INTERNATIONAL BIOTECHNOLOGY TRUST PLC

Report and Accounts
31 August 2002

Company Number 2892872

Administration and Contents

ADMINISTRATION

Registered Office
31 Gresham Street, London EC2V 7QA.
(Registered Number 2892872, England).

Investment Manager and Secretary
Schroder Investment Management Limited,
31 Gresham Street, London EC2V 7QA.
Telephone 020 7658 3206

Investment Adviser
Schroder Ventures Life Sciences Advisers (UK) Limited,
71 Kingsway, London WC2B 6ST.

Bankers
Schroder & Co,
31 Gresham Street, London EC2V 7QA.

Custodian
JP Morgan Chase plc,
100 Wood Street, London EC2V 7EN.

Solicitors
Linklaters & Alliance,
One Silk Street, London EC2Y 8HQ.

Auditor
KPMG Audit Plc,
8 Salisbury Square, London EC4Y 8BB.

Stockbroker
UBS Warburg
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Registrar
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Further information on the Company may be found on the internet at:- **www.internationalbiotrust.com**

Financial Highlights

Year ended 31 August 2002

	31 August 2002	31 August 2001	Change %
Shareholders' funds (£'000)	**47,895**	98,739	(51.5)
Shares in issue ('000)	**48,615**	48,615	
Net asset value per share	**98.52p**	203.10p	(51.5)
Share price	**76.50p**	176.50p	(56.7)
Share price discount	**(22.35)%**	(13.10)%	

Index performance

Nasdaq Biotech Index ($)	**489.31**	878.04	(44.3)
Nasdaq Biotech Index (£)	**316.32**	605.34	(47.7)
Bloomberg UK Biotech Index (£)	**33.53**	62.57	(46.4)

Long-Term Record

As at 31 August	Shareholders' funds £'000	NAV per share† pence	Share price pence	Premium/ (discount) %
2002	47,895	98.52	76.50	(22.35)
2001 *	98,739	203.10	176.50	(13.10)
2000	349,329	379.13	327.50	(13.62)
1999	69,190	78.62	56.00	(28.77)
1998	47,810	54.33	33.50	(38.34)
1997 **	99,878	122.60	100.50	(18.03)
1996 ***	68,203	110.18	117.50	6.64
1995	48,053	120.06	95.50	(20.46)
1994	36,306	96.24	94.50	(1.81)

* Issue of 3,985,334 Shares in relation to performance agreements. In addition, 43,372,044 shares were purchased for cancellation as part of the Tender Offer.

** Second "C" share issue of 19,356,066 on 6 June 1997 and conversion of 27,391,340 First "C" shares into 25,048,870 ordinary shares with 4,526,459 warrants attached on 23 December 1996.

*** First "C" share issue of 27,391,340 on 20 March 1996.

† Diluted net asset values (NAV's) are shown for years where a potential dilution existed.

Directors' Profiles

Andrew Barker *(Chairman)*
Aged 57, was appointed as a Director and Chairman of the Company on 10 January 2001. He has been involved in investment management for more than 30 years, having joined Foreign & Colonial Management Ltd in 1970. He was a Director of Foreign & Colonial Ventures Ltd from 1980 to 1998, which is a specialist provider of private equity finance to small and medium sized companies. He was responsible for Foreign & Colonial's North American investments from 1985 until he retired from Foreign & Colonial in March 2000. His former directorships include Foreign & Colonial Investment Trust PLC and Graphite Enterprise Trust PLC and the National Provident Institution ("NPI"). He is a past Chairman of the Association of Investment Trust Companies. He is Chairman of The Bankers Investment Trust PLC and of British Portfolio Trust plc. He is also a Director of F&C Smaller Companies PLC.

Alan Clifton
Aged 55, was appointed as a Director of the Company on 21 February 2001. Mr Clifton was latterly the Managing Director of Morley Fund Management, the asset management arm of Aviva plc. He joined Commercial Union in 1990 as Managing Director of its investment activities after completing twenty years with the London stockbroking firm of Kitcat & Aitken. He is currently Chairman of Henderson European Micro Trust plc and Schroder UK Growth Fund plc and a director of several other investment trust companies. He also serves as a Member of The Lord Chancellor's Strategic Investment Board.

Peter Collacott
Aged 58, was appointed as a Director of the Company on 11 April 1994. He is Company Secretary of JZ Equity Partners plc, a listed private investment trust, with responsibility for finance and administration.

He is a Chartered Accountant and was formerly with State Street Global Advisors (UK) Limited.

Alex Hammond-Chambers
Aged 60, was appointed as a Director of the Company on 21 February 2001. After graduating in Economics at Cambridge University in 1964, Mr Hammond-Chambers joined the investment management firm of Ivory & Sime in Edinburgh, Scotland. Following his formal training period, he became the fund manager of British Assets Trust and Edinburgh American Assets Trust. He became a partner in 1969 and in 1985 Chairman of Ivory & Sime PLC. From 1984 to 1987 he served as a governor of the NASD.

In 1991 he retired from Ivory & Sime and has since pursued a second career as a professional non-executive director. He is currently Chairman of Fidelity Special Values plc, Fidelity Japanese Values plc, American Opportunity Trust plc, Aurora Investment Trust plc, Ivory & Sime Optimum Income Trust plc and Dobbies Garden Centre plc.

Ian Macgregor
Aged 65, a Chartered Accountant, was appointed as a Director of the Company on 21 February 2001.

He has focused on investment management for more than 20 years. In 1985 he joined The Wellcome Trust, and as Chief Investment Officer he oversaw an increase in the Trust's investment assets from £1 billion to £14 billion, before retiring in 2000. The Trust is a major investor in private equity, with a focus on biotechnology both in the UK and the US, and he has served on a number of advisory committees in that area. He is a member of the advisory committee of the Schroder Ventures International Life Sciences Fund.

In addition to being a Director of IBT, he is a Royal Commissioner for the 1851 Exhibition and serves on the National Trust Investment Panel. He is also a trustee of other charities and pension funds, and on the supervisory board of a number of Common Investment Trusts for Charities.

All Directors are independent and non-executive.
All Directors are members of the Audit and Management Engagement Committees. Mr Barker is Chairman of both Committees.

Chairman's Statement

PERFORMANCE

It was another year of significant stock market falls, particularly in the biotech sector, and our results reflect these difficult times. During the year to 31 August 2002, the net asset value ("NAV") per share of International Biotechnology Trust plc ("IBT") fell by 51.5% from 203.1p to 98.5p alongside a fall in the share price of 56.7% from 176.5p to 76.5p. This is in comparison to a fall in the NASDAQ Biotechnology Index ("NBI") of 47.7% in sterling terms and a fall in the Bloomberg UK Biotechnology Index of 46.4% during the same period.

Whilst the fall in NAV was predominantly due to the fall in the biotech market, an element was due to write-downs in the values of some of the inherited unquoted companies in the portfolio, as announced at the half year. Changes in the valuations of unquoted companies have resulted in a net fall in net assets for the year of £6.1 million or 6.2% of net assets at 31 August 2001. The fall in NAV during the year under review was 45.3% excluding these write-downs.

REVIEW

The year under review has been disappointing in performance terms for IBT. However, this should be viewed in the context of the weak overall market conditions, which have reduced investor tolerance for the type of risk found in the biotech sector. The biotech market typically goes through extreme cycles and the fall in the NBI during the last year follows the boom years of 1999 and 2000 when the index (in US dollar terms) rose from 437 and peaked at around 1600. At the end of the period under review the NBI had fallen back down to 489, close to the levels of early 1999.

Sentiment towards the sector seems worse than at any time in recent history with investors focusing on a number of high profile disappointments, and largely ignoring recent successes. The widening of the discounts for the biotech-focused investment trusts reflects this poor sentiment. At the time of writing, shares in IBT are trading on a discount of 31% to NAV, after widening from 13% to 22% during the reporting period.

IBT has a number of holdings in smaller quoted companies with very early stage pipelines, and these companies have been hit particularly hard as investor focus has moved towards the larger, profitable companies or those with projected near term earnings.

At 31 August 2002 the percentage of NAV in unquoted companies was 43%. Whilst new investments during the reporting period account for some of this increase, a large part is due to the falls in share prices of the quoted companies in the portfolio. Given that the guideline for unquoted investments was originally set at approximately 25% NAV, further unquoted investments are not planned in the near term. The Board keeps this matter under regular review, which includes monitoring the progress of the unquoted investments. If concerns arise regarding the valuation of these investments, appropriate action is taken immediately. Descriptions of the unquoted companies and the basis of their valuations can be found on pages 16 and 17.

VALUATION

As is practice in the venture capital industry, the IBT portfolio is valued in accordance with the British Venture Capital Association (BVCA) guidelines (as outlined on page 29). In certain circumstances quoted holdings are valued at discounts to their mid market prices. The carrying valuations of unquoted companies are reviewed weekly and incorporate consideration of the progress of the underlying company against milestones made at the time of investment and any upcoming need to raise capital.

Ahead of each investment considerable due diligence is undertaken, making use of a comprehensive network of scientific and clinical advisers, with particular focus on management, science and valuation. Members of Schroder Ventures Life Sciences ("SVLS"), the investment adviser, currently have board seats on ten of the portfolio companies. This allows the performance of these companies to be closely monitored and the input of strategic and financial advice drawing on the experience of the SVLS team and their network of advisers.

SCIENTIFIC ADVISORY BOARD ("SAB")

The SAB has been expanded during the reporting period and now numbers four, providing IBT with a very valuable resource upon which to draw both scientific and clinical expertise. This advice is used to help identify new investment opportunities and in the management of portfolio companies (details of the new SAB are shown on page 19). I would like to extend my congratulations to the Chairman of the SAB, Dr. Sydney Brenner, on sharing this year's Nobel Prize in Physiology and Medicine.

SHARE BUY-BACK FACILITY

To date, the Directors have not utilised the authority given to them at the 2001 Annual General Meeting to purchase shares for cancellation. Your Board will, however, continue

Chairman's Statement continued

to consider opportunities to purchase shares for cancellation in appropriate market conditions, at prices that would usefully enhance the net asset value for remaining shareholders. A resolution to renew the share buyback authority is included in the notice of the Annual General Meeting.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 31 Gresham Street, London EC2V 7QA on Thursday 19 December 2002 at 12 noon. A presentation will be made by SVLS.

OUTLOOK

Continuing market declines have resulted in attractive valuations for many good quality biotech companies. IBT has taken advantage of this value and made a number of new investments. This has further strengthened the portfolio, which provides investors with an exposure to a dynamic industry through an exciting set of companies with strong upside potential, spread across the private and public markets, different clinical areas and varying stages of clinical development.

The fundamentals of the biotech sector remain compelling and while other sectors suffer declining earnings, more and more biotech companies are turning profitable and product pipelines continue to both widen and mature. Biotech companies have generated nearly a quarter of the drug candidates currently in development and are set to become the research and development engine of the drug industry.

We have experienced an extreme downturn in the biotech market and the timing of an upturn is difficult to predict. Investment in both the biotech sector and IBT remain more suited to the longer-term investor who is willing to weather the volatility, which looks set to continue, at least in the short-term. That said, I continue to believe that we have a leading team of advisers in SVLS, with considerable depth of skill, experience and resources, which should be reflected in our results in due course.

Andrew C Barker

Andrew Barker

Chairman

29 October 2002

Investment Advisers Review

SCHRODER VENTURES LIFE SCIENCES ("SVLS")

Schroder Ventures advised funds have invested in the life sciences industry since the early 1980's and to date have backed over 100 life science companies internationally. SVLS was established in 1993 and currently has offices in Boston, London and San Francisco, in order to take advantage of the global nature of life sciences opportunities. The SVLS team is comprised of 24 professionals with a deep base of scientific, clinical, operational and life sciences investment experience.

In addition to IBT, SVLS advises three private equity funds with total commitments of approximately $680m, focused on providing seed, start-up, early stage and expansion capital to life sciences companies primarily in the US and Europe.

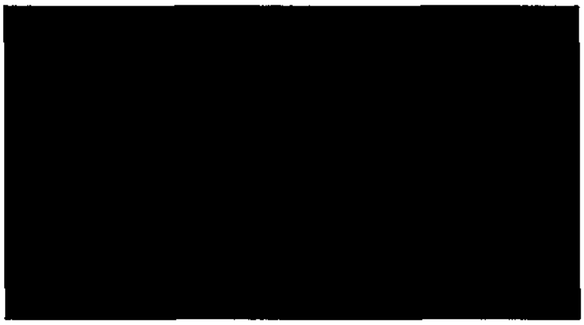
Market Review

The year under review has seen a severe correction in the biotech market with the NASDAQ biotech index falling by 47.7% in sterling terms. The backdrop to this poor performance has been a slump in the general markets and the growing intolerance of risk by investors. Technology stocks have generally held up better than biotech with the NASDAQ composite index falling by 31.7% in sterling terms during the reporting period.

The fall in the sector follows a frenzy of initial public offerings ("IPO's") and high valuations in 2000, which were driven by strong global market conditions and by the sequencing of the human genome and the perception that this would result in the rapid development of new therapeutics, driving earnings and profitability at a fast pace. The reality of the genomics revolution is that it is transformational but the fruits of this knowledge will not be commercialised for some years to come.

There have only been three biotech IPOs this year and the IPO window looks firmly closed for the coming months. A portfolio company, Aderis Pharmaceuticals, completed a series of investor roadshows in preparation for an IPO earlier this year, but the listing did not go ahead. Investor confidence in the IPO market was soured by the poor performance of the listing of DOV Pharmaceuticals, immediately before the Aderis listing was to become effective. This was disappointing but Aderis continues to make progress with its product pipeline and is well financed.

The biotech sell-off has contracted earnings multiples for profitable companies and lowered technology values for development stage companies. For loss-making



companies, attention is focused on current cash positions and burn rates, with little value being accorded to future products. Many companies (including a number of portfolio companies) are trading at a discount to cash asset values and a number of companies have restructured to focus on their lead programs in order to conserve cash in the face of difficult market conditions. Overall, companies within the IBT portfolio remain generally well financed with twenty-two companies having two or more years of cash, seven with one or more and five with less than a year of cash. The remaining two companies have been written off. Of the five with less than a year of cash, one is expecting to start commercialisation of a product within the next year and to sign a marketing agreement, two are currently raising money, one is looking to partner out early stage programs and another has been sold since the end of the reporting period.

The most extreme falls in share prices have been seen in companies with very small market capitalisations (microcaps) and early stage pipelines, despite good operational progress in many cases. In times of uncertainty investor interest concentrates on the larger, profitable companies or those with very late stage product pipelines and a near term chance of earnings. This has severely impacted the performance of IBT. An example of this is Essential Therapeutics, which is trading at a dollar a share, down from just under four dollars at the start of the period under review. This is despite a planned restructuring to focus on clinical development rather than earlier stage research, and an acquisition that brought in an interesting compound that is already in the clinic.

Positive news has tended to be overlooked by investors and there has been a spate of bad news from the sector, which has depressed sentiment. This included the ImClone scandal and concerns over Elan's accounting practices. In addition there have been a number of late stage product failures including Cubist's injectable antibiotic for pneumonia and Emisphere's oral heparin formulation. These failures have reminded investors of the risks of drug

Investment Advisers Review continued

development although, given that there are more late-stage drugs in the pipeline than ever before, more late-stage failures should be expected.

The FDA appears to be taking a more cautious approach to the approval of drugs following a series of product withdrawals. The perceived increase in regulatory risk has increased the discount rate that investors use to value biotech stocks, however, history has shown that many of the drug candidates initially held up by the FDA, are ultimately approved. Recent drug approvals have largely been ignored by investors, for example Gilead's HIV drug Viread, IDEC's Zevalin for Non-Hodgkins Lymphoma and portfolio company, Atrix Labs' two formulations of Eligard for the treatment of advanced prostate cancer.

However, more recently newsflow from the sector has begun to improve with good earnings numbers from the larger biotech companies and two well-subscribed follow-ons for Telik and Trimeris. In addition Biogen's Amevive for psoriasis and AstraZeneca's oral cancer drug Iressa both received positive reviews from FDA advisory panels. Most importantly for sentiment, a new Commissioner for the FDA was nominated in September. The Agency has been without a Head since President Bush came to office and this new leadership may help reduce some of the delays in decision-making. In addition the third Prescription Drug User Fee Act was passed in June, which should improve funding for the agency and increase the number of reviewers and external advisers.

Fundamentals

The correction in the biotech market overshadows strong fundamentals for the sector; an increasing supply of new potential drugs driven by scientific innovation, high barriers to entry for competition and the demand dynamics of an ageing population coupled with increased drug usage. Biotechnology drugs generally treat serious, life-threatening, and unmet medical needs, so revenues and earnings are generally insensitive to changes in the macroeconomic environment. The industry comprises an unprecedented and growing number of profitable companies, a plethora of products on the market and more than 350 products in late-stage clinical trials (Phase II or beyond) and while many of these products will not succeed, many of them will.

Pharmaceutical companies are relying more and more on biotech companies to supply them with in-licensing opportunities in order to meet double-digit earnings growth

expectations. Their own pipelines are generally lacklustre and they face looming key patent expires and declining R&D productivity. There is typically strong competition to in-license late stage products and the balance of power in negotiating these deals has swung firmly in favour of biotech companies. An example of a significant late stage transaction is GlaxoSmithKline's $270m licensing of portfolio company Adolor's Phase III compound Alvimopan. Given the nature of this competition, pharma companies may start in-licensing some of the more plentiful earlier stage compounds, which should translate into richer incentives for biotech to partner out these programs. This could allow biotech companies to bolster their increasingly precious cash piles and to reduce risk by diversifying pipelines whilst retaining more of the rewards of a successful product candidate.

Mergers and Acquisitions

Following the consolidation seen in the sector last year, which saw major acquisitions by Amgen, Medimmune, and Millennium, merger and acquisitions ("M&A") activity has been slow in 2002 and the few deals that have been announced have not materially helped the performance of the biotech market.

However, there are reasons why M&A may start to pick up. The weak equity market conditions make it difficult for companies to raise cash, which should increase the pressure for consolidation. This is most likely to occur between cash rich companies seeking to expand their pipelines and those companies with interesting products but limited financing. Well-funded private companies wanting to gain a listing but restrained by the lack of an IPO window could also benefit from the acquisition of a cash-strapped public company. In addition the need to bolster product pipelines, bring in new capabilities and to increase liquidity and critical mass to attract large investors continue to be compelling reasons for M&A. Examples from the portfolio include Essential's purchase of Maret

Investment Advisers Review continued

Pharmaceuticals to bring in a clinical stage compound, the acquisition of ChemOvation by KuDOS to bring chemistry capabilities in-house and the purchase of Cell-Matrix by CancerVax to broaden its oncology pipeline.

INVESTMENT ACTIVITY

Summary

During the reporting period investments were made in six new quoted companies – Adolor, Esperion Therapeutics, Essential Therapeutics, Crucell, Alexion Pharmaceuticals and 3-Dimensional Pharmaceuticals. Following the end of the reporting period an investment was made in the quoted company, XOMA. Further investments were made in five existing quoted holdings – Epimmune, Aspect Medical, AnorMED, Novuspharma and Atrix Labs. Seven quoted holdings were sold and four quoted holdings were reduced in size.

In the unquoted portfolio four new investments were made – KuDOS Pharmaceuticals, Genosis, Auxilium Pharmaceuticals and CancerVax, and there were two follow-on investments in Axxima Pharmaceuticals and EyeTech Pharmaceuticals. Subsequent to the reporting period a follow-on investment was made in Affibody. Two unquoted companies were sold.

QUOTED COMPANIES

NEW INVESTMENTS

Adolor (£0.4m investment) is a US-based company focused on the reduction of side effects of currently marketed opioids used for pain relief. The lead compound is called Alvimopan and is in Phase III clinical trials for two indications: post-operative ileus (loss of bowel function following surgery) and opioid bowel dysfunction (severe constipation in chronic opioid users), both of which represent large unmet medical needs. Data from these trials is expected in the first half of 2003 and Adolor hope to file a New Drug Application (NDA) with the FDA by the end of 2003 for the surgical indication.

Alvimopan is partnered with GlaxoSmithKline ("GSK"), which provides a strong endorsement of the compound and will allow Adolor to tap into GSK's extensive marketing infrastructure. Since 31 August 2002, a further £0.1m has been invested in the company, increasing the total invested to £0.5m.

Esperion Therapeutics (£0.1m investment) is a US-based company with a broad pipeline of clinical and preclinical drug candidates for the treatment of

cardiovascular and metabolic diseases. The focus of the company is to enhance the effects of HDL (high density lipoproteins, the so-called good cholesterol) and several different drug candidates have been developed to mimic and enhance naturally occurring biological processes that remove excess cholesterol from the walls of arteries and transport it to the liver where it is eliminated from the body.

Traditional management of elevated cholesterol focuses on reducing levels of LDL (low density lipoproteins) and uses statins in an outpatient setting, which are good at reducing LDL but may increase HDL in some cases. There are few drugs on the market for the treatment of low HDL and the drug candidates in development at Esperion have been designed to act as complementary therapy with the current agents for cholesterol therapy. Specifically, two products are in Phase II trials, one is entering Phase II and an IND is expected to be filed for another by the end of the year.

Esperion has a seasoned management team with impressive depth. The management team includes several members from major pharma companies, such as Parke Davis, Pfizer and Bristol-Myers Squibb, who have had prior success with development and launch of several cholesterol management medications in use today. The CEO Roger Newton was the co-discoverer of Lipitor, a statin with sales of $6 billion in 2001.

Since 31 August 2002, a further £0.7m has been invested in the company, increasing the total invested to £0.8m.

As detailed in the previous Annual Report a commitment was made in August 2001 to invest £5.3m in Essential Therapeutics and this was completed in October 2001. Essential now has an emerging pipeline of product candidates in the anti-infective and haematology/ oncology areas. Since the investment, there has been a broadening of the management team and the pure research capability has been significantly cut back in order to focus resources on preclinical and clinical

Investment Advisers Review continued

development. In March 2002, Essential announced the acquisition of Maret Pharmaceuticals bringing in a Phase I stage compound. This may have uses in the prevention of thrombocytopenia, anaemia and infection in patients following chemotherapy or bone marrow transplantation and three Phase II trials are planned. The company has also entered into a new collaborative agreement with Fujisawa Pharmaceutical in the area of novel antibiotics, and J&J has initiated Phase I clinical trials with Essential's cephalosporin candidate.

The final three new investments were described in the interim report – Crucell, Alexion Pharmaceuticals and 3-Dimensional Pharmaceuticals ("3DP").

Crucell (£1.9m investment) is a Dutch biotechnology company focused on the discovery and development of novel antibodies and vaccines. It has announced a number of smaller partnerships and licences since the investment was made but a partner for its flu vaccine program or another interesting antibody deal is required to drive the share price higher.

Alexion Pharmaceuticals (£1.8m investment) is a US-based company focused on the development of a novel class of anti-inflammatory compounds known as complement inhibitors. The lead compound is in Phase III trials for the reduction of complications during coronary artery bypass graft surgery with cardiopulmonary bypass, and Phase II myocardial infarction trials. Data in the latter indication is expected later this year.

3DP (£1.9m investment) is a chemistry-focused drug discovery company based in the USA. 3DP uses its drug discovery platform to find orally available small molecule drug candidates. The interesting product pipeline is at very early stage and the share price should be driven higher as the pipeline broadens and matures.

Subsequent to the end of the reporting period £0.4m was invested in the US-based company, XOMA. XOMA has expertise and capabilities in the development and manufacture of antibody therapeutics and has a healthy pipeline of biologics. Risk is diversified by partial ownership of a number of different compounds and deals are in place with Genentech, Onyx and Millennium. The company's lead candidate is Raptiva, which was originated by Genentech. Raptiva is a humanized monoclonal antibody in Phase III for moderate to severe psoriasis and Phase II for rheumatoid arthritis. Favorable Phase III trial results in psoriasis were reported in 2001, however, in April of this

year Genentech announced that the filing for regulatory approval of Raptiva would be delayed due to discrepancies in pharmacokinetic properties between material produced at small and commercial scales. In September 2002, the companies announced that a Phase III trial using solely commercial material achieved its primary endpoint and that they plan to file for approval by the end of 2002.

Follow-on Investments

In December 2001, IBT participated in a PIPE (public investment in private equity) in Epimmune, increasing its investment by £1.4m to £6.2m. Epimmune has designed therapeutic drug candidates to treat disease by stimulating the body's immune system to respond aggressively to infections and certain types of tumour. The company has also designed preventative drug candidates to protect against disease by teaching the immune system to react quickly when exposed to infectious agents. Epimmune has started a Phase I/II HIV vaccine trial and expects to file an IND for a lung and colorectal cancer vaccine early in 2003.

A further £2.7m was invested in Aspect Medical (total investment £3.4m), £1.1m in AnorMED (total investment £5.8m but subsequent sales reduced this to £5.0m), £0.7m in Novuspharma (total investment £2.6m), and £0.6m in Atrix Laboratories (total investment £2.0m).

Sales

The holdings in Biocompatibles, Biogen and Elan were sold in their entirety during the period, along with the remaining holdings in CeNeS Pharmaceuticals, Onyx Pharmaceuticals and Vernalis Group. In December 2001, Medimmune acquired Aviron, which resulted in a net gain of £1.1m for IBT.

The holdings in OSI Pharmaceuticals, Corvas, Ribozyme Pharmaceuticals, and Forest Labs were reduced in size during the period under review.

Investment Advisers Review continued

UNQUOTED COMPANIES

NEW INVESTMENTS

In March 2002, as reported in the interim report, IBT invested £2.1m in CancerVax, an unquoted US-based company. CancerVax's CANVAXIN is a therapeutic cancer vaccine containing at least 30 known tumour and melanoma-associated antigens which are believed to enhance the overall immune response to cancer. CANVAXIN has been administered to over 2,000 patients and is currently in Phase III clinical trials for the treatment of advanced stage melanoma, a disease with few effective or well-tolerated treatments. In May of this year the FDA put a hold on enrollment in the PIII trial and asked for certain information related to the production, characterisation and testing of the vaccine. We do not believe that the hold on new patient enrollment is the result of clinical practice or safety concerns related to the vaccine as patients already receiving CANVAXIN were permitted to continue to do so and patients already deemed to have met the eligibility criteria for the trial were allowed to receive the vaccine.

Earlier in the year CancerVax brought in additional early stage product candidates for the treatment of solid tumour cancers through the acquisition of the private company Cell-Matrix. These include several monoclonal antibodies that appear to inhibit angiogenesis, the blood vessel development necessary for tumour growth.

In May 2002 IBT invested £0.6m in the US based company Genosis in a financing round of £1.2m where the price of the financing was set by a new external investor. SVLS was involved in the founding of the company in April 1999 and Mike Carter of SVLS is on the Board of the company.

The company is developing an over-the-counter ("OTC") screening kit for male and female infertility under the brand name Fertell. Fertell contains a male test capable of measuring the concentration of active sperm, an established marker of male infertility, and a female test which measures follicle stimulating hormone (FSH) as an indicator of ovarian reserve. It is intended that each of these tests will be performed concurrently, at home without prescription, supervision by a physician or laboratory involvement. To our knowledge there are currently no home use OTC products or devices available to diagnose infertility for couples.

There are currently over 500 million couples of reproductive age worldwide and one in six of these are infertile. The

current screen for infertility is simply to wait and try to conceive for twelve months. By providing earlier diagnosis of male and female infertility, Fertell helps to identify couples likely to require medical intervention so they can be directed to the most appropriate form of treatment as early as possible.

In June 2002, IBT invested £0.7 million in the US-based company Auxilium Pharmaceuticals as part of a £10 million private placement. Another Fund advised by SVLS has an investment in Auxilium and invested in this round, in which the price was set by a new external investor.

Auxilium is a specialty pharmaceutical company focused on the development and commercialisation of medicines to maintain functionality in ageing individuals. The company's lead product is a testosterone gel (Testim) that has successfully completed Phase III studies in the USA and Europe. The company has filed for approval in the USA and the UK for the use of Testim to normalise testosterone levels in testosterone deficient men. Auxilium anticipate the launch of Testim in early 2003.

Testosterone is a male sex hormone, the levels of which have been found to decline in men from about the age of 40 onwards. In a proportion of men this can result in clinical hypogonadism which is associated with osteoporosis, decreased sexual function and loss of body mass. Testim is a clear gel that is convenient to apply to the skin. The testosterone contained in the gel is very effectively absorbed through the skin, normalising testosterone levels.

Follow-on products will concentrate on male health, treatment of peri-menopausal disorders in women and pain management. Furthermore, the company is actively pursuing in-licensing opportunities for other interesting compounds as well as evaluating opportunities to purchase more mature products.

In August 2002 IBT invested £1.4m in a £30m financing round in UK-based KuDOS Pharmaceuticals where the price of the financing was set by a new external investor. SVLS was involved in the initial funding of the company in May 1999 and Mike Carter of SVLS is on the Board.

KuDOS is a leader in the discovery and development of novel small molecule drugs that inhibit DNA repair enzymes and signaling pathways for the treatment of cancer. The company retains strong links with the academic laboratory of Professor Stephen Jackson of the Wellcome/Cancer Research UK Institute in the University of Cambridge, a world-renowned authority in DNA repair, on whose initial work the KuDOS programs are based.

The two lead compounds are PaTrin-2 and AQ4N. PaTrin-2 is an inhibitor of the DNA repair enzyme AGT, and appears to enhance the efficacy of certain types of cytotoxics in treating cancer. Two Phase II trials will be conducted using PaTrin-2 in metastatic melanoma and colorectal cancer. AQ4N is a potent killer of cells for use in cancer therapy but is only activated in the hypoxic cells within solid tumours. These cells are not killed by radiotherapy or the chemotherapy regimens used today and are recognised as a major cause of resistance. AQ4N is currently in Phase I clinical trials.

KuDOS also has earlier drug discovery programs and has discovered several potent, highly selective, small molecule inhibitors of the DNA repair enzymes ATM, DNA-PK and PARP. KuDOS expects to be able to select lead candidate compounds from these programs to enter pre-clinical development in 2003.

Follow-on investments

In October 2001 a follow-on investment of £0.3m was made in the German company, Axxima Pharmaceuticals, as part of a £21m financing round. This increased IBT's total investment in Axxima to £1.4m. Axxima is an infectious disease drug discovery company focused on small molecule compounds to block critical signal transduction pathways required by pathogens for survival. Axxima is searching for drug candidates in the areas of HIV, Hepatitis B and C, influenza, human cytomegalovirus, and tuberculosis.

In August 2001, IBT made an investment of £1.8m in Eyetech Pharmaceuticals and a commitment to invest a further £1.6m in August 2002, subject to milestones. Eyetech's lead product, Macugen, is designed to inhibit the biological pathway that causes vision loss in age-related macular degeneration (AMD)

and diabetic macular edema (DME), two of the leading causes of blindness in the adult population. Enrollment was completed in the pivotal Phase II/III trials for AMD in August 2002, enrolling 1,196 patients at 117 sites worldwide. This triggered the second installment of the financing agreed in August 2001. Eyetech is also conducting Phase II trials with Macugen for DME. Alternative delivery systems for Macugen are under development as it is currently administered via injection into the eye. Eyetech has also in-licensed other promising compounds for treating diseases of the back-of-the-eye.

Also in August 2001, IBT invested £1.3m in the Swedish company Affibody and committed to invest a further £1.4m a year later. This second tranche was invested in September 2002, following the end of the reporting period. Affibody uses cutting-edge combinatorial protein technology to create Affibodies. These are small, novel, robust ligands, which can be engineered to bind to any desired protein. Affibodies mimic monoclonal antibodies in many ways and their unique properties make them a preferred choice for a number of diagnostic, proteomic and therapeutic applications. Since the initial investment was made there have been significant advances in the production and characterisation of Affibodies and the library of these ligands has increased in size to around three billion variants. The strategic partnership with Amersham Biosciences in the area of separations has been broadened and lengthened. In addition Dr Hakan Mogren, the former CEO of Astra has joined as Chairman. Preclinical experiments are ongoing to test the possibility of using Affibodies as therapeutics; much of this data should be gathered by the end of the year.

Sales

As outlined in the interim report, two of the unquoted US-based companies in the portfolio were sold to trade buyers during the year, however the returns on both investments were disappointing. Elan announced that

Investment Advisers Review continued

Delsys Pharmaceuticals would merge with one of its subsidiaries, realising £1.2m for IBT (cost £6.3m). This resulted in a write-up for IBT of £1.2m during the period under review as the holding had previously been written down to nil. Netgenics was sold to the German company Lion Bioscience, and IBT received stock worth £1.1m at the time of the transaction (write-down £3.7m, cost £3.6m).

PORTFOLIO SUMMARY AT 31 AUGUST 2002

IBT has investments in 36 companies – 24 quoted companies (making up 48% of NAV) and 12 unquoted companies (making up 43% of NAV). The remaining 9% of NAV is made up of cash, money market instruments and other net current assets.

36 portfolio companies – 24 quoted and 12 unquoted

The new investments and follow-ons in unquoted companies have increased the weighting of the unquoted portion of the portfolio. The correction in the public markets has also meant that the percentage in unquoted companies has increased due to the falling share prices in the quoted portion of the portfolio.

A member of SVLS sits on the Board of 10 of the 36 portfolio companies – Aderis Pharmaceuticals, Affibody, Auxilium, CancerVax, Epimmune, Essential Therapeutics, EyeTech Pharmaceuticals, Genosis, KuDOS and Micromet.

As planned, the concentration in the top ten quoted stocks has been reduced in order to increase the diversification within the portfolio and they now account for 31% of NAV in comparison with 45% a year ago.

In terms of the geographical split of the portfolio, 60% of NAV is invested in the US, 3% in Canada, 8% in the UK/Ireland and 20% in Continental Europe. By sub-sector, 73% of NAV is invested in biopharmaceuticals, 7% in drug delivery, 3% in medical technology and 8% in other areas. The remaining 9% of NAV is made up of cash, money market instruments and other net current assets.

Analysing the 36 investments by the stage of their most advanced product in drug development; four companies have products on the market, one has filed for approval, nine are in Phase III trials, four are in Phase II, eight are in Phase I, one is in pre-clinical development and two have been written off. Of the remaining seven, one is commercialising an anaesthesia monitoring device, another is about to enter late stage testing for a diagnostic device, four are platform technology companies and one is focused on drug delivery.

Investment Advisers Review continued

The portfolio gives investors a broad spread of exposure to different stages of clinical development across a variety of different clinical areas – cancer, infectious disease, diabetes, central nervous system disorders, cardiovascular complications, rheumatoid arthritis, asthma, blindness, low testosterone levels and management of the side effects of opioids for pain relief.

VALUATION

During the reporting period the net effect of the change in the Directors valuations of unquoted companies was a reduction in net assets for the year of £6.1m. This included a write up of Delsys Pharmaceuticals following a sale for £1.2m, after a write-down to nil at the last year end. Axxima and Micromet were written up following financing rounds with prices set by new external investors. Entigen and ValiGen were written off resulting in write-downs of £1.7m and £2.4m respectively. Netgenics was acquired and IBT received shares in Lion Bioscience resulting in a write-down of £3.7m. The remaining unquoted companies in the portfolio are held at cost – Aderis, Affibody, Auxilium, CancerVax, EyeTech, Genosis, KuDOS and Sunesis.

Within the quoted portfolio, five holdings are held at a discount to their mid market prices – Essential Therapeutics and Epimmune due to restrictions on sale due to SVLS presence on the Board; Targeted Genetics and Inflazyme due to liquidity constraints given the size of the holdings; and, in the case of Lion Bioscience, a portion of the shares are to be held in ESCROW for a year following the acquisition of Netgenics. The effect of these discounts is to reduce the valuation of quoted investments by £1.3m at 31 August 2002.

OUTLOOK

The biotech sector is strongly underpinned but a sustained series of positive news events is needed for a broad-based recovery in the market. The nomination of an FDA commissioner is positive, and should go someway to allay fears about the regulatory climate. However a lasting improvement in confidence is likely to require strong clinical data as well as new product approvals and successful launches of new blockbuster drugs. An increase in M&A activity and further signings of large biotech collaborations may also help sentiment.

Valuations in the biotech sector are at an attractive level and it is a good time to be making investments for the long term. However volatility looks set to continue and it is difficult to see how the biotech market will stage a significant recovery without a pick up in the overall markets, which will require a marked improvement in the macroeconomic picture.

Ten Largest Quoted Investments at 31 August 2002

Investment	Carrying value £'000	% of Shareholders' Funds	Country	Business activity
1 Essential Therapeutics	2,431	5.08	USA	A drug development company with preclinical and clinical programs focused in the areas of haematology/oncology and infectious disease.
2 Aradigm	2,042	4.26	USA	A drug delivery company that develops novel, liquid formulation based, pulmonary systems designed to enhance the delivery and effectiveness of existing and development-stage drugs.
3 OSI Pharmaceuticals	1,521	3.17	USA	A leading drug discovery company with a substantial pipeline focused on small molecules. The company's lead compound is an oral cancer drug in extensive Phase III trials.
4 Novuspharma	1,425	2.97	Italy	An emerging biopharmaceutical company focused on the discovery and development of innovative new treatments for cancer. The company's lead anti-cancer compound is in Phase III trials.
5 Atrix Laboratories	1,346	2.81	USA	An emerging speciality pharmaceutical company focused on drug delivery, with a diverse portfolio of products in the areas of oncology, pain management and dermatology.
6 Forest Laboratories	1,321	2.76	USA	A biopharmaceutical company that develops, manufactures and sells both branded and generic forms of pharmaceutical products.
7 Crucell	1,225	2.56	Netherlands	A biotechnology company with patented technologies for the discovery, development and production of antibodies and vaccines. Partners include Merck & Co for an HIV vaccine and Centocor for an anti-cancer antibody.
8 Shire Pharmaceuticals	1,180	2.46	UK	An international, specialty pharmaceutical company with a strategic focus on central nervous system disorders, oncology and anti-infectives. The company's core strategy is based on R&D combined with in-licensing.
9 Targeted Genetics (excl.wts)	1,129	2.36	USA	A gene therapy company with a broad platform of gene delivery technologies. The company develops products for the treatment of acquired and inherited diseases and the most advanced program targets cystic fibrosis.
10 AnorMED	990	2.07	Canada	A biotechnology company focused on the discovery and development of small molecule therapeutics for the treatment of diseases including HIV, cancer and inflammation.
Total	**14,610**	**30.50**		

Unquoted Investments

at 31 August 2002

Investment	Carrying value £'000	% of Shareholders' Funds	Country	Business activity and valuation basis
1 Aderis Pharmaceuticals	3,232	6.75	USA	A biopharmaceutical company engaged in small molecule drug development to treat central nervous system and cardiovascular disorders. Aderis currently has four product candidates in development for five indications, with one in Phase III clinical trials, and three in Phase II clinical trials. The company has a strategic alliance with Schwarz Pharma, which is enrolling Phase III clinical trials for the Company's lead product candidate, a dopamine agonist for the treatment of Parkinson's disease using a proprietary transdermal patch delivery system. The valuation basis is cost.
2 Affibody*	1,377	2.87	Sweden	The company is a leader in the field of combinatorial protein engineering and is using this cutting edge technology to create a new generation of antibodies called Affibodies: small, novel, robust ligands which can be engineered to bind to any desired target protein. These have potential as therapeutics and diagnostics and will also be used in proteomics research for further drug discovery. The valuation basis is cost.
3 Auxilium Pharmaceuticals	647	1.35	USA	A pharmaceutical company focused on the development and commercialisation of medicines aimed at maintaining functionality in ageing individuals. The company's lead product is a testosterone gel (Testim) that has successfully completed Phase III studies in the USA and Europe. The Company anticipates product launch in early 2003. The valuation basis is cost.
4 Axxima Pharmaceuticals	1,849	3.86	Germany	An infectious disease, small molecule drug discovery company which seeks novel chemicals to block signal transduction pathways required by pathogens for their survival in the host. Using this approach it is believed that pathogens are less likely to develop resistance. Axxima's lead compounds are in the pre-clinical phase, but it is also looking to in-license later stage compounds. The valuation has been written-up following a financing round with a price set by a new external investor.
5 CancerVax	1,939	4.05	USA	A biotechnology company focused on the research, development and commercialisation of novel therapeutic cancer vaccines and angiogenesis inhibitors for the treatment and control of cancer. The Company's lead product candidate, CANVAXIN™, is a therapeutic cancer vaccine in Phase III clinical trials for the treatment of advanced stage melanoma, a disease with few effective or well-tolerated treatments. The valuation basis is cost.
6 Entigen	–	–	USA	The investment has been written-down to nil due to concerns about the future viability of the Company.
7 EyeTech Pharmaceuticals	3,232	6.75	USA	A biopharmaceutical company formed to discover, develop and commercialise new drugs to reduce and prevent serious vision loss caused by eye disease, and to develop new technologies to deliver drugs safely and conveniently to the back of the eye. The company's lead product Macugen is a potential treatment for the two leading causes of blindness in the adult population namely age-related macular degeneration ("AMD") and diabetic macular edema. Macugen is currently in pivotal Phase II/III clinical trials for AMD. The valuation basis is cost.

Unquoted Investments continued

at 31 August 2002

Investment	Carrying value £'000	% of Shareholders' Funds	Country	Business activity and valuation basis
8 Genosis	530	1.11	USA	The company is developing an over-the-counter diagnostic kit for male and female infertility under the brand name Fertell. There are currently over 500 million couples of reproductive age worldwide and one in six of these are infertile. The current screen for infertility is simply to wait and try to conceive for twelve months. By providing earlier diagnosis of male and female infertility, Fertell helps to identify couples likely to require medical intervention so they can be directed to the most appropriate form of treatment as early as possible. The valuation basis is cost.
9 KuDOS Pharmaceuticals	1,400	2.92	UK	A leader in the discovery and development of novel small molecule drugs that inhibit DNA repair enzymes and signalling pathways for the treatment of cancer. These inhibitors are designed with a view to increasing the sensitivity of cancerous cells to chemotherapy and radiotherapy. The company retains strong links with the academic laboratory of Professor Stephen Jackson of the Wellcome/Cancer Research UK Institute in the University of Cambridge, UK, a world-renowned authority in DNA repair, on whose initial work the KuDOS programmes are based. The company expects to progress its lead compound into Phase II trials in 2003. The valuation basis is cost.
10 Micromet	3,341	6.97	Germany	Micromet develops novel drugs to empower the patient's immune system to tackle life-threatening and severe chronic diseases. The company has established the BiTE technology ('Bispecific T cell engagers'), a unique drug format that leverages the outstanding cytotoxic potential of T cells, the most powerful 'killer cells' of the human immune system. Micromet's BiTE compounds combine the power of T cells with the selectivity of antibodies to specifically target diseased tissues and cells. The valuation has been written-up following a financing round with a price set by a new external investor.
11 Sunesis Pharmaceuticals	3,232	6.75	USA	Sunesis has developed and implemented novel technologies that reproducibly deliver high-affinity, small-molecule, non-peptidic ligands to important drug targets in a rapid time frame. These technologies are useful for finding specific ligands to target in highly validated protein families and can also be used to identify leads that block certain protein-protein interactions and intractable enzyme targets. The technology is not dependent on complex techniques, can be broadly applied and has been implemented in at least a dozen highly validated drugs. The valuation basis is cost.
12 Targeted Genetics – warrants	–	–	USA	The warrants are carried at their intrinsic value. A description of the company is given on page 15.
13 ValiGen	–	–	Netherlands	The investment has been written-down to nil due to concerns about the future viability of the company.
Total	**20,779**	**43.38**		

* Further commitment of SEK 20m was invested in September 2002, subsequent to the balance sheet date.

Directors' Report

ACCOUNTS

Your Directors present the financial statements of the Company for the year ended 31 August 2002.

COMPANY'S BUSINESS

The Company carries on the business of an investment trust and is an investment company within the meaning of section 266 of the Companies Act 1985. It is the intention of the Directors to continue to conduct the affairs of the Company in such a manner as to gain approval from the Inland Revenue under the provisions of Section 842 of the Income and Corporation Taxes Act 1988. Such approval has been granted from the Inland Revenue for the year ended 31 August 2001 and the Company has subsequently conducted its affairs so as to enable it to continue to qualify for such approval.

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

A review of the development of the business during the year, and likely future developments, is contained in the Chairman's Statement on page 5 and the Investment Advisers Review on page 7.

REVENUE

The results for the year are shown in the statement of total return on page 26. The Directors do not propose the payment of a dividend (2001: nil).

CREDITORS' PAYMENT POLICY

It is the Company's policy to settle all of its investment transactions according to the settlement periods operating for the relevant markets. All other expenses are paid on a timely basis in the ordinary course of business. There were no trade creditors at 31 August 2002.

SUBSTANTIAL SHAREHOLDINGS IN THE COMPANY

As at 5 November 2002, the Company had been notified of the following interests in excess of three per cent of the issued capital:

	Ordinary shares 25p	% of capital
AstraZeneca Limited	6,531,755	13.44
Co-operative Insurance Society Limited	6,186,467	12.73
Axa Investment Managers UK Limited	3,372,656	6.94
Prudential plc	2,518,024	5.18
Exeter Asset Management Limited	2,475,000	5.09

DIRECTORS

The Directors during the year to 31 August 2002 and their beneficial and family interests in the Company's issued share capital as at 31 August 2002 are given below:

	At 31 August 2002†	At 31 August 2001
Andrew Barker	37,000	16,405
Alan Clifton	10,000	Nil
Peter Collacott	6,183	6,183
Howard Greene (retired 18 December 2001)	35,000	35,000
Alex Hammond-Chambers	10,000	Nil
Ian Macgregor	4,000	Nil

† or date of retirement.

Mr Howard Greene did not seek re-election at the Annual General Meeting on 18 December 2001 and ceased to be a Director of the Company on that date.

There have been no changes in the above holdings between the year end and 5 November 2002.

In accordance with the Articles of Association, Mr Barker and Mr Clifton will retire at the Annual General Meeting and, being eligible, offer themselves for re-election. Biographical details of all Directors can be found on page 4.

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

Directors' Report continued

PURCHASE OF SHARES FOR CANCELLATION

At the Annual General Meeting held on 18 December 2001, an authority for the Directors to purchase up to 14.99 per cent. of the issued share capital of the Company for cancellation was renewed by the shareholders. The total number of shares in issue on 5 November 2002 was 48,615,467. Although the facility was not utilised during the year, the Directors wish to renew the authority to purchase shares for cancellation. A resolution authorising the directors to purchase up to 14.99 per cent. of the share capital in issue at 5 November 2002 will be proposed at the forthcoming Annual General Meeting for which notice is given on page 43.

This authority will lapse at the conclusion of the Company's Annual General Meeting in 2003 unless renewed earlier.

ISSUES OF NEW SHARES

In order to provide maximum flexibility, the Directors also wish to seek the power to allot new ordinary shares for cash at the forthcoming Annual General Meeting.

The Directors intend to use this authority principally to issue new shares to participants in the Schroder Investment Trust Dealing Service whenever they believe it is advantageous both to those participants and to the Company's existing shareholders to do so.

If new ordinary shares are to be allotted for cash, Section 89(1) of the Companies Act 1985 requires such new shares to be offered first to existing holders of ordinary shares. This entitlement is known as a "pre-emption right". In certain circumstances it is beneficial for the Directors to allot shares for cash otherwise than pro rata to existing shareholders and the Companies Act 1985 provides for shareholders to give such power to the Directors by waiving their pre-emption rights. Therefore, a special resolution will be proposed at the Annual General Meeting which, if passed, will give the Directors power to allot ordinary shares for cash on a non pre-emptive basis up to an aggregate nominal amount of £607,693 (equivalent to 2,430,773 ordinary shares of 25p and 5 per cent of the Company's existing issued ordinary share capital at 5 November 2002), as if Section 89(1) of the Companies Act 1985 did not apply. This authority will lapse unless renewed at the Company's Annual General Meeting in 2003.

MANAGER, INVESTMENT ADVISER AND COMPANY SECRETARY

Schroder Investment Management Limited provides investment management services to the Company with Schroder Ventures Life Sciences Advisers (UK) Limited providing investment advice.

The Manager is entitled to receive a fee of 1.35 per cent per annum of the assets of the Company. Performance fee arrangements, which include benchmarks and hurdle rates in line with industry practice, have been put in place which are appropriate to the nature of the portfolio. No performance fee is payable by the Company for the year ended 31 August 2002. The Management Agreement is terminable by either party on 12 months' notice, at any time after January 2004.

Schroder Investment Management Limited is also entitled to a fee for administration and company secretarial services at an annual rate of £150,000 plus 0.015 per cent of the amount (if any) by which the Company's net assets at the end of February, May, August and November in each year exceed £200 million.

SCIENTIFIC ADVISORY BOARD ("SAB")

The SAB included 4 members at 31 August 2002. The SAB is chaired by Dr. Sydney Brenner CH, DPhil, FRCP, FRS. Dr. Brenner is Distinguished Professor at The Salk Institute, La Jolla, California, former Director of the Medical Research Council Molecular Genetics Unit and honorary professor of Genetic Medicine at Cambridge University. Dr. Brenner shared the 2002 Nobel Prize in Physiology and Medicine.

Dr. Alex Markham has a PhD in Organic Chemistry, a DSc and BSc in Chemistry all from the University of Birmingham. He has eight years of experience as a Research Scientist, five years of line and product management responsibilities for groups of fifty plus R&D scientists in pharmaceuticals and diagnostics businesses in a number of disease areas. He is currently Professor of Medicine at the University of Leeds, Director of Molecular Medicine Unit at the University of Leeds and Honorary Consultant Physician at the Leeds Teaching Hospitals NHS Trust.

Professor Paul Workman, PhD, FmedSci is Director of the Cancer Research UK's Centre for Cancer Therapeutics at The Institute for Cancer Research, Sutton. He is also the Harrap Professor of Pharmacology and Therapeutics in the University of London and a Cancer Research UK Life Fellow.

Directors' Report continued

In addition, he holds the posts of Visiting Professor in Pharmacology at the University of Manchester and External Professor of Cancer Pharmacology at the University of Leeds where he completed his PhD (1977). His previous appointments include Cancer Research Section Head at Zeneca (now AstraZeneca) Pharmaceuticals (1993-1997).

Dr. Dale Boger, PhD spent 12 years as a Professor in Medicinal Chemistry at Purdue University and the University of Kansas and is currently working for the Scripps Research Institute. Dr. Boger holds a PhD in Organic Chemistry from Harvard University and a BSc degree in Chemistry from the University of Kansas.

AUDITOR

KPMG Audit plc has expressed its willingness to remain in office. Resolutions to re-appoint it and to authorise the Directors to agree its remuneration will be proposed at the forthcoming Annual General Meeting.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Thursday 19 December 2002 at 12.00 noon. The Notice of Meeting is set out on pages 43 and 44.

John Spedding

By order of the Board
Schroder Investment Management Limited
Secretary

Registered office:
31 Gresham Street, London EC2V 7QA
Registered number 2892872
6 November 2002

Directors' Responsibilities

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

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

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

The Directors believe that they have complied with these responsibilities.

Corporate Governance

The Company is committed to high standards of corporate governance. The UK Listing Authority requires all listed Companies to disclose how they have applied the principles of, and complied with, the provisions of the Combined Code contained in the Listing Rules (the "Combined Code"). This Statement, together with the Statement of Directors' Responsibilities on page 21, indicates how the Company has applied the principles of good governance of the Combined Code and its requirements on Internal Control.

APPLICATION OF CODE PRINCIPLES

The Board

The Board currently consists of five non-executive Directors, all of whom are independent of the Company's Investment Manager and Adviser (see page 4).

The Board meets at least four times a year. Matters specifically reserved for decision by the full Board have been defined and a procedure adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company. If necessary, the Directors have access to the advice and services of the Corporate Company Secretary through its appointed representative who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

The Board has contractually delegated to Schroder Investment Management Limited the management of the investment portfolio with Schroder Ventures Life Sciences Advisers (UK) Limited as Investment Adviser and to Schroder Investment Management Limited, the day to day accounting and company secretarial requirements. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered including the financial control systems in operation in so far as they relate to the affairs of the Company, and each contract is monitored on an annual basis by the Management Engagement Committee.

The Investment Manager or Adviser also ensure that all Directors receive in a timely manner, all relevant management, regulatory and financial information. Representatives of the Manager and Adviser attend each Board meeting enabling the Directors to seek clarification on specific issues or to probe matters of concern.

When a Director is appointed he or she receives an induction which is provided by the Company Secretary. Directors are provided, on a regular basis, with key information on the Company's policies, regulatory requirements and internal controls. Changes affecting Directors' responsibilities are advised to the Board as they arise. The Board receives and considers reports regularly from the Manager and Investment Adviser and ad hoc reports and information are supplied to the Board as required. In addition, Directors attend ad hoc seminars covering the latest developments across the investment trust industry.

Board Committees

In accordance with the Association of Investment Trust Companies ("AITC") recommendation, a Management Engagement Committee with defined terms of reference and duties was established in June 2001, which consists of all the directors, to review and discuss the terms of the management contract with the Investment Manager. An annual review of the management contract is carried out.

An Audit Committee consisting of all the directors with defined terms of reference and duties was established in June 2001. The function of the Audit Committee is to ensure that the Company maintains the highest standards of integrity and financial reporting. It also meets with representatives of the Manager and Investment Adviser and the Company Secretary and receives reports on the quality and effectiveness of the accounting records and management information maintained on behalf of the Company.

There is also a Valuation Committee consisting of at least two directors, as appointed by the Board, with defined terms of reference and duties, which was established in April 2001. The function of the Valuation Committee is to ensure that the Company's investment portfolio valuations continue to reflect their value, calculated in accordance with the Company's accounting policies as set out on page 29.

All Directors are appointed for an initial term covering the period from the date of their appointment until the first Annual General Meeting thereafter, at which they are required to

Corporate Governance continued

stand for election, in accordance with the existing Articles of Association. Thereafter, Directors retire by rotation at least every three years. The Board believes that, due to its size, it has not been appropriate to establish a Nomination Committee. This situation is regularly kept under review by the Board.

DIRECTORS' REMUNERATION

Under the Financial Services Authority's Listing Rule 21.20(i), where an investment trust company has no executive Directors the Code principles relating to Directors' remuneration do not apply. During the year ended 31 August 2001 the Chairman received fees at the rate of £15,000 per annum, and the other members of the Board received fees of £10,000 per annum. In addition, Directors receive attendance fees. With effect from 1 January 2002, the fees paid to the Chairman increased to £20,000 per annum and fees paid to other Directors increased to £12,500 per annum.

RELATIONS WITH SHAREHOLDERS

The Board believes that the Annual General Meeting provides an effective forum for private investors to communicate with the Board, and encourages participation. The Annual General Meeting is attended by the full Board of Directors and the Manager or Investment Adviser make a presentation. There is an opportunity for individual shareholders to question the Chairman of the Board, Audit and Management Engagement Committees at the Annual General Meeting. The Company announced the level of votes cast by proxy on resolutions proposed at last year's Annual General Meeting, and intends to announce the votes cast by proxy in a similar manner at future General Meetings.

The Board believes that the Company's policy of reporting to shareholders as soon as possible after the Company's year end and holding the earliest possible Annual General Meeting is valuable. The Notice of Meeting on pages 43 and 44 sets out the business of the meeting.

EXERCISE OF VOTING POWERS

The Company has approved a voting policy in respect of its investments which, in summary, is based on the governance recommendations of the Combined Code with the intention of voting in accordance with best practice whilst maintaining a primary focus on financial returns.

ACCOUNTABILITY AND AUDIT

The Directors' statement of responsibilities in respect of the financial statements is on page 21 and a statement of going concern is set out below.

The Independent Auditors' Report can be found on page 25.

GOING CONCERN

The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts as the Company has adequate financial resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

INTERNAL CONTROL

The Combined Code requires the Board to review the effectiveness of internal controls. The Board has undertaken a full review of all the aspects covered by the Turnbull guidance under which the Board is responsible for the Company's system of internal control and for reviewing its effectiveness.

The Board has approved a detailed risk map that identifies significant strategic, investment-related, operational and service provider risks and adopted an enhanced monitoring system to ensure that risk management and all aspects of internal control are considered on a regular basis.

The Board has contractually delegated responsibility for the management of the investment portfolio, the arrangement of custodial services and the provision of accounting and company secretarial services. The Board believes that the key risks identified and the implementation of an on-going system to identify, evaluate and manage these risks are based upon and relevant to the Company's business as an investment trust. The on-going risk assessment, which has been in place throughout the financial year and up to the date of this report, includes consideration of the scope and quality of the systems of internal control adopted by the Investment Manager and other major service providers, and ensures regular communication of the results of monitoring by third parties to the Board, and the incidence of significant control failings or weaknesses that have been identified at any time and the extent to which they have resulted in

Corporate Governance continued

unforeseen outcomes or contingencies that may have a material impact on the Company's performance or condition.

Although the Board believes that it has a robust framework of internal control in place, this can provide only reasonable and not absolute assurance against material financial misstatement or loss and is designed to manage, not eliminate, risk.

The Company does not have an internal audit function as it does not employ staff and delegates to third parties most of its operations. The Board will continue to monitor its framework of internal control and will continue to take steps to embed the system of internal control and risk management into the operations of the Company. In so doing, the Board will review from time to time whether a function equivalent to an internal audit is needed.

STATEMENT OF COMPLIANCE

The Board has conducted an annual review of the effectiveness of the system of internal control covering all controls including financial, operational and compliance controls and risk management. This assessment took into account issues arising from the reports reviewed by the Board during the year together with any additional information necessary to enable the Board to take account of all significant aspects of internal control.

Except as explained below, the Company has complied throughout the year with the best practice provisions in Section 1 of the Combined Code:

- The Board considers the Chairman to be the main point of contact to whom concerns from whatever source or of whatever nature may be conveyed. In the event that a shareholder does not wish to raise a concern with him, the Board is of the view that such a shareholder should be free to contact any of its other independent, non-executive members and it has decided that it is not appropriate to nominate a single senior independent Director.

Independent Auditors' Report

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF INTERNATIONAL BIOTECHNOLOGY TRUST PLC

We have audited the financial statements on pages 26 to 38.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the directors' report and, as described on page 21, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 August 2002 and of the total loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
6 November 2002

Statement of Total Return

(incorporating the Revenue Account) for the year ended 31 August

	Notes	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000	2001 Revenue £'000	2001 Capital £'000	2001 Total £'000
Realised (losses)/gains on investments	7/16	–	(16,865)	(16,865)	–	50,942	50,942
Performance fee and termination costs	12/16	–	–	–	–	(2,160)	(2,160)
Increase in unrealised depreciation on investments	16	–	(32,667)	(32,667)	–	(173,782)	(173,782)
Exchange loss on currency balances	16	–	(28)	(28)	–	(1,359)	(1,359)
Income	2	278	–	278	2,700	–	2,700
Management fee		(804)	–	(804)	(2,171)	–	(2,171)
Administrative expense	3	(758)	–	(758)	(1,690)	–	(1,690)
Net deficit on ordinary activities before finance costs and taxation		(1,284)	(49,560)	(50,844)	(1,161)	(126,359)	(127,520)
Interest payable	4	–	–	–	(15)	–	(15)
Net deficit on ordinary activities before taxation		(1,284)	(49,560)	(50,844)	(1,176)	(126,359)	(127,535)
Tax on ordinary activities	5	–	–	–	–	–	–
Net deficit on ordinary activities after taxation		(1,284)	(49,560)	(50,844)	(1,176)	(126,359)	(127,535)
Transfer from reserves	16/17	(1,284)	(49,560)	(50,844)	(1,176)	(126,359)	(127,535)
Deficit per ordinary share	6	(2.64)p	(101.94)p	(104.58)p	(1.86)p	(199.60)p	(201.46)p

The revenue column of this statement is the profit and loss account of the Company.
All revenue and capital items in the above statement derive from continuing operations.

The notes on pages 29 to 38 form part of these financial statements.

Balance Sheet at 31 August

	Notes	2002 £'000	2002 £'000	2001 £'000	2001 £'000
Fixed assets					
Investments	1(b) & 7		**43,584**		88,524
Current assets					
Debtors	8	**153**		219	
Investments	9	**1,889**		4,677	
Cash at bank		**2,912**		7,157	
		4,954		12,053	
Creditors: amounts falling due within one year	10	**643**		1,838	
Net current assets			**4,311**		10,215
Net assets			**47,895**		98,739
Capital and reserves					
Called up share capital	13		**12,154**		12,154
Capital redemption reserve	14		**10,843**		10,843
Share premium account	15		**67,083**		67,083
Capital reserve	16		**(34,178)**		15,382
Revenue reserve	17		**(8,007)**		(6,723)
Equity shareholders' funds	18		**47,895**		98,739
Net asset value per share	19		**98.52p**		203.10p

These financial statements were approved by the Board of Directors on 6 November 2002 and signed on their behalf by

Andrew Barker, (Chairman)
Peter Collacott, Director

The notes on pages 29 to 38 form part of these financial statements.

Cash Flow Statement for the year ended 31 August

	Notes	For the year ended 31 August 2002 £'000	For the year ended 31 August 2001 £'000
Operating activities			
Dividend income received		-	2
Current asset investment income received		**256**	2,639
Deposit interest received		**27**	504
Management fee paid		**(852)**	(3,043)
Performance fee		-	(4,440)
Other cash payments		**(729)**	(2,138)
Net cash outflow from operating activities	20	**(1,298)**	(6,476)
Returns on investments and servicing of finance			
Interest paid		-	(15)
Cash outflow from returns on investments and servicing of finance		-	(15)
Taxation			
UK income tax recovered/(suffered)		**67**	(67)
Tax recovered/(paid)		**67**	(67)
Capital expenditure and financial investment			
Purchase of investments		**(25,579)**	(49,124)
Disposal of investments		**19,816**	101,152
Net cash (outflow)/inflow from capital expenditure and financial investment		**(5,763)**	52,028
Net cash (outflow)/inflow before management of liquid resources and financing		**(6,994)**	45,470
Management of liquid resources	21	**2,777**	85,319
Financing			
Repurchase of shares following Tender Offer		-	(121,828)
Stamp duty		-	(609)
Net cash outflow from financing		-	(122,437)
Net cash (outflow)/inflow in the year		**(4,217)**	8,352

Reconciliation of Net Cash (Outflow)/Inflow to Movement in Net Funds

	For the year ended 31 August 2002 £'000	For the year ended 31 August 2001 £'000
Net cash (outflow)/inflow in the year	**(4,217)**	8,352
Exchange loss on currency balances	**(28)**	(1,359)
Change in net funds	**(4,245)**	6,993
Net funds at the beginning of the year	**7,157**	164
Net funds at 31 August	**2,912**	7,157

The notes on pages 29 to 38 form part of these financial statements.

Notes to the Financial Statements

1. ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements have been prepared under the historical cost basis of accounting, modified to include the revaluation of investments and in accordance with applicable accounting standards in the United Kingdom and the Statement of Recommended Practice, 'Financial Statements of Investment Trust Companies'. The following principal accounting policies have been applied consistently in dealing with items that are considered material in relation to the Company's financial statements.

(b) Valuation of Investments

The Company has adopted the industry standard British Venture Capital Association ("BVCA") guidance in respect of quoted and unquoted securities.

Quoted investments are shown at mid-market price at the balance sheet date. If an investment is subject to restrictions affecting its disposal or liquidity constraints, a discount of generally between 5% and 50% to that price will be applied.

Unquoted investments are shown as Directors' valuation, which will generally be cost. If the company has concluded a significant financing round with a new investor (excluding strategic investors) at a higher valuation, the investment will be written-up. A provision will be taken if the performance of the company is significantly below the expectations on which the investment was based. For example, if the company is failing to meet its commercial, financial, scientific or clinical milestones, or is likely to miss these in the future, then discounts, applied in 25% increments, will be applied by the directors. The valuation basis adopted for each investment is described on pages 16 and 17. The net surplus over the cost of investments is reflected in the accounts as unrealised appreciation on investments.

(c) Income

Deposit interest income and income from current asset investments are included in the revenue account on an accruals basis. Dividends received from investments are credited to the revenue account by reference to their ex-dividend date.

(d) Expenses

Administrative expenses (excluding the performance fee) are charged to the revenue account on an accruals basis. The performance fee is charged to the capital account.

(e) Translation of Foreign Currencies

Transactions in foreign currency, whether of a revenue or capital nature, are translated into sterling at the rates of exchange ruling on the dates of such transactions. Foreign currency assets and liabilities at the balance sheet date are translated into sterling at the rates of exchange ruling on that date. These are accounted for through capital or revenue reserves depending on the items to which they refer. Exchange gains or losses on fixed asset investments are included within realised or unrealised gains or losses on investments. Other exchange movements are shown separately in the Statement of Total Return.

(f) Taxation

Deferred tax is provided in accordance with FRS19 on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are only recognised to the extent that they are recoverable. The adoption of FRS19 has had no impact on current or prior year results.

Notes to the Financial Statements continued

2. INCOME

	For the year ended 31 August 2002 £'000	For the year ended 31 August 2001 £'000
Dividend income	–	2
Income from current asset investments	249	2,194
Deposit interest	29	504
	278	2,700

3. ADMINISTRATIVE EXPENSES

	For the year ended 31 August 2002 £'000	For the year ended 31 August 2001 £'000
Secretarial fees	150	150
Scientific advisory fees	45	45
Reconstruction costs	–	818
Directors' fees (see below)	108	144
Conferences and public relations	100	74
Irrecoverable VAT	41	53
Auditors remuneration: audit	20	51
other services	14	46
Other expenses	280	309
	758	1,690

	For the year ended 31 August 2002 £'000	For the year ended 31 August 2001 £'000
Directors' fees		
Mr. Andrew Barker (Chairman, appointed 10 January 2001)	28	16
Mr. Alan Clifton (appointed 21 February 2001)	19	8
Mr. Peter Collacott	19	27
Mr. Alex Hammond-Chambers (appointed 21 February 2001)	19	8
Mr. Ian Macgregor (appointed 21 February 2001)	18	7
Mr. Howard Greene (retired 18 December 2001)	5	15
Mr. Gary Brass (retired 22 December 2000)	–	4
Mr. Donald Cecil (retired 21 February 2001)	–	10
Mr. James Grant (retired 22 December 2000)	–	5
Mr. John Green-Armytage (retired 21 February 2001)	–	26
Mr. Dennis Turner (retired 21 February 2001)	–	18
	108	144

For the year ended 31 August 2001, fees for most Directors did not reflect a full year as it was a transitional period with numerous changes to the composition of the Board. There were also one-off payments of £10,000 each to Mr Collacott, Mr Green-Armytage and Mr Turner for additional services rendered to the Company during last year's reconstruction.

Notes to the Financial Statements continued

4. INTEREST PAYABLE

	For the year ended 31 August 2002 £'000	For the year ended 31 August 2001 £'000
Overdraft interest repayable within 5 years	–	15

5. TAXATION

The Company has no corporation tax liability in the year to 31 August 2002 (2001: nil).

(a) Tax attributable to expenses charged to capital

The Company has sufficient brought forward excess management expenses available to offset against any taxable profits on the revenue account such that no relief is derived from capitalised expenses. For the year ended 31 August 2002, no expenses were charged to capital.

(b) Factors affecting tax charge for the year

Approved investment trust companies are exempt from tax on capital gains within the Company.

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30% (2001: nil).

The differences are explained below:

	For the year ended 31 August 2002 Revenue £'000	Capital £'000	Total £'000	For the year ended 31 August 2001 Revenue £'000	Capital £'000	Total £'000
Factors affecting tax charge for the year						
Deficit on ordinary activities before tax	**(1,284)**	**(49,560)**	**(50,844)**	(1,176)	(126,359)	(127,535)
Deficit on ordinary activities multiplied by the standard rate of UK corporation tax of 30% (2001: 30%)	**(385)**	**(14,868)**	**(15,253)**	(353)	(37,908)	(38,261)
Tax effects of:						
Capital returns on investments*	–	**14,860**	**14,860**	–	36,852	36,852
Exchange losses*	–	**8**	**8**	–	408	408
Performance fees	–	–	–	–	648	648
Revenue expenses not utilised in the year	**385**	–	**385**	353	–	353
Total current taxation	–	–	–	–	–	–

*These items are not subject to tax in investment trust companies.

(c) Provision for deferred taxation

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

(d) Factors that may affect future tax charges

The Company has not recognised a deferred tax asset of £7,116,000 (2001: £6,731,000) arising as a result of having unutilised management expenses.

Notes to the Financial Statements continued

6. DEFICIT PER SHARE

The calculations for the deficit per share are based on the following:

	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000	2001 Revenue £'000	2001 Capital £'000	2001 Total £'000
Net deficit	**(1,284)**	**(49,560)**	**(50,844)**	(1,176)	(126,359)	(127,535)
Weighted average number of shares						
- Basic	**48,615,467**	**48,615,467**	**48,615,467**	63,304,539	63,304,539	63,304,539
Deficit per share	**(2.64)p**	**(101.94)p**	**(104.58)p**	(1.86)p	(199.60)p	(201.46)p

7. FIXED ASSET INVESTMENTS

	2002 £'000	2001 £'000
(a) Investments comprise:		
Quoted:		
– NASDAQ Exchange	**16,422**	46,118
– London Stock Exchange	**2,188**	13,137
– Toronto Stock Exchange	**1,545**	4,044
– Milan Stock Exchange	**1,425**	1,737
– Amsterdam Stock Exchange	**1,225**	–
Unquoted:		
– USA	**12,813**	15,333
– UK	**1,400**	–
– Germany	**5,189**	4,252
– Netherlands	**–**	2,583
– Sweden	**1,377**	1,320
Valuation of investments at 31 August	**43,584**	88,524

Further details on the unquoted investments are given on pages 16 to 17 and in the Investment Advisers Review on pages 7 to 14.

(b) Movements on investments:	2002 £'000
Valuation of investments at 31 August 2001	**88,524**
Unrealised depreciation at 31 August 2001	**19,289**
Cost at 31 August 2001	**107,813**
Purchases at cost	**24,503**
Sales proceeds	**(19,911)**
Net realised losses for the year (note 16)	**(16,865)**
Cost at 31 August 2002	**95,540**
Unrealised depreciation at 31 August 2002	**(51,956)**
Valuation of investments at 31 August 2002	**43,584**

In accordance with the accounting policies set out in note 1(b), discounts have been applied to quoted investments where restrictions exist affecting disposals. This has the effect of reducing the market value of quoted investments at 31 August 2002 by £1.3m (31 August 2001: £2.5m).

Notes to the Financial Statements continued

7. FIXED ASSET INVESTMENTS continued

Significant holdings

The Company owns more than 3% of any class of share capital of the following companies, and these holdings are considered material in the context of the Company's net assets.

Company	Class of shares held	% of class held	Country of incorporation
Essential Therapeutics	Common	11.70	USA
Targeted Genetics Corporation	Common	7.27	USA
Aradigm	Common	3.43	USA

8. DEBTORS

	2002 £'000	2001 £'000
Amounts due within one year:		
Prepayments and accrued income	**58**	22
Sales awaiting settlement	**95**	–
Taxation recoverable	**–**	197
	153	219

9. CURRENT ASSET INVESTMENTS

	2002 £'000	2001 £'000
Liberty International Money Fund	**1,889**	4,677
	1,889	4,677

The shares of Liberty International Money Fund are listed on the Dublin Stock Exchange.

10. CREDITORS

	2002 £'000	2001 £'000
Amounts falling due within one year:		
Purchases awaiting settlement	**225**	1,301
Creditors and accrued charges	**418**	537
	643	1,838

11. CAPITAL COMMITMENTS

The Company committed to a further investment of SEK 20m (£1.4m) in Affibody. This payment was made in September 2002.

12. PERFORMANCE FEE

The Manager is entitled to a performance fee subject to appropriate performance targets being met. No performance fee is payable by the Company for the year ended 31 August 2002. For the period from 1 September 2000 to 7 November 2000, a performance fee of £1.8m (plus VAT) was paid to the previous investment manager, Rothschild Asset Management Limited.

Notes to the Financial Statements continued

13. CALLED UP SHARE CAPITAL

	25p Ordinary shares number	Nominal value £'000
Authorised:		
Balance brought forward and carried forward	**360,000,000**	**90,000**
Allotted, called up and fully paid:		
Balance brought forward and carried forward	**48,615,467**	**12,154**

14. CAPITAL REDEMPTION RESERVE

	2002 £'000	2001 £'000
Balance brought forward	**10,843**	–
Repurchase of shares for cancellation following Tender Offer	**–**	10,843
Balance carried forward	**10,843**	10,843

15. SHARE PREMIUM ACCOUNT

	2002 £'000	2001 £'000
Balance brought forward	**67,083**	55,433
Premium on issue of shares	**–**	11,650
Balance carried forward	**67,083**	67,083

16. CAPITAL RESERVE

	Capital reserve realised £'000	Capital reserve unrealised £'000	Capital reserves total £'000
Balance brought forward	**34,671**	**(19,289)**	**15,382**
Net realised losses on sale of investments (note 7)	**(16,865)**	**–**	**(16,865)**
Realised exchange losses on currency balances	**(28)**	**–**	**(28)**
Unrealised depreciation on investments	**–**	**(32,667)**	**(32,667)**
Balance carried forward	**17,778**	**(51,956)**	**(34,178)**

17. REVENUE RESERVE

	2002 £'000	2001 £'000
Balance brought forward	**(6,723)**	(5,547)
Net deficit for the year	**(1,284)**	(1,176)
Balance carried forward	**(8,007)**	(6,723)

Notes to the Financial Statements continued

18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2002 £'000	2001 £'000
Revenue deficit for the year	**(1,284)**	(1,176)
Capital deficit for the year	**(49,560)**	(126,359)
Reversal of shares to be issued reserve	**-**	(13,264)
Shares issued	**-**	12,646
Tender offer – repurchase of own shares for cancellation	**-**	(121,828)
Stamp duty on repurchase of own shares for cancellation	**-**	(609)
Net reduction to shareholders' funds	**(50,844)**	(250,590)
Shareholders' funds at 1 September	**98,739**	349,329
Shareholders' funds at 31 August	**47,895**	98,739

19. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the following:

	2002	2001
Net assets (£'000)	**47,895**	98,739
Number of shares	**48,615,467**	48,615,467
Basic Net Asset Value per share	**98.52p**	203.10p

20. RECONCILIATION OF DEFICIT ON ORDINARY ACTIVITIES BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2002 £'000	2001 £'000
Loss on ordinary activities before taxation	**(1,284)**	(1,176)
(Increase)/decrease in prepayments and accrued income	**(36)**	445
Decrease in other debtors	**141**	53
Decrease in creditors	**(119)**	(1,373)
Performance fee charged to capital	**-**	(4,440)
Interest paid	**-**	15
	(1,298)	(6,476)

Notes to the Financial Statements continued

21. CASH FLOW MANAGEMENT OF LIQUID RESOURCES

	2002 £'000	2001 £'000
Net cash inflow on sale of current asset investments:		
Liberty International Money Fund	**2,777**	13,401
Five Arrows Currency Fund	–	27,504
Investec Management Company International Money Market Fund	–	26,000
Newton Corporate Money Fund	–	18,414
	2,777	85,319

22. RELATED PARTY TRANSACTIONS

Details of the management fee arrangements are given in the Directors' Report on page 19.

The total fees payable under this agreement to Schroder Investment Management Limited in respect of the the year ended 31 August 2002 were £150,000, of which £38,000 was outstanding at the year end. The total fees payable under this agreement to Schroder Ventures Life Sciences Advisers (UK) Limited ("SVLS") for the year ended 31 August 2002 were £804,000 of which £164,000 was outstanding at the year end.

The Company also uses Schroder & Co Limited as one of its bankers. The total interest receivable in respect of the year to 31 August 2002 was £1,600, and the balance held as at 31 August 2002 was £106,000.

As investment adviser, SVLS will often take seats on the boards of companies in which IBT holds an investment. These positions help to monitor the investee company and in many cases add to the strength and depth of management. They sometimes provide an economic benefit to the individual who takes the position – often in the form of a directors fee or share awards. SVLS has agreed with the Board a set of guidelines on how any economic interest will be divided between IBT and SVLS. The board is informed of both the position held and any economic benefits as they arise and a summary of all the positions, benefits and allocations is presented for review at each board meeting for formal approval.

23. RISK ANALYSIS

Financial Instruments

The following information is given in accordance with Financial Reporting Standard 13, "Derivatives and other financial instruments."

The Company's financial assets and liabilities, excluding short-term debtors and creditors, comprise financial instruments which include investments in equity.

The holding of securities, investment activities and associated financing undertaken pursuant to the investment policy involve certain inherent risks. Events may occur that would result in either a reduction in the Company's net assets or a reduction of the total return.

Set out below are the principal risks inherent in the Company's activities and the action taken to manage these risks.

Market price risk

The main risk arising from the Company's financial instruments is the volatility of market prices in the biotechnology sector. Market price risk arises mainly from uncertainty about future prices of the financial instruments held. The Board regularly considers the asset allocation of the portfolio in order to manage the risk associated with the biotechnology sector, described in greater detail in the section on specific risk, whilst continuing to follow the investment objective.

It is not the Company's current policy to use derivative instruments to hedge the investment portfolio against market risk, as in the opinion of the directors, the costs of such a process would result in an unacceptable reduction in the potential for capital growth.

Notes to the Financial Statements continued

23. RISK ANALYSIS continued

Foreign currency risk

The accounts and performance of the Company are denominated in sterling. However, the majority of the Company's assets and total return are denominated in US$, accordingly, the total return and capital value of the Company's investments can be significantly affected by movements in foreign exchange rates. It is not the Company's current policy to hedge against foreign currency risk. The geographical split of investments is detailed in note 7.

Counterparty risk

In undertaking purchases and sales, there is a risk that the counterparty will not deliver the investment or cash after the Company has fulfilled its responsibilities. During the year the Company bought and sold investments only through brokers which had been approved by the Manager as an acceptable counterparty. In addition, limits are set as to the maximum exposure to any individual broker that may exist at any time. These limits are reviewed regularly.

Interest rate risk

Interest rate risk is limited by the Company's financial structure with operations mainly financed through the share capital, share premium and retained reserves. The majority of the Company's financial assets are, under normal circumstances, equity shares and other investments which neither pay interest nor have a stated maturity date.

In the normal course of business, the Company's policy is to be fully invested and, other than as arising from the timing of investment transactions, the cash holding is kept to a minimum.

At the year end there were no material undrawn committed borrowing facilities.

It is not the Company's policy to use derivative instruments to mitigate interest rate risk, as the Board believes that the effectiveness of such instruments does not justify the costs involved.

Liquidity risk

Liquidity and cashflow risk are minimised as the Manager aims to hold sufficient Company assets in the form of readily realisable securities which can be sold to meet funding commitments as necessary.

It should be noted, however, that investments in unquoted securities will not be readily realisable. Furthermore, even where the Company holds an investment in quoted securities, the Company may be restricted in its ability to trade that investment either because the investment becomes subject to restrictions when the Company concerned becomes publicly quoted or, at certain times, as a consequence of the Company being privy to confidential price sensitive information as a result of the Manager's active involvement in that Company.

It should also be noted that a continuation vote will be put to shareholders at the AGM held in 2003. If the resolution is not passed it is possible that the Company would go into voluntary liquidation and the investment portfolio would have to be realised, possibly on unfavourable terms. The liquidation process would also be delayed if the Company held stocks subject to restrictions, particularly 'lock-up' periods.

Specific risk

As well as the general risk factors outlined above, investing in the biotechnology sector carries some particular risks:

a) the stock prices of publicly quoted biotechnology companies have been characterised by periods of high volatility;

b) a significant proportion of the Company's investments will be in companies whose securities are not publicly traded or freely marketable and may, therefore, be difficult to realise. In addition, there are inherent difficulties in valuing unquoted investments and the realisations from sales of investments could be less than their carrying value;

c) biotechnology companies typically have a limited product range and those products may be subject to extensive government regulation. Obtaining necessary approval for new products can be a lengthy process which is expensive and uncertain as to outcome;

d) technological advances can render existing biotechnology products obsolete;

Notes to the Financial Statements continued

23. RISK ANALYSIS continued

e) intense competition exists in certain product areas in relation to obtaining and sustaining proprietary technology protection and the complex nature of the technologies involved can lead to patent disputes;

f) certain biotechnology companies may be exposed to potential product liability risks, particularly in relation to the testing, manufacturing and sales of healthcare products;

g) biotechnology companies spend a considerable proportion of their resources on research and development which may be commercially unproductive or require the injection of further funds to exploit the results of their work; and

h) the growing cost of providing healthcare has placed financial strains on governments, insurers, employers and individuals, all of whom are searching for ways to reduce costs. As a result, certain areas may be affected by price controls and reimbursement limitations.

24. EXCHANGE RATES

Foreign currency assets and liabilities have been translated into sterling on the balance sheet dates at the following rates of exchange.

	2002	2001
US dollars	**1.5469**	1.4505
Euros	**1.5774**	1.5968
Canadian dollars	**2.4132**	2.2484
Swedish kroner	**14.5215**	15.1564

Classification of Investments by Sector at 31 August 2002

	£'000	%
Equities – USA		
Biopharmaceuticals	**20,760**	47.6
Bioinformatics	**255**	0.6
Drug delivery	**2,889**	6.6
Medtech	**1,442**	3.3
Other	**3,889**	8.9
Equities – Canada		
Biopharmaceuticals	**1,545**	3.6
Equities – UK		
Biopharmaceuticals	**3,158**	7.2
Drug delivery	**430**	1.0
Equities – Continental Europe		
Biopharmaceuticals	**9,216**	21.2
Total	**43,584**	100.0

Geographical Classification of Investments at 31 August 2002

	£'000	%
Equities – USA		
Quoted	**16,422**	37.6
Unquoted	**12,813**	29.4
Equities – Canada		
Quoted	**1,545**	3.6
Equities – UK		
Quoted	**2,188**	5.0
Unquoted	**1,400**	3.2
Equities – Continental Europe		
Quoted	**2,650**	6.1
Unquoted	**6,566**	15.1
Total	**43,584**	100.0

Ten Largest Investments by Value as at 31 August 2002

Company	Value of Holdings £'000	Percentage of Shareholders' Funds %
Micromet	**3,341**	7.0
Sunesis Pharmaceuticals	**3,232**	6.7
EyeTech Pharmaceuticals	**3,232**	6.7
Aderis Pharmaceuticals	**3,232**	6.7
Essential Therapeutics	**2,431**	5.1
Aradigm	**2,042**	4.3
CancerVax	**1,939**	4.0
Axxima Pharmaceuticals	**1,849**	3.9
OSI Pharmaceuticals	**1,521**	3.2
Novuspharma	**1,425**	3.0
Total	**24,244**	50.6

Company Summary

THE COMPANY

International Biotechnology Trust plc is an investment trust listed on the London Stock Exchange. It is an independent investment trust managed by Schroder Investment Management Limited, advised by Schroder Ventures Life Sciences Advisers (UK) Limited and administered by Schroder Investment Management Limited.

Investment trust companies are able to switch investments without liability for capital gains tax. This, together with the advantages of professional management and spread of risk, makes investment trusts a valuable investment medium.

The Articles of Association of the Company contain provisions requiring the Directors to put a proposal for the continuation of the Company to Shareholders at the Company's Annual General Meeting in the year 2003 and thereafter at two yearly intervals.

PRICE INFORMATION AND THE INTERNET

The Company's shares are listed on the London Stock Exchange. The prices of the shares are quoted daily in the Financial Times, The Daily Telegraph and The Times.

The Company maintains a website, which is located at www.internationalbiotrust.com. The Site includes details of Investee companies, copies of recent Press Releases, information on the Board of Directors, net asset value and share price information, monthly factsheets and copies of the Annual Report and Interim Report.

The Company releases its net asset value to the London Stock Exchange on a weekly basis.

CAPITAL GAINS TAX INFORMATION

The acquisition costs of the shares and warrants for capital gains tax purposes based upon initial dealings are as follows:

- for the benefit of those shareholders who acquired their holdings in the original Offer for Subscription, with initial dealings on 6 May 1994:
  Each ordinary share of 25p each 92.38p
- for the benefit of those shareholders who acquired their holdings in the first C share issue, with initial dealings on 21 March 1996:
  Each ordinary share of 25p each 95.15p
- for the benefit of those shareholders who acquired their holdings in the second C share issue, with initial dealings on 9 June 1997:
  Each ordinary share of 25p each 97.75p

For the 2002/2003 tax year the annual capital gains (after adjusting for indexation and taper relief) of private individuals in excess of £7,700 (2001/2002: £7,500) are assessed for capital gains tax.

Capital gains on shares disposed of by individuals may be eligible for taper relief. The taper reduces the amount of a chargeable gain according to how long the asset has been held for periods after 5 April 1998. Where shares were acquired before 6 April 1998, the gain will also be reduced by indexation allowance for the period up to April 1998, but not thereafter.

ASSOCIATION OF INVESTMENT TRUST COMPANIES

The Company is a member of the Association of Investment Trust Companies, which produces monthly publications of detailed information on the majority of investment trusts. Copies of these publications can be obtained by subscription on application to the Association of Investment Trust Companies, Durrant House, 8-13 Chiswell Street, London EC1Y 4YY.

The aims of the Association are to protect and promote the interests of member companies and their shareholders by:

- taking specific action to safeguard and to improve the fiscal and regulatory regime for member companies and their shareholders
- improving investor awareness of investment trusts through education, publicity and the provision of reliable statistical and other information
- encouraging commitment to good practice and high professional standards in the industry.

Company Summary continued

SCHRODER INVESTMENT TRUST DEALING SERVICE

The Schroder Investment Trust Dealing Service provides a convenient and cost effective means of investing in the ordinary shares of the Company. The service offers investors:

- a regular investment option from a minimum of £50 per month
- a lump sum investment option from a minimum of £1,000
- daily dealing
- competitive charges
- the option to reinvest income.

Other investment trusts which are available through this service are Schroder AsiaPacific Fund plc, Schroder Emerging Countries Fund plc, Schroder Income Growth Fund plc, Schroder Japan Growth Fund plc, Schroder Split Investment Fund plc and Schroder Split ZDP plc, Schroder UK Growth Fund plc and Schroder Ventures International Investment Trust plc.

INDIVIDUAL SAVINGS ACCOUNT – SCHRODER MAXI ISA PLAN

Schroders are providing a non CAT standard investment trust ISA, which includes International Biotechnology Trust plc. The investment trust ISA is designed as a maxi account, made up entirely of a stocks and shares component; a cash or insurance component is not offered. The Schroder ISA offers investors:

- lump sum investments in the ordinary shares of the Company from a minimum of £1,000 to a maximum of £7,000 in the current tax year
- a regular investment option from a minimum of £50 per month
- competitive charges
- the option to reinvest income
- the option to include other trusts

If you would like further information about the Schroder Investment Trust Dealing Service or the Schroder Maxi ISA, please contact the Secretary of the Company at 31 Gresham Street, London EC2V 7QA or call Schroder Investor Services on freephone 0800 718 777.

REGISTRAR SERVICES

Communications with shareholders are mailed to the address held on the register. Any notifications and enquiries relating to registered share holdings, including a change of address or other amendment should be directed to Lloyds TSB Registrars Scotland at PO Box 28448, Finance House, Orchard Brae, Edinburgh, EM4 1WQ. The helpline telephone number of Lloyds TSB Registrars is 0870 601 5366.

Lloyds TSB Registrars Scotland maintain a web-based enquiry service for shareholders. Currently, the "Shareview" site (address below) contains information available on public registers. Shareholders will be invited to enter their name, shareholder reference (account number) and post code and will be able to view information on their own holding. Visit www.shareview.co.uk for more details.

Notice and Agenda

Notice is hereby given that the Annual General Meeting of International Biotechnology Trust plc will be held at 12.00 noon on Thursday 19 December 2002 at 31 Gresham Street, London EC2V 7QA, to consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 6 will be proposed as Ordinary Resolutions and resolutions 7 and 8 will be proposed as Special Resolutions:-

1. That the Report of the Directors and the Accounts for the year ended 31 August 2002 be adopted.

2. That Mr Andrew Barker be re-elected as a Director of the Company.

3. That Mr Alan Clifton be re-elected as a Director of the Company.

4. That KPMG Audit Plc be re-appointed as Auditors of the Company.

5. That the Board be authorised to agree the Auditors' remuneration.

6. That the Directors be and they are hereby generally and unconditionally authorised in substitution for all subsisting authorities in accordance with Section 80 of the Companies Act 1985 (the Act) to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £607,693 (representing 5 per cent of the aggregate nominal amount of the share capital in issue on 5 November 2002) provided that this authority shall expire on the date of the next Annual General Meeting of the Company, but so that this authority shall allow the Company to make offers or agreements before such expiry which would or might require relevant securities to be allotted after such expiry.

7. That, subject to the passing of resolution 6 set out above, the Directors be and they are hereby empowered, pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94 of the Act) pursuant to the authority given in accordance with Section 80 of the Act by the said resolution 6 as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £607,693 (representing 5 per cent of the aggregate nominal amount of the share capital in issue on 5 November 2002); and provided that this power shall expire on the date of the next Annual General Meeting of the Company but so that this power shall enable the Company to make offers or agreements before such expiry which would or might require equity securities to be allotted after such expiry.

8. That the Company be and is hereby generally and unconditionally authorised in accordance with Section 166 of the Companies Act 1985 (the "Act') to make market purchases (within the meaning of Section 163 of the Act) of Ordinary Shares of 25p each in the capital of the Company ("Shares"), provided that:

   (a) the maximum number of Shares hereby authorised to be purchased shall be 7,287,458;

   (b) the minimum price which may be paid for a Share is 25p;

   (c) the maximum price which may be paid for a Share is an amount equal to 105 per cent of the average of the middle market quotations for a Share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Share is purchased;

Notice and Agenda continued

(d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company unless such authority is renewed prior to such time; and

(e) the Company may make a contract to purchase Shares under the authority hereby conferred prior to 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 pursuant to any such contract.

Registered Office:
31 Gresham Street
London EC2V 7QA
Registered Number: 2892872
12 November 2002

By order of the Board
Schroder Investment Management Limited
Secretary

Notes

1. A member of the Company entitled to attend and vote at the Meeting may appoint a proxy or proxies to attend and on a poll to vote in his stead. A proxy need not be a member of the Company. Forms appointing proxies must be lodged with the Company's Registrar not less than 48 hours before the time appointed for the Meeting. The completion and return of a form of proxy will not preclude a member entitled to attend and vote in person at the Meeting from doing so if he or she wishes.

2. In accordance with the requirements of the Companies Act 1985, a statement of all transactions of each Director and of his family interests in the shares of the Company will be available for inspection by any member of the Company at the registered office of the Company, 31 Gresham Street, London EC2V 7QA, during normal business hours from the date of this notice to the conclusion of the Meeting. None of the Directors has a contract of service with the Company.

3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those Shareholders registered in the Register of Members of the Company at 12.00 noon on 17 December 2002 shall be entitled to attend and vote at the Meeting in respect of the number of Shares registered in their name at the time. Changes to the Register of Members after 12.00 noon on 17 December 2002 shall be disregarded in determining the right of any person to attend and vote at the Meeting.