

# Finsbury Worldwide Pharmaceutical Trust PLC

## Annual Report

for the year ended 31 March 2007





# AT SOME POINT IN OUR LIVES, WE ALL NEED THE PRODUCTS OF PHARMACEUTICAL COMPANIES

## Who Are We?

**Finsbury Worldwide Pharmaceutical Trust PLC is a specialist investment trust focussing on the pharmaceutical and biotechnology sector**

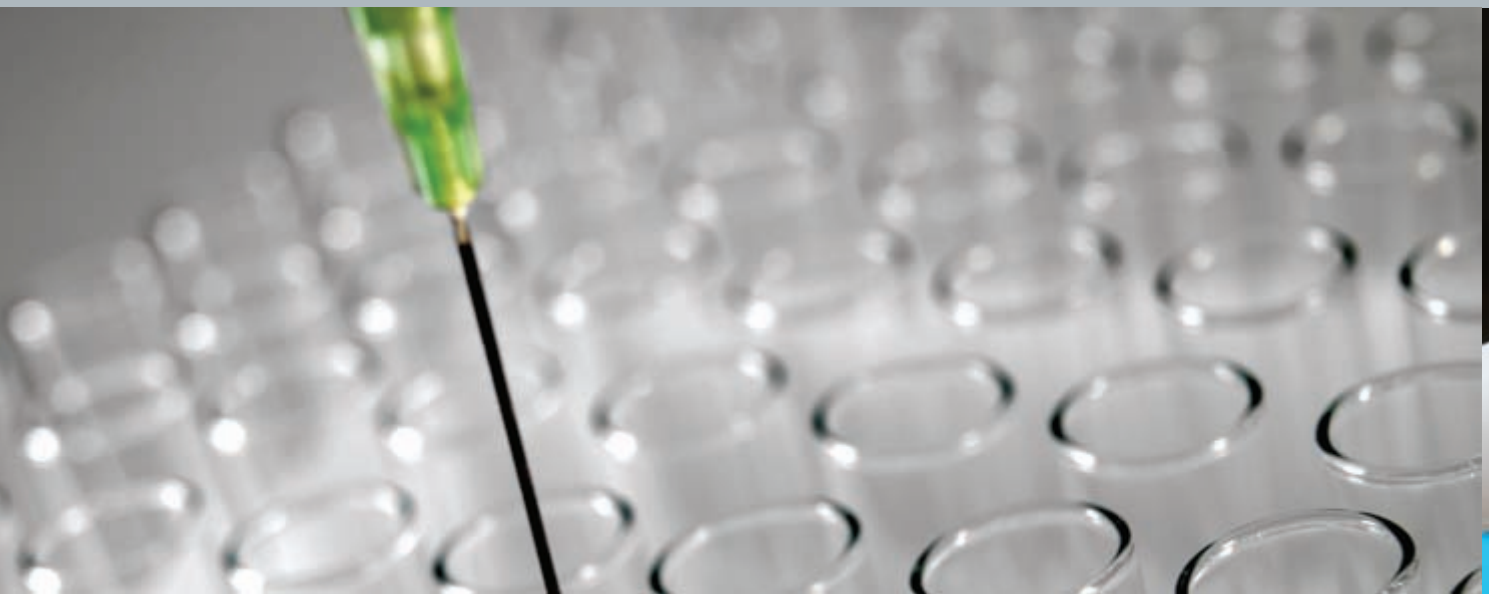
- Launched in 1995, the Company is one of the few UK investment trusts that invests exclusively in pharmaceutical and biotechnology companies on a global scale.
- The ultimate aim of the Company is to achieve a high level of capital growth for investors.
- Risk is reduced through extensive fundamental research, worldwide exposure, position limits and balanced market capitalisations.
- Performance is measured against the Datastream World Pharmaceutical and Biotechnology Index (total return, sterling adjusted).

## Why Choose Us?

- **Investment Expertise** - At launch, the Company engaged what it believed to be the best investment managers in their field in the world, OrbiMed Capital LLC. The portfolio is managed by a talented team of investment professionals who are true specialists – they research pharmaceutical, biotechnology and medical device stocks. The long term performance figures are a testament to their continuing expertise.

For their review of the Company for the year see pages 6 - 8. To learn more about OrbiMed and their investment strategy and process, please refer to the profile on page 5.

- **Performance** - The Investment Manager is committed to producing excellent long term performance. They seek the best investments on a worldwide basis. By having a blend of pharmaceutical and biotechnology stocks in the portfolio, the aim is to provide superior investment returns to shareholders.



## Why Invest in the Pharmaceutical Sector?

- The percentage of the developed world's population over the age of 65 is rapidly increasing\*

By 2025 the number of people aged 65 and over will have doubled, compared with an increase of only 6.0% for the under 15's.

- An ageing population means more demand on healthcare for new and better drugs\*\*

Over the past two decades healthcare expenditure has been increasing throughout the world, and this trend will continue to escalate. Healthcare accounts for in excess of 15.0% of U.S. GDP today, up from 5.9% in 1965.

- All over the world, new drugs and treatments are in development†

Within this decade the health sciences industry is expected to achieve startling breakthroughs in treatment for diseases such as cancer, heart disease, diabetes and Alzheimer's disease.

Source:

\*United Nations Population Division

\*\*US Department of Health & Human Services

†Orbimed Capital LLC

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**aic**

The Association of  
Investment Companies

The Company is a member of the Association of Investment Companies



## Accessing the Global Market

Pharmaceuticals is a worldwide industry. Accessing the global market as a UK investor can be difficult. Within the UK, there are diminishing options for investment as the universe of companies is shrinking through mergers and acquisitions. Finsbury Worldwide Pharmaceutical Trust PLC offers an opportunity to gain exposure to the pharmaceutical sector on a global scale, not just limited to the UK.

### Performance Summary

	31 March 2002	31 March 2003	*31 March 2004	*31 March 2005	31 March 2006	31 March 2007	% Change for the year ended 31 March 2007
Shareholders' funds	£219.1m	£143.5m	£189.1m	£226.4m	£334.8m	£273.6m	(18.3)
Net asset value per share – basic*	557.6p	365.3p	481.3p	414.7p	583.0p	520.9p	(10.7)
Net asset value per share – diluted <sup>†</sup> (dilution for warrants)	557.6p	365.3p	481.3p	414.7p	564.1p	511.2p	(9.4)
Share price	571.5p	330.5p	466.0p	430.0p	575.0p	477.8p	(16.9)
Premium/(discount) of share price to diluted Net Asset Value per Share	–	–	–	–	1.9%	(6.5%)	N/A
Premium/(discount) of share price to basic Net Asset Value per Share	2.4%	(9.5%)	(3.2%)	3.7%	(1.4%)	(8.3%)	N/A
Benchmark Index*	8,049.1	5,855.7	6,154.4	6,173.2	7,787.8	7,507.7	(3.6)
#Total Expense Ratio (including performance fees)	–	–	3.8%	0.8%	1.5%	1.3%	N/A
#Total Expense Ratio (excluding performance fees)	–	–	1.8%	1.5%	1.4%	1.3%	N/A

\*DataStream World Pharmaceutical and Biotechnology Index, total return, sterling adjusted

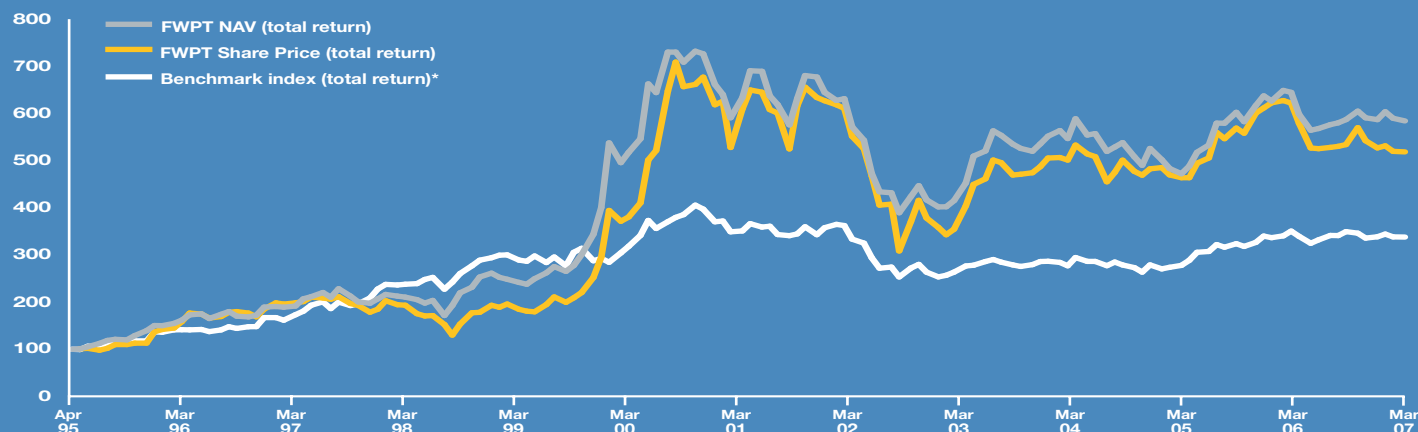
\*Restated for accounting policy change

\*Total return, including portfolio income

<sup>†</sup>There was no dilution in years prior to 2006, dilution for conversion of all outstanding warrants at the conversion price of 464p (see note 14)

\*Excludes indexation of the deferred fee paid to M and I Investors, Inc. on 24 January 2006

### Performance Since Launch



\*DataStream World Pharmaceutical and Biotechnology Index, total return, sterling adjusted.

Figures rebased to 100 at 28 April 1995.

Source: Fundamental Data and Thomson Financial Limited.

# Chairman's Statement

## REVIEW OF THE YEAR AND PERFORMANCE

The year under review has been a difficult one for the Company with the undiluted net asset value ("NAV") per share falling by 10.7% compared to a fall in the benchmark index of 3.6%. This underperformance of the benchmark is due, in part, to the decision taken to continue an overweight stance in the biotechnology sector relative to the larger pharmaceutical companies; a strategy that had helped returns in the previous year.

While merger and acquisition activity was strong, contributing some of the investment portfolio's largest gains, the weakness of the US dollar has continued to adversely affect performance. Indeed, during the Company's financial year it depreciated more than 13.0% against sterling, moving from 1.73 at the end of March 2006 to 1.96 at the end of March 2007. In order to hedge some of your exposure to the US dollar, the majority of borrowings are now made in US dollars. During the year the total amount of debt decreased from £49.5 million to £15.7 million or a decrease from 14.8% to 5.0% as a ratio.

## CAPITAL

The Company's share price fell by 16.9% during the year as the discount of share price to the undiluted NAV per share widened from 1.4% at the end of March 2006 to 8.3% at the end of March 2007. The Board has adopted a discount management policy whereby shares will be repurchased at prices representing a discount greater than 6.0% to the fully diluted net asset value per share, if there is demand in the market for it to do so. During the year a total of 5,078,100 shares were repurchased to be held as treasury shares at a total cost of £24,879,000 (including expenses); subsequent to the year end, on 3 April 2007, a further 114,000 shares were purchased to be held as treasury shares at a total cost of £548,000 (including expenses). This last purchase took us to the maximum amount of shares that can be held in treasury which meant that any further shares repurchased would have to be cancelled. Subsequent to the year end, to 7 June 2007, a total of 834,000 shares have been repurchased and cancelled at a cost of £4,165,000 (including expenses). The total number of shares repurchased was done so at an average discount of

6.9%. The Board intends that shares held in treasury should be reissued by the Company at prices which represent a discount to the prevailing diluted net asset value per share, provided that the discount is (i) lower than that at which the shares were repurchased by the Company; and (ii) not more than 5.0% in absolute terms. The Board believes that demand for the Company's shares will be stimulated through good investment performance during the remainder of 2007. The Board has agreed that any treasury shares remaining on 31 January 2008 will be cancelled. Shareholder approval to renew this authority will be sought at the Annual General Meeting.

150,000 new shares were issued on 19 April 2006 at a 2.4% premium and at the regular warrant exercise date of 31 July a total of 32,731 warrants were exercised raising a further £151,000. The share price at 31 March 2007 of 477.8p remains in excess of the exercise price of 464.0p. The final opportunity to exercise the warrants is on 31 July 2009.

## DERIVATIVES

At the Annual General Meeting held last year a resolution was passed to amend the Company's investment objectives to allow exposure to derivative investments up to 5.0% of overall assets. I am pleased to report that this strategy contributed £4.3m to returns during the year and has contributed over £5m since its inception in January 2006.

## REVENUE AND DIVIDENDS

The revenue return for the year was £1.9 million (2006: £1.4 million) and the Company is paying an interim dividend of 3.0p per share (2006: final dividend of 1.7p). The total expense ratio (excluding performance and deferred fees) was 1.3% (31 March 2006: 1.4%).

The dividend will be payable on 18 July 2007 to equity shareholders on the register of members on 15 June 2007. The shares will go ex-dividend on 13 June 2007.

## MANAGER AND COMPANY SECRETARY

In November 2006, following a programme of reorganisation within the asset management division of Close Brothers Group, Close Investments Limited ("CIL")

became the Company's Manager and Company Secretary, on the same terms as Close Finsbury Asset Management Limited, from whom the contract was novated. Following a review of these arrangements by the Board, however, the Company entered into a new agreement with Frostrow Capital LLP ("Frostrow") on 10 April 2007. Frostrow is a new firm established by former employees of CIL to provide specialist management, administration, company secretarial and marketing services to investment companies and is authorised and regulated in the UK by the Financial Services Authority. The Board is satisfied that, given the continuity of the individuals providing these services to the Company, a continued high level of service will be provided. Under the terms of this new agreement the Board estimates that the Company will save in excess of £500,000 per annum. Further details of the new arrangements can be found in the Report of the Directors on page 17. OrbiMed Capital LLC's partners have a minority financial interest of 20% in Frostrow.

The Company has also entered into a new investment management agreement with OrbiMed Capital LLC under which they will continue to provide discretionary investment management services to the Company under the same terms as before.

#### **COMPOSITION OF THE BOARD**

During the year the Board decided to begin a process of refreshment. Several members have been on the Board since its formation in 1995 and whilst there is no obligation to retire members on length of service done, it seemed appropriate to consider the best way forward. The result of this process and reflective of all aspects of the requirements of the Board, it was mutually decided that I should step down from the Board at the Annual General Meeting in 2008 to make way for a new Chairman for the period to the continuation vote in 2009. In addition James Noble has decided not to put himself forward for re-election at this year's Annual General Meeting. We have all benefited from his stimulating contribution at Board meetings and his presence will be missed.

#### **INVESTMENT MANAGEMENT FEES AND FINANCE COSTS**

The Board has given consideration to the allocation between capital and revenue of the Company's investment management fees and finance costs. Prior to 1 April 2006, 100% of these costs were allocated to capital. With effect from the beginning of the financial year ended 31 March 2007, it has been agreed that 5% should be charged to revenue and 95% to capital. This treatment is in line with the Board's expectation of returns from the Company's investments over the long term in the form of revenue and capital.

#### **OUTLOOK**

The longer term outlook for the pharmaceutical industry remains excellent, however the shorter term has been clouded by the uncertainties surrounding various newer drugs and the ongoing weakness of the dollar. We have shifted most our debt into dollars but we remain in a predominantly dollar industry and the results will reflect the level of that currency. The belief we have is that the major companies are short of products for their pipelines and will continue to bid enthusiastically for smaller companies with relevant drugs. This has been evidenced by the recent bid for MedImmune by AstraZeneca and the Company has benefited considerably through this. We expect more activity of this nature in 2007/08 and the investment portfolio is positioned to benefit from this.

#### **ANNUAL GENERAL MEETING**

The Annual General Meeting of the Company will be held at the Armourers' Hall, 81 Coleman Street, London EC2R 5BJ on Monday, 9 July from 12 noon. I hope as many shareholders as possible will attend. This will provide an opportunity to hear from Mr Samuel D Isaly of OrbiMed, the Company's Investment Manager, on the year under review, recent developments in the pharmaceutical sector and the prospects for the future.

#### **Ian Ivory**

Chairman

11 June 2007



**Ian Ivory, Chairman**

# Your Board

The Board of Directors, all of whom are non-executive, supervise the management of Finsbury Worldwide Pharmaceutical Trust PLC and look after the interests of shareholders.

## **Ian Ivory\*** - (Chairman)

Ian Ivory, aged 63, joined the Board at launch in 1995. As well as being Chairman of the Company Ian also chairs the Nominations and Remuneration Committees. A Chartered Accountant, Ian is self-employed and is a Director of Hardy Underwriting PLC and was previously a Director of Ivory & Sime and Stewart Ivory. Ian is not employed by and does not have any other connections with the Manager or Investment Manager and does not have any shared directorships or employment with any of the companies in which the Company holds an investment.

## **Josephine Dixon\*\***

Josephine ('Jo') Dixon, aged 47, joined the Board in 2004 as Director and Chairman of the Audit Committee. Jo is self-employed and is also a non-executive director of Baring Emerging Europe PLC. Until 2003 Jo held a number of senior executive positions including that of Finance Director for Newcastle United Plc. Jo is also a member of Durham University Business School Advisory Board. Jo is not employed by and does not have any other connections with the Manager or Investment Manager and does not have any shared directorships or employment with any of the companies in which the Company holds an investment.

## **Professor Duncan Geddes\*\***

Professor Geddes, aged 65, joined the Board at launch in 1995 and has been designated as the Senior Independent Director. He is self-employed and is a Consultant physician in respiratory medicine at the Royal Brompton and National Heart Hospital. He is the author of numerous publications on respiratory medicine. Professor Geddes is not employed by and does not have any other connections with the Manager or Investment Manager and does not have any shared directorships or employment with any of the companies in which the Company holds an investment.

## **Paul Gaunt**

Paul Gaunt, aged 58, joined the Board at launch in 1995. Paul is self-employed and has over 30 years' experience in the investment industry. Paul was formerly Senior Investment Manager and an Assistant General Manager of the Equitable Life Assurance Society and a Director of Brit Insurance Holdings PLC and Oasis Healthcare PLC. Paul is a Director of Finsbury Emerging Biotechnology Trust PLC whose investment portfolio is managed by the investment manager to the Company, and RCM Technology Trust PLC (formerly known as Finsbury Technology Trust PLC). Paul is not employed by and does not have any other connections with the Manager or Investment Manager and is not employed by any of the companies in which the Company holds an investment.

\* Member of the Audit, Nominations and Remuneration Committees

~ Chairman of the Nominations and Remuneration Committees

# Chairman of the Audit Committee

\* Senior Independent Director



Clockwise from top left:  
Josephine Dixon  
Professor Duncan Geddes  
Paul Gaunt  
Anthony Townsend  
James Noble  
Samuel D Isaly

### Samuel D Isaly

Sam Isaly, aged 62, joined the Board at launch in 1995. Sam is employed as Managing Partner of OrbiMed Capital, LLC and has been a worldwide pharmaceutical investment specialist for more than 20 years having worked in New York and Europe with Chase Manhattan, Société Générale, Crédit Suisse and SG Warburg. Sam is not employed by any of the companies in which the Company holds an investment. OrbiMed Capital LLC also acts as the Investment Manager to Finsbury Emerging Biotechnology Trust PLC, which is also managed by Frostrow Capital LLP. Sam, and his fellow partners at OrbiMed Capital LLC, have a minority financial interest of 20% in Frostrow Capital.

### James Noble\*

James Noble, aged 48, joined the Board in 2004. James is a Chartered Accountant and was formerly employed as CEO to Avidex Limited. James has extensive financial experience as director of Kleinwort Benson Limited (during 1990) since when he has been involved with the bio-pharmaceutical industry with both executive and non-executive board level experience including directorships of British Biotech (1990-1997), Oxford Glycosciences and Powderject Pharmaceuticals. James is also a director of Albany Capital plc, Curagen Corporation, MediGene AG and GW Pharmaceuticals plc. James is not employed by and does not have any other connections with the Manager or Investment Manager and does not have any shared directorships or employment with any of the companies in which the Company holds an investment.

### Anthony Townsend

Anthony Townsend, aged 59, joined the Board at launch in 1995. Anthony has spent over 35 years working in the City and was Chairman of The Association of Investment Trust Companies from 2001 to 2003. Anthony is Chairman of iimia Investment Trust plc and British & American Investment Trust PLC. He is a Director of Brit Insurance Holdings PLC, F&C Global Smaller Companies PLC, RCM Technology Trust PLC (formerly known as Finsbury Technology Trust PLC) and Finsbury Growth & Income Trust PLC. He is also a director of Finsbury Emerging Biotechnology Trust PLC whose investment portfolio is managed by the investment manager to the Company.

\* Member of the Audit, Nominations and Remuneration Committees

~ Chairman of the Nominations and Remuneration Committees

# Chairman of the Audit Committee

\* Senior Independent Director

Finsbury Worldwide Pharmaceutical Trust PLC outsources the management of its investment portfolio to OrbiMed Capital LLC, a New York based boutique company which specialises exclusively in the management of assets in the global health sciences industry. Personal investment, through company ownership, means that the team are committed to producing excellent performance.

## A Special Relationship

OrbiMed has managed the investment portfolio since the Company's launch in 1995, and the many awards won by the Company over the years are a testament to the strength and talent harnessed by the OrbiMed team.

It is a rather unusual firm, because of its specialised nature and the fact that it is an independent company.

OrbiMed had over U.S. \$6 billion in assets under management as at 31 March 2007, across a family of private equity funds, hedge funds and other investment vehicles. OrbiMed's investment advisory activities were founded in 1989 by Samuel D Isaly with a vision to invest across the industry spectrum on a global basis: from small privately-held drug discovery and medical device companies to large publicly-traded global pharmaceutical companies.

## OrbiMed Capital LLC – Investment Manager

### THE TEAM

OrbiMed's investment team, headed up by Samuel D Isaly, includes over 25 experienced professionals with expertise in science, medicine, finance and law, many of whom have advanced degrees and broad experience in science and medicine. Collectively, the team currently serves on the boards of over 20 biotechnology and healthcare companies.

With a coverage universe of over 750 public companies, OrbiMed's professionals maintain an exceptional level of research intensity. The team has a demonstrated record of investing successfully across market cycles in both public and private companies.

### INVESTMENT STRATEGY AND PROCESS

'Bottom-up' fundamental research provides the investment thesis for all positions. In addition to meeting frequently with industry executives and healthcare practitioners, OrbiMed attends many major medical conferences worldwide. Portfolio positions are discussed and selected during daily portfolio management meetings. OrbiMed invests with a worldwide perspective, selecting ideas across all major geographical markets.

OrbiMed emphasises investments in companies with under-appreciated products in the pipeline, quality management teams, and adequate financial resources.

A disciplined portfolio construction process is utilised to ensure that the portfolio is focused on 30 to 40 'high conviction' positions.

Finally, the portfolio is subject to a rigorous risk management process to moderate portfolio volatility.



# Review of Investments



Samuel D Isaly

We present with pleasure our twelfth Review of Investments for Finsbury Worldwide Pharmaceutical Trust PLC, which was launched in April 1995.

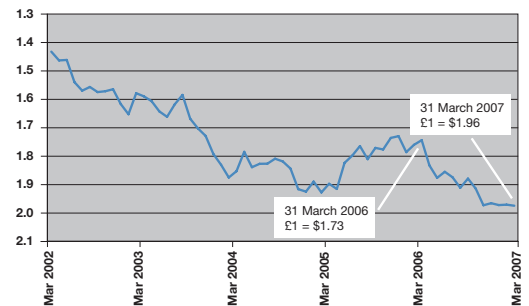
## PERFORMANCE REVIEW

The year began on a difficult note with the Company's net asset value ('NAV') falling nearly 12% in the first fiscal quarter. Over the balance of the year, however, performance improved and the Company's NAV ended the year with a fall of 10.7%. This compares with a fall of 3.6% in the benchmark, the DataStream World Pharmaceutical and Biotechnology Index. This disappointing performance relative to the benchmark largely results from our decision to overweight the biotechnology sector relative to traditional "big pharma" companies. This strategy contributed significantly to the Trust's near 41% gain in the Company's NAV last year but unfortunately detracted from returns in the year under review.

There was a high level of merger and acquisition ("M&A") activity during the year and some of our largest portfolio gains came from biotechnology companies which were acquired, including **ICOS**, **Serono** and **AnorMed**. Our Japanese holdings also generally performed well, led by **Chugai**. Our biggest losses were incurred in the larger capitalisation biotechnology companies such as **Amgen**, **Genentech** and **Genzyme**. These holdings gave back some of the spectacular gains recorded in previous years despite the fact that their earnings growth has been very strong and their valuations are modest by most measures. Our options strategy contributed £4.3 million in gains during the year. Since inception in January 2006, this strategy has contributed over £5 million in gains.

Currency movements continue to take a toll on performance as the dollar declined approximately 13% against sterling during the year. The declining dollar has held back the U.S. component of the portfolio, which averaged approximately 75% of the Company's assets during the year. Thus, the NAV performance impact from the dollar's decline during the year was nearly 10%.

## WEAK DOLLAR IMPACTS RETURNS

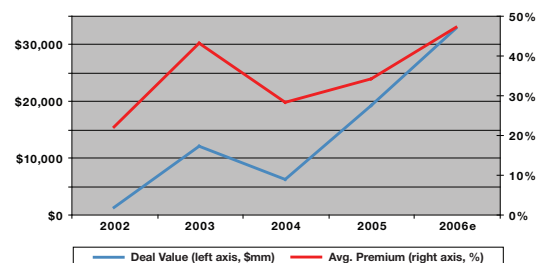


Source: Bloomberg

## THE MERGERS AND ACQUISITIONS PARADE

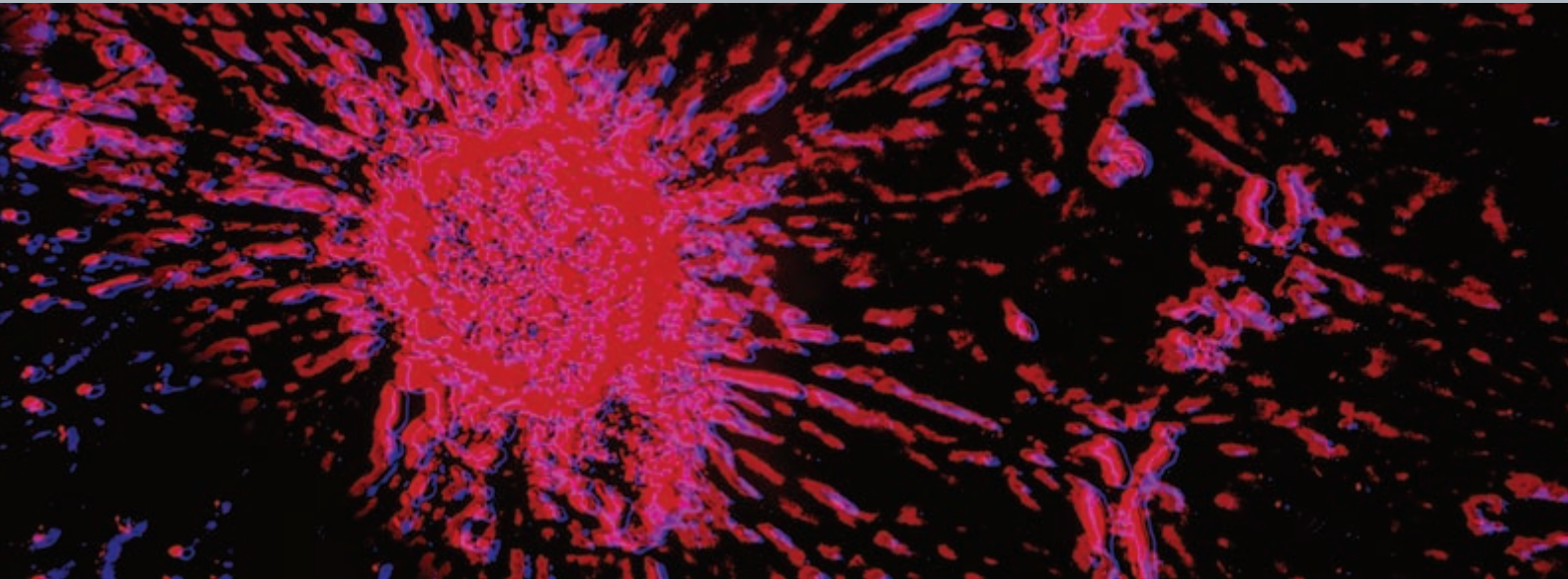
M&A activity was a defining theme during the year as over a dozen substantial acquisitions were announced. The level of deal activity set or approached record levels by a number of methods of measurement, including value of deals and average acquisition premiums paid, as shown below. This trend has been fuelled not only by hungry pharmaceutical companies desperate to fill thin pipelines in advance of patent expirations, but also by fast growing cash-rich major biotech companies seeking to supplement their own pipeline projects.

## RECORD LEVELS OF DEAL ACTIVITY



Sources: SDC, SEC filings, Press Releases, FactSet, Bloomberg

We expect this high level of M&A activity to continue as a result of the continuation of trends from last year, namely: large drug companies are seeking to fill "pipeline holes" and offset revenue losses from patent expirations, product licensing deals continue to become more expensive, biotech management teams are growing increasingly realistic about the merits of



Microscopic Cancer Cells

selling out to maximise shareholder value, and strong balance sheets of potential acquirers boost management's ability to fund M&A. We are in direct contact with many of the business development teams at major drug companies, most of which have large appetites for additional acquisitions. In fact 2007 has already begun strongly in this respect as three significant acquisitions were announced in April (**MedImmune**, BioVeris and Biosite). Deal premiums for all three companies exceeded 50%. MedImmune was a substantial holding for the Company and has helped it off to a solid start to the year, up over 5% in sterling terms for the month of April despite a continuing slide in the dollar.

#### U.S. CONTINUES AS THE MAJOR GLOBAL CONSUMER OF DRUGS....

The worldwide market for prescription drugs grew by 7% to \$643 billion in 2006. The U.S. share grew by 8% to \$274 billion, and thus represents nearly 50% of the total world market. The major European markets grew less than 4% to \$123 billion. Two bright spots for the global drug markets were biotechnology products (which grew 18% to \$65 billion) and emerging markets countries (which grew 12% to over \$83 billion).

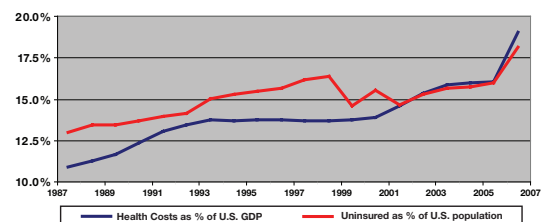
Growth in U.S. drugs sales was supported by a positive "pharma-political" environment. The Medicare prescription drug benefit, which was launched in 2006, provided an important expansion in drug usage in the U.S., accounting for approximately 15% of U.S. growth last year. Additionally many expect the new head of the U.S. Food and Drug Agency ("FDA"), Andrew von Eschenbach, to invigorate the FDA's drug approval process given his background and credentials; he was previously head of the National Cancer Institute ("NCI") and Chief Academic Officer at the M.D. Anderson Cancer Center. During his tenure at NCI he established the audacious goal of eliminating suffering and death due to cancer by 2015. We are optimistic that he will bring a similar level of inspiration and leadership to his work at FDA.

#### ...BUT CHANGE COULD BE IN THE CARDS FOR U.S. HEALTHCARE

However, change may be likely for the U.S. healthcare system in 2009 and beyond. The convergence of

several factors have increased the likelihood of the enactment of a universal or nearly-universal healthcare system, although this outcome is still far from certain. These factors include a growing number of individual States that are moving in this direction already, the growing number of uninsured (47 million at last count), the fact that the U.S. Government already funds nearly 50% (and rising) of healthcare expenditures, an erosion in the number of employers that offer healthcare insurance (currently 60% down from 70% in 2000), a growing public opinion in support of national healthcare as measured by various surveys, and the mounting fiscal crisis from Medicare as healthcare expenditures grow from the current 16% towards a staggering 20% of U.S. GDP over the coming decade. By comparison the U.K. spends less than 9% of its GDP on healthcare.

#### RISING LEVELS OF UNINSURED IN THE U.S. DESPITE INCREASING HEALTHCARE COSTS: REACHING THE "TIPPING POINT" FOR UNIVERSAL COVERAGE?



Sources: CMS, U.S. Census Bureau, Goldman Sachs

Fortunately for investors, the recent reform proposals seek to fill the gaps in the cover provided through a combination of improving existing employer and government-provided cover, reforming the insurance market and providing subsidies to individuals to buy cover. These proposals offer a less Orwellian vision than the reforms contemplated by the 1994 Clinton initiative, which ultimately failed to win support after a public backlash.

#### SIGNS OF LIFE IN BIG PHARMA?

After a relatively quiet period for the "big pharma" companies, share price performance has improved somewhat recently. Several new product launches

# Review of Investments (continued)

helped to bolster the pharma group's growth prospects during the year, including Zimulti (an innovative drug for obesity), Chantix (a novel product for smoking cessation) and Januvia (a new therapy for diabetes). More details about these products can be found in our Innovation at Work section on page 11.

In 2007, we expect even more new product momentum from the pharma group. Historically, new product cycles are consistent with positive share price performance. **Wyeth** may lead the pack, with as many as six potential new product launches ranging from oncology to mental health to osteoporosis. **Novartis**, the Swiss pharma giant, is also poised to launch a plethora of new products in 2007 in the areas of hypertension, oncology, pain, and potentially diabetes.

## LOOKING AHEAD TO 2007

A number of factors have contributed to make us very optimistic about the prospects for improved share price returns in 2007: a high level of M&A activity coupled

with high deal premiums paid by acquirers, low valuations by historical standards, continuing strong growth for global demand of healthcare therapies, and a reinvigorated FDA likely to accelerate approval timelines for innovative new drugs.

Our investment strategy will seek to capitalise on these trends by investing in a select combination of undervalued large capitalisation biotech companies, resurgent pharmaceutical companies and smaller companies with significant growth prospects and/or high likelihood of acquisition.

**Samuel D. Isaly**  
**OrbiMed Capital LLC**  
 Investment Manager

## Contribution by Investment – excluding derivatives

Top and bottom five contributors to NAV performance over the year to 31 March 2007

	Contribution for the year to 31 March 2007 £'000	Contribution per Share (pence)*
<b>Top Five Contributors</b>		
Icos	2,691	4.72
Chugai Pharmaceutical	2,274	3.99
Serono	2,181	3.83
Schering-Plough	1,979	3.47
BioMarin Pharmaceutical	1,555	2.73
		18.74
<b>Bottom Five Contributors</b>		
Amgen	(7,803)	(13.70)
Adolor	(5,924)	(10.40)
CV Therapeutics	(3,789)	(6.65)
Gen-Probe	(3,742)	(6.57)
Genentech	(3,384)	(5.94)
		(43.26)

\* based on the weighted average number of shares in issue as at 31 March 2007 (56,962,481)

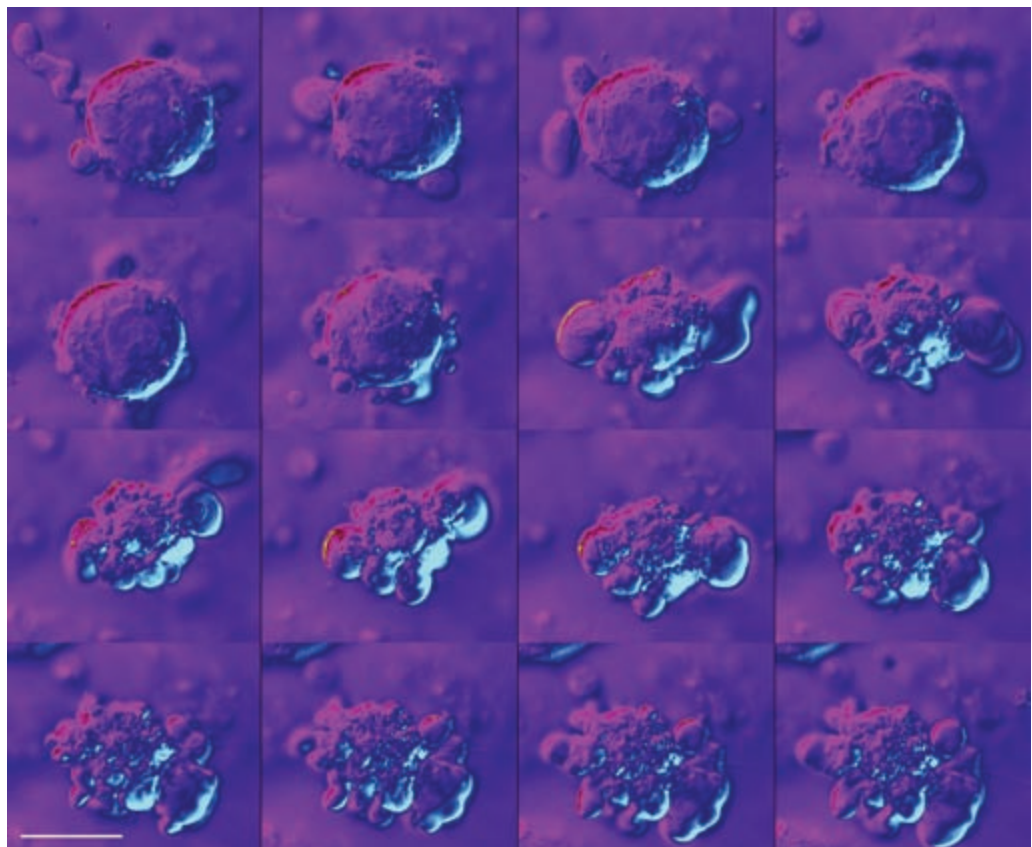
# Champions of Innovation

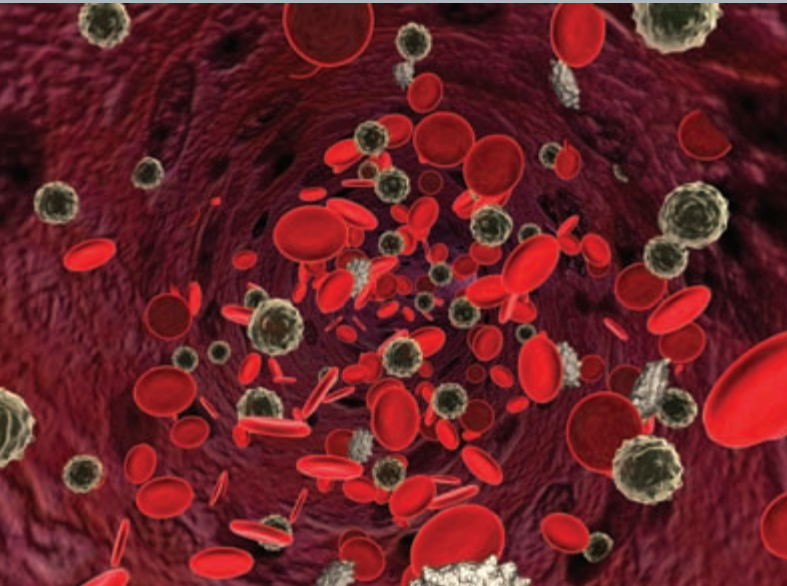
**VERTEX PHARMACEUTICALS** – Vertex is a leading emerging biotechnology company focused on the discovery of breakthrough small molecule drugs for viral diseases, inflammation, cancer and other serious diseases. The company’s strategy is to commercialise its products both independently and in collaboration with major pharmaceutical companies. Vertex co-discovered the HIV protease inhibitor, Lexiva, with GlaxoSmithKline. Their lead program, telaprevir, is expected to provide patients with a quantum leap in the treatment of Hepatitis C virus.

This is a series of pictures showing a cancer cell committing ‘cell suicide’ when treated with a chemotherapy drug. Cell suicide is otherwise known as programmed cell death or ‘apoptosis.’ Programmed cell death is a means of the body ending the life cycle of damaged, unneeded or unwanted cells.  
Source: The Wellcome Trust Medical Photographic Library

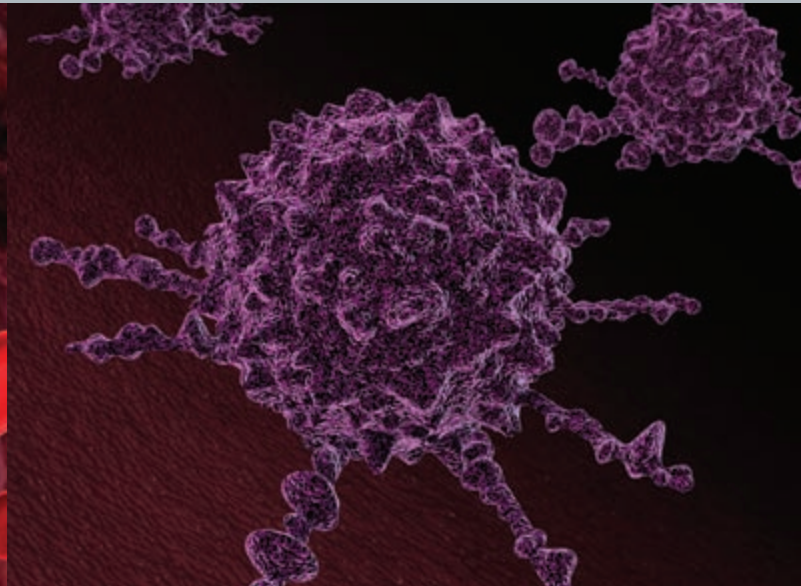
**CEPHALON, INC.** – Cephalon is a maturing biopharmaceutical company dedicated to the discovery and marketing of innovative products in four core therapeutic areas: central nervous system, pain, oncology and addiction. Cephalon has a broad portfolio of existing and pipeline products including therapies which address pain, narcolepsy, alcohol dependence, epilepsy and other indications.

**SCHERING-PLOUGH CORP.** – Schering-Plough is a traditional “big pharma” company which struggled earlier this decade after the loss of several key products to patent expirations. More recently the company has rebuilt its earnings growth potential led products in cholesterol, Hepatitis C and oncology. Schering-Plough has the highest expected 3-year growth rate of all the major pharmaceutical companies.



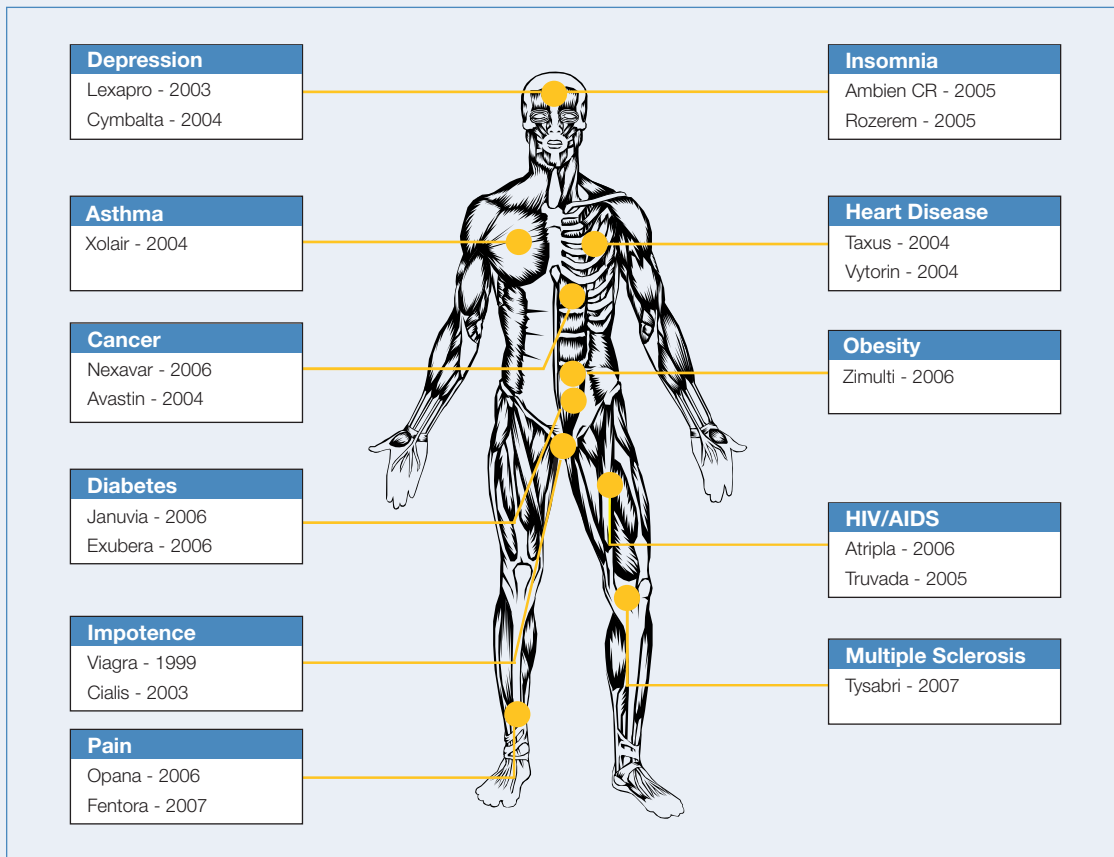


Red Blood cells



Cancer cells

# Advance of New Therapies



# Innovation at Work

## EXAMPLES OF FIRST IN CLASS DRUGS

**ZIMULTI** (produced by Sanofi-Aventis) – an anti-obesity drug which has shown great promise in clinical trials. Not only have many patients shown weight loss, but some have also shown improvement in their cholesterol levels and other cardiovascular risk measures. Zimulti works by blocking the CB1 receptor, one of two receptors found in a newly described physiological system called the Endocannabinoid System, believed to play a critical role in the regulation of food intake and energy expenditure.

**CHANTIX** (produced by Pfizer) – a new drug to help smokers “kick the habit” by interfering with the release of dopamine, a neurotransmitter associated with feelings of pleasure. Normally nicotine from cigarettes triggers the release of Dopamine. In clinical trials nearly half of all smokers could successfully quit using Chantix compared to less than 20% who were successful without the drug.

**JANUVIA** (produced by Merck) – the first in a new class of diabetes medications that enhance the body's own ability to keep blood sugar levels balanced. For many diabetics, it is difficult to achieve a balance between too much blood sugar (hyperglycemia) and too little (hypoglycemia). In some cases Januvia can free diabetics from the painful cycle of regular insulin shots.

# Investment Portfolio

as at 31 March 2007

Ten Largest Investments	Country	2007 Fair value £'000	2007 % of investments	2006 Fair value £'000	2006 % of investments
Novartis	Switzerland	21,053	7.3	31,802	8.4
Genentech	USA	20,498	7.1	23,868	6.3
Pfizer	USA	20,487	7.1	14,964	4.0
Amgen	USA	18,614	6.4	17,877	4.7
Wyeth	USA	18,147	6.3	19,908	5.3
Johnson & Johnson	USA	14,927	5.2	16,593	4.4
Schering-Plough	USA	14,842	5.1	9,306	2.5
Takeda Pharmaceutical	Japan	13,018	4.5	12,748	3.4
Chugai Pharmaceutical Company	Japan	12,868	4.4	6,230	1.6
MedImmune Inc	USA	12,754	4.4	14,509	3.8
<b>Top 10 investments</b>		<b>167,208</b>	<b>57.8</b>	<b>167,805</b>	<b>44.4</b>

Balance of Investment Portfolio	Country	2007 Fair value £'000	2007 % of investments
Gen-Probe	USA	11,762	4.1
Genzyme	USA	10,795	3.7
Astellas Pharmaceutical	Japan	10,310	3.6
Roche Holding	Switzerland	9,764	3.4
Biogen-Idec	USA	9,601	3.3
BioMarin Pharmaceutical	USA	8,800	3.1
OSI Pharmaceuticals	USA	7,394	2.6
Vertex Pharmaceuticals	USA	7,371	2.5
Xoma	USA	6,975	2.4
Onyx Pharmaceuticals	USA	6,776	2.3
<b>Top 20 investments</b>		<b>256,756</b>	<b>88.8</b>

Endo Pharmaceuticals	USA	5,994	2.1
Millennium Pharmaceutical	USA	5,507	1.9
Array Biopharma	USA	5,010	1.7
Momenta Pharmaceuticals	USA	4,293	1.5
Tepnel Life Sciences <sup>++</sup>	UK	3,641	1.3
Exelixis	USA	2,964	1.0
Intermune	USA	2,550	0.9
Ariad Pharmaceuticals	USA	1,827	0.6
NPS Pharmaceutical	USA	1,254	0.4
Hana Biosciences	USA	111	0.1
<b>Top 30 investments</b>		<b>289,907</b>	<b>100.3</b>

Given Imaging <sup>++</sup>	USA	12	-
GeneProt Series A Conv Pref <sup>+</sup>	USA	-	-
<b>Total Equities and Warrants</b>		<b>289,919</b>	<b>100.3</b>

Amgen <sup>#</sup>	USA	(24)	-
Amylin Pharmaceuticals <sup>#-</sup>	USA	(32)	-
Bristol-Myers Squibb <sup>#-</sup>	USA	-	-
Chugai Pharmaceutical <sup>#</sup>	Japan	(35)	-
Gen-Probe <sup>#-</sup>	USA	(259)	(0.1)
Ishares Nasdaq Biotech <sup>#-</sup>	USA	6	-
MedImmune <sup>#</sup>	USA	(99)	-
Vertex Pharmaceuticals <sup>#</sup>	USA	1	-
Astellas Pharmaceutical <sup>-</sup>	Japan	(28)	-
Biogen-Idec <sup>-</sup>	USA	(113)	(0.1)
BioMarin Pharmaceutical <sup>-</sup>	USA	(46)	-
Genentech <sup>-</sup>	USA	(71)	-
Genzyme <sup>-</sup>	USA	(25)	-
Gilead Sciences <sup>-</sup>	USA	(24)	-
Millennium Pharmaceutical <sup>-</sup>	USA	74	-
OSI Pharmaceuticals <sup>-</sup>	USA	(146)	(0.1)
Pfizer <sup>-</sup>	USA	(31)	-
<b>Total Derivatives</b>		<b>(852)</b>	<b>(0.3)</b>

<b>Total investments including derivatives</b>		<b>289,067</b>	<b>100.0</b>
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As at 31 March 2007 the U.S. \$/£ exchange rate was U.S. \$1.9614/£1.00 (31 March 2006: U.S. \$1.7346/£1.00)

# Includes Call Options

- Includes Put Options

> Includes warrants

+ Includes unquoted Investment

All stocks are common or ordinary unless otherwise stated

# Analysis of the Portfolio

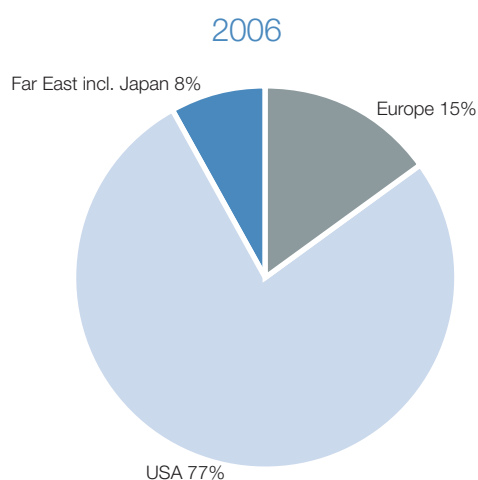
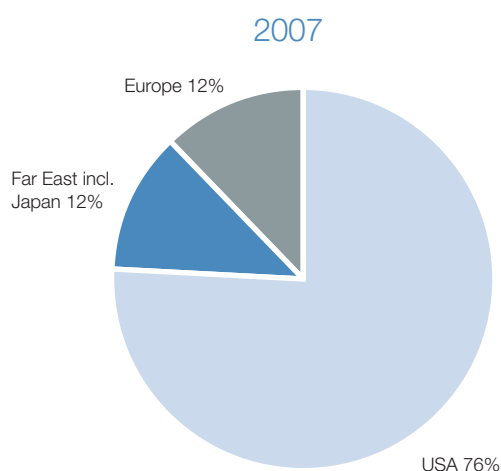
## The Portfolio

as at 31 March 2007

	Fair value £'000	% of investments
Equities (including options)	288,282	99.7
Warrants	785	0.3
<b>Total of all investments</b>	<b>289,067</b>	<b>100.0</b>

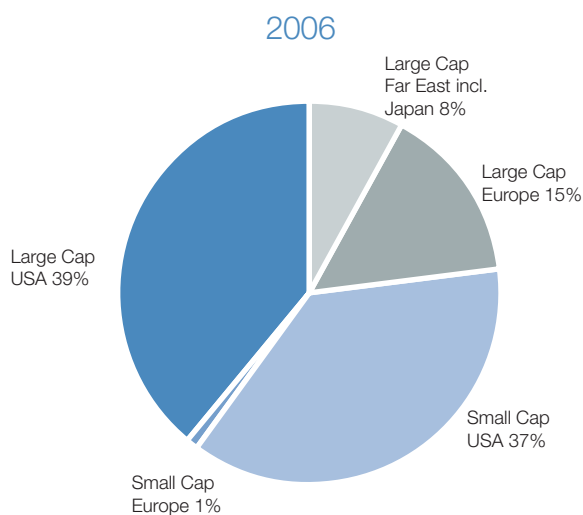
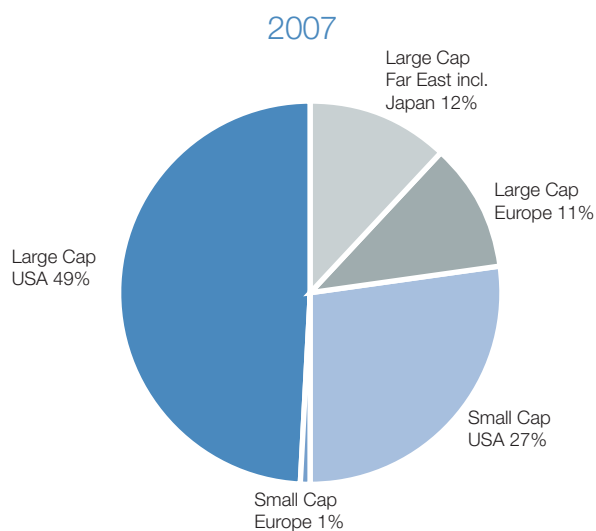
## Geographical Analysis

as at 31 March



## Company Analysis by Market Capitalisation

as at 31 March



Note:

For the purposes of these charts a small capitalisation company is defined as being one with a market capitalisation of less than U.S.\$5bn and a large capitalisation company is one with a market capitalisation of more than U.S.\$5bn.

# Report of the Directors

## Incorporating the Business Review

The Directors present their Report and the audited Financial Statements for the year ended 31 March 2007.

### Status and Activities

During the year under review the Company has continued to conduct its affairs so as to qualify as an investment company, as defined under s266 of the Companies Act 1985, and an investment trust within the meaning of s842 of the Income and Corporation Taxes Act 1988. HM Revenue & Customs approval of the Company's status as an investment trust has been received for all years up to and including the year ended 31 March 2006. This is however subject to review should there be any enquiry under Corporation Tax Self Assessment. The Directors are of the opinion that the Company has subsequently directed its affairs so as to enable it to continue to obtain HM Revenue & Customs approval as an investment trust for the year to 31 March 2007.

The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

With the exception of an increased level of derivative options activity being carried out by the Investment Manager, there has been no significant change in the activities of the Company during the year to 31 March 2007 and the Directors anticipate that the Company will continue to operate in the same manner during the current financial year.

The Company currently manages its affairs so as to be a fully qualifying investment trust under the Individual Savings Account (ISA) rules. As a result, under current UK legislation, the shares qualify for investment via the stocks and shares component of an ISA up to the full annual subscription limit (currently £7,000 in each tax year for maxi-account ISAs and £4,000 for mini-account ISAs. Higher limits for annual investments in ISAs will come into force from 6 April 2008. With the annual allowance to increase to £7,200 in a stocks and shares ISA. In a simplification of the rules maxi-account and mini-account ISAs will be replaced by a generic ISA product). The Company's shares are fully qualifying for inclusion in an existing general PEP. It is the present intention that the Company will conduct its affairs so as to continue to qualify for ISA and PEP products.

### Investment Objective and Benchmark

The Company invests worldwide in pharmaceutical and biotechnology companies with the objective of achieving a high level of capital growth. It is the Company's policy to invest no more than 15% of its gross assets in other investment companies (including listed investment trusts). No investment of this type is currently held. Performance is measured against the Datastream World Pharmaceutical and Biotechnology Index (total return, sterling adjusted).

### Management of the Company's Assets

The Company has no employees and all of its day-to-day activities are delegated to third parties. The Company has appointed Frostrow Capital LLP, as Manager, Administrator and Company Secretary and OrbiMed Capital LLC as Investment Manager.

The Board looks to the Investment Manager to deliver investment performance. The Manager is responsible for providing company secretarial, administrative, accounting and marketing services. Details of the appointment of each party are given below.

### Review of the Year

As indicated in the preliminary pages of the Annual Report and within the Chairman's Statement, the Directors are disappointed to note that the Company has not performed well during the year to 31 March 2007. The undiluted net asset value per share ('NAV') decreased by 10.7% while the share price decreased by 16.9%. Over the same period the performance benchmark fell by 3.6%, meaning the Company underperformed by 7.1% and 13.3% in NAV and share price terms respectively.

The Investment Manager continues to maintain the portfolio, in accordance with the investment objective, with between 60% and 80% in large capitalisation stocks and between 20% and 40% small capitalisation pharmaceutical and biotechnology stocks.

### New Share Allotments and Share Buybacks

At the Annual General Meeting held on 14 July 2006, the Company was authorised to allot up to 2,878,284 new Ordinary shares into the market. Since this date, up until 7 June 2007, a total of 182,731 Ordinary shares have been allotted (150,000 on 19 April 2006 and 32,731 on 3 August 2006) the latter amount as a result of certain holders of the Company's warrants exercising their subscription rights on 31 July 2006. At the Annual General Meeting held on 14 July 2006, authority was granted for the repurchase of 8,630,065 Ordinary shares of 25p, representing 14.99% of the issued share capital at that time. In the year under review, the Company bought back a total of 5,078,100 shares, which are currently held in treasury, at a cost of £24,879,000 (including expenses). Since the year end and to 7 June 2007, a further 114,000 Ordinary shares, costing £548,000 (including expenses), have been repurchased to be held in treasury and, as the maximum amount of shares that can be held in treasury (10% of the Company's issued share capital) has been reached, a further 834,000 Ordinary shares have been repurchased for

# Report of the Directors (continued)

## Incorporating the Business Review

cancellation at a cost of £4,165,000 (including expenses). In aggregate to 7 June 2007 the shares bought back equate to a total of 10.5% of the original issued share capital, and the average discount to net asset value of the repurchases was 6.9%. As indicated in the Chairman's Statement, the Board has agreed that any treasury shares remaining on 31 January 2008 will be cancelled.

### Principal Risks and how the Board seeks to mitigate them

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

#### *Objective and Strategy – The Company and its investment objective become unattractive to investors*

The Board regularly reviews the investment mandate and the long-term investment strategy in relation to market and economic conditions, and the operation of the Company's peers, thereby monitoring whether the Company should continue in its present form. A continuation vote is to be held at the Annual General Meeting in 2009 and every five years thereafter. Each month the Board receives a monthly review, which monitors the Company's investment performance (both on an absolute basis and against the benchmark and peer group) and its compliance with the investment guidelines. Additional reports and presentations are regularly presented by the Company's Manager, Investment Manager and Corporate Stockbroker.

#### *Level of discount/premium – Share price performance lags NAV performance*

The Board undertakes a regular review of the level of discount/premium and consideration is given to ways in which share price performance may be enhanced, including the effectiveness of marketing and share buy-backs, where appropriate. The Board has implemented a discount control mechanism intended to establish a maximum level of 6.0% discount of share price to the fully diluted NAV per share.

#### *Market Price Risk*

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Company might suffer through holding market positions in the face of price movements.

The Board meets at least on a quarterly basis during the year, at each meeting they consider the asset allocation of the portfolio in order to minimise the risk associated with particular countries or instruments. The Investment Manager has responsibility for selecting investments in accordance with the Company's investment objective and seeks to ensure that individual stocks meet an acceptable risk-reward profile.

#### *Liquidity Risk*

The Company's assets comprise mainly realisable securities, which can be sold to meet funding requirements if necessary.

#### *Shareholder Profile – Activist shareholders whose interests are not consistent with the long term objectives of the Company may be attracted onto the shareholder register*

The Manager provides a shareholder analysis to every Board meeting for Board consideration of action required in addition to regular reporting by the Company's stockbroker.

#### *Portfolio Performance and Financial Instruments – Investment performance may not be meeting the investment objective or shareholder requirements*

The Board regularly reviews investment performance against the benchmark and against peer group. The Board also receives regular reports that show an analysis of performance compared with other relevant indices. The Investment Manager provides an explanation of stock selection decisions and an overall rationale for the make-up of the portfolio. The Investment Manager discusses current and potential investment holdings with the Board on a regular basis in addition to new initiatives, which may enhance shareholder return.

#### *Operational and Regulatory – Compliance with s842, Income and Corporation Taxes Act 1988*

A breach of s842 could lead to the Company being subject to capital gains tax in the sale of its investments, whilst serious breach of other regulatory rules may lead to suspension from the Stock Exchange or to a qualified Audit Report. Other control failures, either by the Manager, the Investment Manager or any other of the Company's service providers, may result in operational and/or reputational problems, erroneous disclosures or loss of assets through fraud, as well as breaches of regulations.

The Manager reviews the level of compliance with s842 and other financial regulatory requirements on a daily basis. All transactions and income and expenditure forecasts are reported to the Board. The Board regularly considers all risks, the measures in place to control them and the possibility of any other risks that could arise. The Board ensures that satisfactory assurances are received from service providers. The Compliance Officer of the Manager and the Investment Manager produce regular reports for review at the Company's Audit Committee and are available to attend meetings in person if required.

As is the case with all specialist industries, risks are inherent in pharmaceutical companies with, for example, the potential for drug withdrawals from the market or failures after launch and lack of expected profit growth. In addition to portfolio risks the Company is also susceptible to currency fluctuations due to non-sterling denominated investments being held; however the Board's policy is not to currency hedge, thereby enabling the Investment Manager to focus on investment and allowing the investors to make their own currency hedging arrangements as required.

# Report of the Directors (continued)

## Incorporating the Business Review

### Currency Risk

A significant proportion of the Company's assets are, and will continue to be, invested in securities denominated in foreign currencies, in particular U.S. dollars. As the Shares are denominated and traded in sterling, the return to Shareholders will be affected by changes in the value of sterling relative to those foreign currencies.

### Performance Measurement

While the Company monitors the NAV as the primary financial measurement the Board is aware that share price performance is the most important factor to many of the Company's shareholders. NAV and share price performance are of course closely linked and it is the responsibility of the Investment Manager to seek the best investments and to manage the portfolio in the most beneficial way to achieve the highest returns for shareholders. For the year under review the contributions from the top and bottom five investments are detailed on page 8 of the Review of Investments.

The Board reviews performance on a continuous basis, each Director receives a monthly review and a quarterly attribution analysis from the Manager and a full report on all investments and on a quarterly basis from the Investment Manager. The NAV of the Company's shares is announced daily via a regulatory news service and is available online, see page 49 for details.

### Key Performance Indicators ('KPI')

The Board assesses the Company's performance in meeting the investment objective against the following key performance indicators:

- NAV total return
- Share price total return
- Stock contribution analysis
- Share price premium/discount to NAV per share
- Total expense ratio
- Benchmark and Peer Group performance
- Issue of new shares/repurchase of own shares

As indicated, the management of the investment portfolio is conducted by OrbiMed Capital LLC and the management of the Company's affairs, including marketing, administration and company secretarial matters is conducted by Frostrow Capital LLP, each provider is responsible to the Board which is ultimately responsible to the shareholders for performing against *inter alia* the above KPI's within the terms of their respective agreements by utilising the capabilities of the experienced professionals within each firm.

### UK GAAP

The financial statements of the Company have been prepared in accordance with UK GAAP. The Accounting Policies of the Company can be found in Note 1 of the Financial Statements on pages 35 and 36.

### Results and Dividends

The results attributable to shareholders for the year and the transfer to reserves are shown on page 31. The Directors have declared an interim dividend for the year of 3.0p per Ordinary share (2006: final dividend of 1.7p) payable on 18 July 2007.

### Fixed Asset Investments

The market value of the Company's investments, at 31 March 2007 was £289.9m (2006: £377.8m) showing a surplus of £33.7m (2006: £86.9m) over book cost. Taking these investments at this valuation, the net assets attributable to each Ordinary share amounted to 520.9p at 31 March 2007 (2006: 583.0p).

### Management

**Management, Administrative and Secretarial Services Agreement:** Management, Administrative, Secretarial and other services are provided to the Company by Frostrow Capital LLP (the 'Manager'). The Manager is authorised and regulated by the Financial Services Authority.

In the year under review, management services were provided by Close Finsbury Asset Management Limited and, with effect from 17 November 2006, by Close Investments Limited, both being wholly owned subsidiaries of Close Brothers Group plc. The management fee payable was 1.0% and was shared 0.35% to the Manager and 0.65% to OrbiMed Capital LLC (the 'Investment Manager') based on the net assets of the Company.

# Report of the Directors (continued)

## Incorporating the Business Review

Following a review undertaken by the Board, the Management, Administrative and Secretarial Services Agreement was terminated on 10 April 2007 and a new agreement with Frostrow Capital LLP, a new firm established to provide specialist management, administration, company secretarial and marketing services to investment companies, was entered into on the following terms: Frostrow Capital LLP will receive a periodic fee equal to 0.30% per annum of the Company's market capitalisation up to £150m of such market capitalisation and 0.20% per annum of the market capitalisation in excess of £150m, plus a fixed amount equal to £50,000 per annum. Fees payable under the new agreements will apply from 1 July 2007.

The notice period on the Management, Administration and Company Secretarial Agreement with Frostrow is 12 months (following an initial 12 month period).

In the year to 31 March 2007 the Company paid £105,000 (31 March 2006: £140,000) to Close Investments Limited, in respect of marketing costs incurred. In addition, there was a secretarial fee payable to Close Investments Limited of £150,000 per annum plus VAT for the year ended 31 March 2007 (2006: £150,000).

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

- marketing and shareholder services;
- administrative services to such extent and from such dates as the Board may determine;
- advice and guidance in respect of corporate governance requirements;
- maintaining adequate books of account and record in respect of Company dealing, investments, transactions, dividends and other income, the income account, balance sheet and cash books and statements;
- preparation and despatch of the audited annual and unaudited interim report and accounts; and
- attending to general tax affairs where necessary.

**Investment Management Agreement:** On 10 April 2007 the Company entered into a new investment management agreement with OrbiMed Capital LLC (the 'Investment Manager'), under which they will continue to provide discretionary investment management services to the Company under the same terms as before. The Investment Management Agreement may be terminated by either party giving notice of not less than 12 months. The Investment Manager under the terms of the agreement provides *inter alia* the following services:

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

**Performance Fee:** Dependent on the level of performance achieved, the Manager and Investment Manager are also entitled to the payment of a performance fee. The performance fee is calculated by reference to the amount by which the Company's investment portfolio has out-performed the Datastream World Pharmaceutical and Biotechnology Index (total return, sterling adjusted) (the 'benchmark').

The fee is calculated quarterly by comparing the cumulative performance of the Company's investment portfolio with the cumulative performance of the benchmark index since the launch of the Company in 1995. The performance fee amounts to 16.5% of any out-performance of the net asset value over the benchmark index. The Investment Manager receiving 15% and the Manager receiving 1.5% of the outperformance.

At each quarterly calculation date any performance fee payable is based on the lower of:

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

In the year under review no performance fee was paid, and no performance fee is accrued for as at 31 March 2007.

**Continuing Appointment of the Manager and Investment Manager:** During the year, in accordance with the Listing Rules authorised by the Financial Services Authority, the Board reviewed the performance of the Manager and the Investment Manager. The review considered the Company's investment performance over both the short and longer terms, together with the quality and adequacy of other services provided. The Board also reviewed the appropriateness of the terms of the Management Agreement, in particular the length of notice period and the management fee structure.

Following a programme of reorganisation within the asset management division of the Close Brothers Group in September 2006, the Board decided to undertake a full review of its management arrangements. Following this review, the Company entered into a new arrangement with Frostrow Capital LLP for the provision of management, administration, company secretarial and marketing services. OrbiMed Capital LLC will continue to provide discretionary investment management services to the Company.

# Report of the Directors (continued)

## Incorporating the Business Review

### Directors

The Directors of the Company, who served throughout the year, are all non-executive. Their biographies can be found on pages 3 and 4 and are as follows:

Ian Ivory (Chairman)  
Josephine Dixon  
Paul Gaunt  
Professor Duncan Geddes  
Samuel D Isaly  
James Noble  
Anthony Townsend

### Independence and Constitution of the Board

The Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 (the 'Code') discusses the circumstances under which a director may not be considered to be independent, including if the director holds cross-directorships or has significant links with other directors through involvement in other companies or bodies or has served on the Board for more than nine years from the date of first election. The Code provides, however, for the Board to state its reasons if it determines that a director is independent notwithstanding the existence of circumstances that may appear to determine otherwise. The revised and updated Code of Corporate Governance and Guide issued by the Association of Investment Companies ("AIC") (formerly named the Association of Investment Trust Companies) in February 2006 (the "AIC Code") allows the Board more flexibility in respect of the length of service of a director.

In line with good corporate governance practice, Messrs Ivory, Gaunt, Isaly, Townsend and Professor Geddes offer themselves for re-election at the forthcoming Annual General Meeting.

As highlighted in the Chairman's Statement, the Chairman, Ian Ivory offers himself for re-election at the forthcoming Annual General Meeting but confirms his intention to retire from the Board at the Annual General Meeting in 2008.

Jo Dixon retires by rotation and, being eligible, offers herself for re-election at the Annual General Meeting. As, also highlighted in the Chairman's Statement, James Noble also retires by rotation at the Annual General Meeting and does not offer himself for re-election.

Paul Gaunt and Anthony Townsend are non-executive Directors but are not considered to be independent by the Code or the Board. This position has been adopted as they are also directors of Finsbury Emerging Biotechnology Trust PLC whose investment portfolio is also managed by the Investment Manager to the Company. Neither Paul Gaunt nor Anthony Townsend have any other connections with the Investment Manager and are not employed by any of the companies in which the Company holds an investment.

Samuel D Isaly is a non-executive Director but is not considered to be independent due to his position as Managing Partner of OrbiMed Capital LLC, the Investment Manager to the Company. OrbiMed Capital LLC is also the Investment Manager to Finsbury Emerging Biotechnology Trust PLC. The partners at OrbiMed Capital LLC have a minority financial interest of 20% in Frostrow.

The Board considers all Directors to be independent in character and judgement and does not consider that the criterion of length of service should necessarily preclude any Director from being so considered. However, notwithstanding the determination by the Board of independence, to ensure transparency of procedure and in line with good corporate governance practice, all Directors not considered by the Code to be independent will stand for re-election at the Annual General Meeting each year. Directors are required to disclose matters of conflict when they are aware of them and/or when they arise. In the event of conflict arising, the conflicted party is excluded from all associated discussions and decisions.

### Board Evaluation

The Board carried out an evaluation process in February 2007, independently managed on behalf of the Board by Professor Duncan Geddes, the Senior Independent Director, who was evaluated by the rest of the Board. As a result of the evaluation the Board considers that all the current Directors contribute effectively and that all have skills and experience, which are relevant to the leadership and direction of the Company.

Paul Gaunt, Ian Ivory and Anthony Townsend have considerable financial, investment management and specifically investment trust experience and Professor Duncan Geddes and Samuel D Isaly have a wealth of knowledge and experience in the pharmaceutical and biotechnology sector.

Having given careful consideration to the above, the Board unanimously supports the re-election of Ian Ivory, Paul Gaunt, Professor Duncan Geddes, Samuel D Isaly, Anthony Townsend and Jo Dixon.

# Report of the Directors (continued)

## Incorporating the Business Review

### Directors' Interests

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

	Ordinary shares of 25p each		Warrants to subscribe for Ordinary shares	
	31 March 2007	1 April 2006	31 March 2007	1 April 2006
Ian Ivory	59,861	59,861	43,975	43,975
Josephine Dixon	3,400	3,400	88,180	88,180
Paul Gaunt	–	–	–	–
Professor Duncan Geddes	20,000	20,000	4,000	4,000
Samuel D Isaly	235,673	135,673	407,134	407,134
James Noble	6,076	3,903	25,684	25,684
Anthony Townsend	12,987	10,569	1,415	1,415

Since the year end, Mrs J M Ivory, the wife of Mr I Ivory, purchased an additional 1,339 shares, taking the beneficial interest of Mr Ivory and his family to 61,200 Ordinary shares as at 7 June 2007. None of the Directors were granted or exercised rights over shares during the year. None of the Directors has any contract (including service contracts) with the Company, each Director is appointed by simple letter of appointment that sets out the basic terms of appointment. Directors may resign or be removed from office in writing without notice or compensation becoming due. Samuel D Isaly is a partner in OrbiMed Capital LLC which is party to the Investment Management Agreement with the Company and receives fees as described above. The partners at OrbiMed Capital LLC have a minority financial interest of 20% in Frostrow Capital LLP, the Company's Manager.

### Directors' Fees

A report on Directors' Remuneration is set out on pages 27 and 28.

### Meeting Attendance

The number of meetings held during the year of the Board and its Committees, and each Directors attendance level is shown below:

Type and number of meetings held in 2006/7	Board (4)	Audit Committee (2)	Nominations Committee (1)	Remuneration Committee (1)
Ian Ivory	4	2	1	1
Josephine Dixon	4	2	1	1
Paul Gaunt	4	N/A	N/A	N/A
Professor Duncan Geddes	3	1	1	1
Samuel D Isaly	4	N/A	N/A	N/A
James Noble	4	2	1	1
Anthony Townsend	4	N/A	N/A	N/A

All of the Directors attended the Annual General Meeting held on 14 July 2006.

### Substantial Shareholdings

As at 20 May 2007 the Company was aware of the following interests in the Ordinary shares of the Company, which exceeded 3% of the issued share capital of that class:

Shareholder	Registered Holder	Number of shares	% of issued share capital
Asset Value Investors	Chase Nominees/Nortrust Nominees/Bank of New York Nominees/Mellon Nominees (UK)/State Street Nominees/Euroclear Nominees	3,729,665	7.08
Rensburg Sheppards Investment Management	Ferlim Nominees/Hero Nominees	3,418,358	6.59
Newton Investment Management	Various Nominees	3,204,828	6.09
Legal & General Investment Management	Various Nominees	2,423,963	4.60
East Riding of Yorkshire Council	Nortrust Nominees	1,800,000	3.42
Brewin Dolphin	Various Nominees	1,735,623	3.34
Barclays Wealth	Various Nominees	1,666,464	3.17

# Report of the Directors (continued)

## Incorporating the Business Review

### Continuation Vote

It is not the Directors' intention that the Company should have a limited life. However, in accordance with the Company's Articles of Association, shareholders will have an opportunity to vote on the continuation of the Company no later than the AGM in 2009.

### Creditors' Payment Policy

Terms of payment are negotiated with suppliers when agreeing settlement details for transactions. While the Company does not follow a formal code, it is the Company's continuing policy to pay amounts due to creditors as and when they become due. As at 31 March 2007, the Company did not have any trade creditors (2006: Nil).

### Charitable and Political Donations

The Company has not in the past and does not intend in future to make any charitable or political donations.

### Environmental and Ethical Policy

The Company's primary objective is to achieve a high level of capital growth by investment in pharmaceutical and biotechnology companies and recognises that this should be done in an environmentally responsible way. The Company supports the action being taken by the major pharmaceutical companies to make products more affordable to patients in developing countries. The Directors believe that the Company would be in breach of its fiduciary duties to shareholders if investment decisions were based solely on ethical or environmental considerations.

### Independent Auditors

Ernst & Young have indicated their willingness to continue to act as Auditors to the Company and a resolution in accordance with s384 of the Companies Act 1985 for their re-appointment, will be proposed at the forthcoming Annual General Meeting.

### Directors' Responsibilities

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

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent; and
- followed applicable United Kingdom accounting standards.

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

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

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

### Going Concern

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

### Audit Information

Pursuant to s234ZA(2) of the Companies Act 1985, each of the Directors confirms that: (a) so far as they are aware, there is no relevant audit information of which the auditors are unaware; and (b) they have taken all steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of such information.

# Report of the Directors (continued)

## Incorporating the Business Review

### Corporate Governance

A formal statement on Corporate Governance is set out on pages 22 to 26.

### Annual General Meeting

The formal Notice of Annual General Meeting is set out on pages 46 to 48.

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

#### (a) Authority to allot shares

Resolution 10 gives the Directors authority to allot new shares, otherwise than by a pro rata issue to existing shareholders, up to an aggregate nominal amount of £1,289,470 such amount being equivalent to 10.0% of the present issued Ordinary share capital and representing 5,157,878 Ordinary shares of 25p each. As such issues would only be made at prices greater than the fully diluted Net Asset Value per share ('NAV') thereby increasing the assets underlying each share and spread administrative expenses, other than those charged as a percentage of assets, over a greater number of shares.

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

Resolution 11 seeks shareholder approval for the disapplication of pre-emption rights in respect of a) the allotment of shares or the sale by the Company of shares held by it in treasury – see below ('treasury shares'), pursuant to a rights issue or a sale equivalent to a rights issue, and b) the allotment (other than as part of a rights issue) of shares or the sale of treasury shares for cash up to an aggregate nominal value of £1,289,470. No such allotment will be made at less than the NAV per share (as determined in the absolute discretion of the Directors). However, Ordinary shares held in treasury may be resold by the Company at a discount to such fully diluted NAV provided that such shares are resold by the Company at a lower discount to the fully diluted NAV than the discount at which they were repurchased by the Company.

#### (c) Authority to repurchase Ordinary shares

Resolution 12 seeks shareholder approval for the Company to have the power to repurchase its own Ordinary shares. The Board believes that the ability of the Company to purchase its own shares in the market will potentially benefit all shareholders of the Company. The repurchase of shares at a discount to the underlying NAV would enhance the NAV of the remaining shares.

At the Annual General Meeting the Company will seek shareholder approval to repurchase up to 7,731,659 Ordinary shares, representing approximately 14.99% of the Company's issued share capital (the maximum permitted under the Listing Rules) at a price that is not less than 25p a share (the nominal value of each share) and not more than the higher of (a) 105% of the average of the middle market quotations for the five business days preceding the day of purchase; and (b) the higher of the price of the last independent trade in shares and the highest then current independent bid for shares on the London Stock Exchange. The decision as to whether to repurchase any shares will be at the absolute discretion of the Board. Shares repurchased under this authority may either be held by the Company in treasury for resale up to a maximum of 10% of the issued Ordinary shares or cancelled.

The authorities being sought under resolutions 10, 11 and 12 will last until the conclusion of the next Annual General Meeting or, if less, a period of 15 months.

The Directors consider that the resolutions relating to the above items of special business are in the best interests of shareholders as a whole. Accordingly, the Directors unanimously recommend to the shareholders that they vote in favour of the above resolutions to be proposed at the forthcoming Annual General Meeting.

By order of the Board

**Frostrow Capital LLP**

Company Secretary

11 June 2007

# Corporate Governance

The UK Listing Authority requires all listed companies, under LR 9.8.6(5) and LR 9.8.7(2), to disclose how they have applied the principles and complied with the provisions of the Combined Code (the 'Combined Code'). Throughout the year under review the Combined Code on Corporate Governance, issued by the Financial Reporting Council (the 'FRC'), the UK's independent regulator for corporate reporting and governance, in 2003 for periods commencing on or after 1 November 2003, was in force.

On 3 February 2006, the FRC endorsed the new edition of the Association of Investment Companies ('AIC') formerly the Association of Investment Trust Companies Code of Corporate Governance (the 'AIC Code') and the AIC Corporate Governance Guide for Investment Companies (the 'Guide'). The terms of the FRC endorsement mean that members of the AIC who report against the AIC Code and who follow the Guide meet their obligations to the Combined Code and the related disclosure requirements of the Listing Rules.

The Board welcomes the change to the reporting requirements while continuing to be committed to high standards of corporate governance. The Board attaches importance to the matters set out in the AIC Code and continues to apply the principles where relevant. Compliance with the AIC Code is detailed below.

## The Principles of the AIC Code

The AIC Code is made up of twenty-one principles over three sections covering; 1) The Board, 2) Board meetings and the relationship with the Manager and 3) Shareholder Communications. As an investment trust company, most of the Company's day-to-day activities are delegated to third parties and the Directors are all non-executive.

### THE BOARD

#### AIC Code Principle

- 1 The Chairman should be independent.
- 2 A majority of the Board should be independent of the Manager.
- 3 Directors should be elected for a fixed term of no more than three years. Nomination for re-election should not be assumed but based on disclosed procedures.
- 4 The Board should have a policy on tenure, which is disclosed in the annual report.

#### Company Compliance

The Chairman is independent of the Manager and Investment Manager and does not have any conflicts with his independent position. During the annual performance evaluation, the position of Chairman is considered in respect of performance and, when applicable, succession.

Professor Duncan Geddes was appointed as Senior Independent Director in February 2003 and, as such, deputises for the Chairman when required.

The Board is composed of seven directors, four of whom are independent. Details surrounding the independence of all Directors is detailed in the Report of the Directors on page 18.

Directors are initially appointed for a three-year term and are subject to re-election in accordance with the Company's Articles of Association. Directors are also subject to an annual performance evaluation following which the Board, excluding the Director in question, will take a decision on whether to recommend the individual for re-election. Non-independent Directors are subject to annual re-election.

The Board does not consider that age or length of service should preclude a Director from holding position or from being classed as independent. The Board is of the view that length of service does not itself impair a Directors ability to benefit the Company as their long term perspective can add significant value to a well-balanced investment company board.

The Nominations Committee considers the structure and composition of the Board on an annual basis in addition to carrying out a full Board evaluation process to assess all individual contributions to the running of the Company.

The Board does not have a formal policy on tenure. Directors are appointed with the expectation that they will serve for a minimum period of three years. Directors may resign by notice in writing to the Board at any time. No compensation is payable on leaving office.

## Corporate Governance (continued)

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| 5  | There should be full disclosure of information about the Board.  | The biographies of each Director are provided on pages 3 and 4. Further information can be found in the Report of the Directors on pages 18 and 19.<br><br>The Board has established Audit, Nominations and Remuneration Committees, the terms and structure of which are detailed below.   |
| 6  | The Board should aim to have a balance of skills, experience, ages and length of service.  | The Directors believe there is a balanced range of skills on the Board, details of which are given with the Directors' Biographies and the Report of the Directors.<br><br>Notwithstanding independence, the Board considers that all the Directors have different qualities and areas of expertise on which they may lead when issues arise. Accordingly, concerns can be conveyed to any one of them.   |
| 7  | The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors. | Performance evaluation is carried out on an annual basis as detailed within the Report of the Directors.  |
| 8  | Directors' Remuneration should reflect their duties, responsibilities and the value of their time spent.                                       | The Remuneration Committee meets on an annual basis to consider the level of remuneration paid to the Directors. Further details are given in the Directors' Remuneration Report on pages 27 and 28.<br><br>There is no compulsory shareholding requirement, however, Directors' participation is a positive reflection on the performance of the Company.  |
| 9  | The independent Directors should take the lead in the appointment of new directors and the process should be disclosed in the annual report.   | The Nominations Committee considers the appointment of new directors, details of the structure and process is given below.  |
| 10 | Directors should be offered relevant training and induction.   | All Directors are offered an induction briefing on joining the Board. The Manager and external organisations provide further training as necessary. The Manager ensures that all Directors receive, in a timely manner, all relevant management and financial information in addition to key information on the Company's policies, regulatory and statutory requirements, internal controls and changes affecting the Directors' responsibilities. The Directors have access to the advice and services of the corporate Company Secretary, through its appointed representative, who is responsible to the Board for ensuring that Board procedures are followed. |
| 11 | The Chairman (and the Board) should be brought into the process of structuring a new launch or fund raising project at an early stage.         | Not applicable to the Board at this time, however, in the event of a new launch or fund raising the Board works with external advisers on all aspects of the project.   |

### BOARD MEETINGS AND THE RELATIONSHIP WITH THE MANAGER

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| 12 | Boards and Managers should operate in a supportive, co-operative and open environment.   | The Board meets at least on a quarterly basis and at other times as necessary. A representative of the Manager, and the Company Secretary, attends each Board meeting and have continuous contact with the Chairman and the Board in order to assist with all operational aspects of the Company. |
| 13 | The primary focus at regular board meetings should be a review of investment performance and associated matters such as gearing, asset allocation, marketing/investor relations, peer group information and industry issues. | A representative of the Investment Manager attends each Board meeting to provide an update on the investment performance of the Company, asset allocation gearing and all other investment related matters including industry issues.   |

## Corporate Governance (continued)

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|----|--|---|
| 14 | Boards should give sufficient attention to overall strategy.   | The Directors consider the position and performance of the Company at every Board meeting; the shareholder register is also considered to ensure the Board is acting in, and positioning the Company for, the best interests of shareholders.   |
| 15 | The Board should regularly review both the performance of, and contractual arrangements with, the manager (or executives of a self-managed company). | The Board has not established a Management Engagement Committee but considers, on an annual basis, the performance of both the Manager and the Investment Manager. Recommendation for the continuance of such contracts is detailed within the Report of the Directors.   |
| 16 | The Board should agree policies with the Manager covering key operational issues.  | <p>The Board is responsible for the important aspects of the Company's affairs, including the setting of parameters for and the monitoring of investment strategy and the review of investment performance and investment policy.</p> <p>The Board has put various rules and guidance in place with the Manager and the Investment Manager, including a schedule of investment guidelines against which the Board receives a monthly compliance report from the Manager.</p> <p>The Board has delegated authority to the Investment Manager to vote the shares held by the Company through its nominee, The Bank of New York (Nominees) Limited.</p>  |
| 17 | Boards should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it.                         | The Board has put in place a discount protection mechanism whereby shares will be repurchased in the market, at the discretion of the Board, at a discount of 6.0% to fully diluted net asset value per share.  |
| 18 | The Board should monitor and evaluate other service providers.   | <p>The Board has contractually delegated to external agencies the management of the investment portfolio, the custodial services which include safeguarding of the assets and the day-to-day management, accounting and company secretarial requirements. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services offered, including the control systems in operation in so far as they relate to the affairs of the Company.</p> <p>The Board receives a report from the Manager on an annual basis detailing the level of satisfaction with the services provided by third parties and evaluates the need for any action to be taken.</p> |

### SHAREHOLDER COMMUNICATIONS

- |    |   |   |
|----|---|---|
| 19 | The Board should regularly monitor the shareholder profile of the company and put in place a system for canvassing shareholder views and for communicating the Board's views to shareholders.         | The Board reviews the shareholder register at each Board meeting. The Company has regular contact with its institutional and private client stockbroking shareholders particularly through the Manager and Investment Manager. The Board supports the principle that the AGM, at which the full Board is present, be used to communicate with private investors. The Investment Manager attends to give a presentation to the meeting. Details of the proxy votes received in respect of each resolution are made available to shareholders at the meeting. |
| 20 | The Board should normally take responsibility for, and have a direct involvement in, the content of communications regarding major corporate issues even if the manager is asked to act as spokesman. | The Board receives regular marketing and public relations reports from the Manager to whom the marketing function has been delegated. The Board considers the marketing plans of the Manager on, at least, an annual basis.   |
| 21 | The Board should ensure that shareholders are provided with sufficient information for them to understand the risk-reward balance to which they are exposed by holding the shares.                    | The Annual and Interim Reports and the Monthly Factsheet are available to all shareholders. The Board considers the format and content of the Annual and Interim Reports so as to ensure they are useful to all shareholders and others taking an interest in the Company. In accordance with best practice the Annual Report, which includes the Notice of AGM, is sent to shareholders to provide a minimum of 20 working days notice, subject to unforeseen circumstances.   |

# Corporate Governance (continued)

## Internal Control

The Directors are responsible for overseeing the effectiveness of the internal control systems for the Company, which are designed to ensure that proper accounting records are maintained, that the financial information on which the business decisions are made and which are issued for publication is reliable, and that the assets of the Company are safeguarded. Such a system of internal control is designed to manage rather than eliminate the risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Directors, through the procedures outlined above, have kept the effectiveness of the Company's internal controls under review throughout the period covered by these financial statements and up to the date of approval of the Annual Report and Financial Statements. The Board has identified risk management controls in the key areas of business objectives, accounting, compliance, operations and secretarial as areas for the extended review. This accords with the guidance in 'Internal Control – Guidance for Directors on the Combined Code' (the 'Turnbull Report') published in September 1999 and revised in September 2005.

The Board recognises its ultimate responsibilities for the Company's system of internal controls and for monitoring its effectiveness. The Manager has established an internal control framework to provide reasonable assurance on the effectiveness of the internal controls operated on behalf of its clients. The Manager's compliance monitoring programme on an ongoing basis, assesses the effectiveness of the internal controls. The Manager provides the Board with regular reports on all aspects of internal control (including financial, operational and compliance control, risk management and relationships with external service providers). Business risks have been analysed and recorded in a Risk Map, which is reviewed at each Audit Committee and at other times as necessary. It is believed that an appropriate framework is in place to meet the requirements of the Turnbull Report and the AIC Code.

The Company does not have an internal audit department. The Company does not have any employees and all of the Company's management and administrative functions are conducted by independent third parties. It is therefore felt there is no need for the Company to have an internal audit facility, however, this need is reviewed periodically.

## Matters Reserved for the Board

There is a formal schedule of matters reserved for the decision of the Board and there is an agreed procedure for Directors, in the furtherance of their duties, to take independent professional advice if necessary at the Company's expense.

The specific areas reserved for the Board include; final approval of statutory Companies Act requirements including the payment of any dividend and the allotment of shares, matters of a Stock Exchange or Internal Control nature such as the approval of shareholder statutory documentation, performance reviews and Director independence. The Board is, in particular, responsible for matters of a strategic or management nature, such as the Company's long term objectives and commercial strategy, the appointment or removal of the Manager and/or Investment Manager, Investment Policy, changes to the Company structure, unquoted investment valuations and final approval of borrowing requirements and limits.

## Board Committees

The Board has established a number of committees as set out below. Copies of the full Terms of Reference, which clearly define the responsibilities of each Committee, can be obtained from the Company Secretary, will be available for inspection at the AGM, and can be found on the website of the Manager, [www.frostrow.com](http://www.frostrow.com).

### Audit Committee

The Company's Audit Committee meets at least twice per year, is chaired by Jo Dixon, and comprises all of the independent Directors; the non-independent Directors are invited to attend when appropriate by the Chairman. The Audit Committee is responsible for the review of the Annual Report and the Interim Report, the nature and scope of the external audit and the findings therefrom and the terms of appointment of the auditors, including their remuneration and the provision of any non-audit services by them.

The Audit Committee meets representatives of the Manager and Investment Manager and their Compliance Officers who report as to the proper conduct of business in accordance with the regulatory environment in which the Company, Manager and Investment Manager operate. The Company's external Auditors also attend this Committee at its request and report on their work procedures and their findings in relation to the Company's statutory audit. The Audit Committee reviews the need for non-audit services and authorises such on a case-by-case basis, having consideration to the cost effectiveness of the services and the independence and objectivity of the auditors. The Board concluded, on the recommendation of the Audit Committee, that the auditors continued to be independent and that their reappointment be proposed to the AGM.

# Corporate Governance (continued)

## Board Committees (continued)

### Nominations Committee

The independent Directors fulfil the function of a Nominations Committee, which is chaired by the Chairman of the Board, and to which the non-independent Directors may be invited to attend. The Nominations Committee is responsible for the Board appraisal process and for making recommendations to the Board on the appointment of new Directors. Where appropriate, each Director is invited to submit nominations and external advisers may be used to identify potential candidates.

### Remuneration Committee

The independent Directors fulfil the function of a Remuneration Committee, which is also chaired by the Chairman of the Board, to which the non-independent Directors may be invited to attend. The level of Directors' fees is reviewed on a regular basis relative to other comparable companies and in the light of Directors' responsibilities. Neither the Chairman nor individual Directors participate in discussions involving their personal remuneration. Details of the fees paid to the Directors in the year under review are detailed in the Directors' Remuneration Report on pages 27 and 28.

## Accountability and Audit

The Directors' statement of responsibilities in respect of the financial statements is set out on page 20. The report of the auditors is set out on pages 29 and 30.

## Nominee Share Code

Where notification has been provided in advance, the Company will arrange for copies of shareholder communications to be provided to the operators of nominee accounts. Nominee investors may attend general meetings and speak at meetings when invited to do so by the Chairman.

Investors who hold shares through the Close Investments ISA, Savings Scheme or PEP receive all shareholder communications and a letter of direction is provided to facilitate voting at general meetings of the Company.

# Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of Schedule 7A to the Companies Act 1985 (the Regulations). An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on pages 29 and 30.

## Remuneration Committee

The Company has seven non-executive Directors, four of whom are considered by the Board to be independent. The independent Directors fulfil the function of the Remuneration Committee to which the non-independent Directors may be invited. The Board may utilise the services of the Company Secretary or external advisers, to provide advice when the Directors consider the level of directors' fees.

The Directors' fees are reviewed annually by the Remuneration Committee; such review will not necessarily result in a change to the rates paid. The Remuneration Committee carried out, in February 2007, a review of the level of Directors' fees in relation both to fees paid to the boards of other investment trust companies and also to the Board's corporate governance obligations. The Board decided, on the advice of the Remuneration Committee, that the amounts should remain unchanged for the present.

## Policy on Directors' Fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other investment trusts that are similar in size, have a similar capital structure (Ordinary shares), and have a similar investment objective. It is intended that this policy will continue for the year ending 31 March 2008 and subsequent years.

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association, the maximum aggregate amount currently being £200,000. Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits. The policy is for the Chairman of the Board and Chairman of the Audit Committee to be paid higher fees than the other Directors to reflect their more onerous roles and additional responsibilities.

The Board, in respect of the Directors, held directors' and officers' liability insurance cover for the year ended 31 March 2007. The decision whether to hold insurance is considered annually and has been agreed for the year ending 31 March 2008.

## Directors' Service Contracts

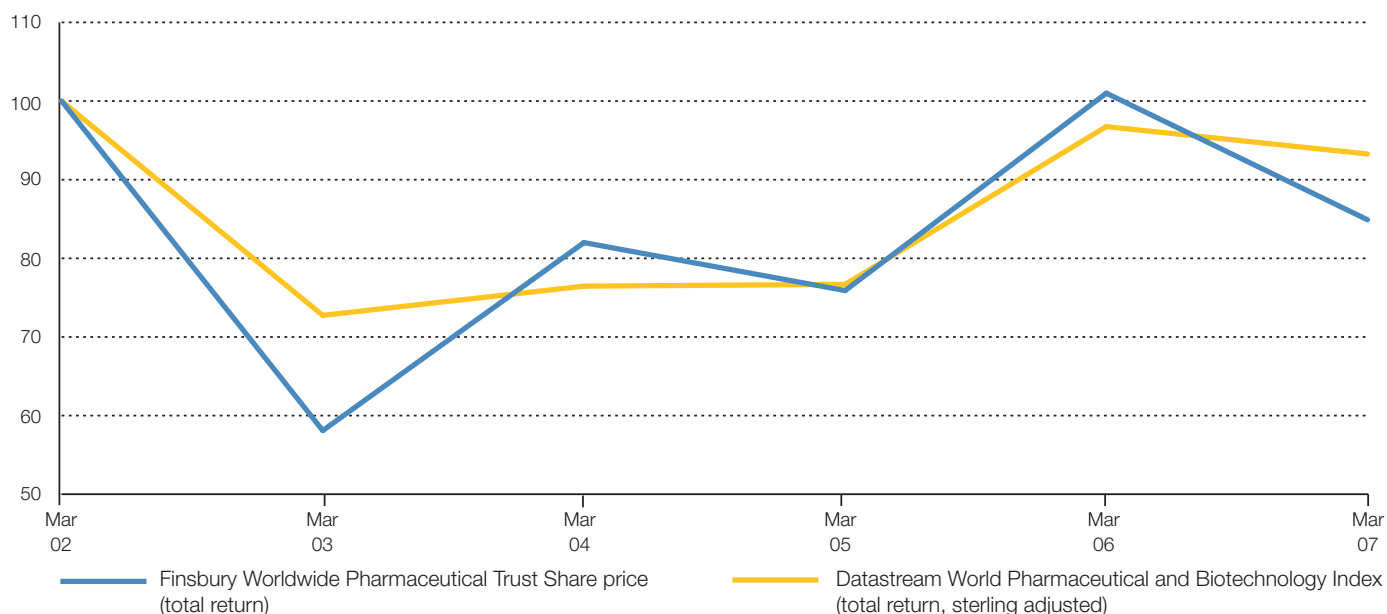
It is the Board's policy that none of the Directors has a service contract. The terms of their appointment provide that Directors shall retire and be subject to re-election at the first annual general meeting after their appointment and at least every three years thereafter. The terms also provide that a Director may resign by notice in writing to the Board at any time and may be removed without notice and that compensation will not be due on leaving office. The Company's policy is for the Directors to be remunerated in the form of fees payable quarterly in arrears, to the Director personally or to a specified third party.

## Your Company's Performance

The Regulations require a line graph be included in the Directors' Remuneration Report comparing, for a period of five years, on a cumulative basis, the total return (assuming all dividends are reinvested) to Ordinary shareholders and the total shareholder return on a notional investment made up of shares of the same kind and number as those by reference to which the Datastream World Pharmaceutical and Biotechnology Index (total return, sterling adjusted), chosen as it is the Company's stated benchmark, is calculated.

# Directors' Remuneration Report (continued)

## Shareholder Total Return for the five years to 31 March 2007



Source: Fundamental Data and Thomson Financial Limited  
Rebased to 100 as at 31 March 2002

## Directors' Emoluments for the Year (audited)

The Directors who served in the year received the following emoluments in the form of fees:

	Fees 2007 (£)	Fees 2006 (£)
Ian Ivory	30,000	30,000
Josephine Dixon	21,000	21,000
Paul Gaunt	19,000	19,000
Professor Duncan Geddes	18,000	18,000
James Noble	19,000	19,000
Samuel D Isaly	19,000	19,000
Anthony Townsend	19,000	19,000
	<b>145,000</b>	<b>145,000</b>

## Approval

The Directors' Remuneration Report on pages 27 and 28 was approved by the Board of Directors on 11 June 2007 and signed on its behalf by Ian Ivory (Chairman).

# Independent Auditors' Report

to the Members of Finsbury Worldwide Pharmaceutical Trust PLC

We have audited the financial statements of Finsbury Worldwide Pharmaceutical Trust PLC for the year ended 31 March 2007, which comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein. 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 Auditors' 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, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, 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 and the information given in the Report of the Directors is consistent with the financial statements.

We also report to you if, in our opinion, 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 other transactions is not disclosed.

We review whether the Corporate Governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only, Why Invest in the Pharmaceutical Sector, Performance, Chairman's Statement, Your Board, A Special Relationship, Review of Investments, Champions of Innovation, Advance of New Therapies, Innovation at Work, Investment Portfolio, Analysis of the Portfolio, Report of the Directors Incorporating the Business Review, Corporate Governance, the unaudited part of the Directors' Remuneration Report, Shareholder Analysis, Notice of Annual General Meeting, Company Information and Glossary. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of Audit Opinion

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

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

# Independent Auditors' Report (continued)

## Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2007 and of its net return for the year then ended;
- 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; and
- the information given in the Report of the Directors is consistent with the financial statements.

## Ernst & Young LLP

Registered Auditor

London

11 June 2007

## Shareholder Analysis

as at 31 March 2007

	2007 number of shares	2007 % of issued share capital	2007 number of warrants <sup>#</sup>	2007 % of issued warrants <sup>#</sup>	2006 number of shares	2006 % of issued share capital	2006 number of warrants <sup>#</sup>	2006 % of issued warrants <sup>#</sup>
Nominee Companies*	45,714,140	87.0	7,194,000	66.8	50,750,965	88.4	7,199,313	66.6
Other Institutions, Investment Funds and Companies	3,600,501	6.9	2,791,007	25.9	3,534,909	6.1	2,797,681	25.9
Private Individuals	1,970,400	3.7	640,470	5.9	1,983,111	3.5	643,471	6.0
Banks and Bank Nominees	1,241,740	2.4	147,890	1.4	1,153,165	2.0	165,633	1.5
Total shares in issue	52,526,781*	100.0	10,773,367*	100.0	57,422,150*	100.0	10,806,098	100.0
*includes Close Investments Savings Scheme, PEP and ISA Clients	2,349,477	4.5	240,204	2.2	2,701,146	4.7	248,105	2.3

<sup>#</sup> Warrants to subscribe for Ordinary shares, created on 17 December 2004

<sup>+</sup> 32,731 Warrants were exercised on 31 July 2006

# Income Statement

for the year ended 31 March 2007

	Notes	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000
(Losses)/gains on investments held at							
fair value through profit or loss	9	–	(37,708)	(37,708)	–	98,824	98,824
Exchange gains/(losses) on currency balances		–	3,903	3,903	–	(1,621)	(1,621)
Income from investments held at							
fair value through profit or loss	2	3,891	–	3,891	2,961	–	2,961
Investment management and							
performance fees	3	(147)	(2,787)	(2,934)	–	(3,192)	(3,192)
Other expenses	4	(973)	–	(973)	(961)	(745)	(1,706)
<b>Net return/(loss) before</b>							
<b>finance charges and taxation</b>		2,771	(36,592)	(33,821)	2,000	93,266	95,266
Finance charges	5	(100)	(1,893)	(1,993)	–	(1,300)	(1,300)
<b>Net return/(loss) on ordinary</b>							
<b>activities before taxation</b>		2,671	(38,485)	(35,814)	2,000	91,966	93,966
Taxation on net return/(loss) on ordinary							
activities	6	(819)	389	(430)	(605)	266	(339)
<b>Net return/(loss) on ordinary activities</b>							
<b>after taxation</b>		1,852	(38,096)	(36,244)	1,395	92,232	93,627
<b>Return/(loss) per Ordinary share – basic</b>	7	3.3p	(66.9p)	(63.6p)	2.5p	166.1p	168.6p
<b>Return/(loss) per Ordinary share – diluted</b>	7	3.2p	(66.9p)	(63.7p)	2.5p	162.3p	164.8p

The total column of this statement is the profit and loss account of the Company. The revenue and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies (formerly the Association of Investment Trust Companies).

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

The Company has no recognised gains and losses other than those shown above and therefore no separate statement of total recognised gains and losses has been presented.

No operations were acquired or discontinued in the year.

*The accompanying notes are an integral part of this statement.*

# Reconciliation of Movements in Shareholders' Funds

For the year ended 31 March 2007

	Called-up share capital £'000	Share premium account £'000	Warrant reserve £'000	Capital reserve £'000	Capital redemption reserve £'000	Revenue reserve £'000	Total £'000
At 31 March 2006	14,356	116,613	7,458	193,699	375	2,257	334,758
Net (loss)/return on ordinary activities after taxation	-	-	-	(38,096)	-	1,852	(36,244)
Dividend paid in respect of year ended 31 March 2006	-	-	-	-	-	(979)	(979)
Proceeds from exercise of Warrants	8	143	-	-	-	-	151
Transfer from Warrant reserve following exercise of Warrants	-	22	(22)	-	-	-	-
Ordinary shares purchased including expenses (and held in treasury)	-	-	-	(24,879)	-	-	(24,879)
Issue of own shares	37	787	-	-	-	-	824
Year ended 31 March 2007	14,401	117,565	7,436	130,724	375	3,130	273,631

For the year ended 31 March 2006

	Called-up share capital £'000	Share premium account £'000	Warrant reserve £'000	Capital reserve £'000	Capital redemption reserve £'000	Revenue reserve £'000	Total £'000
At 31 March 2005	13,648	101,790	7,528	101,467	375	1,572	226,380
Net return from ordinary activities after taxation	-	-	-	92,232	-	1,395	93,627
Dividend paid in respect of year ended 31 March 2005	-	-	-	-	-	(710)	(710)
Proceeds from exercise of Warrants	25	444	-	-	-	-	469
Transfer from Warrant reserve following exercise of Warrants	-	70	(70)	-	-	-	-
Issue of own shares	683	14,309	-	-	-	-	14,992
Year ended 31 March 2006	14,356	116,613	7,458	193,699	375	2,257	334,758

# Balance Sheet

as at 31 March 2007

	Notes	2007 £'000	2006 £'000
<b>Fixed assets</b>			
Investments held at fair value through profit or loss	9	289,919	377,796
<b>Current assets</b>			
Debtors	10	1,319	500
Cash at bank		376	6,490
Derivative – financial instruments	12	–	248
		1,695	7,238
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	11	(17,131)	(50,276)
Derivative – financial instruments	9 & 12	(852)	–
		(17,983)	(50,276)
<b>Net current liabilities</b>			
		(16,288)	(43,038)
<b>Total net assets</b>			
		273,631	334,758
<b>Capital and reserves</b>			
Called-up share capital	13	14,401	14,356
Share premium account		117,565	116,613
Warrant reserve		7,436	7,458
Capital reserve		130,724	193,699
Capital redemption reserve		375	375
Revenue reserve		3,130	2,257
<b>Total equity shareholders' funds</b>			
		273,631	334,758
<b>Net asset value per Ordinary share – basic</b>	14	520.9p	583.0p
<b>Net asset value per Ordinary share – diluted</b>	14	511.2p	564.1p

The financial statements on pages 31 to 45 were approved by the Board of Directors and authorised for issue on 11 June 2007 and were signed on its behalf by:

**Ian Ivory**

Chairman

*The accompanying notes are an integral part of this statement.*

# Cash Flow Statement

for the year ended 31 March 2007

	Notes	2007 £'000	2006 £'000
<b>Net cash outflow from operating activities</b>	15	(645)	(4,594)
<b>Servicing of finance</b>			
Interest paid		(2,007)	(1,322)
<b>Taxation</b>			
Taxation recovered		140	59
<b>Financial investments</b>			
Purchases of investments and options		(102,329)	(120,620)
Sales of investments and options		152,855	94,747
<b>Net cash flow from financial investment</b>		50,526	(25,873)
<b>Equity dividends paid</b>		(979)	(710)
<b>Net cash inflow/(outflow) before financing</b>		47,035	(32,440)
<b>Financing</b>			
Issue of Ordinary shares		975	15,461
Purchase of Ordinary shares		(24,179)	–
(Decrease)/increase in short term loans		(29,907)	25,140
<b>Net cash (outflow)/inflow from financing</b>		(53,111)	40,601
<b>(Decrease)/increase in cash for the year</b>	16	(6,076)	8,161

# Notes to the Financial Statements

## 1. Accounting Policies

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

### (a) Basis of Preparation

The financial statements have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' dated December 2005 (the 'Revised SORP').

### (b) Valuation of Investments

Listed investments have been designated by the Board as held at fair value through profit or loss and accordingly are valued at fair value, deemed to be bid market prices.

Unquoted investments are valued by the Directors using primary valuation techniques such as earnings multiples, recent transactions and net assets.

Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Income Statement as 'Gains or losses on investments held at fair value through profit or loss'. Also included within this caption are transaction costs in relation to the purchase or sale of investments, including the difference between the purchase price of an investment and its bid price at the date of purchase. All purchases and sales are accounted for on a trade date basis.

### (c) Investment Income

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

Deposit interest is accounted for on an accruals basis.

### (d) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the income statement (revenue) except as follows:

- (i) expenses which are incidental to the acquisition or disposal of an investment are categorised as fixed assets at fair value through profit or loss and are expensed as they are charged to capital;
- (ii) expenses are charged to the realised capital reserve where a connection with the maintenance or enhancement of the value of the investments can be demonstrated. In this respect the investment management fee, including any performance fee and the indexation on the deferred fee agreement with the previous Investment Manager, have been charged to the income statement in line with the Board's expected long-term split of returns, in the form of capital gains and income, from the Company's investment portfolio; and
- (iii) management fees are charged to the income statement in line with the Board's expected long-term split of returns, in the form of capital gains and income; as a result 5% of the management fees are charged to the revenue column of the income statement and 95% are charged to the capital column of the income statement.

### (e) Finance costs/charges

Finance costs are accounted for on an accruals basis. Finance costs are charged to the income statement in line with the Board's expected long-term split of returns, in the form of capital gains and income, from the Company's investment portfolio. The Board's expected long-term split of returns is 5% to revenue, 95% to capital and as a result 5% of the finance costs are charged to revenue and 95% are charged to capital. Interest-bearing bank loans and overdrafts are recorded as the proceeds received, net of direct issue costs. Finance charges, if applicable, including interest payable and premiums on settlement or redemption, are accounted for on an accruals basis in the income statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

### (f) Taxation

The tax effect of different items of expenditure is allocated between capital and revenue using the marginal basis.

Deferred taxation is provided on all timing differences that have originated but not reversed by the balance sheet date other than those differences regarded as permanent. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the reversal of timing differences can be deducted. Any liability to deferred tax is provided for at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

# Notes to the Financial Statements (continued)

## (g) Foreign Currency

The results and financial position of the Company are expressed in pounds sterling, which is the functional and presentational currency of the Company. Sterling is the functional currency because it is the currency of the primary economic environment in which the Company operates.

Transactions recorded in overseas currencies during the year are translated into sterling at the appropriate daily exchange rates. Assets and liabilities denominated in overseas currencies at the balance sheet date are translated into sterling at the exchange rates ruling at the date.

Any gains or losses on the translation of foreign currency balances, whether realised or unrealised, are taken to the capital or the revenue column of the Income Statement, depending on whether the gain or loss is of a capital or revenue nature.

## (h) Financial Instruments

The Company uses derivative financial instruments (namely put and call options). The merits and rationale behind such strategies are to:

- enhance the capital return of the investment portfolio, facilitate management of the portfolio volatility and improve the risk-return profile of the Company relative to its benchmark.

Derivative instruments are valued at fair value in the balance sheet in accordance with FRS 26: 'Financial instruments: measurement'.

Each investment in options is reviewed on a case-by-case basis and are all deemed to be capital in nature. As such, all gains and losses on the above strategies have been debited or credited to the capital column of the income statement.

## (i) Reserves

Capital reserves

The following are charged to the capital column of the income statement and transferred to this reserve:

- gains and losses on the realisation of investments;
- realised exchange differences of a capital nature;
- expenses, together with the related taxation effect, in accordance with the above policies;
- increases and decreases in the valuation of investments held at the year end; and
- unrealised exchange differences of a capital nature.

# Notes to the Financial Statements (continued)

## 2. Income from Investments Held at Fair Value Through Profit or Loss

	2007 £'000	2006 £'000
<b>Income from investments</b>		
Overseas dividends	3,123	2,683
Fixed interest income	498	209
	3,621	2,892
<b>Other income</b>		
Interest receivable	270	69
Total income from investments held at fair value through profit or loss	3,891	2,961
<b>Total income comprises:</b>		
Dividends	3,123	2,683
Interest	768	278
	3,891	2,961

## 3. Investment Management and Performance Fees

	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000
Performance fee accrued	–	–	–	–	136	136
Management fee	145	2,756	2,901	–	2,993	2,993
Irrecoverable VAT thereon	2	31	33	–	63	63
	147	2,787	2,934	–	3,192	3,192

Details of Management and Investment Management agreements are set out in the Report of the Directors on pages 16 and 17.

# Notes to the Financial Statements (continued)

## 4. Other Expenses

	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000
Secretarial services fee	150	–	150	150	–	150
Directors' remuneration	145	–	145	145	–	145
Fees payable to the Company's auditors for the audit of the annual financial statements	21	–	21	18	–	18
Fees payable to the Company's auditors for non-audit services – Other	13	–	13	12	–	12
Indexation of deferred fee	–	–	–	–	745	745
Marketing	195	–	195	181	–	181
Close Investments PEP, ISA and Savings Scheme expenses	56	–	56	60	–	60
Registrar	56	–	56	63	–	63
Custody	54	–	54	52	–	52
Other	283	–	283	280	–	280
	973	–	973	961	745	1,706

Where applicable the above expenses exclude VAT.

Details of the amounts paid to Directors are included in the Directors' remuneration report on pages 27 and 28.

## 5. Finance Charges

	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000
Finance charges	100	1,893	1,993	–	1,300	1,300

## 6. Taxation on Ordinary Activities

### (a) Analysis of charge in year:

	Revenue 2007 £'000	Capital 2007 £'000	Total 2007 £'000	Revenue 2006 £'000	Capital 2006 £'000	Total 2006 £'000
UK corporation tax at 30%	–	–	–	–	–	–
Tax savings due to expenses capitalised	389	(389)	–	266	(266)	–
Overseas taxation	430	–	430	339	–	339
	819	(389)	430	605	(266)	339

# Notes to the Financial Statements (continued)

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

The tax charged for the year is higher than the standard rate of corporation tax in the UK for a large company 30% (2006: 30%). The difference is explained below.

	2007 £'000	2006 £'000
Revenue account profit on ordinary activities before tax	2,671	2,000
Corporation tax at 30%	801	600
Overseas withholding tax not recoverable	430	339
Expenses charged to capital available to be utilised	(1,404)	(1,571)
Excess expenses unused	975	1,215
Timing differences on overseas dividends	–	(5)
Disallowed expenses	17	27
	819	605

(c) The Company has not recognised a deferred tax asset of £10,482,000 (2006: £9,455,000) arising as a result of unutilised expenses. These expenses will only be utilised if the Company generates sufficient taxable profits in the future or if there is a change in the legislation and capital gains become taxable for investment trust companies. It is considered too uncertain that either of these will occur and, therefore, no deferred tax asset has been recognised. There is no capital gains tax payable by the Company because investment trust companies are exempt from this tax.

## 7. Return/(loss) per Ordinary Share

	2007 £'000	2006 £'000
The (loss)/return per Ordinary share is based in the following figures:		
Revenue return	1,852	1,395
Capital (loss)/return	(38,096)	92,232
Total (loss)/return	(36,244)	93,627
Weighted average number of Ordinary shares in issue for the year – basic	56,962,481	55,522,713
Revenue return per Ordinary share	3.3p	2.5p
Capital (loss)/return per Ordinary share	(66.9p)	166.1p
Total (loss)/return per share – basic	(63.6p)	168.6p
Weighted average number of Ordinary shares in issue for the year – diluted	57,619,379	56,832,543
Revenue return per Ordinary share	3.2p	2.5p
Capital (loss)/return per Ordinary share	(66.9p)*	162.3p
Total (loss)/return per share – diluted	(63.7p)	164.8p

\*dilution not applicable

# Notes to the Financial Statements (continued)

## 8. Interim Dividend

In respect of the year ended 31 March 2007, an interim dividend of 3.0p per share (2006: 1.7p per share) has been declared. The aggregate cost of this dividend based on the number of shares in issue at 7 June 2007 is estimated to be £1,547,000. In accordance with FRS 21 this dividend will be reflected in the interim accounts as at 30 September 2007. Total dividends in respect of the financial year, which is the basis on which the requirements of s842 of the Income and Corporation Taxes Act 1988 are considered, are set out below:

	2007 £'000	2006 £'000
Revenue available for distribution by way of dividend for the year	1,852	1,395
Dividends for the year ended 31 March	(1,547)*	(979)
	305	416

\*based on shares in issue as at 7 June 2007 (51,578,781)

## 9. Investments

	Listed investments £'000	Unlisted investments £'000	Options £'000	Total £'000
Cost at 1 April 2006	284,571	7,058	(478)	291,151
Unrealised appreciation/(depreciation) at 1 April 2006	86,284	(117)	726	86,893
Valuation at 1 April 2006	370,855	6,941	248	378,044
Movements in the year:				
Purchases at cost	96,628	–	5,709	102,337
Sales – proceeds	(143,059)	(137)	(10,410)	(153,606)
– realised gains/(losses) on sales	12,847	(1,720)	4,329	15,456
Net movement in unrealised appreciation	(53,338)	902	(728)	(53,164)
Transfer from unlisted	5,201	(5,201)	–	–
Valuation at 31 March 2007	289,134	785	(852)	289,067
Cost at 31 March 2007	256,188	–	(850)	255,338
Unrealised appreciation/(depreciation) at 31 March 2007	32,946	785	(2)	33,729
Valuation at 31 March 2007	289,134	785	(852)	289,067
Valuation of investments at 31 March 2007	289,134	785	–	289,919
Valuation of options at 31 March 2007	–	–	(852)	(852)
Total	289,134	785	(852)	289,067

# Notes to the Financial Statements (continued)

## 9. Investments (continued)

	2007 £'000	2006 £'000
<b>Gains on investment:</b>		
Realised gains based on historical cost	15,456	17,760
Less: amounts recognised as unrealised in previous years	(40,267)	(7,430)
Realised (losses)/gains based on carrying value at previous balance sheet date	(24,811)	10,330
Net movement in unrealised appreciation in the year	(12,897)	88,494
<b>(Losses)/gains on investment</b>	<b>(37,708)</b>	<b>98,824</b>

Purchase transaction costs for the year to 31 March 2007 were £291,000 (year ended 31 March 2006: £218,000). These comprise mainly stamp duty and commission.

Sales transaction costs for the year to 31 March 2007 were £419,000 (year ended 31 March 2006: £221,000).

## 10. Debtors

	2007 £'000	2006 £'000
Amounts due from brokers	751	–
Withholding taxation recoverable	246	239
VAT recoverable	125	40
Prepayments and accrued income	197	221
	1,319	500

## 11. Creditors

	2007 £'000	2006 £'000
Amounts falling due within one year		
Amounts due to brokers	8	–
Amounts due to brokers – purchase of own shares	694	–
Stamp duty due to purchase of Ordinary Shares	6	–
Bank loans and overdrafts	15,650	49,498
Other creditors and accruals	773	778
	17,131	50,276

## 12. Derivative Financial Instruments

	2007 £'000	2006 £'000
Fair value of call and put options	(852)	248

See note 9 for movements in the year.

# Notes to the Financial Statements (continued)

## 13. Share Capital

	2007 £'000	2006 £'000
Authorised:		
178,000,000 Ordinary shares of 25p	44,500	44,500
Allotted, called-up and fully paid:		
57,604,881 (2006: 57,422,150) Ordinary shares of 25p	14,401	14,356

At 31 March 2007, the Company held 5,078,100 shares in treasury.

During the year ended 31 March 2007 a total of 182,731 shares were allotted (150,000 on 19 April 2006 raising £824,000 to satisfy market demand and 32,731 on 3 August 2006 raising a further £151,000 as a result of certain holders of the Company's warrants exercising their subscription rights).

A total of 5,078,100 shares were repurchased to be held as treasury shares during the year at a total cost of £24,879,000.

## 14. Net Asset Value per Ordinary share

	2007	2006
Net asset value per Ordinary share – basic	520.9p	583.0p
Net asset value per Ordinary share – diluted	511.2p	564.1p

The net asset value per Ordinary share is based on the assets attributable to equity shareholders of £273,631,000 (2006: £334,758,000) and on the number of Ordinary shares in issue at the year end of 52,526,781 (2006: 57,422,150). The diluted net asset value per Ordinary share assumes all outstanding warrants are exercised at 464p resulting in assets attributable to equity shareholders of £323,619,000 (2006: 384,898,000) and on the resultant number of shares of 63,300,148 (2006: 68,228,248). (As at 31 March 2007, the Company held 5,078,100 shares in treasury).

## 15. Reconciliation of Operating Return to Net Cash Outflow from Operating Activities

	2007 £'000	2006 £'000
(Loss)/total return before finance costs and taxation	(33,821)	95,266
Capital loss/(return) before finance costs and taxation	36,592	(93,266)
Revenue return before finance costs and taxation	2,771	2,000
Expenses charged to capital	(2,787)	(3,937)
Decrease/(increase) in accrued income	24	(1)
(Increase)/decrease in other debtors	(84)	35
Decrease in creditors and accruals	–	(2,197)
Net taxation suffered on investment income	(569)	(494)
Net cash outflow from operating activities	(645)	(4,594)

# Notes to the Financial Statements (continued)

## 16. Reconciliation of Net Cash Flow Movement to Movement in Net Debt

	2007 £'000	2006 £'000
(Increase)/decrease in net debt resulting from cashflows	(6,076)	7,072
Exchange movements	3,903	(1,621)
Decrease/(increase) in short term loans	29,907	(24,051)
Movement in net debt in the year	27,734	(18,600)
Net debt at start of year	(43,008)	(24,408)
Net debt at end of year	(15,274)	(43,008)

### Represented by:

	At 1 April 2006 £'000	Cash flows £'000	Exchange movements £'000	At 31 March 2007 £'000
Cash at bank	6,490	(6,076)	(38)	376
Bank overdraft	–	(801)	–	(801)
Bank loans	(49,498)	30,708	3,941	(14,849)
Net debt	(43,008)	23,831	3,903	(15,274)

## 17. Related Parties

Details of the relationship between the Company, Frostrow Capital LLP and OrbiMed Capital LLC are disclosed in the Report of the Directors on pages 16 and 17.

## 18. Derivatives and Other Financial Instruments

### Background

The Company's financial instruments comprise securities and other investments, cash balances, debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement and debtors for accrued income. Unlisted investments in the portfolio are subject to liquidity risk. This risk is taken into account by the Directors when arriving at their valuation of these items.

The principal risks the Company faces in its portfolio management activities are:

- (i) foreign currency risk
- (ii) market price risk i.e. movements in the value of investment holdings caused by factors other than currency movement
- (iii) cash flow interest rate risk
- (iv) liquidity risk

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

### Policy

#### (i) Foreign Currency Risk

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

#### (ii) Market Price Risk

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

# Notes to the Financial Statements (continued)

### (iii) Cash flow Interest Rate Risk

The Company finances its operations through its equity capital and reserves and its long and short term loans as well as bank overdrafts and any retained revenues arising from its activities. The Company borrows in the desired currencies at both fixed and floating rates of interest and the Board imposes borrowing limits to ensure gearing levels are appropriate to market conditions and reviews these on a regular basis.

### (iv) Liquidity Risk

The Company's assets comprise mainly liquid securities which the Directors anticipate would have the potential to achieve their market value if a forced sale was necessary.

### (v) Primary Financial Instruments

Financial assets are included in the balance sheet at fair values and in accordance with the Company's accounting policies as shown on pages 35 and 36.

At 31 March 2007, the Company had a committed loan facility with Allied Irish Banks p.l.c. of £45 million (2006: £35 million). At such date £14.8 million (2006: £49.5 million) was drawn down. The facilities are subject to regular review and are subject to standard financial and commercial covenants relating, *inter alia*, to the maintenance of the net asset value at not less than £125 million, net borrowings limits, derivatives ratios and Company investment levels in relation to gross asset value. Interest is charged LIBOR plus 0.55% per annum. The interest period is agreed at time of drawing.

### Use of Derivatives

During the year the Company adopted the following option strategies:

Buy call options, buy put options, sell calls and sell puts. The merits and rationale behind such strategies are to:

- enhance the capital return of the investment portfolio;
- facilitate management of the portfolio volatility; and
- improve the risk-return profile of the Company relative to its benchmark, the Datastream World Pharmaceutical and Biotechnology Index (total return, sterling adjusted).

Each investment in options has been reviewed on a case-by-case basis and they have all been deemed to be capital in nature. As such, all gains and losses on the above strategies have been debited or credited to the capital column of the income statement.

### Fair value of financial assets and liabilities

	Cashflow interest rate risk £'000	Fixed interest bearing investments £'000	Non- interest rate risk £'000	Total 2007 £'000	Cashflow interest rate risk £'000	Fixed interest bearing investments £'000	Non- interest rate risk £'000	Total 2006 £'000
Investments held at fair value	–	–	289,919	289,919	–	7,628	370,168	377,796
Cash	376	–	–	376	6,490	–	–	6,490
Derivative financial instruments	–	–	–	–	–	–	248	248
Net current assets	–	–	1,319	1,319	–	–	500	500
Total financial assets	376	–	291,238	291,614	6,490	7,628	370,916	385,034
Derivative financial instruments	–	–	(852)	(852)	–	–	–	–
Bank loan and overdraft	(15,650)	–	(1,481)	(17,131)	(49,498)	–	–	(49,498)
Other financial liabilities	–	–	–	–	–	–	(778)	(778)
Total financial liabilities	(15,650)	–	(2,333)	(17,983)	(49,498)	–	(778)	(50,276)
<b>Net financial (liabilities)/assets</b>	<b>(15,274)</b>	<b>–</b>	<b>288,905</b>	<b>273,631</b>	<b>(43,008)</b>	<b>7,628</b>	<b>370,138</b>	<b>334,758</b>

# Notes to the Financial Statements (continued)

## Currency Exposure

A portion of the financial assets and financial liabilities of the Company is denominated in currencies other than sterling and with the effect that the net assets and total return can be significantly affected by currency movements.

Currency	Investments denominated in overseas currencies	Net monetary liabilities	Investments denominated in overseas currencies	Net monetary liabilities
	2007 £'000	2007 £'000	2006 £'000	2006 £'000
Euro	–	–	10,704	(2,078)
Swiss Franc	30,817	–	47,808	(4,845)
Canadian Dollar	–	–	1,911	–
Japanese Yen	36,133	–	29,198	(2,015)
U.S. Dollar	218,476	(13,191)	285,383	(29,310)
	285,426	(13,191)	375,004	(38,248)

## (vi) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other to incur a financial loss. This is mitigated by the Investment Manager reviewing the credit ratings of broker counterparties. The Company's exposure to derivatives is set out in note 9 on page 40.

## (vii) Fair Values of Financial Assets and Liabilities

All of the financial assets of the Company are held at fair value. Financial liabilities are held at nominal value. As the Company's loans are repayable in less than 3 years, or on demand, there is no material difference between the nominal and fair values. At the balance sheet date there were no assets or liabilities valued using assumption-based valuation techniques.

# Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Finsbury Worldwide Pharmaceutical Trust PLC will be held at the Armourers' Hall, 81 Coleman Street, London EC2R 5BJ on Monday, 9 July 2007 at 12 noon, for the following purposes:

## Ordinary Business

- 1 To receive and consider the audited accounts and the Report of the Directors for the year ended 31 March 2007.
- 2 To re-elect Mr Ian Ivory as a Director of the Company.
- 3 To re-elect Mr Paul Gaunt as a Director of the Company.
- 4 To re-elect Professor Duncan Geddes as a Director of the Company.
- 5 To re-elect Mr Samuel D Isaly as a Director of the Company.
- 6 To re-elect Mr Anthony Townsend as a Director of the Company.
- 7 To re-elect Ms Jo Dixon as a Director of the Company.
- 8 To re-appoint Ernst & Young LLP as the Company's Auditors and to authorise the Directors to determine their remuneration.
- 9 THAT the Directors' Remuneration Report be, and is hereby approved.

## Special Business

To consider, and if thought fit, pass the following resolutions, of which resolutions 11 and 12 will be proposed as special resolutions:

### Authority to allot shares

- 10 THAT in substitution for all existing authorities the Directors be and are hereby generally and unconditionally authorised in accordance with s80 of the Companies Act 1985 (the 'Act') to exercise all powers of the Company to allot relevant securities (within the meaning of s80 of the Act) up to a maximum aggregate nominal amount of £1,289,470 being 10.0% of the issued Ordinary share capital of the Company at 7 June 2007 and representing 5,157,878 Ordinary shares of 25p each (or, if less, the number representing 10.0% of the issued Ordinary share capital of the Company at the date at which this resolution is passed) provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2008, unless previously revoked, varied or renewed, by the Company in general meeting and provided that the Company shall be entitled to make, prior to the expiry of such authority, an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities pursuant to such offer or agreement as if the authority conferred hereby had not expired.

### Disapplication of pre-emption rights

- 11 THAT in substitution of all existing powers the Directors be and are hereby generally empowered pursuant to s95 of the Companies Act 1985 (the 'Act') to allot equity securities (within the meaning of s94 of the Act) for cash pursuant to the authority conferred on them by resolution 10 above or otherwise as if s89(1) of the Act did not apply to any such allotment and to sell relevant shares (within the meaning of s94 of the Act) if, immediately before the sale, such shares are held by the Company as treasury shares (as defined in s162A of the Act ('treasury shares')), for cash as if s89(1) of the Act did not apply to any such sale provided that this power shall be limited to the allotment of equity securities and the sale of treasury shares pursuant to:
  - (a) an offer of equity securities open for acceptance for a period fixed by the Board where the equity securities respectively attributable to the interests of holders of Ordinary shares of 25p each in the Company ('Ordinary shares') are proportionate (as nearly as may be) to the respective numbers of Ordinary shares held by them but subject to such exclusions or other arrangements in connection with the issue as the Board may consider necessary, appropriate, or expedient to deal with equity securities representing fractional entitlements or to deal with legal or practical problems arising in any overseas territory, the requirements of any regulatory body or stock exchange, or any other matter whatsoever; and
  - (b) (otherwise than pursuant to sub-paragraph (a) above) up to an aggregate nominal value of £1,289,470 or, if less, the number representing 10.0% of the issued Ordinary share capital of the Company at the date of the meeting at which this resolution is passed

and expires at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or 15 months from the date of passing this resolution, whichever is the earlier, unless previously revoked, varied or renewed by the Company in general meeting and provided that the Company shall be entitled to make, prior to the expiry of such authority, an offer or agreement which would or might require equity securities to be allotted or treasury shares to be sold after such expiry and the Board may allot equity securities or sell treasury shares pursuant to such offer or agreement as if the power conferred hereby had not expired.

# Notice of Annual General Meeting (continued)

## Authority to Repurchase Ordinary Shares

12 THAT the Company be and is hereby generally and unconditionally authorised in accordance with s166 of the Companies Act 1985 (the 'Act') to make one or more market purchases (within the meaning of s163(3) of the Act) of Ordinary shares of 25p each in the capital of the Company ('Ordinary shares') provided that:

- (a) the maximum aggregate number of Ordinary shares authorised to be purchased is 7,731,659 (representing approximately 14.99% of the issued Ordinary share capital of the Company at the date of the meeting at which this resolution is proposed);
- (b) the minimum price (exclusive of expenses) which may be paid for an Ordinary share is 25p;
- (c) the maximum price (exclusive of expenses) which may be paid for an Ordinary share is an amount equal to the higher of (a) 105.0% of the average of the middle market quotations for an Ordinary share as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which that Ordinary share is purchased; and (b) the higher of the price of the last independent trade in shares and the highest then current independent bid for shares on the London Stock Exchange;
- (d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2008 or, if earlier, on the expiry of 15 months from the date of the passing of this resolution unless such authority is renewed prior to such time; and
- (e) the Company may make a contract to purchase Ordinary shares under this authority before the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority, and may make a purchase of Ordinary shares in pursuance of any such contract.

By order of the Board

Registered Office:

**Frostrow Capital LLP**  
Company Secretary  
11 June 2007

Senator House  
85 Queen Victoria Street  
London EC4V 4JL

# Notice of Annual General Meeting (continued)

## Notes

### 1 Attendance at Meeting

Ordinary shareholders, proxies and authorised representatives of corporations which are Ordinary shareholders are entitled to attend the meeting. Shareholders' names must be entered on the register by 12 noon on 7 July 2007, so that they may have the right to vote at the meeting.

### 2 Appointment of Proxies

A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, upon a poll, to vote instead of him/her. A proxy need not also be a member.

### 3 To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members at 12 noon on 7 July 2007 ('the specified time'). If the meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If however the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at the time which is 48 hours before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice.

### 4 The Register of Directors' interests is available at the Company's registered office during normal business hours on any weekday and will be available for inspection at the above Meeting.

## Location of Annual General Meeting

to be held at the Armourers' Hall, 81 Coleman Street, London EC2R 5BJ on Monday, 9 July 2007 at 12 noon



# Company Information

## Directors

Ian Ivory (Chairman)  
Josephine Dixon  
Paul Gaunt  
Professor Duncan Geddes  
Samuel D Isaly  
James Noble  
Anthony Townsend

## Company Registration Number

3023689 (Registered in England)

## Website

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

## Registered Office

Senator House  
85 Queen Victoria Street  
London EC4V 4JL

## Manager and Company Secretary

Frostrow Capital LLP  
25 Southampton Buildings  
London WC2A 1AL  
(Office address)  
Telephone: 0203 008 4913  
[www.frostrow.com](http://www.frostrow.com)

Authorised and regulated by the Financial Services Authority

## Investment Manager

OrbiMed Capital LLC  
767 Third Avenue, 30th Floor  
New York NY10017  
[www.orbimed.com](http://www.orbimed.com)

Registered under the U.S. Securities & Exchange Commission

## Auditors

Ernst & Young LLP  
1 More London Place  
London SE1 2AF

## Registrars

Capita Registrars  
Northern House, Woodsome Park  
Fenay Bridge, Huddersfield  
West Yorkshire HD8 0LA  
Telephone: 0870 162 3100  
Facsimile: 020 8639 2342  
E-mail: [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com)

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

## Disability Act

Copies of this annual report and other documents issued by the Company are available from the Company Secretary. If needed, copies can be made available in a variety of formats, including Braille, audio tape or larger type as appropriate. You can contact the Registrar to the Company, Capita IRG plc, which has installed telephones to allow speech and hearing impaired people who have their own telephone to contact them directly, without the need for an intermediate operator, for this service please call 020 8639 2062. Specially trained operators are available during normal business hours to answer queries via this service. Alternatively, if you prefer to go through a 'typetalk' operator (provided by the RNID) you should dial 18001 followed by the number you wish to dial.

## Corporate Stockbroker

Winterflood Investment Trusts  
The Atrium Building  
Cannon Bridge, 25 Dowgate Hill  
London EC4R 2GA

## Close Investments Savings Scheme, ISA, MileStones Plan and PEP

Block C, Western House  
Lynchwood Business Park  
Peterborough PE2 6BP

Investor Helpline: 0845 600 1213\*

E-Mail: [info@closeinvestments.com](mailto:info@closeinvestments.com)

\*calls to this number are recorded for monitoring purposes and will be charged at local rates, non-BT line charges may vary.

Please contact Close Investments if you have a query concerning your Close Investments Savings Scheme, ISA, MileStones Plan or PEP account.

Online investment and account management is available for the Close Investments Savings Scheme, ISA, MileStones Plan and PEP at [www.closeinvestments.com](http://www.closeinvestments.com)

## Share and Warrant Price Listings

The price of your shares and warrants can be found in various publications including the Financial Times (under Investment Companies), The Daily Telegraph (under Investment Trusts), The Times, The Scotsman and The Herald.

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

## Identification Codes

Ordinary shares:	SEDOL	:	0338530
	ISIN	:	GB0003385308
	BLOOMBERG	:	FWP LN
Warrants:	EPIC	:	FWP
	SEDOL	:	8038453
	ISIN	:	GB0080384537
	BLOOMBERG	:	FWPW LN

# Glossary

## Investment Trust Terms

### Net Asset Value ('NAV') per share (pence)

Net asset value per share is shareholders' funds expressed as an amount per Ordinary share. Shareholders' funds are the total value of all of the Company's assets, at current fair value, having deducted all prior charges.

### Diluted NAV

This is a method of calculating the NAV of a company that has issued, and has outstanding, convertible loan stocks, warrants or options. The calculation assumes that the holders have exercised their right to convert or subscribe, thus increasing the number of shares among which the assets are divided.

### NAV Total Return

The theoretical total return on shareholders' funds per Ordinary share, including the assumed £100 original investment at the beginning of the period specified, reflecting the change in NAV assuming that dividends paid to shareholders were reinvested at NAV at the time the shares were quoted ex-dividend. A way of measuring investment management performance of investment trusts which is not affected by movements in discounts/premiums.

### Discount or Premium

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

### Gearing

The term used to describe the process of borrowing money for investment purposes in the expectation that the returns on the investments purchased using the borrowings exceed the costs of those borrowings.

### Total Assets

Total assets give an indication of the total value of all the Company's investments before deducting any borrowings used for gearing/investment purposes.

### Total Expense Ratio

The total expense ratio is calculated by taking the Company's expenses and dividing by the average net asset value of the Company.

## Pharmaceutical and Biotechnology Terms

### Angiogenesis

The growth of new blood vessels.

### Biotechnology

The industrial practice of creating and developing techniques that use living organisms, or substances from those organisms, to make or modify a therapeutic product by microbial and biochemical processes. Biotechnology products include antibiotics, insulin and monoclonal antibodies.

### Cell

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

### Chromosome

A large chain of DNA containing many genes.

### Clone

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

### COX-2 Inhibitors

Nonsteroidal anti-inflammatory pain medications that are thought to cause less gastrointestinal irritation and bleeding than many traditional pain medications.

### DNA

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

### FDA

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

### Gene

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

### Gene Therapy

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

### Genome

The total chromosomal DNA of a particular organism.

### Genomics

The study of genomes and the genes they contain.

### Hormone

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

### Monoclonal Antibody

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

### Pathogen

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

### Peptide

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

### Pharmaceutical

A medicinal drug, or relating to the manufacture or sale of therapeutic products which are generally developed and manufactured using available chemical compounds and chemical reactions. Term also used to distinguish small molecule (or chemical) drugs from biotechnology drugs.

### Phase I Clinical Trial

Examines safety in healthy volunteers.

### Phase II Clinical Trial

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

### Phase III Clinical Trial

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

### Protein

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

### Proteomics

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

### Stem Cells

Cells which can develop into a wide range of tissues.

### Virus

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

### VEGF

Vascular Endothelial Growth Factor is a key protein involved in angiogenesis.

Past performance is not a guide to future performance. Changes in the rates of exchange between currencies may cause the value of investments to fluctuate. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. When investing in shares in the pharmaceutical and biotechnology sectors it is important to note that shares in these sectors can be particularly volatile. The price of shares and any income from them may fall as well as rise and is not guaranteed. The investor may not get back the original amount invested. This document does not constitute an offer or invitation to purchase shares in the Company.



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