

Medical Research Scotland

53rd Annual Report & Accounts 2006-07

Medical Research Scotland is the operational name
of the Scottish Hospital Endowments Research Trust (SHERT)
Recognised in Scotland as a charity with Scottish Charity No. SC014959

Medical Research Scotland

As Scotland's largest charity funder of medical research, Medical Research Scotland is committed to:

- supporting people in the early stages of their careers in medical research in Scotland
- supporting only the highest-quality clinical and laboratory-based medical research, which is aimed at improving understanding of the basic mechanisms of disease processes; or the diagnosis, treatment or prevention of disease; or the advancement of medical technology.

MEMBERS

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

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

Dr Graham Beastall, BSc, PhD, FRCPath, EurClinChem (*until 31 March, 2007*)

Dr Marie Boyd, BSc, PhD (*from 6 December, 2006*)

Professor William Cushley, BSc, PhD

*Mr Frederick Dalgarno, LLB, DipIM, CA

Professor Paul Garside, BSc, PhD

Professor Ian Greer, MBChB, MD, FRCP(Glas, Edin, Lond), FRCOG, MFFP (*3 February – 4 August, 2006*)

Professor David J Harrison, BSc, MBChB, MD, FRCPath, FRCPE (*from 27 November, 2006*)

Dr Karen Horsburgh, BSc, PhD (*from 27 November, 2006*)

Professor Nicol Keith, PhD (*until 21 August, 2006*)

Dr Zosia Miedzybrodzka, MBChB, PhD, MRCOG (*until 31 October, 2006*)

*Mr John Naylor, OBE, MA, CCMi

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

Professor Michael Steel, BSc, MBChB, PhD, DSc, FRCPE, FRCSE, FRCPath

*Mr Alan A Stewart

Professor Eric Wright, PhD, FRCPath, FRSE (*20 November, 2006 – 20 February, 2007*)

** Denotes membership of the Audit & Investment 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

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. SC014959.

Chairman's Introduction

Our new identity as Medical Research Scotland is now fully established and independence has been beneficial: we are the largest Scottish-based medical research charity. Of considerable importance has been the change to our grant-awarding strategy during the year, when we decided that it would be more advantageous if we combined all potential funding into one scheme. With one exception (The Tyson Fellowship), we no longer support individual Fellowships and Scholarships. As a result of generous benefactors and prudent management, we have been able to take the decision to increase our funding for individual Project Grants to a maximum of £150,000 over a period of three years. This year we have spent £483,696 on grants and the new awards made are listed on pages 6 and 7. We received 39 outline applications, with 16 going through to full peer review. We remain committed to quality of both research and applicant and welcome applications at the new level.

We held an Open Day in May 2006 where a number of our grant holders presented their work. The quality of both the individuals and their research was greatly encouraging and supports our policy of maintaining high standards in the selection process. A presentation was given by one of our Members, Fiona Nicolson, to raise awareness of Intellectual Property (IP) among grant holders, as this is an area where we are committed to try and increase our income.

Another Open Day was held in May 2007. We were particularly pleased to have as our guest speaker, Dr Harry Burns, Chief Medical Officer for Scotland who was himself the recipient of our grants at the start of his career. A brief report on the Open Day, which was chaired by our Scientific Adviser Dr Joan Macnab, is given on page 5.

The past year has been a busy one, with many administrative issues having to be addressed. We tendered for investment managers and Martin Currie Investment Management Ltd has been reappointed for a period of two years. Our standard terms and conditions for grant holders and institutions administering grants have been revamped to bring them into line with current expectations in terms of accountability. Additionally, the terms and conditions relating to exploitation of IP have been updated following discussions with the Scottish Universities. These will hopefully remain as standard for the next several years. We are currently reviewing our Secretarial services.

Our financial statements are shown on pages 10-19 and at present we have funds in excess of £34M. As usual during the year we have received donations and legacies, for which we are extremely grateful, and these are listed on page 7. I sometimes wonder when the era of people who remember SHERT (as it was) in their Wills, will come to an end! One of our recent benefactors requested that her substantial legacy should be used for research into heart disease or pain management and we have recently contacted appropriate institutions inviting grant applications in the field of pain management.

A number of new Members, from different professional backgrounds, have been appointed and these are listed on the inside front cover. Our longstanding member and Vice Chairman Dr Graham Beastall stepped down this year. Graham gave unstintingly of his time and expertise. He is a man of wise counsel and reliability, who will be missed as a valued colleague on Medical Research Scotland. We were delighted that Graham received a CBE in the Queen's Birthday Honours this year.

Medical Research Scotland continues to provide invaluable support to young people at the start of their careers in life sciences and medicine. Now that our Government in Scotland has more of a national identity, it may be that our position as the largest health care charity in the country will receive a higher profile.

I am grateful to all the Members who give so willingly of their time and expertise, to our Scientific Advisor, to our Secretaries and to all the others who contribute to the functioning of Medical Research Scotland.

Professor S. Moira Brown OBE, PhD, FRCPath, FRSE

Members' Report

The Members present their report along with the financial statements of the Trust for the year ended 31st March 2007. 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 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 fund-raising 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. 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 is an explanation of the grant making process and the organisational structure.

There is also training offered to both new and existing Members 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 the 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 statutory accounts are 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 fund-raising 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 grant holder's subsequent progress and what publications and possible intellectual property exploitation may flow from a project which the Trust has supported.

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.
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.
3. To increase its income from legacies and donations.
Work on this continues.

4. To continue with the annual Grant Holders' day.
This has again been held this year (the Research Open Day).

The Trust's **Annual Plan** for 2006-2007 and performance against it are summarised 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.
Marketing work is ongoing and the possible appointment of a Patron is being re-visited.
2. To continue to develop the Trust's policy in relation to fund-raising.
As above, marketing work is ongoing.
3. To review the Trust's services and keep the membership under review.
The investment management services went out to tender and the incumbent managers were re-appointed after an extensive process. The Custodian is being changed. On Membership, the changes during the year are noted elsewhere in this Report and further work has been done in connection with upcoming re-appointments and retirements.
4. To review the success of the pilot Fellowship for the Nursing, Midwifery & Allied Health Professions.
This has been done and a second round is under way.
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.
The reviews continue as outlined elsewhere in this Report.
6. To have the Trust's *Annual Report & Accounts* printed and distributed before 30th September 2006.
This was achieved.
7. To continue to monitor and develop the operation of and systems involved with the online grant application process.
Work on this continues on an ongoing basis.

Research Open Day 2007 (by Dr Joan C M Macnab, Scientific Advisor)

The audience was a little larger this year as it included some grant-holders who have now moved on from their initial funding as new researchers but who had responded to the invitation to be present at the Medical Research Scotland Research Open Day. It was a pleasure to see them again. When speaking to the attendees at the coffee and lunch breaks, it was heartening to hear that one of the most enjoyable features about the Research Open Day is considered to be the wide range of research topics covered by the grant-holders. This year I know of at least two researchers who established new collaborations after meeting up with other interested researchers present on the day.

The topics this year covered kidney injury, liver stem cells, neuroinflammation in HIV patients treated by HAART, proteins involved in mitosis and migration, synapse loss in spinal muscular atrophy and cell-based therapy for neutrophil-mediated tissue injury. There was one presentation of qualitative research from Dr Bridget Johnston the holder of the latest award given by Medical Research Scotland to Nurses, Midwives & Allied Health Professionals, the Tyson Fellowship, who spoke on end-of-life care.

The talks were all interesting and in some cases the quality of the research and the search for individuality in research opportunity was outstanding.

This year there were two invited speakers. Dr Harry Burns, Chief Medical Officer, who spoke on Health Research Priorities in Scotland and Professor Paul Garside, Director of the Centre for Biophotonics in the University of Strathclyde and a Trust Member who told us about career progression beyond a SHERT grant.

Dr Burns presented a very optimistic view of the future of medical research in Scotland and was impressed by the change in the politics in Scotland.

Professor Garside, speaking last, entertained his audience to a very interesting and amusing account of how he became the scientist he is today and how important it is to view all circumstances as an opportunity to progress and enhance one's skills and experience. He also spoke of the need for trusted colleagues, friends and family.

The atmosphere at the meeting was relaxed and the audience was highly interactive making a good *milieu* for discussion. The Members who attended made a very useful contribution to the proceedings. Mr Simon Mackintosh, of the Secretaries, joined everyone for the very enjoyable lunch when all have the opportunity to speak to him.

This year was the fifth Research Open Day and these meetings have added considerably to the understanding that researchers have of the Trust Members who fund them and also add to making the grant-holders feel that they belong to an important Scottish tradition in research.

New Awards 2006-07

During the year, the Members made the following awards for research into conditions as varied as heart disease, dementia, osteoporosis and schizophrenia.

Research Project Grants

£79,111 to Dr Trevor J Bushell (Physiology & Pharmacology, University of Strathclyde) for a two-year project to determine the role of proteinase-activated receptor 2 upregulation in CNS neurones.

This study aims to understand the part played by proteinase-activated receptors in communication between nerve cells in the central nervous system, information that is key to the development of treatments for diseases such as multiple sclerosis, Alzheimer's and Parkinson's.

£74,715 to Dr Jenni Harvey (Neurosciences Institute, University of Dundee) for a two-year investigation of whether age-related decline in cognitive function is associated with altered neuronal responsiveness to leptin.

Leptin regulates food intake and body weight and is also involved in the processes underlying learning and memory. Food intake is linked to age-related cognitive decline; over-eating increasing the risk. The levels of brain leptin receptors reduce with age and this research will investigate whether age-related decline in cognitive performance and brain leptin function are linked.

£80,000 to Dr Christopher M Loughrey (Cell Sciences, Veterinary Medicine) and Professor Godfrey Smith (Biomedical & Life Sciences, University of Glasgow) for a two-year investigation of the role of intracellular calcium in left ventricular diastolic dysfunction

The heart's ability to pump blood through the body and then refill again is partly dependent on the action of calcium stored in the heart muscles. In 'heart failure' the heart cannot relax sufficiently for filling. This project will investigate if the cause is a change in how the calcium works.

£79,816 to Dr Julie Calvert (Vision Sciences, Glasgow Caledonian University) & Professor Gordon N. Dutton (Royal Hospital for Sick Children, Glasgow) for a two-year project on the identification, characterisation and management of dorsal stream dysfunction in children.

Many children with early brain damage have complex visual problems which may result from damage to the nerve pathway which processes information on the spatial properties and motion of objects. This project aims to develop a test to identify affected children as early as possible, to avoid their educational and social development being impaired.

£79,900 to Dr Omar Albagha (Bone Research Group) & Professor Stuart Ralston (Rheumatic Disease Unit, Molecular Medicine Centre, University of Edinburgh), for a two-year project on the identification of susceptibility gene(s) for osteoporosis in men on chromosome 10q21

Osteoporosis affects about 12% of the male population, but most genetic studies of osteoporosis have focused on women. This project aims to define the genetic variants that contribute to susceptibility to osteoporosis in men and identify new genetic markers for risk assessment.

£79,938 to Dr Sharon Mitchell & Professor John Speakman (Integrative Physiology, School of Biological Sciences, University of Aberdeen) for an 18-month project to investigate early onset of leptin insensitivity in response to high fat diet.

This study will investigate the changes occurring in the brain as obesity develops, notably a reduction in responsiveness to the hormone leptin which regulates food intake, with the aim of identifying possible targets for future drug development.

Fellowships

The Mrs Jean V. Baxter Medical Research Fellowship was awarded to Dr Marie-Astrid Pezze (Centre for Cognitive & Neural Systems, University of Edinburgh) for her project entitled, "Dopamine signalling from the ventral tegmental area to the hippocampus, novelty and memory encoding: investigating the substrates of cognitive deficits in schizophrenia".

This work will identify possible links between the effects of current treatments for, and the memory impairment associated with, schizophrenia.

The Mrs Mary Tyson Nursing, Midwifery & AHP Research Fellowship was awarded to Dr Bridget M. Johnston (Cancer Care Research Centre, University of Stirling) for her project entitled, "To explore the experience of patients and carers regarding end-of-life care through the promotion of self care".

The ultimate aim of this project is to improve service delivery for the end-of-life care of patients with advanced cancer.

Travel Grants

Professor Michael Sharpe (Psychiatry, University of Edinburgh) to visit the Regenstrief Institute, USA.

Mrs Angela Kydd (Nursing, University of Paisley) to visit the University of Vaxjo, Sweden.

Legacies & Donations Received

The following legacies and donations were received with gratitude by the Members. Unless otherwise indicated, all will be applied in support of general medical research.

	£
From the Cruden Foundation	7,500
From the late George Martin	1,364
From the Nairn Trust	1,000
From the late William Adams	46
From the late Mrs Margaret Neil (<i>for emphysema</i>)	500
From an anonymous donor (<i>for heart disease and pain management</i>)	470,069
From Mr Vipiana Liferent Trust	180,000
From the late Miss A. B. Wallace (<i>for diabetes</i>)	10,981
From the late Miss Thomasina Simpson (<i>for cancer and kidney</i>)	35,075
Total	706,535

Royalties arising from the commercialisation of research previously funded by Medical Research Scotland/SHERT amounted to **£22,166** during the year.

Financial Review

The Trust can only spend income and it is therefore reliant on the income from its investments, and also on 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 £1,146,525 during the year, compared with £676,393 in the shorter period to 31st March 2006.

Investment Policy and Performance

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 and, since the year end, it has been agreed to extend this prohibition to alcohol-related stocks. 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. The benchmark selected comprises 80% FTSE All Share and 20% FTSE World ex-UK against which performance is monitored and reported on in writing and at meetings.

In the year under review, the total return on the Trust's portfolio was 10.1% compared with a return on the benchmark of 9.3%. As at 31st March 2007, the value of the Trust's investment portfolio (including capital cash) was £32,870,192, compared with £30,722,875 at 31st March 2006.

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 been eliminated in the year. In the prior period there were investment changes made given that Members recognised an opportunity to protect the real value of capital and quality of the Trust income and agreed a major move out of fixed interest holdings. In the current year the Trust's direct foreign holdings were sold with the proceeds invested in a Unit Trust. The Trust continues to seek to meet expenditure commitments as they fall due for payment out of its predictable flow of income and, if required, the Income Investment Fund and expects to be able to do so.

Plans for the Future

The Trust's **Annual Plan** for 2007-2008 is as follows:-

1. To continue to raise awareness of the Trust and in particular the new operational name, and to progress the possible appointment of a Patron.
2. To continue to develop the Trust's policy in relation to fund-raising.
3. To continue the review of the Trust's services in line with the timetable agreed and to keep the membership under review both in terms of advance planning ahead of re-appointments and retirements and ensuring a wide breadth of expertise.
4. To keep under review the success of the Tyson Fellowship for the Nursing, Midwifery and Allied Health Professions.
5. To continue to keep under very close review the Trust's investment portfolio and its income.
6. To have the Trust's *Annual Report & Accounts* printed and distributed before 30th September 2007.
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 (page 4) remain, other than the transition to an independent Scottish charity which has been achieved.

Accounts

The accounts for the year to 31st March 2007 form part of this *Report* and are presented on the following pages 10-19.

Statement of the Members' Responsibilities in Respect of the Accounts

Law applicable to Charities in Scotland requires the Members to prepare accounts for each financial year which give a true and fair view of the charity's financial activities during the year and of its financial position at the end of the year. In preparing the accounts the Members should follow best practice and:-

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards and statements of recommended practice have been followed, subject to any departures disclosed and explained in the accounts; and
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the charity will continue in operation.

Members are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any point the financial position of the Charity and enable them to ensure that the accounts, which they are responsible for preparing, comply with the Charities and Trustee Investment (Scotland) Act 2005, the Charities Accounts (Scotland) Regulations 2006, and the National Health Service (Scotland) Act 1978. The applicable law also sets out the Members' responsibilities for the preparation and content of the Members' Report.

Members are also responsible for safeguarding the assets of the Charity and hence 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)

3rd August 2007

**STATEMENT OF FINANCIAL ACTIVITIES
(INCORPORATING THE INCOME AND EXPENDITURE ACCOUNT)
For the year ended 31 March 2007**

		Unrestricted	Unrestricted	Restricted	Restricted	Total	Total
	Notes	Income Fund	Capital Fund	Income Funds	Capital Funds	Total 2007	8 months to 31 March 2006
		£	£	£	£	£	£
Incoming Resources							
<i>Incoming resources from generated funds</i>							
Voluntary income:							
Legacies and donations	5	189,910	-	516,625	-	706,535	17,733
Activities for generating funds:							
Royalties	6	22,166	-	-	-	22,166	-
Investment income	7	889,499	-	257,026	-	1,146,525	676,393
Total incoming resources		1,101,575	-	773,651	-	1,875,226	694,126
Resources Expended							
<i>Costs of generating funds</i>							
Costs of generating voluntary income	8	19,354	-	6,451	-	25,805	6,830
Investment management cost	9	24,567	45,623	8,189	15,207	93,586	26,269
<i>Charitable activities</i>							
Grant-making activities	10	460,577	-	282,480	-	743,057	445,991
Support costs of grant-making		136,041	-	45,347	-	181,388	143,466
<i>Governance costs</i>	12	33,637	-	11,213	-	44,850	36,307
Total resources expended		674,176	45,623	353,680	15,207	1,088,686	658,863
<u>Net incoming/(outgoing) resources before transfers</u>		427,399	(45,623)	419,971	(15,207)	786,540	35,263
Gross transfers between funds	18	(319,109)	144,930	(37,041)	211,220	-	-
<u>Net incoming resources before revaluations and investment asset disposals</u>		108,290	99,307	382,930	196,013	786,540	35,263
Net realised (losses)/gains on sale of investments		-	(28,435)	-	(10,399)	(38,834)	653,014
Net income		108,290	70,872	382,930	185,614	747,706	688,277
Unrealised gains on investments	14	-	1,430,542	-	639,138	2,069,680	3,018,541
Net movement in funds		108,290	1,501,414	382,930	824,752	2,817,386	3,706,818
Fund balances at 1 April 2006		(85,081)	22,177,389	1,215,890	7,936,451	31,244,649	27,537,831
Fund balances at 31 March 2007	19	23,209	23,678,803	1,598,820	8,761,203	34,062,035	31,244,649
		=====	=====	=====	=====	=====	=====

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

BALANCE SHEET
At 31 March 2007

	Notes	2007		2006	
		£	£	£	£
Fixed assets					
Investments at market value	14		31,100,354		29,751,287
Current assets					
Debtors	15	351,766		343,849	
Cash at bank – at secretaries		2,019,341		1,100,943	
– at investment managers		1,797,338		999,088	
		<u>4,168,445</u>		<u>2,443,880</u>	
Creditors: Amounts falling due within one year					
Creditors	16	36,603		39,718	
Grants payable	17	1,163,916		903,362	
		<u>1,200,519</u>		<u>943,080</u>	
Net current assets			<u>2,967,926</u>		<u>1,500,800</u>
Total assets less current liabilities			34,068,280		31,252,087
Creditors: Amounts falling due after more than one year					
Grants payable	17		(6,245)		(7,438)
Net assets	19		<u>34,062,035</u>		<u>31,244,649</u>
			=====		=====
Unrestricted Funds					
Unrestricted Capital Fund	2		23,678,803		22,177,389
Unrestricted Income Fund			23,209		(85,081)
			<u>23,702,012</u>		<u>22,092,308</u>
Restricted Funds					
Restricted Capital Funds	4	8,761,203		7,936,451	
Restricted Income Funds	3	1,598,820		1,215,890	
			<u>10,360,023</u>		<u>9,152,341</u>
			<u>34,062,035</u>		<u>31,244,649</u>
			=====		=====

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

Professor S Moira Brown (Chairman)

3rd August 2007

NOTES to the ACCOUNTS
For the year ended 31 March 2007

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 with the applicable accounting standards, the Statement of Recommended Practice - Accounting and Reporting by Charities 2005 (SORP), and the Charities Accounts (Scotland) Regulations 2006.

Incoming resources

The income of the Charity includes the tax deducted at source from other income and the equivalent of the cash dividends where the Charity 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. Accrued interest on fixed interest stocks received on disposal and acquisition is taken to the income and expenditure account. 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 Charity 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 Charity. 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 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 fund-raising costs for raising donations and legacy income. Grant-making activities comprise grants payable, and support costs for processing grants and applications. Governance costs relate to costs incurred in respect of strategic or constitutional matters and also compliance with statutory reporting requirements. Where the Secretaries' fees cannot be directly attributed to these categories, they are estimated 37% (2006: 35%) to Governance activities, and 63% (2006: 65%) to Grant-making activities.

Investment management fees – change in allocation between capital and income

Following a review of the investment management fees by the Members during the year, it was decided that the allocation of such fees to capital and income funds in the financial statements should more closely reflect the investment objectives and actual return. In prior years, 100% of the investment manager's fees, were allocated to income funds, but with effect from 1 April 2006, fees are now allocated 65% to capital funds and 35% to income funds. No prior year adjustment has been made on the basis that there has been no change to the overall net assets or income and expenditure of the charity, and the amounts are not material.

NOTES to the ACCOUNTS (cont'd)
For the year ended 31 March 2007

1. Accounting policies (cont'd)

Investment management fees – change in allocation between capital and income (cont'd)

The effect of this change has been to charge £45,623 and £15,207 of investment management costs to the Unrestricted Capital Fund and Restricted Capital Funds respectively in the year to 31 March 2007, and the Capital Funds have been reduced by these same amounts at 31 March 2007. Had this change not been made, the Unrestricted Capital Fund would have been increased by £45,623 and the Unrestricted Income Fund reduced by the same amount. In addition the Restricted Capital Funds would have been increased by £15,207 and the Restricted Income Funds reduced by the same amount. There is no overall change to the investment management charge or to the total reserves of the charity as a result of this change.

Foreign Exchange Gains and Losses

Transactions in foreign currencies are recorded at an average rate over the financial period. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All currency differences are taken to the SOFA.

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 year end are noted as a commitment, but are not accrued as expenditure.

Investments

Investments are included in the accounts at market value at the year end, the unrealised gain or loss being applied to Unrestricted or Restricted Capital Funds.

Land is included at agricultural value, being the appropriate estimate of market value in the accounts in investments.

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

Fund accounting

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

2. Unrestricted Designated Capital Fund

	2007	2006
	£	£
Balance at 1 April 2006	22,177,389	19,401,479
Resources expended	(45,623)	-
Transfer to unrestricted designated income fund (Note 18)	(50,706)	-
Transfer from unrestricted designated income fund (Note 18)	195,636	-
Net realised (losses)/gains on sale of investments	(28,435)	372,846
Unrealised gains on investments	1,430,542	2,403,064
	<hr/>	<hr/>
Balance at 31 March 2007	23,678,803	22,177,389
	=====	=====

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 Charity.

NOTES to the ACCOUNTS (cont'd)
For the year ended 31 March 2007

3. Restricted Income Funds

Movement during the year was as follows:

	As at 1 April 2006 £	Investment income £	Legacies & donations £	Grants payable £	Costs of generating funds, support & admin costs £	Transfers £	As at 31 March 2007 £
Neurological diseases	-	10,988	-	(183,998)	(3,043)	176,053	-
Cancer	544,196	107,350	17,537	(13,668)	(29,738)	(109,221)	516,456
Arthritis	267,067	52,388	-	-	(14,512)	8,939	313,882
Diabetes	2,082	5,146	10,981	-	(1,426)	878	17,661
Kidney	118,305	6,414	17,538	-	(1,777)	(126,443)	14,037
Cardiac and Vascular diseases	221,550	66,516	-	(48,651)	(18,426)	11,349	232,338
Miscellaneous conditions	62,690	8,224	470,569	(36,163)	(2,278)	1,404	504,446
	<u>1,215,890</u>	<u>257,026</u>	<u>516,625</u>	<u>(282,480)</u>	<u>(71,200)</u>	<u>(37,041)</u>	<u>1,598,820</u>
	=====	=====	=====	=====	=====	=====	=====

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

4. Restricted Capital Funds

Movement during the year was as follows:

	As at 1 April 2006 £	Costs of generating funds £	Realised losses on investments £	Unrealised gains on investments £	Transfers £	As at 31 March 2007 £
Neurological diseases	339,280	(650)	(445)	27,323	(1,875)	363,633
Cancer	3,314,760	(6,351)	(4,343)	266,944	109,221	3,680,231
Arthritis	1,617,644	(3,100)	(2,120)	130,272	(8,939)	1,733,757
Diabetes	158,900	(304)	(208)	12,797	(878)	170,307
Kidney	198,042	(380)	(259)	15,949	126,443	339,795
Cardiac and Vascular diseases	2,053,888	(3,935)	(2,691)	165,404	(11,349)	2,201,317
Miscellaneous conditions	253,937	(487)	(333)	20,449	(1,403)	272,163
	<u>7,936,451</u>	<u>(15,207)</u>	<u>(10,399)</u>	<u>639,138</u>	<u>211,220</u>	<u>8,761,203</u>
	=====	=====	=====	=====	=====	=====

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 Charity.

5. Legacies and donations

	Unrestricted Income Fund £	Restricted Income Funds £	Total 2007 £	8 months Total 2006 £
Legacies	1,364	516,625	517,989	16,233
Donations	188,546	-	188,546	1,500
	<u>189,910</u>	<u>516,625</u>	<u>706,535</u>	<u>17,733</u>
	=====	=====	=====	=====

NOTES to the ACCOUNTS (cont'd)
For the year ended 31 March 2007

6. Royalties

	Unrestricted Income Fund £	Restricted Income Funds £	Total 2007 £	8 months Total 2006 £
Royalties	22,166	-	22,166	-
	=====	=====	=====	=====

7. Investment income

	Unrestricted Income Fund £	Restricted Income Funds £	Total 2007 £	8 months Total 2006 £
UK and overseas listed investments	783,962	223,009	1,006,971	622,874
Interest on cash deposits	105,537	33,267	138,804	52,769
Rent receivable	-	750	750	750
	889,499	257,026	1,146,525	676,393
	=====	=====	=====	=====

8. Costs of generating voluntary income

	2007 £	2006 £
Fund-raising and marketing – support costs (Note 11)	25,805	6,830
	=====	=====

9. Investment management costs

	2007 £	2006 £
Investment manager's fee	93,586	26,269
	=====	=====

10. Grant-making activities

	2007 £	2006 £
Grants payable in respect of medical research (Note 17)	743,057	445,991
Support costs (Note 11)	181,388	143,466
	924,445	589,457
	=====	=====

NOTES to the ACCOUNTS (cont'd)
For the year ended 31 March 2007

11. Support costs

Support costs are allocated to activities as detailed below:

	Generating Voluntary Income £	Grants Payable £	Governance costs £	2007 £	2006 £
Secretaries' fee	-	87,538	33,693	121,231	68,561
Stationery, printing and postage	-	2,248	-	2,248	5,588
Bank charges and interest	-	21,750	-	21,750	9,806
Miscellaneous	-	25,054	-	25,054	11,084
Marketing	25,805	7,552	-	33,357	11,384
Website	-	-	-	-	48,446
Staff costs	-	1,888	-	1,888	922
Scientific adviser's fee	-	35,358	-	35,358	18,822
	25,805	181,388	33,693	240,886	174,613
	=====	=====	=====	=====	=====

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 Charity's website, principally to permit on-line grant applications.

The Members did not receive any remuneration for their services during the year (2006: £nil).

Meeting expenses amounting to £1,212 (2006: £876) were reimbursed to eleven (2006: five) of the Members.

12. Governance costs

	2007 £	2006 £
Secretaries' fee – support of governance activities (Note 11)	33,693	24,317
Accountancy fees – audit services	5,206	5,023
- accounts preparation	5,951	6,967
	44,850	36,307
	=====	=====

13. Staff costs

	2007 £	2006 £
Gross wages	1,888	922
	=====	=====
The average number of employees during the year was as follows:	2007	2006
No.	No.	
Administrative assistant (part time)	1	1
	=====	=====

No employee received emoluments above £60,000.

NOTES to the ACCOUNTS (cont'd)
For the year ended 31 March 2007

14. Investments

	Investment property £	Overseas listed £	UK stock exchange listed £	Total £
Market value at 1 April 2006	27,500	5,017,322	24,706,465	29,751,287
Additions	-	973,729	10,740,916	11,714,645
Disposals	-	(5,991,051)	(6,444,207)	(12,435,258)
Net unrealised investment gains in the year	-	-	2,069,680	2,069,680
Market value at 31 March 2007	27,500	-	31,072,854	31,100,354
Historical cost	27,500	-	22,501,036	22,528,536

The Charity 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 accounts as an investment property. The land included in the balance sheet is at agricultural value as a development value cannot be quantified with reasonable accuracy.

Market value

At the balance sheet date the following holdings exceed 5% of the total portfolio: £

BP plc US\$0.25 Ordinary shares	1,765,113
Martin Currie Global Alpha Fund B shares	4,617,883
	=====

15. Debtors

	2007 £	2006 £
Accrued income	351,766	343,849
	=====	=====

16. Creditors: amounts falling due within one year

Accruals	36,603	39,718
	=====	=====

17. Grants

	2007 £	2006 £
(a) Reconciliation of grants payable		
At 1 April 2006	910,800	839,971
Awards made and authorised in the year	748,868	529,683
Grants cancelled or recovered	(5,811)	(83,692)
Grants payable for the year	743,057	445,991
Grants paid during the year	(483,696)	(375,162)
At 31 March 2007	1,170,161	910,800
	=====	=====

NOTES to the ACCOUNTS (cont'd)
For the year ended 31 March 2007

17. Grants (cont'd)

	Unrestricted Income Fund £	Restricted Income Funds £	2007 Total £	2006 Total £
(b) Grants falling due within one year:				
Grants payable	695,719	468,197	1,163,916	903,362
	=====	=====	=====	=====
(c) Grants falling due after more than one year:				
Year to 31 March 2008	-	6,245	6,245	7,438
	=====	=====	=====	=====
Total grants payable	695,719	474,442	1,170,161	910,800
	=====	=====	=====	=====

(d) Grants awarded

Grants awarded and authorised during the year were as follows:

Principal Grant Holder Administering Institution

New grants awarded

	£	£
Johnston University of Stirling	79,951	
Bushell University of Strathclyde	44,920	
Loughrey University of Glasgow	48,651	
Calvert Glasgow Caledonian University	43,522	
Harvey University of Dundee	62,281	
Albagha University of Edinburgh	79,900	
Mitchell University of Aberdeen	79,938	
Pezze University of Edinburgh	101,403	
	<hr/>	540,566

Conditional grants awarded in previous years, now unconditional and authorised

Nibbs University of Glasgow	26,762	
Terrace University of Edinburgh	35,811	
Dhaliwal University of Edinburgh	38,585	
Gillingwater University of Edinburgh	14,922	
Marshall University of Edinburgh	13,668	
Anthony University of Edinburgh	9,718	
Martin Glasgow Caledonian University	11,759	
Pimlott University of Glasgow	33,336	
Devon University of Edinburgh	21,241	
	<hr/>	205,802

Travel grants awarded (2)

Sharpe	1,000
Kydd	1,500
	<hr/>
	748,868
	=====

More details of new grants awarded in the year are published within the *Members' Report*.

NOTES to the ACCOUNTS (cont'd)
For the year ended 31 March 2007

17. Grants (cont'd)

(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 2007 was £128,904 (2006: £220,434), of which £65,898 is expected to be payable within one year if certain conditions are satisfied (2006: £167,843).

18. Transfers between funds

During the period ended 31 March 2006, £94,561 of interest was received on disposal of certain bonds and gilts. The charity did not previously have a formal accounting policy for such interest. The Members have decided that all interest attaching to investments which are bought and sold should be accounted for through the income and expenditure account. Accordingly, Members have redesignated the amounts received in the period to 31 March 2006 as income and therefore transfers of £43,855 and £50,706 from Restricted and Unrestricted Capital Funds respectively were made to the Income Funds during the year ended 31 March 2007.

Members also agreed to redesignate, as at 31 March 2007, the following amounts from Restricted and Unrestricted Income Funds to Restricted and Unrestricted Capital Funds, on the understanding that the income generated by these capital funds will be applied to the relevant restricted and unrestricted purposes in the future:

Legacy from Miss Thomasina Simpson (equally between cancer and kidney Restricted Funds)	£255,075
Legacy from Mr George Martin (Unrestricted Funds)	£15,636
Donation from Mr Richard Vipiana (Unrestricted Funds)	£180,000

There was also a transfer of £174,179 from the Unrestricted Income Fund to the Restricted Income Funds; this was 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	21,941,428	1,737,375	-	23,678,803
Unrestricted Income Fund	1,060,662	(1,037,453)	-	23,209
	<hr/> 23,002,090	<hr/> 699,922	<hr/> -	<hr/> 23,702,012
Restricted Funds				
Restricted Capital Funds	8,098,264	662,939	-	8,761,203
Restricted Income Funds	-	1,605,065	(6,245)	1,598,820
	<hr/> 8,098,264	<hr/> 2,268,004	<hr/> (6,245)	<hr/> 10,360,023
Total Funds	<hr/> 31,100,354	<hr/> 2,967,926	<hr/> (6,245)	<hr/> 34,062,035
	=====	=====	=====	=====

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 Charity. The Members may only use these Restricted Funds to make grants for medical research into the specific areas noted within the original terms of the legacy, bequest or donation.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MEDICAL RESEARCH SCOTLAND

We have audited the accounts of Medical Research Scotland for the year ended 31 March 2007 set out on pages 10 to 19. These accounts have been prepared in accordance with the accounting policies set out therein.

This report is made solely to the charity's Members, as a body, in accordance with paragraph 10 of the Charities Accounts (Scotland) Regulations 2006. Our audit work has been undertaken so that we might state to the charity'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 charity and the charity's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Members and auditors

The responsibilities of the Members for preparing the Members Report and the accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Members' Responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) and report under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005.

We confirm that we are eligible to act as auditor in terms of section 25 of the Companies Act 1989.

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 Charities and Trustee Investment (Scotland) Act 2005, the Charities Accounts (Scotland) Regulations 2006 and the National Health Service (Scotland) Act 1978. We also report to you if, in our opinion, the Members' Report is not consistent with the accounts, if the charity has not kept proper accounting records, if the accounts do not agree with the records, or 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 judgments made by the Members in the preparation of the accounts, and of whether the accounting policies are appropriate to the charity'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 Charity's affairs as at 31 March 2007 and of its incoming resources and application of resources including, in its income and expenditure account, the surplus for the year then ended; and
- have been properly prepared in accordance with the Charities and Trustee Investment (Scotland) Act 2005, Regulation 8 of the Charities Accounts (Scotland) Regulations 2006 and the National Health Service (Scotland) Act 1978.

CHIENE + TAIT

Chartered Accountants and Registered Auditors

61 Dublin Street

Edinburgh EH3 6NL

2007

