign currency related gains or losses from certain of the Fund's investments may increase or decrease the amount of the Fund's income available for distribution to shareholders. If such losses exceed other income during a taxable year, (a) the Fund would not be able to make any ordinary dividend distributions, and (b) distributions made before the losses were realized would be recharacterized as a return of capital to shareholders, rather than as an ordinary dividend, reducing each shareholder's tax basis in the Fund shares for Federal income tax purposes. For a detailed discussion of the Federal tax considerations relevant to foreign currency transactions, see "Additional Information--Taxes". If in any fiscal year, the Fund has net income from certain foreign currency transactions, such income will be distributed annually.

All net realized long- or short-term capital gains, if any, are declared and distributed to the Fund's shareholders annually after the close of the Fund's fiscal year. Capital gains distributions will be automatically reinvested in shares unless the shareholder elects to receive such distributions in cash.

See "Shareholder Services--Automatic Reinvestment of Dividends and Capital Gains Distributions" for information as to how to elect either dividend reinvestment or cash payments.

#### DETERMINATION OF NET ASSET VALUE

Net asset value per share is determined once daily as of 4:15 p.m., New York time, following the close of the New York Stock Exchange ("NYSE") on each day during which the NYSE is open for trading or on such other day that there is sufficient trading in portfolio securities that the net asset value of the Fund's shares may be materially affected. Any assets or liabilities initially expressed in terms of non-U.S. dollar currencies are translated into U.S. dollars at the prevailing market rates as quoted by one or more banks or dealers on the day of valuation.

The net asset value is computed by dividing the value of the securities held by the Fund plus any cash or other assets (including interest and dividends accrued but not yet received) minus all liabilities (including accrued expenses) by the total number of shares outstanding at such time. Expenses, including the fee payable to the Manager and the account maintenance and distribution fees payable to the Distributor, are accrued daily. The per share net asset value of the Class B shares generally will be lower than the per share net asset value of the Class A shares reflecting the daily expense accruals of the account maintenance, distribution and higher transfer agency fees applicable with respect to the Class B shares. It is expected, however, that the per share net asset value of the two classes will tend to converge immediately after the payment of dividends or distribution which will differ by approximately the amount of the expense accrual differential between the classes.

Portfolio securities which are traded on stock exchanges are valued at the last sale price as of the close of business on the date the securities are being valued or, lacking any sales, at the last available bid price. Securities traded in the over-the-counter market are valued at the last available bid prices obtained from one or more dealers in the over-the-counter market prior to the time of valuation. Portfolio securities which are

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traded both in the over-the-counter market and on a stock exchange are valued according to the broadest and most representative market. Other investments, including futures contracts and related options, are stated at market value. Securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Board of Directors of the Fund.

## TAXES

The Fund intends to continue to qualify for the special tax treatment afforded regulated investment companies ("RICs") under the Internal Revenue Code of 1986, as amended (the "Code"). If it so qualifies, the Fund (but not its shareholders) will not be subject to Federal income tax on the part of its net ordinary income and net realized capital gains which it distributes to Class A and Class B shareholders (together, the "shareholders"). The Fund intends to distribute substantially all of such income.

Dividends paid by the Fund from its ordinary income and distributions of the Fund's net realized short-term capital gains (together referred to hereafter as "ordinary income dividends") are taxable to shareholders as ordinary income. Distributions made from the Fund's net realized long-term capital gains (including long-term gains from certain transactions in futures and options) ("capital gain dividends") are taxable to shareholders as long-term capital gains, regardless of the length of time the shareholder has owned Fund shares. Distributions in excess of the Fund's earnings and profits will first reduce the adjusted tax basis of a holder's shares and, after such adjusted tax basis is reduced to zero, will constitute capital gains to such holder (assuming the shares are held as a capital asset).

Dividends are taxable to shareholders even though they are reinvested in additional shares of the Fund. Not later than 60 days after the close of its taxable year, the Fund will provide its shareholders with a written notice designating the amounts of any ordinary income dividends or capital gain dividends. A portion of the Fund's ordinary income dividends may be eligible for the dividends received deduction allowed to corporations under the Code, if certain requirements are met. If the Fund pays a dividend in January which was declared in the previous October, November or December to shareholders of record on a specified date in one of such months, then such dividend will be treated for tax purposes as being paid by the Fund and received by its shareholders on December 31 of the year in which such dividend was declared.

Ordinary income dividends paid by the Fund to shareholders who are nonresident aliens or foreign entities will be subject to a 30% U.S. withholding tax under existing provisions of the Code applicable to foreign individuals and entities unless a reduced rate of withholding or a withholding exemption is provided under applicable treaty law. Nonresident shareholders are urged to consult their own tax advisers concerning the applicability of the U.S. withholding tax.

Dividends and interest received by the Fund may give rise to withholding and other taxes imposed by foreign countries. Tax conventions between certain countries and the U.S. may reduce or eliminate such taxes. Shareholders may be able to claim U.S. foreign tax credits with respect to such taxes, subject to certain conditions and limitations contained in the Code. For example, certain retirement accounts cannot claim foreign tax credits on investments in foreign securities held in the Fund. If more than 50% in value of the Fund's total assets at the close of its taxable year consists of securities of foreign corporations, the Fund will be eligible, and intends, to file an election with the Internal Revenue Service pursuant to which shareholders of the Fund will be required to include their proportionate shares of such withholding taxes in their U.S. income tax returns as gross income, treat such proportionate shares as taxes paid by them, and deduct such

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proportionate shares in computing their taxable incomes or, alternatively, use them as foreign tax credits against their U.S. income taxes. No deductions for foreign taxes, however, may be claimed by noncorporate shareholders who do not itemize deductions. A shareholder that is a nonresident alien individual or a foreign corporation may be subject to U.S. withholding tax on the income resulting from the Fund's election described in this paragraph but may not be able to claim a credit or deduction against such U.S. tax for the foreign taxes treated as having been paid by such shareholder. The Fund will report annually to its shareholders the amount per share of such withholding taxes.

Under certain provisions of the Code, some shareholders may be subject to a 31% withholding tax on ordinary income dividends, capital gain dividends and redemption payments ("backup withholding"). Generally, shareholders subject to backup withholding will be those for whom no certified taxpayer identification number is on file with the Fund or who, to the Fund's knowledge, have furnished an incorrect number. When establishing an account, an investor must certify under penalty of perjury that such number is correct and that such investor is not otherwise subject to backup withholding.

The Fund may invest up to 10% of its total assets in securities of closed-end investment companies. If the Fund purchases shares of an investment company (or similar investment entity) organized under foreign law, the Fund will be treated as owning shares in a passive foreign investment company ("PFIC") for U.S. Federal income tax purposes. The Fund may be subject to U.S. Federal



income tax, and an additional tax in the nature of interest (the "interest charge"), on a portion of distributions from such company and on gain from the disposition of the shares of such company (collectively referred to as "excess distributions"), even if such excess distributions are paid by the Fund as a dividend to its shareholders. The Fund may be eligible to make an election with respect to certain PFICs in which it owns shares that will allow it to avoid the taxes on excess distributions. However, such election may cause the Fund to recognize income in a particular year in excess of the distributions received from such PFICs. Alternatively, under proposed regulations, the Fund might elect to "mark to market" at the end of each taxable year all shares that it holds in PFICs. If it made this election, the Fund would recognize as ordinary income any increase in the value of such shares. Unrealized losses, however, will not be recognized. By making the mark-to-market election, the Fund could avoid imposition of the interest charge with respect to its distributions from PFICs, but in any particular year might be required to recognize income in excess of the distributions it receives from PFICs and its proceeds from dispositions of PFIC stock.

Under Code Section 988, foreign currency gains or losses from certain debt instruments, from certain forward contracts, from futures contracts that are not "regulated futures contracts" and from unlisted options will generally be treated as ordinary income or loss. Such Code Section 988 gains or losses will generally increase or decrease the amount of the Fund's investment company taxable income available to be distributed to shareholders as ordinary income. Additionally, if Code Section 988 losses exceed other investment company taxable income during a taxable year, the Fund would not be able to make any ordinary dividend distributions, and any distributions made before the losses were realized but in the same taxable year would be recharacterized as a return of capital to shareholders, thereby reducing the basis of each shareholder's Fund shares and resulting in a capital gain for any shareholder who received a distribution greater than such shareholder's basis in Fund shares (assuming the shares were held as a capital asset).

If a Class A shareholder exercises the exchange privilege within 90 days of acquiring the shares, then the loss the shareholder can recognize on the exchange will be reduced (or the gain increased) to the extent the sales charge paid to the Fund reduces any sales charge the shareholder would have owed upon purchase

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of the new Class A shares in the absence of the exchange privilege. Instead, such sales charge will be treated as an amount paid for the new Class A shares.

A loss realized on a sale or exchange of shares of the Fund will be disallowed if other Fund shares are acquired (whether under the Automatic Dividend Reinvestment Plan or otherwise) within a 61-day period beginning 30 days before and ending 30 days after the date that the shares are disposed of. In such a case, the basis of the shares acquired will be adjusted to reflect the disallowed loss.

The foregoing is a general and abbreviated summary of the applicable provisions of the Code and Treasury regulations presently in effect. For the complete provisions, reference should be made to the pertinent Code sections and the Treasury regulations promulgated thereunder. The Code and the Treasury regulations are subject to change by legislative or administrative action either prospectively or retroactively.

Ordinary income dividends and capital gain dividends may also be subject to state and local taxes.

Certain states exempt from state income taxation dividends paid by RICs which are derived from interest on U.S. Government obligations. State law varies as to whether dividend income attributable to U.S. Government obligations is exempt from state income tax.

Shareholders are urged to consult their tax advisers regarding specific questions as to Federal, foreign, state or local taxes. Foreign investors should consider applicable foreign taxes in their evaluation of an investment in the Fund.

#### ORGANIZATION OF THE FUND

The Fund was incorporated under Maryland law on April 14, 1989. It has an authorized capital of 200,000,000 shares of Common Stock, par value \$0.10 per share, divided into two classes designated Class A Common Stock and Class B Common Stock, each of which consists of 100,000,000 shares. Both Class A Common Stock and Class B Common Stock represent an interest in the same assets of the Fund and are identical in all respects except that the Class B shares bear certain expenses related to the account maintenance and distribution of such shares and have exclusive voting rights with respect to matters relating to such account maintenance and distribution expenditures. See "Purchase of

Shares". The Fund has received an order from the Securities and Exchange Commission permitting the issuance and sale of multiple classes of Common Stock. The Directors of the Fund may classify and reclassify the shares of the Fund into additional classes of Common Stock at a future date.

Shareholders are entitled to one vote for each share held and fractional votes for fractional shares held and will vote on the election of Directors and any other matter submitted to a shareholder vote. The Fund does not intend to hold meetings of shareholders in any year in which the Investment Company Act does not require shareholders to act upon any of the following matters: (i) election of Directors; (ii) approval of an investment advisory agreement; (iii) approval of a distribution agreement; and (iv) ratification of selection of independent accountants. Also, the by-laws of the Fund require that a special meeting of stockholders be held upon the written request of at least 10% of the outstanding shares of the Fund entitled to vote at such meeting. Voting rights for Directors are not cumulative. Shares issued are fully paid and non-assessable and have no preemptive or conversion rights. Each share of Class A Common Stock and Class B Common Stock is entitled to participate equally in dividends and distributions declared by the Fund and in the net assets of the Fund on liquidation or dissolution after satisfaction of outstanding liabilities, except that, as noted above, the Class B shares bear certain expenses related to the distribution of such shares.

SHAREHOLDER REPORTS

Only one copy of each shareholder report and certain shareholder communications will be mailed to each identified shareholder regardless of the number of accounts such shareholder has. If a shareholder wishes to receive separate copies of each report and communication for each of the shareholder's related accounts, the shareholder should notify in writing:

Financial Data Services, Inc.  
Attn: Document Evaluation Unit  
P.O. Box 45290  
Jacksonville, FL 32232-5290

The written notification should include the shareholder's name, address, tax identification number and Merrill Lynch and/or mutual fund account numbers. If you have any questions regarding this, please call your Merrill Lynch financial consultant or Financial Data Services, Inc. at 1-800-637-3863.

SHAREHOLDER INQUIRIES

Shareholder inquiries may be addressed to the Fund at the address or telephone number set forth on the cover page of this Prospectus.

MERRILL LYNCH DEVELOPING CAPITAL MARKETS FUND, INC.--AUTHORIZATION FORM

1. SHARE PURCHASE APPLICATION

I, being of legal age, wish to purchase . . . . Class A shares or . . . . Class B shares (choose one) of Merrill Lynch Developing Capital Markets Fund, Inc. and establish an Investment Account as described in the Prospectus.

Basis for establishing an Investment Account:

A. I enclose a check for \$ . . . . payable to Financial Data Services, Inc., as an initial investment (minimum \$1,000) (subsequent investments \$50 or more). I understand that this purchase will be executed at the applicable offering price next to be determined after this application is received by you.

B. I already own shares of the following Merrill Lynch mutual funds that would qualify for the right of accumulation as outlined in the Statement of Additional Information:

- 1. .... 4. ....
- 2. .... 5. ....
- 3. .... 6. ....

(Please list all funds. Use a separate sheet of paper if necessary.)

Until you are notified by me in writing, the following options with respect to dividends and distributions are elected:

Distribution Elect  reinvest dividends      Elect  reinvest capital gains  
Options One  pay dividends in cash      One  pay capital gains in cash

If no election is made, dividends and capital gains will be reinvested automatically at net asset value without a sales charge.

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(Please Print)



Name.....   
 First Name Initial Last Name Social Security No.  
 Name of Co-Owner (if any)..... or Taxpayer  
 First Name Initial Last Name Identification No.  
 Address.....  
 .....  
 (Zip Code) Date 19..

Occupation..... Name and address of employer .....  
 .....  
 .....

Under penalty of perjury, I certify (1) that the number set forth above is my correct Social Security No. or Taxpayer Identification No. and (2) that I am not subject to backup withholding (as discussed in the Prospectus under "Additional Information--Taxes") either because I have not been notified that I am subject thereto as a result of a failure to report all interest or dividends, or the Internal Revenue Service ("IRS") has notified me that I am no longer subject thereto.

INSTRUCTION: YOU MUST STRIKE OUT THE LANGUAGE IN (2) ABOVE IF YOU HAVE BEEN NOTIFIED THAT YOU ARE SUBJECT TO BACKUP WITHHOLDING DUE TO UNDERREPORTING AND IF YOU HAVE NOT RECEIVED A NOTICE FROM THE IRS THAT BACKUP WITHHOLDING HAS BEEN TERMINATED. THE UNDERSIGNED AUTHORIZES THE FURNISHING OF THIS CERTIFICATION TO OTHER MERRILL LYNCH SPONSORED MUTUAL FUNDS.

Signature of Owner..... Signature of Co-Owner (if any).....  
 In the case of co-owners, a joint tenancy with right of survivorship will be presumed unless otherwise specified.

2. LETTER OF INTENTION--CLASS A SHARES ONLY (SEE TERMS AND CONDITIONS IN THE STATEMENT OF ADDITIONAL INFORMATION)  
 Gentlemen: ..... 19.....  
 Date of Initial Purchase

Although I am not obligated to do so, I intend to purchase shares of Merrill Lynch Developing Capital Markets Fund, Inc. or any other investment company with an initial sales charge or deferred sales charge for which Merrill Lynch Funds Distributor, Inc. acts as distributor over the next 13-month period which will equal or exceed:

\$10,000  \$25,000  \$50,000  \$100,000  \$250,000  \$1,000,000  
 Each purchase will be made at the then reduced offering price applicable to the amount checked above, as described in the Merrill Lynch Developing Capital Markets Fund, Inc. prospectus.

I agree to the terms and conditions of the Letter of Intention. I hereby irrevocably constitute and appoint Merrill Lynch Funds Distributor, Inc. my attorney, with full power of substitution, to surrender for redemption any or all shares of Merrill Lynch Developing Capital Markets Fund, Inc. held as security.

By .....  
 Signature of Owner Signature of Co-Owner  
 (If registered in joint names, both must sign)

In making purchases under this letter, the following are the related accounts on which reduced offering prices are to apply:  
 (1) Name..... (2) Name.....

MERRILL LYNCH DEVELOPING CAPITAL MARKETS FUND, INC.--AUTHORIZATION FORM

3. SYSTEMATIC WITHDRAWAL PLAN--CLASS A SHARES ONLY (SEE TERMS AND CONDITIONS IN THE STATEMENT OF ADDITIONAL INFORMATION)  
 Minimum Requirements: \$10,000 for monthly disbursements, \$5,000 for quarterly, of shares in Merrill Lynch Developing Capital Markets Fund, Inc. at cost or current offering price.

Begin systematic withdrawal on ..... 19.. one  Monthly  Quarterly\*  
 [Date]  
 \*Quarterly withdrawals are made on the 24th day of March, June, September and December.

Specify withdrawal amount (check one):  \$ . . . . . or  . . . . . % of the current value of Class A shares in the account.  
 Specify withdrawal method:  check or  direct deposit to bank account (check one and complete part (a) or (b) below):

(A) I HEREBY AUTHORIZE PAYMENT BY CHECK (B) I HEREBY AUTHORIZE PAYMENT BY  
 Draw checks payable DIRECT DEPOSIT TO BANK ACCOUNT AND

(check one)

(IF NECESSARY) DEBIT ENTRIES AND ADJUSTMENTS FOR ANY CREDIT ENTRIES MADE IN ERROR TO MY ACCOUNT.

[ ] as indicated in Item 1.

Specify type of account (check one): [ ] checking [ ] savings

[ ] to the order of.....

I agree that this authorization will remain in effect until I provide written notification to Financial Data Services, Inc. amending or terminating this service.

Mail to (check one)

[ ] the address indicated in Item 1.

[ ] Name (Please Print).....

Name on your Account..... Bank.....

Bank #..... Account #.....

Address.....

Bank Address.....

Signature of Depositor... Date.....

Signature of Owner.....

Signature of Depositor (if joint account).....

Signature of Co-Owner (if any).....

NOTE: If Automatic Direct Deposit is elected, your blank, unsigned check marked "VOID" or a deposit slip from your savings account should accompany this Application.

4. APPLICATION FOR AUTOMATIC INVESTMENT PLAN

I hereby request that Financial Data Services, Inc. draw a check or an automated clearing house ("ACH") debit on my checking account described below each month to purchase ..... Class A shares or ..... Class B shares (choose one) of Merrill Lynch Developing Capital Markets Fund, Inc., subject to the terms set forth below.

FINANCIAL DATA SERVICES, INC.

AUTHORIZATION TO HONOR CHECKS OR ACH

You are hereby authorized to draw a check or an ACH debit each month on my bank account for investment in Merrill Lynch Developing Capital Markets Fund, Inc. as indicated below:

DEBITS DRAWN BY FINANCIAL DATA SERVICES, INC.

To.....Bank (Investor's Bank)

Bank Address.....

Amount of each check or ACH debit \$.....

City..... State..... Zip Code.....

Account No.....

As a convenience to me, I hereby request and authorize you to pay and charge to my account checks or ACH debits drawn on my account by and payable to Financial Data Services, Inc., Transfer Agency Mutual Fund Operations, Jacksonville, Florida 32232-5289. I agree that your rights in respect to each such check or debit shall be the same as if it were a check drawn on you and signed personally by me. This authority is to remain in effect until revoked personally by me in writing. Until you receive such notice, you shall be fully protected in honoring any such check or debit. I further agree that if any such check or debit be dishonored, whether with or without cause and whether intentionally or inadvertently, you shall be under no liability.

Please date and invest checks or draw ACH debits on the 20th of each month beginning..... (Month)

or as soon thereafter as possible.

I agree that you are preparing these checks or drawing these debits voluntarily at my request and that you shall not be liable for any loss arising from any delay in preparing or failure to prepare any such check or debit. If I change banks or desire to terminate or suspend this program, I agree to notify you promptly in writing.

I further agree that if a check or debit is not honored upon presentation, Financial Data Services, Inc. is authorized to discontinue immediately the Automatic Investment Plan and to liquidate sufficient shares held in my account to offset the purchase made with the returned check or dishonored debit.

..... Date Signature of Depositor

..... Bank Signature of Depositor

..... Account (If joint account, Number both must sign)

NOTE: IF AUTOMATIC INVESTMENT PLAN IS ELECTED, YOUR BLANK, UNSIGNED CHECK MARKED "VOID" SHOULD ACCOMPANY THIS APPLICATION.

..... Date Signature of Depositor

..... Signature of Depositor (If joint account, both must sign)

5. FOR DEALER ONLY

Branch Office, Address, Stamp.

We hereby authorize Merrill Lynch Funds Distributor, Inc. to act as our agent in connection with transactions under this authorization form and agree to notify the Distributor of any purchases made under a Letter of Intention or Systematic Withdrawal Plan. We guarantee the shareholder's signature.

.....  
Dealer Name and Address

By .....  
Authorized Signature of Dealer

[\_][\_][\_] [\_][\_][\_] .....  
Branch-Code F/C No. F/C Last Name

[\_][\_][\_] [\_][\_][\_] .....  
Dealer's Customer A/C No.

This form when completed should be mailed to:

Merrill Lynch Developing Capital Markets Fund, Inc.  
c/o Financial Data Services, Inc.  
Transfer Agency Mutual Fund Operations  
P.O. Box 45289  
Jacksonville, Florida 32232-5289

Manager

Merrill Lynch Asset Management

Administrative Offices:  
800 Scudders Mill Road  
Plainsboro, New Jersey 08536

Mailing Address:  
Box 9011  
Princeton, New Jersey 08543-9011

Distributor

Merrill Lynch Funds Distributor, Inc.

Administrative Offices:  
800 Scudders Mill Road  
Plainsboro, New Jersey 08536

Mailing Address:  
Box 9011  
Princeton, New Jersey 08543-9011

Transfer Agent

Financial Data Services, Inc.

Administrative Offices:  
Transfer Agency Mutual Fund Operations  
4800 Deer Lake Drive East  
Jacksonville, Florida 32246-6484

Mailing Address:  
P.O. Box 45289  
Jacksonville, Florida 32232-5289

Custodian

The Chase Manhattan Bank, N.A.  
Global Securities Services  
Chase MetroTech Center  
Brooklyn, New York 11245

Independent Auditors

Deloitte & Touche  
117 Campus Drive  
Princeton, New Jersey 08540

Counsel

Brown & Wood  
One World Trade Center  
New York, New York 10048-0557

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Code # 10893

Prospectus

[ART]

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MERRILL LYNCH DEVELOPING CAPITAL MARKETS FUND, INC.

July 1, 1994

Distributor:  
Merrill Lynch  
Funds Distributor, Inc.

This prospectus should be  
retained for future reference.

STATEMENT OF ADDITIONAL INFORMATION  
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MERRILL LYNCH DEVELOPING CAPITAL MARKETS FUND, INC.

BOX 9011, PRINCETON, NEW JERSEY 08543-9011 . PHONE NO. (609) 282-2800  
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Merrill Lynch Developing Capital Markets Fund, Inc. (the "Fund") is a non-diversified mutual fund seeking long-term capital appreciation by investing in securities, principally equities, of issuers in countries having smaller capital markets. This objective of the Fund reflects the belief that investment opportunities may result from an evolving long-term international trend favoring more market-oriented economies, a trend that may especially benefit certain countries having smaller capital markets. The Fund may employ a variety of instruments and techniques to hedge against market and currency risk.

The Fund offers two classes of shares which may be purchased at a price equal

to the next determined net asset value per share, plus a sales charge which, at the election of the purchaser, may be imposed (i) at the time of purchase (the "Class A shares") or (ii) on a deferred basis (the "Class B shares"). These alternatives permit an investor to choose the method of purchasing shares that is most beneficial given the amount of the purchase, the length of time the investor expects to hold the shares and other circumstances. Investors should understand that the purpose and function of the deferred sales charges with respect to the Class B shares are the same as those of the initial sales charge with respect to the Class A shares. Each share of Class A and Class B represents identical interests in the investment portfolio of the Fund and has the same rights, except that Class B shares bear the expenses of the account maintenance fee and distribution fee and certain other costs resulting from the deferred sales charge arrangement and have exclusive voting rights with respect to the account maintenance and distribution fees. The two classes also have different exchange privileges.

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This Statement of Additional Information of the Fund is not a prospectus and should be read in conjunction with the prospectus of the Fund, dated July 1, 1994 (the "Prospectus"), which has been filed with the Securities and Exchange Commission and can be obtained, without charge, by calling or by writing the Fund at the above telephone number or address. This Statement of Additional Information has been incorporated by reference into the Prospectus.

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MERRILL LYNCH ASSET MANAGEMENT--MANAGER

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.--DISTRIBUTOR

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The date of this Statement of Additional Information is July 1, 1994.

#### INVESTMENT OBJECTIVE AND POLICIES

The investment objective of the Fund is to seek long-term capital appreciation by investing in securities, principally equities, of issuers in countries having smaller capital markets. Reference is made to "Investment Objective and Policies" in the Prospectus for a discussion of the investment objective and policies of the Fund.

While it is the policy of the Fund generally not to engage in trading for short-term gains, Merrill Lynch Asset Management, L.P., doing business as Merrill Lynch Asset Management (the "Manager"), will effect portfolio transactions without regard to holding period, if, in its judgment, such transactions are advisable in light of a change in circumstances of a particular company or within a particular industry or due to general market, economic or financial conditions. Accordingly, while the Fund anticipates that its annual turnover rate should not exceed 100% under normal conditions, it is impossible to predict portfolio turnover rates. The portfolio turnover rate is calculated by dividing the lesser of the Fund's annual sales or purchases of portfolio securities (exclusive of purchases or sales of U.S. Government securities and of all other securities whose maturities at the time of acquisition were one year or less) by the monthly average value of securities in the portfolio during the year. For the fiscal years ended June 30, 1992, and 1993, the Fund's portfolio turnover rate was 71.05% and 91.72%, respectively. The Fund is subject to the Federal income tax requirement that less than 30% of the Fund's gross income must be derived from gains from the sale or other disposition of securities held for less than three months.

The U.S. Government has from time to time in the past imposed restrictions, through taxation and otherwise, on foreign investments by U.S. investors such as the Fund. If such restrictions should be reinstated, it might become necessary for the Fund to invest all or substantially all of its assets in U.S. securities. In such event, the Fund would review its investment objective and investment policies to determine whether changes are appropriate. Any changes in the investment objective or fundamental policies set forth under "Investment Restrictions" below would require the approval of the holders of a majority of the Fund's outstanding voting securities.

The Fund's ability and decisions to purchase or sell portfolio securities may be affected by laws or regulations relating to the convertibility and repatriation of assets. Because the shares of the Fund are redeemable on a daily basis on each day the Fund determines its net asset value in U.S. dollars, the Fund intends to manage its portfolio so as to give reasonable assurance that it will be able to obtain U.S. dollars to the extent necessary to meet anticipated redemptions. See "Redemption of Shares". Under present conditions, the Manager does not believe that these considerations will have any significant effect on its portfolio strategy, although there can be no assurance in this regard.

#### PORTFOLIO STRATEGIES INVOLVING OPTIONS AND FUTURES

Reference is made to the discussion under the caption "Investment Objective and Policies--Portfolio Strategies Involving Options and Futures" in the Prospectus for information with respect to various portfolio strategies involving options and futures. The Fund may seek to hedge its portfolio against movements in the equity, debt and currency markets. The Fund has authority to write (i.e., sell) covered put and call options on its portfolio securities, purchase put and call options on securities and engage in transactions in stock index options, stock index futures and stock futures and financial futures, and related options on such futures. The Fund may also deal in forward foreign exchange transactions, foreign currency options and futures and related options on such futures. Each of such portfolio strategies is described in the Prospectus. Although

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certain risks are involved in options and futures transactions (as discussed in the Prospectus and below), the Manager believes that, because the Fund will engage in options and futures transactions only for hedging purposes, the options and futures portfolio strategies of the Fund will not subject the Fund to the risks frequently associated with the speculative use of options and futures transactions. While the Fund's use of hedging strategies is intended to reduce the volatility of the net asset value of its shares, the net asset value of the Fund's shares will fluctuate. There can be no assurance that the Fund's hedging transactions will be effective. The following is further information relating to portfolio strategies involving options and futures the Fund may utilize.

**Writing Covered Options.** The Fund is authorized to write (i.e., sell) covered call options on the securities in which it may invest and to enter into closing purchase transactions with respect to certain of such options. A covered call option is an option where the Fund, in return for a premium, gives another party a right to buy specified securities owned by the Fund at a specified future date and price set at the time of the contract. The principal reason for writing call options is to attempt to realize, through the receipt of premiums, a greater return than would be realized on the securities alone. By writing covered call options, the Fund gives up the opportunity, while the option is in effect, to profit from any price increase in the underlying security above the option exercise price. In addition, the Fund's ability to sell the underlying security will be limited while the option is in effect unless the Fund effects a closing purchase transaction. A closing purchase transaction cancels out the Fund's position as the writer of an option by means of an offsetting purchase of an identical option prior to the expiration of the option it has written. Covered call options serve as a particular hedge against the price of the underlying security declining.

The writer of a covered call option has no control over when he may be required to sell his securities since he may be assigned an exercise notice at any time prior to the termination of his obligation as a writer. If an option expires unexercised, the writer realizes a gain in the amount of the premium. Such a gain, of course, may be offset by a decline in the market value of the underlying security during the option period. If a call option is exercised, the writer realizes a gain or loss from the sale of the underlying security.

The Fund also may write put options which give the holder of the option the right to sell the underlying security to the Fund at the stated exercise price. The Fund will receive a premium for writing a put option which increases the Fund's return. The Fund writes only covered put options which means that so long as the Fund is obligated as the writer of the option, it will, through its custodian, have deposited and maintained cash, cash equivalents, U.S. Government securities or other high grade liquid debt or equity securities denominated in U.S. dollars or non-U.S. currencies with a securities depository with a value equal to or greater than the exercise price of the underlying securities. By writing a put, the Fund will be obligated to purchase the underlying security at a price that may be higher than the market value of that security at the time of exercise for as long as the option is outstanding. The Fund may engage in closing transactions in order to terminate put options that it has written. The Fund will not write put options if the aggregate value of the obligations underlying the put options shall exceed 50% of the Fund's net assets.

Options referred to herein and in the Fund's Prospectus may be options traded on foreign securities exchanges such as the Amsterdam Stock Exchange, the Stock Exchange of Singapore or the Sydney Stock Exchange. An option position may be closed out only on an exchange which provides a secondary market for an option of the same series. If a secondary market does not exist, it might not be possible to effect closing transactions in particular options, with the result, in the case of a covered call option, that the Fund will not be able to sell the underlying security until the option expires or it delivers the underlying security upon

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exercise. Reasons for the absence of a liquid secondary market on an exchange include the following: (i) there may be insufficient trading interest in certain options; (ii) restrictions may be imposed by an exchange on opening transactions or closing transactions or both; (iii) trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of options or underlying securities; (iv) unusual or unforeseen circumstances may interrupt normal operations on an exchange; (v) the facilities of an exchange or the clearing corporation may not at all times be adequate to handle current trading volume; or (vi) one or more exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of options (or a particular class or series of options), in which event the secondary market on that exchange (or in that class or series of options) would cease to exist, although outstanding options on that exchange that had been issued by the clearing corporation as a result of trades on that exchange would continue to be exercisable in accordance with their terms.

The Fund may also enter into over-the-counter options transactions ("OTC options"), which are two party contracts with price and terms negotiated between the buyer and seller. The Fund will only enter into OTC options transactions with respect to portfolio securities for which management believes the Fund can receive on each business day at least two independent bids or offers (one of which will be from an entity other than a party to the option). The staff of the Securities and Exchange Commission (the "Commission") has taken the position that OTC options and the assets used as cover for written OTC options are illiquid securities.

**Purchasing Options.** The Fund may purchase put options to hedge against a decline in the market value of its equity holdings. By buying a put, the Fund has a right to sell the underlying security at the exercise price, thus limiting the Fund's risk of loss through a decline in the market value of the security until the put option expires. The amount of any appreciation in the value of the underlying security will be offset partially by the amount of the premium paid for the put option and any related transaction costs. Prior to its expiration, a put option may be sold in a closing sale transaction; profit or loss from the sale will depend on whether the amount received is more or less than the premium paid for the put option plus the related transaction costs. A closing sale transaction cancels out the Fund's position as the purchaser of an option by means of an offsetting sale of an identical option prior to the expiration of the option it has purchased. In certain circumstances, the Fund may purchase call options on securities held in its portfolio on which it has written call options or on securities which it intends to purchase. The Fund may purchase either exchange-traded options or OTC options. The Fund will not purchase options on securities (including stock index options discussed below) if as a result of such purchase, the aggregate cost of all outstanding options on securities held by the Fund would exceed 5% of the market value of the Fund's total assets.

**Stock Index Options and Futures and Financial Futures.** As described in the Prospectus, the Fund is authorized to engage in transactions in stock index options and futures and financial futures, and related options on such futures. Set forth below is further information concerning futures transactions.

A futures contract is an agreement between two parties to buy and sell a security or, in the case of an index-based futures contract, to make and accept a cash settlement for a set price on a future date. A majority of transactions in futures contracts, however, do not result in the actual delivery of the underlying instrument or cash settlement, but are settled through liquidation, i.e., by entering into an offsetting transaction.

The purchase or sale of a futures contract differs from the purchase or sale of a security in that no price or premium is paid or received. Instead, an amount of cash or securities acceptable to the broker and the

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relevant contract market, which varies, but is generally about 5% of the contract amount, must be deposited with the broker. This amount is known as "initial margin" and represents a "good faith" deposit assuring the performance of both the purchaser and seller under the futures contract. Subsequent payments to and from the broker, called "variation margin", are required to be made on a daily basis as the price of the futures contract fluctuates, making the long and short positions in the futures contract more or less valuable, a process known as "mark to market". At any time prior to the settlement date of the futures contract, the position may be closed out by taking an opposite position which will operate to terminate the position in the futures contract. A final determination of variation margin is then made, additional cash is required to be paid to or released by the broker, and the purchaser realizes a loss or gain. In addition, a nominal commission is paid on each completed sale transaction.

An order has been obtained from the Commission exempting the Fund from the

provisions of Section 17(f) and Section 18(f) of the Investment Company Act of 1940, as amended (the "Investment Company Act"), in connection with its strategy of investing in futures contracts. Section 17(f) relates to the custody of securities and other assets of an investment company and may be deemed to prohibit certain arrangements between the Fund and commodities brokers with respect to initial and variation margin. Section 18(f) of the Investment Company Act prohibits an open-end investment company such as the Fund from issuing a "senior security" other than a borrowing from a bank. The staff of the Commission has in the past indicated that a futures contract may be a "senior security" under the Investment Company Act.

**Foreign Currency Hedging.** Generally, the foreign exchange transactions of the Fund will be conducted on a spot, i.e., cash basis at the spot rate for purchasing or selling currency prevailing in the foreign exchange market. This rate under normal market conditions differs from the prevailing exchange rate in an amount generally less than one tenth of one percent due to the costs of converting from one currency to another. The Fund has authority, however, to deal in forward foreign exchange among currencies of the different countries in which it will invest as a hedge against possible variations in the foreign exchange rates among these currencies. This is accomplished through contractual agreements to purchase or sell a specified currency at a specified future date and price set at the time of the contract. The Fund's dealings in forward foreign exchange will be limited to hedging involving either specific transactions or portfolio positions. Transaction hedging is the purchase or sale of forward foreign currency with respect to specific receivables or payables of the Fund accruing in connection with the purchase and sale of its portfolio securities, the sale and redemption of shares of the Fund or the payment of dividends and distributions by the Fund. Position hedging is the sale of forward foreign currency with respect to portfolio security positions denominated or quoted in such foreign currency. The Fund will not speculate in forward foreign exchange. The Fund may not position hedge with respect to the currency of a particular country to an extent greater than the aggregate market value (at the time of making such sale) of the securities held in its portfolio denominated or quoted in that particular foreign currency. The Fund will enter into such transactions only to the extent, if any, deemed appropriate by the Manager. The Fund will not enter into a position hedging commitment if, as a result thereof, the Fund would have more than 15% of the value of its assets committed to such contracts. The Fund will not enter into a forward contract with a term of more than one year.

The Fund is also authorized to purchase or sell listed or over-the-counter foreign currency options, foreign currency futures and related options on foreign currency futures as a short or long hedge against possible variations in foreign exchange rates. Such transactions may be effected with respect to hedges on non-U.S. dollar denominated securities owned by the Fund, sold by the Fund but not yet delivered, or committed or anticipated to be purchased by the Fund. As an illustration, the Fund may use such techniques

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to hedge the stated value in U.S. dollars of an investment in a franc denominated security. In such circumstances, for example, the Fund may purchase a foreign currency put option enabling it to sell a specified amount of francs for dollars at a specified price by a future date. To the extent the hedge is successful, a loss in the value of the francs relative to the dollar will tend to be offset by an increase in the value of the put option. To offset, in whole or part, the cost of acquiring such a put option, the Fund may also sell a call option which, if exercised, requires it to sell a specified amount of francs for dollars at a specified price by a future date (a technique called a "straddle"). By selling such call option in this illustration, the Fund gives up the opportunity to profit without limit from increases in the relative value of the franc to the dollar. The Manager believes that "straddles" of the type which may be utilized by the Fund constitute hedging transactions and are consistent with the policies described above.

Hedging against a decline in the value of a currency does not eliminate fluctuations in the prices of portfolio securities or prevent losses if the prices of such securities decline. Such transactions also preclude the opportunity for gain if the value of the hedged currency should rise. Moreover, it may not be possible for the Fund to hedge against a devaluation that is so generally anticipated that the Fund is not able to contract to sell the currency at a price above the devaluation level it anticipates. The cost to the Fund of engaging in foreign currency transactions varies with such factors as the currencies involved, the length of the contract period and the market conditions then prevailing. Since transactions in foreign currency exchange usually are conducted on a principal basis, no fees or commissions are involved.

**Risk Factors in Options and Futures Transactions.** Utilization of options and futures transactions involves the risk of imperfect correlation in movements in the prices of options and futures contracts and movements in the prices of the securities or currencies which are the subject of the hedge. If the prices of the options and futures contract move more or less than the prices of the hedged securities or currencies, the Fund will experience a gain or loss which



will not be completely offset by movements in the prices of the securities or currencies which are the subject of the hedge. The successful use of options and futures also depends on the Manager's ability to correctly predict price movements in the market involved in a particular options or futures transaction.

Prior to exercise or expiration, an exchange-traded option or futures position can only be terminated by entering into a closing purchase or sale transaction. This requires a secondary market on an exchange for call or put options of the same series. The Fund will enter into an option or futures transaction on an exchange only if there appears to be a liquid secondary market for such options or futures. As a result, it is expected that the Fund will enter into exchange traded options and futures transactions only in the relatively mature smaller capital markets such as Australia, Hong Kong or Sweden, which have liquid secondary markets for such instruments. However, there can be no assurance that a liquid secondary market will exist for any particular call or put option or futures contract at any specific time. Thus, it may not be possible to close an option or futures position. The Fund will acquire only OTC options for which management believes the Fund can receive on each business day at least two independent bids or offers (one of which will be from an entity other than a party to the option) or which can be sold at a formula price provided for in the OTC option agreement. In the case of a futures position or an option on a futures position written by the Fund in the event of adverse price movements, the Fund would continue to be required to make daily cash payments of variation margin. In such situations, if the Fund has insufficient cash, it may have to sell portfolio securities to meet daily variation margin requirements at a time when it may be disadvantageous to do so. In addition, the Fund may be required to take or make delivery of the securities and currencies underlying futures contracts it holds. The inability to close options and futures positions also could have an adverse impact on

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the Fund's ability to hedge effectively its portfolio. There is also the risk of loss by the Fund of margin deposits in the event of bankruptcy of a broker with whom the Fund has an open position in a futures contract or related option. The risk of loss from investing in futures transactions is theoretically unlimited.

The exchanges on which the Fund intends to conduct options transactions generally have established limitations governing the maximum number of call or put options on the same underlying security or currency (whether or not covered) which may be written by a single investor, whether acting alone or in concert with others (regardless of whether such options are written on the same or different exchanges or are held or written on one or more accounts or through one or more brokers). "Trading limits" are imposed on the maximum number of contracts which any person may trade on a particular trading day. An exchange may order the liquidation of positions found to be in violation of these limits, and it may impose other sanctions or restrictions. The Manager does not believe that these trading and position limits will have any adverse impact on the portfolio strategies for hedging the Fund's portfolio.

#### OTHER INVESTMENT POLICIES AND PRACTICES

**Non-Diversified Status.** The Fund is classified as non-diversified within the meaning of the Investment Company Act, which means that the Fund is not limited by such Act in the proportion of its assets that it may invest in securities of a single issuer. The Fund's investments will be limited, however, in order to qualify as a "regulated investment company" for purposes of the Internal Revenue Code of 1986, as amended. See "Dividends, Distributions and Taxes-- Taxes". To qualify, the Fund will comply with certain requirements, including limiting its investments so that at the close of each quarter of the taxable year (i) not more than 25% of the market value of the Fund's total assets will be invested in the securities of a single issuer, and (ii) with respect to 50% of the market value of its total assets, not more than 5% of the market value of its total assets will be invested in the securities of a single issuer, and the Fund will not own more than 10% of the outstanding voting securities of a single issuer. A fund which elects to be classified as "diversified" under the Investment Company Act must satisfy the foregoing 5% and 10% requirements with respect to 75% of its total assets. To the extent that the Fund assumes large positions in the securities of a small number of issuers, the Fund's yield may fluctuate to a greater extent than that of a diversified company as a result of changes in the financial condition or in the market's assessment of the issuers.

**When-Issued Securities and Delayed Delivery Transactions.** The Fund may purchase securities on a when-issued basis, and it may purchase or sell securities for delayed delivery. These transactions occur when securities are purchased or sold by the Fund with payment and delivery taking place in the future to secure what is considered an advantageous yield and price to the Fund at the time of entering into the transaction. Although the Fund has not established any limit on the percentage of its assets that may be committed in connection with such transactions, the Fund will maintain a segregated account with its custodian of cash, cash equivalents, U.S. Government securities or

other high grade liquid debt or equity securities denominated in U.S. dollars or non-U.S. currencies in an aggregate amount equal to the amount of its commitment in connection with such purchase transactions.

Standby Commitment Agreements. The Fund may from time to time enter into standby commitment agreements. Such agreements commit the Fund, for a stated period of time, to purchase a stated amount of a fixed income security which may be issued and sold to the Fund at the option of the issuer. The price and coupon of the security is fixed at the time of the commitment. At the time of entering into the agreement the Fund is paid a commitment fee, regardless of whether or not the security is ultimately issued, which is

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typically approximately 0.5% of the aggregate purchase price of the security that the Fund has committed to purchase. The Fund will enter into such agreements only for the purpose of investing in the security underlying the commitment at a yield and price that is considered advantageous to the Fund. The Fund will not enter into a standby commitment with a remaining term in excess of 45 days and will limit its investment in such commitments so that the aggregate purchase price of the securities subject to such commitments, together with the value of portfolio securities subject to legal restrictions on resale, will not exceed 10% of its assets taken at the time of acquisition of such commitment or security. The Fund will at all times maintain a segregated account with its custodian of cash, cash equivalents, U.S. Government securities or other high grade liquid debt or equity securities denominated in U.S. dollars or non-U.S. currencies in an aggregate amount equal to the purchase price of the securities underlying the commitment.

There can be no assurance that the securities subject to a standby commitment will be issued, and the value of the security, if issued, on the delivery date may be more or less than its purchase price. Because the issuance of the security underlying the commitment is at the option of the issuer, the Fund may bear the risk of a decline in the value of such security and may not benefit from an appreciation in the value of the security during the commitment period.

The purchase of a security subject to a standby commitment agreement and the related commitment fee will be recorded on the date on which the security can reasonably be expected to be issued, and the value of the security will thereafter be reflected in the calculation of the Fund's net asset value. The cost basis of the security will be adjusted by the amount of the commitment fee. In the event the security is not issued, the commitment fee will be recorded as income on the expiration date of the standby commitment.

Repurchase Agreements and Purchase and Sale Contracts. The Fund may invest in securities pursuant to repurchase agreements or purchase and sale contracts. Repurchase agreements and purchase and sale contracts may be entered into only with a member bank of the Federal Reserve System or primary dealer in U.S. Government securities. Under such agreements, the bank or primary dealer agrees, upon entering into the contract, to repurchase the security at a mutually agreed upon time and price in a specified currency, thereby determining the yield during the term of the agreement. This results in a fixed rate of return insulated from market fluctuations during such period although it may be affected by currency fluctuations. In the case of repurchase agreements, the prices at which the trades are conducted do not reflect the accrued interest on the underlying obligations; whereas, in the case of purchase and sale contracts, the prices take into account accrued interest. Such agreements usually cover short periods, often less than one week. Repurchase agreements may be construed to be collateralized loans by the purchaser to the seller secured by the securities transferred to the purchaser. In the case of a repurchase agreement, as a purchaser, the Fund will require the seller to provide additional collateral if the market value of the securities falls below the repurchase price at any time during the term of the repurchase agreement; the Fund does not have the right to seek additional collateral in the case of purchase and sale contracts. In the event of default by the seller under a repurchase agreement construed to be a collateralized loan, the underlying securities are not owned by the Fund but constitute only collateral for the seller's obligation to pay the repurchase price. Therefore, the Fund may suffer time delays and incur costs or possible losses in connection with the disposition of the collateral. A purchase and sale contract differs from a repurchase agreement in that the contract arrangements stipulate that the securities are owned by the Fund. In the event of a default under such a repurchase agreement or under a purchase and sale contract, instead of the contractual fixed rate of return, the rate of return to the Fund will depend on intervening fluctuations of the market value of such security and the accrued interest on the security. In such event, the Fund would have rights against the seller for breach of contract with

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respect to any losses resulting from market fluctuations following the failure of the seller to perform. The Fund may not invest more than 10% of its net assets in repurchase agreements or purchase and sale contracts maturing in more

than seven days. While the substance of purchase and sale contracts is similar to repurchase agreements, because of the different treatment with respect to accrued interest and additional collateral, management believes that purchase and sale contracts are not repurchase agreements as such term is understood in the banking and brokerage community.

**Lending of Portfolio Securities.** Subject to investment restriction (8) below, the Fund may lend securities from its portfolio to approved borrowers and receive collateral therefor in cash or securities issued or guaranteed by the U.S. Government which are maintained at all times in an amount equal to at least 100% of the current market value of the loaned securities. The purpose of such loans is to permit the borrower to use such securities for delivery to purchasers when such borrower has sold short. If cash collateral is received by the Fund, it is invested in short-term money market securities, and a portion of the yield received in respect of such investment is retained by the Fund. Alternatively, if securities are delivered to the Fund as collateral, the Fund and the borrower negotiate a rate for the loan premium to be received by the Fund for lending its portfolio securities. In either event, the total yield on the Fund's portfolio is increased by loans of its portfolio securities. The Fund will have the right to regain record ownership of loaned securities to exercise beneficial rights such as voting rights, subscription rights and rights to dividends, interest or other distributions. Such loans are terminable at any time, and the borrower, after notice, will be required to return borrowed securities within five business days. The Fund may pay reasonable finder's, administrative and custodial fees in connection with such loans. With respect to the lending of portfolio securities, there is the risk of failure by the borrower to return the securities involved in such transactions.

**No Rating Criteria for Debt Securities.** The Fund has established no rating criteria for the debt securities in which it may invest. Therefore, the Fund may invest in debt securities either (a) which are rated in one of the top four rating categories by a nationally recognized rating organization or which, in the Manager's judgment, possess similar credit characteristics ("investment grade securities") or (b) which are rated below the top four rating categories or which, in the Manager's judgment, possess similar credit characteristics ("high yield securities"). The Manager considers ratings as one of several factors in its independent credit analysis of issuers.

Issuers of high yield securities may be highly leveraged and may not have available to them more traditional methods of financing. Therefore, the risks associated with acquiring the securities of such issuers generally are greater than is the case with higher rated securities. For example, during an economic downturn or a sustained period of rising interest rates, issuers of high yield securities may be more likely to experience financial stress, especially if such issuers are highly leveraged. During such periods, such issuers may not have sufficient revenues to meet their interest payment obligations. The issuer's ability to service its debt obligations also may be adversely affected by specific issuer developments or the issuer's inability to meet specific projected business forecasts or the unavailability of additional financing. The risk of loss due to default by the issuer is significantly greater for the holders of high yield securities because such securities may be unsecured and may be subordinated to other creditors of the issuer.

High yield securities frequently have call or redemption features which would permit an issuer to repurchase the security from the Fund. If a call were exercised by the issuer during a period of declining interest rates, the Fund likely would have to replace such called security with a lower yielding security, thus decreasing the net investment income to the Fund and dividends to shareholders.

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The Fund may have difficulty disposing of certain high yield securities because there may be a thin trading market for such securities. The secondary trading market for high yield securities is generally not as liquid as the secondary market for higher rated securities. Reduced secondary market liquidity may have an adverse impact on market price and the Fund's ability to dispose of particular issues when necessary to meet the Fund's liquidity needs or in response to a specific economic event such as a deterioration in the creditworthiness of the issuer.

Adverse publicity and investor perceptions, which may not be based on fundamental analysis, also may decrease the value and liquidity of high yield securities, particularly in a thinly traded market. Factors adversely affecting the market value of high yield securities are likely to adversely affect the Fund's net asset value. In addition, the Fund may incur additional expenses to the extent it is required to seek recovery upon a default on a portfolio holding or participate in the restructuring of the obligation.

#### INVESTMENT RESTRICTIONS

The Fund has adopted the following restrictions and policies relating to the investment of its assets and its activities, which are fundamental policies and may not be changed without the approval of the holders of a majority of the

Fund's outstanding voting securities (which for this purpose and under the Investment Company Act means the lesser of (i) 67% of the shares represented at a meeting at which more than 50% of the outstanding shares are represented or (ii) more than 50% of the outstanding shares). The Fund may not:

1. Invest more than 25% of its assets, taken at market value at the time of each investment, in the securities of issuers in any particular industry (excluding the U.S. Government and its agencies and instrumentalities).

2. Make investments for the purpose of exercising control or management. Investments by the Fund in wholly-owned investment entities created under the laws of certain countries will not be deemed the making of investments for the purpose of exercising control or management.

3. Purchase securities of other investment companies, except in connection with a merger, consolidation, acquisition or reorganization, or by purchase in the open market of securities of closed-end investment companies where no underwriter or dealer's commission or profit, other than customary broker's commission, is involved and only if immediately thereafter not more than (i) 3% of the total outstanding voting stock of such company is owned by the Fund, (ii) 5% of the Fund's total assets, taken at market value, would be invested in any one such company, or (iii) 10% of the Fund's total assets, taken at market value, would be invested in such securities. Investments by the Fund in wholly-owned investment entities created under the laws of certain countries will not be deemed an investment in other investment companies.

4. Purchase or sell real estate (including real estate limited partnerships), except that the Fund may invest in securities secured by real estate or interests therein or issued by companies, including real estate investment trusts, which invest in real estate or interests therein.

5. Purchase any securities on margin, except that the Fund may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities. The payment by the Fund of initial or variation margin in connection with futures or related options transactions, if applicable, shall not be considered the purchase of a security on margin.

6. Make short sales of securities or maintain a short position.

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7. Make loans to other persons, except that the acquisition of bonds, debentures or other corporate debt securities and investment in government obligations, short-term commercial paper, certificates of deposit, bankers' acceptances and repurchase agreements and purchase and sale contracts shall not be deemed to be the making of a loan, and except further that the Fund may lend its portfolio securities as set forth in (8) below.

8. Lend its portfolio securities in excess of 33 1/3% of its total assets, taken at market value; provided that such loans may only be made in accordance with the guidelines set forth above.

9. Issue senior securities, borrow money or pledge its assets in excess of 20% of its total assets taken at market value (including the amount borrowed) and then only from a bank as a temporary measure for extraordinary or emergency purposes including to meet redemptions or to settle securities transactions. Usually only "leveraged" investment companies may borrow in excess of 5% of their assets; however, the Fund will not borrow to increase income but only as a temporary measure for extraordinary or emergency purposes including to meet redemptions or to settle securities transactions which may otherwise require untimely dispositions of Fund securities. The Fund will not purchase securities while borrowings exceed 5% of total assets except (a) to honor prior commitments or (b) to exercise subscription rights where outstanding borrowings have been obtained exclusively for settlements of other securities transactions. (For the purpose of this restriction, collateral arrangements with respect to the writing of options, and, if applicable, futures contracts, options on futures contracts, and collateral arrangements with respect to initial and variation margin are not deemed to be a pledge of assets and neither such arrangements nor the purchase or sale of futures or related options are deemed to be the issuance of a senior security.)

10. Invest in securities which cannot be readily resold because of legal or contractual restrictions or which are otherwise not readily marketable, including repurchase agreements and purchase and sale contracts maturing in more than seven days, if at the time of acquisition more than 10% of its net assets would be invested in such securities.

11. Underwrite securities of other issuers except insofar as the Fund technically may be deemed an underwriter under the Securities Act of 1933, as amended (the "Securities Act"), in selling portfolio securities.

12. Purchase or sell interests in oil, gas or other mineral exploration or development programs, except that the Fund may invest in securities issued by companies that engage in oil, gas or other mineral exploration or development activities.

Additional investment restrictions adopted by the Fund, which may be changed by the Board of Directors, provide that the Fund may not:

(i) Invest in warrants if at the time of acquisition its investments in warrants, valued at the lower of cost or market value, would exceed 5% of the Fund's net assets; included within such limitation, but not to exceed 2% of the Fund's net assets, are warrants which are not listed on the New York or American Stock Exchange. For purposes of this restriction, warrants acquired by the Fund in units or attached to securities may be deemed to be without value.

(ii) Purchase or sell commodities or commodity contracts, except that the Fund may deal in forward foreign exchange between currencies of the different countries in which it may invest and purchase and sell stock index and currency options, stock index futures, financial futures and currency futures contracts and related options on such futures.

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(iii) Invest in securities of corporate issuers having a record, together with predecessors, of less than three years of continuous operation, if more than 5% of its total assets, taken at market value, would be invested in such securities.

(iv) Write, purchase or sell puts, calls, straddles, spreads or combinations thereof, except to the extent described in the Fund's Prospectus and in this Statement of Additional Information, as amended from time to time.

(v) Purchase or retain the securities of any issuer, if those individual officers and directors of the Fund, the officers and general partner of the Manager, the directors of such general partner or the officers and directors of any subsidiary thereof each owning beneficially more than 1/2 of 1% of the securities of such issuer own in the aggregate more than 5% of the securities of such issuer.

Under the laws of a certain state, the Fund currently may not pay the Manager a management fee with respect to the Fund's assets invested in the shares of another investment company on which such other investment company is charging a management fee. The Manager has agreed to waive its management fee to the extent necessary to comply with this current state law requirement.

The staff of the Commission has taken the position that purchased OTC options and the assets used as cover for written OTC options are illiquid securities. Therefore, the Fund has adopted an investment policy pursuant to which it will not purchase or sell OTC options if, as a result of such transactions, the sum of the market value of OTC options currently outstanding which are held by the Fund, the market value of the underlying securities covered by OTC call options currently outstanding which were sold by the Fund and margin deposits on the Fund's existing OTC options on futures contracts exceeds 10% of the total assets of the Fund, taken at market value, together with all other assets of the Fund which are illiquid or are otherwise not readily marketable. However, if an OTC option is sold by the Fund to a primary U.S. Government securities dealer recognized by the Federal Reserve Bank of New York and if the Fund has the unconditional contractual right to repurchase such OTC option from the dealer at a predetermined price, then the Fund will treat as illiquid such amount of the underlying securities equal to the repurchase price less the amount by which the option is "in-the-money" (i.e., current market value of the underlying securities minus the option's strike price). The repurchase price with the primary dealers is typically a formula price which is generally based on a multiple of the premium received for the option, plus the amount by which the option is "in-the-money". This policy as to OTC options is not a fundamental policy of the Fund and may be amended by the Directors of the Fund without the approval of the Fund's shareholders. However, the Fund will not change or modify this policy prior to the change or modification by the Commission staff of its position.

Portfolio securities of the Fund generally may not be purchased from, sold or loaned to the Manager or its affiliates or any of their directors, general partners, officers or employees, acting as principal, unless pursuant to a rule or exemptive order under the Investment Company Act.

Because of the affiliation of the Manager with the Fund, the Fund is prohibited from engaging in certain transactions involving the Manager's affiliate, Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), or its affiliates except for brokerage transactions permitted under the Investment Company Act involving only usual and customary commissions or transactions pursuant to an exemptive order under the Investment Company Act.

See "Portfolio Transactions and Brokerage". Without such an exemptive order, the Fund would be prohibited from engaging in portfolio transactions with Merrill Lynch or its affiliates acting as principal and from purchasing securities in public offerings which are not registered under the Securities Act in which such firm or any of its affiliates participate as an underwriter or dealer.

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#### MANAGEMENT OF THE FUND

##### DIRECTORS AND OFFICERS

The Directors and executive officers of the Fund and their principal occupations for at least the last five years are set forth below. Unless otherwise noted, the address of each executive officer and Director is Box 9011, Princeton, New Jersey 08543-9011.

Arthur Zeikel--President and Director (1) (2)--President of the Manager and its predecessor since 1977 and Chief Investment Officer since 1976; President of Fund Asset Management, L.P. ("FAM") and its predecessor since 1977 and Chief Investment Officer since 1976; President and Director of Princeton Services, Inc. ("Princeton Services") since 1993; Executive Vice President of Merrill Lynch since 1990 and a Senior Vice President thereof from 1985 to 1990; Executive Vice President of Merrill Lynch & Co., Inc. since 1990; Director of the Distributor.

Donald Cecil--Director (2)--1114 Avenue of the Americas, New York, New York 10036. Special Limited Partner of Cumberland Partners (an investment partnership) since 1982; Member of Institute of Chartered Financial Analysts; Member and Chairman of Westchester County (N.Y.) Board of Transportation.

Edward H. Meyer--Director (2)--777 Third Avenue, New York, New York 10017. President of Grey Advertising Inc. since 1968, Chief Executive Officer since 1970 and Chairman of the Board of Directors since 1972; Director of The May Department Stores Company, Bowne & Co., Inc. (financial printers), Ethan Allen Interiors Inc. and Harman International Industries, Inc.

Charles C. Reilly--Director (2)--9 Hampton Harbor Road, Hampton Bays, New York 11946. Self-employed financial consultant since 1990; President and Chief Investment Officer of Verus Capital, Inc. from 1979 to 1990; former Senior Vice President of Arnhold and S. Bleichroeder, Inc. from 1973 to 1990; Adjunct Professor, Columbia University Graduate School of Business since 1990; Adjunct Professor, Wharton School, University of Pennsylvania, 1990; Director, Harvard Business School Alumni Association.

Richard R. West--Director (2)--482 Tepi Drive, Southbury, Connecticut 06488. Professor of Finance since 1984, and Dean from 1984 to 1993, of New York University Leonard N. Stern School of Business Administration; Director of Bowne & Co., Inc. (financial printers), Vornado, Inc. (real estate holding company), Smith-Corona Corporation (manufacturer of typewriters and word processors), and Alexander's Inc.

Terry K. Glenn--Executive Vice President (1) (2)--Executive Vice President of the Manager and FAM and their predecessors since 1983; Executive Vice President and Director of Princeton Services since 1993; President and Director of the Distributor since 1986.

Norman R. Harvey--Senior Vice President (1) (2)--Senior Vice President of the Manager and FAM and their predecessors since 1982; Senior Vice President of Princeton Services since 1993.

Donald C. Burke--Vice President (1) (2)--Vice President and Director of Taxation of the Manager and its predecessor since 1990; employee of Deloitte & Touche from 1982 to 1990.

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Grace Pineda--Vice President (1) (2)--Vice President of the Manager and its predecessor and Senior Portfolio Manager since 1989.

Gerald M. Richard--Treasurer (1) (2)--Senior Vice President and Treasurer of the Manager and FAM and their predecessors since 1984; Senior Vice President and Treasurer of Princeton Services since 1993; Vice President of the Distributor since 1981 and Treasurer since 1984.

Mark B. Goldfus--Secretary (1) (2)--Vice President of the Manager and FAM and their predecessors since 1985.

(1) Interested person, as defined in the Investment Company Act, of the Fund.

(2) Such Director or officer is a director, trustee or officer of one or more

additional investment companies for which the Manager or its affiliate, FAM, acts as investment adviser or manager.

At April 30, 1994, the officers and Directors of the Fund as a group (11 persons) owned an aggregate of less than 1% of the outstanding shares of the Fund. At such date, Mr. Zeikel, a Director of the Fund, and the other officers of the Fund owned less than 1% of the outstanding shares of common stock of Merrill Lynch & Co., Inc.

The Fund pays each Director not affiliated with the Manager a fee of \$3,500 per year plus \$500 per meeting attended, together with such Director's actual out-of-pocket expenses relating to attendance at meetings. The Fund also compensates members of its Audit Committee, which consists of all of the non-affiliated Directors, at a rate of \$500 per meeting attended. The Chairman of the Audit Committee receives an additional fee of \$250 per meeting attended. For the fiscal year ended June 30, 1993, fees and expenses paid to unaffiliated Directors aggregated \$31,406.

#### MANAGEMENT AND ADVISORY ARRANGEMENTS

Reference is made to "Management of the Fund--Management and Advisory Arrangements" in the Prospectus for certain information concerning the management and advisory arrangements of the Fund.

Securities held by the Fund may also be held by, or be appropriate investments for, other funds or other investment advisory clients for which the Manager or its affiliates act as an adviser. Because of different objectives or other factors, a particular security may be bought for one or more clients when one or more clients are selling the same security. If purchases or sales of securities by the Manager for the Fund or other funds for which it acts as investment adviser or for its other advisory clients arise for consideration at or about the same time, transactions in such securities will be made, insofar as feasible, for the respective funds and clients in a manner deemed equitable to all. To the extent that transactions on behalf of more than one client of the Manager or its affiliates during the same period may increase the demand for securities being purchased or the supply of securities being sold, there may be an adverse effect on price.

The Fund has entered into a management agreement with the Manager (the "Management Agreement"). As discussed in the Prospectus, the Manager receives for its services to the Fund monthly compensation at the annual rate of 1.00% of the average daily net assets of the Fund. For the fiscal years ended June 30, 1991, 1992 and 1993, the management fees paid by the Fund to the Manager aggregated \$1,031,793, \$1,159,827 and \$1,303,056, respectively.

Under the laws of a certain state, the Fund currently may not pay the Manager a management fee with respect to the Fund's assets invested in the shares of another investment company on which such other

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investment company is charging a management fee. The Manager has agreed to waive its management fee to the extent necessary to comply with this current state law requirement.

California imposes limitations on the expenses of the Fund. These expense limitations require that the Manager reimburse the Fund in any amount necessary to prevent the aggregate ordinary operating expenses of the Fund (excluding interest, taxes, distribution fees, brokerage fees and commissions and extraordinary charges such as litigation costs) from exceeding in any fiscal year 2.5% of the Fund's first \$30 million of average daily net assets, 2.0% of the next \$70 million of average daily net assets and 1.5% of the remaining average daily net assets. The Manager's obligation to reimburse the Fund is limited to the amount of the management fee. No fee payment will be made to the Manager during any fiscal year which will cause such expenses to exceed the expense limitations at the time of such payment.

The Fund has received an order from the State of California partially waiving expense limitations described above. Pursuant to the terms of such order, the expense limitations that would otherwise apply are waived to the extent the Fund's expense for custodial services, management and auditing fees exceeds the average of such fees of a group of funds managed by the Manager or its subsidiary which primarily invest domestically. For the fiscal years ended June 30, 1991, 1992 and 1993, no reimbursement of expenses was required pursuant to the applicable expense limitations discussed above.

The Management Agreement obligates the Manager to provide investment advisory services and to pay all compensation of and furnish office space for officers and employees of the Fund connected with investment and economic research, trading and investment management of the Fund, as well as the fees of all Directors of the Fund who are affiliated persons of the Manager. The Fund pays all other expenses incurred in its operations, including, among other things, taxes; expenses for legal and auditing services; costs of printing proxies,



stock certificates, shareholder reports and prospectuses and statements of additional information (except to the extent paid by the Distributor); charges of the custodian, any sub-custodian and transfer agent; expenses of redemption of shares; Commission fees; expenses of registering the shares under Federal, state or foreign laws; fees and expenses of unaffiliated Directors; accounting and pricing costs (including the daily calculation of net asset value); insurance; interest; brokerage costs; litigation and other extraordinary or non-recurring expenses; and other expenses properly payable by the Fund. Accounting services are provided to the Fund by the Manager, and the Fund reimburses the Manager for its costs in connection with such services. For the fiscal years ended June 30, 1991, 1992 and 1993, the amount of such reimbursement was \$82,059, \$78,980 and \$127,749, respectively. Certain expenses in connection with the distribution of Class B shares will be financed by the Fund pursuant to a distribution plan in compliance with Rule 12b-1 under the Investment Company Act. See "Purchase of Shares--Deferred Sales Charge Alternative--Class B Shares--Distribution Plan."

Merrill Lynch & Co., Inc., Merrill Lynch Investment Management, Inc. and Princeton Services are "controlling persons" of the Manager as defined under the Investment Company Act because of their ownership of its voting securities or their power to exercise a controlling influence over its management or policies.

Duration and Termination. Unless earlier terminated as described below, the Management Agreement will remain in effect from year to year if approved annually (a) by the Board of Directors or by a majority of the outstanding shares of the Fund and (b) by a majority of the Directors who are not parties to such contract or interested persons (as defined in the Investment Company Act) of any such party. Such contract is not assignable and may be terminated without penalty on 60 days' written notice at the option of either party thereto or by the vote of the shareholders of the Fund.

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#### PURCHASE OF SHARES

Reference is made to "Purchase of Shares" in the Prospectus for certain information as to the purchase of Fund shares.

#### ALTERNATIVE SALES ARRANGEMENTS

The Fund issues two classes of shares: Class A shares are sold to investors choosing the initial sales charge alternative, and Class B shares are sold to investors choosing the deferred sales charge alternative. The two classes of shares each represent interests in the same portfolio of investments of the Fund, have the same rights and are identical in all respects, except that Class B shares bear the expenses of the deferred sales arrangements, any expenses (including incremental transfer agency costs) resulting from such sales arrangements and the expenses of the account maintenance fee and have exclusive voting rights with respect to the Rule 12b-1 distribution plan pursuant to which the account maintenance and distribution fees are paid. The two classes also have different exchange privileges. See "Shareholder Services--Exchange Privilege".

The Fund has entered into separate distribution agreements with the Distributor in connection with the continuous offering of Class A and Class B shares of the Fund (the "Distribution Agreements"). The Distribution Agreements obligate the Distributor to pay certain expenses in connection with the offering of the Class A and Class B shares of the Fund. After the prospectuses, statements of additional information and periodic reports have been prepared, set in type and mailed to shareholders, the Distributor pays for the printing and distribution of copies thereof used in connection with the offering to dealers and investors. The Distributor also pays for other supplementary sales literature and advertising costs. The Distribution Agreements are subject to the same renewal requirements and termination provisions as the Management Agreement described above.

#### INITIAL SALES CHARGE ALTERNATIVE--CLASS A SHARES

For the fiscal years ended June 30, 1991, 1992 and 1993, the Fund sold its shares through the Distributor and Merrill Lynch, as a dealer. For the fiscal year ended June 30, 1991, the Fund sold 2,865,275 Class A shares for aggregate net proceeds to the Fund of \$30,726,722. The gross sales charges for the sale of Class A shares for that period were \$1,199,151, of which \$1,146,841 was received by Merrill Lynch and \$52,310 was received by MLFD. For the fiscal year ended June 30, 1992, the Fund sold 2,054,712 Class A shares for aggregate net proceeds to the Fund of \$23,785,838. The gross sales charges for the sale of Class A shares for that period were \$867,120, of which \$816,121 was received by Merrill Lynch and \$50,999 was received by MLFD. For the fiscal year ended June 30, 1993, the Fund sold 2,825,803 Class A shares for aggregate net proceeds to the Fund of \$31,697,736. The gross sales charges for the sale of Class A shares for that period were \$393,627, of which \$366,472 was received by Merrill Lynch and \$27,155 was received by MLFD.

The term "purchase" as used in the Prospectus and this Statement of Additional Information refers to a single purchase by an individual, or to concurrent purchases, which in the aggregate are at least equal to the prescribed amounts, by an individual, his spouse and their children under the age of 21 years purchasing shares for his or their own account and to single purchases by a trustee or other fiduciary purchasing shares for a single trust estate or single fiduciary account (including a pension, profit-sharing or other employee benefit trust created pursuant to a plan qualified under Section 401 of the Internal Revenue Code of 1986, as amended (the "Code")) although more than one beneficiary is involved. The term "purchase" also includes purchases by any "company", as that term is defined in the Investment Company Act, but does not include purchases by any such company which has not been in existence for at least six months or which has no

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purpose other than the purchase of shares of the Fund or shares or other registered investment companies at a discount. The term "purchase" shall not include purchases by any group of individuals whose sole organizational nexus is that the participants therein are credit cardholders of a company, policyholders of an insurance company, customers of either a bank or broker-dealer or clients of an investment adviser. The term "purchase" also includes purchases by employee benefit plans not qualified under Section 401 of the Code, including purchases by employees or by employers on behalf of employees, by means of a payroll deduction plan or otherwise, of shares of the Fund. Purchases by such a company or non-qualified employee benefit plan will qualify for the above quantity discounts only if the Fund and the Distributor are able to realize economies of scale in sales effort and sales related expense by means of the company, employer or plan making the Fund's Prospectus available to individual investors or employees and forwarding investments by such persons to the Fund and by any such employer or plan bearing the expense of any payroll deduction plan.

#### REDUCED INITIAL SALES CHARGES--CLASS A SHARES

**Right of Accumulation.** The Fund offers a right of accumulation under which investors are permitted to purchase Class A shares of the Fund at the offering price applicable to the total of (a) the public offering price of the Class A shares then being purchased plus (b) an amount equal to the then current net asset value or cost, whichever is higher, of the purchaser's combined holdings of the Class A shares and Class B shares of the Fund and of any other investment company with an initial sales charge or deferred sales charges for which the Distributor acts as the distributor. For any such right of accumulation to be made available, the Distributor (in the case of a purchase made through a securities dealer) must be provided at the time of purchase, by the purchaser or the purchaser's securities dealer, with sufficient information to permit confirmation of qualification for such right of accumulation. Acceptance of the purchase order is subject to such confirmation. The right of accumulation may be amended or terminated at any time. Shares held in the name of a nominee or custodian under pension, profit-sharing, or other employee benefit plans may not be combined with other shares to qualify for the right of accumulation.

**Letter of Intention.** Reduced sales charges are applicable to purchases aggregating \$10,000 or more of Class A shares of the Fund or any other investment company with an initial sales charge or a deferred sales charge for which the Distributor acts as the distributor made within a thirteen-month period starting with the first purchase pursuant to a Letter of Intention in the form provided in the Prospectus. The Letter of Intention is available only to investors whose accounts are maintained at the Fund's transfer agent. The Letter of Intention is not available to employee benefit plans for which Merrill Lynch provides plan-participant record-keeping services. The Letter of Intention is not a binding obligation to purchase any amount of Class A shares; however, its execution will result in the purchaser paying a lower sales charge at the appropriate quantity purchase level. A purchase not originally made pursuant to a Letter of Intention may be included under a subsequent Letter of Intention executed within 90 days of such purchase if the Distributor is informed in writing of this intent within such 90-day period. The value of Class A shares of the Fund and of other investment companies with a sales charge for which the Distributor acts as the distributor presently held, at cost or maximum offering price (whichever is higher), on the date of the first purchase under the Letter of Intention, may be included as a credit toward completion of such Letter but the reduced sales charge applicable to the amount covered by such Letter will be applied only to new purchases. If the total amount of shares does not equal the amount stated in the Letter of Intention (minimum of \$10,000), the investor will be notified and must pay, within 20 days of the expiration of such Letter, the difference between the sales charge on the Class A shares purchased at the reduced rate and the sales charge applicable to the shares actually purchased through the Letter. Class A shares equal to five percent of the intended amount will be held in escrow during the thirteen-month period (while remaining registered in the name of the purchaser)

for this purpose. The first purchase under the Letter of Intention must be at least five percent of the dollar amount of such Letter. If a purchase during the term of such Letter would otherwise be subject to a further reduced sales charge based on the right of accumulation, the purchaser will be entitled on that purchase and subsequent purchases to the reduced percentage sales charge which would be applicable to a single purchase equal to the total dollar value of the Class A shares then being purchased under such Letter, but there will be no retroactive reduction of the sales charges on any previous purchase. The value of any shares redeemed or otherwise disposed of by the purchaser prior to termination or completion of the Letter of Intention will be deducted from the total purchases made under such Letter. An exchange from Merrill Lynch U.S. Treasury Money Fund, Merrill Lynch Ready Assets Trust, Merrill Lynch Retirement Reserves Money Fund or Merrill Lynch U.S.A. Government Reserves into the Fund that creates a sales charge will count toward completing a new or existing Letter of Intention from the Fund.

**TMA SM Managed Trusts.** Class A shares are offered to TMA SM Managed Trusts to which Merrill Lynch Trust Company provides discretionary trustee services at net asset value plus a reduced sales charge of 0.50% of the offering price, which is 0.50% of the net amount invested.

**Employer Sponsored Retirement and Savings Plans.** Class A shares are offered at net asset value to employer sponsored retirement or savings plans, such as tax qualified retirement plans within the meaning of Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code"), deferred compensation plans within the meaning of Sections 403(b) and 457 of the Code, other deferred compensation arrangements, VEBA plans, and non-qualified After Tax Savings and Investment programs, maintained on the Merrill Lynch Group Employees Services system, herein referred to as "Employer Sponsored Retirement or Savings Plans", provided the plan has \$5 million or more in existing plan assets initially invested in portfolios, mutual funds or trusts advised by the Manager either directly or through an affiliate. Class A shares are being offered at net asset value to Employer Sponsored Retirement or Savings Plans, provided the plan has accumulated \$5 million or more in existing plan assets invested in mutual funds advised by the Manager charging a front-end sales charge or contingent deferred sales charge. Assets of Employer Sponsored Retirement or Savings Plans sponsored by the same sponsor or an affiliated sponsor may be aggregated. The Class A share reduced load breakpoints also apply to these aggregated assets. Class A shares may be offered at net asset value to multiple plans sponsored by the same sponsor or an affiliated sponsor provided that the addition of one or more of the multiple plans results in aggregate assets of \$5 million or more invested in portfolios, mutual funds or trusts advised by the Manager either directly or through an affiliate. Employer Sponsored Retirement or Savings Plans are also offered Class A shares at net asset value, provided such plan initially has 1,000 or more employees eligible to participate in the plan. Employees eligible to participate in an Employer Sponsored Retirement or Savings Plan of the same sponsoring employer or its affiliates may be aggregated. Tax qualified retirement plans within the meaning of Section 401(a) of the Code meeting any of the foregoing requirements and which are provided specialized services (e.g., plans whose participants may direct on a daily basis their plan allocations among a wide range of investments including individual corporate equities and other securities in addition to mutual fund shares) by the Merrill Lynch Blueprint SM Program, are offered Class A shares at a price equal to net asset value per share plus a reduced sales charge of 0.50%. Any Employer Sponsored Retirement or Savings Plan which does not meet the above described qualifications to purchase Class A shares at net asset value has the option of purchasing Class A shares at the sales charge schedule disclosed in the Prospectus, or if the Employer Sponsored Retirement or Savings Plan is a qualified retirement plan and meets the specified requirements, then it may purchase Class B shares with a waiver of the

contingent deferred sales charge upon redemption. The minimum initial and subsequent purchase requirements are waived in connection with all the above referenced Employer Sponsored Retirement or Savings Plans.

**Purchase Privilege of Certain Persons.** Directors of the Fund, directors and trustees of certain other Merrill Lynch-sponsored investment companies, directors of Merrill Lynch & Co., Inc., employees of Merrill Lynch & Co., Inc. and its subsidiaries, and any trust, pension, profit-sharing or other benefit plan for such persons may purchase Class A shares of the Fund at net asset value.

Class A shares of the Fund are offered at net asset value to shareholders of Merrill Lynch Senior Floating Rate Fund, Inc. (formerly known as Merrill Lynch Prime Fund, Inc.) who wish to reinvest the net proceeds from a sale of certain

of their shares of common stock of Merrill Lynch Senior Floating Rate Fund, Inc. in shares of the Fund. In order to exercise this investment option, Merrill Lynch Senior Floating Rate Fund, Inc. shareholders must sell their Merrill Lynch Senior Floating Rate Fund, Inc. shares to Merrill Lynch Senior Floating Rate Fund, Inc. in connection with a tender offer conducted by Merrill Lynch Senior Floating Rate Fund, Inc. and reinvest the proceeds immediately in the Fund. This investment option is available only with respect to the proceeds of Merrill Lynch Senior Floating Rate Fund, Inc. shares as to which no Early Withdrawal Charge (as defined in the Merrill Lynch Senior Floating Rate Fund, Inc. prospectus) is applicable. Purchase orders from Merrill Lynch Senior Floating Rate Fund, Inc. shareholders wishing to exercise this investment option will be accepted only on the day that the related Merrill Lynch Senior Floating Rate Fund, Inc. tender offer terminates and will be effected at the net asset value of the Fund at such day.

Class A shares of the Fund are offered at net asset value to shareholders of certain closed-end funds advised by the Manager or FAM who wish to reinvest the net proceeds from a sale of their closed-end fund shares of common stock in shares of the Fund. In order to exercise this investment option, closed-end fund shareholders must (i) sell their closed-end fund shares through Merrill Lynch and reinvest the proceeds immediately in the Fund, (ii) have acquired the shares in the closed-end fund's initial public offering or through reinvestment of dividends earned on shares purchased in such offering, (iii) have maintained their closed-end fund shares continuously in a Merrill Lynch account, and (iv) purchase a minimum of \$250 worth of Fund shares.

Class A shares of the Fund will be offered at net asset value, without a sales charge, to an investor who has a business relationship with a financial consultant who joined Merrill Lynch from another investment firm within six months prior to the date of purchase by such investor if the following conditions are satisfied. First, the investor must purchase Class A shares of the Fund with proceeds from a redemption of shares of a mutual fund that was sponsored by the financial consultant's previous firm and imposed a sales charge either at the time of purchase or on a deferred basis. Second, such redemption must have been made within 60 days prior to the investment in the Fund, and the proceeds from the redemption must have been maintained in the interim in cash or a money market fund.

Class A shares of the Fund are also offered at net asset value, without sales charge, to an investor who has a business relationship with a Merrill Lynch financial consultant and who has invested in a mutual fund sponsored by a non-Merrill Lynch company for which Merrill Lynch has served as a selected dealer and where Merrill Lynch has either received or given notice that such arrangement will be terminated, if the following conditions are satisfied: first, the investor must purchase Class A shares of the Fund with proceeds from a redemption of shares of such other mutual fund and such fund imposed a sales charge either at the time of purchase or on a deferred basis; second, such purchase of Class A shares must be made within 90 days after such notice of termination.

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Acquisition of Assets of Certain Investment Companies. The public offering price of Class A shares may be reduced to the net asset value per Class A share in connection with the acquisition of the assets of or merger or consolidation with a public or private investment company. The value of the assets or company acquired in a tax-free transaction may in appropriate cases be adjusted to reduce possible adverse tax consequences to the Fund which might result from an acquisition of assets having net unrealized appreciation which is disproportionately higher at the time of acquisition than the realized or unrealized appreciation of the Fund.

Reductions in or exemptions from the imposition of a sales load are due to the nature of the investors and/or the reduced sales efforts that will be needed in obtaining such investments.

#### DEFERRED SALES CHARGE ALTERNATIVE -- CLASS B SHARES

Distribution Plan. Reference is made to "Purchase of Shares -- Deferred Sales Charge Alternative -- Class B Shares -- Distribution Plan" in the Prospectus for certain information with respect to the distribution plan of the Fund (the "Distribution Plan").

The payment of the account maintenance and distribution fees is subject to the provisions of Rule 12b-1 under the Investment Company Act. Among other things, the Distribution Plan provides that the Distributor shall provide and the Directors shall review quarterly reports of the disbursement of the account maintenance and distribution fees paid to the Distributor. In their consideration of the Distribution Plan, the Directors must consider all factors they deem relevant, including information as to the benefits of the Distribution Plan to the Fund and to its Class B shareholders. The Distribution Plan further provides that, so long as the Distribution Plan remains in effect,

the selection and nomination of Directors who are not "interested persons" of the Fund, as defined in the Investment Company Act (the "Independent Directors"), shall be committed to the discretion of the Independent Directors then in office. In approving the Distribution Plan in accordance with Rule 12b-1, the Independent Directors concluded that there is reasonable likelihood that the Distribution Plan will benefit the Fund and its Class B shareholders. The Distribution Plan can be terminated at any time, without penalty, by the vote of a majority of the Independent Directors or by the vote of the holders of a majority of the outstanding Class B voting securities of the Fund. The Distribution Plan cannot be amended to increase materially the amount to be spent by the Fund without Class B shareholder approval, and all material amendments are required to be approved by the vote of Directors, including a majority of the Independent Directors who have no direct or indirect financial interest in the Distribution Plan, cast in person at a meeting called for that purpose. Rule 12b-1 further requires that the Fund preserve copies of the Distribution Plan and any report made pursuant to such plan for a period of not less than six years from the date of the Distribution Plan or such report, the first two years in an easily accessible place.

#### REDEMPTION OF SHARES

Reference is made to "Redemption of Shares" in the Prospectus for certain information as to the redemption and repurchase of Fund shares.

The right to receive payment with respect to any redemption of shares may be suspended by the Fund for a period of up to seven days. Suspensions of more than seven days may not be made except (1) for any

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period (a) during which the New York Stock Exchange is closed other than customary weekend and holiday closings or (b) during which trading on the New York Stock Exchange is restricted; (2) for any period during which an emergency exists as a result of which (a) disposal by the Fund of securities owned by it is not reasonably practicable or (b) it is not reasonably practicable for the Fund fairly to determine the value of its net assets; or (3) for such other periods as the Securities and Exchange Commission may by order permit for the protection of security holders of the Fund. The Commission shall by rules and regulations determine the conditions under which (i) trading shall be deemed to be restricted and (ii) an emergency shall be deemed to exist within the meaning of clause (2) above.

#### CONTINGENT DEFERRED SALES CHARGE--CLASS B SHARES

As discussed in the Prospectus under "Purchase of Shares--Deferred Sales Charge Alternative--Class B Shares", while Class B shares redeemed within four years of purchase are subject to a contingent deferred sales charge under most circumstances, the charge is waived on redemptions of Class B shares in connection with certain post-retirement withdrawals from an Individual Retirement Account ("IRA") or other retirement plan or following the death or disability of a Class B shareholder. Redemptions for which the waiver applies are: (a) any partial or complete redemption in connection with a distribution following retirement under a tax-deferred retirement plan or attaining age 59 1/2 in the case of an IRA or other retirement plan, or any redemption resulting from the tax-free return of an excess contribution to an IRA; or (b) any partial or complete redemption following the death or disability (as defined in the Code) of a Class B shareholder (including one who owns the Class B shares as joint tenant with his or her spouse), provided the redemption is requested within one year of the death or initial determination of disability.

Retirement Plans. Any Retirement Plan which does not meet the qualifications to purchase Class A shares at net asset value has the option of purchasing Class A shares at the sales charge schedule disclosed in the Prospectus, or if the Retirement Plan meets the following requirements, then it may purchase Class B shares with a waiver of the contingent deferred sales charge upon redemption. The contingent deferred sales charge is waived for any Eligible 401(k) Plan redeeming Class B shares. The contingent deferred sales charge is also waived for redemptions from a 401(a) plan qualified under the Code, provided, however, that each such plan has the same or an affiliated sponsoring employer as an Eligible 401(k) Plan purchasing Class B shares of a mutual fund advised by the Manager or FAM ("Eligible 401(a) Plan"). The contingent deferred sales charge is waived for any Class B shares which are purchased by an Eligible 401(k) Plan or Eligible 401(a) Plan and are rolled over into a Merrill Lynch or Merrill Lynch Trust Company custodied IRA and held in such account at the time of redemption. The minimum initial and subsequent purchase requirements are waived in connection with all the above referenced Retirement Plans.

#### PORTFOLIO TRANSACTIONS AND BROKERAGE

Reference is made to "Investment Objective and Policies--Other Investment Policies and Practices" in the Prospectus.

Subject to policies established by the Board of Directors of the Fund, the Manager is primarily responsible for the execution of the Fund's portfolio transactions. In executing such transactions, the Manager seeks to obtain the best net results for the Fund, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution and operational

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facilities of the firm involved and the firm's risk in positioning a block of securities. Subject to obtaining the best price and execution, brokers who provide supplemental investment research to the Manager may receive orders for transactions by the Fund. Information so received will be in addition to and not in lieu of the services required to be performed by the Manager under the Management Agreement, and the expenses of the Manager will not necessarily be reduced as a result of the receipt of such supplemental information. It is possible that certain of the supplementary investment research so received will primarily benefit one or more other investment companies or other accounts for which investment discretion is exercised. Conversely, the Fund may be the primary beneficiary of the research or services received as a result of portfolio transactions effected for such other accounts or investment companies.

The Fund anticipates that its brokerage transactions involving securities of companies domiciled in countries other than the United States generally will be conducted primarily on the principal stock exchanges of such countries. Brokerage commissions and other transaction costs on foreign stock exchange transactions are generally higher than in the United States, although the Fund will endeavor to achieve the best net results in effecting its portfolio transactions. There is generally less governmental supervision and regulation of foreign stock exchanges and brokers than in the United States.

The Fund invests in certain securities traded in the over-the-counter market and, where possible, deals directly with the dealers who make a market in the securities involved, except in those circumstances in which better prices and execution are available elsewhere. Under the Investment Company Act, persons affiliated with the Fund and persons who are affiliated with such affiliated persons are prohibited from dealing with the Fund as principal in the purchase and sale of securities unless a permissive order allowing such transactions is obtained from the Commission. Since transactions in the over-the-counter market usually involve transactions with dealers acting as principal for their own accounts, affiliated persons of the Fund, including Merrill Lynch and any of its affiliates, will not serve as the Fund's dealer in such transactions. However, affiliated persons of the Fund may serve as its broker in listed or over-the-counter transactions conducted on an agency basis provided that, among other things, the fee or commission received by such affiliated broker is reasonable and fair compared to the fee or commission received by non-affiliated brokers in connection with comparable transactions. See "Investment Objective and Policies--Investment Restrictions". For the fiscal year ended June 30, 1993, the Fund paid total brokerage commissions of \$8,448, of which \$1,440 or 17.0% was paid to Merrill Lynch for effecting 28.2% of the aggregate amount of transactions on which the Fund paid brokerage commissions. For the fiscal year ended June 30, 1992, the Fund paid total brokerage commissions of \$822,573, of which \$38,477 or 4.68% was paid to Merrill Lynch for effecting 3.03% of the aggregate amount of transactions on which the Fund paid brokerage commissions. For the fiscal year ended June 30, 1991, the Fund paid total brokerage commissions of \$883,141, of which \$53,620 or 6.1% was paid to Merrill Lynch for effecting 7.9% of the aggregate amount of transactions on which the Fund paid brokerage commissions.

The Fund's ability and decisions to purchase or sell portfolio securities may be affected by laws or regulations relating to the convertibility and repatriation of assets. Because the shares of the Fund are redeemable on a daily basis in U.S. dollars, the Fund intends to manage its portfolio so as to give reasonable assurance that it will be able to obtain U.S. dollars to the extent necessary to meet anticipated redemptions. Under present conditions, it is not believed that these considerations will have any significant effect on its portfolio strategy.

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Section 11(a) of the Securities Exchange Act of 1934, as amended, generally prohibits members of the U.S. national securities exchanges from executing exchange transactions for their affiliates and institutional accounts which they manage unless the member (i) has obtained prior express authorization from the account to effect such transactions, (ii) at least annually furnishes the account with a statement disclosing the aggregate compensation received by the member in effecting such transactions, and (iii) complies with any rules the Commission has prescribed with respect to the requirements of clauses (i) and (ii). To the extent Section 11(a) would apply to Merrill Lynch acting as a broker for the Fund in any of its portfolio transactions executed on any such securities exchange of which it is a member, appropriate consents have been



obtained from the Fund and annual statements as to aggregate compensation will be provided to the Fund.

The Directors have considered the possibilities of seeking to recapture for the benefit of the Fund brokerage commissions and other expenses of possible portfolio transactions by conducting portfolio transactions through affiliated entities. For example, brokerage commissions received by affiliated brokers could be offset against the advisory fee paid by the Fund. After considering all factors deemed relevant, the Directors made a determination not to seek such recapture. The Directors will reconsider this matter from time to time.

#### DETERMINATION OF NET ASSET VALUE

Reference is made to "Additional Information--Determination of Net Asset Value" in the Prospectus concerning the determination of net asset value. The net asset value of the shares of the Fund is determined once daily Monday through Friday as of 4:15 p.m., New York time, on each day the New York Stock Exchange is open for trading. The New York Stock Exchange is not open on New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. Any assets or liabilities initially expressed in terms of non-U.S. dollar currencies are translated into U.S. dollars at the prevailing market rates as quoted by one or more banks or dealers on the day of valuation.

Net asset value is computed by dividing the value of the securities held by the Fund plus any cash or other assets (including interest and dividends accrued but not yet received) minus all liabilities (including accrued expenses) by the total number of shares outstanding at such time. Expenses, including the fees payable to the Manager and the account maintenance and distribution fees payable to the Distributor, are accrued daily. The per share net asset value of the Class B shares generally will be lower than the per share net asset value of the Class A shares reflecting the daily expense accruals of the account maintenance, distribution and higher transfer agency fees applicable with respect to the Class B shares. It is expected, however, that the per net asset value of the two classes will tend to converge immediately after the payment of dividends or distributions, which will differ by approximately the amount of the expense accrual differential between the classes.

Portfolio securities which are traded on stock exchanges are valued at the last sale price on the principal market on which such securities are traded, as of the close of business on the day the securities are being valued or, lacking any sales, at the last available bid price. Securities traded in the over-the-counter market are valued at the last available bid prices obtained from one or more dealers in the over-the-counter market prior to the time of valuation. Portfolio securities which are traded both in the over-the-counter market and on a stock exchange are valued according to the broadest and most representative market. When the Fund

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writes an option, the amount of the premium received is recorded on the books of the Fund as an asset and an equivalent liability. The amount of the liability is subsequently valued to reflect the current market value of the option written, based upon the last asked price in the case of exchange-traded options or, in the case of options traded in the over-the-counter market, the average of the last asked price as obtained from one or more dealers. Options purchased by the Fund are valued at their last bid price in the case of exchange-traded options or, in the case of options traded in the over-the-counter market, the average of the last bid price as obtained from two or more dealers. Other investments, including futures contracts and related options, are stated at market value. Securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Board of Directors of the Fund.

#### SHAREHOLDER SERVICES

The Fund offers a number of shareholder services described below which are designed to facilitate investment in its shares. Full details as to each of such services, copies of the various plans described below and instructions as to how to participate in the various services or plans, or how to change options with respect thereto, can be obtained from the Fund by calling the telephone number on the cover page hereof or from the Distributor or Merrill Lynch.

#### INVESTMENT ACCOUNT

Each shareholder whose account is maintained at the transfer agent has an Investment Account and will receive quarterly statements from the transfer agent. These quarterly statements will serve as transaction confirmations for automatic investment purchases and the reinvestment of ordinary income dividends and long-term capital gain distributions. The quarterly statements will also show any other activity in the account since the preceding statement. Shareholders will receive separate transaction confirmations for each purchase



or sale transaction other than automatic investment purchases and the reinvestment of ordinary income dividends and long-term capital gain distributions.

Share certificates are issued only for full shares and only upon the specific request of the shareholder. Issuance of certificates representing all or only part of the full shares in an Investment Account may be requested by a shareholder directly from the transfer agent.

Shareholders considering transferring their Class A shares from Merrill Lynch to another brokerage firm or financial institution should be aware that, if the firm to which the Class A shares are to be transferred will not take delivery of shares of the Fund, a shareholder either must redeem the Class A shares so that the cash proceeds can be transferred to the account at the new firm or such shareholder must continue to maintain an Investment Account at the transfer agent for those Class A shares. Shareholders interested in transferring their Class B shares from Merrill Lynch and who do not wish to have an Investment Account maintained for such shares at the transfer agent may request their new brokerage firm to maintain such shares in an account registered in the name of the brokerage firm for the benefit of the shareholder. If the new brokerage firm is willing to accommodate the shareholder in this manner, the shareholder must request that he be issued certificates for his shares and then must turn the certificates over to the new firm for re-registration as described in the preceding sentence.

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#### AUTOMATIC INVESTMENT PLAN

A U.S. shareholder may make additions to an Investment Account at any time by purchasing shares at the applicable public offering price either through the shareholder's securities dealer or by mail directly to the transfer agent, acting as agent for such securities dealer. Voluntary accumulation also can be made through a service known as the Automatic Investment Plan whereby the Fund is authorized through pre-authorized checks or automated clearing house debits of \$50 or more to charge the regular bank account of the shareholder on a regular basis to provide systematic additions to the Investment Account of such shareholder. An investor whose shares of the Fund are held within a CMA (R) account may arrange to have periodic investments made in the Fund in amounts of \$250 or more through the CMA (R) Automatic Investment Program. The Automatic Investment Program is not available to shareholders whose shares are held in a brokerage account with Merrill Lynch other than a CMA (R) account.

#### AUTOMATIC REINVESTMENT OF DIVIDENDS AND CAPITAL GAINS DISTRIBUTIONS

Unless specific instructions to the contrary are given as to the method of payment of dividends and capital gains distributions, dividends and distributions are automatically reinvested in full and fractional shares of the Fund, without sales charge, at the net asset value per share next determined after the close of the New York Stock Exchange on the ex-dividend date of such dividend or distribution. A shareholder may at any time, by written notification to the Fund's transfer agent, elect to have subsequent dividends, or both dividends and capital gains distributions, paid in cash rather than reinvested. To be effective as to a particular distribution, such notification must be received by the transfer agent sufficiently in advance of the record date (approximately ten days) to permit the change to be entered in the shareholder records. Shareholders may, at any time, notify the transfer agent in writing or by telephone (1-800-MER-FUND) that they no longer wish to have their dividends and/or distributions reinvested in shares of the Fund or vice versa, and commencing ten days after receipt by the transfer agent of such notice, those instructions will be effected.

#### SYSTEMATIC WITHDRAWAL PLANS--CLASS A SHARES

A Class A shareholder may elect to make systematic withdrawals from an Investment Account on either a monthly or quarterly basis as provided below. Quarterly withdrawals are available for shareholders who have acquired Class A shares of the Fund having a value, based upon cost or the current offering price, of \$5,000 or more, and monthly withdrawals for shareholders with Class A shares with such a value of \$10,000 or more.

At the time of each withdrawal payment, sufficient Class A shares are redeemed from those on deposit in the shareholder's Investment Account to provide the withdrawal payment specified by the shareholder. The shareholder may specify either a dollar amount or a percentage of the value of his Class A shares. Redemptions will be made at the net asset value next determined after the close of the New York Stock Exchange on the 24th day of each month or the 24th day of the last month of each quarter, whichever is applicable. If the Exchange is not open for business on such date, the shares will be redeemed at the net asset value next determined after the close of the New York Stock Exchange on the preceding business day. The check for the withdrawal payment will be mailed, or the direct deposit of the withdrawal payment will be made, on the next business day following redemption. When a shareholder is making systematic withdrawals, dividends and distributions on all shares in the

Investment Account are automatically reinvested in Fund Class A shares. A Class A shareholder's Systematic Withdrawal Plan may be terminated at any time, without charge or penalty, by the shareholder, the Fund, the transfer agent or the Distributor.

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Withdrawal payments should not be considered as dividends, yield or income. Each withdrawal is a taxable event. If periodic withdrawals continuously exceed reinvested dividends and capital gains distributions, the shareholder's original investment may be correspondingly reduced. Purchase of additional Class A shares concurrent with withdrawals are ordinarily disadvantageous to the shareholder because of sales charges and tax liabilities. The Fund will not knowingly accept purchase orders for Class A shares of the Fund from investors who maintain a Systematic Withdrawal Plan unless such purchase is equal to at least one year's scheduled withdrawals or \$1,200, whichever is greater. Periodic investments may not be made into an Investment Account in which the Class A shareholder has elected to make systematic withdrawals.

A Class A shareholder whose shares are held within a CMA(R), CBA(R) or Retirement Account may elect to have shares redeemed on a monthly, bimonthly, quarterly, semiannual or annual basis through the Systematic Redemption Program. The minimum fixed dollar amount redeemable is \$25. The proceeds of systematic redemptions will be posted to the shareholder's account five business days after the date the shares are redeemed. Monthly systematic redemptions will be made at net asset value on the first Monday of each month, bimonthly systematic redemptions will be made at net asset value on the first Monday of every other month, and quarterly, semiannual or annual redemptions are made at net asset value on the first Monday of months selected at the shareholder's option. If the first Monday of the month is a holiday, the redemption will be processed at net asset value on the next business day. The Systematic Redemption Program is not available if Fund shares are being purchased within the account pursuant to the Automatic Investment Program. For more information on the Systematic Redemption Program, eligible shareholders should contact their Financial Consultant.

#### EXCHANGE PRIVILEGE

U.S. Class A or Class B shareholders of the Fund may exchange their Class A or Class B shares of the Fund for shares of the same class of Merrill Lynch Adjustable Rate Securities Fund, Inc., Merrill Lynch Americas Income Fund, Inc., Merrill Lynch Arizona Limited Maturity Municipal Bond Fund, Merrill Lynch Arizona Municipal Bond Fund, Merrill Lynch Balanced Fund for Investment and Retirement, Merrill Lynch Basic Value Fund, Inc., Merrill Lynch California Insured Municipal Bond Fund, Merrill Lynch California Limited Maturity Municipal Bond Fund, Merrill Lynch California Municipal Bond Fund, Merrill Lynch Capital Fund, Inc., Merrill Lynch Colorado Municipal Bond Fund, Merrill Lynch Corporate Bond Fund, Inc., Merrill Lynch Dragon Fund, Inc., Merrill Lynch EuroFund, Merrill Lynch Federal Securities Trust, Merrill Lynch Florida Limited Maturity Municipal Bond Fund, Merrill Lynch Florida Municipal Bond Fund, Merrill Lynch Fund For Tomorrow, Inc., Merrill Lynch Fundamental Growth Fund, Inc., Merrill Lynch Global Allocation Fund, Inc., Merrill Lynch Global Bond Fund for Investment and Retirement, Merrill Lynch Global Convertible Fund, Inc., Merrill Lynch Global Holdings (residents of Arizona must meet investor suitability standards), Merrill Lynch Global Resources Trust, Merrill Lynch Global Utility Fund, Inc., Merrill Lynch Growth Fund for Investment and Retirement, Merrill Lynch Healthcare Fund, Inc. (residents of Wisconsin must meet investor suitability standards), Merrill Lynch International Equity Fund, Merrill Lynch Latin America Fund, Inc., Merrill Lynch Maryland Municipal Bond Fund, Merrill Lynch Massachusetts Limited Maturity Municipal Bond Fund, Merrill Lynch Massachusetts Municipal Bond Fund, Merrill Lynch Michigan Limited Maturity Municipal Bond Fund, Merrill Lynch Michigan Municipal Bond Fund, Merrill Lynch Minnesota Municipal Bond Fund, Merrill Lynch Municipal Bond Fund, Inc., Merrill Lynch Municipal Intermediate Term Fund, Merrill Lynch New Jersey Limited Maturity Municipal Bond Fund, Merrill Lynch New Jersey Municipal Bond Fund, Merrill Lynch New York Limited Maturity Municipal Bond Fund, Merrill Lynch New York Municipal Bond Fund, Merrill Lynch North Carolina Municipal Bond Fund, Merrill Lynch Ohio Municipal Bond Fund, Merrill Lynch Oregon

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Municipal Bond Fund, Merrill Lynch Pacific Fund, Inc., Merrill Lynch Pennsylvania Limited Maturity Municipal Bond Fund, Merrill Lynch Pennsylvania Municipal Bond Fund, Merrill Lynch Phoenix Fund, Inc., Merrill Lynch Short-Term Global Income Fund, Inc., Merrill Lynch Special Value Fund, Inc., Merrill Lynch Strategic Dividend Fund, Merrill Lynch Technology Fund, Inc., Merrill Lynch Texas Municipal Bond Fund, Merrill Lynch Utility Income Fund, Inc., and Merrill Lynch World Income Fund, Inc. on the basis described below. In addition, Class A shareholders of the Fund may exchange their Class A shares for shares of Merrill Lynch U.S.A. Government Reserves, Merrill Lynch U.S. Treasury Money Fund and Merrill Lynch Ready Assets Trust (or Merrill Lynch Retirement Reserves

Money Fund if the exchange occurs within certain retirement plans)(together, the "Class A money market funds") and Class B shareholders of the Fund may exchange their Class B shares for shares of Merrill Lynch Government Fund, Merrill Lynch Institutional Fund, Merrill Lynch Institutional Tax-Exempt Fund and Merrill Lynch Treasury Fund (together, the "Class B money market funds") on the basis described below. Shares with a net asset value of at least \$250 are required to qualify for the exchange privilege, and any shares utilized in an exchange must have been held by the shareholder for at least 15 days. Certain funds into which exchanges may be made may impose a redemption fee (not in excess of 2.00% of the amount redeemed) on shares purchased through the exchange privilege when such shares are subsequently redeemed, including redemption through subsequent exchanges. Such redemption fee would be in addition to any contingent deferred sales charge otherwise applicable to a redemption of Class B shares. It is contemplated that the exchange privilege may be applicable to other new mutual funds whose shares may be distributed by the Distributor.

Under the exchange privilege, each of the funds with Class A shares outstanding offers to exchange its Class A shares ("new Class A shares") for Class A shares ("outstanding Class A shares") of any of the other funds, on the basis of relative net asset value per Class A share, plus an amount equal to the difference, if any, between the sales charge previously paid on the outstanding Class A shares and the sales charge payable at the time of the exchange on the new Class A shares. With respect to outstanding Class A shares as to which previous exchanges have taken place, the "sales charge previously paid" shall include the aggregate of the sales charges paid with respect to such Class A shares in the initial purchase and any subsequent exchange. Class A shares issued pursuant to dividend reinvestment are sold on a no-load basis in each of the funds offering Class A shares. For purposes of the exchange privilege, Class A shares acquired through dividend reinvestment shall be deemed to have been sold with a sales charge equal to the sales charge previously paid on the Class A shares on which the dividend was paid. Based on this formula, Class A shares of the Fund generally may be exchanged into the Class A shares of the other funds or into shares of the Class A money market funds with a reduced or without a sales charge.

In addition, each of the funds with Class B shares outstanding offers to exchange its Class B shares ("new Class B shares") for Class B shares ("outstanding Class B shares") of any of the other funds on the basis of relative net asset value per Class B share, without the payment of any contingent deferred sales charge that might otherwise be due on redemption of the outstanding shares. Class B shareholders of the Fund exercising the exchange privilege will continue to be subject to the Fund's contingent deferred sales charge schedule if such schedule is higher than the deferred sales charge schedule relating to the new Class B shares acquired through use of the exchange privilege. In addition, Class B shares of the Fund acquired through use of the exchange privilege will be subject to the Fund's contingent deferred sales charge schedule if such schedule is higher than the deferred sales charge schedule relating to the Class B shares of the fund from which the exchange has been made. For purposes of computing the sales charge that may be payable on a disposition of the new Class B shares, the holding period for the outstanding Class B shares is "tacked" to the holding period of the new Class B shares. For example, an investor may exchange Class B shares of the Fund for

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those of Merrill Lynch Global Resources Trust (formerly Merrill Lynch Natural Resources Trust) after having held the Fund's Class B shares for two and a half years. The 2% sales charge that generally would apply to a redemption would not apply to the exchange. Three years later the investor may decide to redeem the Class B shares of Merrill Lynch Global Resources Trust and receive cash. There will be no contingent deferred sales charge due on this redemption, since by "tacking" the two and a half year holding period of the Fund's Class B shares to the three year holding period for the Merrill Lynch Global Resources Trust Class B shares, the investor will be deemed to have held the new Class B shares for more than five years.

Shareholders also may exchange Class A shares and Class B shares from any of the funds into shares of the Class A money market funds and Class B money market funds, respectively, but the period of time that Class B shares are held in a Class B money market fund will not count towards satisfaction of the holding period requirement for purposes of reducing the contingent deferred sales charge. However, shares of a Class B money market fund which were acquired as a result of an exchange for Class B shares of a fund may, in turn, be exchanged back into Class B shares of any fund offering such shares, in which event the holding period for Class B shares of the fund will be aggregated with previous holding periods for purposes of reducing the contingent deferred sales charge. Thus, for example, an investor may exchange Class B shares of the Fund for shares of Merrill Lynch Institutional Fund after having held the Fund Class B shares for two and a half years and three years later decide to redeem the shares of Merrill Lynch Institutional Fund for cash. At the time of this redemption, the 2% contingent deferred sales charge that would have been due had the Class B shares of the Fund been redeemed for cash

rather than exchanged for shares of Merrill Lynch Institutional Fund will be payable. If instead of such redemption the shareholder exchanged such shares for Class B shares of a fund which the shareholder continues to hold for an additional two and a half years, any subsequent redemption will not incur a contingent deferred sales charge.

Below is a description of the investment objectives of the other funds into which exchanges can be made:

Merrill Lynch Adjustable Rate Securities Fund, Inc.....	High current income consistent with a policy of limiting the degree of fluctuation in net asset value by investing primarily in a portfolio of adjustable rate securities, consisting principally of mortgage-backed and asset-backed securities.
Merrill Lynch Americas Income Fund, Inc.....	A high level of current income, consistent with prudent investment risk, by investing primarily in debt securities denominated in a currency of a country located in the Western Hemisphere (i.e., North and South America and the surrounding waters).
Merrill Lynch Arizona Limited Maturity Municipal Bond Fund...	A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is to provide as high a level of income exempt from Federal and Arizona income taxes as is consistent with prudent investment management through investment in a portfolio primarily of intermediate-term investment grade Arizona Municipal Bonds.
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Merrill Lynch Arizona Municipal Bond Fund.....	A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is to provide investors with as high a level of income exempt from Federal and Arizona income taxes as is consistent with prudent investment management.
Merrill Lynch Balanced Fund for Investment and Retirement.....	As high a level of total investment return as is consistent with reasonable risk by investing in common stock and other types of securities, including fixed income securities and convertible securities.
Merrill Lynch Basic Value Fund, Inc.....	Capital appreciation and, secondarily, income through investment in securities, primarily equities, that are undervalued and therefore represent basic investment value.
Merrill Lynch California Insured Municipal Bond Fund.....	A portfolio of Merrill Lynch California Municipal Series Trust, a series fund, whose objective is to provide shareholders with as high a level of income exempt from Federal and California income taxes as is consistent with prudent investment management through investment in a portfolio consisting primarily of insured California Municipal Bonds.
Merrill Lynch California Limited Maturity Municipal Bond Fund...	A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is to provide shareholders with as high a level of income exempt from Federal and California income

taxes as is consistent with prudent investment management through investment in a portfolio primarily of intermediate-term investment grade California Municipal Bonds.

Merrill Lynch California Municipal Bond Fund.....

A portfolio of Merrill Lynch California Municipal Series Trust, a series fund, whose objective is to provide investors with as high a level of income exempt from Federal and California income taxes as is consistent with prudent investment management.

Merrill Lynch Capital Fund, Inc.....

The highest total investment return consistent with prudent risk through a fully managed investment policy utilizing equity, debt and convertible securities.

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Merrill Lynch Colorado Municipal Bond Fund.....

A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Colorado income taxes as is consistent with prudent investment management.

Merrill Lynch Corporate Bond Fund, Inc.....

Current income from three separate diversified portfolios of fixed income securities.

Merrill Lynch Dragon Fund, Inc.....

Capital appreciation primarily through investment in equity and debt securities of issuers domiciled in developing countries located in Asia and the Pacific Basin, other than Japan, Australia and New Zealand.

Merrill Lynch EuroFund.....

Capital appreciation primarily through investment in equity securities of corporations domiciled in Europe.

Merrill Lynch Federal Securities Trust.....

High current return through investments in U.S. Government and Government agency securities, including GNMA mortgage-backed certificates and other mortgage-backed Government securities.

Merrill Lynch Florida Limited Maturity Municipal Bond Fund...

A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal income taxes as is consistent with prudent investment management while serving to offer shareholders the opportunity to own securities exempt from Florida intangible personal property taxes through investment in a portfolio primarily of intermediate-term investment grade Florida Municipal Bonds.

Merrill Lynch Florida Municipal Bond Fund.....

A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal income taxes as is consistent with prudent investment management while seeking to offer shareholders the opportunity to own securities exempt from Florida intangible personal property taxes.

Merrill Lynch Fund For Tomorrow, Inc.....	Long-term growth through investment in a portfolio of good quality securities, primarily common stock, potentially positioned to benefit from demographic and cultural changes as they affect consumer markets.
Merrill Lynch Fundamental Growth Fund, Inc.....	Long-term growth through investment in a diversified portfolio of equity securities placing particular emphasis on companies that have exhibited above- average growth rates in earnings.
Merrill Lynch Global Allocation Fund, Inc.....	High total return, consistent with prudent risk, through a fully-managed investment policy utilizing United States and foreign equity, debt and money market securities, the combination of which will be varied from time to time both with respect to the types of securities and markets in response to changing market and economic trends.
Merrill Lynch Global Bond Fund for Investment and Retirement.....	High total investment return from investment in a global portfolio of debt instruments denominated in various currencies and multi-national currency units.
Merrill Lynch Global Convertible Fund, Inc.....	High total return from investment primarily in an internationally diversified portfolio of convertible debt securities, convertible preferred stock and "synthetic" convertible securities consisting of a combination of debt securities or preferred stock and warrants or options.
Merrill Lynch Global Holdings (residents of Arizona must meet investor suitability standards).....	The highest total investment return consistent with prudent risk through worldwide investment in an internationally diversified portfolio of securities.
Merrill Lynch Global Resources Trust.....	Long-term growth and protection of capital from investment in securities of domestic and foreign companies that possess substantial natural resource assets.

Merrill Lynch Global Utility Fund, Inc. ....	Capital appreciation and current income through investment of at least 65% of its total assets in equity and debt securities issued by domestic and foreign companies which are primarily engaged in the ownership or operation of facilities used to generate, transmit or distribute electricity, telecommunications, gas or water.
Merrill Lynch Government Fund.....	A portfolio of Merrill Lynch Funds for Institutions Series, a series fund, whose objective is to provide current income consistent with liquidity and

security of principal from investment in securities issued or guaranteed by the U.S. Government, its agencies and instrumentalities and in repurchase agreements secured by such obligations.

Merrill Lynch Growth Fund for Investment and Retirement.....

Growth of capital and, secondarily, income from investment in a diversified portfolio of equity securities placing principal emphasis on those securities which management of the Fund believes to be undervalued.

Merrill Lynch Healthcare Fund, Inc. (residents of Wisconsin must meet investor suitability standards).....

Capital appreciation through worldwide investment in equity securities of companies that derive or are expected to derive a substantial portion of their sales from products and services in healthcare.

Merrill Lynch Institutional Fund.....

A portfolio of Merrill Lynch Funds for Institutions Series, a series fund, whose objective is to provide maximum current income consistent with liquidity and the maintenance of a high-quality portfolio of money market securities.

Merrill Lynch Institutional Tax-Exempt Fund.....

A portfolio of Merrill Lynch Funds for Institutions Series, a series fund, whose objective is to provide current income exempt from Federal income taxes, preservation of capital and liquidity available from investing in a diversified portfolio of short-term high quality municipal bonds.

Merrill Lynch International Equity Fund.....

Capital appreciation and, secondarily, income by investing in a diversified portfolio of equity securities of issuers located in countries other than the United States.

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Merrill Lynch Latin America Fund, Inc.....

Capital appreciation by investing primarily in Latin American equity and debt securities.

Merrill Lynch Maryland Municipal bond Fund.....

A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Maryland income taxes as is consistent with prudent investment management.

Merrill Lynch Massachusetts Limited Maturity Municipal Bond Fund...

A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Massachusetts income taxes as is consistent with prudent investment management through investment in a portfolio primarily of intermediate-term investment grade Massachusetts Municipal Bonds.

Merrill Lynch Massachusetts Municipal Bond Fund.....

A portfolio of Merrill Lynch Multi-



State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Massachusetts income taxes as is consistent with prudent investment management.

Merrill Lynch Michigan Limited  
Maturity Municipal Bond Fund...

A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Michigan income taxes as is consistent with prudent investment management through investment in a portfolio primarily of intermediate-term grade Michigan Municipal Bonds.

Merrill Lynch Michigan Municipal  
Bond Fund.....

A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Michigan income taxes as is consistent with prudent investment management.

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Merrill Lynch Minnesota Municipal  
Bond Fund.....

A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Minnesota income taxes as is consistent with prudent investment management.

Merrill Lynch Municipal Bond Fund,  
Inc. ....

Tax-exempt income from three separate diversified portfolios of municipal bonds.

Merrill Lynch Municipal Intermediate  
Term Fund.....

Currently the only portfolio of Merrill Lynch Municipal Series Trust, a series fund, whose objective is to provide as high a level as possible of income exempt from Federal income taxes by investing in investment grade obligations with a dollar weighted average maturity of five to twelve years.

Merrill Lynch New Jersey Limited  
Maturity Municipal Bond Fund...

A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and New Jersey income taxes as is consistent with prudent investment management through a portfolio primarily of intermediate-term investment grade New Jersey Municipal Bonds.

Merrill Lynch New Jersey Municipal  
Bond Fund.....

A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and New Jersey income taxes as is consistent with prudent investment management.

Merrill Lynch New York Limited  
Maturity Municipal Bond Fund...

A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal, New York State and New York City income taxes as is consistent with prudent investment management through investment in a

portfolio primarily of intermediate-term investment grade New York Municipal Bonds.

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Merrill Lynch New York Municipal Bond Fund..... A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal, New York State and New York City income taxes as is consistent with prudent investment management.

Merrill Lynch North Carolina Municipal Bond Fund..... A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and North Carolina income taxes as is consistent with prudent investment management.

Merrill Lynch Ohio Municipal Bond Fund..... A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Ohio income taxes as is consistent with prudent investment management.

Merrill Lynch Oregon Municipal Bond Fund..... A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Oregon income taxes as is consistent with prudent investment management.

Merrill Lynch Pacific Fund, Inc. .... Capital appreciation by investing in equity securities of corporations domiciled in Far Eastern and Western Pacific countries, including Japan, Australia, Hong Kong and Singapore.

Merrill Lynch Pennsylvania Limited Maturity Municipal Bond Fund... A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is to provide as high a level of income exempt from Federal and Pennsylvania income taxes as is consistent with prudent investment management through investment in a portfolio of intermediate-term investment grade Pennsylvania Municipal Bonds.

Merrill Lynch Pennsylvania Municipal Bond Fund..... A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Pennsylvania income taxes as is consistent with prudent investment management.

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Merrill Lynch Phoenix Fund, Inc. .... Long-term growth of capital by investing in equity and fixed income securities, including tax-exempt securities, of issuers in weak financial condition or experiencing poor operating results believed to be undervalued relative to the current or prospective condition of such issue.

Merrill Lynch Ready Assets Trust..... Preservation of capital, liquidity and the highest possible current income consistent with the foregoing

objectives from the short-term money market securities in which the Trust invests.

Merrill Lynch Retirement Reserves Money Fund (available only if the exchange occurs within certain retirement plans).....	Currently the only portfolio of Merrill Lynch Retirement Series Trust, a series fund, whose objectives are current income, preservation of capital and liquidity available from investing in a diversified portfolio of short-term money market securities.
Merrill Lynch Short-Term Global Income Fund, Inc. ....	As high a level of current income as is consistent with prudent investment management from a global portfolio of high quality debt securities denominated in various currencies and multinational currency units and having remaining maturities not exceeding three years.
Merrill Lynch Special Value Fund, Inc.....	Long-term growth of capital from investments in securities, primarily common stock, of relatively small companies believed to have special investment value and emerging growth companies regardless of size.
Merrill Lynch Strategic Dividend Fund.....	Long-term total return from investment in dividend paying common stocks which yield more than Standard & Poor's 500 Composite Stock Price Index.
Merrill Lynch Technology Fund, Inc...	Capital appreciation through worldwide investment in equity securities of companies that derive or are expected to derive a substantial portion of their sales from products and services in technology.
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Merrill Lynch Texas Municipal Bond Fund.....	A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal income taxes as is consistent with prudent investment management by investing primarily in a portfolio of long-term, investment grade obligations issued by the State of Texas, its political subdivisions, agencies and instrumentalities.
Merrill Lynch Treasury Fund.....	A portfolio of Merrill Lynch Funds for Institutions Series, a series fund, whose objective is to provide current income consistent with liquidity and security of principal from investment in direct obligations of the U.S. Treasury and up to 10% of its total assets in repurchase agreements secured by such obligations.
Merrill Lynch U.S.A. Government Reserves.....	Preservation of capital, current income and liquidity available from investing in direct obligations of the U.S. Government and repurchase agreements relating to such securities.
Merrill Lynch U.S. Treasury Money Fund.....	Preservation of capital, liquidity and current income through investment exclusively in a diversified portfolio of short-term marketable securities which are direct obligations of the U.S. Treasury.

Merrill Lynch Utility Income Fund,  
Inc.....

High current income through investment in equity and debt securities issued by companies which are primarily engaged in the ownership or operation of facilities used to generate, transmit or distribute electricity, telecommunications, gas or water.

Merrill Lynch World Income Fund,  
Inc.....

High current income by investing in a global portfolio of fixed income securities denominated in various currencies, including multinational currencies.

Before effecting an exchange, shareholders of the Fund should obtain a currently effective prospectus of the fund into which the exchange is to be made. Exercise of the exchange privilege is treated as a sale for Federal income tax purposes and, depending on the circumstances, a short- or long-term capital gain or loss may be realized. In addition, a shareholder exchanging shares of any of the funds may be subject to a backup withholding tax unless such shareholder certifies under penalty of perjury that the taxpayer identification number on file with any such fund is correct and that such shareholder is not otherwise subject to backup withholding. See "Dividends, Distributions and Taxes--Taxes" below.

To exercise the exchange privilege, shareholders should contact their Merrill Lynch financial consultant, who will advise the Fund of the exchange, or if the exchange does not involve a money market fund,

shareholders may write to the transfer agent requesting that the exchange be effected. Such letter must be signed exactly as the account is registered with signatures guaranteed by an "eligible guarantor institution" (including, for example, Merrill Lynch branch offices and certain other financial institutions) as such is defined in Rule 17Ad-15 under the Securities Exchange Act of 1934, as amended, the existence and validity of which may be verified by the transfer agent through the use of industry publications. Shareholders of the Fund, and shareholders of the other funds described above with shares for which certificates have not been issued, may exercise the exchange privilege by wire through their securities dealers. The Fund reserves the right to require a properly completed Exchange Application. This exchange privilege may be modified or terminated in accordance with the rules of the Commission. The Fund reserves the right to limit the number of times an investor may exercise the exchange privilege. Certain funds may suspend the continuous offering of their shares to the general public at any time and may thereafter resume such offering from time to time. The exchange privilege is available only to U.S. shareholders in states where the exchange legally may be made.

#### DIVIDENDS, DISTRIBUTIONS AND TAXES

##### DIVIDENDS AND DISTRIBUTIONS

The Fund intends to distribute all of its net investment income, if any. Dividends from such net investment income are paid at least annually. All net realized long- or short-term capital gains, if any, are distributed to the Fund's shareholders at least annually. Premiums from expired options written by the Fund and net gains from closing purchase transactions are treated as short-term capital gains for Federal income tax purposes. See "Shareholder Services--Automatic Reinvestment of Dividends and Capital Gains Distributions" in the Prospectus for information concerning the manner in which dividends and distributions may be reinvested automatically in shares of the Fund. A shareholder whose account is maintained through the transfer agent may elect in writing to receive any such dividends or distributions, or both, in cash. A shareholder whose account is maintained through Merrill Lynch may elect in writing to receive both dividends and distributions in cash. Dividends and distributions are taxable to shareholders as described below whether they are invested in shares of the Fund or received in cash. The per share dividends and distributions on Class B shares will be lower than the per share dividends and distributions on Class A shares as a result of the account maintenance, distribution and higher transfer agency fees applicable with respect to the Class B shares. See "Determination of Net Asset Value".

##### TAXES

The Fund intends to continue to qualify for the special tax treatment afforded regulated investment companies ("RICs") under the Internal Revenue Code of 1986, as amended (the "Code"). If it so qualifies, the Fund (but not its shareholders) will not be subject to Federal income tax on the part of its net ordinary income and net realized capital gains which it distributes to Class A and Class B shareholders (together, the "shareholders"). The Fund intends to distribute substantially all of such income.

Dividends paid by the Fund from its ordinary income and distributions of the Fund's net realized short-term capital gains (together referred to hereafter as "ordinary income dividends") are taxable to shareholders as ordinary income. Distributions made from the Fund's net realized long-term capital gains (including long-term gains from certain transactions in futures and options) ("capital gain dividends") are taxable to shareholders as long-term capital gains, regardless of the length of time the shareholder has owned Fund

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shares. Distributions in excess of the Fund's earnings and profits will first reduce the adjusted tax basis of a holder's shares and, after such adjusted tax basis is reduced to zero, will constitute capital gains to such holder (assuming the shares are held as a capital asset). Any loss upon the sale or exchange of Fund shares held for six months or less will be treated as long-term capital loss to the extent of any capital gain dividends received by the shareholder.

Dividends are taxable to shareholders even though they are reinvested in additional shares of the Fund. Not later than 60 days after the close of its taxable year, the Fund will provide its shareholders with a written notice designating the amounts of any ordinary income dividends or capital gain dividends. A portion of the Fund's ordinary income dividends may be eligible for the dividends received deduction allowed to corporations under the Code, if certain requirements are met. For this purpose, the Fund will allocate dividends eligible for the dividends received deduction between the Class A and Class B shareholders according to a method (which it believes is consistent with the Securities and Exchange Commission exemptive order permitting the issuance and sale of multiple classes of stock) that is based on the gross income allocable to Class A and Class B shareholders during the taxable year, or such other method as the Internal Revenue Service may prescribe. If the Fund pays a dividend in January which was declared in the previous October, November or December to shareholders of record on a specified date in one of such months, then such dividend will be treated for tax purposes as being paid by the Fund and received by its shareholders on December 31 of the year in which such dividend was declared.

Ordinary income dividends paid by the Fund to shareholders who are nonresident aliens or foreign entities will be subject to a 30% U.S. withholding tax under existing provisions of the Code applicable to foreign individuals and entities unless a reduced rate of withholding or a withholding exemption is provided under applicable treaty law. Nonresident shareholders are urged to consult their own tax advisers concerning the applicability of the U.S. withholding tax.

Under certain provisions of the Code, some shareholders may be subject to a 31% withholding tax on ordinary income dividends, capital gain dividends and redemption payments ("backup withholding"). Generally, shareholders subject to backup withholding will be those for whom no certified taxpayer identification number is on file with the Fund or who, to the Fund's knowledge, have furnished an incorrect number. When establishing an account, an investor must certify under penalty of perjury that such number is correct and that such investor is not otherwise subject to backup withholding.

Dividends and interest received by the Fund may give rise to withholding and other taxes imposed by foreign countries. Tax conventions between certain countries and the United States may reduce or eliminate such taxes. Shareholders may be able to claim U.S. foreign tax credits with respect to such taxes, subject to certain conditions and limitations contained in the Code. For example, certain retirement accounts cannot claim foreign tax credits on investments in foreign securities held in the Fund. If more than 50% in value of the Fund's total assets at the close of its taxable year consists of securities of foreign corporations, the Fund will be eligible, and intends, to file an election with the Internal Revenue Service pursuant to which shareholders of the Fund will be required to include their proportionate shares of such withholding taxes on their U.S. income tax returns as gross income, treat such proportionate shares as taxes paid by them and deduct such proportionate shares in computing their taxable incomes or, alternatively, use them as foreign tax credits against their U.S. income taxes. No deductions for foreign taxes, however, may be claimed by noncorporate shareholders who do not itemize deductions. A shareholder that is a nonresident alien individual or a foreign corporation may be subject to U.S. withholding tax on the income resulting from the

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Fund's election described in this paragraph but may not be able to claim a credit or deduction against such U.S. tax for the foreign taxes treated as having been paid by such shareholder. The Fund will report annually to its shareholders the amount per share of such withholding taxes. For this purpose,

the Fund will allocate foreign taxes and foreign source income between the Class A and Class B shareholders according to a method (which it believes is consistent with the Securities and Exchange Commission exemptive order permitting the issuance and sale of multiple classes of stock) that is based on the gross income allocable to the Class A and Class B shareholders during the taxable year or such other method as the Internal Revenue Service may prescribe.

If a Class A shareholder exercises the exchange privilege within 90 days of acquiring the shares, then the loss the shareholder can recognize on the exchange will be reduced (or the gain increased) to the extent the sales charge paid to the Fund reduces any sales charge the shareholder would have owed upon purchase of the new Class A shares in the absence of the exchange privilege. Instead, such sales charge will be treated as an amount paid for the new Class A shares.

A loss realized on a sale or exchange of shares of the Fund will be disallowed if other Fund shares are acquired (whether under the Automatic Dividend Reinvestment Plan or otherwise) within a 61-day period beginning 30 days before and ending 30 days after the date that the shares are disposed of. In such a case, the basis of the shares acquired will be adjusted to reflect the disallowed loss.

The Code requires a RIC to pay a nondeductible 4% excise tax to the extent the RIC does not distribute, during each calendar year, 98% of its ordinary income, determined on a calendar year basis, and 98% of its capital gains, determined, in general, on an October 31 year end, plus certain undistributed amounts from previous years. While the Fund intends to distribute its income and capital gains in the manner necessary to avoid imposition of the 4% excise tax, there can be no assurance that sufficient amounts of the Fund's taxable income and capital gains will be distributed to avoid entirely the imposition of the tax. In such event, the Fund will be liable for the tax only on the amount by which it does not meet the foregoing distribution requirements.

The Fund may invest up to 10% of its total assets in securities of closed-end investment companies. If the Fund purchases shares of an investment company (or similar investment entity) organized under foreign law, the Fund will be treated as owning shares in a passive foreign investment company ("PFIC") for U.S. Federal income tax purposes. The Fund may be subject to U.S. Federal income tax, and an additional tax in the nature of interest (the "interest charge"), on a portion of distributions from such company and on gain from the disposition of the shares of such company (collectively referred to as "excess distributions"), even if such excess distributions are paid by the Fund as a dividend to its shareholders. The Fund may be eligible to make an election with respect to certain PFICs in which it owns shares that will allow it to avoid the taxes on excess distributions. However, such election may cause the Fund to recognize income in a particular year in excess of the distributions received from such PFICs. Alternatively, under proposed regulations, the Fund would be able to elect to "mark to market" at the end of each taxable year all shares that it holds in PFICs. If it made this election, the Fund would recognize as ordinary income any increase in the value of such shares. Unrealized losses, however, will not be recognized. By making the mark-to-market election, the Fund could avoid imposition of the interest charge with respect to its distributions from PFICs, but in any particular year might be required to recognize income in excess of the distributions it receives from PFICs and its proceeds from dispositions of PFIC stock.

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**Tax Treatment of Options, Futures and Forward Foreign Exchange Transactions.** The Fund may write, purchase or sell options, futures and forward foreign exchange contracts. Options and futures contracts that are "Section 1256 contracts" will be "marked to market" for Federal income tax purposes at the end of each taxable year, i.e., each such option or futures contract will be treated as sold for its fair market value on the last day of the taxable year. Unless such contract is a forward foreign exchange contract, or is a non-equity option or a regulated futures contract for a non-U.S. currency for which the Fund elects to have gain or loss treated as ordinary gain or loss under Code Section 988 (as described below), gain or loss from Section 1256 contracts will be 60% long-term and 40% short-term capital gain or loss. The mark-to-market rules outlined above, however, will not apply to certain transactions entered into by the Fund solely to reduce the risk of changes in price or interest or currency exchange rates with respect to its investments.

A forward foreign exchange contract that is a Section 1256 contract will be marked to market, as described above. However, the character of gain or loss from such a contract will generally be ordinary under Code Section 988. The Fund may, nonetheless, elect to treat the gain or loss from certain forward foreign exchange contracts as capital. In this case, gain or loss realized in connection with a forward foreign exchange contract that is a Section 1256 contract will be characterized as 60% long-term and 40% short-term capital gain or loss.

Code Section 1092, which applies to certain "straddles", may affect the taxation of the Fund's transactions in options, futures and forward foreign exchange contracts. Under Section 1092, the Fund may be required to postpone recognition for tax purposes of losses incurred in certain closing transactions in options, futures and forward foreign exchange contracts.

One of the requirements for qualification as a RIC is that less than 30% of the Fund's gross income may be derived from gains from the sale or other disposition of securities held for less than three months. Accordingly, the Fund may be restricted in effecting closing transactions within three months after entering into an options or futures contract.

Special Rules for Certain Foreign Currency Transactions. In general, gains from "foreign currencies" and from foreign currency options, foreign currency futures and forward foreign exchange contracts relating to investments in stock, securities or foreign currencies will be qualifying income for purposes of determining whether the Fund qualifies as a RIC. It is currently unclear, however, who will be treated as the issuer of a foreign currency instrument or how foreign currency options, foreign currency futures and forward foreign exchange contracts will be valued for purposes of the RIC diversification requirements applicable to the Fund.

Under Code Section 988, special rules are provided for certain transactions in a currency other than the taxpayer's functional currency (i.e., unless certain special rules apply, currencies other than the U.S. dollar). In general, foreign currency gains or losses from certain debt instruments, from certain forward contracts, from futures contracts that are not "regulated futures contracts" and from unlisted options will be treated as ordinary income or loss under Code Section 988. In certain circumstances, the Fund may elect capital gain or loss treatment for such transactions. Regulated futures contracts, as described above, will be taxed under Code Section 1256 unless application of Section 988 is elected by the Fund. In general, however, Code Section 988 gains or losses will increase or decrease the amount of the Fund's investment company taxable income available to be distributed to shareholders as ordinary income. Additionally, if Code Section 988 losses exceed other investment company taxable income during a taxable year, the Fund would not be able to make any

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ordinary dividend distributions, and any distributions made before the losses were realized but in the same taxable year would be recharacterized as a return of capital to shareholders, thereby reducing the basis of each shareholder's Fund shares and resulting in a capital gain for any shareholder who received a distribution greater than the shareholder's basis in Fund shares (assuming the shares were held as a capital asset). These rules and the mark-to-market rules described above, however, will not apply to certain transactions entered into by the Fund solely to reduce the risk of currency fluctuations with respect to its investments.

The Treasury Department has authority to issue regulations concerning the recharacterization of principal and interest payments with respect to debt obligations issued in hyperinflationary currencies, which may include the currencies of certain developing Asia-Pacific and Latin American countries in which the Fund intends to invest. No such regulations have been issued.

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The foregoing is a general and abbreviated summary of the applicable provisions of the Code and Treasury regulations presently in effect. For the complete provisions, reference should be made to the pertinent Code sections and the Treasury regulations promulgated thereunder. The Code and the Treasury regulations are subject to change by legislative or administrative action either prospectively or retroactively.

Ordinary income dividends and capital gain dividends may also be subject to state and local taxes.

Certain states exempt from state income taxation dividends paid by RICs that are derived from interest on U.S. Government obligations. State law varies as to whether dividend income attributable to U.S. Government obligations is exempt from state income tax.

Shareholders are urged to consult their own tax advisers regarding specific questions as to Federal, foreign, state or local taxes. Foreign investors should consider applicable foreign taxes in their evaluation of an investment in the Fund.

#### PERFORMANCE DATA

From time to time the Fund may include its average annual total return and other total return data in advertisements or information furnished to present or prospective shareholders. Total return figures are based on the Fund's



historical performance and are not intended to indicate future performance. Average annual total return is determined separately for Class A and Class B shares in accordance with a formula specified by the Commission.

Average annual total return quotations for the specified periods are computed by finding the average annual compounded rates of return (based on net investment income and any realized and unrealized capital gains or losses on portfolio investments over such periods) that would equate the initial amount invested to the redeemable value of such investment at the end of each period. Average annual total return is computed assuming all dividends and distributions are reinvested and taking into account all applicable recurring and nonrecurring expenses, including the maximum sales charge in the case of Class A shares and the contingent deferred sales charge that would be applicable to a complete redemption of the investment at the end of the specified period in the case of Class B shares.

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The Fund also may quote annual, average annual and annualized total return and aggregate total return performance data, both as a percentage and as a dollar amount based on a hypothetical \$1,000 investment for various periods other than those noted below. Such data will be computed as described above, except that (i) as required by the periods of the quotations, actual annual, annualized or aggregate data, rather than average annual data, may be quoted, and (ii) the maximum applicable sales charges will not be included with respect annual or annualized rates of return calculations. Aside from the impact on the performance data calculations of including or excluding the maximum applicable sales charges, actual annual or annualized total return data generally will be lower than average annual total return data since the average rates of return reflect compounding of return; aggregate total return data generally will be higher than average annual total return data since the aggregate rates of return reflect compounding over longer periods of time.

Set forth below is total return information for the Class A shares of the Fund for the periods indicated:

PERIOD	CLASS A SHARES*	
	EXPRESSED AS A PERCENTAGE BASED ON A HYPOTHETICAL \$1,000 INVESTMENT	REDEEMABLE VALUE OF A HYPOTHETICAL \$1,000 INVESTMENT AT THE END OF THE PERIOD
AVERAGE ANNUAL TOTAL RETURN (INCLUDING MAXIMUM APPLICABLE SALES CHARGES)		
<S>	<C>	<C>
One Year Ended December 31, 1993.....	57.98%	\$1,579.80
Inception (September 1, 1989) to December 31, 1993.....	17.21%	\$1,990.40
ANNUAL TOTAL RETURN (EXCLUDING MAXIMUM APPLICABLE SALES CHARGES)		
Year Ended December 31, 1993.....	68.96%	\$1,689.60
Year Ended December 31, 1992.....	0.85%	\$1,008.50
Year Ended December 31, 1991.....	23.35%	\$1,233.50
Year Ended December 31, 1990.....	(5.33%)	\$ 946.70
Inception (September 1, 1989) to December 31, 1989.....	6.97%	\$1,069.70
AGGREGATE TOTAL RETURN (INCLUDING MAXIMUM APPLICABLE SALES CHARGES)		
Inception (September 1, 1989) to December 31, 1993.....	99.04%	\$1,990.40

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\*Prior to the date of this Statement of Additional Information, Class B shares of the Fund had not yet been offered to the public.

In order to reflect the reduced sales charges in the case of Class A shares, or the waiver of the contingent deferred sales charge in the case of Class B shares applicable to certain investors, as described under "Purchase of Shares" and "Redemption of Shares", respectively, the total return data quoted by the Fund in advertisements directed to such investors may take into account the reduced, and not the maximum, sales charge or may not take into account the contingent deferred sales charge and therefore may reflect greater total return since, due to the reduced sales charges or the waiver of sales charges, a lower amount of expenses may be deducted.

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## DESCRIPTION OF SHARES

The Fund was incorporated under Maryland law on April 14, 1989. It has an authorized capital of 200,000,000 shares of Common Stock, par value \$0.10 per share, divided into two classes, designated Class A and Class B Common Stock, each of which consists of 100,000,000 shares. Both Class A and Class B Common Stock represent an interest in the same assets of the Fund and are identical in all respects except that the Class B shares bear certain expenses related to the account maintenance and distribution of such shares and that they have exclusive voting rights with respect to matters relating to such account maintenance and distribution expenditures. The Fund has received an order from the Securities and Exchange Commission permitting the issuance and sale of multiple classes of Common Stock. The Board of Directors of the Fund may classify and reclassify the shares of the Fund into additional classes of Common Stock at a future date.

Shareholders are entitled to one vote for each share held and fractional votes for fractional shares held and will vote on the election of Directors and any other matter submitted to a shareholder vote. The Fund does not intend to hold meetings of shareholders in any year in which the Investment Company Act does not require shareholders to act upon any of the following matters: (i) election of Directors; (ii) approval of a management agreement; (iii) approval of a distribution agreement; and (iv) ratification of selection of independent accountants. Also, the by-laws of the Fund require that a special meeting of stockholders be held upon the written request of at least 10% of the outstanding shares of the Fund entitled to vote at such meeting. Voting rights for Directors are not cumulative. Shares issued are fully paid and non-assessable and have no preemptive or conversion rights. Redemption rights are discussed elsewhere herein and in the Prospectus. Each share is entitled to participate equally in dividends and distributions declared by the Fund and in the net assets of the Fund upon liquidation or dissolution after satisfaction of outstanding liabilities. Stock certificates are issued by the transfer agent only on specific request. Certificates for fractional shares are not issued in any case. Shareholders may, in accordance with Maryland law, cause a meeting of shareholders to be held for the purpose of voting on the removal of Directors at the request of 25% of the outstanding shares of the Fund. A Director may be removed at a special meeting of shareholders by a vote of a majority of the votes entitled to be cast for the election of Directors.

The Manager provided the initial capital for the Fund by purchasing 10,417 shares of common stock for an aggregate of \$100,003. Such shares were acquired for investment and can only be disposed of by redemption. The organizational expenses of the Fund (estimated at approximately \$136,495) are being paid by the Fund and amortized on a straight-line basis over a five year period. For the fiscal years ended June 30, 1993, 1992 and 1991 the Fund amortized \$26,165, \$28,346 and \$23,985 of organization expenses, respectively. The proceeds realized by the Manager upon redemption of any of such shares will be reduced by the proportionate amount of the unamortized organizational expenses which the number of shares redeemed bears to the number of shares initially purchased.

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## COMPUTATION OF OFFERING PRICE PER SHARE

An illustration of the computation of the offering price for Class A shares of the Fund based on the value of the Fund's net assets on December 31, 1993, and its shares outstanding on that date is as follows:

TABLE\*

<TABLE>	<S>	<C>
Net Assets.....		\$320,654,341
		=====
Number of Shares Outstanding.....		19,083,223
		=====
Net Asset Value Per Share (net assets divided by number of shares outstanding).....	\$	16.80
Sales Charge (for Class A shares: 6.50% of offering price (6.95% of net amount invested))*.....	\$	1.17
		-----
Offering Price.....	\$	17.97
		=====

&lt;/TABLE&gt;

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\*Rounded to the nearest one-hundredth percent; assumes maximum sales charge is applicable. Prior to the date of this Statement of Additional Information, Class B shares of the Fund had not yet been offered to the public.

#### INDEPENDENT AUDITORS

Deloitte & Touche, 117 Campus Drive, Princeton, New Jersey 08540, has been selected as the independent auditors of the Fund. The selection of independent auditors is subject to ratification by the Fund's shareholders. The independent auditors are responsible for auditing the annual financial statements of the Fund.

#### CUSTODIAN

The Chase Manhattan Bank, N.A., Global Securities Services, Chase MetroTech Center, Brooklyn, New York 11245 (the "Custodian"), acts as the custodian of the Fund's assets. Under its contract with the Fund, the Custodian is authorized to establish separate accounts in foreign currencies and to cause foreign securities owned by the Fund to be held in its offices outside the United States and with certain foreign banks and securities depositories. The Custodian is responsible for safeguarding and controlling the Fund's cash and securities, handling the receipt and delivery of securities and collecting interest and dividends on the Fund's investments.

#### TRANSFER AGENT

Financial Data Services, Inc., Transfer Agency Mutual Fund Operations, 4800 Deer Lake Drive East, Jacksonville, Florida 32246-6484, acts as the Fund's transfer agent (the "Transfer Agent"). The Transfer Agent is responsible for the issuance, transfer and redemption of shares and the opening, maintenance and servicing of shareholder accounts. See "Management of the Fund--Transfer Agency Services" in the Prospectus.

#### LEGAL COUNSEL

Brown & Wood, One World Trade Center, New York, New York 10048-0557, is counsel for the Fund.

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#### REPORTS TO SHAREHOLDERS

The fiscal year of the Fund ends on June 30 of each year. The Fund sends to its shareholders at least semi-annually reports showing the Fund's portfolio and other information. An annual report, containing financial statements audited by independent auditors, is sent to shareholders each year. After the end of each year shareholders will receive Federal income tax information regarding dividends and capital gains distributions.

#### ADDITIONAL INFORMATION

The Prospectus and this Statement of Additional Information do not contain all the information set forth in the Registration Statement and the exhibits relating thereto, which the Fund has filed with the Securities and Exchange Commission, Washington, D.C., under the Securities Act of 1933 and the Investment Company Act, to which reference is hereby made.

#### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

To the knowledge of the Fund, no person or entity owned beneficially 5% or more of the Fund's common stock on April 30, 1994.

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#### INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders, Merrill Lynch Developing Capital Markets Fund, Inc.:

We have audited the accompanying consolidated statement of assets and liabilities, including the consolidated schedule of investments, of Merrill Lynch Developing Capital Markets Fund, Inc. and its subsidiary as of June 30, 1993, the related consolidated statements of operations for the year then ended and changes in net assets for each of the years in the two-year period then ended, and the consolidated financial highlights for each of the years in the three-year period then ended and the period September 1, 1989 (commencement of operations) to June 30, 1990. These consolidated financial statements and the consolidated financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated financial statements and the consolidated financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements and the consolidated financial highlights are free of material misstatement. An

audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned at June 30, 1993 by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements and consolidated financial highlights present fairly, in all material respects, the financial position of Merrill Lynch Developing Capital Markets Fund, Inc. and its subsidiary as of June 30, 1993, the results of their operations, the changes in their net assets, and the consolidated financial highlights for the respective stated periods in conformity with generally accepted accounting principles.

Deloitte & Touche  
Princeton, New Jersey  
July 30, 1993

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<TABLE>  
CONSOLIDATED SCHEDULE OF INVESTMENTS (In U.S. dollars)  
<CAPTION>

Industries	Shares Held	Investments	Cost	Value (Note 1a)	Percent of Net Assets
EUROPE					
<S>	<C>	<S>	<C>	<C>	<C>
Austria					
Banking	20,500	Creditanstalt-Bankverein A.G.	\$ 786,450	\$1,029,318	0.7%
Oil--International	8,500	Unternehmensgruppe OMV A.G.	498,374	509,141	0.4
Paper	1,300	Papierfabrik SCA Laarkirchen A.G.	298,024	295,156	0.2
Textiles	18,000	Lenzing A.G.	916,404	950,800	0.7
Transportation	26,400	Jenbacher Transportsysteme A.G.	1,588,046	640,539	0.5
Utilities	6,500	Energie-Versorgung Niederosterreich Aktiengesellschaft A.G. (EVN)	502,879	484,625	0.3
		Total Investments in Austria	4,590,177	3,909,579	2.8
Finland					
Electrical Equipment	17,200	Vaisala Oy 'A'	482,830	438,467	0.3
		Total Investments in Finland	482,830	438,467	0.3
France					
Banking	40,600	Credit Commercial de France (CCF)	1,570,686	1,653,825	1.2
Building & Construction	20,800	Compagnie de Saint Gobain	1,778,328	1,839,394	1.3
Diversified	9,000	Chargeurs S.A.	2,032,987	1,551,049	1.1
Publishing & Broadcasting	5,000	Canal Plus	1,277,673	1,062,756	0.7
		Total Investments in France	6,659,674	6,107,024	4.3
Greece					
Banking	14,890	Credit Bank S.A.	1,001,183	902,036	0.6
	30,000	Ergo Bank (Registered) S.A.	959,811	946,724	0.7
			1,960,994	1,848,760	1.3
Beverage	52,500	Hellenic Bottling Co. S.A. (Bearer)	818,772	1,218,045	0.9
Building & Construction	63,820	Michaniki S.A.	1,568,300	2,358,118	1.7
	5,800	Michaniki S.A. (Preferred)	99,678	149,517	0.1
	48,830	Titan Cement S.A.	1,960,315	1,699,347	1.2
			3,628,293	4,206,982	3.0
Food	112,940	J. Boutari & Son S.A. (Bearer)	2,454,976	1,188,842	0.8
	44,000	Katselis Sons S.A.	738,720	425,349	0.3
	44,000	Katselis Sons S.A. (Rights) (d)	0	0	0.0
			3,193,696	1,614,191	1.1
Health & Personal Care	21,000	Athens Medical Center S.A.	331,904	205,714	0.1
		Total Investments in Greece	9,933,659	9,093,692	6.4

&lt;/TABLE&gt;

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<S>	<C>	<C>	<C>	<C>	<C>
Hungary					
Food	8,500	Pick Szeged Reszvenytarsasag (GDS) (a)++++	123,250	180,242	0.1
Retail Stores	123,000	FOTEX RT--Fotex Els Amerikai--Magyar Fotoszolgaltatasi Reszvenytarsasag	391,211	341,955	0.2
		Total Investments in Hungary	514,461	522,197	0.3
Italy					
Insurance	125,000	Unipol Compagnie Assicuratice S.p.A. (Preferred)	502,555	588,188	0.4
		Total Investments in Italy	502,555	588,188	0.4
Netherlands					
Publishing & Broadcasting	15,500	Elsevier N.V.	1,051,904	1,124,390	0.8
		Total Investments in the Netherlands	1,051,904	1,124,390	0.8
Poland					
Food	40,000	International Fast Food Corp.	267,500	330,000	0.2
		Total Investments in Poland	267,500	330,000	0.2
Portugal					
Banking	25,000 199,012	Banco Totta E Acores S.A. Banco Comercial Portugues, S.A. (Registered)	520,258 2,605,246	527,048 2,375,840	0.4 1.7
			3,125,504	2,902,888	2.1
Beverages	29,100	Uniao Cervejaria S.A. (UNICER)	790,773	766,405	0.5
Building & Construction	14,100	CINCA-Companhia Industrial de Ceramica, S.A.	104,052	92,402	0.0
	72,600	Efacec S.A.	2,453,617	2,356,414	1.6
	82,300	Soares da Costa S.A.	1,477,775	1,373,787	1.0
	48,600	Sociedade de Empretadas Somague, S.A.	591,603	498,770	0.4
			4,627,047	4,321,373	3.0

&lt;/TABLE&gt;

<TABLE>  
CONSOLIDATED SCHEDULE OF INVESTMENTS (continued) (In U.S. dollars)

<CAPTION>  
EUROPE  
(concluded)

Industries	Shares Held	Investments	Cost	Value	Percent of
<S>	<C>	<C>	<C>	(Note 1a)	Net Assets
				<C>	<C>
Portugal					
(concluded)					
Leisure & Entertainment	13,350	Estoril-Sol S.A.	\$ 105,520	\$ 99,042	0.1%
Mutual Funds	58,000	Portugal Fund, Inc.	495,088	558,250	0.4
Paints	17,500	CIN--Corporacao Industrial Do Norte, S.A.	521,403	477,125	0.3
Retail	42,000 128,930	Jeronimo Martins S.A. Sonae Investimentos S.A.	1,239,927 1,162,724	2,025,607 1,347,886	1.4 1.0
			2,402,651	3,373,493	2.4
Telecommunications	37,000	Companhia Portuguesa Radio Marconi S.A.	929,473	908,130	0.6
		Total Investments in Portugal	12,997,459	13,406,706	9.4
Russia					
Telecommunications	27,750	Petersburg Long Distance Inc. (ADR) (b)	201,806	190,781	0.1

&lt;/TABLE&gt;

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<TABLE>  
<S> <C> <C> <C> <C> <C>

		Total Investments in Russia	201,806	190,781	0.1
Spain					
Telecommunications	122,000	Telefonica de Espana S.A.	1,266,327	1,306,975	0.9
Utilities	164,000	Iberdrola I S.A.	1,000,903	1,011,175	0.7
		Total Investments in Spain	2,267,230	2,318,150	1.6
Switzerland					
Banking	600	Credit Suisse Holdings (Bearer)	1,039,657	1,056,366	0.8
	600	Credit Suisse Holdings (Warrants) (c)	0	27,752	0.0
			-----	-----	---
			1,039,657	1,084,118	0.8
		Total Investments in Switzerland	1,039,657	1,084,118	0.8
Turkey					
Automotive	86,000	Otosan Otomobil Sanayi A.S.	254,654	482,498	0.4
Beverage	251,200	Ege Biracilik Ve Malt Sanayii A.S.	472,057	1,709,695	1.2
Broadcasting & Publishing	196,800	Medya Holding A.S.	1,490,842	1,701,454	1.2
Building & Construction	1,427,000	Adana Cimento A.S. "A" Shares	1,274,092	1,509,347	1.1
Household Durables	1,181,880	Arcelik A.S.	542,575	1,195,731	0.8
Retail	383,000	Migros A.S.	1,210,300	2,712,420	1.9
		Total Investments in Turkey	5,244,520	9,311,145	6.6
		Total Investments in Europe	45,753,432	48,424,437	34.0
LATIN AMERICA					
Argentina					
Banking	20,000	Banco de Galicia y Buenos Aires S.A.	471,388	467,500	0.3
	129,690	Banco Frances del Rio de la Plata S.A.	970,061	1,427,875	1.1
			-----	-----	---
			1,441,449	1,895,375	1.4
Miscellaneous-- Consumer	50,000	BAESA (Buenos Aires Embotelladora S.A.) (ADR) (b) ++++	987,500	1,168,750	0.8
Oil & Related	500,000	Astra Compania Argentina de Petroleo S.A.	1,136,921	1,241,117	0.9
	40,139	Compania Naviera Perez Compac S.A.C.F.I.M.F.A.	197,865	197,260	0.1
			-----	-----	---
			1,334,786	1,438,377	1.0
Telecommunications	34,472	Telefonica de Argentina S.A. (ADR) (b)++++	1,095,078	1,290,459	0.9
		Total Investments in Argentina	4,858,813	5,792,961	4.1

</TABLE>

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<TABLE>					
<S>	<C>	<C>	<C>	<C>	<C>
Brazil					
Banking	39,673,444	Banco Bradesco S.A.	785,681	839,657	0.6
	1,000,000	Banco Itau S.A.	386,442	342,308	0.3
	12,262,000	Banco Nacional S.A.	389,979	431,022	0.3
	1,170,000	Uniao de Bancos Brasileiros S.A.	57,087	58,137	0.0
			-----	-----	---
			1,619,189	1,671,124	1.2
Beverage	5,173,850	Compania Cervejaria Brahma PN (Preferred)	1,043,162	837,917	0.6
Food	81,780,250	Sadia Concordia S.A. Industria e Comercio PN (Preferred)	685,295	481,618	0.3
Mining	23,892,000	Compania Vale do Rio Doce PN (CVRD) (Preferred)	1,835,903	1,622,494	1.1
Retail	384,000	Lojas Americanas S.A.	401,903	388,784	0.3

Steel	492,500 2,620,500,000	Acos Industria Villares S.A. Usinas Siderurgicas de Minas Gerais--Usiminas S.A.	123,508 1,326,626 ----- 1,450,134	110,578 1,340,705 ----- 1,451,283	0.1 0.9 --- 1.0
Telecom- munications	63,000,000 26,000,000 26,000,000	Telecomunicacoes Brasileiras S.A.--Telebras PN (Preferred) Telecomunicacoes Brasileiras S.A.-- Telebras PN (Preferred) (Rights) (e) Telecomunicacoes Brasileiras S.A.-- Telebras PN (Rights) (f)	1,545,704 0 0 ----- 1,545,704	2,040,598 0 0 ----- 2,040,598	1.4 0.0 0.0 --- 1.4
Utilities	7,085,000	Centrais Eletricas Brasileiras S.A.--Eletrobras (Preferred)	888,834 ----- 9,470,124	899,691 ----- 9,393,509	0.6 --- 6.5
Chile Beverages	254,543	Vina Concha y Toro S.A.	103,340	99,544	0.1
Building & Construction	19,476 409,000	Empresas Pizarreno (Rights) (g) Empresas Pizarreno S.A.	0 786,176 ----- 786,176	0 799,738 ----- 799,738	0.0 0.5 --- 0.5
Paper & Pulp	128,000	Compania Manufactura de Papeles y Cartones S.A. (CARTONES)	1,414,658	1,070,838	0.8
Pharmaceuticals	712,111	Laboratorio Chile S.A. (LABCHILE)	430,370	431,828	0.3
Utilities	27,500 2,532,571	Compania de Telefonos de Chile S.A. (ADR) (b) Empresa Nacional de Electricidad S.A. --ENDESA	409,350 872,848 ----- 1,282,198 ----- 4,016,742	1,825,313 913,310 ----- 2,738,623 ----- 5,140,571	1.3 0.6 --- 1.9 --- 3.6
		Total Investments in Chile	4,016,742	5,140,571	3.6

</TABLE>

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<TABLE>  
CONSOLIDATED SCHEDULE OF INVESTMENTS (continued) (In U.S. dollars)

<CAPTION> LATIN AMERICA (concluded)					
Industries	Shares Held	Investments	Cost	Value	Percent of
<S>	<C>	<S>	<C>	(Note 1a)	Net Assets
				<C>	<C>
Mexico Banking	52,000	Grupo Financiero Bancomer S.A. de C.V. (ADR) (b)++++	\$1,724,375	\$1,677,000	1.2%
Beverage	50,000 150,000	Fomento Economico Mexicano, S.A. de C.V. (Femsa) (ADR) (b) Fomento Economico Mexicano, S.A. de C.V. (Femsa) (Ordinary)	195,000 584,707 ----- 779,707	192,000 572,574 ----- 764,574	0.1 0.4 --- 0.5
Building & Construction	373,000	Tolmex S.A. de C.V. 'B'	999,729	2,955,285	2.1
Diversified	352,000	Grupo Carso S.A. de C.V. 'A'	2,001,890	1,925,132	1.4
Food	1,600,000	Grupo Herdez S.A. de C.V. 'A'	1,450,009	1,488,372	1.1
Miscellaneous-- Consumer	520,000	El Puerto de Liverpool S.A. de C.V. 'C' (Non-Voting)	716,558	605,485	0.4
Retail	900,000 285,000 620,000	Cifra S.A. de C.V. 'C' Controladora Comercial Mexicana, S.A. de C.V. (COMERCI) Grupo Gigante, S.A. de C.V. 'B'	831,739 500,238 377,825 ----- 1,709,802	1,710,505 511,949 383,833 ----- 2,606,287	1.2 0.4 0.2 --- 1.8
Steel	26,000	Grupo Industrial Alfa S.A. de C.V. 'A'	155,239	147,201	0.1



Utilities	67,250	Telefonos de Mexico S.A. de C.V. (ADR) (b)	1,819,399	3,143,938	2.2
			-----	-----	---
		Total Investments in Mexico	11,356,708	15,313,274	10.8
Peru					
Banking	156,723	Banco de Credito de Peru S.A.	311,134	408,876	0.3
Mining	93,125	Southern Peru Copper Corporation S.A.	388,390	248,948	0.2
			-----	-----	---
		Total Investments in Peru	699,524	657,824	0.5
Venezuela					
Building & Construction	178,666	Corporacion Ceramica Carabobo CA--S.A.C.A. (Class A)	683,535	432,738	0.3
	239,333	Corporacion Ceramica Carabobo CA--S.A.C.A. (Class B)	679,509	589,671	0.4
			-----	-----	---
			1,363,044	1,022,409	0.7
Cement	177,300	Venezolana de Cementos S.A.C.A.--(VENCEMOS)	273,494	275,427	0.2
Utilities	284,014	C.A. La Electricidad de Caracas S.A.I.C.A.--S.A.C.A.	1,247,424	1,312,537	0.9
			-----	-----	---
		Total Investments in Venezuela	2,883,962	2,610,373	1.8
		Total Investments in Latin America	33,285,873	38,908,512	27.3
PACIFIC BASIN/ASIA					
Australia					
Banking	435,000	Westpac Banking Corporation	994,183	1,080,618	0.8
Media/Publishing	427,500	Nine Network Australia Limited	865,580	945,254	0.6
	35,300	The News Corporation Limited	1,501,118	1,407,588	1.0
			-----	-----	---
			2,366,698	2,352,842	1.6
</TABLE>					
52					
<TABLE>					
<S>	<C>	<C>	<C>	<C>	<C>
Paper & Pulp	438,800	Spicers Paper Limited	808,666	602,016	0.4
			-----	-----	---
		Total Investments in Australia	4,169,547	4,035,476	2.8
China					
Miscellaneous	520,000	China Bicycle 'B'	501,114	604,339	0.4
			-----	-----	---
		Total Investments in China	501,114	604,339	0.4
Hong Kong					
Banking	1,100,000	J.C.G. Holdings, Ltd.	501,560	607,244	0.4
	3,095,000	Winton Holdings, Ltd.	1,009,730	1,189,001	0.9
			-----	-----	---
			1,511,290	1,796,245	1.3
Diversified	830,000	Hutchison Whampoa Limited	1,735,971	2,229,339	1.6
Electronics	300,000	Tomei Industrial Holdings, Ltd.	0	14,334	0.0
Food	2,990,000	C.P. Pokphand Co., Ltd.(Ordinary)	1,055,004	917,000	0.6
Publishing & Broadcasting	1,772,000	Ming Pao Enterprise Corp., Ltd.	870,697	1,555,992	1.1
Retail	504,000	Chow Sang Sang Holdings Limited	303,573	252,195	0.2
	430,000	Fu Hui Jewelry Company, Ltd.	99,136	94,396	0.1
			-----	-----	---
			402,709	346,591	0.3
Telecommunications	3,652,000	ABC Communications Holdings, Ltd.	988,470	1,131,818	0.8

Textiles	3,646,000	Fountain Set Holdings Limited	525,864	635,602	0.4
	3,900,000	United Success International Holdings Limited	501,455	574,122	0.4
			1,027,319	1,209,724	0.8
		Total Investments in Hong Kong	7,591,460	9,201,043	6.5
Indonesia Real Estate	297,500	P.T. Pakuwon Jati	204,362	284,962	0.2
Tobacco	1,000,000	P.T. Hanjaya Mandala Sampoerna	1,362,110	2,969,349	2.1
		Total Investments in Indonesia	1,566,472	3,254,311	2.3
Korea Automotive	26,239	Dong Ah Tire Industries	1,248,434	1,207,879	0.9
Food	9,460	Lotte Confectionary	587,943	466,678	0.3
Pharmaceuticals	31,397	Choong Wae Pharmaceutical Corporation	962,822	1,052,711	0.7
Retail Stores	27,700	Shinsegae Department Store	1,018,280	1,145,718	0.8
Telecommunications	6,817	Korea Mobile Telecommunications Corporation	1,328,813	1,392,354	1.0
Utilities	441,470	Korea Electric Power Corporation	1,094,396	911,770	0.7
		Total Investments in Korea	6,240,688	6,177,110	4.4
Malaysia Banking	2,623,000	Public Bank Berhad	2,245,075	2,842,660	2.0
Financial Services	790,000	Commerce Asset-Holdings Berhad	1,516,366	1,858,643	1.3
Steel	785,000	Maruichi Malaysia Steel Tube Berhad	1,295,988	1,489,714	1.1
Telecommunications	228,000	Leader Universal Holdings Berhad	339,992	922,108	0.6
Tobacco	405,000	Rothmans of Pall Mall (Malaysia) Berhad	2,013,203	2,236,438	1.6
		Total Investments in Malaysia	7,410,624	9,349,563	6.6

</TABLE>

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<TABLE>

CONSOLIDATED SCHEDULE OF INVESTMENTS (concluded)

(In U.S. dollars)

<CAPTION>					
PACIFIC BASIN/ ASIA (concluded)					
Industries	Shares Held	Investments	Cost	Value	Percent of
<S>	<C>	<C>	<C>	(Note 1a)	Net Assets
				<C>	<C>
New Zealand Beverages	1,000,000	D.B. Group Limited	\$ 384,967	\$ 354,750	0.2%
Broadcasting & Publishing	140,000	Independent Newspapers Limited	521,928	583,188	0.4
Electronics	300,100	Transmark Corp. Limited	209,261	209,695	0.2
Utilities	458,000	Enerco New Zealand Limited	475,194	531,738	0.4
		Total Investments in New Zealand	1,591,350	1,679,371	1.2
Philippines Beverages	108,000	San Miguel Corporation 'B'	501,254	497,238	0.3
Electric Utilities	143,536	Manila Electric Company (MERALCO) 'B'	806,900	1,078,503	0.8
Telecommunications	8,600	Philippine Long Distance Co. (ADR) (b)	298,291	306,375	0.2
		Total Investments in the Philippines	1,606,445	1,882,116	1.3
Singapore Banking Services	1,534,000	Hai Sun Hup Group, Ltd.	1,951,245	1,983,621	1.4

	648,000	United Overseas Bank Limited (Warrants) (c)	990,575	1,484,335	1.0
		Total Investments in Singapore	2,941,820	3,467,956	2.4
Sri Lanka Building & Construction	262,500	Lankan Tiles	337,398	190,039	0.1
Diversified	50,000	Aitken Spence	375,008	275,781	0.2
	12,500	Aitken Spence (Rights) (h)	0	0	0.0
		Total Investments in Sri Lanka	712,406	465,820	0.3
Taiwan Closed-End Funds	42,900	The Taiwan Fund, Inc.	820,005	809,738	0.6
		Total Investments in Taiwan	820,005	809,738	0.6
Thailand Banking	588,700	Bangkok Bank Limited "Foreign"	2,139,890	3,408,385	2.4
Health & Personal Care	45,580	International Cosmetics Company Ltd. "Foreign"	1,137,327	1,565,410	1.1
Insurance	159,000	Ayudhya Insurance Company "Foreign"	1,187,126	1,177,314	0.8
Real Estate	358,000	M.D.X. Company, Ltd. "Foreign"	1,986,153	1,677,905	1.2
		Total Investments in Thailand	6,450,496	7,829,014	5.5
		Total Investments in the Pacific Basin/Asia	41,602,427	48,755,857	34.3
<CAPTION> SHORT-TERM SECURITIES	Face Amount				
<S>	<C>	<S>	<C>	<C>	<C>
United States Commercial Paper<F19>	US\$ 4,491,000	General Electric Capital Corp., 3.375% due 7/01/1993	4,491,000	4,491,000	3.2
		Total Investments in Short-Term Securities	4,491,000	4,491,000	3.2
Total Investments			\$125,132,732	140,579,806	98.8
Other Assets Less Liabilities				1,704,938	1.2
Net Assets				\$142,284,744	100.0%

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<TABLE>

<FN>

(a) Global Depositary Shares (GDS).

(b) American Depositary Receipt (ADR).

(c) Warrants entitle the Fund to purchase a predetermined number of shares of Common Stock. The purchase price and number of shares are subject to adjustment of certain conditions until the expiration date.

(d) The rights may be exercised until 7/23/1993.

(e) The rights may be exercised until 6/21/1993.

(f) The rights may be exercised until 6/21/1993.

(g) The rights may be exercised until 7/21/1993.

(h) The rights may be exercised until 7/15/1993.

++Non-income producing securities.

+++Restricted securities as to resale. The value of the Fund's investment in restricted securities was approximately \$4,316,000, representing 3.0% of net assets.

<CAPTION>

Issue	Acquisition Dates	Cost	Value (Note 1a)
<S>	<C>	<C>	<C>
BAESA (Buenos Aires Embotelladora S.A.) (ADR)	12/10/92--12/17/92	\$ 987,500	\$1,168,750
Grupo Financiero Bancomer S.A. de C.V. (ADR)	6/17/92--12/10/92	1,724,375	1,677,000
Pick Szeged Reszvenytarsasag (GDS)	11/20/92	123,250	180,242
Telefonica de Argentina S.A. (ADS)	12/17/91--12/28/92	1,095,078	1,290,459

Total	\$3,930,203	\$4,316,451
<FN>	=====	=====

\*Commercial Paper is traded on a discount basis; the interest rates shown is the discount rate paid at the time of purchase by the Fund.

See Notes to Financial Statements.

</TABLE>

<TABLE>

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

<CAPTION>

	As of June 30, 1993		
<S>	<S>	<C>	<C>
Assets:	Investments, at value (identified cost--\$125,132,732) (Note 1a)		\$140,579,806
	Foreign cash		1,332,242
	Cash		1,261
	Receivables:		
	Capital shares sold	\$1,479,659	
	Securities sold	952,656	
	Dividends	606,581	3,038,896
		-----	
	Deferred organization expenses (Note 1g)		30,527
	Prepaid registration fees and other assets (Note 1g)		63,574
			-----
	Total assets		145,046,306
			-----
Liabilities:	Payables:		
	Securities purchased	2,125,724	
	Capital shares redeemed	300,618	
	Investment adviser (Note 2)	128,199	2,554,541
		-----	
	Accrued expenses and other liabilities		207,021
			-----
	Total liabilities		2,761,562
			-----
Net Assets:	Net assets		\$142,284,744
			=====
Net Assets	Common stock, \$0.10 par value, 200,000,000 shares authorized		\$1,224,348
Consist of:	Paid-in capital in excess of par		127,055,100
	Overdistributed investment loss--net		(221,318)
	Accumulated realized capital losses--net		(1,060,089)
	Unrealized appreciation on investments--net		15,286,703
			-----
	Net assets-Equivalent to \$11.62 per share based on 12,243,485 shares of capital outstanding		\$142,284,744
			=====
	Maximum offering price per share (\$11.62/.96)		\$ 12.10
			=====

See Notes to Financial Statements.

</TABLE>

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<TABLE>

CONSOLIDATED STATEMENT OF OPERATIONS

<CAPTION>

	For the Year Ended June 30, 1993		
<S>	<S>	<C>	<C>
Investment	Dividends (net of \$463,584 foreign withholding tax)		\$2,945,278
Income	Interest and discount earned		834,985
(Notes 1c & 1d):			-----
	Total Income		3,780,263
			-----
Expenses:	Investment advisory fees (Note 2)		1,303,056
	Custodian fees		393,138
	Accounting services (Note 2)		127,749
	Transfer agent fees (Note 2)		124,719
	Printing and shareholder reports		91,317
	Professional fees		75,070
	Registration fees (Note 1g)		44,615
	Directors' fees and expenses		31,406
	Amortization of organization expenses (Note 1g)		26,165
	Other		16,045
			-----
	Total expenses		2,233,280
			-----
	Realized transaction loss--net (Note 1b)		(1,604,330)
	Investment loss--net		(57,347)
			-----
Realized &	Realized loss on investments--net		(207,491)
Unrealized Gain	Change in unrealized appreciation on investments--net		6,852,494

(Loss) on Investments-Net Net Increase in Net Assets Resulting from Operations \$6,587,656  
 (Notes 1d & 3):

See Notes to Financial Statements.

</TABLE>

<TABLE>  
 CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

		For the Year Ended June 30,	
		1993	1992
<S>	Increase (Decrease) in Net Assets:	<C>	<C>
Operations:	Investment income (loss)--net	\$ (57,347)	\$2,009,560
	Realized gain (loss) on investments--net	(207,491)	8,850,084
	Change in unrealized appreciation on investments--net	6,852,494	6,731,860
	Net increase in net assets resulting from operations	6,587,656	17,591,504
Dividends & Distributions to Shareholders (Notes 1h):	Investment income--net	(1,572,465)	(1,845,700)
	Realized gain on investments--net	(8,062,455)	(782,185)
	Net decrease in net assets resulting from dividends and distributions to shareholders	(9,634,920)	(2,627,885)

</TABLE>

		<C>	<C>
<S>	Capital Share Transactions (Note 4):		
	Net increase in net assets derived from capital share transactions	18,914,752	(493,246)
Net Assets:	Total increase in net assets	15,867,488	14,470,373
	Beginning of year	126,417,256	111,946,883
	End of year*	\$142,284,744	\$126,417,256
<FN>	*Undistributed (overdistributed) investment income (loss)--net	\$ (221,318)	\$ 1,408,494

See Notes to Financial Statements.

</TABLE>

<TABLE>  
 CONSOLIDATED FINANCIAL HIGHLIGHTS

The following per share data and ratios have been derived from information provided in the financial statements.

		For the Period			
		For the Year Ended June 30,		Sept. 1, 1989++	
		1993++++	1992	1991	1990
<S>	Increase (Decrease) in Net Asset Value:	<C>	<C>	<C>	<C>
Per Share Operating Performance:	Net asset value beginning of period	\$ 11.92	\$ 10.43	11.58	9.60
	Investment income (loss)--net	(.01)	.18	.19	.21
	Realized and unrealized gain (loss) on investments--net	.55	1.56	(.70)	1.91
	Total from investment operations	.54	1.74	(.51)	2.12
	Less dividends and distributions:				
	Investment income--net	(.14)	(.17)	(.15)	(.13)
	Realized gain on investments--net	(.70)	(.08)	(.49)	(.01)
	Total dividends and distributions	(.84)	(.25)	(.64)	(.14)
	Net asset value, end of period	\$ 11.62	\$ 11.92	\$ 10.43	\$ 11.58
Total Investment Return:**	Based on net asset value per share	+5.17%	+17.02%	-4.45%	+22.29%
Ratios to Average Net Assets:	Expenses	1.71%	1.64%	1.77%	1.71%*
	Investment income (loss)--net	(.04)%	1.73%	1.98%	2.69%*

Supplemental Data:	Net assets, end of period (in thousands)	\$ 142,285	\$ 126,417	\$111,947	\$104,033
		=====	=====	=====	=====
	Portfolio turnover	91.72%	71.05%	84.74%	64.53%
		=====	=====	=====	=====

<FN>

\*Annualized.

\*\*Total investment returns exclude the effects of sales loads.

++Commencement of Operations.

+++Based on average number of shares outstanding.

See Notes to Financial Statements.

</TABLE>

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies:

Merrill Lynch Developing Capital Markets Fund, Inc. (the "Fund") is registered under the Investment Company Act of 1940 as a non-diversified, open-end investment management company. The following is a summary of significant accounting policies followed by the Fund:

(a) Valuation of Securities--Portfolio securities, which are traded on stock exchanges, are valued at the last sale price on the principal market on which such securities are traded, as of the close of business on the day the securities are being valued or, lacking any sales, at the last available bid price. Securities traded in the over-the-counter market are valued at the last available bid prices obtained from one or more dealers in the over-the-counter market prior to the time of valuation. Portfolio securities, which are traded both in the over-the-counter market and on a stock exchange, are valued according to the broadest and most representative market. Options written by the Fund are valued at the last asked price in the case of exchange-traded options or, in the case of options traded in the over-the-counter market, the average of the last asked price as obtained from one or more dealers. Options purchased by the Fund are valued at their last bid price in the case of exchange-traded options or, in the case of options traded in the over-the-counter market, the average of the last bid price as obtained from two or more dealers. Other investments, including futures contracts and related options, are stated at market value. Short-term securities are valued at amortized cost, which approximates market. Securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Fund's Board of Directors.

(b) Foreign Currency Transactions--Transactions denominated in foreign currencies are recorded in the Fund's records at the rate prevailing when earned or incurred. Asset and liability accounts that are denominated in a foreign currency are adjusted to reflect the current exchange rate at the end of the period. Transaction gains or losses resulting from changes in the exchange rate during the reporting period or upon settlement of the foreign currency transactions are reported in net investment income for the current period.

The Fund is authorized to enter into forward foreign exchange contracts as a hedge against either specific transactions or portfolio positions. Such contracts are not entered on the Fund's records. However, the effect on net investment income is recorded from the date the Fund enters into such contracts. Premium or discount is amortized over the life of the contracts.

(c) Income Taxes--It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of its taxable income to its shareholders. Therefore, no Federal income tax provision is required. Under the applicable foreign tax law, a withholding tax may be imposed on interest, dividends and capital gains at various rates.

(d) Security Transactions and Investment Income--Security transactions are recorded on the dates the transactions are entered into (the trade dates). Dividend income is recorded on the ex-dividend date, except that the ex-dividend date has passed certain dividends from foreign securities that are recorded as soon as the Fund is informed of the ex-dividend date. Interest income (including amortization of discount) is recognized on the accrual basis. Realized gains and losses on security transactions are determined on the identified cost basis.

(e) Options--The Fund can write covered call options and purchase put options. When the Fund writes an option, an amount equal to

the premium received by the Fund is reflected as an asset and an equivalent liability. The amount of the liability is subsequently marked to market to reflect the current value of the option written.

When a security is sold through an exercise of an option, the related premium received (or paid) is deducted from (or added to) the basis of the security sold. When an option expires (or the Fund enters into a closing transaction), the Fund realizes a gain or loss on the option to the extent of the premiums received or paid (or gain or loss to the extent the cost of the closing transaction exceeds the premium paid or received).

Written and purchased options are non-income producing investments.

(f) Financial Futures Contracts--The Fund may purchase or sell stock index futures contracts and options on such futures contracts. Upon entering into a contract, the Fund deposits and maintains as collateral such initial margin as required by the exchange on which the transaction is effected. Pursuant to the contract, the Fund agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as variation margin and are recorded by the Fund as unrealized gains or losses. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

(g) Deferred Organization Expenses and Prepaid Registration Fees--Deferred organization expenses are charged to expense on a straight-line basis over a five-year period. Prepaid registration fees are charged to expense as the related shares are issued.

(h) Dividends and Distributions--Dividends and distributions paid by the Fund are recorded on the ex-dividend dates.

(i) Basis of Consolidation--The accompanying consolidated financial statements include the accounts of Inversiones en Mercado Accionario de Valores Chile Ltda., a wholly-owned subsidiary, which primarily invests in Chilean securities. Intercompany accounts and transactions have been eliminated.

## 2. Investment Advisory Agreement and Transactions with Affiliates:

The Fund has entered into an Investment Advisory Agreement with Merrill Lynch Asset Management ("MLAM"). MLAM is the name under which Merrill Lynch Investment Management, Inc. ("MLIM") does business. MLIM is an indirect wholly-owned subsidiary of Merrill Lynch & Co., Inc. The Fund has also entered into a Distribution Agreement and a Distribution Plan with Merrill Lynch Funds Distributor, Inc. ("MLFD" or "Distributor"), a wholly-owned subsidiary of MLIM.

MLAM is responsible for the management of the Fund's portfolio and provides the necessary personnel, facilities, equipment and certain other services necessary to the operations of the Fund. For such services, the Fund pays a monthly fee of 1.0%, on an annual basis, of the average daily value of the Fund's net assets. The Investment Advisory Agreement obligates MLAM to reimburse the Fund to the extent the Fund's expenses (excluding interest, taxes, distribution fees, brokerage fees and commissions, and extraordinary items) exceed 2.5% of the Fund's first \$30 million of average daily net assets, 2.0% of the Fund's next \$70 million of average daily net assets, and 1.5% of the average daily net assets in excess thereof. MLAM's obligation to reimburse the Fund is limited to the amount of the management fee. No fee payment will be made to MLAM during any fiscal year which will cause such expenses to exceed the expense limitations at the time of such payment.

During the year ended June 30, 1993, MLFD earned underwriting discounts of \$27,155, and Merrill Lynch, Pierce, Fenner & Smith Inc. ("MLPF&S") earned dealer concessions of \$366,472 on sales of the Fund's shares. MLPF&S also received \$1,440 in commissions on the execution of portfolio security transactions during the year.

Financial Data Services, Inc. ("FDS"), a wholly-owned subsidiary of Merrill Lynch & Co., Inc., is the Fund's transfer agent.



Accounting services are provided to the Fund by MLAM at cost.

Certain officers and/or directors of the Fund are officers and/or directors of MLIM, FDS, MLFD, MLPF&S, and/or Merrill Lynch & Co., Inc.

3. Investments:

Purchases and sales of investments, excluding short-term securities, for the year ended June 30, 1993 were \$128,114,883 and \$108,493,379, respectively. Net realized and unrealized gains (losses) as of June 30, 1993 were as follows:

	Realized Gains (Losses)	Unrealized Gains (Losses)
Long-term investments	\$ (82,943)	\$15,447,074
Short-term investments	155	--
Options purchased	(124,703)	--
Foreign currency transactions	(1,604,330)	(160,371)
	-----	-----
Total	\$ (1,811,821)	\$15,286,703
	=====	=====

Transactions in put options purchased for the year ended June 30, 1993 were as follows:

	Par Value	Premiums Paid
Outstanding put options purchased at beginning of year	--	--
Options purchased	\$5,000,000	\$126,500
Options expired	(5,000,000)	(126,500)
	-----	-----
Outstanding put options purchased at end of year	\$ --	\$ --
	=====	=====

As of June 30, 1993, net unrealized appreciation for Federal income tax purposes aggregated \$14,891,828, of which \$22,603,371 related to appreciated securities and \$7,711,543 related to depreciated securities. The aggregate cost of investments at June 30, 1993 for Federal income tax purposes was \$125,687,978.

NOTES TO FINANCIAL STATEMENTS (concluded)

4. Capital Share Transactions:

Transactions in capital shares were as follows:

For the Year Ended June 30, 1993	Shares	Dollar Amount
Shares sold	2,825,803	\$31,697,736
Shares issued to shareholders in reinvestment of dividends and distributions	744,456	7,999,187
	-----	-----
Total issued	3,570,259	39,696,923
Shares redeemed	(1,927,987)	(20,782,171)
	-----	-----
Net increase	1,642,272	\$18,914,752
	=====	=====

For the Year Ended June 30, 1992	Shares	Dollar Amount
Shares sold	2,054,712	\$23,785,838
Shares issued to shareholders in reinvestment of dividends and distributions	206,311	2,187,127
	-----	-----
Total issued	2,261,023	25,972,965
Shares redeemed	(2,392,674)	(26,466,211)
	-----	-----
Net decrease	(131,651)	\$ (493,246)
	=====	=====

5. Commitments:

At June 30, 1993, the Fund entered into forward exchange contracts under which it had agreed to buy and sell foreign currencies with values of approximately \$150,000 and \$358,000, respectively.

6. Subsequent Event:  
 On July 20, 1993, the Board of Directors declared an ordinary  
 income dividend of \$0.069024 per share payable on August 11, 1993  
 to shareholders of record on August 3, 1993.

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THE FOLLOWING SEMI-ANNUAL FINANCIAL STATEMENTS FOR THE FUND FOR THE PERIOD  
 ENDED DECEMBER 31, 1993, ARE UNAUDITED.

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<TABLE>  
 CONSOLIDATED SCHEDULE OF INVESTMENTS

(in US dollars)

<CAPTION>					
Industries <S>	Shares Held <C>	Investments <S>	Cost <C>	Value (Note 1a) <C>	Percent of Net Assets <C>
EUROPE					
Austria					
Banking	20,500	Creditanstalt--Bankverein AG	\$ 786,450	\$ 1,345,365	0.4%
Building & Construction	4,000	Bau Holding AG	362,527	387,203	0.1
Oil--International	16,500	Unternehmensgruppe OMV AG	1,039,188	1,218,212	0.4
Textiles	18,000	Lenzing AG	916,404	1,557,834	0.5
Transportation	26,400	Jenbacher Transportsysteme AG	1,588,046	502,445	0.2
Utilities	12,500	Energie--Versorgung Niederosterreich AG (EVN)	989,417	1,604,799	0.5
		Total Investments in Austria	5,682,032	6,615,858	2.1
France					
Banking	40,600	Credit Commercial de France (CCF)	1,570,686	2,079,763	0.7
Building & Construction	21,353	Compagnie de Saint Gobain	1,832,679	2,122,665	0.7
Diversified	9,000	Chargeurs S.A.	2,032,987	2,078,445	0.6
Oil Field Equipment	60,000	Coflexip	960,000	975,000	0.3
Publishing & Broadcasting	5,082	Canal Plus	1,296,277	958,836	0.3
		Total Investments in France	7,692,629	8,214,709	2.6
Greece					
Banking	7,890	Credit Bank S.A.	512,271	540,042	0.2
	84,650	Ergo Bank (Registered) S.A.	3,038,469	3,092,393	1.0
			3,550,740	3,632,435	1.2
Beverage	52,500	Hellenic Bottling Co. S.A. (Bearer)	818,772	1,843,085	0.6
Building & Construction	42,220	Michaniki S.A.	1,074,231	2,626,250	0.8
	8,444	Michaniki S.A. (Preferred)	0	525,250	0.2
	48,830	Titan Cement S.A.	1,960,314	1,569,186	0.5
			3,034,545	4,720,686	1.5
Food	62,940	J. Boutari & Son S.A. (Bearer)	1,088,749	669,574	0.2
	52,920	Delta Dairy S.A. (Ordinary)	1,388,025	1,882,261	0.6
	8,750	Delta Dairy S.A. (Preferred)	247,584	259,936	0.1
	6,600	Katselis Sons S.A.	56,182	60,674	0.0
			2,780,540	2,872,445	0.9
		Total Investments in Greece	10,184,597	13,068,651	4.2
Hungary					
Food	25,500	++Pick Szeged Reszvenytarsasag (GDS) (a)	782,102	1,055,955	0.3
Retail Stores	246,000	FOTEX RT--Fotex Elso Amerikai--Magyar Fotoszolgaltatasi Reszvenytarsasag	716,761	1,069,565	0.3
		Total Investments in Hungary	1,498,863	2,125,520	0.6
Italy					
Automotive	841,666	Fiat Group S.p.A. (Preferred)	1,326,823	1,141,242	0.4
	336,666	Fiat Group S.p.A. (Preferred) (Warrants) (c)	107,058	321,158	0.1

	20,200	La Rinascente S.p.A.	116,905	106,896	0.0
			-----	-----	-----
			1,550,786	1,569,296	0.5
Insurance	125,000	Unipol Compagnie Assicuratice S.p.A. (Preferred)	502,555	525,104	0.2
		Total Investments in Italy	2,053,341	2,094,400	0.7

</TABLE>

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<TABLE>	<S>	<C>	<C>	<C>	<C>
Poland					
Food	40,000	International Fast Food Corp.	267,500	240,000	0.1
		Total Investments in Poland	267,500	240,000	0.1
Portugal					
Banking	115,100	Banco Comercial Portugues, S.A. (ADR) (b)	1,621,317	1,755,275	0.5
	352,212	Banco Comercial Portugues, S.A. (Registered)	4,850,549	5,300,123	1.7
	77,000	Banco Totta E Acores S.A.	1,657,285	1,429,315	0.4
			-----	-----	-----
			8,129,151	8,484,713	2.6
Beverages	29,100	Uniao Cervejaria S.A. (UNICER)	790,773	874,482	0.3
Building & Construction	72,600	Efacec S.A.	2,453,617	2,350,153	0.7
	82,300	Soares da Costa S.A.	1,477,775	1,821,126	0.6
	172,200	Sociedade de Empreitadas Somague, S.A.	1,342,194	1,637,216	0.5
			-----	-----	-----
			5,273,586	5,808,495	1.8
Leisure & Entertainment	27,850	Estoril--Sol S.A.	214,326	211,200	0.1
Paints	21,875	CIN--Corporacao Industrial do Norte, S.A.	521,403	534,805	0.2
Retail	42,000	Jeronimo Martins S.A.	1,239,927	2,400,679	0.7
	10,000	Sonae Investimentos S.A.	112,457	147,142	0.0
			-----	-----	-----
			1,352,384	2,547,821	0.7
		Total Investments in Portugal	16,281,623	18,461,516	5.7
Russia					
Telecommunications	39,450	Petersburg Long Distance Inc. (ADR) (b)	301,256	443,812	0.1
		Total Investments in Russia	301,256	443,812	0.1
Spain					
Building & Construction	125,000	Uralita Group S.A.	956,878	1,074,799	0.3
		Total Investments in Spain	956,878	1,074,799	0.3
Turkey					
Banking--International	9,498,000	Yapi Kredi Bankasi A.S.	2,982,550	3,570,197	1.1
Beverage	502,400	Ege Biracilik Ve Malt Sanayii A.S.	472,057	1,450,074	0.5
Retail	231,400	Migros A.S.	791,541	3,028,796	0.9
		Total Investments in Turkey	4,246,148	8,049,067	2.5
		Total Investments in Europe	49,164,867	60,388,332	18.9

</TABLE>

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<TABLE>					
CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)	(in US dollars)				
<CAPTION>					
Industries	Shares Held	Investments	Cost	Value	Percent of
<S>	<C>	<S>	<C>	<C>	<C>
LATIN AMERICA					
Argentina					
Automobiles	51,060	Compania Interamericana de Automoviles S.A. (CINA)	\$ 2,648,304	\$ 2,711,603	0.8%
Banking	138,000	Banco de Galicia y Buenos Aires S.A.	1,408,096	2,078,066	0.7
	252,148	Banco Frances del Rio de la Plata S.A.	1,426,566	3,208,697	1.0
			-----	-----	-----
			2,834,662	5,286,763	1.7

Oil & Related	1,551,800	Astra Compania Argentina de Petroleo S.A.	3,240,628	3,514,096	1.1
Telecommunications	200,000	Telecom Argentina Stet--France Telecom S.A.	983,748	1,252,505	0.4
	23,000	Telecom Argentina Stet--France Telecom S.A. (ADR) (b)	971,085	1,426,000	0.4
	34,472	++Telefonica de Argentina S.A. (ADR) (b)	1,095,078	2,499,220	0.8
			-----	-----	-----
			3,049,911	5,177,725	1.6
		Total Investments in Argentina	11,773,505	16,690,187	5.2
Brazil					
Banking	77,673,444	Banco Bradesco S.A.	1,757,789	2,202,575	0.7
	2,000,000	Banco Itau S.A.	386,442	380,169	0.1
	19,127,979	Banco Nacional S.A.	777,477	1,162,306	0.4
			-----	-----	-----
			2,921,708	3,745,050	1.2
Beverage	5,644,200	Companhia Cervejaria Brahma PN (Preferred)	1,094,100	1,213,580	0.4
	574,872	Companhia Cervejaria Brahma S.A. (Warrants) (c)	14,956	5,968	0.0
			-----	-----	-----
			1,109,056	1,219,548	0.4
Food	81,780,250	Sadia Concordia S.A. Industria e Comercio PN (Preferred)	685,295	547,903	0.2
Mining	18,892,000	Companhia Vale do Rio Doce PN (CVRD) (Preferred)	1,327,142	1,618,927	0.6
Retail	3,118,200	Lojas Americanas S.A.	561,877	476,120	0.1
Steel	492,500	Acos Industria Villares S.A.	123,508	76,581	0.0
	27,659,900	Companhia Siderurgica Nacional S.A.--CSN	506,674	741,252	0.2
	4,639,700,000	Usinas Siderurgicas de Minas Gerais--Usiminas S.A.	2,583,705	3,296,414	1.0
			-----	-----	-----
			3,213,887	4,114,247	1.2
Telecommunications	24,000	Telecomunicacoes Brasileiras S.A.--Telebras ON (ADR) (b)	801,500	798,000	0.2
	48,300,000	Telecomunicacoes Brasileiras S.A.--Telebras ON	1,477,378	1,294,382	0.4
	114,000,000	Telecomunicacoes Brasileiras S.A.--Telebras PN (Preferred)	3,276,433	3,886,323	1.2
			-----	-----	-----
			5,555,311	5,978,705	1.8
Utilities	31,284,900	Centrais Eletricas Brasileiras S.A.--Eletrobras (Preferred)	4,654,562	5,069,380	1.6
		Total Investments in Brazil	20,028,838	22,769,880	7.1
Chile					
Apparel	7,458,443	Bata Chile S.A.	2,103,744	2,491,956	0.8
Building & Construction	39,052	Empresas Pizarreno S.A.	72,396	70,257	0.0
		Total Investments in Chile	2,176,140	2,562,213	0.8

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<TABLE> <S>	<C>	<C>	<C>	<C>	<C>
Mexico					
Banking	66,700	++Grupo Financiero Bancomer, S.A. de C.V. (ADR) (b)	2,224,175	2,768,050	0.9
	168,250	++Servicios Financieros Quadrum, S.A. de C.V. (ADR) (b)	1,954,207	5,384,000	1.7
			-----	-----	-----
			4,178,382	8,152,050	2.6
Beverage	50,000	++Fomento Economico Mexicano, S.A. de C.V. (Femsa) (ADR) (b)	195,000	322,250	0.1
	447,500	Fomento Economico Mexicano, S.A. de C.V. (Femsa) (Ordinary)	1,780,336	2,947,303	0.9
			-----	-----	-----
			1,975,336	3,269,553	1.0
Building & Construction	373,000	Tolmex, S.A. de C.V. 'B'	999,729	5,195,572	1.6
Capital Goods	48,000	Cementos Mexicanos, S.A. de C.V. (Series B)	848,958	1,431,498	0.4
Diversified	491,000	Grupo Carso, S.A. de C.V. 'A'	3,005,499	5,360,676	1.7
	80,000	Grupo Posadas, S.A. de C.V. (ADR) (b)	1,172,100	1,480,000	0.5
			-----	-----	-----
			4,177,599	6,840,676	2.2
Electrical	250,000	Grupo Empresarial Fenix, S.A. de C.V. ELEKTRA 'L' Shares	2,051,523	2,222,222	0.7

Food	1,600,000	Grupo Herdez, S.A. de C.V. 'A'	1,450,009	1,777,778	0.6
Health & Personal Care	162,500	Kimberly-Clark de Mexico, S.A. de C.V.	2,193,490	3,045,894	0.9
Leisure	93,000	Grupo Situr, S.A. de C.V. (ADR) (b)	1,700,594	2,650,500	0.8
Metals	70,000	++Grupo Simec, S.A. de C.V. (ADR) (b)	980,000	2,310,000	0.7
	745,000	Grupo Simec, S.A. de C.V. (Ordinary)	670,192	1,204,477	0.4
			-----	-----	-----
			1,650,192	3,514,477	1.1
Retail	2,375,000	Cifra, S.A. de C.V. 'C'	4,796,743	7,128,824	2.2
	520,000	El Puerto de Liverpool, S.A. de C.V. 'C' (Non-Voting)	716,558	978,035	0.3
			-----	-----	-----
			5,513,301	8,106,859	2.5
Telecommunications	12,500	Empresas ICA Sociedad Controladora, S.A. de C.V.	222,625	353,125	0.1
Utilities	119,250	Telefonos de Mexico, S.A. de C.V. (ADR) (b)	4,756,133	8,049,375	2.5
		Total Investments in Mexico	31,717,871	54,609,579	17.0
Peru					
Banking	326,140	Banco de Credito de Peru S.A.	311,134	676,495	0.2
Mining	116,879	Southern Peru Copper Corp. S.A.	388,390	352,535	0.1
		Total Investments in Peru	699,524	1,029,030	0.3
Venezuela					
Building & Construction	178,666	Corporacion Ceramica Carabobo CA--S.A.C.A. (Class A)	683,535	420,787	0.1
	239,333	Corporacion Ceramica Carabobo CA--S.A.C.A. (Class B)	679,509	518,574	0.2
			-----	-----	-----
			1,363,044	939,361	0.3
Cement	177,300	Venezolana de Cementos S.A.C.A.--(VENCEMOS)	273,494	277,266	0.1
Utilities	733,202	C.A. La Electricidad de Caracas S.A.I.C.A.--S.A.C.A.	2,360,661	2,541,859	0.8
		Total Investments in Venezuela	3,997,199	3,758,486	1.2
		Total Investments in Latin America	70,393,077	101,419,375	31.6

</TABLE>

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<TABLE>  
CONSOLIDATED SCHEDULE OF INVESTMENTS (continued) (in US dollars)  
<CAPTION>

Industries <S>	Shares Held <C>	Investments <S>	Cost <C>	Value (Note 1a) <C>	Percent of Net Assets <C>
PACIFIC BASIN/ASIA					
Australia					
Automotive	265,000	Amway Asia Pacific Ltd.	\$ 7,549,106	\$ 9,440,625	2.9%
Media/Publishing	458,300	Nine Network Australia Ltd.	949,114	1,723,207	0.5
Paper & Pulp	438,800	Spicers Paper Ltd.	808,666	804,097	0.3
		Total Investments in Australia	9,306,886	11,967,929	3.7
China					
Appliances & Household Durables	676,000	Shenzhen China Bicycles 'B' Co. (Holdings) Ltd.	501,114	800,906	0.2
		Total Investments in China	501,114	800,906	0.2
Hong Kong					
Apparel	3,172,000	Top Form International Ltd.	909,258	862,515	0.3
Banking	186,000	Hong Kong & Shanghai Banking Corporation Holdings PLC	2,012,703	2,769,649	0.9
	3,764,000	J.C.G. Holdings, Ltd.	2,407,812	3,021,727	0.9
	11,005,000	Winton Holdings, Ltd.	3,849,116	3,776,156	1.2
			-----	-----	-----
			8,269,631	9,567,532	3.0
Conglomerates	1,480,000	Sime Darby (Hong Kong) Ltd.	2,470,819	2,702,059	0.9
Diversified	5,220,000	Hopewell Smart (Warrants) (c)	896,901	2,889,486	0.9
Electrical Equipment	358,000	Johnson Electric Holdings Ltd.	897,892	917,830	0.3

Finance	1,800,000	Hopewell Holdings Ltd.	1,504,191	2,354,008	0.7
Food	9,039,000	C.P. Pokphand Co., Ltd. (Ordinary)	2,895,870	3,979,360	1.3
Publishing & Broadcasting	1,772,000	Ming Pao Enterprise Corp., Ltd.	870,697	2,225,612	0.7
Real Estate	460,000	Cheung Kong Holdings Ltd.	775,308	1,584,358	0.5
	2,066,152	South Seas Development Co., Ltd.	0	339,766	0.1
	5,894,000	Sun Hung Kai Properties, Ltd.	3,575,674	4,769,843	1.5
			-----	-----	-----
			4,350,982	6,693,967	2.1
Steel	224,000	Linkful International Holdings Ltd.	70,546	67,435	0.0
Telecommunications	1,536,000	ABC Communications Holdings, Ltd.	446,373	775,657	0.2
Textiles	5,994,000	Fountain Set Holdings Ltd.	954,313	1,269,921	0.4
	7,740,000	United Success International Holdings Ltd.	1,029,241	1,092,399	0.3
			-----	-----	-----
			1,983,554	2,362,320	0.7
Utilities--Gas	700,000	Hong Kong and China Gas Co. (The)	1,545,089	2,030,299	0.6
		Total Investments in Hong Kong	27,111,803	37,428,080	11.7
India					
Aluminum	60,000	Hindalco Industries Ltd. (GDS) (a)	831,833	1,605,000	0.5
	26,500	Hindalco Industries Ltd. (Ordinary)	496,362	582,975	0.2
	30,000	Hindalco Industries Ltd. (Warrants) (c)	134,167	330,000	0.1
			-----	-----	-----
			1,462,362	2,517,975	0.8
Building & Construction	22,000	The Associated Cement Co. Ltd.	1,514,678	1,999,044	0.6
Electrical Equipment	280,000	Bombay Electric Supply Co. Ltd.	1,519,270	1,571,178	0.5
Environmental	65,000	Western Paques (India) Ltd.	233,861	279,770	0.1

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<TABLE>					
<S>	<C>	<C>	<C>	<C>	<C>
Insurance	70,000	++Grasim Industries Ltd. (ADR) (b)	1,015,000	1,575,000	0.5
		Total Investments in India	5,745,171	7,942,967	2.5
Indonesia					
Tobacco	420,000	P.T. Gudang Garam	2,010,276	2,009,950	0.6
	936,000	P.T. Hanjaya Mandala Sampoerna	1,604,227	5,698,934	1.8
			-----	-----	-----
			3,614,503	7,708,884	2.4
		Total Investments in Indonesia	3,614,503	7,708,884	2.4
Korea					
Automotive	26,239	Dong Ah Tire Industries	1,248,434	1,748,725	0.5
Food	9,460	Lotte Confectionary	587,944	1,164,772	0.4
Pharmaceuticals	31,397	Choong Wae Pharmaceutical Corp.	962,822	1,112,569	0.3
Retail Stores	7,700	Shinsegae Department Store	283,129	492,281	0.2
	4,432	Shinsegae Department Store (New)	107,310	274,783	0.1
			-----	-----	-----
			390,439	767,064	0.3
Telecommunications	6,817	Korea Mobile Telecommunications Corp.	1,328,813	3,637,394	1.1
Utilities	41,470	Korea Electric Power Corp.	1,094,397	1,125,255	0.4
		Total Investments in Korea	5,612,849	9,555,779	3.0
Malaysia					
Building & Construction	561,000	IJM Corp. BHD	2,018,065	2,229,415	0.7
Construction & Housing	458,000	Golden Plus Holdings BHD	2,004,616	2,772,665	0.9
Financial Services	790,000	Commerce Asset-Holdings BHD	1,516,366	4,078,366	1.3
	263,333	Commerce Asset-Holdings BHD (TSRs)	88,025	83,621	0.0
	493,000	Idris Hydraulic BHD	1,512,666	1,446,500	0.4
	1,653,000	Public Bank BHD "Foreign"	1,642,679	3,844,664	1.2

			4,759,736	9,453,151	2.9
Real Estate	1,219,000	Tan & Tan Developments BHD	2,003,691	1,937,723	0.6
Steel	1,251,000	Maruichi (Malaysia) Steel Tube BHD	2,501,235	3,182,674	1.0
Telecommunications	228,000	Leader Universal Holdings BHD	339,992	1,177,047	0.4
		Total Investments in Malaysia	13,627,335	20,752,675	6.5
New Zealand Beverages	1,000,000	D.B. Group Ltd.	384,967	402,480	0.1
Broadcasting & Publishing	66,800	Independent Newspapers Ltd.	221,330	265,869	0.0
		Total Investments in New Zealand	606,297	668,349	0.1
Pakistan Banking--International	146,200	Bank of Punjab	500,391	612,205	0.2
Electrical Equipment	185,000	Karachi Electrical Supply Corp.	130,550	253,615	0.1
		Total Investments in Pakistan	630,941	865,820	0.3

</TABLE>

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<TABLE>  
CONSOLIDATED SCHEDULE OF INVESTMENTS (concluded) (in US dollars)  
<CAPTION>

Industries <S>	Shares Held/ Face Amount <C>	Investments <S>	Cost <C>	Value (Note 1a) <C>	Percent of Net Assets <C>
PACIFIC BASIN/ASIA (concluded)					
Philippines Beverages	108,000	San Miguel Corp. 'B'	\$ 501,254	\$ 995,255	0.3%
Electric Utilities	29,786	Manila Electric Co. (MERALCO) 'B'	165,929	538,105	0.2
		Total Investments in the Philippines	667,183	1,533,360	0.5
Singapore Banking Services	1,029,000	United Overseas Bank Ltd. (Warrants) (c)	1,988,883	5,119,403	1.6
Health Care Products & Services	1,475,000	Parkway Holdings Ltd.	2,031,451	3,632,463	1.1
		Total Investments in Singapore	4,020,334	8,751,866	2.7
Sri Lanka Building & Construction	262,500	Lankan Tiles	337,398	376,942	0.1
Diversified	62,500	Aitken Spence	413,990	525,668	0.2
		Total Investments in Sri Lanka	751,388	902,610	0.3
Thailand Banking	317,900	Bangkok Bank Ltd. "Foreign"	1,546,650	3,137,908	1.0
Finance	\$2,750,000	++Finance One PLC, 5.75% due 6/17/2003	3,388,750	7,425,000	2.3
Health & Personal Care	34,480	International Cosmetics Co. Ltd. "Foreign"	1,039,171	1,480,222	0.5
Industrial	\$1,305,000	Sino Land Co. Ltd., 5.00% due 10/21/2000	1,777,300	1,872,675	0.6
Insurance	159,000	Ayudhya Insurance Co. "Foreign"	1,187,126	1,992,949	0.6
Real Estate	101,800	M.D.X. Co. Ltd. "Foreign"	564,712	813,443	0.3
Steel	\$3,000,000	NTS Steel Groups Co. Ltd., 4.00% due 12/16/2008	3,000,000	3,127,500	1.0
Telecommunications	130,000	TelecomAsia Corp. Public Co. Ltd.	284,022	779,083	0.2
	14,300	++United Communication Industry Public Co. Ltd.	130,577	128,829	0.0
			414,599	907,912	0.2
		Total Investments in Thailand	12,918,308	20,757,609	6.5
		Total Investments in the Pacific Basin/Asia	85,114,112	129,636,834	40.4

<CAPTION>  
SHORT-TERM SECURITIES Face Amount



<S>	<C>	<S>	<C>	<C>	<C>
United States					
Commercial Paper*	\$8,714,000	Delaware Funding Corp., 3.30% due 1/14/1994	8,703,616	8,703,616	2.7
	9,000,000	General Electric Capital Corp., 3.22% due 1/03/1994	8,998,390	8,998,390	2.8
		Total Investments in Short-Term Securities	17,702,006	17,702,006	5.5
Total Investments			\$222,374,062	309,146,547	96.4
Other Assets Less Liabilities				11,507,794	3.6
Net Assets				\$320,654,341	100.0%

</TABLE>

\*Commercial Paper is traded on a discount basis; the interest rates shown are the discount rates paid at the time of purchase by the Fund.

(a) Global Depository Shares (GDS).

(b) American Depository Receipt (ADR).

++Restricted securities as to resale. The value of the Fund's investment in restricted securities was approximately \$23,468,000, representing 7.3% of net assets.

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<TABLE>  
<CAPTION>

Issue	Acquisition Dates	Cost	Value (Note 1a)
<S>	<C>	<C>	<C>
</TABLE>			
<TABLE>			
<S>	<C>	<C>	<C>
Grasim Industries Ltd. (ADR)	8/24/93	\$ 1,015,000	\$ 1,575,000
Grupo Financiero Bancomer, S.A. de C.V. (ADR)	6/17/92-12/10/92	2,224,175	2,768,050
Grupo Simec, S.A. de C.V. (ADR)	7/01/93	980,000	2,310,000
Finance One PLC, 5.75% due 6/17/2003	9/17/93	3,388,750	7,425,000
Fomento Economico Mexicano, S.A. de C.V. (Femsa) (ADR)	6/21/93	195,000	322,250
Pick Szeged Reszvenytarsasag (GDS)	11/20/92	782,102	1,055,955
Servicios Financieros Quadrum, S.A. de C.V. (ADR)	7/28/93	1,954,207	5,384,000
Telefonica de Argentina S.A. (ADR)	12/17/91-12/28/92	1,095,078	2,499,220
United Communication Industry Public Co. Ltd.	12/03/93	130,577	128,829
Total		\$11,764,889	\$23,468,304

See Notes to Financial Statements.

</TABLE>

(c) Warrants entitle the Fund to purchase a predetermined number of shares of Common Stock.

The purchase price and number of shares are subject to adjustment of certain conditions until the expiration date.

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<TABLE>  
CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES  
<CAPTION>

<S>	As of December 31, 1993	<C>	<C>
Assets:			
	Investments, at value (identified cost--\$222,374,062) (Note 1a)		\$309,146,547
	Foreign cash		2,345,717
	Cash		62,023
	Receivables:		
	Capital shares sold	\$12,896,975	
	Securities sold	9,006,327	
	Dividends	287,075	
	Interest	104,429	22,294,806
	Deferred organization expenses (Note 1g)		30,527
	Prepaid registration fees and other assets (Note 1g)		63,573
	Total assets		333,943,193
Liabilities:			
	Payables:		
	Securities purchased	11,913,004	
	Capital shares redeemed	751,150	
	Investment adviser (Note 2)	233,509	12,897,663
	Accrued expenses and other liabilities		391,189

Total liabilities		13,288,852
		-----
Net Assets:	Net assets	\$320,654,341
		=====
Net Assets	Common Stock, \$0.10 par value, 200,000,000 shares authorized	\$ 1,908,322
Consist of:	Paid-in capital in excess of par	222,800,916
	Accumulated investment loss--net	(894,865)
	Undistributed realized capital gains from investment and foreign currency transactions--net	9,992,527
	Unrealized appreciation on investments and foreign currency transactions--net	86,847,441
		-----
	Net assets--Equivalent to \$16.80 per share based on 19,083,223 shares of capital outstanding	\$320,654,341
		=====
	Maximum offering price per share (\$16.80/.935)	\$ 17.97
		=====

See Notes to Financial Statements.

</TABLE>

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<TABLE>

CONSOLIDATED STATEMENT OF OPERATIONS

<CAPTION>

	For the Six Months Ended December 31, 1993	<C>	<C>
<S>	<S>		
Investment	Dividends (net of \$118,607 foreign withholding tax)		\$ 1,538,602
Income	Interest and discount earned		192,120
(Notes 1c & 1d):			-----
	Total income		1,730,722
			-----
Expenses:	Investment advisory fees (Note 2)		1,020,345
	Custodian fees		219,938
	Transfer agent fees (Note 2)		67,678
	Accounting services (Note 2)		48,791
	Printing and shareholder reports		46,751
	Professional fees		36,052
	Registration fees (Note 1g)		23,722
	Directors' fees and expenses		15,215
	Amortization of organization expenses (Note 1g)		12,779
	Other		10,502
			-----
	Total expenses		1,501,773
			-----
	Investment income--net		228,949
			-----
Realized & Unrealized Gain (Loss) on Investments & Foreign Currency Transactions--Net (Notes 1b, 1d & 3):	Realized gain (loss) from:		
	Investments--net	\$16,346,632	
	Foreign currency transactions	(485,576)	15,861,056
		-----	-----
	Change in unrealized appreciation/depreciation on:		
	Investments--net	71,325,411	
	Foreign currency transactions	235,328	71,560,739
		-----	-----
	Net realized and unrealized gain on investments and foreign currency transactions		87,421,795
			-----
	Net Increase in Net Assets Resulting from Operations		\$ 87,650,744
			=====

See Notes to Financial Statements.

</TABLE>

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<TABLE>

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

<CAPTION>

		For the Six Months Ended December 31, 1993	For the Year Ended June 30, 1993
<S>	<S>	<C>	<C>
Operations:	Increase (Decrease) in Net Assets:		
	Investment income--net	\$ 228,949	\$ 1,546,983
	Realized gain (loss) on investments and foreign currency transactions--net	15,861,056	(1,811,821)
	Change in unrealized appreciation/depreciation on investments and foreign currency transactions--net	71,560,739	6,852,494
		-----	-----
	Net increase in net assets resulting from operations	87,650,744	6,587,656
		-----	-----

Dividends & Distributions To Shareholders (Note 1h):	Investment income--net Realized gain on investments--net	(902,496) (4,808,440)	(1,572,465) (8,062,455)
	Net decrease in net assets resulting from dividends and distributions to shareholders	(5,710,936)	(9,634,920)
Capital Share Transactions (Note 4):	Net increase in net assets derived from capital share transactions	96,429,789	18,914,752
Net Assets:	Total increase in net assets	178,369,597	15,867,488
	Beginning of period	142,284,744	126,417,256
	End of period*	\$320,654,341	\$142,284,744
<FN>	*Accumulated investment loss--net	\$ (894,865)	\$ (221,318)

See Notes to Financial Statements.  
</TABLE>

<TABLE>  
CONSOLIDATED FINANCIAL HIGHLIGHTS  
<CAPTION>

The following per share data and ratios have been derived from information provided in the financial statements.		For the Six Months Ended December 31,		For the Year Ended June 30,		For the Period Sept. 1, 1989++ to June 30, 1990	
Increase (Decrease) in Net Asset Value:		1993	1993+++	1992	1991	1990	
<S>	<S>	<C>	<C>	<C>	<C>	<C>	
Per Share Operating Performance:	Net asset value, beginning of period	\$ 11.62	\$ 11.92	\$ 10.43	\$ 11.58	\$ 9.60	
	Investment income--net (1)	.05	.12	.15	.24	.24	
	Realized and unrealized gain (loss) on investments and foreign currency transactions--net (1)	5.48	.42	1.59	(.75)	1.88	
	Total from investment operations	5.53	.54	1.74	(.51)	2.12	
	Less dividends and distributions:						
	Investment income--net	(.07)	(.14)	(.17)	(.15)	(.13)	
	Realized gain on investments--net	(.28)	(.70)	(.08)	(.49)	(.01)	
	Total dividends and distributions	(.35)	(.84)	(.25)	(.64)	(.14)	
	Net asset value, end of period	\$ 16.80	\$ 11.62	\$ 11.92	\$ 10.43	\$ 11.58	

</TABLE>

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<S>	<S>	<C>	<C>	<C>	<C>	<C>
Total Investment Return:**	Based on net asset value per share	68.96%+++	5.17%	17.02%	(4.45%)	22.29%+++
Ratios to Average Net Assets:	Expenses	1.47%*	1.71%	1.64%	1.77%	1.71%
	Investment income (loss)--net	.22%*	(.04%)	1.73%	1.98%	2.69%
Supplemental Data:	Net assets, end of period (in thousands)	\$320,654	\$142,285	\$126,417	\$111,947	\$104,033
	Portfolio turnover	37.27%	91.72%	71.05%	84.74%	64.53%

<FN>  
\*Annualized.  
\*\*Total investment returns exclude the effects of sales loads.  
++Commencement of Operations.  
+++Based on average number of shares outstanding.  
+++Aggregate total investment return.  
(1) Foreign currency transaction amounts have been reclassified to conform to the 1993 presentation.

See Notes to Financial Statements.  
</TABLE>

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies:

Merrill Lynch Developing Capital Markets Fund, Inc. (the "Fund") is registered under the Investment Company Act of 1940 as a non-diversified, open-end investment management company. The following is a summary of significant accounting policies followed by the Fund:

(a) Valuation of Securities--Portfolio securities which are traded on stock exchanges are valued at the last sale price on the principal market on which such securities are traded, as of the close of business on the day the securities are being valued or, lacking any sales, at the last available bid price. Securities traded in the over-the-counter market are valued at the last available bid prices obtained from one or more dealers in the over-the-counter market prior to the time of valuation. Portfolio securities which are traded both in the over-the-counter market and on a stock exchange are valued according to the broadest and most representative market. Options written by the Fund are valued at the last asked price in the case of exchange-traded options or, in the case of options traded in the over-the-counter market, the average of the last asked price as obtained from one or more dealers. Options purchased by the Fund are valued at their last bid price in the case of exchange-traded options or, in the case of options traded in the over-the-counter market, the average of the last bid price as obtained from two or more dealers. Other investments, including futures contracts and related options, are stated at market value. Short-term securities are valued at amortized cost, which approximates market. Securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Fund's Board of Directors.

(b) Foreign Currency Transactions--Transactions denominated in foreign currencies are recorded at the exchange rate prevailing when recognized. Assets and liabilities denominated in foreign currencies are valued at the exchange rate at the end of the period. Foreign currency transactions are the result of settling (realized) or valuing (unrealized) such transactions expressed in foreign currencies into US dollars. Realized and unrealized gains or losses from investments include the effects of foreign exchange rates on investments.

The Fund is authorized to enter into forward foreign exchange contracts as a hedge against either specific transactions or portfolio positions. Such contracts are not entered on the Fund's records. However, the effect on operations is recorded from the date the Fund enters into such contracts. Premium or discount is amortized over the life of the contracts.

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NOTES TO FINANCIAL STATEMENTS (concluded)

(c) Income Taxes--It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of its taxable income to its shareholders. Therefore, no Federal income tax provision is required. Under the applicable foreign tax law, a withholding tax may be imposed on interest, dividends and capital gains at various rates.

(d) Security Transactions and Investment Income--Security transactions are recorded on the dates the transactions are entered into (the trade dates). Dividend income is recorded on the ex-dividend date, except that the ex-dividend date has passed, certain dividends from foreign securities are recorded as soon as the Fund is informed of the ex-dividend date. Interest income (including amortization of discount) is recognized on the accrual basis. Realized gains and losses on security transactions are determined on the identified cost basis.

(e) Options--The Fund can write covered call options and purchase put options. When the Fund writes an option, an amount equal to the premium received by the Fund is reflected as an asset and an equivalent liability. The amount of the liability is subsequently marked to market to reflect the current value of the option written.

When a security is sold through an exercise of an option, the related premium received (or paid) is deducted from (or added to) the basis of the security sold. When an option expires (or the Fund enters into a closing transaction), the Fund realizes a gain or loss on the option to the extent of the premiums received or paid (or gain or loss to the extent the cost of the closing transaction exceeds the premium paid or received).

Written and purchased options are non-income producing investments.

(f) Financial Futures Contracts--The Fund may purchase or sell stock index futures contracts and options on such futures contracts. Upon entering into a contract, the Fund deposits and maintains as collateral such initial margin as required by the exchange on which the transaction is effected. Pursuant to the contract, the Fund agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as variation margin and are recorded by the Fund as unrealized gains or losses. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

(g) Deferred Organization Expenses and Prepaid Registration Fees--Deferred organization expenses are charged to expense on a straight-line basis over a five-year period. Prepaid registration fees are charged to expense as the related shares are issued.

(h) Dividends and Distributions--Dividends and distributions paid by the Fund are recorded on the ex-dividend dates.

(i) Basis of Consolidation--The accompanying consolidated financial statements include the accounts of Inversiones en Mercado Accionario de Valores Chile Ltda., a wholly-owned subsidiary, which primarily invests in Chilean securities. Intercompany accounts and transactions have been eliminated.

(j) Reclassifications--Certain 1992 amounts have been reclassified to conform to the 1993 presentations.

## 2. Investment Advisory Agreement and Transactions with Affiliates:

The Fund has entered into an Investment Advisory Agreement with Merrill Lynch Asset Management ("MLAM"). MLAM is the name under which Merrill Lynch Investment Management, Inc. ("MLIM") does business. MLIM is an indirect wholly-owned subsidiary of Merrill Lynch & Co., Inc. The Fund has also entered into a Distribution Agreement and a Distribution Plan with Merrill Lynch Funds Distributor, Inc. ("MLFD" or "Distributor"), a wholly-owned subsidiary of MLIM.

MLAM is responsible for the management of the Fund's portfolio and provides the necessary personnel, facilities, equipment and certain other services necessary to the operations of the Fund. For such services, the Fund pays a monthly fee of 1.0%, on an annual basis, of the average daily value of the Fund's net assets. The Investment Advisory Agreement obligates MLAM to reimburse the Fund to the extent the Fund's expenses (excluding interest, taxes, distribution fees, brokerage fees and commissions, and extraordinary items) exceed 2.5% of the Fund's first \$30 million of average daily net assets, 2.0% of the Fund's next \$70 million of average daily net assets, and 1.5% of the average daily net assets in excess thereof. No fee payment will be made to MLAM during any fiscal year which will cause such expenses to exceed the expense limitations at the time of such payment.

Effective January 1, 1994, the investment advisory business of MLAM reorganized from a corporation to a limited partnership. The general partner of MLAM is Princeton Services, Inc., an indirect wholly-owned subsidiary of Merrill Lynch & Co.

During the six months ended December 31, 1993, MLFD earned underwriting discounts of \$201,542, and Merrill Lynch, Pierce, Fenner & Smith Inc. ("MLPF&S") earned dealer concessions of \$3,001,177 on sales of the Fund's shares. MLPF&S also received \$45,499 in commissions on the execution of portfolio security transactions during the year.

Financial Data Services, Inc. ("FDS"), a wholly-owned subsidiary of Merrill Lynch & Co., Inc., is the Fund's transfer agent.

Accounting services are provided to the Fund by MLAM at cost.

Certain officers and/or directors of the Fund are officers and/or directors of MLIM, FDS, MLFD, MLPF&S, and/or Merrill Lynch & Co., Inc.

## 3. Investments:

Purchases and sales of investments, excluding short-term securities, for the six months ended December 31, 1993 were \$141,166,055 and \$72,290,164, respectively.

Net realized and unrealized gains (losses) as of December 31, 1993 were as follows:

	Realized Gains (Losses)	Unrealized Gains
Long-term investments	\$ 16,346,632	\$ 86,772,485
Foreign currency transactions	(485,576)	74,956
	-----	-----
Total	\$ 15,861,056	\$ 86,847,441
	=====	=====

As of December 31, 1993, net unrealized appreciation for Federal income tax purposes aggregated \$86,772,485, of which \$90,905,518

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related to appreciated securities and \$4,133,033 related to depreciated securities. The aggregate cost of investments at December 31, 1993 for Federal income tax purposes was \$222,374,062.

#### 4. Capital Share Transactions:

Transactions in capital shares were as follows:

For the Six Months Ended December 31, 1993	Shares	Dollar Amount
Shares sold	7,590,664	\$106,715,802
Shares issued to shareholders in reinvestment of dividends and distributions	332,847	4,929,176
	-----	-----
Total issued	7,923,511	111,644,978
Shares redeemed	(1,083,773)	(15,215,189)
	-----	-----
Net increase	6,839,738	\$ 96,429,789
	=====	=====

For the Year Ended June 30, 1993	Shares	Dollar Amount
Shares sold	2,825,803	\$ 31,697,736
Shares issued to shareholders in reinvestment of dividends and distributions	744,456	7,999,187
	-----	-----
Total issued	3,570,259	39,696,923
Shares redeemed	(1,927,987)	(20,782,171)
	-----	-----
Net increase	1,642,272	\$ 18,914,752
	=====	=====

#### 5. Commitments:

At December 31, 1993, the Fund entered into forward exchange contracts under which it had agreed to buy and sell foreign currencies with values of approximately \$496,000 and \$6,203,000, respectively.

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Code #10894  
Statement of Additional Information

[ART]

MERRILL LYNCH DEVELOPING CAPITAL MARKETS FUND, INC.

July 1, 1994

Distributor:  
Merrill Lynch  
Funds Distributor, Inc.

PART C. OTHER INFORMATION

ITEM 24. FINANCIAL STATEMENTS AND EXHIBITS.

(A) FINANCIAL STATEMENTS

Contained in Part A:

Consolidated Financial Highlights for the six months ended December 31, 1993 (unaudited) and for the three years ended June 30, 1993 and for the fiscal period September 1, 1989 (commencement of operations) to June 30, 1990 (audited).

Contained in Part B:

Consolidated Schedules of Investments as of June 30, 1993 (audited) and December 31, 1993 (unaudited).

Consolidated Statements of Assets and Liabilities as of June 30, 1993 (audited) and as of December 31, 1993 (unaudited).

Consolidated Statements of Operations for the fiscal year ended June 30, 1993 (audited) and for the six months ended December 31, 1993 (unaudited).

Consolidated Statements of Changes in Net Assets for the fiscal years ended June 30, 1992 and 1993 (audited) and for the six months ended December 31, 1993 (unaudited).

Consolidated Financial Highlights for the six months ended December 31, 1993 (unaudited) and for the three years ended June 30, 1993 and for the period September 1, 1989 (commencement of operations) to June 30, 1990 (audited).

(B) EXHIBITS:

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EXHIBIT

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- 1(a) -- Articles of Incorporation of the Registrant.
- (b) -- Articles of Amendment to Articles of Incorporation of the Registrant.
- (c) -- Articles of Amendment to Articles of Incorporation of the Registrant.
- (d) -- Form of Articles Supplementary to Articles of Incorporation of the Registrant.
- 2 -- By-Laws of the Registrant. (a)
- 3 -- None.
- 4 -- Portions of the Articles of Incorporation and the By-Laws of the Registrant defining the rights of holders of shares of the Registrant. (c)
- 5(a) -- Management Agreement between the Registrant and Merrill Lynch Asset Management, Inc. (a)
- (b) -- Supplement to Management Agreement between Registrant and Merrill Lynch Asset Management, L.P. dated January 3, 1994.
- 6(a) -- Class A Distribution Agreement between the Registrant and Merrill

- Lynch Funds Distributor, Inc. (a)  
 (b) -- Class B Distribution Agreement between the Registrant and Merrill Lynch Funds Distributor, Inc.

</TABLE>

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EXHIBIT  
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- (c) -- Letter Agreement between the Registrant and Merrill Lynch Funds Distributor, Inc. with respect to the Merrill Lynch Mutual Fund Adviser program. (d)  
 7 -- None.  
 8 -- Custodian Agreement between the Registrant and The Chase Manhattan Bank, N.A. (a)  
 9(a) -- Transfer Agency, Dividend Disbursing Agency and Shareholder Servicing Agency Agreement between the Registrant and Financial Data Services, Inc. (a)  
 (b) -- Agreement relating to use of name between the Registrant and Merrill Lynch, Pierce, Fenner & Smith Incorporated. (a)  
 10 -- None.  
 11 -- Consent of Deloitte & Touche, independent auditors for the Registrant.  
 12 -- None.  
 13 --Certificate of Merrill Lynch Asset Management, Inc. (a)  
 14 --None.  
 15 --Class B Distribution Plan of the Registrant and Distribution Plan Sub-Agreement.  
 16 --Schedule of computation of each performance quotation provided in the registration statement in response to Item 22. (b)  
 17 --Power of Attorney. (d)

</TABLE>

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- (a) Filed as an Exhibit to Pre-Effective Amendment No. 2 to Registrant's Registration Statement under the Securities Act of 1933 on Form N-1A.  
 (b) Filed as an Exhibit to Post-Effective Amendment No. 1 to Registrant's Registration Statement under the Securities Act of 1933 on Form N-1A.  
 (c) Reference is made to Article V, Article VI, Article VII, Article VIII and Article X of the Registrant's Articles of Incorporation, previously filed as Exhibit (1) (a) to the Registration Statement; and to Article II, Article III (Sections 1, 3, 5, 6 and 17), Article VI, Article VII, Article XIII and Article XIV of the Registrant's By-Laws previously filed as Exhibit (2) to the Registration Statement.  
 (d) Filed as an Exhibit to Post-Effective Amendment No. 6 to Registrant's Registration Statement under the Securities Act of 1933, on Form N-1A.

ITEM 25. PERSONS CONTROLLED BY OR UNDER COMMON CONTROL WITH REGISTRANT.

The Registrant is not controlled by or under common control with any other person. The Registrant owns all of the stock of Merrill Lynch DCM, Inc., a Delaware corporation formed specifically to facilitate investment in accordance with the applicable investment restrictions of a particular foreign country. Such subsidiary is included in the Registrant's consolidated financial statements.

ITEM 26. NUMBER OF HOLDERS OF SECURITIES.

<TABLE>

<CAPTION>

TITLE OF CLASS -----	NUMBER OF RECORD HOLDERS AT MARCH 31, 1994 -----
<S>	<C>
Class A Common Stock, par value \$0.10 per share.....	393
Class B Common Stock, par value \$0.10 per share.....	0

</TABLE>

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ITEM 27. INDEMNIFICATION.

Reference is made to Article VI of Registrant's Articles of Incorporation, Article VI of Registrant's By-Laws, Section 2-418 of the Maryland General Corporation Law and Section 9 of the Distribution Agreement.



Article VI of the By-Laws provides that each officer and director of the Registrant shall be indemnified by the Registrant to the full extent permitted under the General Laws of the State of Maryland, except that such indemnity shall not protect any such person against any liability to the Registrant or any stockholder thereof to which such person would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office. Absent a court determination that an officer or director seeking indemnification was not liable on the merits or guilty of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office, the decision by the Registrant to indemnify such person must be based upon the reasonable determination of independent counsel or non-party independent directors, after review of the facts, that such officer or director is not guilty of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office.

Each officer and director of the Registrant claiming indemnification within the scope of Article VI of the By-Laws shall be entitled to advances from the Registrant for payment of the reasonable expenses incurred by him in connection with proceedings to which he is a party in the manner and to the full extent permitted under the General Laws of the State of Maryland; provided, however, that the person seeking indemnification shall provide to the Registrant a written affirmation of his good faith belief that the standard of conduct necessary for indemnification by the Registrant has been met and a written undertaking to repay any such advance, if it should ultimately be determined that the standard of conduct has not been met, and provided further that at least one of the following additional conditions is met: (a) the person seeking indemnification shall provide a security in form and amount acceptable to the Registrant for his undertaking; (b) the Registrant is insured against losses arising by reason of the advance; (c) a majority of a quorum of non-party independent directors, or independent legal counsel in a written opinion, shall determine, based on a review of facts readily available to the Registrant at the time the advance is proposed to be made, that there is reason to believe that the person seeking indemnification will ultimately be found to be entitled to indemnification.

The Registrant may purchase insurance on behalf of an officer or director protecting such person to the full extent permitted under the General Laws of the State of Maryland from liability arising from his activities as officer or director of the Registrant. The Registrant, however, may not purchase insurance on behalf of any officer or director of the Registrant that protects or purports to protect such person from liability to the Registrant or to its stockholders to which such officer or director would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of his office.

The Registrant may indemnify, make advances or purchase insurance to the extent provided in Article VI of the By-Laws on behalf of an employee or agent who is not an officer or director of the Registrant.

In Section 9 of the Distribution Agreement relating to the securities being offered hereby, the Registrant agrees to indemnify the Distributor and each person, if any, who controls the Distributor within the meaning of the Securities Act of 1933 (the "Act"), against certain types of civil liabilities arising in connection with the Registration Statement or Prospectus and Statement of Additional Information.

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Insofar as indemnification for liabilities arising under the Act may be permitted to Directors, officers and controlling persons of the Registrant and the principal underwriter pursuant to the foregoing provisions or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a Director, officer, or controlling person of the Registrant and the principal underwriter in connection with the successful defense of any action, suit or proceeding) is asserted by such Director, officer or controlling person or the principal underwriter in connection with the shares being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

ITEM 28. BUSINESS AND OTHER CONNECTIONS OF THE MANAGER.

Merrill Lynch Asset Management, L.P., doing business as Merrill Lynch Asset Management ("MLAM" or the "Manager"), acts as investment adviser for the following investment companies: Convertible Holdings, Inc., Merrill Lynch Adjustable Rate Securities Fund, Inc., Merrill Lynch Americas Income Fund,

Inc., Merrill Lynch Balanced Fund for Investment and Retirement, Merrill Lynch Capital Fund, Inc., Merrill Lynch Developing Capital Markets Fund, Inc., Merrill Lynch Dragon Fund, Inc., Merrill Lynch EuroFund, Merrill Lynch Fundamental Growth Fund, Inc., Merrill Lynch Fund for Tomorrow, Inc., Merrill Lynch Global Bond Fund for Investment and Retirement, Merrill Lynch Global Allocation Fund, Inc., Merrill Lynch Global Convertible Fund, Inc., Merrill Lynch Global Holdings, Merrill Lynch Global Resources Trust, Merrill Lynch Global Utility Fund, Inc., Merrill Lynch Growth Fund for Investment and Retirement, Merrill Lynch Healthcare Fund, Inc., Merrill Lynch High Income Municipal Bond Fund, Inc., Merrill Lynch Institutional Intermediate Fund, Merrill Lynch International Equity Fund, Merrill Lynch Latin America Fund, Inc., Merrill Lynch Municipal Series Trust, Merrill Lynch Pacific Fund, Inc., Merrill Lynch Ready Assets Trust, Merrill Lynch Retirement Series Trust, Merrill Lynch Series Fund, Inc., Merrill Lynch Short-Term Global Income Fund, Inc., Merrill Lynch Strategic Dividend Fund, Merrill Lynch Technology Fund, Inc., Merrill Lynch U.S. Treasury Money Fund, Merrill Lynch Utility Income Fund, Inc., Merrill Lynch Variable Series Funds, Inc., and Merrill Lynch Senior Floating Rate Fund, Inc. Fund Asset Management, L.P. ("FAM"), an affiliate of MLAM, acts as the investment adviser for the following investment companies: Apex Municipal Fund, Inc., CBA Money Fund, CMA Government Securities Fund, CMA Money Fund, CMA Multi-State Municipal Series Trust, CMA Tax-Exempt Fund, CMA Treasury Fund, The Corporate Fund Accumulation Program, Inc., Corporate High Yield Fund, Inc., Corporate High Yield Fund II, Inc., Emerging Tigers Fund, Inc., Financial Institutions Series Trust, Income Opportunities Fund 1999, Inc., Income Opportunities Fund 2000, Inc., Merrill Lynch Basic Value Fund, Inc., Merrill Lynch California Municipal Series Trust, Merrill Lynch Corporate Bond Fund, Inc., Merrill Lynch Federal Securities Trust, Merrill Lynch Funds for Institutions Series, Merrill Lynch Multi-State Municipal Series Trust, Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, Merrill Lynch Municipal Bond Fund, Inc., Merrill Lynch Phoenix Fund, Inc., Merrill Lynch Special Value Fund, Inc., Merrill Lynch World Income Fund, Inc., MuniAssets Fund, Inc., MuniBond Income Fund, Inc., The Municipal Fund Accumulation Program, Inc., MuniEnhanced Fund, Inc., MuniInsured Fund, Inc., MuniVest Fund, Inc., MuniVest Fund II, Inc., MuniVest California Insured Fund, Inc., MuniVest Florida Fund, MuniVest Michigan Insured Fund, Inc., MuniVest New Jersey Fund, Inc., MuniVest New York Insured Fund, Inc., MuniVest Pennsylvania Insured Fund, MuniYield Arizona Fund, Inc., MuniYield Arizona Fund II, Inc., MuniYield California Fund, Inc., MuniYield California Insured Fund, Inc., MuniYield California Insured Fund II, Inc., MuniYield Florida Fund, MuniYield Florida Insured Fund, MuniYield Fund, Inc., MuniYield Insured Fund, Inc., MuniYield

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Insured Fund II, Inc., MuniYield Michigan Fund, Inc., MuniYield Michigan Insured Fund, Inc., MuniYield New Jersey Fund, Inc., MuniYield New Jersey Insured Fund, Inc., MuniYield New York Insured Fund, Inc., MuniYield New York Insured Fund II, Inc., MuniYield New York Insured Fund III, Inc., MuniYield Pennsylvania Fund, MuniYield Quality Fund, Inc., MuniYield Qualify Fund II, Inc., Senior High Income Portfolio, Inc., Senior High Income Portfolio II, Inc., Senior Strategic Income Fund, Inc., Taurus MuniCalifornia Holdings, Inc., Taurus MuniNew York Holdings, Inc. and Worldwide DollarVest Fund, Inc. The address of each of these investment companies is Box 9011, Princeton, New Jersey 08543-9011, except that the address of Merrill Lynch Funds for Institutions Series and Merrill Lynch Institutional Intermediate Fund is One Financial Center, 15th Floor, Boston, Massachusetts 02111-2646. The address of the Manager and FAM is also Box 9011, Princeton, New Jersey 08543-9011. The address of Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") and Merrill Lynch & Co., Inc. ("ML & Co.") is World Financial Center, North Tower, 250 Vesey Street, New York, New York 10281.

Set forth below is a list of each executive officer and director of the Manager indicating each business, profession, vocation or employment of a substantial nature in which each such person or entity has been engaged since June 30, 1991, for his or its own account or in the capacity of director, officer, partner or trustee. In addition, Mr. Zeikel is President, Mr. Richard is Treasurer and Mr. Glenn is Executive Vice President of substantially all of the investment companies described in the preceding paragraph, and Messrs. Durnin, Giordano, Harvey, Kirstein, and Monagle are directors, trustees or officers of one or more of such companies.

<TABLE>

<CAPTION>

NAME	POSITION(S) WITH THE MANAGERS	OTHER SUBSTANTIAL BUSINESS, PROFESSION, VOCATION OR EMPLOYMENT
<S>	<C>	<C>
ML & Co. ....	Limited Partner	Financial Services Holding Company
Merrill Lynch Investment Management, Inc. ....	Limited Partner	Investment Advisory Services, Limited Partner of FAM
Princeton Services, Inc. ("Princeton Services").	General Partner	General Partner of FAM
Arthur Zeikel.....	President	President of FAM; President and Director of Princeton Services; Director of Merrill Lynch Funds

		Distributor, Inc. ("MLFD"); Executive Vice President of ML & Co.; Executive Vice President of Merrill Lynch
Terry K. Glenn.....	Executive Vice President	Executive Vice President of FAM; Executive Vice President and Director of Princeton Services; President and Director of MLFD; Director of Financial Data Services, Inc. ("FDS"); President of Princeton Administrators
Bernard J. Durnin.....	Senior Vice President	Senior Vice President of FAM; Senior Vice President of Princeton Services
Vincent R. Giordano.....	Senior Vice President	Senior Vice President of FAM; Senior Vice President of Princeton Services
Elizabeth Griffin.....	Senior Vice President	Senior Vice President of FAM; Senior Vice President of Princeton Services

</TABLE>

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<TABLE>  
<CAPTION>

NAME ----	POSITION(S) WITH THE MANAGERS -----	OTHER SUBSTANTIAL BUSINESS, PROFESSION, VOCATION OR EMPLOYMENT -----
<S>	<C>	<C>
Norman R. Harvey.....	Senior Vice President	Senior Vice President of FAM; Senior Vice President of Princeton Services
N. John Hewitt.....	Senior Vice President	Senior Vice President of FAM; Senior Vice President of Princeton Services
Philip L. Kirstein.....	Senior Vice President, General Counsel and Secretary	Senior Vice President, General Counsel and Secretary of FAM; Senior Vice President, General Counsel, Director and Secretary of Princeton Services; Director of MLFD
Ronald M. Kloss.....	Senior Vice President and Controller	Senior Vice President and Controller of FAM; Senior Vice President and Controller of Princeton Services
Stephen M.M. Miller.....	Senior Vice President	Executive Vice President of Princeton Administrators; Senior Vice President of Princeton Services
Joseph T. Monagle, Jr...	Senior Vice President	Senior Vice President of FAM; Senior Vice President of Princeton Services
Gerald M. Richard.....	Senior Vice President and Treasurer	Senior Vice President and Treasurer of FAM; Senior Vice President and Treasurer of Princeton Services; Vice President and Treasurer of MLFD
Richard L. Rufener.....	Senior Vice President	Vice President of MLFD; Senior Vice President of Princeton Services
Ronald L. Welburn.....	Senior Vice President	Senior Vice President of FAM; Senior Vice President of Princeton Services
Anthony Wiseman.....	Senior Vice President	Senior Vice President of Princeton Services

</TABLE>

ITEM 29. PRINCIPAL UNDERWRITERS.

(a) MLFD acts as the principal underwriter for the Registrant and for each of the open-end investment companies referred to in the first paragraph of Item 28 except Apex Municipal Fund, Inc., CBA Money Fund, CMA Government Securities Fund, CMA Money Fund, CMA Multi-State Municipal Series Trust, CMA Tax-Exempt Fund, CMA Treasury Fund, Convertible Holdings, Inc., The Corporate Fund Accumulation Program, Inc., Corporate High Yield Fund, Inc., Corporate High Yield Fund II, Inc., Emerging Tigers Fund, Inc., Income Opportunities Fund 1999, Inc., Income Opportunities Fund 2000, Inc., MuniAssets Fund, Inc., MuniBond Income Fund, Inc., The Municipal Fund Accumulation Program, Inc., MuniEnhanced Fund, Inc., MuniInsured Fund, Inc., MuniVest Fund, Inc., MuniVest Fund, II, Inc., MuniVest California Insured Fund, Inc., MuniVest Florida Fund, MuniVest Michigan Insured Fund, Inc., MuniVest New Jersey Fund, Inc., MuniVest New York Insured Fund, Inc., MuniVest Pennsylvania Fund, MuniYield Arizona Fund, MuniYield Arizona Fund II, Inc., MuniYield California Fund, Inc., MuniYield California Insured Fund, Inc., MuniYield Florida Fund, MuniYield Florida Insured Fund, MuniYield Fund, Inc., MuniYield Insured Fund, Inc., MuniYield Insured Fund II, Inc., MuniYield Michigan Fund, Inc., MuniYield Michigan Insured Fund, Inc., MuniYield New Jersey Fund, Inc., MuniYield New Jersey Insured Fund, Inc., MuniYield New York Insured Fund, Inc., MuniYield New York Insured Fund II, Inc., MuniYield New York Insured Fund III, Inc., MuniYield Pennsylvania Fund, MuniYield Quality Fund, Inc., MuniYield Quality Fund II, Inc., Senior High Income Portfolio, Inc., Senior High Income Portfolio II, Inc., Senior Strategic Income

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Fund, Inc., Taurus MuniCalifornia Holdings, Inc., Taurus MuniNewYork Holdings,

(b) Set forth below is information concerning each director and officer of MLFD. The principal business address of each such person is Box 9011, Princeton, New Jersey 08543-9011, except that the address of Messrs. Crook, Aldrich, Breen, Graczyk, Fatseas, and Wasel is One Financial Center, Boston, Massachusetts 02111-2646.

<TABLE>  
<CAPTION>

(1) NAME ----	(2) POSITIONS AND OFFICES WITH MLFD -----	(3) POSITIONS AND OFFICES WITH REGISTRANT -----
<S>	<C>	<C>
Terry K. Glenn.....	President and Director	Executive Vice President
Arthur Zeikel.....	Director	President and Director
Philip L. Kirstein.....	Director	None
William E. Aldrich.....	Senior Vice President	None
Robert W. Crook.....	Senior Vice President	None
Michael J. Brady.....	Vice President	None
William M. Breen.....	Vice President	None
Sharon Creveling.....	Vice President and Assistant Treasurer	None
Mark A. DeSario.....	Vice President	None
James T. Fatseas.....	Vice President	None
Stanley Graczyk.....	Vice President	None
Debra W. Landsman-Yaros.	Vice President	None
Michelle T. Lau.....	Vice President	None
Gerald M. Richard.....	Vice President and Treasurer	Treasurer
Richard L. Rufener.....	Vice President	None
Sal Venezia.....	Vice President	None
William Wasel.....	Assistant Vice President	None
Robert Harris.....	Secretary	None

</TABLE>

(c) Not applicable.

ITEM 30. LOCATION OF ACCOUNTS AND RECORDS.

All accounts, books and other documents required to be maintained by Section 31(a) of the Investment Company Act of 1940, as amended, and the rules thereunder will be maintained at the offices of the Registrant, 800 Scudders Mill Road, Plainsboro, New Jersey 08536, and Financial Data Services, Inc., 4800 Deer Lake Drive East, Jacksonville, Florida 32246-6484.

ITEM 31. MANAGEMENT SERVICES.

Other than as set forth under the caption "Management of the Fund--Management and Advisory Arrangements" in the Prospectus constituting Part A of the Registration Statement and under "Management of the Fund--Management and Advisory Arrangements" in the Statement of Additional Information constituting Part B of the Registration Statement, Registrant is not a party to any management-related service contract.

ITEM 32. UNDERTAKINGS.

The Registrant undertakes to furnish to each person to whom a prospectus is delivered a copy of the Registrant's annual report to shareholders, upon request and without charge.

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SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933 AND THE INVESTMENT COMPANY ACT OF 1940, THE REGISTRANT HAS DULY CAUSED THIS AMENDMENT TO ITS REGISTRATION STATEMENT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN THE TOWNSHIP OF PLAINSBORO, AND STATE OF NEW JERSEY, ON THE 12TH DAY OF MAY 1994.

Merrill Lynch Developing Capital  
Markets Fund, Inc.

(REGISTRANT)

/s/ Arthur Zeikel

By \_\_\_\_\_

(ARTHUR ZEIKEL, PRESIDENT)

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THIS AMENDMENT TO

ITS REGISTRATION STATEMENT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS IN THE CAPACITIES AND ON THE DATE(S) INDICATED.

SIGNATURES	TITLE	DATE(S)
----- /s/ Arthur Zeikel (ARTHUR ZEIKEL)	President and Director (Principal Executive Officer)	May 12, 1994
----- /s/ Gerald M. Richard (GERALD M. RICHARD)	Treasurer (Principal Financial and Accounting Officer)	May 12, 1994
----- Donald Cecil* (DONALD CECIL)	Director	May 12, 1994
----- Edward H. Meyer* (EDWARD H. MEYER)	Director	May 12, 1994
----- Charles C. Reilly* (CHARLES C. REILLY)	Director	May 12, 1994
----- Richard R. West* (RICHARD R. WEST)	Director	May 12, 1994
*By /s/ Arthur Zeikel ----- (ARTHUR ZEIKEL, ATTORNEY-IN-FACT)		May 12, 1994

EXHIBIT INDEX

<TABLE> <CAPTION> EXHIBIT NUMBER -----	<S>	PAGE NUMBER -----
<C>	<S>	<C>
1(a)	-- Articles of Incorporation of the Registrant.	
	-- Articles of Amendment to Articles of Incorporation of the Registrant.	
(b)	-- Articles of Amendment to Articles of Incorporation of the Registrant.	
(c)	-- Form of Articles Supplementary to Articles of Incorporation of the Registrant.	
(d)	-- By-Laws of the Registrant.(a)	
2	-- None.	
3	-- Portions of the Articles of Incorporation and the By-Laws of the Registrant defining the rights of holders of shares of the Registrant.(c)	
4	-- Management Agreement between the Registrant and Merrill Lynch Asset Management, Inc.(a)	
5(a)	-- Supplement to Management Agreement between Registrant and Merrill Lynch Asset Management, L.P. dated January 3, 1994.	
(b)	-- Class A Distribution Agreement between the Registrant and Merrill Lynch Funds Distributor, Inc.(a)	
6(a)	-- Class B Distribution Agreement between the Registrant and Merrill Lynch Funds Distributor, Inc.	
(b)	-- Letter Agreement between the Registrant and Merrill Lynch Funds Distributor, Inc. with respect to the Merrill Lynch Mutual Fund Adviser program.(d)	
(c)	-- None.	
7	-- Custodian Agreement between the Registrant and The Chase Manhattan Bank, N.A.(a)	
8	-- Transfer Agency, Dividend Disbursing Agency and Shareholder Servicing Agency Agreement between the Registrant and Financial Data Services, Inc.(a)	
9(a)	-- Agreement relating to use of name between the Registrant and Merrill Lynch, Pierce, Fenner & Smith Incorporated.(a)	
(b)	-- None.	
10	-- Consent of Deloitte & Touche, independent auditors for the Registrant.	
11	-- None.	
12	-- Certificate of Merrill Lynch Asset Management, Inc.(a)	
13	-- None.	
14	-- Class B Distribution Plan of the Registrant and	

15 Distribution Plan Sub-Agreement.  
 16 -- Schedule of computation of each performance quotation  
 provided in the registration statement in response to Item  
 22.(b)  
 17 -- Power of Attorney.(d)  
 </TABLE>  
 -----

- (a) Filed as an Exhibit to Pre-Effective Amendment No. 2 to Registrant's Registration Statement under the Securities Act of 1933 on Form N-1A.
- (b) Filed as an Exhibit to Post-Effective Amendment No. 1 to Registrant's Registration Statement under the Securities Act of 1933 on Form N-1A.
- (c) Reference is made to Article V, Article VI, Article VII, Article VIII and Article X of the Registrant's Articles of Incorporation, previously filed as Exhibit (1)(a) to the Registration Statement; and to Article II, Article III (Sections 1, 3, 5, 6 and 17), Article VI, Article VII, Article XIII and Article XIV of the Registrant's By-Laws previously filed as Exhibit (2) to the Registration Statement.
- (d) Filed as an Exhibit to Post-Effective Amendment No. 6 to Registrant's Registration Statement under the Securities Act of 1933, on Form N-1A.

APPENDIX FOR GRAPHIC AND IMAGE MATERIAL

Pursuant to Rule 304 of Regulation S-T, the following table presents fair and accurate narrative descriptions of graphic and image material omitted from this EDGAR Submission File due to ASCII-incompatibility and cross-references this material to the location of each occurrence in the text.

DESCRIPTION OF OMITTED GRAPHIC OR IMAGE -----	LOCATION OF GRAPHIC OR IMAGE IN TEXT -----
Illustration of ship, dockside with cargo.....	Back cover of Prospectus and back cover of Statement of Additional Information.

ARTICLES OF INCORPORATION  
OF  
THE DEVELOPING CAPITALISM FUND, INC.

\* \* \* \*

ARTICLE I

THE UNDERSIGNED, THOMAS C. MANDIA, whose post-office address is One World Trade Center, New York, New York 10048, being at least eighteen years of age, does hereby act as an incorporator, under and by virtue of the General Laws of the State of Maryland authorizing the formation of corporations and with the intention of forming a corporation.

ARTICLE II

NAME

----

The name of the corporation is  
THE DEVELOPING CAPITALISM FUND, INC.

ARTICLE III

PURPOSES AND POWERS

-----

The purpose or purposes for which the Corporation is formed and the business or objects to be transacted, carried on and promoted by it are as follows:

(1) To conduct and carry on the business of an investment company of the management type.

(2) To hold, invest and reinvest its assets in securities, and in connection therewith to hold part or all of its assets in cash.

(3) To issue and sell shares of its own capital stock in such amounts and on such terms and conditions, for such purposes and for such amount or kind of consideration now or hereafter permitted by the General Laws of the State of Maryland and by these Articles of Incorporation, as its Board of Directors may determine; provided, however, that the value of the consideration per share to be received by the Corporation upon the sale or other disposition of any shares of its capital stock shall not be less than the net asset value per share of such capital stock outstanding at the time of such event.

(4) To redeem, purchase or otherwise acquire, hold, dispose of, resell, transfer, reissue or cancel (all without the vote or consent of the stockholders of the Corporation) shares of its capital stock, in any manner and to the extent now or hereafter permitted by the General Laws of the State of Maryland and by these Articles of Incorporation.

(5) To do any and all such further acts or things and to exercise any and all such further powers or rights as may be necessary, incidental, relative, conducive, appropriate or desirable for the accomplishment carrying out or attainment of all or any of the foregoing purposes or objects.

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The Corporation shall be authorized to exercise and enjoy all of the powers, rights and privileges granted to, or conferred upon, corporations by the General Laws of the State of Maryland now or hereafter in force, and the enumeration of the foregoing shall not be deemed to exclude any powers, rights or privileges so granted or conferred.

ARTICLE IV  
PRINCIPAL OFFICE AND RESIDENT AGENT  
-----

The post-office address of the principal office of the Corporation in the State of Maryland is c/o The Corporation Trust Incorporated, 32 South Street, Baltimore, Maryland 21202. The name of the resident agent of the Corporation in this State is The Corporation Trust Incorporated, a corporation of this State, and the post-office address of the resident agent is 32 South Street, Baltimore, Maryland 21202.

ARTICLE V  
CAPITAL STOCK  
-----

(1) The total number of shares of capital stock which the Corporation shall have authority to issue is Two Hundred Million (200,000,000) shares, all of one class called Common Stock, of the par value of Ten Cents (\$.10) per share and of the aggregate par value of Twenty Million Dollars (\$20,000,000).

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(2) The Board of Directors may classify and reclassify any unissued shares of capital stock into one or more additional or other classes or series as may be established from time to time by setting or changing in any one or more respects the designations, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms or conditions of redemption of such shares of stock and pursuant to such classification or reclassification to increase or decrease the number of authorized shares of any existing class or series. In the event the Board of Directors classifies or reclassifies any unissued shares of capital stock into one or more additional classes of common stock, all shares of Common Stock of the Corporation issued prior to the filing of Articles Supplementary relating to such classification or reclassification shall without further act be designated and considered Class A Common Stock.



(3) Unless otherwise expressly provided in the charter of the Corporation, including any Articles Supplementary creating any class or series of capital stock, the holders of each class or series of capital stock shall be entitled to dividends and distributions in such amounts and at such times as may be determined by the Board of Directors, and the dividends and distributions paid with respect to the various classes or series of capital stock may vary among such classes and series.

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Expenses related to the distribution of, and other identified expenses that should properly be allocated to, the shares of a particular class or series of capital stock may be charged to and borne solely by such class or series and the bearing of expenses solely by a class or series of capital stock may be appropriately reflected (in a manner determined by the Board of Directors) and cause differences in the net asset value attributable to, and the dividend, redemption and liquidation rights of, the shares of each class or series of capital stock.

(4) Unless otherwise expressly provided in the charter of the Corporation, including any Articles Supplementary creating any class or series of capital stock, on each matter submitted to a vote of stockholders, each holder of a share of capital stock of the Corporation shall be entitled to one vote for each share standing in such holder's name on the books of the Corporation, irrespective of the class or series thereof, and all shares of all classes and series shall vote together as a single class; provided, however, that (a) as to any matter with respect to which a separate vote of any class or series is required by the Investment Company Act of 1940, as amended, and in effect from time to time, or any rules, regulations or orders issued thereunder, or by the Maryland General Corporation Law, such requirement as to a separate vote by that class or series shall apply in lieu of a general vote of all classes and series as described above, (b) in the event that the separate vote

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requirements referred to in (a) above apply with respect to one or more classes or series, then, subject to paragraph (c) below, the shares of all other classes and series not entitled to a separate class vote shall vote as a single class, and (c) as to any matter which does not affect the interest of a particular class or series, such class or series shall not be entitled to any vote and only the holders of shares of the one or more affected classes and series shall be entitled to vote.

(5) Notwithstanding any provision of the Maryland General Corporation Law requiring a greater proportion than a majority of the votes of all classes or series of capital stock of the Corporation (or of any class or series entitled to vote thereon as a separate class or series) to take or authorize any action, the Corporation is hereby authorized (subject to the requirements of the Investment Company Act of 1940, as amended, and in effect from time to time, and any rules, regulations and orders issued thereunder) to take such action upon

the concurrence of a majority of the aggregate number of shares of capital stock of the Corporation entitled to vote thereon (or a majority of the aggregate number of shares of a class or series entitled to vote thereon as a separate class or series).

(6) Unless otherwise expressly provided in the charter of the Corporation, including any Articles Supplementary creating any class or series of capital stock, in the event of any liquidation, dissolution or winding up of the Corporation,

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whether voluntary or involuntary, the holders of all classes and series of capital stock of the Corporation shall be entitled, after payment or provision for payment of the debts and other liabilities of the Corporation, to share ratably in the remaining net assets of the Corporation.

(7) Any fractional shares shall carry proportionately all the rights of a whole share, excepting any right to receive a certificate evidencing such fractional share, but including, without limitation, the right to vote and the right to receive dividends.

(8) All persons who shall acquire stock in the Corporation shall acquire the same subject to the provisions of the charter and By-Laws of the Corporation. As used in the charter of the Corporation, the terms "charter" and "Articles of Incorporation" shall mean and include the Articles of Incorporation of the Corporation as amended, supplemented and restated from time to time by Articles of Amendment, Articles Supplementary, Articles of Restatement or otherwise.

ARTICLE VI  
PROVISIONS FOR DEFINING, LIMITING  
AND REGULATING CERTAIN POWERS OF  
THE CORPORATION AND OF THE DIRECTORS  
AND STOCKHOLDERS

-----

(1) The number of directors of the Corporation shall be three (3), which number may be increased pursuant to the By-Laws of the Corporation but shall never be less than three (3). The

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names of the directors who shall act until the first annual meeting or until their successors are duly elected and qualify are:

Philip L. Kirstein  
Mark B. Goldfus  
Susan B. Baker

(2) The Board of Directors of the Corporation is hereby empowered to authorize the issuance from time to time of shares of capital stock, whether now or hereafter authorized, for such consideration as the Board of Directors may deem advisable, subject to such limitations as may be set forth in these Articles of Incorporation or in the By-Laws of the Corporation or in the General Laws of the State of Maryland.

(3) No holder of stock of the Corporation shall, as such holder, have any right to purchase or subscribe for any shares of the capital stock of the Corporation or any other security of the Corporation which it may issue or sell (whether out of the number of shares authorized by these Articles of Incorporation, or out of any shares of the capital stock of the Corporation acquired by it after the issue thereof, or otherwise) other than such right, if any, as the Board of Directors, in its discretion, may determine.

(4) Each director and each officer of the Corporation shall be indemnified by the Corporation to the full extent permitted by the General Laws of the State of Maryland, subject to the requirements of the Investment Company Act of 1940, as amended.

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No amendment of these Articles of Incorporation or repeal of any provision hereof shall limit or eliminate the benefits provided to directors and officers under this provision in connection with any act or omission that occurred prior to such amendment or repeal.

(5) To the fullest extent permitted by the General Laws of the State of Maryland, subject to the requirements of the Investment Company Act of 1940, as amended, no director or officer of the Corporation shall be personally liable to the Corporation or its security holders for money damages. No amendment of these Articles of Incorporation or repeal of any provision hereof shall limit or eliminate the benefits provided to directors and officers under this provision in connection with any act or omission that occurred prior to such amendment or repeal.

(6) The Board of Directors of the Corporation may make, alter or repeal from time to time any of the By-Laws of the Corporation except any particular By-Law which is specified as not subject to alteration or repeal by the Board of Directors, subject to the requirements of the Investment Company Act of 1940, as amended.

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ARTICLE VII  
REDEMPTION

-----

Each holder of shares of capital stock of the Corporation shall be entitled to require the Corporation to redeem all or any part of the shares of

capital stock of the Corporation standing in the name of such holder on the books of the Corporation, and all shares of capital stock issued by the Corporation shall be subject to redemption by the Corporation, at the redemption price of such shares as in effect from time to time as may be determined by the Board of Directors of the Corporation in accordance with the provisions hereof, subject to the right of the Board of Directors of the Corporation to suspend the right of redemption of shares of capital stock of the Corporation or postpone the date of payment of such redemption price in accordance with provisions of applicable law. The redemption price of shares of capital stock of the Corporation shall be the net asset value thereof as determined by the Board of Directors of the Corporation from time to time in accordance with the provisions of applicable law, less such redemption fee or other charge, if any, as may be fixed by resolution of the Board of Directors of the Corporation. Payment of the redemption price shall be made in cash by the Corporation at such time and in such manner as may be determined from time to time by the Board of Directors of the Corporation.

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ARTICLE VIII  
DETERMINATION BINDING  
-----

Any determination made in good faith, so far as accounting matters are involved, in accordance with accepted accounting practice by or pursuant to the direction of the Board of Directors, as to the amount of assets, obligations or liabilities of the Corporation, as to the amount of net income of the Corporation from dividends and interest for any period or amounts at any time legally available for the payment of dividends, as to the amount of any reserves or charges set up and the propriety thereof, as to the time of or purpose for creating reserves or as to the use, alteration or cancellation of any reserves or charges (whether or not any obligation or liability for which such reserves or charges shall have been created, shall have been paid or discharged or shall be then or thereafter required to be paid or discharged), as to the price of any security owned by the Corporation or as to any other matters relating to the issuance, sale, redemption or other acquisition or disposition of securities or shares of capital stock of the Corporation, and any reasonable determination made in good faith by the Board of Directors as to whether any transaction constitutes a purchase of securities on "margin," a sale of securities "short," or an underwriting of the sale of, or a participation in any underwriting or selling group in connection with the public distribution of, any securities, shall be final and conclusive,

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and shall be binding upon the Corporation and all holders of its capital stock, past, present and future, and shares of the capital stock of the Corporation are issued and sold on the condition and understanding, evidenced by the purchase of shares of capital stock or acceptance of share certificates, that any and all such determinations shall be binding as aforesaid. No provision of these

Articles of Incorporation shall be effective to (a) require a waiver of compliance with any provision of the Securities Act of 1933, as amended, or the Investment Company Act of 1940, as amended, or of any valid rule, regulation or order of the Securities and Exchange Commission thereunder or (b) protect or purport to protect any director or officer of the Corporation against any liability to the Corporation or its security holders to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office.

ARTICLE IX  
PERPETUAL EXISTENCE  
-----

The duration of the Corporation shall be perpetual.

ARTICLE X  
AMENDMENT  
-----

The Corporation reserves the right to amend, alter, change or repeal any provision contained in these Articles of

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Incorporation, in any manner now or hereafter prescribed by statute, including any amendment which alters the contract rights, as expressly set forth in the charter, of any outstanding stock and substantially adversely affects the stockholder's rights, and all rights conferred upon stockholders herein are granted subject to this reservation.

IN WITNESS WHEREOF, the undersigned incorporator of THE DEVELOPING CAPITALISM FUND, INC. hereby executes the foregoing Articles of Incorporation and acknowledges the same to be his act and further acknowledges that, to the best of his knowledge, the matters and facts set forth therein are true in all material respects under the penalties of perjury.

Dated the 13th day of April, 1989.

/s/ Thomas C. Mandia  
-----

Thomas C. Mandia

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THE DEVELOPING CAPITALISM FUND, INC.  
ARTICLES OF AMENDMENT

THE DEVELOPING CAPITALISM FUND, INC., a Maryland corporation having its principal office c/o The Corporation Trust Incorporated, 32 South Street, Baltimore, Maryland 21202 (hereinafter called the Corporation), hereby certifies to the State Department of Assessments and Taxation of Maryland, that:

FIRST: The charter of the Corporation is hereby amended by striking out Article II of the Articles of Incorporation and inserting in lieu thereof the following:

ARTICLE II  
NAME  
----

The name of the Corporation is

MERRILL LYNCH ECONOMIC DEVELOPMENT FUND, INC.

SECOND: The amendment to the charter of the Corporation herein made was duly approved by unanimous written consent of the board of directors on May 17, 1989; and that at the time of the approval by the directors there were no shares of stock of the Corporation entitled to vote on the matter either outstanding or subscribed for.

IN WITNESS WHEREOF, The Developing Capitalism Fund, Inc. has caused these articles to be signed in its name and on its behalf by its President and attested by its Secretary on May 17, 1989.

THE DEVELOPING CAPITALISM FUND, INC.

By /s/ Philip L. Kirstein  
-----  
Philip L. Kirstein, President

Attest:

/s/ Mark B. Goldfus  
-----  
Mark B. Goldfus, Secretary

THE UNDERSIGNED, President of THE DEVELOPING CAPITALISM FUND, INC., who executed on behalf of said corporation the foregoing Articles of Amendment, of which this certificate is made a part, hereby acknowledges, in the name and on

behalf of said corporation, the foregoing Articles of Amendment to be the corporate act of said corporation and further certifies that, to the best of his knowledge, information and belief, the matters and facts set forth therein with respect to the approval thereof are true in all material respects, under the penalties of perjury.

By /s/ Philip L. Kirstein

-----  
Philip L. Kirstein

MERRILL LYNCH ECONOMIC DEVELOPMENT FUND, INC.

ARTICLES OF AMENDMENT

MERRILL LYNCH ECONOMIC DEVELOPMENT FUND, INC., a Maryland corporation having its principal office c/o The Corporation Trust Incorporated, 32 South Street, Baltimore, Maryland 21202 (hereinafter called the Corporation), hereby certifies to the State Department of Assessments and Taxation of Maryland, that:

FIRST: The charter of the Corporation is hereby amended by striking out Article II of the Articles of Incorporation and inserting in lieu thereof the following:

ARTICLE II

NAME

-----

The name of the Corporation is

Merrill Lynch Developing Capital Markets Fund, Inc.

SECOND: The amendment to the charter of the Corporation herein made was duly approved by unanimous written consent of the board of directors on June 16, 1989; and that at the time of the approval by the directors there were no shares of stock of the Corporation entitled to vote on the matter either outstanding or subscribed for.

IN WITNESS WHEREOF, Merrill Lynch Economic Development Fund, Inc. has caused these articles to be signed in its name and on its behalf by its President and attested by its Secretary on June 16, 1989.

MERRILL LYNCH ECONOMIC DEVELOPMENT FUND, INC.

By /s/ Arthur Zeikel  
-----  
Arthur Zeikel, President

Attest:

/s/ Mark B. Goldfus  
-----  
Mark B. Goldfus, Secretary



THE UNDERSIGNED, President of MERRILL LYNCH ECONOMIC DEVELOPMENT FUND, INC., who executed on behalf of said corporation the foregoing Articles of Amendment, of which this certificate is made a part, hereby acknowledges, in the name and on behalf of said corporation, the foregoing Articles of Amendment to be the corporate act of said corporation and further certifies that, to the best of his knowledge, information and belief, the matters and facts set forth therein with respect to the approval thereof are true in all material respects, under the penalties of perjury.

/s/ Arthur Zeikel

-----  
Arthur Zeikel

## MERRILL LYNCH DEVELOPING CAPITAL MARKETS FUND, INC.

## ARTICLES SUPPLEMENTARY TO ARTICLES OF INCORPORATION

MERRILL LYNCH DEVELOPING CAPITAL MARKETS FUND, INC., a Maryland corporation having its principal Maryland office c/o The Corporation Trust Incorporated, 32 South Street, Baltimore, Maryland 21202 (hereinafter called the "Corporation"), hereby certifies to the State Department of Assessments and Taxation of Maryland, that:

FIRST: The Board of Directors of the Corporation, at a meeting duly convened and held on April 19, 1994, adopted a resolution reclassifying One Hundred Million (100,000,000) unissued shares, of the par value of Ten Cents (\$.10) per share and of the aggregate par value of Ten Million Dollars (\$10,000,000) of the Common Stock of the Corporation as Class B Common Stock by setting the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms or conditions of redemption as hereinafter set forth. As specified in Article V(2) of the Corporation's charter, the remaining One Hundred Million (100,000,000) shares of Common Stock, of the par value of Ten Cents (\$.10) per share and of the aggregate par value of Ten Million Dollars (\$10,000,000), including the shares currently issued and outstanding, shall hereby be designated and considered Class A Common Stock.

SECOND: The Class B Common Stock of the Corporation shall represent the same interest in the Corporation and have identical preferences, conversion or other rights, voting powers,

restrictions, limitations as to dividends, qualifications, or terms or conditions of redemption as the Class A Common Stock, except that:

(i) Expenses related to the distribution of the Class B Common Stock shall be borne solely by such class and such class will have exclusive voting rights with respect to matters relating to the expenses being borne solely by such class;

(ii) Such distribution expenses borne solely by Class B Common Stock shall be appropriately reflected (in the manner determined by the Board of Directors) in the net asset value, dividends, distribution and liquidation rights of the shares of such class; and

(iii) The Board of Directors of the Corporation is vested with the sole power to change the designation of, convert or rename shares of its issued or unissued Class B Common Stock (all without the vote or consent of the stockholders of the Corporation).

THIRD: The shares aforesaid have been duly reclassified by the Board of Directors pursuant to authority and power contained in Article V(2) of the Corporation's charter.

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IN WITNESS WHEREOF, Merrill Lynch Developing Capital Markets Fund, Inc. has caused these Articles Supplementary to be signed in its name and on its behalf by its President and attested by its Secretary on \_\_\_\_\_, 1994.

MERRILL LYNCH DEVELOPING CAPITAL  
MARKETS FUND, INC.

By \_\_\_\_\_  
Arthur Zeikel, President

Attest:

\_\_\_\_\_  
Mark B. Goldfus, Secretary

THE UNDERSIGNED, President of Merrill Lynch Developing Capital Markets Fund, Inc., who executed on behalf of said Corporation the foregoing Articles Supplementary to the Articles of Incorporation, of which this certificate is made a part, hereby acknowledges, in the name and on behalf of said Corporation, the foregoing Articles Supplementary to the Articles of Incorporation to be the corporate act of said Corporation and further certifies that, to the best of his knowledge, information and belief, the matters and facts set forth therein with respect to the authorization and approval thereof are true in all material respects, and that this statement is made under the penalties of perjury.

\_\_\_\_\_  
Arthur Zeikel

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SUPPLEMENT TO INVESTMENT ADVISORY AGREEMENT  
WITH  
MERRILL LYNCH ASSET MANAGEMENT

As of January 1, 1994 Merrill Lynch Investment Management, Inc. d/b/a Merrill Lynch Asset Management was reorganized as a limited partnership, formally known as Merrill Lynch Asset Management, L.P. and continuing to do business under the name Merrill Lynch Asset Management ("MLAM"). The general partner of MLAM is Princeton Services, Inc. and the limited partners are Merrill Lynch Investment Management, Inc. and Merrill Lynch & Co., Inc. Pursuant to Rule 202(a)(1)-1 under the Investment Advisers Act of 1940 and Rule 2a-6 under the Investment Company Act of 1940 such reorganization did not constitute an assignment of this investment advisory agreement since it did not involve a change of control or management of the investment adviser. Pursuant to the requirements of Section 205 of the Investment Advisers Act of 1940, however, Merrill Lynch Asset Management hereby supplements this investment advisory agreement by undertaking to advise you of any change in the membership of the partnership within a reasonable time after any such change occurs.

By        /s/ Arthur Zeikel  
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Dated:    January 3, 1994

CLASS B SHARES

DISTRIBUTION AGREEMENT

AGREEMENT made as of the 19th day of April 1994, between MERRILL LYNCH DEVELOPING CAPITAL MARKETS FUND, INC., a Maryland corporation (the "Fund"), and MERRILL LYNCH FUNDS DISTRIBUTOR, INC., a Delaware corporation (the "Distributor").

W I T N E S S E T H :  
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WHEREAS, the Fund is registered under the Investment Company Act of 1940, as amended (the "Investment Company Act"), as an open-end investment company, and it is affirmatively in the interest of the Fund to offer its shares for sale continuously; and

WHEREAS, the Distributor is a securities firm engaged in the business of selling shares of investment companies either directly to purchasers or through other securities dealers; and

WHEREAS, the Fund and the Distributor wish to enter into an agreement with each other with respect to the continuous offering of the Fund's Class B shares in order to promote the growth of the Fund and facilitate the distribution of its Class B shares.

NOW, THEREFORE, the parties agree as follows:

Section 1. Appointment of the Distributor. The Fund hereby appoints the  
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Distributor as the principal underwriter and distributor of the Fund to sell Class B shares of common stock of the Fund (sometimes herein referred to as "Class B shares") to the public and hereby agrees during the term of this Agreement to

sell shares of the Fund to the Distributor upon the terms and conditions herein set forth.

Section 2. Exclusive Nature of Duties. The Distributor shall be the  
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exclusive representative of the Fund to act as principal underwriter and distributor of the Class B shares, except that:

(a) The Fund may, upon written notice to the Distributor, from time to time designate other principal underwriters and distributors of Class B shares with respect to areas other than the United States as to which the Distributor

may have expressly waived in writing its right to act as such. If such designation is deemed exclusive, the right of the Distributor under this Agreement to sell Class B shares in the areas so designated shall terminate, but this Agreement shall remain otherwise in full effect until terminated in accordance with the other provisions hereof.

(b) The exclusive right granted to the Distributor to purchase Class B shares from the Fund shall not apply to Class B shares of the Fund issued in connection with the merger or consolidation of any other investment company or personal holding company with the Fund or the acquisition by purchase or otherwise of all (or substantially all) the assets or the outstanding Class B shares of any such company by the Fund.

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(c) Such exclusive right also shall not apply to Class B shares issued by the Fund pursuant to reinvestment of dividends or capital gains distributions.

(d) Such exclusive right also shall not apply to Class B shares issued by the Fund pursuant to any reinstatement privilege afforded redeeming shareholders.

Section 3. Purchase of Class B Shares from the Fund.  
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(a) Commencing on a date agreed upon by the Fund and the Distributor, the Fund will commence an offering of its Class B shares, and thereafter the Distributor shall have the right to buy from the Fund the Class B shares needed, but not more than the Class B shares needed (except for clerical errors in transmission) to fill unconditional orders for Class B shares of the Fund placed with the Distributor by investors or securities dealers. The price which the Distributor shall pay for the Class B shares so purchased from the Fund shall be the net asset value, determined as set forth in Section 3(c) hereof.

(b) The Class B shares are to be resold by the Distributor to investors at net asset value, as set forth in Section 3(c) hereof, or to securities dealers having agreements with the Distributor upon the terms and conditions set forth in Section 7 hereof.

(c) The net asset value of Class B shares of the Fund shall be determined by the Fund or any agent of the Fund in accordance with the method set forth in the currently effective prospectus

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and statement of additional information of the Fund (the "prospectus" and "statement of additional information", respectively) under the Securities Act of 1933, as amended (the "Securities Act"), and guidelines established by the Board of Directors.

(d) The Fund shall have the right to suspend the sale of its Class B

shares at times when redemption is suspended pursuant to the conditions set forth in Section 4(b) hereof. The Fund shall also have the right to suspend the sale of its Class B shares if trading on the New York Stock Exchange shall have been suspended, if a banking moratorium shall have been declared by Federal or New York authorities, or if there shall have been some other event, which, in the judgment of the Fund, makes it impracticable or inadvisable to sell the shares.

(e) The Fund, or any agent of the Fund designated in writing by the Fund, shall be promptly advised of all purchase orders for Class B shares received by the Distributor. Any order may be rejected by the Fund; provided, however, that the Fund will not arbitrarily or without reasonable cause refuse to accept or confirm orders for the purchase of Class B shares. The Fund (or its agent) will confirm orders upon their receipt, will make appropriate book entries and, upon receipt by the Fund (or its agent) of payment therefor, will deliver deposit receipts or certificates for such Class B shares pursuant to the instructions of the Distributor. Payment shall be made to the Fund in New

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York Clearing House funds. The Distributor agrees to cause such payment and such instructions to be delivered promptly to the Fund (or its agent).

Section 4. Repurchase or Redemption of Class B Shares by the Fund.  
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(a) Any of the outstanding Class B shares may be tendered for redemption at any time, and the Fund agrees to repurchase or redeem the Class B shares so tendered in accordance with its obligations as set forth in Article VII of its Articles of Incorporation, as amended from time to time, and in accordance with the applicable provisions set forth in the prospectus and statement of additional information of the Fund. The price to be paid to redeem or repurchase the Class B shares shall be equal to the net asset value calculated in accordance with the provisions of Section 3(c) hereof, less the redemption fee or other charge, if any, set forth in the prospectus and statement of additional information of the Fund. All payments by the Fund hereunder shall be made in the manner set forth below.

The Fund shall pay the total amount of the redemption price as defined in the above paragraph pursuant to the instructions of the Distributor on or before the seventh business day subsequent to its having received the notice of redemption in proper form. The proceeds of any redemption of shares shall be paid by the Fund as follows: (i) any applicable contingent deferred sales charge shall be paid to the Distributor, and (ii) the balance

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shall be paid to or for the account of the shareholder, in each case in accordance with the applicable provisions of the prospectus and statement of additional information.

(b) Redemption of Class B shares or payment may be suspended at times when the New York Stock Exchange is closed, when trading on said Exchange is suspended, when trading on said Exchange is restricted, when an emergency exists as a result of which disposal by the Fund of securities owned by it is not reasonably practicable or it is not reasonably practicable for the Fund fairly to determine the value of its net assets, or during any other period when the Securities and Exchange Commission, by order, so permits.

Section 5. Duties of the Fund.  
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(a) The Fund shall furnish to the Distributor copies of all information, financial statements and other papers which the Distributor may reasonably request for use in connection with the distribution of Class B shares of the Fund, and this shall include, upon request by the Distributor, one certified copy of all financial statements prepared for the Fund by independent public accountants. The Fund shall make available to the Distributor such number of copies of its prospectus and statement of additional information as the Distributor shall reasonably request.

(b) The Fund shall take, from time to time, but subject to any necessary approval of the shareholders, all necessary action to fix the number of authorized shares and such steps as may be

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necessary to register the same under the Securities Act to the end that there will be available for sale such number of Class B shares as the Distributor reasonably may be expected to sell.

(c) The Fund shall use its best efforts to qualify and maintain the qualification of an appropriate number of its Class B shares for sale under the securities laws of such states as the Distributor and the Fund may approve. Any such qualification may be withheld, terminated or withdrawn by the Fund at any time in its discretion. As provided in Section 8(c) hereof, the expense of qualification and maintenance of qualification shall be borne by the Fund. The Distributor shall furnish such information and other material relating to its affairs and activities as may be required by the Fund in connection with such qualification.

(d) The Fund will furnish, in reasonable quantities upon request by the Distributor, copies of annual and interim reports of the Fund.

Section 6. Duties of the Distributor.  
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(a) The Distributor shall devote reasonable time and effort to effect sales of Class B shares of the Fund but shall not be obligated to sell any specific number of shares. The services of the Distributor to the Fund



hereunder are not to be deemed exclusive and nothing herein contained shall prevent the Distributor from entering into like arrangements with other investment companies so long as the performance of its obligations hereunder is not impaired thereby.

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(b) In selling the Class B shares of the Fund, the Distributor shall use its best efforts in all respects duly to conform with the requirements of all Federal and state laws relating to the sale of such securities. Neither the Distributor nor any selected dealer, as defined in Section 7 hereof, nor any other person is authorized by the Fund to give any information or to make any representations, other than those contained in the registration statement or related prospectus and statement of additional information and any sales literature specifically approved by the Fund.

(c) The Distributor shall adopt and follow procedures, as approved by the officers of the Fund, for the confirmation of sales to investors and selected dealers, the collection of amounts payable by investors and selected dealers on such sales, and the cancellation of unsettled transactions, as may be necessary to comply with the requirements of the National Association of Securities Dealers, Inc. (the "NASD"), as such requirements may from time to time exist.

#### Section 7. Selected Dealer Agreements.

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(a) The Distributor shall have the right to enter into selected dealer agreements with securities dealers of its choice ("selected dealers") for the sale of Class B shares; provided, that the Fund shall approve the forms of agreements with dealers. Class B shares sold to selected dealers shall be for resale by such dealers only at net asset value determined as set forth in

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Section 3(d) hereof. The initial form of agreement with selected dealers to be used in the continuous offering of the shares is attached hereto as Exhibit A.

(b) Within the United States, the Distributor shall offer and sell Class B shares only to such selected dealers that are members in good standing of the NASD.

#### Section 8. Payment of Expenses.

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(a) The Fund shall bear all costs and expenses of the Fund, including fees and disbursements of its counsel and auditors, in connection with the preparation and filing of any required registration statements and/or prospectuses and statements of additional information under the Investment Company Act, the Securities Act, and all amendments and supplements thereto, and preparing and mailing annual and interim reports and proxy materials to Class B

shareholders (including but not limited to the expense of setting in type any such registration statements, prospectuses, statements of additional information, annual or interim reports or proxy materials).

(b) The Distributor shall be responsible for any payments made to selected dealers as reimbursement for their expenses associated with payments of sales commissions to financial consultants. In addition, after the prospectuses, statements of additional information and annual and interim reports have been prepared and set in type, the Distributor shall bear the costs and expenses of printing and distributing any copies thereof

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which are to be used in connection with the offering of Class B shares to selected dealers or investors pursuant to this Agreement. The Distributor shall bear the costs and expenses of preparing, printing and distributing any other literature used by the Distributor or furnished by it for use by selected dealers in connection with the offering of the Class B shares for sale to the public and any expenses of advertising incurred by the Distributor in connection with such offering. It is understood and agreed that so long as the Fund's Class B Shares Distribution Plan pursuant to Rule 12b-1 under the Investment Company Act remains in effect, any expenses incurred by the Distributor hereunder may be paid from amounts recovered by it from the Fund under such Plan.

(c) The Fund shall bear the cost and expenses of qualification of the Class B shares for sale pursuant to this Agreement and, if necessary or advisable in connection therewith, of qualifying the Fund as a broker or dealer in such states of the United States or other jurisdictions as shall be selected by the Fund and the Distributor pursuant to Section 5(c) hereof and the cost and expenses payable to each such state for continuing qualification therein until the Fund decides to discontinue such qualification pursuant to Section 5(c) hereof.

Section 9. Indemnification.

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(a) The Fund shall indemnify and hold harmless the Distributor and each person, if any, who controls the Distributor

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against any loss, liability, claim, damage or expense (including the reasonable cost of investigating or defending any alleged loss, liability, claim, damage or expense and reasonable counsel fees incurred in connection therewith), as incurred, arising by reason of any person acquiring any Class B shares, which may be based upon the Securities Act, or on any other statute or at common law, on the ground that the registration statement or related prospectus and statement of additional information, as from time to time amended and supplemented, or an annual or interim report to Class B shareholders of the

Fund, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading, unless such statement or omission was made in reliance upon, and in conformity with, information furnished to the Fund in connection therewith by or on behalf of the Distributor; provided, however, that in no case (i) is the indemnity of the Fund in favor of the Distributor and any such controlling persons to be deemed to protect such Distributor or any such controlling persons thereof against any liability to the Fund or its security holders to which the Distributor or any such controlling persons would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence in the performance of their duties or by reason of the reckless disregard of their obligations and duties under this Agreement; or (ii) is the Fund to be liable under its indemnity agreement

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contained in this paragraph with respect to any claim made against the Distributor or any such controlling persons, unless the Distributor or such controlling persons, as the case may be, shall have notified the Fund in writing within a reasonable time after the summons or other first legal process giving information of the nature of the claim shall have been served upon the Distributor or such controlling persons (or after the Distributor or such controlling persons shall have received notice of such service on any designated agent), but failure to notify the Fund of any such claim shall not relieve it from any liability which it may have to the person against whom such action is brought otherwise than on account of its indemnity agreement contained in this paragraph. The Fund will be entitled to participate at its own expense in the defense or, if it so elects, to assume the defense of any suit brought to enforce any such liability, but if the Fund elects to assume the defense, such defense shall be conducted by counsel chosen by it and satisfactory to the Distributor or such controlling person or persons, defendant or defendants in the suit. In the event the Fund elects to assume the defense of any such suit and retain such counsel, the Distributor or such controlling person or persons, defendant or defendants in the suit shall bear the fees and expenses, as incurred, of any additional counsel retained by them, but in case the Fund does not elect to assume the defense of any such suit, it will reimburse the Distributor or such controlling person or

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persons, defendant or defendants in the suit, for the reasonable fees and expenses, as incurred, of any counsel retained by them. The Fund shall promptly notify the Distributor of the commencement of any litigation or proceedings against it or any of its officers or Directors in connection with the issuance or sale of any of the Class B shares.

(b) The Distributor shall indemnify and hold harmless the Fund and each of its Directors and officers and each person, if any, who controls the Fund against any loss, liability, claim, damage or expense, as incurred, described in the foregoing indemnity contained in subsection (a) of this Section, but only

with respect to statements or omissions made in reliance upon, and in conformity with, information furnished to the Fund in writing by or on behalf of the Distributor for use in connection with the registration statement or related prospectus and statement of additional information, as from time to time amended, or the annual or interim reports to shareholders. In case any action shall be brought against the Fund or any person so indemnified, in respect of which indemnity may be sought against the Distributor, the Distributor shall have the rights and duties given to the Fund, and the Fund and each person so indemnified shall have the rights and duties given to the Distributor by the provisions of subsection (a) of this Section 9.

Section 10. Duration and Termination of this Agreement. This Agreement  
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shall become effective as of the date first

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above written and shall remain in force until April 19, 1996 and thereafter, but only for so long as such continuance is specifically approved at least annually by (i) the Directors or by the vote of a majority of the outstanding voting securities of the Fund and (ii) by the vote of a majority of those Directors who are not parties to this Agreement or interested persons of any such party cast in person at a meeting called for the purpose of voting on such approval.

This Agreement may be terminated at any time, without the payment of any penalty, by the Directors or by vote of a majority of the outstanding voting securities of the Fund, or by the Distributor, on sixty days' written notice to the other party. This Agreement shall automatically terminate in the event of its assignment.

The terms "vote of a majority of the outstanding voting securities," "assignment," "affiliated person" and "interested person," when used in this Agreement, shall have the respective meanings specified in the Investment Company Act.

Section 11. Amendments of this Agreement. This Agreement may be amended  
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by the parties only if such amendment is specifically approved by (i) the Directors or by the vote of a majority of outstanding voting securities of the Fund and (ii) by the vote of a majority of those Directors of the Fund who are not parties to this Agreement or interested persons of any such party cast in

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person at a meeting called for the purpose of voting on such approval.

Section 12. Governing Law. The provisions of this Agreement shall be  
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construed and interpreted in accordance with the laws of the State of New York as at the time in effect and the applicable provisions of the Investment Company

Act. To the extent that the applicable law of the State of New York, or any of the provisions herein, conflict with the applicable provisions of the Investment Company Act, the latter shall control. IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

MERRILL LYNCH DEVELOPING CAPITAL  
MARKETS FUND, INC.

By /s/ Arthur Zeikel  
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Title: President

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.

By /s/ Gerald M. Richard  
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Title: Vice President

EXHIBIT A

MERRILL LYNCH DEVELOPING CAPITAL MARKETS FUND, INC.

CLASS B SHARES OF COMMON STOCK

SELECTED DEALER AGREEMENT  
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Gentlemen:

Merrill Lynch Funds Distributor, Inc. (the "Distributor") has an agreement with Merrill Lynch Developing Capital Markets Fund, Inc., a Maryland corporation (the "Fund"), pursuant to which it acts as the distributor for the sale of Class B shares of common stock, par value \$0.10 per share (herein referred to as the "Class B shares"), of the Fund and as such has the right to distribute Class B shares of the Fund for resale. The Fund is an open-end investment company registered under the Investment Company Act of 1940, as amended, and its Class B shares being offered to the public are registered under the Securities Act of 1933, as amended. You have received a copy of the Class B Shares Distribution Agreement (the "Distribution Agreement") between ourself and the Fund and reference is made herein to certain provisions of such Distribution Agreement. The terms "Prospectus" and "Statement of Additional Information" as used herein refer to the prospectus and statement of additional information, respectively, on file with the Securities and Exchange Commission which is part of the most recent effective registration statement pursuant to the Securities Act of 1933,

as amended. As principal, we offer to sell to you, as a member of the Selected Dealers Group, Class B shares of the Fund upon the following terms and conditions:

1. In all sales of these Class B shares to the public, you shall act as dealer for your own account and in no transaction shall you have any authority to act as agent for the Fund, for us or for any other member of the Selected Dealers Group.

2. Orders received from you will be accepted through us only at the public offering price applicable to each order, as set forth in the current Prospectus and Statement of Additional Information of the Fund. The procedure relating to the handling of orders shall be subject to Section 4 hereof and instructions which we or the Fund shall forward from time to time to you. All orders are subject to acceptance or rejection by the Distributor or the Fund in the sole discretion of either. The minimum initial and subsequent purchase requirements are as set forth in the current Prospectus and Statement of Additional Information of the Fund.

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3. You shall not place orders for any of the Class B shares unless you have already received purchase orders for such Class B shares at the applicable public offering prices and subject to the terms hereof and of the Distribution Agreement. You agree that you will not offer or sell any of the Class B shares except under circumstances that will result in compliance with the applicable Federal and state securities laws and that in connection with sales and offers to sell Class B shares you will furnish to each person to whom any such sale or offer is made a copy of the Prospectus and, if requested, the Statement of Additional Information (as then amended or supplemented) and will not furnish to any person any information relating to the Class B shares of the Fund which is inconsistent in any respect with the information contained in the Prospectus and Statement of Additional Information (as then amended or supplemented) or cause any advertisement to be published in any newspaper or posted in any public place without our consent and the consent of the Fund.

4. As a selected dealer, you are hereby authorized (i) to place orders directly with the Fund for Class B shares of the Fund to be resold by us to you subject to the applicable terms and conditions governing the placement of orders by us set forth in Section 3 of the Distribution Agreement and (ii) to tender Class B shares directly to the Fund or its agent for redemption subject to the applicable terms and conditions set forth in Section 4 of the Distribution Agreement.

5. You shall not withhold placing orders received from your customers so as to profit yourself as a result of such withholding: e.g., by a change in

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the "net asset value" from that used in determining the offering price to your customers.

6. No person is authorized to make any representations concerning Class B shares of the Fund except those contained in the current Prospectus and Statement of Additional Information of the Fund and in such printed information subsequently issued by us or the Fund as information supplemental to such Prospectus and Statement of Additional Information. In purchasing Class B shares through us you shall rely solely on the representations contained in the Prospectus and Statement of Additional Information and supplemental information above mentioned. Any printed information which we furnish you other than the Fund's Prospectus, Statement of Additional Information, periodic reports and proxy solicitation material is our sole responsibility and not the responsibility of the Fund, and you agree that the Fund shall have no liability or responsibility to you in these respects unless expressly assumed in connection therewith.

7. You agree to deliver to each of the purchasers making purchases from you a copy of the then current Prospectus and, if

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requested, the Statement of Additional Information at or prior to the time of offering or sale and you agree thereafter to deliver to such purchasers copies of the annual and interim reports and proxy solicitation materials of the Fund. You further agree to endeavor to obtain proxies from such purchasers. Additional copies of the Prospectus and Statement of Additional Information, annual or interim reports and proxy solicitation materials of the Fund will be supplied to you in reasonable quantities upon request.

8. We reserve the right in our discretion, without notice, to suspend sales or withdraw the offering of Class B shares entirely. Each party hereto has the right to cancel this Agreement upon notice to the other party.

9. We shall have full authority to take such action as we may deem advisable in respect of all matters pertaining to the continuous offering. We shall be under no liability to you except for lack of good faith and for obligations expressly assumed by us herein. Nothing contained in this paragraph is intended to operate as, and the provisions of this paragraph shall not in any way whatsoever constitute, a waiver by you of compliance with any provision of the Securities Act of 1933, as amended, or of the rules and regulations of the Securities and Exchange Commission issued thereunder.

10. You represent that you are a member of the National Association of Securities Dealers, Inc. and, with respect to any sales in the United States, we both hereby agree to abide by the Rules of Fair Practice of such Association.

11. Upon application to us, we will inform you as to the states in which we believe the Class B shares have been qualified for sale under, or are exempt from the requirements of, the respective securities laws of such states, but we assume no responsibility or obligation as to your right to sell Class B shares in any jurisdiction. We will file with the Department of State in New York a Further State Notice with respect to the Class B shares, if necessary.

12. All communications to us should be sent to the address below. Any notice to you shall be duly given if mailed or telegraphed to you at the address specified by you below.

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13. Your first order placed pursuant to this Agreement for the purchase of Class B shares of the Fund will represent your acceptance of this Agreement.

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.

By /s/ Gerald M. Richard

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(Authorized Signature)

Please return one signed copy  
of this Agreement to:

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.  
Box 9011  
Princeton, New Jersey 08543-9011

Accepted:

Firm Name: Merrill, Lynch, Pierce, Fenner & Smith Incorporated  
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By: /s/ Arthur Zeikel, Executive Vice President  
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Address: 800 Scudders Mill Road  
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Plainsboro, NJ 08536  
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Date: April 19, 1994  
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INDEPENDENT AUDITORS' CONSENT

Merrill Lynch Developing Capital Markets Fund, Inc.:

We consent to the use in Post-Effective Amendment No. 7 to Registration Statement No. 33-28248 of our report dated July 30, 1993 appearing in the Statement of Additional Information, which is a part of such Registration Statement, and to the reference to us under the caption "Consolidated Financial Highlights" appearing in the Prospectus, which also is a part of such Registration Statement.

Deloitte & Touche  
Princeton, New Jersey

May 10, 1994

## CLASS B DISTRIBUTION PLAN

OF

MERRILL LYNCH DEVELOPING CAPITAL MARKETS FUND, INC.

PURSUANT TO RULE 12b-1

DISTRIBUTION PLAN made as of the 19th day of April 1994, by and between Merrill Lynch Developing Capital Markets Fund, Inc., a Maryland corporation (the "Fund"), and Merrill Lynch Funds Distributor, Inc., a Delaware corporation ("MLFD").

W I T N E S S E T H :

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WHEREAS, the Fund engages in business as an open-end investment company registered under the Investment Company Act of 1940, as amended (the "Investment Company Act"); and

WHEREAS, MLFD is a securities firm engaged in the business of selling shares of investment companies either directly to purchasers or through other securities dealers; and

WHEREAS, the Fund proposes to enter into a Class B Shares Distribution Agreement with MLFD, pursuant to which MLFD will act as the exclusive distributor and representative of the Fund in the offer and sale of Class B shares of common stock, par value \$0.10 per share (the "Class B shares"), of the Fund to the public; and

WHEREAS, the Fund desires to adopt this Class B Distribution Plan (the "Plan") pursuant to Rule 12b-1 under the Investment Company Act, pursuant to which the Fund will pay an account maintenance fee and a distribution fee to MLFD with respect to the Fund's Class B shares; and

WHEREAS, the Directors of the Fund have determined that there is a reasonable likelihood that adoption of the Plan will benefit the Fund and its shareholders.

NOW, THEREFORE, the Fund hereby adopts, and MLFD hereby agrees to the terms of, the Plan in accordance with Rule 12b-1 under the Investment Company Act on the following terms and conditions:

1. The Fund shall pay MLFD an account maintenance fee under the Plan at the end of each month at the annual rate of 0.25% of average daily net assets of

the Fund relating to Class B shares to compensate MLFD and securities firms with which MLFD enters into related agreements pursuant to Paragraph 3 hereof ("Sub-Agreements") for account maintenance activities with respect to Class B shareholders of the Fund.

2. The Fund shall pay MLFD a distribution fee under the Plan at the end of each month at the annual rate of 0.75% of average daily net assets of the Fund relating to Class B shares to compensate MLFD and securities firms with which MLFD enters into related Sub-Agreements for providing sales and promotional activities and services. Such activities and services will relate to the sale, promotion and marketing of the Class B shares of the Fund. Such expenditures may consist of sales commissions to financial consultants for selling Class B shares of the Fund, compensation, sales incentives and payments to sales and marketing personnel, and the payment of expenses incurred in its sales and promotional activities, including advertising expenditures related to the Fund and the costs of preparing and distributing promotional materials. The distribution fee may also be used to pay the financing costs of carrying the unreimbursed expenditures described in this Paragraph 2. Payment of the distribution fee described in this Paragraph 2 shall be subject to any limitations set forth in any applicable regulation of the National Association of Securities Dealers, Inc.

3. The Fund hereby authorizes MLFD to enter into Sub-Agreements with certain securities firms ("Securities Firms"), including Merrill Lynch, Pierce, Fenner & Smith Incorporated, to provide compensation to such Securities Firms for activities and services of the type referred to in Paragraphs 1 and 2 hereof. MLFD may reallocate all or a portion of its account maintenance fee or distribution fee to such Securities Firms as compensation for the above-mentioned activities and services. Such Sub-Agreement shall provide that the Securities Firms shall provide MLFD with such information as is reasonably necessary to permit MLFD to comply with the reporting requirements set forth in Paragraph 4 hereof.

4. MLFD shall provide the Fund for review by the Board of Directors, and the Directors shall review, at least quarterly, a written report complying with the requirements of Rule 12b-1 regarding the disbursement of the account maintenance fee and the distribution fee during such period.

5. This Plan shall not take effect until it has been approved by a vote of at least a majority, as defined in the Investment Company Act, of the outstanding Class B voting securities of the Fund.

6. This Plan shall not take effect until it has been approved, together with any related agreements, by votes of a majority of both (a) the Directors of the Fund and (b) those

in the Investment Company Act, and have no direct or indirect financial interest in the operation of this Plan or any agreements related to it (the "Rule 12b-1 Directors"), cast in person at a meeting or meetings called for the purpose of voting on the Plan and such related agreements.

7. The Plan shall continue in effect for so long as such continuance is specifically approved at least annually in the manner provided for approval of the Plan in Paragraph 6.

8. The Plan may be terminated at any time by vote of a majority of the Rule 12b-1 Directors, or by vote of a majority of the outstanding Class B voting securities of the Fund.

9. The Plan may not be amended to increase materially the rate of payments provided for herein unless such amendment is approved by at least a majority, as defined in the Investment Company Act, of the outstanding Class B voting securities of the Fund, and by the Directors of the Fund in the manner provided for in Paragraph 6 hereof, and no material amendment to the Plan shall be made unless approved in the manner provided for approval and annual renewal in Paragraph 6 hereof.

10. While the Plan is in effect, the selection and nomination of Directors who are not interested persons, as defined in the Investment Company Act, of the Fund shall be committed to the discretion of the Directors who are not interested persons.

11. The Fund shall preserve copies of the Plan and any related agreements and all reports made pursuant to Paragraph 4 hereof, for a period of not less than six years from the date of the Plan, or the agreements or such report, as the case may be, the first two years in an easily accessible place.

IN WITNESS WHEREOF, the parties hereto have executed this Distribution Plan as of the date first above written.

MERRILL LYNCH DEVELOPING CAPITAL MARKETS  
FUND, INC.

By /s/ Arthur Zeikel

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Title: President

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.

By /s/ Gerald M. Richard

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Title: Vice President

CLASS B SHARES DISTRIBUTION PLAN SUB-AGREEMENT

AGREEMENT made as of the 19th day of April 1994, by and between Merrill Lynch Funds Distributor, Inc., a Delaware corporation ("MLFD"), and Merrill Lynch, Pierce, Fenner & Smith Incorporated, a Delaware corporation ("Securities Firm").

W I T N E S S E T H :

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WHEREAS, MLFD has entered into an agreement with Merrill Lynch Developing Capital Markets Fund, Inc., a Maryland corporation (the "Fund"), pursuant to which it acts as the exclusive distributor for the sale of Class B shares of common stock, par value \$0.10 per share (the "Class B shares"), of the Fund; and

WHEREAS, MLFD and the Fund have entered into a Class B Shares Distribution Plan (the "Plan") pursuant to Rule 12b-1 under the Investment Company Act of 1940, as amended (the "Act"), pursuant to which MLFD receives an account maintenance fee from the Fund at the annual rate of 0.25% of average daily net assets of the Fund relating to Class B shares for account maintenance activities related to Class B shares of the Fund and a distribution fee from the Fund at the annual rate of 0.75% of average daily net assets of the Fund relating to Class B shares for providing sales and promotional activities and services related to the distribution of Class B shares; and

WHEREAS, MLFD desires the Securities Firm to perform certain account maintenance activities and sales and promotional activities and services for the Fund's Class B shareholders and the Securities Firm is willing to perform such activities and services;

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the parties hereby agree as follows:

1. The Securities Firm shall provide account maintenance activities with respect to the Class B shares of the Fund of the types referred to in Paragraph 1 of the Plan.

2. The Securities Firm shall provide sales and promotional activities and services with respect to the sale of the Class B shares of the Fund, and incur distribution expenditures, of the types referred to in Paragraph 2 of the Plan.

3. As compensation for its activities and services performed under this Agreement, MLFD shall pay the Securities Firm an account maintenance fee and a distribution fee at the end

of each calendar month in an amount agreed upon by the parties hereto.

4. The Securities Firm shall provide MLFD, at least quarterly, such information as reasonably requested by MLFD to enable MLFD to comply with the reporting requirements of Rule 12b-1 regarding the disbursement of the account maintenance fee and the distribution fee during such period referred to in Paragraph 4 of the Plan.

5. This Agreement shall not take effect until it has been approved by votes of a majority of both (a) the Directors of the Fund and (b) those Directors of the Fund who are not "interested persons" of the Fund, as defined in the Act, and have no direct or indirect financial interest in the operation of the Plan, this Agreement or any agreements related to the Plan or this Agreement (the "Rule 12b-1 Directors"), cast in person at a meeting or meetings called for the purpose of voting on this Agreement.

6. This Agreement shall continue in effect for as long as such continuance is specifically approved at least annually in the manner provided for approval of the Plan in Paragraph 6.

7. This Agreement shall automatically terminate in the event of its assignment or in the event of the termination of the Plan or any amendment to the Plan that requires such termination.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the date first above written.

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.

By /s/ Gerald M. Richard

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Title: Vice President

MERRILL LYNCH, PIERCE, FENNER & SMITH  
INCORPORATED

By /s/ Arthur Zeikel

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Title: Executive Vice President