
**INTERNATIONAL
BIOTECHNOLOGY
TRUST PLC**

Report and Accounts 2003

Company Number 2892872



Administration and Contents

ADMINISTRATION

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(Registered Number 2892872, England).

Investment Manager and Secretary

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Auditor

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8 Salisbury Square, London EC4Y 8BB.

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Financial Highlights

Year ended 31 August 2003

	31 August 2003	31 August 2002	Change %
Shareholders' funds (£'000)	53,931	47,895	12.6
Shares in issue ('000)	47,815	48,615	(1.6)
Net asset value per share	112.79p	98.52p	14.5
Share price	85.00p	76.50p	11.1
Share price discount	(24.64)%	(22.35)%	

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Index performance

	Change %
Nasdaq Biotech Index (£-adjusted)	48.1
Merrill Lynch Small-Cap Biotech Index (£-adjusted)*	26.5
Bloomberg UK Biotech Index (£)	(5.0)

*Source: Merrill Lynch

Long-Term Record

As at 31 August	Shareholders' funds £'000	NAV per share [†] pence	Share price pence	Premium/ (discount) %
2003	53,931	112.79	85.00	(24.64)
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)
1994 #	36,001	95.43	100.00	4.57

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* 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.

At launch on 6 May 1994.

Directors' Profiles

Andrew Barker (*Chairman*)

Aged 58, 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, a Director of F&C Smaller Companies PLC and of Utilico Investment Trust plc.

Alan Clifton

Aged 56, was appointed a Director of the Company on 21 February 2001. Mr Clifton was previously the Managing Director of Morley Fund Management, the asset management arm of Aviva plc, the UK's largest insurance group. He is currently Chairman of Henderson European Micro Trust plc and of Schroder UK Growth Fund plc and a director of several other investment companies. He also serves as a Member of The Lord Chancellor's Strategic Investment Board.

Peter Collacott

Aged 59, was appointed as a Director of the Company on 11 April 1994. He is a Director of Jordan/Zalaznick & Co. Limited, a FSA regulated investment company and Company Secretary of JZ Equity Partners plc, a listed private equity 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 Centres plc and a director of Hansa Trust plc.

Ian Macgregor

Aged 66, 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 the private equity/biotechnology area.

In addition to being a Director of IBT, he is a Royal Commissioner for the 1851 Exhibition and a trustee of other charities. He also serves 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 AND REVIEW

After three years of falling stock markets I am pleased to be able to report better results following the recovery in the markets generally and specifically the biotech sector. During the year to 31 August 2003, the net asset value (NAV) per share of International Biotechnology Trust plc (IBT) rose by 14.5% from 98.5p to 112.8p with the share price rising by 11.1% from 76.5p to 85.0p. During the period under review the NASDAQ Biotechnology Index (NBI) rebounded strongly and rose 48.1%, the Merrill Lynch Small Cap Biotech Index (MLSCI) rose by 26.5% and the Bloomberg UK Biotechnology Index fell by 5.0%, all in sterling terms.

We measure the performance of the Company in a number of different ways. The portfolio is predominantly composed of smaller biotech companies, which makes it difficult to compare the performance of IBT directly with the NBI, which is heavily weighted towards larger companies. We believe that an index which is more small cap focused is more useful, especially when looking at the performance of the quoted portfolio. The Merrill Lynch Small Cap Biotech Index currently consists of 117 biotech companies with market caps of less than US\$1bn. As mentioned previously, this index rose by 26.5% in sterling terms during the period under review.

IBT's smaller quoted holdings were hit badly during the correction in the market following the boom of 1999 and 2000, as investor focus moved towards the larger, profitable companies or those with projected near term earnings. The recent rally is the first post-bubble rally in which all the tiers of the market have benefited, although smaller biotech companies have still lagged their larger peers during the year under review. The performance of IBT's quoted portfolio has been calculated on a monthly time-weighted return basis (assuming mid-month cash flows) and showed a rise of 46.4%. The return on an unweighted basis (ignoring the timing of transactions) was 29.9%.

So far 2003 has been a much better year for the biotech market than 2002. The recovery in the value of biotech stocks has been driven by better general stock market conditions and an improvement in newsflow from the sector. There have been a run of regulatory approvals, strong clinical data (especially in the area of cancer) and better than anticipated earnings from a number of large, profitable companies.

At 31 August 2003, IBT's unquoted portfolio represented 42% of net assets (value £22.7m) against 43% (value £20.8m) at the previous financial year end. The valuations of

the unquoted companies are based on tangible third party priced events, which include trade sales, initial public offerings (IPOs) and third party financings. We are encouraged that three of our unquoted companies, Aderis Pharmaceuticals, CancerVax and Eyetech Pharmaceuticals, (together representing 16% of net assets at 31 August 2003) have recently filed to go public on NASDAQ, market conditions permitting.

BASIS OF VALUATION

As is practice in the venture capital industry, the IBT portfolio is valued in accordance with the British Venture Capital Association guidelines. 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. In certain circumstances quoted holdings are valued at discounts to their mid market prices.

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 to IBT, have board seats on eight of the portfolio companies, at the time of writing. 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, which include the IBT Scientific Advisory Board.

CONTINUATION VOTE

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 Annual General Meeting in 2003 and thereafter at two yearly intervals.

In considering whether to recommend to Shareholders that the Company continue in business as an investment trust, the Board of Directors has reviewed four particular aspects of its business:

- The prospects for the biotech sector
- The prospects for the portfolio
- The strength and depth of our management
- The appropriateness of the investment trust structure

Chairman's Statement continued

We consider the fundamentals of the biotech sector to be compelling and these are outlined below and in the 'Investment Advisers' Review'. Our adviser, SVLS, has assembled a portfolio of quoted and unquoted, generally smaller, emerging biotech companies, which we believe to be well positioned to benefit from the increase in interest in the sector, especially the three unquoted companies that are potential IPO candidates. As I have said in previous statements, I believe that we have a leading team of advisers in SVLS, with considerable depth of skill, experience and resources. Finally, investment trusts, with their closed-end structures and boards of independent directors, have proved to be an effective vehicle for making long-term investments and we believe that this will continue to be the case.

For these reasons the Board of Directors is particularly excited about the prospects for your Company. Recent soundings with major shareholders indicate strong support for the Company to continue and the Directors intend to vote their 146,183 shares in favour of the ordinary resolution to continue in business as an investment trust.

SHARE BUY-BACKS

At the Annual General Meeting held on 19 December 2002, the Directors were authorised to purchase for cancellation up to 14.99% of the shares in issue. Since that time, the Directors have utilised this authority to purchase a total of 800,000 shares for cancellation. We intend to continue 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 and with the intention of reducing discount volatility. A resolution to renew the share buy-back 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 14 November 2003 at 3.00 p.m. A presentation will be made by Kate Bingham and other members of the SVLS team.

OUTLOOK

Investor sentiment towards the biotech sector is currently very positive. At the time of writing, although the biotech IPO window has yet to open, twelve biotech companies have filed to go public in the USA, and IBT has investments in three of these. We believe that our portfolio companies, both quoted and unquoted, continue to make good overall progress and are generally well financed.

The fundamentals of the biotech industry remain intact with favourable demographics and high barriers to entry once products are approved. More and more biotech companies are turning profitable, product pipelines continue to widen and mature and there are more late stage compounds in development than ever before. The biggest issue facing the drug industry is a lack of new product opportunities and biotech companies are well placed to take advantage of this, as pharmaceutical companies are willing to enter rich strategic partnerships even at early development stages. The prospects for smaller biotech companies are consequently stronger than for some time.

The volatility of the biotech market does mean that both IBT and the sector remain better suited to the longer-term investor, as the short to medium term direction of the market remains difficult to predict. IBT offers investors exposure to an exciting industry with strong prospects through a portfolio of companies with strong upside potential, diversified across the private and public markets and by clinical area and geography.

Andrew Barker

Chairman

22 September 2003

Investment Advisers Review

SCHRODER VENTURES LIFE SCIENCES ("SVLS")

SVLS is a life sciences focused venture capital adviser whose funds invest in companies requiring funding within the human life sciences sector ranging from biotechnology and pharmaceuticals, medical devices and instruments, healthcare IT and services. Schroder Ventures advised funds have invested in the life sciences industry since the early 1980's and to date have backed over 100 companies internationally. SVLS was established in 1993 and currently has offices in London, Boston and San Francisco. SVLS has 24 professionals who are able to provide hands on scientific, advisory and financial support to their portfolio companies.

In addition to IBT, SVLS advises three venture capital funds with total commitments of approximately \$815m, that invest in life science companies at all stages of development with a focus towards private companies, primarily in the US and Europe.

SUMMARY

Investor sentiment regarding the biotech sector is much improved since the last Annual Report. The biotech market has rallied significantly and the recent approvals and strong clinical data underscore the progress that the industry is making in bringing new drugs to market. A reflection of this positive sentiment is the recent improvement in the share price and NAV of IBT and the filing of three unquoted portfolio companies to try and go public if the initial public offering (IPO) window opens.

REVIEW

2002 was a difficult year for the biotech sector. Share prices were driven lower by the overall bear market, impending war in Iraq and a lack of appetite for risk. This led to a flight to quality and a lack of interest in the more volatile sectors including biotech. Newsflow from biotech companies was poor with corporate scandals and a number of drug candidate failures, which resulted in a heightened sensitivity of investors to the risks of clinical development.

Smaller companies were hit the hardest in the sell off, which impacted the performance of IBT given its investment focus in this area. Many smaller companies were left trading below cash and some were delisted from the NASDAQ market, including one of IBT's portfolio investments, Essential Therapeutics.

The NASDAQ Biotech Index (NBI) bottomed at just over 400 in July 2002. At the time of writing the index had reached

798, a near doubling in dollar terms since the lows of 2002. This compares with the peak in the market in March 2000 when the index reached over 1600.

There have been a number of drivers of the recovery in the sector. Removal of the uncertainty around the conflict in Iraq, an increased appetite for risk and a broad bullish market direction have rewarded higher beta groups such as biotech and technology. However, the rally has not only been driven by improving general sentiment, but also by strengthening industry fundamentals. The NBI has significantly outperformed both the general market, rising by 48.1% in sterling terms, in comparison with rises of 8.1% in the S&P500 Index and 35.2% in NASDAQ Composite Index (which gives a reflection of the performance of technology stocks) during the year under review.

The initial rebound in biotech share prices was led by the large cap, profitable companies. However investor interest has extended beyond these limited names and into the smaller and earlier stage companies, which had suffered the most in the flight to liquidity of the previous years. The breadth of the recent rally has been notable as previous post-bubble rallies have been limited to the top tier of stocks. This has benefited the performance of IBT with some of the smaller cap holdings rising sharply in the year under review, for example Targeted Genetics which almost tripled in price. However, as noted in the Chairman's statement, the small caps still underperformed their larger peers in the year under review with the Merrill Lynch Small Cap Biotech Index (MLSCI) rising 26.5% in sterling terms in comparison with a 48.1% rise in the NBI.

The rally has been underpinned by the release of better than anticipated earnings by a number of large, profitable biotech companies, with sales of approved products going strongly. While earnings growth may be an issue in the pharmaceutical sector, biotech companies continue to post strong results with a number of companies recently moving into profitability.

Investment Advisers Review continued

Positive sentiment around the regulatory environment has also drawn interest to the sector. In contrast to the relatively low expectations following the disappointments of 2002, there have been a string of timely drug approvals this year. New leadership at the Food and Drug Administration (FDA) already seems to be having an impact with eleven new biotech drug approvals in 2003, at the time of writing. The FDA appears to be committed to shortening the time it takes to review new drug applications and improving the predictability of the review process.

Recent approvals include two exciting first-in-class drugs in the cancer field. AstraZeneca's Iressa was approved for the treatment of advanced non-small cell lung cancer and Millennium Pharmaceutical's Velcade was approved for the treatment of relapsed and refractory multiple myeloma less than four months after the application was made. Both drugs were approved on the basis of Phase II trials rather than more typical larger controlled Phase III trials. First-in-class drugs typically attract additional scrutiny from the regulatory authority and these approvals illustrate the efforts of the FDA to be flexible about its approach to the evaluation of drug candidates that address life threatening diseases where little or no therapy is currently available.

A spate of positive recent clinical trial data has helped spur share prices. In May 2003, Genentech presented results from a Phase III trial of Avastin, which showed an improvement in the overall survival of colorectal cancer patients. Many investors were not expecting a positive outcome following poor data in breast cancer in 2002 and the results played a major role in rekindling interest in the sector. Avastin could be the first to market of a new class of drugs called angiogenesis inhibitors, which choke off the supply of blood to tumours.

Further encouraging clinical data was released by one of IBT's investments, Esperion Therapeutics. Esperion has a promising pipeline for the treatment of cardiovascular disease. These drug candidates are designed to increase levels of HDL (the so-called good cholesterol), and to reduce the build up of cholesterol-laden plaques in the arteries of patients. In June 2003, initial Phase II results were released showing a reduction in plaque volume in the arteries of patients with acute coronary syndromes. This is an exciting finding and we await the full details of the trial, which will be reported in the coming months.

Company pipelines continue to broaden and mature and many of the announcements made by later-stage portfolio

companies are described later in the report. The pipelines of IBT's earlier stage investments have also made progress. KuDOS Pharmaceuticals started Phase II trials of its drug candidate, PaTrin, in metastatic melanoma and colorectal cancer patients. AnorMED started Phase II trials with AMD 3100 for stem cell transplant in cancer patients. Inflazyme's lead compound started a Phase IIa asthma study with partner Aventis, and Targeted Genetics and the Cystic Fibrosis Foundation initiated a Phase IIb trial in cystic fibrosis. Finally, Epimmune's HIV vaccine candidate entered Phase I/II trials and a second vaccine entered Phase I/II trials in lung cancer and colorectal cancer patients.

The biotech sector has benefited from corporate activity as product acquisitions are used to diversify pipelines and revenue streams. There were a number of mergers and acquisitions (M&A) announcements from within IBT's investment portfolio. Novuspharma agreed to merge with Cell Therapeutics (CTIC) adding a late stage drug candidate, pixantrone, to CTIC's pipeline. OSI Pharmaceuticals acquired Cell Pathways, adding a marketed oncology product and expanding its pipeline through an earlier stage therapeutic platform. Inflazyme bought GlycoDesign to expand further in the area of inflammation and to boost cash reserves. CancerVax brought in an early stage pipeline of angiogenesis inhibitors through the acquisition of Cell-Matrix, and Corvas merged with Dendreon Corporation. Finally, Galen announced in July 2003 that it was in preliminary discussions with a potential acquirer, although these talks were terminated without the emergence of a bid for the company.

There have been some acquisitions of biotech companies by pharmaceutical companies, for example Johnson & Johnson's acquisition of one of IBT's investments, 3-Dimensional Pharmaceuticals. However, these acquisitions have been limited in number as pharmaceutical companies have tended to avoid depressing earnings by buying unprofitable biotech companies.

Investment Advisers Review continued

As patent expires loom, the reliance of pharmaceutical companies on biotech to replenish dwindling pipelines has increased the price that these companies are willing to pay for synergistic assets. This has continued to be demonstrated through a variety of deals, although the number of collaborations has not increased noticeably. Within the portfolio, in December 2002, EyeTech announced a major deal with Pfizer for Macugen, which is in Phase II/III trials for age-related macular degeneration (AMD), and Phase II trials for diabetic macular edema. EyeTech received a \$100m upfront payment and could receive a further \$645m in milestones, contingent on regulatory approvals and successful commercialisation.

An unquoted IBT portfolio company, Sunesis, announced deals with both Merck & Co. and Biogen during the year under review. With Merck, Sunesis entered a research collaboration to discover oral therapeutics for Alzheimer's disease and with Biogen, a collaboration was initiated to discover therapeutics for inflammatory and auto-immune diseases.

Another example of a licensing deal by an IBT portfolio company, although with a larger biotech rather than a pharmaceutical company, was the co-development agreement between Micromet and Medimmune for the Phase I stage anti-cancer agent MT103. MT103 is the most advanced of Micromet's novel class of antibody derivatives, Bi-Specific T Cell Engagers (BiTEs). Micromet will receive milestone payments based on successful development and commercialisation, as well as royalties on North American sales. In addition, the parties will collaborate to develop up to six new BiTE drug candidates.

The combination of solid earnings, product approvals, strong clinical data and partnering has meant that momentum has continued to build in the biotech market. This has allowed issuers to aggressively tap both the secondary and convertible markets in order to bolster cash reserves. Many of the convertible debt financings have incorporated attractive terms for issuers due to the low interest rate environment and volatility of the sector.

The surge in financing activity has allowed many of IBT's portfolio companies to extend their cash runways including Alexion Pharmaceuticals, Aradigm, Esperion Therapeutics, Indevus Pharmaceuticals, Inspire Pharmaceuticals, Nektar Therapeutics, OSI Pharmaceuticals, Sirna Therapeutics (formerly Ribozyme Therapeutics) and Targeted Genetics.

Despite the flurry of secondary financings there have not been any biotech IPOs since April 2002. Only one healthcare company has gone public this year, a profitable managed care company called Molina Healthcare. It is possible that an IPO window for biotech companies may open in the USA later this year, market conditions permitting. The later stage, higher quality private companies with nearer term revenue/profit opportunities are best positioned to be able to take advantage of any such opening. At the time of writing a number of biotech companies have filed to try and go public on the NASDAQ market. Examples from IBT's portfolio include Aderis Pharmaceuticals, CancerVax and EyeTech Pharmaceuticals.

Aderis has four product candidates in development for six indications. The most advanced of these is a transdermal patch partnered with Schwarz Pharma, in Phase III trials for Parkinson's disease and in Phase IIb for the treatment of Restless Legs syndrome. CancerVax has a therapeutic cancer vaccine, in Phase III trials for the treatment of advanced stage melanoma and EyeTech has been described previously.

Financing of unquoted biotech companies has held up relatively well, despite the correction in the market since 2000. With the biotech IPO window being closed for the last year, private equity funds have had to fund existing portfolio companies for longer and new investments have tended to be made in later stage companies closer to a potential revenue stream. Financing rounds have generally been larger in size in order to fund companies for longer and deals are taking longer to complete as investors have become more valuation sensitive.

2003 has been characterised by a much better mix of news from the sector. However, as should be expected, given the risks of drug development, there have been some disappointments and setbacks. Examples from within the portfolio include Essential Therapeutics. Essential failed to achieve common shareholder consent to the conversion of

Investment Advisers Review continued

\$60m convertible preferred stock into common and the company was delisted from NASDAQ in May 2003. The company filed for Chapter 11 and the final initial hearing on its plan of reorganisation is planned for October 2003. If this plan is approved, it is likely that the company will be relaunched as a private company using the remaining cash left from the \$60m preferred investment. If the plan is not approved, then it is likely that the company will be wound up with cash distributed back to its preferred shareholders, which include IBT.

Weston Medical announced manufacturing problems with its needle-free drug delivery device and the assets of the company were sold to Aradigm for approximately \$2m. Crucell had a difficult year and refocused on vaccine development and although Aradigm announced the start of its first inhaled insulin Phase III trial with Novo Nordisk, it subsequently announced a one-year delay to the program due to manufacturing issues. Epimmune cancelled a merger agreement with Anosys and announced cost cutting measures and is considering alternative strategies going forward.

It is difficult to predict the direction the market will take from here, in the short term at least. There remain a number of potential FDA approvals on the horizon, including compounds from three of IBT's portfolio companies – Inspire's diquafasol for dry eye; XOMA's Raptiva for psoriasis; and Indevus' Trosipium for overactive bladder.

More late-stage clinical trial data is expected to be released over the next year. Examples from the IBT portfolio include data from OSI Pharmaceuticals, which has an EGFR inhibitor in Phase III trials for lung cancer and Adolor which will report the results of two further Phase III trials of its potential treatment for post-surgical constipation resulting from the use of opioids for pain relief.

The fundamentals of the industry remain strong and IBT's portfolio companies continue to make good overall progress and are generally well funded. The broad rally across all tiers means that stock picking will be key and deep due diligence will continue to be fundamental in the selection of new investments.

The next year will be an exciting time for IBT, although there are likely to be some delays and surprises at portfolio companies, as should be expected from the nature of the industry. An opening of the IPO window could allow some of the unquoted portfolio companies to gain a listing and Aderis, CancerVax and EyeTech are well positioned to try and

take advantage of such an opportunity. However an IPO window requires the backdrop of a good overall market environment, which in turn relies on positive economic and political conditions.

PORTFOLIO SUMMARY AT 31 AUGUST 2003

IBT has investments in 36 companies – 25 quoted companies (representing 51% of NAV) and 11 unquoted companies (comprising 42% of NAV). The remaining 7% is made up of cash, money market instruments and other net current assets. Given the level of unquoted investments, no new unquoted investments are planned in the short term.

Members of SVLS sat on the Board of 9 of the 36 portfolio companies at the end of the year under review – Aderis Pharmaceuticals, Affibody, CancerVax, Epimmune, Eyetech Pharmaceuticals, Galen Group, Genosis, KuDOS Pharmaceuticals and Micromet. Since 31 August 2003, the SVLS representative on the board of Epimmune has resigned.

In terms of the geographical split of the portfolio, 63% of NAV is invested in the US, 4% in Canada, 8% in the UK/Ireland and 18% in Continental Europe. By sub-sector, 80% of NAV is invested in biopharmaceuticals, 5% in drug delivery, 1% in medical devices and 7% in other areas. The remaining 7% is made up of cash, money market instruments and other net current assets.

Analysing the investments by the stage of their most advanced product in drug development; eight companies have products on the market, three have filed for approval, ten are in Phase III trials, eight are in Phase II or Phase I/II, and three are in preclinical development. Of the remaining four, one is in late stage testing for a diagnostic device and the other three are platform technology companies.

In terms of the cash positions of the portfolio companies, it is estimated that at 31 August 2003, seventeen have two or more years of cash (41% of NAV), fifteen have between one

Investment Advisers Review continued

and two years of cash (47% of NAV) and four have less than a year of cash (5% of NAV). The companies with less than a year of cash are Auxilium, Axxima, Genosis and publicly quoted Epimmune. Genosis has raised money since 31 August 2003, Auxilium has fundraising plans, Axxima is exploring M&A opportunities and Epimmune is considering alternative strategies.

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, women's health, urology, cardiovascular complications, rheumatoid arthritis, asthma, psoriasis, ophthalmology and management of the side effects of opioids for pain relief.

VALUATION

During the year under review the net effect of the change in the Directors valuations of unquoted companies was a net reduction in NAV for the year of £1.4m. This represents a decrease of 6.7% on the valuation of the unquoted portfolio at 31 August 2002. The value of unquoted investments at 31 August 2003 was £22.7m (£20.8m at 31 August 2002). The holdings in CancerVax and Axxima were written down by £0.2m (total cost £2.5m) and £1.2m (cost £1.4m) respectively during the period under review. CancerVax was written down to the price of the August 2003 financing round in which IBT invested £0.4m. The valuation of Axxima was written down to a best estimate of a fair market value. Currency gains increased the valuation of the unquoted portfolio by £0.6m during the period under review.

The valuation of Essential Therapeutics was changed during the year under review to an unquoted basis and is included as an unquoted holding. This change in valuation basis was because the company was delisted from NASDAQ. While the common shares of Essential are still thinly traded, IBT holds a *preferred redeemable instrument that is not quoted*. The preferred shareholders have issued redemption notices and the SVLS representative on the board of the company has resigned. Since Essential could not repay the \$60m originally invested by the preferred shareholders, the Chapter 11 process was initiated to enable the company to reorganise. The holding is valued at £0.9m (cost £5.3m) taking into account the stage the company has reached in Chapter 11 proceedings. The valuation is believed to be a conservative estimate of IBT's interest in Essential following the resolution of the court process after which it is expected that the preferred shareholders will own 100% of the

company. The company reported \$16m of cash and marketable securities at end June 2003.

At 31 August 2003 the holdings in Aderis, Affibody, Auxilium, EyeTech, Genosis, KuDOS and Sunesis are held at cost (total value £15.0m), Axxima, CancerVax and Essential Therapeutics have been written down from their original cost (total value £4.0m), and Micromet has been written up (value £3.7m). This equates to 66% of the unquoted portfolio held at cost, 18% written down and 16% written up by value. The unquoted portfolio, excluding ValGen and Entigen, is now valued at 81% of original cost (including the initial cost of Essential).

To recap, the carrying valuations of each of the 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. Strategic equity investments, such as Pfizer's equity investment in EyeTech are not used as a basis for valuing unquoted companies.

Of the 25 quoted investments, five are held at a discount to their mid market prices at 31 August 2003, due to disposal restrictions, including limited liquidity – AnorMED, Epimmune, Galen, Inflazyme, and LION. The effect of these discounts was to reduce the NAV by £0.9m at 31 August 2003.

INVESTMENT ACTIVITY

Unquoted Companies

As the percentage of NAV invested in unquoted investments remains high, no new investments have been made in the unquoted portfolio during the year under review. An investment of £0.4m was made in August 2003 in existing portfolio company, **CancerVax** (total investment £2.1m). CancerVax raised \$41m in the financing and has subsequently filed to go public on NASDAQ, market conditions permitting.

Investment Advisers Review continued

Following a commitment made in August 2001, the second tranche of an investment (£1.4m) was made in Affibody (total investment £2.7m). **Affibody** continues to make good progress developing antibodies (small peptide binders similar to antibodies) in the areas of protein separation, affinity ligands for drug discovery, diagnostics and biotherapeutics. The company's collaboration with Amersham in the area of bioseparations is progressing well and the company has met its milestones. Affibody is well financed with cash estimated to last until the end of 2005.

In May 2003, **Auxilium's** investors agreed to guarantee a revolving line of credit of \$10m to the company in proportion to their investments and in return for warrants. IBT's share of the guarantee is £0.1m and is shown as a contingent liability in the accounts. Auxilium's testosterone gel, Testim has been approved for sale in the US and the UK for use in treating men with low testosterone levels, and was launched in the USA in February 2003. The sales ramp has been disappointing due to difficulties with pre-marketing and a stronger than expected competitor response. However, it appears that Testim is now making up an increasing share of new testosterone prescriptions as physicians recognise the benefit of the product over alternative gels. Auxilium is likely to need to raise another round of private finance in which IBT is likely to participate (up to £0.5m).

Genosis, the infertility diagnostics company, has completed its clinical trials for the female fertility test and has filed for regulatory approval for the female test. The final tooling and manufacturing of the male fertility test has been somewhat delayed, although the male device appears to have the necessary accuracy and sensitivity. This has delayed clinical testing. Since 31 August 2003 an investment of £0.2m has been made in Genosis in order to fund the completion of the trials for the male test (total investment £0.7m).

There were no exits from unquoted investments during the period under review.

Quoted Companies

New investments were made in seven quoted companies – Cambridge Antibody Technology Group (CAT), Encysive Pharmaceuticals, Galen Holdings, Indevus Pharmaceuticals, Inspire Therapeutics, Progenics Pharmaceuticals and XOMA.

CAT (£0.5m investment)

CAT is a Cambridge, UK-based antibody platform and therapeutics company. The company's primary areas of therapeutic focus are auto-immune disorders and oncology. CAT's most advanced program is HUMIRA, an antibody

which is partnered with Abbott and has been launched in the US for rheumatoid arthritis and been approved in Europe. CAT has seven other antibodies in clinical development, the most advanced of which is Trabio in Phase III trials for the prevention of post-operative scarring in patients with glaucoma.

Encysive Therapeutics (£1.1m investment)

Encysive is a US-based company developing therapeutics for cardiovascular and inflammatory diseases, the most advanced of which is Sitaxsentan, which is in a pivotal trial for Pulmonary Arterial Hypertension (PAH). The company expects to report data from the trial towards the end of 2004 and to announce a marketing partner thereafter. Sitaxsentan appears to offer a significant improvement in treatment over the traditional practice of care, a continuous infusion by implanted catheter. Currently there is only one oral drug available for PAH patients, and data to date suggests that the clinical profile of Sitaxsentan may be superior.

Indevus Pharmaceuticals (£0.4m investment)

Indevus is a US-based company with drug candidates in development for overactive bladder, anxiety, stroke, HIV, pain and inflammation and serious fungal infections. Indevus acquires the rights to developmental compounds and uses its team to advance the clinical program, either independently or with a partner. Indevus' lead compound, Trospium, is for the treatment of overactive bladder. Currently marketed products can cause side effects including dry mouth and data suggest that Trospium may have similar efficacy to marketed products but with a more favourable side effect profile. Indevus licensed the US rights to Trospium from Madaus who market the product in Europe. Trospium was filed for approval in the US in April 2003 and the search for a marketing partner is underway.

Progenics Pharmaceuticals (£0.4m investment)

Progenics is a US-based company. Its most advanced product candidate is methylnaltrexone, a compound in Phase III trials designed to reduce the side effects of

Investment Advisers Review continued

currently marketed opioids used for pain relief. Progenics is developing the compound in three parallel clinical programs. A Phase III trial is underway for opioid-induced bowel dysfunction in advanced medical illness, a Phase II trial has started in post-surgical constipation and finally a Phase I study in patients taking opioids chronically is planned for later this year. The compound is currently unpartnered.

The final three new investments were discussed in detail in the 2003 Interim Report.

Galen Holdings (£0.5m investment)

Galen is a speciality pharmaceutical company focused on women's health, dermatology and urology. During the year under review, the company significantly broadened its product portfolio. Galen strengthened its position in the dermatology market through a co-promotion agreement with Bristol-Myers Squibb and development agreement with Leo Pharma in the area of psoriasis. In June 2003, Galen's Femring was launched in the USA. Femring is the first vaginal estrogen product indicated to treat both the hot flushes and vaginal symptoms associated with menopause. Galen also bolstered its position in women's health through the acquisition of the rights to three marketed products from Pfizer.

Inspire Therapeutics (£0.3m investment)

Inspire's lead drug candidate, diquafasol, is for the treatment of dry eye, and was filed for approval in the USA in mid 2003. In May 2003, Inspire announced data from a PIII trial for allergic rhinitis, which did not meet its primary endpoint. Although this was a large potential market, the dry eye compound and potential size of the dry eye market mean that this remains an interesting investment.

XOMA (£1.0m investment)

XOMA's lead drug candidate is Raptiva, an antibody for moderate to severe psoriasis partnered with Genentech in the US, and Serono in Europe. Raptiva has been filed for approval in both areas and an FDA Advisory panel in September 2003 unanimously recommended its approval. Although the FDA is not bound by the recommendation of its advisory committees it generally follows their advice.

A further £0.4m was invested in **Adolor** (total investment £0.8m) and a net investment of £0.4m was made in **Esperion Therapeutics** (total investment £0.5m).

Adolor's lead compound, Alvimopan is in Phase III clinical trials for post-surgical constipation resulting from the use of

opioids for pain relief. Data from the first of these three trials was reported in April 2003 and was mixed – the primary endpoint of recovery of gastrointestinal function was met in one of the dosage groups but the time to hospital discharge did not show as much of a reduction as anticipated. Data from the other two trials is expected later this year or early next and should allow a better evaluation of the clinical profile of the compound.

The positive initial Phase II data announced by Esperion has been described and more details are expected in the coming months. The company's pipeline continues to progress with two product candidates in Phase II, and another two in Phase I. However, the inadvertent acquisition by a shareholder of a third of the company has resulted in an overhang of stock in the market which will need to be carefully managed.

The holdings in **Arqule**, **Aspect Medical**, **Corvas International**, **3 – Dimensional Pharmaceuticals** and **Weston Medical** were sold in their entirety.

The holdings in **Alexion Pharmaceuticals**, **AnorMED**, **Crucell**, **Forest Labs**, **OSI Pharmaceuticals**, **Sirna Therapeutics** and **Targeted Genetics** were reduced in size.

Ten Largest Quoted Investments

at 31 August 2003

Investment	Carrying value £'000	% of Shareholders' Funds	Country	Business activity
1 OSI Pharmaceuticals	2,703	5.01	USA	A leading drug discovery company with a substantial pipeline focused on the discovery, development and commercialisation of oncology products. The company's lead compound is an oral cancer drug in a number of Phase III trials.
2 Atrix Laboratories	2,273	4.22	USA	An emerging speciality pharmaceutical company focused on drug delivery, focused in the areas of oncology, pain management and dermatology.
3 XOMA	2,073	3.84	USA	XOMA develops and manufactures antibody and other protein-based therapeutics. The company's lead product candidate has been filed for regulatory approval for psoriasis.
4 Encysive Pharmaceuticals	1,803	3.34	USA	Encysive is focused on the discovery, development and commercialisation small molecules. The company's first FDA-approved product is being marketed by GlaxoSmithKline for heparin-induced thrombocytopenia.
5 Esperion Therapeutics	1,750	3.24	USA	Esperion discovers and develops pharmaceutical products for the treatment of cardiovascular disease. The company's focus is on a new treatment approach called HDL Therapy.
6 Novuspharma	1,734	3.22	Italy	An emerging biopharmaceutical company focused on the discovery and development of innovative new treatments for cancer. The company's lead compound is in Phase III trials.
7 Nektar Therapeutics	1,450	2.69	USA	Nektar provides leading drug delivery technologies. The company has an inhaled insulin program in Phase III trials with Pfizer and Aventis Pharma.
8 Inflazyme	1,232	2.28	Canada	Inflazyme is focused on developing new therapies for the treatment of inflammation and related diseases. The company's most advanced product candidate is in Phase II trials in asthma with Aventis Pharma.
9 Aradigm	1,099	2.04	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.
10 AnorMED	1,040	1.93	Canada	A biotechnology company focused on the discovery and development of small molecule therapeutics for the treatment of diseases including HIV, rheumatoid arthritis, asthma and cancer.
Total	17,157	31.81		

Unquoted Investments

at 31 August 2003

Investment	Cost £'000	Carrying value £'000	% of Shareholders' Funds	Business activity and valuation basis
1 Micromet (Germany)	3,124	3,658	6.78	Micromet designs and develops novel antibody derived therapeutics for the treatment of severe human diseases 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 novel class of antibody derivatives that leverage the 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 an external investor.
2 Aderis Pharmaceuticals (USA)	3,519	3,161	5.86	A biopharmaceutical company engaged in developing small molecule drugs to treat central nervous system, cardiovascular disorders and inflammatory conditions. Aderis currently has four product candidates in development for six indications. The company has a strategic alliance with Schwarz Pharma, which has fully enrolled Phase III clinical trials for the Company's lead product candidate, a dopamine agonist for the treatment of Parkinson's disease using a transdermal patch delivery system. Aderis has recently filed to go public on Nasdaq, subject to market conditions. In accordance with our valuation policies this has not been reflected in our carrying value. The valuation basis is cost in local currency.
3 EyeTech Pharmaceuticals (USA)	3,403	3,161	5.86	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 safely deliver drugs 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 (DME). Macugen is currently in Phase II/III pivotal clinical trials in AMD and Phase III trials in DME. EyeTech has recently filed to go public on Nasdaq, subject to market conditions. In accordance with our valuation policies this has not been reflected in our carrying value. The valuation basis is cost in local currency.
4 Sunesis Pharmaceuticals (USA)	3,312	3,161	5.86	A leader in the discovery of novel, orally active, small molecule pharmaceuticals. Sunesis is focused on highly validated disease targets that have an established clinical path and/or market and for which an oral product can rapidly replace an injectable protein or monoclonal antibody product. The company utilises its 'target-directed fragment discovery' technology to reduce the number of compounds that must be screened to provide sufficient leads for drug development. In this way, drug discovery can be accelerated and one of the major bottlenecks to developing promising compounds can be removed. In addition the technology allows researchers to pursue new classes of targets previously intractable to screening. The valuation basis is cost in local currency.
5 Affibody (Sweden)	2,687	3,025	5.61	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 as protein binders in drug discovery. The valuation basis is cost in local currency.

Unquoted Investments continued

at 31 August 2003

Investment	Cost £'000	Carrying value £'000	% of Shareholders' Funds	Business activity and valuation basis
6 CancerVax (USA)	2,526	2,161	4.01	A biotechnology company focused on the research, development and commercialisation of novel biological products 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. CancerVax has recently filed to go public on Nasdaq, subject to market conditions. In accordance with our valuation policies this has not been reflected in our carrying value. The valuation has been written down to the price of the last financing round.
7 KuDOS Pharmaceuticals (UK)	1,400	1,400	2.60	A leader in the discovery and development of 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 cancer cells to chemotherapy and radiotherapy. The company's lead compound is in Phase II trials in colorectal and metastatic melanoma patients. The valuation basis is cost in local currency.
8 Essential Therapeutics (USA)	5,279	948	1.76	Essential Therapeutics is focused on the development of novel pharmaceuticals for the treatment of life-threatening diseases. Its product pipeline is currently limited and needs to be enlarged through the in-licensing of interesting new preclinical/early clinical products. The company does not perform any drug discovery in-house. The company is currently in Chapter 11 and a resolution (either a restart as private company or a full liquidation and distribution back to shareholders) is expected in October 2003. The valuation is based on a conservative estimate of IBT's share of the company following the resolution of the court process.
9 Axxima Pharmaceuticals (Germany)	1,395	864	1.60	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 down to the best estimate of fair market value.
10 Auxilium Pharmaceuticals (USA)	667	632	1.17	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 been launched in the USA and the UK. The valuation basis is cost in local currency.
11 Genosis (USA)	563	518	0.96	The company is developing an over-the-counter diagnostic kit for male and female infertility under the brand name Fertell. 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 in local currency.
Total	27,875	22,689	42.07	

Note: The Company's investments in Entigen and Valigen were written-down to nil in the previous financial year, due to concerns about the future viability of those companies.

Directors' Report

ACCOUNTS

Your Directors present the financial statements of the Company for the year ended 31 August 2003.

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 2002 and the Company has subsequently conducted its affairs so as to enable it to continue to qualify for such approval.

The Company's investment objective is to achieve long term capital growth by investing in high growth, development stage biotechnology companies that are publicly listed or approaching flotation or trade sale. IBT invests in companies that are undervalued, with experienced management and strong potential upside through the commercialisation of a product, device or enabling technology.

A review of the development of the business during the year, and likely future developments, is contained in the Chairman's Statement on pages 5 and 6 and the Investment Advisers Review on pages 7 to 13.

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 (2002: nil).

SUBSTANTIAL SHAREHOLDINGS IN THE COMPANY

As at 30 September 2003, 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	13.66
Co-operative Insurance Society Limited	4,636,467	9.70
Exeter Asset Management Limited	2,925,000	6.12
Prudential plc	2,518,024	5.27
Deutsche Bank AG	2,500,000	5.23
Axa Investment Managers UK Limited	1,955,000	4.09

DIRECTORS

The Directors during the year to 31 August 2003 and their beneficial and family interests in the Company's issued share capital as at 31 August 2003 are given below:

	At 31 August 2003	At 31 August 2002
Andrew Barker	95,000	37,000
Alan Clifton	10,000	10,000
Peter Collacott	6,183	6,183
Alex Hammond-Chambers	25,000	10,000
Ian Macgregor	10,000	4,000

There have been no changes in the above holdings between the year end and 30 September 2003.

In accordance with the articles of association, Mr Hammond-Chambers and Mr Macgregor 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.

PURCHASE OF SHARES FOR CANCELLATION

At the Annual General Meeting held on 19 December 2002, 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 Directors have used this authority to purchase 800,000 ordinary shares for cancellation during the year ended 31 August 2003, amounting to 1.6% of the share in issue on 1 September 2002. The total number of shares in issue on 30 September 2003 was 47,815,467 shares. The Directors wish to renew the authority to purchase shares for cancellation. A resolution to authorise the Directors to purchase up to 14.99% of the share capital in issue on 30 September 2003 will be proposed at the forthcoming Annual General Meeting for which notice is given on pages 43 and 44.

The authority will lapse at the conclusion of the Company's Annual General Meeting in 2004 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.

Directors' Report continued

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 £597,693 (equivalent to 2,390,773 ordinary shares of 25p and 5 per cent of the Company's existing issued ordinary share capital at 30 September 2003), 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 2004.

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 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 2003. 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 2003. 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 over 20 years' experience in the pharmaceutical and diagnostics industries in both the UK and the USA with GD Searle and then Zeneca. He has managed research and development teams of up to 150 individuals in a number of disease areas with a particular focus on cancer. His commercial experience includes board responsibility for Zeneca Diagnostics and worldwide development of the "Cellmark" business offering DNA fingerprinting for forensic and medico-legal applications. This was recognised by the Queen's Award for Technological Achievement in 1990.

He is clinically qualified with accreditation in pathology and internal medicine and is currently Professor of Medicine at the University of Leeds and Director of the Molecular Medicine Unit at St James's University Hospital. He undertakes a range of administrative duties at national level including the chairmanship and membership of a number of influential committees of the Medical Research Council, Department of Health, Department of Trade and Industry, Wellcome Trust and has been appointed Chief Executive of Cancer Research UK. He is currently heavily involved in negotiating finance for a spinout company involved in gene therapy from Leeds University.

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. 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

Directors' Report continued

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 14 November 2003 at 3.00 pm. The Notice of Meeting is set out on pages 43 and 44.

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By order of the Board
Schroder Investment Management Limited
Secretary

Registered office:
31 Gresham Street, London EC2V 7QA

Registered number 2892872
7 October 2003



Directors' Remuneration Report

for the year ended 31 August 2003

As the Board of Directors is comprised solely of non-executive Directors, it is exempt under the Listing Rules from appointing a Remuneration Committee. The determination of the Directors' fees is a matter dealt with by the Management Engagement Committee and the Board.

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £250,000 per annum. Subject to this overall limit, it is the Company's policy to determine the level of Directors' fees having regard to the level of fees payable to non-executive directors in the industry generally, the role that individual Directors fulfil in respect of Board and Committee responsibilities, and the time committed to the Company's affairs. Directors' fees are currently set at £12,500 per annum with £20,000 per annum for the Chairman. In addition, Directors receive attendance fees of £1,500 and the Chairman £2,000 for each Board Meeting.

In the year ended 31 August 2003, there were five Board Meetings, two Audit Committee Meetings, one Management Engagement Committee Meeting and numerous Valuation Committee Meetings.

No element of the Directors' remuneration is performance related.

No Director has a service contract with the Company and no compensation is payable to directors on leaving office.

No Director past or present has any entitlement to pensions, share options or long-term performance incentives. It is the intention of the Board that the above policy will continue to apply in the forthcoming financial year and subsequent years.

A graph showing the Company's Share Price total return, compared with the FTSE All-Share Total Return Index, over the last 5 years is shown below.

The Companies Act 1985 (as amended) requires that this remuneration report includes a performance graph comparing the Company's total shareholder return performance against that of a broad equity market index. The FTSE All-Share Index has been used for this purpose. It should be noted, however, that the Board does not consider this an appropriate benchmark for assessing the Company's performance. Its inclusion is to satisfy a legal requirement. The investment performance is compared to a variety of indices (see page 2), but the unique nature of the Company's portfolio does not lend itself naturally to an

appropriate benchmark index against which performance can be measured.

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Remuneration for Qualifying Services	For the year ended 31 August 2003	For the year ended 31 August 2002
	Fees for services to the Company £'000	Fees for services to the Company £'000
Andrew Barker (Chairman and highest paid Director)	30	28
Alan Clifton	20	19
Peter Collacott	17	19
Alex Hammond-Chambers	20	19
Ian Macgregor	19	18
Howard Greene ¹	-	5

¹ Retired on 18 December 2001.

The information in the above table has been audited (see the Independent Auditors' Report on page 25).

The amounts paid by the Company to the Directors were for services as non-executive directors.

By order of the Board
Schroder Investment Management Limited
Secretary

7 October 2003



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 in 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 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

Corporate Governance continued

Directors the Code principles relating to Directors' remuneration do not apply. During the year ended 31 August 2003 the Chairman received fees at the rate of £20,000 per annum, and the other members of the Board received fees of £12,500 per annum. In addition, Directors receive attendance fees.

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. 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.

ENVIRONMENTAL POLICY

The investment objective of the Company is to achieve long term capital growth by investing in high growth, development stage biotechnology companies that are publicly listed or approaching flotation or trade sale. The Company recognises that this should be done in an environmentally responsible way.

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

Under the Company's Articles of Association, the Directors are required to propose a resolution that the Company continues as an investment trust at the forthcoming Annual General Meeting.

As referred to in and for the reasons set out in the Chairman's Statement on pages 5 and 6, the directors recommend that shareholders vote in favour of the continuation resolution.

Taking account of the matters set out above and after due consideration, the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts, in accordance with the provisions of Financial Reporting Standard 18, "Accounting Policies". 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 unforeseen outcomes or contingencies that may have a material impact on the Company's performance or condition.

Corporate Governance continued

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

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

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

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 21, this includes responsibility for preparing 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, the Listing Rules of the Financial Services Authority, 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 whether the financial statements and the part of the directors' remuneration report to be audited have been 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 review whether the statement on page 22 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement and the unaudited part of the directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 and the part of the directors' remuneration report to be audited. 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 and the part of the directors' remuneration report to be audited 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 and the part of the directors' remuneration report to be audited.

OPINION

In our opinion:

the financial statements give a true and fair view of the state of affairs of the company as at 31 August 2003 and of the total return for the year then ended; and

the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

7 October 2003

Statement of Total Return

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

	Notes	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000
Gains/(losses) on investments	6/15	-	7,613	7,613	-	(49,532)	(49,532)
Exchange gains/(losses) on currency balances		-	53	53	-	(28)	(28)
Income	2	112	-	112	278	-	278
Management fees		(638)	-	(638)	(804)	-	(804)
Administrative expenses	3	(488)	-	(488)	(758)	-	(758)
Net (deficit)/return before taxation		(1,014)	7,666	6,652	(1,284)	(49,560)	(50,844)
Tax on ordinary activities	4	-	-	-	-	-	-
Net (deficit)/return after taxation		(1,014)	7,666	6,652	(1,284)	(49,560)	(50,844)
Transfer (from)/to reserves	15/16	(1,014)	7,666	6,652	(1,284)	(49,560)	(50,844)
(Deficit)/return per ordinary share	5	(2.09)p	15.82p	13.73p	(2.64)p	(101.94)p	(104.58)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

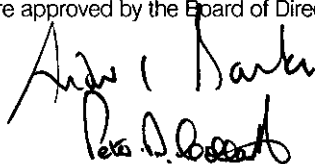
	Notes	2003 £'000	2003 £'000	2002 £'000	2002 £'000
Fixed assets					
Investments	1(b) & 6		49,911		43,584
Current assets					
Debtors	7	73		153	
Investments	8	2,742		1,889	
Cash at bank		1,615		2,912	
		4,430		4,954	
Creditors: amounts falling due within one year	9	410		643	
Net current assets			4,020		4,311
Net assets			53,931		47,895
Capital and reserves					
Called up share capital	12		11,954		12,154
Capital redemption reserve	13		11,043		10,843
Share purchase reserve	14		66,467		67,083
Capital reserve	15		(26,512)		(34,178)
Revenue reserve	16		(9,021)		(8,007)
Equity shareholders' funds	17		53,931		47,895
Net asset value per share	18		112.79p		98.52p

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These financial statements were approved by the Board of Directors on 7 October 2003 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 2003 £'000	For the year ended 31 August 2002 £'000
Operating activities			
Income		56	283
Management fee paid		(617)	(852)
Other cash payments		(537)	(729)
Net cash outflow from operating activities	19	(1,098)	(1,298)
Returns on investments and servicing of finance			
Interest paid		-	-
Cash outflow from returns on investments and servicing of finance		-	-
Taxation			
UK income tax recovered		-	67
Tax recovered		-	67
Capital expenditure and financial investment			
Purchase of investments		(7,838)	(25,579)
Disposal of investments		8,994	19,816
Net cash inflow/(outflow) from capital expenditure and financial investment		1,156	(5,763)
Net cash inflow/(outflow) before management of liquid resources and financing		58	(6,994)
Management of liquid resources	20	(793)	2,777
Financing			
Repurchase of shares for cancellation		(615)	-
Net cash outflow from financing		(615)	-
Net cash outflow		(1,350)	(4,217)

Reconciliation of Net Cash Outflow to Movement in Net Funds

	For the year ended 31 August 2003 £'000	For the year ended 31 August 2002 £'000
Net cash outflow in the year	(1,350)	(4,217)
Exchange gains/(losses) on currency balances	53	(28)
Change in net funds	(1,297)	(4,245)
Net funds brought forward	2,912	7,157
Net funds carried forward	1,615	2,912

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.

As referred to in the Chairman's Statement on pages 5 and 6 and the Corporate Governance Statement on page 23, a resolution proposing the continuation of the Company as an investment trust will be put to shareholders at the Annual General meeting on 14 November 2003. Recent soundings with shareholders indicate strong support for the Company to continue and the Directors are recommending that shareholders vote in favour of this resolution. However, should shareholders vote against the resolution, the Directors will be required to draw up proposals for the reconstruction or liquidation of the Company. In light of their recommendation, and in accordance with FRS18, the Directors believe that it is appropriate to prepare the accounts on a going concern basis. Accordingly, the accounts do not include any adjustments that might arise from the reconstruction or liquidation of the Company. Such adjustments would include expenses of reconstruction or liquidation along with any costs associated with realising the investment portfolio.

(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 15 and 16. 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.

Notes to the Financial Statements continued

4. TAXATION

The Company has no corporation tax liability in the year to 31 August 2003 (2002: 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 2003, 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% (2002: nil).

The differences are explained below:

	For the year ended 31 August 2003			For the year ended 31 August 2002		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Factors affecting tax charge for the year						
(Deficit)/return on ordinary activities before tax	(1,014)	7,666	6,652	(1,284)	(49,560)	(50,844)
Deficit on ordinary activities multiplied by the standard rate of UK corporation tax of 30% (2002: 30%)	(304)	2,300	1,996	(385)	(14,868)	(15,253)
Tax effects of:						
Capital returns on investments*	-	(2,284)	(2,284)	-	14,860	14,860
Exchange (gains)/losses*	-	(16)	(16)	-	8	8
Revenue expenses not utilised in the year	304	-	304	385	-	385
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 £7.4m (2002: £7.1m) arising as a result of having unutilised management expenses.

5. DEFICIT/RETURN 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)/return	(1,014)	7,666	6,652	(1,284)	(49,560)	(50,844)
Weighted average number of shares						
- Basic	48,466,152	48,466,152	48,466,152	48,615,467	48,615,467	48,615,467
(Deficit)/return per share	(2.09)p	15.82p	13.73p	(2.64)p	(101.94)p	(104.58)p

Notes to the Financial Statements continued

6. FIXED ASSET INVESTMENTS

	2003 £'000	2002 £'000
(a) Investments comprise:		
Quoted:		
- NASDAQ Exchange	19,992	16,422
- London Stock Exchange	2,687	2,188
- Toronto Stock Exchange	2,272	1,545
- Milan Stock Exchange	1,735	1,425
- Amsterdam Stock Exchange	536	1,225
Unquoted:		
- USA	13,743	12,813
- UK	1,400	1,400
- Germany	4,521	5,189
- Sweden	3,025	1,377
Valuation of investments at 31 August	49,911	43,584

Further details on the unquoted investments are given on pages 15 to 16 and in the Investment Advisers Review on pages 7 to 13.

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	For the year ended 31 August 2003 £'000
(b) Movements on investments:	
Cost at 31 August 2002	95,540
Unrealised depreciation at 31 August 2002	(51,956)
Valuation of investments at 31 August 2002	43,584
Purchases at cost	7,613
Sales proceeds	(8,899)
Realised gains for the year	1,774
Unrealised gains for the year	5,839
Valuation of investments at 31 August 2003	49,911
Closing book cost	81,367
Closing unrealised loss	(31,456)
Closing valuation	49,911

In accordance with the accounting policies set out in note 1(b), discounts have been applied to quoted investments where restrictions affecting disposals exist. This has the effect of reducing the market value of quoted investments at 31 August 2003 by £0.9m (31 August 2002: £1.3m).

	For the year ended 31 August 2003 £'000
(c) Gains on investments:	
Realised losses based on historical cost	(12,887)
Less: amounts recognised as unrealised at the previous balance sheet date (note 16)	14,661
Realised gain based on carrying value at the previous balance sheet date	1,774
Net movement in unrealised losses	5,839
Gains on investments	7,613

Notes to the Financial Statements continued

6. FIXED ASSET INVESTMENTS continued

Significant holdings

The Company owns more than 3% of any class of share capital of the following companies.

Company	Class of shares held	% of class held	Country of incorporation
Essential Therapeutics	Common	11.7	USA
Epimmune	Common	10.4	USA
Inflazyme	Common	4.9	Canada

7. DEBTORS

	2003 £'000	2002 £'000
Amounts due within one year:		
Prepayments and accrued income	73	58
Sales awaiting settlement	-	95
	73	153

8. CURRENT ASSET INVESTMENTS

	2003 £'000	2002 £'000
Liberty International Money Fund	2,742	1,889
	2,742	1,889

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

9. CREDITORS

	2003 £'000	2002 £'000
Amounts falling due within one year:		
Purchases awaiting settlement	-	225
Creditors and accrued charges	410	418
	410	643

10. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Company had no outstanding commitments at 31 August 2003.

The Company, along with other investors, has provided a guarantee over a bank loan to Auxilium. IBT's share of the guarantee amounts to \$167,000 and this represents the Company's maximum contingent liability should Auxilium default on the loan. In return for acting as guarantor, IBT has received additional Auxilium warrants.

11. 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 2003.

Notes to the Financial Statements continued

12. 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	48,615,467	12,154
Transfer to capital redemption reserve on repurchase of shares for cancellation	(800,000)	(200)
Balance carried forward	47,815,467	11,954

13. CAPITAL REDEMPTION RESERVE

	2003 £'000	2002 £'000
Balance brought forward	10,843	10,843
Transfer from share capital account on repurchase of shares for cancellation	200	-
Balance carried forward	11,043	10,843

14. SHARE PURCHASE RESERVE

	2003 £'000	2002 £'000
Balance brought forward	67,083	-
Transfer from share premium account	-	67,083
Purchase of 800,000 ordinary shares for cancellation	(616)	-
Balance carried forward	66,467	67,083

On 19 September 2001, the Company obtained Court approval to cancel its share premium account and set up a new reserve, the share purchase reserve.

15. CAPITAL RESERVE

	Capital reserve realised £'000	Capital reserve unrealised £'000	Capital reserves total £'000
Balance brought forward	17,778	(51,956)	(34,178)
Transfer on disposal of investments	(14,661)	14,661	-
Gains on investments	1,774	5,839	7,613
Realised exchange profits on currency balances	53	-	53
Balance carried forward	4,944	(31,456)	(26,512)

Notes to the Financial Statements continued

16. REVENUE RESERVE

	2003 £'000	2002 £'000
Balance brought forward	(8,007)	(6,723)
Net deficit for the year	(1,014)	(1,284)
Balance carried forward	(9,021)	(8,007)

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2003 £'000	2002 £'000
Revenue deficit for the year	(1,014)	(1,284)
Capital return/(deficit) for the year	7,666	(49,560)
Repurchase of own shares for cancellation	(616)	-
Net movement in shareholders' funds	6,036	(50,844)
Shareholders' funds brought forward	47,895	98,739
Shareholders' funds carried forward	53,931	47,895

18. NET ASSET VALUE PER SHARE

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

	2003	2002
Net assets (£'000)	53,931	47,895
Number of shares ('000)	47,815	48,615
Basic Net Asset Value per share	112.79p	98.52p

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19. RECONCILIATION OF DEFICIT BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2003 £'000	2002 £'000
Net revenue deficit before taxation	(1,014)	(1,284)
Decrease/(increase) in prepayments and accrued income	10	(36)
(Increase)/decrease in other debtors	(85)	141
Decrease in creditors	(9)	(119)
	(1,098)	(1,298)

20. CASH FLOW MANAGEMENT OF LIQUID RESOURCES

	2003 £'000	2002 £'000
Net cash (outflow)/inflow on (purchase)/sale of current asset investments:		
Liberty International Money Fund	(793)	2,777
	(793)	2,777

Notes to the Financial Statements continued

21. RELATED PARTY TRANSACTIONS

Details of the management fee arrangements are given in the Directors' Report on page 18.

The total fees payable under this agreement to Schroder Investment Management Limited in respect of the the year ended 31 August 2003 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 2003 were £638,000 of which £184,000 was outstanding at the year end.

The Company also uses Schroder & Co Limited and SIM as its bankers. The total interest receivable in respect of the year to 31 August 2003 was £4,000, and the balances held as at 31 August 2003 was £37,000.

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.

22. 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.

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 6.

Notes to the Financial Statements continued

22. RISK ANALYSIS continued

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 and Investment Adviser aim 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 Investment Adviser's active involvement in that Company.

It should also be noted that a continuation vote will be put to shareholders at the forthcoming AGM. 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;
- 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;

Notes to the Financial Statements continued

22. RISK ANALYSIS continued

- 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.

23. EXCHANGE RATES

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

	2003	2002
US dollars	1.5818	1.5469
Euros	1.4407	1.5774
Canadian dollars	2.1941	2.4132
Swedish kroner	13.2253	14.5215

Classification of Investments by Sector at 31 August 2003

	£'000	% of total investments
Equities – USA		
Biopharmaceuticals	27,210	54.5
Drug delivery	2,549	5.1
Medical devices	519	1.0
Other	3,457	6.9
Equities – Canada		
Biopharmaceuticals	2,272	4.6
Equities – UK		
Biopharmaceuticals	4,087	8.2
Equities – Continental Europe		
Biopharmaceuticals	9,817	19.7
Total investments	49,911	100.0

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Geographical Classification of Investments at 31 August 2003

	£'000	% of total investments
Equities – USA		
Quoted	19,992	40.0
Unquoted	13,743	27.5
Equities – Canada		
Quoted	2,272	4.6
Equities – UK		
Quoted	2,687	5.4
Unquoted	1,400	2.8
Equities – Continental Europe		
Quoted	2,271	4.6
Unquoted	7,546	15.1
Total investments	49,911	100.0

Ten Largest Investments by Value at 31 August 2003

Company		Value of Holdings £'000	Percentage of Shareholders' Funds %
Micromet	Unquoted	3,658	6.8
Sunesis Pharmaceuticals	Unquoted	3,161	5.9
EyeTech Pharmaceuticals	Unquoted	3,161	5.9
Aderis Pharmaceuticals	Unquoted	3,161	5.9
Affibody	Unquoted	3,025	5.6
OSI Pharmaceuticals	Quoted	2,703	5.0
Atrix Laboratories	Quoted	2,273	4.2
CancerVax	Unquoted	2,161	4.0
XOMA	Quoted	2,073	3.8
Encysive Pharmaceuticals	Quoted	1,803	3.3
Total		27,179	50.4

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 (see Resolution 7, as set out in the Notice of the Annual General Meeting).

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 2003/2004 tax year, the annual capital gains (after adjusting for indexation and taper relief) of private individuals in excess of £7,900 (2002/2003: £7,700) 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 UK Mid and Small Cap Fund plc, Schroder Income Growth Fund plc, Schroder Japan Growth Fund plc, Schroder Split Investment Fund plc, Schroder Split ZDP plc, Schroder UK Growth Fund plc and Schroder Ventures International Investment Trust plc.

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, EH4 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.

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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.

Notice and Agenda

Notice is hereby given that the Annual General Meeting of International Biotechnology Trust plc will be held at 3 pm on Friday 14 November 2003 at 31 Gresham Street, London EC2V 7QA, to consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 8 will be proposed as Ordinary Resolutions and resolutions 9 and 10 will be proposed as Special Resolutions:-

1. That the Report of the Directors and the Accounts for the year ended 31 August 2003 be adopted.
2. That the Directors' Remuneration Report for the year ended 31 August 2003 be approved.
3. That Mr Alex Hammond-Chambers be re-elected as a Director of the Company.
4. That Mr Ian Macgregor be re-elected as a Director of the Company.
5. That KPMG Audit Plc be re-appointed as Auditors of the Company.
6. That the Board be authorised to agree the Auditors' remuneration.
7. That, in accordance with the Company's Articles of Association, the Company shall continue in being as an investment trust for the period expiring at the end of the Annual General Meeting in 2005.
8. 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 £597,693 (representing 5 per cent of the aggregate nominal amount of the share capital in issue on 30 September 2003) 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.
9. That, subject to the passing of resolution 8 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 8 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 £597,693 (representing 5 per cent of the aggregate nominal amount of the share capital in issue on 30 September 2003); 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.
10. 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 7,167,538;
 - (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
10 October 2003

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 3 pm on 12 November 2003 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 3 pm on 12 November 2003 shall be disregarded in determining the right of any person to attend and vote at the meeting.