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Directors' profiles

John McDonald Green-Armytage (Chairman)
Joined N M Rothschild & Sons in 1970 and became an executive director in 1977. From 1982 to 1988 he was managing director of The Guthrie Corporation plc and later chief executive of Kelt Energy plc and of William Baird plc. He is chairman of JZ International Limited, MCIT plc and a non-executive director of AMEC plc, the AIM Trust plc and REA Holdings plc.

Donald Cecil (Deputy Chairman)
Co-founder in 1970 of Cumberland Associates, a private investment management firm, and managing partner until 1982. He is chairman of the Director Services Committee of the Investment Company Institute in Washington DC, a director of various Merrill Lynch Mutual Funds, chairman of the Biotechnology Investments Limited Valuation Advisory Board and a member of the Institute of Chartered Financial Analysts. Previously he was president of the Shearson Hammill Asset Management Company and a non-executive director of a number of public and private companies.

Gary Michael Brass
A managing director of Consulta Limited, a private investment advisory company, and a non-executive director of MCIT plc and a number of other companies. He is a Chartered Accountant and was formerly with KPMG and J Henry Schroder & Co Limited.

Peter Barrie Collacott
Since 1991 a managing director with responsibility for operations and development of Rothschilds' and its affiliates' collective investment schemes. He is a Chartered Accountant with over 18 years' experience within the Rothschild Group.

Jeremy Laurence Curnock Cook
Founder of International Biochemicals Group in 1975 which he subsequently sold to Royal Dutch Shell Group in 1985, remaining as managing director until 1987 when he joined Rothschilds. He has an MA in natural sciences (microbiology) from Trinity College, Dublin. He is a director of Rothschilds and a non-executive director of the following IBT investee companies: Cell Therapeutics Inc, Ribozyme Pharmaceuticals Inc, SUGEN Inc, Targeted Genetics Corporation and Biocompatibles International plc, of which he is chairman. He is also a non-executive director of a number of other US and international biotechnology companies.

Stephen Andrew Duzan
Chairman and chief executive of Key Computer Systems Inc, a Seattle-based provider of services for the vision care industry. Founder and retired chairman and chief executive of Immunex Corporation, a biopharmaceutical company. He is former chairman of the Board of the Industrial Biotechnology Association, the principal trade association of the biotechnology industry. He is also a non-executive director of Targeted Genetics Corporation (an IBT investee company) and Ergo Science Corporation.

James Deneale Grant
Chairman and former chief executive officer of T Cell Sciences Inc, of Cambridge, Massachusetts. He was vice-president of CPC International Inc from 1972 to 1986. He also served as deputy commissioner of the FDA in Washington DC from 1969 to 1972 and was vice-chairman of the Advisory Committee on the FDA (the 'Edwards Committee') from 1990 to 1991. He is a non-executive director of Targeted Genetics Corporation and Biocompatibles International plc (both IBT investee companies).

Howard Edward Greene
Founder and chairman of Amylin Pharmaceuticals Inc. He was chief executive officer of Hybritech Incorporated until its acquisition by Eli Lilly & Company in 1986, and he was a general partner of Biovet Partners, a US venture capital firm specialising in medical technology companies. He is chairman of Cytel Corporation (an IBT investee company) and a director of Allergan Inc, Neurex Corporation and Biosite Diagnostics Inc.

Dennis Michael John Turner
Founder, chief executive officer and a director of both Pharmaceutical Marketing Services Inc and Source Informatics Inc, both companies providing healthcare information services. He is chairman of Walsh International Inc and a non-executive director of a number of other companies.

(All Directors are non-executive Directors)

The year under review

Dear Shareholder

In my statement last year I was able to inform you of the new investments being made by your Company, in a sector experiencing volatile market conditions. The biotechnology sector in 1997 has been no more predictable, with a complex combination of factors driving the market. This year I will comment on what the Board believes the forces are which affect the performance of both the NAV and equity value of IBT, and put into context the factors which are currently influencing the sector.

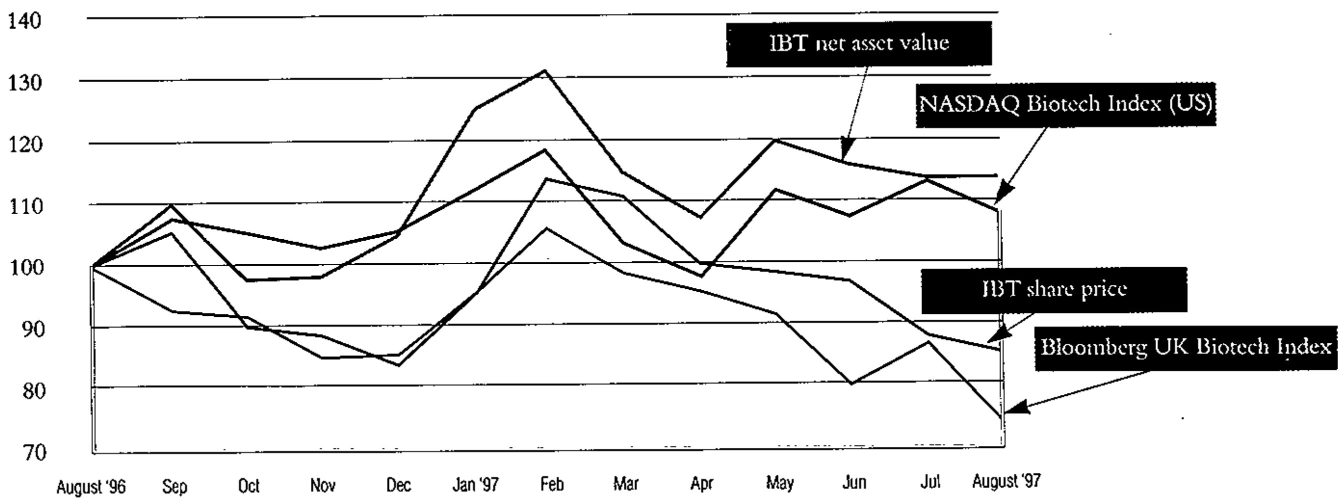
Capital Raising

With the investments in Core Group and Biocompatibles, two UK companies, and Cubist, a US company, the existing fund was nearing full investment. The long term outlook for the sector was, and remains, positive, and your Board decided to increase the capital base of the Company through a Placing and Offer of 'C' shares in June 1997 which raised £19.4 million. These funds will allow your Company to take advantage of investment opportunities in companies involved in a range of therapeutic areas, enabling us to continue to build a balanced portfolio. Using the proceeds of the 'C' share issue, your Company made its first investment of US$5 million in MorphoSys, a German company, thereby beginning to gain access to opportunities arising within the biotechnology sector in Europe.

Performance Indicators

The net asset value per share of your company, assuming a notional conversion of 'C' shares to Ordinary shares, has increased from 112.0 pence to 127.17 pence per share, an increase of 13.5%. The underlying equity investments, including unquoted companies, have achieved a weighted rate of return over the year of 23.5%. When the value of unquoted investments is excluded, the weighted return achieved on quoted investments has been 28.4%. In comparison, the NASDAQ Biotech Index and the AMEX Biotech Index increased over the year by 9.4% and 18.5% respectively. The IBT share price has, however, fallen by 14.5% during the same period, with the consequence that the Ordinary shares are trading at a discount to NAV. Several factors have contributed to this situation. The performance of the biotechnology sector improved towards the end of the first quarter of 1997, when the value of both IBT stock and the NASDAQ biotech index reached their respective peaks for the year. Since then the sector has experienced a downturn, particularly compared to the performance of the

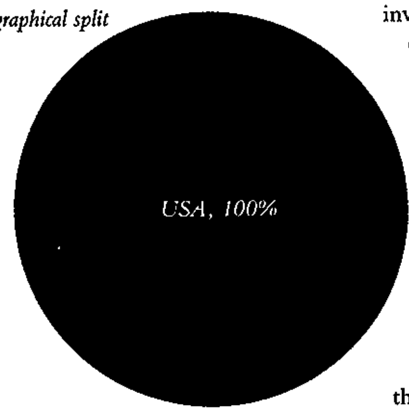
August '96 to August '97 index of IBT net asset value, NASDAQ Biotech Index, IBT share price, Bloomberg UK Biotech Index



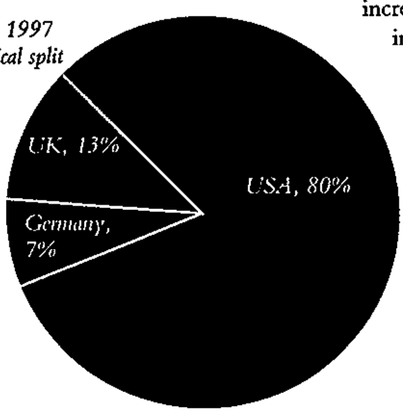
pharmaceutical industry. The biotechnology sector in the UK lost approximately 25% of its value over the year, and a number of biotechnology companies have reported disappointing study results, affecting confidence in the sector. The volatility of the sector has been illustrated by the rapid rise and subsequent reduction, after the Company's year end, in the value of Biocompatibles, one of your Company's core investments. At the same time, however, appreciation in the rest of the portfolio since the year end has more than made up for the fall in the value of the Biocompatibles holding, which further illustrates the swings and roundabouts which characterise this particular area of the market. In addition, smaller businesses seem to have been overlooked by investors during recent months, and investment trusts in particular have performed poorly relative to general market indices. Conditions have tended to favour mature businesses with products on the market, including established pharmaceuticals and consumer product companies. Your Board believes that the current investment climate has caused the quoted small business and biotechnology sectors to be undervalued.

A number of positive factors are emerging in the sector. For example, there were 55 new approvals of biotechnology products by the FDA in 1996 compared to an average of 26 per annum over the previous five years. More approvals are anticipated over the next 12 months, reflecting the increasing importance of the sector in delivering new products to the market. The pharmaceutical industry has been deploying increasing levels of its cash in the biotechnology industry. The global biotechnology industry continues to mature, with the introduction of a number of significant products, including new treatments for multiple sclerosis. Significantly, the European biotechnology community is reaching the critical mass previously only apparent in the US, with the biotechnology industry, services and academic research increasing in terms of volume and collaborations. France and Germany are now home to a number of emerging biopharmaceutical companies. As I have already mentioned, your Company made its first investment in Germany during 1997, committing US$5 million as the lead investor in a private financing round for MorphoSys, based in Munich.

Year end 1996 geographical split



Year end 1997 geographical split



Highlights of the Year

Good progress was made during the year in expanding our portfolio of investee companies. Total new investments of £14.8 million were made in four new core companies during the year, comprising £12.0 million from the Ordinary share funds in three companies and £2.8 million from the 'C' share funds in one company. This brings the overall number of investments to 15 at the year end. In addition, follow-on investments amounting to £9.7 million were made in four of the core companies already in the portfolio. A fuller description of all of these investments is outlined in the Manager's review section.

During the year, your Company made its first divestment, SangStat Medical Corporation, which illustrated the potential returns which are possible in the sector. In March 1996, IBT invested US$6.7 million (£4.4 million) in a US$48.3 million public offering by SangStat. SangStat achieved important milestones which enhanced the value of IBT's investment, and as a result the Managers felt it was an appropriate time to divest our position in the company. We therefore sold our holding, in January 1997, receiving gross proceeds of US$14.8 million (£8.8 million). This represented a gain of 102 per cent on the investment, creating a profit of just over US$8.1 million (£4.4 million) on the original investment.

Investment Strategy and Management

The maturation of the European biotechnology sector, led by companies in the UK, Germany and France, has led to an increase in the number of European investment opportunities which fit IBT's investment criteria. The European sector remains less advanced than that in the US, and we therefore anticipate that some of the new investment activities will involve unquoted companies.

The year under review (continued)

This is reflected by the European investments made during this financial year, which were Core Group, MorphoSys, and Biocompatibles International. Of these, Morphosys is unquoted.

A central aspect of IBT's investment and management strategy is to support, as appropriate, the continuing financing of existing investments, as demonstrated by the four follow-on investments made during this year. We anticipate providing further finance to some core investments in the forthcoming year.

Your Board continues to believe that the best long-term returns are likely to come from capital appreciation, and that the present investment portfolio provides excellent potential for growth. Whilst past performance is not an indication of the future, biotechnology companies, when successful, have demonstrated increases in value which have been associated with the achievement of milestones which are standard across the industry. From a general management perspective, the process of moving a company from the seed capital stage, through mezzanine financing, flotation and beyond, is associated with a concomitant increase in the company's value. IBT has supported this process with its investee companies this year through the initial placement of capital, the continuing provision of strategic management expertise, and further financing through secondary offerings.

Portfolio Growth Potential

The biotechnology and life science companies in the IBT portfolio are creating value through the development and exploitation of innovative technology and are expected to generate increases in shareholder value as they progress through the three key phases of drug development* and then to marketing. 1997 has been a positive year for drug development. Ribozymes (Ribozyme Pharmaceuticals Inc) for the treatment of HIV entered Phase I studies, Anervax (Anergen Inc) for the treatment of rheumatoid arthritis moved into Phase II studies, and Lisofylline (Cell Therapeutics Inc) for use during bone marrow transplantation progressed to Phase III trials. Biocompatibles successfully brought their Proclear™ contact lenses to the market in the UK and US, whilst LocalMed had their InfusaSleeve™ drug delivery catheter system approved for marketing in Japan.

Collaborations with established pharmaceutical companies are an important endorsement of technology platforms and development compounds, and are also associated with increases in shareholder value. A listing of collaborators who are working with companies in the IBT portfolio is included in the Manager's review.

Revenue and Dividends

Your Company's policy remains to pay out by way of dividend only those earnings available for distribution. It remains the view of your Directors that the best long term returns are likely to come from capital appreciation of assets. For the year under review, therefore, the Board proposes not to pay a dividend.

Summary

In summary, your Board of Directors believes that the current volatility in the sector will pass as more companies bring products to the market and realise their potential. IBT remains in a strong position to deliver growth in the long term, and we are confident that the investment strategy is providing the Company with a unique portfolio of investee companies characterised by robust finances and strong management which are well placed to provide for the un-met clinical needs of modern medicine.

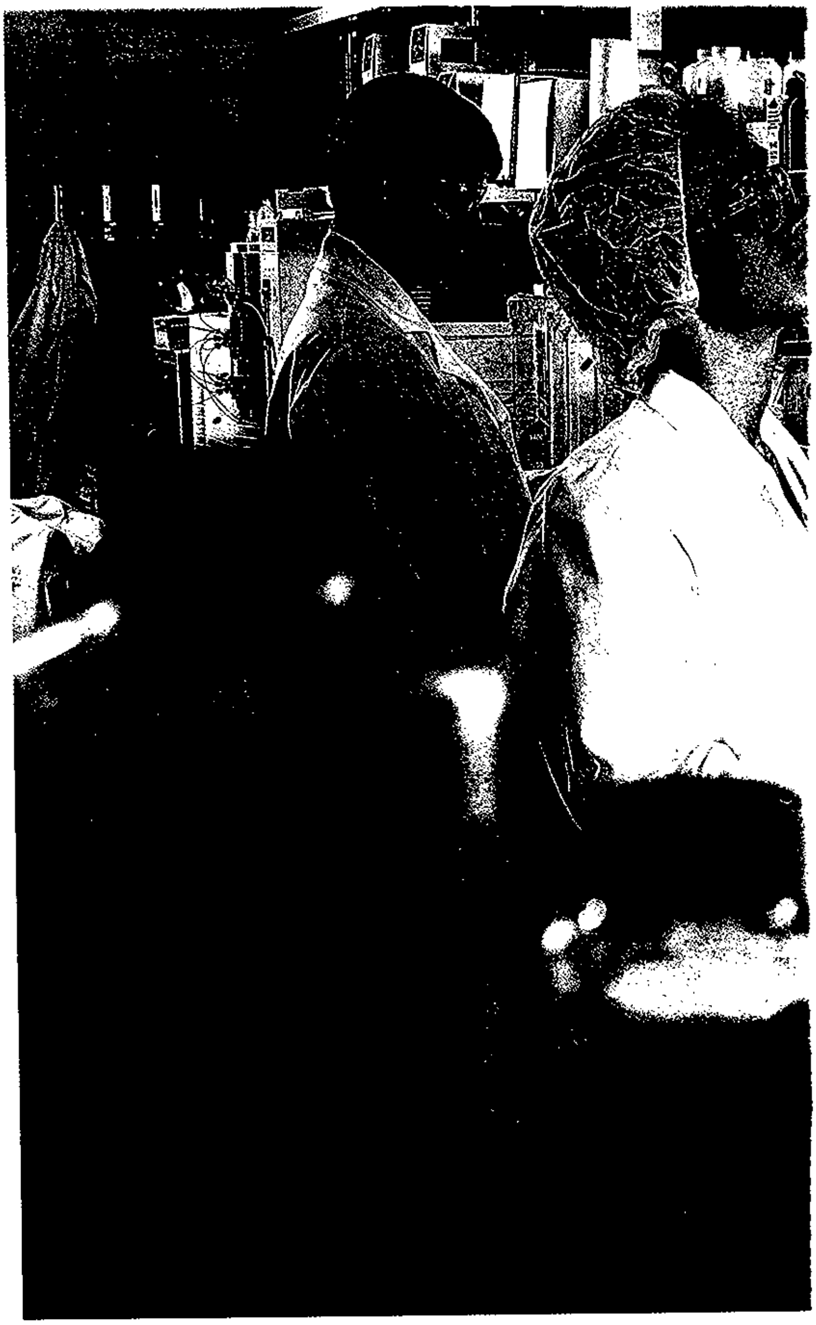
Annual General Meeting

The Annual General Meeting will be held at Carpenters' Hall, Carpenters' Company, Throgmorton Avenue, London EC2N 2JJ on Wednesday 19 November at 9.30am.

John Green-Armytage
17 October 1997

** Phase I, when the drug is first tested in man; Phase II, when the dose defining studies take place; and Phase III, where full scale efficacy and safety studies to support licence applications take place.*


Manager's review



Manager's review

Investment Policy

The investment policy of International Biotechnology Trust plc (IBT) is to invest in life science companies which are under-funded or under-managed but which have products that are already in clinical development and/or appear to have good prospects of commercialisation or have a broad-based platform technology with wide application. Using this criteria, our investment team focuses on companies which have recently listed on a stock exchange or which are approaching flotation within a year or so.

IBT, through its portfolio companies, has invested in a broad range of therapy areas (see table, *Summary of research programmes*). To date, the focus of our investments has included areas such as oncology, cardiology and anti-infectives. The table, *Development focus: Oncology, Cardiology and Anti-infectives* details the depth of opportunity in these key therapy areas. IBT has therefore been able to build a balanced portfolio of companies developing a range of innovative therapeutics. This approach is aimed at minimising the risk of investing in biotech, and is carefully managed by our specialist Rothschild Bioscience Unit, who have worldwide experience in identifying and advising on investing in life science companies with above average potential.

Investments

In the year under review, IBT made investments in four companies, bringing the number of core investments to fifteen. In the first half of the year, we made our first investments in two UK companies, Core Group and Biocompatibles and these were followed by US-based Cubist Pharmaceuticals and MorphoSys, a German company, in the second half. Each of these companies was chosen because it was under-funded and would benefit from strategic support from IBT and Rothschild Bioscience Unit.

These particular investments are also an example of IBT's broad therapeutic portfolio approach, covering drug delivery, cardiology and anti-infectives, as outlined in more detail below.

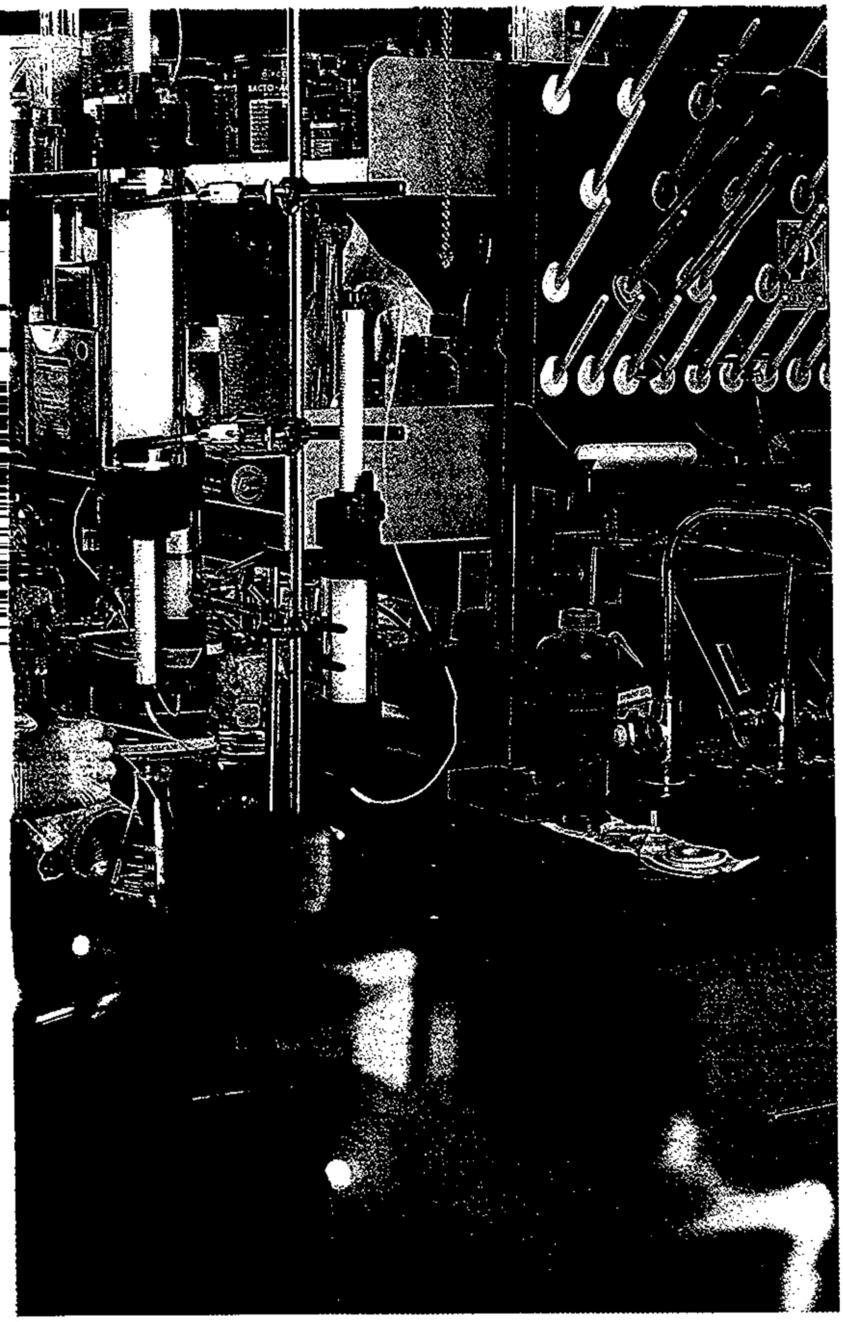
In addition, IBT made four follow-on investments in core companies over the year: the total investment in Cadus Pharmaceutical increased by US$0.3 million, a further US$2.5 million was invested in Cell Therapeutics' public offering following our second round investment of US$5.1 million, an additional US$4 million was invested in PathoGenesis and a follow-on investment of US$3.6 million was made in SUGEN.

Summary of research programmes

Therapy area	*Number of trials*
Anaesthetics/pain	1
Anti-infectives	9
Cardiology	6
Dermatology	2
Drug delivery	4
Haematology	3
Musculo skeletal	1
Neurology	1
Oncology	17
Opthalmology	2
Respiratory	1

Divestments

During the year, SangStat Medical, achieved several important regulatory and clinical milestones, which significantly enhanced IBT's investment. After reviewing



US-based Medarex is developing therapeutics aimed at assisting the body's natural immune system to fight disease

Development focus: Oncology, Cardiology and Anti-infectives			
Therapy area	***Company***	***Product***	***Development stage***
Oncology	Cell Therapeutics Inc	CT-2584	I
		Lisofylline*	III
	Cytel Corp	Theradigm-HPV	I/II
	Medarex Inc	MDX-11	II
		MDX-22	II
		MDX-210*	II
		MDX447	I/II
	SUGEN Inc	SU101*	II
	Targeted Genetics Corp	tgDCC-E1A*	I
Cardiology	Biocompatibles Int'l plc	PC coated stent	marketing
	Corvas International Inc	NAPc2	I
		Corsevin M	I/II
		CVS-1123	I
	LocalMed Inc	Infusleeve	marketing
		Stentasleeve	marketing
Anti-infectives	Cytel Corp	Theradigm HBV	II
		Theradigm HIV	I/II
	Medarex Inc	MDX-240	I/II
	PathoGenesis Corp	PA-1648	II
		TOBI*	NDA filing
	Ribozyme Pharmaceuticals		I/II
	Targeted Genetics Corp	Targeted CTLs	I

** multiple trials, most advanced programme shown*

IBT's core investments	*Value £000*	*Book cost £000*	*% of investee company's capital owned*
Anergen Inc	3,713	3,136	13.0
Biocompatibles International plc	9,376	4,414	1.1
Cadus Pharmaceutical Corporation	6,551	3,815	6.8
Cell Therapeutics Inc	10,991	9,472	10.4
Core Group plc	4,089	3,500	11.5
Corvas International Inc	4,208	4,628	10.1
Cubist Pharmaceuticals Inc	3,786	4,068	10.6
Cytel Corporation	1,590	3,258	6.6
LocalMed Inc	1,850	1,952	7.9
Medarex Inc	2,891	3,168	5.4
MorphoSys GmbH	2,954	2,809	9.8
PathoGenesis Corporation	9,640	5,938	3.0
Ribozyme Pharmaceuticals Inc	4,150	4,456	10.3
SUGEN Inc	6,416	4,849	5.6
Targeted Genetics Corporation	3,744	3,478	7.2

the progression of the company, the Manager of IBT decided that the impact of IBT's involvement had been fully maximised and it was therefore appropriate for IBT to divest itself of its holding in SangStat. IBT therefore sold its entire holding, making a 102 per cent gain on the investment, amounting to profits of over £4.4 million on the original investment of £4.4 million.

Fundraising

In June this year, IBT raised over £19 million of new funds via a Placing and Offer of 'C' shares in order to expand its investment portfolio, in particular to take advantage of the emerging opportunities identified in Europe within the biotechnology sector. MorphoSys represented the first investment made using the 'C' share proceeds.

The table shown above (*IBT's core investments*) lists the 15 core investments held by IBT as at 31 August 1997, showing the carrying value, cost and proportion of the investee company's capital owned.

Manager's review (continued)

Overview of IBT's Lead Development Programmes

Company	Product	Pre-clinical	Phase I	Phase II	Phase III	Marketing
		Product and development stage at October 1997				
Biocompatibles International*	*Diviysio coronary stent*					
LocalMed*	*InfusaSleeve*					
Cell Therapeutics	*Lisofylline*					
Core Group	*Morphine RDS*					
PathoGenesis	*TOBI*					
Anergen	*Anervax*					
Cytel	*Cylexin*					
Medarex	*MDX-RA*					
SUGEN	*SU101*					
Targeted Genetics	*tgAAV-CFTR*					
Corvas International	*NAPc2*					
Ribozyme Pharmaceuticals	*L-TR/TAT-neo*					
Cadus						
Cubist						
MorphoSys						

** Clinical trials for these companies are those relating to the approval of devices*

An overview of the lead products in the IBT investment portfolio

The investee companies which comprise the core investments for International Biotechnology Trust each have key areas of research which underpin the development of their lead compounds. The table above, *Overview of IBT's Lead Development Programmes,* details the development programmes which the companies believe to represent their most important opportunities, based on assessment criteria which will include market potential and the competitive benefits of the new technologies or compounds. This table represents a small proportion of the overall portfolio, which has over forty separate trials in progress.

The lead products featured in *Overview of IBT's Lead Development Programmes* are representative of the balanced investment strategy undertaken by IBT. The estimated schedules for development of technologies through each key research phase indicates a long term stream of new products which, if successful, are expected to add significant value to their respective companies. Importantly, medical devices and drug delivery systems have shorter lead development times, allowing swifter commercialisation. Several of IBTs investments are therefore now either marketed or registered with regulatory authorities and pending approval. Notable examples include the innovative drug delivery system for morphine being developed by Core Group, the biocompatible coatings for stents and contact lenses developed by Biocompatibles, and the InfusaSleeve technology which represents LocalMed's lead product.
We will be communicating news relating to all the important development programmes during the course of

Summary of development collaborators

Abbott Laboratories	Chiron Corporation	Novartis AG	Schering-Plough
Allergan	DowElanco	Organon (NV)	Schwarz Pharma
ALZA Corporation	Hoechst Marion Roussel	Ortho Diagnostic Systems Inc	SmithKline Beecham
ASTA Medica	IntelliGene Corp	Pfizer Inc	Solvay Duphar
Boehringer Mannheim Diagnostics	Johnson & Johnson	Pharma Biotech AB	Sumitomo Pharmaceuticals
Bristol Myers Squibb	Merck	Pharmacia & Upjohn	Warner Lambert Company
Centeon LLP	Merck KGaA	Protogene Laboratories	Zeneca
Centocor Inc	Nextran	Schering AG	

the year. Our investee companies have established valuable links with a broad range of collaborators in the pharmaceutical industry, each collaboration reflecting a strong endorsement of the technology platforms within the portfolio.

There follows a short review on each of IBT's investee companies demonstrating the Trust's strategic portfolio approach, reflected by therapeutic focus.

New investments for the year under review

IBT has made four new investments during the year.

Biocompatibles International plc

In December 1996, IBT purchased £3.8 million of Biocompatibles' shares and subscribed £0.6 million in the subsequent rights issue.

Biocompatibles is a UK-based medical equipment company. The company has developed a coating which is compatible with human tissue thereby minimising the risk of rejection of surgical implants, including the replacement of lenses in the eye and devices, called stents, which are used to keep open blocked arteries surrounding the heart. The two principal areas of interest are in the eyecare market and in the angioplasty/cardiovascular area. The company has launched its Proclear™ daily wear and Proclear Compatibles™ frequent replacement lenses in the UK and the US. Its PC-coated cardiovascular stent has also been launched in France, Sweden, Norway, Austria and Italy. Clinical trial results for the PC-coated stent presented at the European Cardiology Congress in September were encouraging, indicating a low level of thrombosis and restenosis in the first 80 patients to be treated. Biocompatibles has collaborative arrangements with a number of companies.

Core Group plc

IBT invested £2 million as the major investor in Core's £6.9 million private placing in September 1996 and a further £1.5 million at the company's successful flotation in February 1997.

Core Group specialises in drug delivery products. It has a growing portfolio of enabling drug delivery technology for the controlled, sustained release of drugs for a range of clinical applications and routes of administration. The company's strategy is to combine these technologies with proven drug substances to develop unique products with enhanced therapeutic and commercial value. Typically its products are targeted at applications poorly addressed by the current medications.

The Group's expanding range of proprietary products will be out-licensed for distribution through established marketing partners. Core will also exploit opportunities for delivering new drugs through development partnerships with drug discovery companies.

Cubist Pharmaceuticals Inc.

In July 1997, IBT invested US$5 million, as the lead investor in a US$6 million funding in Cubist.

Cubist is a biopharmaceutical company, based in Cambridge (US), focused on the research, development and commercialisation of anti-infective drugs to treat infectious diseases caused primarily by drug resistant bacteria and fungi. Cubist's strategy is to use novel intracellular targets essential for pathogen growth and reproduction developing proprietary biological screening assays to rapidly identify and develop entirely new classes of anti-infective drugs that would be effective against today's drug resistant pathogens.

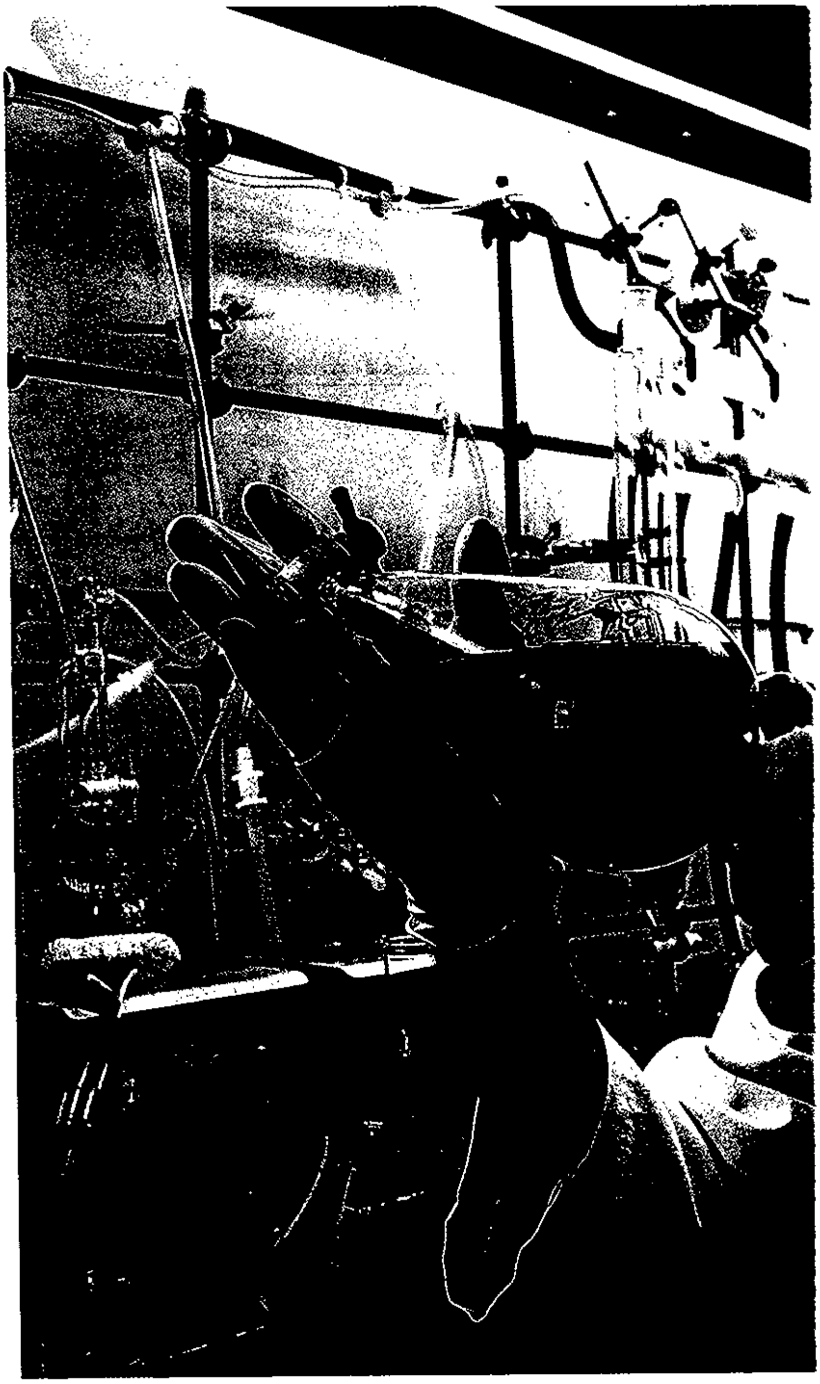
Cubist has corporate alliances which include Bristol-Myers Squibb and Merck. The company also has collaborations with biotechnology companies with unique compound libraries including ArQule, Genzyme and Pharmacopeia.

MorphoSys GmbH

IBT invested US$5 million, using the proceeds of the recent second 'C' share issue, in a US$11.5 million private placement for MorphoSys, in July 1997.

MorphoSys, the German biotech company, is developing and commercialising technologies which allow accelerated discovery of protein and peptide therapeutics, and the identification of new targets for therapeutic intervention. The company's initial therapeutic focus is in cancer and is based on a major collaboration with the University of Munich and Micromet GmbH. There are also development programmes and collaborations with academic groups in the area of infectious disease and neurobiology.

The company has a collaborative agreement with Pharmacia & Upjohn and recently completed a collaboration with Boehringer Mannheim Diagnostics.



Manager's review
(continued)

Investments which have been in the portfolio for more than one year

IBT's previous investments continue to report steady progression through their development milestones.

Anergen, Inc.

In April 1995, IBT was a lead investor in Anergen, providing US$5 million of a US$15 million financing round.

Anergen is a biotechnology company leveraging multiple technology platforms to develop treatments for major autoimmune diseases, including multiple sclerosis, Type I diabetes, rheumatoid arthritis and myasthenia gravis. The company's first clinical drug candidate, AnervaX™-RA for the potential treatment of rheumatoid arthritis, is currently in Phase II trials. Phase I clinical studies are underway in multiple sclerosis with Anergen's second proprietary technology, AnergiX™.

Anergen has major partnerships with Novo Nordisk A/S and NV Organon and is closely affiliated with the research committee at Stanford University. The research and management team is the most experienced in the sector.

Cadus Pharmaceutical Corporation

IBT invested US$5.6 million in Cadus' US$19.25 million public offering in July 1996 and an additional US$0.3 million in November 1996.

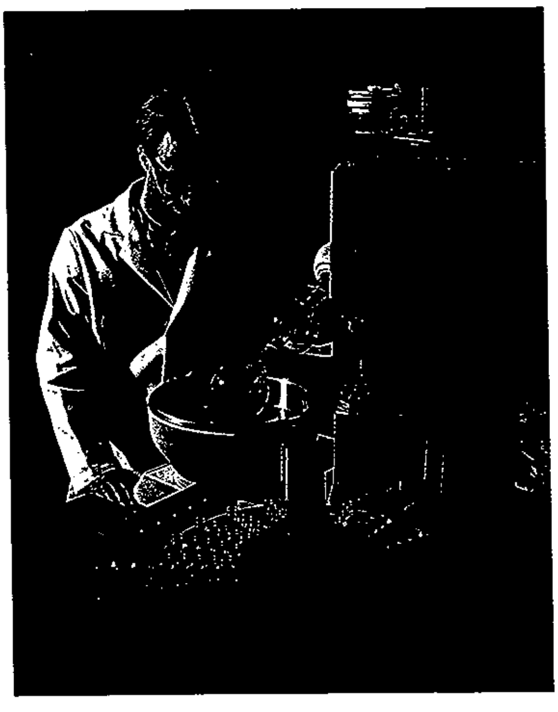
Cadus is a US-based company headquartered in Tarrytown, New York. The company is engaged in the discovery of novel small molecule therapeutics which act on cell surface receptors and cell signalling pathways. It is anticipated that this technology will have application in a wide range of diseases.

Cadus has significant collaborations with Bristol-Myers Squibb, Solvay Duphar and SmithKline Beecham to develop applications of its G protein-coupled receptors. The company also has a collaborative arrangement with Trega Biosciences (formerly Houghten Pharmaceuticals).

Cell Therapeutics Inc.

Cell Therapeutics (CTI), the Seattle-based biopharmaceutical company, raised US$32 million in a financing round led by a US$7.5 million investment from IBT in March 1995, with an additional US$5 million invested by IBT in September 1996. A further US$2.5 million was invested in CTI's Initial Public Offering in March 1997 which raised US$33 million.

CTI is focusing its oncology development efforts on a portfolio of drugs that it believes will address the principal causes of cancer treatment failure. The company's lead



IBT has invested US$5.9m in New York-based Cadus to support their wide-ranging medical research programmes

California-baseed Corvas is designing innovative treatments for cardiovascular and inflamatory diseases

product, Lisofylline, blocks the induction of inflammatory substances, resulting in a significant reduction in the occurrence of serious and life-threatening infections and other toxic side effects of cancer therapy. This product is in several Phase III clinical trials for related and unrelated donor bone marrow transplantation and for patients receiving high-dose chemotherapy for acute myeloid leukaemia. Later this year, the company will begin a pivotal trial sponsored by the National Institutes of Health for the treatment of acute lung injury in patients requiring mechanical ventilation for respiratory failure. The company's novel anti-cancer agent, CT-2584, is completing Phase I clinical trials and is under investigation for the treatment of patients with chemotherapy resistant tumours.

The company has collaborative agreements with RW Johnson Pharma. Research Institute and Ortho Biotech Inc. (both Johnson & Johnson companies).

Corvas International Inc.

In February 1996, IBT invested US$7 million as the lead investor in a US$15 million private placement for Corvas.

Corvas, a biopharmaceutical company based in California, is designing and developing a new generation of therapeutic agents for the prevention and treatment of major cardiovascular and inflammatory diseases. It is currently collaborating with Schering-Plough Corporation in the development of oral anticoagulants for chronic cardiovascular disease and Pfizer Inc. to develop neutrophil inhibitory factor as a possible therapy to minimise post stroke trauma caused by excess production of white blood cells, the body's natural defence mechanism. The company also has product licensing agreements with Centocor Inc. and Ortho Diagnostic Systems Inc. (a Johnson & Johnson company). Corvas has several compounds that are in the early stages of clinical development, and recently completed a Phase Ia study with NAPc2, an injectable anticoagulant.

Cytel Corporation

IBT provided US$5 million as the lead investor in a US$9.4 million private placement in November 1994, to support Cytel's planned research and development programme up until the end of 1996. IBT invested a further US$0.3 million in June 1996.

Cytel is developing cell adhesion inhibitors for the treatment of acute and chronic inflammation. Cytel's glycotechnology business unit, Glytec, uses patented technology for enzymatic synthesis of bioactive carbohydrates for use in medical and consumer products. The company recently formed a subsidiary, Epimmune Inc, to develop therapeutic and prophylactic products for cancer and infectious diseases. Cytel has one cell adhesion product, Cylexin, for prevention of reperfusion injury following coronary bypass which will be in Phase III in the last quarter of 1997. Cytel expects to select lead compounds for preclinical development by the end of 1997 in its integrin blocker programme, focused on chronic inflammatory diseases.

The combination of additional collaborations and a restructuring programme has enabled Cytel to significantly reduce its burn rate. The company currently has collaborative agreements with Abbott Laboratories, Baxter Healthcare's Nextran unit and Sumitomo Pharmaceuticals. Cytel has successfully executed on its strategy to spin out the vaccine business and as such has formed a wholly-owned subsidiary, Epimmune, for the development of vaccines for cancer and infectious diseases. Epimmune has collaborations with Takara and Baxter Immunotherapy. Searle recently made a US$5 million investment in Cytel, signing a letter of intent providing for a collaboration and substantial additional investments in Epimmune for cancer therapeutics.

Manager's review (continued)

LocalMed Inc.

In February 1996, IBT invested US$3 million as the lead investor in a US$16 million private placement by LocalMed, a privately owned medical devices company based in California.

LocalMed markets devices which are used, in conjunction with balloon catheters, to deliver drugs locally during angioplasty. The system, called InfusaSleeve, is a drug delivery catheter which was given FDA 510(k) approval in late 1994 and has recently been approved for marketing in Japan. The company has also developed an integrated modular balloon catheter system called Rhapsody, which includes a stent delivery sleeve, permitting stent deployment with the same balloon used for lesion dilatation. In addition, LocalMed has a balloon-expandable stent in development.

Medarex Inc.

IBT invested US$5 million as the lead investor in a US$11 million placing of 2.2 million Medarex shares in November 1995.

Medarex, based in New Jersey, is developing therapeutics targeted to enhance and direct the body's natural immune system to fight disease. The company uses its proprietary bispecific antibody technology to produce therapeutic products for the treatment of cancers, infectious diseases and autoimmune and cardiovascular disorders. The company is also developing MDX-RA, an immunotoxin used to prevent secondary cataracts. Medarex currently has 5 products in clinical trials.

The company has collaborative agreements with Novartis AG, Merck KGaA, Centeon LLP, a joint venture between Rhone-Poulenc Rorer, and Hoechst and Santen Pharmaceuticals Co. During the year Medarex acquired Houston Biotechnology Inc. and GenPharm International Inc.

Ribozyme Pharmaceuticals Inc.

In June 1995, Ribozyme (RPI) raised US$10 million in a private funding round in which IBT was the lead investor providing US$5 million of the monies raised. IBT invested an additional US$2 million in the IPO of the company in April 1996 which raised US$28.4 million.

RPI was founded to capitalise on the broad potential of ribozymes for use as human therapeutics and in other areas, including the identification of gene function and therapeutic target validation. The US FDA has approved an IND for RPI to conduct a Phase I/IIa clinical trial for using ribozymes against HIV.

The company has entered into collaborations with Chiron Corporation, the Parke-Davis Division of the Warner Lambert Company, Schering AG, Pharmacia Biotech AB, DowElanco, Alza Corporation, Protogene and IntelliGene Corporation.

SUGEN Inc.

IBT invested a total of US$3.8 million in SUGEN between October 1994 and September 1995. In addition, a follow-on investment of US$3.6 million was made by IBT in October 1996.

SUGEN, based in California, is a leader in the development of small-molecule drugs which target specific signal transduction pathways that have been shown to play an integral role in certain diseases. The company has just completed the first Phase II clinical trial for its lead inhibitor, SU101, in refractory brain tumours and plans to initiate, in Q4 1997, two additional Phase II studies which include i) SU101/BCNU combination trial in early stage glioma and ii) prostate cancer. SUGEN also completed a Phase I clinical trial of SU5271 for the treatment of psoriasis and is now beginning a high dose trial. SUGEN has also initiated a Phase I trial for a Flk-1 angiogenesis inhibitor for the treatment of solid tumour cancers and metastasis.

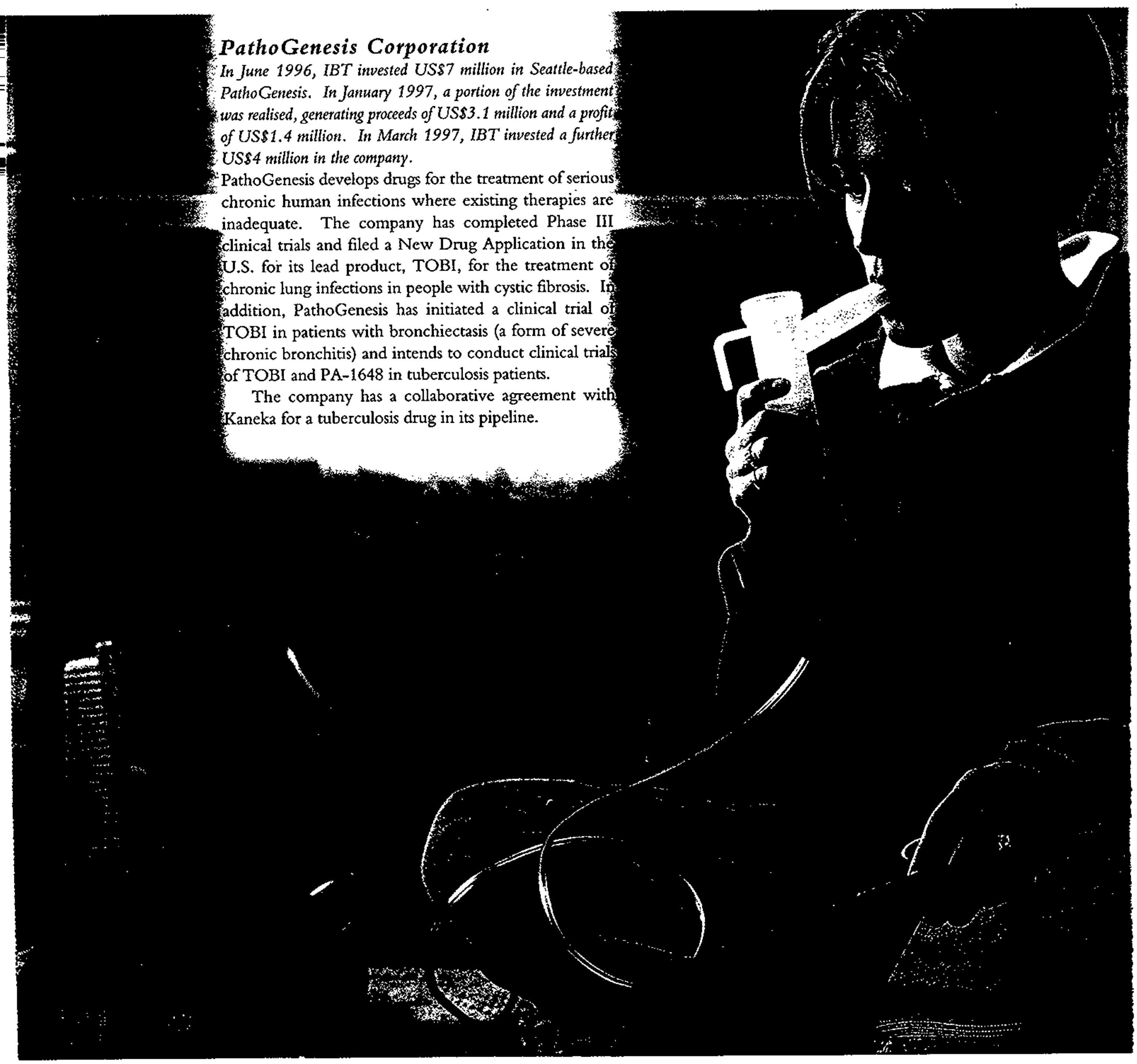
SUGEN has collaborative agreements with Zeneca, ASTA Medica, Allergan and a development agreement with the National Cancer Institute.

Targeted Genetics Corporation

In July 1995, IBT was the lead investor providing US$4.5 million of a US$12.5 million offering by Targeted Genetics. In June 1996, IBT invested an additional US$1 million in the company's public offering which raised US$16.1 million.

Targeted Genetics (Seattle) is developing gene and cell therapy products for the treatment of certain acquired and inherited diseases. The company's lead development programmes include cystic fibrosis (CF), cancer and infectious diseases, as well as a broad technology base. Targeted's lead product, tgAAV-CFTR, is in Phase II clinical trials for CF. Phase I trials are underway for tgDCC-E1A as a possible anti-cancer agent. Clinical trials of tgDCC-E1A are expected to begin shortly in Europe by Targeted's partner, Groupe Fournier (France), for cancer. Targeted is also completing a Phase I trial for HIV infection, as part of the company's cell therapy programme.

The PathoGenesis new product, TOBI, aims to help sufferers combat chronic bronchitis



PathoGenesis Corporation

In June 1996, IBT invested US$7 million in Seattle-based PathoGenesis. In January 1997, a portion of the investment was realised, generating proceeds of US$3.1 million and a profit of US$1.4 million. In March 1997, IBT invested a further US$4 million in the company.

PathoGenesis develops drugs for the treatment of serious chronic human infections where existing therapies are inadequate. The company has completed Phase III clinical trials and filed a New Drug Application in the U.S. for its lead product, TOBI, for the treatment of chronic lung infections in people with cystic fibrosis. In addition, PathoGenesis has initiated a clinical trial of TOBI in patients with bronchiectasis (a form of severe chronic bronchitis) and intends to conduct clinical trials of TOBI and PA-1648 in tuberculosis patients.

The company has a collaborative agreement with Kaneka for a tuberculosis drug in its pipeline.

Scientific advisers

IBT has retained a number of eminent consultants in the fields of science and medicine to advise on the technology of investee companies and provide scientific support where necessary.

The Company also draws on the expertise of Domain Associates, a USA-based venture capital management firm specialising in the biotechnology sector.

Sir Richard Bayliss
KCVO, MD, FRCP

Consulting physician and endocrinologist. Formerly assistant director of the Research Unit of the Royal College of Physicians of London and a member of the Board of Advisers to the Merck Institute of Therapeutic Research.

Dr Sydney Brenner
CH, DPhil, FRCP, FRS

Director of research of the Molecular Sciences Institute, La Jolla, California, and formerly director of the Medical Research Council Molecular Genetics Unit and honorary professor of Genetic Medicine at Cambridge University.

Professor John Kelly
MB ChB, PhD, FRSE, FRCPE

Professor of pharmacology at Edinburgh University and former chairman of the Medical Research Council Neuroscience Board's Project Grant Committee.

Professor Sir Keith Peters
MD, FRCP, FRS

Regius professor of Physic and chairman of the School of Clinical Medicine at Cambridge University.

Sir Mark Richmond
BA, PhD, ScD, FRS

Scientific adviser to the Institute of Biotechnology, ETH, Zurich and to SPP-Biotechnology, Swiss National Fonds and post-Doctoral Fellow, School of Public Policy, University College London. Formerly scientific adviser to Glaxo Wellcome plc and group head of research for Glaxo plc.

Professor James Scott
MSc, FRCP

Professor and chairman of Medicine at the Royal Postgraduate Medical School, Hammersmith Hospital.

Professor Herman Waldmann
MRCP, FRCPath, PhD, FRS

Professor and head of department of Sir William Dunn School of Pathology, University of Oxford.

Professor Edward Ziff PhD

Professor of biochemistry at the New York University Medical Center and investigator of the Howard Hughes Medical Institute.

Directors' report

Accounts
Your Directors present the financial statements of the Company for the year ended 31 August 1997.

Company's business
The Company carries on the business of an investment trust. It is the intention of the Directors to conduct the affairs of the Company in such a manner as to gain approval from the Inland Revenue under the provisions of Section 842 of the Income and Corporation Taxes Act 1988. Such approval has been granted from the Inland Revenue for the year ended 31 August 1996 and is expected to be granted for the accounting year now under review.

The Company's investment policy is to focus on biotechnology companies which are either approaching flotation or which have recently been floated. These are companies in need of additional capital and which are likely to benefit from the advice and support which the Manager can provide. The Manager will use the expertise and experience of its investment team and its specialist consultants to select companies whose products appear to have good prospects for successful commercialisation. The Company will also provide scientific and strategic support to the companies in which it invests, applying the benefits of its experience of the issues facing biotechnology companies at the relevant stages of their development and the expert resources at its disposal to contribute towards the success of the Company's investments.

A review of the development of the business during the period, and likely future developments, is contained in the Chairman's statement and Manager's review.

Revenue
The results for the year are shown in the statement of total return on page 26. The Directors do not propose the payment of a dividend (1996: nil).

'C' shares
On 23 December 1996 the 27,391,340 'C' shares then in issue (the 'first 'C' shares') were converted into 25,048,870 Ordinary shares with 4,526,459 warrants attached, in accordance with the Prospectus dated 22 February 1996. The relevant Ordinary shares and warrants were admitted to the Official List of the London Stock Exchange on 23 December 1996.

On 6 June 1997 the Company issued 19,356,066 new 'C' shares (the 'second 'C' shares') of 100p each at par. Dealing of these shares on the London Stock Exchange commenced at 8.30am on 9 June 1997. These 'C' shares will convert into New Ordinary shares (with warrants attached) after at least 80 per cent of the proceeds of the issue have been invested in a portfolio of investments consistent with the Company's investment policies or 1 June 1998, at the latest.

Substantial shareholdings
So far as the Directors are aware, the only substantial shareholdings at 31 August 1997 were as follows:

Substantial shareholdings Ordinary shares

	Ordinary shares 25p
Co-operative Insurance Society Limited	9,743,443
Zeneca Limited	6,531,755
Scottish Widows' Fund and Life Assurance Society	5,428,962
Gartmore UK Emerging Co's Strategy Fund	3,310,357
Guardian Asset Management	3,757,924
Sun Life Investment Management	2,800,756
Royal London Asset Management	2,500,000
British Aerospace Pension Fund Investment Management Limited	1,990,000

Substantial shareholdings 'C' shares

	'C' shares 100p
Sun Life Investment Management	2,800,000
Scottish Widows' Fund and Life Assurance Society	2,125,000
Co-operative Insurance Society Limited	2,000,000
Prudential Portfolio managers	2,000,000
Guardian Asset Management	1,500,000
Commercial Union Asset Management	1,000,000
JAFCO Investment Limited	1,000,000
Lucas Pensions	950,000

Directors
A list of the present Directors of the Company who all served throughout the period under review is to be found on page 7 and constitutes part of this report.

Mr Jeremy Curnock Cook, Mr James Grant and Mr Dennis Turner retire at the Annual General Meeting and, being eligible, offer themselves for re-election to the Board.

The following beneficial interests of Directors in the share capital of the Company at 31 August 1997 are shown in the Register of Directors' Interests; this Register will be

Directors' report (continued)

available for inspection during normal business hours at the registered office.

Directors' interests

		Ordinary shares 25p	warrants	'C' shares 100p
John Green-Armytage	*Beneficial*	10,000	52,000	-
	Non-beneficial	15,000	3,000	-
Donald Cecil		40,000	8,000	30,000
Peter Collacott		6,072	1,126	5,000
Jeremy Curnock Cook		9,572	1,826	5,000
Gary Brass	*Beneficial*	10,000	2,000	-
	Non-beneficial	430,000	10,000	-
D Turner		6,858	1,239	5,000
Stephen Duzan		10,000	2,000	30,000
Howard Greene		35,000	7,000	-
James Grant		5,000	1,000	2,500

Since 31 August 1997 there has been no change in this position.

During the period, cover has been maintained for the Directors under a directors' and officers' liability insurance policy as permitted by Section 137 of the Companies Act 1985.

There are no Directors' service contracts and each member of the Board is a non-executive Director.

The Company has an agreement with Rothschild Asset Management Limited of which Mr Peter Collacott and Mr Jeremy Curnock Cook are Directors. Certain terms of this agreement are set out in note 2 of the financial statements.

Except as mentioned above, no Director had any material interest in any contract with the Company, being a contract of significance in relation to the Company's business.

Corporate governance

In December 1992, the Cadbury Committee published its report on the financial aspects of corporate governance and recommended that listed companies comply with a Code of Best Practice (the Code). The Code recommends that companies reporting in respect of years ending after 30 June 1993 should make a Statement in their report and accounts about their compliance with the Code subsequent to that date.

It is the considered opinion of your Board that although the Code may be appropriate for many companies much of what it contains is inappropriate for a company of the nature of International Biotechnology Trust plc. The Company does not comply with the following paragraphs of the Code:

1.4 The Board believes that a formal schedule of reserved matters is unnecessary as it has overall responsibility for the management of the Company and takes the decisions on all material matters and thereby exercises full direction and control.

1.5 While there is no agreed procedure for Directors to take independent professional advice, members of the Board are encouraged to seek advice if required.

2.3 There is no formal procedure for selection and appointment of the Directors apart from their re-election by the shareholders.

3.3, 3.4 The Board believes that decisions regarding the Directors' remuneration and the audit of the financial statements should be matters for the Board as a whole rather than for a committee of the Board.

The Company's auditor, KPMG Audit Plc, have reviewed this compliance statement to the extent required by the Stock Exchange and in accordance with the Auditing Practices Board guidance. They have reported to the Directors that the statement appropriately reflects the Company's compliance with the provisions of the Code specified for their review.

Going concern basis

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Internal financial control

The Directors are responsible for the internal financial control systems of the Company and for monitoring their effectiveness. These systems aim to ensure the maintenance of proper accounting records, the reliability of the financial information upon which business decisions are made and which is used for publication and that the assets of the Company are safeguarded.

The financial controls operated by the Board include the authorisation of the investment strategy, review of the performance of investee companies and regular reviews of the Company's financial results and investment performance. The Board has contractually delegated to Rothschild Asset Management Limited the management of the Company's administrative affairs, the management of the Company's investments and secretarial, registration and accounting functions, and delegated to N M Rothschild & Sons Limited the responsibility for the custody of the Company's investments. The Board reviews regularly the performance of the services provided by these companies.

Rothschild Asset Management Limited maintains the books and records associated with the operations of the Company, including the purchase and sale of investments, control of cash balances, maintenance of accounting records and production of financial information. Rothschild Asset Management Limited's system of internal financial control includes procedures and systems which are regularly evaluated. The Directors have reviewed the internal financial control systems of the Company. They have also received and reviewed a report from Rothschild Asset Management Limited on the effectiveness of the internal financial controls maintained on behalf of the Company.

These systems of internal financial control are designed to provide reasonable, but not absolute, assurance against material misstatement or loss.

The auditor, KPMG Audit Plc, has confirmed that in their opinion, with respect to the above statements on internal financial control and going concern, the Directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and these statements are not inconsistent with the information of which they are aware from their audit work on the financial statements; and that the compliance statement appropriately reflects the Company's compliance with the other paragraphs of the Code in force specified by the Listing Rules for their review. They have carried out their review in accordance with the relevant Bulletin issued by the Auditing Practices Board, which does not require them to perform any additional work necessary to express a separate opinion on the effectiveness of the Company's system of corporate governance procedures, or on the ability of the Company to continue in operational existence.

In compliance with the Code a statement of the Directors' responsibilities is given on page 24.

Directors' remuneration

Resolution 6, at the forthcoming Annual General Meeting, proposes that the Articles of Association be amended* to increase the aggregate ordinary remuneration of the Directors from a maximum of £150,000 to £250,000 per annum. The Directors believe an increase in the maximum amount is required to cover the fees payable to Directors in the foreseeable future.

CREST

On 15 October 1996, the Company resolved by a resolution of its Directors that the 25p Ordinary shares of the Company be made eligible for settlement in uncertificated form within the CREST system. At a meeting of the warrantholders held on 20 November 1996, it was resolved that the warrants of the Company also be made eligible. Trading in the 25p Ordinary shares and warrants in issue, and to be issued, within the CREST system took effect from 24 March 1997.

The second issue of 'C' shares referred to above became eligible for settlement within the CREST system on 9 June 1997, the date on which dealing in those shares commenced.

Resolution 7(i), at the forthcoming Annual General Meeting, proposes that the Articles of Association be amended* to reflect the legislation covering the settlement of the Company's shares in uncertificated form.

* Proposed changes to the Articles of Association also require the consent of the 'C' shareholders, as set out in the Prospectus dated 8 May 1997, at a Separate General Meeting to be held immediately following the conclusion of the Annual General Meeting. Therefore, resolutions 6 and 7 to be proposed at the Annual General Meeting, if passed, will be effective only if resolutions 1 and 2, as set out in the *Notice of the Separate General Meeting of 'C' shareholders*, are subsequently passed.

Creditors' payment policy

It is the Company's policy to settle all of its investment transactions according to the settlement periods operating for the relevant markets. For other creditors it is the Company's policy to pay amounts due to them as and when they become due. As at 31 August 1997, the Company owed £32,170 to suppliers in respect of invoices received but unpaid (average creditors' days : 4).

Auditor

In accordance with Section 385 of the Companies Act 1985, a resolution for the appointment of KPMG Audit Plc as auditor of the Company is to be proposed at the forthcoming Annual General Meeting, (Resolution 5).

By order of the Board PETER COLLACOTT

ROTHSCHILD ASSET MANAGEMENT LIMITED
Secretary, Five Arrows House, St Swithin's Lane,
London, EC4N 8NR.
17 October 1997

Directors' responsibilities

Company law requires Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the total return for that period. In preparing those financial statements, the Directors are required to:

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

The Directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company to enable them to ensure that the financial statements comply with the Companies Act 1985. They also have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Report of the auditors

Report of the auditors to the members of International Biotechnology Trust plc.

We have audited the financial statements on pages 26 to 37.

Respective responsibilities of Directors and Auditors

As described on page 24, the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 August 1997 and of the total return of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
17 October 1997

Statement of total return (incorporating the revenue account)

for the year ended 31 August 1997

	Notes	Revenue £	Capital £	1997 Total £	Revenue £	Capital £	1996 Total £
Realised gains on investments	13	-	5,523,777	5,523,777	-	1,111,036	1,111,036
Incentive fee payable	9	-	(261,704)	(261,704)	-	-	-
Increase/(decrease) in unrealised appreciation on investments	14	-	8,200,051	8,200,051	-	(7,846,593)	(7,846,593)
Dividend income		12	-	12	6,888	-	6,888
Income from current asset investments		521,784	-	521,784	705,892	-	705,892
Deposit interest		69,916	-	69,916	68,028	-	68,028
Underwriting commission		12,650	-	12,650	-	-	-
		604,362	13,462,124	14,066,486	780,808	(6,735,557)	(5,954,749)
Administrative expenses	3	(1,553,019)	-	(1,553,019)	(1,249,317)	-	(1,249,317)
Net return/(loss) before finance costs and taxation		(948,657)	13,462,124	12,513,467	(468,509)	(6,735,557)	(7,204,066)
Interest payable	4	(959)	-	(959)	(3,964)	-	(3,964)
Return/(loss) on ordinary activities before taxation		(949,616)	13,462,124	12,512,508	(472,473)	(6,735,557)	(7,208,030)
Taxation on ordinary activities	5	(4,278)	-	(4,278)	29,921	-	29,921
(Loss)/return on ordinary activities after taxation		(953,894)	13,462,124	12,508,230	(442,552)	(6,735,557)	(7,178,109)
Dividend in respect of equity shares		-	-	-	-	-	-
Transfer (from)/to reserves		(953,894)	13,462,124	12,508,230	(442,552)	(6,735,557)	(7,178,109)
(Loss)/return per Ordinary share							
Basic	6	(2.10)p	23.96p	21.87p	(1.57)p	(13.44)p	(15.01)p
Fully diluted		n/a	17.79p	n/a	n/a	n/a	n/a
Return/(loss) per first 'C' share							
Basic	6	-	-	-	1.37p	(14.18)p	(12.81)p
Fully diluted		-	-	-	n/a	n/a	n/a
Return/(loss) per second 'C' share							
Basic	6	4.63p	3.18p	7.81p	-	-	-
Fully diluted		n/a	n/a	n/a	-	-	-

The revenue column of this statement is the profit and loss account of the Company.
All revenue and capital items in the above statement derive from continuing operations.
The notes on pages 30 to 37 form part of these financial statements.

Balance sheet

as at 31 August 1997

	Notes	1997 £	1997 £	1996 £	1996 £
Fixed Assets					
Investments	1(b) & 7		80,900,071		59,308,983
Current Assets					
Debtors					
Sales awaiting settlement		-		1,794,071	
Prepayments and accrued income		407,876		76,892	
Taxation recoverable		124,922		152,479	
Subscription monies receivable	9	235,533		-	
		768,331		2,023,442	
Investments	1(b) & 8	18,768,977		7,044,930	
Cash at bank	18	137,494		109,545	
		19,674, 802		9,177,917	
Creditors: amounts falling due within one year					
Incentive fee payable	9	261,704		-	
Accruals		435,594		283,863	
		697,298		283,863	
Net current assets			18,977,504		8,894,054
Net assets			£99,877,575		£68,203,037
Capital and Reserves					
Called up share capital	10		35,205,273		36,976,714
Shares to be issued	9		235,533		-
Share premium account	11		43,061,905		23,655,302
Warrant reserves	12		3,995,137		2,699,524
Capital reserve - realised	13		6,218,330		956,257
Capital reserve - unrealised	14		12,414,824		4,214,773
Revenue reserves	15		(1,253,427)		(299,533)
Equity shareholders' funds			£99,877,575		£68,203,037
Net asset value per share	19				
- basic:					
Ordinary shares			***127.13p***		***112.02p***
first 'C' shares			-		***92.19p***
second 'C' shares			***99.61p***		-
- fully diluted:					
Ordinary shares			***122.60p***		***110.18p***
first 'C' shares			-		***92.19p***
second 'C' shares			***99.61p***		-

John Green-Armytage, Director
Jeremy Curnock Cook, Director

Approved by the Board of Directors on 17 October 1997

The notes on pages 30 to 37 form part of these financial statements.

Cash flow statement

for the year ended 31 August 1997

	Notes	1997 £	1997 £	1996 £	1996 £
Operating Activities					
Dividend income received		12		6,888	
Income received from current asset investments		185,093		780,712	
Deposit interest received		71,460		67,797	
Underwriting commission received		12,650		-	
Management fee paid		(984,994)		(713,650)	
Other cash payments		(478,893)		(532,517)	
Net cash outflow from operating activities	16		(1,194,672)		(390,770)
Servicing of finance					
Interest paid	4	(959)		(4,038)	
Dividend paid		-		(377,272)	
Cash outflow from servicing of finance			(959)		(381,310)
Taxation					
Corporation Tax refunded/(paid)			94,967		(237,721)
Taxation suffered on overseas income			(4,925)		-
Financial investment					
Purchase of investments		(29,929,262)		(45,401,989)	
Sale of investments		23,856,072		8,052,049	
Net cash outflow from financial investment			(6,073,190)		(37,349,940)
Net cash outflow before use of liquid resources and financing			(7,178,779)		(38,359,741)
Management of liquid resources	17		(11,724,047)		10,917,278
Financing					
Conversion of warrants into ordinary shares	12	6,461		614,295	
Net proceeds from issue of 'C' shares	10, 11	18,924,314		26,713,679	
Drawdown of loan facilities		-		6,800,000	
Repayment of loan capital		-		(6,800,000)	
Net cash inflow from financing			18,930,775		27,327,974
Increase/(decrease) in cash	18		27,949		£(114,489)

The notes on pages 30 to 37 form part of these financial statements.

Reconciliation of movements in Shareholders' funds

for the year ended 31 August 1997

	Ordinary shares	First 'C' shares	Second 'C' shares	1997 Total	Ordinary shares	First 'C' shares	1996 Total
	£	£	£	£	£	£	£
Shareholders' funds at 1 September 1996	42,951,536	25,251,501	-	68,203,037	48,053,172	-	48,053,172
Proceeds from the issue of first 'C' shares	-	-	-	-	-	26,713,679	26,713,679
Revenue (loss)/return for the year (see below)	(1,069,797)	(95,275)	211,178	(953,894)	(598,668)	156,116	(442,552)
Capital return/(loss) for the year (see below)	13,373,828	(56,714)	145,010	13,462,124	(5,117,263)	(1,618,294)	(6,735,557)
Net proceeds from the issue of second 'C' shares	-	-	18,924,314	18,924,314	-	-	-
Proceeds from the conversion of warrants	6,461	-	-	6,461	614,295	-	614,295
Shares to be issued	235,533	-	-	235,533	-	-	-
	12,546,025	(151,989)	19,280,502	31,674,538	(5,101,636)	25,251,501	20,149,865
Transfer of balances on conversion (see below)	25,099,512	(25,099,512)	-	-	-	-	-
Net addition to shareholders' funds	37,645,537	(25,251,501)	19,280,502	31,674,538	(5,101,636)	25,251,501	20,149,865
Shareholders' funds at 31 August 1997	80,597,073	-	19,280,502	99,877,575	42,951,536	25,251,501	68,203,037

On 23 December 1996 the first 'C' shares were converted into Ordinary shares and warrants in accordance with the Prospectus dated 22 February 1996. As a result, all assets and liabilities and items of income and expenditure attributable to the first 'C' shares were transferred to the Ordinary share pool on the conversion date.

The notes on pages 30 to 37 form part of these financial statements.

Notes

forming part of the financial statements

1. *Accounting policies*

(a) The financial statements have been prepared under the historical cost convention subject to note (b) below and in accordance with applicable accounting standards. The Company has adopted the recommendations on accounting policies and presentation of financial information made in the Association of Investment Trust Companies' *Statement of Recommended Practice.*

(b) Quoted investments are shown at mid-market values at the balance sheet date. Unquoted investments are shown at Directors' valuation which will generally be cost less any appropriate provisions unless there has been a clear indication, whether from recent dealing prices, stockbrokers' valuations or net asset values, that demonstrates a higher value. The net surplus over the cost of investments is reflected in the accounts as unrealised appreciation on investments.

Current asset investments are shown at cost.

(c) In accordance with normal practice for investment trust companies, gains less losses on the realisation of investments have been dealt with through capital reserves.

(d) Dividend income, deposit interest income and distributions from Five Arrows Currency Fund Limited and Five Arrows Cash Management Fund Plc have been included in the revenue account on an accruals basis.

(e) Administrative expenses are charged to the revenue account on an accruals basis. Expenses incurred which are directly attributable to either the 25p Ordinary share pool or the 100p 'C' share pool are charged in full to the pool to which they relate. General expenses are allocated to each pool on the basis of the ratio of the net asset value of each respective pool as per the most recent fortnightly announcement to the London Stock Exchange.

(f) Transactions in foreign currency, whether of a revenue or capital nature, are translated into sterling at the rates of exchange ruling on the dates of such transactions. Foreign currency assets and liabilities at the balance sheet date are translated into sterling at the rates of exchange ruling on that date. These are accounted for through capital or revenue reserves depending on the items to which they refer.

(g) The Cashflow Statement reflects the adoption of *Financial Reporting Standard 1 (Revised 1996) Cashflow Statements,* the impact of which is a re-classification of movements in current asset investments from Investing Activities to Management of Liquid Resources.

(h) The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

2. *Transactions with related parties*

a) Manager

Rothschild Asset Management Limited (the 'Manager') and the Company entered into a mangement agreement dated 13 April 1994, as amended by a supplemental management agreement dated 22 February 1996, a second supplemental management agreement dated 24 March 1997 and a third supplemental management agreement dated 8 May 1997. The agreement is terminable on 31 March 2000 and thereafter by either party giving not less than one year's notice. Two Directors of the Company have an interest in the Manager as detailed on page 22.

Under this agreement, a fee of 1.375 per cent per annum is payable to the Manager quarterly in arrears, based on the net asset value of the Company at the end of each quarter excluding those funds which are managed by the Manager. Such fees of £1,052,527 are included within Administrative expenses. The amount outstanding at the balance sheet date is £277,648. Also under this agreement, there is an incentive fee which may become payable to the Manager if certain investment performance criteria are met. Details of the incentive fee payable at the balance sheet date are provided in note 9.

b) Custodian and Banker

Under the terms of the mangement agreement described above, included within the duties of the Manager is the arrangement of the opening of appropriate cash and investment accounts with N M Rothschild & Sons Limited as custodian and banker. The appointment of N M Rothschild & Sons Limited, an affiliate of the Manager, took effect on 13 April 1994. The Company does not pay fees to N M Rothschild & Sons Limited. At the balance sheet date, the Company held cash balances of £137,494 with N M Rothschild & Sons Limited.

3. Administrative expenses

	1997	1996
	£	£
Management and general expenses	1,532,503	1,230,003
Auditors' remuneration: audit	11,700	10,714
other services	8,816	8,600
	1,553,019	1,249,317

Management and general expenses include management fees of £1,052,527 as detailed in note 2. Directors' fees of £146,250 are included in management and general expenses. Directors' fees due to Mr Peter Collacott and Mr Jeremy Curnock Cook are payable to Rothschild Asset Management Limited. These Directors do not receive Board Meeting attendance fees. The Chairman, who is also the highest paid Director, received an annual fee of £15,000 plus Board Meeting attendance fees of £10,000.

4. Interest payable

	1997	1996
	£	£
Bank loan facilities	-	3,964
Overdraft charges	959	-
	959	3,964

The Company's existing unsecured £5,000,000 multi-currency committed money market loan facility with the Royal Bank of Scotland plc was extended in the year and is now due to expire on 14 April 1998. Interest is payable at LIBOR plus 0.35% per annum plus an associated costs rate. The purpose of the facility is to provide short term liquidity. At 31 August 1997 the facility was undrawn.

5. Taxation

	1997	1996
	£	£
Income tax suffered on overseas income	3,629	-
Under/(over)accrual in the prior year	649	(3,033)
Deferred tax	-	(26,888)
	4,278	(29,921)

Losses of £1,426,547 are available for offset against future profits chargeable to Corporation Tax.

6. Return/(loss) per share

The calculations for the return/(loss) per share attributable to each class of share are based on the following:

	1997		1996	
	25p Ordinary shares	*100p second 'C' shares*	*25p Ordinary shares*	*100p first 'C' shares*
Basic:				
Net revenue (loss)/return after taxation	£(1,165,072)	£211,178	£(598,668)	£156,115
Net capital return/(loss)	£13,317,114	£145,010	£(5,117,263)	£(1,618,294)
Weighted average number of shares	55,570,635	4,560,607	38,085,539	11,413,058
Fully diluted:				
Fully diluted capital return	£13,317,114	n/a*	n/a*	n/a*
Fully diluted number of shares on exercise of warrants outstanding	74,845,329	n/a*	n/a*	n/a*

* Fully diluted returns per share are not applicable for the year ended 31 August 1997 and the year ended 31 August 1996 where the respective basic return per Ordinary share is negative (ie a loss). Also, as there are no warrants attached to either the first or second 'C' shares there are no diluting effects.

Notes

continued

7. Fixed asset investments

	1997			1996		
	25p Ordinary share pool £	100p 'C' share pools £	Total £	25p Ordinary share pool £	100p 'C' share pool £	Total £
(a) Investments comprise:						
Quoted on the NASDAQ Exchange	61,059,882	-	61,059,882	34,228,013	16,865,040	51,093,053
Quoted on the New York Stock Exchange	1,570,955	-	1,570,955	1,498,080	-	1,498,080
Quoted on the London Stock Exchange	13,465,165	-	13,465,165	-	-	-
Unquoted	1,849,796	2,954,273	4,804,069	6,717,850	-	6,717,850
Valuation of investments at 31 August	77,945,798	2,954,273	80,900,071	42,443,943	16,865,040	59,308,983
(b) Movements on investments:						
Cost at 1 September	36,589,655	18,504,555	55,094,210	18,433,424	-	18,433,424
Additions at cost	192,855	11,877,161	12,070,016	26,873,585	18,528,404	45,401,989
Disposals at cost	(156,657)	(4,982,051)	(5,138,708)	(8,717,354)	(23,849)	(8,741,203)
				36,589,655	18,504,555	55,094,210
Cost at 23 December 1996	36,625,853	25,399,665	62,025,518	n/a	n/a	n/a
Conversion of first 'C' shares (see below)	25,399,665	(25,399,665)	-	n/a	n/a	n/a
Post-conversion cost at 23 December 1996	62,025,518	-	62,025,518	n/a	n/a	n/a
Additions at cost	15,049,984	2,809,263	17,859,247	n/a	n/a	n/a
Disposals at cost	(11,399,518)	-	(11,399,518)	n/a	n/a	n/a
Cost at 31 August	65,675,984	2,809,263	68,485,247	36,589,655	18,504,555	55,094,210
Unrealised appreciation/(depreciation) at 31 August	12,269,814	145,010	12,414,824	5,854,288	(1,639,515)	4,214,773
Valuation of investments at 31 August	77,945,798	2,954,273	80,900,071	42,443,943	16,865,040	59,308,983

On 23 December 1996 the first 'C' shares converted into 25p Ordinary shares in accordance with the Prospectus dated 22 February 1996. As a result, investments previously attributable to the first 'C' share pool were transferred to the Ordinary share pool at cost. Figures in the 'C' share pools column after the conversion date are entirely attributable to the second 'C' share pool.

For those investments quoted on a recognised exchange it should be noted that there may be certain restrictions or limitations to which they are readily realisable.

The Company owns more than 10% of the following companies, each of which are incorporated in the USA:

Company	*Class of shares held*	*% of class held*
Anergen Inc	Common	13.0
Core Group	Ordinary	11.5
Cubist Pharmaceuticals Inc	Common	10.6
Cell Therapeutics Inc	Common	10.4
Ribozyme Pharmaceuticals Inc	Common	10.3
Corvas International Inc	Common	10.1

Further details concerning these investments are set out on pages 38 and 39.

8. Current asset investments

	1997			1996		
	25p Ordinary share pool	100p 'C' share pool	Total	25p Ordinary share pool	100p 'C' share pool	Total
	£	£	£	£	£	£
Five Arrows Cash Management Fund Plc	2,672,500	5,631,000	8,303,500	-	-	-
Five Arrows Currency Fund Limited	-	10,465,477	10,465,477	480,325	6,564,605	7,044,930
	2,672,500	16,096,477	18,768,977	480,325	6,564,605	7,044,930

The shares of Five Arrows Cash Management Fund Plc and Five Arrows Currency Fund Limited are listed on the Dublin Stock Exchange.

9. Incentive fee payable

Under the terms of the management agreement detailed in note 2, the Manager is entitled to an incentive fee if investment performance in any given year to 31 August exceeds certain targets. A fee is payable if, and only if, during the year, realised 'qualifying' investment gains exceed the sum of realised and unrealised capital losses less realised 'non-qualifying' investment gains. The actual fee payable will be equal to three twentieths of any such excess less any incentive fee paid in previous years. A realised 'qualifying' investment gain arises where a sale exceeds book cost as uplifted by a rate of 12.5 per cent per annum applied on a simple basis. A realised 'non-qualifying' investment gain is one which is not 'qualifying', but which nevertheless yields a gain over original book cost. The incentive fee calculation is applied separately to the Ordinary share and the 'C' share pools of investments respectively. On conversion of any 'C' shares then in issue, all qualifying gains, realised losses and non-qualifying gains will be transferred to the Ordinary share pool on the conversion date.

Where a fee becomes payable in accordance with these criteria, the Manager will use 90 per cent of the fee received to subscribe for Ordinary shares, and/or 'C' shares if applicable, of the Company. The 'Subscription Price' of such shares will be deemed to be the average of the middle market quotations as derived from the *Daily Official List of the London Stock Exchange* for one Ordinary share, or 'C' share where applicable, for the ten consecutive London Stock Exchange dealing days immediately after the first publication of the net asset valuation of the Company following the Company's financial year end. The Manager will give the shares subscribed for to a trust (the 'Employee Benefit Trust') the beneficiaries of which will be key personnel engaged by the Manager to advise the Company.

For the year under review, an incentive fee of £261,704 is payable to the Manager in respect of the Ordinary share pool only. In accordance with the terms detailed above, this will result in the issue of 232,855 Ordinary shares (fractions being disregarded) at a Subscription Price of 101.15p per Ordinary share, a total subscription of £235,533.

Notes

continued

10. Called up share capital

	25p Ordinary shares number	*Nominal value £*	*100p 'C' shares number*	*Nominal value £*	*Total nominal value £*
Authorised:					
Balance at 1 September 1996	100,000,000	25,000,000	35,000,000	35,000,000	60,000,000
Conversion of first 'C' shares (see below)	140,000,000	35,000,000	(35,000,000)	(35,000,000)	-
2 June 1997 (see below)	-	-	30,000,000	30,000,000	30,000,000
Balance at 31 August 1997	240,000,000	60,000,000	30,000,000	30,000,000	90,000,000

In accordance with the Prospectus dated 22 February 1996, those 'C' shares on the conversion date remaining authorised but unissued, were sub-divided into four 'C' shares of 25p each and each such 'C' share was reclassified as an Ordinary share of 25p each.

The authorised share capital of the Company was increased by the passing of a special resolution at an Extraordinary General Meeting of the Company held on 2 June 1997 in order to accommodate the second issue of 'C' shares described below.

	25p Ordinary shares number	*Nominal value £*	*100p 'C' shares number*	*Nominal value £*	*Total nominal value £*
Allotted, called up and fully paid:					
Balance at 1 September 1996	38,341,495	9,585,374	27,391,340	27,391,340	36,976,714
Conversion of first 'C' shares (see below)	25,048,870	6,262,218	(27,391,340)	(27,391,340)	(21,129,123)
Shares issued on exercise of warrants	6,461	1,615	-	-	1,615
Issue of second 'C' shares	-	-	19,356,066	19,356,066	19,356,066
Balance at 31 August 1997	63,396,826	15,849,207	19,356,066	19,356,066	35,205,273

On 23 December 1996 the 27,391,340 'C' shares then in issue (the 'first 'C' shares') were converted into 25,048,870 Ordinary shares, with 4,526,459 warrants attached, in accordance with the Prospectus dated 22 February 1996.

6,461 Ordinary shares of 25p each were allotted during the year in respect of warrants exercised at £1.00 per Ordinary share on 31 January 1997.

On 6 June 1997 the Company issued 19,356,066 100p 'C' shares (the 'second 'C' shares') at par in order to raise additional funds to allow the Company to take advantage of identified investment opportunities. Dealing on the London Stock Exchange commenced at 8.30am on 9 June 1997. The terms of the conversion and the rights attached to the second 'C' shares are identical to those previously associated with the first 'C' shares. The 'C' shares will convert into New Ordinary Shares (with warrants attached) after at least 80 per cent of the proceeds of the issue have been invested in a portfolio of investments consistent with the Company's investment policies or 1 June 1998, at the latest. The 'C' shares do not carry any right to attend or vote at any General meeting of the Company. However, until the conversion of the 'C' shares, the consent of (i) the holders of the 'C' shares as a class and (ii) the holders of the Ordinary shares as a class shall be required for, and accordingly the special rights attached to the 'C' shares and the Ordinary shares shall be deemed to be varied, *inter alia*, by:

(a) any alteration to the Memorandum of Association or the Articles of Association of the Company; or

(b) any alteration, increase, consolidation, division, sub-division, cancellation, reduction or purchase by the Company of any issued or authorised share capital of the Company other than (i) on conversion, (ii) on redemption of the deferred shares in accordance with the provisions of the Articles of Association of the Company, (iii) pursuant to the exercise of subscription rights in accordance with the terms of the warrants, or (iv) pursuant to the allotment of Ordinary shares under the IBT Savings Scheme; or

(c) any allotment or issue of any security convertible into or carrying a right to subscribe for any share capital of the Company or any other right to subscribe or acquire share capital of the Company (other than the issue of new warrants on conversion); or

(d) the passing of any resolution to wind up the Company; or

(e) the selection of any accounting reference date other than 31 August; or

(f) any material change in the investment policies or objectives of the Company.

11. Share premium account

	25p Ordinary shares	100p 'C' shares	Total
	£	£	£
Balance at 1 September 1996	24,332,963	(677,661)	23,655,302
Conversion of first 'C' shares on 23 December 1996			
Transfer of first 'C' shares balance	(677,661)	677,661	-
Premium on issue of New Ordinary shares	21,129,122	-	21,129,122
Issue of warrants (note 12)	(1,295,613)	-	(1,295,613)
Ordinary shares issued on exercise of warrants	4,846	-	4,846
Launch costs relating to second 'C' share issue	-	(431,752)	(431,752)
Balance at 31 August 1997	43,493,657	(431,752)	43,061,905

12. Warrant reserves

	Exercised	Unexercised	Total
	£	£	£
Balance at 1 September 1996	220,575	2,478,949	2,699,524
Issue of warrants on 23 December 1996	-	1,295,613	1,295,613
Warrants exercised on 31 January 1997	2,129	(2,129)	-
Balance at 31 August 1997	222,704	3,772,433	3,995,137

As part of the conversion of the first 'C' shares, and in accordance with the terms of conversion, 4,526,459 warrants were issued on 23 December 1996.

6,461 warrants were exercised during the year (1996: 614,295). The remaining 11,448,503 warrants in issue as at 31 August 1997 (1996: 6,928,505) can be exercised at £1.00 per Ordinary shares on 31 January 1998 and 31 January 1999. There are no warrants attached to the 'C' shares.

13. Capital reserves - realised

	25p Ordinary shares	100p 'C' shares	Total
	£	£	£
Balance at 1 September 1996	935,036	21,221	956,257
Realised gains/(losses) on sale of investments to 23 December 1996	164,543	(56,714)	107,829
	1,099,579	(35,493)	1,064,086
Transfer of balance on conversion of first 'C' shares	(35,493)	35,493	-
Balance at 23 December 1996	1,064,086	-	1,064,086
Realised gains on sale of investments to 31 August 1997	5,415,948	-	5,415,948
Incentive fee payable (note 9)	(261,704)	-	(261,704)
Balance at 31 August 1997	6,218,330	-	6,218,330

14. Capital reserves - unrealised

	25p Ordinary shares	100p 'C' shares	Total
	£	£	£
Balance at 1 September 1996	5,854,288	(1,639,515)	4,214,773
Transfer of first 'C' shares balance	(1,639,515)	1,639,515	-
Increase in unrealised appreciation	8,055,041	145,010	8,200,051
Balance at 31 August 1997	12,269,814	145,010	12,414,824

Notes

continued

15. Revenue reserves

	25p Ordinary shares	100p 'C' shares	Total
	£	£	£
Balance at 1 September 1996	(455,649)	156,116	(299,533)
Loss for period to 23 December 1996	-	(95,275)	(95,275)
Balance at 23 December 1996	-	60,841	n/a
Transfer of balance on conversion	60,841	(60,841)	-
	-	-	-
(Loss)/revenue for the period (see below)	(1,069,797)	211,178	(858,619)
Balance at 31 August 1997	(1,464,605)	211,178	(1,253,427)

On 23 December 1996 the first issue of 'C' shares were converted into Ordinary shares and warrants in accordance with the Prospectus dated 22 February 1997. As a result, all revenue reserves attributable to the first 'C' shares on the conversion date were transferred to the Ordinary share pool.

16. Reconciliation of net loss to net cash outflow from operating activities

	1997	1996
	£	£
Loss on ordinary activities before taxation	(949,616)	(472,473)
(Increase)/decrease in prepayments and accrued income	(330,984)	63,081
Increase in other debtors	(66,762)	(57,316)
Increase in creditors	151,731	71,900
Interest paid	959	4,038
Net cash outflow from operating activities	(1,194,672)	(390,770)

17. Management of liquid resources

	1997	1996
	£	£
Net (purchase)/sale of current asset investments:		
Five Arrows Cash Management Fund Plc	(8,303,500)	-
Five Arrows Currency Fund Limited	(3,420,547)	(1,587,473)
Treasury Bills	-	12,504,751
	(11,724,047)	10,917,278

18. Analysis of the balances of cash as shown in the balance sheet

	1997	1996
	£	£
Balance at 1 September 1996	109,545	224,034
Increase/(decrease) in cash	27,949	(114,489)
Balance at 31 August 1997	137,494	109,545

19. Net asset value per share

The calculations for the net asset value per share attributable to each class of share are based on the following:

		1997		1996
	25p Ordinary shares	*100p second 'C' shares*	*25p Ordinary shares*	*100p first 'C' shares*
Basic:				
Net assets	£80,597,073	£19,280,502	£42,951,536	£25,251,501
Number of shares	63,396,826	19,356,066	38,341,495	27,391,340
Net asset value per share	127.13p	99.61p	112.02p	92.19p
Fully diluted:				
Net assets	£80,597,073	£19,280,502	£42,951,536	£25,251,501
Proceeds from exercise of warrants outstanding	£11,448,503	n/a	£6,928,505	n/a
	£92,045,576	£19,280,502	£49,880,041	£25,251,501
Basic number of shares	63,396,826	19,356,066	38,341,495	27,391,340
Outstanding warrants exercised	11,448,503	n/a	6,928,505	n/a
Shares to be issued (note 9)	232,855	n/a	n/a	n/a
Fully diluted number of shares	75,078,184	19,356,066	45,270,000	27,391,340
Net asset value per share	122.60p	99.61p	110.18p	92.19p

Shares and warrants

historic prices for Capital Gains Tax purposes

Dealings in the Ordinary shares and the attached warrants commenced on Friday, 6 May 1994. The closing mid-market prices on this date, as derived from the *London Stock Exchange Daily Official List*, were:

Ordinary shares of 25p each: 94.5p warrants to subscribe for one share: 39p

The issue price was 100p per Ordinary share; the warrants to subscribe for ordinary shares were issued on the basis of one warrant for every five Ordinary shares. Therefore the pro rata valuation is calculated as follows:

$$\text{Value ascribed to an Ordinary share} = \frac{94.5}{(94.5 + 39 \times 0.2)} \times 100\text{p} = \mathbf{92.38p} \qquad \text{Value ascribed to a warrant} = \frac{39}{(94.5 + 39 \times 0.2)} \times 100\text{p} = \mathbf{38.12p}$$

Dealings in the first 'C' shares commenced on Thursday 21 March 1996. The closing mid-market price on this date, as derived from the *London Stock Exchange Daily Official List* was 100p per share.

Dealings in the New Ordinary shares and the attached warrants issued on conversion of the first 'C' shares commenced on Monday 23 December 1996. The closing mid-market prices on this date, as derived from the *London Stock Exchange Daily Official List* were:

Ordinary shares of 25p each: 97.5p warrants to subscribe for one share: 27.5p

The warrants were issued on the basis of one warrant for every 5.533877 New Ordinary shares arising on conversion. Therefore the pro rata valuation is calculated as follows:

$$\text{Value ascribed to an Ordinary share} = \frac{97.5}{(97.5 + 1/5.533877 \times 27.5)} = \mathbf{95.15p} \qquad \text{Value ascribed to a warrant} = \frac{27.5/5.533877}{(97.5 + 1/5.533877 \times 27.5)} = \mathbf{4.85p}$$

Dealings in the second 'C' shares commenced on Monday 9 June 1997. The closing mid-market price on this date, as derived from the *London Stock Exchange Daily Official List* was 99p per share.

Classification of investments by value

at 31 August 1997

	25p Ordinary share pool 31 August 1997	*100p 'C' share pool 31 August 1997*	*Total 31 August 1997*
Equities - USA	%	%	%
Pharmaceuticals:			
Quoted	81	-	77
Unquoted	2	-	2
Equities - UK			
Healthcare			
Quoted	12	-	12
Pharmaceuticals			
Quoted	5	-	5
Equities - Europe			
Pharmaceuticals:			
Unquoted	-	100	4
Total	100	100	100
Number of individual holdings:	*No.*	*No.*	*No.*
Target investments	14	1	15
Shorter term investments	4	-	4
Total	18	1	19

Investments by value

at 31 August 1997

	Value £000	Book cost £000	Investee company statistics as at date of last audited results: Proportion of investee company's capital owned	Notes	Proportion of investee company's assets attributable to investment, £000	Earnings/(loss) per share £
Core investments						
Cell Therapeutics	10,991	9,472	10.42	1	1,840	(1.66)
PathoGenesis Corporation	9,640	5,938	2.95	1	1,160	(0.98)
Biocompatibles International	9,376	4,414	1.10	1	248	(0.34)
Cadus Pharmaceuticals	6,551	3,815	6.85	1	1,819	(0.23)
SUGEN	6,416	4,849	5.64	1	1,609	(1.06)
Corvas International**	4,208	4,628	10.07	1	1,441	(0.31)
Ribozyme Pharmaceuticals	4,150	4,456	10.25	1	1,227	(1.53)
Core Group	4,089	3,500	11.54	1	593	(0.97)
Cubist Pharmaceuticals	3,786	4,068	10.58	1	1,262	(0.82)
Targeted Genetics**	3,744	3,478	7.18	1	823	(0.93)
Anergen	3,713	3,136	12.96	1	1,219	(0.21)
MorphoSys*	2,954	2,809	9.80	2	154	***
Medarex	2,891	3,168	5.36	1	1,091	(0.26)
LocalMed*	1,850	1,952	7.89	1	405	***
Cytel	1,590	3,258	6.56	1	1,060	(0.29)
Non-core investments						
Dura Pharmaceuticals	2,197	2,394	0.22	1	574	0.35
Genentech	1,571	1,596	0.10	1	1,059	0.56
Microcide	925	909	1.15	1	342	(0.05)
Cambridge Neuroscience	257	643	0.51	1	59	(0.55)

* Unquoted investments; ** including warrants; *** not published

1. Investment held within the 25p Ordinary share pool.
2. Investment held within the 100p 'C' share pool.
3. The difference between the cost and value of unquoted investments is solely attributable to foreign exchange movements between the date of purchase and 31 August 1997.
4. The carrying value of LocalMed at 31 August 1996 was £1,919,386. The investment in MorphoSys was made during the year under review.
5. The date of the last audited results for each investee company was 31 December 1996.