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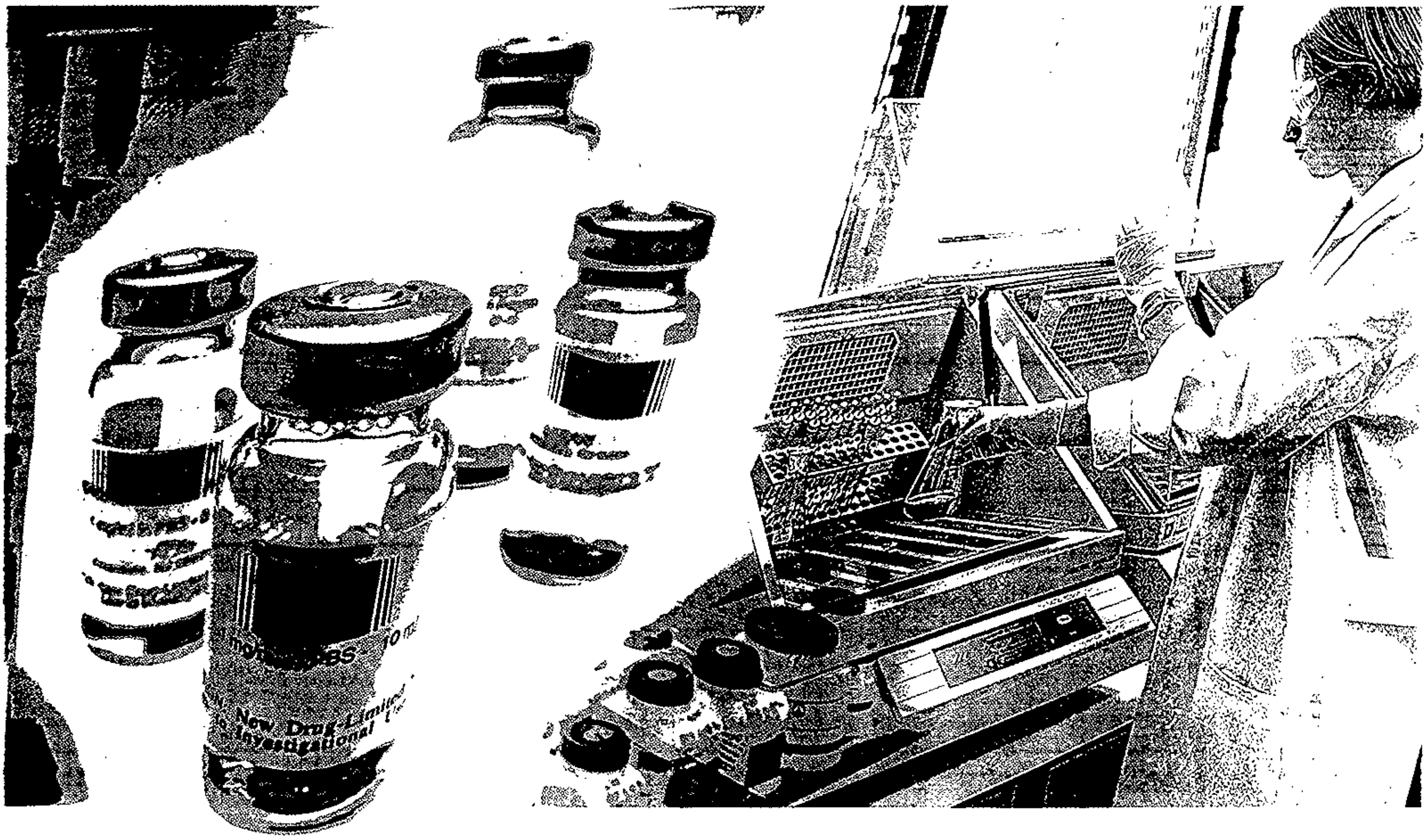
INTERNATIONAL

BIOTECHNOLOGY

TRUST PLC



Annual Report and Accounts 1998

Administration

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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 a number of other companies. He is a Chartered Accountant and was formerly with KPMG and J Henry Schroder & Co Limited.

Peter Barrie Collacott

A director of product development at State Street Global Advisors United Kingdom Limited ('SSgA UK') with responsibility for the development of collective investment schemes for SSgA UK and its affiliates. He is a non-executive director of a number of listed investment companies in Ireland and prior to joining SSgA UK in June 1998, he was employed by Rothschild Asset Management Limited for over twenty years where he was a managing director.

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: Angiotech Pharmaceuticals, Biocompatibles International plc, Cell Therapeutics Inc, Ribozyme Pharmaceuticals Inc, SUGEN Inc, Targeted Genetics Corporation and Vanguard Medica plc. He is also a non-executive director of a number of other US and international biotechnology companies.

Stephen Andrew Duzan

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 Ergo Science Corporation.

James Deneale Grant

Retired chairman and 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 retired chairman and chief executive officer of Amylin Pharmaceuticals Inc, a San Diego-based biopharmaceutical company developing drugs for treating diabetes and metabolic disorders. As a general partner of Biovest Partners, a US venture capital firm, he was a start-up investor and board member of six medical technology companies, including Pyxis Corporation, Neurex Corporation, and Vical Incorporated. He was chief executive officer of Hybritech Incorporated until its acquisition by Eli Lilly & Company in 1986. He is chairman of Cytel Corporation (an IBT investee company) and a director of Biosite Diagnostics Inc.

Dennis Michael John Turner

Co-founder and chairman and chief executive of Pharmaceutical Marketing Services Inc (PMSI). He was also a founder and the chairman of Walsh International Inc, until it was acquired by IMS Health in June 1998. He has spent most of his career developing and building healthcare information services companies with a particular emphasis on the needs of the pharmaceutical industry. He is a non-executive director of a number of healthcare-related companies.

(All Directors are non-executive Directors)

The year under review

Dear Shareholder

In my statement last year, I reported on the new investments being made by your Company and commented on the volatility seen in the biotechnology sector. 1998 has seen further unpredictability in the industry, with considerable negative sentiment in North America, the UK and European markets affecting the Net Asset Value and share price of IBT. Notwithstanding this volatile background, your Company has continued to invest in promising companies new to the IBT portfolio and in several of its existing investee companies through follow on financing. During the year, your Company also completed the divestment of its holding in PathoGenesis, for £12.5 million producing an annualised return of 74% on a total investment of £7.1 million.

Biotech Sector Review

In order to put IBT's performance in perspective it is appropriate to comment briefly on the prevailing conditions within the biotechnology market. In the UK in particular, the biotechnology sector suffered a poor year as indicated by the Bloomberg UK Biotech Index which fell 47% over the 12 months to August 1998. Investor confidence in UK biotechnology has been affected by several companies reporting disappointing late-stage trial data. High-profile management issues in sector leaders further impacted market sentiment. On a more positive note, there were companies within the UK biotech sector which performed well over the past year, reporting deals with pharmaceutical companies to commercialise lead products.

For example, one of IBT's investee companies, Vanguard Medica, recently signed a major deal with the international pharmaceutical company Elan for the marketing of its migraine therapeutics in the United States.

As I stated last year, the share price of IBT more closely follows the UK sector than the US, despite the fact that, by value, 70% of our investments are in the US. Once again this is reflected in the fact that, during the reporting period, the IBT share price has fallen from 100.5 pence to 33.5 pence, a decrease of 66.7%. Net Asset Value has also fallen, but at 57% the fall has been marginally less than the fall in share price. As last year, IBT shares are trading at a discount to NAV which clearly reflects the prevailing conditions affecting the sector. Biocompatibles share price fell almost 94% during the year to August 1998. Vanguard Medica and Core Group also saw reductions in valuation. In a sector which is, to a great extent, sentiment driven, such setbacks are not unexpected and, in line with our strategy of long term support, IBT played a vital role in guiding the companies through this challenging period. As already stated, these reductions in value of IBT's UK investee companies specifically, and the disappointing performance of the UK sector as a whole have contributed to IBT's share price reduction.

Across the Atlantic, biotechnology shares were affected by a general downward trend but this was not as great as that experienced in the UK. The AMEX Biotech Index dropped 31.4% over the 12 months to August 1998 and the NASDAQ Biotech Index fell 18% in the same period. Explanations for the slow-down include a perceived lack of liquidity in early stage US biotech stocks which deterred some investors. The small size of biotech offerings has also been cited as a hurdle, with many fund managers aiming to invest in larger blocks of stock than are typically available during biotechnology financings. A further reason has been the recent relative performance of biotech stocks compared to information technology (IT) and big pharmaceutical companies. Despite this, the overall level of investment in US biotech continues to rise.

In mainland Europe, biotechnology companies were faced with less challenging market conditions than seen in the UK or US and several completed successful IPOs or maintained value on local stock markets or on EASDAQ. MorphoSys, our unlisted German investee had a successful year, announcing a major collaboration with Du Pont for its antibody technology in August.

On a broader level, despite the mixed nature of market sentiment around the world, the year has seen continued advances for the global biotechnology industry. In Europe, for example, the number of biotech companies rose to 1,036 from 716[1]. Also in Europe, the EMEA approved 11 biotechnology-based drugs in 1997 and 11 high-tech products from major pharmaceutical companies and bioscience firms[1]. In the US, the market capitalisation of the industry increased 12% last year from $83 billion to $93 billion[2]. Product sales rose 20% and revenues by 17.4%. In addition to reviewing prevailing conditions within the

1. Ernst & Young European Life Sciences '98
2. BioIndustry Organisation

The year under review (continued)

biotech sector, it is also important to reflect briefly on market sentiment towards investment trusts in the UK when putting the IBT's performance in a proper context. As was the case last year, investment trusts have not performed well in comparison to general indices and discounts to Net Asset Value widened across the sector. Against this background, there has been a severe decoupling of the NAV of IBT's portfolio and its own share price.

IBT Activities

Your Company has been actively increasing its investments over the last year in keeping with its strategy of long term involvement in the sector to achieve capital appreciation. A fuller description of the year's progress is given in the Manager's review but I will give a brief review of key events. The Trust invested £27.9 million in the 12 months to August 1998 compared to £24.5 million in the year ended August 1997. New investments, amounting to £18.9 million, included £5.5 million in UK-based Vanguard Medica, £3 million in the Canadian research and development company Angiotech Pharmaceuticals, £5 million in Onyx Pharmaceuticals, a US-based company focused on developing novel therapeutics particularly for cancer, £3 million in US-based NetGenics Inc and £2.4 million in the US pharmaceutical discovery company GelTex. In addition, £9.0 million was committed in follow-on investments in Biocompatibles International, Core Group, Cytel Corporation, Ribozyme Pharmaceuticals and Targeted Genetics. Since the year end a further investment of £300,000 has been made in Cubist Pharmaceuticals.

By April 1998 over 80% of the proceeds from the 'C' shares placed in June 1997 had been invested. This triggered the conversion of these shares to New Ordinary shares at a conversion ratio of 1.259012 New Ordinary shares for each 'C' Share. In addition, new warrants were issued to former 'C' Shareholders on the basis of one new warrant for every 5.5590 New Ordinary shares arising on conversion.

As already mentioned, the Company completed its second divestment during the year, gaining £5.4 million through the sale of its holding in Pathogenesis.

Portfolio Growth Potential

The Trust's activities this year have brought it close to full investment. As a result, the key focus for the Manager is now the support of investments within the portfolio to achieve growth, rather than portfolio expansion. Your Board continues to believe that the present investment portfolio, with its geographical and technological diversity, provides excellent potential for such growth. Much of the value in biotechnology companies is gained through the achievement of milestones in clinical trials. Many of the Trust's investee companies are advancing their products through this clinical trial process in IBT's virtual pipeline. Collaborative activities are another key means of increasing company value, and, while there have been some setbacks within the portfolio, the year has seen the establishment of new agreements by investee companies and the extension of existing relationships giving further indication of the perceived value of their technologies. These clinical and corporate activities are the signs of increasing maturity within the portfolio. While past performance is not an indication of the future, biotechnology companies have tended to increase in value through such a series of discrete steps advancing products towards the market. Your Board is confident the Trust's investee companies will continue successfully down that developmental path, bringing corresponding gains in value.

Merger discussions

As the Board announced on 11 June 1998, we have entered into exploratory discussions regarding the possibility of a merger between the Company and Biotechnology Investments Limited. Such a merger would create a larger investment trust whose shares could be expected to be more liquid than IBT's have been. If the discussions result in a scheme for a merger which the Board feels able to recommend to shareholders as being in their best interests, the appropriate recommendations and resolutions will be the subject of a separate submission to shareholders, for consideration at a General Meeting, as soon as practicable.

Revenue and Dividends

Your Company's policy is 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 believes that current market sentiment, in the UK in particular but also in the US, has led smaller capitalised biotechnology stocks to be undervalued. However, the Board believes growing maturity across the sector and in our investee companies will be reflected in increases in value as products reach the market and, furthermore, that our balanced portfolio of companies offers great potential to generate capital appreciation as this process continues.

Annual General Meeting

The Annual General Meeting will be held at The City Presentation Centre, 4 Chiswell Street, Finsbury Square, London EC1Y 4UP on Thursday 19 November 1998 at 3.00pm.

John Green-Armytage
23 October 1998

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 require management input. Many will have products that are already in clinical development, appear to have good prospects of commercialisation, or have a broad-based platform technology with wide application. Using these criteria, our investment team focuses on companies which have recently listed on a stock exchange or which are approaching floatation within a year or so.

In the year under review, IBT has continued to invest in companies across a broad range of therapy areas, thus maintaining a balanced virtual pipeline of potential products. The five companies new to the IBT portfolio are focused in fields as diverse as cancer, inflammatory disorders, polymer-based therapeutics and bioinformatics. This broad approach aims to minimise the risk of investing in biotechnology, whilst employing the expertise of the specialist Rothschild Bioscience Unit to select companies in areas of above average potential.

Investments

IBT made investments in five companies over the year, bringing the number of core investments in the portfolio at 31 August 1998 to nineteen. Vanguard Medica became IBT's third UK-based investee, with the Trust investing £5.5 million during Vanguard's £25.7 million fundraising. US-based GelTex, Onyx and NetGenics received investments totalling £10.4 million. IBT also invested £3 million in Angiotech, a Canadian research and development company, during a £9.4 million IPO. In addition, IBT made follow-on investments amounting to £9 million in Biocompatibles, Core Group, Cytel, Ribozyme Pharmaceuticals and Targeted Genetics.

Divestments

The divestment of IBT's holding in PathoGenesis was completed during the year, generating an overall gain of £5.4 million from proceeds of £12.5 million. This represented an annualised return on investment of 74%.

'C' shares

During the year the funds raised by the 'C' shares issued in June 1997 became 80% invested, thus triggering the early conversion into New Ordinary shares. This conversion created one class of shares thereby making trading simpler for private and institutional investors.

The virtual pipeline

A great strength of IBT's portfolio approach is the creation of a 'virtual pipeline' of products greatly beyond that likely to be found in any individual biotechnology company. The table *Lead Products in IBT's Virtual Pipeline* (see opposite) shows the lead products under clinical development within the Trust's investee companies. Close to market are Core's Moraxen™ for pain management and GelTex's phosphate binding RenaGel® for which the company has filed an NDA. Phase III trials are underway in a range of therapy areas including anti-infectives, oncology, cholesterol reduction and migraine. There are also more than 20 Phase II trials in progress within IBT's 'pipeline', again with a broad therapeutic focus covering, among others, cancer, renal disease, inflammatory disorders, hypertension and angina. This breadth of opportunity is again seen in the early stage clinical trials and pre-clinical development. At the other end of the clinical trial process, Biocompatibles' Proclear contact lenses have been launched in the US, UK and mainland Europe joining the company's coronary stent and LocalMed's InfusaSleeve in the market. This 'strength in depth' of IBT's virtual pipeline represents a potential long term stream of new products which, if successful, we believe will bring value to our investee companies and to the Trust.

In addition, IBT has strengthened the commercial potential of its portfolio through investments into high value technologies, such as information technology, that speed-up or support those pipelines. This year, for example, the Trust added the bioinformatics company NetGenics to its portfolio. The company provides software and related services to the pharmaceutical industry to manage information and accelerate drug discovery. NetGenics' SYNERGY software has been incorporated into the discovery programmes at leading companies Incyte Pharmaceuticals and Abbott Laboratories.

Cytel's manufacture of bioactive carbohydrates for use in medical and consumer products is another example of a 'service' offered by an IBT investee company as is Ribozyme's target validation and discovery business.

Investments into such technology or service providing companies increases the diversity of the IBT portfolio and also brings the potential for additional revenue streams.

Lead Products in IBT's Virtual Pipeline

Product	*Company*	*Product and development stage at October 1998* Phase I	Phase II	Phase III	Marketing
Cardiovascular					
Bio*divysio* coronary stent	Biocompatibles	■	■	■	■
Infusasleeve	LocalMed	■	■	■	■
Cylexin	Cytel	■	■	■	
CholestGel	GelTex	■	■	■	
NAP	Corvas	■	■	■	
Oncology					
Lisofylline	Cell Therapeutics	■	■	■	
SU101	SUGEN	■	■	■	
MDX-210	Medarex	■	■		
ONYX-015	Onyx	■	■		
TgDCC-E1A	Targeted Genetics	■	■		
Angiozyme	Ribozyme	■			
Anti-infectives					
Hycore	Core Group	■	■	■	
Daptomycin	Cubist	■	■		
Ribozymes-HIV	Ribozyme	■	■		
Targeted CTLs	Targeted Genetics	■			
Inflammatory					
AnervaX RA	Anergen	■	■		
Micellar paclitaxel RA	Angiotech	■			
Hycore	Core Group	■			
Neurology					
Moraxen	Core Group	■	■	■	
Frovatriptan	Vanguard Medica	■	■	■	
AnergiX MS	Anergen	■	■		
Micellar paclitaxel MS	Angiotech	■			
Nephrology					
RenaGel	GelTex	■	■	■	
VML 252	Vanguard Medica	■	■		
Eye care					
Proclear Compatibles	Biocompatibles	■	■	■	■
MDX-RA	Medarex	■	■	■	
Genetic disorder					
TgAAV-CFTR-CF	Targeted Genetics	■	■		

Some of IBT's investee companies have products that are not applicable to the normal clinical trial procedures, including:

Product	*Company*	*Application*
Self-selecting combinatorial library	Cadus	Determines the function of G protein-coupled receptors (GPCR) from genetic data for drug discovery
Rhapsody 'single operator' PTCA catheter system	LocalMed	For use in all angioplasty procedures
Human combinatorial antibody library	MorphoSys	Generates antibodies for development as therapeutic agents and drug discovery applications
SYNERGY	NetGenics	a single software framework that organises and integrates diverse biological analysis tools and databases

Manager's review (continued)

Other routes to value

As a committed investor IBT supports its investee companies in reaching their goals by taking an involved approach. Members of the IBT team provide guidance and support at many levels to help companies realise their potential, or, as in the case of Biocompatibles, to help them through periods of difficulty.

As well as guidance, IBT is able to add value to its investee companies through the introduction of investors, consultants and scientists to provide support and expertise. The Trust can provide further assistance through the development of the partnering activities of portfolio companies. The year has seen many companies within the portfolio establish or extend collaborations within the pharmaceutical biotechnology industry as summarised in the table *Summary of Collaborators*.

Summary of Collaborators

Abbott Laboratories
Allergan
ArQule
ASTA Medica
Bayer
Boston Scientific Corp
Bristol-Myers Squibb
Centeon
Chiron
Collateral Therapeutics
Cook Inc
Copernicus Gene Systems
DuPont Pharmaceuticals
Eisai
Eli Lilly & co
ErythroMed Inc
FibroGen
Genzyme
Glaxo Research & Development
Incyte Pharmaceuticals
LeukoSite
Medac
Merck
Merck KGaA
Neurogen
Novalon Pharmaceutical
Novartis
Parke-Davis
Pfizer Inc
Pharmacia & Upjohn
Pharmacopeia
Roche
Roche Bioscience
Santen
Schering AG
Schering-Plough
Schwarz Pharma
SmithKline Beecham
Sorin Biomedica
Taiho Pharmaceutical
Warner-Lambert
Zeneca

New investments for the year under review

IBT has made five new investments during the year.

Angiotech Pharmaceuticals Inc

In December 1997, Angiotech raised a total of C$22 million in its IPO of which the IBT contributed C$7 million.

Angiotech is developing new treatments for angiogenesis-dependent disease (characterised by new blood vessel formation) and other diseases involving chronic inflammation. The company has demonstrated that a reformulation of paclitaxel (one of the most commercially successful and clinically effective anti-cancer drugs) may also be effective in treating a number of chronic inflammatory diseases. Paclitaxel for the treatment of rheumatoid arthritis (RA) and multiple sclerosis are both undergoing Phase I trials.

The company has intellectual property rights covering its use of paclitaxel and intends to license its technology to partners in the pharmaceutical and device industry. Angiotech has already licensed its technology to Boston Scientific Corp, Cook Inc, and an option to WL Gore & Associates.

GelTex Pharmaceuticals Inc

In April 1998, IBT made a major investment of US$4.1 million in GelTex, as part of a secondary offering.

GelTex is developing pharmaceuticals that selectively bind and eliminate target substances from the intestinal tract. The intestinal wall acts as a filter between the intestines and the bloodstream allowing small molecules to get through whilst preventing large molecules from entering circulation. GelTex's non-absorbed pharmaceuticals are designed to act in the intestinal tract without absorption into the bloodstream, minimising potential toxicities associated with absorbed drugs.

The company's lead product, RenaGel®, is a phosphate binder for the control of elevated phosphate levels in chronic kidney failure patients. GelTex is in a joint venture with Genzyme Corporation to finalise the development and commercialisation of the drug, which is currently awaiting FDA approval.

The company is also developing CholestGel®, a non-absorbed cholesterol reducer that is more potent at lower doses than current products that tend to require large doses which can cause bloating and constipation. CholestGel® is currently in Phase III trials.

NetGenics Inc

IBT invested US$5 million in NetGenics as the lead investor in a private placement which raised a total of US$17.7 million in March 1998.

NetGenics provides project-team software and related services to manage pharmaceutical research information to accelerate the drug discovery process. By adapting technology developed for the world wide web, the company has created SYNERGY, a proprietary software that organises and integrates biological analysis tools and databases from around the world, providing insights into the function of DNA sequences and their RNA and protein products that may be important as new therapeutic targets. SYNERGY enables researchers to access diverse, otherwise incompatible, data through a single software framework presenting the information in a graphical format that mirrors the organisation of multi-disciplinary drug discovery teams.

Both Incyte Pharmaceuticals and Abbott Laboratories have incorporated SYNERGY software into their drug discovery programmes.

Onyx Pharmaceuticals

IBT invested US$8 million as the lead investor in a US$10 million private placing in January 1998.

Onyx Pharmaceuticals is focused on novel therapeutics based upon the mechanisms underlying the genetics of human disease. The company has five therapeutic discovery programmes to define the function of certain mutated genes that are known to cause cancer, and then to develop innovative therapies that reverse the effects of the mutations or kill the cancer cell.

Onyx's lead product, ONYX-015, is currently in three Phase II studies in head and neck cancer as well as Phase I studies in pancreatic and ovarian cancer and gastrointestinal cancer that has metastasised to the liver. The company has entered into collaborations with Bayer, Warner-Lambert, and Eli Lilly & Co.

Vanguard Medica Group plc

In December 1997, IBT invested £5.5 million as a major investor in Vanguard Medica's £25.7 million financing round.

Vanguard Medica is building a portfolio of new drug candidates through in-licensing and collaborative agreements. It is currently working on four compounds including frovatriptan, for the acute treatment of migraine which is completing Phase III trials and is on track for regulatory submission around the end of 1998, with launch in Europe anticipated in late 1999.

In September 1998, Vanguard announced a new agreement with Roche to develop VML 588, an endothelin antagonist. Vanguard is developing this compound as a treatment for sub arachnoid haemorrhage and as a preventative treatment for acute renal failure which can occur in patients undergoing major surgery. Other development projects include VML 530 an exciting potential oral treatment for asthma, in collaboration with Abbott Laboratories and VML 252 to treat elevated blood phosphate in dialysis patients.

In addition, it was recently announced that Elan Corp is to market frovatriptan in the US.

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

IBT's previous investments continue to report steady progress 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 aims to advance the treatment of autoimmune disease through developing proprietary therapeutics that selectively interrupt progression of the disease without generally suppressing the immune system. AnergiX™, a compound designed to destroy or inactivate specific cells implicated in the disease process, is being developed to combat multiple sclerosis (MS), rheumatoid arthritis (RA), Type I diabetes and myasthenia gravis. The company has completed a Phase I trial in MS and recently begun a Phase I trial in RA. AnervaX™, a synthetic vaccine that stimulates the immune system to produce antibodies that may interfere with the interaction of healthy and destructive cells recently completed Phase IIa clinical trials for the treatment of RA.

Recently the company has reported preclinical studies of DiavaX™, a vaccine that has shown potential to delay or suppress Type I diabetes and Phase I trials may commence within a year.

Biocompatibles International plc

In December 1996, IBT purchased £3.8 million of Biocompatibles' shares and subscribed £3.1 million in the subsequent rights issue.

Biocompatibles is an international healthcare group utilising materials that can interface with a natural substance without provoking a biological response. Its core technology, phosphorylcholine (PC) is an intrinsically biocompatible chemical group found in the membrane of all living cells. Biocompatibles has synthesised PC-containing material for application in medical devices to reduce adverse reactions with body fluids such as blood (to avoid clotting), tear film and urine (to avoid infection).

The company's Eye Care Division manufactures and sells PC-based lenses in the US, UK and mainland Europe. Its Proclear Compatibles™ contact lens is the only lens to carry a label claim allowed by the US Food and Drugs Administration that it may provide improved comfort for contact lens wearers who experience discomfort or symptoms related to dryness during lens wear. The Proclear Compatibles™ contact lens is among the first few products to receive the *Millenium Products Marque* and may be displayed in the Millenium Dome and

Manager's review (continued)

Proclear Compatibles™ contact lens may provide improved comfort for contact lens wearers

at exhibitions throughout the world.

The company's cardiovascular division manufactures and sells PC-coated products for angioplasty (a minimally invasive alternative to heart bypass surgery for treating blocked arteries) such as catheters and stents.

The company has also been working with Sorin Biomedica to improve the biocompatibility of devices used during cardiopulmonary bypass surgery, which are now being launched throughout Europe.

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 developing novel drug discovery technologies that exploit the similarities between the yeast and human genomes, focusing on G protein-coupled receptors (GPCR) molecules that sit on the surface of the cell and initiate a biological response, some of which are also involved in disease processes. Utilising its powerful bioinformatics software and expertise in molecular biology to survey the genetic data from the Human Genome Project to identify orphan GPCRs. The company uses its proprietary Self-Selecting Combinatorial Library (SSCL™), also currently used by SmithKline Beecham under a collaboration agreement, to identify ligands triggering molecules for these orphan receptors. This allows Cadus and its partners to determine the suitability of these new GPCRs as targets for drug discovery.

The company has initiated its own drug discovery programme leveraging its expertise in GPCRs focusing on two therapeutic areas small-cell lung carcinoma and allergic inflammation (including asthma) and has already isolated potential drug lead compounds in both areas.

In addition, Cadus is working with Massachusetts Institute of Technology to develop The Living Chip™ an advanced miniaturised drug screening system.

Cell Therapeutics Inc

Cell Therapeutics 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 the company's Initial Public Offering in March 1997 which raised US$33 million.

Cell Therapeutics focuses on a new class of drugs aimed at selectively regulating cell communication mechanisms in cancer, and immune and inflammatory diseases. The company's lead product, Lisofylline (LSF), to prevent or reduce treatment-related toxicities among cancer patients is currently undergoing Phase III clinical trials in cancer patients undergoing bone marrow transplantation and patients receiving chemotherapy for acute myelogenous leukemia. Also in Phase III trials, LSF is under investigation by the NHLBI for use as an agent to prevent or reduce the incidence and severity of acute lung injury among patients requiring mechanical ventilation for respiratory failure.

In addition, the company is developing CT-2584, a small molecule drug with a unique mechanism of action that is toxic to cancers that resist conventional chemotherapeutic agents without being susceptible to multidrug resistance itself. CT-2584 is currently undergoing Phase II trials.

Cell Therapeutics has recently acquired exclusive rights to a novel polymer conjugate technology called PG-TXL. This agent will enter Phase I trials in 1999.

Cadus is developing drug discovery technologies using yeast and human genomes

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 which raised £22.8 million. In December 1997 and March 1998, IBT made further investments amounting to £1.8 million.

Core Group specialises in drug delivery products for a range of clinical applications and routes of administration. The company combines its proprietary delivery technologies with proven drugs to create enhanced therapeutic products that are targeted at applications poorly addressed by current medications. The company has over ten products in various stages of development based on its two main drug delivery technologies, Hycore™ and Oral Sustained Action Technology (OSAT).

Scotland-based Core Group company is developing more than ten products using its two main drug delivery technologies

Hycore™, for vaginal and rectal delivery is being developed for a number of applications including: a morphine delivery product, Moraxen™, which is expected to be launched in 1999; vaginal candidasis (thrush), currently in Phase III; bacterial vaginosis (Phase II); and an anti-inflammatory product (Phase I). The company has signed a marketing and distribution agreement for the UK and Republic of Ireland with Schwarz Pharma for Moraxen™

OSAT produces coated beads from which a drug is released at a controlled and sustained rate. Beads are produced in tablet or capsule form for oral delivery with formulations for angina, hypertension (Phase II), and morphine for pain control (Phase I) in the pipeline.

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 International is engaged in the discovery and development of a new generation of therapeutics in the fields of blood clot formation (thrombosis), inflammation, cancer and other diseases. The company intends to commercialise oral and injectable formulations of compounds that inhibit the early stages of thrombosis and inflammation involved in heart attacks and strokes. Two of these products, via partnered development programs with Schering-Plough and Pfizer Inc are maturing from discovery to preclinical and Phase I clinical trials, respectively. NIF (neutrophil inhibitory factor) partnered with Pfizer to treat ischemic stroke is currently in a Phase I clinical trial. Corvas' proprietary acute anticoagulant rNAPc2, has completed two Phase I trials with a multicentre Phase II trial scheduled to begin in the last quarter of 1998. Corvas has developed a broad expertise in protease inhibition and vascular biology which it is also leveraging to identify inhibitors for the treatment of hepatitis C and solid tumour cancers.

Cubist Pharmaceuticals Inc

In July 1997, IBT invested US$5 million in Cubist Pharmaceuticals, as the lead investor in a US$6 million follow-on funding in Cubist. Subsequent to year end, in September 1998, IBT invested a further US$500,000 as part of Cubist's US$13.6 million private placement.

Cubist Pharmaceuticals is focused on novel anti-infectives to combat infections caused by drug resistant bacteria and fungi. Combining genomics and bioinformatics expertise with its robotic high throughput screening system and medical chemistry, Cubist can rapidly identify and optimise novel inhibitors for resistant bacteria and fungi. Its integrated drug discovery technologies have generated over 100 antibacterial and antifungal compound leads to date.

The company's lead product, Daptomycin, has already demonstrated safety and efficacy in Phase II clinical trials, displaying potent activity against the most common drug resistant bacteria, addressing the current need for new antibiotics.

Merck & Co Inc and Bristol-Myers Squibb currently collaborate with Cubist to screen their proprietary compound libraries against Cubist's targets to develop novel anti-infective products. In addition, the company has formed biotechnology alliances with ArQule, Genzyme, Neurogen, Novalon Pharmaceutical and Pharmacopeia.

Manager's review (continued)

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. IBT invested a further US$0.3 million in June 1996 and in November 1997 and February 1998, an additional US$2.6 million was invested.

Cytel discovers and develops cell adhesion inhibitors for the treatment of acute and chronic inflammation. These inhibitors have the potential to block the cell adhesion molecules that trigger inflammatory disease.

Its lead drug candidate, Cylexin®, is used to prevent reperfusion injury in infants undergoing cardiopulmonary bypass during surgery and is currently in clinical registration trials in hospitals throughout the US and Canada.

The company also manufactures bioactive carbohydrates for use in medical and consumer products. Glytec™, the company's carbohydrate business unit enables the large-scale manufacture of these molecules at a commercially viable cost.

A majority owned subsidiary of Cytel, Epimmune Inc, was established in 1997 to develop novel vaccines that stimulate the body's immune system to treat and prevent infectious diseases and cancer.

LocalMed Inc

In February 1996, IBT invested US$3 million as the lead investor in a US$16 million private placement by LocalMed.

LocalMed is a medical device company whose proprietary technology transforms existing balloon catheters into drug delivery systems that work in conjunction with standard catheters used for angioplasty (a minimally invasive alternative to heart bypass surgery for treating blocked arteries) avoiding the need for multiple catheters during angioplasty procedures.

InfusaSleeve, LocalMed's first product, enables the effective delivery of therapeutic agents to specific sites in coronary arteries and is the first commercially available device capable of intramural delivery of therapeutic agents. Schwarz-Pharma is currently using InfusaSleeve to deliver one of its compounds to the coronary arteries of angioplasty patients.

The company is currently developing two further products: the Rhapsody 'single operator' PTCA catheter system for use in all angioplasty procedures; and StentaSleeve to deliver, position and provide superior deployment of stents (scaffolding for narrow arteries) without requiring the withdrawal or replacement of the initial angioplasty balloon catheter.

LocalMed's InfuSleeve delivers to specific sites in coronary arteries and is the first commercially available device of its kind

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 develops antibody-based therapeutics to fight life threatening and debilitating diseases. Its core technologies include bispecific antibodies that enhance and direct the body's own immune system to fight a disease.

Medarex's proprietary HuMAb-Mouse™ antibody development system creates fully human monoclonal antibodies without the complex genetic engineering or humanisation usually required.

The company's immunotoxin technology exploits the special targeting ability of antibodies that enables the destruction of specific cells involved in the disease process.

Medarex has six therapeutic products in clinical development to treat autoimmune diseases and cancer, and collaborative agreements with Novartis, Merck KGaA, Centeon, Eisai, Santen, LeukoSite, Medac, Schering AG, ErythroMed Inc, Bristol-Myers Squibb and FibroGen.

MorphoSys AG

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

MorphoSys develops and applies technologies that accelerate drug discovery and target characterisation based on combinatorial biology: the use of vast and efficiently created biomolecule libraries.

Its Human Combinatorial Antibody Library (HuCAL) rapidly and reliably generates antibodies which can be developed as therapeutic agents. They can also be used for protein characterisation, target validation, high-throughput drug screening and other drug discovery applications. The company's Selectively-Infective Phage (SIP) methodology enables efficient screening of large collections of compounds. Furthermore, the technology can be used to determine the function of the drug targets (e.g. cell-surface receptors, signalling molecules and related proteins).

The company has collaboration agreements with P&U, DuPont Pharmaceuticals and LeukoSite.

Ribozyme Pharmaceuticals Inc

In June 1995, Ribozyme 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. In October 1997, IBT invested a further US$2.2 million.

Ribozyme Pharmaceuticals (RPI) investigates 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 company's proprietary technology enables the chemical synthesis of ribozymes that are stable in human serum for many days. The company has a product portfolio of ribozymes for the treatment of a broad range of acute and chronic diseases including cancer (Angiozyme™), diabetes and HIV. RPI's ribozymes for the treatment of HIV are currently undergoing Phase I/II trials.

In June 1998, RPI formed a new company, Atugen Biotechnology GmbH, in Berlin, Germany, to utilise RPI's proprietary ribozyme and related technologies as a continuation of the company's target validation and discovery business.

The company has collaborative agreements with Chiron, Parke-Davis (a division of Warner-Lambert), Schering AG, Roche Bioscience, and Glaxo Research and Development Ltd.

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 is focused on small molecule drugs that target specific cell signalling pathways implicated in a number of chronic and acute pathological diseases including cancer, diabetes, and immune and neurological disorders. The company's lead product, SU101, is a synthetic molecule that inhibits platelet-derived growth factor (PDGF) receptors. To date, over 240 patients have been treated with SU101 in 11 company-sponsored clinical trials up to Phase III.

SUGEN has a number of other anti-cancer treatments in development including SU5416, currently in Phase I and I/II, for preventing angiogenesis (new blood vessel formation) in solid tumour patients. In collaboration with ASTA Medica, the company is developing inhibitors that target receptors involved in breast, head, neck and other tumours.

Outside its cancer programmes, SUGEN is researching inhibitors to treat psoriasis (Phase I), Type I and II diabetes, ophthalmic disorders, immune suppression and acute inflammation.

In addition to ASTA, the company has collaborative agreements with Zeneca, Allergan and Taiho Pharmaceutical Ltd.

Targeted Genetics Corporation

In July 1995, IBT was the lead investor providing US$4.5 million of a US$12.5 million private 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. In April 1998, IBT invested a further US$3.0 million.

Targeted Genetics develops gene and cell therapy products for the treatment of certain acquired and inherited diseases.

The company's technology platform exploits a range of gene delivery mechanisms that transfer therapeutic genes to specific cells involved in each target disease. The company has three lead product development programmes focusing on: cystic fibrosis, involving the company's lead product, tgAAV-CFTR (Phase II), which is designed to correct the genetic defect responsible for cystic fibrosis; cancer (Phase II), based on a tumour suppressor shown to inhibit very lethal types of cancer; and, infectious diseases, where the company uses its Rapid Expansion Method (REM) to grow billions of disease-specific 'killer T cells' that have the potential to amplify the immune system to combat a range of diseases. The company is currently undergoing a Phase I study for the treatment of HIV and animal studies for Hepatitis B.

Targeted genetics has recently signed collaborative agreements with Collateral Therapeutics, the National Heart, Lung and Blood Institute and Copernicus Gene Systems.

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 FRS

Professor of Medicine and head of MRC Molecular Medicine at the Imperial College School of Medicine, 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 1998.

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 1997 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 24. The Directors do not propose the payment of a dividend (1997: nil).

'C' shares

On 24 April 1998 the 19,356,066 'C' shares then in issue (the 'second 'C' shares') were converted into 24,360,520 Ordinary shares with 4,383,790 warrants attached, in accordance with the Prospectus dated 8 May 1997. The relevant Ordinary shares and warrants were admitted to the Official List of the London Stock Exchange on 24 April 1998.

Substantial shareholdings in the Company

So far as the Directors are aware, the only substantial shareholdings in the Company at 31 August 1998 were as follows:

Substantial shareholdings Ordinary shares

	Ordinary shares 25p
Co-operative Insurance Society Limited	12,261,467
Scottish Widows' Investment Management Limited	10,282,833
Sun Life Investment Management	9,359,896
Zeneca Limited	6,531,755
Lucas Pensions Trust Limited	5,828,329
Guardian Asset Management	5,646,442
Commerical Union Asset Management	3,882,044

Directors

A list of the present Directors of the Company who all served throughout the period under review is to be found on page 6 and constitutes part of this report.

Mr Donald Cecil, Mr Gary Brass and Mr Howard Greene retire at the Annual General Meeting and, being eligible, offer themselves for re-election to the Board.

The beneficial interests of Directors in the share capital of the Company at 31 August 1998 are shown in the Register of Directors' Interests; this Register will be available for inspection during normal business hours at the registered office.

Directors' interests

		1998		*1997*		
		Ordinary shares 25p	*warrants*	*Ordinary shares 25p*	*'C' shares 100p*	*warrants*
John Green-Armytage	*Beneficial*	35,000	52,000	10,000		52,000
	Non-beneficial	15,000	3,000	15,000		3,000
Donald Cecil		77,770	14,794	40,000	30,000	8,000
Peter Collacott		12,367	2,258	6,072	5,000	1,126
Jeremy Curnock Cook		20,867	2,958	9,572	5,000	1,826
Gary Brass	*Beneficial*	10,000	2,000	10,000		2,000
	Non-beneficial	440,000	10,000	430,000		10,000
Dennis Turner		23,153	2,371	6,858	5,000	1,239
Stephen Duzan		47,770	8,794	10,000	30,000	2,000
Howard Greene		35,000	7,000	35,000		7,000
James Grant		8,147	2,566	5,000	2,500	1,000

Directors' report (continued)

Since 31 August 1998 there has been no change in directors' interests.

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 Jeremy Curnock Cook is a Director. 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, 4.3 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.

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 auditors, KPMG Audit Plc, have 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 22.

Year 2000 compliance

Many computer systems express dates using only the last two digits for the year and will thus require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunction and resulting widespread commercial disruption, the *millenium problem.*

Rothschild Asset Management Limited, and Computershare Services PLC are in the process of ensuring that their IT systems will be compliant for the year 2000. Both parties are not aware of any costs associated with implementing year 2000 compliance which will be incurred directly by the Company.

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 1998, the Company owed £490 to suppliers in respect of invoices received but unpaid (average creditors' days : 0).

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).

per pro

ROTHSCHILD ASSET MANAGEMENT LIMITED

By order of the Board
ROTHSCHILD ASSET MANAGEMENT LIMITED
Secretary, Five Arrows House, St Swithin's Lane,
London, EC4N 8NR.
23 October 1998

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 24 to 34.

Respective responsibilities of Directors and Auditors

As described on page 22, 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 1998 and of it's total return 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
23 October 1998

Statement of total return (incorporating the revenue account)

for the year ended 31 August 1998

	Notes	Revenue £	Capital £	1998 Total £	Revenue £	Capital £	1997 Total £
Realised gains on investments	13	-	4,122,493	4,122,493	-	5,523,777	5,523,777
Incentive fee payable	9	-	-	-	-	(261,704)	(261,704)
(Decrease)/increase in unrealised appreciation on investments	14	-	(55,402,295)	(55,402,295)	-	8,200,051	8,200,051
Dividend income		53,381	-	53,381	12	-	12
Interest from current asset investments		871,295	-	871,295	521,784	-	521,784
Deposit interest		10,421	-	10,421	69,916	-	69,916
Underwriting commission		69,735	-	69,735	12,650	-	12,650
		1,004,832	(51,279,802)	(50,274,970)	604,362	13,462,124	14,066,486
Administrative expenses	3	(1,745,537)	-	(1,745,537)	(1,553,019)	-	(1,553,019)
Net (loss)/return before finance costs and taxation		(740,705)	(51,279,802)	(52,020,507)	(948,657)	13,462,124	12,513,467
Interest payable	4	(8,690)	-	(8,690)	(959)	-	(959)
(Loss)/return on ordinary activities before taxation		(749,395)	(51,279,802)	(52,029,197)	(949,616)	13,462,124	12,512,508
Taxation on ordinary activities	5	13,763	-	13,763	(4,278)	-	(4,278)
(Loss)/return on ordinary activities after taxation		(735,632)	(51,279,802)	(52,015,434)	(953,894)	13,462,124	12,508,230
Dividend in respect of equity shares		-	-	-	-	-	-
Transfer (from)/to reserves		(735,632)	(51,279,802)	(52,015,434)	(953,894)	13,462,124	12,508,230
(Loss)/return per Ordinary share							
Basic	6	(1.25)p	(71.19)p	(72.44)p	(2.10)p	23.96p	21.86p
Fully diluted		n/a	(60.29)p	(60.29)p	n/a	17.79p	17.79p
Return/(loss) per second 'C' share							
Basic	6	0.30p	(31.08)p	(30.78)p	4.63p	3.18p	7.81p
Fully diluted		n/a	n/a	n/a	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 28 to 34 form part of these financial statements.

Balance sheet

as at 31 August 1998

	Notes	1998 £	1998 £	1997 £	1997 £
Fixed Assets					
Investments	1(b) & 7		42,238,583		80,900,071
Current Assets					
Debtors					
Prepayments and accrued income		44,644		407,876	
Taxation recoverable		111,377		124,922	
Subscription monies receivable	9	-		235,533	
		156,021		768,331	
Investments	1(b) & 8	5,883,366		18,768,977	
Cash at bank	18	16,714		137,494	
		6,056,101		19,674,802	
Creditors: amounts falling due within one year					
Incentive fee payable	9	-		261,704	
Accruals		484,677		435,594	
		484,677		697,298	
Net current assets			5,571,424		18,977,504
Net assets			47,810,007		99,877,575
Capital and Reserves					
Called up share capital	10		22,000,281		35,205,273
Shares to be issued	9		-		235,533
Share premium account	11		55,432,178		42,936,350
Warrant reserves	12		5,013,255		4,120,692
Capital reserve - realised	13		10,340,823		6,218,330
Capital reserve - unrealised	14		(42,987,471)		12,414,824
Revenue reserves	15		(1,989,059)		(1,253,427)
Equity shareholders' funds			47,810,007		99,877,575
Net asset value per share	19				
- basic:					
Ordinary shares			***54.33p***		***127.13p***
second 'C' shares			-		***99.61p***
- fully diluted:					
Ordinary shares			***61.29p***		***122.60p***
second 'C' shares			-		***99.61p***

John Green-Armytage, Director
Peter Collacott, Director

Approved by the Board of Directors on 23 October 1998

The notes on pages 28 to 34 form part of these financial statements.

Cash flow statement

for the year ended 31 August 1998

	Notes		1998		1997
		£	£	£	£
Operating Activities					
Dividend income received		53,381		12	
Income received from current asset investments		1,230,692		185,093	
Deposit interest received		10,625		71,460	
Underwriting commission received		69,735		12,650	
Management fee paid		(1,024,315)		(984,994)	
Other cash payments		(613,017)		(478,893)	
Net cash outflow from operating activities	16		(272,899)		(1,194,672)
Servicing of finance					
Interest paid		(783)		(959)	
Dividend paid		-		-	
Cash outflow from servicing of finance			(783)		(959)
Taxation					
Corporation Tax refunded/(paid)			21,770		94,967
Taxation suffered on overseas income			(57,860)		(4,925)
Financial investment					
Purchase of investments		(27,920,870)		(29,929,262)	
Sale of investments		15,302,556		23,856,072	
Incentive fee paid		(261,704)		-	
Net cash outflow from financial investment			(12,880,018)		(6,073,190)
Net cash outflow before use of liquid resources and financing			(13,189,790)		(7,178,779)
Management of liquid resources	17		12,885,611		(11,724,047)
Financing					
Issue of Ordinary shares		235,533		-	
Conversion of warrants into Ordinary shares	10	1,924		6,461	
Net (costs)/proceeds from issue of 'C' shares	10, 11	(54,058)		18,924,314	
Net cash inflow from financing			183,399		18,930,775
(Decrease)/increase in cash	18		(120,780)		27,949

The notes on pages 28 to 34 form part of these financial statements.

Reconciliation of movements in Shareholders' funds

for the year ended 31 August 1998

			1998
	Ordinary shares	*Second 'C' shares*	*Total*
	£	*£*	*£*
Shareholders' funds at 1 September 1997	80,597,073	19,280,502	99,877,575
Revenue (loss)/return for the year (see below)	(919,192)	183,560	(735,632)
Capital (loss)/return for the year (see below)	(53,336,321)	2,056,519	(51,279,802)
Net proceeds from the issue of second 'C' shares	-	(54,058)	(54,058)
Proceeds from the exercising of warrants	1,924	-	1,924
Net addition to shareholders' funds	(54,253,589)	2,186,021	(52,067,568)
Transfer of balance on conversion (see below)	21,466,523	(21,466,523)	-
	(32,787,066)	(19,280,502)	(52,067,568)
Shareholders' funds at 31 August 1998	47,810,007	-	47,810,007

On 24 April 1998 the second issue of 'C' shares were converted into Ordinary shares and warrants in accordance with the Prospectus dated 8 May 1997. As a result, all assets and liabilities and items of income and expenditure attributable to the second 'C' shares were transferred to the Ordinary share pool on the conversion date.

The notes on pages 28 to 34 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 SSgA Cash Management Fund Plc (formerly 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 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. One Director of the Company has an interest in the Manager as detailed on page 20.

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 £890,292 are included within Administrative expenses. The amount outstanding at the balance sheet date is £143,625. Also under this agreement, there is an incentive fee which may become payable to the Manager if certain investment performance criteria are met.

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 £16,714 with N M Rothschild & Sons Limited.

3. *Administrative expenses*

		1998	1997
		£	£
Management and general expenses		1,716,792	1,532,503
Auditors' remuneration:	audit	17,350	11,700
	other services	11,395	8,816
		1,745,537	1,553,019

Management and general expenses include management fees of £890,292 as detailed in note 2. Directors' fees of £161,046 are included in management and general expenses. Directors' fees due to Mr Jeremy Curnock Cook are payable to Rothschild Asset Management Limited as were those due to Mr Peter Collacott until his retirement from that Company. 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*

	1998	1997
	£	£
Overdraft charges	785	959
Other interest charges	7,905	-
	8,690	959

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 13 May 1999. 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 1998 the facility was undrawn.

5. *Taxation*

	1998	1997
	£	£
Corporation tax recovered	(21,770)	-
Income tax suffered on overseas income	8,007	3,629
Under accrual in the prior year	-	649
	(13,763)	4,278

Losses of £2,257,744 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:

	1998		1997	
	25p Ordinary shares	*100p second 'C' shares*	*25p Ordinary shares*	*100p second 'C' shares*
Basic:				
Net revenue (loss)/return after taxation	£(793,185)	£57,553	£(1,165,072)	£211,178
Net capital (loss)/return	£(45,263,354)	£(6,016,448)	£13,317,114	£145,010
Weighted average number of shares	63,584,228	19,356,066	55,750,635	4,560,607
Fully diluted:				
Fully diluted capital (loss)/return	£(45,263,354)	n/a*	£13,317,114	n/a*
Fully diluted number of shares on exercise of warrants outstanding	75,078,184	n/a*	74,845,329	n/a*

* Fully diluted returns per share are not applicable for the year ended 31 August 1998 and the year ended 31 August 1997 where the respective basic return per Ordinary share is negative (ie a loss). Also, as there were no warrants attached to the second 'C' shares there are no diluting effects.

Notes

continued

7. Fixed asset investments

	25p Ordinary share pool £	100p 'C' share pool £	1998 Total £
(a) Investments comprise:			
Quoted on the NASDAQ Exchange	25,505,982	-	25,505,982
Quoted on the London Stock Exchange	6,943,250	-	6,943,250
Quoted on the Toronto Stock Exchange	2,538,943	-	2,538,943
Unquoted	7,250,408	-	7,250,408
Valuation of investments at 31 August 1998	42,238,583	-	42,238,583
(b) Movements on investments:			
Valuation of investments at 31 August 1997	77,945,798	2,954,273	80,900,071
Unrealised (appreciation)/depreciation at 31 August 1997	(12,269,814)	(145,010)	(12,414,824)
Cost at 1 September 1997	65,675,984	2,809,263	68,485,247
Additions at cost	12,725,703	13,689,307	26,415,010
Disposals at cost	(10,191,842)	-	(10,191,842)
Cost at 24 April 1998	68,209,845	16,498,570	84,708,415
Conversion of second 'C' shares (see below)	16,498,570	(16,498,570)	-
Post-conversion cost at 24 April 1998	84,708,415	-	84,708,415
Additions at cost	1,505,860	-	1,505,860
Disposals at cost	(380,178)	-	(380,178)
Cost at 31 August 1998	85,834,097	-	85,834,097
Increase in provision for permanent impairment in value	(608,043)	-	(608,043)
Unrealised appreciation/(depreciation) at 31 August 1998	(42,987,471)	-	(42,987,471)
Valuation of investments at 31 August 1998	42,238,583	-	42,238,583

On 24 April 1998 the second 'C' shares converted into 25p Ordinary shares in accordance with the Prospectus dated 9 May 1997. As a result, investments previously attributable to the second 'C' share pool were transferred to the Ordinary share pool at cost.

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.

During the year the carrying value of the investment in LocalMed, an unquoted company, was written down by £608,043. The cost of this investment is £1,931,727 and the carrying value as at 31 August 1998 is £1,343,684 compared to £1,849,796 at 31 August 1997.

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

Company	*Class of shares held*	*% of class held*
Anergen Inc	Common	12.9
Core Group (incorporated in UK)	Ordinary	12.7
Targeted Genetics	Common	11.9
Ribozyme Pharmaceuticals Inc	Common	11.1
Cubist Pharmaceuticals Inc	Common	10.6
Netgenics	Series D Preferred	10.6
Cytel	Common	10.0

Further details concerning these investments are set out on page 36.

8. Current asset investments

	1998			1997		
	25p Ordinary share pool	100p 'C' share pool	Total	25p Ordinary share pool	100p 'C' share pool	Total
	£	£	£	£	£	£
SSgA Cash Management Fund Plc	5,883,366	-	5,883,366	2,672,500	5,631,000	8,303,500
Five Arrows Currency Fund Limited	-	-	-	-	10,465,477	10,465,477
	5,883,366	-	5,883,366	2,672,500	16,096,477	18,768,977

The shares of SSgA Cash Management Fund Plc (formerly 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 set out 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.

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 1997	240,000,000	60,000,000	30,000,000	30,000,000	90,000,000
Balance at 31 August 1998	240,000,000	60,000,000	30,000,000	30,000,000	90,000,000

	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 1997	63,396,826	15,849,207	19,356,066	19,356,066	35,205,273
Conversion of second 'C' shares (see below)	24,369,520	6,092,379	(19,356,066)	(19,356,066)	(13,263,687)
Shares issued on exercise of warrants	1,924	481	-	-	481
Shares issued on payment on incentive fee	232,855	58,214	-	-	58,214
Balance at 31 August 1998	88,001,125	22,000,281	-	-	22,000,281

On 24 April 1998 the 19,356,066 'C' shares then in issue (the 'second 'C' shares') were converted into 24,369,520 Ordinary shares, with 4,383,790 warrants attached. The number of new Ordinary shares issued was determined by the ratio of the Net Asset Value attributable to each 'C' share divided by the undiluted Net Asset Value attributable to each existing Ordinary share. The number of new warrants issued was on the basis of the ratio of existing warrants to existing Ordinary share.

1,924 Ordinary shares of 25p each were allotted during the year in respect of warrants exercised at £1.00 per Ordinary share on 31 January 1998.

Notes

continued

11. Share premium account

	25p Ordinary shares £	100p 'C' shares £	Total £
Balance at 1 September 1997			
As previously stated	43,493,657	(431,752)	43,061,905
Prior year adjustment (note 12)	(125,555)	-	(125,555)
As restated	43,368,102	(431,752)	42,936,350
Costs relating to 'C' share issue	-	(54,058)	(54,058)
Conversion of second 'C' shares on 24 April 1998			
Transfer of second 'C' shares balance	(485,810)	485,810	-
Premium on issue of New Ordinary shares	13,263,687	-	13,263,687
Issue of warrants (note 12)	(892,563)	-	(892,563)
Ordinary shares issued on exercise of warrants	1,443	-	1,443
Ordinary shares issued on payment of incentive fee	177,319	-	177,319
Balance at 31 August 1998	55,432,178	-	55,432,178

12. Warrant reserves

	Exercised £	Unexercised £	Total £
Balance at 1 September 1997			
As previously stated	222,704	3,772,433	3,995,137
Prior year adjustment	-	125,555	125,555
As restated	222,704	3,897,988	4,120,692
Warrants exercised on 31 January 1998	671	(671)	-
Issue of warrants on 24 April 1998	-	892,563	892,563
Balance at 31 August 1998	223,375	4,789,880	5,013,255

Prior year adjustment

The directors have been advised that for statutory accounts purposes, the basis of allocation of 'C' share issue proceeds between Ordinary shares and warrants should be based on their relative values at the date of issue of the 'C' shares rather than at the date of conversion. As a result, the share premium account at 31 August 1997 has been decreased by £125,555, and the warrant reserve increased by the same amount. This has no effect on shareholders' funds or on profits available for distribution.

As part of the conversion of the second 'C' shares, and in accordance with the terms of conversion, 4,383,790 warrants were issued on 24 April 1998.

1,924 warrants were exercised during the year (1997: 6,461). The remaining 15,830,369 warrants in issue as at 31 August 1998 (1997: 11,448,503) can be exercised at £1.00 per Ordinary share on 31 January 1999.

13. Capital reserves - realised

	25p Ordinary shares £	100p 'C' shares £	Total £
Balance at 1 September 1997	6,218,330	-	6,218,330
Realised gains on sale of investments to 24 April 1998	5,088,824	-	5,088,824
	11,307,154	-	11,307,154
Transfer of balance on conversion of second 'C' shares	-	-	-
Balance at 24 April 1998	11,307,154	-	11,307,154
Realised losses on sale of investments to 31 August 1998	(358,288)	-	(358,288)
Provision for permanent impairment in value	(608,043)	-	(608,043)
Balance at 31 August 1998	10,340,823	-	10,340,823

14. Capital reserves - unrealised

	25p Ordinary shares	100p 'C' shares	Total
	£	£	£
Balance at 1 September 1997	12,269,814	145,010	12,414,824
(Decrease)/increase in unrealised appreciation to 24 April 1998	(29,270,335)	2,056,519	(27,213,816)
	(17,000,521)	2,201,529	(14,798,992)
Transfer of balance on conversion of second 'C' shares	2,201,529	(2,201,529)	-
Decrease in unrealised appreciation to 31 August 1998	(28,188,479)	-	(28,188,479)
Balance at 31 August 1998	(42,987,471)	-	(42,987,471)

15. Revenue reserves

	25p Ordinary shares	100p 'C' shares	Total
	£	£	£
Balance at 1 September 1997	(1,464,605)	211,178	(1,253,427)
(Loss)/return for the period to 24 April 1998	(464,130)	183,560	(280,570)
Balance at 24 April 1998	(1,928,735)	394,738	(1,533,997)
Transfer of balance on conversion of second 'C' shares	394,738	(394,738)	-
	-	-	-
Loss for the period to 31 August 1998 (see below)	(455,062)	-	(455,062)
Balance at 31 August 1998	(1,989,059)	-	(1,989,059)

On 24 April 1998 the second issue of 'C' shares were converted into Ordinary shares and warrants in accordance with the Prospectus dated 8 May 1997. As a result, all revenue reserves attributable to the second '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

	1998	1997
	£	£
Loss on ordinary activities before taxation	(749,395)	(949,616)
Decrease/(increase) in prepayments and accrued income	363,232	(330,984)
Decrease/(increase) in other debtors	63,398	(66,762)
Increase/(decrease) in creditors	49,083	151,731
Interest paid	783	959
Net cash outflow from operating activities	(272,899)	(1,194,672)

17. Management of liquid resources

	1998	1997
	£	£
Net sale/(purchase) of current asset investments:		
Five Arrows Cash Management Fund Plc	2,420,134	(8,303,500)
Five Arrows Currency Fund Limited	10,465,477	(3,420,547)
	12,885,611	(11,724,047)

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

	1998	1997
	£	£
Balance at 1 September 1997	137,494	109,545
(Decrease)/increase in cash	(120,780)	27,949
Balance at 31 August 1998	16,714	137,494

Notes

continued

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:

	1998		*1997*
	25p Ordinary shares	*25p Ordinary shares*	*100p second 'C' shares*
Basic:			
Net assets	£47,810,006	£80,597,073	£19,280,502
Number of shares	88,001,125	63,396,826	19,356,066
Net asset value per share	54.33p	127.13p	99.61p
Fully diluted:			
Net assets	£47,810,006	£80,597,073	£19,280,502
Proceeds from exercise of warrants outstanding	£15,830,369	£11,448,503	n/a
	£63,640,375	£92,045,576	£19,280,502
Basic number of shares	88,001,125	63,396,826	19,356,066
Outstanding warrants exercised	15,830,369	11,448,503	n/a
Shares to be issued (note 9)	-	232,855	n/a
Fully diluted number of shares	103,831,494	75,078,184	19,356,066
Net asset value per share	61.29p	122.60p	99.61p

Shares and warrants

historic prices for Capital Gains Tax purposes

Original issue

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 cost is calculated as follows:

Cost ascribed to an Ordinary share $= \dfrac{94.5}{(94.5 + 39 \times 0.2)} \times 100p = \boldsymbol{92.38p}$ Cost ascribed to a warrant $= \dfrac{39}{(94.5 + 39 \times 0.2)} \times 100p = \boldsymbol{38.12p}$

First 'C' issue

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 cost is calculated as follows:

Cost ascribed to an Ordinary share $= \dfrac{97.5}{(97.5 + 1/5.533877 \times 27.5)} \times 100p = \boldsymbol{95.15p}$ Cost ascribed to a warrant $= \dfrac{27.5}{(97.5 + 1/5.533877 \times 27.5)} \times 100p = \boldsymbol{26.84p}$

Second 'C' issue

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.

Dealings in the New Ordinary shares and the attached warrants issued on conversion of the second 'C' shares commenced on Friday 24 April 1998. The closing mid-market prices on this date, as derived from the *London Stock Exchange Daily Official List* were:

Ordinary shares of 25p each: 66.5p   warrants to subscribe for one share: 8.5p

The warrants were issued on the basis of one warrant for every 5.55900632 New Ordinary shares arising on conversion. Therefore the pro rata cost is calculated as follows:

Cost ascribed to an Ordinary share $= \dfrac{66.5}{(66.5 + 1/5.55900632 \times 8.5)} \times 100p = \boldsymbol{97.75p}$ Cost ascribed to a warrant $= \dfrac{8.5}{(66.5 + 1/5.55900632 \times 8.5)} \times 100p = \boldsymbol{12.49p}$

Classification of investments by value

at 31 August 1998

	Total 31 August 1998 %
Equities - North America	
Pharmaceuticals:	
Quoted	66
Unquoted	10
Equities - UK	
Healthcare	
Quoted	4
Pharmaceuticals	
Quoted	13
Equities - Europe	
Pharmaceuticals:	
Unquoted	7
Total	100
Number of individual holdings:	*No.*
Target investments	19
Shorter term investments	1
Total	20

Investments by value

at 31 August 1998

			Investee company statistics as at date of last audited results			
	Value £000	*Book cost* £000	*Proportion of investee company's capital owned*	*Notes*	*Proportion of investee company's assets attributable to investment, £000*	*(Loss) per share* £
Core investments						
SUGEN	4,949	4,849	4.6	1	1,371	(1.50)
Vanguard Medica**	3,007	5,514	4.3	1	2,318	(0.85)
Netgenics*	2,986	3,000	10.6	1	203	***
MorphoSys*	2,921	2,809	9.7	1	681	***
Onyx Pharmaceuticals	2,682	4,959	9.9	1	1,735	(1.00)
Angiotech Pharmaceuticals	2,539	2,992	6.0	2	288	***
Core Group	2,397	5,336	12.7	1	2,983	(0.17)
Targeted Genetics**	2,253	5.257	11.9	1	404	(0.43)
Corvas International**	2,090	4,628	9.3	1	1,269	(0.11)
Cytel	1,956	4,833	10.0	1	1,483	(0.34)
Anergen	1,912	3,136	12.9	1	611	(0.27)
Medarex	1,829	3,168	3.9	1	135	(1.78)
Cubist Pharmaceuticals	1,583	4,068	10.6	1	1,228	(0.15)
Biocompatibles International**	1,539	6,903	2.2	1	444	(0.39)
Cadus Pharmaceuticals	1,523	3,815	6.5	1	1,600	(0.27)
Geltex Pharmaceuticals	1,523	2,426	0.9	1	292	(1.09)
Cell Therapeutics	1,470	9,472	8.8	1	3,839	(1.10)
Ribozyme Pharmaceuticals	1,436	5,805	11.1	1	1,273	(1.24)
LocalMed*	1,344	1,952	4.2	1	85	(0.78)
Non-core investments						
Microcide Pharmaceuticals	299	909	1.1	1	325	(0.26)

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

1. The date of the last audited results used was 31 December 1997.
2. The date of the last audited results used was 30 September 1997.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the FIFTH ANNUAL GENERAL MEETING of International Biotechnology Trust plc will be held at City Presentation Centre, 4 Chiswell Street, Finsbury Square, London EC1Y 4UP on 19 November 1998 at 3.00pm to:

1. receive the Accounts for the year ended 31 August 1998 together with the Directors' and Auditors' Reports thereon (Resolution 1)
2. re-elect Mr Donald Cecil as a Director (Resolution 2)
3. re-elect Mr Gary Brass as a Director (Resolution 3)
4. re-elect Mr Howard Greene as a Director (Resolution 4)
5. appoint KPMG Audit Plc as Auditor of the Company and authorise the Directors to fix their remuneration (Resolution 5)

A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his stead: such proxies need not be members of the Company. A form of proxy for the use of members is enclosed with this Report.

By order of the Board
ROTHSCHILD ASSET MANAGEMENT LIMITED
Secretary

Five Arrows House
St Swithin's Lane
London
EC4N 8NR
23 October 1998

Form of proxy

International Biotechnology Investment Trust plc

For the use of Ordinary shareholders of International Biotechnology Trust plc at the Annual General Meeting to be held on Thursday 19 November 1998 at 3.00pm and at any adjournment thereof.

Please insert full name(s) and address(es) in block letters

I/we ______________________________

of ______________________________

being (a) member(s) of International Biotechnology Trust plc, hereby appoint Mr John Green-Armytage, the Chairman of the Company, or failing him, the Chairman of the Meeting, (see note 1)

____

as my/our Proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 19 November 1998 at 3.00pm and at any adjournment thereof.

Please indicate with an 'X' in the appropriate spaces below how you wish your votes to be cast.
On receipt of this form duly signed, but without any specific directions as to how you wish your votes to be cast, your proxy will vote or abstain at his or her discretion.

Ordinary resolutions	***For***	***Against***
1. To adopt the Accounts for the year ended 31 August 1998 together with the Directors' and Auditors' Reports thereon.		
2. To re-elect Mr Donald Cecil as a Director.		
3. To re-elect Mr Gary Brass as a Director		
4. To re-elect Mr Howard Greene as a Director		
5. To re-appoint KPMG Audit Plc as Auditors and authorise the Directors to fix their remuneration.		

Signed this __________ day of ____________________ 1998
Signature ______________________________

Notes

1. If you wish to appoint another person to be your proxy instead of the Chairman of the Meeting, you should delete the words "Mr John Green-Armytage, the Chairman of the Company, or failing him, the Chairman of the Meeting." and write the name of your proxy in the space provided and initial the alteration. The person appointed need not be a member of the Company.
2. This proxy, to be valid, must be completed, signed and lodged with the Registrars of the Company, Computershare Services PLC, Registrar's Department, PO Box 457, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 OXG, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting or for taking a poll at which the person named therein proposes to vote.
3. If the appointer is a corporation this proxy must be under its Common Seal or under the hand of an officer or attorney duly authorised.
4. In the case of joint holders, the votes of the senior who tenders the votes, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members.

1st fold

Cut along line and detach

2nd fold

BUSINESS REPLY SERVICE
Licence No EH59

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3rd fold and tuck in