

# THE BIOTECH GROWTH TRUST PLC

ANNUAL REPORT & FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2012

THE BIOTECH GROWTH TRUST PLC ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2012

MONDAY



\*A1BD1QNE\*

A08

18/06/2012

#174

COMPANIES HOUSE

# THE BIOTECH GROWTH TRUST PLC

## INVESTMENT OBJECTIVE AND POLICY

The Biotech Growth Trust PLC seeks capital appreciation through investment in the worldwide biotechnology industry, principally by investing in emerging biotechnology companies. Performance is measured against the NASDAQ Biotechnology Index (sterling adjusted).

The majority of the emerging biotechnology companies that the Company will invest in are likely to be companies with a market capitalisation of less than US \$3 billion that have undergone an IPO (Initial Public Offering) but as yet are unprofitable. They will typically be focused on drug research and development, with their valuations driven by profitable developments, clinical trial results and partnerships.

The Company may invest or commit for investment a maximum of US \$15 million, after the deduction of proceeds of disposal and other

returns of capital, in private equity funds managed by OrbiMed Capital LLC, the Company's Investment Manager, or an affiliate thereof. Further details of the Company's investment policy are set out in the Report of the Directors beginning on page 14.

## CAPITAL STRUCTURE

As at 31 March 2012, the Company had 62,240,426 shares in issue. During the year, 2,714,255 shares were bought back for cancellation. Subsequent to the year end, to 31 May 2012, a further 19,079 shares were bought back for cancellation and 275,000 new shares were issued. As at 31 May 2012 there were 62,496,347 shares in issue.

## DIVIDEND

No dividend is recommended in respect of the year ended 31 March 2012 (2011: nil).

## WINNER

Investment Trust Magazine, Best Specialist Trust 2011  
techMark Technology Fund Manager of the year 2011 (OrbiMed Capital LLC)

## CONTENTS

1	Financial Highlights
2	Performance Summary
3	Chairman's Statement
4	OrbiMed Capital LLC – Investment Manager
5-8	Review of Investments
9-11	Portfolio Focus – Hepatitis C: From Hope to Cure
12	Portfolio
13	The Board
14-21	Report of the Directors incorporating the Business Review
22	Statement of Directors' Responsibilities
23-27	Corporate Governance
28	Shareholder Analysis
29-30	Directors' Remuneration Report
31	Report of the Independent Auditor
32	Income Statement
33	Statement of Changes in Equity
34	Statement of Financial Position
35	Statement of Cash Flows
36-44	Notes to the Financial Statements
45-48	Notice of Annual General Meeting
49	Company Information
50	How to Invest
51	Glossary of Terms

## FINANCIAL HIGHLIGHTS

1

	Year ended 31 March 2012	Year ended 31 March 2011	% change
Net asset value per share	250.9p	186.0p	+34.9%
Share price	236.0p	166.0p	+42.2%
Discount of share price to net asset value per share	5.9%	10.8%	-
NASDAQ Biotechnology Index (sterling adjusted) ( <i>Benchmark</i> )	801.1	647.9	+23.6%
Ongoing charges*	1.2%	1.2%	n/a

\*See glossary on page 51

### PERFORMANCE FOR THE YEAR TO 31 MARCH 2012

Figures have been rebased to 100 as at 31 March 2011  
Source: Bloomberg

### PERFORMANCE SINCE THE DATE OF APPOINTMENT OF ORBIMED CAPITAL LLC AS INVESTMENT MANAGER

Figures have been rebased to 100 as at 19 May 2005  
Source: Bloomberg

ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2012

# PERFORMANCE SUMMARY

2

## ANALYSIS BY MARKET CAPITALISATION

2012

Note

An emerging capitalisation company is defined as being one with a market capitalisation of less than US \$3 billion and a major capitalisation company is one with a market capitalisation of more than US \$3 billion

### YEAR ENDED 31 MARCH FIVE YEAR PERFORMANCE RECORD

	2007	2008	2009	2010	2011	2012
Net asset value per share	117 1p	103 4p	136 9p	182 6p	186 0p	250 9p
Share price	109 8p	96 8p	130 5p	175 8p	166 0p	236 0p
Discount of share price to net asset value per share	6 2%	6 4%	4 7%	3 7%	10 8%	5 9%
NASDAQ Biotechnology Index (sterling adjusted)	394 7	393 1	477 5	618 1	647 9	801 1

" The Company's net asset value per share rose by 34.9% and the share price rose by 42.2%, both handsomely outperforming the Company's benchmark "

## PERFORMANCE

Having recorded a slight fall in the Company's net asset value per share over the first half of the financial year, I am delighted to report now that returns in the second half have shown a substantial improvement

Overall, during the year ended 31 March 2012, the Company's net asset value per share rose by 34.9% and the share price rose by 42.2% both handsomely outperforming the Company's benchmark the NASDAQ Biotechnology Index measured in sterling terms, which rose by 23.6% over the year. The discount of the share price to net asset value per share narrowed over the year from 10.8% at 31 March 2011 to 5.9% at the year-end. After the year-end, the discount continued to narrow and at times the shares traded at a premium to their net asset value.

The Company's strong performance was due in part to a number of companies in the portfolio being taken over during the year, for example Pharmasset by Gilead Sciences and Anadys Pharmaceuticals by Roche. In addition there was good positive newsflow for new drugs being developed by Pharmacyclics, VIVUS, Regeneron and Alexion.

As mentioned in the Interim Report the Company's Investment Manager (OrbiMed) won the 2011 techMARK Technology Fund Manager of the Year award for its management of the Company, which was deemed to be the best performing technology fund for the year to 30 September 2011. In addition the Company has recently been declared the Best Specialist Trust for 2011 by Investment Trust magazine.

## RETURN PER SHARE AND DIVIDEND

The total return per share amounted to 63.6p for the year (2011 return of 3.0p), comprising a revenue deficit of 0.5p per share (2011 deficit of 0.5p) and a capital gain of 64.1p (2011 gain of 3.5p). No dividend is recommended in respect of the year ended 31 March 2012 (2011 nil).

## CAPITAL

The Board has continued to implement its policy of active discount management and to buy back shares when necessary in the event of the market price being at a discount greater than 6% to the net asset value per share. During the year, a total of 2,714,255 shares was bought back for cancellation, at an average discount to net asset value per share of 9.6%.

The cancellation of shares shrinks the capital base of the Company and it was therefore useful to be able to mitigate the shrinkage when the Company's shares moved to a premium to net asset value in April. The Company was then able to issue 275,000 new shares at a premium of 0.5% to the prevailing net asset value per share, under the authority granted at the 2011 Annual General Meeting.

## THE BOARD

Professor Dame Kay Davies CBE and Andrew Joy became Directors of the Company in March of this year. The Board is very pleased to welcome two new Directors of such high calibre and they will undoubtedly enhance the direction of the Company's affairs.

Having been Chairman of the Board since the launch of the Company in 1997, I have decided to retire at the conclusion of this year's Annual General Meeting. It has been a great pleasure and a privilege to be a member of such an exceptionally strong Board for so many years. Each director has brought some special skill or knowledge to our table and the Directors together have worked as a united team. I am personally most grateful for the support of every one of my colleagues but I hope I may be allowed to record my special thanks to John Gordon who has regularly gone far beyond the call of his duties as the Senior Independent Director.

Lord Waldegrave of North Hill will succeed me as Chairman at the end of the Annual General Meeting on 12 July 2012. The Company will therefore be in the best possible hands.

## OUTLOOK

We continue to believe that the outlook for the biotechnology sector is strong due, in large part, to the increased pace of merger and acquisition ("M&A") activity in the sector. The portfolio is well positioned to benefit not only from this M&A activity but also from continued drug development and positive news flow.

Our focus remains on the selection of stocks with strong prospects for capital enhancement and we firmly believe that the long term investor in our sector will be well rewarded.

## ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held at the Barber-Surgeons' Hall, Monkwell Square Wood Street, London EC2Y 5BL on Thursday, 12 July 2012 at 12.30 pm, and we hope as many shareholders as possible will attend. This will be an opportunity to meet the Board and to receive a presentation from our Investment Manager.

JOHN SCLATER, CVO  
CHAIRMAN  
31 MAY 2012



OrbiMed Capital LLC, based in New York, is an investment manager focused exclusively on the healthcare sector, with approximately US\$6 billion in assets under management as at 31 March 2012 across a range of funds, including investment trusts, hedge funds and private equity funds. OrbiMed's investment management activities were founded in 1989 by Samuel D Isaly.

## INVESTMENT STRATEGY

The Biotech Growth Trust's objective is to seek capital appreciation through investment in the worldwide biotechnology industry principally by investing in emerging biotechnology companies.

Consistent with this mandate, OrbiMed has invested the majority of the Company's assets in emerging biotechnology companies with the remainder invested in major biotechnology companies. The portfolio comprised 42 holdings as at 31 March 2012.

OrbiMed makes investments worldwide – in North America, Europe, and the Far East. Geographic allocation is in line with the geographic distribution of investment opportunities, with a majority of the Company's investments in companies based in North America.

OrbiMed takes a bottom-up approach to stock selection based on intensive proprietary research. Stock selection is based on rigorous financial analysis, exhaustive scientific review, frequent meetings with company management and consultations with physicians and other industry experts.

OrbiMed seeks to invest in emerging biotechnology companies with strong management teams, innovative products in development, and sufficient financial resources to develop those products. For major biotechnology companies, OrbiMed looks for strong management teams, healthy organic growth from current products and deep pipelines to fuel future growth.

The attainment of profitability frequently acts as a significant catalyst for biotech share price appreciation. As a result, OrbiMed believes superior returns can be achieved by investing in emerging biotechnology companies two to three years prior to sustainable profitability. Companies that become profitable benefit from greater analyst research coverage, a wider institutional investor base and reduced clinical development risk (since profitability typically coincides with a product approval and launch). OrbiMed generally seeks to exit its investments when the wider investor community starts to value the newly profitable biotechnology company in excess of its anticipated future growth.

Risk management is conducted via position size limits, geographic diversification and an appropriate weighting between major and emerging biotechnology. OrbiMed maintains adequate portfolio liquidity by limiting the Company's ownership to 15% of an individual company's equity (at the time of investment) and by strictly limiting the Company's exposure to direct unquoted companies to 10% of the portfolio at the time of acquisition.

## THE ORBIMED TEAM

OrbiMed's investment professionals possess a combination of extensive scientific, medical, and financial expertise. The following five individuals represent the portfolio management team for the Company.

**Samuel D Isaly**, is a founder and the Managing Partner of OrbiMed. Sam has been active in global healthcare investing and analysis since 1968 when he joined Chase Manhattan Bank in New York. During his career, Sam has been a pharmaceutical analyst with Merrill Lynch, Legg Mason and SocGen Swiss International. Sam created OrbiMed's asset management business in 1989 through OrbiMed's predecessor organisation, Mehta and Isaly. Sam has a BA in Economics from Princeton University and a M.Sc. (Econ.) from The London School of Economics.

**Sven H. Borho, CFA**, is a founding General Partner of OrbiMed. Sven is a portfolio manager for OrbiMed's public equity funds and he heads the firm's trading team. He started his career in 1991 when he joined Mehta and Isaly as a Senior Analyst covering European pharmaceutical firms and biotechnology companies worldwide. Sven studied business administration at Bayreuth University in Germany and received a M.Sc. (Econ.) from The London School of Economics, he is a citizen of both Germany and Sweden.

**Carl L. Gordon, Ph.D., CFA**, is a founding General Partner of OrbiMed and co-Head of Private Equity. Carl is active in both private equity and small-capitalisation public equity investments. He was a senior biotechnology analyst at Mehta and Isaly from 1995 to 1997. He was a Fellow at The Rockefeller University from 1993 to 1995. Carl received a Ph.D. in Molecular Biology from the Massachusetts Institute of Technology. His doctoral work involved studies of protein folding and assembly. He received a Bachelors degree from Harvard College.

**Geoffrey C. Hsu, CFA**, is a General Partner of OrbiMed, having joined in 2002 as a public biotechnology analyst. Prior to joining OrbiMed, he worked as a financial analyst in the healthcare investment banking group at Lehman Brothers. Geoffrey received his AB degree summa cum laude from Harvard University and holds an MBA from Harvard Business School. Prior to business school, he spent two years studying medicine at Harvard Medical School.

**Richard D. Klemm, Ph.D., CFA**, is a Public Equity Partner of OrbiMed, having joined in 2000 as a public biotechnology analyst. He completed a Ph.D. from the Massachusetts Institute of Technology in Molecular Biology in 2000. Richard has published scientific articles in the fields of DNA replication and transcription. He received a BA from the University of California, Berkeley in 1994 with majors in molecular and cell biology and economics.

" we remain confident about the prospects for the biotechnology sector. Innovation is occurring at a record pace, valuation levels are still modest by historical standards and M&A activity will drive share prices higher"

### PERFORMANCE REVIEW

We are pleased to report that the Company's net asset value per share increased by 34.9% during the year. The Company significantly outperformed the benchmark index, the NASDAQ Biotechnology Index (measured on a sterling adjusted basis), which rose 23.6% during the year. The Company's share price rose 42.2% during the period as the discount to net asset value per share narrowed to 5.9% at 31 March 2012.

The top contributors to performance in the portfolio during the fiscal year were Pharmasset, Pharmacyclics, VIVUS, and Regeneron Pharmaceuticals.

- Pharmasset was acquired by Gilead Sciences (also held in the portfolio) at an 89% premium for its class-leading hepatitis C virus (HCV) polymerase inhibitor in phase III development, PSI-7977.
- Shares in Pharmacyclics advanced due to clinical progress for its Bruton's tyrosine kinase (BTK) inhibitor for hematological cancers. Additionally the company signed a lucrative partnership with Johnson & Johnson to develop and commercialise the drug.
- VIVUS received a vote in favour of approval from a US Food and Drug Administration ("FDA") advisory committee for its obesity drug, Qnexa, sending the shares up 78%. We expect the drug to be approved later this year.
- Regeneron received FDA approval for Eylea, a drug to treat wet-AMD (a leading cause of blindness). The drug has had a robust launch in its first few months on the market.

Illumina, K-V Pharmaceuticals, and Targacept were the principal detractors from performance in the portfolio during the year.

- Illumina saw its sequencing revenue soften due to weakening demand from academic customers.
- K-V Pharmaceuticals experienced disappointing sales for Makena, their hormone treatment to prevent preterm births.
- Targacept's lead compound, TC-5214, failed in its pivotal trials in depression.

### SUB-SECTOR REVIEW

#### *Major Biotechnology*

The Company maintains a healthy weighting in each of the four major biotechnology stocks (Amgen, Celgene, Gilead Sciences, and Biogen Idec). We have traditionally viewed these names as value plays because the stocks have traded over the past few years at historically low price earnings (P/E) ratios that we believe underestimate the companies' growth prospects. Several events over the past fiscal year have begun transforming these "value stocks" into growth stories again. For example, in April 2011, Biogen Idec surprised investors by announcing better-than-expected efficacy results for their oral multiple sclerosis drug BG-12. We believe BG-12's profile as a safe effective oral medication will allow it to take a significant share of the existing US \$12 billion worldwide market for multiple sclerosis therapies, most of which consist of injectable drugs that cause flu-like side effects. Another major biotechnology company whose growth prospects have been reinvigorated recently is Gilead Sciences. At close to a 9% weight, Gilead was our most favoured name in major biotechnology during the fiscal year because we felt investors were not giving the company enough credit for its follow-on combination pills to treat human immunodeficiency virus (HIV). In November 2011, the company announced the US \$11 billion acquisition of Pharmasset for its HCV drug. We believe the drug is one of the most potent HCV treatments in development today and should accelerate Gilead's earnings growth in 2015 and beyond. Celgene is another major biotechnology company with a number of pipeline events this year, including a potential label expansion in Europe for their multiple myeloma treatment Revlimid and phase III data for apremilast in psoriasis and psoriatic arthritis. While patent issues on Revlimid continue to overhang the stock, we believe Revlimid's use in additional cancers and pipeline developments should allow the company to continue to perform. Lastly, Amgen, the world's largest biotechnology company, continues to represent compelling value because it has a comparable P/E to the large pharmaceutical sector despite having better growth prospects. Amgen announced a dividend for the first time in April 2011 and continues to buy back shares with its significant cash flow. The company is embarking on an aggressive acquisition strategy in emerging markets and a recent CEO change could lead the company in a new strategic direction. Aside from Biogen Idec, whose shares made a big upward move in April, most of the major biotechnology companies were range-bound for the first 8 months of the fiscal year and did not begin outperforming until December 2011. We remain generally bullish on the major biotechnology names.

#### *Mid-Capitalisation Emerging Biotechnology*

The mid-capitalisation biotechnology space is mainly composed of companies that are in the early stages of product launch, or those with late-stage clinical assets. In 2011, several key new products showed slower than expected sales, such as Benlysta for lupus and Krystexxa for gout. Investors became hesitant about holding stocks through the early phases of a drug launch, causing underperformance in many mid-capitalisation names. However, in early 2012 Regeneron reported strong initial performance for the launch of Eylea, and InterMune reported good initial uptake of Esbriet in Europe. This changed sentiment, leading to positive share price performance for a number of companies launching new drugs. Incyte is one of our favourite new product launch stories for 2012, and initial performance has been strong. On the

development front, several late stage companies in the portfolio had positive news that drove strong share price appreciation. Medivation announced positive phase III results for MDV3100 for prostate cancer. We expect the drug to compete well against Johnson & Johnson's Zytiga, which was recently approved in the same indication. Ariad Pharmaceuticals reported positive phase III data for Ponatinib for chronic myelogenous leukemia (CML). We expect Ponatinib to quickly penetrate the refractory CML market and gradually move upstream to front-line treatment, which is a multi-billion dollar market. Merger and acquisition ("M&A") activity increased in the sector in late 2011/early 2012. Late-stage emerging companies are typically in the "sweet spot" for acquisitions. With the increase in M&A and the improved sentiment for product launches, we remain bullish on mid-capitalisation biotechnology companies.

#### ***Small-Capitalisation Emerging Biotechnology***

The small capitalisation biotechnology space is historically the area which generates most of the portfolio's outperformance. We seek to identify companies with promising opportunities in early clinical trials and hold the stocks as the drug candidates progress through development. For example, Pharmasset (our top performer in the past year) was added to the portfolio in 2009 when only early data was available on their compounds. The clinical data consistently beat expectations, culminating with the company's acquisition by Gilead in late 2011. Pharmasset's shares, first purchased in early 2010, appreciated dramatically during the year as more data became available for its BTK inhibitor, ibrutinib. The compound has demonstrated impressive activity against chronic lymphocytic leukemia (CLL) and mantle cell lymphoma. We exited the shares in early 2012 as the valuation appears full. We will continue to invest our energies to identify the most promising early stage companies which offer tremendous upside potential.

#### ***Life Science Tools/Diagnostics***

Companies in the life science tools sector sell the equipment, reagents, and machines necessary for biotechnology research and development. These companies typically deliver steady earnings growth at a reasonable valuation, with much of the growth recently coming from emerging markets like China. During the summer of 2011, the tools companies experienced a broad sell off with the rest of the market. The group continued to be under pressure as debate about the US government's debt ceiling heightened investor concerns about possible budget cuts to the National Institutes of Health (NIH), one of the major funding sources for research and development spending. Since the beginning of 2012, concerns about NIH spending have abated somewhat, leading to a rebound in the shares. Major advances in gene sequencing have occurred over the past couple of years, leading to faster and less costly ways to sequence the human genome. While it took US \$3 billion to sequence the first human genome in 2000, it now only takes US \$3,000 to accomplish the same feat today. The Company held shares in two leading companies in the gene sequencing space during the fiscal year, Illumina and Life Technologies. We exited our Illumina position due to some disappointing financial results during the year. We remain bullish though over the long-term about the application of gene sequencing to clinical diagnostics. We also hold Affymetrix, a company specialising in gene arrays and cytogenetics, as a value play and potential takeover candidate. The company has just appointed a new CEO known for his operational excellence who we believe can turn around the company.

On a selective basis, your Company also invests in specialty diagnostics companies such as Exact Sciences. Exact Sciences is developing a genetic-based stool test for colorectal cancer screening. The company reported positive data for their test at a medical conference in November 2011. The test has very high cancer detection sensitivity and has the added benefit of being able to detect pre-cancerous lesions. We believe this could be a transformative test for the colorectal cancer detection market and expect a launch in 2013.

#### ***Rising Therapeutic Classes***

The discovery of new drug targets or therapeutic approaches often leads to a flurry of new drug development in particular therapeutic areas. HCV is a recent example of such a surge in activity from both biotechnology and large pharmaceutical companies. In 2011, the first two direct acting antiviral drugs were approved, and dozens of drug candidates are in clinical trials. HCV has also been a significant area of investment in the portfolio over the past few years and its investments in "pure-play" HCV companies Pharmasset, Anadys, and Idenix accounted for about a third of the performance during the fiscal year. Because of the importance of this therapeutic area to the sector and the Company's outperformance, we have prepared a more detailed discussion of the evolving HCV treatment landscape (please see "Hepatitis C: From Hope to Cure" beginning on page 9).

Below we highlight three other therapeutic areas that are advancing rapidly: prostate cancer, B-cell malignancies and myelofibrosis.

Prostate cancer patients are typically treated initially with hormonal therapies and then with chemotherapy after hormone therapies fail. Recently there have been five new agents which have been shown to extend the lives of advanced cancer patients – Provenge from Dendreon, Zytiga from Johnson & Johnson, MDV3100 from Medivation, Jevtana from Sanofi, and Alpharadin from Algeta and Bayer. Note that four of the five therapies were originated by biotechnology companies and only one was originated by a large pharmaceutical company (Zytiga was developed by Cougar Biotechnology, a former portfolio holding, before it was acquired by Johnson & Johnson in 2009). This highlights the theme that we have mentioned previously that innovation is increasingly being driven by biotechnology companies rather than large pharmaceutical companies. In 2012, it will be important to understand how these new therapeutic options should be sequenced to maximize the benefit to the patients. We are currently invested in Medivation, Dendreon, and Algeta in the prostate cancer space.

There are several interesting new targeted therapies for B-cell malignancies such as non-Hodgkin's lymphoma (NHL) and CLL. Rituxan was the first targeted agent for NHL and CLL, and has now reached over US \$6 billion in annual sales, showing the large potential for targeted agents in this space. Understanding of the molecular pathways of activation and proliferation of B-cells has generated new targets to treat these diseases. Specifically PI3 kinase delta (PI3K-delta) and BTK are attractive targets to block NHL and CLL cells with relatively little toxicity. There are currently small molecule drugs targeting each of these pathways entering phase III development, GS-101, a PI3K-delta inhibitor from Gilead and ibrutinib, a BTK inhibitor from Pharmacyclics. Phase II data have been impressive for both compounds, and both should become significant drugs. Following these leaders, Celgene and Infinity have targeted inhibitors in phase I trials.

Myelofibrosis is a progressive scarring of the bone marrow which disrupts the formation of normal blood cells and typically causes severe and symptomatic splenomegaly, and eventually causes death. Several years ago it was discovered that myelofibrosis patients often harbour activating mutations in the JAK2 gene. Therefore inhibitors of JAK2 could have a role in treating the disease. At the end of 2011, Incyte (owned in the portfolio) received approval for its JAK inhibitor Jakafi. We believe that this product will exceed expectations, particularly due to the long duration of therapy expected for these patients. Several other companies are developing competing agents including Sanofi, YM Biosciences, and Cell Therapeutics. We are monitoring this field closely, but thus far it appears that Jakafi's profile is best-in-class.

## OUTLOOK

We have commented in prior years about the ongoing potential for M&A activity as a key catalyst for the sector. The pace of M&A has increased with the acquisitions of Pharmasset by Gilead, Anadys (also a portfolio holding) by Roche, Micromet by Amgen, Inhibitex by Bristol-Myers Squibb, and Ardea by AstraZeneca. Additionally there have been bids for Illumina by Roche and for Human Genome Sciences by GlaxoSmithKline. This recent activity highlights the valuation disconnect between companies' market capitalisations and their perceived value by potential strategic acquirors. Although the recent appreciation of the sector has narrowed this gap, we believe that many compelling opportunities remain. In particular we favour companies with marketed or significantly de-risked late stage products that are unencumbered. Acquisition candidates within the portfolio include Ariad Pharmaceuticals, VIVUS, Incyte, Onyx Pharmaceuticals, and Actelion.

With regards to health care policy, the validity of the US health care reform law passed in 2010 has been challenged by 26 states. Specifically, the states argue that the individual mandate (a requirement for all citizens to purchase health insurance or pay a penalty) is unconstitutional. The Supreme Court heard the challenge in late March and the Justices appear more likely than not to reject the reform law. Their final verdict is due in June. We have argued that the changes enacted by the new law are manageable, and that the increase in individuals with healthcare coverage should outweigh the demands placed on industry (industry fees, Medicaid rebates, etc.). However, if the law is overturned, we would expect an initial positive reaction for biotechnology and pharmaceutical stocks.

Overall we remain confident about the prospects for the biotechnology sector. Innovation is occurring at a record pace, valuation levels are still modest by historical standards, and M&A activity will drive share prices higher.

SVEN BORHO  
ORBIMED CAPITAL LLC  
INVESTMENT MANAGER  
31 MAY 2012

PRINCIPAL CONTRIBUTORS TO AND DETRACTORS FROM NET ASSET VALUE  
PERFORMANCE FOR THE YEAR TO 31 MARCH 2012

	Contribution for the year to 31 March 2012 £'000	Contribution per share (pence)*
<b>Top Five Contributors</b>		
Pharmasset	15,012	23.6
Pharmacyclics	6,267	9.8
VIVUS	5,417	8.5
Regeneron Pharmaceuticals	3,037	4.8
Alexion Pharmaceuticals	3,023	4.7
		51.4
<b>Top Five Detractors</b>		
Illumina	(3,057)	(4.8)
K-V Pharmaceutical	(2,297)	(3.6)
Targacept	(1,539)	(2.4)
Human Genome Sciences	(1,501)	(2.4)
Insmed	(1,312)	(2.1)
		(15.3)

\*Based on 63 666 908 ordinary shares being the weighted average number of shares in issue during the year ended 31 March 2012  
Source: Frostrow Capital LLP

"The hepatitis C virus (HCV) is a growing global health problem, with an estimated 160 million individuals chronically infected worldwide we expect the market for HCV therapies to increase to approximately US \$10 billion by 2018 "

**HEPATITIS C FROM HOPE TO CURE**

This year we would like to highlight the HCV space, as it has been a hotbed of scientific innovation over the past several years. It has also been an important investment theme in the portfolio and a major contributor to performance, particularly within the past fiscal year.

HCV is a growing global health problem, with an estimated 160 million individuals chronically infected worldwide. It is a leading cause of liver cirrhosis and liver cancer and it is the leading reason for liver transplantation. Globally about 350,000 people die from HCV related liver disease each year. The market has unusual dynamics because of the long latency period from the time individuals are first infected and the time they become symptomatic (can be over 20 years). The majority of HCV cases remain undiagnosed. Most of the infected individuals were exposed to the virus through blood transfusions before 1992 (when screening for HCV in the blood supply became routine). Currently the incidence of newly infected patients is low in the developed world, with the majority infected through needle sharing. However, a significant increase in HCV treatment is expected as patients first infected in the 80's and 90's progress to being symptomatic and require treatment. The historical market for HCV therapies has been approximately US \$2.5 billion. With more patients being diagnosed and more patients seeking treatment due to the availability of more effective, tolerable, and convenient drug regimens, we expect the market for HCV therapies to increase to approximately US \$10 billion by 2018.

*A cut-away molecular model of hepatitis C virus particles. The virus consists of a core of RNA (ribonucleic acid) enclosed in a capsid (red and grey) and surrounded by a glycoprotein envelope (green and white). Inserted in the envelope are surface proteins (red and yellow), which help the virus attach to its host cell. The hepatitis C virus infects liver cells causing an inflammatory disease that can lead to degeneration and scarring (cirrhosis). It is transmitted by blood-to-blood contact.*

Until last year the standard of care for HCV treatment has been daily doses of ribavirin, a weak nonspecific antiviral agent, combined with a weekly injection of peg-interferon, which activates the immune system and impedes viral replication. The majority of patients (genotype

1) receive a 12 month course of therapy (about 30% of patients have easier to treat forms of the virus, genotypes 2 & 3, that only require 6 months). Unlike other chronic viral infections like HIV, HCV can be completely eradicated so patients can be cured by therapy. However, with peg-interferon and ribavirin only 40-50% of patients are cured. Furthermore the regimen is poorly tolerated. Many patients experience side effects, such as fatigue, flu-like symptoms, anemia and even severe depression. As a result many HCV infected patients decline to receive this drug regimen or prematurely discontinue treatment.

The mechanisms of action for both peg-interferon and ribavirin are poorly defined and likely somewhat indirect. The identification and characterisation of the hepatitis C virus opened new avenues to rationally developing drugs that could directly block the replication of the virus. The proteins that are most amenable for drug development include the HCV protease (an enzyme that cuts the core HCV protein into its active components), the HCV polymerase (an enzyme that directly copies the viral genome, both "nucleotide" and "non-nucleotide" inhibitors are possible) and the protein "NS5A" (the specific function is not well defined). Note the parallels to HIV, as polymerase and protease inhibitors become the core components of combination treatment regimens. The table below shows the direct acting antiviral drugs currently in clinical development organised by stage and class.

Stage	Protease Inhibitors	NS5A Inhibitors	Nucleotide Polymerase Inhibitors	Non-nucleotide Polymerase Inhibitors
Approved	Incivek (Vertex) VICTRELIS (Merck)	None	None	None
Phase III	TMC435 (Tibotec/Medivir) B1201335 (Boehringer Ingelheim) Vaniprevir (Merck)	Dadatasvir (Bristol-Myers Squibb)	GS-7977 (Gilead)	None
Phase II	ACH-1625 (Achillion) Asunaprevir (Bristol Myers Squibb) BMS-791325 (Bristol-Myers Squibb) Danoprevir (Roche) GS-9256 (Gilead) GS-9451 (Gilead) ABT-450/r (Abbott and Enanta) MK-5172 (Merck)	ABT-267 (Abbott) GS-5885 (Gilead) GSK2336805 (GlaxoSmithKline)	IDX184 (Idenix) Mericitabine (Roche) INX-08189 (Bristol-Myers Squibb)	ABT-333 (Abbott) ABT-072 (Abbott) ANA598 (Roche) B1207127 (Boehringer Ingelheim) Filibuvir (Pfizer) VX-222 (Vertex) Tegobuvir (Gilead)
Phase I	ACH-2684 (Achillion)	AZD7295 (AstraZeneca) PPI-461 (Presidio) PPI-668 (Presidio) IDX719 (Idenix) EDP-239 (Novartis) ACH-2928 (Achillion)	ALS-2200 (Vertex) ALS-2158 (Vertex)	GS-9669 (Gilead) TMC649128 (Tibotec/Medivir) RG7432 (Roche)

The first class of direct acting antiviral drug to show promise was the protease inhibitor class. Telaprevir, developed by Vertex Pharmaceuticals, and Boceprevir, developed by Merck represent the first generation protease inhibitors. In 2005, Vertex presented proof of concept data showing that treatment of patients with Telaprevir for just 14 days lowered the level of virus in patients by an average of 25,000-fold.

Despite its robust antiviral activity, Telaprevir is insufficient to cure patients on its own. The reason is viral resistance. A small sub-population of the viruses in an infected patient harbour mutations conferring resistant to Telaprevir. If a patient were treated longer term with Telaprevir, the majority of the viruses would be suppressed but eventually the patient would relapse due to the mutant virus taking over the viral population. This necessitates combination therapy. Therefore Telaprevir and Boceprevir were developed in combination with peg-interferon and ribavirin. The phase III data showed that 79% of patients treated with Telaprevir/peg-interferon/ribavirin were cured compared to 46% on peg-interferon/ribavirin alone. Importantly, about half of the patients treated were able to shorten total treatment to only 6 months instead of 12 months. Boceprevir showed similar, but slightly inferior results in its trials. Additionally, the drugs have been able to cure a significant proportion of patients that previously failed treatment with peg-interferon and ribavirin. Based on these strong results, Telaprevir and Boceprevir were approved in mid-2011 and have become the new standard of care. US Telaprevir sales in its first eight months of launch were US \$952 million which makes it one of the strongest drug launches ever in the biotechnology sector.

Although Telaprevir and Boceprevir represent a large advance on the prior standard of care, there are still advances to be made. First, Telaprevir and Boceprevir do add additional side effects – primarily rash in the case of Telaprevir, and anemia in the case of Boceprevir. These drugs are taken every 8 hours, which can be inconvenient for patients. Although these drugs shorten treatment for many patients, shortening further, to perhaps 12 weeks would be an advantage. These regimens still include peg-interferon and ribavirin with their side effects and the inconvenience of an injection. And of course there are still roughly 20% of patients that fail to achieve cure on these regimens.

Many biotechnology and large pharmaceutical companies have entered the race to generate regimens that advance beyond the first generation protease inhibitors. The "holy grail" for HCV treatment is the development of potent all-oral direct acting antiviral regimens. However it was unclear if direct acting antivirals would be sufficient to reach a cure in the absence of peg-interferon. The mechanism of peg-interferon is not well characterised but it is known to activate the immune system. If activating the immune system to clear the virus is required to reach cure, it would be impossible to replicate this activity by only employing drugs that target viral replication. This concern was put to rest in early 2011. Bristol Myers tested a combination of its protease inhibitor and its NSSA inhibitor. Although most of the patients treated experienced viral breakthrough (failure on treatment), four of eleven were cured by this regimen. Although the response rate is low, this provided proof of concept for cure with direct acting antiviral regimens lacking peg-interferon and ribavirin. At this point the question became how many drugs would be required in combination regimens to achieve high cure rates.

Both protease inhibitors and NSSA inhibitors readily generate resistance. In contrast, nucleotide polymerase inhibitors ("nucs") have a high barrier to resistance because mutations in the HCV genome that confer resistance to nucs also severely weaken the ability of the virus to replicate. The first generation of nucs from Roche did show a high barrier to resistance, but the potency was low. Pharmasset's PSI-7977 (7977) was the first nucleotide polymerase inhibitor to show potency on a par with protease inhibitors, but also with a high barrier to resistance. 7977 was developed in combination with ribavirin first against genotype 3 patients (easier to treat). In late 2011, Pharmasset announced that treatment with 7977 + ribavirin for only 12 weeks cured 10 out of 10 patients. This was an important milestone and validation for the power of nucleotide polymerase inhibitors, leading to the acquisition of Pharmasset by Gilead.

Doctors and investors were optimistic that this strong result in genotype 2 & 3 patients would translate to the more difficult to treat genotype 1 patients. Unfortunately however, data presented earlier this year has shown less dramatic efficacy – only 73% of the treatment naive patients were cured and only one of ten patients previously non-responsive to peg-interferon was cured. Because ribavirin is a relatively weak antiviral, it was reasonable to assume that results would be stronger with another potent direct acting antiviral in the place of ribavirin. This was confirmed in April of this year with the release of data combining 7977 and Bristol-Myers' NSSA inhibitor, daclatasvir. 100% of patients were cured with 24 weeks of this regimen. Because Gilead also has an NSSA inhibitor, and Bristol-Myers also has a nuc, each company is expected to bring forward their own combinations, rather than collaborating in phase III.

Concerning other combination regimens in development, Abbott recently released data on the combination of a protease inhibitor, a non-nucleotide polymerase inhibitor, ribavirin, and ritonavir (to boost the concentration of protease inhibitor) that showed a high cure rate (93%). So a nuc is not absolutely required, but the combination of potency and a high barrier to resistance with 7977 has the potential to simplify regimens, i.e. require fewer components. A simpler regimen would have potential advantages including convenience, tolerability and a lower chance of drug-drug interactions.

As the field is rapidly moving to all-oral direct acting antiviral regimens, companies with only one molecule have been under pressure to partner or acquire complementary assets to build viable combination regimens. In addition to the acquisition of Pharmasset, Anadys was acquired by Roche in the third quarter of 2011 for US \$230 million, and Inhibitex was acquired by Bristol-Myers in early 2012 for US \$2.5 billion. Anadys, held

in the portfolio until its acquisition had a non-nucleotide polymerase inhibitor which could be combined with Roche's protease and nucleotide polymerase inhibitors (trials have shown that their own combination was not potent enough on its own). Inhibitex was developing a nucleotide polymerase inhibitor which appears to be a bit less potent than 7977, but the profile is otherwise strong. Within the biotechnology space, this leaves Achillion and Idenix and with unencumbered assets. Achillion has a protease inhibitor and an NS5A inhibitor. Idenix has a weak nucleotide inhibitor. The rationale for acquisition of either company is less strong than for Pharmasset or Inhibitex. However, there are several companies with a significant investment in the HCV space without broad pipelines that could have interest in these assets, e.g. Merck and Johnson & Johnson.

The table below shows the estimated dates that the various combination regimens can reach the market. Currently the approaches of Gilead, Bristol-Myers and Abbott are the most advanced. It is likely that doublet regimens from Gilead and Bristol-Myers including a nucleotide polymerase inhibitor and an NS5A inhibitor will become the new standard of care by 2015 and will be able to cure the vast majority of infected patients. We believe that Gilead's regimen has the greatest potential as 7977 has the most compelling profile, and the initial data on Gilead's NS5A inhibitor is strong. 7977 could be approved in 2014 for genotypes 2 & 3, and in early 2015 for genotype 1, beating Bristol-Myers' regimen to market by roughly a quarter. Because the regimens from Gilead and Bristol-Myers are not fully characterised, there is still development risk and the competitive positioning of the field could change rapidly. However, with the number of potent drug combinations being developed, cure for all patients with HCV appears within reach.

Investing in the HCV space has been profitable for the portfolio over the past few years. We first invested in Vertex shortly after the impressive proof of concept data were released for Telaprevir in 2005. Recognising that combination direct acting antiviral regimens were likely to become the future standard, we sought investments in other promising early compounds with complementary mechanisms of action that could eventually be combined. Anadys was added to the portfolio based on encouraging phase I data and a compelling valuation. As mentioned above, the company was recently acquired by Roche at a 256% premium. We invested in Pharmasset in 2009, based on promising early data and the advantageous resistance profiles of its nucleosides. By early 2011 the field was moving quickly toward all oral combinations based on the work of Pharmasset, Bristol-Myers, and Roche. It became clear that the window for Vertex to dominate the HCV space before it was eclipsed by combination regimens was narrowing, leading us to exit our Vertex position. Also in early 2011, we participated in a financing for Idenix. Although the profile of its nucleoside is less impressive than 7977, we believed that the valuation was favourable given that the nucleosides are likely to be a backbone of therapy, and because the intellectual property position of Idenix over the nucleoside class is strong. We exited this position later in the year with the stock up 98%. As mentioned in the Review of Investments, holdings in Pharmasset, Idenix and Anadys were collectively responsible for about a third of the Company's performance during the fiscal year. At this stage, we remain very optimistic about the potential of Gilead to lead in this therapeutic class, as such it is the largest overweight among the major biotechnology companies. We continue to hunt for promising opportunities in HCV and for the next future hotbeds of innovation in the sector.

AS AT 31 MARCH 2012

Investments	Country/region	Fair value £'000	% of Investments
Gilead Sciences	United States	13,878	86
Amgen	United States	10,869	67
Celgene	United States	9,898	61
Questcor Pharmaceutical	United States	9,084	56
Perrigo	United States	7,617	47
Alexion Pharmaceuticals	United States	7,003	43
Incyte Genomics	United States	6,801	42
Biogen Idec	United States	6,260	39
Life Technologies	United States	5,317	33
Anad Pharmaceuticals	United States	4,946	31
<b>Top 10 Investments</b>		<b>81,673</b>	<b>50.5</b>
Warner Chilcott	Ireland	4,771	3.0
Impax Laboratories	United States	4,383	2.7
Actelion	Switzerland	4,340	2.7
Onyx Pharmaceutical	United States	4,245	2.6
Affymetrix	United States	4,201	2.6
Regeneron Pharmaceutical	United States	4,107	2.5
3SBio	China	4,010	2.5
Immunogen	United States	3,992	2.5
Cubist Pharmaceutical	United States	3,906	2.4
Neurocrine Biosciences	United States	3,831	2.4
<b>Top 20 Investments</b>		<b>123,459</b>	<b>76.4</b>
Exact Sciences	United States	3,698	2.3
Vertex Pharmaceuticals	United States	3,054	1.9
Thermo Fisher Scientific	United States	3,035	1.9
Affymax	United States	2,840	1.8
Shire	Ireland	2,798	1.7
Fluidigm	United States	2,581	1.6
Array Biopharma	United States	2,352	1.5
Salix Pharmaceutical	United States	2,304	1.4
BioMarrin Pharmaceutical	United States	2,270	1.4
VIVUS	United States	2,139	1.3
<b>Top 30 Investments</b>		<b>150,530</b>	<b>93.2</b>
Algeta	Norway	1,955	1.2
Orbimed Asia Partners LP (unquoted)	Far East	1,790	1.1
Medivation	United States	1,590	1.0
Amylin Pharmaceuticals	United States	1,171	0.7
Bavarian Nordic	Denmark	1,129	0.7
Endocyte	United States	998	0.5
Oncothyreon	United States	682	0.4
K-V Pharmaceutical	United States	607	0.4
Verastem	United States	467	0.3
Medivir	Sweden	380	0.2
<b>Top 40 Investments</b>		<b>161,299</b>	<b>99.7</b>
Trius Therapeutics	United States	273	0.2
Trius Therapeutics Wts 24/05/2016*	United States	83	0.1
<b>Total Investments</b>		<b>161,655</b>	<b>100.0</b>

All of the above investments are equities unless otherwise stated  
\*Warrants

PORTFOLIO BREAKDOWN

Investments	Fair value £'000	% of Investments
Equities	161,572	99.9
Warrants	83	0.1
<b>Total Investments</b>	<b>161,655</b>	<b>100.0</b>

**JOHN SCLATER, CVO (CHAIRMAN)**

John Sclater has served on the Board as Chairman since the launch of the Company in June 1997, he is also Chairman of the Nominations Committee. He was formerly a Trustee of The Grosvenor Estate, Chairman of Hill Samuel Bank Limited, Chairman of Foreign & Colonial Investment Trust PLC, Chairman of Graphite Enterprise Trust PLC, First Church Estates Commissioner, President of The Equitable Life Assurance Society and a Director of other public companies. He remains a self-employed farmer and Chairman of Argent Group (Europe) Ltd and of Berner, Nicol & Co Limited.

**SVEN BORHO**

Sven Borho joined the Board in March 2006. He is a founding General Partner of OrbiMed Capital LLC, the Company's Investment Manager, where he acts as a portfolio manager for OrbiMed's public equity funds and heads the firm's trading activities. He started his career in 1991 when he joined Mehta and Isaly as a Senior Analyst covering European pharmaceutical firms and biotechnology companies worldwide. Sven studied business administration at Bayreuth University in Germany and received an M.Sc. (Econ.) from The London School of Economics.

**PROFESSOR DAME KAY DAVIES, CBE**

Professor Dame Kay Davies joined the Board on 15 March 2012. She is the Dr Lee's Professor of Anatomy and Associate Head of the Medical Sciences Division at the University of Oxford and a fellow of Hertford College. She is also director of the MRC Functional Genomics Unit at Oxford and a governor of the Wellcome Trust.

**PAUL GAUNT**

Paul Gaunt joined the Board in June 1997. Paul is self-employed and has over 30 years experience in the investment industry. He was formerly Senior Investment Manager and an Assistant General Manager of The Equitable Life Assurance Society and a Director of Worldwide Healthcare Trust PLC, Brit Insurance Holdings PLC and of Oasis Healthcare plc. Paul is also a Director of RCM Technology Trust PLC.

All Directors, with the exception of Sven Borho, are members of the Audit and Management Engagement, Nominations and Remuneration Committees.

All members of the Board are non-executive. None of the Directors has any other connections with the Investment Manager and is not employed by any of the companies in which the Company holds an investment.

**DR JOHN GORDON**

Dr John Gordon joined the Board in June 1997 and has been designated as the Senior Independent Director, he is also Chairman of the Remuneration Committee. Dr Gordon is Chairman of, and employed by, Quercus Management Limited and has previously acted as Director of several biotechnology companies, as well as working at Beecham Research Laboratories, Cambridge University and the Medical Research Council.

**ANDREW JOY**

Andrew Joy joined the Board on 15 March 2012. He is one of the founder Partners of Cinven Limited where he was a member of the Executive Committee and remains a member of the Portfolio Review Committee which oversees all of Cinven's investments. He has also been the main point of contact for Cinven's investors. Mr Joy was formerly a Director of Hill Samuel Bank and Managing Director of Hill Samuel Development Capital.

**PETER KEEN**

Peter Keen has served on the Board as a Director since the launch of the Company in June 1997 and is Chairman of the Audit & Management Engagement Committee. A chartered accountant, he has over 27 years' experience in the management and financing of biotechnology businesses and up until March 2010 was the Corporate Development and Finance Director of the privately held biopharmaceutical company Serentis Limited. He has served as a Director of a number of technology businesses and is currently the Senior Independent Director of Abcam plc, Chairman of Oval Medical Technologies Limited and a Director of Horizon Discovery Limited and Q-Chip Limited. He is also a Venture Partner of the technology venture firm DFJ Esprit LLP.

**THE RT HON LORD WALDEGRAVE OF NORTH HILL**

Lord Waldegrave of North Hill joined the Board in June 1998. He is Provost of Eton College and acts as a consultant to investment bank UBS, where he was formerly Vice-Chairman of their Investment Banking Department. He is a Director of Fleming Family & Partners Limited and was previously Chairman of the Global Financial Institutions Group at Dresdner Kleinwort Wasserstein. From 1979 to 1997, he was MP for Bristol West holding a number of Cabinet posts including Secretary of State for Health. Lord Waldegrave of North Hill is Chairman of the Royal Mint Advisory Committee.

# REPORT OF THE DIRECTORS INCORPORATING THE BUSINESS REVIEW

14

The Directors present their report and the audited financial statements for the year ended 31 March 2012

## INTRODUCTION

The Report of the Directors includes the Business Review and Corporate Governance Statement. The Business Review contains a review of the Company's business, the principal risks and uncertainties it faces and an analysis of its performance during the financial period, the position at the period end and the future business plans of the Company. To aid understanding of these areas the Board has included an analysis using appropriate Key Performance Indicators. The Business Review should be read in conjunction with the Chairman's Statement on page 3, the Review of Investments on pages 5 to 8 and the Portfolio list on page 12.

## BUSINESS AND STATUS OF THE COMPANY

The Company is registered as a public limited company and is an investment company within the terms of Section 833 of the Companies Act 2006 ('the Act'). Its shares are listed on the Official List of the UK Listing Authority and traded on the main market of the London Stock Exchange which is a regulated market as defined in Section 1173 of the Act. The Company has received approval from HM Revenue & Customs as an authorised investment trust under Sections 1158 and 1159 of the Corporation Tax Act 2010 ('CTA 2010'), for the year ended 31 March 2011. This approval is subject to there being no subsequent enquiry under corporation tax self-assessment. In the opinion of the Directors, the Company continues to direct its affairs so as to enable it to qualify for such approval.

## CONTINUATION OF THE COMPANY

A resolution was passed at a General Meeting of the Company held on 4 December 2009, that the Company continue as an investment trust for a further five year period (from the Annual General Meeting held in 2010). In accordance with the Company's Articles of Association, shareholders will have an opportunity to vote on the continuation of the Company at the Annual General Meeting in 2015 and every five years thereafter.

## INVESTMENT OBJECTIVE AND BENCHMARK

The Company seeks capital appreciation through investment in the worldwide biotechnology industry, principally by investing in emerging biotechnology companies. Performance is measured against the NASDAQ Biotechnology Index (sterling adjusted).

## INVESTMENT POLICY

In order to achieve its investment objective, the Company invests in a diversified portfolio of biotechnology (principally emerging biotechnology) companies and related securities on a worldwide basis.

### Investment Limitations and Guidelines

The Board seeks to manage the Company's risk by imposing various investment limits and restrictions:

- The Company will not invest more than 10% of its gross assets in other closed ended investment companies (including investment trusts) listed on the London Stock Exchange, except where the investment companies themselves have stated investment policies to invest no more than 15% of their gross assets in other closed ended investment companies (including investment trusts) listed on the London Stock Exchange.
- The Company will not invest more than 15%, in aggregate, of the value of the gross assets of the Company in other closed ended investment companies (including investment trusts) listed on the London Stock Exchange.
- The Company will not invest more than 15% of the portfolio in any one individual stock at the time of acquisition.
- The largest 30 quoted stocks will normally represent at least 50% of the quoted portfolio.
- The majority of the emerging biotechnology companies that the Company will invest in are likely to be companies with a market capitalisation of less than US\$3 billion that have undergone an IPO (Initial Public Offering) but as yet are unprofitable. They will typically be focused on drug research and development with their valuations driven by profitable developments, clinical trial results and partnerships.
- The Company will not invest more than 10% of the portfolio in direct unquoted investments at the time of acquisition. This limit does not include any investment in private equity funds managed by the Investment Manager or any affiliates of such entity.
- The Company may invest or commit for investment a maximum of US \$15 million, after the deduction of proceeds of disposal and other returns of capital, in private equity funds managed by Orbimed Capital LLC, the Company's Investment Manager, or an affiliate thereof.
- The Company's gearing policy is to borrow up to a maximum of £15 million. The Company's borrowing requirements are met through the utilisation of a loan facility, repayable on demand, provided by Goldman Sachs & Co. New York. This facility can be drawn down at the discretion of the Investment Manager.

# REPORT OF THE DIRECTORS (continued)

## INCORPORATING THE BUSINESS REVIEW

15

- Up to 5% of the Company's portfolio, at the time of acquisition, can be invested in India. Exposure to be gained through the use of swaps. Compliance with the Board's investment limitations and guidelines is monitored continuously by Frostrow Capital LLP ("Frostrow" or the "Manager") and OrbiMed Capital LLC ("OrbiMed" or the "Investment Manager") and is reported to the Board on a monthly basis.

### DIVIDEND

The Company invests with the objective of achieving capital growth and it is expected that dividends, if any, are likely to be small. The Board intends only to pay dividends on the Company's shares to the extent required in order to maintain the Company's investment trust status.

### PERFORMANCE

In the year to 31 March 2012, the Company's net asset value per share increased by 34.9% compared to a rise of 23.6% in the Company's benchmark, the NASDAQ Biotechnology Index (sterling adjusted). The Company's share price increased by 42.2% in the same period.

The Review of Investments on pages 5 to 8 includes a review of the principal developments during the year, together with information on investment activity within the Company's portfolio.

### RESULTS AND DIVIDEND

The results attributable to shareholders for the year and the transfer to reserves are shown on page 32. No dividend is proposed in respect of the year ended 31 March 2012 (2011: nil).

### KEY PERFORMANCE INDICATORS ("KPIs")

The Board assesses its performance in meeting the Company's objective against the following Key Performance Indicators:

- Net asset value return (see page 1)
- Share price return (see pages 1 and 30)
- Stock contribution analysis (see page 8)
- Share price premium/discount to net asset value per share (see pages 1 and 2)
- Ongoing charges (see page 1)
- Benchmark performance (see pages 1, 2 and 30)
- Repurchase of own shares (see pages 1, 16 and 17)

As indicated, the management of the portfolio has been delegated to the Investment Manager and management, administration, company secretarial and marketing services have been delegated to the Manager. Each provider is responsible to the Board which is ultimately responsible to the shareholders for performing against *inter alia*, the above KPIs within the terms of their respective agreements by utilising the capabilities of the experienced professionals within each firm.

### PRINCIPAL RISKS AND THEIR MITIGATION

The Company's assets consist principally of listed equities, its main area of risk is therefore market-related. The specific key risks faced by the Company, together with the Board's mitigation approach, are as follows:

- Objective and Strategy** – The Company becomes unattractive to investors.  
The Board reviews regularly the Company's investment objective and investment guidelines in the light of investor sentiment monitoring closely whether the Company should continue in its present form. The Board also considers the size of the Company to ensure that it has sufficient critical mass. The Board, through the Manager and the Investment Manager, holds regular discussions with major shareholders. A continuation vote is to be held at the Annual General Meeting in 2015 and every five years thereafter. Each month the Board receives a report which monitors the investments held in the portfolio compared against the Benchmark Index and the investment guidelines. Additional reports and presentations are regularly presented to investors by the Company's Manager, Investment Manager and Corporate Stockbroker.
- Level of discount/premium** – The level of discount/premium can fluctuate.  
The Board undertakes a regular review of the level of discount/premium and consideration is given to ways in which share price performance may be enhanced, including the effectiveness of marketing and share buy-backs, if considered appropriate. The Board has implemented an active discount management policy, buying back the Company's shares for cancellation if the market price is at a discount greater than 6% to the net asset value per share. Shareholders should note that it remains possible for the share price discount to net asset value per share to be greater than 6% at times as the share price continues to be influenced by overall supply and demand for the Company's shares in the secondary market. In addition, the volatility of the net asset value per share in an asset class such as biotechnology is also a factor. The average month end share price discount during the year was 7.0%. The making and timing of any share buy-backs is at the absolute discretion of the Board.

- iii) **Portfolio Performance – Investment performance may not be meeting shareholder requirements**  
The Board reviews regularly investment performance against the Benchmark and against the Company's peer group. The Board also receives regular reports that show an analysis of performance compared to other relevant indices. The Investment Manager provides an explanation of significant stock selection decisions and an overall rationale for the make-up of the portfolio. The Investment Manager discusses current and potential investment holdings with the Board on a regular basis.
- iv) **Operational and Regulatory – A breach of Sections 1158 and 1159 of the Corporation Tax Act 2010 could lead to the Company being subject to tax on capital gains, whilst a serious breach of other regulatory rules may lead to suspension from the Stock Exchange or to a qualified Audit Report. Other control failures – either by the Manager, the Investment Manager or any other of the Company's service providers, may result in operational and/or reputational problems, erroneous disclosures or loss of assets through fraud, as well as breaches of regulations**  

All transactions and income and expenditure forecasts are reviewed by the Board at each Board Meeting. The Board considers regularly all major risks, the measures in place to control them and the possibility of any other risks that could arise. The Board also ensures that satisfactory assurances are received from service providers. The Compliance Officer of the Manager and Investment Manager produce regular reports for review at the Company's Audit and Management Engagement Committee meetings and are available to attend such meetings in person if required.
- v) **Market Price Risks – Uncertainty about future prices of financial instruments held**  
The Board meets on a quarterly basis during the year and on an *ad hoc* basis if necessary. At each meeting the Directors consider the asset allocation of the portfolio in order to minimise the risk associated with particular countries, sectors, or instruments. The Investment Manager has responsibility for selecting investments in accordance with the Company's investment objective and seeks to ensure that investment in individual stocks falls within acceptable risk levels.
- vi) **Liquidity Risk – Ability to meet funding requirements when they arise. The Investment Manager has constructed the portfolio so that funds can be raised at short notice if required**
- vii) **Shareholder Profile – Activist shareholders whose interests are not consistent with the long-term objectives of the Company may be attracted onto the shareholder register**  
The Manager provides a shareholder analysis at every Board Meeting so that the Board can give consideration as to any action required, this is in addition to regular reporting by the Company's Stockbroker. The Board has implemented an active discount management policy as mentioned in (ii) above.
- viii) **Currency Risk – Movements in exchange rates could adversely affect the performance of the portfolio**  
A significant proportion of the Company's assets is, and will continue to be, invested in securities denominated in foreign currencies – in particular US dollars. As the Company's shares are denominated and trade in sterling, the return to shareholders will be affected by changes in the value of sterling relative to those foreign currencies. The Board has made clear the Company's position with regard to currency fluctuations which is that it does not currently hedge against currency exposure.
- ix) **Loan Facility – The provider of the Company's loan facility may no longer be prepared to lend to the Company**  
Both the Board and the Investment Manager are kept fully informed of any likelihood of the withdrawal of the loan facility so that repayment can be effected in an orderly fashion.
- x) **Credit Risk – The Company's assets can be held by Goldman Sachs & Co. New York as collateral for the loan provided by them to the Company. Such assets taken as collateral may be used, loaned, sold, rehypothecated or transferred by Goldman Sachs & Co. New York, although the Company maintains the economic benefits from ownership of those assets. Goldman Sachs & Co. New York may take up to 140% of the value of the outstanding loan as collateral. The Company is protected, such protection being equal to the net assets held by Goldman Sachs & Co. New York, by SEC rules and US legislation. (Also see glossary on page 51)**  

Assets held by Goldman Sachs & Co. New York, as custodian, that are not used as collateral, are held in segregated client accounts.

Further information on financial instruments and risk, as required by IAS 7, can be found in note 13 to the financial statements beginning on page 41.

## LOAN FACILITY

The Company's borrowing requirements are met through the utilisation of a loan facility, repayable on demand, provided by Goldman Sachs & Co. New York.

## SHARE CAPITAL

As part of the package of measures adopted in 2005 by the Board to improve the attraction of the Company's shares to new investors and also to provide the prospect of a sustained improvement in the rating of the Company's shares, an active discount management policy was implemented to buy back shares if the market price is at a discount greater than 6% to net asset value per share. As at 31 March 2012, the discount was 5.9%,

## REPORT OF THE DIRECTORS (continued) INCORPORATING THE BUSINESS REVIEW

17

within the stated target of 6%. It remains possible, however, for the discount to be greater than 6% at times as the share price continues to be influenced by overall supply and demand for the Company's shares in the secondary market. In addition, the volatility of the net asset value per share in an asset class such as biotechnology is also a factor. The average month end share price discount during the year was 7.0%. The making and timing of any share buy-back remains at the absolute discretion of the Board. Authority to buy back up to 14.99% of the Company's issued share capital is sought at each Annual General Meeting. During the year a total of 2,714,255 shares was bought back for cancellation representing 4.2% of the issued share capital at the beginning of the year. The purchases were made at prices ranging between £1.6458 and £2.1657 per share at a cost of £5,206,000 (including expenses) and at an average discount of 9.6% to the net asset value per share. Subsequent to the year end to 31 May 2012 a further 19,079 shares were repurchased for cancellation at a cost of £47,000 (including expenses). In addition, 275,000 new shares were issued raising £680,000 of new funds for the Company. As at the date of this report there were 62,496,347 shares in issue.

### PROSPECTS

The Company's Investment Manager is optimistic regarding the outlook for the biotechnology sector due, in part, to the increase in the pace of merger and acquisition activity. This activity has highlighted the valuation disconnect between companies' market capitalisations and their perceived value by potential strategic acquirers. Although the recent appreciation of the sector has narrowed this gap, they believe that many compelling opportunities remain. They are also optimistic about healthcare policy in the US where reform law passed in 2010 has been challenged by a large number of states. The Investment Manager believes that the proposed changes enacted by the new law are manageable, and that the increase in individuals with healthcare coverage should outweigh the demands placed on industry. However, if the law is overturned, they expect an initial positive reaction for biotechnology and pharmaceutical stocks.

The Alternative Investment Fund Managers Directive came into force in July 2011 and is required to be implemented into national legislation by July 2013. Companies then have until July 2014 to obtain the relevant authorisation. Currently European regulators are preparing the more detailed rules and UK regulators are considering how to implement the rules in the UK. The Board is keeping developments here under close review.

HMRC's regulations on the modernisation of investment trust tax rules have been finalised and were approved by Parliament in December 2011. The new regime became effective for this Company from 1 April 2012.

### INVESTMENT MANAGEMENT

*Investment Management Agreement* The Investment Manager receives a periodic fee equal to 0.65% pa of the Company's net asset value. The Investment Management Agreement may be terminated by either party giving notice of not less than 12 months. The Investment Manager under the terms of the Agreement provides, *inter alia*, the following services:

- seeking out and evaluating investment opportunities
- recommending the manner by which monies should be invested, disinvested, retained or realised,
- advising on how rights conferred by the investments should be exercised,
- analysing the performance of investments made, and
- advising the Company in relation to trends, market movements and other matters which may affect the investment policy of the Company.

The proportion of the Company's assets committed for investment in Orbimed Asia Partners L.P., a limited partnership managed by Orbimed Asia G.P., L.P., an affiliate of the Company's Investment Manager, is excluded from the Investment Management fee calculation.

*Performance Fee* Dependent on the level of long term outperformance of the Company, the Investment Manager and the Manager are entitled to the payment of a performance fee. The performance fee is calculated by reference to the amount by which the Company's net asset value ('NAV') performance has outperformed the NASDAQ Biotechnology Index (sterling adjusted), the Company's benchmark index.

The fee is calculated quarterly by comparing the cumulative performance of the Company's NAV with the cumulative performance of the benchmark since the commencement of the performance fee arrangement on 30 June 2005. The performance fee amounts to 16.5% of any outperformance over the benchmark, the investment manager receiving 15% and the manager receiving 1.5% respectively. Provision is also made within the daily NAV per share calculation as required and in accordance with generally accepted accounting standards.

In order to ensure that only sustained outperformance is rewarded, at each quarterly calculation date any performance fee is based on the lower of

- (i) The cumulative out-performance of the portfolio over the benchmark as at the quarter end date, and
- (ii) The cumulative out-performance of the portfolio over the benchmark as at the corresponding quarter end date in the previous year.

In addition, a performance fee only becomes payable to the extent that the cumulative outperformance gives rise to a total fee greater than the total of all performance fees paid to date.

## REPORT OF THE DIRECTORS (continued) INCORPORATING THE BUSINESS REVIEW

18

During the year performance fee amounts totalling £284,000 were paid (year ended 31 March 2011: £517,000). At 31 March 2012 £1,640,000 was accrued. No fees crystallised at that date (year ended 31 March 2011: nil).

The proportion of the Company's assets invested in OrbiMed Asia Partners LP is excluded from the performance fee calculation.

### MANAGEMENT

*Company Management, Company Secretarial and Administration Services Agreement* The Manager receives a periodic fee equal to 0.30% per annum of the Company's market capitalisation, plus a fixed amount equal to £60,000 per annum\*. The notice period in the Company Management, Company Secretarial and Administration Agreement with the Manager is not less than 12 months. Termination can be at the instigation of either party.

\*This figure has been fixed for a period of three years from 1 April 2010.

The Manager, under the terms of the Agreement provides, *inter alia*, the following services:

- marketing and shareholder services,
- administrative services,
- advice and guidance in respect of corporate governance requirements,
- maintaining adequate accounting records in respect of Company dealing, investments, transactions, dividends and other income, the income account, statement of financial position and cash books and statements,
- preparation and dispatch of the audited annual, and the unaudited interim, report and financial statements and interim management statements, and
- attending to general tax affairs where necessary.

### INVESTMENT MANAGER AND MANAGER EVALUATION AND RE-APPOINTMENT

The performance of the Investment Manager and the Manager is reviewed continuously by the Audit and Management Engagement Committee with a formal evaluation being undertaken each year. As part of this process, the Committee monitors the services provided by the Investment Manager and the Manager and receives regular reports and views from them. The Committee also receives comprehensive performance measurement reports to enable it to determine whether or not the performance objectives set by the Board have been met. The Committee reviewed the appropriateness of the appointment of the Investment Manager and the Manager in February 2012 with a recommendation being made to the full Board.

The Board believes the continuing appointment of the Investment Manager and the Manager, under the terms described above and on the previous page, is in the interests of shareholders as a whole. In coming to this decision, it also took into consideration the following additional reasons:

- the quality and depth of experience allocated by the Investment Manager to the management of the portfolio and the level of performance of the portfolio in absolute terms and also by reference to the benchmark index, and
- the quality and depth of experience of the company management, company secretarial, administrative and marketing team that the Manager allocates to the management of the Company.

### GOING CONCERN

The Directors believe that it is appropriate to adopt the going concern basis in preparing the accounts as the assets of the Company consist mainly of securities that are readily realisable and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future.

### CREDITORS PAYMENT POLICY

Terms of payment are negotiated with suppliers when agreeing settlement details for transactions. 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. There were no creditors in respect of goods or services supplied at the year end (2011: nil).

### SOCIAL, ENVIRONMENTAL AND ETHICAL POLICY

The Company's primary objective is to achieve long term capital growth through investment in the worldwide biotechnology industry, principally by investing in emerging biotechnology companies. The Directors recognise that this should be done in a responsible way but they

# REPORT OF THE DIRECTORS (continued)

## INCORPORATING THE BUSINESS REVIEW

19

believe that the Company would be in breach of its fiduciary duties to shareholders if investment decisions were based solely on social, ethical or environmental considerations. The Company encourages a positive approach to corporate governance and engagement with companies.

### INDIVIDUAL SAVINGS ACCOUNTS

The Company's shares are eligible to be held in the stocks and shares component of an ISA or Junior ISA, subject to applicable annual subscription limits (£11,280 for an ISA and £3,600 for a Junior ISA for the 2012/2013 tax year). Investments held in ISAs or Junior ISAs will be free of UK tax on both capital gains and income. The opportunity to invest in Ordinary Shares through an ISA is restricted to certain UK resident individuals aged 18 or over. Junior ISAs are available for UK resident children aged under 18 and born before 1 September 2002 or after 2 January 2011. Sums received by a shareholder on a disposal of Ordinary Shares held within an ISA or Junior ISA will not count towards the shareholder's annual limit. Individuals wishing to invest in Ordinary Shares through an ISA should contact their professional advisers regarding their eligibility as should individuals wishing to invest through a Junior ISA for children under 18 years old.

### DIRECTORS

Directors of the Company, all of whom served throughout the year, except as noted, are as follows:

John Sclater, CVO, (Chairman)

Sven Borho

Professor Dame Kay Davies, CBE (appointed on 15 March 2012)

Paul Gaunt

Dr John Gordon

Andrew Joy (appointed on 15 March 2012)

Peter Keen

Lord Waldegrave of North Hill

### DIRECTORS' INTERESTS

The beneficial interests of the Directors and their families in the Company were as set out below:

	Shares of 25p each	
	31 March 2012	31 March 2011
John Sclater, CVO	25,000	25,000
Sven Borho	236,218	236,218
Professor Dame Kay Davies, CBE*	-	-
Paul Gaunt	-	-
Dr John Gordon	70,000	70,000
Andrew Joy*	-	-
Peter Keen	45,000	45,000
Lord Waldegrave of North Hill	58,716	58,716

\*Appointed as a director on 15 March 2012

On 14 May 2012, Mr Andrew Joy purchased 25,000 shares in the Company. Other than the foregoing, there have been no changes to the Directors' interests in the Company's shares between the end of the year and the date of this report.

None of the Directors was granted or exercised rights over shares during the year. Sven Borho is a partner at OrbiMed, the Company's Investment Manager, which is party to the Investment Management Agreement with the Company and receives fees as described on pages 17 and 18. A number of the partners at OrbiMed have a minority financial interest amounting in total to 20% in Frostrow Capital LLP, the Company's Manager.

### DIRECTORS' FEES

A report on Directors' Remuneration is set out on pages 29 and 30.

### DIRECTORS' & OFFICERS' LIABILITY INSURANCE COVER

Directors' & officers' liability insurance cover was maintained by the Board during the year ended 31 March 2012. It is intended that this policy will continue for the year ended 31 March 2013 and subsequent years.

# REPORT OF THE DIRECTORS (continued)

## INCORPORATING THE BUSINESS REVIEW

20

### SUBSTANTIAL SHAREHOLDINGS

As at 31 March 2012 the Company was aware of the following interests in the shares of the Company, which exceeded 3% of the issued share capital

<b>Beneficial shareholder</b>	<b>Registered holder</b>	<b>No of shares</b>	<b>% of issued share capital</b>
Newton Investment Management	Various Nominees	9,925,878	15.90
Baillie Gifford & Co	BNY (OCS) Nominees/Sec Services Nominees	8,235,999	13.20
East Riding of Yorkshire Council	Nortrust Nominees	6,143,000	9.84
Reliance Mutual Insurance Society	HSBC Global Custody Nominee (UK)/ State Street Nominees	3,322,450	5.32
JP Morgan Asset Management	Chase Nominees/Bank of New York Nominees	3,257,010	5.22
M&G Investment Management	Various Nominees	2,792,225	4.47
Hansa Capital	Mellon Nominees (UK)/State Street Nominees/ Lynchwood Nominees	2,338,415	3.75
Legal & General Investment Management	Various Nominees	2,256,328	3.62

### AUDITORS

Grant Thornton UK LLP have indicated 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

### DIRECTORS' INDEMNITIES

As at the date of this report, indemnities are in force between the Company and each of its Directors under which the Company has agreed to indemnify each Director, to the extent permitted by law, in respect of certain liabilities incurred as a result of carrying out his role as a Director of the Company. The Directors are also indemnified against the costs of defending any criminal or civil proceedings or any claim by the Company or a regulator as they are incurred provided that where the defence is unsuccessful the Director must repay those defence costs to the Company. The indemnities are qualifying third party indemnity provisions for the purposes of the Companies Act 2006.

A copy of each deed of indemnity is available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Annual General Meeting.

### AWARENESS OF RELEVANT AUDIT INFORMATION

So far as the Directors are aware, there is no relevant audit information of which the Auditors are unaware. The Directors have taken all steps they ought to have to make themselves aware of any relevant audit information and to establish that the Auditors are aware of that information.

### CORPORATE GOVERNANCE

A formal statement on Corporate Governance is set out on pages 23 to 27 and forms part of this Report of the Directors.

### BENEFICIAL OWNERS OF SHARES – INFORMATION RIGHTS

Beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to the Company's registrar, Capita Registrars, or to the Company directly.

### COMPANY SHARE INFORMATION

The following disclosures are made in accordance with paragraph 13 of Schedule 7 to the Large and Medium Sized Companies and Group (Accounts and Reports) Regulations 2008.

#### Capital structure

The Company's capital structure is summarised on the inside front cover.

#### Voting rights in the Company's shares

Details of the voting rights in the Company's shares at the date of this Annual Report are given in note 9 to the Notice of Annual General Meeting on page 47.

# REPORT OF THE DIRECTORS (continued) INCORPORATING THE BUSINESS REVIEW

21

## NOTICE PERIOD FOR GENERAL MEETINGS

At last year's Annual General Meeting, a special resolution was passed allowing general meetings of the Company to be called on a minimum notice period provided for in the Companies Act 2006. For meetings other than annual general meetings this is a period of 14 clear days.

The Board believes that it should continue to have the flexibility to convene general meetings of the Company (other than annual general meetings) on 14 clear days' notice.

The Board is therefore proposing Resolution 14 as a special resolution to approve 14 clear days as the minimum period of notice for all general meetings of the Company other than annual general meetings. The notice period for annual general meetings will remain 21 clear days.

The authority, if given, will lapse at the next Annual General Meeting of the Company after the passing of this resolution.

## ANNUAL GENERAL MEETING

The formal Notice of Annual General Meeting is set out on pages 45 to 48 of this Annual Report. Resolutions relating to the following items of special business will be proposed at the forthcoming Annual General Meeting:

### (a) Authority to allot shares

Ordinary Resolution 11 gives the Directors authority to allot new shares, otherwise than by a pro rata issue to existing shareholders, up to an aggregate nominal amount of £1,562,408 such amount being equivalent to 10% of the issued share capital at 31 May 2012 and representing 6,249,634 shares of 25p each. Such issues would only be made at prices greater than the prevailing net asset value ("NAV") per share thereby increasing the assets underlying each share and spread administrative expenses, other than those charged as a percentage of assets over a greater number of shares.

### (b) Disapplication of pre-emption rights

Special Resolution 12 seeks shareholder approval for the disapplication of pre-emption rights in respect of the allotment of shares or the sale by the Company of shares pursuant to a rights issue or a sale equivalent or similar to a rights issue for cash up to an aggregate nominal value of £1,562,408. No such allotment will be made at less than the prevailing NAV per share (as determined in the absolute discretion of the Directors).

### (c) Authority to repurchase shares


Special Resolution 13 seeks shareholder approval for the Company to have the power to repurchase its own 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 repurchase of shares at a discount to the underlying NAV would enhance the NAV of the remaining shares.

At the Annual General Meeting the Company will seek shareholder approval to repurchase up to 9,368,202 shares, representing approximately 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 the higher of (a) 105% of the average of the middle market quotations for the five business days preceding the day of purchase, and (b) the higher of the price of the last independent trade in shares and the highest then current independent bid for shares on the London Stock Exchange. The decision as to whether to repurchase any shares will be at the absolute discretion of the Board. Shares repurchased under this authority will be cancelled.

### (d) General meetings

Special Resolution 14 seeks shareholder approval to hold general meetings (other than annual general meetings) at 14 clear days' notice.

The authorities being sought under resolutions 11, 12, 13 and 14 will last until the conclusion of the next Annual General Meeting or, if less, a period of 15 months.

  
BY ORDER OF THE BOARD  
FROSTROW CAPITAL LLP  
COMPANY SECRETARY

31 MAY 2012

Company law in the United Kingdom requires the Directors to prepare financial statements for each financial year. The Directors are responsible for preparing the financial statements in accordance with applicable law and regulations. In preparing these financial statements, the Directors have

- selected suitable accounting policies and applied them consistently,
- made judgments and estimates that are reasonable and prudent,
- followed applicable international accounting standards, and
- prepared the financial statements on a going concern basis.

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 as in force from time to time. 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.

The financial statements are published on the Company's website (website address [www.biotechgt.com](http://www.biotechgt.com)) and on the Manager's website (website address [www.frostrow.com](http://www.frostrow.com)). The maintenance and integrity of these websites, so far as it relates to the Company, is the responsibility of the Manager. The work carried out by the Auditors does not involve consideration of the maintenance and integrity of these websites and, accordingly, the Auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on these websites. Visitors to the websites need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

The Directors, whose details can be found on page 13, confirm that to the best of their knowledge the financial statements, within the Annual Report, have been prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and the return for the year ended 31 March 2012, and that the Chairman's Statement, Review of Investments and the Report of the Directors include a fair review of the information required by 4.1.8R to 4.1.11R of the FSA's Disclosure and Transparency Rules.



ON BEHALF OF THE BOARD  
JOHN SCLATER, CVO  
CHAIRMAN

31 MAY 2012

This Corporate Governance Statement forms part of the Report of the Directors

## COMPLIANCE

The Board has considered the principles and recommendations of the AIC Code of Corporate Governance ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide"), both of which can be found on the AIC website [www.theaic.co.uk](http://www.theaic.co.uk). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code (the "UK Governance Code") as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Governance Code), provides better information to shareholders. A copy of the UK Governance Code can be found at [www.frc.org.uk](http://www.frc.org.uk).

The Board considers that it has managed its affairs throughout the year ended 31 March 2012 in compliance with the recommendations of the AIC Code and the relevant provisions of the UK Governance Code, except as set out below:

- the role of the chief executive,
- executive directors' remuneration, and
- the need for an internal audit function.

For the reasons set out in the AIC Guide, and in the preamble to the AIC Code, the Board considers these provisions are not relevant to the position of the Company, being an externally managed investment trust. The Company has therefore not reported further in respect of these provisions.

In view of its non-executive nature, the Board considers that it is not appropriate for the Directors to be appointed for a specified term as recommended by provision B7.1 of the UK Corporate Governance Code and principle 3 of the AIC Code. The Directors have agreed to adopt the provision contained in both the UK Corporate Governance Code and the AIC Code that all Directors of the Company will stand for annual election.

John Sclater, the Chairman of the Company, will not be seeking re-election at this year's Annual General Meeting.

## INTERNAL AUDIT

As the Company delegates to third parties its day-to-day operations and has no employees, the Board has determined that there are no requirements for an internal audit function. The Board reviews annually whether a function equivalent to an internal audit is needed and it will continue to monitor its systems of internal controls in order to provide assurance that they operate as intended.

## BOARD INDEPENDENCE, COMPOSITION AND TENURE

The Board, chaired by John Sclater who is responsible for leadership of the Board and for ensuring its effectiveness in all aspects of its role, currently consists of eight non-executive Directors. The Directors' biographical details, set out on page 13, demonstrate a breadth of investment, commercial and professional experience. Dr John Gordon has been designated as the Senior Independent Director, who can act as a sounding board for the Chairman and also acts as an intermediary for the other Directors when necessary. The Directors review their independence annually.

Sven Borho is a Founding General Partner of OrbiMed, the Company's Investment Manager, and is not considered to be an Independent Director. Mr Sclater, Dr Gordon, Mr Gaunt, Lord Waldegrave of North Hill and Mr Keen have all served on the Board for over nine years. The Board subscribes to the view expressed within the AIC Code that long-serving Directors should not be prevented from forming part of an independent majority. It does not consider that a Director's tenure necessarily reduces his ability to act independently and, following formal performance evaluations, believes that each of those Directors is independent in character and judgement and that there are no other relationships or circumstances which are likely to affect their judgement.

Professor Dame Kay Davies, CBE and Andrew Joy were appointed as Directors with effect from 15 March 2012 and they will be seeking election at this year's Annual General Meeting. They are both considered to be independent by the Board.

None of the Directors has a service contract with the Company. New Directors are appointed with the expectation that they will serve for a minimum period of three years. Any Director may resign in writing to the Board at any time. The terms of their appointment are detailed in a letter sent to them when they join the Board. These letters are available for inspection at the offices of the Company's Manager and will be available at the Annual General Meeting. When a new Director is appointed to the Board, they are provided with all relevant information regarding the Company and their duties and responsibilities as a Director. In addition, a new Director will also spend time with representatives of the Manager and Investment Manager in order to learn more about their processes and procedures. The Chairman also regularly reviews the training and development needs of each Director. The Board also receives regular briefings from amongst others, the Auditors and the Company Secretary regarding any proposed developments or changes in laws or regulations that could affect the Company and/or the Directors.

## THE BOARD'S RESPONSIBILITIES

The Board is responsible for efficient and effective leadership of the Company and has reviewed the schedule of matters reserved for its decision. The Board meets at least on a quarterly basis and at other times as necessary. The Board is responsible for all aspects of the Company's affairs, including the setting of parameters for and the monitoring of the investment strategy and the review of investment performance and investment policy. It also has responsibility for all corporate strategy issues, dividend policy, share buy-back policy, gearing, share price and discount/premium monitoring and corporate governance matters. To enable them to discharge their responsibilities, prior to each meeting the Directors are provided, in a timely manner, with a comprehensive set of papers giving detailed information on the Company's transactions, financial position and performance. Representatives of the Manager and Investment Manager attend each Board meeting, enabling the Directors to seek clarification on specific issues or to probe further on matters of concern, a full written report is also received from the Investment Manager and the Manager at each quarterly meeting. In light of these reports, the Board gives direction to the Investment Manager with regard to the Company's investment objectives and guidelines. Within these established guidelines, the Investment Manager takes decisions as to the purchase and sale of individual investments.

There is an agreed procedure for Directors, in the furtherance of their duties, to take independent professional advice if necessary at the Company's expense. The Directors have access to the advice and services of the Company Secretary, through its appointed representative, who is responsible to the Board for ensuring that Board procedures are followed.

## PERFORMANCE EVALUATION

The Board has carried out an evaluation process for the year ended 31 March 2012, independently managed by Dr Gordon, the Senior Independent Director. This took the form of a questionnaire followed by discussions to identify how the effectiveness of its activities, including its committees, policies and processes might be improved. The results of the evaluation process were presented to and discussed by the Board and, as a result, it was agreed that the current Directors contributed effectively and that all have the skills and experience which are relevant to the leadership and direction of the Company.

## CONFLICT OF INTEREST

On 1 October 2008 it became a statutory requirement that a Director must avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests (a "situational conflict"). The Company's Articles of Association have been amended to give the Directors authority to approve such situations, where appropriate.

It is the responsibility of each individual Director to avoid an unauthorised conflict situation arising. He or she must request authorisation from the Board as soon as he or she becomes aware of the possibility of a situational conflict arising.

The Board is responsible for considering Directors' requests for authorisation of situational conflicts and for deciding whether they should be authorised. The factors to be considered will include whether the situational conflict could prevent the Director from performing his or her duties, whether it has, or could have, any impact on the Company and whether it could be regarded as likely to affect the judgment and/or actions of the Director in question. When the Board is deciding whether to authorise a conflict or potential conflict, only Directors who have no interest in the matter being considered are able to take the relevant decision and in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors are able to impose limits or conditions when giving authorisation if they think this is appropriate in the circumstances.

A register of conflicts is maintained by the Company Secretary and is reviewed at quarterly Board meetings, to ensure that any authorised conflicts remain appropriate. Directors are required to confirm at these meetings whether there has been any change to their position.

The Directors must also comply with the statutory rules requiring company directors to declare any interest in an actual or proposed transaction or arrangement with the Company.

## COMMITTEES OF THE BOARD

The Board has delegated certain responsibilities and functions to committees. Copies of the full terms of reference, which clearly define the responsibilities of each committee, can be obtained from the Company Secretary and will be available for inspection at the Annual General Meeting and can be found at the Company's website at [www.biotechgt.com](http://www.biotechgt.com). Following a review by the Board in 2007, it was agreed, that, due to the Board's size, the membership of the Company's Committees should comprise the whole Board (provided that a majority of the Directors present are independent). The Remuneration Committee is chaired by Dr John Gordon, the Nominations Committee is chaired by the Chairman of the Company, John Sclater, and the Audit and Management Engagement Committee is chaired by Peter Keen.

In March 2011, the Board agreed that, due to his connection with the Company's Investment Manager, Sven Borho should no longer be a member of any of the Company's Committees.

**NOMINATIONS COMMITTEE**

The Nominations Committee is responsible for the Board appraisal process and for making recommendations to the Board on the appointment of new Directors. Where appropriate, each Director is invited to submit nominations and external advisers may be used to identify potential candidates.

**REMUNERATION COMMITTEE**

The level of Directors' fees is reviewed on a regular basis relative to other comparable investment companies and in the light of Directors' responsibilities. Details of the fees paid to the Directors in the year under review are detailed in the Directors' Remuneration Report on pages 29 and 30.

**AUDIT AND MANAGEMENT ENGAGEMENT COMMITTEE**

The Audit and Management Engagement Committee meets at least twice a year and is responsible for the review of the interim and annual financial statements, the nature and scope of the external audit and the findings therefrom and the terms of appointment of the Auditors, including their remuneration and the provision of any non-audit services by them. In addition, the Committee is responsible for the review of the Company's financial controls and of the Management and Investment Management agreements and of the services provided by the Manager and the Investment Manager.

The Audit and Management Engagement Committee meets representatives of the Manager and Investment Manager and their Compliance Officers who report as to the proper conduct of business in accordance with the regulatory environment in which the Company, Manager and Investment Manager operate. The Company's Auditors also attend meetings of this Committee at its request and report on their work procedures and their findings in relation to the Company's statutory audit. They also have the opportunity to meet with the Committee without representatives of the Manager or the Investment Manager being present. The Audit and Management Engagement Committee reviews the need for non-audit services and authorises such fees on a case by case basis, having consideration to the cost effectiveness of the services and the independence and objectivity of the Auditors. Non-audit fees of £4,000 were paid to Grant Thornton UK LLP for their review of the Company's interim accounts and their review of the performance fee calculation as at 30 September 2011. The Board has concluded, on the recommendation of the Audit and Management Engagement Committee, that the Auditors continue to be independent and that their reappointment be proposed at the Annual General Meeting.

The table below details the number of Board and Committee meetings attended by each Director. During the year there were four Board meetings, two Audit and Management Engagement Committee meetings, one meeting of the Nominations Committee and one meeting of the Remuneration Committee.

	Board	Audit and Management Engagement Committee	Nominations Committee	Remuneration Committee
Number of meetings held in 2011/12	4	2	1	1
John Sclater, CVO	4	2	1	1
Sven Borho <sup>^</sup>	4	-	-	-
Professor Dame Kay Davies, CBE <sup>+</sup>	-	-	-	-
Paul Gaunt <sup>*</sup>	4	1	1	1
Dr John Gordon	4	2	1	1
Andrew Joy <sup>+</sup>	-	-	-	-
Peter Keen	4	2	1	1
Lord Waldegrave of North Hill	4	2	1	1

All of the Directors attended the Annual General Meeting held on 14 July 2011.

<sup>^</sup>Sven Borho is not a member of any of the Company's committees.

<sup>+</sup>Appointed as a Director on 15 March 2012.

<sup>\*</sup>Following Mr Gaunt's retirement from the Board of Worldwide Healthcare Trust PLC (for which OrbiMed Capital LLC also acts as Investment Manager) in July 2011, in accordance with the provisions of the AIC Code of Corporate Governance he is considered independent and therefore rejoined the Audit and Management Engagement Committee with effect from 17 November 2011.

### THE BRIBERY ACT 2010

The Board has adopted a zero tolerance approach to instances of bribery and corruption. Accordingly, it expressly prohibits any Director or associated persons when acting on behalf of the Company, from accepting, soliciting, paying, offering or promising to pay or authorise any payment, public or private in the UK or abroad to secure any improper benefit for themselves or for the Company.

The Board applies the same standards to its service providers in their activities for the Company.

A copy of the Company's Anti Bribery and Corruption Policy can be found on its website at [www.biotechgt.com](http://www.biotechgt.com).

### BOARD DIVERSITY

The Company welcomes the objectives of the Davies Report to improve the performance of corporate boards by encouraging the appointment of the best people from a range of differing perspectives and backgrounds. The Company recognises the benefits of diversity on the Board, including gender and takes this into account in its Board appointments. The Company is committed to ensuring that any director search processes actively seeks persons with the right qualifications so that appointments can be made, on the basis of merit, against objective criteria from a diverse selection of candidates. To this end the Board will continue to dedicate time to consider diversity during any director search process.

### INTERNAL CONTROLS

In accordance with the provision C2 and C3 of the UK Corporate Governance Code, risk assessment and the review of internal controls are undertaken by the Board in the context of the Company's overall investment objective. The review covers the key business, operational, compliance and financial risks facing the Company. In arriving at its judgement of what risks the Company faces, the Board has considered the Company's operations in the light of the following factors:

- the nature and extent of risks which it regards as acceptable for the Company to bear within its overall business objective
- the threat of such risks becoming a reality and
- the Company's ability to reduce the incidence and impact of risk on its performance.

Against this background, the Board has split the review of risk and associated controls into five sections reflecting the nature of the risks being addressed. These sections are as follows:

- corporate strategy,
- investment activity,
- published information, compliance with laws and regulations,
- service providers, and
- financial activity.

The Company has appointed Frostrow Capital LLP to provide administrative services to the Company. The Company has obtained from its various service providers assurances and information relating to their internal systems and controls to enable the Board to make an appropriate risk and control assessment, including the following:

- details of the control environment in operation,
- identification and evaluation of risks and control objectives,
- review of communication methods and procedures, and
- assessment of the control procedures.

The key procedures which have been established to provide internal financial controls are as follows:

- investment management is provided by Orbimed Capital LLC who provide regular updates and reports to the Board. The Board is responsible for setting the overall investment policy and monitors the actions of the Investment Manager at regular Board meetings,
- administration, company secretarial and marketing duties for the Company are performed by Frostrow Capital LLP,
- custody of assets is undertaken by Goldman Sachs & Co. New York,
- the Board clearly defines the duties and responsibilities of their agents and advisers. The appointment of agents and advisers to the Company is conducted by the Board after consideration of the quality of the parties involved, the Board monitors their ongoing performance and contractual arrangements,

- mandates for authorisation of investment transactions and expense payments are set by the Board, and
- the Board reviews financial information produced by the Investment Manager and the Manager in detail on a regular basis

All of the Company's management functions are performed by third parties whose internal controls are reviewed by the Board or on its behalf by Frostrow Capital LLP

In accordance with guidance issued to directors of listed companies, the Directors confirm that they have carried out a review of the effectiveness of the system of internal financial control and risk management during the year, as set out above

## RELATIONS WITH SHAREHOLDERS

The Board reviews the shareholder register at each Board meeting. The Company has regular contact with its institutional shareholders particularly through the Manager. The Board supports the principle that the Annual General Meeting be used to communicate with private investors. The full Board attends the Annual General Meeting under the Chairmanship of the Chairman of the Board. Details of proxy votes received in respect of each resolution are made available to shareholders at the meeting and are also published on the Company's website at [www.biotechgt.com](http://www.biotechgt.com). Representatives from the Investment Manager attend the Annual General Meeting and give a presentation on investment matters to those present. The Company has adopted a nominee share code which is set out below.

The Board receives marketing and public relations reports from the Manager to whom the marketing function has been delegated. The Board reviews and considers the marketing plans of the Manager on a regular basis.

The annual and interim financial reports, the interim management statements and a monthly fact sheet are available to all shareholders. The Board considers the format of the annual and interim financial reports so as to ensure they are useful to all shareholders and others taking an interest in the Company. In accordance with best practice, the annual report, including the Notice of the Annual General Meeting, is sent to shareholders at least 20 working days before the meeting. Separate resolutions are proposed for substantive issues.

## EXERCISE OF VOTING POWERS

The Board has delegated authority to the Investment Manager to vote the shares owned by the Company that are held on its behalf by its custodian, Goldman Sachs & Co. New York. The Board has instructed that the Investment Manager submit votes for such shares wherever possible. This accords with current best practice whilst maintaining a primary focus on financial returns. The Investment Manager may refer to the Board on any matters of a contentious nature. The Company does not retain voting rights on any shares that are subject to rehypothecation in connection with the loan facility provided by Goldman Sachs & Co. New York.

## ACCOUNTABILITY AND AUDIT

The Statement of Directors' Responsibilities in respect of the financial statements is set out on page 22. The report of the Auditor is set out on page 31. The Board has delegated contractually to external agencies, including the Manager, the Investment Manager and Goldman Sachs & Co. New York, the management of the portfolio, custodial services (which includes the safeguarding of the Company's assets), the day to day marketing, accounting administration, company secretarial requirements and registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services offered, including the control systems in operation in so far as they relate to the affairs of the Company. The Board receives and considers regular reports from the Manager and *ad hoc* reports and information are supplied to the Board as required.

## NOMINEE SHARE CODE

Where shares are held in a nominee company name and where the beneficial owner of the shares is unable to vote in person, the Company nevertheless undertakes

- to provide the nominee company with multiple copies of shareholder communications, so long as an indication of quantities has been provided in advance,
- to allow investors holding shares through a nominee company to attend general meetings, provided the correct authority from the nominee company is available, and
- that investors in the Alliance Trust Savings Scheme or ISA are automatically sent shareholder communications, including details of general meetings, together with a form of direction to facilitate voting and to seek authority to attend.

Nominee companies are encouraged to provide the necessary authority to underlying shareholders to attend the Company's general meetings.

% of shares held at 31 March 2012

# DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 MARCH 2012

29

The Board has prepared this report in accordance with the requirements of Section 420 to 422 of the Companies Act 2006. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires your Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditors' opinion is included in their report on page 31.

## REMUNERATION COMMITTEE

The Company has eight non-executive Directors. The whole Board, with the exception of Sven Borho, fulfils the function of a Remuneration Committee. The Board has appointed Dr John Gordon as Chairman, and the Board may utilise the services of the Company Secretary, Frostrow Capital LLP, or external advisers when they consider the level of Directors' fees.

## POLICY ON DIRECTORS' FEES

The Board's policy is that the remuneration of Directors should reflect the responsibilities and experience of the Board as a whole. Regard will be given to fees paid by other investment trusts that are similar in size, have a similar capital structure, and have a similar investment objective. It is intended that this policy will continue for the year ending 31 March 2013 and subsequent years.

The fees for the Directors are determined within the limits set out in the Company's Articles of Association, the maximum aggregate amount currently being £200,000.

## DIRECTORS' EMOLUMENTS FOR THE YEAR (AUDITED)

The Directors who served in the year (unless where stated) received the following emoluments in the form of fees:

	Fees 2012 £'000	Fees 2011 £'000
John Sclater, CVO ( <i>Chairman of the Board</i> )	32	29
Sven Borho	22	20
Professor Dame Kay Davies, CBE*	1	–
Paul Gaunt	22	20
Dr John Gordon ( <i>Senior Independent Director</i> )	24	22
Andrew Joy*	1	–
Peter Keen ( <i>Chairman of the Audit and Management Engagement Committee</i> )	24	22
Lord Waldegrave of North Hill	22	20
	148	133

\*Appointed as a Director on 15 March 2012.

## DIRECTORS' SERVICE CONTRACTS

It is the Board's policy that none of the Directors has a service contract. The terms of their appointment provide that Directors shall retire and be subject to election at the first Annual General Meeting after their appointment and to re-election annually thereafter. The terms also provide that a Director may resign by giving one month's notice in writing to the Board at any time and may be removed without notice and that compensation will not be due on leaving office. The Company's policy is for the Directors to be remunerated in the form of fees payable quarterly in arrears.

**DIRECTORS' REMUNERATION REPORT (continued)  
FOR THE YEAR ENDED 31 MARCH 2012**

**30**

**YOUR COMPANY'S PERFORMANCE**

The law requires a line graph be included in the Directors' Remuneration Report comparing, for a period of five years, on a cumulative basis, the total return (assuming all dividends are reinvested) to shareholders and the total shareholder return on a notional investment made up of shares of the same kind and number as those by reference to which the NASDAQ Biotechnology Index (sterling adjusted) is calculated (Please see below)

**SHAREHOLDER TOTAL RETURN FOR THE FIVE YEARS TO 31 MARCH 2012**

Rebased to 100 as at 31 March 2007  
Source: Bloomberg

**APPROVAL**

The Directors' Remuneration Report on pages 29 and 30 was approved by the Board of Directors on 31 May 2012 and signed on its behalf by John Sclater, CVO, Chairman



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BIOTECH GROWTH TRUST PLC**

We have audited the financial statements of The Biotech Growth Trust PLC for the year ended 31 March 2012 which comprise the Income Statement, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and international Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR**

As explained more fully in the Directors' Responsibilities Statement set out on page 22, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

**OPINION ON FINANCIAL STATEMENTS**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its profit for the year then ended
- have been properly prepared in accordance with IFRS as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

**OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006**

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

**MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

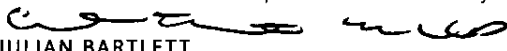
We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Under the Listing Rules, we are required to review

- the Directors' statement, set out on page 18, in relation to going concern,
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code, and
- certain elements of the report to the shareholders by the Board on Directors' remuneration



JULIAN BARTLETT

SENIOR STATUTORY AUDITOR

FOR AND ON BEHALF OF GRANT THORNTON UK LLP

STATUTORY AUDITOR, CHARTERED ACCOUNTANTS

LONDON

31 MAY 2012

# INCOME STATEMENT

32

for the year ended 31 March

	Notes	Revenue £'000	2012 Capital £'000	Total £'000	Revenue £'000	2011 Capital £'000	Total £'000
<b>Income</b>							
Investment income	2	196	-	196	69	-	69
<b>Total income</b>		196	-	196	69	-	69
<b>Gains and losses on investments</b>							
Gains on investments held at fair value through profit or loss	8	-	44,214	44,214	-	2,691	2,691
Exchange (losses)/gains on currency balances		-	(228)	(228)	-	402	402
<b>Expenses</b>							
Investment management, management and performance fees	3	-	(3,158)	(3,158)	-	(752)	(752)
Other expenses	4	(459)	-	(459)	(398)	-	(398)
<b>(Loss)/profit before finance costs and taxation</b>		(263)	40,828	40,565	(329)	2,341	2,012
Finance costs	5	(19)	-	(19)	(11)	-	(11)
<b>(Loss)/profit before taxation</b>		(282)	40,828	40,546	(340)	2,341	2,001
Taxation	6	(27)	-	(27)	(1)	-	(1)
<b>(Loss)/profit for the year</b>		(309)	40,828	40,519	(341)	2,341	2,000
<b>Basic and diluted</b>							
<b>(loss)/earnings per share</b>	7	(0.5)p	64.1p	63.6p	(0.5)p	3.5p	3.0p

The Company does not have any income or expenses which are not included in the profit for the year. Accordingly the "profit for the year" is also the "total comprehensive income for the period", as defined in IAS 1 (revised) and no separate Statement of Comprehensive Income has been presented.

All of the profit and total comprehensive income for the period is attributable to the owners of the Company.

The "Total" column of this statement represents the Company's Income Statement prepared in accordance with International Financial Reporting Standards (IFRS). The "Revenue" and "Capital" columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies.

All items in the above statement derive from continuing operations.

The accompanying notes are an integral part of this statement.

# STATEMENT OF CHANGES IN EQUITY

33

for the year ended 31 March 2012

	Ordinary share capital £'000	Share premium account £'000	Special reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 31 March 2011	16,239	19,300	30,420	4,893	53,311	(3,345)	120,818
Net profit/(loss) for the year	-	-	-	-	40,828	(309)	40,519
Repurchase of own shares	(679)	-	(5,206)	679	-	-	(5,206)
<b>At 31 March 2012</b>	<b>15,560</b>	<b>19,300</b>	<b>25,214</b>	<b>5,572</b>	<b>94,139</b>	<b>(3,654)</b>	<b>156,131</b>

for the year ended 31 March 2011

	Ordinary share capital £'000	Share premium account £'000	Special reserve £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 31 March 2010	16,490	19,298	32,021	4,642	50,970	(3,004)	120,417
Net profit/(loss) for the year	-	-	-	-	2,341	(341)	2,000
Issue costs refunded	-	2	-	-	-	-	2
Repurchase of own shares *	(251)	-	(1,601)	251	-	-	(1,601)
<b>At 31 March 2011</b>	<b>16,239</b>	<b>19,300</b>	<b>30,420</b>	<b>4,893</b>	<b>53,311</b>	<b>(3,345)</b>	<b>120,818</b>

The accompanying notes are an integral part of this statement

# STATEMENT OF FINANCIAL POSITION

34

as at 31 March

	Notes	2012 £'000	2011 £'000
<b>Non current assets</b>			
Investments held at fair value through profit or loss	8	161,655	128,346
<b>Current assets</b>			
Other receivables	9	213	1,161
Cash and cash equivalents		–	5,691
		213	6,852
<b>Total assets</b>		<b>161,868</b>	<b>135,198</b>
<b>Current liabilities</b>			
Other payables	10	5,737	14,380
		5,737	14,380
<b>Net assets</b>		<b>156,131</b>	<b>120,818</b>
<b>Equity attributable to equity holders</b>			
Ordinary share capital	11	15,560	16,239
Share premium account		19,300	19,300
Special reserve		25,214	30,420
Capital redemption reserve		5,572	4,893
Capital reserve	15	94,139	53,311
Revenue reserve		(3,654)	(3,345)
<b>Total equity</b>		<b>156,131</b>	<b>120,818</b>
<b>Net asset value per share</b>	12	<b>250 9p</b>	<b>186.0p</b>

The financial statements on pages 32 to 44 were approved by the Board on 31 May 2012 and were signed on its behalf by



JOHN SCLATER, CVO  
CHAIRMAN

The accompanying notes are an integral part of this statement

The Biotech Growth Trust PLC – Company Registration Number 3376377 (Registered in England)

# STATEMENT OF CASH FLOWS

35

for the year ended 31 March

	2012 £'000	2011 £'000
<b>Operating activities</b>		
Profit before tax	40,546	2,001
Add back interest paid	19	11
Less gain on investments held at fair value through profit or loss	(44,214)	(2,691)
Add exchange losses/(gains) on currency balances	228	(402)
Purchases of investments held at fair value through profit or loss	(164,346)	(98,383)
Sales of investments held at fair value through profit or loss	165,582	115,677
Decrease/(increase) in other receivables	9	(15)
Increase/(decrease) in other payables	1,783	(810)
<b>Net cash (outflow)/inflow from operating activities before interest and taxation</b>	<b>(393)</b>	<b>15,388</b>
Interest paid	(19)	(11)
Taxation paid	(27)	(1)
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(439)</b>	<b>15,376</b>
<b>Financing activities</b>		
Refund of issue costs	-	2
Repurchase of own shares	(5,206)	(1,600)
Repayment of bank loan	-	(8,489)
<b>Net cash outflow from financing</b>	<b>(5,206)</b>	<b>(10,087)</b>
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(5,645)</b>	<b>5,289</b>
Cash and cash equivalents at start of year	5,691	-
Effect of foreign exchange rate changes	(228)	402
<b>Cash and cash equivalents at end of year</b>	<b>(182)</b>	<b>5,691</b>

The accompanying notes are an integral part of this statement

## 1 ACCOUNTING POLICIES

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") These comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the International Accounting Standards Committee ("IASC") that remain in effect, to the extent that IFRS have been adopted by the European Union

### (a) Accounting Convention

The financial statements have been prepared under the historical cost convention, except for the measurement at fair value of investments Where presentational guidance set out in the revised Statement of Recommended Practice ("the SORP") for Investment Trust Companies produced by the Association of Investment Companies and Venture Capital Trusts ("AIC") dated January 2009 is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP

### (b) Investments

Investments are recognised and de-recognised on the trade date

As the entity's business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends or increases in fair value, investments are designated as fair value through profit or loss and are initially recognised at fair value The entity manages and evaluates the performance of these investments on a fair value basis in accordance with its investment strategy, and information about the investments is provided internally on this basis to the Board

Investments designated as at fair value through profit or loss, which are quoted investments, are measured at subsequent reporting dates at fair value, which is either the bid or the last trade price depending on the convention of the exchange on which it is quoted

In respect of unquoted investments, or where the market for a financial instrument is not active, fair value is established by using valuation techniques which may include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models Where there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, that technique is utilised

Gains and losses on disposal are also recognised in the Income Statement

The total transaction costs for the year were £597,000 (31 March 2011 £530,000) broken down as follows purchase transaction costs for the year to 31 March 2012 were £295,000, (31 March 2011 £232,000), sale transaction costs were £302,000 (31 March 2011 £298,000) These costs consist mainly of commission and stamp duty

### (c) Presentation of Income Statement

In order to better reflect the activities of an investment trust company, and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement In accordance with the Company's status as a UK investment company under section 833 of the Companies Act 2006, capital reserves may not be distributed by way of dividend, although may be utilised for the purposes of share buy-backs Additionally, net revenue is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in section 1158 of the Corporation Tax Act 2010

### (d) 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 unquoted shares and securities are recognised when they become receivable

### (e) Expenses and Finance Costs

All expenses are accounted for on an accruals basis Expenses are charged through the Income Statement as follows

- expenses which are incidental to the acquisition or disposal of an investment are charged to the capital column of the Income Statement,
- expenses are charged to the capital column of the Income Statement where a connection with the maintenance or enhancement of the value of the investment can be demonstrated, and accordingly,
- investment management and management fees and related irrecoverable VAT are charged to the capital column of the Income Statement as the Directors expect that in the long term virtually all of the Company's returns will come from capital,
- loan interest is charged to the Income Statement and allocated to capital as the Directors expect that in the long term virtually all of the Company's returns will come from capital, and
- bank overdraft interest is charged to the Income Statement and allocated to the revenue column

**(f) Taxation**

In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Income Statement is the "marginal basis". Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue column of the Income Statement, then no tax relief is transferred to the capital column.

Investment trusts which have approval under Section 1158 Corporation Tax Act 2010 are not liable for taxation on capital gains.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the Balance Sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**(g) Foreign Currencies**

The currency of the primary economic environment in which the Company operates (the functional currency) is pounds sterling ("sterling"), which is also the presentational currency of the Company. Transactions involving currencies other than sterling are recorded at the exchange rate ruling on the transaction date. At each Statement of Financial Position date, monetary items and non-monetary assets and liabilities that are fair valued, which are denominated in foreign currencies, are retranslated at the closing rates of exchange.

Exchange differences arising on settlements of monetary items and from retranslating at the Statement of Financial Position date including investments and other financial instruments measured as fair value through profit or loss and other monetary items are included in the Income Statement and allocated as capital if they are of a capital nature, or as revenue if they are of a revenue nature.

**(h) Reserves****Capital reserves**

The following are credited or charged to the capital column of the Income Statement and then transferred to the Capital Reserve:

- gains or losses on disposal of investments
- exchange differences of a capital nature
- expenses allocated to this reserve in accordance with the above referred policies
- increases and decreases in the valuation of investments held at year end

**Capital Redemption Reserve**

- a transfer will be made to this reserve on cancellation of the Company's own shares purchased

**Special Reserve**

During the financial year ended 31 March 2004 a Special Reserve was created, following the cancellation of the Share Premium account, in order to provide an increased distributable reserve out of which to purchase the Company's own shares.

**(i) Functional and presentational currency**

The financial information is shown in sterling, being the Company's presentational currency. In arriving at the functional currency the Directors have considered the following:

- (i) the primary economic environment of the Company,
- (ii) the currency in which the original capital was raised,
- (iii) the currency in which distributions are made,
- (iv) the currency in which performance is evaluated, and
- (v) the currency in which the capital would be returned to shareholders on a break up basis.

The Directors have also considered the currency to which the underlying investments are exposed and liquidity is managed.

The Directors are of the opinion that sterling best represents the functional currency.

**(j) Cash and cash equivalents**

Cash in hand and in banks and short-term deposits which are held to maturity are carried at cost. Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Bank overdrafts that are repayable on demand, which form an integral part of the Company's cash management, are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

**(k) Operating segments**

IFRS 8 requires entities to define operating segments and segment performance in the financial statements based on information used by the Board of Directors. The Directors are of the opinion that the Company is engaged in a single segment of business, being the investments business. The results published in this report therefore correspond to this sole operating segment.

**(l) Standards and amendments to published standards that are not yet effective**

The IASB and IFRIC have issued a number of standards and interpretations which are not effective for the year ended 31 March 2012 but are relevant for the Company. The Directors have therefore chosen not to adopt these standards early as they do not anticipate that they would have a material impact on the Company's financial statements.

- IAS 27 Separate Financial Statements (effective 1 January 2013),
- IAS 28 Investments in Associates and Joint Ventures (effective 1 January 2013),
- IFRS 9 Financial Instruments (effective 1 January 2015),
- IFRS 10 Consolidated Financial Statements (effective 1 January 2013),
- IFRS 11 Joint Arrangements (effective 1 January 2013),
- IFRS 12 Disclosure of Interests in Other Entities (effective 1 January 2013),
- IFRS 13 Fair Value Measurement (effective 1 January 2013),
- Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 (effective 1 July 2012),
- Deferred Tax Recovery of Underlying Assets – Amendments to IAS 12 Income Taxes (effective 1 January 2012),
- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (effective 1 July 2011),
- Enhanced Derecognition Disclosure Requirements – Amendments to IFRS 7 (effective 1 July 2011)

**2 INCOME**

	2012 £'000	2011 £'000
<b>Investment income</b>		
Overseas income	196	69
<b>Total income</b>	<b>196</b>	<b>69</b>

**3 INVESTMENT MANAGEMENT, MANAGEMENT AND PERFORMANCE FEES**

	Revenue 2012 £'000	Capital 2012 £'000	Total 2012 £'000	Revenue 2011 £'000	Capital 2011 £'000	Total 2011 £'000
Investment management fee	–	856	856	–	711	711
Management fee	–	379	379	–	322	322
Performance fee accrued/(written back)	–	1,923	1,923	–	(281)	(281)
	–	<b>3,158</b>	<b>3,158</b>	–	<b>752</b>	<b>752</b>

Details of the performance fee basis and amounts paid during the year can be found in the Report of the Directors on pages 17 and 18.

## 4 OTHER EXPENSES

	Revenue 2012 £'000	Capital 2012 £'000	Total 2012 £'000	Revenue 2011 £'000	Capital 2011 £'000	Total 2011 £'000
Directors' emoluments	148	-	148	133	-	133
Frostrow's fixed fee	60	-	60	60	-	60
Auditors' remuneration for the audit of the Company's financial statements	24	-	24	22	-	22
Auditors' remuneration for review of the interim accounts and performance fee calculation	4	-	4	5	-	5
Auditor's remuneration for other services	3	-	3	-	-	-
Broker retainer	25	-	25	25	-	25
Other including irrecoverable VAT	195	-	195	153	-	153
	<b>459</b>	<b>-</b>	<b>459</b>	<b>398</b>	<b>-</b>	<b>398</b>

Details of the amounts paid to Directors are included in the Directors' Remuneration Report on pages 29 and 30

## 5 FINANCE COSTS

	Revenue 2012 £'000	Capital 2012 £'000	Total 2012 £'000	Revenue 2011 £'000	Capital 2011 £'000	Total 2011 £'000
Bank overdraft interest	19	-	19	11	-	11
	<b>19</b>	<b>-</b>	<b>19</b>	<b>11</b>	<b>-</b>	<b>11</b>

## 6 TAXATION

## (a) Analysis of charge in the year

	Revenue 2012 £'000	Capital 2012 £'000	Total 2012 £'000	Revenue 2011 £'000	Capital 2011 £'000	Total 2011 £'000
Overseas taxation suffered	27	-	27	1	-	1
Total current taxation for the year (see note 6b)	<b>27</b>	<b>-</b>	<b>27</b>	<b>1</b>	<b>-</b>	<b>1</b>

## (b) Factors affecting current tax charge for year

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

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 26% (2011 28%). The differences are explained below

	Revenue 2012 £'000	Capital 2012 £'000	Total 2012 £'000	Revenue 2011 £'000	Capital 2011 £'000	Total 2011 £'000
Net (loss)/profit on ordinary activities before taxation	(282)	40,828	40,546	(340)	2,341	2,001
Corporation tax at 26% (2011 28%)	(73)	10,615	10,542	(95)	655	560
Effects of						
Non-taxable gains on investments held at fair value through profit or loss	-	(11,436)	(11,436)	-	(865)	(865)
Non-taxable overseas dividends	(43)	-	(43)	(16)	-	(16)
Overseas taxes	27	-	27	1	-	1
Excess expenses unused	114	821	935	110	210	320
Disallowed expenses	2	-	2	1	-	1
Current tax charge	<b>27</b>	<b>-</b>	<b>27</b>	<b>1</b>	<b>-</b>	<b>1</b>

## 6 TAXATION (continued)

## (c) Provision for deferred tax

No provision for deferred taxation has been made in the current or prior year

The Company has not provided for deferred tax on capital gains or losses arising on the revaluation or disposal of investments, as it is exempt from tax on these items because of its status as an investment trust company

The Company has not recognised a deferred tax asset of £4,655,000 (2011 £4,108,000) arising as a result of excess management expenses and loan relationship deficits. These excess expenses will only be utilised if the Company generates sufficient taxable income in the future

## 7 BASIC AND DILUTED (LOSS)/EARNINGS PER SHARE

	Revenue 2012 £'000	Capital 2012 £'000	Total 2012 £'000	Revenue 2011 £'000	Capital 2011 £'000	Total 2011 £'000
(Loss)/earnings per share	(0.5)p	64.1p	63.6p	(0.5)p	3.5p	3.0p

The total gain per share of 63.6p (2011 gain 3.0p) is based on the total gain attributable to equity shareholders of £40,519,000 (2011 gain £2,000,000)

The revenue loss per share 0.5p (2011 loss 0.5p) is based on the revenue loss attributable to equity shareholders of £309,000 (2011 £314,000)

The capital gain per share of 64.1p (2011 gain 3.5p) is based on the capital gain attributable to equity shareholders of £40,828,000 (2011 gain £2,341,000)

The total revenue loss and capital gain per share are based on the weighted average number of shares in issue during the year of 63,666,908 (2011 65,687,388)

## 8 INVESTMENTS HELD AT FAIR VALUE THROUGH PROFIT AND LOSS

	2012 Listed Equity £'000	2012 Unquoted £'000	Total £'000	2011 Total £'000
Cost at 1 April 2011	111,802	1,742	113,544	103,008
Investment holding gains/(losses) at 1 April 2011	15,356	(554)	14,802	29,610
Valuation at 1 April 2011	<b>127,158</b>	<b>1,188</b>	<b>128,346</b>	<b>132,618</b>
Movement in the year				
Purchases at cost	153,261	477	153,738	109,556
Sales – proceeds	(164,522)	(121)	(164,643)	(116,519)
– gains/(losses) on disposal	40,206	(309)	39,897	17,499
Net movement in investment holding gains/(losses)	3,762	555	4,317	(14,808)
Valuation at 31 March 2012	<b>159,865</b>	<b>1,790</b>	<b>161,655</b>	<b>128,346</b>
Closing book cost at 31 March 2012	140,747	1,789	142,546	113,544
Investment holding gains at 31 March 2012	19,118	1	19,119	14,802
Valuation at 31 March 2012	<b>159,865</b>	<b>1,790</b>	<b>161,655</b>	<b>128,346</b>

	2012 £'000	2011 £'000
Gains on investments		
Gains on disposal based on historical cost	39,897	17,499
Amounts recognised as investment holding loss in previous year	(11,999)	(19,727)
Gains/(losses) on disposal based on carrying value at previous financial position date	27,898	(2,228)
Net movement in investment holding gains in the year	16,316	4,919
Gains on investments	<b>44,214</b>	<b>2,691</b>

**9 OTHER RECEIVABLES**

	2012 £'000	2011 £'000
Future settlements – sales	147	1,086
Other debtors	31	23
Prepayments and accrued income	35	52
	<b>213</b>	<b>1,161</b>

**10 OTHER PAYABLES**

	2012 £'000	2011 £'000
Future settlements – purchases	3,402	14,010
Future settlements – repurchase of shares	–	3
Performance fee accrued	1,640	–
Bank overdraft	182	–
Other creditors and accruals	513	367
	<b>5,737</b>	<b>14,380</b>

**11 ORDINARY SHARE CAPITAL**

	2012 £'000	2011 £'000
Allotted, called up, issued and fully paid 62,240,426 shares of 25p (2011 64,954,681)	<b>15,560</b>	<b>16,239</b>

At 31 March 2012 the Company had 62,240,426 shares of 25p in issue (2011 64,954,681). During the year 2,714,255 shares were repurchased for cancellation at a cost of £5,206,000 (including expenses). Subsequent to the year end and to the date of this report a further 19,079 shares were repurchased for cancellation at a cost of £47,000 (including expenses). In addition, 275,000 shares were issued raising £681,000.

**12 NET ASSET VALUE PER SHARE**

	2012 £'000	2011 £'000
Net asset value per share	<b>250.9p</b>	<b>186.0p</b>

The net asset value per share is based on the net assets attributable to equity shareholders of £156,131,000 (2011 £120,818,000) and on 62,240,426 (2011 64,954,681) shares in issue at 31 March 2012.

**13 RISK MANAGEMENT POLICIES AND PROCEDURES**

As an investment trust, the Company invests in equities and other investments for the long term in order to achieve its investment objective as stated on page 14. In pursuing its investment objective, the Company is exposed to a variety of risks that could result in either a reduction or increase in the Company's net assets or in profits.

The Company's financial instruments comprise securities and other investments, cash balances, debtors and creditors and a loan facility that arise directly from its operations (for example, in respect of sales and purchases awaiting settlement).

The main risks the Company faces from its financial instruments are (i) market price risk (comprising currency risk, interest rate risk and other price risk (i.e. changes in market prices other than those arising from interest rate or currency risk)), (ii) liquidity risk and (iii) credit risk.

The Board reviews regularly and agrees policies for managing and monitoring each of these risks.

**1 Market price risk**

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements – currency risk, interest rate risk and other price risk.

The Company's portfolio is exposed to market price fluctuations which are monitored by the Investment Manager in pursuance of the investment objective. Further information on the composition of the portfolio is set out on page 12.

No derivatives or hedging instruments are utilised to manage market price risk.

**13 RISK MANAGEMENT POLICIES AND PROCEDURES (continued)****(a) Currency risk:**

A significant proportion of the Company's portfolio is denominated in currencies other than sterling (the Company's functional currency, and in which it reports its results). As a result, movements in exchange rates can significantly affect the sterling value of those items.

**Management of risk**

The Investment Manager and Manager monitor the Company's exposure to foreign currencies on a continuous basis and report to the Board regularly. The Investment Manager does not hedge against foreign currency movements, but takes account of the risk when making investment decisions.

Income denominated in foreign currencies is converted into sterling on receipt. The Company does not use financial instruments to mitigate the currency exposure in the period between the time that the income is included in the financial statements and its receipt.

**Foreign currency exposure**

At the date of the Statement of Financial Position the Company held £153,851,000 (2011: £124,088,000) of investments denominated in US dollars and £7,804,000 (2011: £4,258,000) in other non-sterling currencies.

**Currency sensitivity**

The following table details the sensitivity of the Company's profit or loss after taxation for the year to a 10% increase and decrease in sterling against US dollars (2011: 10% increase and decrease).

The above percentages have been determined based on market volatility in exchange rates over the previous twelve months. The analysis is based on the Company's foreign currency financial instruments held at each Statement of Financial Position date, after adjusting for an increase/decrease in management fees. Movements in the performance fee accruals have been excluded from the analysis below.

If sterling had weakened against US dollars, as stated above, this would have had the following effect:

	2012 USD £'000	2011 USD £'000
Impact on revenue return	-	-
Impact on capital return	16,983	13,698
<b>Total return after tax/effect on shareholders' funds</b>	<b>16,983</b>	<b>13,698</b>

If sterling had strengthened against US dollars, as stated above, this would have had the following effect:

	2012 USD £'000	2011 USD £'000
Impact on revenue return	-	-
Impact on capital return	(13,896)	(11,207)
<b>Total return after tax/effect on shareholders' funds</b>	<b>(13,896)</b>	<b>(11,207)</b>

**(b) Interest rate risk:**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

**Management of the risk**

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions.

The Company, generally, does not hold significant cash balances, with short term borrowing being used when required and therefore deems this risk to be immaterial.

**Interest rate exposure**

The Company has a loan facility with Goldman Sachs & Co. New York which is repayable on demand.

**(c) Other price risk**

Other price risk may affect the value of the quoted investments.

If market prices at the date of the Statement of Financial Position had been 20% higher or lower (2011: 5% higher or lower) while all other variables had remained constant, the return and net assets attributable to shareholders for the year ended 31 March 2012 would have increased/decreased by £32,121,000 (2011: £6,376,000), after adjusting for an increase or decrease in management fees. The calculations are based on the portfolio valuations as at the respective Statement of Financial Position dates.

**13 RISK MANAGEMENT POLICIES AND PROCEDURES (continued)****2. Liquidity risk**

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities

**Management of the risk**

Liquidity risk is not significant as the majority of the Company's assets are investments in quoted equities and other quoted securities that are readily realisable

The Board gives guidance to the investment Manager as to the maximum amount of the Company's resources that should be invested in any one company

**Liquidity exposure**

Contractual maturities of the financial liabilities as at 31 March 2012, based on the earliest date on which payment can be required, are as follows

Amounts due to brokers and accruals £5,555,000 (2011 £14,380,000) All of the stated financial liabilities are repayable within three months or less

**3 Credit risk**

The failure of the counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss

The Company has a loan facility, repayable on demand, provided by Goldman Sachs & Co New York Further details of the risks associated with this loan facility can be found on page 16

**Management of the risk**

The risk is not significant and is managed as follows

- by only dealing with brokers which have been approved by OrbiMed Capital LLC and banks with high credit ratings, and
- by setting limits to the maximum exposure to any one counterparty at any time

At 31 March 2012 the Company's exposure to credit risk amounted to £213,000 and was in respect of other receivables, such as amounts due from brokers, dividends and interest receivable (2011 £1,161,000) At 31 March 2012 the Company held a cash balance of £nil (2011 £5,691,000)

**Hierarchy of investments**

The Company has classified its financial assets designated at fair value through profit or loss and the fair value of derivative financial instruments using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurements The hierarchy has the following levels

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2 – inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs)

As of 31 March 2012	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Assets</b>				
Financial investments designated at fair value through profit or loss	159,865	-	1,790	161,655
<b>As of 31 March 2011</b>				
<b>Assets</b>				
Financial investments designated at fair value through profit or loss	127,158	-	1,188	128,346

**Level 3 Reconciliation**

Please see below a reconciliation disclosing the changes during the year for the financial assets and liabilities designated at fair value through profit or loss classified as being Level 3

	2012 £'000	2011 £'000
<b>Assets</b>		
As at 1 April	1,188	692
Total gains/(losses) during the year	246	(159)
Net capital commitments	356	655
Assets as at 31 March	1,790	1,188

**13 RISK MANAGEMENT POLICIES AND PROCEDURES (continued)****Fair value of financial assets and financial liabilities:**

Financial assets and financial liabilities are either carried in the Statement of Financial Position at their fair value or at a reasonable approximation of fair value

**Capital management policies and procedures**

The Company's capital management objectives are

- to ensure that it will be able to continue as a going concern, and
- to maximise the total return to its equity shareholders through an appropriate balance of equity capital and debt

The Company's capital is disclosed in the Statement of Financial Position on page 34 and is managed on a basis consistent with its investment objective and policy as set out in the Report of the Directors on pages 14 and 15. The Company currently has a loan facility with Goldman Sachs & Co New York which is repayable on demand, which can be used to satisfy the Company's borrowing requirements.

The Board, with the assistance of the Manager and the Investment Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes

- the planned level of gearing, which takes into account the Investment Manager's view of the market,
- the need to buy back equity shares, for cancellation which takes account of the difference between the net asset value per share and the share price (i.e. the level of share price discount or premium),
- the possible need for new issues of equity shares, and
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company's objectives, policies and processes for managing capital are unchanged from the preceding accounting period.

The Company is also subject to several externally imposed capital requirements

- as a public company, the Company has a minimum share capital of £50,000, and
- in order to be able to pay dividends out of profits available for distribution, the Company has to be able to meet one of the two capital restriction tests imposed on investment companies by company law.

These requirements are unchanged since last year and the Company has complied with them at all times.

**14 RELATED PARTIES**

Details of the relationship between the Company, Frostrow Capital LLP and OrbiMed Capital LLC are disclosed in the Report of Directors on pages 17 and 18. Sven Borho is a Director of the Company, as well as a Partner of the Company's Investment Manager, OrbiMed Capital LLC. During the year ended 31 March 2012, OrbiMed Capital LLC earned £856,000 in respect of Investment Management fees, of which £247,000 was outstanding at the year end. In addition, amounts totalling £260,000 were paid during the year in respect of performance fees which crystallised.

**15 CAPITAL RESERVE**

	Capital reserve – other £'000	Capital reserve – investment holdings gains/ (losses) £'000	Total £'000
At 31 March 2011	38,509	14,802	53,311
Transfer on disposal of investments	11,999	(11,999)	–
Net gains on investments	27,898	16,316	44,214
Exchange losses	(228)	–	(228)
Expenses charged to capital	(3,158)	–	(3,158)
At 31 March 2012	<b>75,020</b>	<b>19,119</b>	<b>94,319</b>

Notice is hereby given that the Annual General Meeting of The Biotech Growth Trust PLC will be held at the Barber-Surgeons' Hall, Monkwell Square, Wood Street, London, EC2Y 5BL on Thursday, 12 July 2012 at 12 30 p.m. for the following purposes

### ORDINARY BUSINESS

- 1 To receive and, if thought fit, to accept the Audited Financial Statements and the Report of the Directors for the year ended 31 March 2012
- 2 To elect Professor Dame Kay Davies, CBE as a Director of the Company
- 3 To elect Andrew Joy as a Director of the Company
- 4 To re-elect Sven Borho as a Director of the Company
- 5 To re-elect Paul Gaunt as a Director of the Company
- 6 To re-elect Dr John Gordon as a Director of the Company
- 7 To re-elect Peter Keen as a Director of the Company
- 8 To re-elect Lord Waldegrave of North Hill as a Director of the Company
- 9 To approve the Directors' Remuneration Report for the year ended 31 March 2012
- 10 To re-appoint Grant Thornton UK LLP as Auditors to the Company and to authorise the Directors to determine their remuneration

### SPECIAL BUSINESS

To consider, and if thought fit, pass the following resolutions of which resolutions 12, 13 and 14 will be proposed as special resolutions

#### Authority to Allot Shares

- 11 THAT in substitution for all existing authorities the Directors be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all powers of the Company to allot relevant securities (within the meaning of Section 551 of the Act) up to a maximum aggregate nominal amount of £1,562,408 (being 10% of the issued share capital of the Company at the date of the notice convening the meeting at which this resolution is proposed) and representing 6,249,634 shares of 25 pence each (or, if less, the number representing 10% of the issued share capital of the Company at the date at which this resolution is passed), provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2013 or 15 months from the date of passing this resolution, whichever is the earlier, 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 relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to such offer or agreement as if the authority conferred hereby had not expired

#### Disapplication of Pre-emption Rights

- 12 THAT in substitution of all existing powers the Directors be and are hereby generally empowered pursuant to Sections 570 and 573 of the Companies Act 2006 (the "Act") to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority conferred on them by resolution 11 set out in the notice convening the Annual General Meeting at which this resolution is proposed or otherwise as if section 561(1) of the Act did not apply to any such allotment and to sell relevant shares (within the meaning of section 560 of the Act) for cash as if section 561(1) of the Act did not apply to any such sale, provided that this power shall be limited to the allotment of equity securities pursuant to

- (a) an offer of equity securities open for acceptance for a period fixed by the Directors where the equity securities respectively attributable to the interests of holders of shares of 25 pence each in the Company ("Shares") are proportionate (as nearly as may be) to the respective numbers of 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) (otherwise than pursuant to sub-paragraph (a) above) up to an aggregate nominal value of £1,562,408 or, if less, the number representing 10% of the issued share capital of the Company at the date of the meeting at which this resolution is passed,

and expires at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or 15 months from the date of passing this resolution, whichever is the earlier, 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 Directors may allot equity securities pursuant to such offer or agreement as if the power conferred hereby had not expired

**Authority to Repurchase Ordinary Shares**

- 13 THAT the Company be and is hereby generally and unconditionally authorised in accordance with section 701 of the Companies Act 2006 (the "Act") to make one or more market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 25 pence each in the capital of the Company ("Shares") for cancellation provided that
- (a) the maximum aggregate number of Shares authorised to be purchased is 9,368,202 (representing approximately 14.99% of the issued share capital of the Company at the date of the notice convening the meeting at which this resolution is proposed),
  - (b) the minimum price (exclusive of expenses) which may be paid for a Share is 25 pence,
  - (c) the maximum price (exclusive of expenses) which may be paid for a Share is an amount equal to the greater of (i) 105% of the average of the middle market quotations for a 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 Share is purchased and (ii) the higher of the price of the last independent trade in shares and the highest then current independent bid for shares on the London Stock Exchange as stipulated in Article 5(1) of Regulation No 2233/2003 of the European Commission (Commission Regulation of 22 December 2003 implementing the Market Abuse Directive as regards exemptions for buyback programmes and stabilisation of financial instruments),
  - (d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2013 was or, if earlier, on the expiry of 15 months from the date of the passing of this resolution unless such authority is renewed prior to such time, and
  - (e) the Company may make a contract to purchase Shares under this authority before the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority, and may make a purchase of Shares in pursuance of any such contract

**General Meetings**

- 14 THAT the Directors be authorised to call general meetings (other than annual general meetings) on not less than 14 clear days' notice, such authority to expire at the conclusion of the next Annual General Meeting of the Company or if earlier, until expiry of 15 months from the date of the passing of this resolution

BY ORDER OF THE BOARD



FROSTROW CAPITAL LLP  
COMPANY SECRETARY  
31 MAY 2012

REGISTERED OFFICE  
ONE WOOD STREET  
LONDON EC2V 7WS

**Notes**

- 1 Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice.
- 2 A vote withheld is not a vote in law which means that the vote will not be counted in the calculation of votes for or against the resolutions. If no voting indication is given a proxy may vote or abstain from voting at his/her discretion. A proxy may vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.
- 3 To be valid any proxy form or other instrument appointing a proxy must be completed and signed and received by post or (during normal business hours only) by hand at Capita Registrars PXS 34 Beckenham Road, Beckenham Kent BR3 4TU no later than 12 noon on Tuesday 10 July 2012.
- 4 In the case of a member which is a company, the instrument appointing a proxy must be executed under its seal or signed on its behalf by a duly authorised officer or attorney or other person authorised to sign. Any power of attorney or other authority under which the instrument is signed (or a certified copy of it) must be included with the instrument.
- 5 The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described below) will not prevent a shareholder attending the meeting and voting in person if he/she wishes to do so.
- 6 Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated have a right to be appointed (or have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it he/she may under any such agreement have a right to give instructions to the shareholder as to the exercise of voting rights.
- 7 The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 and 3 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.
- 8 Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001 only shareholders registered on the register of members of the Company (the "Register of Members") at 5.30 p.m. on Tuesday, 10 July 2012 (or, in the event of any adjournment on the date which is two days before the time of the adjourned meeting) will be entitled to attend and vote or be represented at the meeting in respect of shares registered in their name at that time. Changes to the Register of Members after that time will be disregarded in determining the rights of any person to attend and vote at the meeting.
- 9 As at 31 May 2012 (being the last business day prior to the publication of this notice) the Company's issued share capital consists of 62,496,347 ordinary shares, carrying one vote each. Therefore the total voting rights in the Company as at 31 May 2012 are 62,496,347.
- 10 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
- 11 In order for a proxy appointment or instruction made using the CREST service to be valid the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with the specifications of Euroclear UK and Ireland Limited ("CRESTCo") and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must in order to be valid be transmitted so as to be received by the issuer's agent (ID RA10) no later than 48 hours before the time appointed for holding the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
- 12 CREST members and, where applicable, their CREST sponsors, or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
- 13 The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
- 14 In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Register of Members in respect of the joint holding (the first named being the most senior).
- 15 Members who wish to change their proxy instructions should submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also applies in relation to amended instructions: any amended proxy appointment received after the relevant cut-off time will be disregarded.
- 16 Members who have appointed a proxy using the hard-copy proxy form and who wish to change the instructions using another hard-copy form, should contact Capita Registrars on 0871 664 0300 (calls cost 10p per minute plus network extras). Lines are open 8.30am to 5.30pm Monday to Friday.

17 If a member submits more than one valid proxy appointment the appointment received last before the latest time for the receipt of proxies will take precedence

18 In order to revoke a proxy instruction, members will need to inform the Company. Members should send a signed hard copy notice clearly stating their intention to revoke a proxy appointment to Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power of attorney) must be included with the revocation notice. If a member attempts to revoke their proxy appointment but the revocation is received after the time for receipt of proxy appointments (see page 47) then, subject to paragraph 4, the proxy appointment will remain valid.

#### LOCATION OF THE ANNUAL GENERAL MEETING

**DIRECTORS**

John Sclater CVO, Chairman  
 Sven Borho  
 Professor Dame Kay Davies, CBE  
 Paul Gaunt  
 Dr John Gordon  
 Andrew Joy  
 Peter Keen  
 Lord Waldegrave of North Hill

**COMPANY REGISTRATION NUMBER**

3376377 (Registered in England)

The Company is an investment company as defined under Section 833 of the Companies Act 2006

The Company was incorporated in England on 20 May 1997. The Company was incorporated as Reabourne Merlin Life Sciences Investment Trust PLC.

**WEBSITE**

[www.biotechgt.com](http://www.biotechgt.com)

**REGISTERED OFFICE**

One Wood Street  
 London EC2V 7WS

**INVESTMENT MANAGER**

OrbiMed Capital LLC  
 767 Third Avenue 30th Floor  
 New York  
 New York NY10017 – 2023  
 USA  
 Website [www.orbimed.com](http://www.orbimed.com)  
*Registered under the US Securities and Exchange Commission*

**MANAGER, COMPANY SECRETARY AND ADMINISTRATOR**

Frostrow Capital LLP  
 25 Southampton Buildings  
 London WC2A 1AL  
 Telephone 0203 008 4910  
 E-Mail [info@frostrow.com](mailto:info@frostrow.com)  
 Website [www.frostrow.com](http://www.frostrow.com)  
*Authorised and regulated by the Financial Services Authority*

If you have an enquiry about the Company or if you would like to receive a copy of the Company's monthly fact sheet by e-mail, please contact Frostrow Capital using the above e-mail address

**CUSTODIAN AND BANKER**

Goldman Sachs & Co  
 200 West Street, Third Floor  
 New York, NY 10282

**AUDITORS**

Grant Thornton UK LLP  
 30 Finsbury Square  
 London EC2P 2YU

**STOCKBROKER**

Winterflood Securities Limited  
 The Atrium Building  
 Cannon Bridge  
 25 Dow Gate Hill  
 London EC4R 2GA

**REGISTRARS**

Capita Registrars  
 The Registry  
 34 Beckenham Road  
 Beckenham  
 Kent BR3 4TU  
 Telephone (in UK) 0871 664 0300†  
 Telephone (from overseas) +44 20 8639 3399  
 Facsimile +44 (0) 1484 600911  
 E-Mail [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com)  
 Website [www.capitaregistrars.com](http://www.capitaregistrars.com)

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

†calls cost 10p per minute plus network charges and may be recorded for training purposes. Lines are open from 8.30 a.m. to 5.30 p.m. Monday to Friday

**SHARE PRICE LISTINGS**

The price of your shares can be found in various publications including the Financial Times, The Daily Telegraph, The Times and The Scotsman

The Company's net asset value per share is announced daily and is available together with the share price on the TrustNet website at [www.trustnet.com](http://www.trustnet.com)

**IDENTIFICATION CODES**

Shares	SEDOL	0038551
	ISIN	GB0000385517
	BLOOMBERG	BIOG LN
	EPIC	BIOG

**FINANCIAL CALENDAR**

Financial Year End  
 Financial Results Announced  
 Half Year End  
 Half Year Results Announced  
 Interim Management Statements Announced  
 2012 Annual General Meeting

31 March  
 May  
 30 September  
 November  
 February/August  
 12.30 pm, Thursday, 12 July  
 to be held in the Barber-Surgeons' Hall,  
 Monkwell Square, Wood Street, London EC2Y 5BL

## ALLIANCE TRUST SAVINGS LIMITED

The Company's shares are available through savings plans (including Investment Dealing Accounts, ISAs, Junior ISAs and SIPPs) operated by Alliance Trust Savings Limited, which facilitates both regular monthly investments and lump sum investments in the Company's shares. Shareholders who would like information on the savings plans should call Alliance Trust Savings Limited on 01382 573737 or log on to [www.alliancetrustsavings.co.uk](http://www.alliancetrustsavings.co.uk) or email [contact@alliancetrust.co.uk](mailto:contact@alliancetrust.co.uk). Calls to this number may be recorded for monitoring purposes.

An Individual Savings Account ('ISA') and Junior ISA are tax efficient methods of investment for an individual which gives the opportunity to invest in the Company up to £11,280 in the tax year 2012/2013 for an ISA and £3,600 for a Junior ISA, and also in subsequent tax years, when they subscribe to a Stocks and Shares ISA.

*The preceding two paragraphs have been issued and approved by Alliance Trust Savings Limited. Alliance Trust Savings Limited of PO Box 164, 8 West Marketgait, Dundee DD1 9YP is registered in Scotland with number SC98767. Alliance Trust Savings Limited provides investment products and services and is authorised and regulated by the Finance Services Authority. It does not provide investment advice.*

## CAPITA REGISTRARS – SHARE DEALING SERVICE

A quick and easy share dealing service is available to existing shareholders through the Company's Registrar, Capita Registrars, to either buy or sell shares. An online and telephone dealing facility provides an easy to access and simple to use service.

Type of trade	Online	Telephone
Share certificates	1% of the value of the deal (Minimum £20.00, max £75.00)	1.5% of the value of the deal (Minimum £25.00, max £102.50)

There is no need to pre-register and there are no complicated forms to fill in. The online and telephone dealing service allows you to trade 'real time' at a known price which will be given to you at the time you give your instruction.

To deal online or by telephone all you need is your surname, shareholder reference number, full postcode and your date of birth. Your shareholder reference number can be found on your latest statement or certificate where it will appear as either a 'folio number' or 'investor code'. Please have the appropriate documents to hand when you log on or call, as this information will be needed before you can buy or sell shares.

For further information on this service please contact [www.capitadeal.com](http://www.capitadeal.com) (online dealing) or 0871 664 0445† (telephone dealing).

†Calls cost 10p per minute plus network extras and may be recorded for training purposes. Lines are open from 8.00 a.m. to 4.30 p.m. Monday to Friday.

*The Share Dealing Service is provided by Capita IRG Trustees Limited which has issued and approved the preceding paragraphs. Capita IRG Trustees Limited, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU is registered in England and Wales with number 2729260. Capita IRG Trustees Limited is authorised and regulated by the Financial Services Authority.*

## RISK WARNINGS

- Past performance is no guarantee of future performance.
- The value of your investment and any income from it may go down as well as up and you may not get back the amount invested. This is because the share price is determined by the changing conditions in the relevant stockmarkets in which the Company invests and by the supply and demand for the Company's shares.
- As the shares in an investment trust are traded on a stockmarket, the share price will fluctuate in accordance with supply and demand and may not reflect the underlying net asset value of the shares, where the share price is less than the underlying value of the assets, the difference is known as the 'discount'. For these reasons, investors may not get back the original amount invested.
- Although the Company's financial statements are denominated in sterling, it may invest in stocks and shares that are denominated in currencies other than sterling and to the extent they do so, they may be affected by movements in exchange rates. As a result, the value of your investment may rise or fall with movements in exchange rates.
- Investors should note that tax rates and reliefs may change at any time in the future.
- The value of ISA tax advantages will depend on personal circumstances. The favourable tax treatment of ISAs may not be maintained.

**INVESTMENT TRUST TERMS****Discount or Premium**

A description of the difference between the share price and the net asset value per share. The size of the discount or premium is calculated by subtracting the share price from the net asset value per share and is usually expressed as a percentage (%) of the net asset value per share. If the share price is higher than the net asset value per share the result is a premium. If the share price is lower than the net asset value per share, the shares are trading at a discount.

**Gearing**

The term used to describe the process of borrowing money for investment purposes. The expectation is that the returns on the investments purchased will exceed the finance costs associated with those borrowings.

There are several methods of calculating the level of gearing and the following has been selected:

The amount drawn down from the Company's loan facility divided by shareholders' funds expressed as a percentage.

**Hypothecation**

The pledging of securities or other assets as collateral to secure a loan such as a debt balance in a margin account.

**Initial Public Offering (IPO)**

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

**Net Asset Value (NAV)**

The value of the Company's assets, principally investments made in other companies and cash being held, minus any liabilities. The NAV is also described as 'shareholders' funds' per share. 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 of the shares.

**Rehypothecation**

The pledging to banks by securities brokers of the assets in a customer's margin account used as collateral for a loan.

**Total Assets**

Total assets less current liabilities before deducting prior charges. Prior charges includes all loans for investment purposes.

**Ongoing Charges**

Ongoing charges are calculated by taking the Company's annualised ongoing charges, excluding performance fees and exceptional items and dividing by the average net asset value of the Company over the year.

The publishing of ongoing charges information rather than a total expense ratio (TER) is advocated by the Association of Investment Companies who believe that using a single methodology to calculate ongoing charges will help reduce inconsistencies and allow investors and advisers to compare investment companies more easily with open-ended funds.

**Disability Act**

Copies of this annual report and other documents issued by the Company are available from the Company Secretary. If needed, copies can be made available in a variety of formats, including braille, audio tape or larger type as appropriate. You can contact the Registrar to the Company, Capita Registrars, which has installed telephones to allow speech and hearing impaired people who have their own telephone to contact them directly without the need for an intermediate operator, for this service please call 0800 731 1888. Specially trained operators are available during normal business hours to answer queries via this service. Alternatively, if you prefer to go through a 'typetalk' operator (provided by RNID) you should dial 18001 from your textphone followed by the number you wish to dial.

This report is printed on Revive 75 Silk. The paper consists of 50% de-inked post consumer waste, 25% pre-consumer waste and 25% virgin wood fibre. The pulp used is a combination of Elemental Chlorine Free (ECF) and Totally Chlorine Free (TCF). The mill is certified to environmental management standard ISO 14001. This product has been awarded the NAPM 75% Recycled Mark. This report has been printed using vegetable based inks.