

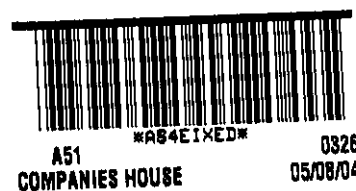
The British Neurological Research Trust
(a company limited by guarantee)

**Council of Management's report and
financial statements**

Company registered number 2195707

Charity registered number 298098

31 December 2003



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Council of Management report

for the year ended 31 December 2003

The members of the Council of Management of the British Neurological Research Trust, who act as directors for the purposes of company law, have pleasure in presenting the annual report.

Aims of the Trust

The Trust was established in 1987 on the initiative of Mr Norman H Lee to support the research needed to find a method of repairing damage to the brain and spinal cord in patients suffering from the crippling effects of spinal cord injury (paraplegia and tetraplegia), birth injuries, stroke, head injuries, multiple sclerosis and degenerative conditions such as Parkinson's and Alzheimer's diseases. For this purpose, the Trust entered into an agreement with the Medical Research Council ("MRC") to set up the Norman and Sadie Lee Research Centre ("the Centre") at the National Institute of Medical Research ("NIMR") in Mill Hill, London.

The unique programme of research that has been undertaken at the Centre is designed to follow up the discovery by its Scientific Director, Dr Geoffrey Raisman, that, contrary to earlier belief, the damaged nerve tissues of the brain are capable of forming new connections and that transplanted cells can be integrated into the brain tissue. This discovery and recent developments in tissue culture and the availability of purified cells present a new opportunity for progress and new hope for those suffering from spinal injury. The research work is concentrating on how to reintroduce cultured cells in such a way as to activate the genes which were originally used to build the spinal cord of the newborn child and thereby enable the adult to repair itself by the reinstatement of natural healing processes.

Organisation

The Centre has, from its inception, been administered by the Scientific Director acting in conjunction with the senior scientists of the Centre, under the overall scientific direction of the Director of the NIMR. The Centre has a core of MRC supported scientific and technical staff into which are integrated the Fellows and Assistants financed by the British Neurological Research Trust ("BNRT"), Spinal Research (formerly the International Spinal Research Trust) and other charitable bodies. The Management Council is particularly grateful for the continuing very generous support of the Barnwood House Trust and the Henry Smith Charity.

The progress of the research is monitored by the peer review process of the MRC and is published in competitive, peer-reviewed international scientific journals.

The BNRT is a company limited under guarantee, and an incorporated registered charity no. 298098.

Council of Management report

for the year ended 31 December 2003 (continued)

Research background

In 1985 Dr Raisman described a unique arrangement of specialised olfactory ensheathing glial cells that accompany the olfactory nerve fibres all the way to their entry into the brain. The subsequent development of a tissue culture method for obtaining olfactory ensheathing cells from adult olfactory tissue samples has enabled experiments in which such cultured cells could be transplanted into spinal cord lesions and their structural and functional reparative effects observed. As a result, olfactory ensheathing cells have become one of the most promising routes for repair. They have the advantage that they may be obtained from adult patients, who can thus build up a bank of their own cells for autografting into areas of damage in the spinal cord, and in this way avoid the problems of using embryonic tissue, and the dangers of crossing an immune barrier.

Basic Science

The Raisman team have transplanted cultured olfactory ensheathing cells into complete unilateral lesions of the upper cervical corticospinal tract. They found that the grafted cells encourage the growth of the cut nerve fibres, and suppress the excessive neuromatous branching found in untreated lesions. The grafted cells take up an elongated shape, and form a tightly aligned bridge between the ends of the cut fibre tract. The regenerating nerve fibres enter the graft and follow this new, aligned bridge pathway. Within the bridge the nerve fibres are intimately ensheathed by the Schwann-like cells, and enclosed in an outer, perineurial-like sheath of fibroblasts. But, most important, once they reach the end of the graft they re-enter the host spinal cord, and continue along the distal part of the corticospinal tract to form terminal arborisation in their normal target areas. During their course through the transplant the fibres are myelinated by peripheral myelin formed by the Schwann-like cells, and when they re-enter the spinal cord, they are myelinated by host oligodendrocytes. The effect is to put a patch over the lesion, restoring the integrity of the original pathway, and results in the functional recovery of a learned retrieval task. This repair can be achieved by transplanting at 2 months after the time of injury, at which time the original wound is fully scarred over by astrocytic processes.

To study the repair of a larger lesion, the team carried out a second series of investigations with complete hemisection of one half of the spinal cord at the upper cervical level. A specific matrix transfer method was devised (and patented) to achieve the efficient transfer of cells and their retention in these much larger, open cavities. These lesions result in a deficit during a climbing test, and the disappearance of the supraspinal respiratory rhythm in the ipsilateral phrenic nerve and hemidiaphragm. Both these functions can be restored after transplantation of cultured olfactory ensheathing cells.

In experiments on the repair of avulsed dorsal roots in collaboration with Tom Carlstedt, Royal National Orthopaedic Hospital Trust, Stanmore, the team has shown that the matrix transfer method of transplanting olfactory ensheathing cells causes major regeneration of severed dorsal root axons into the spinal cord where they both form terminal fields in the dorsal horn and also long regenerating axons ascend in the dorsal columns.

In experiments with the second cranial nerve the team has shown that transplanted olfactory ensheathing cells induce regeneration of cut adult retinal ganglion cell axons.

Clinical Translation

For clinical translation, the team need (a) to model contusion lesions of the type seen in spinal cord injury, (b) to find how to obtain sufficient numbers of reparative cells from nasal mucosal biopsies, and (c) to devise a method of surgical implantation (e.g. via endoscopic intubation using cells in a matrix gel), which will not increase the damage, but will enable the limited numbers of cells the team can hope to obtain to form a continuous anatomical bridge (d) to satisfy all the ethical and regulatory procedures that will allow us to proceed to a limited clinical trial.

To develop the promise held out by the basic research findings, establishment of the work at a major clinical neurosurgical centre is essential for:

- Access to mucosal cells and other cell biopsy samples;
- Containment facilities for culture of material;
- Interactions between laboratory and clinical personnel for discussion, demonstration of surgical problems and testing procedures to lab personnel, and exposure of lab techniques to clinical personnel;
- Training of new neurosurgical recruits in lab research procedures;
- Development of new surgical implantation techniques.

It will also be necessary to define a clinical trials protocol that ensures that patients selected for treatment have a history indicating that, at the time of the proposed intervention, no further spontaneous recovery could be expected. The proposed operation must be sufficiently atraumatic that no further loss of nervous functions will be caused by the intervention. Once the clinical trials protocol has been completed it will be submitted for full peer review, ethical and regulatory approval, and those results will be made available to BNRT Council.

Proposed Location

It has been agreed that the Centre will move its operations with effect from 1 October 2004 to The National Hospital for Neurology and Neurosurgery, Queen Square (part of the University College London Hospitals NHS Trust) which is considered to be the most appropriate location for translation to clinical trials. Together with the Institute of Neurology, University College London, it constitutes one of the foremost neuroscience centres in the UK and internationally. The Institute of Neurology, University College London and National Hospital for Neurology and Neurosurgery, University College London, Queen Square are enthusiastic to accommodate the project, and will provide space and access to all the necessary laboratory and clinical facilities, especially access to material, surgical expertise, and patients. The setting up of a model of repair, even if it does not lead to the primary goal envisaged here, will establish valuable enabling technology against which many future repair strategies involving not only cell transplantation, but also growth factors or other medical or surgical interventions can be assessed.

Collaborations and international links

The Centre maintains international links which provide scientific recruits, financial support, access to expertise and new ideas and vital materials such as cells, monoclonal antibodies or genes. It is likely that the first applications of repair procedures to human patients will require highly specialised technical knowledge. It is the Trust's intention that scientists, once having trained at the Centre, will return to their own countries to maintain linked research programmes and thus, when the time comes, the expertise for future human applications will be available at a number of international centres.

Under a collaboration with the Institut pour la Recherche sur la Moelle Epinière, Dr Patrick Decherchi (Marseille) has initiated a new model system which is being developed for use in the restoration of breathing following injury. Professor Wolfram Neiss (Cologne) is collaborating on a model for repair of facial nerve injury. Mr David Choi, a neurosurgeon from the Atkinson Morley Hospital, is working on a model for the improvement of repair of facial nerve injuries. Mr Tom Carlstedt of the Peripheral Nerve Injury Unit of the Royal National Orthopaedic Hospital in Stanmore and Professor Claes-Henric Berthold of the University of Gothenburg are collaborating in the work on brachial plexus avulsion. Professor Ray Lund and Dr Yves Sauvé of the Institute of Ophthalmology, London are collaborating in a project to repair nerve fibres in the visual system. Professor Evan Snyder of the University of Harvard is providing stem cells to be tested for repair of spinal cord. Dr Kevin Shakesheff of the University of Nottingham is providing biomaterials to be tested for their ability to enhance the reparative properties of transplanted cells. Antibodies and other agents to suppress immune rejection are being investigated in collaboration with Professor Maggie Dallmann of Imperial College and Dr Matthew Wood of the Department of Human Anatomy, Oxford. Neurosurgical collaborations will be sought with the New Charing Cross Hospital (Imperial College).

Council of Management report

for the year ended 31 December 2003 (continued)

Funding, expenditure and reserves

The project currently requires ten scientists and their support staff. Each research fellowship currently costs £100,000 per annum which requires an overall annual income from all sources of about £1m. The MRC has provided the accommodation for the Centre at the NIMR and has met the cost of six scientists, six technicians and a secretary. After taking account of other support, expenditure of BNRT is currently running at an annual rate of some £200,000; the proposal to commence a future programme of clinical trials at a leading centre of neuroscience, referred to above, will result in reduced activity at the NIMR and a change in the relationship with MRC. As a result, the expenditure attributable to BNRT is estimated to increase to an annual rate of some £500,000.

At 31 December 2003 there was £685,440 of unrestricted funds available for the project with BNRT and some £400,000 held by Spinal Research and committed to the project. It is the policy of the Council of Management for the Trust to hold unrestricted reserves sufficient to fund the work of the Trust for a period of at least two years, that is a minimum of some £500,000. Current unrestricted funds, as set out above, exceed that amount. However, the significant developments referred to elsewhere in this report will result, in the expectation of the Council of Management, in a reduction in the amount of unrestricted reserves as a consequence of the higher running costs that are anticipated to arise following the planned move to The Institute of Neurology. It will remain the policy of the Council to maintain a significant level of unrestricted reserves.

In the opinion of the Council of Management the Trust's reserves are sufficient to fulfil the current obligations of the Trust and are appropriate in view of the intention of the Trust to continue to support the work of the Centre at its present and future locations.

Donations in favour of British Neurological Research Trust should be addressed to Dr G Raisman, c/o The Division of Neurobiology, NIMR, The Ridgeway, Mill Hill, London NW7 1AA and after 1 October 2004 to him at The Institute of Neurology, Queen Square, London WC1N 3BG.

Council of Management report

for the year ended 31 December 2003 (continued)

Members of the Council of Management

The members who served during the year were as follows:

Sir Antony Acland, KG, GCMG GCVO
Caroline Banszky, FCA
Professor Hans Ludwig Frankel, OBE MB FRCP
Sir Roger Hurn (Chairman)
Norman H Lee, CBE (Chairman Emeritus)
Professor Peter Richardson FRCS (c)
David D Sullivan FCA ATII
Sir Rodney Sweetnam KCVO CBE MA FRCS

Sir Antony Acland and Sir Rodney Sweetnam have indicated that they wish to retire from membership of the Council of Management and they will do so with effect from 5 July 2004, the date of the meeting at which this report is approved.

It is the aim of the Council of Management to include members with knowledge of medical and scientific research as well as business, finance, public administration and law. New appointments to the Council of Management are proposed and approved by the existing members of the Council. No other body or individual has the right of proposal or appointment.

Administrative Adviser:

Nigel Platts MA FCA

Share capital and Dividends

As the Trust is a company limited by guarantee, there is no share capital in which the members can hold beneficial interests. On a winding up each person who is a member at that date is liable to contribute a sum not exceeding £1 towards the assets of the company. As at 31 December 2003 the company had eight members.

The company is limited by guarantee and, in accordance with the Articles of Association, the payment of a dividend is not appropriate.

Accounting policies

The Trust's accounting policies have been applied on a basis consistent with the prior year, comply with current statutory requirements and the requirements of the Statement of Recommended Practice: Accounting and Reporting by Charities (October 2000) and are compatible with the requirements of the Memorandum and Articles of Association of the Trust.

Risk Management

In 2002 the Council of Management carried out a review into the different areas of risk faced by the Trust and has since implemented risk management procedures in order to reduce such risks where practicable.

Bankers

The Trust's bankers are:

Coutts & Co
440 Strand
London
WC2 0QS

Solicitors (and Registered Office)

The Trust's solicitors are:

Reed Smith
Minerva House
5 Montague Close
London
SE1 9BB

The address above is also that of the Trust's Registered Office.


Auditors

The Trust's Auditors are:

KPMG LLP
1 Forest Gate
Brighton Road
Crawley
West Sussex
RH11 9PT

KPMG LLP have been re-appointed auditors automatically as, in accordance with Section 386 of the Companies Act 1985, a resolution to dispense with the obligation to appoint auditors annually has been passed .

By order of the Council of Management



Sir Roger Hurn
Chairman

5 July 2004

Statement of Council of Management's responsibilities

Company law requires the Council of Management to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Trust at the year end and of its incoming resources and resources expended during that year. In preparing those financial statements, the Council of Management are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Trust will continue its activities.

The Council of Management are 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 financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Trust and to prevent and detect fraud and other irregularities.



1 Forest Gate
Brighton Road
Crawley
West Sussex
RH11 9PT

Independent auditor's report to the members of the British Neurological Research Trust

We have audited the financial statements on pages 9 to 16.

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

Respective responsibilities of directors and auditors

The Council of Management, who are also the directors of the British Neurological Research Trust for the purposes of company law, are responsible for preparing the directors' report and, as described on page 7, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Council of Management report is not consistent with the financial statements, if the trust has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the trust is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Trust as at 31 December 2003 and of its deficit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink, appearing to be 'J. P. M. W. P.', written over the printed name 'KPMG LLP'.

KPMG LLP

Chartered Accountants

Registered Auditor

5 July 2004

Statement of financial activities

for the year ended 31 December 2003

	Note	Unrestricted Funds £	Restricted Funds £	2003 Total £	2002 Total £
Income and expenditure					
Incoming resources					
Donations	2	47,044	104,000	151,044	176,645
Interest receivable	3	25,086	-	25,086	26,936
Total incoming resources		72,130	104,000	176,130	203,581
Less: Cost of generating funds	4	10,966	-	10,966	11,678
Net incoming resources for charitable application		61,164	104,000	165,164	191,903
Charitable expenditure					
Cost of activities in furtherance of the objects of the charity	5	86,207	57,426	143,633	169,608
Management and administration	6	32,415	11,910	44,325	77,211
Total Charitable expenditure		118,622	69,336	187,958	246,819
Total resources expended		129,588	69,336	198,924	258,497
Net (expenditure)/income for the year (net outgoing resources)	7	(57,458)	34,664	(22,794)	(54,916)
Fund balances brought forward		742,898	128,223	871,121	926,037
Fund balances carried forward		685,440	162,887	848,327	871,121

There is no material difference between the historical cost result and the reported result.

The incoming resources and resulting net movement in funds arise from continuing operations.

The Trust has no recognised gains or losses in either period other than the net movement in funds for the year.

The notes on pages 11 to 16 form part of these financial statements.

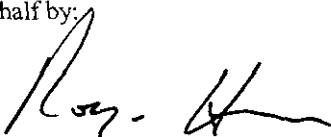
Balance sheet

at 31 December 2003

	<i>Note</i>	2003 £	2002 £
Fixed assets			
Tangible fixed assets	10	9,443	27,097
Current assets			
Debtors	11	141	4,674
Cash at bank and in hand		866,244	949,364
		<u>866,385</u>	<u>954,038</u>
Creditors: amounts falling due within one year	12	(27,501)	(110,014)
Net current assets		<u>838,884</u>	<u>844,024</u>
Net assets	13	<u>848,327</u>	<u>871,121</u>
 Restricted funds	 16	 162,887	 128,223
Unrestricted funds		685,440	742,898
		<u>848,327</u>	<u>871,121</u>

The notes on pages 11 to 16 form part of these financial statements.

These financial statements were approved by the Council of Management on 5 July 2004 and were signed on its behalf by:



Sir Roger Hurn
Chairman of the Council of Management

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Trust's financial statements:

Basis of preparation

The financial statements have been prepared in accordance with the Charities Act 1993, and Accounting and Reporting by Charities: Statement of Recommended Practice (revised 2000); with applicable accounting standards and under the historical cost accounting rules. Income and expenditure are accounted for on an accruals basis.

Accounting format

The format of the accounts complies with the requirements of the Accounting and Reporting by Charities: Statement of Recommended Practice (revised 2000). This sets out recommendations of the way in which a charity should report annually on the resources entrusted to it and the activities it undertakes.

Purpose of funds

Restricted funds consist of donations made for specific research projects.

Unrestricted funds consist of donations for general use by the Trust.

All expenses are reviewed as and when they are incurred and are subsequently categorised by their nature and shown in the Statement of Financial Activities as necessary.

Fixed assets and depreciation

Depreciation is provided to write off the cost of tangible fixed assets on a straight line basis over the expected useful lives of the assets as follows:

Fixture, fittings and equipment - 3 years

Notes (continued)

2 Donations and grants receivable

	Unrestricted funds £	Restricted funds £	2003 Total £	2002 Total £
Donations	47,044	104,000	151,044	176,645

Donations were made by:

American Friends of BNRT
D&F Barclay Foundation
Charities Advisory Trust
Creative Accounting Services Limited
The Gilbert Edgar Trust
Bryan Guinness Charitable Trust
Mrs N Jennings
GM Morrison Charitable Trust
Mrs B Suswin
Violet M Richards Charity
N M Rothschild & Sons Limited

In memoriam:

Mrs P Bond
Mr P R Davies
Mr M Hellewell

3 Interest receivable - unrestricted funds

	2003 £	2002 £
Bank interest	25,086	26,936

Notes (continued)

4 The cost of generating funds

The cost of generating funds comprises the relevant element of the costs of the administrator, and such other costs as may be incurred in attracting funding.

5 Cost of activities in furtherance of the objects of the charity

Cost of activities in furtherance of the objects of the charity comprises reimbursements and consumable expenses directly relating to the objectives of the Trust.

6 Management and administration

Management and Administration costs comprise the costs of Council of Management meetings including the AGM, relevant costs of the administrator, audit fees, depreciation and legal costs.

7 Net expenditure for the year

	2003	2002
	£	£
<i>Net expenditure for the year is stated after charging:</i>		
Depreciation	17,654	59,459
Medical Research Council	134,472	153,688
Audit fee	5,875	5,875

Depreciation of £11,910 (2002:£56,042) is charged to restricted funds and included in management and administration costs. The element of depreciation allocated to restricted funds is in accordance with the proportion of depreciation relating to fixed assets purchased with restricted donations.

8 Taxation

The Trust is entitled to exemption from taxation under S.505(1) ICTA 1988 on income from its charitable activities.

9 Expenses and remuneration paid to trustees

No member of the Council of Management received any remuneration or claimed any expenses. (2001:£nil).

Notes (continued)

10 Tangible fixed assets

	Fixtures, fittings and equipment £
<i>Cost</i>	
At beginning of year	534,952
Additions	-
	<hr/>
At end of year	534,952
	<hr/>
<i>Depreciation</i>	
At beginning of year	507,855
Charge for year	17,654
	<hr/>
At end of year	525,509
	<hr/>
<i>Net book value</i>	
At 31 December 2003	9,443
	<hr/>
At 31 December 2002	27,097
	<hr/>

All fixed assets are held for charitable purposes.

11 Debtors

	2003 £	2002 £
Other debtors	-	2,395
Accrued income	141	2,279
	<hr/>	<hr/>
	141	4,674
	<hr/>	<hr/>

12 Creditors

	2003 £	2002 £
Trade creditors	16,603	104,139
Accruals and deferred income	10,898	5,875
	<hr/>	<hr/>
	27,501	110,014
	<hr/>	<hr/>

Notes (continued)

13 Analysis of net assets between funds

	Tangible fixed assets £	Net current assets £	2003 Total £
Restricted funds	262	162,625	162,887
Unrestricted funds	9,181	676,259	685,440
	<hr/> 9,443 <hr/>	<hr/> 838,884 <hr/>	<hr/> 848,327 <hr/>

14 Capital commitments

The Trust has no amounts contracted for capital expenditure.

15 Statement of cash flows

The Trust has taken advantage of the exemption available to small companies not to prepare a statement of cash flows.

Notes (continued)

16 Restricted funds

The income funds of the charity include restricted funds comprising the following unexpended balances of donations to be applied for specific purposes:

	Balance at 31 December 2002 £	Movement in funds		Balance at 31 December 2003 £
		Incoming resources £	Expenditure £	
Barnwood House Trust	41,623	-	32,125	9,498
American Friends of BNRT	64,156	100,000	33,211	130,945
Other restricted	22,444	4,000	4,000	22,444
	<u>128,223</u>	<u>104,000</u>	<u>69,336</u>	<u>162,887</u>

The Barnwood House Trust Fund continues to be used to finance research into the reconstruction of damaged nerve fibre pathways including the cost of scientific equipment.

The American Friends of BNRT provide funds for ongoing research at the centre, including the purchase of essential equipment and the retention of key scientific staff.

In the opinion of the members of the Council of Management sufficient resources are held in an appropriate form for each fund to be applied in accordance with any restrictions imposed.