RAND Europe Cambridge Limited

Annual report

for the year ended 30 September 2003

Registered no. 2728021



Annual report
for the year ended 30 September 2003

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Directors and advisors

Directors

H Barbas
L M van der Mandele

Secretary and registered office

S E Dixon
c/o Legal Surfing Limited
11 Sturton Street
Cambridge
CB1 2SN

Registered auditors

PricewaterhouseCoopers LLP
Abacus House
Castle Park
Cambridge
CB3 0AN

Bankers

ABN Amro Bank
250 Bishopsgate
London
EC2M 4AA

Directors report
for the year ended 30 September 2003

The directors present their report and the audited financial statements for the year ended 30 September 2003.

Principal activities

The profit and loss account is set out on page 6.

The principal activities of the company are the provision of consultancy services.

Review of business and future developments

2003 has been a year of transition in which a lot has been achieved. Research activities were substantially expanded with revenues increasing from GBP 545,753 to GBP 1,368,919. To achieve this new staff have been hired, increasing the number of employees from 9 to 15.
We are optimistic about the outlook. The underlying business is healthy with sales at record levels.

Dividends and transfers to the reserves

The directors do not recommend the payment of a dividend (2002: £ nil). The loss for the year ended 30 September 2003 of £72,806 (2002 £75,772) will be transferred to the accumulated deficit.

Directors

The directors of the company at 30 September 2003 are listed below:

H Barbas
L M van der Mandele

Directors' interests

The directors did not hold any shares in the company during the year ended 30 September 2003.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

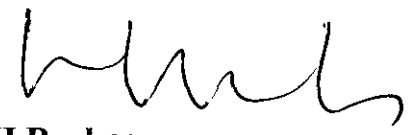
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare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

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

Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors will be proposed at the Annual General Meeting.

By order of the board 16 JUNE 2004



H Barbas
Director

Independent auditors' report to the members of RAND Europe Cambridge Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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 directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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 the company's affairs at 30 September 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Cambridge, 11 August 2004.

Profit and loss account
for the year ended 30 September 2003

	Notes	2003	2002 (restated)
		£	£
Turnover - continuing operations	2	**1,368,919**	545,753
Cost of sales - continuing operations		**(509,063)**	(105,906)
Gross profit		**859,856**	439,847
Net operating expenses - continuing operations	3	**(927,203)**	(516,407)
Operating loss - continuing operations		**(67,347)**	(76,560)
Interest payable	4	**(5,459)**	-
Loss on ordinary activities before taxation	7	**(72,806)**	(76,560)
Tax on loss on ordinary activities	8	**-**	788
Loss for the financial period	16	**(72,806)**	(75,772)

The company has no recognised gains and losses other than the loss above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the retained loss for the year stated above, and their historical cost equivalents.

Balance sheet as at 30 September 2003

	Notes	2003 £	2002 £
Fixed assets			
Intangible assets	9	-	3,900
Tangible assets	10	**69,847**	68,654
		69,847	72,554
Current assets			
Debtors	11	**586,242**	331,840
Cash at bank and in hand		**29,919**	15,974
		616,161	347,814
Creditors: amounts falling due within one year	12	**(373,139)**	(534,693)
Net current assets/(liabilities)		**243,022**	(186,879)
Total assets less current liabilities		**312,869**	(114,325)
Creditors: amounts falling due after more than one year	13	**(500,000)**	-
		(187,131)	(114,325)
Capital and reserves			
Called up share capital	15	**2**	2
Profit and loss account	16	**(187,133)**	(114,327)
Equity shareholders' deficit	17	**(187,131)**	(114,325)

The financial statements on pages 6 to 16 were approved by the board of directors on 16 JUNE 2004 and were signed on its behalf by:

H Barbas
Director

Notes to the financial statements for the year ended 30 September 2003

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the more important accounting policies, which have been reviewed by the board of directors in accordance with Financial Reporting Standard ('FRS') 18, "Accounting Policies", and have been applied consistently are set out below.

Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention.

Going concern

The company continues to trade with the support of RAND Corporation, which has confirmed that it will continue to supply finance to the company to enable it to continue at its present level of activity for at least the next twelve months. For this reason, the directors consider it appropriate to prepare the accounts on a going concern basis.

The directors have obtained confirmation from RAND Corporation that adequate funding will continue to be made available to enable the company to discharge its liabilities as they fall due. With this support in place, the directors believe that it is appropriate for the financial statements to be prepared on a going concern basis.

If the company were unable to continue in operational existence for the foreseeable future, adjustments would have to be made to reduce the balance sheet values of assets to their recoverable amounts, to reclassify fixed assets as current assets and to provide for further liabilities that may arise.

Cash flow statement

The company has taken the exemption afforded by Financial Reporting Standard No 1 (revised) from publishing a cash flow statement on the basis that the company qualifies as a small company.

Tangible fixed assets

The cost of the tangible fixed assets is their purchase cost, together with any incidental cost of acquisition.

Depreciation is calculated so as to write off the cost of the tangible fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates for this purpose are:

Fixtures and fittings	20 – 33 %

Presentational changes to the profit and loss account

The profit and loss account comparatives for 2002 have been reclassified to ensure that they conform with other group companies. This has resulted in a reduction in the cost of sales figure for 2002 from £305,210 to £105,906 and an increase in net operating expenses for 2002 from £317,103 to £516,407. This has had no impact upon the reported loss for the year.

Intangible fixed assets

Development expenditure relating to specific projects intended for commercial exploitation is carried forward as intangible fixed assets. Such expenditure is amortised against future projects over their expected useful life, which is normally a period of five years.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the period end. Foreign exchange differences arising during the period and on retranslation at the period end are taken to the profit and loss account in the period in which they arise.

Operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Turnover

Turnover, which excludes value added tax and trade discounts, represents the invoiced value of goods and services supplied and the value of work done on contracts once their outcome can be assessed with reasonable certainty.

Long term contracts

Turnover on long term contracts is recognised according to the stage reached in the contract by reference to the value of work done. A prudent estimate of the profit attributable to work completed is recognised once the outcome of the contract can be assessed with reasonable certainty. The amount by which turnover exceeds payments on account is shown under debtors as amounts recoverable on contracts.

Deferred taxation

Provision is made for deferred tax liabilities and assets, using full provision accounting, otherwise known as the incremental liability method, when an event has taken place by the balance sheet date which gives rise to an increased or reduced tax liability in the future in accordance with FRS 19. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pension scheme arrangements

The company contributes to the individual pension schemes of certain employees. The pension cost is the amount of contributions payable in the year.

2 Turnover

The analysis of turnover by geographical area is set out below:

	2003	2002
	£	£
UK	1,067,756	425,592
Europe	301,163	110,432
Rest of the World	-	9,729
	1,368,919	545,753

3 Net operating expenses

	2003	2002
	£	£
Continuing expenses		
Sales and operations	620,274	351,045
Management and administration	269,337	144,087
Research	37,592	21,275
	927,203	516,407

4 Interest payable

	2003	2002
	£	£
Bank interest	5,459	-

5 Directors' emoluments

	2003	2002
	£	£
Emoluments (including pension contributions and benefits in kind)	-	-

None of the directors received any benefits from the company during the year (2002: £nil).

6 Employee information

The average monthly number of persons (excluding executive directors) employed by the company during the year was:

	2003	2002
	Number	Number
By activity		
Consultancy	13	8
Administration	2	1
	15	9

	2003	2002
	£	£
Staff costs (for the above persons)		
Wages and salaries	484,879	274,547
Social security costs	50,417	27,526
Other pension costs	33,326	21,352
	568,622	323,425

7 Loss on ordinary activities before taxation

	2003 £	2002 £
Loss on ordinary activities before taxation is stated after charging :		
Depreciation charge for the year:		
- Tangible owned fixed assets	23,489	10,324
Amortisation of intangible assets	3,900	1,950
Auditors' remuneration for audit services	9,000	6,000
Auditors' remuneration for other services	2,500	2,500
Hire of other assets - operating leases	57,000	57,000

8 Taxation

Tax on (loss) on ordinary activities:

	2003 £	2002 £
United Kingdom corporation tax charge at 19% (2002: 5%)		
Current	-	(3)
(Over) provision in respect of prior years:		
Current	-	(785)
	-	(788)

The tax assessed for the year is different to the standard rate of corporation tax in the UK. The differences are explained below:

	2003 £	2002 £
(Loss) on ordinary activities before tax	(72,806)	(76,560)
(Loss) on ordinary activities multiplied by starting rate in the UK 19% (2002: 5%)	(13,833)	(3,828)
Effects of:		
Expenses not deductible for tax purposes	3,800	1,038
Accelerated capital allowances and other timing differences	10,033	2,787
Adjustments to tax charge in respect of previous period	-	(785)
	-	(788)

9 Intangible fixed assets

	Development costs £
Cost	
At 1 October 2002 and 30 September 2003	**32,500**
Amortisation	
At 1 October 2002	28,600
Charge for the year	3,900
At 30 September 2003	**32,500**
Net book amount at 30 September 2003	**-**
Net book amount at 30 September 2002	3,900

10 Tangible fixed assets

	Fixtures and fittings £
Cost	
At 1 October 2002	117,910
Additions	24,682
At 30 September 2003	**142,592**
Depreciation	
At 1 October 2002	49,256
Charge for the year	23,489
At 30 September 2003	**72,745**
Net book amount at 30 September 2003	**69,847**
Net book amount at 30 September 2002	68,654

11 Debtors

	2003	2002
	£	£
Amounts falling due within one year		
Trade debtors	**268,767**	80,968
Other debtors	**40,395**	63,662
Amounts recoverable on contracts	**242,898**	184,404
Amounts owed by group undertakings	**34,182**	-
Corporation tax recoverable	**-**	2,806
	586,242	331,840

12 Creditors

	2003	2002
	£	£
Amounts falling due within one year		
Trade creditors	**96,113**	56,423
Amounts owed to group undertakings	**232,604**	423,653
Accruals and deferred income	**12,894**	48,193
Taxation and social security	**31,528**	6,424
	373,139	534,693

Amounts owed to group undertakings are repayable on demand and are interest free.

13 Creditors

	2003	2002
	£	£
Amounts falling due after one year		
Amounts owed to group undertakings	**500,000**	-
	500,000	-

Amounts owed to group undertakings have no fixed repayment dates although the group undertaking's management have indicated they are not due within one year. The amounts are interest free.

14 Deferred taxation

An analysis of the Company's un-provided deferred tax assets/(liabilities) is given below. The Company has not recognised deferred tax assets in these financial statements due to the uncertainty of recoverability.

	2003	2002
	£	£
Accelerated capital allowances	7,312	(4,095)
Other short term timing differences	950	2,068
Losses	17,360	16,438
	25,622	14,411

15 Called up share capital

	2003	2002
	£	£
Authorised		
100,000 ordinary shares of £ 1 each	**100,000**	100,000
Allotted, called up and fully paid		
2 ordinary shares of £ 1 each	**2**	2

16 Profit and loss account reconciliation

	£
At 1 October 2002	**(114,327)**
Loss for the year	**(72,806)**
At 30 September 2003	**(187,133)**

17 Reconciliation of movements in shareholders' deficit

	2003	2002
	£	£
Loss for the year	(72,806)	(75,772)
Opening shareholders' deficit	(114,325)	(38,553)
Closing shareholders' deficit	(187,131)	(114,325)

18 Financial commitments

At 30 September 2003 the Company had annual commitments under non-cancellable operating leases for land and buildings as follows:

	2003	2002
	£	£
Within one year	-	-
Within two to five years	57,000	57,000
After five years	-	-
	57,000	57,000

19 Related party transactions

As a wholly owned subsidiary, the company has taken advantage of the exemption available under FRS8 (related party transactions) not to disclose transactions with other group companies.

The company has received funding from RAND Europe, a charity based in Holland in which L M van der Mandele a director of RAND Europe Cambridge Limited is also a Trustee. This funding totalled £732,604 at the year end, £500,000 of which is shown as a creditor due after one year and £232,604 is shown as a creditor due within one year.

20 Ultimate parent company

The immediate parent undertaking is RAND Europe (UK), a charitable company registered in England.

As at 30 September 2003 the directors regard RAND Corporation, a charity in the USA as the ultimate controlling party due to common Trustee control between RAND Europe (UK) and RAND Corporation. Copies of RAND Corporation's financial statements can be obtained from Stichting RAND Europe, Newtonweg 1, 2333 CP Leiden, The Netherlands.