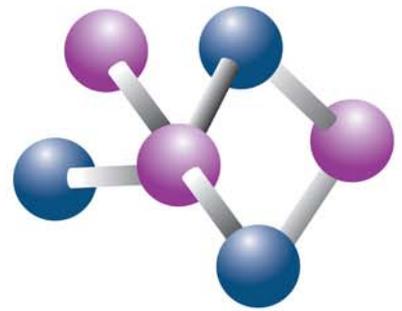


medical
research
scotland



FUNDING A HEALTHIER FUTURE

Report & Accounts 2005-06



Scotland's largest
medical research charity

Medical Research Scotland

Medical Research Scotland is the operational name of the Scottish Hospital Endowments Research Trust (SHERT), which is recognised as a charity in Scotland with Charity No. SCO14959 and is registered for VAT, Registration No 751 3493 33.

Members

The following served as Members of the Trust during the year:

*Professor S Moira Brown, PhD, FRCPath, FRSE (Chairman)

Dr Graham Beastall, BSc, PhD, FRCPath, EurClinChem (Vice-Chairman)

**Professor Margaret Alexander, CBE, PhD, RN, RM, RNT, FRCN (*until 31 March, 2006*)

Professor Jane Bower, BSc, PhD (*until 1 November, 2005*)

Professor William Cushley, BSc, PhD (*from 24 February, 2006*)

*Mr Frederick Dalgarno, LLB, DipIM, CA

Professor Paul Garside, BSc, PhD (*from 20 February, 2006*)

Mr David Grahame, OBE, MA (*until 30 November, 2005*)

Professor Ian A Greer, MD, FRCP(Glasg), FRCPE, FRCP, FRCOG (*from 3 February, 2006*)

**Professor Nicol Keith, PhD

**Dr Zosia Miedzybrodzka, MBChB, PhD, MRCOG

*Mr John Naylor, OBE, MA, CCMI (*from 3 February, 2006*)

*Ms Fiona Nicolson, LLB (*from 20 February, 2006*)

Professor Michael Steel, BSc, MBChB, PhD, DSc, FRCPE, FRCSE, FRCPath (*from 21 February, 2006*)

*Mr Alan A Stewart

** Denotes membership of the Audit & Investment Sub-Committee*

*** Denotes membership of the Fellowships & Scholarships Sub-Committee*

PRINCIPAL ADDRESS

Princes Exchange, 1 Earl Grey Street, Edinburgh EH3 9EE

SECRETARIES

Turcan Connell, Princes Exchange, 1 Earl Grey Street, Edinburgh EH3 9EE

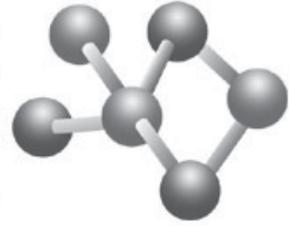
AUDITORS

Chiene + Tait, Chartered Accountants and Registered Auditors, 61 Dublin Street, Edinburgh EH3 6NL

INVESTMENT MANAGER

Martin Currie Investment Management Ltd, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2ES

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FUNDING A HEALTHIER FUTURE

Report & Accounts

for the period 1 August 2005 - 31 March 2006

Scotland's largest
medical research charity

Chairman's Introduction

This Report covers a short accounting period of eight months to 31 March 2006. Members have decided that an accounting date of 31 March would have a number of advantages as compared with the previous accounting date of 31 July.

In this period, a number of fundamental changes affected the activities of the Trust.

- On 1 November 2005, the Trust ceased to be a non-departmental public body, in terms of the Smoking, Health and Social Care (Scotland) Act 2005, and became a fully independent charity.
- Following that change of status, Members of the Trust will now be appointed by the existing Members, rather than a full public appointments process being undertaken. The Trust, however, intends to continue to recruit Members of high standing, with the requisite range of skills necessary to ensure the Trust's continuing status as a prestigious grant-giving body.
- Following the change of status, Members determined to adopt an operating name "Medical Research Scotland" which more accurately reflects the Trust's activities.
- As a result of the change of status from non-departmental public body to independent charity, the Trust is no longer subject to the supervision of Audit Scotland, nor of the Chief Scientist Office of the Scottish Executive Health Department. It also no longer has the benefit of expert advice from the Biomedical & Therapeutic Research Committee of the Chief Scientist Office. In response to the latter change, the Trust has strengthened its procedures for internal assessment of research grant applications by Members of the Trust before they are discussed at a full Trust Meeting; and the Trust's Scientific Adviser continues to draw on the expertise of a wide range of independent referees in assisting in the assessment of those applications.
- The Charities and Trustee Investment (Scotland) Act 2005 came substantially into force on 24 April 2006. That Act establishes the new Office of the Scottish Charity Regulator, responsible for the overall supervision and monitoring of charitable activity in Scotland. That Act also introduced, on 1 January 2006, much greater investment freedom for organisations such as this Trust which were previously restricted by the provisions of the Trustee Investments Act 1961. As a result, the Trust now no longer has to account for its invested funds under the wider and narrower ranges; and it has authority to invest in a much more extensive range of investments than was previously the case. This extended set of investment powers has already been used by the Trust.

The changes affecting the Trust since its 50th year have been many and fundamental. However, the Trust's focus on supporting only research of the highest quality, principally carried out by young, promising research workers in the early stages of their careers, continues and will be developed. The new operating name, Medical Research Scotland, is expected to become widely known and will, it is hoped, make the activities of the Trust more readily understood. This reflects the Trust's position as the largest general grant-giving medical research charity in Scotland.

Members' Report

The Members present their report along with the financial statements of the Trust for the period ended 31 March 2006. The financial statements have been prepared in accordance with the accounting policies set out in note 1 to the accounts and comply with the Trust's constitutive legislation and also with the Statement of Recommended Practice: Accounting and Reporting by Charities 2005.

Structure, Governance and Management

The Trust is a body corporate constituted under the Hospital Endowments (Scotland) Act 1953 (repealed and re-enacted by the National Health Service (Scotland) Act 1978) all as subsequently amended, most recently by the Smoking, Health and Social Care (Scotland) Act 2005, which repealed the Trust's non-departmental public body status. The Trust was established to receive and hold endowments, donations and bequests and to make grants from these funds to promote medical research in Scotland. It is empowered by the National Health Service and Community Care Act 1990 to engage in fundraising activities for the purposes of the Trust. It is also required by the Health & Medicines Act 1988 where feasible to develop and exploit ideas and to exploit intellectual property.

The Trust funds are administered in terms of this legislation by a body of Members who receive no fee or remuneration for their services. Members are appointed by the existing Members of the Trust and, in accordance with the Standing Orders of the Trust, the minimum number of Members is six and the maximum is 14. In accordance with the constitutive legislation, Members may not be appointed for a period exceeding four years, and are eligible for re-appointment only once.

The Members meet twice-yearly to agree the broad strategy and areas of activity for the Trust, including considering grant applications, investment, reserves and risk management policies and performance. There is also an Audit & Investment sub-committee which meets at least once a year to consider accounting and investment issues in more detail and a Fellowships & Scholarships sub-committee which meets to consider applications for Fellowships and Scholarships and also travel grants. Other sub-committees are convened where appropriate. The day-to-day administration of grants and processing and handling of applications prior to consideration by the Trust (or the relevant sub-committee) is dealt with by the Trust Secretaries and Scientific Adviser.

In considering new grant applications, outline applications are received and reviewed by the scientific Members in conjunction with independent referee reports obtained by the Scientific Adviser. The Trust also has power to co-opt Members in order to provide particular expertise or cover a temporary absence of a Member, so as to ensure a breadth of expertise among the Members when considering applications.

In addition to ensuring a breadth of expertise among the scientific Members, consideration is also given to ensuring that other skill requirements among the Members are met. New Members may be sought by open advertisement or through dialogue with the research universities.

The induction process for any newly appointed Members comprises a welcome pack including a brief history of the Trust, a copy of the constitutive legislation, guidance on the duties and responsibilities of charity trustees, a copy of the most recent *Annual Report & Accounts* and any other relevant documentation. There is an opportunity to discuss particular issues with either the Chairman or the Trust Secretaries, and there will be an explanation of the grant making process and the organisational structure.

There is also training given to both new and existing Trustees at Trust meetings and this is at least annually, but more frequently if appropriate.

Risk Management

The Members have assessed the major risks to which the Trust is exposed, in particular those relating to the operations and finances of the Trust, have reviewed those risks, both in the Audit & Investment sub-committee and at a full Trust meeting, and are satisfied that systems are in place to mitigate exposure to the major risks. The following processes have been established:

- Regular Members' meetings to consider the plans, policies, finances and strategic direction of the Trust.
- Regular meetings of the Audit & Investment sub-committee to consider the Trust's finances.
- Monthly meetings of the relevant staff of the Secretaries to consider the plans, policies, finances and strategic direction of the Trust together with any associated risks.
- The Audit & Investment sub-committee receives monthly reports from the Investment Manager to consider both investment performance and risk.
- Monthly financial reconciliations prepared by the Secretaries.
- Six-monthly checks by the external accountants of the monthly financial reconciliations.
- Annual accounts are prepared and audited by independent external accountants.

Objectives and Activities

The objectives of the Trust are to:

- Receive and hold endowments, donations and bequests.
- Make grants from these to promote medical research in Scotland.
- Engage in fundraising activities for the purposes of the Trust.
- Develop and exploit ideas and exploit intellectual property.

The Trust aims to improve health standards by funding research of the highest quality into the cause, diagnosis, treatment and prevention of all forms of illness and genetic disorders, and into the advancement of medical technology.

The Trust fulfils its objects by supporting research-minded members of the scientific, medical, nursing, midwifery and allied health professions by giving them the opportunity to pursue high-calibre research either independently or in collaboration with colleagues in their own or other universities, major hospitals and research units in Scotland.

The Trust intends to increase its provision of research support and further encourage young doctors, scientists, nurses, midwives and those in the allied health professions. It also intends to augment the funds available to it to help sustain the outstanding contributions of Scottish medical research to health care throughout the world.

Grant-making Policy

The Trust aims to support research of the highest quality. It has a rigorous system of assessment of grants before they reach Members. There is an outline application procedure before selecting those invited to submit full applications. The Trust's Scientific Adviser obtains references from at least two independent referees, preferably more. The scientific Members of the Trust then consider which applications to invite to submit full applications. Thereafter the Members of the Trust consider the full applications for support and select from among those in accordance with the Trust's priorities.

After award, grant-holders are required to submit progress and final reports and also a post-grant check-up. Progress and final reports are scored by the scientific Members and any found to be unsatisfactory are followed up. The purpose of the post-grant completion check is to assess the grantholder's subsequent progress and what publications and possible intellectual property exploitation may flow from a project which the Trust has supported.

Members' Report (*continued*)

Achievements and Performance

The Trust's **Five-Year Plan** for 2004-09 and performance against it are summarised as follows:

1. To assist in a smooth transition from the Trust's current status to that of an independent Scottish charity.

This has been achieved during the period.

2. To maintain awareness of its work within the research community, the Health Service generally and among potential donors, both individual and corporate, and other charitable trusts.

Work on this continues, and in particular external advice is being taken in connection with raising awareness of the Trust and its new identity, given the new operational name of Medical Research Scotland.

3. To increase its income from legacies and donations.

Work on this continues and again will be linked heavily with the awareness raising referred to above.

4. To continue with the annual Grant Holders' day.

This is again being held this year (the Research Open Day).

Given the change to the accounting date, the period under review does not extend to the whole period covered by the Trust's **Annual Plan** for 2005-06, but that plan and performance against it during the shortened period are summarised as follows:

1. To continue to cooperate with the Chief Scientist Office in connection with the implementation of change to SHERT's status to that of an independent charity.

This has been completed.

2. To review the Trust's services and membership following the change of status.

Four new Members have been recruited (as noted elsewhere in the report) and work on the review of the Trust's services will be undertaken shortly.

3. To implement the new pilot Fellowship for the Nursing, Midwifery & Allied Health Professions.

The first round of applications has been reviewed and an award has been made.

4. To continue to develop the Trust's policy in relation to fundraising to include building the Trust's profile, reviewing the Trust's name, considering appointment of a Patron and other marketing ideas.

A new operational name of Medical Research Scotland has been adopted and as stated in the five-year plan (see above), external advice is being taken in relation to raising awareness. Other marketing ideas are also being kept under review.

5. To continue to keep under very close review the Trust's investment portfolio and its income.

The Trust's investment powers have changed during the period and review of the investment performance and income continues all as outlined elsewhere in this report.

6. To have the Trust's *Annual Report* printed and distributed before the end of the calendar year (subject to considering a possible change to the date of the Trust's year end).

This is the first report to the new accounting date of 31 March which has been chosen in part to try to ensure that the report can be printed and distributed before the end of the calendar year.

7. To oversee the change of website provider and monitor and develop the operation of and systems involved with the online outline grant application process.

The change of website provider has been completed and work continues on monitoring and developing the online application process, which now covers full applications, fellowships and scholarships as well as outline applications.

New Awards

During the period August 2005 to March 2006, the Members of Medical Research Scotland approved funding for the following Research Project Grants, totalling more than £527,000.

£79,994 over two years to Dr **Iain Anthony** (Neuropathology, University of Edinburgh) in collaboration with Professor Jeanne Bell (Neuropathology) and Dr Juan Carlos Arango (Forensic Medicine): Neuroinflammation and accelerated neuro-ageing in HAART-treated HIV-infected individuals.

HIV-infected individuals now live much longer than previously and impairment of brain function is becoming a major problem in these people, so this study aims to clarify whether HIV or its associated treatment accelerates the natural ageing processes in the brain.

£74,044 over 20 months to Dr **Rebecca Devon** (Medical Genetics, University of Edinburgh): The role of alsin and its interacting proteins in juvenile-onset amyotrophic lateral sclerosis.

Amyotrophic lateral sclerosis, a degenerative disease of the brain which results in progressive muscular weakness and ultimately fatal paralysis, is also known as motor neurone disease. This project aims to clarify the precise function of the gene known to be associated with the form of disease which starts in childhood.

£79,252 over two years to Dr **Patricia Martin** (Biological & Biomedical Sciences, Glasgow Caledonian University) in collaboration with Dr Malcolm Hodgins (Cancer Sciences & Molecular Pathology, University of Glasgow): Therapeutic benefits of gap junction inhibitors in chronic wound healing events.

Wounds which do not heal properly are a major health problem, particularly in an ageing population. This study will investigate whether altering the levels of a small protein involved in the intracellular communication essential to normal wound repair processes, could improve wound healing.

£69,971 over two years to Dr **Thomas Gillingwater** (Anatomy, University of Edinburgh): High-resolution imaging of synapse loss in mouse models of spinal muscular atrophy.

Spinal muscular atrophy is one form of the degenerative and ultimately fatal condition known as motor neurone disease. This study will investigate the detail of the anatomical changes occurring in the cells of the junctions between the nerves and the muscles that result in the disease.

£80,000 over two years to Dr **Kathryn Marshall** (Wellcome Trust Centre for Cell Biology, University of Edinburgh) in collaboration with Professor Margarete M.S. Heck (Wellcome Trust Centre for Cell Biology, University of Edinburgh): Characterisation of invadolysin, a novel human metalloprotease involved in mitosis and migration.

Invadolysin is a recently-discovered enzyme known to be important in cell movement, as it is found at the leading edge of white blood cells as they move towards the site of injury. This study aims to investigate the part that invadolysin plays in this essential body process and in cell division.

£66,210 over one year to Dr **Keith Kelso Hussey** (Vascular Surgery Unit, Aberdeen Royal Infirmary), in collaboration with Miss Julie Brittenden (Vascular Surgery Unit), Dr Isobel Ford, Dr Frank Thies & Professor Michael Greaves (Department of Medicine & Therapeutics, University of Aberdeen) for a randomised controlled trial of oral L-arginine supplementation on platelet and endothelial function and walking distance in patients with peripheral arterial disease.

Patients with peripheral arterial disease (hardening of the leg arteries) have 'sticky' blood and, as well as being at increased risk of death from heart disease, have difficulty walking any distance. This project will investigate the benefits of adding the semi-essential amino acid, L-arginine, to the diet.

Members' Report (*continued*)

£77,636 over two years to Dr **Sally L. Pimlott** (Department of Clinical Physics, University of Glasgow) in collaboration with Dr Andrew Sutherland (Department of Chemistry, University of Glasgow) for a project to develop a molecular imaging tracer for the noradrenaline transporter.

Noradrenaline is one of the substances in the brain that allow signals to pass from one nerve to another. At present, no suitable tracer molecule exists to enable the study of noradrenaline in brain disorders, or in some types of cancer treatment. This project aims to develop a new tracer, use of which will lead to better understanding of the processes involved.

Legacies & Donations

The grants for research awarded by Medical Research Scotland and SHERT are made from the income received each year from its original endowment fund, since augmented by legacies and donations made by a large number of generous individuals and some organisations. The Members of Medical Research Scotland are grateful for the following sums which were received to support research during the period under report.

	£
from the late Miss Anne Crichton	1,000
from the late Mr George Martin(<i>estimated</i>)	14,272
from the late Miss Jean M C Nicolson	961
from the Nairn Trust	1,000
from John Ballantine	500
Total	17,733

Royalties

No royalty payments, in respect of commercial development of the outcome of research work funded by SHERT in previous years, were received during the period under report.

Financial Review

The Trust can only spend income and it is therefore reliant on the income from its investments, and also legacies, donations and royalties. The annual investment income is supplemented by an Income Investment Fund which was created at a time when there was a surplus of income. Income generated on the investment portfolio and related cash deposits was £676,393 during the shortened accounting period, compared with £1,154,373 in the year to 31 July 2005.

Investment Policy and Performance

The Trust's investment powers have changed recently following the repeal of the Trustee Investments Act 1961 by the Charities & Trustee Investment (Scotland) Act 2005.

The remit given to the Trust's investment manager, Martin Currie Investment Management Limited, is to manage the fund conservatively with the objective of maintaining the real value of income whilst protecting capital growth. The investment manager may invest in UK and Foreign Equities, Fixed Interest Securities, Regulated Collective Investment Schemes managed by an associate of Martin Currie and Investment Trusts managed within Martin Currie or elsewhere.

The investment manager is prohibited from investing directly in the tobacco sector. The investment manager reports to the Members of the Trust in writing four times a year, provides monthly statements to the Members of the Audit & Investment sub-committee and reports in person at meetings on a regular basis. A benchmark was selected which comprised 60% FTSE All Share, 30% FTSE Government All Stocks Index and 10% FTSE World ex-UK and which was changed to 80% FTSE All Share and 20% FTSE World ex-UK at the end of the period, against which performance is monitored and reported on in writing and at meetings.

In the period under review, the total return on the Trust's portfolio was 13.64% compared with a return on the benchmark of 13.23%. As at 31 March 2006, the value of the Trust's investment portfolio (including capital cash) was £30,722,875, compared with £27,095,130 at 31 July 2005.

Reserves Policy

Under the National Health Service (Scotland) Act 1978 it is the duty of the Trust to hold and administer funds on Trust for the purpose of assisting the conduct of research into specified matters. The Trust has power to accept, hold and administer property on Trust. The Trust has a limited power to borrow money or draw upon capital to meet expenditure of a capital nature, but otherwise may only spend its income. The Trust's investments are divided into Restricted and Unrestricted Funds. Restricted Funds support research into specific diseases; the Unrestricted Funds are available for supporting any area of the Trust's work. In addition, the Trust has an Income Investment Fund. This was created when, temporarily, the Trust had a surplus of income. This Fund, although invested, is part of the Unrestricted Income Fund and is therefore available to be drawn down in the discretion of the Members of the Trust from time to time.

The deficit on the Trust's Unrestricted Income Fund (referred to in previous *Annual Reports*) has further reduced in the period. The deficit continues to be due to the accounting policies introduced by the SORP, which mean that grants have to be recognised when they are approved and not when they are paid. There have also been investment changes during the year to protect capital values, which are expected to lead to a fall in the annual income for the next two or three years. However, the Trust continues to seek to meet expenditure commitments as they fall due for payment out of its predictable flow of income and, to cover the fall in income over the next two or three years out of the Income Investment Fund, and expects to be able to do so.

Members' Report (*continued*)

Plans for the Future

Due to the change of accounting date, the next Annual Plan covers the period 1 April 2006 to 31 March 2007 and is as follows:

1. To raise awareness of the Trust and in particular its new operational name and the fact that it is now an independent charity.
2. To continue to develop the Trust's policy in relation to fundraising.
3. To review the Trust's services and keep the membership under review.
4. To review the success of the pilot Fellowship for the Nursing, Midwifery & Allied Health Professions.
5. To continue to keep under very close review the Trust's investment portfolio and its income, particularly in light of the Trust's new investment powers.
6. To have the Trust's *Annual Report* printed and distributed before 30 September 2006.
7. To continue to monitor and develop the operation of and systems involved with the online grant application process.

The main aims of the Five-Year Plan outlined under "Achievements and Performance" above remain, other than the transition to an independent Scottish charity which has now been achieved.

Accounts

The accounts for the period to 31 March 2006 form part of this *Report* and are presented on pages 9-18.

Statement of the Members' responsibilities in respect of the Accounts

The Members of the Trust are required to ensure that there is prepared a statement of accounts for each financial period which give a true and fair view of the state of affairs of the Trust and of its results for that period. In addition the National Health Service (Scotland) Act 1978 requires that proper accounts of the capital and income and expenditure of the Trust be kept.

In preparing those accounts, the Members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the basis that the Trust will continue in existence for the foreseeable future, unless it is inappropriate to do so.

The above-noted legislation also requires the Members to be responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Trust and to enable them to ensure that the accounts comply with the legislation including the propriety and regularity of transactions. They are also responsible for safeguarding the assets of the Trust and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Members and authorised to be signed on their behalf by:

Professor S Moira Brown
Chairman

4 August 2006

Statement of Financial Activities (incorporating the Income & Expenditure Account) for the period 1 August 2005 to 31 March 2006

	Notes	Unrestricted Income Fund £	Unrestricted Capital Fund £	Restricted Income Funds £	Restricted Capital Funds £	Total 2006 £	Restated Total 2005 £
Incoming Resources							
<i>Incoming resources from generated funds</i>							
Voluntary income							
Legacies & donations	5	17,733	-	-	-	17,733	353,690
Activities for generating funds							
Royalties	6	-	-	-	-	-	33,319
Investment income	7	519,178	-	157,215	-	676,393	1,154,373
Total incoming resources		536,911	-	157,215	-	694,126	1,541,382
Resources Expended							
<i>Costs of generating funds</i>							
Costs of generating							
voluntary income	8	5,123	-	1,707	-	6,830	6,938
Investment management cost	9	19,702	-	6,567	-	26,269	37,791
<i>Charitable activities</i>							
Grantmaking activities							
Grants payable	10	219,677	-	226,314	-	445,991	494,431
Support costs of grantmaking		107,599	-	35,867	-	143,466	151,051
Governance costs	12	27,230	-	9,077	-	36,307	50,427
Total resources expended		379,331	-	279,532	-	658,863	740,638
<i>Net incoming/(outgoing) resources before transfers</i>							
		157,580	-	(122,317)	-	35,263	800,744
Gross transfers between funds							
	18	(103,960)	-	103,960	-	-	-
<i>Net incoming/(outgoing) resources before revaluations and investment asset disposals</i>							
		53,620	-	(18,357)	-	35,263	800,744
Net realised gains on sale of investments							
		-	372,846	-	280,168	653,014	337,433
Net income		53,620	372,846	(18,357)	280,168	688,277	1,138,177
Unrealised gains on investments							
	14	-	2,403,064	-	615,477	3,018,541	3,416,693
Net movement in funds		53,620	2,775,910	(18,357)	895,645	3,706,818	4,554,870
Fund balances at 1 August 2005							
		(138,701)	19,401,479	1,234,247	7,040,806	27,537,831	22,982,961
Fund balances at 31 March 2006							
	19	(85,081)	22,177,389	1,215,890	7,936,451	31,244,649	27,537,831

The Trust has no recognised gains or losses other than those included in the Statement of Financial Activities. All activities relate to continuing operations.

Accounts

Balance Sheet

at 31 March 2006

	Notes	£	2006 £	£	2005 £
Fixed assets					
Investments at market value	14		29,751,287		26,668,078
Current assets					
Debtors	15	343,849		321,373	
Cash at bank – at Secretaries		1,100,943		948,764	
– at Investment Manager		999,088		454,552	
		<u>2,443,880</u>		<u>1,724,689</u>	
Creditors: Amounts falling due within one year					
Creditors	16	39,718		14,965	
Grants payable	17	903,362		839,971	
		<u>943,080</u>		<u>854,936</u>	
Net current assets			<u>1,500,800</u>		<u>869,753</u>
Total assets less current liabilities			<u>31,252,087</u>		<u>27,537,831</u>
Creditors: Amounts falling due after more than one year					
Grants payable	17		(7,438)		-
Net assets	19		<u>31,244,649</u>		<u>27,537,831</u>
Unrestricted Funds					
Unrestricted Capital Fund	2		22,177,389		19,401,479
Unrestricted Income Fund			(85,081)		(138,701)
			<u>22,092,308</u>		<u>19,262,778</u>
Restricted Funds					
Restricted Capital Fund	4	7,936,451		7,040,806	
Restricted Income Fund	3	1,215,890		1,234,247	
			<u>9,152,341</u>		<u>8,275,053</u>
			<u>31,244,649</u>		<u>27,537,831</u>
			=====		=====

Approved by the Members and authorised to be signed on their behalf by:

Professor S Moira Brown
Chairman

4 August 2006

Notes to the Accounts for the period 1 August 2005 to 31 March 2006

1. Accounting policies

The accounts are prepared under the historical cost convention modified to include the revaluation of investments at market value, and they comply in every material respect with the applicable accounting standards, the Statement of Recommended Practice - Accounting and Reporting by Charities 2005 (SORP), and the Charities Accounts (Scotland) Regulations 1992.

Change in presentation of financial information

As a consequence of the adoption of the revised SORP 2005, the comparative figures for the prior year have been restated in accordance with the revised structure and format for the Statement of Financial Activities and the balance sheet.

Incoming resources

The income of the Trust includes the tax deducted at source from other income and the equivalent of the cash dividends where the Trust has elected to take shares instead of cash dividends under enhanced scrip dividend offers.

Dividend income and interest on Government stocks are credited when they become ex-dividend. Deposit interest receivable is accounted for on an accruals basis.

Investment income arising from the capital funds is allocated to the Unrestricted Income or Restricted Income Funds respectively.

Legacies and donations are included in the period in which they are receivable, which is when the Trust becomes entitled to the resource, based on the Members' best estimate given the information available to them. Legacies and donations given for general medical research are included in Unrestricted Funds, and those given for research into specific medical conditions or illnesses at the request of the donor are included within Restricted Funds. Unless the donor has specified that the legacies or donations must be held as capital, the amounts will be included initially within the Income Funds. An appropriation is made to Capital Funds thereafter at the discretion of the Members.

Gifts in Kind are recorded at their market value at the date of donation.

Royalties are receivable from the commercial exploitation of the intellectual property resulting from research funded (in whole or in part) by the Trust. Royalty receipts are credited to revenue in the period receivable.

Resources expended

All expenditure is included on an accruals basis and is recognised when there is a legal or constructive obligation to pay for expenditure. All costs have been directly attributed to one of the functional categories of resources expended. All charitable expenses and costs of generating funds are apportioned between Unrestricted and Restricted Income Funds at 75% and 25% respectively. The Members consider this allocation reasonable based on the balance on the Unrestricted and Restricted Funds. Expenditure is shown inclusive of any irrecoverable VAT.

Costs of generating funds comprise those costs directly attributable to managing the investment portfolio and raising investment income and fundraising costs for raising donations and legacy income. Support grantmaking activities comprise grants payable, and costs for processing grants and applications. Governance costs relate to costs incurred in respect of constitutional matters and compliance with statutory reporting requirements. Where the Secretaries' fees cannot be directly attributed to these categories, they are estimated 35% to Governance activities, and 65% to Grantmaking activities.

Grants

Grants payable are charged to the Statement of Financial Activities and Income and Expenditure Account when the application is approved and a valid expectation created with the recipient that the grant will be paid. Where the grant offer or an element thereof, is conditional, such grants are not recognised as expenditure until the conditions are fulfilled. Grants offered subject to conditions which have not been met at the period end are noted as a commitment, but are not accrued as expenditure.

Accounts

Notes to the Accounts

for the period 1 August 2005 to 31 March 2006

Investments

Investments are included in the accounts at market value at the period end, the unrealised gain or loss being applied to Unrestricted or Restricted Capital Funds. Investments were previously accounted for in narrow and wider range funds under the Trustee Investments Act 1961. As a result of the removal of these restrictions at 1 January 2006 in terms of the Charities and Trustee Investment (Scotland) Act 2005, the narrower fund has been amalgamated with the wider fund.

Land is included at agricultural value in the financial statements in investments.

Gains or losses arising on the sale of investments during the period are taken to capital.

Fund accounting

The nature and purpose of each fund are explained in notes 2, 3, 4 and 19.

2. Unrestricted Capital Fund

	2006 £	2005 £
Balance at 1 August 2005	19,401,479	16,560,928
Net realised gains on sale of investments	372,846	270,006
Unrealised gains on investments	2,403,064	2,570,545
	-----	-----
Balance at 31 March 2006	22,177,389 =====	19,401,479 =====

The Unrestricted Designated Capital Fund is derived from legacies, bequests and donations which were donated, or allocated by the Members, for the purposes of general medical research and which form the Unrestricted Funds of the Trust.

3. Restricted Income Funds

Movement during the period was as follows:

	As at 1 August 2005 £	Investment Income £	Donations & Legacies £	Grants Payable £	Cost of generating funds, support & admin costs £	Transfers £	As at 31 March 2006 £
Neurological diseases	-	6,721	-	(108,406)	(2,275)	103,960	-
Cancer	567,092	65,663	-	(66,332)	(22,227)	-	544,196
Arthritis	245,870	32,044	-	-	(10,847)	-	267,067
Diabetes	-	3,148	-	-	(1,066)	-	2,082
Kidney	115,710	3,923	-	-	(1,328)	-	118,305
Cardiac & Vascular disease	246,212	40,686	-	(51,576)	(13,772)	-	221,550
Miscellaneous conditions	59,363	5,030	-	-	(1,703)	-	62,690
	-----	-----	-----	-----	-----	-----	-----
	1,234,247	157,215	-	(226,314)	(53,218)	103,960	1,215,890
	=====	=====	=====	=====	=====	=====	=====

The Restricted Income Funds are derived from the Restricted Capital Funds of the Trust.

Notes to the Accounts
for the period 1 August 2005 to 31 March 2006

4. Restricted Capital Funds

Movement during the period was as follows:

	As at 1 August 2005 £	Realised Gains on investments £	Unrealised Gains on investments £	As at 31 March 2006 £
Neurological diseases	300,992	11,977	26,311	339,280
Cancer	2,940,682	117,016	257,062	3,314,760
Arthritis	1,435,090	57,105	125,449	1,617,644
Diabetes	140,968	5,609	12,323	158,900
Kidney	175,693	6,991	15,358	198,042
Cardiac & Vascular diseases	1,822,103	72,505	159,280	2,053,888
Miscellaneous conditions	225,278	8,965	19,694	253,937
	----- 7,040,806 =====	----- 280,168 =====	----- 615,477 =====	----- 7,936,451 =====

The Restricted Capital Funds are derived from legacies, bequests and donations which were donated for specific areas of medical research and which form the Restricted Funds of the Trust.

5. Legacies and donations

	Unrestricted Income Fund £	Restricted Income Funds £	Total 2006 £	Total 2005 £
Legacies	16,233	-	16,233	346,190
Donations	1,500	-	1,500	7,500
	----- 17,733 =====	----- - =====	----- 17,733 =====	----- 353,690 =====

6. Royalties

	Unrestricted Income Fund £	Restricted Income Funds £	Total 2006 £	Total 2005 £
Royalties	-	-	-	33,319
	----- - =====	----- - =====	----- - =====	----- 33,319 =====

In order to recognise income, it must meet the conditions of entitlement, certainty, and the amount must be able to be measured reliably. The Members are of the opinion that while the first two conditions are met with respect to Royalties income, the amount receivable can not be reliably measured as it is calculated by reference to information returned from grant recipients which is not normally received until July. Accordingly, no such income has been recognised in the period to 31 March 2006.

Accounts

Notes to the Accounts for the period 1 August 2005 to 31 March 2006

7. Investment income

	Unrestricted Income Fund £	Restricted Income Funds £	Total 2006 £	Total 2005 £
UK and overseas listed investments	479,650	143,224	622,874	1,087,834
Interest on cash deposits	39,528	13,241	52,769	65,789
Rent receivable	-	750	750	750
	-----	-----	-----	-----
	519,178	157,215	676,393	1,154,373
	=====	=====	=====	=====

8. Costs of generating voluntary income

	2006 £	Restated 2005 £
Fundraising and marketing – support costs (note 11)	6,830	6,938
	=====	=====

9. Investment management costs

	2006 £	Restated 2005 £
Investment Manager's fee	26,269	37,791
	=====	=====

10. Grantmaking activities

	2006 £	Restated 2005 £
Grants payable in respect of medical research (note 17)	445,991	494,431
Support costs (note 11)	143,466	151,051
	-----	-----
	589,457	645,482
	=====	=====

11. Support costs

Support costs are allocated to activities as detailed below:

	Generating Voluntary Income £	Grants Payable £	Governance costs £	2006 £	Restated 2005 £
Secretaries' fee	-	44,244	24,317	68,561	115,390
Stationery, printing and postage	-	5,588	-	5,588	8,933
Bank charges and interest	-	9,806	-	9,806	11,025
Miscellaneous	-	11,084	-	11,084	13,802
Marketing	6,830	4,554	-	11,384	4,625
Website	-	48,446	-	48,446	-
Staff costs	-	922	-	922	1,496
Scientific Adviser's fee	-	18,822	-	18,822	32,153
	-----	-----	-----	-----	-----
	6,830	143,466	24,317	174,613	187,424
	=====	=====	=====	=====	=====

Notes to the Accounts for the period 1 August 2005 to 31 March 2006

11. Support costs (cont'd)

Bases of allocation

Where costs are directly attributable to an activity, they are allocated to that activity. Where items of expenditure relate to more than one activity, the cost is apportioned on the basis of usage or staff time as appropriate, and allocated to each activity on that basis. Secretaries' fees are allocated on the basis of staff time with the exception of fees for specific work which are allocated to the relevant activity.

Website costs consist of the redesign of the Trust's website, principally to permit online grant applications.

The Members did not receive any remuneration for their services during the period (2005: £nil).

Meeting expenses amounting to £876 (2005: £1,390) were reimbursed to five (2005: four) of the Members.

12. Governance costs

	2006 £	Restated 2005 £
Secretaries' fee – support of governance activities (note 11)	24,317	36,373
Auditors' remuneration – audit services	5,023	8,250
Accountants' fees – annual statutory accounts	6,967	5,804
	-----	-----
	36,307	50,427
	=====	=====

13. Staff costs

	2006 £	2005 £
Gross wages	922	1,496
	===	=====

The average number of employees during the period was as follows:

	2006 No.	2005 No.
Administrative assistant (part time)	1	1
	==	==

No employee received emoluments above £50,000.

14. Investments

	Investment property £	Overseas listed £	UK stock exchange listed £	Total £
Market value at 1 August 2005	27,500	-	26,640,578	26,668,078
Additions	-	4,926,798	8,405,340	13,332,138
Disposals	-	(161,696)	(13,105,774)	(13,267,470)
Net unrealised investment gains in the period	-	252,220	2,766,321	3,018,541
	-----	-----	-----	-----
Market value at 31 March 2006	27,500	5,017,322	24,706,465	29,751,287
	=====	=====	=====	=====
Historical cost	27,500	4,765,104	17,195,696	21,988,300
	=====	=====	=====	=====

Accounts

Notes to the Accounts

for the period 1 August 2005 to 31 March 2006

14. Investments (cont'd)

The Trust is a joint beneficiary of an estate comprising potential development land. The potential development land has not yet been sold and has been included in the financial statements as an investment property at agricultural value as a development value can not be quantified with reasonable accuracy and is deemed not to be the most appropriate basis of valuation at the balance sheet date.

At the Balance Sheet date the following holdings exceed 5% of the total portfolio:

	Market value £
BP plc US\$0.25 Ordinary shares	2,103,243
	=====

15. Debtors

	2006 £	2005 £
Accrued income	343,849	321,373
	=====	=====

16. Creditors: amounts falling due within one year

Accruals	39,718	12,019
VAT	-	2,946
	-----	-----
	39,718	14,965
	=====	=====

17. Grants

	£	2006 £	£	2005 £
(a) Reconciliation of grants payable				
At 1 August 2005		839,971		1,083,907
Awards made and authorised in the period	529,683		565,706	
Grants cancelled or recovered	(83,692)		(71,275)	
	-----		-----	
Grants payable for the period		445,991		494,431
Grants paid during the period		(375,162)		(738,367)
		-----		-----
At 31 March 2006		910,800		839,971
		=====		=====

	Unrestricted Income Fund £	Restricted Income Funds £	2006 Total £	2005 Total £
(b) Grants falling due within one year				
Grants payable	609,632	293,730	903,362	839,971
	=====	=====	=====	=====

Notes to the Accounts for the period 1 August 2005 to 31 March 2006

17. Grants (cont'd)

	Unrestricted Income Fund £	Restricted Income Funds £	2006 Total £	2005 Total £
(c) Grants falling due after more than one year:				
Year to 31 March 2008	-	7,438	7,438	-
	=====	=====	=====	=====
Total grants payable	609,632	301,168	910,800	839,971
	=====	=====	=====	=====

(d) Grants awarded

Grants awarded and authorised during the period were as follows

SHERT Grant No.	Principal Grant Holder	Administering Institution	£	£
New grants awarded				
ORG285/04	Pimlott	University of Glasgow	44,300	
ORG322	Hussey	University of Aberdeen	51,577	
ORG57/03	Martin	Glasgow Caledonian University	67,493	
ORG237/04	Devon	University of Edinburgh	52,803	
ORG265/04	Gillingwater	University of Edinburgh	55,049	
ORG276/04	Marshall	University of Edinburgh	66,332	
F6/05	Anthony	University of Edinburgh	70,276	

				407,830

Conditional grants awarded in previous years, now unconditional and authorised

ORG20/003	Shen	University of Aberdeen	12,318	
ORG21/03	Hardingham	University of Edinburgh	4,748	
ORG40/03	Zamiri	Southern General Hospital, Glasgow	26,904	
ORG75/04	Nibbs	University of Glasgow	11,912	
ORG91/04	Mowbray	University of Edinburgh	26,858	
F9/05	Terrace	University of Edinburgh	18,201	
S6/05	Dhaliwal	University of Edinburgh	19,612	

				120,553
Travel grants awarded (1)				
T2/05				1,300

				529,683
				=====

More details of new grants awarded in the period are published within the Members' Report

Accounts

Notes to the Accounts

for the period 1 August 2005 to 31 March 2006

(e) Commitments

In addition to the amounts committed and accrued noted above, the Members have also authorised certain grants which are subject to the recipient fulfilling certain conditions. The total amount authorised but not accrued as expenditure at 31 March 2006 was £220,434 (2005: £219,711), of which £167,843 is expected to be payable within one year if certain conditions are satisfied (2005: £76,195).

18. Transfers between funds

During the period there was a transfer of £103,960 from the Unrestricted Income Fund to the Restricted Income Funds; this was made to eliminate the deficit on the Neurological diseases Restricted Income Fund.

19. Analysis of net assets between funds

	Investments £	Net Current Assets £	Creditors falling due after more than one year £	Total £
Unrestricted Funds				
Unrestricted Capital Fund	21,007,121	1,170,268	-	22,177,389
Unrestricted Income Fund	1,091,489	(1,176,570)	-	(85,081)
	-----	-----	-----	-----
	22,098,610	(6,302)	-	22,092,308
	-----	-----	-----	-----
Restricted Funds				
Restricted Capital Fund	7,652,677	283,774	-	7,936,451
Restricted Income Fund	-	1,223,328	(7,438)	1,215,890
	-----	-----	-----	-----
	7,652,677	1,507,102	(7,438)	9,152,341
	-----	-----	-----	-----
Total Funds	29,751,287	1,500,800	(7,438)	31,244,649
	=====	=====	=====	=====

The Unrestricted Funds represent the funds which the Members are free to use in accordance with the charitable objects.

The Restricted Funds are derived from legacies, bequests and donations which were donated for specific areas of medical research and which form the Restricted Funds of the Trust.

20. Related party transactions

During the period fees of £68,561 (2005: £115,391) were payable for Secretaries' fees to Turcan Connell. These figures are inclusive of VAT.

21. Post-Balance Sheet Event

On 1 April 2006 Scottish Hospital Endowments Research Trust changed its operating name to Medical Research Scotland.

Independent auditors' report

to the Members of the Scottish Hospital Endowments Research Trust

We have audited the accounts of the Scottish Hospital Endowments Research Trust for the period ended 31 March 2006 set out on pages 9 to 18. These accounts have been prepared under the historical cost convention as modified by the revaluation of investments and the accounting policies set out therein.

This report is made solely to the Trust's Members in accordance with the National Health Service (Scotland) Act 1978, the Law Reform (Miscellaneous Provisions) (Scotland) Act 1990 and the Charities Accounts (Scotland) Regulations 1992. Our audit work has been undertaken so that we might state to the Trust's Members those matters that we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trust and the Trust's Members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Members and auditors

As described in the Statement of Members' Responsibilities the Trust's Members are responsible for the preparation of the accounts in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the accounts 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 accounts give a true and fair view and are properly prepared in accordance with the National Health Service (Scotland) Act 1978, the Law Reform (Miscellaneous Provisions) (Scotland) Act 1990, and the Charities Accounts (Scotland) Regulations 1992. We also report to you if, in our opinion, the Members' Report is not consistent with the accounts, if the Trust has not kept proper accounting records, if we have not received all the information and explanations we require for our audit.

We read the Members' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 accounts. It also includes an assessment of the significant estimates and judgements made by the Members in the preparation of the accounts, and of whether the accounting policies are appropriate to the Trust'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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the Trust's affairs as at 31 March 2006 and of its incoming resources and application of resources including in its income and expenditure account, the surplus for the period then ended and have been properly prepared in accordance with the National Health Service Act 1978, the Law Reform (Miscellaneous Provisions) (Scotland) Act 1990, and the Charities Accounts (Scotland) Regulations 1992.

CHIENE + TAIT

Chartered Accountants and Registered Auditors
61 Dublin Street
Edinburgh EH3 6NL

4 August 2006