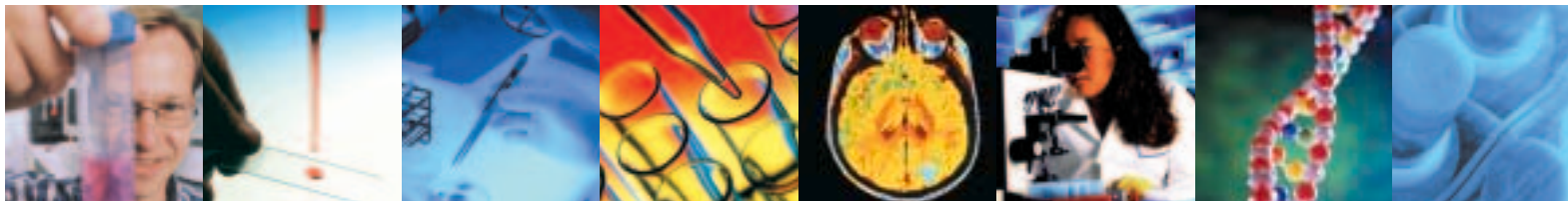


INTERNATIONAL BIOTECHNOLOGY TRUST PLC

Annual Report

year ended 31 August 2004



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

Administration and Contents



ADMINISTRATION

Registered Office

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

Investment Manager and Secretary

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

Investment Adviser

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

Bankers

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

Custodian

JPMorgan Chase,
100 Wood Street, London EC2V 7EN.

Solicitors

Linklaters,
One Silk Street, London EC2Y 8HQ.

Auditor

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

Stockbroker

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1 Finsbury Avenue, London EC2M 2PP.

Registrar

Lloyds TSB Registrars Scotland,
PO Box 28448, Finance House,
Orchard Brae, Edinburgh EH4 1WQ.

CONTENTS

Financial Highlights	2
Long-Term Record	3
Directors' Profiles	4
Chairman's Statement	5
Investment Advisers Review	7
Ten Largest Quoted Investments	12
Unquoted Investments	13
Directors' Report	15
Directors' Remuneration Report	18
Directors' Responsibilities	19
Corporate Governance	20
Board Committees	23
Independent Auditors' Report	25
Group Statement of Total Return	26
Balance Sheets	27
Group Cash Flow Statement	28
Notes to the Financial Statements	29
Classification of Investments by Sector	39
Geographical Classification of Investments	39
Ten Largest Investments by Value	40
Company Summary	41
Notice and Agenda	43

Further information on the Company may be found on the internet at:– www.internationalbiotrust.com

Financial Highlights

Year ended 31 August 2004



	31 August 2004	31 August 2003	Change %
Shareholders' funds (£'000)	55,154	53,931	2.3
Shares in issue ('000)	47,815	47,815	
Net asset value per share	115.35p	112.79p	2.3
Share price	95.00p	85.00p	11.8
Share price discount	(17.64)%	(24.64)%	

Index performance

	Change %
Nasdaq Biotech Index (£-adjusted)	(17.9)
Merrill Lynch Small-Cap Biotech Index (£-adjusted)*	(14.9)
Bloomberg UK Biotechnology Index (£)	6.7

*Source: Merrill Lynch (see note 24 on page 38 for details).

Long-Term Record



As at 31 August	Shareholders' funds £'000	NAV per share [†] pence	Share price pence	Premium/ (discount) %
2004	55,154	115.35	95.00	(17.64)
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)

* 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.

The Fund was launched on 6 May 1994.

Directors' Profiles



Andrew Barker (*Chairman*)

Aged 59, was appointed as a Director and Chairman of the Company on 10 January 2001. He has been involved in investment management for more than 30 years, having joined Foreign & Colonial Management Ltd in 1970. He was a Director of Foreign & Colonial Ventures Ltd from 1980 to 1998, which is a specialist provider of private equity finance to small and medium sized companies. He was responsible for Foreign & Colonial's North American investments from 1985 until he retired from Foreign & Colonial in March 2000. His former directorships include Foreign & Colonial Investment Trust PLC and Graphite Enterprise Trust PLC and the National Provident Institution ("NPI"). He is a past Chairman of the Association of Investment Trust Companies. He is Chairman of the Bankers Investment Trust plc and of the British Portfolio Trust plc. He is a Director of Utilico Investment Trust plc, JPMorgan Fleming Mid Cap Investment Trust plc and of Gartmore Absolute Growth & Income Trust plc.

Alan Clifton

Aged 57, was appointed as 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.

Dr David Clough

Aged 58, was appointed as a Director of the Company on 25 February 2004. Dr Clough was Director of Research at Roche in the UK between 1986 and 1999. He was responsible for over 300 staff with departments covering chemistry, biology and pre-clinical development. Dr Clough is currently on the Board of Fulcrum Pharma PLC and on the Scientific Advisory Boards of Anadys and Kinetique.

Peter Collacott

Aged 60, 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. Mr Collacott was appointed as Chairman of the Audit Committee on 19 April 2004.

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

Alex Hammond-Chambers

Aged 61, 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, Dobbies Garden Centres plc and Hansa Trust plc. He is a director of ISIS Smaller Companies Trust plc.

Ian Macgregor

Aged 67, 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, Management Engagement and Nomination Committees.

Mr Barker is Chairman of the Management Engagement and Nomination Committees.

Mr Collacott is Chairman of the Audit Committee.

Chairman's Statement



PERFORMANCE AND REVIEW

I am pleased to report an increase in the net asset value (NAV) per share of International Biotechnology Trust plc (IBT) of 2.3% from 112.8p to 115.4p, and an 11.8% rise in the share price from 85.0p to 95.0p during the twelve months to 31 August 2004. This increase builds on the rise of 14.5% in NAV per share during the year to 31 August 2003, and compares to a fall in the NASDAQ Biotech Index (NBI) over the same period of 17.9%, a fall in the Merrill Lynch Small-Cap Biotech Index (MLSCI) of 14.9% and a 6.7% increase in the Bloomberg UK Biotechnology Index, all in sterling terms. Over the twelve months under review the discount of the share price to NAV reduced from 24.6% to 17.6% and as at 21 September 2004, the date of the most recently published NAV, the discount was 20%.

Three of our unquoted companies have completed initial public offerings (IPOs) in the U.S. The IPO and subsequent performance of Eyetech have been a key driver of our own performance during the year under review, adding approximately £10m to net assets after currency changes. This provides an illustration of how a concentrated portfolio strategy may generate value. As at 21 September 2004, the investment in Eyetech comprised 10.8% of NAV. The holding is valued at a 25% discount to the closing daily share price to reflect the fact that, from time to time, through the board seat that one of the Schroder Ventures Life Sciences (SVLS) team holds, there will be constraints on the ability to realise the value of this holding.

The performance of IBT's quoted portfolio calculated on a time-weighted return basis (assuming mid-month cash flows) showed a rise of 19.3%. On an unweighted basis (ignoring the timing of transactions) the return was 17.1%. These calculations include the changes in the discounted valuations of the holdings in Auxilium, CancerVax and Eyetech, since their respective IPOs. This performance compares with a fall in the MLSCI of 14.9% in sterling terms.

During the year under review the net effect of the total change in the Director's valuation of unquoted companies was a reduction in net assets of £5.4m. At 31 August 2004, 22% of net assets were invested in unquoted companies. This has fallen from 42% at 31 August 2003, largely due to successful IPOs, and the writedowns of some of our unquoted holdings. As a guideline up to approximately 40% of net assets will be invested in unquoted companies, although this figure may be substantially lower as investments mature and will vary according to when individual investment opportunities arise.

The U.S. dollar weakened considerably against sterling towards the end of 2003 and currency changes reduced the net asset value by approximately £6m during the year under review. Whilst the situation is kept under regular review, it remains our current policy not to hedge the currency exposure of the portfolio.

At 31 August 2004 the level of cash, money market instruments and other net current assets levels was £11.9m, or 21% of net assets. This is higher than usual, largely due to proceeds from the sale of Eyetech shares which raised £5.9m in total during the year under review.

VALUATIONS

In the last annual report we outlined the basis of valuation of investments. We continue to use this policy which is to apply the Association of Investment Trust Companies' Statement of Recommended Practice ("SORP") and the British Venture Capital Association ("BVCA") Valuation Guidelines to the NAV released weekly. Valuations are considered on an ongoing basis and information that impacts the valuation of a private company or the discount applied to an investment in a public company is incorporated into the valuation and, if there is a material impact on NAV, then a new NAV is released to the market. The discounts on quoted investments range in size between 10% and 25% and the effect of the discounts was to reduce NAV by £3.2m at 31 August 2004.

NEW DIRECTOR

As indicated in the Interim Report, Dr David Clough, aged 58, was appointed as a Director of the Company on 25 February 2004 and he offers himself for election at the forthcoming Annual General Meeting in accordance with the Articles of Association. He was Director of Research at Roche in the UK between 1986 and 1999. He was responsible for over 300 staff with departments covering chemistry, biology and preclinical development. During this time, two products discovered by staff in the research group under Dr Clough progressed to the market place, namely Inhibace and Invirase. Dr Clough has received several national and international awards for his role in the discovery of Invirase, including the UK and International Prix Galien, the PhRMA Discoverer's Award and the UK Millennium Product Award.

Dr Clough is currently on the Board of Fulcrum Pharma PLC and on the Scientific Advisory Boards of Anadys and Kinetique. He holds a PhD from Glasgow University.

Chairman's Statement continued



CORPORATE GOVERNANCE

During 2003 the FSA adopted the Combined Code as part of the Listing Rules of the Stock Exchange and the Association of Investment Trust Companies produced its own Code of Corporate Governance© for its member companies – of which IBT is one. IBT is an unusual investment trust, investing as it does in the quoted and unquoted securities of young companies involved in the biotechnology business; they tend to be highly risky but potentially very rewarding investments. The governance of such an investment trust will, therefore of necessity, be somewhat different from others and as a consequence your Board has given careful consideration to the appropriate governance in the light of the recommendations and principles espoused by the two codes. In the Corporate Governance section on pages 20 to 22, we set out how we govern the Company, drawing to shareholders' attention unusual procedures and any major divergence from the two codes.

SHARE BUY BACK

During the year ended 31 August 2004, the Directors did not purchase any shares for cancellation and have not utilised the authority given to them at the last Annual General Meeting. To provide maximum flexibility, a resolution to authorise the Directors to purchase up to 14.99% of the share capital in issue will be proposed at the forthcoming Annual General Meeting. When shares are available in reasonable volumes and at a high discount to net assets, we shall consider further purchases while maintaining sufficient liquidity for existing commitments and for making new investments.

PROSPECTS

The IBT portfolio gives shareholders an exposure to both quoted and unquoted companies within a volatile sector where fundamentals remain strong. We remain optimistic about the prospects for the IBT portfolio although, as usual, a long term investment view is recommended, given the volatility of the sector and the risk associated with investments in biotech companies.

ANNUAL GENERAL MEETING

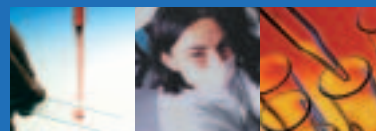
The Annual General Meeting will be held at 12.00 noon on Friday 19 November 2004 at 31 Gresham Street, London EC2V 7QA. The meeting will include a presentation from SVLS, as in previous years.

Andrew Barker

Chairman

23 September 2004

Investment Advisers Review



MARKET REVIEW

Biotech stocks began to outperform the broader market in March 2003 following strong earnings announcements from profitable companies. A number of companies achieved high-profile milestones including the approval and launch of Avastin, the first anti-angiogenesis treatment to reach the market and the survival benefit shown in the treatment of non small cell lung cancer (NSCLC) shown by Tarceva from portfolio company OSI Pharmaceuticals.

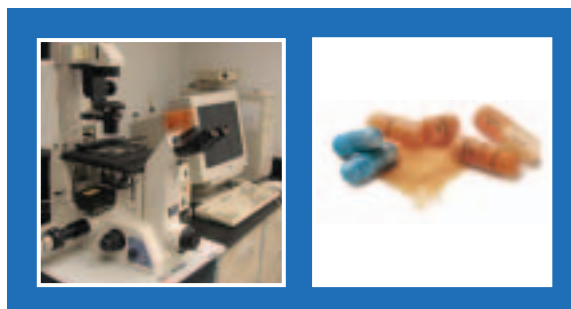
The NBI peaked in April 2004 as investors took profits from investments in the sector following the rise of more than 80% in dollar terms, since the lows of the previous year. Markets as a whole have been weaker in recent months due to geopolitical uncertainty and fears of rising interest rates and rising oil prices.

Over the same time frame investors have become more risk averse and have moved into more defensive, lower beta stocks, hitting biotech as a group, and especially the earlier stage, smaller companies. Smaller biotech companies outperformed their larger peers during the first half of the year under review, only to give back most of these gains after the peak in April. The MLSCI fell by 14.9% in the year under review, in comparison with a fall in the NBI of 17.9%, all in sterling terms.

The lack of recent significant biotech newsflow has also not helped the sector, although profitable companies have continued to report good earnings. As mentioned in the interim report, expectations for the biotech sector were high in early 2004 and got ahead of the capacity of some development stage companies to deliver, making it difficult to surprise on the upside. The NBI fell more than 25% in dollar terms between April and mid August 2004, although there has been some recovery in prices in the last month.

During the year under review, the IPO window has opened in the U.S. and, to a lesser extent, in Europe. Three IBT portfolio companies have completed IPOs in the U.S.; Auxilium, CancerVax and Eyetech. At 21 September 2004, the share prices of Eyetech and Auxilium have risen 61% and 27% respectively, from their IPO prices, while the share price of CancerVax is trading below issue in common with many other newly listed companies. The recent fall in the market has made it more difficult to go public with some offerings being pulled and others being completed at increasing discounts to initial filing ranges.

Despite this, global biotech is on course to have a good overall year for financing in 2004. The global biotech industry has raised \$14.5bn in 2004 (to 20 September 2004) from IPOs, follow-ons, venture capital and other financing compared with 2003 when a total of \$19.6bn was raised (Source:BioCentury Financial Center). A number of IBT's quoted portfolio companies have raised money during the year under review including Adolor, Alexion, AnorMED, Aradigm, Auxilium, CancerVax, Encysive, Epimmune, Eyetech, Inflazyme, Inspire, Kosan, Nektar, Phase Forward, Progenics, OSI and XOMA.



OUTLOOK

Although sector fundamentals remain strong and companies are relatively well funded following the recent robust financing climate, it may be difficult for biotech, especially smaller companies, to outperform unless the overall market appetite for risk increases and strength continues to return to the broader market. That said the NBI has begun to recover from the lows of mid August this year.

Key milestones are approaching for a number of IBT's portfolio companies. These include the outcome of regulatory review in the U.S. of Macugen for wet age-related macular degeneration (AMD) from Eyetech, of Tarceva from OSI for advanced NSCLC, of Entereg from Adolor for the management of post-operative ileus and of Shire's phosphate binder FOSRENOL. In addition Nektar's version of inhaled insulin has been submitted for regulatory review in the European Union.

Cambridge Antibody Technology expects to report preliminary data from a Phase II/III glaucoma trial in Q4 2004, Encysive expects to release data from a pivotal pulmonary arterial hypertension study in Q1 2005 and Inspire expects to report results of a pivotal dry eye trial, and, if positive, submit an amendment to its U.S. regulatory filing, by mid-2005.

Data from Progenics' Phase III trial for the relief of opioid-induced constipation in patients with advanced medical illness should be released in 2005. Data is expected to be released by Atherogenics from a pivotal Phase III trial for the treatment of atherosclerosis in 2005, although further Phase IIb data is expected later this year which may shed more light on the potential clinical utility of the compound.

PORTFOLIO NEWS

In February 2004 **Eyetech Pharmaceuticals** completed an IPO at a share price of \$21 raising net proceeds of \$153m. During the year under review IBT sold a portion of the Eyetech holding realising £5.9m (cost £1.3m). At 31 August 2004 IBT owned 511,910 shares, valued at £7.4m (cost £2.1m), after a liquidity discount of 25% to the closing share price. The complete new drug application (NDA) for Macugen as a treatment for wet AMD, has been accepted by the U.S. Food and Drug Administration (FDA).

Auxilium Pharmaceuticals completed an IPO in July 2004, raising net proceeds of approximately \$37m, at a price of \$7.50 per share. Auxilium has received U.S. regulatory approval to market Testim, a testosterone replacement therapy for the

Investment Advisers Review continued

treatment of hypogonadism. Testim was launched in 2003 in the U.S. through the company's own specialty sales force and Auxilium has received regulatory approval to market Testim in the UK and scientific approval for Testim in 14 additional European countries. IBT's holding was valued at £0.5m (cost £0.8m) at 31 August 2004 after a liquidity discount of 25% to the closing share price.

CancerVax completed an IPO at a price of \$12 per share in November 2003, raising net proceeds of approximately \$65m. IBT's holding was valued at £1.3m at 31 August 2004 (cost £2.5m) after a discount of 25% to the closing share price. The company's lead product candidate, Canvaxin, for the treatment of patients with melanoma, is currently being studied in two international Phase III trials. In August 2004 CancerVax announced that it was on track to complete enrolment in the Phase III trial in the treatment of patients with Stage III melanoma by the end of September 2004 and in the treatment of patients with Stage IV melanoma in 2006.

In April 2004 results from a Phase III trial of **OSI's** Tarceva for the treatment of patients with advanced NSCLC showed a 42% improvement in median survival and an improvement in one-year survival of 45%. On the day of the announcement the share price of the company more than doubled. These results make Tarceva the first and only targeted therapy to demonstrate an improvement in survival for NSCLC patients. The submission of the NDA for Tarceva has been completed and the company projects a possible approval in the U.S. in the first quarter of 2005 assuming a full six-month review by the FDA. The company's international partner, Roche, has filed a marketing application for Tarceva with the European Health Authorities.

Genesis has received U.S. and European regulatory clearance for the sale of its diagnostic tests for screening male and female infertility. These are designed to be sold over the counter for couples trying to conceive or deferring conception and will provide couples with the opportunity to monitor their fertility and improve chances of successful conception. The company is in negotiations with a major UK distributor regarding a product launch in the UK for which additional funds will be required.

Indevus Pharmaceuticals announced the regulatory approval of SANCTURA in the U.S. for the treatment of overactive bladder and the drug was launched in August 2004. This followed the announcement of a co-promotion and licensing agreement between Indevus and PLIVA for commercialisation in the U.S.

In October 2003 the FDA approved **Forest Labs'** Namenda, for the treatment of moderate to severe Alzheimer's disease and Namenda was launched in the U.S. in January 2004. However, data released from a Phase III trial for severe Alzheimer's disease with another of Forest's compounds, Neramexane, showed the primary endpoint of the trial was not met.

Nektar Therapeutics developed and provides the inhalers and the powdered insulin for a version of inhaled insulin called Exubera, in development for patients with diabetes, through a collaboration between Pfizer and Aventis. The European



Medicines Evaluation Agency has accepted the filing of a marketing authorisation application for Exubera and Nektar's partners have been working with the FDA to determine the appropriate timing for submission of the Exubera NDA in the U.S.

AMD3100 is in development at **AnorMED**, and blocks a specific cellular receptor triggering the movement of stem cells out of the bone marrow and into the circulating blood. Initial Phase II data has shown that AMD3100, in combination with the standard agent, increases the number of stem cells available for collection and transplant. AnorMED plans to complete the Phase II trials in 2004, and to start a Phase III program in 2005.

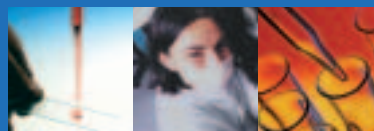
Epimmune uses multiple epitopes to specifically activate the body's immune system and is conducting two Phase I/II clinical trials of its cancer vaccine candidate in NSCLC and colorectal cancer patients. Preliminary data from 10 patients in these ongoing trials was released in June 2004 indicating that the vaccine was safe and well tolerated, and suggested that the multi-epitope approach could induce an immune response in patients when delivered appropriately.

Trine Pharmaceuticals (formerly Essential Therapeutics) is focused on the development of novel pharmaceuticals for the treatment of life-threatening diseases. The company has in-licensed a clinical stage compound and expects to start a Phase IIa trial in diarrhoea-predominant irritable bowel syndrome patients later in 2004. Negotiations are underway regarding other in-licensing opportunities.

Sunesis announced collaborations with Merck, to discover novel oral drugs for the treatment of viral infections, and with Biogen Idec to discover and develop small molecule cancer therapeutics targeting kinases. In June 2004 the company started the first of two planned Phase I clinical studies of a cell cycle modulator that kills proliferating cancer cells by inducing programmed cell death.

In December 2003, Pfizer announced that it had entered into an agreement to acquire IBT portfolio company **Esperion**, for \$1.3bn and in May 2004 **Celltech** was acquired by UCB valuing the company at £1.5bn.

In June 2004 QLT and **Atrix Laboratories** signed an agreement for QLT to acquire Atrix for approximately \$855m. The new company will focus on ocular disease, oncology, dermatology and urology.

Investment Advisers Review continued

Galen Holdings changed its name to **Warner Chilcott PLC** in June 2004 to emphasise its exclusive focus on the U.S. market, following the disposal of the company's UK-based pharmaceuticals business.

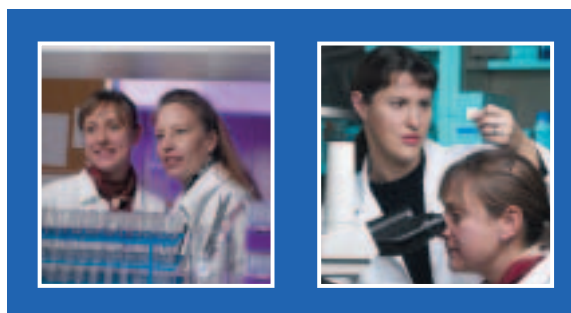
Affibody is an affinity ligand and biotherapy company that uses protein engineering technologies to create novel small, robust protein ligands (affibodies) that mimic antibodies. Recent data has confirmed that labelled affibodies can be used for medical imaging to visualise tumours in the diagnosis of cancer. Affibodies are also being investigated as potential therapeutics for cancer in preclinical models.

During the year under review the holding in **Axxima Pharmaceuticals** was written down by £0.9m to zero due to lack of progress in the company's programs. In June 2004 Axxima raised 10m Euro in an internal financing round, in which IBT did not participate.

The valuation of the holding in **Aderis** was written down by £0.7m to £2.1m in June 2004. Following the departure of the CEO earlier this year, the search for a replacement continues. Aderis is currently exploring strategic alternatives which may include one or more M&A transactions. The two members of SVLS who were on the Board of the company resigned in September 2004 in order to facilitate a more efficient M&A process. The company filed to go public in 2003 but later withdrew its registration statement due to prevailing market conditions and valuation. The company's programs continue to make progress and the company had more than a year of cash remaining at the end of August 2004. In June 2004, partner Schwarz Pharma, presented pivotal Phase III data on rotigotine, the Parkinson Patch, and expects to submit applications for market approval in the third quarter of 2004. A Phase III program for rotigotine in restless legs syndrome is scheduled to start in the spring of 2005. A pivotal Phase III trial with binodenoson for cardiac pharmacologic stress testing is underway with partner King Pharmaceuticals. Fujisawa has completed Phase II trials for the acute care use of selodenoson in atrial fibrillation, however, in light of a pending merger with Yamanouchi, Fujisawa has decided not to develop the intravenous form further and has returned all rights to Aderis.

In August 2004 the valuation of IBT's holding in **KuDOS** was reduced by £0.7m to £0.7m to reflect the current fund raising climate. Development timelines have slipped somewhat and the company has less than a year of cash remaining as at end August 2004 and needs to raise funds. KuDOS currently has two drugs in clinical trials: Patrin, which is being developed for the treatment of cancers resistant to alkylating agents, and AQ4N, which targets hypoxic regions of tumours. In 2003 Novacea licensed the North American rights to develop and commercialise AQ4N. Research continues on other DNA repair inhibitors, with a candidate for PARP inhibition in preclinical assessment.

During the year under review the valuation of the holding in **Micromet** was reduced by a total of £3.1m to £0.5m. This was a consequence of a continuing contract dispute arising in connection with a collaboration agreement for the development of the company's anti-cancer antibody MT201 and consequent shortfall in 2004 income. The company currently has less than a year of cash and the valuation reflects the current fundraising



climate. Phase II studies are ongoing with MT201 in prostate and breast cancer and proof of concept data is expected in 2005 although recruitment for these trials has been slow. A Phase I safety study for MT103 has restarted using a revised infusion protocol and preliminary data looks encouraging to date. The company hopes to determine the optimum dose in 2005 with clinical proof of concept in 2006.

In June 2004 **Inflazyme** announced that a Phase IIa asthma study had not met its primary endpoint. The company has restructured in a move to conserve cash and refocused on its complement inhibition and Prodaptin drug tethering technologies. In addition to seeking partnerships the company plans to continue to evaluate M&A and in-licensing opportunities to grow the pipeline.

Despite the approval and launch in the U.S. of **XOMA's RAPTIVA** for psoriasis, XOMA shares have performed poorly during the period under review. In August 2004 the company reported disappointing results from a Phase II acne trial, following the failure of RAPTIVA in a Phase II study in psoriatic arthritis.

In April 2004 **Aradigm** reported the interim analysis of the first Phase III of the company's pulmonary insulin product. The trial met its primary safety endpoints, however analysis showed delayed post-meal plasma glucose suppression in type 1 diabetics. In order to investigate this, partner Novo Nordisk announced plans to conduct a pharmacokinetic extension study with results expected in the first half of 2005. Novo has said that it is working closely with Aradigm to move the program forward and Aradigm is preparing to support the start of further Phase III trials in 2005.

Progenics is developing methylnaltrexone, which is in two pivotal Phase III trials for the treatment of opioid-induced constipation in patients with advanced medical illness. The company anticipates the completion of enrolment in the first of these trials during the fourth quarter of 2004 and in the second in mid-2005. This is a significant delay in comparison with the company's previous projections.

Other portfolio company news is covered in the outlook and investment activity sections.

PORTFOLIO SUMMARY AT 31 AUGUST 2004

IBT has investments in 36 companies – 25 quoted companies (representing 57% of NAV) and 11 unquoted companies (comprising 22% of NAV). The remaining 21% is made up of

Investment Advisers Review continued



cash, money market instruments and other net current assets (£11.9m) and has been boosted by proceeds from the sale of part of the Eyetech holding which raised £5.9m in the year under review.

Members of SVLS sat on the Boards of twelve portfolio companies at the end of the year under review – Aderis, Affibody, Archemix, CancerVax, Dynogen, Eyetech, Genosis, KuDOS, Micromet, PowderMed, Trine and Warner Chilcott. Since 31 August 2004 the two SVLS members on the board of Aderis have resigned.

In terms of the geographical split of the portfolio, at 31 August 2004, 63% of NAV was invested in the US, 5% in Canada, 5% in the UK/Ireland and 6% in Continental Europe. By sub-sector, 67% of NAV was invested in biopharmaceuticals, 4% in drug delivery, 3% in medical devices and 5% in other areas. The remaining 21% 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; nine companies have a product on the market, three have filed for regulatory approval, seven are in Phase III trials, six are in Phase II or Phase I/II, five are in Phase I and two are at a preclinical stage. Of the remaining four, one is a medical data management company, one has received regulatory approval for a diagnostic device and the other two are platform technology companies.

In terms of the cash positions of the portfolio companies, it is estimated that at 31 August 2004, seven have two or more years of cash remaining (23% of net assets less cash, money market instruments and other net current assets), nineteen have more than one but less than two years of cash remaining (59% of net assets less cash, money market instruments and other net current assets) and ten have less than a year of cash remaining (18% of net assets less cash, money market instruments and other net current assets).

The companies SVLS estimate as having less than a year of cash remaining at the end of the year under review are Aradigm, Atherogenics, Axxima, CancerVax, Encysive, Genosis, KuDOS, Micromet, PowderMed and XOMA. Subsequent to the period end Encysive has raised money. Within this group the unquoted companies are Axxima, Genosis, KuDOS, Micromet and PowderMed. Axxima has been written down to zero, only the first of three milestone-based tranches has been invested in PowderMed, and Genosis, Micromet and KuDOS are exploring fundraising options.

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, ophthalmology and management of the side effects of opioids for pain relief.

VALUATION

At 31 August 2004 IBT's unquoted portfolio (value £11.9m) represented 22% of net assets, down from 42% at the end of the previous financial year (value £22.7m).



As Auxilium, CancerVax and Eyetech have completed IPOs and are all quoted, the percentage of NAV in unquoted investments has been reduced. The total carrying value of these three investments was £6.0m at 31 August 2003. New investments totalling £1.0m were made in Archemix, PowderMed and Dynogen. Follow-on investments in Genosis and Micromet added £0.6m to unquoted investments during the reporting year.

During the year under review the net effect of the total change in the Directors' valuations of unquoted companies was a reduction in NAV for the year of £5.4m. This represents 10% of the net assets at the start of the reporting year.

The valuation of Micromet was written down by £3.1m in total during the year under review (carrying value at 31 August 2003 £3.7m and cost £3.2m). At 31 August 2004 the investment was valued at £0.5m. The valuation of Aderis was written down by £0.7m (carrying value at 31 August 2003 £3.2m and cost £3.5m). At 31 August 2004 the investment was valued at £2.1m. The valuation of KuDOS was written down by £0.7m (carrying value at 31 August 2003 £1.4m and cost £1.4m). At 31 August 2004 the investment was valued at £0.7m. The holding in Axxima was written down by £0.9m to zero (carrying value at 31 August 2003 £0.9m and cost £1.4m).

Currency movements decreased the valuation of the unquoted portfolio by £1.1m during the year under review.

At 31 August 2004 the holdings in Affibody, Archemix, Dynogen, Genosis, PowderMed and Sunesis were held at cost (total value £7.8m), the investments in Aderis, KuDOS, Micromet and Trine were written down from cost (total value £4.1m) and the holding in Axxima was held at zero. This equates to 66% of the unquoted portfolio held at cost and 34% written down (calculated by value). The unquoted portfolio is now valued at 52% of original cost (excluding the costs of ValiGen and Entigen which were written down to nil in previous years and including the initial costs of Trine and Axxima).

Of the 25 quoted investments, six were held at a discount to their mid market prices at 31 August 2004 due to disposal restrictions, including SVLS membership on the Board of the company and limited liquidity – Auxilium, CancerVax, Epimmune, Eyetech, LION Bioscience and Warner Chilcott. The discounts ranged in size between 10% and 25% and the effect of these discounts was to reduce the NAV by £3.2m at 31 August 2004.

Investment Advisers Review continued



INVESTMENT ACTIVITY

Unquoted Companies

In May 2004 IBT invested £0.1m out of a planned total investment of £0.5m in UK-based company **PowderMed**. The company was created through a spin-out of the powder injection DNA vaccines technology from Chiron and has acquired the rights to the PowderJect powder mediated epidermal delivery technology which it plans to use in the development of therapeutic DNA vaccines in the areas of chronic viral diseases and cancer. The company's clinical and preclinical programs target genital herpes, hepatitis B, genital warts, lung cancer and AIDS/HIV (partnered with GlaxoSmithKline). A member of SVLS is on the board of the company.

£0.3m has been invested in the US-based company, **Archemix**, out of a planned total investment of £0.9m. Following the period end a further £0.3m of the total has been invested (total investment £0.6m). A member of SVLS is on the board of the company. Archemix's mission is to develop aptamers as novel synthetic therapeutics that can be used in a wide range of disease areas. Archemix and partner, Nuvelo, have started a Phase I trial of an anti-thrombin aptamer that is being developed as an anticoagulant/anti-thrombotic for potential use in coronary artery bypass graft surgery.

£0.6m has been invested in the US-based company **Dynogen**, out of a planned total investment of £1.1m. Dynogen is a neuroscience-based company focused on genitourinary (GU) and gastrointestinal (GI) disorders including overactive bladder (OAB), irritable bowel syndrome (IBS) and sexual dysfunction. A member of SVLS is on the board of the company. The entry of the lead compound into Phase II trials has been delayed by manufacturing issues and is now expected to occur in late 2004. In the meantime, additional preclinical work has provided additional supportive data for the compound in OAB and related disorders. An IBS program is on track to enter Phase I clinical trials in Q3 2004 as planned.

As at 31 August 2004, IBT has committed to invest a further total of £1.4m in milestone based tranches in Archemix, Dynogen and PowderMed. This includes the £0.3m invested in Archemix following the end of the year under review. The commitments for Archemix and Dynogen are in dollars (total \$1.9m) so the future costs of these investments in sterling will vary with the exchange rate.

In November 2003, a further £0.1m was invested in **Auxilium** (total investment £0.8m) and the guarantee for a revolving line of credit was released. Accordingly, the contingent liability in the accounts has also been removed.

During the period under review two investments totalling £0.6m were made in the fertility diagnostics company **Genosis** (total investment £1.1m).

During the period under review IBT purchased some common shares from leaving members of **Micromet** management for £0.03m (total investment £3.2m).

There were no sales of unquoted companies during the year under review. The originally unquoted companies, **Auxilium**,

CancerVax and **Eyetech** have completed IPOs and subsequently a portion of the holding in Eyetech has been sold.

Quoted Companies

In July 2004 IBT invested £0.4m in the IPO of **Phase Forward**, a provider of integrated enterprise-level software products, services, and hosted solutions for use in clinical trials. The company had sales of \$62m in 2003 and has a base of over 220 customers, comprised of pharmaceutical, biotechnology, medical device and clinical research organisations, as well as academic institutions and other entities engaged in clinical trials. Another SVLS-advised fund has been an investor in Phase Forward since 1999 although SVLS no longer has a board seat on the company.

As discussed in the Interim Report, new investments have been made in **AtheroGenics** (total investment £0.5m) and **Kosan** (total investment £0.3m).

AtheroGenics' lead compound is being evaluated in a pivotal Phase III trial, as an oral therapy for the treatment of atherosclerosis. Data from this trial is not expected until 2005 although another trial investigating this compound is expected to report later this year along with data from a Phase II trial with an oral agent for the treatment of rheumatoid arthritis.

Phase II clinical trials with **Kosan's** lead epothilone are ongoing for the treatment of NSCLC and breast cancer. Kosan plans to start a Phase II trial in prostate cancer, while terminating a phase II trial in colorectal cancer due to unanticipated toxicities in patients who had been previously treated with oxaliplatin. Kosan's lead geldanamycin analog, has entered into a Phase II trial for the treatment of metastatic melanoma, and a proprietary formulation of the compound is in a Phase I trial for the treatment of multiple myeloma.

A further investment of £0.4m (total investment £1.7m), was made in **Alexion**. Enrolment has commenced in pivotal Phase III trials for patients undergoing coronary artery bypass graft surgery and for patients experiencing acute myocardial infarction. In addition, eculizumab has completed a pilot clinical trial for the treatment of paroxysmal nocturnal hemoglobinuria and the FDA has agreed to protocols for a pivotal Phase III program.

A further investment of £0.3m (total investment £0.6m) was made in **Inspire Pharmaceuticals**. In June 2004 Inspire announced the initiation of a Phase III trial of diquafosol for the treatment of dry eye following a meeting with the FDA to clarify requirements for approval which indicated that an additional clinical study was required. The company expects to report results and, if positive, submit an amendment to the NDA by mid-2005.

The holdings in **Celltech**, **Crucell**, **Esperion**, **Novuspharma**, **Sirna Therapeutics** and **Targeted Genetics** were sold in their entirety. Part of the holding in Eyetech was sold during the period under review, raising proceeds of £5.9m.

Schroders Ventures Life Sciences Advisers (UK) Limited
23 September 2004

Ten Largest Quoted Investments

at 31 August 2004



Investment	Carrying value £'000	% of Shareholders' Funds	Country	Business activity
1 Eyetech Pharmaceuticals	7,410	13.44	USA	Eyetech specialises in the development and commercialisation of novel therapeutics to treat diseases of the eye. The company's most advanced product candidate is Macugen, which is being developed for the treatment of the wet form of age-related macular degeneration and diabetic macular edema.
2 OSI Pharmaceuticals	3,727	6.76	USA	OSI Pharmaceuticals is focused on the discovery, development, and commercialisation of high-quality, next-generation oncology products that both extend life and improve the quality of life for cancer patients worldwide.
3 Encysive Pharmaceuticals	2,919	5.29	USA	Encysive is focused on the discovery, development and commercialisation of small molecules. Argatroban, Encysive's first FDA-approved product, is marketed by GlaxoSmithKline for heparin-induced thrombocytopenia.
4 AnorMED	1,995	3.62	Canada	AnorMED is a chemistry-based biopharmaceutical company focused on the discovery, development and commercialisation of new therapeutic products in the areas of haematology, HIV and oncology.
5 Atrix Laboratories	1,955	3.54	USA	Atrix Labs is an emerging speciality pharmaceutical company focused on advanced drug delivery. With sustained release and topical technologies, Atrix is developing a portfolio of proprietary products, including oncology and dermatology products.
6 Nektar Therapeutics	1,416	2.57	USA	Nektar's drug delivery capabilities are designed to enable the company's partners to solve drug development challenges, from development of new molecular entities to life cycle management of established products.
7 Alexion Pharmaceuticals	1,302	2.36	USA	Alexion is engaged in the discovery and development of therapeutic products aimed at treating patients with a wide array of severe disease states, including cardiovascular and autoimmune disorders, inflammation and cancer.
8 CancerVax	1,265	2.29	USA	CancerVax is 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 one of a new class of products being developed in the area of specific active immunotherapy.
9 Indevus Pharmaceuticals	1,031	1.87	USA	Indevus is engaged in the development and commercialisation of a portfolio of product candidates. SANCTURA, marketed in the US for overactive bladder, is the company's most advanced product.
10 Shire Pharmaceuticals	916	1.66	UK	Shire is a global specialty pharmaceutical company with a strategic focus on meeting the needs of the specialist physician focusing in the areas of central nervous system, gastrointestinal, and renal diseases.
Total	23,936	43.40		

Unquoted Investments

at 31 August 2004



Investment	Cost £'000	Carrying value £'000	% of Shareholders' Funds	Business activity and valuation basis
1 Affibody (Sweden)	2,687	2,960	5.37	The company is a leader in the field of combinatorial protein engineering and is using this 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 in medical imaging. The valuation basis is cost in local currency.
2 Sunesis Pharmaceuticals (USA)	3,312	2,779	5.04	Sunesis is a biopharmaceutical company focused on discovering and developing small molecule medicines for oncology and inflammatory disease. The company has established a pipeline using its proprietary fragment-based drug discovery engine, licensing a promising compound within its therapeutic areas of focus and forming partnerships for the development of certain Sunesis-discovered leads. The valuation basis is cost in local currency.
3 Aderis Pharmaceuticals (USA)	3,519	2,085	3.78	Aderis is engaged in small molecule drug development to treat central nervous system, cardiovascular and renal disorders. Aderis has a strategic alliance with Schwarz Pharma, for the development of rotigotine CDS, a proprietary dopamine agonist formulated transdermal patch, which has completed Phase III trials for Parkinson's disease. The valuation has been written down to our best estimate of fair market value.
4 Genosis (USA)	1,116	1,002	1.82	Genosis has received U.S. and European regulatory clearance for the sale of its diagnostic tests for screening male and female infertility. These are designed to be sold over the counter for couples trying to conceive or deferring conception and will provide couples with the opportunity to monitor their fertility and improve chances of successful conception. The valuation basis is cost in local currency.
5 Trine Pharmaceuticals (USA)	5,279	834	1.51	Trine is a drug development company that develops and commercialises pharmaceutical products in the areas of renal, gastrointestinal and metabolic diseases. Trine in-licenses development stage compounds with high potential as drug candidates. The valuation has been written down to our best estimate of fair market value.
6 KuDOS Pharmaceuticals (UK)	1,400	698	1.26	KuDOS is focused in the discovery and development of drugs based upon the science of DNA damage sensing, signalling and repair to address unmet medical needs in cancer treatment. The company develops small molecule drugs that selectively inhibit the repair process in cancer cells thus facilitating their destruction and improving cancer management. The valuation has been written down to our best estimate of fair market value.
7 Dynogen Pharmaceuticals (USA)	639	650	1.18	Dynogen is building a pipeline of drugs for genitourinary (GU) and gastrointestinal (GI) disorders. The company is utilising its knowledge of the nexus between neurology and GU/GI disorders, as well as its predictive in vitro and in vivo pharmacology platforms to build a pipeline of drug candidates. The valuation basis is cost in local currency.

Unquoted Investments continued

at 31 August 2004



Investment	Cost £'000	Carrying value £'000	% of Shareholders' Funds	Business activity and valuation basis
8 Micromet (Germany)	3,152	449	0.81	Micromet is building a pipeline of innovative drug candidates for the treatment of cancer, inflammation and autoimmune disease. The company has established a drug development platform based on its BiTE technology (Bispecific T cell engagers), a drug format that leverages the outstanding cytotoxic potential of T cells. The valuation has been written down to our best estimate of fair market value.
9 Archemix (USA)	308	313	0.57	Archemix is developing therapeutic products based on nucleic acid aptamers, novel synthetic oligonucleotides that retain 3D structure and specifically recognise and bind to various targets. Aptamers have potential therapeutic applications in a wide range of diseases. The valuation basis is cost in local currency.
10 PowderMed (UK)	144	144	0.26	PowderMed is focused on the development of therapeutic DNA vaccines and was created through a spin-out of the powder injection DNA Vaccines technology from Chiron Vaccines, a business unit of Chiron Corporation. The company has acquired the rights to the PowderJect powder mediated epidermal delivery technology which it plans to use, in the first instance, in the development of therapeutic DNA vaccines in the areas of chronic viral diseases and cancer. The valuation basis is cost.
11 Axxima Pharmaceuticals (Germany)	1,395	–	–	Axxima is a small molecule drug discovery company. It focuses on protein kinases as drug targets, based upon a core understanding of signal transduction pathways. The valuation has been written down to zero.
Total	22,951	11,914	21.60	

Directors' Report



ACCOUNTS

Your Directors present the financial statements of the Company and of the Group for the year ended 31 August 2004.

COMPANY'S BUSINESS

The Company carries on the business of an investment trust and, along with its subsidiary, 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 2003 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 either quoted or unquoted. 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 11.

REVENUE

The results for the year are shown in the Group Statement of Total Return on page 26. The Directors have not proposed the payment of a dividend (2003: nil).

SUBSTANTIAL SHAREHOLDINGS IN THE COMPANY

As at 8 October 2004, the Company had been notified of the following interests in excess of three per cent. of the issued capital:

	Ordinary shares	% of capital
AstraZeneca Limited	6,531,755	13.66
Deutsche Bank AG	5,784,000	12.09
Co-operative Insurance Society Limited	3,000,000	6.27
Prudential plc	2,995,024	6.26
Exeter Asset Management Limited	2,925,000	6.12
Axa Investment Managers UK Limited	1,955,000	4.09

DIRECTORS

The Directors during the year to 31 August 2004 and their beneficial and family interests in the Company's issued share capital as at 31 August 2004 are given below:

	At 31 August 2004	At 31 August 2003
Andrew Barker	115,000	95,000
Alan Clifton	10,000	10,000
David Clough *	–	–
Peter Collacott	6,183	6,183
Alex Hammond-Chambers	25,000	25,000
Ian Macgregor	10,000	10,000

* appointed on 25 February 2004.

Dr Clough acquired 5,000 shares on 4 October 2004.

There have been no other changes in the above holdings between the year end and 8 October 2004.

In accordance with the Articles of Association Dr Clough will seek election at the Annual General Meeting this being the first Annual General Meeting since his appointment during the year.

In accordance with the Articles of Association, Mr Barker and Mr Collacott will retire at the Annual General Meeting and, being eligible, offer themselves for re-election.

Mr Collacott who has served on the Board for more than nine years also retires in accordance with the Company's policy on tenure, as outlined in the Corporate Governance Statement.

Biographical details of all directors can be found on page 4.

The Board supports the election of Dr Clough, who provides specific knowledge and experience of biotechnology to the deliberations of the Board.

The Board also supports the re-election of Mr Barker and Mr Collacott, who continue to demonstrate commitment to their roles and also provide valuable contributions to the deliberations of the Board.

Mr Collacott has served as a Director for ten years and is assessed by the Board as continuing to be independent on the grounds that he has always been, and remains, independent in character and judgement.

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

Directors' Report continued



PURCHASE OF SHARES FOR CANCELLATION

At the Annual General Meeting held on 14 November 2003, 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 not exercised this authority and no shares were purchased for cancellation during the year ended 31 August 2004. The Directors wish to renew the authority to purchase shares for cancellation.

The Directors believe that it is in the best interests of the Company and its shareholders to have a general authority for the Company to buy back its ordinary shares in the market. The Directors intend to keep under review the potential to purchase ordinary shares. Purchases will only be made if the Directors consider that the purchase would be for the benefit of the Company and shareholders, taking into account relevant factors and circumstances at the time.

A resolution to authorise the Directors to purchase up to 14.99 per cent. of the share capital in issue on 8 October 2004 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 2005 unless renewed earlier.

ISSUES OF NEW SHARES

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

The Directors intend to use this authority to issue new shares whenever they believe it is advantageous both to new investors 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 on

8 October 2004), as if Section 89(1) of the Companies Act 1985 did not apply. This authority will only be used to issue shares at a premium to net asset value at the time of issue and will lapse unless renewed at the Company's Annual General Meeting in 2005.

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 2004.

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 Directors consider the continuing appointment of the Investment Manager and Adviser on the terms of the existing investment management agreement to be in the best interests of the Company and shareholders as a whole. The Investment Manager and Adviser provide the Company with considerable investment management resource, thereby enabling the Company to achieve its investment objective.

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 2004. 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 2004. 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

Directors' Report continued



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 where he completed his PhD (1977). His previous appointments include Cancer Research Section Head at Zeneca (now AstraZeneca) Pharmaceuticals (1993-1997).

Professor Dale Boger, PhD, spent 12 years as a Professor in Chemistry and Medicinal Chemistry at Purdue University and the University of Kansas and is currently working at the Scripps Research Institute. Professor Boger received his BSc in chemistry from the University of Kansas and PhD in chemistry from Harvard University. He returned to the University of Kansas as a member of the faculty and joined the faculty in the newly created Department of Chemistry at the Scripps Research Institute in 1990 as the Richard and Alice Cramer Professor of Chemistry. Professor Boger is internationally

recognised for his work in organic synthesis, heterocyclic chemistry, natural products total synthesis and biological evaluation, synthetic methodology development, medicinal and bio-organic chemistry and has made seminal contributions to the understanding of the DNA interactions of naturally occurring antitumour-antibiotics. Most notable are his development and application of the hetero Diels-Alder reaction to the syntheses of complex natural products, his development and applications of the cycloaddition reactions of cyclopropanone ketals, methodology based on the inter and intramolecular alkene addition reactions of acyl radicals, medium and large ring macrocyclisation technology and solution phase combinatorial chemistry methodology.

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.

The Auditor provides non-audit services to the Company, details of which are set out in note 3 on page 30. The Audit Committee has adopted a policy on the engagement of the Auditor to supply non-audit services. Terms of Reference for the Audit Committee may be found on page 23.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Friday 19 November 2004 at 12.00 noon. The Notice of Meeting is set out on pages 43 and 44.

By order of the Board
Schroder Investment Management Limited
Secretary

Registered office:
31 Gresham Street, London EC2V 7QA

Registered number 2892872
8 October 2004

Directors' Remuneration Report

for the year ended 31 August 2004



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. Mr Collacott receives an additional £1,500 per annum for services as Chairman of the Audit Committee. In addition, Directors receive attendance fees of £1,500 and the Chairman £2,000 for each Board Meeting.

In the year ended 31 August 2004, there were six Board Meetings, two Audit Committee Meetings, one Management Engagement Committee Meeting and numerous Valuation Committee Meetings.

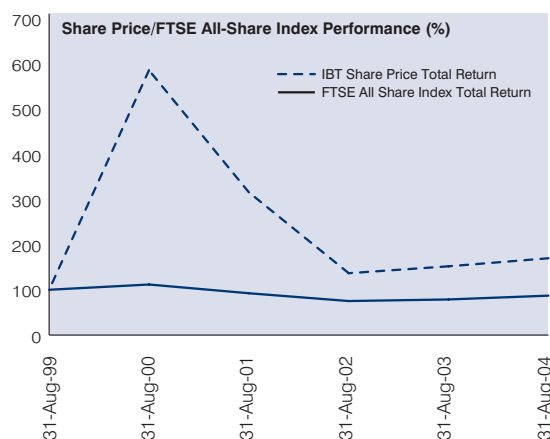
No element of the Directors' remuneration is performance related.

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.



Remuneration for Qualifying Services	For the year ended 31 August 2004	For the year ended 31 August 2003
	Fees for services to the Company £'000	Fees for services to the Company £'000
Andrew Barker (Chairman and highest paid Director)	32	30
Alan Clifton	21	20
David Clough ¹	11	–
Peter Collacott	22	17
Alex Hammond-Chambers	21	20
Ian Macgregor	20	19
Totals	<u>127</u>	<u>106</u>

¹ Appointed 25 February 2004. Fees have been pro-rated for the period of service.

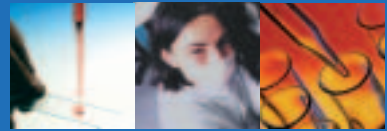
The information in the above table has been audited (see the Independent Auditors' Report on page 25).

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

8 October 2004

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 Group and of the total return for the Group 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 Group 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 and of the Group 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 of the Group and to prevent and detect fraud and other irregularities.

The Directors believe that they have complied with these responsibilities.

Corporate Governance



The Board of Directors has given careful consideration to how it governs the Company to make sure that it has the highest 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. This Statement, together with the Statement of Directors' Responsibilities on page 19, indicates how the Company has applied the principles of governance of the Combined Code published in 1998 (the "1998 Combined Code"), its requirements on Internal Control and other principles and procedures relevant to the particular circumstances of the Company and its business.

GOVERNANCE REVIEW

In July 2003, a revised Combined Code on Corporate Governance (the "Combined Code") was published by the Financial Reporting Council. The provisions of the revised Code will apply to the Company for the year ending 31 August 2005. In addition, the Association of Investment Trust Companies ("AITC") published a code of corporate governance for member companies, also in July 2003. Following the publication of these codes, the Board has reviewed all aspects of governance.

The Board considers that the Company has, throughout the year under review, complied with the best practice provisions in Section 1 of the 1998 Combined Code. In addition, the Board considers that the Company substantially complies with the provisions contained within Section 1 of the revised Combined Code. Importantly the Board also considers that it complies with the 21 principles of the AITC Code of Corporate Governance®.

APPLICATION OF CODE PRINCIPLES

ROLE OF THE BOARD

The Board determines and monitors the Company's investment objectives and policy, and considers the future strategic direction of the Company. Matters specifically reserved for decision by the Board have been reviewed and redefined during the year. A procedure has been adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company, where appropriate. The Directors have access to the advice and services of the corporate Company Secretary through its appointed representative, who is responsible to the Board, *inter alia*, for ensuring that Board procedures are followed, and that applicable rules and regulations are complied with.

COMPOSITION AND INDEPENDENCE

The Board currently consists of six non-executive Directors. Profiles of each of the Directors, including age and length of

service, may be found on page 4. The Board considers each of the Chairman, Alan Clifton, David Clough, Peter Collacott, Alex Hammond-Chambers and Ian Macgregor to be independent of both the Company's Investment Manager and the Adviser. The independence of each Director is considered regularly.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board, details of which may be found below.

SENIOR INDEPENDENT DIRECTOR

The Board has considered whether a senior independent director should be appointed. The Board comprises entirely non-executive directors and the appointment of a senior independent director is not considered necessary. A Director nominated by the Board led the evaluation of the performance of the Chairman; any of the non-executive Directors are available to shareholders if they have concerns which cannot be resolved through discussion with the Chairman.

TENURE

The Directors have adopted a policy on tenure that is considered appropriate for an investment trust.

All Directors have a letter of appointment with the Company. 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 Articles of Association. Thereafter Directors retire by rotation at least every three years. The Chairman meets with each Director before such Director is proposed for re-election, and, subject to the evaluation of performance carried out each year, the Board agrees whether it is appropriate for such Director to seek an additional term. When recommending whether an individual Director should seek re-election, the Board will take into account the on-going suggestions of the new Combined Code, including the need to refresh the Board and its committees.

The Board does not believe that length of service, by itself, necessarily compromises independence nor leads to too familiar a relationship with the Investment Manager or the Adviser. However, the independence of each Director is assessed on a case by case basis regularly.

In order to allow shareholders the opportunity to endorse this policy, any Director who has served for more than 9 years will thereafter be subject to annual re-election at the Annual General Meeting.

The Board does not believe that reaching the age of 70 should necessarily exclude a Director from continuing as a Director of the Company. The ages of all Directors are clearly stated in the

Corporate Governance continued



Annual Report and Accounts, and any Director who has reached the age of 70 will be subject to annual re-election at the Annual General Meeting.

INDUCTION AND TRAINING

When a Director is appointed he or she receives an induction, which is administered 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. Other advisers to the Company also prepare reports for the Board from time to time. In addition, Directors do attend ad hoc seminars, conferences, etc covering issues and developments relevant to both the investment trust and the biotechnology industries. As part of the process of keeping the Board abreast of developments in biotechnology, the Board has an away day annually, during which it meets with members of the Adviser and with management of some investee companies. It also meets with the Chairman of the Scientific Advisory Board from time to time.

PERFORMANCE EVALUATION

In order to make sure that the Board is being as effective as possible in carrying out its duties, it performs a formal annual evaluation of first of all its own conduct and performance and of its committees and secondly of each Director, considering the contribution each makes to the Board's overall performance. The first evaluation took place in May 2004 and the conclusions were considered at the subsequent Board meeting.

MEETINGS

The Board meets at least five times a year. Additional meetings are also arranged as required and regular contact between Directors, the Investment Manager/Adviser and the Company Secretary is maintained throughout the year. During the year ended 31 August 2004, Board meetings were attended wherever possible by all the Directors. Mr Macgregor was unable to attend one Board meeting due to illness. Representatives of the Investment Manager, of the Adviser and of the Company Secretary attended each meeting and other advisers also attended when requested to do so by the Board.

The Board is satisfied that each of the Chairman and the other non-executive Directors commit sufficient time to the affairs of the Company to fulfil their duties as Directors.

INFORMATION FLOWS

The Chairman ensures that all Directors receive in a timely manner all relevant management, regulatory and financial information. Representatives of the Investment Manager and Adviser attend each Board meeting enabling the Directors to

seek clarification on specific issues or to probe matters of concern. The Board receives and considers reports regularly from the Investment Manager and Adviser and other key advisers and ad hoc reports and information are supplied to the Board as required.

COMMITTEES

The Board has delegated certain responsibilities and functions to committees. Terms of Reference, as well as details of membership and activities, for all committees of the Board, are set out in the following pages. The Board keeps under review the composition of each of its committees to ensure that undue reliance is not placed on particular individuals.

DIRECTORS AND OFFICERS' LIABILITY INSURANCE

During the year, the Company has maintained insurance cover for its Directors and Officers, under a Directors and Officers' liability insurance policy, as permitted by Section 310 of the Companies Act 1985 (as amended).

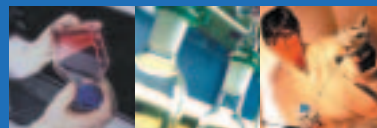
RELATIONS WITH SHAREHOLDERS

The Board believes that the maintenance of good relations with both institutional and retail shareholders is important for the long-term prospects of the Company. It seeks active engagement with investors. The Board receives feedback on the views of shareholders from its Corporate Broker and from the Investment Manager and the Adviser.

The Board believes that the Annual General Meeting, a meeting for all shareholders, is the key point in the year when the Board of Directors accounts to all shareholders for the performance of the Company. It therefore encourages all shareholders to attend. It is expected that, unless unusual circumstances prevail, all of the Directors will be present. The Annual General Meeting is usually attended by the Company's Auditor and the Corporate Broker and proceedings include a presentation by the Investment Adviser. There is an opportunity for individual shareholders to question the chairmen of the Board, Audit and Management Engagement Committees. Details of proxy votes received in respect of each resolution are made available to shareholders at the meeting.

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.

Corporate Governance continued



EXERCISE OF VOTING POWERS

The Board has delegated authority to the Investment Manager and Adviser to vote shares held by the Group.

IBT will vote at general meetings of UK companies in which IBT is invested, and this policy is also extended to all markets in which we invest outside the UK, whenever this is practical, although, in all situations the economic interests of IBT will be paramount.

ENVIRONMENTAL POLICY

The Company's primary investment objective is to achieve optimal financial returns for shareholders, within established risk parameters and regulatory constraints. Providing that this objective is not compromised in the process the Board do, however, believe that it is also possible to develop a framework that, in the interests of our shareholders, allows a broader range of considerations, including environmental and social issues, to be taken into account when selecting and retaining investments. Where potential financial or reputational risks are identified, their materiality is assessed and given due consideration when selecting or retaining investments.

ACCOUNTABILITY AND AUDIT

The Directors' statement of responsibilities in respect of the financial statements is on page 19 and a statement of going concern is set out below.

The report of the independent auditors can be found on page 25.

GOING CONCERN

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

INTERNAL CONTROL

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

The Board has approved a detailed risk map that identifies significant strategic, investment-related, operational and service provider risks and adopted an enhanced monitoring

system to ensure that risk management and all aspects of internal control are considered on a regular basis.

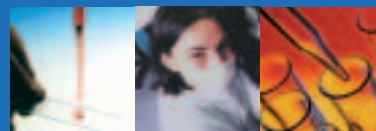
The Board has contractually delegated to third parties responsibility for the management of the investment portfolio, the arrangement of custodial services and the provision of accounting and company secretarial services. The Board believes that the key risks identified and the implementation of an on-going 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 Manager, the Adviser, the Company Secretary and other major service providers, and ensures regular communication of the results of monitoring by third parties to the Board, 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.

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 employs no 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 Audit Committee will review on an annual basis whether a function equivalent to an internal audit is needed.

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.

Board Committees



AUDIT COMMITTEE

The members of the Committee as at 31 August 2004 were:

Peter Collacott (Chairman)
 Andrew Barker
 Alan Clifton
 David Clough
 Alex Hammond-Chambers
 Ian Macgregor

The Board considers each member of the Committee to be independent. The Board also considers that members of the Committee have recent and relevant financial experience. Peter Collacott was appointed Chairman of the Committee in place of Andrew Barker during the year.

Terms of Reference

The Company established an Audit Committee in 2001. The role of the Audit Committee is to ensure that the Company maintains the highest standards of integrity in financial reporting and internal control.

The responsibilities of the Committee include the following:

Financial Statements

- (a) to monitor the integrity of the financial statements of the Company, and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them;
- (b) to review and, if appropriate, recommend to the Board, the Company's annual and interim reports;

Internal Control

- (c) to monitor and review annually whether an internal audit function is required;
- (d) to monitor the Company's accounting and financial internal control systems, and to monitor the internal control systems of the Investment Manager and/or custodian and to make recommendations on any improvements to such systems;
- (e) to monitor the Company's procedures for ensuring compliance with regulatory and financial reporting requirements and its relationship with the relevant regulatory authorities;

External audit and relationship with the external auditor

- (f) to discuss any matters arising from the audit and recommendations made by the auditors;
- (g) to make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- (h) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and

- (i) to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

Report on the Committee's Activities

The Committee meets on at least two occasions each year. The last meeting of the Committee was held on 21 September 2004. All Committee members attended that meeting and meetings during the year ended 31 August 2004.

A copy of the Terms of Reference of the Audit Committee is available on request from the Secretary of the Company.

MANAGEMENT ENGAGEMENT COMMITTEE

The members of the Committee as at 31 August 2004 were:

Andrew Barker (Chairman)
 Alan Clifton
 David Clough
 Peter Collacott
 Alex Hammond-Chambers
 Ian Macgregor

The Board considers each member of the Committee to be independent.

Terms of Reference

The Company established a Management Engagement Committee in 2001. The role of the Committee is to review the terms of the management contract with the Investment Manager and Adviser. In addition, the Committee also reviews Directors' fees and makes recommendations to the Board in this regard.

The responsibilities of the Committee include the following:

- (a) to review the performance of the Investment Manager and Adviser, including the performance of the Company Secretary;
- (b) to review the continuing suitability of the Investment Manager and Adviser to manage the Company's assets;
- (c) to review the terms of the management contract between the Company and the Investment Manager and Adviser to ensure that the terms are competitive, fair and reasonable for the shareholders; and
- (d) to review and make recommendations on any proposed amendment or material breach of the management contract.

Report on the Committee's Activities

The Committee meets at least once each year. The last meeting of the Committee was held on 21 September 2004. All Committee members attended that meeting and the meeting held during the year ended 31 August 2004.

A copy of the Terms of Reference of the Management Engagement Committee is available on request from the Secretary of the Company.

Board Committees continued



NOMINATION COMMITTEE

The members of the Committee as at 31 August 2004 were:

Andrew Barker (Chairman)
Alan Clifton
David Clough
Peter Collacott
Alex Hammond-Chambers
Ian Macgregor

The Board considers each member of the Committee to be independent.

Terms of Reference

The Company established a Nomination Committee in 2004. The role of the Committee is to consider and make recommendations to the Board on its composition and balance of skills and experience, and on individual appointments, to lead the process and make recommendations to the Board.

The responsibilities of the Committee include the following:

- (a) to evaluate the balance of skills, knowledge and experience of the Board of Directors and to prepare a description of the role and capabilities required for a particular appointment. In the case of the appointment of a Chairman, to prepare a job specification;
- (b) to select potential candidates to fill vacancies on the Board of Directors for recommendation to the Board;
- (c) to interview, or arrange for suitable Directors to interview, candidates for Directors;
- (d) to review periodically the terms of appointment of the non-executive Directors.

A formal procedure for the appointment of new Directors is contained in the Terms of Reference of the Committee.

Report on the Committee's Activities

The Committee was established in July 2004 and met on 21 September 2004 for the first time. All Committee members attended that meeting.

A copy of the Terms of Reference of the Nomination Committee is available on request from the Secretary of the Company.

VALUATION COMMITTEE

The members of the Committee as at 31 August 2004 were:

Andrew Barker (Chairman)
Alan Clifton
David Clough
Peter Collacott
Alex Hammond-Chambers
Ian Macgregor

Terms of Reference

The Company established a Valuation Committee in 2001. The role of the Valuation Committee is to ensure that the Company's investment portfolio valuations continue to accurately reflect their current market value, calculated in accordance with the Company's accounting policies.

The responsibilities of the Committee include the following:

- (a) to review the valuation of listed companies within the Company's investment portfolio which are subject to restrictions, in accordance with guidelines published by the British Venture Capital Association as amended from time to time; and
- (b) to review the valuations of the Company's portfolio of unlisted companies, and to ensure that individual valuations accurately reflect their current state and condition.

Report on the Committee's Activities

The Committee met on several occasions during the year ended 31 August 2004. This is an ad hoc Committee and attendance at each meeting during the year varied.

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. We have also audited the information in the directors' remuneration report that is described as having been audited.

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 19, 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 group is not disclosed.

We review whether the statement on pages 20 to 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 group'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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group'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 and the group as at 31 August 2004 and of the total return of the group 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
Chartered Accountants
Registered Auditor
London

8 October 2004

Group Statement of Total Return

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

	Notes	Group 2004 Revenue £'000	Group 2004 Capital £'000	Group 2004 Total £'000	Company 2003 Revenue £'000	Company 2003 Capital £'000	Company 2003 Total £'000
Gains on investments	6/15	–	2,641	2,641	–	7,613	7,613
Exchange (losses)/gains on currency balances	15	–	(226)	(226)	–	53	53
Income	2	204	–	204	112	–	112
Management fees		(788)	–	(788)	(638)	–	(638)
Administrative expenses	3	(608)	–	(608)	(488)	–	(488)
Net (deficit)/return before taxation		(1,192)	2,415	1,223	(1,014)	7,666	6,652
Tax on ordinary activities	4	–	–	–	–	–	–
Net (deficit)/return after taxation		(1,192)	2,415	1,223	(1,014)	7,666	6,652
Transfer (from)/to reserves	16	(1,192)	2,415	1,223	(1,014)	7,666	6,652
(Deficit)/return per ordinary share	5	(2.49)p	5.05p	2.56p	(2.09)p	15.82p	13.73p

The revenue column of this statement is the profit and loss account of the Group (Company for the year ended 31 August 2003).

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 Sheets

 at 31 August

	Notes	2004 Group £'000	2004 Company £'000	2003 Company £'000
Fixed assets				
Investments	1(b) & 6	43,242	42,211	49,911
Investment in subsidiary undertaking		–	–	–
Current assets				
Debtors	7	1,935	3,035	73
Investments	8	6,018	6,018	2,742
Cash at bank		4,337	4,337	1,615
		12,290	13,390	4,430
Creditors: amounts falling due within one year	9	(378)	(378)	(410)
Net current assets		11,912	13,012	4,020
Net assets		55,154	55,223	53,931
Capital and reserves				
Called up share capital	12	11,954	11,954	11,954
Capital redemption reserve	13	11,043	11,043	11,043
Share purchase reserve	14	66,467	66,467	66,467
Capital reserves	15	(24,097)	(24,028)	(26,512)
Revenue reserve	16	(10,213)	(10,213)	(9,021)
Equity shareholders' funds	17	55,154	55,223	53,931
Net asset value per share	18	115.35p	115.49p	112.79p

These financial statements were approved by the Board of Directors on 8 October 2004 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.

Group Cash Flow Statement

for the year ended 31 August

	Notes	For the year ended 31 August 2004 Group £'000	For the year ended 31 August 2003 Company £'000
Operating activities			
Income		25	56
Management fee paid		(785)	(617)
Other cash payments		(657)	(537)
Net cash outflow from operating activities	19	(1,417)	(1,098)
Returns on investments and servicing of finance			
Interest paid		-	-
Cash outflow from returns on investments and servicing of finance		-	-
Taxation			
UK income tax recovered		-	-
Tax recovered		-	-
Capital expenditure and financial investment			
Purchase of investments		(3,776)	(7,838)
Disposal of investments		11,241	8,994
Net cash inflow from capital expenditure and financial investment		7,465	1,156
Net cash inflow before management of liquid resources and financing		6,048	58
Management of liquid resources	20	(3,100)	(793)
Financing			
Repurchase of shares for cancellation		-	(615)
Net cash outflow from financing		-	(615)
Net cash inflow/(outflow)		2,948	(1,350)

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

	For the year ended 31 August 2004 Group £'000	For the year ended 31 August 2003 Company £'000
Net cash inflow/(outflow) in the year	2,948	(1,350)
Exchange (losses)/gains on currency balances	(226)	53
Change in net funds	2,722	(1,297)
Net funds brought forward	1,615	2,912
Net funds carried forward	4,337	1,615

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

Notes to the Financial Statements

1. ACCOUNTING POLICIES

(a) Group accounts and Basis of Accounting

The Group accounts consolidate the accounts of the Company and its wholly owned subsidiary undertaking, IBT (2004) Limited. The subsidiary was incorporated on 8 December 2003 and commenced operations during the year.

The Company holds its investment in the subsidiary at cost.

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 revised 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 Group's financial statements.

(b) Valuation of Investments

The valuation policies of the Group are consistent with the current guidelines issued by the British Venture Capital Association ("BVCA") and the Statement of Recommended Practice ("SORP") issued by the Association of Investment Trust Companies.

Quoted investments are held at mid-market price or last traded price according to the recognised conventions of the relevant market. If an investment is subject to restrictions affecting its disposal or liquidity constraints a discount of generally between 10% and 25% to that price will be applied.

Unquoted investments are included at 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 may 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. Realised and unrealised surplus and deficits on investments are included in capital reserve.

(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. 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 Group 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

2. INCOME

	For the year ended 31 August 2004 £'000	For the year ended 31 August 2003 £'000
Income from investments	200	96
Deposit interest	4	9
Other income	–	7
	204	112

3. ADMINISTRATIVE EXPENSES

	For the year ended 31 August 2004 £'000	For the year ended 31 August 2003 £'000
Secretarial fees	150	150
Directors' fees (see below)	127	106
Public relations	23	14
Irrecoverable VAT	37	52
Broker fee	25	–
Legal expenses	46	–
Auditors remuneration		
Group and Company: Statutory Audit	22	21
Further assurance services	9	9
Tax advisory services	11	4
Other expenses	158	132
	608	488

	For the year ended 31 August 2004 £'000	For the year ended 31 August 2003 £'000
Directors' fees		
Mr. Andrew Barker (Chairman)	32	30
Mr. Alan Clifton	21	20
Mr. Peter Collacott	22	17
Mr. Alex Hammond-Chambers	21	20
Mr. Ian Macgregor	20	19
Mr. David Clough (appointed 25 February 2004)	11	–
	127	106

Notes to the Financial Statements continued

4. TAXATION

The Group has no corporation tax liability in the year to 31 August 2004 (2003: nil).

(a) *Tax attributable to expenses charged to capital*

The Company has sufficient brought forward excess management expenses available to offset against any taxable group profits on the revenue account such that no relief is derived from capitalised expenses. For the year ended 31 August 2004, 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% (2003: nil).

The differences are explained below:

	For the year ended 31 August 2004			For the year ended 31 August 2003		
	Revenue Group £'000	Capital Group £'000	Total Group £'000	Revenue Company £'000	Capital Company £'000	Total Company £'000
Factors affecting tax charge for the year						
(Deficit)/return on ordinary activities before tax	(1,192)	2,415	1,223	(1,014)	7,666	6,652
Deficit on ordinary activities multiplied by the standard rate of UK corporation tax of 30% (2003: 30%)	(358)	725	367	(304)	2,300	1,996
Tax effects of:						
Capital returns on investments*	–	(793)	(793)	–	(2,284)	(2,284)
Exchange (gains)/losses*	–	68	68	–	(16)	(16)
Revenue expenses not utilised in the year	358	–	358	304	–	304
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 £7.8m (2003: £7.4m) arising as a result of having unutilised management expenses.

5. (DEFICIT)/RETURN PER SHARE

The calculations for the (deficit)/return per share are based on the following:

	2004 Revenue Group £'000	2004 Capital Group £'000	2004 Total Group £'000	2003 Revenue Company £'000	2003 Capital Company £'000	2003 Total Company £'000
Net (deficit)/return	(1,192)	2,415	1,223	(1,014)	7,666	6,652
Weighted average number of shares						
– Basic	47,815,467	47,815,467	47,815,467	48,466,152	48,466,152	48,466,152
(Deficit)/return per share	(2.49)p	5.05p	2.56p	(2.09)p	15.82p	13.73p

Notes to the Financial Statements continued

6. FIXED ASSET INVESTMENTS

	Group 2004 £'000	Company 2003 £'000
(a) Investments comprise:		
Quoted:		
– NASDAQ Exchange	26,940	19,992
– London Stock Exchange	2,024	2,687
– Toronto Stock Exchange	2,364	2,272
– Milan Stock Exchange	–	1,735
– Amsterdam Stock Exchange	–	536
Unquoted:		
– USA	7,662	13,743
– UK	843	1,400
– Germany	449	4,521
– Sweden	2,960	3,025
Valuation of investments at 31 August	43,242	49,911

Further details on the unquoted investments are given on pages 13 and 14 and in the Investment Advisers Review on pages 7 to 11.

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 2004 by £3.2m (31 August 2003: £0.9m).

	Group £'000	For the year ended 31 August 2004 Company* £'000
(b) Movements on investments:		
Cost at 31 August 2003	81,367	81,367
Unrealised depreciation at 31 August 2003	(31,456)	(31,456)
Valuation of investments at 31 August 2003	49,911	49,911
Purchases at cost	3,776	3,776
Transfer to subsidiary undertaking	–	(1,577)
Sales proceeds	(13,086)	(12,609)
Realised gains for the year	6,281	7,382
Unrealised losses for the year	(3,640)	(4,672)
Valuation of investments at 31 August 2004	43,242	42,211
Closing book cost	75,238	75,238
Closing unrealised loss	(31,996)	(33,027)
Closing valuation	43,242	42,211

* The subsidiary is held at a cost of 100 £1 ordinary shares, fully paid and held by the parent company.

Notes to the Financial Statements continued

6. FIXED ASSET INVESTMENTS continued

	For the year ended 31 August 2004	For the year ended 31 August 2003	
	Group £'000	Company £'000	Company £'000
(c) Gains on investments:			
Realised profits/(losses) based on historical cost	3,181	4,282	(12,887)
Amounts recognised as unrealised losses at the previous balance sheet date (note 15)	3,100	3,100	14,661
Realised gain based on carrying value at the previous balance sheet date	6,281	7,382	1,774
Net movement in unrealised losses	(3,640)	(4,672)	5,839
Gains on investments	2,641	2,710	7,613

(d) Subsidiary Undertaking

Company and Business	Country of registration, incorporation and operation	Number and class of shares held by the Group	Holding	Profit/(loss) after tax for the year ended 31 August 2004 £'000
IBT (2004) Limited	England	100 Ordinary shares of £1	100%	(69)

(e) Significant holdings

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

Company	Class of shares held	% of class held	Country of incorporation
Affibody	P4 Preferred	13.3	Sweden
Sunesis Pharmaceuticals	'C' Preferred	6.3	USA

7. DEBTORS

	Group 2004 £'000	Company 2004 £'000	Company 2003 £'000
Amounts due within one year:			
Prepayments and accrued income	90	90	73
Sales awaiting settlement	1,845	1,845	–
Amount due from subsidiary undertaking	–	1,100	–
	1,935	3,035	73

8. CURRENT ASSET INVESTMENTS

	Group 2004 £'000	Company 2004 £'000	Company 2003 £'000
Liberty International Money Fund	6,018	6,018	2,742
	6,018	6,018	2,742

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

Notes to the Financial Statements continued

9. CREDITORS

	Group 2004 £'000	Company 2004 £'000	Company 2003 £'000
Amounts falling due within one year:			
Creditors and accrued charges	378	378	410
	378	378	410

10. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Company is committed to further investments of £336,000 in PowderMed, US\$780,000 (£434,000) in Dynogen and US\$1,125,000 (£626,000) in Archemix, subject to fulfilment of certain conditions. Of this latter investment in Archemix \$563,000 (£312,000) was paid following the balance sheet date and prior to signing the accounts.

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 2004.

12. CALLED UP SHARE CAPITAL

	Ordinary shares of 25p each	Nominal value £'000
Authorised:		
Balance brought forward and carried forward	360,000,000	90,000
Allotted, called up and fully paid:		
Balance brought forward	47,815,467	11,954
Balance carried forward	47,815,467	11,954

13. CAPITAL REDEMPTION RESERVE

	Group 2004 £'000	Company 2004 £'000	Company 2003 £'000
Balance brought forward	11,043	11,043	10,843
Transfer from share capital account on repurchase of shares for cancellation	–	–	200
Balance carried forward	11,043	11,043	11,043

14. SHARE PURCHASE RESERVE

	Group 2004 £'000	Company 2004 £'000	Company 2003 £'000
Balance brought forward	66,467	66,467	67,083
Purchase of 800,000 ordinary shares for cancellation	–	–	(616)
Balance carried forward	66,467	66,467	66,467

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.

Notes to the Financial Statements continued

15. CAPITAL RESERVE

Group	Capital reserve realised £'000	Capital reserve unrealised £'000	Capital reserves total £'000
Balance brought forward	4,944	(31,456)	(26,512)
Transfer on disposal of investments	(3,100)	3,100	–
Gains on investments	6,281	(3,640)	2,641
Realised exchange profits on currency balances	(226)	–	(226)
Balance carried forward	7,899	(31,996)	(24,097)

Company	Capital reserve realised £'000	Capital reserve unrealised £'000	Capital reserves total £'000
Balance brought forward	4,944	(31,456)	(26,512)
Transfer on disposal of investments	(3,100)	3,100	–
Gains on investments	7,382	(4,672)	2,710
Realised exchange profits on currency balances	(226)	–	(226)
Balance carried forward	9,000	(33,028)	(24,028)

16. REVENUE RESERVE

	Group 2004 £'000	Company 2004 £'000	Company 2003 £'000
Balance brought forward	(9,021)	(9,021)	(8,007)
Net deficit for the year	(1,192)	(1,192)	(1,014)
Balance carried forward	(10,213)	(10,213)	(9,021)

As permitted by Section 230(4) of the Companies Act 1985, the Company has not presented its own revenue account. The net revenue deficit after taxation for the year of the Company, dealt within the accounts of the Group, was £1,192,000.

17. GROUP RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group 2004 £'000	Company 2004 £'000	Company 2003 £'000
Revenue deficit for the year	(1,192)	(1,192)	(1,014)
Capital return for the year	2,415	2,484	7,666
Repurchase of own shares for cancellation	–	–	(616)
Net movement in shareholders' funds	1,223	1,292	6,036
Shareholders' funds brought forward	53,931	53,931	47,895
Shareholders' funds carried forward	55,154	55,223	53,931

Notes to the Financial Statements continued

18. NET ASSET VALUE PER SHARE

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

	Group 2004 £'000	Company 2004 £'000	Company 2003 £'000
Net assets (£'000)	55,154	55,223	53,931
Number of shares ('000)	47,815	47,815	47,815
Basic Net Asset Value per share	115.35p	115.49p	112.79p

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

	Group 2004 £'000	Company 2003 £'000
Net revenue deficit before taxation	(1,192)	(1,014)
Decrease in prepayments and accrued income	4	10
(Increase) in other debtors	(198)	(85)
Decrease in creditors	(31)	(9)
	(1,417)	(1,098)

20. CASH FLOW MANAGEMENT OF LIQUID RESOURCES

	Group 2004 £'000	Company 2003 £'000
Net cash outflow on purchase of current asset investments:		
Liberty International Money Fund	(3,100)	(793)
	(3,100)	(793)

21. RELATED PARTY TRANSACTIONS

Details of the management fee arrangements are given in the Directors' Report on pages 15 to 17.

The total fees payable under this agreement to Schroder Investment Management Limited in respect of the year ended 31 August 2004 were £150,000 (2003: £150,000) of which £38,000 (2003: £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 2004 were £788,000 (2003: £638,000) of which £188,000 (2003: £184,000) was outstanding at the year end.

The Company also uses Schroder & Co Limited as its bankers. The total interest receivable in respect of the year to 31 August 2004 was £1,400 (2003: £4,000), and the balances held as at 31 August 2004 was £52,000 (2003: £37,000).

As investment adviser, SVLS will often take seats on the boards of companies in which International Biotechnology Trust plc 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.

Notes to the Financial Statements continued

22. RISK ANALYSIS

Financial Instruments

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

The Group'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 Group's net assets or a reduction of the total return.

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

Market price risk

The main risk arising from the Group'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 Group'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 Group are denominated in sterling. However, the majority of the Group's assets and total return are denominated in US\$, accordingly, the total return and capital value of the Group's investments can be significantly affected by movements in foreign exchange rates. It is not the Group's current policy to hedge against foreign currency risk. The geographical split of investments is detailed on page 39.

Counterparty risk

In undertaking purchases and sales, there is a risk that the counterparty will not deliver the investment or cash after the Group has fulfilled its responsibilities. During the year the Group 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 Group's financial structure with operations mainly financed through the share capital, share premium and retained reserves. The majority of the Group'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 Group'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 Group'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 Group 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 Group holds an investment in quoted securities, the Group may be restricted in its ability to trade that investment either

Notes to the Financial Statements continued

because the investment becomes subject to restrictions when the company concerned becomes publicly quoted or, at certain times, as a consequence of the Group being privy to confidential price sensitive information as a result of the Investment Adviser's active involvement in that company.

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 Group'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;
- 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.

	31 August 2004	31 August 2003
US dollars	1.79895	1.5818
Euros	1.48025	1.4407
Canadian dollars	2.37030	2.1941
Swedish kroner	13.51515	13.2253

24. MERRILL LYNCH SMALL CAP BIOTECH INDEX (MLSCI) (£ ADJUSTED)

The MLSCI represents stocks with market capitalisation of under US\$ 1 billion. The Merrill Lynch published report (BIO –STATS) as at 2 September 2004 states the movement in the index in US\$ terms, for the period under review, to be -3.2%. The movement in £ terms has been calculated using the prevailing exchange rates at the start and end of the reporting period, sourced from Factset and Bloomberg.

The data underlying the MLSCI changes regularly in line with changes in the Index constituents, prices adjustments and corporate actions. The historic data is then retrospectively adjusted. As a result the performance for the above period, if calculated at a future date is likely to be different from previously published number.

Classification of Investments by Sector at 31 August 2004

	Group £'000	% of total investments
Equities – USA		
Biopharmaceuticals	28,498	65.9
Drug delivery	1,900	4.4
Medical devices	1,424	3.3
Other	2,780	6.4
Equities – Canada		
Biopharmaceuticals	2,364	5.5
Equities – UK		
Biopharmaceuticals	2,867	6.6
Equities – Continental Europe		
Biopharmaceuticals	3,409	7.9
Total investments	43,242	100.0

Geographical Classification of Investments at 31 August 2004

	Group £'000	% of total investments
Equities – USA		
Quoted	26,940	62.3
Unquoted	7,662	17.7
Equities – Canada		
Quoted	2,364	5.5
Equities – UK		
Quoted	2,024	4.7
Unquoted	843	1.9
Equities – Continental Europe		
Quoted		
Unquoted	3,409	7.9
Total investments	43,242	100.0

Ten Largest Investments by Value at 31 August 2004

Company		Value of Holdings £'000	Percentage of Shareholders' Funds %
EyeTech Pharmaceuticals	Quoted	7,410	13.4
OSI Pharmaceuticals	Quoted	3,727	6.8
Affibody	Unquoted	2,960	5.4
Encysive Pharmaceuticals	Quoted	2,919	5.3
Sunesis Pharmaceuticals	Unquoted	2,779	5.0
Aderis Pharmaceuticals	Unquoted	2,085	3.8
AnorMED	Quoted	1,995	3.6
Atrix Laboratories	Quoted	1,955	3.5
Nektar Therapeutics	Quoted	1,416	2.6
Alexion Pharmaceuticals	Quoted	1,302	2.4
Total		28,548	51.8

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 at two yearly intervals. A resolution will therefore be proposed at the Annual General Meeting in 2005.

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 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 2004/2005 tax year, the annual capital gains (after adjusting for indexation and taper relief) of private individuals in excess of £8,200 (2003/2004: £7,900) 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, 9th Floor, 24 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 & 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 SVG Capital plc.

INDIVIDUAL SAVINGS ACCOUNT – SCHRODER MAXI ISA PLAN

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

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

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

REGISTRAR SERVICES

Communications with shareholders are mailed to the address held on the register. Any notifications and enquiries relating to registered share holdings, including a change of address or other amendment should be directed to Lloyds TSB Registrars Scotland, 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 postcode and will be able to view information on their own holding. Visit www.shareview.co.uk for more details.

Notice and Agenda

Notice is hereby given that the Annual General Meeting of International Biotechnology Trust plc will be held at 12 noon on Friday 19 November 2004 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 2004 be adopted.
2. That the Directors' Remuneration Report for the year ended 31 August 2004 be approved.
3. That Dr David Clough be elected as a Director of the Company.
4. That Mr Andrew Barker be re-elected as a Director of the Company.
5. That Mr Peter Collacott be re-elected as a Director of the Company.
6. That KPMG Audit Plc be re-appointed as Auditors of the Company.
7. That the Board be authorised to agree the Auditors' remuneration.
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 8 October 2004) 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 8 October 2004; 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;
 - (d) purchases may only be made pursuant to this authority if the Shares are (at the date of the proposed purchase) trading on the London Stock Exchange at a discount to the lower of the undiluted or diluted Net Asset Value;
 - (e) 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
 - (f) 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.

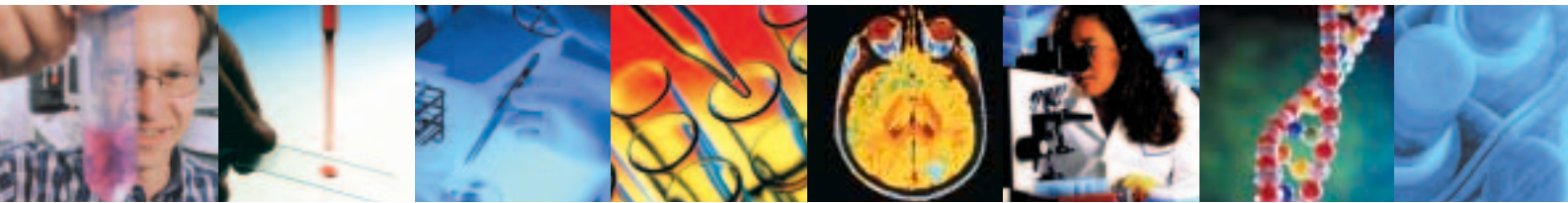
Registered Office:
31 Gresham Street
London EC2V 7QA
Registered Number: 2892872
15 October 2004

By order of the Board
Schroder Investment Management Limited
Secretary

Notice and Agenda continued

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 5 pm on 17 November 2004 shall be entitled to attend and vote at the meeting in respect of the number of Shares registered in their name at that time. Changes to the Register of Members after 5 pm on 17 November 2004 shall be disregarded in determining the right of any person to attend and vote at the meeting.
4. Profiles of each of the Directors offering themselves for election and re-election are on page 4 of this report.



For further information contact:
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