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FINSBURY LIFE SCIENCES INVESTMENT TRUST PLC



Annual Report

Year Ended 31 March 2002

Close Finsbury

Investment objective

Finsbury Life Sciences Investment Trust PLC invests in life science companies based in the UK, Western Europe (including Scandinavia) and Israel with particular emphasis on biotechnology with the objective of achieving long term capital growth.

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Company Summary

Key Statistics

	Year ended 31 March 2002	Year ended 31 March 2001	% change
Shareholders' Funds	£35.871m	£49.229m	-27.1
Net Asset Value per share	119.2p	163.6p	-27.1
Share Price	102.5p	159.0p	-35.5
Discount	14.0%	2.8%	--
FTSE All-Share Index (total return)	2,545.5	2,628.7	-3.2
Lehman's UK and European Biotechnology Index	293.4	376.7	-22.1
Total expense ratio*	2.0%	2.0%	--

*see glossary on page 42

Continuation Vote

The Company will hold a vote on whether to continue as an investment trust at the Annual General Meeting in 2007 and every five years thereafter.

Capital Structure

The Company has 30,100,000 Ordinary shares in issue.

Gearing

The Company has a £5 million loan facility with Allied Irish Banks plc. As at the date hereof the loan is not utilised.

Annual General Meeting

The Annual General Meeting of Finsbury Life Sciences Investment Trust PLC will be held at 10 Crown Place, London EC2A 4FT on 23 July 2002 at 12 noon.

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

Performance Summary

Performance since launch

	Launch (June) 1997	1998	1999	2000	2001	2002
Shareholders' Funds	£29.2m	£29.6m	£24.7m	£54.6m	£49.2m	£35.9m
Net Asset Value per share	97.0p	98.4p	82.2p	181.3p	163.6p	119.2p
Share price	110.5p	88.0p	65.9p	165.0p	159.0p	102.5p
Discount/(premium)	(13.9%)	10.6%	19.8%	9.0%	2.8%	14.0%
FTSE All-Share Index (total return)	1,928.4	2,510.6	2,680.6	2,945.8	2,628.7	2,545.5
Lehman's UK and Europe Biotechnology Index	343.4	265.8	166.3	421.9	376.7	293.4

Cumulative performance

	Launch (June) 1997	1998	1999	2000	2001	2002
Shareholders' Funds	100.0	101.4	84.7	186.9	168.7	122.9
Net Asset Value per share	100.0	101.4	84.7	186.9	168.7	122.9
Share Price	100.0	79.6	59.6	149.3	143.9	92.8
FTSE All-Share Index (total return)	100.0	130.2	139.0	152.8	136.3	132.0
Lehman's UK and Europe Biotechnology Index	100.0	77.4	48.4	122.8	109.7	85.4

Figures have been rebased to 100 at launch (June 1997)

Performance Graph

Chairman's Statement

Performance

During the year ended 31 March 2002 the Company's net asset value per share ("NAV") declined from 163.6p to 119.2p, a fall of 27.1%. This compares with a decrease of 22.1% in the Lehman's UK and European Biotechnology Index and 3.2% in the FTSE All-Share Index (total return), which is our benchmark index. Since the Company was launched in June 1997 NAV has increased by 22.9% which compares to a decline of 14.6% in the Lehman's UK and European Biotechnology Index and a gain of 32.0% in the FTSE All-Share Index (total return).

During the year the share price fell 35.5% from 159.0p to 102.5p. This fall has led to a widening of the discount of the share price to the NAV from 2.8% to 14.0%.

Results and Dividend

The total deficit for the year ended 31 March 2002 was 44.4p per share (2001: 17.5p). This was made up of a revenue deficit of 0.6p per share (2001: return of 0.3p) and a capital deficit of 43.8p per share (2001: 17.8p).

The investments making up the Company's investment portfolio typically provide a very low yield. No dividend is to be recommended in respect of the year ended 31 March 2002 (2001: 0.2p).

Review of year and outlook

The last year has been an extremely difficult one for investors in the biotechnology sector. After the initial publicity surrounding the sequencing of the human genome, the market has gradually appreciated that it will take many years before products utilising this technology gain approval. Following the withdrawal of several high profile drugs, the US Food and Drug Administration (FDA) is extending the time it takes to consider new drug applications and is adopting more stringent approval criteria; this has contributed to probably the worst period for clinical data since the Company was launched. Of particular concern was the rejection by the FDA of Imclone's lead product, Erbitux. Bristol-Myers Squibb paid nearly US\$2b to add this product to its pipeline and the refusal of Erbitux has underlined the risks inherent in the sector. This poor news flow all took place against the background of a severe decline in technology markets generally, a slowdown in the global economy and the tragic events of 11 September 2001.

Despite this gloom the long term fundamentals of the industry remain compelling. The ageing population of the developed world is leading to rising healthcare budgets. Pharmaceutical companies face mounting problems with patent expiry and are increasingly reliant on biotechnology companies to fill their product pipelines. A growing number of biotechnology companies are becoming profitable and the industry now has hundreds of products in late-stage trials. Finally, technological advances such as those in genomics and proteomics will, over time, revolutionise the treatment of illness.

The biotechnology sector is a volatile one and we have seen cyclical downturns before. The falls experienced over the last year have been particularly sharp and it may take some time for sentiment to improve. Nonetheless we remain confident that the prospects for the sector remain good and that it will provide positive returns to the long-term investor.

Annual General Meeting

The Annual General Meeting of the Company will be held on 23 July 2002 at 12 noon and I hope as many shareholders as are able will attend. This will be an opportunity to meet the Board and to hear a presentation from Dr Andrew Clark, of Reabourne, and Peter Keen of Merlin Biosciences. A map showing the location of the Annual General Meeting can be found on page 41.

John Sclater, Chairman

20 June 2002

Review of Investments

Investment Review

This has been a poor year for both the biotechnology sector and Company. The NAV per share declined by 27.1% compared to a decline of only 3.2% in the benchmark FTSE All Share Index. More regrettably this decline exceeded the 22.1% by which the Lehmans UK and European Biotechnology index fell, although this index was reconstituted during the year and has one component which accounts for nearly 50% of the index weighting (Serono). The smaller capitalisation stocks have had a wretched year, particularly on the continental European bourses. However, we should emphasise that we are not trying to track an index, but to provide a broadly-based exposure to the best biotechnology and life sciences companies in Europe.

Quoted investments

At the time the half-year report for the Company was written biotechnology stocks had suffered a period of significant declines in share price, but there was some light on the horizon. We commented in particular that the deal between Imclone and Bristol Myers underlined the importance and value that big pharmaceutical companies placed on breakthrough pharmaceuticals coming from the biotechnology industry. Little did we truly appreciate just how significant the Bristol Myers deal with Imclone was or the impact it would have on the sector. Unfortunately, it was not the positive catalyst we were hoping for: far from it, for when Imclone filed their anti-cancer drug with the Food and Drug Administration (FDA) in the US, the filing was immediately rejected by the agency. This caused uproar in the market, because Bristol Myers had paid nearly \$2billion to add this drug to their pipeline. Allegations of fraud, deceit, improper share transactions and illegal dealing hit the headlines. There were Congressional Committee hearings and SEC investigations, generating a huge amount of negative publicity.

It was the most significant disaster in a period that contained possibly the worst sustained news flow that the sector has ever seen. In the first quarter of 2002 alone, some 26 US small cap biotechnology stocks lost in excess of 50% of their value. Every piece of data coming out of the sector, every clinical trial result, every FDA ruling seemed to be negative. To make matters worse, all of this was happening against the backdrop of a broader technology market in the throes of a major correction following the bubble valuations of the 'dot.com' boom. The Imclone story had several major psychological implications. First it reinforced preconceptions that biotechnology investing was excessively risky; if Bristol Myers couldn't undertake effective due diligence on a product that it was spending \$2billion on, what chance for the small investor? Second, it raised the spectre that big pharmaceutical companies would become far more hesitant in doing substantial deals with the biotechnology industry. Third, it raised suspicions that some biotechnology company management teams were operating 'get rich quick' schemes for their own benefit.

Another factor that has had a major impact on the biotechnology/life sciences sector was the tragic events of the terrorist attacks on 11 September. In the immediate aftermath of the attacks almost all US businesses were disrupted to some extent. In the pharmaceutical industry, as in many others, major projects were put on hold and budget expenditure was held over. In the academic research sphere, the US Congress postponed legislation on the budgets for the various academic agencies whilst the various pieces of anti-terrorist legislation were debated. This resulted in academic units being unsure as to their budgets for the year 2002 and the whole order pattern for capital equipment, consumables and other research equipment was disrupted. We have seen the results of these disruptions evident in the disappointing first quarter results from equipment providers such as Biacore and the suppliers of consumables such as Qiagen.

The cumulative result of all these negative influences has been to push investor sentiment to the lowest level we can recall. This applies equally to the European sector, as biotechnology is an industry strongly influenced by sentiment in the US market. In addition the European sector has an investor base less familiar with the vagaries of investing in biotechnology, or indeed equity growth investing in general. Continental European investors have reacted badly to the poor news flow and negative sentiment, and stock prices have suffered accordingly.

Review of Investments

However, before we succeed in convincing all our investors that biotechnology is a disaster it would seem sensible to re-appraise where the industry is now and where it might be going forward. It is well known that changes in sentiment cause significant swings in the valuations of biotechnology companies. This occurs largely because there is no definitive way of placing an accurate valuation on companies whose future earnings depend upon the successful conclusion of research and development that has not yet been done. What is not in dispute is that there are now more than 25 profitable and growing biotechnology companies and over the next few years there will be significantly more. Similarly, there is an ever growing number of approved pharmaceutical products which have originated out of the biotechnology industry, and again, over the next few years there will be many more. Large pharmaceutical companies have not abandoned their research programmes, and indeed the government funding of medical research has been considerably increased in the US. It is reasonable to assume that expenditure deferred from the beginning of the year because of budgetary uncertainties will be implemented in the second half. This may not entirely make up for the weakness seen since September, but should certainly result in a significant up-turn in the order levels for both the research equipment and consumables business.

Equally significant is the dilemma faced by the world's largest pharmaceutical companies. The Imclone debacle illustrated just how desperate the multinationals are for potential 'blockbuster' products. Patent expiries are really beginning to bite into the revenue streams of these major companies, as exemplified by the disappointing forecasts of Merck, Bristol Myers, Astra Zeneca, Glaxo and Novo Nordisk to mention a few. There is a limit to how far the bottom line of these companies can be protected by mergers and cost reductions. In the end they will still need new products to drive their profitability and they are not finding them internally. Pressures from patent expiry will get worse as governments move to block the numerous legal loopholes that companies are currently exploiting to extend the patent life on their products. Governments want to see generic companies free to enter the market sooner, because they will make massive savings on state-funded drugs bills, but these savings come at the expense of the big pharmaceutical companies. Legal precedent such as the 'Festo' ruling and new legislation such as the amendment to the Hatch-Waxman bill will curtail many patent extension practices currently used in the US. This is good news for the biotechnology industry because competition amongst the majors for access to promising drugs will improve the terms on which biotechnology companies can license products.

Having outlined the current parlous state of the biotechnology industry it is appropriate to look at how the Company's portfolio is positioned and to explain in more detail the fundamentals of some of our investee companies. The objective of the portfolio has always been to provide exposure to the cutting edge of biotechnology development companies across Europe. As managers we have a preferential focus on smaller, technology-rich companies but any portfolio needs a balance of larger, more established companies to add stability. Four of the top five quoted holdings in the portfolio are currently profitable, namely Teva, Celltech, Shire and Biacore and these companies alone account for over 20% of the portfolio.

Biosearch Italia is focused on the design of novel antibiotics, in particular to treat drug resistant pathogens. Resistance to bacteria is a serious and growing problem in hospitals around the world. It is in hospitals that pathogenic bacteria are exposed to both a wide range of antibiotics, and a patient population with damaged immune systems. These patients are particularly vulnerable to infection as they are unable to mount a normal defence to bacterial attack. Biosearch have three novel compounds in human clinical trials, one in each phase of development from early to late stage. The company has adopted a novel approach to the development of these compounds, licensing out the US rights in exchange for a partner funding all the development of the compounds – an admirably low risk approach.

deCODE Genetics is an Icelandic company which uses population genetics to identify genes that are significantly involved in disease conditions. The Icelandic population is a unique study population, in that it is highly conserved over 1,000 years with very low numbers of migrants. Second, culturally Icelanders have a story telling history and genealogy is important, so the entire population can be mapped in terms of family history and antecedents. Finally, the healthcare provision in Iceland is universal and equal so no bias has been introduced to survival by differing availability of care. Thus Iceland has a truly unique population for study. The company is working with Roche to identify disease genes and to produce both drugs and diagnostics to provide better therapies. deCode also have extensive expertise in bioinformatics, and complex data analysis and may at some point provide software solutions to other drug discovery groups or even healthcare providers.

Review of Investments

However, as recent times have demonstrated, even the more established businesses are affected by negative sentiment and both Shire and Celltech have suffered in the market; Celltech as a result of poorer than expected sales of Metadate CD and Shire as a result of guiding up expenses for new product launches in 2002/3. These events whilst disappointing short-term should have relatively little impact on the long-term future of the companies; they remain good, well-managed businesses and are core holdings in the portfolio. At the same time we seek to gain exposure across Europe to the best technology available. As we wrote in the half-year report, prices for technology platform companies had become very depressed and we were building positions in these companies, although such a position was contrarian and our timing might be early. As it transpires we were early and the positions we acquired continued to suffer in the market downturn, in other words stocks we thought were 'cheap' six months ago have continued to get cheaper. Nonetheless, we continue to believe that these companies represent compelling value at current market prices and we are continuing to build our positions over time. Crucell, deCODE Genetics, Lion Bioscience and Evotec Biosystems all seem to represent deeply discounted technology value. In addition we have continued to support some of the smallest product companies in the sector such as Advanced Medical Solutions in the UK and Vitrolife in Sweden.

Unquoted investments

Up to 25% of the assets of the Company are available for investment in unquoted securities.

The principal unquoted investment is the Company's commitment to The Merlin Fund L.P. ("the Fund"), a Jersey based limited partnership investing in early-stage biotechnology companies. The Company's total commitment is £5.83 million of which £5.58 million had been drawn down as at 31 March 2002. As at the year-end the Fund is carried at a valuation of £5.49 million. All unquoted investments held by the Fund are valued in accordance with guidelines of the British Venture Capital Association.

The Fund's portfolio consists of eight companies covering a range of therapeutic areas including cancer, vaccines, neuro-repair and drug delivery. No new investments were made by the Fund during the year while £2.26 million was invested in existing portfolio companies as follow-on finance.

To date one of these investments, ReNeuron Holdings plc, has been listed on the Alternative Investment Market. This investment is still subject to trading restrictions and in accordance with the Fund's valuation policy for quoted investments a provision of 15% has been applied to the market value at the year-end. As reported in the interim accounts ReNeuron announced successful Phase Ia trials for its most advanced compounds, however it has also reported delays in the commencement of clinical trials utilising its stem cell technology, which together with general adverse market sentiment has led the share price to fall resulting in a reduction in the Company's investment in the Fund to fall of £2.1 million.

ICON is an Irish Contract Research Organisation (CRO). The management of

human clinical trials is a specialist, complex and expensive task, particularly if a drug is being developed globally where trials have to be run in parallel in multiple geographies. Large pharmaceutical companies are capable of managing such trials themselves - although they prefer not to - but small companies simply cannot. Companies such as Icon are specialist outsourcing organisations devoted exclusively to designing, running and advising on clinical trials for the pharmaceutical industry. Barriers to entry are high, as customers require very high levels of satisfaction and confidence before they will commit hundreds of millions of dollars in research costs to a CRO. At the same time the increasing complexity and number of trials is pushing pharmaceutical companies to outsourcing. Icon has a high quality reputation and a strong customer base and we expect it to continue to benefit from the trend to outsourcing.

Vitrolife is a Swedish company whose area of expertise is in cell culture media. Any laboratory or

production system that wants to grow or sustain populations of cells has to provide them with an appropriate environment. Vitrolife specialise in the production of human cell media in two fields, maintenance media for transplant organs, and culture media for 'in vitro' fertilisation. It is the latter that offers great opportunity; at present culture media used in IVF can only sustain the fertilised embryo for about 48 hours, not long enough to be certain of viability. Vitrolife media allow the embryo to continue to divide for another 24 hours, possibly longer, allowing much greater certainty of viability. As a result success rates in IVF procedures using these media could be improved by up to 20%. This is hugely significant both for patients and the clinics providing the procedure and yet would incur only a relatively minor increase in cost.

Review of Investments

Despite the poor financing climate for technology and in particular biotechnology companies in the public markets, there are available funds for private companies with strong pipelines and management teams. The quality of the Merlin Fund's portfolio is demonstrated by the fact that five of the eight companies refinanced during the period, raising over £94 million.

Three companies, Cyclacel, Microscience and Ark Therapeutics, completed funding rounds, which should, subject to market conditions, be their last financings prior to IPO. Ark Therapeutics refinanced in August 2001 and its business model, clinical pipeline and management team were such that the Company decided in early 2002 that it was at a stage that it should seek a main market listing. Against a background of significant falls in the value of publicly quoted biotechnology companies and an adverse market sentiment for IPOs it was decided on 16 May 2002 to postpone the listing. This was not only a disappointment to us, but to the biotechnology sector in general, who saw a successful listing for Ark as an indicator that the IPO window was opening. Ark still has cash in excess of £20 million.

The Fund also suffered a disappointment when KinderTec's lead product, the InTouch baby monitor was subject to a product recall in late August 2001. This action had an effect on the Company's future prospects and it was felt prudent to make a provision against the equity investment during the period, which remains.

The Merlin Fund companies are well positioned to ride out the current adverse market conditions for the sector. The companies are continuing to develop their product pipelines, which will allow them to differentiate themselves when the markets reopen and we continue to work with the management teams to explore potential acquisition or merger opportunities that would add value and potentially accelerate a realisation opportunity. That said, in common with many industry commentators we have been saying for some time that consolidation should be occurring, but to date the number of such transactions has been small.

In addition to its holdings through the Merlin Fund, the Company holds three further investments in unquoted companies at the period end, the investment in LiDCO having been realised during the period, following its IPO on AIM in July 2001.

Given the current condition of the public markets, we anticipate there being several potential unquoted investment opportunities as quality companies that had previously expected to access publicly quoted markets seek further private finance. With the current unfavourable outlook for IPOs, we remain cautious about making further investments until such time as valuations for these late stage companies in the private market properly reflect depressed public valuations.

Outlook

Both the biotechnology industry and Finsbury Life Sciences Investment Trust have had a dismal year and as always in such circumstances it is difficult even to speculate as to the catalyst that will change market sentiment. Certainly we need positive data from trials, positive recommendations from regulatory bodies, improving orders from pharmaceutical majors, more collaborations and possibly even some consolidation in the sector. It is when these events will occur that is hard to fathom; in previous cycles there has always been some event that was considered to be pivotal in changing sentiment, but it is usually only apparent after the event. We remain convinced that in time the industry and the markets will repay the patience and belief of long term investors.

Dr Andrew Clark

Close Finsbury Asset Management Limited, Investment Manager

Rebourne Technology Investment Management Limited, Investment Adviser

Peter Keen

Merlin Biosciences Limited, Investment Adviser

20 June 2002

Analysis of Portfolio

Geographic Analysis

2002

2001

Investments

The investments as at 31 March 2002 were:

Investment	Country	Market value £000	% of investments
Merlin Fund LP (Unquoted)+	United Kingdom	5,488	15.4
Teva Pharmaceuticals	Israel	2,687	7.5
Celltech Group	United Kingdom	2,003	5.6
Alizyme	United Kingdom	1,831	5.1
Shire Pharmaceutical	United Kingdom	1,629	4.6
Biacore International	Sweden	1,567	4.4
Gyrus Group	United Kingdom	1,424	4.0
Cambridge Antibody Technology	United Kingdom	1,144	3.2
Evotec Biosystems	Germany	1,121	3.2
Nicox	France	1,073	3.0
Top ten investments		19,967	56.0
Altana	Germany	917	2.6
Qiagen	Germany	863	2.4
Novuspharma	Italy	860	2.4
Vitrolife	Sweden	806	2.3
PPL Therapeutics	United Kingdom	767	2.2
Biosearch Italia	Italy	750	2.1
Lion Bioscience	Germany	705	2.0
Weston Medical Group	United Kingdom	693	1.9
Crucell	The Netherlands	692	1.9
GPC Biotech	Germany	676	1.9
Top twenty investments		27,696	77.7
Provalis	United Kingdom	671	1.9
Isotis	The Netherlands	670	1.9
deCODE Genetics	Iceland	624	1.8
Icon	Ireland	573	1.6
Pharmagene	United Kingdom	517	1.4
Cyclacel (unquoted)	United Kingdom	499	1.4
Elekta	Sweden	491	1.4
H.Lunbeck	Denmark	423	1.2
Valentis	USA	372	1.0
Acambis	United Kingdom	360	1.0
Top thirty investments		32,896	92.3
ML Laboratories	United Kingdom	332	0.9
Deltex Medical Group	United Kingdom	315	0.9
Advanced Medical Solutions	United Kingdom	292	0.8
Biora	Sweden	236	0.7
Biotie Therapies	Finland	200	0.6

Investments

Investment	Country	Market value £000	% of investments
Biotrin (Unquoted)	Ireland	194	0.6
Flamel Technologies	France	189	0.5
Genset	France	185	0.5
Phytopharm	United Kingdom	185	0.5
XTL Biopharmaceuticals	Israel	172	0.5
Top forty investments		35,196	98.8
British Biotech	United Kingdom	114	0.3
ReNeuron	United Kingdom	112	0.3
Roesch Medizintechnik	Germany	90	0.3
Celsis	United Kingdom	51	0.1
Tepnel Life Sciences	United Kingdom	38	0.1
OM 2000 (in liquidation)	United Kingdom	32	0.1
Nigra * (Unquoted)	United Kingdom	-	-
Biovector Therapeutics *(Unquoted)	France	-	-
Total Investments		35,633	100.0

+ The Merlin Fund LP is a Jersey based limited partnership. All of the underlying holdings of the Merlin Fund are based in the United Kingdom

* A full provision has been made against these investments

All of the above investments are equities unless otherwise stated

The Merlin Fund LP

The Merlin Fund is a Jersey based limited partnership in which the Company has a 15% interest. The principal purpose of The Merlin Fund is to invest in early stage biotechnology companies. All of the investee companies held by the Merlin Fund are unquoted with the exception of ReNeuron Holdings plc which is listed on the Alternative Investment Market.

Investment	Country	Value of the Company's interest £000	% of investments
Ark Therapeutics Limited	United Kingdom	1,333	24.3
Cyclacel Limited	United Kingdom	825	15.0
PanTherix Limited	United Kingdom	691	12.6
Vectura Limited	United Kingdom	681	12.4
Microscience Limited	United Kingdom	654	11.9
BioVex Limited	United Kingdom	608	11.1
ReNeuron Holdings plc	United Kingdom	570	10.4
KinderTec Limited	United Kingdom	21	0.4
Cash and other assets		105	1.9
Total		5,488	100.0

Investment Advisers Profile

Rebourne Technology Investment Management Limited

Investment Philosophy

Selective stock-picking and early stage investment form the two corner stones of Rebourne's investment philosophy. Rebourne believes that these principles deliver higher returns over the long term.

Stock Picking

Portfolios are constructed on a bottom-up basis, where stocks are selected primarily with regard to their individual merits, rather than a top-down basis, which sub-ordinates stock selection to the implementation of macro-judgements of industry trends and the achievement of index derived sector distribution targets. The sector and country distributions that result from this process are monitored only as a risk control mechanism.

Early Stage Investment

In the stock selection process, a particular priority is given to identifying newer, leading-edge technology companies, with good management, and investing in them at an early stage. This inevitably involves investment in small and micro capitalisation issues, with the increased risks that this implies, but experience suggests that, if risks are diversified and the selection process backed up by appropriate expertise, the greater long term returns will fully justify this approach. Details of the investment process and the credentials for the investment team are set out below.

Investment Process

Using the scientific, business and financial experience within the Rebourne team, the investment process involves an initial assessment of the following in relation to each company in which investment is proposed:

- (i) the scientific trends within the scientific technology area;
- (ii) the stage(s) of development of that technology; and
- (iii) the growth potential and market size for the applications of that technology.

Following this assessment, Rebourne identifies the universe of companies involved in the development of the relevant technology. In respect of potential investee companies, Rebourne seeks to:

- (i) assess the research and development programme of the company on a scientific basis. Its soundness is verified by Rebourne's in-house expertise and cross-referenced to academic research and/or the company's peer group within the research field. In addition, further cross-referencing is undertaken, where appropriate, with customers, suppliers, competitors and partners;
- (ii) assess the competitive positioning of the company and barriers to entry in the industry which may not necessarily be directly related to technologies (e.g. secured access to suppliers, exclusivity of partnership, customer base, brand name, access to capital markets);
- (iii) identify the existing and future revenue and profit drivers and test the financial forecast derived from the company's business development with the market expectations for the potential of the technology in which the company is engaged; and
- (iv) assess the quality of the management team and its level of interest in minority shareholders; Rebourne usually recommends investing in companies only where it has met the members of the management team.

Investment Advisers Profile

The Reabourne Team

Reabourne has a multi-disciplined team of experts with considerable experience in a range of sectors. The team has a balance of scientific, business and technical skills. As well as conducting fundamental analysis, members of the team regularly meet with senior executives and scientific, research and development executives of investee and potential investee companies. The team includes:

Michael Bourne BA, A.C.A

Michael Bourne, aged 43, founded Reabourne in 1995. He was formerly director of Henderson Investment Management, a division of Henderson Administration Group plc, where his responsibilities included joint fund management of two top performing funds, namely HTR Global Technology Unit Trust and TR Technology PLC. Previously (from 1988 to 1992) he was the fund manager of Prolific Technology Unit Trust which won Micropal awards in 1991 and 1992. He is the lead manager of Finsbury Technology Trust plc.

Pierre-André Boutin BSc

Pierre-André Boutin, aged 35, joined Reabourne in May 2000. He has extensive experience in investment management as an analyst with Banque Nationale de Paris and more recently, as a fund manager with Schroder Investment Management Limited.

Andrew Clark Ph.D.

Dr Andrew Clark, aged 42, jointly founded Reabourne with Michael Bourne. He was formerly a biotechnology and pharmaceutical analyst with Barings Securities Limited. Previously he was with Smith Newcourt Securities Limited (from 1991 to 1994) providing quantitative support and technical information for the Japanese derivatives desk, and prior to that he was a postdoctoral research fellow at Oxford University. Dr Clark is the lead fund manager of Finsbury Life Sciences Investment Trust PLC.

Graham Morton BEc. DipFin Man. A.C.A.

Graham Morton, aged 47, a chartered accountant, joined Reabourne in 1999 as an investment manager. He was formerly chief executive officer of the European operation of Burdett Buckridge and Young and from 1982 to 1989 was a partner of the Australian stockbroker, Bain and Company.

Jeremy Gleeson M.Sc.

Jeremy Gleeson, aged 28, has been with Reabourne since 1997 after gaining a Master of Science in Systems Engineering. Whilst at Reabourne he has focused on global technology companies.

Huaizheng Peng M.D Ph.D.

Dr Huaizheng Peng, aged 39, joined Reabourne in 1999 as an investment analyst specialising in global biotechnology companies. He previously practised as a doctor of medicine and as a lecturer in molecular pathology at University College, London.

Investment Advisers Profile

Merlin Biosciences Limited

Merlin Biosciences (Merlin) is a specialist venture capital and advisory company dedicated to the life sciences sector. In addition to the Company, Merlin is the Investment Adviser to two venture funds, the Merlin Fund L.P. and the Merlin Biosciences Fund L.P. Merlin is an active manager and provides hands-on support to biotechnology companies at all stages of their development – from start up to IPO.

The team includes:

Professor Sir Christopher Evans OBE, DSc, Chairman

Sir Christopher co-founded Merlin in 1996 and is widely regarded as one of the UK's leading biotechnology entrepreneurs having founded a number of high-technology companies, three of which are now publicly listed. Sir Christopher was appointed an OBE for services to biotechnology in 1995 and he was knighted in the New Years Honours List 2001. He has been actively involved in many of the government's biotechnology initiatives and he also holds Professorships at a number of UK universities.

Peter Keen, Managing Director – UK

A chartered accountant, Peter Keen co-founded Merlin in 1996 with Sir Christopher. Prior to Merlin, he gained over 12 years experience in the financial management and development of bioscience companies. He was a co-founder of Chiroscience Group plc and has been involved in the formation and development of many companies including those within the Merlin Fund L.P. He is a member of the British Venture Capital Association's High Tech Committee and a number of UK University and Research Council advisory boards involved in the commercial exploitation of science.

Mark Clement, Managing Director – European

Mark Clement joined Merlin in March 2000. A Chartered Accountant and Fellow of the Securities Institute he has over 17 years corporate finance experience with Coopers and Lybrand, Price Waterhouse, Hoare Govett, and more recently Panmure Gordon. In 1992 he was co-founder and Finance Director of Celsis International plc. He has extensive experience in negotiating and managing collaborations and consolidations both in the US and in Europe. He is a non-executive director of investee companies within the Merlin Biosciences Fund L.P.

Company Information

Directors

John Sclater CVO, Chairman

John Sclater (61) was appointed Chairman in June 1997. He is chairman of Graphite Enterprise Trust PLC, Graphite Private Equity Trust PLC, and Argent Group Europe Limited. He is deputy chairman of Millennium & Copthorne Hotels PLC and a director of James Cropper PLC, Wates Group Ltd and other companies. He is a Trustee of The Grosvenor Estate and was formerly Chairman of Foreign & Colonial Investment Trust PLC.

Paul Gaunt

Paul Gaunt (53) was appointed a Director in June 1997. He has nearly 30 years experience within the investment industry and was the senior investment manager of The Equitable Life Assurance Society between 1987 and 1997. He is a non-executive director of a number of companies including BRiT Insurance Holdings PLC, Finsbury Technology Trust PLC, Finsbury Worldwide Pharmaceutical Trust PLC and Numis PLC.

Dr John Gordon

Dr John Gordon (57) was appointed a Director in June 1997. He is Chairman of Quercus Management Limited (a biotechnology consultancy and support company), and Manchester Innovation Limited, the technology transfer company for the University of Manchester. He was previously a main board director of British Biotech PLC, PowderJect Pharmaceuticals Plc and PathoGenesis Corporation, and he has served as a non-executive director of several unquoted biotech companies. Before joining British Biotech, he worked at Beecham Research Laboratories, Cambridge University and the Medical Research Council.

Peter Keen

Peter Keen (44), a chartered accountant, was appointed a Director in June 1997. He is UK Managing Director of Merlin Biosciences Limited, the Investment Adviser to the Merlin Fund LP and one of the Company's Investment Advisers. Mr Keen's non-executive directorships include ReNeuron Holdings plc and other board positions in investee companies of the Merlin Fund LP and The Merlin Biosciences Fund LP.

Anthony Townsend

Anthony Townsend (54) was appointed a Director in June 1997. He is chairman of Rebourne Technology Investment Management Limited (one of the Investment Advisers). He is a non-executive director of BRiT Insurance Holdings PLC and eight investment trust companies

including Finsbury Growth Trust PLC, Finsbury Smaller Quoted Companies Trust PLC, Finsbury Technology Trust PLC and Finsbury Worldwide Pharmaceutical Trust PLC. He is Chairman of the Association of Investment Trust Companies.

The Rt. Hon. The Lord Waldegrave of North Hill

Lord Waldegrave (55) was appointed a Director in June 1998. He is a Chairman of The Global Financial Institutions Group at Dresdner Kleinwort Wasserstein and a non-executive director of Bristol and West PLC. Between 1979 and 1997 he was Conservative MP for Bristol West. He held a number of Cabinet Posts between 1981 and 1987, including Secretary of State for Health, Minister of Science and Chief Secretary to the Treasury. He is Chairman of The National Museum of Science and Technology.

Secretary & Registered Office

Close Finsbury Asset Management Limited
12 Appold Street
London EC2A 2AW

Company Number

3376377 (Registered in England)

Investment Manager

Close Finsbury Asset Management Limited
12 Appold Street
London EC2A 2AW

Investment Advisers

Rebourne Technology Investment Management Limited
12 Appold Street
London EC2A 2AW

Merlin Biosciences Limited

12 St James's Square
London SW1Y 4RB

Auditors

RSM Robson Rhodes
186 City Road
London EC1V 2NU

Stockbroker

Dresdner Kleinwort Wasserstein Securities Limited
PO Box 500, 20 Fenchurch Street
London EC3P 3DB

Shareholder Information

Investment Manager

Close Finsbury Asset Management Limited
12 Appold Street
London EC2A 2AW
Investor Helpline: 0800 169 6968
Professional Advisers Helpline: 020 7426 4372
E-Mail: info@closefinsbury.com
Website: www.closefinsbury.com

Please contact Close Finsbury to obtain information and literature concerning the Company or the other Finsbury investment trusts.

Registrars

Capita IRG plc
Balfour House
390/398 High Road
Ilford, Essex IG1 1NQ
Telephone: 020 8639 2000

Please contact the Registrars if you have a query about a certificated holding in the Company's shares.

Close Finsbury ISA, Savings Scheme & PEP

Close Finsbury Asset Management Limited
3 Finsbury Avenue
London EC2M 2NB
Freephone: 0800 169 6968

Please contact Close Finsbury Asset Management Limited if you have a query concerning a Close Finsbury Savings Scheme, PEP or ISA account.

Professional Advisers Helpline

Telephone: 020 7426 4372
Email: info@closefinsbury.com
Website: www.closefinsbury.com

Online Investment

Now available at:
www.closefinsbury.com

Share Price Listings

The price of your shares can be found in the Financial Times under the heading Investment Companies and in The Daily Telegraph under the heading Investment Trusts.

In addition, share price information can be found under the following:

	<u>Code</u>
<i>Bloomberg</i>	
Ordinary shares	FLS LN
<i>Reuters</i>	
Ordinary shares	FLS.L
<i>SEAQ</i>	
Ordinary shares	FLS

Internet addresses

Close Finsbury www.closefinsbury.com
Trustnet www.trustnet.co.uk

Financial Calendar

Company year end	31 March
Preliminary full year figures announced	June
Annual Report sent to shareholders	June
Annual General Meeting held	23 July
Announcement of interim figures	November
Interim report sent to shareholders	November

Shareholder Analysis

	As at 31 March 2002 number of shares	% holding	As at 31 March 2001 number of shares	% holding
Investment funds	6,152,000	20.4	5,462,692	18.2
Insurance companies	4,348,213	14.5	10,717,916	35.6
Pension funds	1,739,823	5.8	96,823	0.3
Other Institutions	1,774,474	5.9	2,067,139	6.9
Total Institutions	14,014,510	46.6	18,344,570	61.0
Private Investors	13,141,402	43.7	9,527,994	31.6
Close Finsbury ISA, PEP and Savings Scheme	2,268,843	7.5	1,543,514	5.1
Other PEP and ISA clients	675,245	2.2	683,922	2.3
Total Individuals	16,085,490	53.4	11,755,430	39.0
Total shares in issue	30,100,000	100.0	30,100,000	100.0

Report of the Directors

The Directors present their Report and Financial Statements for the year ended 31 March 2002.

Status and Activities

During the year under review the Company has continued to conduct its affairs so as to qualify as an investment company, as defined under Section 266 of the Companies Act 1985, and an investment trust within the meaning of Section 842 of the Income and Corporation Taxes Act 1988. The Directors are of the opinion that the Company has subsequently directed its affairs so as to enable it to continue to obtain Inland Revenue approval as such. The Company has received written certification from the Inland Revenue as an investment trust for all years up to and including the year ended 31 March 2001.

There has been no significant change in the activities of the Company during the year and the Directors anticipate that the Company will continue to operate in the same manner during the current year.

The Company currently manages its affairs so as to be a fully qualifying investment trust for ISA purposes. As a result, under current UK legislation, the shares qualify for investment in the stocks and shares component of a non-CAT Standard ISA up to the full annual subscription limit (currently £7,000 in the tax years ending 5 April 2006 for maxi-account ISAs and £3,000 for mini-account ISAs). The Company's shares are fully qualifying for inclusion in an existing PEP. It is the present intention that the Company will conduct its affairs so as to continue to qualify for ISA and PEP products.

Results and Dividends

The results attributable to shareholders for the year and the transfer to reserves are shown on page 24. No dividend is proposed in respect of the year ended 31 March 2002.

	2002	2001
	£000	£000
Final dividend: nil (2001: 0.2p)	-	60

Fixed Asset Investments

The market value of the Group's investments at 31 March 2002 was £35,633,000 (2001: £46,806,000). Taking these investments at this valuation, the net assets attributable to each ordinary share amounted to 119.2p at 31 March 2002 (2001: 163.6p).

Management

Investment Management Agreement: investment management services are provided by Close Finsbury Asset Management Limited ("Investment Manager"). The Investment Manager is a wholly owned subsidiary of Close Brothers Group plc. Details of the fees paid to the Investment Manager can be found in note 3 on pages 29 to 30. The Investment Management Agreement may be terminated on not less than 24 months notice.

Investment Advisory Agreement: investment advisory services are provided to the Investment Manager by Merlin Biosciences Limited and Rebourne Technology Investment Management Limited ("Rebourne") (collectively the "Investment Advisers"). Rebourne is a subsidiary of Close Brothers Group plc in which Michael Bourne and Dr Andrew Clark have a significant interest. Details of the fees paid to the Investment Advisers may be found in note 3 on pages 29 to 30. The Investment Advisory Agreement may be terminated on not less than 24 months notice.

Administrative and Secretarial Services: administrative and secretarial services are provided by Close Finsbury Asset Management Limited ("Secretary"). The Secretary is a wholly owned subsidiary of Close Brothers Group plc. Between 1 April and 30 September 2001 the Secretary received a fee of £40,000 pa plus 0.05% of the Company's gross assets over £40,000,000. Since the 1 October 2001 the Secretary has received a flat rate fee of £55,000 pa in respect of its services to the Group. The Administrative and Secretarial Services Agreement may be terminated on not less than 12 months notice.

Report of the Directors

Directors

The present members of the Board, all of whom served throughout the year, are shown on page 15. Under the Articles of Association Mr Peter Keen and Mr Anthony Townsend retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The interests of Directors and their families in the Company, all of which are beneficial, are set out below:

	Ordinary shares of 25p each	
	31 March 2002	1 April 2001
John Sclater	9,355	-
Paul Gaunt	-	-
Dr John Gordon	20,000	20,000
Peter Keen	13,232	13,232
Anthony Townsend	160,000	160,000
Lord Waldegrave	3,000	3,000

No change in the Directors' interests has occurred between 31 March 2002 and the date of this report. None of the Directors were granted or exercised rights over shares during the year

Mr Keen is a director of Merlin Biosciences Limited, one of the Investment Advisers to the Company and the investment adviser to the Merlin Fund. Mr Keen is a director of a number of investee companies of the Merlin Fund and in some instances fees are received by Merlin Biosciences Limited in respect of his services as a director. Mr Townsend is chairman of Rebourne Technology Investment Management Limited, one of the Investment Advisers to the Company. Merlin Biosciences Limited and Rebourne Technology Investment Management Limited are parties to the Investment Advisory Agreement described in the Management section of this report and in note 3 to the accounts. None of the other Directors had an interest in any contracts (including service contracts) with the Company.

Substantial Shareholdings

At the date of this report the following interests in the Ordinary shares of the Company which exceeded 3 per cent of the issued share capital of that class have been notified:

	No. of shares	%
Merchant Investment Assurance Co	2,281,250	7.58
Prudential Assurance Company	2,000,000	6.64
Jupiter Fund of Investment Funds	1,975,000	6.56
Exeter Asset Management Limited	1,550,000	5.15
Church of England Funds	1,300,000	4.32

Auditors

RSM Robson Rhodes have expressed their willingness to continue to act as Auditors to the Company and a resolution for their re-appointment will be proposed at the forthcoming Annual General Meeting.

Creditors Payment Policy

While the Company does not follow a formal code, it is the Company's continuing policy to pay amounts due to creditors as and when they become due. Payments relating to investment transactions are made in accordance with the settlement practices of the relevant exchange. At 31 March 2002, the Company did not have any trade creditors (2001: nil).

Report of the Directors

Going Concern

The Directors, having made relevant enquiries, are satisfied that it is appropriate to prepare financial statements on the going concern basis as the net assets of the Company consist of securities, the majority of which are traded on recognised stock exchanges.

Environmental Policy

The Company's primary objective is to achieve long term capital growth through investing in life science companies. The Company recognises that this should be done in an environmentally responsible way.

Directors' Responsibilities

Company law in the United Kingdom requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the return of the Group for that period. In preparing these financial statements, the Directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- followed applicable United Kingdom accounting standards; and
- prepared the financial statements on the going concern basis.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for ensuring that the Report of the Directors' and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Services Authority.

Corporate Governance

The Company is committed to maintaining the highest standard of Corporate Governance. The Board is accountable to the Company's shareholders for governance of the Company's affairs and this statement describes how the relevant principles have been applied by the Company.

The Combined Code on Corporate Governance was published in June 1998, and in September 1999 the guidance on internal control was issued. The Financial Services Authority Listing Rules require that listed companies report to their shareholders on how the principles of the Combined Code have been applied by the Company.

The Directors of Finsbury Life Sciences Investment Trust plc have considered the provisions detailed in the Combined Code and believe that, insofar as they are relevant to the Company's business, they have been complied with during the period under review and up to the date of the approval of the report.

Compliance with the Combined Code

The Board considers that the Company has complied with the provisions of Section 1 of the Combined Code throughout the year ended 31 March 2002, other than those it believes are not appropriate to an investment trust company (as detailed below under Principles of the Code).

Report of the Directors

Internal Control

The Directors are responsible for overseeing the effectiveness of the internal control systems for the Group, which are designed to ensure that proper accounting records are maintained, that the financial information on which the business decisions are made and which are issued for publication is reliable, and that the assets of the Group are safeguarded. Such a system of internal control can provide only reasonable and not absolute assurance against material mis-statement or loss.

The Combined Code also requires the Directors to review the effectiveness of the Group's system of internal controls, extending the previous focus on financial aspects to encompass all controls. The Directors, through the procedures outlined below, have kept under review throughout the period covered by these financial statements and will keep the procedures under review up to the date of approval of the Annual Report and Accounts. The Board has identified risk management controls in the key areas of business objectives, accounting, compliance, operations and secretarial as areas for the extended review. This accords with the guidance in "Internal Control – Guidance for Directors on the Combined Code" (the Turnbull Report).

The Board recognises its ultimate responsibility for the Group's system of internal controls and for monitoring its effectiveness. It receives regular reports on all aspects of internal control (including financial, operational and compliance control, risk management and relationships with external service providers) and believes that an appropriate framework is in place to meet the requirements of the Combined Code.

Principles of the Combined Code

(a) Directors

The Board consists of six members, all of whom are non-executive. The Board considers that all of the Directors are independent with the exception of Peter Keen who is a director of Merlin Biosciences Limited (an Investment Adviser to the Company) and Anthony Townsend who is chairman of Rebourne Technology Investment Management Limited (an Investment Adviser to the Company). The Board believes that the appointment of a senior independent director is not appropriate for a Board which has only non-executive directors. There is no position of Chief Executive Officer.

The Directors meet as a Board on a quarterly basis and at other times as necessary. The Board is responsible for investment policy and has a schedule of matters reserved for the resolution of the Directors. The Board has contractually delegated to external agencies the management of the investment portfolio, the custodial services which includes safeguarding of the assets, and the day to day accounting and company secretarial requirements. Each of these contracts is only entered into after proper consideration of the quality and cost of services. A procedure is in place for the Directors to take independent professional advice.

A full report is received from the Investment Advisers at the quarterly meetings on the investment holdings and performance. In the light of these reports, the Board gives directions to the Investment Manager as to the investment objectives and guidelines.

The Board as a whole fulfils the function of a nomination committee. The Company's Articles of Association require newly appointed Directors to submit themselves for election by shareholders at the next Annual General Meeting and due to the nature of such resolutions, Directors are consequently subject to re-election at intervals of no more than three years.

(b) Remuneration

The Board as a whole fulfils the function of a remuneration committee and considers that the specific appointment of such a committee is not appropriate for an investment trust company with only non-executive directors. The level of Directors' fees is reviewed on a regular basis relative to other comparable companies and in the light of Directors' responsibilities.

(c) Relations with Shareholders

The Company, through the Investment Manager, has regular contact with its institutional shareholders. The Board supports the principle that the Annual General Meeting be used to communicate with private investors.

Report of the Directors

(d) Accountability and Audit

The Company's Audit Committee is comprised of the whole Board and is chaired by Mr John Sciater. The Audit Committee meets representatives of the Investment Manager and its Compliance Officer who reports as to the proper conduct of business in accordance with the regulatory environment in which both the Company and the Investment Manager operate. The Company's external Auditors also attend this Committee at its request and report on their work procedures, the quality and effectiveness of the Company's accounting records and their findings in relation to the Company's statutory audit. The responsibilities of the Audit Committee include review of the internal financial controls, accounting policies, financial statements, the management contract, the Auditors' appointment and remuneration and the value of the unquoted investments. The Board has considered the need for an internal control department and has decided that such a department is unnecessary for an investment trust company which sub-contracts the provision of investment management, accounting and administrative services.

Annual General Meeting

Resolutions relating to the following items of special business will be proposed at the forthcoming Annual General Meeting:

(a) Authority to issue shares for cash

Resolution 6 in the Notice of the Annual General Meeting gives the Directors authority to allot new shares, otherwise than by a pro rata issue to existing shareholders, for cash up to an aggregate nominal amount of £376,250 representing 1,505,000 ordinary shares of 25p each, such amount being equivalent to 5% of the present issued share capital. As such issues would only be made at prices greater than the Net Asset Value per share ("NAV") they increase the assets underlying each share and spread administrative expenses, other than those charged as a percentage of assets, over a greater number of shares. This authority will remain in place until the next Annual General Meeting.

(b) Disapplication of pre-emption rights

Resolution 7 in the Notice of the Annual General Meeting seeks shareholder approval for the disapplication of pre-emption rights in respect of a) the allotment of shares pursuant to a rights issue or b) the allotment (other than as part of a rights issue) of shares for cash up to a nominal value of £376,250.

(c) Authority to repurchase shares

Resolution 8 in the Notice of the Annual General Meeting seeks shareholder approval for the Company to have the power to repurchase its ordinary shares. The Board believes that the ability of the Company to purchase its own shares in the market will potentially benefit all shareholders of the Company. The re-purchase of shares at a discount to the underlying NAV would enhance the NAV on the remaining shares.

At the Annual General Meeting the Company will seek shareholder approval to repurchase up to 4,511,990 ordinary shares, representing 14.99% of the Company's issued share capital (the maximum permitted under the Listing Rules) at a price that is not less than 25p a share (the nominal value of each share) and not more than 5% above the average of the middle market quotations for the five business days preceding the day of purchase. The authority being sought will last until the date of the next Annual General Meeting. The decision as to whether to repurchase any shares will be at the absolute discretion of the Board.

The Directors unanimously recommend to the shareholders that they vote in favour of the resolutions to be proposed at the forthcoming Annual General Meeting.

By order of the Board
Close Finsbury Asset Management Limited
Secretary
20 June 2002

For and on behalf of Close Finsbury Asset Management Limited Secretary.....
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Report of the Independent Auditors

to the Shareholders of Finsbury Life Sciences Investment Trust PLC

We have audited the financial statements on pages 24 to 39.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority. We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Group's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any information outside the Annual Report.

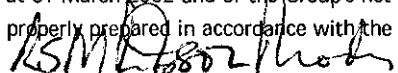
Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 and the Group as at 31 March 2002 and of the Group's net revenue, total loss and cashflow for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



RSM Robson Rhodes

Chartered Accountants and Registered Auditors
186 City Road, London EC1V 2NU, England
20 June 2002

Consolidated Statement of Total Return

incorporating the revenue account for the year ended 31 March

	Notes	Revenue 2002 £000	Capital 2002 £000	Total 2002 £000	Revenue 2001 £000	Capital 2001 £000	Total 2001 £000
Loss on investments	11	-	(12,620)	(12,620)	-	(4,430)	(4,430)
Exchange losses on currency balances		-	(40)	(40)	-	(69)	(69)
Income	2	183	-	183	446	-	446
Investment management fees	3	-	(497)	(497)	-	(772)	(772)
Other expenses	4, 5	(346)	-	(346)	(340)	-	(340)
Net (loss)/return before finance							
costs and taxation		(163)	(13,157)	(13,320)	106	(5,271)	(5,165)
Interest payable and similar charges	6	(6)	(29)	(35)	(7)	(101)	(108)
(Loss)/return on ordinary activities							
before taxation		(169)	(13,186)	(13,355)	99	(5,372)	(5,273)
Taxation on ordinary activities	7	(3)	-	(3)	(3)	-	(3)
(Loss)/return on ordinary activities							
after taxation		(172)	(13,186)	(13,358)	96	(5,372)	(5,276)
Dividends on ordinary							
shares (equity)	8	-	-	-	(60)	-	(60)
Transfer (from)/to reserves	15	(172)	(13,186)	(13,358)	36	(5,372)	(5,336)
(Loss)/return per ordinary							
share - pence	9	(0.6)p	(43.8)p	(44.4)p	0.3p	(17.8)p	(17.5)p

The revenue column of this statement is the profit and loss account of the Group.

All revenue and capital items in the above statement derive from continuing operations.

The accompanying notes are an integral part of this statement.

Balance Sheets of the Group and the Company

at 31 March

	Notes	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
Fixed assets - investments	11	35,633	46,806	35,633	46,806
Group undertaking	10	-	-	3	-
Current assets					
Debtors	12	9	359	9	1,009
Cash at bank		478	3,271	472	2,621
		487	3,630	481	3,630
Creditors					
Amounts falling due within one year	13	(249)	(1,207)	(246)	(1,207)
Net current assets		238	2,423	235	2,423
Net assets		35,871	49,229	35,871	49,229
Capital and reserves					
Called up share capital	14	7,525	7,525	7,525	7,525
Share premium	15	21,679	21,679	21,679	21,679
Capital reserve - realised	15	17,477	18,149	17,477	18,149
Capital reserve - unrealised	15	(10,863)	1,651	(10,860)	1,651
Revenue reserve	15	53	225	50	225
Total shareholders' funds		35,871	49,229	35,871	49,229
Net asset value per ordinary share	16	119.2p	163.6p	119.2p	163.6p

The financial statements on pages 24 to 39 were approved by the Board of Directors on 20 June 2002 and were signed on its behalf by:



J R Sclater

Chairman

J L Gordon

Director



The accompanying notes are an integral part of this statement.

Consolidated Cash Flow Statement

for the year ended 31 March

	Notes	2002 £000	2001 £000
Net cash outflow from operating activities	20	(658)	(4,263)
Servicing of finance			
Bank overdraft and loan interest paid		(35)	(108)
Financial investment			
Purchase of investments		(15,238)	(25,840)
Sales of investments		13,249	30,694
Net cash (outflow)/inflow from financial investment		(1,989)	4,854
Equity dividends paid		(60)	-
(Decrease)/increase in cash		(2,742)	483
Reconciliation of net cash flow to movement in			
net funds	21	(2,742)	483
Exchange movements		(40)	(69)
Movement in net funds		(2,782)	414
Net funds at 1 April		3,260	2,846
Net funds at 31 March	21	478	3,260

The accompanying notes are an integral part of this statement.

Notes to the financial statements

1. Accounting Policies

The principal accounting policies, all of which have been applied consistently throughout the year in the preparation of these financial statements are set out below:

(a) Accounting Convention

The financial statements have been prepared under the historical cost convention, except where stated in (b) and (c) below, in accordance with applicable accounting standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies'.

(b) Basis of Consolidation

The consolidated financial statements comprise the accounts of the Company and its subsidiary undertaking made up to 31 March 2002.

In the Company's financial statements, the investment in its subsidiary is stated at Net Asset Value unless the Net Asset Value falls below zero. In this case, the investment will be stated at nil in the holding company and a provision for the remainder is made in the holding company against the inter-company debt.

(c) Investments held as Fixed Assets

The values of the fixed asset investments are stated in the financial statements on the following basis:

- (i) listed investments are stated at closing middle market prices on recognised stock exchanges,
- (ii) Alternative Investment Market (AIM) investments are stated at closing middle market prices,
- (iii) where a quoted stock is subject to a lock-in of up to 12 months a discount of between 2.5-10.0% is applied to the market value. Lock-ins that are in excess of 12 months are reviewed on a case by case basis.
- (iv) unlisted investments are stated at Directors' valuation, and
- (v) the investment in the Merlin Fund is valued on the basis of the net asset value of the Fund as shown by the Fund's management accounts at 31 March 2002. Within these financial statements the investments held by the Fund are valued at fair value in accordance with the guidelines issued by the British Venture Capital Association.

(d) Investment Income

Dividends receivable on equity shares are recognised on the ex-dividend date. Where no ex-dividend date is quoted, dividends are recognised when the Company's right to receive payment is established.

Dividends and interest on investments in unlisted shares and securities are recognised when they become receivable. Fixed returns on non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield, provided there is no reasonable doubt that payment will be received in due course.

Underwriting commission is recognised as income in so far as it relates to shares not required to be taken up. Where a proportion of the shares underwritten is required to be taken up the same proportion of the commission received is treated as a deduction from the cost of the shares taken up, with the balance taken to the revenue account.

In accordance with Financial Reporting Standard 16, Current Taxation ("FRS 16") investment income is shown net of all related tax credits. In addition, "avoir fiscal" on French dividends is now classed as a tax credit and not withholding tax and as such reduces the tax charge rather than increasing income.

(e) Expenses and Finance Costs

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except as follows:

- (i) expenses which are incidental to the acquisition or disposal of an investment are treated as part of the cost or proceeds of that investment,

Notes to the financial statements

1. Accounting Policies *continued*

- (ii) expenses are charged to realised capital reserve where a connection with the maintenance or enhancement of the value of the investments can be demonstrated, and accordingly
- (iii) investment management fees and the related irrecoverable VAT are charged to realised capital reserve as the Directors expect that in the long term virtually all of the Company's returns will come from capital, and
- (iv) loan interest is charged to capital as the Directors expect that in the long term virtually all of the Company's returns will come from capital.

(f) Taxation

The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen, but not reversed by the balance sheet date, unless such provision is not permitted by Financial Reporting Standard 19. Previously under Statement of Standard Accounting Practice 15, provision for deferred taxation was necessary only to the extent that it was probable that the tax would be payable in the foreseeable future.

Any tax relief obtained in respect of management fees, finance costs and other capital expenses charged or allocated to capital is reflected in "Capital reserve – realised" and a corresponding amount is charged against revenue. The tax relief is the amount by which corporation tax payable is reduced as a result of these capital expenses.

(g) Foreign Currencies

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

(h) Reserves

Capital reserves – Realised

The following are credited or charged to this reserve:

- gains and losses on the realisation of investments,
- realised exchange differences of a capital nature,
- expenses charged to this reserve in accordance with the above referred policies.

Capital reserves – Unrealised

The following are credited or charged to this reserve:

- increases and decreases in the valuation of investments held at the year end,
- unrealised exchange differences of a capital nature.

(i) Financial Instruments

The Company has taken advantage of Financial Reporting Standard 13: Derivatives and Other Financial Instruments, Disclosures and excluded short term debtors and creditors from disclosure under financial instruments where allowed (note 19 on pages 37 to 38).

Notes to the financial statements

2. Income

	2002 £000	2001 £000
Income from listed investments		
Unfranked interest	79	88
Franked dividends	11	225
Overseas dividends	23	22
	113	335
Other operating income		
Underwriting income	5	2
Interest receivable	65	109
	70	111
Total income	183	446
Total income comprises:		
Dividends	34	247
Interest	144	197
Other income	5	2
	183	446

3. Investment Management Fees

	Revenue 2002 £000	Capital 2002 £000	Total 2002 £000	Revenue 2001 £000	Capital 2001 £000	Total 2001 £000
Periodic fee	-	432	432	-	660	660
Performance fee	-	-	-	-	3	3
Irrecoverable VAT thereon	-	65	65	-	109	109
	-	497	497	-	772	772

Investment management services are provided to the Company by Close Finsbury Asset Management Limited. Under the terms of the investment management agreement the Investment Manager is entitled to a periodic fee of 1.25 per cent. per annum on the gross value of the portfolio (other than assets allocated to The Merlin Fund LP) payable quarterly in arrears. The Investment Manager is also entitled to a performance fee under the terms of this agreement equal to 20 per cent. of the amount by which the Company's net asset value (excluding any investment in the Merlin Fund) at the end of each successive three year period exceeds the level equivalent to the growth during the same period in the FTSE All-Share Index (total return) plus eight percentage points. The agreement can be terminated by either party giving the other party not less than 24 months written notice.

Under the terms of the investment advisory agreement Reabourne Technology Investment Management Limited ("Reabourne") and Merlin Biosciences Limited ("Merlin Biosciences") act as advisers to the Investment Manager in relation to the Company's investment portfolio.

Notes to the financial statements

3. Investment Management Fees *continued*

The Investment Manager will (i) pay to Reabourne 40 per cent. of the periodic fee plus a rebate from Merlin Biosciences equivalent to 0.50 per cent. of the amount drawdown on the Merlin Fund and (ii) pay to Merlin Biosciences 40 per cent. of the periodic fee less a rebate equivalent to 0.75 per cent. of the amount drawdown on the Merlin Fund payable as to 0.50 per cent. to Reabourne and 0.25 per cent. to Close Finsbury Asset Management Limited.

4. Directors Emoluments

The Directors received the following fees during the year

	2002 £	2001 £
John Sclater (Chairman)	18,000	18,000
Paul Gaunt	13,000	13,000
John Gordon	13,000	13,000
Peter Keen	13,000	13,000
Anthony Townsend	13,000	13,000
Lord Waldegrave	13,000	13,000
	83,000	83,000

Lord Waldegrave's directors' fee is paid to his employer, Dresdner Kleinwort Wasserstein Limited.

Other than disclosed above, none of the Directors received any salary, benefit, bonus or pension contributions (2001: nil).

All of the Directors fees were charged to the revenue account.

5. Other Expenses

	Revenue 2002 £000	Capital 2002 £000	Total 2002 £000	Revenue 2001 £000	Capital 2001 £000	Total 2001 £000
Directors' emoluments	83	-	83	83	-	83
Secretarial services	49	-	49	49	-	49
Marketing	43	-	43	29	-	29
Close Finsbury ISA, Savings Scheme and PEP Plan expenses	35	-	35	32	-	32
Printing	34	-	34	35	-	35
Auditor's remuneration for audit services	14	-	14	12	-	12
Auditor's remuneration for non-audit services	2	-	2	-	-	-
Other	86	-	86	100	-	100
	346	-	346	340	-	340

Notes to the financial statements

6. Interest Payable and Similar Charges

	Revenue 2002 £000	Capital 2002 £000	Total 2002 £000	Revenue 2001 £000	Capital 2001 £000	Total 2001 £000
Bank overdraft	6	-	6	7	-	7
Bank loan interest	-	29	29	-	101	101
	6	29	35	7	101	108

7. Taxation on Ordinary Activities

(a) Analysis of charge for year

	Revenue 2002 £000	Capital 2002 £000	Total 2002 £000	Revenue 2001 £000	Capital 2001 £000	Total 2001 £000
Overseas tax	5	-	5	5	-	5
Overseas tax reclaims	(2)	-	(2)	(2)	-	(2)
	3	-	3	3	-	3

(b) Factors affecting current tax charge for year

Approved investment trusts are exempt from tax on capital gains made within the trust.

The tax assessed for the period is higher than the standard rate of corporation tax in the UK of 30% (2001: 30%). The differences are explained below:

	2002 £000	2001 £000
Revenue account (loss)/return on ordinary activities before tax	(169)	99
(Loss)/return on ordinary activities multiplied by standard tax rate of corporation tax	(51)	30
Effects of:		
Non taxable UK investment income	(4)	(68)
Overseas withholding tax written off	3	3
Expenses charged to capital account available to be utilised	(158)	(262)
Excess administration expenses unused	202	300
Disallowed expenses	11	-
Current tax charge	3	3

(c) Provision for deferred taxation

No provision for deferred taxation has been made in the current or prior accounting period.

The Company has not recognised a deferred tax asset of £1,798,000 (2001: £1,598,000) arising as a result of excess management expenses and excess business charges. These expenses will only be utilised if the company generates sufficient taxable profits in the future.

Notes to the financial statements

8. Dividends

	2002 Total £000	2001 Total £000
Dividends on equity shares:		
Final proposed nil (2001: 0.2p)	-	60
	-	60

9. Return on Ordinary Shares

	Revenue 2002	Capital 2002	Total 2002	Revenue 2001	Capital 2001	Total 2001
(Loss)/return per Ordinary share	(0.6)p	(43.8)p	(44.4)p	0.3p	(17.8)p	(17.5)p

Revenue return per share is based on the revenue loss attributable to equity shareholders of £172,000 (2001: £96,000 return).

Capital return on Ordinary shares is based on capital loss attributable to equity shareholders of £13,186,000 (2001: £5,372,000 loss).

Both the revenue and capital returns are based upon 30,100,000 Ordinary shares in issue (2001: 30,100,000).

10. Subsidiary Undertaking

The Company has an investment in the following subsidiary undertaking

Name of undertaking	Principal activity	Country of incorporation and operation	Description of shares held	Proportion of nominal value of issued share and voting rights held by: Company (%)
FLIT Investments Limited	Investment dealing	England & Wales	Ordinary	100

No share dealing activity was undertaken by the subsidiary during the year.

Notes to the financial statements

10. Subsidiary Undertaking *continued*

	Subsidiary undertaking £000
Cost at 1 April 2001	-
Unrealised depreciation/(appreciation) at 1 April 2001	-
Valuation at 1 April 2001	-
Movements in the year	
Purchases at cost	-
Sales - proceeds	-
realised gains on sales	-
Movement in unrealised appreciation	3
Valuation at 31 March 2002	3
Cost at 31 March 2002	-
Unrealised appreciation at 31 March 2002	3
	3

11. Fixed Asset Investments

	Fixed Interest £000	Listed £000	AIM £000	Unquoted £000	Total £000
Cost at 1 April 2001	1,001	34,843	1,758	7,553	45,155
Unrealised (depreciation)/appreciation at 1 April 2001	(1)	(383)	1,540	495	1,651
Valuation at 1 April 2001	1,000	34,460	3,298	8,048	46,806
Movements in the year:					
Changes in listing	-	486	(482)	(4)	-
Purchases at cost	3,091	10,360	287	619	14,357
Sales - proceeds	(4,051)	(8,026)	(428)	(405)	(12,910)
- realised (losses)/gains on sales	(41)	(482)	307	110	(106)
Movement in unrealised appreciation/(depreciation)	1	(7,844)	(2,517)	(2,154)	(12,514)
Valuation at 31 March 2002	-	28,954	465	6,214	35,633
Cost at 31 March 2002	-	37,181	1,442	7,873	46,496
Unrealised depreciation at 31 March 2002	-	(8,227)	(977)	(1,659)	(10,863)
	-	28,954	465	6,214	35,633

Notes to the financial statements

11. Fixed Asset Investments *continued*

	2002 £000	2001 £000
(Losses)/gains on investments:		
Realised (losses)/gains based on historical cost	(106)	16,358
Amount recognised as unrealised in the previous year	965	(13,389)
Realised gains based on carrying value at previous balance sheet date	859	2,969
Movement in unrealised depreciation	(13,479)	(7,399)
Losses on investments	(12,620)	(4,430)

There are no AIM investments included in the ten largest investments.

The unquoted investments include the following investment which is one of the ten largest investments of the Company.

	Partnership %	Cost of investment £000	Value of investment £000	Dividends	Net assets £000	Latest audited accounts
Jersey Limited Partnership						
Merlin Fund L.P.	15.0	5,578	5,488	-	40,565	31 Dec. 01

12. Debtors

	Group 2002 £000	Company 2002 £000	Group 2001 £000	Company 2001 £000
Amount owed by subsidiary undertaking	-	-	-	650
Securities sold for future settlement	-	-	339	339
Other debtors	8	8	2	2
Prepayments and accrued income	1	1	18	18
	9	9	359	1,009

13. Creditors

	Group 2002 £000	Company 2002 £000	Group 2001 £000	Company 2001 £000
Amounts falling due within one year				
Bank overdraft	-	-	11	11
Securities purchased for future settlement	-	-	881	881
Dividend payable	-	-	60	60
Performance fees payable	-	-	-	-
Other creditors and accruals	249	246	255	255
	249	246	1,207	1,207

Notes to the financial statements

14. Share Capital

	2002 £000	2001 £000
Authorised, allotted, called up, issued and fully paid: 30,100,000 Ordinary shares of 25p	7,525	7,525

15. Reserves

Group	Share Premium £000	Capital Reserve Realised £000	Capital Reserve Unrealised £000	Revenue Reserve £000
Balance at 1 April 2001	21,679	18,149	1,651	225
Revenue deficit	-	-	-	(172)
Realised gains on investments	-	859	-	-
Transfer on disposal of investments	-	(965)	965	-
Movement in unrealised appreciation on investments	-	-	(13,479)	-
Exchange movements	-	(40)	-	-
Capital loan interest	-	(29)	-	-
Capital investment management fees	-	(497)	-	-
Balance at 31 March 2002	21,679	17,477	(10,863)	53

Company	Share Premium £000	Capital Reserve Realised £000	Capital Reserve Unrealised £000	Revenue Reserve £000
Balance at 1 April 2001	21,679	18,149	1,651	225
Revenue deficit	-	-	-	(175)
Realised gains on investments	-	859	-	-
Transfer on disposal of investments	-	(965)	965	-
Movement in unrealised appreciation on investments	-	-	(13,476)	-
Exchange movements	-	(40)	-	-
Capital loan interest	-	(29)	-	-
Capital investment management fees	-	(497)	-	-
Balance at 31 March 2002	21,679	17,477	(10,860)	50

As permitted by section 230 of the Companies Act 1985, the Company has not presented its own revenue account. The net revenue after taxation of the Company amounted to a deficit of £175,000 (2001: revenue of £96,000).

16. Net Asset Value per Ordinary Share

	2002	2001
Net asset value per ordinary share	119.2p	163.6p

The net asset value per ordinary share is based on the net assets attributable to equity shareholders of £35,871,000 (2001: £49,229,000) and on 30,100,000 (2001: 30,100,000) ordinary shares in issue at 31 March 2002.

Notes to the financial statements

17. Movement in Shareholders' Funds

	2002 £000	2001 £000
Total recognised losses for the year	(13,358)	(5,276)
Dividends	-	(60)
Opening shareholders' funds	49,229	54,565
Closing shareholders' funds	35,871	49,229

18. Capital Commitments

The Company has committed £5.825m to The Merlin Fund L.P. ("the Fund"), in accordance with the terms set out in the Prospectus of the Company, representing approximately 20 per cent. of the net proceeds of the issue. The Fund has a total commitment of £38,825,000 and the Company's commitment is drawn down in tranches as the Fund makes investments. To date there have been eleven drawdowns by the Fund and the Company's contribution is set out below.

The Fund has a limited life of 10 years from 14 February 1997, but it may be terminated at an earlier date on the happening of certain events as specified in the Limited Partnership Agreement or its term may be extended, with the agreement of the General Partner and the Limited Partners, for additional one year periods up to two additional years.

Funds awaiting drawdown may be invested in quoted biotechnology companies and government loan stock.

	£000	£000
Commitment to The Merlin Fund L.P.		5,825
Drawdown on commitment:		
4 August 1997	(882)	
28 October 1997	(450)	
6 January 1998	(976)	
3 June 1998	(600)	
14 December 1998	(750)	
24 March 1999	(600)	
15 July 1999	(75)	
18 November 1999	(375)	
6 April 2000	(375)	
27 November 2000	(375)	
28 February 2002	(120)	
		(5,578)
Commitment outstanding at 31 March 2002		247

There were no capital commitments in respect of share placings at 31 March 2002 (2001: nil).

Notes to the financial statements

19. Derivatives and other financial instruments

Background

The Group's financial instruments comprise securities, cash balances, and debtors and creditors that arise from its operations, e.g., in respect of sales and purchases awaiting settlement and debtors for accrued income. The numerical disclosures below exclude short-term debtors and creditors.

The Group has little exposure to credit and cash flow risk. Fixed asset investments (other than listed investments) in the portfolio are subject to liquidity risk. This risk is taken into account by the Directors and fund managers when making their investment decisions. The principal risks the Group faces in its portfolio management activities are:

- foreign currency risk,
- interest rate risk,
- market price risks i.e. movements in the value of investment holdings caused by factors other than interest rate or currency movement,
- currency exposure.

The Investment Manager's policies for managing these risks are summarised below and have been applied throughout the year.

Financial assets

	Floating rate cash balances 2002 £000	Fixed interest investments 2002 £000	Non-interest bearing investments 2002 £000	Total 2002 £000	Floating rate cash balances 2001 £000	Fixed interest investments 2001 £000	Non-interest bearing investments 2001 £000	Total 2001 £000
Sterling	478	-	18,668	19,146	2,862	1,000	27,670	31,532
US Dollars	-	-	5,097	5,097	409	-	5,908	6,317
Euros	-	-	8,811	8,811	-	-	9,682	9,682
Danish Kroner	-	-	423	423	-	-	-	-
Swedish Kroner	-	-	2,634	2,634	-	-	1,889	1,889
Swiss Francs	-	-	-	-	-	-	657	657
	478	-	35,633	36,111	3,271	1,000	45,806	50,077

Floating rate cash balances are immediately accessible and receive interest at the Bank of New York treasury rate. The non-interest bearing investments represent the equity element of the investment portfolio.

Policy

Foreign currency Risk

A proportion of the Group's portfolio is invested in overseas securities and their sterling value may be significantly affected by movements in foreign exchange rates. The Group does not normally hedge against foreign currency movements affecting the value of the investment portfolio, but takes account of this risk when making investment decisions.

Interest Rate Risk

Interest rate risk is managed by the utilisation of borrowing facilities via short term loans.

Market Price Risk

By the nature of its activities, the Group's investments are exposed to market price fluctuations. Further information on the investment portfolio and investment policy is set out in the Investment Review.

Notes to the financial statements

19. Derivatives and other financial instruments *continued*

Use of Derivatives

It is not the Group's policy to enter into derivative contracts.

Financial Liabilities

At the year-end the Group had an unsecured borrowing facility of £5,000,000 with Allied Irish Banks plc. Interest is charged at LIBOR plus 0.85% pa. The interest period is agreed at the time of drawing. The facility with Allied Irish Banks plc is for an indefinite period. The facility is utilised on an ad hoc basis to meet either settlement timing differences or to take advantage of market condition. At the year end the loan facility was unutilised; the highest drawing during the year was £1,000,000.

Currency Exposure

The currency denomination of the Group's financial assets and liabilities are shown on page 37. Current assets and liabilities, which are excluded, are predominantly denominated in Sterling which is the functional currency of the Group.

	Net monetary liability 2002 £000	Overseas investments 2002 £000	Total 2002 £000	Net monetary liability 2001 £000	Overseas investments 2001 £000	Total 2001 £000
US Dollars	-	5,097	5,097	46	5,908	5,954
Euros	-	8,811	8,811	(475)	9,682	9,207
Danish Kroner	-	423	423	-	-	-
Swedish Kroner	-	2,634	2,634	-	1,889	1,889
Swiss Francs	-	-	-	-	657	657
	-	16,965	16,965	(429)	18,136	17,707

All net monetary assets and liabilities are included (i.e. short-term debtors and creditors).

20. Reconciliation of operating profit to net cash flow from operating activities

	2002 £000	2001 £000
Net revenue (loss)/return before finance costs and taxation	(163)	106
Movement in other debtors	(2)	(1)
Movement in accrued income	15	(9)
Investment management fees charged to capital	(497)	(772)
Movement in other creditors and accruals	(6)	(3,586)
Taxation on investment income	(5)	(1)
Net cash outflow from operating activities	(658)	(4,263)

Notes to the financial statements

21. Reconciliation of Net Cash Flow Movement to Movement in Net Funds

	2002 £000	2001 £000
(Decrease)/increase in net funds resulting from cashflows	(2,782)	414
Net funds at 1 April 2001	3,260	2,846
Net funds at 31 March 2002	478	3,260

Represented by:

	At 1 April 2001 £000	Cashflows £000	Exchange movements £000	At 31 March 2002 £000
Cash at bank	3,271	(2,753)	(40)	478
Overdraft	(11)	11	-	-
Net funds	3,260	(2,742)	(40)	478

22. Related Parties

Details of the relationship between the Company and Close Finsbury Asset Management Limited, Merlin Biosciences Limited and Reabourne Technology Investment Management Limited is described in the Report of the Directors on page 18 under the heading "Management" and on page 19 under the heading "Directors". The periodic management fee payable to Close Finsbury Asset Management Limited for the year ended 31 March 2002 was £432,000 excluding VAT (2001: £660,000) of which £94,000 (2001: £131,000) was outstanding at the year end. No fees (2001: £3,000) were paid in respect of the long term performance fee; the next long term performance fee will crystallise on 31 March 2003. The administrative and secretarial services fee payable to Close Finsbury Asset Management Limited for the year ended 31 March 2002 was £49,000 excluding VAT (2001: £49,000) of which £13,000 (2001: £11,000) was outstanding at the year end.

Notice of the Annual General Meeting

Notice is hereby given that the Annual General Meeting of Finsbury Life Sciences Investment Trust PLC will be held at 10 Crown Place, London EC2 on 23 July 2002 at 12 noon, for the following purposes:

Ordinary Business

- 1 To receive and consider the audited accounts and the Reports of the Directors for the year ended 31 March 2002.
- 2 To re-elect Mr Peter Keen, who retires by rotation, a Director of the Company.
- 3 To re-elect Mr Anthony Townsend, who retires by rotation, a Director of the Company.
- 4 To re-appoint the Auditors.
- 5 To authorise the Directors to determine the remuneration of the Auditors.

Special Business

To consider, and if thought fit, pass the following resolutions, which will be proposed as special resolutions:

Authority to allot shares

- 6 THAT in substitution for all existing authorities the Directors be generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 to exercise all powers of the Company to allot relevant securities within the meaning of that section up to a maximum aggregate nominal amount of £376,250 provided that this authority shall expire on 23 July 2007 unless previously revoked, varied or renewed by the Company in general meeting provided that the Company shall be entitled to make, prior to the expiry of such authority, an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities pursuant to such offer or agreement as if the authority conferred hereby had not expired.

Disapplication of pre-emption rights

- 7 THAT in substitution of all existing powers the Directors be and are hereby generally empowered pursuant to Section 95 of the Companies Act 1985 (the "Act") to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority conferred on them as if subsection (1) of Section 89 of the Act did not apply to any such allotment provided that this power shall be limited to:
 - (a) the allotment of equity shares in connection with a rights issue in favour of the ordinary shareholders where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them but subject to such exclusions or other arrangements in connection with the issue as the Directors may consider necessary, appropriate, or expedient to deal with equity securities representing fractional entitlements or to deal with legal or practical problems arising in any overseas territory, the requirements of any regulatory body or stock exchange, or any other matter whatsoever; and
 - (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities for cash up to an aggregate nominal value of £376,250

and shall expire on 23 July 2007 unless previously revoked, varied or renewed by the Company in general meeting and provided that the Company shall be entitled to make, prior to the expiry of such authority, an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities pursuant to such offer or agreement as if the power conferred hereby had not expired. No allotment at less than the net asset value (as determined in the absolute discretion of the Directors) per share shall be made.

Notice of the Annual General Meeting

Authority to Repurchase the Ordinary Shares

- 8 THAT the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of section 163(3) of the Companies Act 1985) of ordinary shares of 25p in the capital of the Company ("ordinary shares") provided that:
- (i) the maximum aggregate number of ordinary shares authorised to be purchased is 4,511,990 or, if less, the number representing 14.99 per cent. of the issued ordinary share capital of the Company at the date of the meeting at which this resolution is proposed;
 - (ii) the minimum price which may be paid for an ordinary share is 25p;
 - (iii) the maximum price (excluding expenses of such purchase) which may be paid for an ordinary share is an amount equal to 105 per cent. of the average of the middle market quotations for an ordinary share as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which that ordinary share is purchased;
 - (iv) this authority expires at the conclusion of the annual general meeting of the Company to be held in 2002 or within 15 months from the date of the passing of this resolution whichever is earlier; and
 - (v) the Company may make a contract to purchase ordinary shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of ordinary shares in pursuance of any such contract.

By order of the Board

Close Finsbury Asset Management Limited

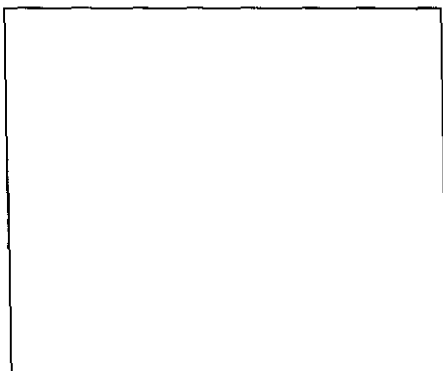
Secretary

20 June 2002

12 Appold Street
London EC2A 2AW

Location of Annual General Meeting

to be held at 10 Crown Place (formerly Clifton Street),
London EC2 on Tuesday, 23 July 2002 at 12 noon



Notes

- 1 A member entitled to attend and vote may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
- 2 A form of proxy is provided. To be effective, a form of proxy must be completed, signed and lodged with the registrar not later than 48 hours before the time for holding the meeting. Deposit of a form or proxy will not preclude a member from attending the meeting and voting in person.
- 3 No director has a service contract with the Company.
- 4 Pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, the Company has specified that to be entitled to attend and vote at the meeting (and for the purposes of determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members by 12 noon on 22 July 2002. Changes to entries on the register of members after 12 noon on that date shall be disregarded in determining the rights of any person to attend and vote at the meeting.

Glossary of Terms

Investment Trust Terms

Net Asset Value (NAV)

The value of the Company's assets, principally investments made in other companies and cash being held, minus any liabilities for which the Company is responsible, eg money owed to other people. The NAV is also described as 'shareholders' funds'. The NAV is often expressed in pence per share after being divided by the number of shares which have been issued. The NAV per share is unlikely to be the same as the share price which is the price at which the Company's shares can be bought or sold by an investor. The share price is determined by the relationship between the demand and supply for the shares.

Discount or Premium

A description of the situation when the share price is lower than the NAV per share. The size of the discount or premium is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage (%) of the NAV per share. If the share price is higher than the NAV per share, this situation is called a premium.

Gearing

Also known as leverage, particularly in the USA. Gearing is the process whereby capital growth (and conversely any capital depreciation) and income to the ordinary shareholders of the Company are boosted by borrowings, which provide some scope for additional investment but which carry a fixed liability. The return on this extra investment minus the cost of borrowing the money gives the shareholder an enhanced or geared profit or loss.

Initial Public Offering (IPO)

The initial offer by a company of shares to be quoted on a stock exchange. Often known as a flotation.

Potential Gearing

The directors may choose to arrange a loan facility (or draw down a loan) which is less than the amount they are able to draw under the terms of the Prospectus. This is usually due to the market conditions. Potential gearing is the amount currently available for the Company to use by way of loan already arranged.

Actual Gearing

Actual gearing is the term used to describe the amount of available loan facility that has been invested in the stock market and is not being held in cash.

Total Assets

Total assets less current liabilities, before deducting prior charges.

Total Expense Ratio (TER)

The total expenses excluding interest incurred by the Company, including those charged to capital, as a percentage of average net assets (shareholders' funds).

Biotechnology Terms

Antibody

A protein produced in the body, as part of the immune system, which recognises and attaches itself to a foreign chemical or organism.

Antigen

A substance that stimulates an immune response, usually by binding to an antibody.

Glossary of Terms

Cell

The fundamental structural unit of most living organisms. Although most cells contain a complete set of an organism's genetic material, most organisms are made up of many specialised cells of diverse function.

Chromosome

A large chain of DNA containing many genes.

Clone

Collection of genes, cells or organisms produced from a common ancestor and all genetically identical.

DNA

The chemical material in a cell which contains the coded genetic information specifying all life processes.

FDA

Food and Drug Administration, the government agency that regulates drug licensing in the United States.

Gene

The instructions for making one protein - the basic unit of inheritance.

Gene Therapy

Treating disease by supplying a gene to a patient, either transiently or permanently.

Genome

The total chromosomal DNA of a particular organism.

Genomics

The study of genomes and the genes they contain.

Hormone

A chemical messenger that instructs a cell to undertake a certain task.

Monoclonal Antibody

A defined antibody that may be mass-produced in cell culture.

Pathogen

An organism capable of causing disease. Examples include bacteria, viruses, fungi, parasites, etc.

Peptide

A small protein, typically with fewer than 100 amino acids.

Phase I Clinical Trial

Examines safety in healthy volunteers.

Phase II Clinical Trial

Examines preliminary efficacy as well as safety and dosing. A variety of indications may be examined.

Phase III Clinical Trial

Examines definitive efficacy and broader safety measures in a target patient population. Usually pivotal.

Protein

A basic building-block of cells composed of long chains of amino acids.

Proteomics

The study of the proteins encoded by the genome generally taken to mean the high throughput systematic separation, identification and characterisation of proteins.

Stem Cells

Cells which can develop into a wide range of tissues.

Virus

A very small non-cellular infectious particle which requires a host cell for its reproduction.

Investing through Close Finsbury

The Close Finsbury Range

Close Finsbury Asset Management, which is a member of the Close Brothers Group, is a specialist investment house with the following investment trusts:

Finsbury Growth Trust PLC which invests in the shares of larger UK companies with the objective of achieving capital growth and providing a total return in excess of that of the FTSE All-Share Index.

Finsbury Worldwide Pharmaceutical Trust PLC which invests worldwide in pharmaceutical and biotechnology companies with the aim of achieving a high level of capital growth.

Finsbury Technology Trust PLC which invests principally in equity securities of quoted technology companies on a worldwide basis with the aim of achieving long term capital growth.

Finsbury Life Sciences Investment Trust PLC which invests in life science companies based in the UK, Continental Europe and Israel, with particular emphasis on biotechnology, with the aim of achieving long term capital growth.

Finsbury Smaller Quoted Companies Trust PLC which invests in smaller UK quoted companies to achieve a high level of total return.

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